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**Legislative Council**

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**Panel on Education**

**Background brief prepared by the Legislative Council Secretariat  
for the meeting on 18 March 2010**

**Student Financial Assistance Agency**

**Purpose**

This paper sets out background information on the work of the Student Financial Assistance Agency (SFAA) and summarizes the concerns of the Panel on Education (the Panel) on the non-means-tested loan schemes administered by SFAA.

**Background**

2. According to the Administration, its policy is to ensure that no student should be deprived of education owing to a lack of means. SFAA provides publicly-funded financial assistance in the form of grants and loans to students of different study levels and administers privately-donated and publicly-funded scholarship schemes. The scholarships, merit awards and related schemes include the Sir Edward Youde Memorial Fund Scholarships and some 170 scholarships under the Education Scholarships Fund. Financial assistance mainly takes the form of -

- (a) means-tested grants and loans under the Tertiary Student Finance Scheme (TSFS) – Publicly-funded Programmes for eligible full-time students of publicly-funded institutions, i.e. University Grants Committee – funded institutions, the Hong Kong Institute of Vocational Education of the Vocational Training Council, the Hong Kong Academy for Performing Arts and the Dental Technology Course of the Prince Philip Dental Hospital;
- (b) means-tested grants and loan under the Financial Assistance Scheme for Post-secondary Students (FASP) for eligible full-time students aged 25 or below pursuing locally-accredited, self-financing post-secondary education programmes;

- (c) non-means tested loans for eligible students of publicly-funded institutions, and eligible students pursuing accredited post-secondary programmes, courses offered by the Hong Kong Shue Yan University and the Open University of Hong Kong, and continuing and professional education courses provided in Hong Kong by registered schools, non-local universities and recognised training bodies;
- (d) allowances under the Student Travel Subsidy Scheme for needy students who are receiving formal primary or secondary education or attending a full-time day course up to first degree, provided that these students are living beyond 10 minutes' walking distance from their schools and have passed the means test;
- (e) fee remission under the Examination Fee Remission Scheme for needy Secondary 5 and Secondary 7 students taking public examinations conducted by the Hong Kong Examinations and Assessment Authority;
- (f) means-tested grants under the School Textbook Assistance Scheme for students in public sector schools and local private schools under the Direct Subsidy Scheme;
- (g) fee remission under the Kindergarten and Child Care Centre Fee Remission Scheme for needy children attending kindergartens and child care centres;
- (h) tuition fee reimbursement under the Continuing Education Fund for eligible persons pursuing continuing education and training in specified sectors;
- (i) tuition fee reimbursement under the Project Yi Jin for eligible students completing modules under Project Yi Jin; and
- (j) tuition fee reimbursement under the Financial Assistance Scheme for Designated Evening Adult Education Courses for eligible students attending designated evening secondary courses.

3. SFAA is also responsible for assessing the eligibility of applicants under the Pre-primary Education Voucher Scheme from the 2007-2008 academic year onwards.

4. In the 2008-2009 academic year, SFAA received around 821 000 applications under the various student financial assistance schemes. SFAA would prepare for the implementation of an integrated computer system in

2010-2011 supporting the administration of all the student financial assistance schemes, scholarships and merit award schemes, with a view to improving the operational efficiency and effectiveness in their administration and delivery. As regards the manpower resources of SFAA, it was stated in the Government of the Hong Kong Special Administrative Region Estimates for the year ending 31 March 2011 that as at 31 March 2010, SFAA would have an establishment of 341 permanent posts. There would be a net increase of 30 permanent posts in 2010-2011.

### **Deliberations of the Panel**

5. The Panel had not discussed the work of SFAA per se. It had deliberated on issues relating to the various grants and loan schemes for post-secondary students. Members were concerned in particular about the non-means-tested loan schemes. The issues of concerns raised by members are summarized in the ensuing paragraphs.

#### The risk-adjusted factor and default situation

6. Members noted the current operation of three non-means-tested loan schemes for post-secondary students including the Non-means-tested Loan Scheme, the Non-means-tested Loan Scheme for Post-secondary Students (NLSPS) and the Extended Non-means-tested Loan Scheme (ENLS). These schemes were administered by SFAA in an integrated manner and operated on a no-gain-no-loss and full-cost-recovery basis. The interest rate was set at the Government's no-gain-no-loss interest rate plus a 1.5% risk-adjusted factor (RAF) to cover the Government's risk in disbursing unsecured loans. The Government reviewed 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 adjusted the rate with effect from the first day of the following month. As of June 2009, the interest rate was 3.599%.

7. It was claimed that there were only 87 default cases in the 2006-2007 academic year and the amount involved was about \$15 million. However, the income generated from RAF was about \$48 million in the same year. Given the small number of default cases, members queried the need to maintain RAF under the various non-means-tested loan schemes.

8. The Administration clarified that as at the 2007-2008 academic year, there were around 11 000 accumulated 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). As at 31 December 2008, the accumulated total loan and interest amount due for repayment since 2000 was around \$3,467 million and the total amount received was around \$3,323 million, with a cumulative shortfall of around \$144 million. The annual shortfall had been on an increasing trend.

9. The Administration also pointed out that as at 30 September 2008, the total accumulated amount of interest collected from 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 increasing shortfall was due mainly to the rise in default amounts under NLSPS and ENLS.

10. Some members considered it misleading to use the accumulated total number of defaulting accounts to illustrate the default situation. Members were of the view that the fundamental issue lay with the current criteria for the provision of means-tested-grants and loans which had remained unchanged for many years. Many expenditure items which had become a necessity nowadays, such as computer expenses and property mortgage repayments, were not taken into account in assessing the expenditure of applicant families. As a result, many students of low-income families were not eligible for grants and low-interest loans. The exceedingly high tuition fee charged by some profit-making institutions beyond the means of many families was another reason for the increasing number of applications for the non-means-tested loans.

11. The Administration pointed out that the cumulative figures of the defaulting accounts provided an overall and latest picture of the default situation. As the non-means-tested schemes were introduced for students who were unable or unwilling to go through the income and asset tests under TSFS or FASP, the Finance Committee approved the levy of a RAF at 1.5% to cover possible loss of the Government due to default in repayment of the loans. The Administration considered it inappropriate to require taxpayers to subsidize the operation of these schemes. The prevailing rate was considerably lower than the average interest rate on unsecured loans in the market. The Administration acknowledged that the existing mechanism for the assessment of students' expenses under TSFS was adopted since 1988 and was complicated and outdated. It had commissioned a consultancy study to review the current living expenses under TSFS in order to set up a more appropriate and effective mechanism for deriving the levels of financial assistance to eligible students. The study was expected to be completed within 2009.

12. Members had made various suggestions to address the concerns about RAF and the interest charged on non-means-tested loans. There was a view that students who had made repayments on schedule should be reimbursed with the interest accrued under RAF, and for full-time students, loan interest should be accrued only upon their graduation. It was also suggested that the interest accrued should be waived until the loan borrowers had successfully found an employment in the light of the prevailing economic downturns. Members also proposed the adoption of a progressive repayment system under which the repayment amount should be smaller in the first few years after graduation, and

increase progressively in subsequent years. The Panel passed a motion at its meeting on 9 February 2009 urging the Administration, among others, to remove RAF permanently.

13. According to the Administration, the removal of RAF would only reduce the repayment amount of each student by \$100 per month on average but it would cost \$77 million to taxpayers on an annual basis. Furthermore, the removal would run counter to the full-cost-recovery principle of the non-means-tested loan schemes. Waiving the interest accrued during the loan borrowers' study period under the non-means-tested loan schemes would be tantamount to changing the no-gain-no-loss principle of the schemes and would cost \$52 million to taxpayers on an annual basis.

#### Recovery of debts

14. Members considered it important to educate loan borrowers about their obligations to repay loans. Members were concerned about the effectiveness of the existing mechanism and measures to recover arrears from defaulting borrowers.

15. The Administration advised that it had enhanced publicity on prudent financial management to address the problem of default payments. It had collaborated with post-secondary institutions to brief students on various loan schemes and loan repayment arrangements, and remind them of the need to consider seriously their repayment ability before applying for the loans. SFAA had reviewed the debt collection process, streamlined the workflow, and deployed additional staffing resources to expedite debt recovery through legal means. SFAA had been seeking the advice of the Joint Committee of Student Finance (JCSF) on measures to reduce the number of default cases. Some members of JCSF suggested that SFAA should provide information on the defaulters to relevant credit reference agencies so as to deter loan borrowers from defaulting loan repayment without reasons. SFAA was considering the feasibility of the suggestion, and would consult JCSF further on the proposal.

#### Relief measures and assistance to loan borrowers with financial difficulties

16. On 26 May 2009, the Financial Secretary announced a package of economic relief measures to mitigate the impact of the economic downturns on the livelihood of citizens. Members supported the Administration's proposal for providing two relief measures on student finance to alleviate the financial burden of needy families including the provision of a one-off grant of \$1,000 for each needy student and the extension of the total loan repayment period of 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 from 1 August 2009 to 31 July 2011. While welcoming these measures, members enquired about the availability of other measures to help loan borrowers with financial difficulties.

17. The Administration advised that loan borrowers who had difficulties in repaying the loans due to further study in full-time courses, financial hardship or serious illness might apply for deferment of loan repayment with support of documentary proof. The total number of approved deferment cases under both the means-tested and non-means-tested loan schemes in the 2008-2009 financial year was around 6 000, with an average approval rate of over 80%.

**Relevant papers**

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

Council Business Division 2  
Legislative Council Secretariat  
15 March 2010

## Relevant papers on Student Financial Assistance Agency

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

Meeting	Date of meeting	Paper
Legislative Council	30.4.2008	[Question 19] Asked by : Hon Emily LAU <a href="#">Recovery of outstanding student loans</a> <a href="#">Reply</a>
Legislative Council	14.5.2008	[Question 8] Asked by : Hon Albert HO <a href="#">Default cases of non-means tested loan schemes</a> <a href="#">Reply</a>  [Question 9] Asked by : Dr Hon YEUNG Sum <a href="#">Applications for deferring repayment of student loans</a> <a href="#">Reply</a>
Panel on Education	17.7.2008 pm (Item I)	<a href="#">Minutes</a> <a href="#">EDB (MPE)CR 8/2041/04</a> <a href="#">Report of the Phase 2 Review of the Post-secondary Education Sector</a>
Panel on Education	23.10.2008 (Policy Briefing)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Legislative Council	12.11.2008	[Question 14] Asked by : Hon Tanya CHAN <a href="#">Non-means Tested Loan Schemes</a> <a href="#">Reply</a>
Panel on Education	9.2.2009 (Item V)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Legislative Council	18.2.2009 (Motion)	<a href="#">Helping young people cope with the financial tsunami</a> <a href="#">Progress report</a> <a href="#">Hansard (English)</a> (pages 188 – 285)
Panel on Education	29.5.2009 (Item III)	<a href="#">Minutes</a> <a href="#">Agenda</a>