

Senate Standing Committee on Education and Employment - Education

**QUESTIONS ON NOTICE
Budget Estimates 2014-2015**

Outcome 3 - Higher Education, Research & International

Department of Education Question No. ED0381_15

Senator Rhiannon asked on 5 June 2014 , Hansard page 95

Question

Comparison with the US system

Senator RHIANNON: Again, it is interesting how you arrived at this. I understand that in the United States, their federal government administered student loans fluctuate annually depending on the bond rate. However, the student's interest rate is fixed for the lifetime of their loan. Was this approach considered by the department when you were working on this? Ms Paul: We are not going to talk about what sort of considerations have been in the budget context. I am not familiar with the US approach, though. If you want us to give some analysis of differences, we can do that, unless some of my colleagues know it well. If we do not know the US system well, we are quite happy to take on notice an analysis for you of what those differences might be. Senator RHIANNON: Can you take it on notice if consideration was given to working with an interest rate that is fixed for the life of the loan? Ms Paul: No. I will not take that on notice because that would be going to the nature of advice given in a budget context and I do not think we would be able to give it. It would have been a consideration by cabinet in a budget process, so I cannot go to content. What I can do is take on notice to offer you an analysis of the similarities and differences between what is proposed and what is done in the US.

Answer

There are several forms of student loan offered by the US federal government. These differ in the interest rate applied, the arrangements for repayment and debt forgiveness, whether they are available to undergraduates or all students, whether the government or the institution is the lender, whether financial need and credit history are criteria for eligibility, and whether the loan is offered to students or their parents.

The table below describes the major differences between federal student loans in the US and the Australian Higher Education Loan Program (HELP), as announced in the 2014-15 Budget.

US federal student loans	HELP
US federal student loans can be used to pay tuition, fees, room and board and other education expenses.	HELP loans are only provided for tuition fees, student services and overseas study.

US federal student loans	HELP
There are annual and aggregate limits on US federal student loans. Many US students seek further sources of private finance to supplement government loans.	From 2016, there will be no limits on HELP loans.
The interest rate on US federal student loans is fixed for the life of the loan and varies from 4.66 per cent to 7.21 per cent for loans taken out between 1 July 2014 and 1 July 2015, depending on the type of loan.	From 2016, the indexation rate on HELP loans will be the 10 year bond rate, capped at six per cent.
Most US federal student loans have a loan fee that is a percentage of the total loan amount.	From 2016, there will be no loan fees on HELP loans.
The standard loan term for US Federal student loans is 10 years though it can be extended up to 25 years.	There is no term limit on HELP loans because they are repaid through the tax system.
The interest arrangements for US federal student loans schemes vary.	HELP loans accrue indexation while students study.
Most US federal student loans schemes are not income contingent.	All HELP loan repayments are income contingent.