

**For discussion
on 13 June 2011**

Legislative Council Panel on Education

**Extension of Relief Arrangement relating to
Deferment of Student Loan Repayment**

Purpose

This paper seeks Members' views on the proposal to extend the existing one-off relief arrangement relating to deferment of student loan repayment for one year until 31 July 2012.

Background

2. At present, full-time students pursuing publicly-funded and self-financing, locally-accredited post-secondary programmes can apply for means-tested grants to help cover tuition fees and academic expenses as well as low-interest loans to help meet living expenses under the Tertiary Student Finance Scheme – Publicly-funded Programmes (TSFS) and the Financial Assistance Scheme for Post-secondary Students (FASP) administered by the Student Financial Assistance Agency (SFAA) respectively. Students who wish to take out means-tested loans under the two schemes have to sign an undertaking with SFAA to repay the loan in 20 equal quarterly instalments over five years upon completion or cessation of their studies. In some cases of hardship, the repayment period may be extended to up to 10 years.

3. Students pursuing programmes covered by TSFS and FASP can also apply to SFAA for non-means-tested loans¹ if they do not want to or fail to go through the means test of the two schemes. Students pursuing other continuing and professional education programmes can also apply for non-means-tested loans to help meet tuition fees under the Extended Non-means-tested Loan Scheme. Borrowers of non-means-tested loans have to repay the loan in 40 equal quarterly instalments over 10 years upon

¹ Students pursuing programmes covered by TSFS can apply for non-means-tested loans under the Non-means-tested Loan Scheme for Full-time Tertiary Students and the loan ceiling is the tuition fee payable. Students pursuing programmes covered by FASP can apply for non-means-tested loans under the Non-means-tested Loan Scheme for Post-secondary Students to help meet tuition fees, academic expenses and living expenses.

completion or cessation of studies.

Deferment of Student Loan Repayment

4. SFAA has put in place a deferment mechanism, under which individual loan borrowers who are unable to repay their loan on grounds of financial hardship, pursuing further studies or serious illness may apply to SFAA for assistance. SFAA will, on the basis of merits of individual cases, approve applications for deferment of loan repayment. Whilst interest is not charged on means-tested loans during the approved deferment period, interest will be accrued during the approved deferment period for non-means-tested loans, as the non-means-tested loan schemes operate on a no-gain-no-loss and full-cost-recovery basis². Loan borrowers have to repay their loan balance in the remainder of the 5-year / 10-year repayment period, at a higher amount per instalment.

One-off Relief Arrangement relating to Student Loan Repayment

5. In May 2009, the Financial Secretary announced, amongst other one-off relief measures in response to the economic downturn in 2008, to allow student loan borrowers who have proven repayment difficulties owing to financial hardship, pursuing further studies or serious illness to defer repayment of their loan without interest being charged during the approved deferment period subject to a maximum of two years. The entire loan repayment period can also be extended for a maximum of two years. The application period for this one-off relief arrangement is to last for two years from 1 August 2009 to 31 July 2011.

6. Following the implementation of the relief measure in August 2009, the number of deferment applications has increased considerably. In the 2009/10 academic year, the total number of applications received was around 10 500, representing an increase of 23% as compared with the some 8 500 applications received in the 2008/09 academic year. Over 9 500 applications had been approved under the relief measure at an approval rate of 84%, and the total interest waived and interest income foregone arising from these approved applications is estimated to be \$60.5 million. The

² Non-means-tested loan borrowers are not subject to any means test and the loans are unsecured. To ensure the proper use of public money, the Finance Committee of the Legislative Council approved that these schemes operate on a no-gain-no-loss and full-cost-recovery basis. Interest will be charged on the loan once the loan is drawn down. The prevailing interest rate (with effect from 1 June 2011) is 3.174% per annum.

one-off relief arrangement has relieved the repayment burden of a substantial number of students.

7. During the two-year application period, 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. Since interest on a quarterly instalment is due on the first day of the following quarter, the interest-free period for approved deferment cases could in effect commence as early as from 1 July 2009.

Proposed Extension of One-off Relief Arrangement

8. The existing one-off relief arrangement will expire on 31 July 2011. To alleviate the financial burden of student loan borrowers who encounter genuine difficulty in making repayments, in particular those who will graduate and enter the employment market this summer, we propose to extend the existing one-off relief arrangement for one year until 31 July 2012. With this extension, student loan borrowers with proven repayment difficulty would be able to defer repayment of their loan without interest being charged during the approved deferment period up to a maximum of two years, provided that they apply for deferment on or before 31 July 2012. The entire loan repayment period can also be extended up to a maximum of two years.

9. We are conducting a review of the operation of the non-means-tested loan schemes administered by SFAA. Phase 1 public consultation to collect public's views on the loan schemes ended last year, and we plan to launch Phase 2 public consultation to seek public views later this year on our specific proposals to improve the operation of the non-means-tested loan schemes, including those relating to loan repayment arrangements and deferment arrangements. We will also consult the Legislative Council Panel on Education on these proposals. Depending on the results of the Phase 2 public consultation, we plan to implement the proposals from the 2012/13 academic year onwards. The proposed extension of this relief measure for deferment of loan repayment for one year until 31 July 2012 would tie in with the planned implementation of the proposed improvements as a result of this review.

Number of Beneficiaries

10. The proposal will benefit existing student loan borrowers who have genuine repayment difficulty and have yet to receive the full benefits (cumulative maximum of two years' interest-free deferment and extension of loan repayment period) under the existing one-off relief measure, as well as those who will complete their studies and have to start repayment after end-July 2011. In the 2009/10 academic year, SFAA approved over 9 500 deferment applications at an approval rate of 84%. A breakdown of the approved deferment cases by reason and by scheme in the 2009/10 academic year as compared with the previous two academic years is at Annex. We estimate that a similar number of student loan borrowers involving around 9 500 applications will benefit from the proposal during the extended one-year period.

11. For means-tested loan borrowers who have been approved deferment of loan repayment, they may re-apply for deferment in case of need on or before 31 July 2012 in order to benefit from extension of the loan repayment period, subject to a cumulative maximum of two years. For non-means-tested loan borrowers who have been approved deferment of loan repayment, they may also re-apply for deferment upon expiry of their previously approved deferment period in case of need on or before 31 July 2012. However, the total interest-free period and the total extension of the loan repayment period for each case will be subject to a cumulative maximum of two years.

Financial Implications

12. The estimated financial implications comprise both the waived interest which should otherwise be charged on the outstanding loan balance of approved deferment cases of non-means-tested loans, as well as interest income forgone³ in respect of both means-tested and non-means-tested loans due to an extension of the repayment period of the deferred loans. Based on the number of approved deferment cases in the 2009/10 academic year, i.e. around 9 500 applications, the estimated amount of interest waived and the estimated amount of interest income forgone due to the extension of the one-off relief arrangement for one year are around \$41.2 million⁴ and

³ Interest income forgone refers to the loss in time value of the loan due to deferment of loan repayment. Calculation of interest income forgone is based on the difference of the Net Present Values between the cash flow repayment schedules with and without deferment.

⁴ Interest to be waived for non-means-tested loans is computed by applying the prevailing interest rate (i.e. 3.174% per annum). This rate will be adjusted in accordance with the movement of the average best

\$14.6 million⁵ respectively in the 2011/12 academic year. There are no other recurrent financial implications arising from this proposal.

13. SFAA has employed 20 additional staff to implement the existing one-off relief arrangement. These additional staff will continue to be required during the extended one-year period, involving an amount of \$2.8 million⁶. The additional expenditure will be absorbed within SFAA's own resources.

Implementation Timetable

14. Subject to Members' views and funding approval of the Finance Committee (FC), we plan to extend the existing one-off relief arrangement relating to deferment of student loan repayment upon its expiry on 31 July 2011 for one year, i.e. until 31 July 2012.

Advice Sought

15. Subject to Members' views, we would seek funding approval from FC in July 2011 so that the proposed extension can take effect from 1 August 2011 to 31 July 2012.

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lending rate of note-issuing banks and the outcome of the biennial review of the no-gain-no-loss interest rate.

⁵ Interest income forgone is the difference between the cash flow repayment schedules with and without deferment discounted at 6% per annum, which is the rate of investment return for 2011 under the Operating Account.

⁶ Calculation based on the actual salary standard for NCSC staff in SFAA as at January 2011.

**Statistics on Deferment Cases
for Academic Years 2007/08 to 2009/10**

Scheme	Academic Year		
	2007/08	2008/09	2009/10
I. Means-tested Financial Assistance Schemes			
(i) Tertiary Student Finance Scheme - Publicly-funded Programmes (TSFS)			
(for full-time students pursuing publicly-funded post-secondary programmes)			
Applications Received ^	2331	2662	2698
(i) Further Studies	1460	1172	1146
(ii) Financial Hardship	853	1490	1552
(iii) Illness	18	0	0
Cases Completed #	2414	2426	2959
Applications Approved	2138	2122	2506
(i) Further Studies	1407	1101	1100
(ii) Financial Hardship	720	1015	1406
(iii) Illness	11	6	0
Approval Rate	89%	87%	85%
(ii) Financial Assistance Scheme for Post-secondary Students (FASP)			
(for full-time students pursuing self-financing, locally-accredited post-secondary programmes)			
Applications Received ^	777	669	1498
(i) Further Studies	583	263	789
(ii) Financial Hardship	194	406	709
(iii) Illness	0	0	0
Cases Completed #	775	599	1513
Applications Approved	701	533	1402
(i) Further Studies	568	261	773
(ii) Financial Hardship	133	272	629
(iii) Illness	0	0	0
Approval Rate	90%	89%	93%
II. Non-means-tested Loan Schemes			
(i) Non-means-tested Loan Scheme for Full-time Tertiary Students (NLSFT)			
(for TSFS students)			
Applications Received ^	572	877	1047
(i) Further Studies	306	329	354
(ii) Financial Hardship	257	548	693
(iii) Illness	9	0	0
Cases Completed #	605	725	1132
Applications Approved	523	613	898
(i) Further Studies	288	282	316
(ii) Financial Hardship	230	330	582
(iii) Illness	5	1	0
Approval Rate	86%	85%	79%
(ii) Non-means-tested Loan Scheme for Post-secondary Students (NLSPS)			
(for FASP students)			
Applications Received ^	1415	2157	2796

(i) Further Studies	943	966	1325
(ii) Financial Hardship	466	1191	1471
(iii) Illness	6	0	0
Cases Completed #	1426	1821	3042
Applications Approved	1182	1550	2658
(i) Further Studies	811	865	1247
(ii) Financial Hardship	367	684	1411
(iii) Illness	4	1	0
Approval Rate	83%	85%	87%
(iii) Extended Non-means-tested Loan Scheme (ENLS)			
(for other students pursuing continuing and professional education programmes)			
Applications Received ^	1259	2139	2409
(i) Further Studies	553	562	708
(ii) Financial Hardship	698	1575	1701
(iii) Illness	8	2	0
Cases Completed #	1330	1689	2749
Applications Approved	981	1258	2056
(i) Further Studies	480	445	603
(ii) Financial Hardship	497	810	1452
(iii) Illness	4	3	1
Approval Rate	74%	74%	75%
Overall			
Applications Received ^	6354	8504	10448
(i) Further Studies	3845	3292	4322
(ii) Financial Hardship	2468	5210	6126
(iii) Illness	41	2	0
Cases Completed #	6550	7260	11395
Applications Approved	5525	6076	9520
(i) Further Studies	3554	2954	4039
(ii) Financial Hardship	1947	3111	5480
(iii) Illness	24	11	1
Approval Rate	84%	84%	84%

Note:

^ The number of cases completed in an academic year has no direct relationship with the number of applications received in an academic year as some of the cases are outstanding cases carried forward from the previous academic year.

The number of cases completed comprises cases approved, rejected, withdrawn and miscellaneous cases handled