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Panel on Education

**Updated background brief prepared by the
Legislative Council Secretariat for the meeting on 14 May 2012**

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

Purpose

This paper sets out the concerns of the Panel on Education ("the Panel") on the non-means-tested loan schemes for post-secondary students.

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") respectively. 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 applicable to students eligible for TSFS ("NLSFT");
- (b) Non-means-tested Loan Scheme for Post-secondary Students ("NLSPS") applicable to full-time students eligible for FASP; and

- (c) Extended Non-means-tested Loan Scheme ("ENLS") applicable to students not covered by TSFS and FASP, 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. Loan borrowers are required to repay their loans in 40 equal quarterly instalments within 10 years upon completion or termination of their studies. The interest rate comprises a no-gain-no-loss interest rate and a 1.5% risk-adjusted-factor ("RAF") to cover the Government's risks in disbursing unsecured loans. The current interest rate is 3.174%.

Review of non-means-tested loan schemes

5. According to the Administration, the operation of the non-means-tested loan schemes has recently caused wide public concerns. Such concerns include (a) the lack of limit on the total amount of loans an individual may borrow; (b) the lack of quality assurance mechanism and occasional fraud cases of student loans concerning the non-locally-accredited courses under ENLS; (c) the interest rate mechanism and loan repayment arrangements; and (d) the default situation.

6. In view of the above concerns, the Chief Executive announced in the 2009-2010 Policy Agenda that the Administration would review the operation of the non-means-tested loan schemes. Having considered the views received during Phase 1 public consultation launched between March and June 2010, the Administration has drawn up a package of proposals to improve the operation of the non-means-tested loan schemes for Phase 2 public consultation from mid-November 2011 to end of February 2012. The Administration also takes the opportunity to make related improvements to the means-tested FASP to enhance support for needy students. Details of the Phase 2 public consultation proposals are set out in **Appendix I**.

Deliberations of the Panel

7. The Panel had discussed issues relating to the non-means-tested loan schemes for post-secondary students at a number of meetings. It received a briefing by the Administration on the proposals for Phase 2 public consultation to improve the operation of the non-means-tested loan schemes at the meeting on 11 November 2011. The major concerns raised by members are summarized in the ensuing paragraphs.

Interest rate and the risk-adjusted factor

8. Members expressed concern that the adoption of RAF under the various non-means-tested loan schemes imposed undue financial burden on students. Members had made various suggestions to address the concerns about RAF and the interest charged on non-means-tested loans. There was a strong view among members that the Administration should consider waiving the accrued interest on non-means-tested loans during the loan borrowers' study period. Some members suggested that interest accrued should be waived until the loan borrowers had successfully found employment. There was also a view that RAF should be abolished altogether as the adoption of RAF had in effect transferred the risk in disbursing unsecured loans to students who had made repayments on schedule. Members further 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.

9. The Administration explained that as the non-means-tested loan schemes were introduced for students who were unable or unwilling to go through the income and asset tests under TSFS or FASP and were unsecured, the Finance Committee ("FC") 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 proposals put forward by the Administration for Phase 2 public consultation, including reducing the RAF rate of the non-means-tested loan schemes to zero (to be reviewed in three years' time) and extending the standard repayment period of non-means-tested loans from 10 years to 15 years, would greatly alleviate the financial burden of borrowers. As borrowers were not required to go through any income and asset tests, the Administration was concerned about possible abuse arising from the proposal of waiving the interests accrued during the borrowers' study period.

10. According to the Administration, the interest rate for non-means-tested loans under the proposed reduction of the RAF rate would already have been reduced by half during the entire loan period, including the study period. Using a \$100,000 loan as an example, the repayment amount for each instalment prior to and after the reduction of the RAF rate was \$1,040 and \$650 respectively, representing some 40% reduction. Should loan interest be waived during the borrowers' study period, the repayment amount of each student would only be further reduced by about \$20 per month, but the interest income foregone for the Government would amount to about \$33.7 million on an annual basis, which had not yet taken into account possible increase in the number of loan applications should accrual of interest be deferred until the borrowers had graduated.

The default problem

11. 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. Information on the number of default cases, the amount involved and the percentage of default cases in relation to the number of loan repayment accounts of the three non-means-tested loan schemes from the 2009-2010 academic year to the 2011-2012 academic year is in **Appendix II**.

12. 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. Members considered it important to educate loan borrowers about their obligations to repay loans. There was a suggestion that the Administration could make reference to the measures adopted by other countries to tackle the default problem, such as deducting loan repayment from the borrowers' salaries and conferring only provisional degrees to graduates who had not fully repaid their loans.

13. According to the Administration, loan borrowers with repayment difficulties might apply for deferment of repayment. 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.

Sharing the negative data of defaulters with credit reference agency

14. Members noted the concerns raised by the Privacy Commissioner for Personal Data ("PCPD") [LC Paper No. CB(2)298/11-12(01)] about the Administration's proposal of sharing the negative data of defaulters with credit reference agency in order to step up efforts to tackle the loan default problem. PCPD was concerned that the proposal would distort the function of the credit data sharing system and would open the floodgate of the closed system to requests of a similar nature from other Government departments and private sector organizations, and requested the Administration to explore other less privacy-intrusive measures. Members requested the Administration to carefully examine the possible impacts arising from the proposal and address the concerns raised by PCPD, including the concerns about the management accountability and operational transparency of the only consumer credit reference agency in Hong Kong.

15. The Administration advised that there was a view in the community that it should step up measures to tackle the loan default problem to ensure prudent management of public money. Currently, there were around 13 000 defaulters representing over 13% of all loan borrowers, involving around \$213 million in arrears and total outstanding loan amount of around \$650 million. With the continued development of the self-financing post-secondary sector, the number of borrowers and the amount of loans might increase over time. The Administration's initial proposal on provision of negative credit data by SFAA was restricted to the relatively more serious cases, say, those which owed more than \$100,000 and had ceased repayment for more than one year or failed to provide any reasonable justification for delayed repayments. There were only about 600 such cases out of the 13 000 default cases. The Administration was also prepared to subject SFAA to more stringent regulatory measures than those currently applicable to licensed banks and financial institutions on the handling of consumer credit data, such as restricting the sharing of credit data to only negative, but not positive,

data and notifying defaulters before transferring their negative data to the credit reference agency. The Administration undertook to continue discussion with PCPD with a view to devising appropriate ways and means of addressing the relevant data privacy concerns.

Loan limit

16. Members noted that the Administration's proposals for imposing a life-time combined maximum loan limit of \$300,000 under NLSFT and NLSPS; and a separate life-time maximum limit of \$300,000 under ENLS. Some members were concerned that the loan limit of \$300,000 might not be adequate to cover the costs for pursuing self-financing sub-degree and degree programmes. They considered it important for the Administration to take account of the high tuition fees of self-financing programmes and the basic living expenses required by students in setting the loan limit.

17. According to the Administration, the loan limit of \$300,000, which was proposed with reference to the latest tuition fees of self-financing degree programmes, would be adequate to cover the fees for pursuing a sub-degree programme and the subsequent articulation to a degree programme. The Administration had also made reference to the existing borrowing pattern, and found that the vast majority of the loans were less than \$300,000. The loan limit would be adjusted annually according to the Composite Consumer Price Index.

Interest rate for means-tested loan schemes

18. Members raised the concern that with the proposed reduction of the RAF rate to zero, the interest rate for non-means-tested loan schemes would be 1.674% per annum, which appeared lower than that of the means-tested loan schemes at 2.5% per annum. They considered that there was room for reduction in the interest rate for means-tested loan schemes as the financial need of the applicants of these loans were generally greater than that of the non-means-tested loan applicants. Some members suggested imposing a cap to the interest rate with the cap to be reviewed regularly according to a specified mechanism. There was also a view that interest-free loans should be provided to borrowers of means-tested loans.

19. The Administration explained that the interest rate for the means-tested loan was a fixed rate (2.5%) and loan interest would be accrued on means-tested loans only from the commencement of loan

repayment period after completion of studies of the borrowers. As such, the actual interest rate per annum for means-tested loan schemes was around 1.4%, which would still be lower than the interest rate for the non-means-tested loan schemes after the proposed reduction of the RAF rate to zero. The Administration would review the need for adjusting the interest rate for the means-tested loan schemes which had been fixed at 2.5% for some years.

Relief measures relating to student loan repayment

20. 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 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 on non-means-tested loans.

21. In May 2009, the Financial Secretary announced, among other one-off relief measures in response to the economic downturn in 2008, the arrangement of allowing student loan borrowers who had proven repayment difficulties 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 could also be extended for a maximum of two years. The application period for this one-off relief-arrangement lasted for two years from 1 August 2009 to 31 July 2011. At its meeting on 13 June 2011, the Panel discussed and expressed support for the Administration's proposal to extend this one-off relief arrangement for one year until 31 July 2012.

Latest developments

22. The Financial Secretary announced in the 2012-2013 Budget that the Government would review the interest rate mechanism for the means-tested living expenses loans and launch improvement measures in the 2012-2013 academic year. It was also proposed in the 2012-2013 Budget that, as a one-off relief measure, all student loan borrowers who completed their studies in 2012 be given the option to start repaying their student loans one year after completion of studies so as to alleviate the financial burden of fresh graduates and allow them more time to secure a stable job. Those student loan borrowers accepting the option would not

be regarded as having deferred their loan repayment. They will still be eligible to apply for deferment under the prevailing deferment mechanism.

23. The Administration will seek members' views on the proposed package of improvement measures to the non-means-tested loans for post-secondary students, having taken into account views received during Phase 2 public consultation, as well as the proposed changes to the interest rate, repayment period, and mechanism to determine the loan ceiling of means-tested living expenses loans. The Administration aims to submit the proposals to FC in May 2012.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
8 May 2012

**Review of Non-means-tested Loan Scheme
Major proposals for Phase 2 Public Consultation**

1. Easing the repayment burden of student loan borrowers

- (a) Reduce the RAF rate of the three Schemes to zero, and review the situation after three years;
- (b) Extend the standard repayment period of non-means-tested loans from 10 years to 15 years;
- (c) Relax the deferment arrangements such that those borrowers whose applications for deferment have been approved would be allowed an extension of loan repayment period without interest during the approved deferment period, subject to a maximum of two years; and
- (d) Revise the repayment interval from quarterly to monthly basis.

2. Preventing excessive borrowing and enhancing quality of eligible courses

- (a) Cap the loan amount in respect of each programme at the level of tuition fee payable for all the three Schemes;
- (b) Impose a life-time combined maximum loan limit of \$300,000 under Schemes A and B; and a separate life-time maximum limit of \$300,000 under Scheme C with annual price adjustment mechanism;
- (c) Remove the age limit from Scheme B; and
- (d) Suitably revise the course eligibility criteria of Scheme C to restrict the eligible courses to those with a reasonable degree of quality assurance.

3. Strengthening efforts to tackle the loan default problem

- (a) Sharing the negative data of defaulters with the credit reference agency under clearly defined circumstances; and

- (b) Requiring the more mature first-time loan borrowers to produce credit reports for assessment of credit worthiness.

4. Improvements to the Financial Assistance Scheme for Post-Secondary Students

- (a) Relax the age limit from 25 to 30;
- (b) Remove the requirements/restrictions on prior academic qualification for the purpose of applying for assistance; and
- (c) Remove the repayment requirement of grants for those students who fail to complete the programme and attain the intended qualification within the prescribed period.

Notes: Scheme A: Non-means-tested Loan Scheme for Full-time Tertiary Students
Scheme B: Non-means-tested Loan Scheme for Post-secondary Students
Scheme C: Extended Non-means-tested Loan Scheme

Source: Extracted from the information paper provided by the Education Bureau in November 2011 (LC Paper No. CB(2)252/11-12(03))

**Number of default cases, the amount involved and
the percentage of default cases in relation to the number of
loan repayment accounts of the three Non-means-tested Loan Schemes
from the 2009-2010 to 2011-2012 academic years**

	Academic year		
	2009-10	2010-11	2011-12*
NLSFT			
No. of default cases	1 946	1 641	1 424
Amount in default (\$ million)	39.93	34.54	30.08
No. of loan repayment accounts	22 035	21 410	23 001
Default rate in terms of accounts	8.83%	7.66%	6.19%
NLSPS			
No. of default cases	1 909	2 000	1 771
Amount in default (\$ million)	50.32	57.70	54.05
No. of loan repayment accounts	13 797	16 331	22 227
Default rate in terms of accounts	13.84%	12.25%	7.97%
ENLS			
No. of default cases	9 751	9 440	8 337
Amount in default (\$ million)	117.39	121.19	110.31
No. of loan repayment accounts	55 627	61 148	66 941
Default rate in terms of accounts	17.53%	15.44%	12.45%

* As at 31 December 2011

Notes: NLSFT
Non-means-tested Loan Scheme for Full-time Tertiary Students providing loans to eligible students who are covered under the Tertiary Student Finance Scheme – Publicly-funded programmes

NLSPS
Non-means-tested Loan Scheme for Post-secondary Students providing loans to eligible students who are covered under the Financial Assistance Scheme for Post-secondary Students

ENLS
Extended Non-means-tested Loan Scheme providing loans to students pursuing part-time courses and continuing and professional education programmes.

Source: Examination of Estimates of Expenditure 2012-2013

**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)	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	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)	Agenda Minutes
Legislative Council	23.4.2008	[Question 14] Asked by : Hon SIN Chung-kai Non-means tested loan schemes for tertiary students Reply

Meeting	Date of meeting	Paper
Panel on Education	28.4.2008	Agenda Minutes
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)	Agenda Minutes
Legislative Council	12.11.2008	[Question 14] Asked by : Hon Tanya CHAN Non-means Tested Loan Schemes Reply
Panel on Education	9.2.2009 (Item V)	Agenda Minutes

Meeting	Date of meeting	Paper
Legislative Council	18.2.2009	Helping young people cope with the financial tsunami Progress report Hansard (English) (pages 188 – 285) (Motion)
Panel on Education	29.5.2009 (Item III)	Agenda Minutes
Panel on Education	20.10.2009 (Policy Briefing)	Agenda Minutes
Legislative Council	17.3.2010	[Question 9] Asked by: Hon CHEUNG Man-kwong Non-means-tested Loan Scheme Reply
Panel on Education	---	Letter dated 17 March 2010 provided by the Administration on " Review of Non-means-tested Loan Schemes administered by Students Financial Assistance Agency " LC Paper No. CB(2)1125/09-10(01)
Panel on Education	9.5.2011 (Item IV)	Agenda Minutes
Panel on Education	13.6.2011 (Item VI)	Agenda Minutes
Panel on Education	21.10.2011 (Policy briefing)	Agenda Minutes

Meeting	Date of meeting	Paper
Panel on Education	14.11.2011 (Item VI)	Agenda Minutes LC Paper No. CB(2)298/11-12(01) LC Paper No. CB(2)681/11-12(01)

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