

Government's response
to questions raised by Hon CHEUNG Man-kwong
on disposal and outsourcing of loans made to students

Q 1 : Interest is charged under the Non-means Tested Loan Scheme (NLS) by the Government, including interest charged during the study period and interest charged upon completion of course(s). Please provide information about the principal and the respective two types of interest, and the proportion of the three, for the non-means tested loan cases from 01/02 to the current year.

A 1: The Finance Committee of the Legislative Council approved the NLS in December 1997 to supplement the Local Student Finance Scheme, which is subject to means and asset tests, to provide non-means tested student loans to eligible students. Since borrowers are not required to pass the means or asset tests, the NLS operates on a no-gain-no-loss and full-cost recovery basis. From the 2002/03 to 2005/06 academic years (up to 30 November 2005), the principal, interest during the study period and instalment interest repaid under the non-means tested loan schemes ^(Note 1) by year are listed below:

Repayment Amount (\$ million)	Academic Year ^(Note 2)			
	2002/03 ^(Note 3)	2003/04	2004/05	2005/06 (up to 30.11.2005)
Principal repaid	109.20 [76%]	170.93 [77%]	295.66 [78%]	136.29 [81%]
Interest during the study period repaid	12.88 [9%]	17.27 [8%]	26.03 [7%]	11.54 [7%]
Instalment interest repaid	21.40 [15%]	33.95 [15%]	55.47 [15%]	20.44 [12%]
Total	143.48 [100%]	222.15 [100%]	377.16 [100%]	168.27 [100%]

Note 1 : Including all cases under the NLS (implemented since the 1998/99 academic year) / Non-means Tested Loan Scheme for Post-secondary Students (NLSPS) (implemented since the 2001/02 academic year). Same below.

Note 2 : Academic year refers the period from 1 August each year to 31 July in the following year.

Note 3 : The Student Financial Assistance Agency (SFAA) started to compile relevant statistics since the 2002/03 academic year. Hence, information for the 2001/02 academic year is not available.

Q 2: How did the Administration derive at the risk-adjusted factor (RAF)? What is the rationale to set the RAF at 1.5%?

A 2: In order to safeguard public money, the NLS operates on a full-cost recovery and no-gain-no-loss basis. The application of a RAF seeks to cover the Government's risk of default in disbursing unsecured loans. The Government had, based on the consultancy's

recommendations and consultation with the Joint Committee on Student Finance (JCSF), set the RAF at the level of 1.5%.

Q 3: From 2001/02 to the current year, is the interest collected through the extra 1.5% from the non-means tested loan cases enough to cover the Government's risk in disbursing unsecured loans?

A 3: Since the implementation of NLS in 1998/99 (up to 30 September 2005), the amount of accumulated interest collected through the RAF is approximately \$65 million, which is far less than the accumulated loan amount in default^(Note 4) of \$161.06 million for the same period, with a difference of about \$96 million. The SFAA has been taking follow-up actions, which should help reduce defaults cases and the above difference.

Q 4: Is the RAF interest rate applicable only to the three non-means tested loan schemes? Is it true that the interest collected through RAF could not be used to offset the losses brought by loans schemes other than the non-means tested loans?

A 4: Under the existing student grant/loan schemes, the RAF interest rate applies only to non-means tested loan schemes. Interest collected through the RAF covers the Government's risk in disbursing unsecured non-means tested loans.

Q 5: What is the actual RAF rate for the means-tested and non-means tested loans respectively in the years from 2001/02 to 2004/05? What is the amount so involved?

A 5: Since the implementation of NLS, the RAF interest rate has been maintained at the level of 1.5%. From 2000 to 2005 (up to 30 September 2005), the interest amount collected through the RAF is listed below:

Year	2000	2001	2002	2003	2004	2005 (up to 30 September 2005)	Total
	(\$Million)						
(A) Interest amount collected through the RAF	2.16	5.04	7.61	11.34	18.82	19.96	64.93
(B) Loan amount in default ^(Note 4)	0.27	2.53	5.68	16.96	43.34	92.28	161.06
(A) – (B)	1.89	2.51	1.93	(5.62)	(24.52)	(72.32)	(96.13)

RAF does not apply to means-tested financial assistance schemes.

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^(Note 4) Involving cases with loan amount in default for two or more quarterly instalments.