

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

News story

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



From 1 October 2021 until 31 December 2021, the maximum interest rate applied to Plan 2 Income Contingent Repayment (ICR) student loans and the interest rate applied to Postgraduate loans will be capped in line with the prevailing market rate for comparable unsecured personal loans, which have recently reduced. From 1 January 2022, the maximum Plan 2 and the Postgraduate loan interest rates are 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 Postgraduate loan interest rate in line with the prevailing market rate. The reduction will be 0.4 percentage point on the maximum student loan interest rate to reflect the average market rates during the preceding monitoring period.

- The maximum Plan 2 ICR student loan interest rate and the Postgraduate loan interest rate will be 4.1% between 1 October and 31 December.
- The maximum Plan 2 ICR student loan interest rate and the Postgraduate loan interest rate is expected to revert to 4.5% (RPI +3%) from 1 January.

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 1 September 2012 (England and Wales).
- Postgraduate loan borrowers will continue to repay 6% of their earnings over the repayment threshold. The repayment threshold for Postgraduate loans remains at £21,000.
- Postgraduate loans are those loans taken out for Postgraduate level study.
- Plan 1 ICR loans, those loans taken out for a course starting before 1 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.

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