

**For discussion on
9 February 2009**

Legislative Council Panel on Education

Non-means-tested Loan Schemes for Post-secondary Students

Purpose

At the meeting of the Panel on Education held on 12 January 2009, the Administration was requested to consider three proposals relating to the non-means-tested loan schemes administered by the Student Financial Assistance Agency (SFAA), namely –

- (a) allow loan borrowers to defer the loan repayment amount for two years at no interest arising from the two years' deferral period;
- (b) permanently remove the risk-adjusted factor (RAF) of 1.5% from the interest rate; and
- (c) waive the interest amount on the loans during the study period of the loan borrowers.

2. This paper sets out the background and latest situation of the non-means-tested loan schemes, and the Administration's views on the above proposals.

Financial assistance for post-secondary students

3. It is Government policy that no student should be deprived of education owing to lack of means. In respect of post-secondary education, SFAA is operating a number of student financial assistance schemes, which seek to provide grants and/or loans for covering tuition fees, academic expenses and living expenses. In the 2007/08 academic year, we have disbursed means-tested grant of about \$1,300 million, means-tested loans of about \$340 million and non-means-tested loans of about \$950 million.

Non-means-tested loan schemes for post-secondary students

4. The Non-means-tested Loan Scheme (NLS) was introduced in the 1998/99 academic year to complement the Tertiary Student Finance Scheme – Publicly-funded Programmes (TSFS)¹. NLS seeks to provide a new channel of finance to those students who prefer to pursue their tertiary studies on their own without relying on family support, and those who do not wish to or fail to go through the means test as required under TSFS.

5. To support students pursuing locally-accredited self-financing post-secondary programmes, the Financial Assistance Scheme for Post-secondary Students (FASP) was introduced in the 2001/02 academic year under which means-tested grants and loans were offered to those needy students. As a complementary measure, NLS was expanded to provide non-means-tested loans to students covered by FASP. This is referred to as the Non-means-tested Loan Scheme for Post-secondary Students (NLSPS).

6. NLS was also expanded in the 2000/01 academic year to cover students pursuing self-financing post-secondary programmes offered by UGC-funded institutions, and continuing and professional education courses operated locally by registered schools and recognized training providers. This is referred to as the Extended Non-means-tested Loan Scheme (ENLS).

7. A summary table on the above three types of non-means-tested loans for students is at *Annex A*.

No-gain-no-loss and full-cost-recovery basis

8. The non-means-tested loan schemes aim to provide loans to post-secondary students, who are unable or unwilling to go through the income and asset tests under TSFS and FASP, and to those students who are not eligible for TSFS and FASP. Since the loans are not subject to means test and are unsecured, we consider it unjustified for taxpayers to subsidize the operation of these schemes. To ensure the proper use of public money, these schemes are operating on a no-gain-no-loss and

¹ TSFS provides financial assistance in the form of means-tested grant and/or loan to eligible students pursuing publicly-funded programmes offered by University Grants Committee (UGC)-funded institutions, the Hong Kong Academy for Performing Arts, the Hong Kong Institute of Vocational Education and the Prince Philip Dental Hospital.

full-cost-recovery basis. On this basis, we have adopted the Government's no-gain-no-loss interest rate² plus a 1.5% RAF as the interest rate for the non-means-tested loans. Interest will be charged on the capital once the loan is drawn down and on the reducing capital throughout the repayment period. We are also charging an administrative fee calculated on a cost-recovery basis.

9. Under the current mechanism, the Government will review the no-gain-no-loss interest rate at the end of each month according to changes in the best lending rate in the month and will adjust the rate with effect from the first day of the following month. Since April 2006, the interest rate for the non-means-tested loan schemes has been adjusted downwards 10 times, from 7.359% to the present 4.132%. This interest rate is much lower than the interest rate for unsecured loans in the market.

10. Income from the RAF is to cover the Government's loss due to default in repayment of the loans.

11. The non-means-tested loans are to be repaid in 40 quarterly instalments within ten years after graduation or termination of study. Loan recipients may choose to make early repayment of the loans. If a loan borrower fails to settle a quarterly instalment on time, the amount in arrears will be charged at the interest rate equal to the prevailing average of the best lending rate of note-issuing banks.

Helping loan borrowers with repayment difficulty

12. We appreciate that individual loan borrowers may have difficulties in repaying their loans. We have put in place an effective mechanism for handling such situations. If individual loan borrowers are unable to repay their loans owing to financial hardship, further studies or serious illness, they may apply to SFAA for assistance. SFAA will, on the basis of individual merits, approve deferment of loan repayment or adjustment of quarterly repayment amount. We encourage loan borrowers with difficulties in repayment to approach SFAA for assistance. In the 2007/08 academic year, SFAA has approved around 2 700 applications for deferment of loan repayment or adjustment of quarterly

² The no-gain-no-loss principle is that Government shall not make profit or suffer from any loss (including loss of interest income from the loan amounts) through the various non-means-tested loan schemes. The no-gain-no-loss interest rate is the average of the best lending rates of note-issuing banks minus a factor, which is the average differential between the average best lending rate and the 12-month Hong Kong Dollar Inter-bank Offered Rate for the past ten years.

repayment amount under the non-means-tested loan schemes.

Overall financial situation of the non-means-tested loan schemes

13. As at 31 December 2008, the accumulated total loan and interest amount due for repayment since Year 2000 is around \$3,467 million and the total amount received is around \$3,323 million, with a cumulative shortfall of around \$144 million. The annual shortfall has been on an increasing trend in recent years. The annual shortfall from Year 2000 to 2008 is at *Annex B*.

14. As at 30 September 2008, the total accumulated amount of interest collected from the RAF was around \$208 million, while the total amount in default (comprising both the unpaid instalments together with the undemanded principal in these defaulted accounts) was around \$462 million, resulting in an overall shortfall of \$254 million. The shortfall has been increasing in overall terms in recent years, mainly due to the increase in default amounts of NLSPS and ENLS. The evolving amounts of the overall shortfall from 31 December 2006 to 30 September 2008 is at *Annex C*.

15. The above indicates that owing to the default situation, the Government has yet been able to achieve the objective of operating the non-means-tested loan schemes on a full-cost-recovery basis at the prevailing interest rate (including the RAF).

Default situation of the non-means-tested loan schemes

16. Defaulters are currently defined as loan borrowers who have failed to repay two or more consecutive quarterly instalments (i.e. more than six months). This does not include those who have approached SFAA and have been allowed to defer repayment. Both the number of defaulting accounts and the total outstanding amounts involved have been increasing in recent years. The percentage share of loan borrowers who have failed to repay more than 12 quarterly instalments (i.e. more than 3 years) has been increasing in recent years. As at 2007/08 academic year, there are around 11 000 default cases involving a total outstanding amount of around \$532 million (including \$139 million of defaulted amount and \$393 million of undemanded loan principal in defaulting accounts). Details are set out in the table below.

Academic Year	2004/05	2005/06	2006/07	2007/08
(a) Total number of defaulting accounts	4 914	7 842	9 760	10 990
(i) NLS	1 613	1 882	2 142	2 130
(ii) NLSPS	449	732	981	1 283
(iii) ENLS	2 852	5 228	6 637	7 577
(b) Total number of repayment accounts	37 369	51 059	62 422	73 576
(i) NLS	15 431	17 344	19 200	20 766
(ii) NLSPS	2 836	4 654	7 151	9 449
(iii) ENLS	19 102	29 061	36 071	43 361
(c) Percentage of default in terms of accounts ((a)/(b))	13.1%	15.4%	15.6%	14.9%
(d) Total amount of defaulted loan (\$ million)	35	66	102	139
(i) NLS	17	25	34	40
(ii) NLSPS	5	11	20	32
(iii) ENLS	13	30	48	67
(e) Total amount of undemanded loan principal in defaulting accounts (\$ million)	188	301	352	393
(i) NLS	68	77	81	74
(ii) NLSPS	38	65	83	105
(iii) ENLS	82	159	188	214
(f) Total amount of outstanding loan principal under repayment (\$ million)	1 525	2 075	2 547	2 971
(i) NLS	693	771	829	861
(ii) NLSPS	209	360	543	701
(iii) ENLS	623	944	1,175	1,409
(g) Percentage of default in terms of amounts ((d)/(f))	2.3%	3.2%	4.0%	4.7%

17. We are concerned about the default problem. In this connection, SFAA has reviewed the debt collection process, streamlined the workflow, and deployed additional staffing resources to expedite debt recovery through legal means. In addition, SFAA has enhanced publicity on prudent financial management. It has been working closely with post-secondary institutions to brief students on various loan schemes and loan repayment arrangements, to remind them of the need to seriously consider their financial requirements and repayment ability

before applying for loans, and to emphasize the importance of prudent financial management and making repayment on time.

18. In view of the rising number of default cases, SFAA has been seeking the advice of the Joint Committee on Student Finance on measures to reduce the number of default cases. Some members suggested that SFAA should provide information of the defaulters to relevant credit reference agencies so as to deter loan borrowers from defaulting loan repayment without reason. SFAA is considering the feasibility of the suggestion and will consult various stakeholders further on the implementation arrangements before taking forward the proposal.

19. To ensure more effective protection of public money, we will continue to monitor the default situation and review the debt recovery measures as and when necessary.

Administration's response to the three across-the-board concessionary proposals

(a) Deferring loan repayment amount for two years at no interest

20. As SFAA has in place an effective mechanism for handling requests from individual loan borrowers with repayment difficulty, as set out in paragraph 12 above, we do not see the need to defer the loan repayment for two years across-the-board for all the non-means-tested loan borrowers regardless of their needs. SFAA would continue to deal with individual requests with flexibility in the light of the prevailing economic climate.

(b) Removing RAF

21. The non-means-tested loan schemes are operating on a no-gain-no-loss and full-cost-recovery basis. As set out in paragraph 14 above, as at 30 September 2008, the accumulated amount of interest collected from the RAF was around \$208 million, while the defaulted loan amount together with the undemanded principal in these defaulted accounts was around \$462 million, resulting in an overall shortfall of \$254 million. The income from the RAF has yet been able to fully cover the Government's risk of loss due to default in repayment of the loans. To remove the RAF from the interest rate would go against the full-cost-recovery principle of the non-means-tested loan schemes. The recurrent cost implications of removing the RAF would effectively be the recurrent amount that the taxpayers would have to subsidize the operation

of the schemes.

(c) Waiving interest accrued during the loan borrowers' study period

22. To waive the interest accrued during the loan borrowers' study interest under the non-means-tested loan schemes would be tantamount to changing the no-gain-no-loss principle of the schemes. The principle is that Government shall not make profit or suffer from any losses (including losses in interest income from the loan amounts) through the various non-means-tested loan schemes. Therefore, interest accrues upon drawdown of the loan and throughout the specified repayment periods (40 quarterly instalments within ten years upon graduation or termination of study) until the loan is fully repaid. To ensure the proper use of public money, we consider it prudent to maintain this requirement.

(d) Financial implications of the above three proposals

23. The preliminary estimates of the financial implications for each of the three proposals are as follows –

	Measures	Estimated expenditure (\$million)
(a)	Deferring loan repayment amount for two years at no interest arising from the deferral period	\$40 million (one-off)
(b)	Removing RAF	\$77 million (annually)
(c)	Waiving study interest	\$52 million (annually)

24. The financial implication of proposal (a) is around \$40 million. Moreover, if defaulters are also allowed the same deferment of payment treatment, the Government would not be able to recover some defaulted loans through legal action if the default cases concerned fall within the statutory time-barred period under the Limitation Ordinance. We estimate that there are around 2 200 such cases, involving an amount of \$110 million.

Way forward

25. We would continue to closely monitor the situation, and encourage individual loan borrowers with difficulties in repayment to

approach SFAA for assistance.

Education Bureau
February 2009

Features of the non-means-tested loan schemes

Loan schemes	Objective	Eligibility	Level of loan amount	Maximum loan amount (for the 2008/09 academic year)	Number of beneficiaries in the 2007/08 academic year
<p>Non-means-tested Loan Scheme (NLS) [applicable to full-time students eligible for the Tertiary Student Finance Scheme - Publicly-funded Programmes (TSFS)]</p>	<p>To provide financial assistance in form of loan to eligible students to meet their tuition fees.</p>	<ul style="list-style-type: none"> ◆ Registered full-time students of recognized courses run by the University Grants Committee-funded institutions, Hong Kong Institute of Vocational Education of the Vocational Training Council, Prince Philip Dental Hospital, and Hong Kong Academy for Performing Arts. ◆ Have the right of abode in the Hong Kong or have resided or have had their home in Hong Kong continuously for 3 complete years immediately prior to the commencement of the course. This does not cover students staying in Hong Kong holding student visas. 	<p>For students obtaining means-tested assistance under the TSFS:-</p> <ul style="list-style-type: none"> ◆ The maximum amount of loan should not exceed the difference between the maximum financial assistance under the TSFS and the amount of financial assistance the student may receive under the TSFS, subject to the NLS loan maximum (equivalent to the tuition fees payable) not being exceeded. <p>For students not obtaining means-tested assistance under the TSFS:-</p> <ul style="list-style-type: none"> ◆ The maximum amount of loan is tuition fees payable for the academic year. 	<p>Tuition fees payable for the academic year, i.e. \$42,100.</p>	<p align="center">5 300</p>
<p>Non-means-tested Loan Scheme for Post-secondary Students (NLSPS) [applicable to full-time students eligible for the Financial Assistance Scheme for Post-secondary Students (FASP)]</p>	<p>To provide financial assistance in form of loan to eligible students to meet their tuition fees, academic expenses and basic living expenses.</p>	<ul style="list-style-type: none"> ◆ Registered full-time students who are engaged in full-time locally-accredited self-financing post-secondary education programmes leading to a qualification at sub-degree (i.e. associate degree, higher diploma and/or professional diploma) level or above. ◆ Aged 25 or below. ◆ Have the right of abode in the Hong Kong or 	<p>For students obtaining means-tested assistance under the FASP:-</p> <ul style="list-style-type: none"> ◆ The maximum loan amount is up to the difference between the annual tuition fees payable, academic expenses plus basic living expenses and the actual 	<p>Tuition fees payable (without ceiling), basic living expenses of \$35,670 plus academic expenses of \$3,090.</p>	<p align="center">7 000</p>

Loan schemes	Objective	Eligibility	Level of loan amount	Maximum loan amount (for the 2008/09 academic year)	Number of beneficiaries in the 2007/08 academic year
		<p>have resided or have had your home in Hong Kong continuously for 3 complete years immediately prior to the commencement of the course. This does not cover students staying in Hong Kong holding student visas.</p>	<p>amount of means-tested assistance offered.</p> <p>For students not obtaining means-tested assistance under the FASP:-</p> <ul style="list-style-type: none"> ◆ The maximum amount of loan is the tuition fees payable, academic expenses plus basic living expenses for the academic year. 		
<p>Extended Non-means-tested Loan Scheme (ENLS) [applicable to eligible students not covered by the TSFS and FASP]</p>	<p>To provide financial assistance in form of loan to eligible students to meet their tuition fees.</p>	<ul style="list-style-type: none"> ◆ Registered students of the Open University of Hong Kong, Hong Kong Shue Yan University, part-time publicly-funded programmes or self-financing local award-bearing programmes offered by publicly-funded institutions (including their Schools of Professional and Continuing Education), Project Yi Jin, and continuing or professional education courses provided in Hong Kong by registered schools, non-local universities and recognized training bodies. ◆ Have the right of abode in the Hong Kong or have resided or have had your home in Hong Kong continuously for 3 complete years immediately prior to the commencement of the course. This does not cover students staying in Hong Kong holding student visas. 	<p>The maximum amount of loan is the tuition fees payable for the academic year.</p>	<p>Actual tuition fees payable for the academic year (without ceiling).</p>	<p>10 700</p>

Annex B

Overall financial situation of the non-means-tested loan schemes

	Amount as at the year end of (\$ million)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total	
(i) Amount due for repayment	NLS 59.5	NLS 98.7	NLS 98.0	NLS 129.6	NLS 164.1	NLS 245.0	NLS 297.0	NLS 287.8	NLS 270.0	NLS 1649.7	
	NLSPS 0.3	NLSPS 1.3	NLSPS 4.9	NLSPS 12.0	NLSPS 26.6	NLSPS 71.6	NLSPS 125.5	NLSPS 158.2	NLSPS 177.1	NLSPS 577.5	
	ENLS 6.3	ENLS 12.0	ENLS 14.2	ENLS 33.4	ENLS 86.0	ENLS 179.5	ENLS 276.7	ENLS 306.1	ENLS 326.2	ENLS 1240.4	
	66.1	112.0	117.1	175.0	276.7	496.1	699.2	752.1	773.3	3467.6	
(ii) Amount repaid	NLS 59.5	NLS 98.5	NLS 97.6	NLS 128.9	NLS 162.5	NLS 241.1	NLS 289.5	NLS 276.9	NLS 255.9	NLS 1610.4	
	NLSPS 0.3	NLSPS 1.3	NLSPS 4.9	NLSPS 11.9	NLSPS 26.1	NLSPS 70.0	NLSPS 120.4	NLSPS 148.0	NLSPS 161.0	NLSPS 543.9	
	ENLS 6.3	ENLS 12.0	ENLS 14.2	ENLS 33.2	ENLS 84.2	ENLS 173.6	ENLS 263.1	ENLS 286.7	ENLS 295.9	ENLS 1169.2	
	66.1	111.8	116.7	174.0	272.8	484.7	673.0	711.6	712.8	3323.5	
Shortfall [(ii)-(i)]	NLS 0.0	NLS (0.2)	NLS (0.4)	NLS (0.7)	NLS (1.6)	NLS (3.9)	NLS (7.5)	NLS (10.9)	NLS (14.1)	NLS (39.3)	
	NLSPS 0.0	NLSPS 0.0	NLSPS 0.0	NLSPS (0.1)	NLSPS (0.5)	NLSPS (1.6)	NLSPS (5.1)	NLSPS (10.2)	NLSPS (16.1)	NLSPS (33.6)	
	ENLS 0.0	ENLS 0.0	ENLS 0.0	ENLS (0.2)	ENLS (1.8)	ENLS (5.9)	ENLS (13.6)	ENLS (19.4)	ENLS (30.3)	ENLS (71.2)	
	0.0	(0.2)	(0.4)	(1.0)	(3.9)	(11.4)	(26.2)	(40.5)	(60.5)	(144.1)	

NLS - Non-means-tested Loan Scheme

NLSPS - Non-means-tested Loan Scheme for Post-secondary Students

ENLS - Extended Non-means-tested Loan Scheme

**Risk-adjusted factor (RAF) vis-à-vis Defaulted Loan Amounts
Cumulative shortfall**

	Amount as at (\$ million)				
	31.12.2006	30.6.2007	31.12.2007	31.3.2008	30.9.2008
(i) RAF collected	NLS 66	NLS 78	NLS 84	NLS 89	NLS 98
	NLSPS 13	NLSPS 20	NLSPS 23	NLSPS 26	NLSPS 32
	ENLS 36	ENLS 50	ENLS 59	ENLS 65	ENLS 78
	115	148	166	180	208
(ii) Defaulted amount	NLS 23	NLS 27	NLS 31	NLS 31	NLS 35
	NLSPS 10	NLSPS 13	NLSPS 19	NLSPS 23	NLSPS 28
	ENLS 27	ENLS 33	ENLS 40	ENLS 44	ENLS 53
	60	73	90	98	116
(iii) Undemanded loan principal under defaulted accounts under (ii)	NLS 66	NLS 70	NLS 69	NLS 65	NLS 63
	NLSPS 49	NLSPS 47	NLSPS 79	NLSPS 95	NLSPS 93
	ENLS 130	ENLS 157	ENLS 162	ENLS 166	ENLS 190
	245	274	310	326	346
(iv) Shortfall [(i)-(ii)-(iii)]	NLS (23)	NLS (19)	NLS (16)	NLS (7)	NLS 0
	NLSPS (46)	NLSPS (40)	NLSPS (75)	NLSPS (92)	NLSPS (89)
	ENLS (121)	ENLS (140)	ENLS (143)	ENLS (145)	ENLS (165)
	(190)	(199)	(234)	(244)	(254)

NLS - Non-means-tested Loan Scheme

NLSPS - Non-means-tested Loan Scheme for Post-secondary Students

ENLS - Extended Non-means-tested Loan Scheme