



BRIEFING PAPER

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Student Loan Statistics

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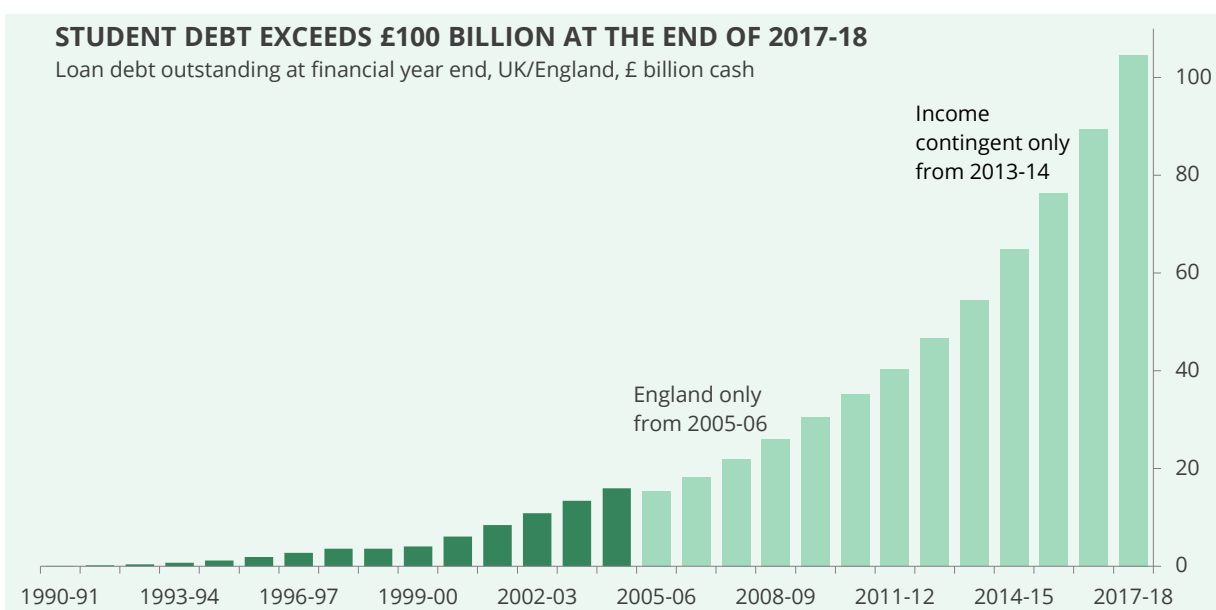
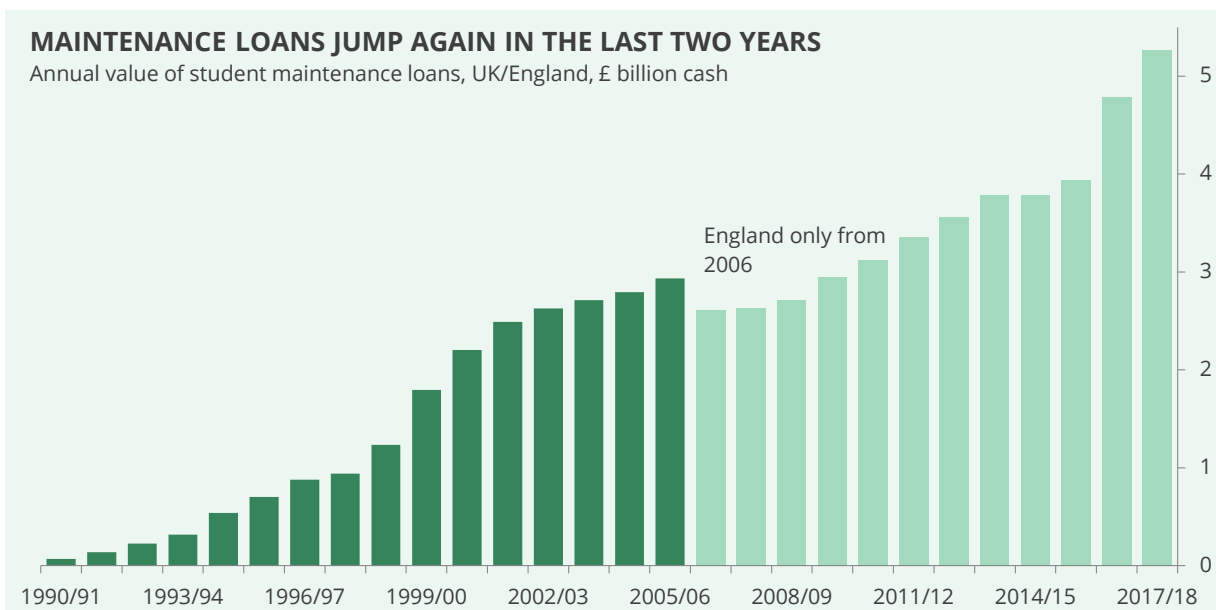
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Summary

Student loans are the main method of direct government support for higher education students. Money is loaned to students at a subsidised rate to help towards their maintenance costs and to cover the cost of tuition fees.

Currently more than **£16 billion** is loaned to around **one million** higher education students in England each year. The value of outstanding loans at the end of March 2018 reached **£105 billion**. The Government forecasts the value of outstanding loans to reach around **£450 billion** (2017-18 prices) by the middle of this century. The average debt among the first major cohort of post-2012 students to become liable for repayment was **£32,000**. The Government expects that **30%** of current full-time undergraduates who take out loans will repay them in full.



Graduates repay student loans to the government after their earnings exceed the threshold level. These loans are therefore private contributions towards the costs of higher

education. The student loans system aims to ensure that upfront costs do not deter potential students. *Graduates* repay student loans and they generally have above average incomes. In the past the loans system has been criticised on a number of different grounds including not covering living costs, excluding part-time students, being too expensive, targeting its interest rate subsidy at higher earning graduates and putting off those who are concerned about graduating with large debts.

In his summer Budget 2015 the Chancellor announced that maintenance grants would end for new students from 2016/17 and be replaced by loans. He also announced consultations on freezing the repayment threshold for five years, allowing some universities to increase fees in line with inflation from 2017 and a review of the discount rate applied to the accounting treatment of loans. In its response to the consultation the Government said it would implement its preferred option –freeze the repayment threshold for all post-2012 borrowers at £21,000 until at least April 2021.¹ These were the biggest changes to student finance since 2012. When fully implemented they will mean more money is loaned, both per student and overall, and increase the amount that is repaid by middle and lower earning graduates. Average debt for those finishing university is expected to be more than £40,000 and, because of the decision to end grants, highest for students from the poorest families at around £53,000.

On 1 October 2017 the Prime Minister announced that there would be changes to the student finance system: the fee cap would be frozen at £9,250, the repayment threshold would rise to £25,000 and there would be a review of the student finance system.

This note gives a background to student loans, statistics on their take-up, total value owed, repayment, public expenditure, arguments for reform and factors that affect take-up. It does not look in detail at the repayment system in England for new students from 2012/13 which is included in the note [Changes to higher education funding and student support from 2012/13](#).² Student Loans Company data used to cover the UK as a whole, but devolution of student support arrangements caused a change in their geographical coverage. The figures from 2006-07 in this note are for England only. The following Library publications give related information about changes in this sector:

- [Higher education student numbers](#)
- [Higher education funding in England](#)
- [Value of student maintenance support](#)
- [Tuition fee statistics](#)
- [Abolition of maintenance grants in England from 2016/17](#)
- [Changes to higher education funding and student support from 2012/13](#)
- [Student loan interest rates FAQs](#)
- [Prime Minister's announcement on changes to student funding](#)
- [Higher education tuition fees in England](#)

The Scottish Parliament Information Centre's [Student Loans and Repayments](#) compares Scotland and England. Data from the [Student Loans Company](#) may also be helpful.

¹ [Freezing the student loan repayment threshold Government response to the consultation on freezing the student loan repayment threshold](#), BIS (November 2015)

² <http://www.parliament.uk/briefing-papers/SN05753>

1. Student loans background -in brief

1.1 Pre-2012

Student loans first became part of the student support package in 1990/91. In that year students could take out a maximum³ of £420 or around one sixth of the maximum amount of public support. Over the following years their value was increased at the expense of grants and stood at just under 50% of the maximum support level in 1996/97.⁴

Student loan interest rates for those loans and all those to pre-2012 students are set in line with inflation and hence have a zero real interest rate. Repayments of loans taken out before the late 1990s were made on a 'mortgage-style' system. They became repayable from the April after the student finished higher education and they earned above the threshold. Repayments were made over 5 years in 60 equal monthly instalments; hence 'mortgage-style'.

The Government gradually introduced new arrangements for students starting in autumn 1998 (academic year 1998/99). In the first year new entrants received support through loans and grants. From 1999 new entrants and those who started in 1998 received all maintenance support as loans which were partly income-assessed.

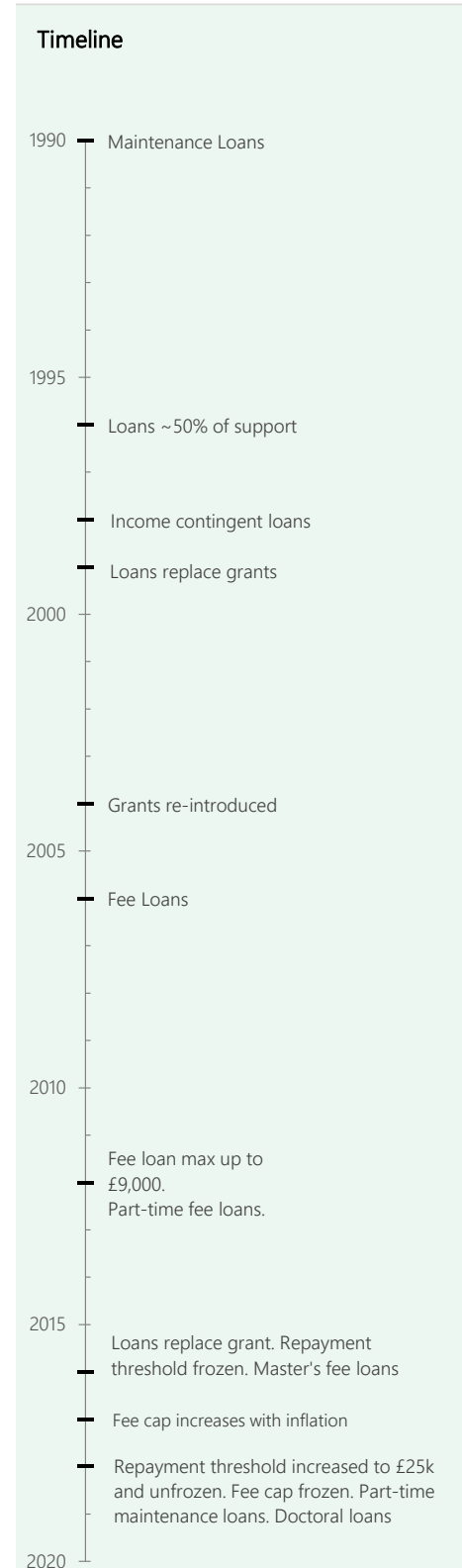
A different repayment system operates for loans for new students from 1998. These are income contingent repayments where graduates repay 9% of gross income annual above £10,000.⁵ This threshold was raised to £15,000 in April 2000.

2006/07 new students attending institutions in England and Northern Ireland could be charged variable fees of up to £3,000. They could take out a tuition fee loan to cover the cost of these fees. New lending from 2006/07 was subject to a 25-year maximum term after which they are written off. Previously the age related write-off was at 65.

New students in 2006/07 in England were also eligible for a new income-assessed Maintenance Grant of up to £2,700. This reduced the amount of maintenance loan someone was eligible for.

1.2 Changes in loan amounts and repayment terms from 2012/13

The Government set out its proposals for higher education funding and student finance in late 2010. These came into force for new students starting in England from 2012/13. Alongside an increase in the fee cap



³ Maximum for a full year student living away from home and outside London.

⁴ DfEE statistical first release 48/2000 *Student support: statistics of student loans for higher education in United Kingdom -financial year 1999-00 and academic year 1999/00*

⁵ *Investing in the future: Supporting students in higher education*, DfEE

to £9,000 and a related cut in direct public funding for tuition there were the following changes were made to student loans:⁶

- An increase in the earnings threshold to £21,000
- A real interest rate of will start to be charged when income is above the earnings threshold reaching a maximum of 3.0% above inflation when earnings reach a new higher earnings threshold of £41,000.
- The interest rate will be inflation plus 3.0% for students while they are studying and up to the repayment date (April following graduation)
- The length of time before all debts are written off is extended from 25 to 30 years

Repayments remained at 9% of income above the threshold.⁷

As the RPI increased by 3.3% in the year to March 2013 post-2012 students were charged an interest rate of 6.3% (RPI+3%) in 2013/14, 5.5% in 2014/15, 3.9% in 2015/16 and 4.6% in 2016/17, 6.1% in 2017/18 and 6.3% in 2018/19.

Summer Budget 2015 reforms

In summer Budget 2015 the Chancellor announced that maintenance grants would be replaced in full by loans for new students in England from 2016/17.⁸ He also announced consultations on freezing the repayment threshold for five years, allowing some universities to increase fees in line with inflation from 2017 and a review of the discount rate applied to loans in the public finances.

As grants are income assessed and loans partly so the biggest impact of the loss of grants would be on students from the lowest income households. Estimates of the impact of freezing the threshold, published as part of the [equality analysis](#), for the graduate population as a whole were:⁹

- An extra 9% of will make some repayments
- A 'median borrower' will repay around £300 more per year, those on higher earnings will face the same overall annual increase in repayments
- The average present value of additional lifetime repayments will be in the £2,600 to £2,800 region
- The proportion of post-2016 borrowers repaying their loans in full will increase from 38% to 45%
- The largest increase in lifetime repayments in absolute terms is among middle earners (for graduates)
- The largest increase as a proportion of earnings is among lower earners

The consultation on freezing the repayment threshold estimated that if it were frozen in 2016 for five years for all borrowers then it would generate £3.2 billion in current/discounted values in additional graduate repayments from existing borrowers from 2016. On top of this one-off

⁶ [Reform for higher education and student finance](#) BIS (3 November 2010)

⁷ More detail and analysis is included in the note [Changes to higher education funding and student support from 2012/13](#)

⁸ See Library briefing paper [Value of student maintenance support](#) for more detail.

⁹ [Freezing the student loan repayment threshold. Equality analysis](#), BIS (Nov 2015)

amount would be an additional £0.9 billion for each £15 billion of loans to new students.¹⁰

Section 7 of this paper includes much more on potential impact of these changes and more detail on changes to student loans since their introduction.

Prime Minister's October 2017 announcement on student finance

On 1 October 2017 the Prime Minister announced that there would be changes to the student finance system: the fee cap would be frozen at £9,250, the repayment threshold would rise to £25,000 and a there would be a review of the student finance system. More detail and analysis can be found in the briefing paper [Prime Minister's announcement on changes to student funding](#)

¹⁰ This volume of loans is approximately the amount that might be lent to each cohort of new students.

2. Take-up of student loans

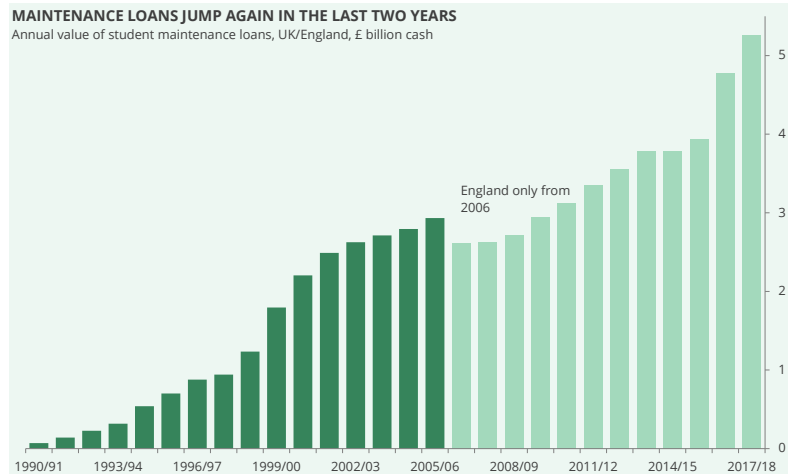
2.1 Aggregate data

Details of the growth in student loans, in terms of the number and value of loans and take-up are shown in Table 1 at the end of this note and summarised in the table below. The annual value of maintenance loans only is illustrated opposite (note the change in geography).

Each indicators shown in the table increased in every year to 2016/17, other than the proportion of students taking out loans which fell slightly in 2004/05. Growth in maintenance loans was generally slower from 2006/07 to 2015/16, this partially reflected the increases in the value of, and eligibility for, maintenance *grants*. The replacement of grants with loans for new students from 2016/17 has seen maintenance loan values jump again.

Between 1990/91 and 2005/06 the annual number of loans taken out went from 180,000 to 881,000, their average value from £390 to £3,330 and their total annual value from £70 million to nearly £3 billion. 2006/07 data for England give an average value of £3,590; 3% above the equivalent figure from 2005/06. Subsequent increases in the value of maintenance loans have been more modest, in part because of the increase in the maintenance grant in 2006/07. The 2017/18 data is provisional up to the middle of November while the earlier figures are for the full year. The 2017/18 figures are also based on the amount awarded, rather the amount paid which is used for the figures from 2008/09 onwards. This has an impact on the tuition fee loan data only.

The 2016/17 figures, when compared to equivalent earlier data, show little change in the number of maintenance loans taken out, but an annual increase of 16% in the total *value* of maintenance loans. This is driven by new students taking out larger loans to cover the loss of grants. The average maintenance loan for those starting in 2016 was £6,000 compared to £4,100 for post-2012 students. There was a modest increase in the average and total value of tuition fee loans awarded in 2016/17.



STUDENT LOANS: VALUE AND TAKE-UP IN THE UK, ACADEMIC YEARS				
	Number (thousands)	Value (£ million)	Average value (£)	% of eligible taking loans
1990/91	180	70	390	28%
1995/96	560	701	1,250	59%
2000/01	760	2,204	2,900	78%
<i>England only combined maintenance and fee loans</i>				
2010/11	909	5,601	6,160	82%
2012/13	987	7,794	7,900	89%
2013/14	1,031	9,493	9,210	90%
2014/15	1,033	10,783	10,440	92%
2015/16	1,061	11,623	10,960	93%
2016/17	1,084	12,766	11,780	-
2017/18	-	-	-	-
maintenance	965	5,263	5,450	-
fee	1,062	9,148	8,610	-

Source: Student Support for Higher Education in England 2017: academic year 2016/17 payments, 2017/18 awards, and earlier editions, SLC;

The average value of maintenance loans increased again in 2017/18 as more students came under the new arrangements.

The total value of fee loans has increased since 2012 as more and more borrowers come onto the post-2012 system.¹¹ The total value of loans made is expected to continue to grow rapidly as more students come under the new funding regime in England. The Government expects that the face value of loans made to higher education students in England (including part-time and postgraduate students) will be £16.4 billion in financial year 2018-19.¹²

Tuition fee loans are excluded from the chart above. In 2006/07 234,000 new students were awarded tuition fee loans with an average value of £2,740 and a total value of £639 million. A further 153,000 existing students were awarded tuition fee loans for regulated fees, these totalled £156 million at an average of £1,010. The number awarded and their total value has increased in subsequent years as each year brings a new cohort liable to pay them. The first year of new students under the post-2012 funding regime with its higher fees (and fee loans) caused the total value of Tuition Fee loans to exceed that of maintenance loans for the first time. This gap has since grown and the value of Fee loans was more than double maintenance loans for the first time in 2014/15. This gap continued to grow in 2015/16, but fell in 2016/17 due to the loss of grants for new students.

Forecasts

The Department for Education published its first [annual publication on loan forecasts](#) in June 2018. The short-term forecasts are summarised below.

STUDENT LOAN AMOUNTS FORECAST TO RISE BY A THIRD IN SIX YEARS								
English students and EU students studying in England								
								Change 2017-18
								to 2022-23
		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	
<i>Loan outlays (£billion)</i>								
Plan 2	Fee loans	9.0	9.5	10.0	10.6	11.0	11.3	+26%
	Maintenance	5.7	6.6	7.2	7.5	7.7	7.9	+39%
	All	14.7	16.1	17.2	18.1	18.7	19.2	+31%
All loan products		15.2	16.6	17.9	18.8	19.5	20.0	+32%
<i>Students receiving loans (million)</i>								
Plan 2	Fee loans	1.07	1.10	1.11	1.11	1.10	1.09	+2%
	Maintenance	1.02	1.03	1.03	1.02	1.01	1.01	-1%

Source: [Student loan forecasts, England: 2017 to 2018](#), DfE

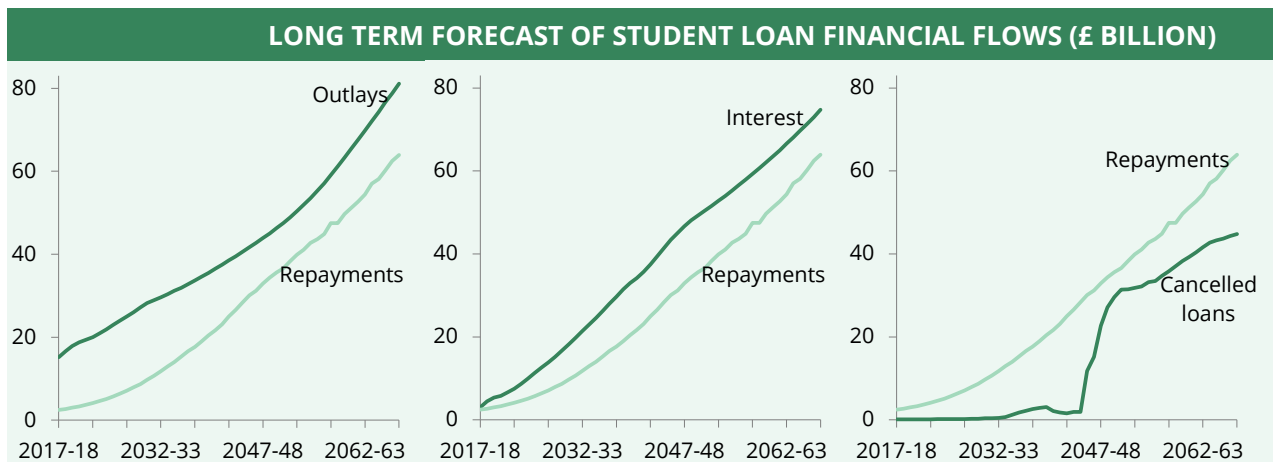
They shows that between 2017-18 and 2022-23:

- The total amount lent to students is expected to grow by almost £5 billion
- Most of this growth is due to the increase in maintenance loans following the ending of grants
- The number of students taking out loans increases only modestly.

¹¹ *Student Support for Higher Education in England: 2016*, SLC. Tables 6.5 and 6.6

¹² [Student loan forecasts, England: 2017 to 2018](#), DfE

The Department for Education also made long-term forecasts in the same publication. These are subject to an even greater degree of uncertainty.¹³ Forecasts of the main financial flows are illustrated below.



They show total loan outlays increasing over time in cash terms to more than £50 billion in cash prices by the middle of the century. Repayments increase at a faster rate as more graduates become liable for repayment and earn more than the repayment threshold. These increase to around £40 billion by the middle of the century. The value of loans cancelled or written off remains low until the first cohort of those paying higher fees reach the end of their loan term (late 2040s), when these rise to more than £30 billion per year.

These figures include all loan products: So called “Plan 2” loans to full and part-time undergraduate students, Advanced Learner Loans for those in further education and “Plan 3” loans to postgraduates.

2.2 Loan take-up and average debt

The 2011 data was the first to include an analysis of the combination of loans individual students from England took out. The latest figures are for 2016/17 when 9% of students who received a loan had only maintenance, 7% fee loan only and the remainder took out both. The average combined annual loan for those who took out both was £13,000; the average across all who took out any type of loan was £11,800.¹⁴

The 2011 data also included the first estimates of maintenance loan take-up for some years. These showed the rate continuing at its earlier level of 80% up to 2008/09 then increasing to 82% in 2009/10. The

¹³ These forecasts are consistent with those to 2022-23, after that they assume:

- Average student loan outlay per borrower increases each year in line with forecasts for RPIX from the Office for Budget Responsibility
- Loan borrower entrant numbers vary in line with ONS 2016-based principal population projections, weighted to the age profile of new entrants for each loan product
- Future entrants are assumed to have the same distribution of characteristics, loan amounts (uprated by RPIX) and earnings (uprated by OBR average earnings growth forecasts) as the 2022/23 entrants in the DfE student loan repayment and Advanced Learner Loans models
- No changes to student loan policies are assumed, other than annually uprating maximum loan amounts, repayment thresholds and interest thresholds as appropriate

¹⁴ *Student Support for Higher Education in England: 2017 SLC*. Table 4D

latest data are for 2015/16 when estimated maintenance loan take up was 90%. Estimated fee loan take up was 94% for students in England and 73% for EU students in 2014/15¹⁵

The Government estimated that for students starting after 2006/07 the average Student Loan debt on graduation (maintenance and tuition fee loans) would be around £15,000¹⁶ and take an average of 11 years to repay for men and 16 year for women.¹⁷ In the past the Department for Business, Innovation and Skills has forecast that the average student loan debt on graduation would increase to £17,000 for 2010 graduates, £19,000 for 2012 and £21,500 for 2014 graduates.¹⁸ The 2014 figure is inflated to an extent by the inclusion of some students who start under the new regime in 2012/13 are eligible for much higher fee loans and who either graduate from a short course or who drop out. Fee levels and maintenance arrangements from 2012/13 imply that for students starting in England in 2012/13, who take out average maintenance and fee loans, the typical debt on graduation could be almost £40,000.¹⁹

The Institute for Fiscal Studies (IFS) estimated the average debt on graduation among the 2012 cohort at £44,000 (2014 prices) compared to just under £25,000 if the pre-2012 system had still been in place. They also estimated that just under three quarters of these graduates would not repay their loans in full, more than double their projected rate under the old system. However, the total real value of repayments will be around 75% more because more graduates will repay their loans for a longer period (mainly high and middle earners).²⁰

The ending of maintenance grants for students from poorer families from 2016 will increase the average debt across all students. Unlike the original 2012 system it is now likely that the average debt on graduation will be highest among poorest students. The IFS has said that ending grants could push up their average debt from around £40,500 to around £53,000 (2016 prices). There will be no impact on students from richer households. They also say that lifting the fee cap will increase overall average debt by around £1,000.²¹

Estimated average debt for new graduates was £15,000 a decade ago. It now stands at more than £40,000 for new students and more than £50,000 for those from the poorest backgrounds

2.3 Who takes out loans?

The latest *Student Income and Expenditure Survey*²² gives more detailed information on loan take-up among different groups in England in 2011/12. The results reported here are for full-time English domiciled students only. 79% of students had taken out a tuition fee loan and the average (mean) value was £3,330 and 74% a maintenance loan with an

¹⁵ *ibid.* Tables 4A(ii) and 4B(ii)

¹⁶ HC Deb 19 March 2007 c703W

¹⁷ HC Deb 26 November 2007 c166W

¹⁸ HC Deb 25 January 2011 c251-2W

¹⁹ Average fee and maintenance awards awarded to students from England in 2013/14. Interest rate calculated from *Simplified student loan repayment model* (December 2013), BIS

²⁰ [Payback time? Student debt and loan repayments: what will the 2012 reforms mean for graduates?](#), IFS April 2014

²¹ [Analysis of the higher education funding reforms announced in Summer Budget 2015](#), IFS

²² BIS research paper number 115, [Student Income and Expenditure Survey 2011/12](#)

average value of £3,730. The chart on [page 97](#) of the report shows the distribution of maintenance loan amounts. Around one-quarter of full-time students received no support from this source, almost half received £2,500 to £4,000 and there was a fairly long 'tail' of students who received amounts above this.

Some of the report's main findings were:

- Across all students, (Fee and Maintenance) loans made up 50% of their total income, well above mean income from paid work (16%), family (14%) or maintenance grants (8%)
- The following groups were significantly less likely to have taken out a maintenance loan:
 - students from a managerial, professional or intermediate (family) background
 - non-first degree undergraduates
 - students living at home
 - London-based students
 - students studying medicine or dentistry and subjects allied to health (where other funding is available)
- Those significantly more likely to take out a maintenance loans were:
 - students from routine and manual (family) backgrounds.
 - those on arts based courses

There were observed differences in take-up propensity by age, ethnicity and some other characteristics, but there were not significant once other factors (especially those listed above) were taken into account. In the previous study (2007/08) family type was found to be a significant factor with higher take-up among those from lone parent families. This result was not found to be significant in the 2011/12 study.

There was much less variation in Fee Loan take-up as nearly all of the students in the survey were under the 'variable' fees regime introduced in 2006/07. Total mean outstanding student loan debt for those at the end of their third year or on single year courses was £10,600 per student. The median was much lower at £7,400.

3. Loan debt and repayment

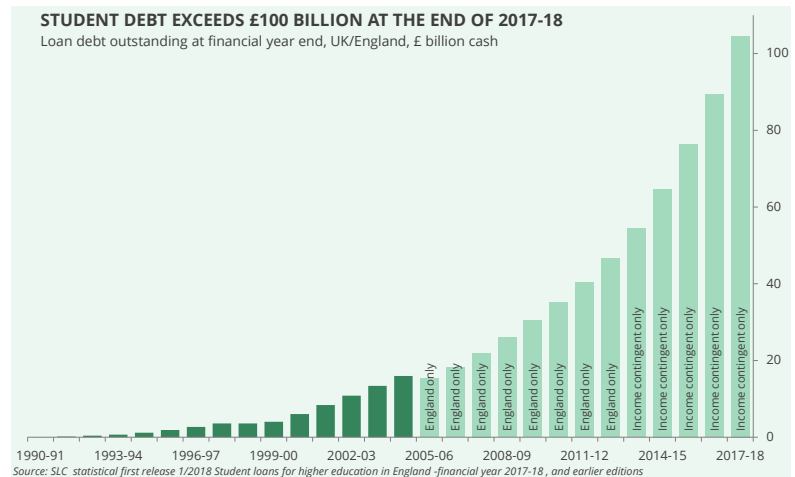
3.1 Total debt

The appended Table 2 shows total student loan outlay and repayments for financial years to 2017-18. Again the later data for is for England only. There is a further discontinuity in the data from 2001-02 as later figures exclude the privately owned debt from 2002. Totals include postgraduate loans from 2016-17 onwards. Trends in public debt only are illustrated opposite.

At the end of 2017-18 total publicly owned debt for English students and EU students studying in England was £104.6 billion. The growth in the total amount owed by students/ graduates is illustrated opposite. It stood at £1.9 billion at the end of 1995-96, £3.6 billion at the end of 1998-99 and £8.4 billion at the end of 2001-02. The increase seen in 2017-18 alone was more than £15 billion.

The sale of the final tranche of mortgage style loans in November 2013 meant that all publicly owned debt at the end of 2013-14 was in income-contingent loans. These are financial year data so only include part of academic year 2012/13 when new students could take out much larger fee loans. Despite this just over one-third of tuition fee loans made in 2012-13 were to post-2012 students.

Loan repayments have been steadily increasing, but were clearly affected by the exclusion of privately owned debt where most accounts were in repayment status. The gap between repayments and interest generally fell between 2002-03 and 2007-08 due to the rising total value of outstanding loans, longer repayment profiles of income contingent loans and higher interest rates. It widened in 2008-09 and grew much more rapidly from 2009-10 as the lower interest rates cut the amount of interest added. Readers should note that the interest added to loans for students who started before 2012 is intended to ensure that the outstanding value of loans retains its real value.



Student loan debt £bn
31.03.2018:

England	£104.6
Scotland	£5.0
Wales	£4.1
N. Ireland	£3.8

Type of loan

The table opposite shows the split between Maintenance and Tuition Fee loans since 2006-07. Maintenance loans fell in 2008-09 in part due to increases in grants. This was reversed in later years due to increases in numbers and less generous grants for new students. As these figures are financial year totals they do not accurately match academic year tuition fee liability, but the growth of lending for fees is very clear. In 2012-13 tuition fee loans made up 51% of the total loaned. This increased to 67% in 2015-16 before falling to 64% in 2017-18 as maintenance loans replaced grants for new eligible students.

Fee loans were made available to part-time students for the first time in 2012. The value of loans to part-time students in financial year 2016-17 was £246 million or less than 2% of fee loans to all post-2012 students.²³

The 2016-17 data include postgraduate loans for the first time. £325 million was lent as Masters Loans in 2016-17; 2.4% of total lending. This increased to £540 million in 2017-18 or 3.6% of total lending.²⁴

Forecasts

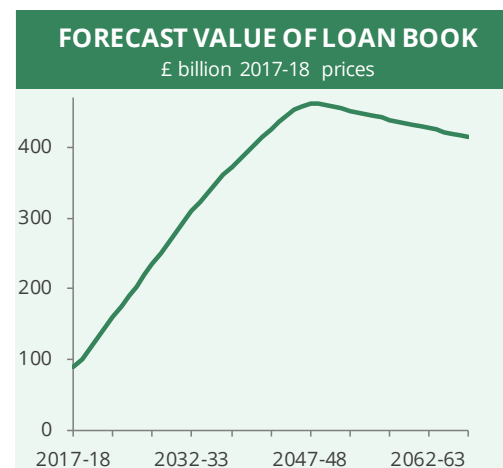
The charts in section 2.1 look show the official projections of loan repayments set against outlays, interest and loan cancellations over the next half century:

- Annual loan outlays are expected to remain around £10-15 billion above repayments for most of the period covered
- Capitalised interest on loans is also expected to be higher than repayments in each year.
- The first substantial impact of cancelled loans will not be seen until the middle of the century

The combined impact of these different financial flows is that the total value of the loan book is forecast to reach more than £1 trillion in cash terms in the mid-2040s and £1.5 trillion by the late 2050s. In 2017-18 prices (see opposite) the total value of the loan book is forecast to exceed £400 billion in the early 2040s and peak at around £460 billion by the end of the decade. After then the value falls in real terms in large part due to the impact of cancelled loans

GROWTH IN LENDING DRIVE BY FEE LOANS				
New lending by type, £ billion				
	Maintenance Loans	Tuition Fee Loans		Total
		English students	EU Students	
2006-07	2.6	0.4	0.0	3.0
2007-08	2.8	1.0	0.0	3.9
2008-09	2.5	1.7	0.1	4.2
2009-10	2.9	2.1	0.1	5.0
2010-11	3.1	2.4	0.1	5.6
2011-12	3.2	2.6	0.1	6.0
2012-13	3.5	3.5	0.1	7.1
2013-14	3.7	5.1	0.2	9.0
2014-15	3.8	6.6	0.3	10.6
2015-16	3.9	7.5	0.3	11.8
2016-17	4.6	8.4	0.4	13.4
2017-18	5.5	9.0	0.5	15.0

Source: SLC statistical first release 1/2018, Student Loans in England: financial year 2017-18 (and earlier)



²³ SLC statistical first release 1/2018 [Student loans for higher education in England - financial year 2017-18](#)

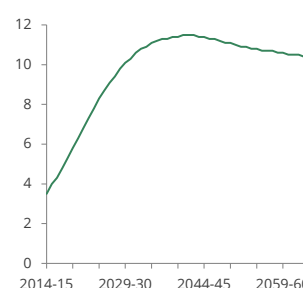
²⁴ *ibid.*

Long-term projections relating to debt

The Office for Budget Responsibility (OBR) does not project the size of the student loan book *per se*, but the additions to net debt from student loans. This represents the cumulative cash flows (spending less repayments) on loans as a proportion of GDP. It is not affected by write offs, loan sales, repayments and interest charges in the same way as the loan book, especially in the longer term. It is, however, another indication of the scale of lending. Their latest projection is that across the UK student loans added 4.0% of GDP to net debt in 2015-16 (around £75 billion). This is all loans, repayments and sales up to 2015-16, not just net lending in that year. This rate is expected to increase rapidly over the next two decades (even with planned loan sales) before peaking at 11.5% of GDP in the early 2040s and declining to 10.4% in the mid-2060s. This increase is driven by English loans made to new students from 2012 onwards.

The 2016 projections for the peak impact on debt are higher than those made in the previous year. This is largely down to policy changes – switching grant to loans, ending some health-related bursaries and replacing them with loans and various other extensions to loan eligibility- although changes to the modelling has increased these further.²⁵

Additions to debt (%GDP)



3.2 Individuals' loan repayment

The following table gives summary data on income contingent borrower activity in 2017-18. It is based on all those who still have student loans accounts outstanding. At the end of the year a total of 3.5 million borrowers, 65% of the total, were liable for repayments. Unlike in previous years the Student Loans Company has not published a breakdown of these people specifying who were actually repaying and who were not earning enough to repay.

STUDENT LOAN BORROWER ACTIVITY, FINANCIAL YEAR 2017-18, ENGLAND

	Number (000s)	Percentage of all borrowers
All borrowers at end of financial year	5,699	..
-Borrowers with accounts in repayment or being closed at year end	3,459	65
-Borrowers with accounts not liable for repayment	1,806	34
-Accounts closed: Repaid in full	668	13
-Accounts closed: Loan cancelled	5	0

Parts may not sum to totals as individuals may have loan accounts in more than one status

Source: SLC statistical first release 1/2018 Student loans for higher education in England -financial year 2017-18

Some limited historical data are available on bankruptcies and Individual Voluntary Arrangements (IVAs). These only cover students who notified the Student Loans Company of this while they were studying and hence exclude anyone with a student loan who became bankrupt or had an

²⁵ [Fiscal sustainability analytical paper: Student loans update](#), OBR (2016)

IVA after they graduated. The total number bankrupt or with IVAs in England increased from 10-20 a year in the late 1990s to 110 in 2004. The *Higher Education Act 2004* included provisions to prevent student loans being written off by bankruptcy. There were 30 IVAs amongst this group in 2005 and 20 in 2006. Over this period there were large increases in the number of bankruptcies and IVAs across the whole population.²⁶ Regulations were changed in 2010 to exclude Student Loans debt from IVAs.

Repayment by cohort

The Student Loans Company has started to publish data on repayments of income contingent loans by the year in which they became liable to repay their loans (the April after graduation or leaving their course). The latest data look at repayment cohorts up to 2016 and give limited information for the 2017 and 2018 cohorts who have no full tax year processed yet.²⁷ 53% of students in the first large repayment cohort²⁸ (2002) had repaid their loan; this fell off to 15% of the 2010 cohort and 5% of the 2012 cohort. The likelihood that a borrower was working, but earning below the threshold was clearly higher for more recent graduates; 36% for the 2016 cohort falling to 13-14% for the 2008 and earlier cohorts. The proportion who were in the UK tax system but not working was 6-7% for the more recent and 5-6% for earlier cohorts. A further 5-6% were known to be in the UK but with a status not requiring repayment.

There was a large jump in the average amount owed by those who first became liable to repay from 2010. These cohorts were the first to mainly consist of students who had taken out fee loans for variable fees. The average amount owed by the 2009 cohort (when first liable to repay) was £11,800, £14,700 for the 2010 cohort, £16,200 for the 2011 cohort, rising to a provisional figure of £32,400 for the 2017 cohort. The first large cohort of borrowers who took out loans under the post-2012 system was the 2016 cohort, but the average is lower than might be expected as it includes borrowers under the pre-2012 arrangements and part-time students. The provisional figure for the 2018 cohort was £34,800.

There is a shift over time from those repaying to those who have repaid as we might expect. The cohort data shows, a relatively rapid increase in the number repaying within a cohort over the first few years of potential repayment followed by much less variation and a gradual decline in numbers as more repay their loans in full. The average value of repayments continues to increase in each year and hence totals also increase. This suggests that it is only in the first few years after leaving higher education that large numbers of borrowers start repaying. Relatively few only start earning above the repayment threshold three,

²⁶ HC Deb 7 March 2008 c2900W

²⁷ SLC statistical first release 1/2018 [Student loans for higher education in England - financial year 2017-18](#)

²⁸ The year refers to when the first become liable to repay. This is the April after the completion of their course. Hence the 2002 cohort will have completed in 2001.

four, or more years later and even then their numbers are balanced by those who stop repaying for one reason or another. It may be some time before any longer term patterns become clear, particularly shifts from non-payment to payment.

4. Loan interest rates levels, the 'low interest cap' and the zero interest rate

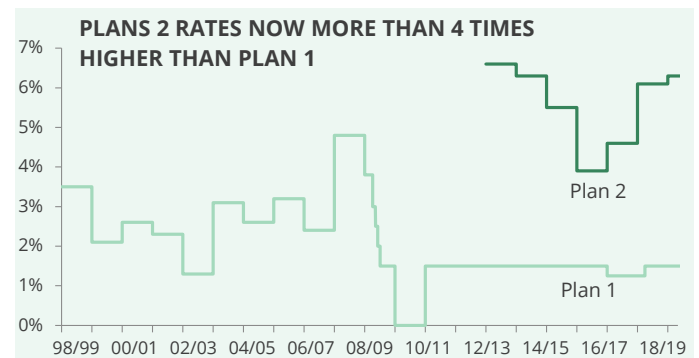
Variations in the interest rates on income contingent loans are illustrated opposite.

4.1 Pre-2012 (Plan 1)

The interest rate in 2007/08 was 4.8%, the level of all-items RPI inflation in financial year 2006-07. This was the highest annual rate since 1991/92.²⁹ The rate for 2008/09 was initially set at 3.8% reflecting the fall in inflation in 2007-08. However, the legislation

also required that interest rates for income contingent loans should not exceed one percentage point above the highest base rate of a specified group of major banks. The so-called 'low interest cap'. The large falls in Bank of England base rates meant that this cap was used for the first time. The interest rate on income contingent loans was reduced in stages to 1.5% during the year. Interest rates were only lower in 1993/94 and 2002/03.^{30 31 32}

The all-items RPI was -0.4% in the year to March 2009. The (then) current regulations stated that *if* an interest rate is to apply to these loans then this will be the rate for the year from 1 September 2009.³³ In the past the then Government stated that it had 'no plans to abandon the consistent use of RPI in calculating interest on student loans'.³⁴ It subsequently decided that no interest rate (0%) was to apply to income contingent student loans in 2009/10. The small numbers of remaining mortgage-style loans were solely linked to RPI and hence their interest rate was -0.4%.³⁵ Having no interest on student loans does not affect monthly repayments of those with outstanding income contingent loans. Repayments are based on income, not the interest rate. The cut to 0% would slightly reduce the loan period/total repayments for those who completely paid off their loans in year, but this applies to *any* cut in



During 2008/09 interest rates cut to:
3% on 4 December
2.5% on 9 January
2.0% on 6 February
1.5% on 5 March

²⁹ Facts & Figures, Student Loans Company http://www.slc.co.uk/statistics/facts_figures.html

³⁰ *ibid.*

³¹ HC Deb 26 January 2009 c268W

³² *Income Contingent Loans (ICL) - Maximum Loan Rates*, SLC

³³ *The Education (Student Loans) (Repayment) Regulations 2009*, (SI 470 2009) : http://www.opsi.gov.uk/si/si2009/uksi_20090470_en_3#pt2-l1g21

³⁴ HC Deb 9 July 2008 c1716W

³⁵ Student Loans Company Repayment site, *Interest rate for Income Contingent Loans*, http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,3866911&_dad=portal&_schema=PORTAL

interest payments. The impact on other borrowers will depend on how interest rates on student loans and hence RPI vary in future years. If inflation jumps up to above the long-term trend then any advantage they might have gained would be lost.³⁶ This effect could be reduced by the continued operation of the low interest cap.

The all-items RPI increased by 4.4% in the year to March 2010. This meant that the interest rate on the relatively small number of mortgage style loans was 4.4% in academic year 2010/11. RPI inflation was 5.3% in the year to March 2011, 3.6% in the year to March 2012 and 3.3% to March 2013.³⁷ The interest rate on these loans therefore increased to 5.3% in 2011/12 and fell 3.3% in 2013/14. The rate for income contingent loans depends on whether the low interest cap still applies and hence on decisions by the Monetary Policy Committee of the Bank of England. These were cut further to 0.25% in August 2016 and therefore interest rates on Plan 1 loans is now 1.25%. The Bank of England base rate was increased to 0.5% on 2nd November 2017 and the plan 1 rate subsequently increased to 1.5% from 1 December.

Any further changes to base rates during would normally mean immediate changes in the student loan interest rate. Such variations potentially change the *duration* of the loan, not the monthly repayments which depend on income.

4.2 Post 2012 loans (Plan 2)

With no 'low interest rate cap' and rates set at RPI +3% the Plan 2 interest rates have been much higher: 6.6% in 2012/13, 6.3% in 2013/14, 5.5% in 2014/15, 3.9% in 2015/16, 4.6% in 2016/17, 6.1% in 2017/18 and 6.3% in 2018/19.

More detail in loan interest rates can be found in the briefing paper [Student loan interest rates FAQs](#)

5. Student loan sell offs

Mortgage-style loans

Two sales of the student loan portfolio of around £1 billion each were made in 1998 and 1999. Both consisted of mortgage-style loans only. Borrowers faced exactly the same repayment conditions. As the interest rate of student loans is below market level the DfES agreed to pay a subsidy to the purchaser to reflect this and make the purchase attractive to the private sector. The difference between this and the cost that the DfES would have incurred is the net cost of the sell off. At the time of the 1998 and 1999 sales the estimated net present values of these

³⁶ If the current negative inflation rate is simply a blip then any gain in 2009/10 will be lost for those who repay in later years. If there is no steep upward increase in prices after the period of deflation, but a direct return to long term levels of inflation, then all who eventually repay their loans would gain compared to steady trend inflation/interest rates.

³⁷ ONS series CHAW

payments over the lifetime of the loans were £50 million and £85-100 million respectively.³⁸

The subsequent cut in the Treasury discount rate from 6.0% to 2.2% since the time these calculations were made would increase these net present value figures (the public sector comparator becomes cheaper). A written answer gave an updated estimated cost for both portfolios combined for England and Wales. This revised the original estimates using a more up-to-date discount rate of 3.5%, the actual performance of loans since they were sold and new projections of performance. This concluded that the net cost in 1998-99 net present value terms was £125 million.³⁹

A plan to sell off the last remaining mortgage-style loans was announced in March 2013.⁴⁰ On 25 November 2013 the Government announced that the last £890 million of outstanding mortgage-style loans had been sold for £160 million.⁴¹

Income contingent loans

Plans for loan sell offs totalling £6 billion over the period 2008-11 were announced in Budget 2007.⁴² More detail is given in the Library Research Paper [Sale of Student Loans Bill](#). The Government said in late June 2009 that (current) market conditions did not allow sales to make a good return for the taxpayer and they would look for sale opportunities when market conditions improved.⁴³ The current Government announced in the Higher Education White Paper that:⁴⁴

We want to find a solution that will manage all current and future ICR [income contingent repayment] loans on an ongoing basis (unlike the one-off sales of the late 1990s).

The intention to sell off income-contingent loans was re-iterated in the [2013 Spending Round](#). More detail was given in the [Autumn Statement 2013](#). Sales of pre-2012 income-contingent loans were expected to start before the end of financial year 2015-16. These would be in a number of tranches and the estimated that gross proceeds are expected to be in the range of £10-15 billion, with a central estimate of £12 billion. The proceeds were said to more than cover the costs of removing the cap on student numbers from 2015-16 which was also announced in Autumn Statement 2013. The central estimates of the cash proceeds from the loan sales over five years were above the Government's estimate of the cash cost of removing the cap over the whole period 2013 to 2018.⁴⁵ However, sales of pre-2012 loans cannot go on indefinitely and even if it were assumed that pre-2012 loan sales continued (as far as possible) it is highly likely that the cumulative

The earliest any sales of income contingent loans are now expected is early 2017; a decade after plans were first announced.

³⁸ HC Deb 5 March 1998 c 749-5W; HL Deb 9 March 1999 cc20-21WA

³⁹ HC Deb 12 July 2007 c1609-10W

⁴⁰ BIS press notice 26 March 2013, [The government launches process to sell off the last remaining publicly-owned mortgage-style student loans](#)

⁴¹ BIS press notice 25 November 2013 [Sale of mortgage style student loan book completed](#)

⁴² *Budget 2007*, HM Treasury

⁴³ HC Deb 30 June 2009 c147W

⁴⁴ *Higher Education. Students at the heart of the system*, BIS June 2011 (Cm 8122)

⁴⁵ *Autumn Statement 2013*, HM Treasury. Table 2.5

proceeds would be less than the cumulative cost of the policy within a decade.⁴⁶ If these costs still had to be met through loan sales at that point then sell offs would need to move to the post-2012 loan book.

The Institute for Fiscal Studies made the following comments after the Autumn Statement:⁴⁷

...in his speech the Chancellor claimed that the additional cost of student loans arising from lifting the cap on the number of students in higher education would be “financed by selling the old student loan book”. This may work in the near-term fiscal numbers, but economically it makes little sense. Selling the loan book will be broadly fiscally neutral in the long run, bringing in more money now at the expense of less money later on. Lifting the cap on numbers will cost money every year.

A report by the Business, Innovation and Skills Select Committee expressed concern about the amount which the loan sales might raise and the link between these proceeds and the expansion of student numbers:⁴⁸

The Government appears to have committed itself to the sale of the income contingent loans before it has fully assessed the financial viability of such a move. Demand for these assets is untested and without the introduction of a synthetic hedge would only realise around £2 billion of the £12 billion return expected by Government. While demand would increase with the introduction of a synthetic hedge, this would come with an additional long-term cost to Government, which has yet to be quantified.

[...]

Given that the Chancellor of the Exchequer has linked the removal of the student numbers cap to the sale of the income-contingent loan-book, we seek clarification from the Department whether the removal of the cap is dependent on the sale of the loan book.

If the policy is not dependent on the sale, the Government must set out in its response where it will raise the £5.55 billion between now and 2018–19 required to remove the cap without putting an additional burden on the taxpayer

⁴⁶ The cost of the policies is the sum of the cash value of new loans and direct spending on additional students, plus the value of lost repayments from loans which are sold. This calculation assumes that the gross proceeds estimates in the Autumn Statement are met and further tranches are sold with gross proceeds of £2.5 billion per year after 2019-20. Cumulative gross costs are larger than cumulative gross proceeds by 2023-24 with an assumed 40% write down on all loan sales. Changes in the write-down rate have a large impact on the total proceeds.

⁴⁷ [Autumn Statement 2013: Introductory Remarks](#), IFS

⁴⁸ [Student Loans](#), Business, Innovation and Skills Select Committee, third report of 2014/15

In July 2014 the then Secretary of State was reported to have ruled out any sale of these loans (in this Parliament) because recent evidence suggested there was "...no longer any public benefit..." to the sales.⁴⁹

The coalition Government subsequently said that the expansion of student numbers had been agreed with the Treasury and "Student numbers are not contingent on the sale..."⁵⁰ The Government's response to the Business, Innovation and Skills Committee report on student loans reiterated this. It also added that the £5.5 billion additional loan outlays (up to 2018-19) needed for the expansion was "fully funded".⁵¹

In their long-term fiscal projections the Office for Budget Responsibility (OBR) has said that so long as these loans are sold at a 'fair' value the expected return (on these assets) to the Government at the point of sale would be zero. In other words the sale price is equal to the present value of the lost future repayments. Selling loans at a fair price would only affect the *flow* of receipts not their present value.⁵²

Summer Budget 2015 stated that the Government intends to sell the first tranche of income contingent loans by the end of 2015/16. The Spending Review and Autumn Statement 2015 put this back to 2016/17.⁵³

The Autumn Statement 2016 said the Government intends to launch the first sale in early 2017 "...subject to market conditions"⁵⁴. The OBR's Economic and Fiscal Outlook, published alongside the Autumn Statement, said they continue to expect that around £12 billion will be raised through these loan sales. They have changed the forecast timings of these proceeds. They judge that there is a less than 50% change the first sale will happen in 2016-17 and now assume the first and second sales can both take place in 2017-18.

In early February 2017 the Government announced it had begun the process to start the first sale.⁵⁵ On 6 December 2017 the Government announced that it had sold the first tranche of Plan One loans for £1.7 billion.⁵⁶ Soon after they published a [formal report](#) on the sale. The Treasury Select Committee looked at the issue of value for money of these sales in their report [Student Loans](#) (p9-).

The longer term fiscal impact of loan sales will be neutral if they are sold at a 'fair' price. The main effect is on timing with sales realising the value of repayments sooner rather than later.

⁴⁹ [Student loans sell-off abandonment raises tension in cabinet](#), The Guardian 20 July 2014

⁵⁰ PQ HL1512 [on Higher and further education: Admissions], 11 August 2014

⁵¹ [Student Loans: Government Response to the Committee's Third Report of Session 2014-15](#), BIS Select Committee second special report of session 2014-15

⁵² [Fiscal Sustainability Report – July 2014](#), OBR

⁵³ [Spending Review and Autumn Statement 2015](#), p.74

⁵⁴ [Autumn Statement 2016](#), HM Treasury. para 1.66

⁵⁵ [Government launches first sale from the student loan book](#), Department for Education, HM Treasury and Student Loans Company, February 2017

⁵⁶ [Written statement HLWS313](#) [on Government asset sale] 6 December 2017

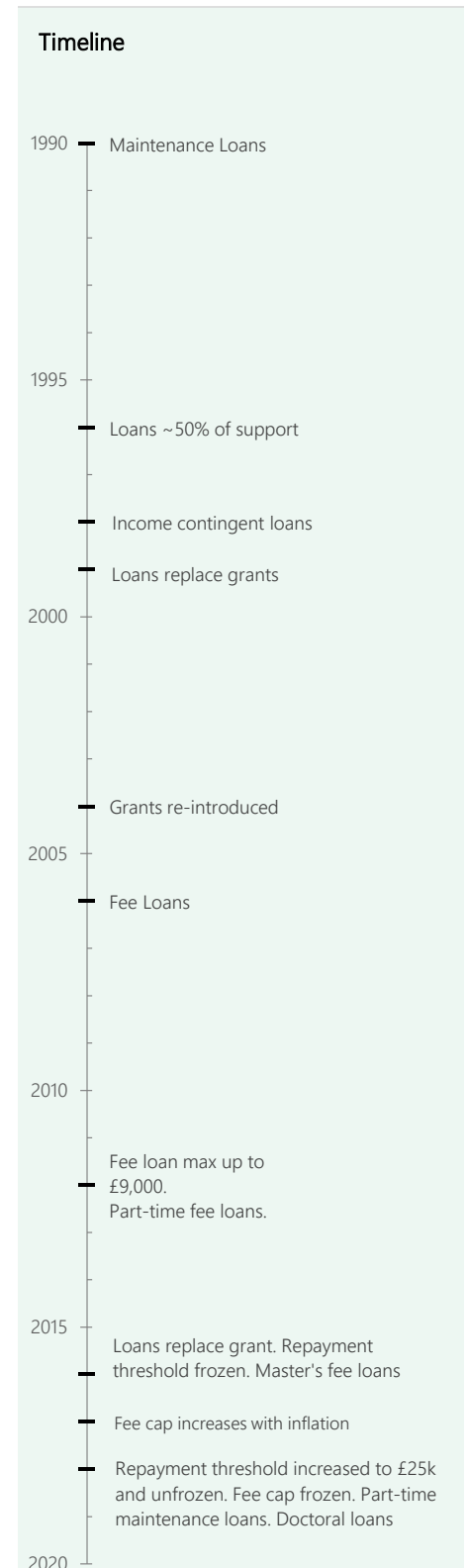
6. Student loans background - in full

6.1 Pre-2012

Student loans first became part of the student support package in 1990/91. In that year students could take out a maximum⁵⁷ of £420 or around one sixth of the maximum amount of public support. Over the following years their value was increased at the expense of grants and stood at just under 50% of the maximum support level in 1996/97.⁵⁸ Student loan interest rates for those loans and all those to pre-2012 students are set in line with inflation and hence have a zero real interest rate. Repayments of loans taken out before the late 1990s were made on a 'mortgage-style' system. They became repayable from the April after the student finished higher education when their gross income exceeded the threshold of 85% of national average earnings. If their income stayed above the threshold then repayments were made over 5 years in 60 equal monthly instalments;⁵⁹ hence 'mortgage-style'.

The Government gradually introduced new arrangements for students starting in autumn 1998 (academic year 1998/99). In the first year new entrants received support through loans and grants. The maximum maintenance grant available was £1,000 less than that for existing students. This was compensated for by a matching increase in loan entitlement. Most new entrants were also expected make an income-assessed contribution of up to £1,000 a year to the cost of their tuition. From 1999 new entrants and those who started in 1998 received all maintenance support as loans which were partly income-assessed. A different repayment system operates for loans for new students from 1998. These are income contingent repayments where graduates repay 9% of gross income annual above £10,000.⁶⁰ This threshold was raised to £15,000 in April 2000. The last Government planned to receive this level in 2010, but did not alter its level. The Coalition Government announced that the repayment thresholds for students with income contingent loans who started higher education *before* 2012/13 would be increased in line with inflation until 2016.⁶¹

Further changes in the student finance system were introduced in 2006/07 when new students attending institutions in England and Northern Ireland could be charged variable fees of up to £3,000. New students could take out a tuition fee loan to cover the cost of these fees. This means that upfront payment of tuition fees would



⁵⁷ Maximum for a full year student living away from home and outside London.

⁵⁸ DfEE statistical first release 48/2000 *Student support: statistics of student loans for higher education in United Kingdom -financial year 1999-00 and academic year 1999/00*

⁵⁹ If 5 or more loans are taken out repayment is made over 84 months.

⁶⁰ *Investing in the future: Supporting students in higher education*, DfEE

⁶¹ *ibid.*

effectively be abolished for new students. This option was also available to cover the (fixed) fees of students who started before 2006/07. New lending from 2006/07 was subject to a 25-year maximum term after which they are written off. Previously the age related write-off was at 65.

New students in 2006/07 in England were also eligible for a new income-assessed Maintenance Grant of up to £2,700. Unlike some earlier support this reduced the amount of maintenance loan someone was eligible for. In summer 2007 the Government announced changes to a number of the income thresholds for new students from 2008/09. These should mean that more students receive some Maintenance Grant. They also announced student loan 'repayment holidays' of up to five years for these students.⁶²

In 2009/10, 2010/11 and 2011/12 the maximum maintenance loan for a student living away from home outside London was £4,950 (assuming they were not eligible for any maintenance grant). With a maximum tuition fee loan this gave a theoretical maximum in 2011/12 of £8,325, or £10,303 in London. In practice the actual maximum that most students could take out was less as around one quarter of the maintenance loan is income assessed and those in receipt of the Maintenance Grant will have their loan eligibility reduced by between £1,300 and £1,450 depending on the year they started. This maximum was increased to £5,500 for new students in 2012/13, kept at this level in 2013/14 and increased over the following two years to £5,740 in 2014/15.

6.2 Changes in loan amounts and repayment terms from 2012/13

The Government set out its proposals for higher education funding and student finance on 3 November 2010. This will affect new students starting in England from 2012/13. Alongside an increase in the fee cap to £9,000 and a related cut in direct public funding for tuition there were a the following proposed changes to student loans:⁶³

- An increase in the earnings threshold to £21,000
- A real interest rate of will start to be charged when income is above the earnings threshold reaching a maximum of 3.0% above inflation when earnings reach a new higher earnings threshold of £41,000.
- The interest rate will be inflation plus 3.0% for students while they are studying and up to the repayment date (April following graduation)
- Both earnings thresholds will be increased annually in line with earnings
- The length of time before all debts are written off is extended from 25 to 30 years
- Extension of fee loans to part-time students

Repayments will remain at 9% of income above the threshold.⁶⁴

⁶² DIUS press release 5 July 2007 *Increased support for students in higher education*

⁶³ [Reform for higher education and student finance](#), BIS (3 November 2010)

⁶⁴ More detail and analysis is included in the note [Changes to higher education funding and student support from 2012/13](#)

The impact of these changes on graduates is expected to be larger average loans, lower *monthly* repayments, an large increase in the average duration of a loan, increased average repayments across the lifetime of the loan (with the largest increases coming from the highest earners) and an increase in the proportion of graduates who have some of their loan written off from around 15% for pre-2012 borrowers to around 60%.⁶⁵

The Education Act 2011 made provision for above inflation interest rates. It also meant that there would be no low interest cap linked to bank base rates for new students from 2012/13. The Government has said:⁶⁶

The Education (Student Loans) (Repayment) Regulations state that for the current income contingent repayment (ICR) scheme (loans taken out prior to September 2012), the rate of interest will be the lower of the retail prices index (RPI) or the bank base rate (for a specified group of banks) plus 1 per cent. As the current bank base rate (0.5 per cent) plus 1 per cent is lower than the March 2011 RPI (5.3 per cent), the interest cap has taken effect.

[...]

Under the new repayment scheme (post-September 2012 ICR loans), the interest rate will vary with the borrowers income, starting at RPI for those earning £21,000 or less, up to a maximum of RPI + 3 per cent for those earning £41,000 and above. There are no plans to limit either the additional 3 per cent rate of interest, where it applies, or the retail prices index-based level of interest.

The legislation also requires that interest rates for new students do not exceed those commercially available.⁶⁷

Regulations setting out provisions for student loan repayments for post-2012 student loans were laid before Parliament in May 2012.⁶⁸ These confirmed the earlier announcements about loan interest rates, thresholds, timing of repayments etc. and gave more detail about certain exceptions and repayments from non-UK residents. They introduced the terms 'standard interest rate' for the element linked to RPI and 'additional interest rate' for the variable element paid on top of this for those earning between the lower and higher interest thresholds. Borrowers earning above the higher interest threshold pay the standard rate plus 3%, as do those still studying or who have not reached their Repayment Due Date (April after the end of their course).

This means that as the low interest cap no longer applies students who started in 2012/13 are charged an interest rate that is three percentage points higher than RPI. As the all-items RPI increased by 3.6% in the year to March 2012 new students were charged 6.6% compared to 1.5% (under the low interest cap) for students who started before 2012. This gap will fall if base rates increase, but this is not expected to

⁶⁵ *Simplified student loan repayment model* (December 2013), BIS

⁶⁶ HL Deb 15 September 2011 c88-89WA

⁶⁷ Education Bill 2011 – Explanatory Notes

⁶⁸ [Education \(Student Loans\) \(Repayment\) \(Amendment\) \(No.2\) Regulations 2012](#) (SI 1309 2012)

happen in the near future. As the RPI increased by 3.3% in the year to March 2013 post-2012 students were charged an interest rate of 6.3% (RPI+3%) in 2013/14, 5.5% in 2014/15, 3.9% in 2015/16 and 4.6% in 2016/17, 6.1% in 2017/18 and 6.3% in 2018/19. The interest rates for pre-2012 (Plan 1) and post-2012 (Plan 2) borrowers are illustrated in the chart in section 1.1. Average loans are considerably larger for new students so the absolute amount of interest added to their outstanding debt will be larger still.

The Government has also said that the repayment threshold for existing borrowers with income contingent loans and students who enter before 2012 will be retained at £15,000 until 2016, after which it will be increased in line with inflation until 2016.⁶⁹

6.3 Summer Budget 2015 reforms

In summer Budget 2015 the Chancellor announced that maintenance grants would be replaced in full by loans for new students in England from 2016/17.⁷⁰ He also announced consultations on freezing the repayment threshold for five years, allowing some universities to increase fees in line with inflation from 2017 and a review of the discount rate applied to loans in the public finances. The Budget said:⁷¹

Since 2010 student participation has increased and there is now a higher proportion of students from disadvantaged backgrounds applying to and entering higher education than ever before...

[...]

But the expansion of higher education relies on funding being put onto a sustainable footing. The government must therefore ask graduates to meet more of the cost of their degrees once they are earning. From the 2016-17 academic year, maintenance grants will be replaced with maintenance loans for new students from England, paid back only when their earnings exceed £21,000 a year, saving £2.5 billion by 2020-21. To ensure that the long term costs of the student loan book remain affordable and transparent, the government will consult on freezing the loan repayment threshold for five years and review the discount rate applied to student loans and other transactions to bring it into line with the government's long-term cost of borrowing.

Driving up the quality of higher education is also important, and this Budget announces a number of measures to address this. These include allowing institutions offering high teaching quality to increase their tuition fees in line with inflation from 2017-18, with a consultation on the mechanisms to do this.

There are the most important changes to student finance since 2012. Ending grants means that loans will become by far the most important element of the full range of higher education funding. It will increase the average loans of those who would otherwise have received a full or partial grant. Freezing the repayment threshold will increase the repayments of middle/lower earning graduates (regardless of increases in loans). Increasing the Fee Loan cap will also increase loans for those

Summer Budget 2015 changes:

- End grants
- Freeze (effectively lower) repayment threshold
- Increase fees cap
- Lower discount rate

⁶⁹ *ibid.*

⁷⁰ See Library briefing paper [Value of student maintenance support](#) for more detail.

⁷¹ [Summer Budget 2015](#), HMT

at the institutions affected, but the impact will be smaller than the loss of grants. Changes to the discount rate affect Government accounting, not individual borrowers.

The Government published a consultation on [freezing the loan repayment threshold](#) in July 2015. This set out two options for change:

- Option 1 (preferred): Freeze the threshold at £21,000 from April 2016 for all existing and new borrowers for five years. Reviews the threshold from April 2021
- Option 2: Freeze the threshold for new borrowers only for five years from April 2020

Freezing the repayment threshold increases repayments by the largest absolute amount among middle earners and by the largest proportionate amount among the lowest earning graduates

The Government published its response to the consultation in November 2015.⁷² It accepted that most responses did not support freezing the threshold, but said it would implement its preferred option –freeze the repayment threshold for all post-2012 borrowers at £21,000 until at least April 2021. An [equality analysis](#) was published alongside the consultation response.⁷³ This looked at the impact on different types of ‘protected characteristics’ such as age, sex, disability and ethnicity.

Potential impacts on borrowers

As grants are income assessed and loans partly so the biggest impact of the loss of grants will be on students from the lowest income households. As the planned increase in maintenance loan is greater than the value of the maximum grants they will see their *total* maintenance support increase by the greatest amount –almost £800- compared to 2015/16 starters. Their maximum *loan* eligibility over a three year course could be around £12,000 higher. Their debt on graduation could be around £13,500 higher (with interest) if they take up their full loan entitlement. Those who would have been on a partial grant will see smaller changes, while students from the highest income households will only see their loan increase in line with inflation.⁷⁴

The individual *financial* impact of the shift from grants to loans depends on how much the student earns as graduates. If they are among the majority who are currently not expected to repay their loan in full then there is no financial impact. They still will not repay after grants are abolished; loan repayments remain unchanged. If they would have repaid their (smaller) loans under the current system then higher loans mean greater loan repayments, but not until much later in life (the date at which they would repay in full under the current system).

IFS analysis

The Institute for Fiscal Studies (IFS) estimated the average increase in loan repayments due to this change will be just under £2,000 (2016 prices) across all graduates. Those from the poorest 30% of households will repay an average of around £3,000 more. They also point out that the cost of this will fall on graduates from lower income families who

⁷² [Freezing the student loan repayment threshold Government response to the consultation on freezing the student loan repayment threshold](#), BIS (Nov 2015)

⁷³ [Freezing the student loan repayment threshold. Equality analysis](#), BIS (Nov 2015)

⁷⁴ [Higher education: student finance changes](#), BIS new release 9 July 2015

go on to become higher earners. Those from the richest households will see no change. Overall they expect around 35% of those previously entitled to a full grants will see higher loan repayments.⁷⁵

Freezing of the repayment threshold will increase graduate loan repayments and hence the likelihood that graduates will repay in full. It has a proportionately larger impact on repayments by graduates with lower lifetime earnings. As there is some link between lower household income and lower graduate earnings⁷⁶ this change is also likely to have a greater impact on students from poorer backgrounds.

The IFS estimates that a five year threshold freeze would increase average repayments by almost £4,000 on top of the increase due to the loss of grants (around £5,500 in total). It is middle income earners who they expect to be hardest hit by the threshold freeze. Those graduates who earn enough to make some repayments, but not enough to repay their loans in full under the current system.

Government analysis

Key estimates of the impact of freezing the threshold, published as part of the [equality analysis](#), for the graduate population as a whole were:⁷⁷

- An extra 9% of will make some repayments
- A 'median borrower' will repay around £300 more per year, those on higher earnings will face the same overall annual increase in repayments
- The average present value of additional lifetime repayments will be in the £2,600 to £2,800 region
- The proportion of post-2016 borrowers repaying their loans in full will increase from 38% to 45%
- The largest increase in lifetime repayments in absolute terms is among middle earners (for graduates)
- The largest increase as a proportion of earnings is among lower earners

The analysis by 'protected characteristics' concluded that the average increase in repayments would be greater among women than men. There was no difference in impact by age. The evidence for disabled graduates and those from a minority ethnic group was less robust, but, when taken together, suggested that both groups earn less than other graduates are therefore more likely to be among middle earners –those who will face the largest absolute increase in repayments.

⁷⁵ [Analysis of the higher education funding reforms announced in Summer Budget 2015](#), IFS

⁷⁶ See for instance [Economic and Fiscal Outlook July 2015](#), OBR

⁷⁷ [Freezing the student loan repayment threshold. Equality analysis](#), BIS (Nov 2015)

The report went on to consider the possible impact on participation among these groups. It cited research which finds that the level of the threshold is viewed as one of the most important features of the student finance package. Potential students from lower socio-economic groups, women and those aged over 21 were more likely to say that the threshold was an important element in their decision to apply to university. However, the report says the research does not distinguish between whether the existence or the level of the threshold that is important. A hypothetical increase in the threshold had "...only a small impact" on intention to go to university, although it was higher among women, ethnic minorities, disabled people and those from lower socio-economic groups. It concluded overall:⁷⁸

Overall, our judgement is that across most parts of the student population it is likely that while the change in repayment threshold may have a negative impact on participation, it is likely to be very small.

The following on women and older students:⁷⁹

...within what we judge to be a low overall risk, the risks to female participation are slightly higher than they are for males.

...effectively increasing the cost of higher education (through freezing the threshold) is more likely to have a negative impact on older people's higher education participation compared to their younger counterparts.

Conclusions for disabled people and ethnic minorities were the same:⁸⁰

Effectively increasing the cost of higher education for students from this group (through freezing the threshold) could potentially have a negative impact on their participation in higher education as the perception of increased debt could affect their participation decision. However, in the context of the evidence discussed above, we believe this risk is likely to be relatively small.

The Government accepts that freezing the threshold presents an 'elevated' risk to participation among women, mature students, disabled people and minority ethnic groups. It is said to be low and uncertain in each case

⁷⁸ *ibid.* p.61

⁷⁹ *ibid.* p.62

⁸⁰ *ibid.* p.63

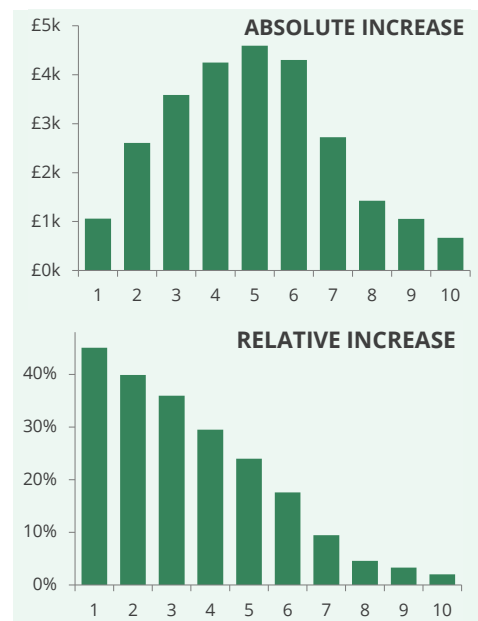
Impact of freezing the threshold by level of graduate earnings

The table below and charts opposite show the results of Government modelling of what they expect the additional repayments will mean by decile (10% band) of lifetime earnings. It is important to note that this is the breakdown by what *graduates* earn not household income of students which was not modelled and would be much harder to do so.

These clearly show that middle earning graduates are expected to have to make the largest increase in repayments in absolute terms, but the lowest earning graduates will see the greatest impact as a proportion of their lifetime earnings. All figures in the table are presented in net present value (discounted) terms.

MIDDLE EARNING GRADUATES SEE LARGEST ABSOLUTE INCREASE IN REPAYMENTS					
Modelled impact of freezing the repayment threshold, £ 2016 values					
Decile	Average Annual Lifetime Earnings	Lifetime repayments		Increase in lifetime repayments	
		Current system	Freeze threshold for 5 years from 2016	£	%
1	£7,269	£2,353	£3,413	£1,060	45%
2	£15,267	£6,540	£9,149	£2,609	40%
3	£20,023	£9,980	£13,569	£3,589	36%
4	£23,514	£14,413	£18,662	£4,249	29%
5	£26,599	£19,162	£23,756	£4,594	24%
6	£29,774	£24,441	£28,741	£4,300	18%
7	£33,135	£28,883	£31,606	£2,723	9%
8	£37,184	£31,010	£32,435	£1,425	5%
9	£43,332	£32,065	£33,118	£1,053	3%
10	£57,683	£33,041	£33,708	£667	2%
All	..	£20,189	£22,816	£2,627	13%

Source: Freezing the student loan repayment threshold Equality analysis, BIS (figures 11 and 12)



Potential impacts on the public finances

The Government has estimated that ending grants and replacing them with loans will save £2.5 billion by 2020-21.⁸¹ This doesn't include the cost of replacing them with loans. The IFS has estimated the savings at £2.0 billion per year (2016 prices), but focus on the long-run cost to Government which includes the subsidy element of loans. When this is included they put the saving from ending loans at around £0.3 billion. This increases to £1.4 billion after the proposed threshold freeze and higher fee cap are included. The amount of *cash* paid out by Government actually increases by almost £2 billion, but this is more than offset by higher graduate repayments.

Adding a potentially lower discount rate (used to score loan subsidy against public spending) has a 'dramatic effect' in the example given by the IFS. A cut from a real rate of 2.2% to 1.1% increases the value of future graduate repayments (they are discounted less), and the hence total savings, from around £1.4 billion to £3.9 billion.⁸² It is important to

⁸¹ [Summer Budget 2015](#), HMT

⁸² [Analysis of the higher education funding reforms announced in Summer Budget 2015](#), IFS

realise that changes to the discount rate have *no impact* on the amount individual graduates repay in the future, only how these financial flows are expressed in today's prices/values.

The Government's consultation on freezing the repayment threshold estimated that if it were frozen in 2016 for five years for all borrowers then it would generate £3.2 billion in current/discounted values in additional graduate repayments from existing borrowers from 2016. On top of this one-off amount would be an additional £0.9 billion for each £15 billion of loans to new students.⁸³ This is the preferred option. Under Option 2 only the amount for new students (put at £1.0 billion per £15 billion of loans) would apply.⁸⁴

6.4 Prime Minister's October 2017 announcement on student finance

On 1 October 2017 the Prime Minister announced that there would be changes to the student finance system: the fee cap would be frozen at £9,250, the repayment threshold would rise to £25,000 and a there would be a review of the student finance system. More detail and analysis can be found in the briefing paper [Prime Minister's announcement on changes to student funding](#)

7. International comparisons

The OECD has made some comparisons of different aspects of student loans. The most recent mainly cover arrangement in 2014/15. The complexity of loan systems in many countries means that direct comparisons are not straightforward. Full detail can be found [here](#) (indicator B5). In general UK (English system) interest rates on loans were somewhat higher than typical rates. The annual average loan amount was higher than that in any other country with data on the subject, as was the proportion of students taking out loans. Annual income repayment thresholds (where they exist) are generally lower elsewhere than the income contingent threshold for the UK.

⁸³ This volume of loans is approximately the amount that might be lent to each cohort of new students.

⁸⁴ [Consultation on freezing the student loan repayment threshold](#), BIS (July 2015)

8. Student loan interest subsidies –who benefits?

Broadly speaking the terms of student loans are favourable to borrowers in two ways. First the interest rate is subsidised. Second the loan is currently written off after 25 years.⁸⁵ From the perspective of the state there are analogous costs because the interest rate is below the government's cost of borrowing and because not all loans will be repaid.⁸⁶ Both would require higher interest rates if the system were to break even.

Professor Nicholas Barr has argued for some time that the interest rate subsidy is both inefficient and unfair. The operation of income contingent loans means that graduates with low income in any one year are 'protected' from high repayments because they only repay 9% of their income over £15,000 per year. These are normally graduates at the start of their career. Where graduates have a low income for their entire career –either through low annual earnings or periods out of the labour market- they make little or no repayments. Their 'protection' comes from the 25 year write off. If they make any repayments they are small and unlikely to cover more than interest payments, so it does not matter what the interest rate is. It is their income that determines repayments, not the interest rate. The interest rate is completely irrelevant for the lowest paid graduates. It could be set at commercial levels, zero, or even a negative rate. It would have no impact on the amount they repay. The interest rate affects the duration of repayments for those who do repay. If it were higher then it would take longer to repay and total repayments would increase. By definition it is the higher paid graduates who benefit from this shorter repayment period and lower total repayments.

Professor Barr has calculated that the 20% of graduates with the lowest lifetime earnings (a group dominated by women) gain most of their benefit from the 25 year write off and very few gain anything from the interest rate subsidy. This situation shifts until by the middle income group all the benefit comes from the interest subsidy. The same applies to the top two income groups. The subsidy element on its own becomes regressive overall as most of the benefit goes to the better off. The loan write-off aspect is strongly progressive and makes the overall loan terms progressive. He argues that the subsidy is a poor use of public funding, it is poorly targeted expensive to government and 'crowds out' spending on other areas which would improve the efficiency of the system. [Interest subsidies on student loans: A better class of drain](#)⁸⁷ sets out various options for reforming loans terms, most of which involve setting the interest rate on loans at the same level as the Government's

⁸⁵ Applies to new borrowing from 2006/07. There is a 35 year write off for students from Scotland.

⁸⁶ The 25 year write-off is one way that loans can be cancelled. The others are due to death or permanent illness/disability.

⁸⁷ N Barr and A Johnson, *Interest subsidies on student loans: A better class of drain*, (CEE DP 114) LSE Centre for the Economics of Education

cost of borrowing. These options remove some or all of the benefit to more highly paid graduates while protecting some or all of the benefit for the less well paid. He argues that this cut in public spending could improve the economic efficiency of higher education more generally by taking the financial pressure off direct support for institutions, allowing maintenance loans to be expanded to cover the full cost of going to university, increasing fee loans to cover the potentially higher fee cap, extending loans to part-time students and postgraduates and/or loans to students in other tertiary education and training more generally.

Reference tables

Table 1

STUDENT LOANS: VALUE AND TAKE-UP IN THE UK, ACADEMIC YEARS

	Number (thousands)	Value (£ million)	Average value (£)	Proportion of eligible students taking loans	
1990/91	180	70	390	28%	
1991/92	261	139	530	36%	
1992/93	345	227	660	41%	
1993/94	430	317	740	47%	
1994/95	517	539	1,040	55%	
1995/96	560	701	1,250	59%	
1996/97	590	877	1,490	62%	
1997/98	615	941	1,530	64%	
1998/99	660	1,234	1,870	68%	
1999/00	700	1,795	2,570	72%	
2000/01	760	2,204	2,900	78%	
2001/02	810	2,490	3,070	81%	
2002/03	838	2,626	3,130	81%	
2003/04	849	2,712	3,190	81%	
2004/05	856	2,794	3,260	79%	
2005/06	881	2,933	3,330	-	
<i>England only</i>					
2005/06	719	2,496	3,470	80%	
2006/07	-Maintenance -Tuition fee	728 397	2,613 808	3,590 2,030	80% -
2007/08	-Maintenance -Tuition fee	746 554	2,631 1,389	3,530 2,510	80% -
2008/09	-Maintenance -Tuition fee	772 697	2,717 1,981	3,520 2,840	80% -
2009/10	-Maintenance -Tuition fee -combined^a	819 782 872	2,946 2,344 5,214	3,600 3,000 5,980	- 83% 80%
2010/11	-Maintenance -Tuition fee -combined^a	857 833 909	3,122 2,572 5,601	3,640 3,090 6,160	- 83% 82%
2011/12	-Maintenance -Tuition fee -combined^a	909 887 959	3,358 2,852 6,067	3,690 3,210 6,330	- 84% 84%
2012/13	-Maintenance -Tuition fee -combined^a	932 926 987	3,558 4,408 7,794	3,820 4,760 7,900	- 89% 89%
2013/14	-Maintenance -Tuition fee -combined^a	973 966 1,031	3,784 5,938 9,493	3,890 6,150 9,210	- 89% 90%
2014/15	-Maintenance -Tuition fee -combined^a	963 973 1,033	3,785 7,291 10,783	3,930 7,490 10,440	- 89% 92%
2015/16	-Maintenance -Tuition fee -combined^a	985 1,007 1,061	3,942 8,032 11,623	4,000 7,980 10,960	- 90% 93%
2016/17	-Maintenance -Tuition fee -combined^a	1,011 1,033 1,084	4,783 8,385 12,766	4,730 8,120 11,780	- -
2017/18 ^b	-Maintenance -Tuition fee	965 1,062	5,263 9,148	5,450 8,610	- -

Notes: Latest data are provisional

Loan data for 2008/09 to 2016/17 are the amount paid. Earlier figures and 2016/17 data are the amount awarded.

(a) Values are for students from England only. Other figures included EU domiciled students (fee loans only)

(b) Amount awarded up to mid-November 2016

Higher Education in England 2017: academic year 2016/17 payments, 2017/18 awards, and earlier editions, SLC; Student Support Scheme Facts and Figures, www.slc.co.uk

Table 2

STUDENT LOAN OUTLAY AND REPAYMENT

£ million, financial years, UK or England

	All student loan debt in the UK			Public student loan debt in the UK				Public student loan debt of English domiciled students and EU students studying in England												
	1995-96	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total outstanding at end of previous financial year	1,178	5,917	7,838	8,390	10,821	13,364	15,948	13,033	15,322	18,116	21,944	25,963	30,489	35,186	40,272	45,903	54,355	64,735	76,253	89,344
of which public	1,178	4,022	6,048	8,390	10,821	13,364	15,948	13,033	15,322	18,116	21,944	25,963	30,489	35,186	40,272	45,903	54,355	64,735	76,253	89,344
Lending during financial year	688	2,115	2,440	2,618	2,722	2,780	2,914	2,465	2,954	3,905	4,204	5,049	5,578	5,966	7,144	9,021	10,643	11,765	13,396	14,991
% income contingent loans	..	89%	97%	99%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Repayments	51	357	476	333	413	497	578	482	530	634	900	1,010	1,143	1,306	1,407	1,461	1,613	1,786	2,016	2,339
Interest added	44	161	207	147	239	312	404	331	394	586	760	524	291	463	620	921	1,379	1,570	1,740	2,497
Amount written off/cancelled ^a	1	2	3	3	8	15	23	20	24	29	45	42	29	37	38	29	29	27	30	37
Administration charges	..	4	5	3	3	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total outstanding at end of financial year	1,859	7,838	10,011	10,821	13,364	15,948	18,657	15,322	18,116	21,944	25,963	30,489	35,186	40,272	46,590	54,355	64,735	76,253	89,344	104,577
% income contingent loans	..	44%	59%	70%	85%	89%	92%	92%	94%	96%	97%	97%	98%	98%	99%	100%	100%	100%	100%	100%

Note: Excludes privately owned debt from 2002-03 onwards.

2013-14 and totals exclude the final tranche of mortgage style loans which were sold off in November 2013. All remaining public loans are income contingent

(a) From 2002-03 includes amount cancelled in respect of Repayment of Teachers' Loan scheme. In 2008-09 a new data system was introduced and the increase shown is in part due to a backlog of cancellations being included in this year.

Source: SLC statistical first release 1/2018, Student Loans in England: financial year 2017-18 (and earlier)

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