

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 254 – LOANS TO STUDENTS

Subhead 102 Non-means-tested loan scheme for students of government-funded tertiary institutions, Open University of Hong Kong and Hong Kong Shue Yan College

Members are invited to approve an expansion of the ambit of the Non-means Tested Loan Scheme with effect from the 2000/01 academic year to cover -

- (a) students pursuing self-financing, local award-bearing programmes offered by publicly-funded institutions;
- (b) part-time students pursuing local award-bearing programmes of the Hong Kong Shue Yan College; and
- (c) students taking publicly-funded programmes at Technician level in the Hong Kong Institute of Vocational Education of the Vocational Training Council.

PROBLEM

The existing scope of the Non-means Tested Loan Scheme (NLS) needs to be expanded to encourage the pursuit of continuing education at tertiary and post-secondary levels. The limited application of NLS within the Hong Kong Institute of Vocational Education (HKIVE) of the Vocational Training Council (VTC) also calls for improvement so as to provide fuller financial assistance to its students.

/PROPOSAL

PROPOSAL

2. With the support of the Secretary for Education and Manpower, the Controller, Student Financial Assistance Agency proposes to expand the ambit of the NLS to cover the following three groups of students with effect from the 2000/01 academic year –

- (a) students pursuing self-financing, local award-bearing programmes offered by publicly-funded institutions¹;
- (b) part-time students pursuing local award-bearing programmes of the Hong Kong Shue Yan College (HKSYC); and
- (c) students of the HKIVE pursuing the publicly-funded programmes at Technician level.

JUSTIFICATION

Extension of the NLS to cover students of self-financing, local award-bearing programmes of publicly-funded institutions and part-time students of HKSYC

3. To rise to the challenge of an increasingly knowledge-based and technology-intensive economy, many working adults are pursuing life-long learning to upgrade themselves and increase their competitiveness. To encourage self-advancement through continuing education, we provide a maximum salaries tax deduction for training expenses at \$30,000 a year. We also introduced the NLS in the 1998/99 academic year to provide a new channel of finance for all full-time and part-time students studying publicly-funded programmes at the tertiary level, students of the Open University of Hong Kong (OUHK) and full-time students of HKSYC. To further encourage life-long learning, we propose to expand the ambit of the NLS to cover all students pursuing self-financing, local award-bearing programmes in publicly-funded institutions and HKSYC. This measure will offer a new channel of finance to some 49 000 students who are pursuing these self-financing courses.

Students of the HKIVE

4. HKIVE is dedicated to meeting the demands of young people who aspire to obtain, through vocational education and training, qualifications enabling

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¹ These are the eight University Grants Committee (UGC)-funded institutions, the HKIVE, the Prince Philip Dental Hospital and the Hong Kong Academy for Performing Arts.

them to develop their careers. Unlike students undertaking Higher Diploma / Higher Certificate programmes, full-time students of the HKIVE common foundation year and those pursuing Diploma and Certificate courses at Technician level are not eligible for the NLS. While these students are eligible for means-tested grants and remission of tuition fees under VTC's Financial Assistance Scheme (FAS), some of them may wish to pursue their studies on their own without relying on family support, or obtain additional financial assistance on top of the tuition fee remission and/or student grant. The availability of NLS to these students would also assist those who cannot obtain financial support from their families due to domestic problems or special family circumstances but do not wish to reveal them to VTC as required under VTC's FAS, and help relieve these students from having to work part-time for excessive hours and/or resort to high-interest commercial credit facilities to finance their living costs and other academic expenses.

5. We propose to extend the NLS to these full-time students and also to those part-time students of HKIVE who are pursuing Technician courses. About 30 000 students would be able to benefit from the proposed extension.

FINANCIAL IMPLICATIONS

6. The proposal to further extend the NLS will benefit about 79 000 additional students. The exact amount of additional loans required would depend on the take-up rates and the actual amounts borrowed. On the basis of the latest round of NLS exercise and updated assumptions on profiles of students proposed to be covered under this proposal, we estimate that the total loan requirement for this further expansion of the NLS in 2000-01 would be about \$61 million. The NLS operates on a full cost-recovery basis. Borrowers have to pay interest on the outstanding balance of the loan at the Government's no-gain-no-loss rate², and a 1.5% risk-adjusted factor which seeks to cover the Government's risk in disbursing unsecured loans. The prevailing no-gain-no-loss interest rate is 6.5% per annum. The proposed expansion of the loan scheme will not therefore give rise to additional financial implications for the Government.

7. The Student Financial Assistance Agency (SFAA) will incur a recurrent cost of \$393,000 per year for outsourcing of data preparation service,

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² The "no-gain-no-loss" interest rate is set at 2% below the average best lending rate of the note-issuing banks. This formula ensures that the interest rate will move in tandem with the market lending rate and that there will be no resultant gain or loss to Government. The Director of Accounting Services will review the interest rate at the end of each month and adjust it when the difference between the updated rate and the prevailing rate is one percentage point or more, or when the prevailing rate has remained stationary for over six months.

postage and employment of temporary staff to process applications and disbursements. In addition, there will be a non-recurrent cost of \$80,000 mainly for the purchase of computer equipment.

8. If Members approve the proposal, we will include sufficient provision in the 2000-01 Estimates of the Loan Fund to meet the additional requirements.

Impact on fees and charges

9. At present, we charge an administrative fee which is payable upon application and annually thereafter until full repayment of the NLS loan. The fee determined on a full cost recovery basis is currently \$165. The proposal would have no impact on the fee level.

BACKGROUND INFORMATION

10. On 5 December 1997, Finance Committee of the Provisional Legislative Council approved the introduction of the NLS to cover all eligible full-time students who are eligible for assistance under the Local Student Finance Scheme³ (LSFS) with effect from the 1998/99 academic year. On 17 July 1998, Finance Committee approved an extension of NLS to students of OUHK, part-time students of publicly-funded tertiary programmes and full-time students of HKSYC. The NLS seeks to –

- (a) offer a new channel of finance to those students who prefer to pursue their university studies on their own without relying on family support;
- (b) assist those students who cannot obtain financial support from their families due to domestic problems or special family circumstances but do not wish to reveal them to SFAA as required under the means-tested LSFS;
- (c) enable students to meet education-related expenses not currently covered by the LSFS, e.g. purchase of personal computers; and

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³ The LSFS provides means-tested assistance in the form of grants and/or loans to needy students pursuing eligible courses in the eight UGC-funded institutions, the former Technical Colleges of VTC (now under the aegis of HKIVE), Prince Philip Dental Hospital and the Hong Kong Academy for Performing Arts.

- (d) relieve students from having to work part-time for excessive hours and/or resort to high-interest commercial credit facilities to finance their living costs and other academic expenses.

11. Interest would accrue upon drawdown of the loan. The loan ceiling is capped at the level of the tuition fee payable to the respective institutions. The loan would be repaid in 40 quarterly instalments within ten years after the recipient's graduation or cessation of studies or six years after the first disbursement of loan if the recipient has not yet completed or ceased studying by then. In all cases, loan recipients may also choose to make early repayment of the loans.

12. Under the NLS, we normally disburse the loans to the institutions direct for settlement of tuition fee payment so as to prevent abuses of the loan for non-educational purposes. In some cases when disbursement of loans by direct credit to the institutions cannot be arranged in time⁴, we will disburse the loans directly to students who have already paid their tuition fees provided that they can produce proof of payment.

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⁴ For example, the payment due date for tuition fees for part-time students is normally set at two weeks after the issue of the debit note which leaves insufficient time for arranging disbursement of loans direct to the institutions.