EDUCATION, SCIENCE AND TRAINING

SENATE LEGISLATION COMMITTEE - QUESTIONS ON NOTICE
2003-2004 BUDGET ESTIMATES HEARING

Outcome: 2
Output Group: 2.5 – Assistance for post school students including those with special needs

DEST Question No. E074_04

Senator Carr asked on 10 June 2003

Question:

Prior to the Budget, there was speculation that the Government would adopt a suggestion made by Bruce Chapman, to apply a surcharge of 25-30% to the loans to substitute for an interest rate. I believe that Chapman favours this approach because it means that charge is fixed, and does not cause the loan to spiral in value if it is not paid off quickly.

a) This is what has happened in New Zealand, where a real interest rate applies and student debt has gone through the roof. Did the government examine the problems with the New Zealand model for student financing?

b) Why did the Government choose to apply a real interest rate, and decide not to take the "surcharge" approach?

c) In some countries a simple rate of interest is applied to student loans. Was this considered? Why not?

Answer:

Decisions on the interest rate mechanism

a) Yes. The New Zealand model applies an uncapped interest rate that has caused spiraling debt. The proposed Australian model caps the interest rate to avoid this happening.

b) Answered in E073_04 (part c).

c) Yes. An interest rate without a cap could cause spiraling debt and for this reason it was decided to apply a capped interest rate.