Department
for Education

Second Sale of Pre-2012 (Plan 1) Income Contingent Student Loans

Presented to Parliament pursuant to Section 4 of the Sale of Student Loans Act 2008

Ordered by the House of Commons to be printed on 20 December 2018

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Introduction

1. On 6 December 2017, the Government priced the first in a programme of sales of loans from the pre-2012 English student loan book achieving £1.7bn proceeds. The first sale (Sale 1) included loans issued by English Local Authorities that became eligible for repayment between 2002 – 2006. The National Audit Office concluded that the first sale passed Government's value for money tests, and that no borrowers would be affected by the sale.

2. This report covers the second sale (Sale 2) in the programme which priced on 4 December 2018 and included circa 1.3m loans issued by English Local Authorities that became eligible for repayment between 2007 – 2009. The purpose of this report is to outline the transfer arrangements and give Parliament information about the extent to which the arrangements give good value, reflecting any guidance given by the Treasury about assessing value for money, as is required by Section 4 of the Sale of Student Loans Act 2008.

3. The report is presented in the following structure:

    1. Rationale for the sale
    2. The objectives of the sale
    3. The approach taken (sale arrangements)
    4. Value for money assessment
    5. Fiscal Impacts
    6. Investors

Section 1: Rationale for the sale

4. The Government's objective when issuing loans to students is to allow them to pursue their education regardless of their personal financial situation. Once this objective has been met, however, retaining the loans on the Government's balance sheet serves no policy purpose.

5. Selling financial assets, like student loans, where there is no policy reason to retain them and value for money can be secured for the taxpayer, is an important part of the Government’s plan to repair the public finances. Asset sales free up resources that can then be put to use for purposes or policies with greater social or economic returns, whilst keeping within the spending limits we need to strengthen the public finances.

Section 2: The objectives of the sale

6. Government achieved its objectives for Sale 1. Following a review of its objectives it decided to retain them for Sale 2. Those objectives are:

    - Ensuring a sale leads to a reduction in Public Sector Net Debt (PSND) and does not significantly impact Public Sector Net Borrowing (PSNB). As a result, Government’s risk exposure to the portfolio is reduced;

    - Ensuring a sale does not involve the terms of the loans being altered to the borrowers’ detriment or have a negative impact on Higher Education policy objectives of providing access to education; and

    - If taken forward, that a sale represents value for money for the taxpayer and has a reasonable expectation of being repeated.

7. It is important to distinguish between Value for Money and fiscal objectives. The use of different fiscal objectives does not affect the economic rationale for the sale, which is based on a consideration of Value for Money. Further information on how Government assesses Value for Money is set out in Section 4 below.

8. The Government considers the full range of policy impacts when deciding to dispose of an asset, and reducing PSND is only one consideration. The net impacts of the sale on a selection of fiscal metrics, including PSNB and Public Sector Net Financial Liabilities (PSNFL) are set out below in Section 5.

9. The objective to ensure a sale leads to a reduction in PSND is a reflection of the Government’s publicly-stated fiscal objectives to return the public finances to balance in the middle of the next decade, with a target for PSND as a percentage of GDP to be falling in 2020-21, and a target to reduce cyclically-adjusted PSNB to below 2 percent of GDP by 2020-21. It is important to note that PSND is a long-established metric with a significant back series of data and has formed the basis of Government’s debt targets since 1997. It is constructed in line with internationally agreed accounting methodology, which is upheld by the Office for National Statistics. PSND is closer than other metrics (such as PSNFL) to measures used by the International Monetary Fund and other institutions to ensure international comparability, and by credit rating agencies to analyse debt sustainability. Reducing PSND through asset sales – where there is no longer a policy reason to hold the asset and value for money can be secured – supports Government’s commitment to enhancing the UK’s economic resilience, improving fiscal sustainability and reducing debt interest.

10. PSND is reduced when the underlying loans are declassified from Government’s balance sheet under the European System of National and Regional Accounts 2010 framework. In order to achieve declassification, one of the things that the sale must achieve is the transfer of substantially all the risks associated with the loans to the private sector. Repayment income from student loans fluctuates with economic performance, as do tax receipts and managed expenditure like benefits. Selling the loans in a way that achieves declassification, reduces the Government’s exposure to this fluctuation.

11. Government will continue to review this position as necessary for future sales.

Section 3: The approach taken (sale arrangements)

Impact on borrowers

12. The Government is unequivocally clear that borrowers, including those whose loans have been sold, will not be affected by the sale. The sale arrangements ensure that the sale does not and cannot in any way alter the mechanisms and terms of repayment. Sold loans will continue to be serviced by Her Majesty’s Revenue and Customs (HMRC) and the Student Loans Company (SLC) on the same basis as unsold loans. Purchasers have no right to change any of the current loan arrangements or to directly contact borrowers.

13. The Student Loans Company will write to notify those borrowers whose loans have been sold within 3 months of the sale being completed. This notification is for information only. No action will be required by borrowers as a result of the sale.

14. As the Government has previously made clear, borrowers' personal data will not be disclosed to investors. Student loans data is not shared with credit reference agencies and will not impact on an individual's credit score (either positively or negatively).

The sold loans

15. Sale 2 included of a pool of loans issued by English Local Authorities under the previous pre-2012 system, specifically those which became eligible for repayment between 2007 and 2009. A total of circa 1.3m pre-2012 English loans held by approximately 370,000 borrowers have been sold.

16. For comparison, Sale 1 included a total of circa 1.2m pre-2012 English loans held by approximately 411,000 borrowers.

17. Loans sold in Sales 1 and 2 all had the following characteristics:

- Interest is capped at the lower of RPI or Base Rate + 1%[1].
- Repayment under a Plan 1 ICR Loan becomes due in the April after a borrower leaves their course (known as the Statutory Repayment Due Date or "SRDD"). Repayments are due only when the borrower's income is over the repayment threshold level (set at £18,330 from 6th April 2018 to 5th April 2019), which increases annually in line with RPI.
- Borrowers pay 9% of earnings[2] over the threshold. The repayment terms can be changed by new secondary legislation. Government has no plans to change, or to consider changing, the terms of pre-2012 loans.
- Creditworthiness is not considered as part of the loan issuance process
- ICR Loans are advanced to eligible borrowers on identical terms regardless of creditworthiness or any differential in anticipated future earnings. Availability of the loan is subject only to the borrower taking a qualifying HE course and satisfying certain eligibility criteria including residency conditions.
- Loans in these cohorts are written off when borrowers turn 65 years old. (Loans are also written off on death or where permanent disability renders the borrower unfit for work.)

[1] For seven of the past eight years, the interest rate has been capped at Base Rate +1% and the current interest rate is 1.75% from 1 September 2018.

[2] Borrowers who submit tax returns repay 9% of "total income", borrowers who pay via PAYE, repay 9% of earnings, and overseas borrowers by fixed or income related instalments.

18. However, there are differences between the two loan pools at point of sale as set out and explained below:

	Sale 1 **FY 15-16**	**Sale 2** **FY 16-17**	
Average borrower age weighted by balance	37 years old	34 years old	The Sale 2 pool includes borrowers who completed or left their course more recently compared to borrowers in Sale 1.
Average balance	£8,626	£10,504	The Sale 2 loans are therefore 'less mature' and have a shorter repayment history. Unlike Sale 1, the Sale 2 pool includes both tuition fee loans and maintenance loans, leading to some borrowers with larger average starting balances compared to Sale 1. Prior to September 2006, tuition fees were capped at £1,000 per year of study and ICR loans were not available to cover them. From Sept 2006 when ICR tuition fee loans were introduced, tuition fees remained capped at £1,000 for existing students (i.e. those in the sale pool) and were raised to £3,000 for new students (not included). As such, Sale 2 borrowers have tuition fee loan balances ranging between £0-£1,000, which contributes in small part to the larger average outstanding balances.
Average annual repayment (excluding borrowers who made no repayments that year)	£885	£1,049	The Sale 2 pool includes less mature loans, meaning that compared to Sale 1 there are more borrowers in the pool earning higher salaries and therefore making larger annual repayments.
The proportion of borrowers who made any repayments	c.60%	c.71%	
The proportion of borrowers consistently earning above the repayment threshold that year	49%	59%	
Average term to maturity	28 years	31 years	The repayment period of loans included in sale 1 and 2 ends (i.e. the loans mature) when the borrower turns 65 years old.

Sale structure

19. Government, aided by its financial adviser, concluded that securitisation remains the route to market offering best value for money. On Sale 2, similar to Sale 1, this involved transferring the loan pool to an independent company newly incorporated in England and Wales (“the Issuer”). This company, registered as ‘Income Contingent Student Loans 2 (2007-2009) Plc’, has issued securities to investors in the form of notes representing the rights to the remaining future repayments. The Issuer will receive the repayments on the underlying loans and distribute payments of interest and principal to investors.

20. Securitising the loans provides two key advantages. First, it allows the Government to create different tranches of notes, each of which have distinct characteristics of interest to different investor groups, enabling it to attract competing demand from a wider range of different potential investors, for example pension funds and insurance firms. This maximises value from the sale for the UK taxpayer and promotes both the creation of an efficient market and efficient pricing. Secondly, this approach means investors do not own an identifiable set of loans, they are simply entitled to receive the cashflows derived from the repayment of the underlying loans, which continue to be serviced by HMRC and SLC on exactly the same basis as equivalent unsold loans leaving borrowers completely unaffected.

21. Four separate tranches of notes of varying seniority, maturity and interest rate have been issued to investors:

    a) **Class A1:** Senior, pass through investment grade notes with an estimated weighted average life of 2.8 years and a coupon linked to 12-month LIBOR;
    b) **Class A2:** Senior, amortizing investment grade notes with an estimated weighted average life of 11.6 years and a fixed rate coupon;
    c) **Class B:** Mezzanine, investment grade notes with an estimated weighted average life of 12.2 years and a coupon linked to RPI; and
    d) **Class X:** Subordinated notes providing an entitlement to a running coupon and any residual cash flows.

22. The noteholders will receive payments from the Issuer annually following the annual transfer of repayments from Government to the Issuer. Cashflows under the notes will be distributed in accordance with a pre-set priority of payments with the Class A noteholders paid first (following the payment of fees and expenses) and junior investors (Class X noteholders) receiving any residual amounts after other noteholders are paid. There is no obligation on Government to make up any shortfall should the loans economically underperform.

23. This securitisation is a rated transaction with a listing on the official list of the UK Listing Authority ("UKLA") and admitted to trading on the London Stock Exchange's regulated market with respect to all tranches other than the Class X notes.

24. The rated notes issued by the Issuer in this securitisation structure must comply with capital requirement regulations[3]. As explained below, Government has also chosen to comply with new US regulations for Sale 2 and as a result, Government has retained a single vertical Retention Note equal to no less than 5% of the nominal value of each tranche of sold notes. This note will appear on HMG's balance sheet as a new asset, equivalent to retaining 5% of loans as was the case under Sale 1. HMG will not purchase or otherwise hold any of the Issuer's securities.

Developments since Sale 1

25. Government has considered a wide range of technical changes to the transaction structure since Sale 1 with potential to further benefit value for money and investor demand. A short list was tested with the market and as a result some changes were introduced, including:

- **Compliance with risk retention rules:** Sale 1 was structured to comply with EU Risk Retention Rules, which meant that HMG retained 5% of the Sale 1 pool of loans for the life of the transaction. Following market feedback and recommendations from Government's lead advisors the way the capital structure complies with Risk Retention Rules was amended to satisfy both EU and US requirements. This was aimed at capturing additional investors, who would not otherwise be able to participate. The 5% retention is now structured as a holding of a blended note representative of 5% of each of the classes of notes in the capital structure. This new methodology was considered for Sale 1 but ultimately rejected as the US rules were first introduced in early 2017 and market participants had not yet fully developed their views on the requirements and their implications.

- **B note construct:** Highly technical changes have been made aimed at simplifying the B note to bring it more in line with market standards. Some investors in Sale 1 regarded the construct of the B note as relatively unusual compared with other inflation linked investments.

26. In light of additional information generated by each sale, Government will continue to consider changes with the potential to benefit value for money and investor demand.

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[3] Article 405 of the Capital Requirements Regulation (Regulation (EU) No 575/2013), which governs the risk retention requirements for regulated investing institutions

Arrangements for Servicing the Loans

27. Under the sale arrangements sold loans will continue to be serviced by HMRC and SLC on exactly the same basis as equivalent unsold loans, with the Secretary of State for Education having contractual responsibility for collecting repayments on the loans for investors.

28. As set out in the report on Sale 1 and as is common practice in a securitisation, a Master Servicer function has been created to oversee the servicing of the sold loans and provide one point of contact for investors. The Master Servicer consists of a small team acting on behalf of the Secretary of State for Education, which consists of Department for Education and UK Government Investment officials and is overseen by a board chaired by a Senior Civil Servant. The Secretary of State will continue to delegate the cash collections processes to HMRC for tax-related collections and SLC for direct collections, utilising existing arrangements. The operating costs of this arrangement are covered by investors in each sale through an annual fee. As was the case for Sale 1, under the sale arrangements for Sale 2 there is again no scope for investors to appoint a third-party servicer. This is consistent with the Government's unequivocal commitment that borrowers will not be affected by the sale.

29. This arrangement is subject to detailed governance and assurance processes, including an annual audit of HMRC and SLC controls, to enable Government to ensure that it is meeting its contractual obligations under Sales 1 and 2. The recent audit opinion covering 1 April 2017 – 31 March 2018 stated the controls were suitably designed and operated effectively throughout the period.

Contingent Liabilities

30. As with every market transaction, the sale arrangements include a number of warranties and indemnities for sale arrangers and investors which give rise to contingent liabilities for Government. In line with Sale 1, details of the Sale 2 liabilities were reported to Parliament on 10 October 2018 by the Minister of State for Universities, Science, Research and Innovation via a Written Ministerial Statement.

Forecasting cashflows with the Transitions-Based Earnings and Repayments Model (TERM)

31. The first step in assessing the value of the loan sale pool is to forecast the raw, undiscounted cashflows from the loans that are to be sold. This is done with the Transitions-Based Earnings and Repayment Model (TERM). UKGI and DfE have spent several years working with the Government Actuary's Department to ensure this model is robust and fit for purpose - It has been extensively tested, successfully passing robust internal scrutiny processes and several external audits.

32. The modelling challenge for TERM is to project the future earnings for the sold pool of about 370,000 borrowers. Government's analysis has demonstrated that for borrowers in our sale pool the key determinant of an individual's earnings in any year is their earnings in the previous year and their age.

33. Therefore, UKGI use 'transition matrices' to assign a probability to what an individual may earn next year based on their current earnings and their age. To produce these transition matrices UKGI utilised data of an individual's historic movements between different levels of earnings from Student Loans Company data (on individuals who have student loans) and Her Majesty's Revenue and Customs data (on an anonymised sample of the tax paying population). UKGI then utilise these probabilities to project borrowers between different earnings levels, creating an earnings pathway for a borrower.

34. As these projections are done in constant terms, meaning they reflect promotional or job changes affecting pay rather than macroeconomic wage growth, they are then overlaid with wage growth assumptions (derived from Office of Budget Responsibility (OBR)'s latest forecast). This provides earnings projections in nominal terms. The repayments threshold (also projected in line with macroeconomic assumptions where relevant) is then applied to borrowers' earnings to determine their repayments. The economic assumptions around the repayment threshold and interest on the loans, RPI and Bank of England base interest rates, are also derived from the latest OBR forecasts.

35. In addition to the general increases in average earnings, Government modelled individuals moving between different levels of earnings. In our assumptions, this is broken down into three components:

- Probability of having earnings in a year and still having earnings the next year (called 'within job transitions')
- Probability of having earnings in a year and not having earnings the next year (called 'to inactivity transitions')
- Probability of not having earnings in a year and having earnings the next year (called 'reemployment transitions')

36. These assumptions were set using Student Loans Company data of over 1.3m borrowers over an 8 year period. Where there was insufficient data, particularly at older ages, anonymised HMRC data of 10% of the taxpaying population was utilised. This contained around 5.5 million working age taxpayers covering an 11 year period.

37. The model projects repayments from the loan sale pool. However, there are a number of further steps to be taken to determine the value of the loan book to Government, such as discounting for the effects of inflation and subtracting the 5% of the pool retained by Government under securitisation regulations, among other things. For this reason, simply looking at nominal, undiscounted predictions of foregone receipts from the loan sale pool is not an accurate measure of whether Government achieved good value.

Section 4: Value for Money Assessment

38. When considering whether the sale arrangements delivered good value for the taxpayer, the Government followed the guidance set out in HM Treasury's Green Book for assessing public spending decisions and the supplementary guidance "Value for money and the valuation of public sector assets".

39. The Green Book applies to the sale of student loans, because as an asset sale, it shares key features with public spending decisions – i.e. comparing the options of having money invested in an asset/project against alternative uses for that money. A decision to invest in or keep public assets (e.g. building a road) is a choice between having money invested in the asset and all alternative uses for it. A decision to divest is a decision between keeping the money tied up in an asset and releasing it for other uses which generate a social, economic or financial return. In this case two alternatives are being compared: receiving the cash flows over time (retaining the loan book) or receiving the cash today (selling the loan book) enabling productive use of that cash immediately and the opportunity to earn social, economic or financial returns.

40. HM Treasury provided DfE with a framework for applying the Green Book guidance to assess whether a sale of student loans represents value for money for the taxpayer. The framework sets out three key tests to ensure the sale represented value for money. The three tests are used together to make an overall judgement:

- that an efficient market exists for this asset
- that the sale is structured and executed in such a way as to promote efficient pricing
- that the sale value exceeds the Government Retention Value (calculated using HM Treasury Green Book principles).

Efficient Market

41. For an efficient market to be present, investors needed to be able to make an accurate judgement of the value of the asset and there needed to be sufficient demand for the asset so as to create sufficient competition between investors.

42. In the months leading up to Sale 2, the Government and its advisers closely monitored market conditions to ensure that there remained appropriate market windows to execute transactions under the programme. At the point of sale, market conditions were supportive of securitisation issuances, and feedback from investors confirmed there would be sufficient market capacity to buy the assets. The Government and its advisers were satisfied that there were no market distortions that would have suggested the markets were not operating efficiently and still considered that overall market conditions were conducive to completion of a sale in a manner which achieves Value for Money.

43. Before formally opening the books, the Joint Lead Managers ("JLMs") acting on behalf of Government in the market gathered indications of interest from investors which suggested demand would be sufficient across all tranches. The JLMs therefore advised HMG that they were confident a transaction could be executed and that there would be competition for the loan notes, allowing the Accounting Officer to conclude the efficient market test would be met.

44. The formal sale process confirmed these assessments of the extent of market demand, with interest from a wide range of investors. The eventual interest and firm orders for notes exceeded the supply, generating competition for the notes, which helped to drive up pricing. This was true across all tranches of the capital structure, with an eventual coverage of the tranches at pricing being:

- A1 note: 120%
- A2 note: 121%
- B note: 155%
- X note: 211%

Efficient Pricing

45. The efficient pricing test required that the sale was executed in a way that promoted best value through an open and competitive process. As part of this process, investors needed to be able to make an accurate judgement of the value of the loans for sale based on an analysis of their risk and return characteristics.

46. Following standard practice, Government made available an extensive suite of information in order to ensure a wide range of investors could participate in the transaction and make an accurate assessment of the value of the loans. Investors also had access to the analysis performed by ratings agencies Standard and Poor's and Fitch, who provided an assessment of the credit quality of the rated (A1, A2 and B) notes.

47. As is normal for such transactions, through a Virtual Data Room (VDR), investors were provided with a comprehensive Sale Prospectus, Sales and Servicing Presentations, an indicative financial model of the cash flows, and access to anonymised data on the loan book. During the sales process, investors were also given access to industry-standard tools to analyse various cash flow scenarios and were able to pose questions which were then answered and those answers shared with the entire investor community who had registered to the VDR.

48. The price discovery process for each tranche of notes being sold was carried out using a market standard book-building process. This process solicited bids for investors based on indications of their price and volume interest for the notes. The book-build was designed to encourage maximum competition between bidders for the notes and to therefore deliver the highest price. The price at which there was sufficient demand to sell each of the tranches was used to set the clearing price.

49. During the formal transaction process which followed market practice for bookbuilding processes, the Government first issued Initial Pricing Thoughts ("IPTs") to guide investors on the approximate range of pricing expectations. These were based on an assessment of investors' price expectations gathered during a market testing exercise, as well as the price of other market securities. Subsequently, as formal orders were received, a few days into the bookbuild process Government followed market practice and refined the IPTs, issuing Price Guidance. Following this, the Joint Lead Managers were able to generate further price tension with final price set at the tight end of ranges for 3 of the notes and at the mid-point of the range for the fourth. This is illustrated in the table below.

Prices expressed as (% of face value)	**IPTs (28 November)**	**Price Guidance (3 December)**	**Final pricing (3 December)**
A1	97.4% area	97.39-97.65%	97.65%
A2	87.2%-88.0%	87.7-88.5%	88.19%
B	83.2-85.0%	85.0% area	85.50%
X	9%-10%	9.5-10.0%	10.00%

Comparison of sale price and Government's Retention Value

50. The Government Retention Value assesses whether there is more value to Government in retaining or selling the loan sale pool, and is intended to reflect the underlying economics of any transaction. It is calculated in line with HMT's Green Book and supplementary guidance "Value for money and the valuation of public sector assets". It compares the estimated proceeds from a sale to the Government's Retention Value.

51. To achieve this Government must take account of the time value of money in order to estimate its "retention value". It must consider the effect of inflation, the riskiness of the asset and the opportunity cost of having money tied up in that asset. The opportunity cost reflects the fact the Government must make choices between different alternatives for the use of this money, and these choices are made within a fixed spending and investment envelope. In order for the sale to represent value for money for the taxpayer from a purely quantitative perspective, the price offered by a buyer needed to be higher than or broadly in line with this retention value.

52. It should be noted that the methodology for the Government's Retention Value is different to that used to calculate the value that the student loans are held at in the DfE accounts (the "carrying value"), which is determined on the basis of International Financial Reporting Standards as adapted and interpreted by the Financial Reporting Manual and subject to external audit by the National Audit Office.

53. This value represents the face value of all the loans issued less an estimate, generated by the Department's projection model, of the proportion of the loans that will not be repaid, discounted by RPI+0.7%. This discount rate is designed to represent the long-term cost to Government of borrowing money to invest in student loans; it does not reflect the value to Government of retaining these loans because it does not include key factors, such as the opportunity costs to Government of having cash tied up in assets. As such, comparing the carrying value and proceeds from a sale does not reflect a loss of value to HMG, although it does result in an accounting loss. The final, audited carrying value of the sold loans will be provided in the DfE's next annual report and accounts.

54. In determining whether to sell the loan book, the Government assessed the expected sale price and retention value at numerous key milestones in the sales process, with the Accounting Officer for the Department for Education taking advice from officials in HM Treasury, UK Government Investments, his own officials and from a range of appointed external advisers.

55. The Government uses the HM Treasury Green Book guidance for all investment and asset management decisions. This ensures a consistent and rational approach based upon rigorous, evidence-based and peer-reviewed frameworks for financial decision making.

56. The retention value was calculated by discounting the forecast student loan repayments using the HM Treasury Green Book discount rate for asset sales. This incorporates the Social Time Preference Rate (STPR), as well as additional considerations such as inflation and the risk characteristics of the assets for sale to which Government would be exposed as the loan holder. The Social Time Preference Rate represents the value society places on having a pound now compared to a pound in the future and it allows Government to make a fair and consistent comparison across a whole range of future spending and investment options. It would not be right to use the Government’s cost of borrowing, or the gilt rate, to estimate the retention value of the assets because this would not reflect the opportunity cost of having money tied up instead of available for other uses.

57. Government calculated multiple valuations using different approaches to provide an additional cross check of where fair value lay, and to help determine whether the market was operating and pricing the assets efficiently.

58. The Government’s policy is not to publish any information that would potentially enable the market to calculate its asset specific risk (the component of the Government’s discount rate -which is not public) and therefore its retention value, on the basis this would harm Government’s commercial interests. In the case of the sale programme, disclosing this information would significantly jeopardise the Government’s ability to maximise proceeds from future sales because the market would be able to assess how much it needs to bid for the loans to slightly exceed the retention value, whether or not this represents an efficient price for the assets. As above, maintaining sufficient competitive tension amongst investors is key. Government’s retention value will therefore be provided as required to the National Audit Office and the Public Accounts Committee in confidence, to facilitate Parliamentary scrutiny without compromising the Government’s ability to maximise proceeds.

59. The price offered in aggregate across the book was £1.93bn, which was above the retention value and within the range Government judged fair value to be, and the Accounting Officer therefore concluded the quantitative test had been met.

Section 5: Fiscal Impacts

60. At the time of Sale 2 the Office for National Statistics were reviewing the classification of all income contingent student loans and the Government awaits their decision. It should be noted that any changes to current methodology may affect the presentation of the loans in the national accounts as well as some of our calculations below. However, as it does not affect the economic realities of the transaction: the classification of the loans has no bearing on the Government’s value for money assessment set out in Section 4.

61. The net impacts of the sale on a selection of fiscal metrics, are as follows[4]:

Metric	£bn Impact	Comment
PSNB	-	No direct impact
PSND	£1.9bn reduction	Reduced by cash proceeds of £1.9bn The direct PSND impact reflects only the upfront cash impact of selling loans because illiquid student loans assets (not captured by PSND) are exchanged for cash (which reduces PSND). However, at original loan issuance PSND would have increased by the cash value of loans issued. The sale proceeds, along with repayments received to date, reduce this and any difference will be reflected in the aggregate PSND total.
PSNFL	£1.8bn increase	Increased by the difference between loan face value in National Accounts (£3.7bn) and cash proceeds (£1.9bn) Whilst the impact on PSNFL is included here it is important to note that there are considerable disadvantages to using PSNFL to consider the impact of student loans sales. PSNFL as currently defined does not recognise the impaired nature of the loans, and therefore greatly overstates their worth. The impairment on the loans represents a policy decision to support wider HE policy. For this reason, PSNFL will show a worsening of HMG's position upon sale, based on the fact that it overstated the value of the loans initially.

[4] This assessment assumes the sold loans are off-balance sheet under the current ESA10 framework.

Section 6: Investors

62. It is important to note that the loans will not be owned by investors and they have no power to change the terms of the loans or arrangements for collection, as set out in Section 3. The sale saw allocations made to 33 institutional investors across the 4 notes. To facilitate Parliamentary scrutiny, in line with Sale 1, the names of investors will be provided to the Public Accounts Committee and the National Audit Office in confidence. The Government is considering the Public Accounts Committee's recommendations and will respond in due course via Treasury Minute as is the normal process.

63. To give some colour as to the type of investors in these securities, set out below is information on the principal target investor groups for each of the notes:

a) **Class A1:** Traditional Asset Backed Securities investors (including asset managers, insurers with asset management arms and pension funds), who have a preference for floating rate and weighted average life ("WAL") of under 3 years;

b) **Class A2:** Insurers' annuity funds and pension funds, which may use them to hedge their long-dated liabilities. Certainty of cash flows is paramount to these investors and a fixed interest rate is attractive, particularly for insurers to apply matching adjustment treatment to the notes under Solvency II, which makes it capital efficient for them to invest;

c) **Class B:** Pension funds, alternative asset managers and asset managers who have appetite for longer dated, lower rated notes, with a higher expected return;

d) **Class X:** Alternative asset managers but also to asset managers and pension funds looking for high yielding assets.

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