

Report No. 53 of the Director of Audit — Chapter 6

FINANCIAL ASSISTANCE SCHEMES FOR POST-SECONDARY AND TERTIARY STUDENTS

Summary

1. It is the Government's policy to ensure that no student is deprived of education due to lack of means. The Student Financial Assistance Agency (SFAA) is responsible for administering various financial assistance schemes to assist qualified students in need of financial assistance. Five schemes provide support to post-secondary and tertiary students, and persons pursuing specified continuing and professional education courses. They comprise:

- (a) two means-tested grant and loan schemes (i.e. the Tertiary Student Finance Scheme — Publicly-funded Programmes (TSFS), and the Financial Assistance Scheme for Post-secondary Students (FASP)); and
- (b) three non-means-tested loan schemes (i.e. the Non-means-tested Loan Scheme (NLS), the Non-means-tested Loan Scheme for Post-secondary Students (NLSPS), and the Extended Non-means-tested Loan Scheme (ENLS)).

The Joint Committee on Student Finance (JCSF) advises the Government on the operation of the TSFS and NLS. The Audit Commission (Audit) has recently conducted a review of the SFAA's administration of the five schemes.

Processing of applications

2. *Vetting and counter-checking of TSFS and FASP applications.* Vetting staff of the SFAA verify the family incomes and assets stated in the applications, and assess the financial assistance to be offered to the applicants. Monthly, year-end and internal audit counter-checks are conducted on selected applications to ensure that the applications are assessed fairly and correctly by the vetting staff. The results of the counter-checks conducted on applications for the 2006/07 to 2008/09 academic years (all years mentioned hereinafter refer to academic years) indicated that: (a) the vetting error rates were as high as 10.2% for the TSFS and 7.1% for the FASP; and (b) the vetting error rates found in the monthly counter-checks were substantially lower than those found in the year-end counter-checks. *Audit has recommended that the Controller, Student Financial Assistance Agency should: (a) investigate the reasons for the high rates of vetting errors and take*

measures to improve the effectiveness of the vetting work; and (b) conduct an overall review of the monthly and year-end counter-checks.

3. ***Authentication of applications.*** Successful TSFS and FASP applications are selected for authentication by Investigation Officers, who make home visits to assess directly the family conditions of the applicants and to verify the information they have provided. The authentication exercises conducted on applications for 2006/07 to 2008/09 indicated that: (a) the discrepancy rates of over 10% were on the high side; and (b) the amounts of overpaid assistance were substantial. A Deputy Controller was tasked to review the authentication process but the review was temporarily deferred. In October 2006, the Efficiency Unit recommended that the SFAA should collect data to enable risk profiling of applications and cost-efficient targeting of high-risk applications for authentication. However, the SFAA had not adopted such a risk-based approach to selecting high-risk cases for authentication. As at 31 March 2009, authentication work for 2007/08 and 2008/09 applications had not yet been completed. The SFAA did not have a detailed work plan specifying the expected completion date of the authentication work. *Audit has recommended that the Controller, Student Financial Assistance Agency should: (a) step up efforts in conducting a review of the authentication mechanism; (b) take effective measures to enable risk profiling of applications and cost-efficient targeting of high-risk applications for authentication; and (c) compile a detailed work plan for authentication of each year's applications, specifying the target completion date of the work.*

4. ***Measures to ensure correctness and completeness of information.*** The SFAA takes a number of preventive measures to prevent applicants from providing incorrect or incomplete information, and punitive measures to handle applications with such information. However, the discrepancy rates found in the authentication work for 2006/07 to 2008/09 applications were consistently high and the amounts of overpaid assistance were substantial. The punitive measure of simply issuing warning letters and recovering the overpaid assistance is rather lenient. Of the 394 applications for 2007/08 with discrepancies found in the authentication stage, only 18 (5%) were referred to the Police for investigation. *Audit has recommended that the Controller, Student Financial Assistance Agency should: (a) take more proactive measures to prevent applicants from providing incorrect or incomplete information in applications; and (b) improve the effectiveness of the punitive measures, e.g. by streamlining the procedures of referring cases to the Police.*

Loan repayments

5. ***Deferment of loan repayment.*** Deferment applications on grounds of further full-time studies, financial hardship or serious illness are processed by three different SFAA Units. Up to July 2009, the Default Unit had not issued any guidelines for processing the deferment applications. Audit examination of 30 applications approved by the three Units revealed that there were two cases in which the applicants had not provided the necessary supporting documents or information. For applications on the ground of financial hardship, the applicants were not required to provide information on their liquid assets which did not

appear on their bank passbooks/statements. *Audit has recommended that the Controller, Student Financial Assistance Agency should: (a) issue guidelines on the processing of deferment applications to staff of the Default Unit; (b) ensure that the applicants have provided the necessary supporting documents and information before their applications are approved; and (c) consider requiring the applicants to provide information on their liquid assets in addition to those shown on bank passbooks/statements.*

6. ***Handling of defaulted loans.*** Except the NLS, all the other four loan schemes recorded an increase in defaulters and defaulted loan amounts during the period March 2007 to March 2009. Since September 2008, the Default Unit has compiled ageing analyses of the default cases under the TSFS, NLS, NLSPS and ENLS to analyse the time-bar limit of taking legal action against the borrowers. The ageing analysis as at 31 March 2009 indicated that 127 cases exceeded the time-bar limit of six years and the SFAA was debarred from taking legal action against the borrowers. Among these 127 cases, legal action could be taken against the indemnifiers of only 118 cases as they were still within the time-bar limit of 12 years. The SFAA had not compiled an ageing analysis of default cases under the FASP. A review of 42 default cases showed that in some cases: (a) follow-up actions to recover the loans from the borrowers/indemnifiers were inadequate and not timely; and (b) the SFAA did not follow up regularly the progress of the recovery actions taken by the Department of Justice (DoJ). In January 2008, the JCSF suggested that the SFAA should consider supplying the credit information of borrowers to a credit reference agency so as to deter borrowers from defaulting loan repayment. Up to July 2009, the SFAA was still exploring the feasibility of the suggestion. *Audit has recommended that the Controller, Student Financial Assistance Agency should: (a) ascertain the reasons for the increase in defaulted loans and take prompt actions to tackle the problem; (b) expedite the referral of default cases to the DoJ; (c) compile ageing analysis of default cases under the FASP; (d) improve the case management procedures with an effective bringing-up system for loan recovery; (e) follow up regularly the progress of the recovery actions taken by the DoJ; and (f) continue to explore measures to tackle the loan default problem.*

Financial assistance of means-tested schemes

7. ***Student expenditure survey.*** Student expenditure surveys (SEs) were carried out periodically to form the basis for determining the maximum levels of grant (for academic expenses) under the TSFS, and loan (for living expenses) under the TSFS and FASP. These maximum levels are adjusted annually according to the movements of the Student Price Index. The maximum levels of grant and loan for 2008/09 were based on the SES conducted in 1988. Although an SES was conducted in 1999, the results were not adopted due to reservations about the findings and methodology of the survey. In September 2005, the JCSF agreed that a consultancy study should be conducted with a view to establishing a sustainable, viable and simpler mechanism for setting and adjusting the grant and loan levels in place of the SES. The consultancy study was originally planned to be completed in early 2007. However, up to September 2009, the study was still in progress. *Audit has recommended that the Controller, Student Financial Assistance Agency should:*

(a) take action to expedite the completion of the consultancy study on the mechanism for setting and adjusting the level of financial assistance; and (b) consult the stakeholders as soon as possible for implementing the new mechanism.

Interest rates on loans

8. ***Interest rate for means-tested loans.*** In 1987/88, the Government introduced a fixed interest rate of 2.5% per annum on TSFS loans. When the FASP was introduced in 2001/02, the same interest rate was charged for FASP loans. The interest rate has remained unchanged since 1987/88. When the interest rate was determined in 1987, it was based on the borrowers' affordability to repay. In Audit's view, the repayment affordability is dependent on a number of factors, such as the amount of the loan, whether the borrower is in employment after graduation, and his salary level. These factors may have changed over the years since 1987. *Audit has recommended that the Controller, Student Financial Assistance Agency should revisit the issue of the borrowers' affordability to repay.*

9. ***Interest rate for non-means-tested loans.*** Interest on non-means-tested loans is charged at the Government's no-gain-no-loss rate, plus a risk-adjusted factor (RAF) of 1.5% per annum. The RAF covers the Government's risk in disbursing unsecured loans. As at 1 June 2009, the interest rate for such loans was 3.599%. The same rate of RAF is used for loans under the three non-means-tested loan schemes, notwithstanding the fact that they cover different categories of students. The use of the same RAF rate may not be able to adequately cover the different levels of credit risk of the schemes. In June 2009, the SFAA informed the JCSF that the interest collected from the RAF for the NLSPS and ENLS was not sufficient to cover the possible loss due to defaulted loans. As at 31 March 2009, the total cumulative shortfall for the three loan schemes was \$255 million, which was mainly attributed to the ENLS. The ENLS had the highest default rate of 17.2% as compared to 9.4% of the NLS and 13% of the NLSPS. This indicated that there were different levels of credit risk of the schemes. *Audit has recommended that the Controller, Student Financial Assistance Agency should consider adopting different rates of RAF to address the different levels of credit risk of the schemes.*

Response from the Administration

10. The Controller, Student Financial Assistance Agency agrees with the audit recommendations.

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