

## **Response to Early Repayment consultation**

### **WRITTEN MINISTERIAL STATEMENT**

**RT HON DAVID WILLETTS, MINISTER OF STATE FOR UNIVERSITIES AND SCIENCE; DEPARTMENT FOR BUSINESS, INNOVATION AND SKILLS**

### **STUDENT LOAN REPAYMENT**

**23 February 2012**

I am today confirming that there is to be no system of charges introduced for early repayment of student loans.

Last year, we consulted as to whether there should be a charge for early repayment, and if so, what form such a charge would take. This consultation, which closed on 20 September 2011, prompted 154 responses from the general public and key stakeholders including a diverse range of HE providers and representative bodies, consumer groups, employers and professional bodies.

Analysis of the consultation responses showed that a substantial majority of respondents were opposed to there being any restrictions on a borrower's ability to make early repayments. A smaller number of respondents were sympathetic to the principle of protecting the progressive nature of the student support system, but most of these felt that restrictions on early repayments were generally an ineffective way of delivering progressivity.

Having carefully considered all the evidence and responses submitted, we agree that individuals should be allowed to repay without penalty if they so wish. We have therefore decided that we will not make any changes to the status quo and will not implement any early repayment system. The proposed new student finance package is fair, sustainable and progressive and will remain so.

A list of respondents and summary of responses can be viewed online at <http://discuss.bis.gov.uk/hereform/early-repayment/>.

### **Early Repayment consultation: Summary of Responses**

***Q1 – Should BIS introduce a more progressive mechanism for early repayment of student loans?***

Yes	20	(13%)
No	115	(75%)
Did not answer	19	(12%)

Three quarters of respondents answered 'No' to this question. The reasons given fell into three main categories:

1. A general view that individuals should not be prohibited from repaying debts as soon as possible if they so wish [39% of respondents]
2. Early repayment charges would increase the cost of the student finance system for HM Government and/or significantly increase complexity for student loan customers [29%]
3. Charges would (i) disproportionately impact those from a middle income background or those who have relatively moderate earnings; (ii) be avoided entirely by the wealthy (via partial or complete up-front payment of fees); or (iii) not succeed in creating a progressive system [25%]

Of the remaining 25%, just over half (13%) indicated support for the concept of early repayment charges or some other type of mechanism intended to increase the progressive nature of the student support system. Those respondents who did support the underlying arguments for introduction of a mechanism did so on the grounds that the system should ensure that the wealthy contribute more and that a charge could improve the financial sustainability of the system. However, members of this group frequently expressed the view that the options put forward in the consultation (or, indeed, the general idea of a charge mechanism) were not necessarily the best way to achieving further progressivity, as opposed to for example a graduate tax [cf. analysis of Question 2] in the student finance system.

***Q2 - If BIS should introduce a more progressive mechanism, which model best delivers BIS' stated aims of ensuring the progressiveness and sustainability of the student finance system?***

Reflecting the majority of negative responses to Q1, this question was frequently not answered (96 respondents offered no response, or one that was not relevant to this question). Consequently, the responses did not indicate a strong preference for a particular type of early repayment charge mechanism.

Those respondents who did support introduction of a mechanism were largely unconvinced that any of the specific options put forward in the consultation would achieve the stated aim of improving the progressiveness of the student finance system.

Instead, respondents used this question to put forward a wide range of other perceived solutions such as a full graduate tax, a complete cessation of any early repayment, mandatory use of the student finance system (i.e. no up-front payment of fees by UK students who would be forced to draw down student loans) and flat-rate administrative charges for early repayment. The majority of these suggestions went beyond the scope of the consultation.

***Q3. How would a more progressive early repayment mechanism affect you or your organisation's perception of and relationship with the student finance system?***

This question was again not universally answered - around a third of respondents did not respond to the question. In line with responses to Q1 and Q2, respondents expressed an array of concerns about the introduction of early repayment charge mechanisms rather than expressing support. In particular, respondents stated that early repayment charges would:

1. act as a disincentive to entering the student finance system and, for some groups, to entering higher education altogether;
2. generate unwelcome additional complexity for student loan customers;
3. make the student finance system more difficult to communicate to borrowers;
4. send a poor message to borrowers about management of personal debt, which runs contrary to widely understood principles of debt management;
5. undermine the HE sectors' fund-raising from alumni voluntary giving (a particular concern for HEIs); and
6. send a signal that the student finance system has a purpose beyond facilitating participation in higher education.

It was clear that, for many respondents, an early repayment mechanism would represent additional complexity in the student finance system and that this could act as a barrier to entry to higher education, whatever its underlying aim. Even some of those sympathetic to the introduction of an early repayment charge mechanism were concerned about this.

**Early repayment consultation: List of Respondents**

**Total number of responses: 154**

**Consumer groups: 3**

Credit Action  
Money Saving Expert  
Which?

**Employers: 2**

GSK  
Microgen plc

**HE/education sector bodies: 8**

1994 Group  
Association of Colleges  
Catholic Education Service for England and Wales

Council for Advancement & Support of Education  
Russell Group  
UCAS  
University Alliance  
Universities UK

**HEIs: 25**

Aston University  
Bedfordshire University  
Birmingham City University  
Birmingham University  
Bournemouth University  
Bristol University  
Cambridge University  
Courtauld Institute  
Exeter University  
Harper Adams University College  
Imperial College, London  
Keele University  
King's College London  
Kingston University  
Leeds Metropolitan University  
Leicester College  
Manchester University  
Newcastle College Group  
Open University  
Plymouth University  
Portsmouth University  
Southampton University  
Surrey University  
University of Westminster  
Warwick University

**Professional bodies: 5**

Association for Careers Education and Guidance  
Chartered Institute of Management Accountants  
Institute of Chartered Accountants in England & Wales  
National Association of Student Money Advisers  
Royal Institute of British Architects

**Student groups: 3**

Imperial College Union  
National Union of Students  
Open University Students Association

**Think tanks: 3**

CentreForum  
Intergenerational Foundation  
Man Institute, University of Oxford

**Trade unions: 1**

Association of Teachers & Lecturers

**Personal: 102**

**Other: 2**

British-Africans in Government

MoD