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Panel on Education

**Updated background brief prepared by the
Legislative Council Secretariat for the meeting on 14 November 2011**

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;
- (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 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 interest rate is 3.174% as at 1 June 2011.

Deliberations of the Panel

5. The Panel had discussed the non-means-tested loan schemes for post-secondary students at its meeting on 9 February 2009. It had also considered the subject matter in the context of its discussions on the provision of financial assistance to post-secondary students and relief measures on student finance. The major concerns raised by members are summarized in the ensuing paragraphs.

Interest rate and the risk-adjusted factor

6. 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 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 employment. 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.

7. 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 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.

8. 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.

The default problem and recovery of debts

9. 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 amount of loans disbursed, and the number of defaulters and default rate of the three non-means-tested loan schemes from the 2004-2005 academic year to the 2009-2010 academic year provided by the Administration are in **Appendices I** and **II** respectively. A breakdown of the accumulated number of default cases and the amount of loan principal and interest involved under the non-means-tested loan schemes in the 2009-2010 academic year is in **Appendix III**.

10. 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. 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.

12. According to the Administration, loan borrowers were required to pay overdue interest at a rate equal to the average best lending rate of the note-issuing banks if they failed to make their loan repayments on time. The overdue interest rate was higher than the interest rate for non-means-tested loans so as to encourage loan borrowers to make loan repayment on time and to prevent abuse of the loan schemes.

13. The Administration further pointed out that 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. Given the need to ensure proper use of public money, SFAA had reviewed the debt collection process, streamlined the workflow, and deployed additional staffing resources to expedite debt recovery through legal means. In addition, SFAA had enhanced publicity on prudent financial management and collaborated with the post-secondary institutions to brief students on various loan schemes and loan repayment arrangements, to remind them of the need to seriously consider their financial requirements and repayment ability before applying for loans, and to emphasize the importance of prudent financial management and making repayment on time.

14. According to the Administration, 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 relating to student loan repayment

15. 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.

16. 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. Members reiterated their view that interest on non-means-tested loans should be accrued only upon graduation of the student borrowers.

Review of the non-means-tested loan schemes

17. The Administration announced in the 2009-2010 Policy Address its plan to conduct a review on the operation of the non-means-tested loan schemes with a view to providing effective measures to reduce the loan default rate and ensuring proper use of public resources whilst providing reasonable financial support to students. The review covers the scope, eligibility criteria, application procedures, loan amounts, interest rates, repayment arrangements and measures to address the default rate. Stage 1 public consultation ran from 15 March to 15 June 2010. According to the Administration, the majority of the views collected during the consultation period suggested that improvements should be made to the repayment arrangements (including the interest rate,

repayment period and deferment mechanism), the eligibility criteria of courses should be suitably tightened and measures against defaulters should be stepped up. The Administration is drawing up improvement proposals in the light of the views received and aims to seek public views in Stage 2 public consultation before the end of 2011.

18. When the Panel was briefed on the Chief Executive's 2011-2012 Policy Address at its meeting on 21 October 2011, some members raised concern about the lengthy process of the review on the non-means-tested loan schemes and called on the Administration to take forward the improvement measures as soon as possible to relieve the financial burden of loan borrowers.

19. The Administration advised that as complicated technical issues were involved, it had taken longer than expected to draw up the improvement proposals for the non-means-tested schemes for Stage 2 public consultation. To enhance financial assistance to needy students, the Administration had proposed in the 2011-2012 Budget to relax the income ceiling for full grant under the means-tested schemes, and the proposal was approved by FC in July 2011. It was the Administration's plan to implement the improvement measures for the non-means-tested schemes in phases starting from the 2012-2013 academic year.

Latest development

20. The Administration will seek members' views on its proposals to improve the operation of non-means-tested loan schemes to be put forward for Stage 2 public consultation at the upcoming meeting on 14 November 2011.

Relevant papers

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

Appendix I

Loans disbursed under the non-means-tested loan schemes in the 2004/05 to 2009/10 academic years

Loan Scheme	Academic Year					
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Non-means-tested Loan Scheme (applicable to full-time students eligible for TSFS)						
Loan amount disbursed¹ (\$ million)	284.6	225.9	189.3	184.8	211.0	224.4
Non-means-tested Loan Scheme (applicable to full-time students eligible for FASP)						
Loan amount disbursed¹ (\$ million)	315.9	330.9	315.0	364.9	395.2	480.4
Non-means-tested Loan Scheme (applicable to students not covered by TSFS and FASP)						
Loan amount disbursed¹ (\$ million)	586.4	483.8	402.6	401.7	388.5	517.4

¹ – "Loan amount disbursed" refers to the actual amount of loan paid in a particular academic year.

Appendix II

Number of defaulters and default rate of the three non-means-tested loan schemes as at the end of 2004/05 to 2009/10 academic years

Academic year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
(a) No. of defaulters	4 914	7 842	9 760	10 990	13 177	13 606
NLSFT ¹	1 613	1 882	2 142	2 130	2 156	1 946
NLSPS ²	449	732	981	1 283	1 656	1 909
ENLS ³	2 852	5 228	6 637	7 577	9 365	9 751
(b) No. of repayment accounts	37 639	51 059	62 422	73 576	85 301	91 459
NLSFT ¹	15 431	17 344	19 200	20 766	21 947	22 035
NLSPS ²	2 836	4 654	7 151	9 449	11 746	13 797
ENLS ³	19 102	29 061	36 071	43 361	51 608	55 627
(c) Default rate in terms of accounts [(a) / (b)]	13.1%	15.4%	15.6%	14.9%	15.4%	14.9%
NLSFT ¹	10.5%	10.9%	11.2%	10.3%	9.8%	8.8%
NLSPS ²	15.8%	15.7%	13.7%	13.6%	14.1%	13.8%
ENLS ³	14.9%	18.0%	18.4%	17.5%	18.1%	17.5%

¹ – Non-means-tested Loan Scheme (for full-time students who are covered under Tertiary Student Finance Scheme – Publicly-funded Programmes) (NLSFT)

² – Non-means-tested Loan Scheme (for full-time students who are covered under the Financial Assistance Scheme for Post-secondary Students) (NLSPS)

³ – Extended Non-means-tested Loan Scheme (for students pursuing part-time programmes and continuing and professional education courses) (ENLS)

Appendix III

Accumulated number of default cases and the amount of loan principal and interest involved under the non-means-tested loan schemes in the 2009/10 academic year

Loan Scheme	2009/10 Academic Year
Non-means-tested Loan Scheme (applicable to full-time students eligible for TSFS)	
Accumulated number of default cases	1 946
Loan principal in default (\$ million)	28.0
Interest in default (\$ million)	11.1
Non-means-tested Loan Scheme (applicable to full-time students eligible for FASP)	
Accumulated number of default cases	1 909
Loan principal in default (\$ million)	33.6
Interest in default (\$ million)	16.0
Non-means-tested Loan Scheme (applicable to students not covered by TSFS and FASP)	
Accumulated number of default cases	9 751
Loan principal in default (\$ million)	75.4
Interest in default (\$ million)	37.0

Source: Education Bureau

Appendix IV

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
	18.3.2010	Letter 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	13.6.2011 (Item VI)	Agenda Minutes
Panel on Education	21.10.2011 (Policy briefing)	Agenda

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