RESEARCH PAPER 07/78
15 NOVEMBER 2007

Sale of Student Loans Bill

Bill 6 of 2007-08

The Bill contains provisions which will enable the Secretary of State for Innovation, Universities and Skills to carry out a programme of sales of the Government's student loan portfolio. It will permit the Secretary of State to sell some or all of his rights and obligations relating to income-contingent repayment loans and to spend public money in connection with the sales.

The Secretary of State will be permitted to include provisions in any sale to compensate a loan purchaser in specified circumstances.

The Bill will enable data sharing between the Government and the loan purchaser and puts in place measures to control the disclosure and use of this information.

Welsh Ministers will be empowered to conduct similar loan transactions in Wales.

The Bill applies to England and Wales only and is scheduled for Second Reading on 22 November 2007.

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ISSN 1368-8456

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Summary of main points

The Government announced in the Budget 2007 that it was planning a programme of student loan sales. These are intended to raise £6 billion between 2008-09 and 2010-11[1] Sales of the student loan portfolio were previously conducted in the late 1990s under the *Education (Student Loans) Act 1998*. In two sales in 1998 and 1999 a total of around £2 billion worth of fixed rate or mortgage-style loans were sold. The *Sale of Student Loans Bill* will enable the Secretary of State for Innovation, Universities and Skills to resume sales of the student loan portfolio. New legislation is necessary to carry out the sales as the earlier Act only applied to mortgage-style loans and was repealed when mortgage-style loans were replaced by income-contingent repayment loans in 1999.

The *Sale of Student Loans Bill* was included in the Government's Draft Legislation Programme published on 11 July 2007.[2]

The Bill contains 12 clauses; the substantive details of the provisions are found in clauses 1-6. Clause 1 enables the Secretary of State to enter into arrangements which will transfer his rights in respect of student loans to another person (the loan purchaser). The clause gives detail of the rights and obligations that may be transferred.

Clause 2 contains information about the type of provisions that the Secretary of State may include in transfer arrangements such as payments to the purchaser in certain circumstances and repurchase in specified circumstances. The clause also allows the Secretary of State to incur expenditure in connection with transfer arrangements.

Clause 3 concerns the onward sale of loans to another purchaser. Such sales will be permitted unless the Secretary of State prohibits them.

Clauses 4 and 5 state that references in regulations on loans and repayments made under the *Teaching and Higher Education Act 1998* which refer to the Secretary of State should also include the loan purchaser.

Clause 6 allows the disclosure of information in relation to transferred loans, to persons or bodies acting on behalf of the Secretary of State. Safeguards on disclosure of information are provided in the Bill such as extending the criminal sanction for wrongful disclosure of data in section 19 of the *Commissioner for Revenue and Customs Act 2005* to cover these disclosures.

Clause 8 enables Welsh Ministers to enter into transfer arrangements.

The Bill extends to England and Wales only.

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1 Budget 2007. Economic and Fiscal Strategy Report and Financial Statement and Budget Report, HC 342 2006/07, HM Treasury. Para. 6.42

2 Office of the Leader of the House Legislation Draft Programme 2007/08 at http://www.commonsleader.gov.uk/output/DraftProgrammeHome.htm.

There has been little reaction to the Bill. Baroness Warwick chief executive of Universities UK has referred to the Bill as 'sensible and prudent'[3] and expressed hopes that the money raised by any sales will be reinvested in higher education. The National Union of Students[4] has said that they hoped the Bill would have no impact on borrowers.

This paper provides a commentary on the Bill but it does not give a detailed analysis of each clause. A clause by clause analysis is available in the Explanatory Notes accompanying the Bill [Bill 6-EN].

3 HL Deb 8 November 2007 c200

4 NUS News *NUS response to the Queen's speech* 6 November 2007 at http://www.nusonline.co.uk/news/274901.aspx

I Background to the Bill

A. History of student loans

Student loans became part of the student support package in 1990/91. In the first year of loans their maximum value[5] was £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.[6] Student loan interest rates were set in line with inflation and hence had a zero real interest rate.

Repayments of loans taken out before September 1998 were made on a fixed rate or mortgage-style system. Loans 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 the graduate's income stayed above the threshold, repayments were made over five years in 60 equal monthly instalments,[7] hence the term mortgage-style. Repayments could be deferred on a yearly basis if the repayer's income fell below 85% of the national average.[8]

1. Post-Dearing reforms

New student support arrangements were introduced by the Labour Government following the report of The National Committee of Inquiry into Higher Education - the Dearing Report.[9] This made two major changes to student loans; first, loans were to completely replace grants as maintenance support and, second, new loans were to be repaid on an income-contingent basis rather than the old mortgage-style system. The real interest rate was kept at zero.

The Government partially introduced the 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. The reduction in grant 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 all students, including those who started in 1998, received all maintenance support as loans which were partly income-assessed. Income-contingent repayments were set at 9% of gross annual income above a threshold. The threshold was initially set at £10,000 with no automatic method of increasing it on an annual basis, unlike the threshold for

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

6 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*

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

8 Further details of fixed term loans is available on the SLC website at http://www.slc.co.uk/about%20student%20finance/products%20and%20services/fixed_term_loans.html.

9 *Higher Education in the learning society*, National Committee of Inquiry into Higher Education 1997

mortgage-style repayments.[10] The income-contingent repayment threshold has been increased once in April 2005 to £15,000.

A history of the changes in the student support system up to 1998 is available in library research paper 97/119 *Student grants, loans and tuition fees.*[11]

2. The *Higher Education Act 2004*

Further changes in the student finance system were introduced in the academic year 2006/07 as a result of the *Higher Education Act 2004*. From September 2006 new students attending institutions in England and Northern Ireland could be charged variable tuition fees of up to £3,000. New students, including EU students, could take out a tuition fee loan to cover the cost of these fees effectively abolishing upfront payment of fees for new students. Taking out a tuition fee loan does not affect a student's eligibility for a maintenance loan. Tuition fee loans were also available to cover the (fixed) fees of students who started before 2006/07.

Students starting courses in 2006/07 in England were also eligible for a new income-assessed maintenance grant of up to £2,700. In the first year of these grants 51% of all students were eligible for a full or partial grant.[12] Unlike some earlier support this grant reduced the amount of maintenance loan for which a student was eligible.

In summer 2007 the Government announced changes to a number of the income thresholds for new students from 2008/09. These changes should mean that more students receive some maintenance grant. The Government also announced a new entitlement to repayment holidays which will allow graduates to take a break of up to five years from repayments.[13]

Details of current funding arrangements for higher education students is available in a Department for Children Schools and Families (DCSF) publication called *A guide to financial support for higher education students 2007/2008.*[14]

3. Loan rates for 2007/08

In 2007/08 the maximum maintenance loan for a student living away from home outside London is £4,510 (assuming they are not eligible for any maintenance grant). Adding this sum to the maximum tuition fee loan creates a theoretical maximum loan amount of £7,580 per student – £9,385 for students in London. In practice the actual maximum that most students can take out is less as 25% of the maintenance loan is income-assessed and those in receipt of the maintenance grant will have their loan eligibility reduced by up

[10] *Investing in the future: Supporting students in higher education,* DfEE

[11] RP No 97/119 *Student grants, loans and tuition fees* http://hcl1.hclibrary.parliament.uk/rp97/rp97-119.pdf.

[12] HC Deb 3 September 2007 c1775

[13] Department for Innovation, Universities and Skills (DIUS) Press Release *Increased support for students in higher education* 5 July 2007

[14] Department for Children, Schools and Families (DCSF) *A guide to financial support for higher education students 2007/2008* at http://www.studentsupportdirect.co.uk/pls/portal/docs/PAGE/SPIPG001/SPIPS001/SPIPS008/SFD%20GUIDE%20TO%20FINANCIAL%20SUPPORT%2007-08.PDF.

to £1,230.[15] The interest rate for loans is 4.8% and will remain at this level until the end of the academic year 2007/08. This rate is equal to all-items RPI inflation in financial year 2006-07. This is the highest annual rate since 1991/92.[16]

The DCSF publish an annual document for students called *Student loans A guide to terms and conditions*[17] which outlines the student loan procedure and the commitments undertaken by students when taking out a loan.

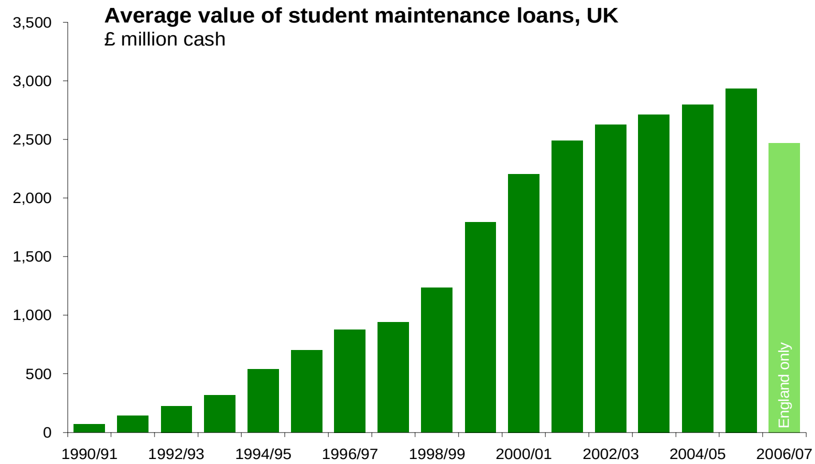
4. Devolution of student loans

Student loans in Wales are administered by the Welsh Assembly. Deferred flexible fees were introduced in Wales in 2007/08. Welsh students may take out tuition fee loans and maintenance loans in the same way as English students. The Bill will enable Welsh Ministers to enter into arrangements to transfer their rights in respect of student loans.

Student support in Scotland is a devolved matter and student loans are governed by the *Education (Student Loans) (Scotland) Regulations 2000*[18]. Student support in Scotland is administered by the Student Awards Agency for Scotland (SAAS)[19] and loans are administered by the SAAS in partnership with the Student Loans Company (SLC).[20] Scottish students studying in Scotland are eligible for student loans for living costs under similar repayment terms as students in other parts of the UK,[21] loan amounts and thresholds are different. Scottish students studying in Scotland are also eligible for a Young Students' Bursary which is paid instead of part of the loan and reduces the amount of loan available[22] and a small Additional Loan.

B. Scale of student loans

Details of the growth in student loans in terms of the number and value of loans and percentage take-up are summarised in the table below. Increases in the annual total borrowed by



15 direct.gov.uk - Student Finance http://www.direct.gov.uk/en/EducationAndLearning/UniversityAndHigherEducation/StudentFinance/index.htm
16 Facts & Figures, Student Loans Company http://www.slc.co.uk/statistics/facts_figures.html
17 DCSF*Student loans A guide to terms and conditions 2007/2008 at http://www.dorsetforyou.com/media/pdf/4/t/200708_Student_Loans__A_Guide_to_Terms_and_Conditions.pdf*
18 Scottish Statutory Instrument 2000 No 200
19 Student Awards Agency for Scotland (SAAS) at http://www.student-support-saas.gov.uk/
20 SLC website at http://www.slc.co.uk/about%20us/index.html.
21 SAAS at http://www.student-support-saas.gov.uk/student_support/scottish_inside/2006-2007/financial_support.htm
22 SAAS website Young Students' Bursary at: http://www.student-support-saas.gov.uk/student_support/scottish_inside/ysb.htm

students are illustrated opposite (note the change in geographical coverage in 2006/07). Each of the indicators in the table has increased in every year since 1990/91 except for the proportion of students taking out loans which fell slightly in 2004/05.

Between 1990/91 and 2005/06 the annual number of loans taken out increased 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. Provisional 2006/07 data for England gives an average value of £3,620, 4.3% above the equivalent figure from 2005/06. The total value of maintenance loans in England in 2006/07 was little different from 2005/06, but these figures exclude applications after the middle of November 2006, so are likely to be below final figures.

Average tuition fee loans are excluded from the chart. Provisional 2006/07 data show that 235,000 new students took out tuition fees loans with an average value of £2,700 and a total value of £632 million. A further 150,000 existing students took out tuition fee loans for regulated fees; these totalled £147 million at an average of £990.[23]

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%
1995/96		560	701	1,250	59%
2000/01		760	2,204	2,900	78%
England only					
2005/06		719	2,496	3,470	80%
2006/07[(a)]	-Maintenance	682	2,469	3,620	-
	-Tuition fee	385	779	2,030	-
	-All	-	3,248	-	-

Note: data from 2005/06 are provisional

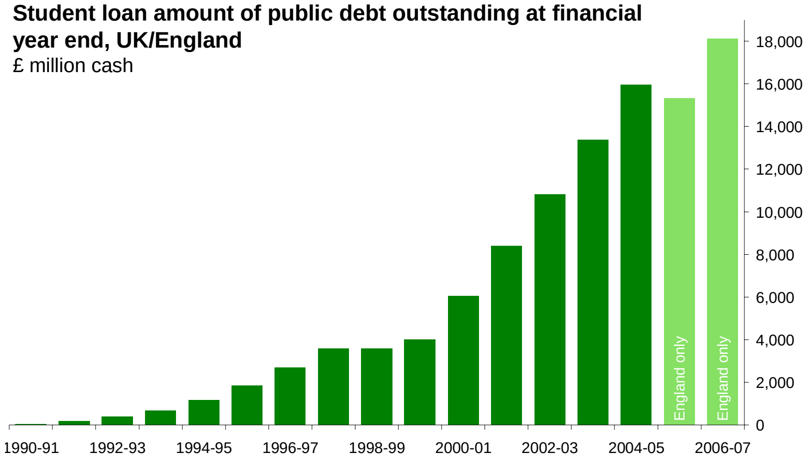
(a) To 15 November 2006

Source: DfES statistical first release 32/2003 *Student support: statistics of student loans for higher education in the UK; Student Support for Higher Education in England: Academic Year 2006/07 (Provisional), SLC Student Support Scheme Facts and Figures,* www.slc.co.uk

The total value of publicly held student loans in England[24] was £18.1 billion at the end of financial year 2006-07. This was 18% higher than at the end of 2005-06. Time series are complicated by the exclusion of privately held debt and changes to the geographical coverage of the data following the devolution of student finance. Trends in publicly held debt are illustrated

Student loan amount of public debt outstanding at financial year end, UK/England

£ million cash



Source: SLC statistical first release 1/2007 Student loans for higher education in England -financial year 2006-07 (provisional) ,and earlier editions

[23] *Student support for higher education in England, academic year 2006/07* (provisional)

[24] English students and EU students who studied at English institutions.

opposite. The growth in the total amount owed by students/ graduates is clear; 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 growth in income-contingent loans and the repayment and sell off of mortgage-style loans has meant that 94% of the total outstanding at the end of 2006-07 was income-contingent loans.

C. Student loan repayment

The following table gives details of borrower activity in 2006-07; it gives information about borrowers who still have student loans outstanding. At the end of 2006-07 1.5 million borrowers, 61% of the total, had accounts in repayment status and just over 400,000 (17%) were repaying their loan and were up to date or ahead with repayments.[25] Whether graduates were repaying loans depended largely on their income. Their detailed status varies according to the type of loan as income-contingent loan repayments are collected through the tax system repayments are harder to miss or avoid.

Student Loan borrower activity, financial year 2006-07 (provisional), England

	Number (000s)	Percentage of all borrowers
All borrowers at end of financial year	2,458	..
Borrowers with accounts not yet in repayment status	1,049	43
Borrowers with accounts in repayment status	1,492	61
Mortgage style loans	**395**	**16**
Of which in repayment status and:		
ahead with repayments	*42*	*2*
up to date with repayments	*112*	*5*
owing less than two months' repayment	*3*	*0*
owing two or more months' repayment	*29*	*1*
overdue and no repayment schedule	*52*	*2*
deferring repayments	*154*	*6*
Income contingent loans	**2,090**	**85**
Of which:		
Accounts not yet in repayment status	*1,031*	*42*
Accounts where repayments are still due	*1,032*	*42*
awaiting assessment of income in first tax year	*263*	*11*
repaying loan	*253*	*10*
below earnings threshold or in non-repayment categories	*516*	*21*

Constituent parts may not sum to totals because individual borrowers may be counted in more than one category if they have loan accounts in more than one status

Source: SLC statistical first release 1/2007 *Student loans for higher education in England -financial year 2006-07* (provisional)

Virtually all borrowers with mortgage-style loans had accounts in repayment status because most of those who were eligible had left higher education. Of these around 40% were up-to-date or ahead with payments, 40% had deferred payment because their income was below the threshold and the rest were behind with payments. Around half of the accounts of borrowers who took out income-contingent loans were not in repayment status (mainly those still in higher education); there is therefore a limited amount of information about repayments of income-contingent loans. Of the remaining 1.03 million,

[25] Repayments become due in the April following the completion/ceasing of the course. Then an account will switch to repayment status, although payments may be deferred due to low income.

250,000 were repaying their loan, 260,000 were awaiting assessment of income in their first tax year and almost 520,000 (50%) were below the income threshold or in another non-repayment category.

D. Student loans and public spending

Under resource accounting public expenditure on student loans is not the cash value of loans paid out in the year. The resource cost is based on the difference between the value of the loan and the estimated (discounted) value of future repayments. Commercial loans are made at rates to ensure that in aggregate future repayments at least cover the costs of capital and bad debt and hence the loans are profitable. Student loans represent a public expenditure cost as interest rates are subsidised (they do not cover the cost of capital) and the cost of loan write offs falls on the lender (the Government) rather than on borrowers through higher interest rates. The public cost is allocated to the year in which the loans are made.

Currently the resource cost is calculated as 21% (of the cash value) for maintenance loans and 33% for tuition fee loans.[26] For instance in 2006-07 a total of £2,954 million was paid out in maintenance and tuition fee loans to English domiciled and EU students studying in England,[27] but the resource accounting cost was £710 million,[28] or 24% of the face value of the loans. The percentage figure for maintenance loans has varied due to changes in the forecast model used by the Government and reductions in the Treasury discount rate (cost of capital charge). The lower discount rate has the effect of reducing the resource cost because the subsidy element (difference between the interest rate and the cost of capital) is reduced. The discount rate was reduced from 6.0% to 3.5% in 2003 and to 2.2% from 2005-06.

E. Administration of student loans

Student loans and other Government funded grants are administered by the Student Loans Company (SLC).[29] The SLC is wholly owned by the Secretary of State for Innovation, Universities and Skills and Scottish Ministers, it is entirely Government funded and is non-profit making. The SLC was incorporated as a private limited company in 1989 and started trading in 1990 and was designated a Non-Departmental Public Body (NDPB) on 1 April 1996.

The role of the SLC is described on the website:

> The Student Loans Company, administers government-funded loans and grants to students throughout the United Kingdom. We are responsible, in partnership with Local Authorities in England and Wales, the Student Awards Agency for Scotland, the Education and Library boards in Northern Ireland, the Higher Education Institutions and HM Revenue & Customs, for student support delivery in the UK.

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26 HC Deb 19 October 2006 c1369w
27 *Student loans for higher education in England, financial year 2006-07 (provisional)*, SLC
28 Resource Accounts 2006-07, DfES
29 http://www.slc.co.uk/index.html

Our primary roles are to:

- Deliver financial support to eligible students pursuing higher education;
- Pay to Higher Education Institutions the public contribution towards tuition fees for England, Wales and Northern Ireland;
- Supply information needed by HM Revenue & Customs (HMRC) to ensure repayments are collected on time from all those due to repay under the Income Contingent Repayment Loan Scheme;
- Manage the direct collection of repayments for loans granted under the former Mortgage Style Loan Scheme.

Further information on the SLC including its governance, board members, company structure and Annual Reports and Accounts can be found on the SLC website.[30]

Information published by DIUS has said that the SLC will continue to administer loans:

> The plans are for the SLC to continue to maintain accounts for all income contingent loans and deal with all contact with borrowers. The Company would also have a role in ensuring that the correct amounts of repaid monies are directed to the public purse and to private sector investors, and in ensuring relevant information flows.[31]

II Sale of student loan portfolios in 1998 and 1999

A. Education (Student Loans) Act 1998

The *Education (Student Loans) Act 1998* amended the *Education (Student Loans) Act 1990* to facilitate the sale of a portfolio of public sector student loans to private financial institutions. The Explanatory Memorandum to the *Education (Student Loans) Bill,* Bill 44 1997-98 explained the effect of the Bill:

> The Bill will facilitate such sales by enabling the Government to make subsidy payments to the purchaser. It will also safeguard the position of the taxpayer, borrower and the purchaser by preventing certain loan terms from being changed one a loan had been made[32].

The Bill was passed by 267 votes to 3 at Second Reading[33] and passed through its Committee Stage[34] unamended in one sitting.

Background on the *Education (Student Loans) Act 1998* is available in library research paper 97/91 *Education (Student Loans) Bill.*[35]

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30 http://www.slc.co.uk/about%20us/remit/company%20structure/index.html

31 DIUS September 2007 *Questions and Answers: Sale of Income – Contingent Student Loans* http://www.guildhe.ac.uk/UploadFolder/open/publications/Student%20Loan%20Sale.pdf

32 *Education (Student Loans) Bill* Bill [44]

33 HC Deb 21 July 1997 c703

34 SC Deb (A) 29 July 1997

B. Portfolio sales

Two portfolios of loans with a face value of just over £2 billion were sold in 1998 and 1999. Details of the first sale were announced in a written answer in March 1998:[36]

> **Ms Perham**: To ask the Secretary of State for Education and Employment if he will make a statement on the progress of the competition to sell part of the student loan portfolio.
>
> **Dr. Howells**: I have today announced the sale of a portfolio of student loans for £1 bn. This is the outcome of a policy first announced in September 1996. The sale has been achieved after a vigorous competition and we have accepted the most competitive bid. NatWest Markets was the successful bidder.
>
> The loans sold are those made under the current scheme. None of the new income contingent loans available from the 1998-99 academic year are involved.
>
> My right hon. Friend the Chancellor of the Exchequer said in his statement of 10 July 1997 that we would continue the policy of student loan debt sales as part of our pledge to work within the spending plans already announced for this year and next. The sale also underlines our commitment to developing a wide range of public-private partnerships which involve a transfer of risk to the private sector. This sale transfers to the private sector much of the risk of loans defaulting.
>
> The Student Loans Company, the existing administrator, will continue to administer the loans sold for at least the next five years. Borrowers who are currently repaying their loans or who have made deferment arrangements will consequently notice little change. We have also taken steps through the Education (Student Loans) Act 1998, to ensure that the position of borrowers is protected. Borrowers will retain their existing rights of deferment, where their income is below 85% of average earnings, and interest rates will continue to be linked solely to inflation.
>
> These rights mean that existing student loans are provided at subsidised rates. Additional subsidies will therefore need to be paid to the purchaser to reflect this. Given the value of loans sold, and that some of the loans will be outstanding for a considerable length of time, the estimated net present value of these subsidies is likely to be in the region of £350m. This compares with estimated present value costs of nearly £300m which would have been incurred by the Government had the loans remained publicly owned. Annual subsidy payments will be high in earlier years and reduce over time as borrowers repay more of their debt and the total level of debt outstanding falls.
>
> During the 1998-99 financial year a gross subsidy of about £60m will be paid to Finance for Higher Education Limited (FFHE), a company formed for the purpose of acquiring the assets by NatWest Markets. However, part of the gross subsidy payment will be repaid to the Government through the administration charges paid to the Student Loans Company and tax receipts on private sector profits. The estimated cost to the Government in 1998-99 of selling these loans will therefore be in the region of £15m above the £40m cost of keeping loans in the public sector.

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35 RP 97/91 *Education (Student Loans) Bill* at http://hcl1.hclibrary.parliament.uk/rp97/rp97-091.pdf

36 HC Deb 5 March 1998 c748-50w

The agreement between the Government and FFHE for the purchase of the loans, with commercially confidential information removed, will be placed in the Library of the House on completion of the sale.

A second competition to sell a further tranche of student loan debt involving loans made under the current scheme is being planned later this year.

Details of the second sale were announced in March 1999:[37]

Lord Burlison asked Her Majesty's Government:

What is the outcome of the competition to sell a second part of the student loan portfolio.

The Minister of State, Department for Education and Employment (Baroness Blackstone): I am today announcing the conclusion of the second sale of a portfolio of student loans to the private sector for around £1 billion. The sale has been achieved after a very vigorous competition and we have accepted the most competitive bid. A consortium of the Nationwide Building Society and Deutsche Bank AG was the successful bidder. As a result, the portfolio will be sold to HONOURS Trustee Limited, a company formed for the purpose of acquiring the assets.

The loans sold are those made under the original loan scheme. None of the new income contingent loans introduced at the beginning of the current academic year is involved. My right honourable friend the Chief Secretary to the Treasury has confirmed the policy considerations which have determined the Government's approach to student loan debt sales in a Written Answer today to the honourable Jackie Lawrence.

HONOURS Trustee Limited has appointed the Student Loans Company, the existing administrator, to administer the sold loans on its behalf. Borrowers who are currently repaying their loans or who have made deferment arrangements will consequently notice little change. We have legislated previously to ensure that the position of borrowers is protected. Borrowers will retain their existing rights of deferment, where their income in below 85 per cent. of average earnings, and interest rates will continue to be linked solely to inflation.

These rights mean that original scheme student loans are provided at subsidised rates. Subsidies will therefore be paid to the purchaser to reflect this. During the 1999-2000 financial year a subsidy of about £64 million will be paid.

Part of the gross subsidy payment will be repaid to the Government through the administration charges paid to the Student Loans Company and tax receipts on private sector profits. Given the value of loans sold, and that some of the loans will be outstanding for a considerable length of time, the estimated net present value of these subsidies is broadly in the region of £395 million to £405 million. This compares with estimated net present value costs of around £310 million which we would have incurred had the loans remained publicly owned. The estimated cost to the Government of selling these loans will therefore be in the

[37] HL Deb 9 March 1999 c20-21wa

> region of £85 million to £100 million or 25 to 30 per cent. above the cost of keeping loans in the public sector over the lifetime of the portfolio.
>
> The agreement between the Government and HONOURS Trustee Limited, with commercially confidential information removed, will be placed in the Library of the House on completion of the sale.

These sales were therefore broadly similar with portfolios of just over £1 billion sold to two different bidders. Both portfolios were of mortgage-style loans only. Conditions of the loans were maintained for borrowers and the SLC initially administered the loans and dealt with borrowers.

C. Financial details of loan sales

The Government received £1 billion for each of the two sales of the student loan portfolio. The face value of the loans sold was £1.02 billion and £1.03 billion in 1998 and 1999 respectively.[38] As the interest rate of student loans was below market level the Government paid a subsidy to the purchasers to reflect this and make the sale attractive to the private sector. The difference between this and the cost that the Government would have incurred by holding on to the loans was the net cost of the sell off. The Government benefited by the transfer of risk to the private sector.

At the time of the 1998 and 1999 sales the estimated net present (discounted) value of these payments over the lifetime of the loans was £50 million and £85-100 million respectively.[39] The cut in the Treasury discount rate from 6.0% to 2.2% since the time of these calculations would increase these cost estimates (the public sector comparator becomes cheaper) all other things remaining equal. A recent written answer gave an updated estimated cost for both portfolios combined for England and Wales:[40]

> **Alan Simpson:** To ask the Secretary of State for Children, Schools and Families what estimate he has made of the projected cost of all previous and proposed student loan sales to the public purse over their lifetime with respect to (a) interest subsidies and (b) the difference in cost between purchasing the loans by third parties and the face value of the loans.
>
> **Bill Rammell:** I have been asked to reply.
>
> We are at the early stages of implementing the Budget announcement to sell income-contingent student loans. Further details will be announced in due course. Meanwhile we are confident that the Government will obtain good value for money, as it is obliged to do by rules of Government accounting.
>
> In 1998, the Government received £1 billion for the sale of student loans with a face value of £1.02 billion. In 1999, the Government received £1 billion for the sale of student loans with a face value of £1.03 billion. These are figures for the UK as a whole, as loans administration had not then been devolved.

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38 HC Deb 12 July 2007 c1609-10w
39 HC Deb 5 March 1998 c748-50w; HL Deb 9 March 1999 c20-21a
40 HC Deb 12 July 2007 c1609-10w

> Over the lifetime of the loans, the total gross payments of interest and other subsidies to the debt owners, in respect of loans made to English and Welsh domiciled students, is estimated at £635 million in 1998/99 net present value (NPV) terms. After deducting the interest subsidy costs, which the Government would still have incurred if the loans had not been sold, the estimated net lifetime costs of the sale for interest and other subsidies are £125 million in 1998/99 NPV terms. This assumes the current relevant Treasury discount rate of 3.5 per cent.
>
> The discount rate at the time of the sales was 6.0 per cent. Using this rate would have resulted in future cash flows having lesser value, which would have made the sales more attractive to the Government. The estimated total gross payments of interest and other subsidies would have been £545 million, with a net estimated lifetime saving of £130 million. The actual final cost/saving will depend on the performance of the sold loans over their remaining life.
>
> Note:
> All figures are quoted in respect of England and Wales unless otherwise stated.

Using actual data on the performance of loans that were sold off, revised repayment projections and a more up-to-date discount rate, the latest estimated cost of the sale of both portfolios is £125 million in 1998-99 Net Present Value terms for England and Wales. The written answer explains that using the discount rate that applied at the time (6%) and the new data on repayments makes this into a net saving of £130 million.

The actual gross subsidy payment from the Government to the debt sale owners was £54 million in 1998-99, rising to a peak of £110 million in 2000-01 (England and Wales only). It has subsequently fallen in each year as the value of outstanding loans has fallen. Total payments from 1998-99 to 2006-07 were £595 million.[41]

Details of loan repayments and borrower activity for the privately held debt used to be published by the DfES/Student Loans Company. This was last published for 2003-04. The SLC no longer manages both portfolios.

III Sale of Student Loans Bill

The plan for further student loan sales was announced in Budget 2007:[42]

> The Government is also examining the financial assets it holds to identify those where private sector ownership may represent better value for money. Following the reforms to tuition fees in 2006, this Budget announces a programme of student loan sales, resuming sales originally started in the late 1990's. These sales will raise around £6 billion by the end of 2010-11.

Primary legislation is necessary to implement the sale as the earlier legislation only applied to mortgage-style loans and was repealed.

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41 HC Deb 3 May 2007 c1908-8w; *Resource Accounts 2006-07*, DfES

42 Budget 2007. Economic and Fiscal Strategy Report and Financial Statement and Budget Report, HC 342 2006/07, HM Treasury. Para. 6.42

The *Sale of Student Loans Bill* received its First Reading in the House of Commons on 8 November 2007[43].

A. Details of the Bill

The Bill contains 12 clauses; the substantive details of the Bill are found in clauses 1-6.

Clause 1 enables the Secretary of State to enter into arrangements which will transfer his rights in respect of student loans to another person (the loan purchaser); the Secretary of State's main right with regard to loans is receiving money from borrower repayments. The clause gives details of the benefits and obligations that may be transferred. The clause also allows the Secretary of State to require the loan purchaser to make certain provisions for the administration of loans or may prohibit other specified types of arrangement without his consent.

Clause 2 contains information on the type of provisions that the Secretary of State may include in transfer arrangements such as payments to the purchaser in certain circumstances and repurchase in specified circumstances. The clause also allows the Secretary of State to incur expenditure in connection with transfer arrangements.

Clause 3 concerns the onward sale of loans to another purchaser. Such sales may be permitted unless the Secretary of State prohibits them.

Clauses 4 and 5 modify the *Teaching and Higher Education Act 1998* so that regulations on loans and repayments made under the Act apply to sold loans and references to the Secretary of State also include the loan purchaser.

Clause 6 relates to the disclosure of information. It amends s24 of the *Teaching and Higher Education Act 1998* to allow the Secretary of State to disclose to loan purchasers, their agents and potential purchasers, information received by Her Majesty's Revenue and Customs (HMRC) about borrowers. Safeguards on disclosure of information are included in the Bill by providing that information may only be shared if the identities of borrowers are concealed and by extending the criminal sanction for wrongful disclosure of data in section 19 of the *Commissioner for Revenue and Customs Act 2005* to cover these disclosures.

Clause 7 restates that the *Consumer Credit Act 1974* does not apply to student loans.

Clause 8 enables Welsh Ministers to enter into transfer arrangements.

Clauses 9 - 13 contain short miscellaneous items such as definitions.

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[43] HC Deb 8 November 2007 c259 and GNN News Release DIUS ref 153869P *First reading of the sale of Student Loans Bill* 8 November 2007 http://www.gnn.gov.uk/content/detail.asp?NewsAreaID=2&ReleaseID=329102

B. Financial aspects of the Bill

At the end of 2006-07 publicly held student loan debt was £18.1 billion for England.[44] [45] This is expected to increase to £55 billion over the next 10 years.[46] According to a Department for Innovation, Universities and Skills (DIUS) document on the Guild HE website called *Question and Answers: Sale of Income-Contingent Student Loans* the £6 billion of debt to be sold was chosen as:[47]

> …a cautious estimate of the value of those loans about which there will be sufficient information for them to be priced effectively in the market.

The Government expects that the loan sale programme will extend to loans that are made in the future as well as those already on the loan book. The document also emphasises that the loan sell off will have to represent good value for money and that the Government will not sell off any loan if this criterion is not met.[48] The Bill will enable the programme of loan sales to proceed indefinitely.[49]

Since the earlier portfolio sales the average value of student loans held by individuals has increased. This combined with the switch to income - contingent loans will mean that repayment periods will be longer and possibly less predictable than for the mortgage-style loans that the earlier sales consisted of.

The Government has estimated that the average debt for students who started higher education in England in 2006/07 will be around £15,000 on graduation.[50] These will be the first graduates who would have paid variable fees. The Government has also estimated that the average time taken to fully repay loans will be around 13 years (from the April after graduation). This compares to around eight years for mortgage-style loans.[51] The estimate for income-contingent loans is based on projected earnings for those entering higher education in 2006/07 and only includes those who fully repay their loan.[52] There will of course be a great deal of variation in actual repayment times due to differences in income and debt. Some graduates will repay their loans over a shorter period, others will take a few years longer, but there is likely to be a long 'tail' of graduates who take considerably longer to repay their loans or who never do so.

The average repayment duration estimate does not take into account the impact of repayment holidays of up to five years which were announced as part of a number of changes to student support for new students from 2008/09.[53] These will lengthen

44 Loans to English domiciled and EU students studying in England
45 *Student loans for higher education in England -financial year 2006-07*, Student Loans Company
46 Sale of Student Loans Bill -Key Benefits www.commonsleader.gov.uk
47 DIUS September 2007 Questions and Answers: Sale of Income – Contingent Student Loans http://www.guildhe.ac.uk/UploadFolder/open/publications/Student%20Loan%20Sale.pdf
48 ibid.
49 Sale of Student Loans Bill – Explanatory Notes [Bill 6-EN] para. 9
50 HC Deb 1 October 2007 c2403-4w
51 HC Deb 24 July 2006 c850w
52 HC Deb 21 June 2007 c2039w
53 DIUS press release 5 July 2007 *Increased support for students in higher education*

average repayment durations, but the actual increase will depend on how popular they are and what happens to individuals' income during this period.

IV Comment

The sale of student loans was discussed in several newspaper articles after the announcement in March 2007.[54] The *Financial Times* made the following comments on the proposal:

> The money raised will lower government debt, ease the chancellor's constraints from his budgetary rules and allow him to meet his manifesto commitment on education of raising its spending faster than the growth of the economy.
>
> Education is set to receive a budget settlement in the comprehensive spending review of about 3 per cent above inflation, more than the projected 2.75 per cent real growth of the economy.
>
> With education spending set to hit £75.8bn in 2007-08, such a settlement would provide close to £4.5bn a year extra in cash for education, raising spending to nearly £90bn in 2010-11.
>
> Surging student numbers and higher permitted borrowing levels led to The Student Loan Company lending almost £3bn in 2005-06, raising government debt levels and making public finances appear weaker.
>
> A sale of the loans would ease Mr Brown's looming troubles in keeping public sector debt below 40 per cent of national income[55].

An article in *The Times* suggested that the sell off would be attractive to investors:

> Nationwide Building Society and Royal Bank of Scotland were seen as front-runners to buy up to £16 billion of student debt that the Chancellor is planning to offload.
>
> Both institutions have bought portfolios of student loans from the Government in the past, attracted by the reliable income streams and the government subsidies.
> The Treasury yesterday declined to comment on reports that it was looking to privatise the portfolio of the Student Loans Company, a business with 3.2 million borrowers.
>
> Mark Hedges, head of structured finance at Nationwide, said: "We'd certainly take a look, but it would depend on the details."

[54] "Brown to sell off student debt" *The Guardian* 15 March 2007 at http://education.guardian.co.uk/higher/news/story/0,,2034609,00.html and "Student loans 'may be sold off' " *BBC News* 15 March 2007 at http://news.bbc.co.uk/1/hi/business/6453499.stm

[55] "Chancellor to sell-off students' £16bn debt" *Financial Times* 15 March 2007 at http://www.ft.com/cms/s/0/3b60aba4-d29b-11db-a7c0-000b5df10621.html

> Nationwide, in conjunction with Deutsche Bank, bought a £1 billion portfolio of student loans, comprising 450,000 accounts, in 1999.
>
> Royal Bank of Scotland, through its Greenwich Nat-West subsidiary, bought a £1.2 billion portfolio in 1998, packaged them up and sold mortgage-backed securities.
>
> A sell-off could improve the public finances, allowing the Government to reduce debt and more easily meet its target of keeping public sector debt below 40 per cent of national income.
>
> An auction of fresh loans could be very attractive to investors because of a change in the way repayments are collected. Borrowers now have repayments automatically deducted from their wage packets by HM Revenue & Customs. Rothschilds has advised the Government on previous sales of student loans.[56]

An article in *The Independent* suggested that there could be some aspects of student loan debt that might put off investors:

> There are drawbacks. Only home mortgages take longer to pay back than student loans, and the holders of the debts are susceptible to losing track of borrowers, who are more prone to relocate in the years following university.[57]

A. Responses to the Bill

Universities UK (UUK) responded to the Bill in a press release which commented on the use of the funds generated by the sale:

> The Government hopes to realise around £6billion from the sale of the student loans debt and Diana Warwick said: "The financial climate is increasingly volatile and an investment backlog still remains; the HE sector needs stability to plan for the future. It would be very heartening to hear that at least some proportion of the money raised by the Sale of the Student Loans Bill could be ring-fenced to be spent on higher education.[58]

Baroness Warwick, chief executive of UUK, made further comments on the Bill in a debate on the Queen's speech in the House of Lords.[59]

> The second piece of legislation to which I wish briefly to refer is the Sale of Student Loans Bill, in which the Government hope to realise around £6 billion from the sale of the student loans debt.
> Perhaps as an aside, I could urge my noble friend to spell out how safe and indeed circumscribed this sale is. While it has been done previously—in 1995 and

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56 "Nationwide and RBS tipped as bidders for student debt" *The Times* 16 March 2007 at http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article1522573.ece

57 "Auction of student loans to raise £6bn" *The Independent* 7 November 2007 at http://news.independent.co.uk/business/news/article3135436.ece

58 Universities UK press release *Universities UK chief outlines priorities for HE sector in Lords debate* 8 November 2007 at http://www.universitiesuk.ac.uk/mediareleases/show.asp?MR=561

59 HL Deb 8 November 2007 c200

> 1997—I suspect that the current turbulence in the money markets might raise unnecessary anxieties about this approach. It seems a sensible and prudent approach but it leads me to ask wider questions about the financing of the higher education sector.
>
> I commend the Government on committing themselves to maintaining the unit of public funding for teaching in the recent spending review. I welcome their continuing commitment to university research, as well as the additional funding for the higher education innovation fund. However, the financial climate is increasingly volatile and an investment backlog still remains; the higher education sector needs stability to plan for the future. It would be heartening if the Minister could assure me and other noble Lords, as well as the higher education sector, that at least some proportion of the money raised by the Sale of Student Loans Bill, when enacted, could be reinvested in higher education.

The NUS have expressed concern about the effect of the sell off on individual borrowers:

> Gemma Tumelty, NUS President, said:
>
> "Our primary concern is that individual borrowers - students and graduates - who have received loans, will not be affected by these proposals through changes in terms and conditions or increased interest rates. We also hope that the confusion experienced by graduates last time the Government sold student loans is avoided.
>
> "The fact that the Government is yet again selling off the student loan book raises questions about the long-term sustainability of a funding system that encourages long-term debt. Recent events in the US show the risks associated with selling off debt and the consequences it can produce in the wider economy."[60]

B. Possible areas of debate

a. Impact of sale on borrowers and employers

The NUS has expressed concern about the impact of the Bill on borrowers and is particularly concerned that the subsidy on loans may be removed and that interest rates on loans may rise. DIUS have published a document on the Guild HE website entitled *Question and Answers: Sale of Income-Contingent Student Loans*[61] which states that borrowers and employers should not be affected by the sale:

> Sale of student loan book assets is a financial transaction that will not have an impact on the student or graduate. Policy on what student loans are, who gets loans and the repayment terms remain with the Government.[62]
>
> There is no impact or additional burden for employers.[63]

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60 NUS News *NUS response to the Queen's spe*ech 6 November 2007 at http://www.nusonline.co.uk/news/274901.aspx.

61 DIUS September 2007 *Questions and Answers: Sale of Income – Contingent Student Loans* http://www.guildhe.ac.uk/UploadFolder/open/publications/Student%20Loan%20Sale.pd

62 *ibid* answers to questions 2 and 3

b. Data sharing powers

Data sharing powers included in the Bill would allow information on student loans held by HM Revenue and Customs to be disclosed to the purchasing company. It is possible that this might cause concern among organisations involved in privacy campaigns.[64] The DIUS Question and Answer document stated the following on data sharing;

> The Government will continue to abide by its obligations towards student loan borrowers as far as data protection is concerned, and the terms of any sale will reflect this.
>
> Purchasers will only be able to use data in the same ways that the SLC use personal data now, and this will be backed up by criminal sanction. This is a strengthening of the current process we have on data sharing, and demonstrates the Government's determination to keep personal information safe and to ensure it is only used in this case to administer student loan accounts.[65]

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63 *ibid* answer to question 5

64 Techworld Computer and Internet Security *News Gordon Brown threatens to share Government data* 13 July 2007 at http://www.techworld.com/security/news/index.cfm?newsid=9479

65 DIUS September 2007 *Questions and Answers: Sale of Income – Contingent Student Loans* answer to question 27 at http://www.guildhe.ac.uk/UploadFolder/open/publications/Student%20Loan%20Sale.pdf

Appendix

The Department for Innovation, Universities and Skills (DIUS) have published a document on the Guild HE website called *Questions and Answers: Sale of Income – Contingent Student Loans*[66] which provides information on the following issues:

- Impact on students, graduates and employers
- Connection with student finance policy
- Rationale / principle
- Details and timing
- Impact on data protection
- Impact on SLC and HMRC
- Ensuring Value for Money

[66] DIUS September 2007 *Questions and Answers: Sale of Income – Contingent Student Loans* http://www.guildhe.ac.uk/UploadFolder/open/publications/Student%20Loan%20Sale.pdf