

立法會
Legislative Council

LC Paper No. CB(2)1986/10-11(07)

Ref : CB2/PL/ED

Panel on Education

**Background brief prepared by the Legislative Council Secretariat for
the meeting on 13 June 2011**

Relief arrangement related to deferment of student loan repayment

Purpose

This paper sets out background information on the existing one-off relief arrangement related to deferment of student loan repayment. It also gives an account of the concerns of the Panel on Education ("the Panel") on the non-means-tested loan schemes administered by the Student Financial Assistance Agency ("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.

Current loan deferment mechanism

3. Eligible students under the various student loan schemes may, depending on their financial situation, apply to the 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 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.

4. 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 SFAA does not charge any interest during the approved deferment period in respect of the means-tested loan schemes, it charges 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 basis.

One-off relief arrangement on deferment of student loan repayment

5. On 26 May 2009, the Financial Secretary announced a package of relief measures to mitigate the impact of the economic downturn on the livelihood of citizens. One of these measures was a one-off loan extension arrangement which sought to reduce the burden of those with short-term difficulty in repaying their student loans. Under the arrangement, the total loan repayment period may be extended 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 from 1 August 2009 to 31 July 2011.

6. The total number of approved deferment cases under both the means-tested and non-means-tested loan schemes in the 2008-2009, 2009-2010 and 2010-2011 (as at 31 January 2011) academic years are 6 076, 9 520 and 3 481 respectively, with an average approval rate of 84% in the three academic years.

Deliberations of the Panel

7. The Panel had discussed the one-off relief measure on extension of student loan repayment. It had also discussed issues relating to the various grants and loan schemes for post-secondary students at a number of meetings. 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.

Assistance to loan borrowers with financial difficulties

8. At the Panel meeting on 29 May 2009, members discussed the one-off relief measure related to student loan repayment. While

welcoming the relief measure, members noted with concern that SFAA would need to enhance its computer system for processing loan deferment cases at an estimated one-off cost of around \$800,000, and require around 40 additional temporary staff at an estimated cost of around \$13 million to handle the applications and the additional administrative work arising therefrom. Members enquired whether these costs could be saved if the loan repayment period was extended automatically to all loan borrowers, instead of on an application basis.

9. The Administration explained that additional temporary staff would be recruited on a need basis, depending on the actual number of applications received. On the proposed automatic extension of loan repayment period to loan borrowers, the Administration's view was that, as a matter of principle, student should be responsible for repaying their loans according to the repayment schedule. Nevertheless, the Administration acknowledged that some student borrowers might have financial difficulties, and had all along encouraged these students to take the initiative to approach SFAA to apply for an extension of repayment period.

The risk-adjusted factor

10. Members had expressed various concerns about the three non-means-tested loan schemes, namely, the Non-means-tested Loan Scheme for Full-time Tertiary Students ("NLSFT"), the Non-means-tested Loan Scheme for Post-secondary Students ("NLSPS"), and the Extended Non-means-tested Loan Scheme for students pursuing part-time and continuing education courses ("ENLS") administered by SFAA. These schemes aimed to provide loans to post-secondary students who were unable or unwilling to go through the income and asset tests under and to those who were not eligible for the means-tested schemes.

11. Members noted that the non-means-tested schemes were administered by SFAA in an integrated manner and operated on a no-gain-no-loss and full-cost-recovery basis to ensure the proper use of public money. 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. The current interest rate is set at 2.984%.

12. Members were concerned that the adoption of RAF under the various non-means tested schemes imposed undue financial burden on students. Some members suggested that students who had made repayments on schedule should be reimbursed with the interest accrued under RAF. At the meeting on 9 February 2009, the Panel passed a motion 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. The removal of RAF would run counter to the full-cost-recovery principle of the non-means-tested loan schemes. Since the loans were not subject to means test and unsecured, the Administration considered it necessary to impose the levy of RAF at 1.5% to safeguard the possible loss of the Government due to default in repayment of the loans.

The default problem

14. The default situation of the non-means-tested loan schemes was another major concern of members. They noted that both the number of defaulting accounts and the total outstanding amounts involved had been increasing in recent years, particularly in respect of NLSPS and ENLS. The respective increases in the number of default cases for the three non-means-tested schemes from the 2008-2009 academic year to the 2010-2011 academic year (as at 31 January 2011) are in **Appendix I**.

15. 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.

16. Members had made various suggestions to address the default problem. There was a view that for full-time students, loan interest should be accrued only upon their graduation. It was also suggested that the interest accrued should be reimbursed to students after they had fully repaid their loans. Members also suggested that the interest accrued

should be waived until the loan borrowers had successfully found employment. Furthermore, members 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.

17. According to the Administration, 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. In order to enhance the operation of the non-means-tested schemes, SFAA had commenced a review on the operation of the non-means-tested loan schemes in 2010. Phase 1 of the public consultation was conducted between 15 March and 15 June 2010. SFAA was considering the views received and would draw up proposals on how to improve the operation of the loan schemes, including RAF. SFAA aimed to take forward Phase 2 of the public consultation in late 2011.

Recovery of debts

18. 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.

19. 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.

Latest developments

20. The Administration has proposed to extend the existing one-off relief arrangement relating to deferment of student loan repayment for one year upon its expiry by end of July 2011. It will brief members on the details of the proposal at the upcoming meeting on 13 June 2011.

Relevant papers

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

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Legislative Council Secretariat
9 June 2011

Appendix I

Number of default cases and the amount involved from the 2008-2009 to 2010-2011 academic years

	Academic year		
	2008-2009	2009-2010	2010-2011*
NLSFT			
No. of default cases	2 156	1 946	1 775
Amount in default (\$ million)	39.83	39.93	38.66
NLSPS			
No. of default cases	1 656	1 909	1 773
Amount in default (\$ million)	38.89	50.32	53.87
ENLS			
No. of default cases	9 365	9 751	9 820
Amount in default (\$ million)	96.86	117.39	124.90

* As at 31 January 2011

Notes:

- NLSFT – Non-means-tested Loan Scheme for full-time students covered under TSFS
- NLSPS – Non-means-tested Loan Scheme for full-time students covered under FASP
- ENLS – Extended Non-means-tested Loan Scheme for students pursuing part-time programmes and continuing and professional education courses

Source: Extracted from SFAA's replies to Legislative Council Members' initial written questions in examining the Estimates of Expenditure 2011-2012.

**Relevant papers on relief arrangement
relating to deferment of student loan repayment**

Committee	Date of meeting	Paper
Legislative Council	16.11.2005	Official Record of Proceedings Pages 56 - 67 (Question)
Panel on Education	26.1.2006 (Item II)	Agenda Minutes
Panel on Education	27.3.2006 (Item IV)	Agenda Minutes
Finance Committee	19.5.2006	Minutes FCR(2006-07)9
Panel on Education	11.12.2006 (Item IV)	Agenda Minutes
Legislative Council	19.12.2007	Official Record of Proceedings Pages 60 - 62 (Question)
Legislative Council	23.1.2008	Official Record of Proceedings Pages 69 - 72 (Question)
Legislative Council	27.2.2008	Official Record of Proceedings Pages 20 - 22 (Question)
Finance Committee	31.3.2008, 1, 2, 3 & 7.4.2008	Minutes
Panel on Education	14.4.2008 (Item IV)	Agenda Minutes
Legislative Council	23.4.2008	Official Record of Proceedings Pages 18 - 22 (Question) Pages 40 - 44 (Question)

Committee	Date of meeting	Paper
Panel on Education	28.4.2008 (Item I)	Agenda Minutes
Legislative Council	30.4.2008	Official Record of Proceedings Pages 92 - 95 (Question)
Legislative Council	14.5.2008	Official Record of Proceedings Pages 74 - 76 (Question) Pages 76 - 69 (Question)
Legislative Council	18.6.2008	Official Record of Proceedings Pages 49 - 57 (Question)
Panel on Education	17.7.2008 pm (Item I)	Agenda Minutes
Panel on Education	23.10.2008 (Policy Briefing)	Agenda Minutes
Legislative Council	12.11.2008	Official Record of Proceedings Pages 81 - 87 (Question)
Panel on Education	9.2.2009 (Item V)	Agenda Minutes
Legislative Council	18.2.2009	Official Record of Proceedings Pages 104 - 110 (Question) Pages 188 - 285 (Motion)
Panel on Education	29.5.2009 (Item III)	Agenda Minutes
Legislative Council	17.3.2010	Official Record of Proceedings Pages 74 - 89 (Question)
Panel on Education	18.3.2010 (Item V)	Agenda Minutes

Committee	Date of meeting	Paper
Panel on Education	9.5.2011 (Item IV)	Agenda Minutes

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