Introduction:

University College Birmingham (UCB) Guild of Students is an independent charity based at UCB in the heart of Birmingham. We represent over 11,000 student members in both further and higher education. The Guild is led by three elected officers who represent our members. This submission is made through wider engagement with our members, including our alumni networks as well as current students at UCB.

1) Should a student loan incur interest

To help answer this question, contextualise the impact of the current interest rates on student loans. To note, the current loan system is not necessarily designed as an ordinary consumer debt system, as the majority of Plan 2 borrowers will never repay in full. Therefore, the majority of graduates will repay based on their income, rather than the actual balance. In the current system, lower-earning grads are seeing their debts grow because the interest rate is set at RPI +3. We believe charging interest above inflation places a psychological burden on these lower earners, thereby increasing significant anxiety and distrust amongst students. A 2008 study suggested that the funding system introduced by the 2004 Higher Education Act has led low-income students to perceive the costs of higher education as debt. This has now been exacerbated, as students must earn £66,000 to see their 'debt' decrease.[1] At University College Birmingham, our students come from a diverse student background but often in lower-income households, and after graduating, are most likely to receive a median salary within the middle to lower thresholds and therefore, despite their ambitions, will see their debts grow even further, making it difficult to climb up the social ladder.

In a recent NUS modelling exercise with London Economics, graduates are required to repay their loan for 30 years at a minimum cost to the government. This means high-earning graduates pay more than lower and middle-income earners. Instead of the flat rate of RPI + 3%, the report suggested that a stepped repayment model where graduates pay 2% on earnings between £12,570-£27,570, up to 8% of earnings of £57,571 has 'identical Exchequer costs' [2] but eliminates the more regressive features in the current fees and funding system. We believe that this model can match the Exchequer's budgets whilst ensuring graduates are not penalised for their ambition.

Additionally, we are concerned that the Postgraduate Plan 3 loans are already small and often insufficient to cover the total costs of courses. Often, students have to be self-funded or rely on parental or family contributions to support their studies despite the significant study expenses. Unless postgraduate loans fully cover the costs of postgraduate studies, charging full interest on a loan system that does not cover the majority of fees would be a disadvantage and potentially exclusionary.

Finally, we would like to take this opportunity to note that there is yet a cohort of Muslim students who are unable to access student finance due to the interest-bearing costs associated with the product. Whilst we recognise that primary legislation has been supportive, we now urge the

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[1] Callender, Claire, and Jonathan Jackson. 2008. "Does the Fear of Debt Constrain Choice of University and Subject of Study?" *Studies in Higher Education* 33 (4): 405–29

[2] London Economics and NUS – 'Modelling a stepped repayment system for student loans in England – April 2025' https://londoneconomics.co.uk/blog/publication/modelling-a-stepped-repayment-system-for-student-loans-in-england-april-2025/

government to support this with secondary legislation to follow through on some of its earlier commitments.

1b) Should the interest on a student loan be dependent on income

The current system is designed in a way that confuses the average student in truly getting to grips with the actual financial burden of the repayment system. This then raises the question of whether a loan system that is dependent on income is truly fair if students cannot decipher how much they might have to pay in interest. At the moment, lower- and middle-earning graduates are burdened by accumulating interest, something the highest earners do not need to face. For instance, the higher interest rate starts at £28,471 and then jumps again at £51,245. This means that graduates who are barely earning more than the minimum wage are accumulating interest at a rate meant for higher earners. Graduates must earn £66,000 a year to begin to reduce their student loan balance. At UCB, because most of our graduates receive moderate graduate salaries, they will not see their repayments cover the interest accumulated. We are yet to see a substantial relief for students against the impacts of the cost of living, the freezing of thresholds, and the accumulation of interest on student loans, which has burdened graduates with a substantial price to pay for accessing higher education.

1c) Should the interest on a student loan be fixed to RPI, CPOI or another measure

RPI has largely been viewed as an unfavourable and outdated benchmark, as ONS has stated that the methodology for calculating RPI has its 'shortcomings'.[3] We believe that the government can rebuild trust in the loan system by ensuring it does not switch between measures, and that whatever measure is used to calculate the interest rate should be fixed and explained before a student loan contract is completed.

Additionally, we believe that freezing thresholds and the use of RPI significant impact postgraduate Plan 3 graduates. The threshold for these cohorts has been frozen at £21,000 since 2016, meaning that a graduate earning £30,000 a year today is repaying £549 a year on Plan 3 loans. Had the threshold been uprated to £25,00 they'd be repaying £300 a year. This freeze costs £240 a year. The government's own calculations indicate it expects to make 20.6p on every pound it lends for postgraduate study; essentially, Plan 3 acts as a revenue generator whilst postgraduates are squeezed. As such, we recommend that the committee urge the government to hold a thorough revision to ensure that postgraduates are not significantly burdened by the highest costs.

We also note that CPI is a much more standard measure of interest, so in the case that interest rate has to be charged, we encourage the government to utilise the latter form of measurement across student loans.

2) Are interests above the rate of inflation on a student loan fair?

[3] Office for Budget Responsibility: Economic and Fiscal outlook- October 2024. *'The Long-run difference between RPI and CPI inflation'* https://obr.uk/box/the-long-run-difference-between-rpi-and-cpi-inflation/

We reiterate that any changes to the student loan system must ensure that it does not increase the burden on students to cover the costs of a higher education system that is financially unstable. This means it is unfair for the government to determine most of the products' terms. In fact, we note that fairness should be tested against the social purposes of higher education. For instance, research has suggested that University education is linked to longer life expectancy and better health[4], and, as such, should be a contributing factor in determining how loans can support access rather than act as a system that may penalise students in their efforts to achieve a higher quality of life. This must be balanced by creating a transparent repayment design system.

We reiterate that the interest rate, at a minimum, should be charged at CPI.

3) Was it fair for the government to block the interest rate on student loans from going negative when the measure of index the loan was pegged to went negative?

We do not believe it is fair to prevent graduates from reaping the benefits of a strong economy. The one-sidedness of this is a core fairness issue. Graduates are currently exposed when inflation rises, but are not allowed to benefit when it falls. This, therefore, creates mistrust amongst a cohort of young people, as it indicates the government changes the rules when it is financially beneficial to do so. The issue is not so much whether this should be indicated to begin with, rather a fairness issue.

4) Should interest loans be branded as loans or as something else

We hold the position that the student loans system can simply do more than just looking at rebranding itself, as the inherent issue lies in the fact that the government can change the terms retroactively without thorough consultations with students or graduates. Having said that, there does seem to be a clear mismatch between how the loan system is understood and how it is felt by students, and therefore a clear communication exercise is warranted to support students in making an informed decision. This is partly because there is a mismatch between the language of debt and the reality of a graduate contribution mechanism, as students often hear the term 'loan' and assume that if they can pay it off quickly, they can minimise interest. This is of course, not the reality. In reality the loan system does not act as a consumer credit produ.

In 2019, Martin Lewis and the Russel Group proposed a ''Graduate Contribution Statement' [5]centred on what a borrower is likely to pay over their lifetime. This proposal was designed to allow borrowers (students) to make an informed decision on the true costs of taking out student loans and was widely, at the time, viewed as informative. Though nothing had come out of it, we firmly believe that this reframing goes beyond terminology, as borrowers are able to make a more informed decision about the true costs. This reframing exercise can open the door for a more honest reflection on the cost-share between graduates and the state.

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[4] Johnathan Batty 'Working with our places will help us to spread the benefits of higher education more widely' : WonkHE blog

[5] Martin Lewis and Russel Group University: Loan statements are dangerous and misleading: Full report can be access via: https://images6.moneysavingexpert.com/images/documents/MSE%20RG%20GRADUATE%20CONTRIBUTIONS%20STATEMENT%201530%20260219.pdf?_gl=1*svdssr*FPAU*MTcwNjE4MjQyOC4xNzc2MTc2NTEy*_ga*NDcyODg4NzMxLjE3NzYxNzY1MTE.*_ga_X74CWQS9F0*czE3NzYxNzY1MTAkbzEkZzEkdDE3NzYxNzY2MTEkajI1JGwwJGgxMDg3NDgwMjAy

5) What proportion of a student's university education should be funded by the student versus being subsidised by the state

It is important to contextualise the cost burden over the last few decades to help explain the political choices made by the various governments. Currently, OfS recurrent grant was around £1.3b with the estimated subsidy built into student loans sat around £ 7,7b (£9b approximately). By contrast, in 1998, the cost afforded by the state was £10.8b, with student numbers dwarfing the current numbers. In reality, the state has effectively reduced spending in real terms, placing more of the costs on students and graduates whilst actively decreasing the burden on the state. Alongside threshold freezes, fee cap freezes, and the failure to support maintenance support, mass higher education is heavily reliant on graduate contribution – this is a design choice by the government. Moving forward, it would be pertinent for the committee to recommend that, whenever the government changes loan parameters, the government must consult with the National Union of Students and publish a statement showing how the changes affect the graduate-to-taxpayer cost share.

Concerningly, Postgraduate loans push a very large share of costs and risk onto the individual, as the loan amount is inadequate in addressing the relative costs of education. In fact, the Government's own projection suggests the scheme is designed to make a profit for the Treasury. As noted earlier, the IFS annual report on education spending has indicated that recipients of Plan 3 Postgraduate loans are having to pay more into the system, but at the same time are receiving less and are having less money[6]. Evidently, this indicates that the balance of cost-sharing has tilted heavily toward students, and as such, we urge the committee to recommend working with students to ensure a more equitable system is put in place, one that sees education as a public good. We are encouraged to see that the government is looking to bring back maintenance grants to support students in key courses, we believe that the poorest students are able to access the support regardless of course choices.

6) Should the terms of a student loan be able to be changed by the government once the loan has been taken out

We appreciate that at times, changes may need to be made. However, we insist that any subsequent changes to the loan system must be made with consultation with the National Union of Students and other Students' Union bodies. Such changes should be made only in exceptional circumstances, with independent oversight that safeguards graduates from being burdened by increasing costs. We believe that any changes to the system after a borrower takes out a loan undermine the legitimacy of the original borrowing decision.

Additionally, we note that for Plan 2, the repayment threshold was originally set at £21,000 and described as rising with average earnings; however, it was then frozen from 2016-2021 and is now being frozen again from 2027. These technical adjustments add to a cumulative cost to graduates who entered the scheme on a different assumption. We believe the treasury's ability to revise cost-

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[6] Institute Fiscal Studies: Annual report on education spending in England: 2025-26. Full report can be accessed via https://ifs.org.uk/sites/default/files/2026-01/IFS-annual-report-on-education-spending-in-England-2025%E2%80%9326.pdf

share changes should be constrained, and, as such, we recommend thorough independent oversight to evaluate the cost-share burden.

7) Does the process around student loans provide enough information, in a clear and fair form, given that this may be the first credit contract for many people?

We believe that students in schools and colleges should be provided with the most accurate information on the requirements of student loans, as well as the financial impact the loan system has on students. Worryingly, we noticed that many students are still being ill-informed about the true implications of the costs. For instance, it has been noted that the government presentations on the student finance systems compare student loan repayments to a '£30-a-month phone contract'[7]. This deliberately misrepresents and misinforms the true nature of the costs of the student loan system and therefore risks undermining questions of fairness and accurate information.

In addition, students need information on likely repayment trajectories; student loans are not ordinary debt and therefore require detailed, clear guidance on the impact of accumulating interest on balances. As noted earlier, we argue that the committee recommend replacing current statements with Graduate Contribution Statements that were proposed in 2019. As of now, the system's complexity is itself a fairness problem, and therefore, being the first major state-backed financial commitment should meet a very high standard of clarity that it currently does not.

Finally, postgraduate borrowers need a clear explanation including what it means to repay both undergraduate and postgraduate loans at the same time. This also includes transparency on whether the loans systems are viewed as a revenue generator as well as accurate information on how much the postgraduate loans can actually cover.

8) Should SLC loans be compliant with FCA rules and the consumer duty

Student loans should comply with FCA requirements to help strengthen the public's perception of the financial product. It is important to note that currently, the practical effect of sitting outside FCA rules is that the borrower has weaker protections than they would enjoy if they had taken out an equivalent product from a high-street bank. We believe that the government-designed financial products should not escape basic standards of fairness, clarity and foreseeable consumer harm. As it stands, the current financial product is weaker than those offered by a private lender, thereby undermining its credibility.

At UCB Guild of Students, we endorse full FCA regulation of the student loan financial system, as well as the application of the Consumer Duty to ensure full protection for borrowers, as with any other financial product.

9) Does changing the terms of a government loan contract once it has been entered into erode trust in government

[7] 'BBC report on government slides on talks delivered to thousands of schools between 2011 and 2017

As noted earlier, any changes made to terms after the borrower signs up to a loan contract and, in turn, has a significant impact on the student's ambition, inevitably will erode trust. We believe that changes to a loan system should be applied to future borrowers, not only to students who have already taken out a loan (unless there is significant oversight that limits the negative impacts of those changes). The absence of borrower consent is precisely why stronger political and procedural safeguards are needed.

10) Might changing the terms of a loan once it has been taken out affect future take-up of student finance through a lack of certainty in the loan product

In short, yes, but we would like to discuss the negative impacts of postgraduate loans. The PG thresholds have been frozen at £21,000 since their introduction and have never increased. Given that PG borrowers are often a second major borrower, the political instability may deter progression into postgraduate study for students without family backing or savings at all. We are concerned that the lack of foresight into postgraduate loans will impact future prospects of students, who majority, come from lower-income backgrounds, or are often mature students with a variety of responsibilities.

Additionally, in a recent YouGov poll, half the population supports the idea of the government writing off some student loan debt, whilst '76%' think the interest rates are too high'[8]. These perceptions matter because they indicate that subsequent changes to loans after they have been taken out potentially affect how the wider public perceives the high costs of the higher education system. This perception may lead relatives and friends to discourage potential students from pursuing higher education because of the cost burden. We would like the treasury to recommend to the Government that it should do more to ensure the wider public has trust in a system and not just assume that high intakes indicate trust,

11) **Are there examples of the government changing terms for other groups?**

The case of the 'WASPI' women saw that women born in the 1950s state pension age changed through laws that were passed in 1995 and 2011. At the time, the Parliamentary Ombudsman found that the DwP had handled the communication of those changes badly. This parallels student loans as it involves state promises made to a large group, then subsequently changed through legislation, alongside poor levels of communication. Yet, we reiterate that the government should do more to govern on principles of fair treatment, especially when it concerns one of the largest state financial products. We affirm the point that the burden should be on the government to justify why student borrowers deserve weaker protection than other groups receive from state-backed financial arrangements.

12) Should the incomes of higher-earning graduates be used to subsidise the loans of lower-earning graduates?

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[8] YouGOV poll: Feburary 2026 https://yougov.com/en-gb/articles/54001-more-than-four-in-ten-britons-say-student-debt-should-be-forgiven

We firmly believe in the principle of a progressive graduate contribution system, where the highest earners pay more into the system for longer to support those who earn less. Currently, the loan system should disguise redistribution behind the language of individual debt. For instance, as noted earlier, we believe that are more equitable and progressive system in which those on the highest salaries subsidise maintenance grants for working-class students, as well as pay a large share of the subsidies.

13) How does the student loan system interact with the taxation system, including marginal rates?

To note, the experience of many graduates see the student repayment system as a double tax. For instance, a middle-earning graduate (£28,000-£50,000) on a Plan 2 loan faces a 41% marginal tax rate, which is meant for higher earners. At £55,000, that rises to around 51%. In addition, graduates in their 30s and 40s are constrained by 'higher taxes' and therefore struggle to maximise their pension savings, buy a house, or budget for future prospects. Postgraduate loans are central to this because they sit on top of undergraduate repauments rather than replacing them. A graduate on £40,00 repaying both plan 2 undergraduate loans, and plan 2 Postgraduate loans faces a combined deduction of around £2490 a year on top of income tax and national insurance. It is important that the committee looks at the impacts of PG repayments, as these deductions pile on top of one another, creating an uneven and disproportionate experience with the student finance system.

14) Do student loans currently deliver equitable shares of burden benefits between generations?

The current system does not distribute the burden equitably across generations. Strikingly, this is evident in IFS projection, where the top-earning half of 2022 starts will pay an average of £20,100 (37%) more over their lifetimes than if they had started just one year later. This is a huge generational discrepancy driven entirely by political choices by the government. We advise that the committee begins by recommending to the government to examine and assess the fairness between generations comparing different groups of graduates, and not just analysing one scheme on its own. This means assessing whether the different loans systems, e.g. Plan 2, are fair in comparison to those that came before and after. As noted earlier, postgraduate borrowers face an additional burden, as the loan system is inadequate for maintenance support, let alone covering the full costs of higher education.

On a final note, we would like to reiterate and bring to attention that the state's real-terms spending on higher education teaching has fallen significantly, even as student numbers have almost doubled. Each technical tweak has placed the burden on borrowers, and at the same time, alleviates the cost implications on the state. These costs are all hidden under threshold decisions and fee caps, we urge the committee to press the government to ensure that it is transparent about what each generation of graduates' actual repayments and what it is being asked to pay.