For discussion on
14 November 2011

Legislative Council Panel on Education

Review of Non-means-tested Loan Schemes administered by the Student Financial Assistance Agency

Purpose

This paper seeks Members' views on the proposals put forward by the Administration for Phase 2 public consultation to improve the operation of the non-means-tested loan schemes administered by the Student Financial Assistance Agency (SFAA).

2. We also take the opportunity to make related improvements to the Financial Assistance Scheme for Post-secondary Students (FASP), which provides means-tested grants and loans for eligible full-time students pursuing self-financing, locally-accredited post-secondary programmes. This paper also seeks Members' views on these proposed improvement measures.

Review of Non-means-tested Loan Schemes

3. The non-means-tested loan scheme was first introduced in the 1998/99 academic year to provide an alternative source of finance to tertiary students who did not wish or failed to go through the means test under the Tertiary Student Finance Scheme – Publicly-funded Programmes (TSFS)[1] to assist them to pursue studies.

4. The ambit of the scheme has been expanded over the years. At present, SFAA administers three non-means-tested loan schemes targeting at different categories of students -

(a) **Non-means-tested Loan Scheme for Full-time Tertiary Students (Scheme A)** – for full-time students pursuing publicly-funded post-secondary programmes (from the sub-degree to the postgraduate level), who are eligible to apply for means-tested grants and loans under TSFS.

[1] Formerly known as Local Student Finance Scheme before the 2007/08 academic year

(b) **Non-means-tested Loan Scheme for Post-secondary Students (Scheme B)** – for full-time students ***aged 25 or below*** pursuing self-financing, locally-accredited sub-degree and degree programmes, who are eligible to apply for means-tested grants and loans under FASP.

(c) **Extended Non-means-tested Loan Scheme (Scheme C)** – for students pursuing a wide and diverse range of full-time and part-time post-secondary and continuing and professional education courses.

5. Borrowers of non-means-tested loans do not need to go through any means test, or provide security for the loans. For safeguarding public resources, the non-means-tested loan schemes operate on a ***no-gain-no-loss and full-cost recovery*** basis. Interest starts to accrue upon loan drawdown. The interest rate comprises a no-gain-no-loss interest rate[2], 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% per annum. Loans have to be repaid within 10 years after end of studies. Loan borrowers with repayment difficulties may apply for deferment of repayment. Those who default payment of two or more consecutive quarterly instalments will be considered a defaulter.

6. The non-means-tested loan scheme has operated for more than 10 years. The following issues relating to the operation of the loan schemes have recently caused wide public concern -

(a) There is no limit on the total amount of loans an individual may borrow under each scheme. The public is particularly concerned about possible excessive borrowing by students under Schemes B and C, as the two schemes cover mostly self-financing courses the tuition fees of which are not regulated by the Government.

(b) Scheme C covers a large and extensive number of non-locally-accredited courses. The public is concerned about the lack of quality assurance mechanism and occasional fraud cases of student loans concerning these courses under the scheme.

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[2] The no-gain-no-loss interest rate is set at a certain percentage below the average best lending rate (BLR) of the note-issuing banks. The percentage concerned is the average differential between the BLRs and the 12-month Hong Kong Dollar Inter-bank Offered Rates over a 10-year period, and is reviewed biennially. The no-gain-no-loss interest rate is currently 1.674% per annum.

(c) There is much room for improving the interest rate mechanism as well as the loan repayment arrangements.

(d) The default situation is worrying: the default rate was about 13% by end of the 2010/11 academic year, involving around 13,000 defaulters and $213 million in arrears. Scheme C accounted for more than 72% of defaulters.

7. In view of the above concerns, the Chief Executive announced in the 2009-10 Policy Agenda that the Government would review the operation of the non-means-tested loan schemes with a view to ensuring that whilst reasonable financial support is provided to the students, effective measures are in place to reduce the loan default rate and there is proper use of public resources. The review covers all aspects of the loan schemes, including the course eligibility criteria, loan coverage, interest rate mechanism, repayment arrangements and measures to tackle default.

Phase 1 of the Review

8. The Government launched Phase 1 public consultation between March and June 2010 to collect the public's views on various issues relating to the operation of the non-means-tested loan schemes. We had met with various stakeholders including the Joint Committee on Student Finance, student groups, loan borrowers and course providers, etc, and received about 600 written submissions. The salient views are -

(a) <u>Loan limit and loan coverage</u>
- a loan ceiling should be set;
- loans should cover tuition fees payable only;
- limit the number of courses for which loans may be applied for;
- remove the age limit of 25 under FASP and its related non-means-tested loan scheme, i.e. Scheme B.

(b) <u>Scope of eligible courses</u>
- tighten quality requirements of eligible courses.

(c) <u>Interest rate</u>
- separate the administration of RAFs under the three schemes;
- remove or reduce RAF;
- waive interest during the study period.

(d) Repayment arrangements
- lengthen the loan repayment period;
- repayment arrangements should be flexible with due regard to the affordability to repay of the loan borrowers;
- defer commencement of loan repayment / commence repayment only upon securing employment;
- change repayment to the monthly basis;
- offer incentives to encourage timely or early repayment.

(e) Measures to tackle default
- share data of defaulters with the credit reference agency;
- increase penalties against defaulters;
- expedite legal loan recovery action.

Phase 2 Public Consultation

9. Having considered the views received during Phase 1 public consultation, we have drawn up a package of proposals to improve the operation of the non-means-tested loan schemes for further consultation with the public under Phase 2. Details of the proposals are set out in the consultation article at Annex. The major proposals are in the ensuing paragraphs.

Easing the repayment burden of student loan borrowers

10. We consider that there is room for relaxing the loan repayment arrangements in order to reduce the repayment burden of loan borrowers. In this regard, we propose to, *inter alia*, -

(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.

Preventing excessive borrowing and enhancing quality of eligible courses

11. To enhance the quality of courses eligible for loan application and prevent excessive borrowing, we propose the following measures, *amongst others* -

(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.

These measures would also facilitate long-term planning for post-secondary and life-long education.

Strengthening efforts to tackle the loan default problem

12. SFAA would continue to step up efforts to reduce the loan default rate, including further streamlining procedures and strengthening manpower to deal with default cases. We would also propose to explore other additional measures, which include -

(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.

Improvements to FASP

13. FASP is a means-tested financial assistance scheme. It provides grants for tuition fees (subject to a ceiling) and academic expenses as well as low-interest loans for living expenses to full-time students *aged 25 or below*

pursuing self-financing and locally-accredited sub-degree and degree programmes. We would take this opportunity to make related improvements to FASP in order to enhance support for needy students. Specifically, we propose to -

(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.

Details of our proposals are also set out in the consultation article at Annex.

Financial Implications

14. The proposals would have financial implications on the loan receipts and payouts of the non-means-tested loan schemes as analyzed below -

(i) The overall loan balance is projected to increase by $513 million from $7,859 million in the 2013/14 academic year to $8,372 million in 2022/23 (i.e. an average increase of $57 million per year over these nine years), mainly as a result of the extension of loan repayment period from 10 to 15 years. This is partly offset by the restriction of loan coverage in Scheme B and change in course eligibility criteria of Scheme C;

(ii) The interest received from RAF seeks to cover the Government's risk in disbursing unsecured loans. The reduction of the RAF interest rate to zero will effectively mean that the Government would have to absorb the loss arising from irrecoverable default loans under all the three Schemes. As at end of 2010/2011 academic year, there were about 13 000 defaulters under the non-means-tested loan schemes, involving $213 million in arrears and a total outstanding amount of about $652.7 million. Taking into account the results of SFAA's latest efforts in tackling default loans, the estimated amount of irrecoverable student loans is around $52.3 million. Following the implementation of the improvement measures, we estimate that the amount of irrecoverable debt would be around $15-20 million each year; and

(iii) The relaxation of deferment arrangement would bring about interest loss comprising interest waived and interest income forgone, estimated to be around $41.2 million and $14.6 million respectively each year, based on the number of approved deferment cases in the 2009/10 academic year and before the implementation of proposals specified in the paper.

15. The improvement measures of FASP would give rise to additional recurrent expenditure on means-tested grants and living expenses loans to eligible needy students. In the 2012/13 academic year, it is estimated that the relaxation of age limit from 25 to 30 would lead to an increase of $14 million for means-tested grants and $4 million for means-tested living expenses loans. The removal of requirements/restrictions relating to prior academic requirements would bring about an increase of around $2.6 million in means-tested grants and $0.8 million in means-tested loans each year. The removal of grant repayment requirements would lead to an estimated amount of grants repayment and interest income forgone at about $44 million and $6 million each year respectively.

Implementation Timetable

16. We plan to formally launch Phase 2 public consultation from mid-November 2011 to end-February 2012. During the three-month consultation period, members of the public would be invited to give their views on the proposals through various channels such as mail, email and fax. Similar to Phase 1 of the review, we would upload the consultation article for Phase 2 consultation onto the GovHK webpage. A dedicated webpage would be set up on Yahoo!HK, and members of the public can give their views using the online survey form provided. We would meet with various stakeholders and other relevant parties to hear their views.

17. We would collate and consider the views received. We would then finalise the package of improvement proposals in consultation with relevant bureaux and departments, and consult the Legislative Council Panel on Education before seeking funding approval of the Finance Committee by mid 2012. We aim to implement the improvement proposals to the non-means-tested loan schemes in phases from the 2012/13 academic year, and the improvement measures to FASP in the 2012/13 academic year.

Advice Sought

18. Members are invited to give their views on the proposals put forward for Phase 2 public consultation to improve the operation of the non-means-tested loan schemes and FASP as set out at Annex.

Education Bureau
November 2011

Annex

Review of Non-means-tested Loan Schemes administered by the Student Financial Assistance Agency

The Government launched Phase 1 public consultation from 15 March 2010 to 15 June 2010 to collect the public's views on various issues relating to the operation of the non-means-tested loan schemes administered by the Student Financial Assistance Agency (SFAA) for persons pursuing post-secondary and continuing education. About 600 written submissions were received.

Having considered the views received from stakeholders and the public, the Government has now put forward a package of proposals to improve the operation of the non-means-tested loan schemes for further public consultation under Phase 2.

Proposals for Phase 2 Public Consultation

The package of proposals put forward by the Government to improve the operation of the non-means-tested loan schemes comprises **10 measures** to (i) ease the repayment burden of student loan borrowers; (ii) reduce excessive borrowing of loan borrowers and ensure the quality of courses eligible for application of non-means-tested loans; and (iii) tackle the student loan default problem more effectively. The proposed 10 measures are –

A. Easing the repayment burden of student loan borrowers

(1) To lower the repayment interest by reducing the risk-adjusted-factor to zero

The non-means-tested loan schemes currently charge a flexible interest rate of 3.174% per annum, which comprises a no-gain-no-loss interest rate, plus a risk-adjusted-factor (RAF) of 1.5% per annum. As at end of 2010/11 academic year, the default rates of Scheme A, Scheme B and Scheme C were 7.7%, 12.3% and 15.4% respectively. Taking into account the estimated amount of loans eventually irrecoverable **after** the implementation of the package of proposals and public views received on the RAF, we propose ***to reduce the RAF to zero for the coming three years, subject to a review*** on the effectiveness of the proposals to tackle the default problem at the end of the three-year period.

Example
Mr Au has borrowed a loan totalling $100,000[1] to pursue a post-secondary programme under Scheme B. He needs to repay the loan over a 10-year period. The prevailing interest rate is 3.174% (including 1.5% RAF). The table below shows the difference in the monthly repayment amount and the total amount of interest saved with the reduction of RAF -

[1] As at August 2011, about 75% of all SFAA non-means-tested loans have a loan amount below $100,000.

	Before reducing RAF	**After reducing RAF**
Repayment Period	10 years	10 years
Interest rate	3.174%	**1.674%**
Monthly repayment amount	$1,040	**$940**
Total interest amount	$25,300	$13,140
Total interest saving	**-**	**$12,160**

*During the 10-year repayment period, the interest saving for Mr Au as a result of the reduction of RAF will be **$12,160**. His monthly repayment amount will be reduced from $1,040 to **$940**.*

(2) To extend the standard repayment period

To reduce the repayment burden of student loan borrowers per instalment payment having regard to the longer post-secondary study period under the new academic structure, we <u>propose</u> to ***extend the standard repayment period of loan borrowers from 10 years at present to 15 years*** under all three non-means-tested loan schemes.

Example
Ms Chan has borrowed a loan totalling $100,000 to pursue a post-secondary programme under Scheme B. The table below shows how she will benefit from an extension of loan repayment period from 10 to 15 years -

	Before extension	**After extension**
Repayment Period	10 years	15 years
Interest Rate	3.174%	1.674%
Monthly repayment amount	$1,040	**$650**
Total interest amount	$25,300	$17,610

*As a result of the extension of repayment period, the monthly repayment amount of Ms Chan will be reduced from $1,040 to **$650, together with** the reduction of RAF. The two proposals (reducing RAF and extending repayment period) together will reduce Ms Chan's monthly instalment amount **by almost 40%**.*

(3) To further extend the standard repayment period for approved deferment applications for a maximum of two years without interest

For loan borrowers with genuine repayment difficulties (such as pursuing further full-time studies, in financial hardship or having serious illness) who have been granted approval for deferment of their repayment, we <u>propose</u> to ***further extend the standard repayment period for the approved deferment applications up to a maximum of two years without charging interest*** during the approved deferment period.

Example
Mr Cheung has financial difficulties in repaying his loan of $100,000 and has been granted approval to defer repayment for two years. The table below shows how Mr Cheung will benefit from an interest-free extension of the standard repayment period

for two years -

	Before relaxing deferment arrangements	After relaxing deferment arrangements
Repayment period	15 years	17 years (15 + 2)
Interest rate	3.174%	1.674%
Monthly repayment amount	$890 (for 13 years)	**$650 (for 15 years)**
Total interest amount	$38,530	**$17,610**

Under the relaxed deferment arrangements, Mr Cheung will have an interest saving of $20,920 after reducing RAF. Under the proposed arrangements, Mr Cheung can repay his loan over a 15-year period (after the approved 2-year deferment period), whereas under the existing arrangement, he needs to compress his repayment over a 13-year (15-2) repayment period.

(4) To change the present quarterly instalment repayment intervals to monthly

To facilitate financial management of loan borrowers, we propose to ***change the present repayment interval from quarterly to monthly***, in conjunction with the provision of e-billing and e-enquiry services to facilitate timely repayment.

Better financial management on the part of loan borrowers can reduce their chance of default payment. In conjunction with the provision of new e-billing and e-enquiry services by SFAA, this could facilitate repayment by loan borrowers in a timely manner. Reduced paper consumption in the issue of demand notes to loan borrowers will also contribute towards the conservation of the environment.

B. Preventing excessive borrowing and ensuring quality of eligible courses

(5) To align the loan coverage among Schemes A, B and C to cover tuition fee payable only

At present, applicants can apply for loans to cover academic expenses and living expenses under Scheme B, in addition to the tuition fee payable while the loan amount in respect of a programme under Scheme A and Scheme C is capped by the tuition fee payable. To reduce the total loan burden of applicants upon their graduation and to align the existing loan coverage of the three non-means-tested loan schemes, we propose that the loan amount offered in respect of a programme under the three schemes is to be ***capped by the tuition fee payable only***.

According to statistics on student loan borrowers who graduated in the 2010/11 academic year (shown below), Scheme B loan borrowers have a heavier repayment burden because of their relatively larger loan size than their counterparts under Scheme A or Scheme C –

2010/11 Graduates	Scheme A	Scheme B	Scheme C
Median total loan amount	$58,370	**$80,000**	$29,800
Median monthly repayment amount	$600	**$840**	$300

If Scheme B is to be capped by the tuition fee payable only, it is estimated that the median loan amount would be reduced to $52,000 and the monthly repayment amount to $546.

An alignment of the loan coverage among the schemes can help prevent excessive borrowing and reduce the repayment burden of Scheme B loan borrowers.

(6) To set caps on the total amount of loans to be borrowed by each loan borrower

To prevent excessive borrowing by loan borrowers, we <u>propose</u> to set caps on the amount of loans obtainable under the non-means-tested loan schemes. The cap is a **life-time maximum loan limit for each eligible loan borrower** under the respective scheme(s) and will be **price-adjusted annually** in accordance with the Composite Consumer Price Index (CCPI).

For a Secondary 6 school leaver, he/she will normally take about 5-6 years to attain his/her first degree. Having considered the prevailing tuition fees of publicly-funded and self-financed programmes, we <u>propose</u> to set a **combined cap of $300,000 for Scheme A and Scheme B.** This combined cap is expected to provide reasonably sufficient loan amount for a student to take publicly-funded and/or self-financing courses even if he/she does not receive any means-tested assistance. This will also provide him/her with greater flexibility in making long-term plans for post-secondary education.

Example 1 -

Ms Lee is a student pursuing a full-time publicly-funded programme under Scheme A. The table below shows her study path and tuition fees payable -

Type of Programme	Duration (Years)	Total Tuition Fees ($)
Sub-degree	2	55,200
Degree	4	168,400
Total	6	223,600

Example 2 –
Mr Mak is a student pursuing full-time locally-accredited self-financing post-secondary progammes under Scheme B. His study path and tuition fees payable are shown below -

Type of Programme	Duration (Years)	Total Tuition Fees ($)
Pre-associate Degree	1	35,000
Associate Degree	2	96,000
Top-up Degree	2	105,600
Total	5	236,600

Both Ms Lee and Mr Mak could secure sufficient loan amount under Schemes A or B to pursue their studies up to degree level, when a combined life-time maximum loan limit is to be set under Schemes A and B.

To safeguard the use of public resources and prevent excessive borrowing, we also propose to set a ***life-time maximum loan limit for Scheme C at $300,000***. This loan limit is ***in addition to*** the combined loan limit under Schemes A and B. This is intended to facilitate life-long learning and professional development covering a wide range of full-time and part-time courses and programmes.

For Scheme C, most of the courses covered are self-financing. In the absence of any loan limit, the highest amount of tuition fee loan offered to a graduate of 2010/11 academic year under Scheme C was $912,600. The monthly repayment amount of that loan borrower is currently $9,470.

Over 99.8% of the loan accounts activated in the 2010/11 academic year incurred a total loan amount below $300,000. This should be sufficient for the vast majority of loan borrowers.

(7) To remove the age limit of Scheme B

With the proposed introduction of a combined loan limit of $300,000 for Schemes A and B, we propose to **remove the age limit for applicants under Scheme B**. There will no longer be any age limit under all the three non-means-tested loan schemes.

This is also in connection with one of the improvement measures to the related Financial Assistance Scheme for Post-secondary Students (FASP), which provides means-tested grants and loans for eligible full-time students pursuing self-financing, locally-accredited post-secondary programmes. We propose to relax the age limit of FASP from 25 to 30 (please see Improvement Measures to FASP below).

Under the existing arrangement, a Secondary 6 student (aged 18) who takes 2-3 years to pursue a sub-degree programme and another 2-3 years to complete a degree programme will attain his first degree before the age of 25.

However, for those students who take a longer than expected period to complete their studies, or have had a late start in their post-secondary studies, say at the age of 22, and if they pursue self-financing post-secondary programmes, they would not be eligible for assistance under FASP or Scheme B now once they reach 25 for attaining their first degree. With the proposed removal of age limit, they would be eligible for applying loans under Scheme B.

Please also see Improvement Measures to FASP below for the proposed relaxation of *age limit from 25 to 30 under FASP.*

(8) To redefine categories of courses eligible for Scheme C for enhanced quality assurance

Scheme C now provides loans for students pursuing a wide and diverse range of post-secondary and continuing and professional education courses. Many of them are not yet locally-accredited. To ensure a reasonable degree of quality assurance in courses eligible for loan application under the scheme hence protecting students' interest, we propose that ***only the following categories of courses would in future be eligible courses under Scheme C*** –

(a) courses accredited by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ) or accredited by institutions by virtue of their self-accreditation status or Programme Area Accreditation status;

(b) courses offered under Project Yi Jin and its successor programme;

(c) courses covered by the Financial Assistance Scheme for Designated Evening Adult Education Courses;

(d) training and development courses provided or funded by local statutory bodies; and

(e) registered courses and exempted courses under the Non-local Higher and Professional Education (Regulation) Ordinance (Chapter 493).

SFAA would put in place suitable "***grandfathering arrangements***" to ensure that those students who have already enrolled in a course which would become ineligible under Scheme C after the above adjustments could continue to obtain loans under Scheme C to finish that particular course within reasonable circumstances.

The revised scope of eligible courses would continue to cover around 80% of loan applications currently under Scheme C.

C. Tackling the loan default problem more effectively

(9) To pursue the proposal of sharing negative credit data of defaulters with credit reference agency

During Phase 1 public consultation, there is clear public support to pursue the proposal of sharing negative credit data of defaulters with the credit reference agency ***under clearly defined circumstances***, as an effective deterrent measure against default. We propose to pursue this proposal with the Privacy Commissioner for Personal Data.

(10) To require credit report from mature loan borrowers

To reduce the risk of default**,** we <u>propose</u> to **require mature loan borrowers** (say over the age of 30) who apply for student loans for the first time above a certain amount (say over $100,000) in respect of a particular course **to produce a credit report** from the credit reference agency. This could facilitate SFAA to determine whether a loan may be offered in part or in full to the loan borrower concerned with regard to his/her credit history according to a set of prescribed criteria.

A summary of the proposals as compared with the relevant existing arrangements is at ***Appendix***.

<u>Improvement Measures to FASP</u>

The Government has also taken the opportunity to propose improvement measures to the Financial Assistance Scheme for Post-secondary Students (FASP), an existing **means-tested** financial assistance scheme for full-time students **aged 25 or below** pursuing self-financing locally-accredited post-secondary programmes. The proposed improvement measures are -

(a) To relax the age limit to 30 years of age

FASP currently provides grants for tuition fees (subject to a ceiling) and academic expenses as well as low-interest loans for living expenses to full-time students aged 25 or below pursuing self-financing and locally-accredited sub-degree and degree programmes. Having due regard to the need to provide adequate support for those who have had a late start in taking up post-secondary education or have to take a longer time to complete their studies, we <u>propose</u> to **relax the age limit of FASP from 25 to 30.** According to the enrolment statistics on relevant self-financing post-secondary programmes in the 2010/11 academic year, this relaxation should be able to cover around 99% of the students.

<u>Example</u>

Miss Wong is a 27 year-old post-secondary student pursuing a FASP programme. She cannot apply for grants under FASP at present but will become eligible for the following student financial assistance after the improvements –

	Before improvement	**After improvement**	
Grant (FASP)	X	√	• Tuition fee grant (capped at $62,250 in 2011/12) • Academic expenses grant (max amount in 2011/12:

			$4,300)
Low-interest Loan (FASP)	X	√	• Maximum Living expenses loan (max amount in 2011/12: at $37,960)
Non-means-tested Loan	√	√	• Loan amount capped at tuition fee payable

Actual financial assistance Miss Wong may obtain:
Scenario A: Assuming
(i) the tuition fee of the study programme is $60,000 per year; and
(ii) she is assessed to be eligible for full level of assistance under the means test

	Before improvement	After improvement
Grant (FASP)	$0	$64,300[2]
Low-interest Loan (FASP)	$0	$37,960
Non-means-tested Loan	$60,000	$0

Scenario B: Assuming
(i) the tuition fee of the study programme is $65,000 per year; and
(ii) she is assessed to be eligible for 75% of the maximum assistance under the means test

	Before improvement	After improvement
Grant (FASP)	$0	$51,975[3]
Low-interest Loan (FASP)	$0	$28,470[4]
Non-means-tested Loan	$65,000	$26,815[5]

(b) To remove requirements / restrictions relating to prior academic qualifications

According to the current eligibility criteria of FASP, needy students who have obtained sub-degree / degree level qualifications are ineligible for assistance under FASP to pursue a locally-accredited programme leading to the same level of qualification. If a needy student wishes to apply for FASP assistance to pursue a degree course and if he/she possesses a sub-degree level qualification, that qualification must be locally-accredited; if a student wishes to apply for FASP assistance to pursue a top-up degree programme, he / she must have obtained a locally-accredited sub-degree

2 $60,000 + $4,300
3 $65,000x 75% + $4,300x 75%
4 $37,960x 75%
5 ($65,000+$4,300+$37,960) – ($51,975+$28,470)

level qualification.

Such restrictions and requirements have posed unnecessary constraints for needy students to obtain assistance for pursuing studies under FASP / Scheme B. We therefore propose to **remove all requirements / restrictions relating to prior academic qualifications from FASP and its related non-means-tested loan scheme, i.e. Scheme B**, so that more students who have been admitted to eligible programmes can benefit fom FASP and Scheme B. This proposal will bring the requirements/restrictions on par with needy students enrolled in publicly-funded post-secondary programmes and applying for similar means-tested financial assistance under another existing scheme.

Example

Mr Ho is a post-secondary student who has completed a Higher Diploma programme (not locally-accredited) jointly run by a local institution and a non-local institution, and obtained a sub-degree qualification. He now applies for a self-financing, locally-accredited full-time degree programme (hence an eligible programme under FASP). He is currently ineligible but will become eligible for assistance under FASP upon improvement. :

	Before improvement	**After improvement**	
Grant (FASP)	X	√	• Tuition fee grant (capped at $62,250 in 2011/12) • Academic expenses grant (max. amount $4,300 in 2011/12)
Low-interest Loan (FASP)	X	√	• Living expenses loan (max. amount $37,960 in 2011/12)
Non-means-tested Loan	√	√	• Loan amount capped at tuition fee payable

Actual financial assistance Mr Ho may obtain :
Assume (i) tuition fee of the study programme is $60,000 per year; and
(ii)he is assessed to be eligible for full level of assistance under the means test

	Before improvement	**After improvement**
Grant (FASP)	$0	$64,300[6]
Low-interest Loan (FASP)	$0	$37,960
Non-means-tested Loan	$60,000	$0

[6] $60,000 + $4,300

Scenario B:
Assume (i) tuition fee of the study programme is $65,000 per year; and
(ii)he is assessed to be eligible for 25% of the maximum assistance under the means test

	Before improvement	After improvement
Grant (FASP)	$0	$17,325[7]
Low-interest Loan (FASP)	$0	$9,490[8]
Non-means-tested Loan	$65,000	$65,000[9]

(c) Remove the repayment requirement of FASP grants

FASP grant recipients are currently required to obtain the intended qualification within a six-year period from the first date of disbursement of grants, failing which they have to repay the tuition fee and academic expenses grants. Since the grants may eventually become loans (if students fail to obtain the intended qualification within six years), all students who wish to accept FASP grants are required to sign an undertaking and identify a qualified indemnifier to sign a deed of indemnity. Therefore, more time is required before grants can be released to needy FASP students. Repayment of grants would also impose heavy burden on the needy students.

We therefore propose to **remove the repayment requirement of FASP grants** with a view to enhancing support for students pursuing self-financing programmes and expediting the process of releasing grants to needy FASP students. This will put these students on par with needy students enrolled in publicly-funded post-secondary programmes who receive similar means-tested grants under another scheme.

Example

Mr Lau is a full-time post-secondary student who started his 4-year degree programme (self-financing and locally-accredited) in 2010/11. Assuming he has to terminate his study in 2013/14 due to health problem and is unable to obtain the degree qualification, the following table shows the difference in his liability to repay the grants received before and after improvement -

	Before improvement	After improvement
Assume Mr Lau obtained a total grant amount of $150,000 in the 2010/11	• Repay in one lump sum the total amount of $150,000; or • Repay in 40 instalments within 10 years (one	• No need to repay the grants already disbursed to the student

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7 $65,000x 25% + $4,300x 25%
8 $37,960x 25%
9 ($65,000+$4,300+$37,960) – ($17,325+ $9,490), capped by the tuition fee payable

2011/12 2012/13 academic years	installment per quarter) the total grant amount with interest, totaling $169,994 (interest rate of 2.5% per annum);the quarterly instalment amount is about $4,250	

We propose to implement the improvement measures to FASP, i.e. the relaxation of age limit to 30, removal of requirements and restricitons on prior academic qualifications and the requirement on repayment of grants, from the **2012/13 academic year** onwards.

Education Bureau
Student Financial Assistance Agency
November 2011

Appendix

Summary of Proposals
To Improve the Non-means-tested Loan Schemes
vis-à-vis the Existing Arrangements

Measure	Existing Arrangement	Proposed Arrangement
(A) Easing the repayment burden of student loan borrowers		
1. Reducing RAF rate	1.5% per annum Effective Interest Rate = 3.174% per annum	0% per annum Effective Interest Rate = 1.674% *(subject to review in 3 years' time)*
2. Extending standard repayment period	10 years	15 years
3. Relaxing deferment arrangements	• Interest charged during the approved deferment period • Upon expiry of deferment period, balance of the loan including the interest accrued has to be repaid within the remaining compressed period of less than 10 years at a higher amount per instalment	• Interest-free during the approved deferment period • Extension of the entire loan repayment period by a maximum of two years
4. Revising repayment interval	• Quarterly payment	• Monthly payment • Implement e-billing and e-enquiry services
(B) <u>Preventing excessive borrowing and ensuring quality of eligible courses</u>		
5. Aligning loan coverage	• Schemes A & C: Loan amount of a course capped at tuition fee payable • Scheme B: Maximum loan amount equals to tuition fee payable plus academic expenses and living expenses assistance	• Schemes A, B & C: Loan amount of a course capped at tuition fee payable
6. Imposing loan limits	• No loan limit over life time under each scheme	• Impose a *combined* life-time loan limit of $300,000 under Schemes A and B • Impose a life-time loan limit of $300,000 under Scheme C which is *in addition to* the combined loan limit for Schemes A and B above.

Measure	Existing Arrangement	Proposed Arrangement
		• The life-time loan limits to be adjusted annually in accordance with the movement of CCPI.
7. Removing age limit of Scheme B	• Age limit of 25	• No age limit
8. Revising the course eligibility criteria of Scheme C	There are nine categories of eligible courses under Scheme C as follows – (1) courses offered by the Open University of Hong Kong; (2) courses offered by Hong Kong Shue Yan University; (3) part-time publicly-funded programmes or self-financing, local award-bearing programmes (i.e. programmes of study leading to the award of local academic qualifications) or training or development courses at the post-secondary level offered by publicly-funded institutions (including their Schools of Professional and Continuing Education); (4) programmes offered under the Project Yi Jin; (5) registered courses and exempted courses under the Non-local Higher and Professional Education (Regulation) Ordinance (Cap. 493); (6) post-secondary courses, adult education courses, continuing and professional education courses offered by a school registered under section 13(a) or exempted from registration under section 9(1) of the Education Ordinance (Cap. 279); (7) courses offered by a Post Secondary College registered under the Post Secondary	• To restrict eligible courses to those with a reasonable degree of quality assurance – (i) courses accredited by HKCAAVQ or accredited by institutions by virtue of their self-accreditation status or Programme Area Accreditation status; (ii) courses under Project Yi Jin and its successor programme; (iii) courses covered by the Financial Assistance Scheme for Designated Evening Adult Education Courses; (iv) training and development courses provided or funded by local statutory bodies; and (v) registered courses and exempted courses under the Non-local Higher and Professional Education (Regulation) Ordinance (Chapter 493).

Measure	Existing Arrangement	Proposed Arrangement
	Colleges Ordinance (Cap. 320); (8) training or development courses provided or funded by statutory bodies; and (9) continuing and professional education courses offered by any institution approved by the Controller, SFAA in accordance with the criteria concerned.	
(C) <u>Tackling the loan default problem more effectively</u>		
9. Sharing negative credit data of defaulters with credit reference agency under clearly defined circumstances		
10. Requiring the more mature first-time loan borrowers (e.g. over the age of 30) who apply for loans above a certain amount (say over $100,000) to produce a credit report from the credit reference agency for consideration in the application process.		