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Panel on Education

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 9 February 2009**

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

Purpose

This paper sets out the concerns of members on the non-means-tested loan schemes for post-secondary students.

Non-means-tested loan schemes

2. At present, students of accredited post-secondary programmes have access to means-tested grants, means-tested loans and non-means-tested loans. The Tertiary Student Finance Scheme - Publicly-funded Programmes (TSFS) is applicable to students pursuing publicly-funded post-secondary programmes under which needy students receive either full grants or partial grants for tuition fees and academic expenses. The Financial Assistance Scheme for Post-Secondary Students (FASP) provides means-tested grants or loans to cover tuition fees and living expenses for students pursuing locally accredited, self-financing full time post-secondary programmes leading to a sub-degree or higher qualification. The applicants for TSFS and FASP are required to go through the income and asset tests to ascertain their eligibility for the relevant financial assistance.

3. Currently, the following three non-means-tested loan schemes are in place –

- (a) Non-means-tested Loan Scheme for Post-secondary Students (NLSPS) applicable to full-time students eligible for FASP;
- (b) Non-means-tested Loan Scheme applicable to students eligible for

TSFS; and

- (c) Extended Non-means-tested Loan Scheme applicable to students not covered by FASP and TSFS, including 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, Project Yi Jin, and continuing or professional education courses provided in Hong Kong by registered schools, non-local universities and recognized training bodies.

4. The three non-means-tested loan schemes are administered in an integrated manner by the Student Financial Assistance Agency (SFAA). These schemes are operated on a no-gain-no-loss and full-cost-recovery basis with interest charged on the loan once the loan is drawn down and throughout the repayment period until the loan is fully repaid. As at November 2008, the interest rate was 4.382% including a 1.5% risk-adjusted factor to cover Government's risk in disbursing unsecured loans. Under the existing terms and conditions, loan borrowers are required to repay their loans in 40 equal quarterly instalments within 10 years upon completion or termination of their studies.

5. The maximum financial assistance for applicants under NLSPS is capped at the annual tuition fees payable for the course under application and academic expenses of \$3,090 plus a loan to cover basic living expenses. The maximum amount of loan for living expenses for the 2008-2009 academic year is \$35,670.

6. For an applicant eligible for TSFS, the maximum amount of non-means-tested loan is capped at the tuition fee payable. Where the applicant has received any financial assistance under TSFS, the maximum loan would be the difference between the maximum financial assistance under TSFS and the amount of financial assistance the applicant has received under TSFS.

Members' concerns

7. The Panel on Education had discussed matters relating to the non-means-tested loan schemes in the context of considering the provision of financial assistance to post-secondary students. Members had also raised questions concerning the subject matter at Council meetings. The concerns of members are summarized in the ensuing paragraphs.

The risk-adjusted factor

8. Members were concerned about the application of the risk-adjusted factor at 1.5% to cover the Government's risk in disbursing unsecured loans

under the non-means-tested loan schemes. There was a view that the 1.5% was on the high side. Members pointed out that the risk-adjusted factor had generated an income of about \$50 million in the 2006-2007 school year. The Administration was requested to remove or, at least, to reduce the rate of the risk-adjusted factor to alleviate the financial burden of parents and students.

9. The Administration explained that non-means-tested loan schemes were operated on a no-gain-no-loss and full-cost-recovery basis. The prevailing rate was considerably lower than the average interest rate on unsecured loans in the market. The interest collected from the risk-adjusted factor was far less than the amount of defaulted loans totalling around \$440 million as of mid-2008. The Administration would closely monitor the default situation with a view to considering whether there were grounds for adjusting the risk-adjusted factor.

Default rate

10. Members sought information on the default situation and the measures to recover arrears from defaulting borrowers. They were concerned about the effectiveness of the existing measures.

11. According to the Administration, the default rate of student loan schemes was noticeable. As at 2007-2008 academic year, the total amount of the loan principal and interest in default under the various non-means-tested loan schemes was about \$135 million. The total amount of the undemanded loan principal under the defaulted accounts was about \$393 million. In the event that these undemanded loan principals were also in default, the total amount in default would be \$528 million. Up to the end of 2007, the income from the 1.5% risk-adjusted factor was some \$200 million less than the total sum in the defaulted accounts under the various non-means-tested loan schemes. Details on the amount of loans disbursed under the respective non-means-tested loan schemes in the 2003-2004 to the 2007-2008 academic years are in **Appendix I**. A breakdown of the accumulated number of default cases and the amount of loan principal and interest involved under the respective non-means-tested loan schemes in the 2007-2008 academic year is in **Appendix II**.

12. The Administration advised that loan borrowers were required to pay overdue interest at a rate equal to the average best lending rate of the note-issuing banks if they failed to make their loan repayments on time. As at May 2008, the overdue interest rate was 5.333% per annum. The overdue interest rate was higher than the interest rate for non-means-tested loans so as to encourage loan borrowers to make loan repayment on time and to prevent abuse of the loan schemes.

13. The Administration further pointed out that in case loan borrowers failed to repay a quarterly instalment by the due date, and had not approached SFAA to provide explanations, SFAA would write to them to demand immediate repayment of the loans. If the loan borrowers concerned still failed to repay the loan without reasons despite repeated requests, SFAA would arrange to refer the default cases to the Department of Justice for debt recovery through legal means. Given the need to ensure proper use of public money, SFAA had reviewed the debt collection process, streamlined the workflow, and deployed additional staffing resources to expedite debt recovery through legal means. In addition, SFAA had enhanced publicity on prudent financial management and collaborated with the 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.

14. In view of the rising number of default cases, SFAA had been seeking the advice of the Joint Committee on Student Finance (JCSF) on measures to reduce the number of default cases. Some members of JCSF 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 was considering the feasibility of the suggestion, and would consult JCSF further on the proposal.

Assistance to borrowers with financial difficulties

15. Given the prevailing financial crisis which impacted on the employment situation and repayment ability of loan borrowers, members enquired about the availability of measures to help borrowers with financial difficulties reduce their financial burden.

16. According to SFAA, loan recipients who had difficulties in repaying the loans due to further studies on full-time courses, financial hardship or serious illness might apply for deferment of loan repayment with support of documentary proof. SFAA would consider application for deferment of loan repayment on the basis of individual merits and approve deferment of loan repayment or temporary adjustment of the quarterly repayment amounts. Interest would accrue over the period of deferment. In the 2007-2008 academic year, SFAA had approved about 2 700 applications for deferment of loan repayment or adjustment of quarterly repayment amounts under the various schemes. The Administration was reviewing the financial assistance schemes for students pursuing self-financing and publicly-funded post-secondary programmes, and would study the feasibility of merging the two schemes.

Relevant papers

17. A list of the relevant papers on the Legislative Council website is in **Appendix III.**

Council Business Division 2
Legislative Council Secretariat
5 February 2009

**Loans disbursed under the non-means-tested loan schemes
in the 2003-2004 to 2007-2008 academic years**

Loan Scheme	Academic Year				
	2003/04	2004/05	2005/06	2006/07	2007/08
Non-means-tested Loan Scheme (applicable to full-time students eligible for TSFS)					
Loan amount disbursed ¹ (\$ million)	298.5	284.6	225.9	189.3	184.8
Non-means-tested Loan Scheme (applicable to full-time students eligible for FASP)					
Loan amount disbursed ¹ (\$ million)	242.9	315.9	330.9	315.0	364.9
Non-means-tested Loan Scheme (applicable to students not covered by TSFS and FASP)					
Loan amount disbursed ¹ (\$ million)	480.9	586.4	483.8	402.6	401.7

¹ "Loan amount disbursed" refers to the actual amount of loan paid in a particular academic year, while "Interest received" refers to the interest received in a particular academic year for the loans approved over the past years. The two figures have no direct relationship with each other.

Note : Extracted from Annex IIa of the Administration's reply to Hon Tanya CHAN's question raised at the Council meeting held on 12 November 2008.

Accumulated number of default cases and the amount of loan principal and interest involved under the non-means-tested loan schemes in the 2007-2008 academic year

Loan Scheme	2007/08 Academic Year
Non-means-tested Loan Scheme (applicable to full-time students eligible for TSFS)	
Accumulated number of default cases	2 130
Loan principal in default (\$ million)	25.6
Interest in default (\$ million)	14.1
Non-means-tested Loan Scheme (applicable to full-time students eligible for FASP)	
Accumulated number of default cases	1 283
Loan principal in default (\$ million)	18.3
Interest in default (\$ million)	12.9
Non-means-tested Loan Scheme (applicable to students not covered by TSFS and FASP)	
Accumulated number of default cases	7 577
Loan principal in default (\$ million)	37.9
Interest in default (\$ million)	26.5

Note : Extracted from Annex IV of the Administration's reply to Hon Tanya CHAN's question raised at the Council meeting held on 12 November 2008.

**Relevant papers on
Non-means-tested loan schemes for post-secondary students**

Meeting	Date of meeting	Paper
Legislative Council	16.11.2005	Hon CHEUNG Man-kwong raised an oral question on "Statistics on student finance schemes". [Hansard (page 56 - 67)]
Panel on Education	26.1.2006 (Item II)	Minutes Agenda
Panel on Education	27.3.2006 (Item IV)	Minutes Agenda
Finance Committee	19.5.2006	Minutes FCR(2006-07)9
Panel on Education	11.12.2006 (Item IV)	Minutes Agenda
Legislative Council	23.1.2008	[Question 10] Asked by : Hon TSANG Yok-sing Default repayment of student loans Reply
Finance Committee	31.3.2008, 1, 2, 3 & 7.4.2008	Minutes
Panel on Education	14.4.2008 (Item IV)	Minutes Agenda
Legislative Council	23.4.2008	[Question 14] Asked by : Hon SIN Chung-kai Non-means tested loan schemes for tertiary students Reply
Panel on Education	28.4.2008	Minutes Agenda

Meeting	Date of meeting	Paper
Legislative Council	30.4.2008	[Question 19] Asked by : Hon Emily LAU Recovery of outstanding student loans Reply
Legislative Council	14.5.2008	[Question 8] Asked by : Hon Albert HO Default cases of non-means tested loan schemes Reply [Question 9] Asked by : Dr Hon YEUNG Sum Applications for deferring repayment of student loans Reply
Panel on Education	17.7.2008 pm (Item I)	Minutes EDB (MPE)CR 8/2041/04 Report of the Phase 2 Review of the Post-secondary Education Sector
Panel on Education	23.10.2008 (Policy Briefing)	Minutes Agenda
Legislative Council	12.11.2008	[Question 14] Asked by : Hon Tanya CHAN Non-means Tested Loan Schemes Reply