

Change to maximum Plan 2 and the Plan 3 student loan interest rates

News story

The Department for Education (DfE) has announced a change to maximum Plan 2 and the Plan 3 student loan interest rates



From the 1 July 2021 until the 30 September 2021, the maximum interest rate applied to Plan 2 Income Contingent Repayment (ICR) student loans and the interest rate applied to Plan 3 ICR student loans will be capped in line with the prevailing market rate for comparable unsecured personal loans, which have recently reduced. From the 1 October 2021, the maximum Plan 2 and the Plan 3 ICR student loan interest rates is expected to revert to RPI +3%.

The Government regularly monitors the interest rates set on student loans against the interest rates prevailing on the market for comparable loans. Following a decline in the prevailing market rate, the Government will temporarily reduce the maximum Plan 2 and the Plan 3 student loan interest rate in line with the prevailing market rate. The reduction will be 0.3 percentage point on the maximum student loan interest rate to reflect the average market rates during the preceding monitoring period.

Student loan interest rates are updated each year to take account of changes in the Retail Price Index (RPI). The updates are applied annually at the start of each academic year, 1 September. To take into account this annual change in the ordinary student loan interest rates two separate caps will be implemented, one for the period 1 July to 31 August and one for the period 1 to 30 September:

- The maximum Plan 2 ICR student loan interest rate and the Plan 3 ICR student loan interest rate will be 5.3% between 1 July and 31 August.
- The maximum Plan 2 ICR student loan interest rate and the Plan 3 ICR student loan interest rate will be 4.2% between 1 September and 30 September.
- The maximum Plan 2 ICR student loan interest rate and the Plan 3 ICR student loan interest rate is expected to revert to RPI +3% from 1

October.

Interest rates on Plan 2 ICR student loans vary by income. Where the applied interest rate is already below the level of the cap, the interest rates will be unaffected.

- The SoS is required by section 22(4) of the Teaching and Higher Education Act 1998 (THEA) to ensure that student loan interest rates are either below the prevailing market rate, or no higher than the prevailing market rate if the loan offers better terms and conditions.
- The Department for Education and the Welsh Government have confirmed the change following a decrease in the prevailing market rate.
- Plan 2 borrowers will continue to repay 9% of their earnings over the repayment threshold. The repayment threshold for Plan 2 ICR loans remains at £27,295.
- Plan 2 ICR loans are those loans taken out for a course starting after the 1st September 2012 (England and Wales).
- Plan 3 borrowers will continue to repay 6% of their earnings over the repayment threshold. The repayment threshold for Plan 3 ICR loans remains at £21,000.
- Plan 3 ICR loans are those loans taken out for Postgraduate level study.
- Plan 1 ICR loans, those loans taken out for a course starting before the 1st September 2012 are not affected.
- By "RPI" we mean the percentage increase between the retail prices all items index published by the Office for National Statistics for the two Marches immediately before the commencement of the academic year. By "RPI" we mean the percentage increase between the retail prices all items index published by the Office for National Statistics for the two Marches immediately before the commencement of the academic year.

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