THE AUSTRALIAN

# Call for unis to carry HECS loans risk

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**THE government should offload its HECS student loan book onto universities and make them negotiate to sell it on to fund managers in a radical proposal for fee deregulation submitted to the Senate inquiry.**

The proposal would effectively force the universities to put skin in the game and motivate them to keep their prices down as much as possible while maximising quality.

The proposal from RMIT University economics researcher and former banker Sean Leaver said it would ensure there was a relationship between price and quality in a deregulated market skewed by cheap student HECS loans. There are fears universities will be able to charge high fees by simply freeloading off HECS, the risks of which are entirely carried by the taxpayer. Base funding review member Louise Watson has warned that deregulation effectively gives the universities a blank cheque.

Mr Leaver said if vice-chancellors wanted to charge higher fees under deregulation, then they should be prepared to carry the risk.

“Vice chancellors are being disingenuous at the moment. They are freeloading and are comfortable with the government taking all the risk. They need to get out of the sandpit and into the real world,” Mr Leaver said.

Under his proposal, universities would only receive the value of the government teaching subsidy. Instead of being paid the value of the student contribution, that the government currently pays and loans out to students, the university would have to sell the student debt to a pension fund or other fund manager to get money upfront. However, the fund manager would charge the university a risk premium based on the performance of a university’s students in repaying their loans. To minimise this premium universities would be motivated to keep their fees down and ensure good graduate outcomes.

Mr Leaver said his proposal would also help address quality concerns. He said private providers taking government subsidies would have to convince fund managers they were low risk in order to get the student funding. He noted that fund managers would have “seen right through” the dodgy business models that have since come to light in the training sector.

The debt would be made attractive to fund managers by the government paying a real interest rate to the fund manager while continuing to charge graduates at the rate of inflation. Mr Leaver said there would be strong demand from pension funds that could use their skill in risk assessment to squeeze premiums from universities.

An obvious problem is that the proposal risks shutting out students from poorer backgrounds who would be a greater credit risk and potentially more likely to drop out of courses because of disadvantaged schooling. But Mr Leaver said that could be addressed by the government offering such students a tax credit on their HECS repayments, effectively paying some of their HECS debt for them and so making them attractive to fund managers.

Another problem is that universities would be motivated to offer courses such as law and business at the expense of nursing and teaching where the student returns are less and the credit risk higher. But again Mr Leaver said this could be addressed by the government paying universities a higher teaching subsidy for such courses as it currently does.

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