

Review of Non-means-tested Loan Schemes
Phase 2 Public Consultation
Feature Article

Content Item

Review of Non-means-tested Loan Schemes – Public Consultation

The Government is now consulting the public on the Review of the Non-means-tested Loan Schemes for students pursuing post-secondary and continuing education. We would like to receive your views on the proposed improvement measures. The article below contains the essential facts and information related to the Non-means-tested Loan Schemes and information on how to give us your views and comments.

Article

Review of Non-means-tested Loan Schemes

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 students pursuing post-secondary and continuing education. About 600 written submissions were received. Please click [here](#) for the salient views collected from Phase 1 public consultation.

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. Please click [here](#) for the details of improvement proposals and click [here](#) to watch the video outlining the proposals. You may give us your views on the proposed improvement measures on or before **29 February 2012** via on-line survey form, post, fax or email.

[Please click here to give us your views](#)

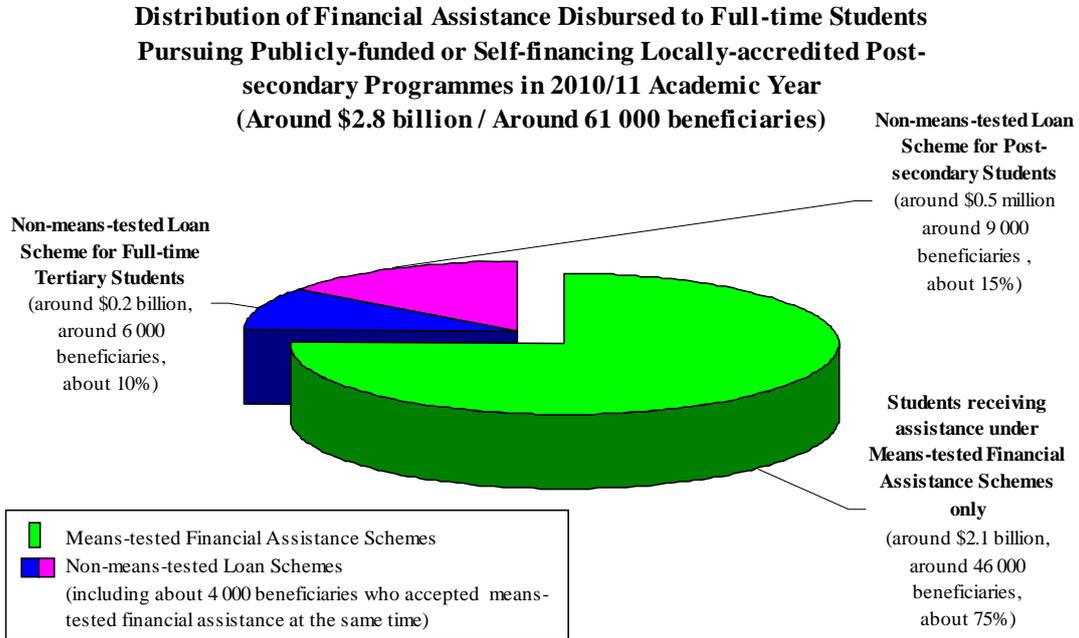
Education and student financial assistance

In 2010-11 financial year, Government's estimated recurrent expenditure on education was around **\$51.4 billion**, accounting for around **22.9%** of Government's recurrent expenditure of the year. Of this total, about **25%** (about **\$12.9 billion**) was on higher education.

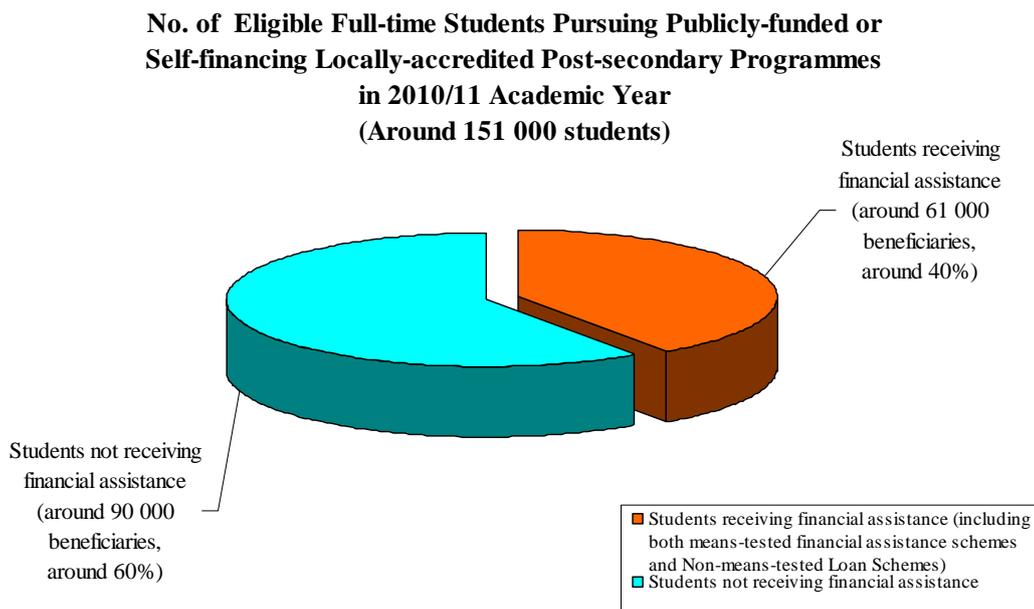
To ensure that no student is denied access to education due to lack of means, SFAA administers various student financial assistance schemes. As far as post-secondary education is concerned, SFAA administers two means-tested financial assistance schemes for full-time post-secondary students¹ to provide grants to eligible students to meet tuition fees and academic expenses and low-interest loans to meet living expenses. In addition, SFAA administers non-means-tested loan schemes for these post-secondary students and other students pursuing continuing education. Eligible students may apply for loans under these non-means-tested schemes regardless of their economic situation.

¹ Tertiary Student Finance Scheme – Publicly-funded Programmes (TSFS) and Financial Assistance Scheme for Post-secondary Students (FASP)

In the 2010/11 academic year, SFAA **disbursed financial assistance totalling over \$2.8 billion and benefited about 61 000 students pursuing post-secondary programmes.** Around \$2.1 billion were means-tested grants and loans and around \$700 million were non-means-tested loans.

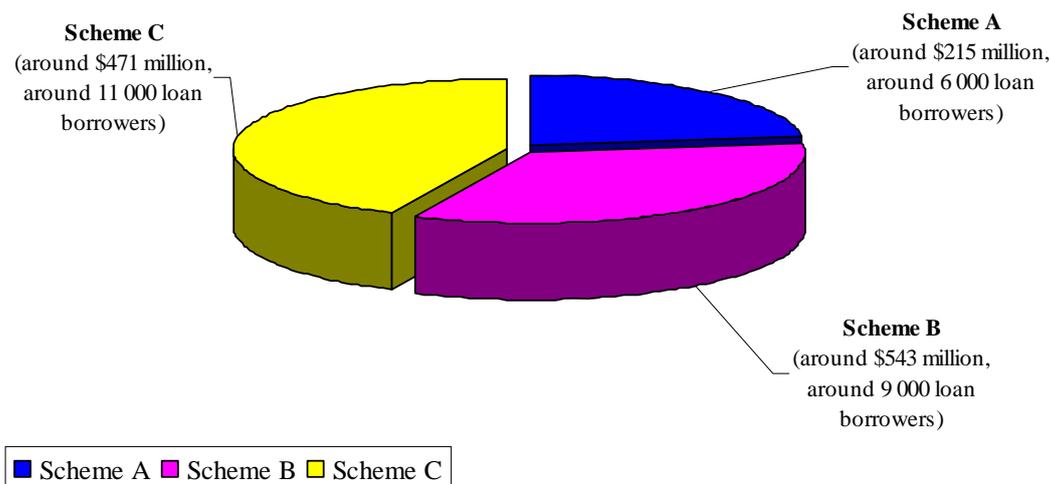


In the 2010/11 academic year, there were around 151 000 full-time students pursuing publicly-funded or self-financing locally-accredited post-secondary programmes. Around 61 000 students (40%) received financial assistance. Among them, 46 000 students received only means-tested grants and loans, and 11 000 received only non-means-tested loans. The rest, 4 000 students, received both means-tested grants and loans and non-means-tested loans.



In addition, there were another 11 000 students receiving non-means-tested loans to pursue part-time programmes and continuing and professional education courses. As a result, in 2010/11 academic year, there were **around 26 000 students receiving non-means-tested loans amounting to around \$1.23 billion.**

**Distribution of Loan Borrowers under
Non-means-tested Loan Schemes in 2010/11 Academic Year
(Around \$1.23 billion / Around 26 000 loan borrowers)**



- Scheme A - [Non-means-tested Loan Scheme for Full-time Tertiary Students](#) – for **full-time tertiary students of publicly-funded programmes**
- Scheme B - [Non-means-tested Loan Scheme for Post-secondary Students](#) – for **full-time students aged 25 or below of self-financing locally-accredited post-secondary programmes**
- Scheme C - [Extended Non-means-tested Loan Scheme](#) – for **students pursuing a wide and diverse range of part-time programmes and continuing and professional education courses**

Objectives and scope of the Review on Non-means-tested Loan Schemes

The non-means-tested loan scheme, first introduced in the 1998/99 academic year, has been in operation for over 10 years. The Chief Executive announced in the 2009-10 Policy Agenda that the Government would conduct a review on the operation of these schemes, with a view to ensuring that:

- **reasonable financial support is provided for students pursuing post-secondary and continuing education;**
- **effective measures are in place to reduce the loan default rate; and**
- **there is proper use of public resources.**

The review would cover the scope, eligibility criteria, interest rate, repayment

arrangements, as well as measures to address the default situation.

Key questions asked in Phase 1 public consultation

The following key questions were put forward to the public in Phase 1 public consultation in mid-2010:

- (i) Should there be any **restrictions on the loan amount, loan coverage** (tuition fees, with or without academic expenses and living expenses) **and number of courses** for which loans may be applied under the loan schemes?
- (ii) Should there be any **additional criteria on the courses eligible** under the schemes, especially the Extended Non-means-tested Loan Scheme, which covers an extensive range of continuing education courses?
- (iii) Should we make any changes to the **interest rate arrangements**, such as whether there should be a standard risk-adjusted factor (RAF) of 1.5% for all the three schemes?
- (iv) Should we make any changes to the **repayment terms and conditions**, including the repayment period and deferment arrangements?
- (v) Would you suggest any **more effective measures to reduce the default rate** apart from stepping up current administrative measures and legal recovery procedures, such as extra interest concessions for early loan settlement, or sharing credit data of defaulters with a credit reference agency in clearly defined circumstances?

Views collected during Phase 1 public consultation

During the last round of public consultation, we 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) **Loan limit and loan coverage**
 - 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) **Scope of eligible courses**
 - tighten quality requirements of eligible courses.
- (c) **Interest rate**
 - separate the administration of Risk-adjusted-factor (RAF) under the three loan 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 a credit reference agency;
- increase penalties against defaulters;
- expedite legal loan recovery action.

Proposals for the current round of public consultation

Having considered the views received from stakeholders and the public, the Government has drawn up a package of proposals to improve the operation of the non-means-tested loan schemes for further 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 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 \$100,000² 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

² As at August 2011, about 75% of all SFAA non-means-tested loans have a loan amount below \$100,000.

shows the difference in the monthly repayment amount and the total amount of interest saved with the reduction of RAF -

	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 propose 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 propose 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 years + 2 years)
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 interval 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 propose 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 propose 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 full-time publicly-funded programmes 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 programmes 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
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Both Ms Lee and Mr Mak could secure sufficient loan amount under Scheme 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. Our initial thinking is that the measure will apply only to more serious default cases, such as the defaulted loan amount is more than \$100,000 and the defaulted period has been over one year without positive response from the loan borrowers to our reminders and other debt recovery actions. At present, there are about 600 defaulters falling under the above criteria. 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 propose 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 provide a credit report** issued by the credit reference agency upon application. 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.

Improvement Measures to FASP

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 propose 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.

Example

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	√	<ul style="list-style-type: none"> • 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	√	<ul style="list-style-type: none"> • Maximum living expenses loan (max. amount in 2011/12: \$37,960)
Non-means-tested Loan	√	√	<ul style="list-style-type: none"> • 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 ³
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 ⁴
Low-interest Loan (FASP)	\$0	\$28,470 ⁵
Non-means-tested Loan	\$65,000	\$26,815 ⁶

(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 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 from 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

³ \$60,000 + \$4,300

⁴ \$65,000 x 75% + \$4,300 x 75%

⁵ \$37,960 x 75%

⁶ (\$65,000 + \$4,300 + \$37,960) – (\$51,975 + \$28,470)

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	√	<ul style="list-style-type: none"> 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	√	<ul style="list-style-type: none"> Living expenses loan (max. amount in 2011/12: \$37,960)
Non-means-tested Loan	√	√	<ul style="list-style-type: none"> Loan amount capped at tuition fee payable

Actual financial assistance Mr Ho may obtain :

Scenario A: Assuming

- (i) *the 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 ⁷
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) *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 ⁸
Low-interest Loan	\$0	\$9,490 ⁹

⁷ \$60,000 + \$4,300

⁸ \$65,000 x 25% + \$4,300 x 25%

⁹ \$37,960 x 25%

(FASP)		
Non-means-tested Loan	\$65,000	\$65,000 ¹⁰

(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, 2011/12, 2012/13 academic years	<ul style="list-style-type: none"> • Repay in one lump sum the total amount of \$150,000; or • Repay in 40 instalments within 10 years (one instalment 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 	<ul style="list-style-type: none"> • No need to repay the grants already disbursed to the student

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.

¹⁰ (\$65,000 + \$4,300 + \$37,960) – (\$17,325 + \$9,490), capped by the tuition fee payable

Contact us

Please give us your views on the proposed package of proposals via online survey form, post, fax or email on or before **29 February 2012**.

By online survey form: www.nlsreview.hk/eng

By post:
NLS Review Team
Non-means-tested Loan Scheme Section
Student Financial Assistance Agency
12/F Cheung Sha Wan Government Offices
303 Cheung Sha Wan Road
Kowloon

By fax: 2110 4716

By email: nlsreview@sfaa.gov.hk

Note : To enhance transparency, the Government may publish views received. Please inform us if you wish to remain anonymous, or if you do not want your views published.

Education Bureau
Student Financial Assistance Agency
November 2011

For more information on the Non-means-tested Loan Schemes, you may refer to the following –

Annex	Description
<u>A</u>	Summary of proposals to improve the Non-means-tested Loan Schemes vis-à-vis the existing arrangements
<u>B</u>	Existing terms and conditions of a non-means-tested loan
<u>C</u>	Number of students assisted and amount of loans disbursed under Non-means-tested Loan Schemes during 2008/09 to 2010/11 academic years
<u>D</u>	Repayment statistics of Non-means-tested Loan Schemes as at end of July 2011 and 2010/11 graduates
<u>E</u>	Deferment statistics of Non-means-tested Loan Schemes for 2007/08 to 2010/11 academic years
<u>F</u>	Default statistics of Non-means-tested Loan Schemes for 2004/05 to 2010/11 academic years
<u>G</u>	Default statistics of Non-means-tested Loan Schemes for 2004/05 to 2010/11 academic years: by age of default
<u>H</u>	Default statistics of Non-means-tested Loan Schemes as at end of 2010/11 academic year: by age of default

Related Links

[Student Financial Assistance Agency](#)

[Relevant Papers of the Finance Committee of the Legislative Council](#)

**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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Interest-free during the approved deferment period • Extension of the entire loan repayment period by a maximum of two years
4. Revising repayment interval	<ul style="list-style-type: none"> • Quarterly payment 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Schemes A, B & C: Loan amount of a course capped at tuition fee payable
6. Imposing loan limits	<ul style="list-style-type: none"> • No loan limit over life time under each scheme 	<ul style="list-style-type: none"> • Impose a <i>combined</i> 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 <i>in addition to</i> the combined loan limit for Schemes A and B above.

Measure	Existing Arrangement	Proposed Arrangement
		<ul style="list-style-type: none"> • The life-time loan limits to be adjusted annually in accordance with the movement of CCPI.
<p>7. Removing age limit of Scheme B</p>	<ul style="list-style-type: none"> • Age limit of 25 	<ul style="list-style-type: none"> • No age limit
<p>8. Revising the course eligibility criteria of Scheme C</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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>		
<p><i>9. Sharing negative credit data of defaulters with credit reference agency under clearly defined circumstances. Our initial thinking is that the measure will apply only to more serious default cases, such as the defaulted loan amount is more than \$100,000 and the defaulted period has been over one year without positive response from the loan borrowers to our reminders and other debt recovery actions.</i></p>		
<p><i>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 provide a credit report issued by the credit reference agency upon application for consideration in the application process.</i></p>		

Existing terms and conditions of a non-means-tested loan

The maximum loan amount receivable for 2011/12 academic year and age limit under the three Non-means-tested Loan Schemes are set out in the following table:

	Maximum loan amount receivable	Age limit on applicants
Scheme A	Tuition fees payable (max. \$42,100)	No
Scheme B	Tuition fees payable (no ceiling) + \$37,960 for living expenses + \$4,300 for academic expenses	Yes (25 years old or below)
Scheme C	Total tuition fees payable (no ceiling)	No

Borrowers of non-means-tested loans do not need to go through any means test, and the loans are not secured. As such, to ensure the proper use of public funds, the non-means-tested loan schemes **operate on a no-gain-no-loss and full cost-recovery basis** to the Government, i.e. without any subsidy by taxpayers.

Interest is accrued once the loan is drawn down and **throughout the study period**.

The interest rate comprises a no-gain-no-loss rate and a **1.5% risk-adjusted factor** (RAF) that seeks to cover the Government's risk in disbursing unsecured loans (risk of defaulted payment). **The current interest rate is 3.174%**, which is far lower than that of unsecured loans in the market (ranging from **around 7% to around 40%** and the repayment period is normally 1 to 2 years).

The borrower has to **repay the loan in 40 equal quarterly instalments over 10 years** upon graduation or cessation of studies or lapse of six years upon first disbursement of the loan where appropriate. The **first repayment instalment** would normally be **due after 6 months from graduation or termination of studies**.

Under **Scheme A or Scheme B**, an applicant **may only apply for loans in respect of one eligible course** in an academic year.

Under **Scheme C**, an applicant **may apply for loans for more than one eligible course** in an academic year. These included students pursuing programmes which were conducted on a credit or modular basis. They are required to submit separate loan applications for each semester. In addition, there were students obtaining more than one loan for pursuing more than one programme in the same academic year.

Under Scheme C, **there is no ceiling set for the loan amount obtainable in an academic year**. The total loan amount an applicant **may obtain** in an academic year **is the total tuition fees of the eligible courses pursued and for which loans are applied for**. For example, in 2010/11 academic year, a person borrowed **\$790,000** for studying an Executive Business Administration Master Programme.

Eligible courses under Scheme C **are not required to be locally-accredited** or reimbursable courses of the Continuing Education Fund.

An applicant may apply for loans under more than one loan scheme for pursuing different courses. Each of the three non-means-tested loan schemes has **no limits on (i) the total number of courses for which loans may be borrowed; and (ii) the total amount of loans obtainable across academic years.**

There is also no limit on the amount of loans that may be borrowed by a person under different loan schemes at any one time.

What if a borrower has difficulty repaying the loan?

If a borrower has difficulty in repaying on grounds of financial hardship, pursuing further full-time studies or serious illness, he or she may apply to SFAA for **deferment of repayment**. In 2010/11 academic year, **over 80% of deferment applications** made under the three loan schemes **were approved**.

What if a borrower fails to repay the loan?

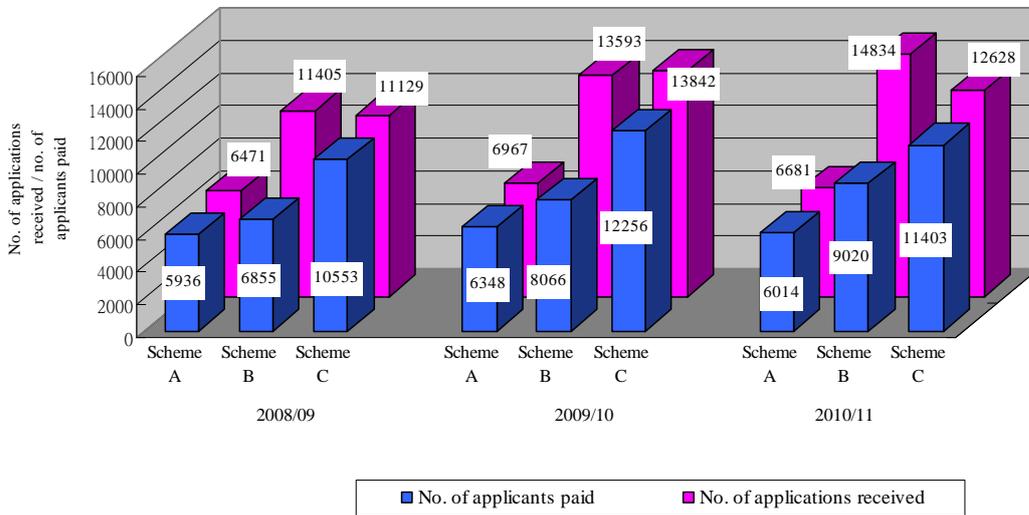
If a borrower **fails to repay two or more consecutive instalments** without making any deferment application, he or she would be considered to be **a defaulter**.

SFAA tackles default cases through **sending reminders** to the defaulters and their indemnifiers to urge them to repay the defaulted loans, and **proactively negotiating** with them so as to reach a new and mutually acceptable repayment schedule. Apart from being costly and lengthy, the process is far from satisfactory mainly because:

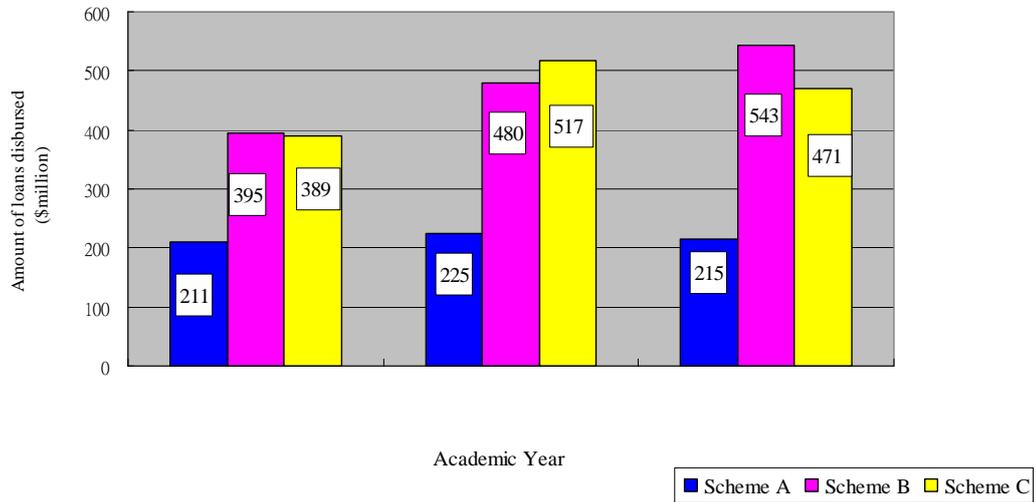
- SFAA usually has difficulty contacting the defaulters and their indemnifiers due to un-notified changes of address/contact number; or
- the defaulters fail to provide sufficient supporting documents for review or request to extend the repayment period beyond the approved limit.

If SFAA receives no response from or cannot reach agreement on a new repayment schedule with the defaulter and his/her indemnifier, SFAA would refer the case to the Department of Justice for **legal recovery action**.

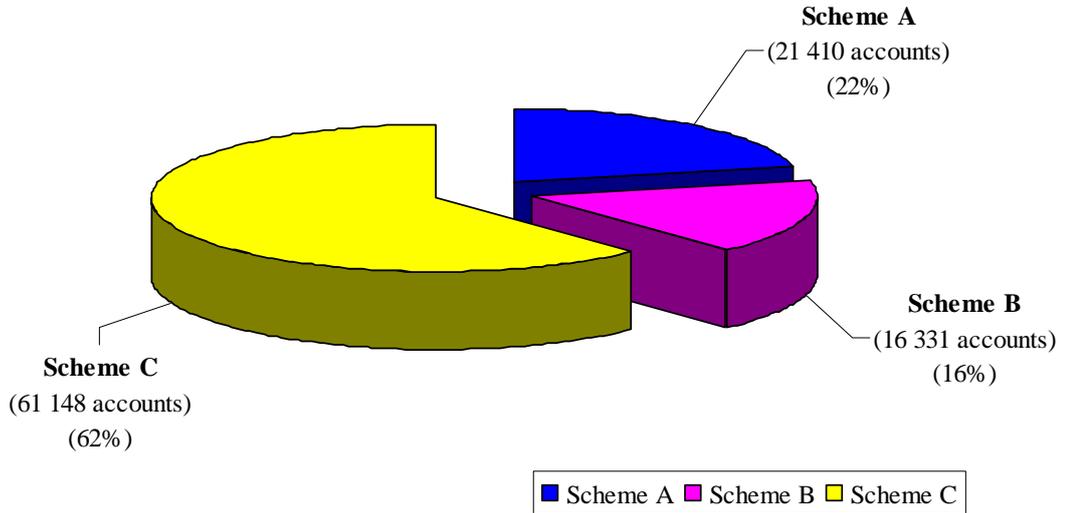
Number of Students Assisted under Non-means-tested Loan Schemes during 2008/09 to 2010/11 Academic Years



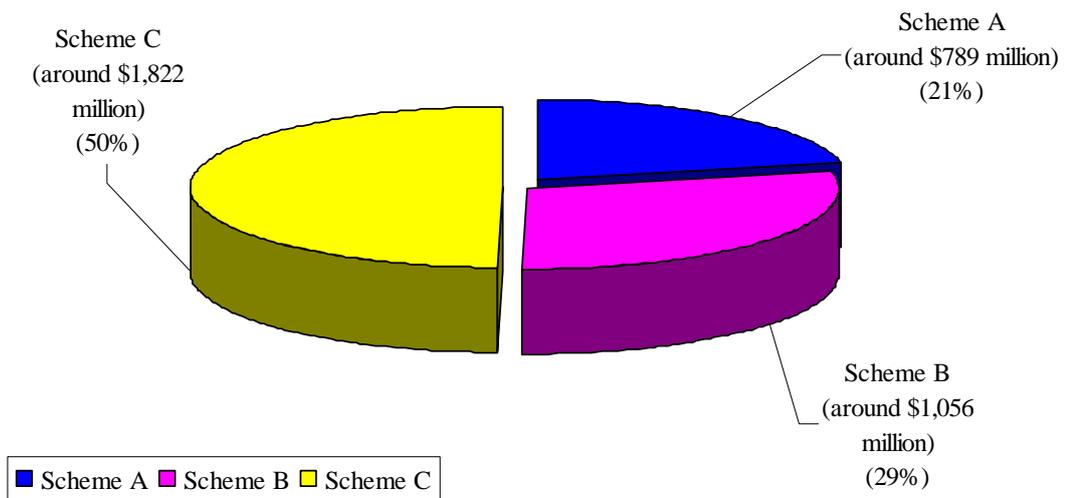
Amount of Loans Disbursed under Non-means-tested Loan Schemes during 2008/09 to 2010/11 Academic Years



Number of Repayment Accounts
 (as at 31.7.2011)
 (Total : 98 889)



Outstanding Loan Principal of Repayment Accounts
 (as at 31.7.2011)
 (Total : around \$3,667 million)



**Average Amount of Outstanding Loan Principal of Repayment Accounts
as at end of July 2011, Loan Amounts and
Median Monthly Repayment Amount of 2010/11 Graduates**

	Scheme A	Scheme B	Scheme C
Average amount of outstanding loan principal of repayment accounts as at end of July 2011 (\$)	36,847	64,681	29,797
Median loan amount of 2010/11 graduates (\$)	58,370	80,000	29,800
75 th percentile loan amount of 2010/11 graduates (\$)	84,200	120,000	59,690
Highest loan amount of 2010/11 graduates (\$)	210,500	417,720	912,600
Median monthly repayment amount of 2010/11 graduates (\$) (interest paid in respect of 1.5% RAF)	600 (37)	840 (58)	300 (19)

The total loan amount of over 80% of graduates is below \$90,000. For Scheme A, a loan borrower had borrowed over \$210,500 to pursue a 5-year Medicine / Dentistry Bachelor Degree or 3-year Social Sciences PhD programme. For Scheme B, a loan borrower had borrowed over \$420,000 to pursue a 4-year Computing and Information Security Higher Diploma programme. For Scheme C, a loan borrower had borrowed over \$912,600 to pursue an Executive Business Administration Master programme.

Annex E**Deferment Statistics of Non-means-tested Loan Schemes
for 2007/08 to 2010/11 Academic Years**

<u>Scheme A</u>	Academic Year			
	2007/08	2008/09	2009/10	2010/11
(a) Applications Received[^]	572	877	1 047	676
(b) Cases processed	702	974	1 296	840
Further studies	340	361	416	400
Financial hardship	352	611	879	438
Serious illness	10	2	1	2
(c) Cases Completed#	605	725	1 132	713
(d) Applications Approved	523	613	898	601
Further studies	288	282	316	321
Financial hardship	230	330	582	280
Serious illness	5	1	0	0
(e) Applications Rejected*	82	112	234	112
(f) Approval Rate [(d)/(c)]	86%	85%	79%	84%

<u>Scheme B</u>	Academic Year			
	2007/08	2008/09	2009/10	2010/11
(a) Applications Received[^]	1 415	2 157	2 796	2 245
(b) Cases processed	1 534	2 265	3 240	2 443
Further studies	975	1 010	1 391	1 269
Financial hardship	553	1 253	1 848	1 173
Serious illness	6	2	1	1
(c) Cases Completed#	1 426	1 821	3 042	2 286
(d) Applications Approved	1 182	1 550	2 658	1 949
Further studies	811	865	1 247	1 090
Financial hardship	367	684	1 411	859
Serious illness	4	1	0	0
(e) Applications Rejected*	244	271	384	337
(f) Approval Rate [(d)/(c)]	83%	85%	87%	85%

<u>Scheme C</u>	Academic Year			
	2007/08	2008/09	2009/10	2010/11
(a) Applications Received[^]	1 259	2 139	2 409	2 112
(b) Cases processed	1 543	2 352	3 072	2 435
Further studies	855	653	821	1 000
Financial hardship	676	1 691	2 248	1 432
Serious illness	12	8	3	3
(c) Cases Completed#	1 330	1 689	2 749	2 119
(d) Applications Approved	981	1 258	2 056	1 610
Further studies	497	445	603	709
Financial hardship	480	810	1 452	900
Serious illness	4	3	1	1
(e) Applications Rejected*	349	431	693	509
(f) Approval Rate [(d)/(c)]	74%	74%	75%	76%

OVERALL	Academic Year			
	2007/08	2008/09	2009/10	2010/11
(a) Applications Received[^]	3 246	5 173	6 252	5 033
(b) Cases processed	3 779	5 591	7 608	5 718
Further studies	2 170	2 024	2 628	2 669
Financial hardship	1 581	3 555	4 975	3 043
Serious illness	28	12	5	6
(c) Cases Completed[#]	3 361	4 235	6 923	5 118
(d) Applications Approved	2 686	3 421	5 612	4 160
Further studies	1 596	1 592	2 166	2 120
Financial hardship	1 077	1 824	3 445	2 039
Serious illness	13	5	1	1
(e) Applications Rejected[*]	675	814	1 311	958
(f) Approval Rate [(d)/(c)]	80%	81%	81%	81%

In 2010/11 academic year, **the overall approval rate of deferment applications under the three non-means-tested loan schemes was 81%.**

- [^] Cases completed in an academic year have no direct relationship with applications received in the academic year, as some cases were outstanding cases carried forward from the previous academic years.
- [#] Cases completed comprise cases approved, rejected, withdrawn and miscellaneous cases handled.
- ^{*} Most cases were rejected due to lack of documentary evidence to substantiate the loan borrowers' claims. A minority of applications were rejected due to unjustified circumstances or failure in partially settling the overdue arrears.

Annex F**Default Statistics of Non-means-tested Loan Schemes
for 2004/05 to 2010/11 Academic Years****No. of defaulters**

Academic Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
(a) No. of defaulters	4 914	7 842	9 760	10 990	13 177	13 606	13 081
Scheme A	1 613	1 882	2 142	2 130	2 156	1 946	1 641
Scheme B	449	732	981	1 283	1 656	1 909	2 000
Scheme C	2 852	5 228	6 637	7 577	9 365	9 751	9 440
(b) No. of repayment accounts	37 369	51 059	62 422	73 576	85 301	91 459	98 889
Scheme A	15 431	17 344	19 200	20 766	21 947	22 035	21 410
Scheme B	2 836	4 654	7 151	9 449	11 746	13 797	16 331
Scheme C	19 102	29 061	36 071	43 361	51 608	55 627	61 148
(c) Default rate [(a)/(b)]	13.15%	15.36%	15.64%	14.94%	15.45%	14.88%	13.23%
Scheme A	10.45%	10.85%	11.16%	10.26%	9.82%	8.83%	7.66%
Scheme B	15.83%	15.73%	13.72%	13.58%	14.10%	13.84%	12.25%
Scheme C	14.93%	17.99%	18.40%	17.47%	18.15%	17.53%	15.44%

As at end of 2010/11 academic year, there were **13 081 defaulters** with a total outstanding amount of approximately \$652 million in the defaulting accounts. **The overall default rate was 13.2%.**

Amount of defaulted loans

Academic Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
(a) Amount of defaulted loans (\$ million)	35	66	102	139	176	208	213
Scheme A	17	25	34	40	40	40	35
Scheme B	5	11	20	32	39	50	58
Scheme C	13	30	48	67	97	118	120
(b) Principal not yet demanded in defaulting accounts (\$ million)	188	301	352	393	465	483	439
Scheme A	68	77	81	74	68	56	39
Scheme B	38	65	83	105	130	147	124
Scheme C	82	159	188	214	267	280	276
(c) Total outstanding principal in repayment accounts (\$ million)	1,525	2,075	2,547	2,971	3,360	3,457	3,667
Scheme A	693	771	829	861	856	826	789
Scheme B	209	360	543	701	842	936	1,056
Scheme C	623	944	1,175	1,409	1,662	1,695	1,822

Annex G

**Default Statistics of Non-means-tested Loan Schemes
for 2004/05 to 2010/11 Academic Years:
by Age of Default**

Loan Default Period	Six months to one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
2004/05 Academic Year							
Number of defaulters	3 220	1 103	394	127	60	10	4 914
% of defaulters	65.5%	22.5%	8.0%	2.6%	1.2%	0.2%	100%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	149.1	46.6	17.7	6.6	3.2	0.4	223.6
2005/06 Academic Year							
Number of defaulters	4 552	1 904	946	352	44	44	7 842
% of defaulters	58.1%	24.3%	12.1%	4.5%	0.5%	0.5%	100%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	219.4	85.0	41.9	16.3	2.6	2.3	367.5
2006/07 Academic Year							
Number of defaulters	4 527	2 690	1 488	845	149	61	9 760
% of defaulters	46.4%	27.6%	15.3%	8.6%	1.5%	0.6%	100%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	207.2	130.6	67.0	39.0	7.6	3.2	454.6
2007/08 Academic Year							
Number of defaulters	4 499	2 384	1 985	1 411	620	91	10 990
% of defaulters	41.0%	21.7%	18.1%	12.8%	5.6%	0.8%	100%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	213.1	122.6	99.7	64.8	27.9	4.5	532.6
2008/09 Academic Year							
Number of defaulters	5 510	2 482	1 831	1 772	1 368	214	13 177
% of defaulters	42.0%	18.8%	13.9%	13.4%	10.3%	1.6%	100%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	275.3	124.2	91.6	84.8	54.8	10.3	641.0
2009/10 Academic Year							
Number of defaulters	5 606	2 745	1 756	1 468	1 736	295	13 606
% of defaulters	41.2%	20.2%	12.9%	10.8%	12.7%	2.2%	100.0%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	308.7	147.5	85.2	67.7	68.0	13.8	690.9

2010/11 Academic Year							
Number of defaulters	5 363	2 265	1 871	1 584	1 671#	327#	13 081
% of defaulters	41.0%	17.3%	14.3%	12.1%	12.8%	2.5%	100.0%
Total defaulted instalments + undemanded loan principal in defaulting accounts (\$ million)	286.2	125.9	100.1	65.2	61.2	14.1	652.7

The debt age of defaulters has been increasing. Of the 13 081 defaulters as at end of 2010/11 academic year, **over 27% had defaulted for more than three years and about 41% for more than two years.** These compared to 4% and 12% respectively in 2004/05 academic year.

- # For the defaulters who have defaulted for four years or more, about 86% had been referred to the Department of Justice (DoJ) for taking legal recovery action, about 6% would be referred to DoJ in the near future, whilst about 6% were bankrupt or entered into individual voluntary arrangement. For the remaining defaulters, the Agency will continue to negotiate with them on new repayment arrangements and will consider referring to DoJ for legal action if a mutually agreed repayment arrangement could not be reached.

**Default Statistics of Non-means-tested Loan Schemes
as at end of 2010/11 Academic Year: by Age of Default**

Loan Default Period	Six months to one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years	Total
Scheme A							
Number of defaulters	765	286	189	169	168	64	1 641
Average amount of loan originally drawn down (\$)	61,519	54,894	53,077	56,009	52,750	59,977	57,859
Scheme B							
Number of defaulters	987	413	299	154	134	13	2 000
Average amount of loan originally drawn down (\$)	97,379	101,967	102,863	87,012	95,876	103,141	98,297
Scheme C							
Number of defaulters	3 611	1 566	1 383	1 261	1 369	250	9 440
Average amount of loan originally drawn down (\$)	40,867	39,122	37,350	28,762	25,044	26,525	36,158
OVERALL							
Number of defaulters	5 363	2 265	1 871	1 584	1 671#	327#	13 081
Average amount of loan originally drawn down (\$)	52,648	51,228	48,210	36,589	33,343	35,805	47,262

As at end of 2010/11 academic year, over 72% of defaulters were loan borrowers of Scheme C.

For the defaulters who have defaulted for four years or more, about 86% had been referred to the Department of Justice (DoJ) for taking legal recovery action, about 6% would be referred to DoJ in the near future, whilst about 6% were bankrupt or entered into individual voluntary arrangement. For the remaining defaulters, the Agency will continue to negotiate with them on new repayment arrangements and will consider referring to DoJ for legal action if a mutually agreed repayment arrangement could not be reached.

**Papers of the Finance Committee of the Legislative Council
relating to Non-means-tested Loan Schemes**

Item for Finance Committee of the Legislative Council (FCR(97-98)74)
<http://www.legco.gov.hk/yr97-98/english/fc/fc/papers/f97-74e.doc>

Item for Finance Committee of the Legislative Council (FCR(98-99)20)
<http://www.legco.gov.hk/yr98-99/english/fc/fc/papers/fc170720.htm>

Item for Finance Committee of the Legislative Council (FCR(1999-2000)44)
<http://www.legco.gov.hk/yr99-00/english/fc/fc/papers/fc121144.pdf>

Item for Finance Committee of the Legislative Council (FCR(2000-01)39)
<http://www.legco.gov.hk/yr99-00/english/fc/fc/papers/f00-39e.pdf>

Item for Finance Committee of the Legislative Council (FCR(2001-02)30)
<http://www.legco.gov.hk/yr00-01/english/fc/fc/papers/f01-30e.pdf>

Item for Finance Committee of the Legislative Council (FCR(2006-07)9)
<http://www.legco.gov.hk/yr05-06/english/fc/fc/papers/f06-09e.pdf>

Item for Finance Committee of the Legislative Council (FCR(2008-09)17)
<http://www.legco.gov.hk/yr07-08/english/fc/fc/papers/f08-17e.pdf>

**Item for Finance Committee of the Legislative Council (FCR(2009-10)26)
(One-off relief measure concerning deferment applications)**
<http://www.legco.gov.hk/yr08-09/english/fc/fc/papers/f09-26e.pdf>

**Item for Finance Committee of the Legislative Council (FCR(2011-12)37)
(Extension of one-off relief measure concerning deferment applications)**
<http://www.legco.gov.hk/yr10-11/english/fc/fc/papers/f11-37e.pdf>