

SALE OF STUDENT LOANS ACT 2008

EXPLANATORY NOTES

BACKGROUND

3. There are two main types of statutory student loan in the United Kingdom. Loans made before academic year 1998-99 are known as “mortgage-style loans”. These normally require borrowers to repay their loans in 60 equal instalments once their income exceeds 85% of the national average income.
4. The majority of loans made from 1998 onwards are known as "income-contingent repayment loans". For most borrowers, repayment of these loans is made through the UK tax system. Repayments of a sum equivalent to 9% of all annual earnings over £15,000 are made until the loan is repaid. For PAYE taxpayers, deductions from salaries are made by employers, which are subsequently collected by Her Majesty's Revenue and Customs (HMRC). Self-employed taxpayers and employees with high earnings make repayments to HMRC through the tax self-assessment process. HMRC passes all relevant payments to the Secretary of State for Innovation, Universities and Skills. Borrowers can also make voluntary repayments directly to the Student Loans Company (SLC), which administers the student finance system on behalf of the Secretary of State for Innovation, Universities and Skills. All repayments ultimately return to general Government funds. They are not retained in the Department for Innovation, Universities and Skills.
5. The student loan book was valued at around £18.1 billion at the end of financial year 2006-07. This amount is expected to rise substantially over the next decade. Within the current portfolio, about £1.1 billion is debt owed from mortgage-style loans and £17 billion is from income-contingent repayment loans.
6. The Government has sold part of the portfolio of mortgage-style student loans already under the Education (Student Loans) Act 1998. In two sales in 1998 and 1999 a total of around £2 billion worth of mortgage-style loans were sold to the private sector. At that time the combined value of these two sales represented around 40% of the total student loan book. The same Act cannot be used to enable a new sales programme because it was repealed when mortgage-style student loans were replaced by income-contingent repayment loans in 1999.
7. The Sale of Student Loans Act 2008 enables a programme of sales of student loans, as announced in paragraph 6.42 of the 2007 Budget Report (published 21st March 2007).