



BRIEFING PAPER

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Student Loan Statistics

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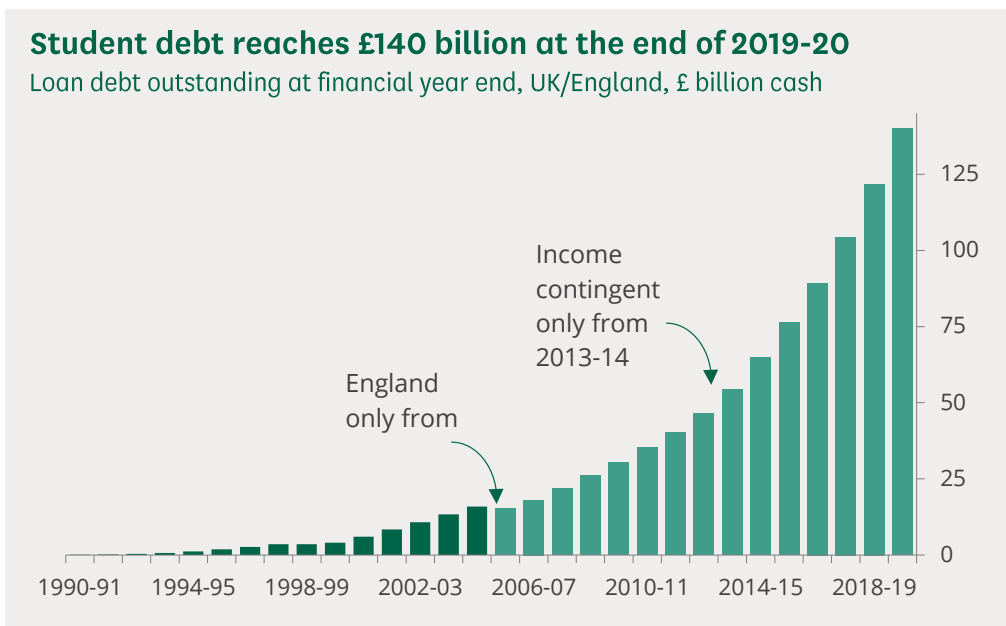
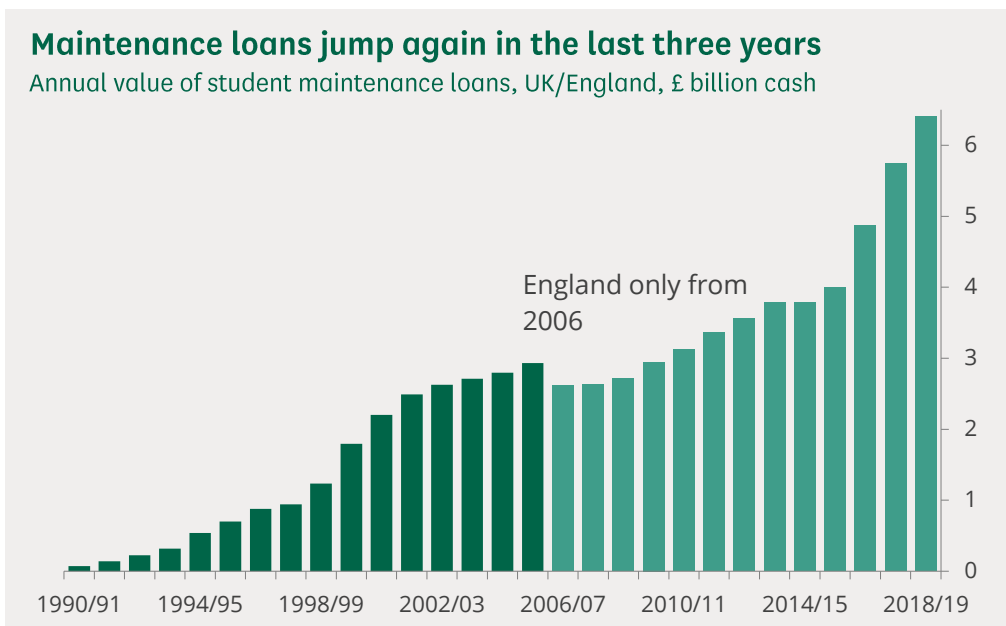
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Summary

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 **£17 billion** is loaned to around **1.3 million** higher education students in England each year. The value of outstanding loans at the end of March 2020 reached **£140 billion**. The Government forecasts the value of outstanding loans to be reach around **£560 billion** (2019-20 prices) by the middle of this century. The average debt among the cohort of borrowers who finished their courses in 2019 was **£40,000**. The Government expects that **25%** 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.

On 19 February 2018, Prime Minister Theresa May announced that there would be a “wide-ranging review into post-18 education” led by Philip Augar. The review was to look at how future students will contribute to the cost of their studies, including “the level, terms and duration of their contribution.” More detail on the review can be found at: [Review of Post-18 Education and Funding](#).

The Review report was published on 30 May 2019, [Independent panel report to the Review of Post-18 Education and Funding](#). The report was a detailed analysis of the post-18 education sector and the funding issues faced by stakeholders. The Library’s briefing paper [The Post-18 Education Review \(the Augar Review\) recommendations](#) give more detail. The forecasts summarised in this note assume the current system, with no changes, is kept in place. If the Government makes any changes to the loan system or loan amounts in their response to this report (expected in Autumn 2019) then they should publish new forecasts.

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. 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. 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 maximum¹ 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 1996/97.²

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 £10,000.³ 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.

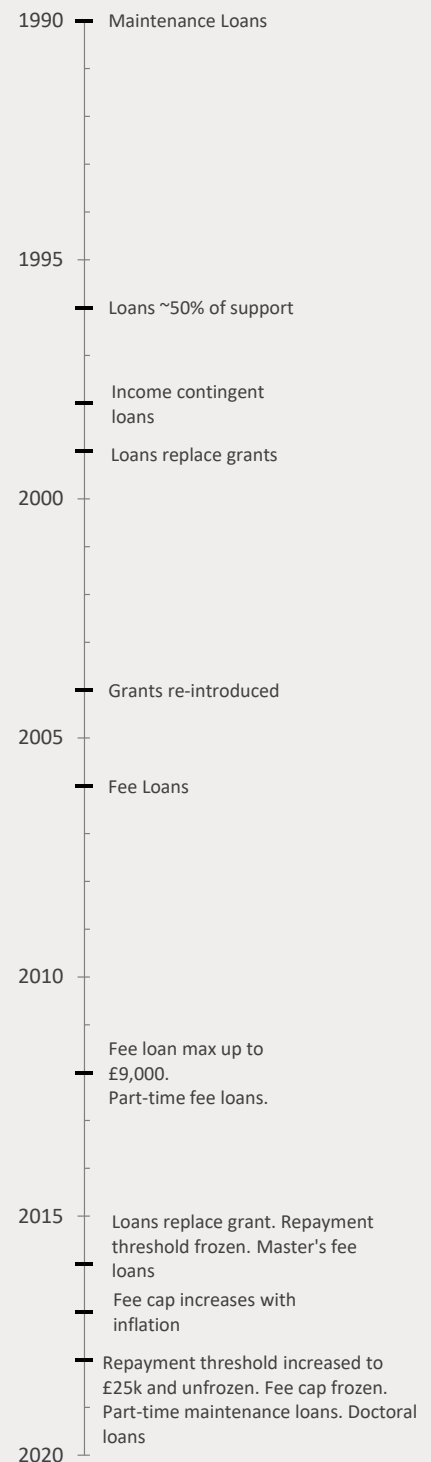
New students in 2006/07 in England were also eligible for a new income-assessed Maintenance Grant of up to £2,700. This reduced the amount of maintenance loan someone was eligible for.

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 to £9,000 and a related cut in direct public funding for tuition there were the following changes were made to student loans:⁴

- An increase in the earnings threshold to £21,000

Timeline



¹ Maximum for a full year student living away from home and outside London.

² 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*

³ *Investing in the future: Supporting students in higher education*, DfEE

⁴ [Reform for higher education and student finance](#), BIS (3 November 2010)

- 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.⁵

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, 6.3% in 2018/19 and 5.4% in 2019/20.

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 2016/17.⁶ 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:⁷

- 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 amount would be an additional £0.9 billion for each £15 billion of loans to new students.⁸

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.

⁵ More detail and analysis is included in the note [Changes to higher education funding and student support from 2012/13](#)

⁶ See Library briefing paper [Value of student maintenance support](#) for more detail.

⁷ [Freezing the student loan repayment threshold. Equality analysis](#), BIS (Nov 2015)

⁸ This volume of loans is approximately the amount that might be lent to each cohort of new students.

Prime Minister's October 2017 announcement on student finance

On 1 October 2017 Prime Minister Theresa May 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](#)

In February 2018, the Prime Minister announced a wide-ranging [Review of Post-18 Education and Funding](#) led by Philip Augar. The Review was partly in response to increased debate around the cost and value of higher education following a period of reform which saw tuition fees rise to £9,250 per year, maintenance grants abolished and typical student debt rise to £47,000 from a three year degree. During the period of higher education reforms the further education sector had also experienced difficult times due to a sustained period of funding reductions. The Review therefore aimed to create a joined up post-18 education that which would work for students and taxpayers.

The Review report was published on 30 May 2019, [Independent panel report to the Review of Post-18 Education and Funding](#). The report was a detailed analysis of the post-18 education sector and the funding issues faced by stakeholders. The report contained 53 recommendations on the future structure of the sector and funding proposals. The headline recommendations related to student loans were were:

- the reduction of higher education tuition fees to £7,500 per year
- Government to replace lost fee income by increasing teaching grant
- extending the student loan repayment period from 30 years to 40 years
- reducing the interest charged on student loans while students are studying
- capping the overall amount of repayments on student loans to 1.2 times their loan
- reducing the income threshold for student loan repayments from £25,000 to £23,000
- reintroducing maintenance grants of £3,000 for disadvantaged students

The proposals are expected to cost an additional £0.3-0.6 billion in annual ongoing annual costs. The changes to student finance and funding are expected to reduce costs when taken on their own. They shift the balance of taxpayer funding from loan write offs to more direct funding for teaching and maintenance. The Government is expected to respond to these proposals before the end of winter 2019/20.

The Library's briefing paper [The Post-18 Education Review \(the Augar Review\) recommendations](#) give more detail

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 opposite. The annual value of maintenance loans only is illustrated in the following chart (note the change in geography).

Each indicator shown in the table increased in every year to 2018/19, 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.

Student loans: Value and take-up

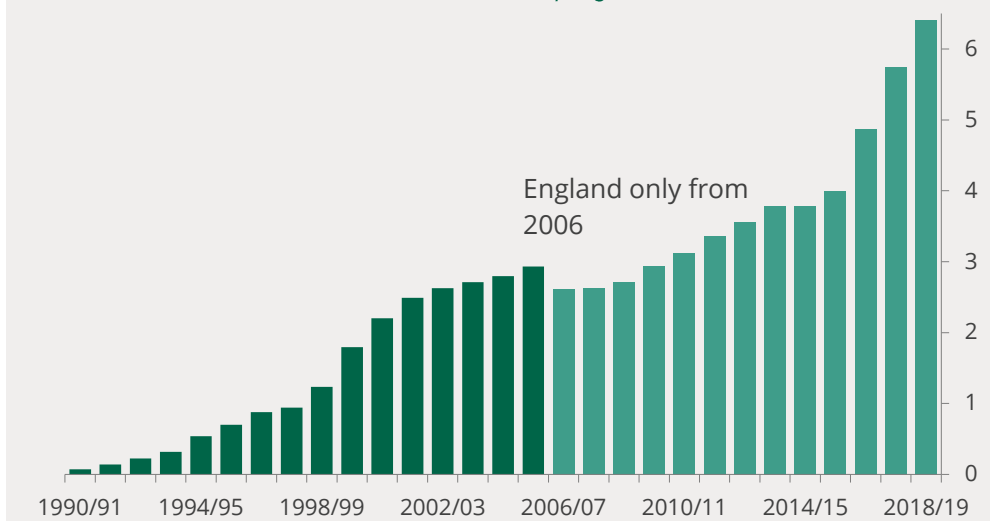
UK, academic years

	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	86%
2012/13	987	7,794	7,900	91%
2015/16	1,064	11,741	11,040	94%
2016/17	1,087	12,942	11,910	94%
2017/18	1,100	14,259	12,960	94%
2018/19	1,108	15,082	13,610	-

Source: [Student Support for Higher Education in England 2019](#); and earlier editions, SLC

Maintenance loans jump again in the last three years

Annual value of student maintenance loans, UK/England, £ billion cash



Source: [Student Support for Higher Education in England 2019](#); and earlier editions, SLC

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 2018/19 data is provisional.

The 2016/17 to 2018/19 figures, when compared to equivalent earlier data, show little change in the number of maintenance loans taken out, but annual increases of 24%, 16% and 12% in the total *value* of maintenance loans in each year. 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 £6,100, increasing to £6,400 in 2018 compared to just over £4,000 for students starting before the 2016/17 changes. There was a relatively modest increase in the average and total value of tuition fee loans awarded in 2016/17 and 2017/18.

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. The replacement of grants with loans for new students from 2016/17 has caused the gap to fall.

The Government expects that the face value of all loans made to higher education students in England (including part-time and postgraduate students) will be £17.6 billion in financial year 2019-20.⁹

Forecasts

The Department for Education published its third set of [loan forecasts](#) in September 2020. Their 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

		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Change 2018-19 to 2023-24
<i>Loan outlays (£ billion)</i>									
Plan 2	Fee loans	9.4	9.7	10.1	10.6	11.2	11.7	12.2	+30%
	Maintenance	6.5	7.1	7.4	7.8	8.2	8.6	9.0	+39%
	All	15.8	16.9	17.6	18.4	19.4	20.3	21.2	+34%
All loan products		16.5	17.6	18.3	19.2	20.2	21.2	22.0	+34%
<i>Students receiving loans (million)</i>									
Plan 2	Fee loans	1.09	1.10	1.14	1.16	1.19	1.20	1.22	+11%
	Maintenance	1.03	1.01	1.04	1.05	1.08	1.09	1.11	+8%

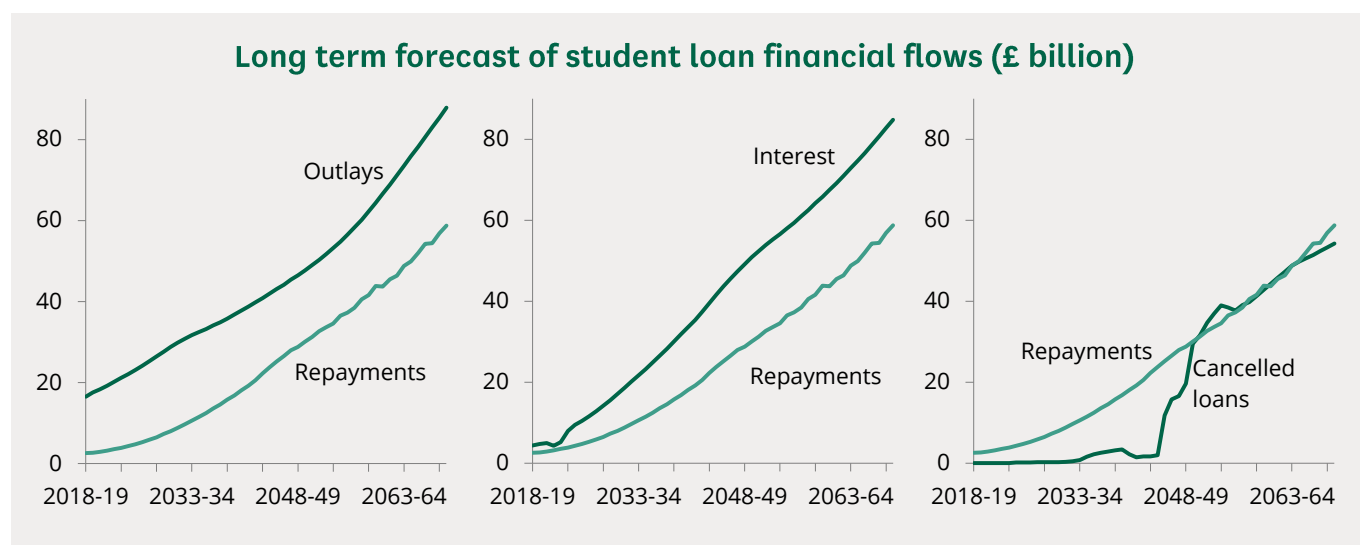
Source: [Student loan forecasts for England, financial year 2019-20](#), DfE

⁹ [Student loan forecasts for England, financial year 2019-20](#), DfE

They show that between 2018-19 and 2024-25:

- The total amount lent to students is expected to grow by £5.5 billion.
- Much 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.

The Department for Education also made long-term projections in the same publication. These are subject to an even greater degree of uncertainty.¹⁰ Projections of the main financial flows are illustrated below.



They show total loan outlays increasing over time in cash terms to more than £50 billion a year in cash prices by the middle of the century. They reach more than £80 billion a year by the late 2060s. Repayments increase at a faster rate early on in this period as more graduates become liable for repayment and earn more than the repayment threshold. These increase to around £30 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 initially rise to more than £30 billion per year before increasing to more than £40 billion a year from the late 2050s and then following a similar path to repayments.

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.

Readers should note that these forecasts assume the current system stays in place as it is. If the Government makes any changes to the loan system or

¹⁰ These forecasts are consistent with those to 2023-24, 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’s (OBR) March 2019 Economic and fiscal outlook.
- Loan borrower entrant numbers vary in line with the Office for National Statistics (ONS) 2016-based principal population projections, weighted to the age profile of new entrants for each loan product.
- Future entrants have the same distribution of characteristics, loan amounts (uprated by RPIX) and earnings (uprated by OBR average earnings growth forecasts) as the 2024/25 entrants in the DfE student loan repayment and Advanced Learner Loans models.
- The maximum loan amounts, repayment thresholds and interest thresholds are uprated annually as appropriate. There are no other changes to student loan policies.

loan amounts following their review of post-18 education and funding (expected in Autumn 2019) then new forecasts for the new system should be published..

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 2017/18 when 7% 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 £13,900; the average across all who took out any type of loan was £12,800.¹¹

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 latest data are for 2016/17 when estimated maintenance loan take up was 89%. Estimated fee loan take up was 95% for students in England and 77% for EU students in 2016/17¹²

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 £15,000¹³ and take an average of 11 years to repay for men and 16 year for women.¹⁴ In the past the Department for Business, Innovation and Skills had 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.¹⁵ 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 £40,000.¹⁶

¹¹ Student Support for Higher Education in England 2018: Full year 2017/18 and early in year 2018/19, and earlier editions, SLC. Table 3D

¹² *ibid.* Tables 3A(ii) and 3B(ii)

¹³ HC Deb 19 March 2007 c703W

¹⁴ HC Deb 26 November 2007 c166W

¹⁵ HC Deb 25 January 2011 c251-2W

¹⁶ 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

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).¹⁷

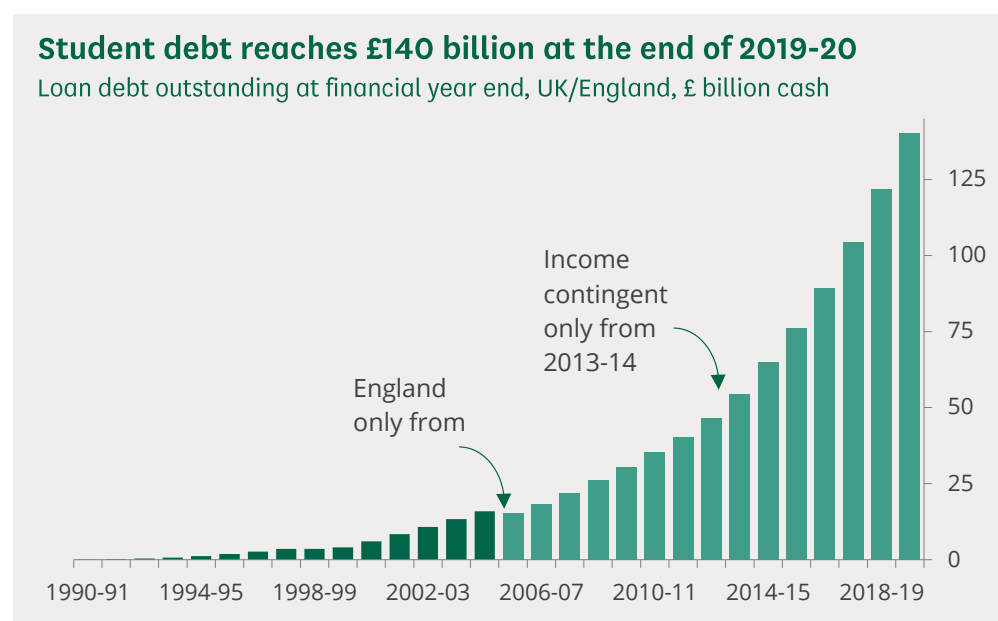
The ending of maintenance grants for students from poorer families from 2016 will increase the average debt across all students. Unlike the original 2012 system it is now likely that the average debt on graduation will be highest among poorest students. The IFS has said that ending grants could push 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 £1,000.¹⁸

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

3. Loan debt and repayment

3.1 Total debt

The appended Table 2 shows total student loan outlay and repayments for financial years to 2018-19. 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 below.



Source: [Student Loans in England: Financial year 2019-20](#) (and earlier), SLC

¹⁷ [Payback time? Student debt and loan repayments: what will the 2012 reforms mean for graduates?](#), IFS April 2014

¹⁸ [Analysis of the higher education funding reforms announced in Summer Budget 2015](#), IFS

At the end of 2019-20 total publicly owned debt for English higher education students and EU students studying in England was £140.1 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 2019-20 alone was more than £18 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.

Type of loan

The table opposite shows the split between maintenance and 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 60% in 2019-20 as maintenance loans replaced grants for greater numbers of students.

Part-time undergraduates became eligible for fee loans from 2012 and maintenance loans from 2018. A total of £255 million was lent to part-time students in 2018/19; 2% of the total across all students.¹⁹

Student loan debt £bn 31.03.2020:

England	£140.1
Scotland	£6.0
Wales	£5.3
N. Ireland	£3.8

Growth in lending driven 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
2018-19	6.2	9.5	0.5	16.2
2019-20	6.9	9.9	0.5	17.4

Source: [Student Loans in England: Financial year 2019-20](#) (and earlier), SLC

¹⁹ [Student Support for Higher Education in England 2019](#); SLC

The 2016/17 data included postgraduate loans for the first time. £469 million was lent as Masters Loans to students in England in 2016/17, increasing to £589 million in 2018-19. The table below breaks down lending in the most recent three full years by type of student/loan. It also includes the small amount of loans for part-time maintenance and Doctoral Loans in the latest year. Loans to undergraduates from England still make up more than 90% of the total value of loans.

		2016/17		2017/18		2018/19	
		£ billion	% of total	£ billion	% of total	£ billion	% of total
Students from England							
Undergraduates							
Full-time	Maintenance	4,870	35%	5,746	37%	6,409	39%
	Fee	8,061	57%	8,525	55%	8,708	53%
Part-time	Fee	226	2%	247	2%	237	1%
	Maintenance	..	..	..	..	17	0%
Postgraduates	Masters	469	3%	576	4%	589	4%
	Doctoral	..	..	..	..	17	0%
EU students	All	457	3%	521	3%	532	3%
Total		14,084		15,617		16,510	

Source: [Student Support for Higher Education in England 2019](#), SLC

Forecasts

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

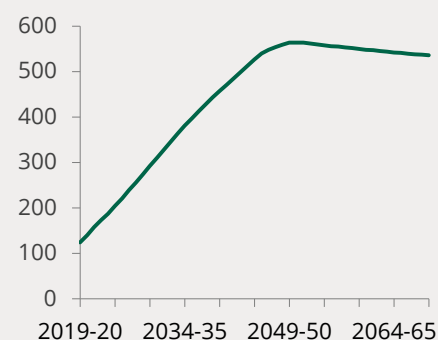
- Annual loan outlays are expected to remain around £15-20 billion *above* repayments for most of the period covered
- Capitalised interest on loans is also expected to be higher than repayments in each year.
- The first substantial impact of cancelled loans will not be seen until the middle of the century

The combined impact of these different financial flows is that the total value of the loan book is forecast to reach more than £1 trillion²⁰ in cash terms in the mid-2040s and £2 trillion by the late 2060s. In 2019-20 prices (see opposite) the total value of the loan book is forecast to exceed £500 billion in the early 2040s and peak at around £560 billion in the early 2050s. After then the value falls in real terms in large part due to the impact of cancelled loans

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

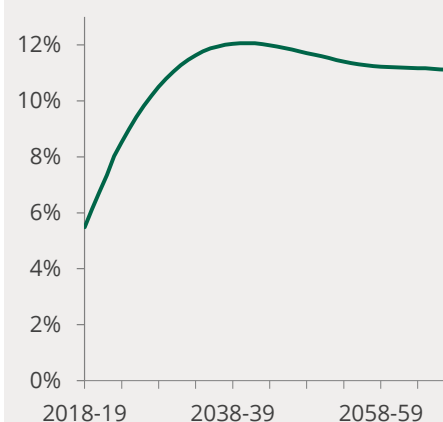
Forecast value of loan book
£ billion 2019-20 prices



²⁰ £1,000,000,000,000

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 long-term projection, published in 2018, is that across the UK student loans added 5.5% of GDP to net debt in 2018-19. This is all loans, repayments and sales up to 2018-19, not just net lending in that year. This rate is expected to increase rapidly over the next two decades before peaking at 12.1% of GDP in the early 2040s and declining to 11.1% in the late-2060s. This increase is driven by English loans made to new students from 2012 onwards.²¹ The Government's decision to end the loan sales programme will increase the impact on debt, particularly in the short term.

Additions to UK net debt from student loans (% of 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 had student loans accounts outstanding. This information is longer published in such detail, so this table will not be updated. 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

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

Source: [Student loans in England: 2017 to 2018](#), SLC

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 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.²² Regulations were changed in 2010 to exclude Student Loans debt from IVAs.

²¹ [Fiscal sustainability report, July 2018](#), OBR

²² HC Deb 7 March 2008 c2900W

Repayment by cohort

The Student Loans Company publishes 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 2018 and give limited information for the 2019 and 2020 cohorts who have no full tax year processed yet.²³ 60% of students in the first large repayment cohort²⁴ (2002) had repaid their loan; this fell off to 23% of the 2010 cohort and 13% of the 2012 cohort. The likelihood that a borrower was working, but earning below the threshold was clearly higher for more recent graduates; 43% for the 2018 cohort falling to 12-13% for the 2011 and earlier cohorts. The proportion who were in the UK tax system but not working was 5-6% for the more recent and 3-4% for earlier cohorts. A further 5-6% (of earlier cohorts) 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 and £16,200 for the 2011 cohort. The first large cohort of borrowers who took out loans under the post-2012 system was the 2016 cohort, but their average (£24,400) was lower than might be expected as it includes borrowers under the pre-2012 arrangements and part-time students. The provisional figure for the 2020 cohort was £40,300. These figures include EU students who are not eligible for maintenance loans. The average for English students alone was around £40,900.

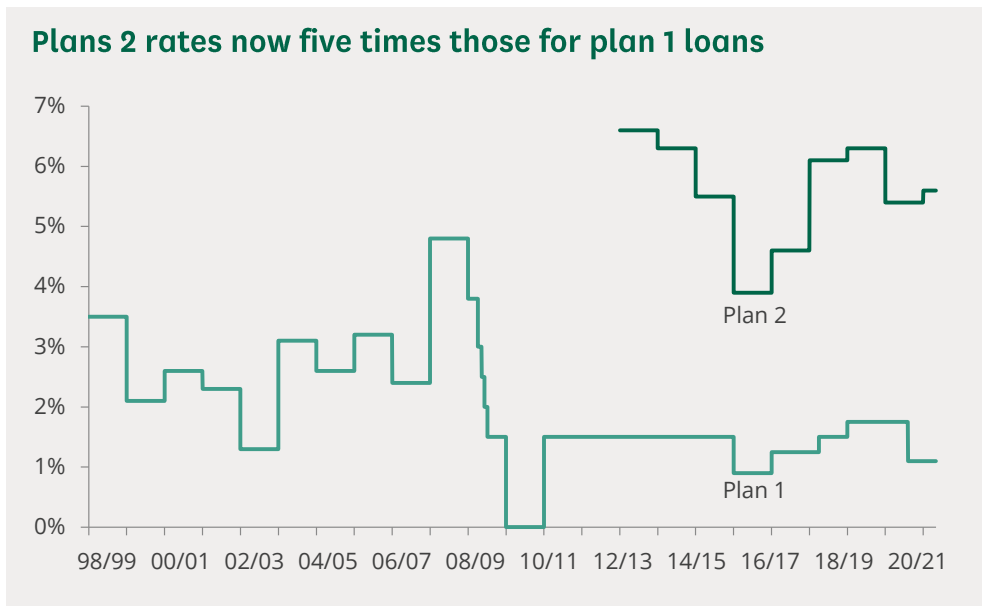
There is a shift over time from those repaying to those who have repaid as we might expect. The cohort data shows, a relatively rapid increase in the number repaying within a cohort over the first few years of potential repayment followed by much less variation and a gradual decline in numbers as more 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, 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.

²³ [Student Loans in England: Financial year 2019-20](#), SLC

²⁴ 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.

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 below.



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 1991/92.²⁵ 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.^{26 27 28}

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

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

²⁵ Facts & Figures, Student Loans Company
http://www.slc.co.uk/statistics/facts_figures.html

²⁶ *ibid.*

²⁷ HC Deb 26 January 2009 c268W

²⁸ *Income Contingent Loans (ICL) - Maximum Loan Rates*, SLC

will be the rate for the year from 1 September 2009.²⁹ 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’.³⁰ 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%.³¹ 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 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.³² 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 2013.³³ 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 was reduced to 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 2017. The rate was increased to 1.75% from 1 September 2018 and cut to 1.1% from 6 April 2020.³⁴

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, 6.3% in

²⁹ *The Education (Student Loans) (Repayment) Regulations 2009*, (SI 470 2009) : http://www.opsi.gov.uk/si/si2009/uksi_20090470_en_3#pt2-11g21

³⁰ HC Deb 9 July 2008 c1716W

³¹ 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

³² 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.

³³ ONS series CHAW

³⁴ <https://www.gov.uk/guidance/how-interest-is-calculated-plan-1>

2018/19 and 5.6% in 2019/20. The slight increase in RPI inflation to March 2020 means that the 2020/21 rate is 5.6%.

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 payments over the lifetime of the loans were £50 million and £85-100 million respectively.³⁵

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.³⁶

A plan to sell off the last remaining mortgage-style loans was announced in March 2013.³⁷ On 25 November 2013 the Government announced that the last £890 million of outstanding mortgage-style loans had been sold for £160 million.³⁸

Income contingent loans

For more detail and background on this see the briefing paper [Update on the sale of student loans](#).

³⁵ HC Deb 5 March 1998 c 749-5W; HL Deb 9 March 1999 cc20-21WA

³⁶ HC Deb 12 July 2007 c1609-10W

³⁷ BIS press notice 26 March 2013, [The government launches process to sell off the last remaining publicly-owned mortgage-style student loans](#)

³⁸ BIS press notice 25 November 2013 [Sale of mortgage style student loan book completed](#)

Plans

Plans for loan sell offs totalling £6 billion over the period 2008-11 were announced in Budget 2007.³⁹ 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.⁴⁰ The current Government announced in the Higher Education White Paper that:⁴¹

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 2018.⁴² 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 proceeds would be less than the cumulative cost of the policy within a decade.⁴³ 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 earliest any sales of income contingent loans are now expected is early 2017; a decade after plans were first announced.

The Institute for Fiscal Studies made the following comments after the Autumn Statement:⁴⁴

...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.

³⁹ *Budget 2007*, HM Treasury

⁴⁰ HC Deb 30 June 2009 c147W

⁴¹ *Higher Education. Students at the heart of the system*, BIS June 2011 (Cm 8122)

⁴² *Autumn Statement 2013*, HM Treasury. Table 2.5

⁴³ 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.

⁴⁴ [Autumn Statement 2013: Introductory Remarks](#), IFS

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:⁴⁵

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

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.⁴⁶

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...”⁴⁷ 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”.⁴⁸

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.⁴⁹

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 2016/17.⁵⁰

The Autumn Statement 2016 said the Government intended to launch the first sale in early 2017 “...subject to market conditions”⁵¹. 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

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.

⁴⁵ [Student Loans](#), Business, Innovation and Skills Select Committee, third report of 2014/15

⁴⁶ [Student loans sell-off abandonment raises tension in cabinet](#), The Guardian 20 July 2014

⁴⁷ PQ HL1512 [on Higher and further education: Admissions], 11 August 2014

⁴⁸ [Student Loans: Government Response to the Committee’s Third Report of Session 2014-15](#), BIS Select Committee second special report of session 2014-15

⁴⁹ [Fiscal Sustainability Report – July 2014](#), OBR

⁵⁰ [Spending Review and Autumn Statement 2015](#), p.74

⁵¹ [Autumn Statement 2016](#), HM Treasury. para 1.66

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.

Sales

In early February 2017 the Government announced it had begun the process to start the first sale.⁵² On 6 December 2017 the Government announced that it had sold the first tranche of Plan One loans for £1.7 billion.⁵³ 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 sale achieved £1.7 billion from 1.2 million loans with a face value of £3.5 billion held by over 400,000 borrowers. This represented a write off of 51 per cent of the face value of the loans.

A second sale of a tranche of Plan 1 loans that entered repayment between 2007 and 2009 was completed in December 2018. The sale was of loans with a total face value of around £3.9bn and achieved £1.9bn.⁵⁴ A [written statement](#)⁵⁵ on 4 December 2018 said that the tranche was sold for **£1.9bn** and that the sale achieved good value for money:

The [report to Parliament](#) on the sale was published in mid-December. As with the report on the first sale this set out the rationale, objectives and approach taken as well as a value for money assessment. Around 1.3 million Plan 1 loans held by 370,000 borrowers which entered repayment between 2007 and 2009 were included in this sale. The same method of value for money assessment was used as in the first sale. Again the report said the price offered “...was above the retention value calculated by Government, and the Accounting Officer therefore concluded the quantitative test had been met.”⁵⁶

End of the sales programme

The Treasury carried out an internal review of the student loan sales programme as part of Budget 2020. It stated that the earlier sales of income contingent loans “...achieved value for money”. However:⁵⁷

Following the Office for National Statistics’ recent change in the accounting treatment of student loans, loan sales now have a significant negative impact on public sector net borrowing, whilst the new accounting treatment also means that sales will have a new impact on other metrics such as Public Sector Net Investment. Moreover, because of the government’s progress in fixing the public finances, debt is now expected to be broadly stable over the medium-term.

The government has therefore taken the decision that it will not proceed with further sales of student loans. As a result, no further

⁵² [Government launches first sale from the student loan book’, Department for Education, HM Treasury and Student Loans Company, February 2017](#)

⁵³ [Written statement HLWS313](#) [on Government asset sale] 6 December 2017

⁵⁴ HCWS979, [Government Asset Sale](#), 10 October 2018

⁵⁵ HCWS1137 [Government asset sale update](#), 4 December 2018

⁵⁶ [Second Sale of Pre2012 \(Plan 1\) Income Contingent Student Loans, HC1843 \(2017-19\)](#)

⁵⁷ [Review of the student loan sale programme](#), HM Treasury (11 March 2020)

sales of Plan 1 (pre-2012) student loans will now be undertaken. The government also has no plans to sell Plan 2 (post-2012) loans

The programme of loan sales was meant to continue to 2022-23 and raised a total of £15 billion. The two tranches of income contingent loans that were sold raised £3.6 billion.

The review estimated that continuing with the sales programme as planned would add £2.0-£2.2 billion to borrowing each year to 2022-23. It stated:⁵⁸

Following the new ONS treatment, the case for further loan sales is influenced by the extent to which the government prioritises up-front debt reduction over other measures. Whilst the loan sales continue to bring forward debt reduction, which remains an important consideration for the government, the sales are now recorded as impacting public sector net borrowing and Public Sector Net Investment, which could serve to constrain alternative investments in economic or social infrastructure.

6. International comparisons

In the past the OECD has made some comparisons of different aspects of student loans. These have not been updated regularly and 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.

OECD analysis of systems in 2017/18 only cover overall amounts of loans and grants. The average loan in England at \$17,300 was substantially higher than in any other country included in the analysis. The next highest was Norway at \$10,500. The average value of grants/scholarships in England was \$4,600 which was broadly in the middle of the range of amounts across countries included.⁵⁹ In many countries the support of this type is lower because students are not charged tuition fees, or they are heavily subsidised.

⁵⁸ *ibid.*

⁵⁹ [Education at a glance 2020](#), OECD (Tables C5.1 & C5.3)

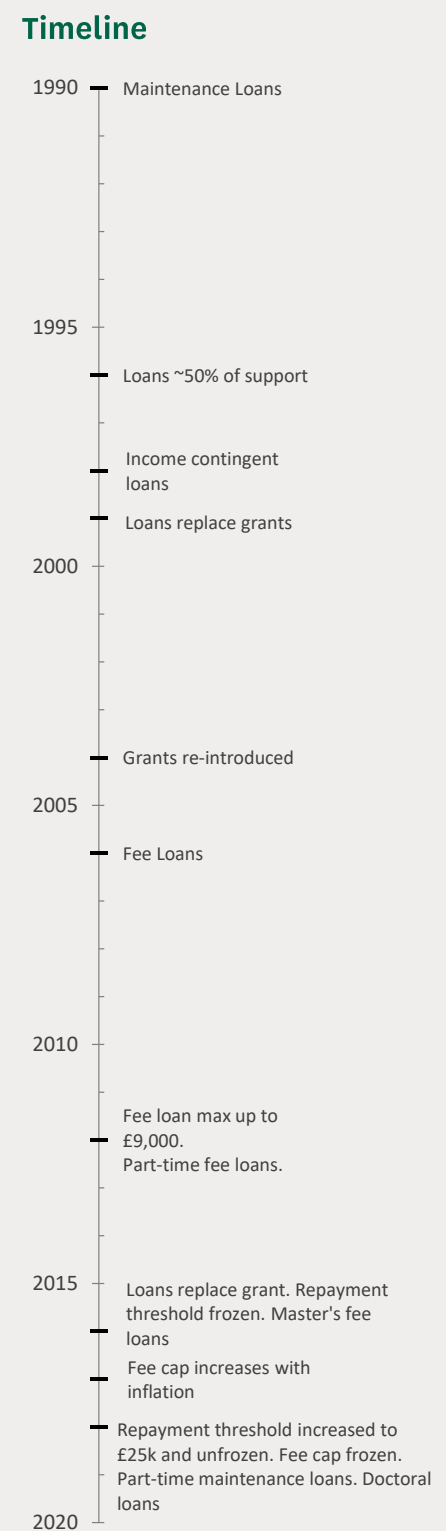
7. Student loans background -in full

7.1 Pre-2012

Student loans first became part of the student support package in 1990/91. In that year students could take out a maximum⁶⁰ 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 1996/97.⁶¹ 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;⁶² 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 £10,000.⁶³ This threshold was raised to £15,000 in April 2005. 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 2016.⁶⁴

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 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



⁶⁰ Maximum for a full year student living away from home and outside London.

⁶¹ 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*

⁶² If 5 or more loans are taken out repayment is made over 84 months.

⁶³ *Investing in the future: Supporting students in higher education*, DfEE

⁶⁴ *ibid.*

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.⁶⁵

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.

7.2 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:⁶⁶

- 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.⁶⁷

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

⁶⁵ DIUS press release 5 July 2007 *Increased support for students in higher education*

⁶⁶ [Reform for higher education and student finance](#), BIS (3 November 2010)

⁶⁷ More detail and analysis is included in the note [Changes to higher education funding and student support from 2012/13](#)

increase in the proportion of graduates who have some of their loan written off from around 15% for pre-2012 borrowers to around 60%.⁶⁸

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:⁶⁹

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.⁷⁰

Regulations setting out provisions for student loan repayments for post-2012 student loans were laid before Parliament in May 2012.⁷¹ 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 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

⁶⁸ *Simplified student loan repayment model* (December 2013), BIS

⁶⁹ HL Deb 15 September 2011 c88-89WA

⁷⁰ Education Bill 2011 –Explanatory Notes

⁷¹ [Education \(Student Loans\) \(Repayment\) \(Amendment\) \(No.2\) Regulations 2012](#) (SI 1309 2012)

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 2012, after which it will be increased in line with inflation until 2016.⁷²

7.3 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 2016/17.⁷³ 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:⁷⁴

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 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.

Summer Budget 2015 changes:

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

⁷² *ibid.*

⁷³ See Library briefing paper [Value of student maintenance support](#) for more detail.

⁷⁴ [Summer Budget 2015](#), HMT

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

The Government published its response to the consultation in November 2015.⁷⁵ 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.⁷⁶ 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.⁷⁷

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 go on to become higher earners. Those from the richest households will see no change.

Freezing the repayment threshold increases repayments by the largest absolute amount among ~~<Type callout text>~~ middle earners and by the largest proportionate amount among the lowest earning graduates

⁷⁵ [Freezing the student loan repayment threshold Government response to the consultation on freezing the student loan repayment threshold](#), BIS (Nov 2015)

⁷⁶ [Freezing the student loan repayment threshold. Equality analysis](#), BIS (Nov 2015)

⁷⁷ [Higher education: student finance changes](#), BIS new release 9 July 2015

Overall they expect around 35% of those previously entitled to a full grants will see higher loan repayments.⁷⁸

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 earnings⁷⁹ 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:⁸⁰

- 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.

⁷⁸ [Analysis of the higher education funding reforms announced in Summer Budget 2015](#), IFS

⁷⁹ See for instance [Economic and Fiscal Outlook July 2015](#), OBR

⁸⁰ [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:⁸¹

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:⁸²

...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:⁸³

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

⁸¹ ibid. p.61

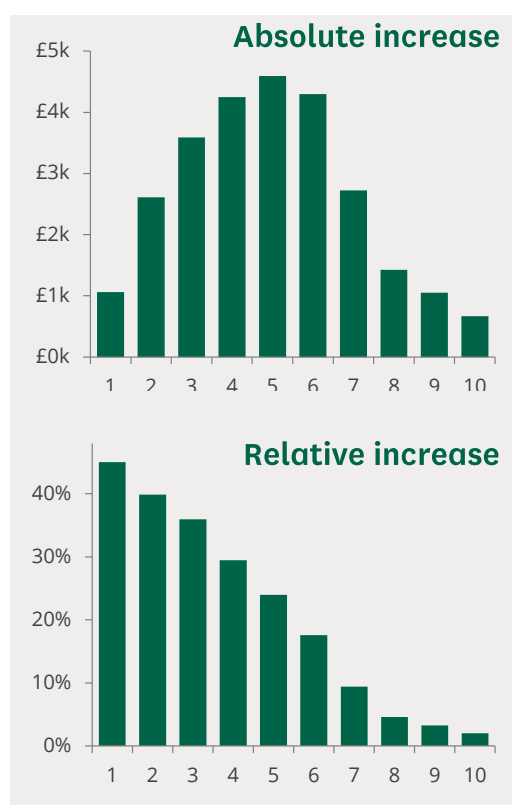
⁸² ibid. p.62

⁸³ 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 earners see largest absolute increase in repayments

Modelled impact of freezing the repayment threshold on graduates, £ 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%

Potential impacts on the public finances

The Government has estimated that ending grants and replacing them with loans will save £2.5 billion by 2020-21.⁸⁴ 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.

⁸⁴ [Summer Budget 2015](#), HMT

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.⁸⁵ It is important to 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.⁸⁶ 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.⁸⁷

7.4 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](#)

7.5 Review of post-18 education and funding

In February 2018, the Prime Minister announced a wide-ranging [Review of Post-18 Education and Funding](#) led by Philip Augar. The Review was partly in response to increased debate around the cost and value of higher education following a period of reform which saw tuition fees rise to £9,250 per year, maintenance grants abolished and typical student debt rise to £47,000 from a three year degree. During the period of higher education reforms the further education sector had also experienced difficult times due to a sustained period of funding reductions. The Review therefore aimed to create a joined up post-18 education that which would work for students and taxpayers.

The Review report was published on 30 May 2019, [Independent panel report to the Review of Post-18 Education and Funding](#). The report was a detailed analysis of the post-18 education sector and the funding issues faced by stakeholders. The report contained 53 recommendations on the

⁸⁵ [Analysis of the higher education funding reforms announced in Summer Budget 2015](#), IFS

⁸⁶ This volume of loans is approximately the amount that might be lent to each cohort of new students.

⁸⁷ [Consultation on freezing the student loan repayment threshold](#), BIS (July 2015)

future structure of the sector and funding proposals. The headline recommendations related to student loans were were:

- the reduction of higher education tuition fees to £7,500 per year
- Government to replace lost fee income by increasing teaching grant
- extending the student loan repayment period from 30 years to 40 years
- reducing the interest charged on student loans while students are studying
- capping the overall amount of repayments on student loans to 1.2 times their loan
- reducing the income threshold for student loan repayments from £25,000 to £23,000
- reintroducing maintenance grants of £3,000 for disadvantaged students

The proposals are expected to cost an additional £0.3-0.6 billion in annual ongoing annual costs. The changes to student finance and funding are expected to reduce costs when taken on their own. They shift the balance of taxpayer funding from loan write offs to more direct funding for teaching and maintenance. The Government is expected to respond to these proposals when the Spending Review is published later this year.

The Library's briefing paper [*The Post-18 Education Review \(the Augar Review\) recommendations*](#) give more detail

Reference tables

Table 1

Student loans: Value and take-up in the UK

Full-time students, 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	728	2,613	80%
	-Tuition fee	397	808	-
2007/08	-Maintenance	746	2,631	80%
	-Tuition fee	554	1,389	-
2008/09	-Maintenance	772	2,717	80%
	-Tuition fee	697	1,981	-
2009/10	-Maintenance	819	2,946	83%
	-Tuition fee	782	2,344	80%
	-combined ^a	872	5,214	-
2010/11	-Maintenance	857	3,122	82%
	-Tuition fee	833	2,572	86%
	-combined ^a	909	5,601	-
2011/12	-Maintenance	909	3,358	84%
	-Tuition fee	887	2,852	88%
	-combined^a	959	6,067	-
2012/13	-Maintenance	932	3,558	86%
	-Tuition fee	926	4,408	91%
	-combined^a	987	7,794	-
2013/14	-Maintenance	973	3,784	89%
	-Tuition fee	966	5,938	93%
	-combined^a	1,031	9,493	-
2014/15	-Maintenance	963	3,785	89%
	-Tuition fee	973	7,291	94%
	-combined^a	1,033	10,783	-
2015/16	-Maintenance	986	3,997	89%
	-Tuition fee	1,009	8,095	94%
	-combined^a	1,064	11,741	-
2016/17	-Maintenance	1,013	4,870	89%
	-Tuition fee	1,036	8,469	94%
	-combined^a	1,087	12,942	-
2017/18	-Maintenance	1,028	5,746	89%
	-Tuition fee	1,076	8,985	94%
	-combined^a	1,100	14,259	-
2018/19	-Maintenance	1,042	6,409	-
	-Tuition fee	1,104	9,179	-
	-combined^a	1,108	15,082	-

Notes: Latest data are provisional

Loan data for 2008/09 to 2017/18 are the amount paid. Earlier figures and 2018/19 data are the amount awarded.

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

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 2019: Full year 2018/18 and early in year 2019/20, and earlier editions, SLG*; *Student Support Scheme Facts and Figures*, www.slc.co.uk

Table 2

Student loan outlays and repayments

£ million, financial years, UK or England

	Total outstanding at end of previous year	Lending during year	Repayments	Interest added	Amount written off/ cancelled ^a	Total outstanding at end of year
<i>All student loan debt in the UK</i>						
1995-96	1,178	688	51	44	1	1,859
1996-97	1,859	855	86	64	1	2,691
1997-98	2,691	939	134	79	1	3,574
1998-99	3,574	1,082	196	123	1	4,582
1999-00	4,582	1,480	278	134	2	5,917
2000-01	5,917	2,115	357	161	2	7,838
2001-02	7,838	2,440	476	207	3	10,011
<i>Public student loan debt in the UK</i>						
2002-03	8,390	2,618	333	147	3	10,821
2003-04	10,821	2,722	413	239	8	13,364
2004-05	13,364	2,780	497	312	15	15,948
2005-06	15,948	2,914	578	404	23	18,657
<i>Public student loan debt of English domiciled students and EU students studying in England</i>						
2005-06	13,033	2,465	482	331	20	15,322
2006-07	15,322	2,954	530	394	24	18,116
2007-08	18,116	3,905	634	586	29	21,944
2008-09	21,944	4,204	900	760	45	25,963
2009-10	25,963	5,049	1,010	524	42	30,489
2010-11	30,489	5,578	1,143	291	29	35,186
2011-12	35,186	5,966	1,306	463	37	40,272
2012-13	40,272	7,144	1,407	620	38	46,590
2013-14	45,903	9,021	1,461	921	29	54,355
2014-15	54,355	10,643	1,613	1,379	29	64,735
2015-16	64,735	11,765	1,786	1,570	27	76,253
2016-17	76,253	13,396	2,016	1,740	30	89,344
2017-18	89,344	14,991	2,339	2,497	37	104,457
2018-19	104,457	16,249	2,526	3,671	41	121,813
2019-20	121,813	17,384	4,779	5,715	39	140,093

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: [Student Loans in England: Financial year 2019-20](#) (and earlier), SLC

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