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▼ Menu

[Home](#) > [Education, training and skills](#) > [Funding and finance for students](#) > [Alternative student finance](#)

[Department
for Education](#)

Policy paper

Alternative student finance

Updated 25 July 2023

Applies to England

Contents

[How alternative student finance will work](#)

[Payments and contributions](#)

[Developing alternative student finance](#)

[Other funding options to consider](#)



All student loans currently charge interest. This means some people feel unable to use existing [student loans](#) for university or college, due to their faith or conscience. This is most common among some Muslims whose faith prohibits engagement with interest.

The government has committed to introducing a student finance product with an alternative to interest payments. This new student finance product will be compatible with Islamic finance principles. It will be known as alternative student finance.

How alternative student finance will work

The new finance system will be certified as being Sharia-compliant. It will use the Islamic finance principle of Takaful to provide a form of group-based mutual support.

Alternative student finance will be available for any undergraduate students who are [eligible for student finance](#).

Students will apply for an alternative payment for both their tuition fees and living costs. This is instead of an interest-bearing loan. They will apply in the same way as a traditional student loan, through [Student Finance England](#).

After they leave their studies, students will repay contributions. The contributions are then 'ringfenced' to help future students. This means that the funds are used only for providing alternative student finance.

Students applying for support via alternative student finance will not suffer any detriment nor experience any advantage through choosing to access student support via this route.

Payments and contributions

Alternative student finance payments made to students will mirror traditional student loans. This means students with the same circumstances will get the same amount of financial support.

Students will make contributions back to a Takaful fund of the same amount and at the same time as students making repayments for conventional loans. We will base these contributions on what people earn, not what they have received.

Developing alternative student finance

We are working with the [Islamic Finance Council UK](#) to ensure the alternative student finance system we introduce is compliant with Sharia law.

We have:

- consulted on the [proposed alternative student finance model](#)
- carried out research to [check potential students' views on alternative finance](#)
- introduced [primary legislation](#) to allow an additional model of student finance that does not carry interest

We will need to create secondary legislation to set out the details of how alternative student finance will work. This will include:

- the amount of finance students will be entitled to
- how we will calculate contributions back to the Takaful fund

Alternative student finance will need to work alongside existing student loans. The Student Loans Company will manage both funding systems. This will allow all prospective students to apply in a similar way.

Alternative student finance will form part of the changes to the whole student finance system. From 2025, we are introducing a more flexible student finance system called the [lifelong loan entitlement](#). As alternative student finance needs to mirror the lifelong loan entitlement, we cannot introduce alternative student finance until this is in place. Alternative student finance will become available as soon as possible after the introduction of the lifelong loan entitlement, but will not be available in 2025.

Other funding options to consider

Check what [extra help is available for undergraduate students](#). Some students may also be eligible for [bursaries, scholarships and awards](#).

[Degree apprenticeships](#) allow people to study towards an undergraduate or master's degree while working and without paying for tuition.

[Back to top](#)

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[Working, jobs and pensions](#)

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