

**For discussion on
29 May 2009**

**Legislative Council Panel on Education
One-off Relief Measures on Student Finance**

Purpose

This paper seeks Members' views on two one-off relief measures on student finance to alleviate the financial burden of needy families, namely:

- (a) provide a one-off grant of \$1,000 each for needy students; and
- (b) extend the total loan repayment period for a maximum of two years without charging interest during the deferment period, for student loan borrowers with proven repayment difficulties, on an application basis for a period of two years.

One-off relief measures

2. The Government is deeply concerned about the impact of the recent economic downturn on the livelihood of citizens. In addition to the relief measures announced in the 2009-10 Budget, the Financial Secretary announced a package of economic relief measures on 26 May 2009. They include the above two measures on student financial assistance which seek to reduce the burden of needy families and those with short-term difficulty repaying their student loans.

One-off grant for needy students

3. To alleviate the financial burden of needy parents, we propose to disburse, outside existing financial assistance schemes and on a non-accountable basis, a one-off grant of \$1,000 each for the following categories of needy students:

- (a) students, from kindergarten to post-secondary education, who are eligible to receive means-tested financial subsidies¹ under the various student finance schemes administered by the Student Financial Assistance Agency (SFAA) in the 2009/10 school year; or
- (b) students, from kindergarten to secondary education, who are eligible to receive flat-rate grant for school-related expenses under the Comprehensive Social Security Assistance (CSSA) Scheme in the 2009/10 school year.

We expect parents/students in receipt of the grant to make use of it flexibly to meet their education-related expenses in ways best suited to their needs.

4. Similar to the disbursement arrangement of the similar one-off grant in the 2008/09 school year, SFAA will effect payment of the one-off grant to applicants who have passed the means test for financial assistance under SFAA schemes in the 2009/10 school year from October 2009. Applicants who pass the means test after October 2009 would be given the one-off grant and their normal financial assistance under the relevant schemes within the 2009/10 school year. The Social Welfare Department (SWD) will also make available the one-off grant to eligible students under its schemes in the new school year.

Maximum two years' interest-free loan deferment for student loan borrowers with proven repayment difficulties

5. Eligible students under the various student loan schemes may, depending on their financial situation, apply to SFAA for means-tested or non-means-tested loans to pay for their tuition fees, academic expenses and/or living expenses. Generally, means-tested loan borrowers are required to repay their loans in quarterly instalments (due on the first day of January, April, July and October) within five years upon completion or cessation of their studies, and in some cases of hardship, the repayment

¹ These students include those eligible to receive means-tested subsidies under the Tertiary Student Finance Scheme – Publicly-funded Programmes, Financial Assistance Scheme for Post-secondary Students, Tuition Fee Reimbursement for Project Yi Jin, Tuition Fee Reimbursement for the Financial Assistance Scheme for Designated Evening Adult Education Courses, School Textbook Assistance Scheme, Student Travel Subsidy Scheme, Examination Fee Remission Scheme and eligible kindergarten students under the Kindergarten and Child Care Centre Fee Remission Scheme, as well as kindergarten students who have opted to continue receiving means-tested assistance based on the formula of the former Child Care Centre Fee Assistance Scheme after the harmonization of pre-primary services.

period could be extended up to 10 years. Borrowers of non-means-tested loan are required to repay the loans within 10 years upon completion or cessation of their studies in similar quarterly instalments.

6. Under the current loan deferment mechanism, 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. While we do not charge any interest during the approved deferment period in respect of the means-tested loan schemes, we are charging those non-means-tested loan borrowers interest during the approved deferment period on the ground that the non-means-tested loan schemes are operating on a no-gain-no-loss and full-cost-recovery basis².

7. The total number of approved deferment cases under both the means-tested and non-means-tested loan schemes in the 2008-09 financial year is around 6 000, with an average approval rate of over 80%.

8. To alleviate the financial burden of needy loan borrowers during economically difficult times, we propose to extend the total loan repayment period for a maximum of two years without charging any interest during the approved deferment period. During the two-year period from 1 August 2009 to 31 July 2011, loan borrowers who apply for deferment and whose requests for deferment are subsequently approved by SFAA will be eligible for deferment from the quarterly instalment following the date of application, subject to a maximum of two years. Since interest on a quarterly instalment is due on the first day of the following quarter, the interest-free period for approved deferment cases will in effect commence from 1 July 2009 at the earliest.

9. For those means-tested loan borrowers whose deferment requests have been approved under the existing deferment mechanism, they may re-apply in case of need on or before 31 July 2011 in order to benefit from the above extension of loan repayment period. For those non-means-tested loan borrowers whose approved deferment periods expire at the end of the third quarter of 2009 or any subsequent quarter, their deferred loans would not be charged any interest with effect from 1 July 2009 for the remainder of their deferment or up to 30 June 2011,

² Non-means-tested loan schemes are not subject to means test and are unsecured. To ensure the proper use of public money, these schemes are operating on a no-gain-no-loss and full-cost-recovery basis. Interest will be charged on the capital once the loan is drawn down. The current interest rate is 4.132%, which is lower than the interest rate for unsecured loans in the market.

whichever is the earlier. They may also re-apply upon expiry of their previously approved deferment in case of need on or before 31 July 2011. However, the total interest-free and deferred repayment period for each of the above cases will be subject to a cumulative maximum of two years. SFAA will inform the loan borrowers concerned and seek their agreement to making the relevant changes to the deferment arrangements.

10. To protect public money, defaulters³ who wish to benefit from the relief measure are required to approach SFAA for assistance in loan restructuring or deferment arrangements, providing supporting information on financial hardship, further studies or serious illness.

11. We propose to provide this loan extension arrangement for a two years' application period from 1 August 2009 to 31 July 2011, as this seeks to provide a short-term relief for those student loan borrowers who have difficulties in repaying their student loans because of financial difficulty, serious illness or further studies, particularly in the face of the economic downturn. This would relieve the burden of both existing loan borrowers with repayment difficulties, as well as those potential new loan borrowers who wish to make use of the student loans to undertake some short-term post-secondary educational programmes lasting one to two year(s).

Financial implications

One-off grant for needy students

12. Based on the projected student population of around 1.1 million from kindergarten to post-secondary education in the 2009/10 school year, and taking into account past take-up rates of various means-tested student finance schemes administered by SFAA, and statistics on recipients of flat-rate grant for school-related expenses under CSSA from SWD, the total number of needy students who would be eligible for the one-off grant in the 2009/10 school year is around 570 000. The estimated total expenditure on the one-off grant in the 2009/10 school year is \$570 million (i.e. \$1,000 x 570 000 students).

³ Defaulters are currently defined as loan borrowers who have failed to repay two or more consecutive quarterly instalments (i.e. more than six months).

Maximum two years' interest-free loan deferment for student loan borrowers with proven repayment difficulties

13. The estimated financial implication of extending the loan period for a maximum of two years for student loan borrowers with repayment difficulties comprises both the waived interest⁴ which should otherwise be charged on approved deferment cases under the non-means-tested loan scheme, as well as interest income forgone due to an extension of the repayment period of the deferred loans⁵. It is difficult to compile an accurate estimate of the total financial implication, as the number of loan borrowers applying for deferment, the loan amounts due for payment, and the approved deferment arrangements vary from year to year.

14. Based on the deferment cases in the 2008-09 financial year, the estimated total amount of interest to be waived and interest income forgone due to an extension of the repayment period of the deferred loans is around \$42.4 million and \$16.6 million respectively, assuming that the same number of loan deferment applications (around 6 000) involving the same amount of outstanding loan amounts are approved each year within the two years' application period. If the number of approved loan deferment applications increases, and brings about a 20% increase in the outstanding loan amounts involved in each year, the estimated total amount of interest to be waived and interest income forgone due to an extension of the repayment period of the deferred loans would increase to around \$50.9 million and \$19.9 million respectively.

15. To implement the measure, SFAA will need to enhance its computer system for processing loan deferment cases at an estimated one-off cost of around \$800,000. SFAA will also require around 40 additional temporary staff during a period of 30 months involving around \$13 million to cope with the upsurge of loan deferment applications and handle additional administrative work during the two-year period. The additional expenditure will be absorbed within SFAA's own resources.

⁴ The calculation is based on the actual loan amount under deferment cases in the 2008-09 financial year. For non-means-tested loans, interest to be waived is computed by applying the current interest rate (i.e. 4.132%). This rate will be adjusted in accordance with the movement of the average best lending rate of note-issuing banks and the outcome of the biennial review of the no-gain-no-loss interest rate.

⁵ The calculation of the interest income forgone is based on the difference between the cash flow repayment schedule with and without deferment discounted at 6.8% per annum, which is the current rate of return for fiscal reserves placed with Exchange Fund.

Way forward

16. Subject to Members' views, we plan to seek the approval of the Finance Committee before the close of the current legislative year for the implementation of the proposals. This is to ensure that the above relief measures could be implemented the soonest possible in the 2009/10 school year.

Education Bureau
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