Student loan interest rates capped

The government will cap student loan interest rates for current graduate borrowers to protect them from a rise in inflation.

A rise in the rate of RPI due to global economic pressures meant student loan borrowers faced a 12% interest rate in September and the government has intervened and capped interest rates to a maximum of 7.3% to protect graduates.

The government will take every opportunity to protect the public from the rising cost of living and global economic pressures. Confirmation on interest rates is usually made in August, but the government has taken unprecedented steps to bring the decision forward, based on predicted rates, to provide reassurance for student loan borrowers on Plan 2 (undergraduate) and Plan 3 (Postgraduate) loans.

This is the largest scale reduction of student loan interest rates on record and will mean, for example, a borrower with a student loan balance of £45,000 would reduce their accumulating interest by around £180 per month compared to 12% interest rates. This is on the total value of the loan, as monthly repayments do not change.

Higher and Further Education Minister Michelle Donelan said:

> The government has always been clear that where it can help with rising prices we will, and I will always strive for a fair deal for students, which is why we have reduced the interest rate on student loans down from an expected 12%.
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> I want to provide reassurance that this does not change the monthly repayment amount for borrowers, and we have brought forward this announcement to provide greater clarity and peace of mind for graduates at this time.
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> For those starting higher education in September 2023 and any students considering that next step at the moment, we have cut future interest rates so that no new graduate will ever again have to pay back more than they have borrowed in real terms.

Monthly student loan repayments are calculated by income rather than interest rates or the amount borrowed. Unlike for commercials loans, repayments will stop for any borrowers who earn below the relevant repayment threshold.

For future borrowers, student finance will be put on a more sustainable footing. As announced in February, interest rates will be reduced so from 2023/24, new graduates will not, in real terms, repay more than they borrow. Alongside wider reforms to higher education, this will help to make sure that students from all walks of life can continue to receive the highest-quality education from our world-leading higher education sector.

This comes alongside a package of support worth £37 billion to help people with rising cost of living, including £400 for all households off their energy bills, targeted support for vulnerable households for costs including food and energy, and changes to Universal Credit, National Living Wage and National Insurance thresholds, so that people keep more of what they earn.