DRAFT

Consultation on Freezing the Student Loan Repayment Threshold

Note: this is a draft of the consultation response and is subject to change before final submission

Introduction

The National Union of Students (NUS) welcomes the opportunity to respond to this consultation on the proposed freeze to the repayment threshold for student loans for English-domiciled students.

NUS is a voluntary membership organisation which makes a real difference to the lives of students and its member students' unions. We are a confederation of 600 students' unions, amounting to more than 95 per cent of all higher and further education unions in the UK. Through our member students' unions, we represent the interests of more than seven million students.

NUS is vehemently opposed to the proposed freeze on the student loan repayment threshold. We set out our reasons below.

The precedent set

For a number of years NUS has argued that the terms and conditions of student loans are open to abuse. In the last Parliament the government pledged that in the event of the sale of the student loan book the repayment terms of existing borrowers would be unaffected: David Willetts (now Lord Willetts), the then higher education minister, did so in a letter to NUS[1] has pledged that, in the event of a sale of student loans, repayment terms would be protected for current borrowers, whilst the then Secretary of State, Vince Cable, made a public commitment in a newspaper interview[2].

Given that Lord Willetts and Mr Cable also promised 2012 cohort students that the repayment rate would rise with average earnings, this move starts to call into question their other assurances. Changing the rules retroactively is not only a bad choice on its own terms, but doing so sets a disturbing precedent that undermines confidence in the whole student loan system. It is no secret that repayment conditions for student loans can be changed with comparative ease via secondary legislation; borrowers will be entitled to be concerned that similar choices will be made in respect of other such conditions following the freeze in the threshold. This could disproportionately affect students who are more debt averse, and these tend to be students from poorer backgrounds and black and minority ethnic groups.

Such retrospective changes are not unknown, and most notably New Zealand increased the repayment rate on student loans on all borrowers from 10% to 12% in 2013. The student loan system in UK has been sold to prospective students as low-risk because repayment will be related to earnings. Changing the goalposts, and changing them retrospectively, will serve only to reduce confidence in government promises in respect of loan repayment conditions, and impact on decisions about higher education.

Trust in politics and the abuse of sovereign power

Trust in politics is incredibly low, especially among young people. This is only made worse when government acts in a way that changes the terms of an agreement that has serious implications on an individual's finances.

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[1] http://nussl.ukmsl.net/asset/Blog/23/Willetts.pdf

[2] https://www.timeshighereducation.com/news/cable-rules-out-hitting-existing-graduates-on-loan-interest/2004907.article

Loan agreements made between an individual and a private lender are subject to financial regulations and consumer protections. NUS has always argued that the exemption of student loans from such regulations created an imbalance of power between the government and the student, because a government could change the terms of the agreement at any time, to the student's detriment.

We believe that by acting above the laws set out to balance the relationship between provider and consumer, to ensure business is conducted on fair terms and to protect those in a vulnerable position, government is behaving in a cavalier way which undermines the very fabric of our political system.

This is a serious abuse of sovereign power which weakens trust not only in the current government, but in the democratic process. During the 2015 General Election campaign, NUS worked with the Cabinet Office and local councils across the UK, supporting students' unions to ensure that young people around the country were registered to vote. We did this because we strongly believe that young people should be engaged in democratic politics. But actions which directly break covenants made with students, many of whom were just teenagers at the time, make a mockery of the politics we are trying to help government promote.

All of this is happening at a time when government are supporting their market regulator, the Competition and Markets Authority, to intervene in higher education and ensure that institutions are upholding the consumer rights bestowed upon students as a result of the contract they make with their institution. Institutions are not allowed to make significant changes to the terms and conditions of a contract made with a student, nor are they able to radically alter the structure or content of their provision so that it is different from what was marketed to a student. Institutions are held to these basic standards of conduct, why should government be exempt?

Impact on further education learners and Welsh-domiciled students

The impact of this change does not only affect higher education undergraduates in England. In England, it will affect those who have borrowed 24+ Advanced Learning Loans. Many such borrowers, and a disproportionate number of women learners, are more likely to be pursing qualifications in low-paid sectors such as social care. These changes will draw more such study leavers into repayment once they are working, or require them to make higher payments, which many can ill-afford. Adult learners are also more likely to be from ethnic minority groups[3] meaning this change also has a disproportionate impact on certain protected characteristics, which we discuss in greater depth below.

Similarly, Welsh-domiciled borrowers who started their courses in 2012/13 or later are covered by the same student loan repayment rules as English-domiciled students. Given the expense and administrative complications of running a separate repayment system, the choice to freeze the threshold, though made in Westminster, will mean Welsh-domiciled graduates being penalised. The Welsh Government has already criticised the lack of consultation with devolved administrations where changes to student loans policy is concerned[4] and the decision to freeze the threshold should not be made without their express consent.

[3] http://www.equalityhumanrights.com/sites/default/files/documents/triennial_review/triennial_review_adult_learning.pdf

[4] http://www.walesonline.co.uk/news/wales-news/education-minister-huw-lewis-raises-10177316

Long-term impacts on graduate behaviour

A further reason that a freeze in the repayment threshold represents poor public policy is its impact on the future behaviour of graduates. It exacerbates this issue, which is in turn also a product of the enormous increase in the levels of student loan debt held by graduates. Research in the UK is limited, but emerging studies suggest that student loan levels mean an increase in the age of first time house buyers[5]. The more extensive studies in the United States have shown that high student debt levels have various impacts, including career choice[6], the likelihood of marriage[7], and numbers of small business establishments[8].

To this we would argue higher student loan debt, and crucially higher repayments, will mean graduates saving less money in pensions and starting families later. The Institute for Fiscal Studies has shown the changes will mean some borrowers – those on median graduate incomes – repaying an extra £6,000 as a result of the changes[9] and it is absurd to imagine that taking this amount of money out of the economy will not have negative impacts. Such changes risk significant long-term damage for short-term political gain.

Our own research into the attitudes of £9k fee paying graduates in 2015 corroborates this evidence from the US. Our report *Debt in the First Degree*[10] revealed that 43% of graduates expect their standard of living to be affected by the cost of repaying their student loan; only 27% disagreed. 66% of graduates thought that the repayment of their student loan would mean it would take longer for them to save up for a house, and 46% of graduates thought they would have to wait longer before paying into a pension.

Regressive policy

Freezing the repayment threshold on loans will force poorer graduates, who gained the least financially out of their education, to bear the largest additional cost. This is a highly regressive move which goes against the aims and principles of the student loan system as it was originally designed.

The Browne Review made it clear in its principles on which the reformed student loans system should be founded that '[t]he payment threshold is reviewed regularly to bring it into line with growth in earnings'. This policy therefore goes against even the most basic concessions made in the Browne Review to protect graduates against unfair and regressive repayments.

The change would have a disproportionate effect on low and middle earners, while higher earners will benefit from paying their paying off their loan faster. Most low and middle earners do not get the benefit of avoiding extra interest payments because so many of them will not fully repay their loan. The changes will therefore simply increase the overall cost of their study as well as the proportion of their income being sacrificed to loan repayment.

The government's own examples show that a graduate with a starting salary between £21,000 and £30,000 will be £6,100 worse off in net present value terms and still would not repay their full loan.

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5 https://www.iser.essex.ac.uk/research/publications/513249
6 https://ideas.repec.org/a/eee/pubeco/v95y2011i1-2p149-163.html
7 http://www.uncg.edu/bae/people/gicheva/Student_loans_marriageMarch11.pdf
8 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2417676
9 http://www.ifs.org.uk/publications/7905
10 http://www.nus.org.uk/en/news/debt-in-the-first-degree-9k-fee-graduates-dissatisfied-with-degrees/

Cumulative impact

The proposal to freeze of the maintenance loan threshold cannot be seen in isolation to other changes. In his Budget statement on 7 July, the Chancellor of the Exchequer also announced he intended to abolish maintenance and special support grants for students. Though still subject to parliamentary approval, the changes would mean the poorest new students from 2016/17 will face the highest student loan debts; the Institute for Fiscal Studies forecasts debts of up to £53,000 for these students[11]. Freezing the repayment threshold will mean higher repayments on graduation for such students in addition to higher debts: such students will therefore be disadvantaged twice over. This not only threatens access to higher education, but is both regressive and unfair. This generation of students have already seen the abolition of Education Maintenance Allowances, enormous increases in higher education tuition fees and a host of cuts to other services, from the scrapping of AimHigher to social security benefit cuts.

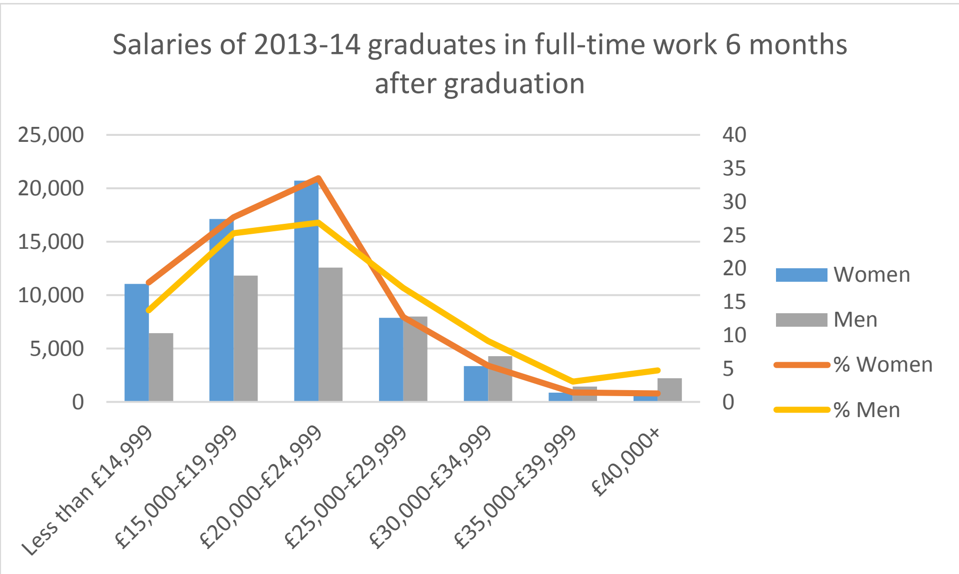
At a time when inheritance tax and corporation tax is being cut, it is a scandalous choice for the Government to choose to meet its fiscal targets by placing ever greater burdens on young people and students.

Impact on Women

NUS are seriously concerned by the effect the proposed changes would have on protected groups.

Women are likely to be impacted far more than men by these changes. This is largely because women earn, on average, less than men. But it is also because the spread of salaries is different, with women graduates more likely to be on salaries that hover around the repayment threshold for student loans.

HESA Destination of Leavers Survey data shows that for the 2013/14 cohort, there were over 8,000 more women than men being paid between £20,000 and £24,999 six months after graduation. It is this group of earners in particular who would be hit the hardest by the changes, as many of them will be pulled in to the repayment channel to an increasing extent as their wages rise.



[11] http://www.ifs.org.uk/publications/7904

The Sutton Trust have shown that women would pay back, on average, £3,300 more on their student loan compared with £2,300 for men.[12]

It is completely unacceptable to make changes to a system which have a disproportionate impact on women. There is already a structural disadvantage in the current economic system. Women graduates earn, on average, £2,000 less than men graduates six months after graduation. The gender pay gap for graduates is 23% ten years after graduation according to the Institute for Fiscal Studies.[13] Any regressive adjustment to the terms of student loan repayment is therefore going to add to the remaining gender inequalities in society.

Impact on black students

Like women, black graduates[14] face certain disadvantages in the labour market. In particular, the higher education attainment gap between black students and non-black students means that a black graduate is less likely to come out with a high degree classification. This limits their opportunities in the labour market.

HESA DLHE data shows that while the variance of non-black graduate salaries is larger than that of black graduates, there is more of a bunching effect for black graduates between £20,000 and £29,999, which is the salary range that will be most affected by the proposed changes. 51% of black 2013-14 graduates employed six months after graduation are in this salary band compared with 45% of non-black graduates.

Evidence also suggests that changing the terms of repayment on student loans may discourage young people from black and some other minority ethnic backgrounds from going to university in the first place. In our report of the attitudes and beliefs of £9,000 fee paying graduates, *Debt in the First Degree*[15], we found:

"Across both Black and Asian minority groups, there appeared to be a strong belief that student loan debt was just as bad as other commercial forms of debt. 33% of BME graduates disagreed with the idea that student loans were *not* as bad as other forms of debt, compared with just 13% of non-BME graduates, suggesting some confusion over how the loans system works. BME students were also more worried about the interest on the loans: 71% were concerned (37% very concerned) about the interest on student debt, compared to only 56% of non-BME graduates." (p.10)

In conclusion, we stated:

"There appears to be a real issue with how student loans are perceived by BME students, which may come down to information about the loans not being so well transmitted or received, or it may be a more systemic issue in financial information, advice and guidance not reaching minority groups. Whatever the cause, this could be having a serious effect on the way BME graduates plan their finances in the future, not to mention the added stress that they may be taking on." (p.10)

Sustainability of the Student Loan System

We have raised significant concerns over the long-term unsustainability of the student loans system as a result of the large increase in debt passed on to students.

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[12] http://www.suttontrust.com/wp-content/uploads/2015/09/Unfair-Deal-full-report.pdf
[13] http://www.ifs.org.uk/publications/7998
[14] NUS normally uses the term 'Black students' to refer collectively to all students with Asian, African, Caribbean and Arab heritage; however in this section the research we use is referring to those students with black African and black Caribbean heritage specifically, unless otherwise stated.
[15] http://www.nus.org.uk/en/news/debt-in-the-first-degree-9k-fee-graduates-dissatisfied-with-degrees/

The issue remains that the previous government created a system which was designed to cut direct public investment in higher education by replacing teaching grants with higher fees and larger student loans. This helped to tackle the budget deficit, but in turn piled excessive amounts of national debt on the government books and significantly increased the proportion of this debt which would never be recovered.

The overall cost of the student loans system and its effect on the national debt cannot be reconciled by these changes. The increase in revenue to government will be cancelled out by any decision to raise tuition fees in line with inflation or by increasing student numbers as a result of removing number controls. The system will continue to pile on national debt and government will have to continue trying to hide this from the taxpayer by tweaking the system and the way it is accounted for.

<u>Bad for the economy</u>

One of the key failures of the student loans system is that it sucks money out of the economy over a long period of time. This is money that comes directly out of people's wages and back into the Treasury through the student loans repayment channel. In most cases, this is money that would otherwise have been disposed of in the economy on consumables. In other words, it is money that would have supported growth.

Student debt is a drain on our economy and is an obstacle to our economic recovery, contributing to deflation. By freezing the repayment threshold, government will take even more cash out of a slow-moving economy at a time when it is needed to help people with the cost of living and improve their economic confidence so that retail spending can increase.

Furthermore, as the threshold freeze will affect those on lower incomes the most, it will have an even larger effect. Those with smaller incomes are more likely to spend all over their disposable income rather than save it. It is therefore likely that much of the extra repayments clawed back by government is being sucked out of the retail market. Having less money to spend will lead middle earners to go out less and shop less.

We must also add to this the assumption that, should the majority of the extra cash have been spent on personal and leisure products, government would have received 20% of this money back in VAT, along with likely increased revenues from alcohol duty, fuel duty, and business taxes. Thus, the net gains to government from increased repayments are likely partially offset by losses in tax revenues.