Briefing:
Student Loan Book Sell-Off

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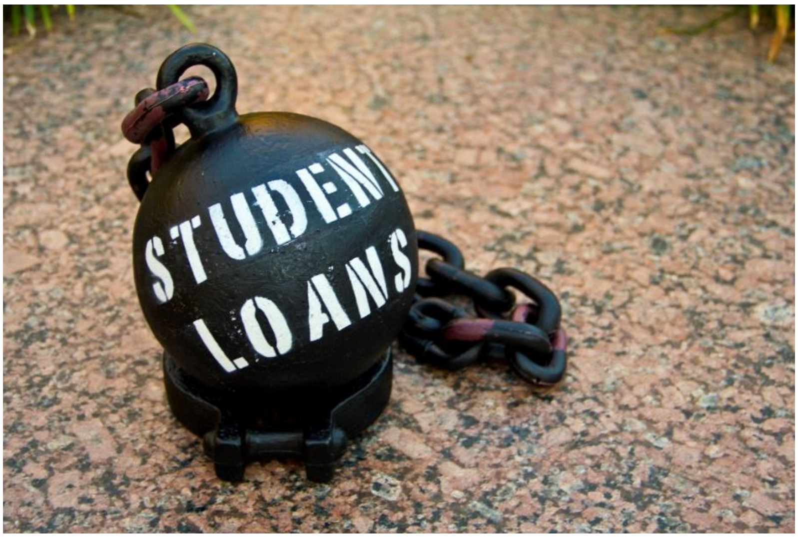

What is the sell-off of the student loan book?
At the end of October, the government announced that it will be resuming the sale of part of the English 'student loan book' – the stock of student loans owed to the government by English students and graduates. The sell-off started in 2013 with the sale of the loans of students who graduated between 1992 and 2000. The government is now trying to sell those of students who graduated between 2001 and 2015, starting with those graduating between 2001 and 2005: about 450,000 people in total[i].

Why does it matter?

1. Hamstrings government action on the student debt bubble
Most importantly, the privatisation of the student loan book seriously reduces the scope for this or any future government to tackle the growing debt burden faced by students and graduates. The system of funding further and higher education in this country is broken, and is creating a dangerous student debt bubble and hitting students and graduates from less well-off families the hardest.

Box 1. Key facts about UK student debt

- English graduates now have **the highest student debts in the developed world.**
- The average student will borrow £45,000 and accrue £5,800 in interest while they are studying, leaving them with a total debt of £50,800 on graduating.
- **Students from the poorest 40% of families will graduate with the largest debts**: around £57,000 on average for a three-year degree, compared with around £43,000 for students from the richest 30% of families.
- **Total UK student debt is now over £100bn**, and expected to reach £200bn within 10 years.

Sources: IFS: Higher Education funding in England: past, present and options for the future (July 2017): https://www.ifs.org.uk/uploads/publications/bns/BN211.pdf and IFS: How much would it really cost to write off student debt? (Sept 2017**):** https://www.ifs.org.uk/publications/9738

Young people and adults from less well-off backgrounds shouldn't have to take on crippling debts just to access education. The student finance system needs wholesale reform so that good quality tertiary education is available to everyone free at the point of need. We need to see the scrapping of tuition fees, maintenance grants re-introduced for low income students at a liveable rate, and action taken to tackle the burden of existing student debt on students and graduates. The latter will be really difficult for any government unless we keep the student loan book in public ownership.

If a future government wanted to cancel some of the existing student debt to help heavily-indebted students and graduates, or to improve the terms and conditions of their debt, for example by reducing the interest rate or increasing the repayment threshold, then it would have to compensate the private sector purchasers of the loans for any negative impacts on their profits. This would cost the government more than if it had retained ownership of the student loans.

2. Will LOSE taxpayers' money

The government's stated purpose of the sale is to raise revenue in order to "bring public finances under control" by "returning the budget to balance"[ii]. However, the reality is that the sale won't raise any extra funds for the public purse. If the government were to sell the loans for what it says they are worth in its accounts, then the sale would simply mean that the government receives income now that it would otherwise have received in the future.

Furthermore, recent analysis of the offer documents on the sale and the public accounts by the Financial Times indicates that the sale is expected to raise around £1.7bn, which is less than the government would have received in repayments. The sale is hence expected to represent a loss for the government, and therefore the taxpayer, of around £800m[iii]. Ludicrously, the sale could still pass the government's 'Value for Money' test, because of the way that the test is conducted[iv].

3. Creates incentive for higher interest charges and repayments

The National Union of Students (NUS) has warned that the sale of the loan book increases the incentive for the current and future governments to increase the cost of student loans through higher interest payments, and to increase the rate of repayment through higher repayment thresholds, in order to make future loans more attractive to potential private sector buyers[v].

Why is this happening?

We believe that the government is selling off the student loan book for three reasons:

1. To get the student loans off the government's books so that the headline measure of public debt is lowered (even though it will likely worsen government finances in the longer-term).
2. Because this is part of a wider agenda of the government of privatising public assets, even if it doesn't make financial sense to do so.
3. Because the government wants to create a 'secondary market' in student debt like the one that already exists in the US. This will mean that student loans become assets, in this case 'securities' that can be bought and traded by investors and wealthy speculators to make a profit.

What can be done about it?
Parliament has no say over the loan book sale. The decision on the sale is under Executive power, with the Education Secretary Justice Greening, and Chancellor of the Exchequer Philip Hammond set to take the decision. Parliament will only get to hear about a sale up to 3 months after it has taken place. All the negotiations are happening behind closed doors, with the negotiations, bids, and contract for the sale covered by commercial confidentiality. Furthermore, only potential purchasers have access to the government's repayment data which will be used to price the securities offered.

So the sale can only be stopped if Justine Greening MP and Phillip Hammond MP say so.

Please spread the word about the sale to everyone you know who might be concerned about student and graduate debt, and ask them to sign and promote our petition on the Parliament website calling on the government to halt the sale of the first income contingent student loans and to keep the student loan book public.

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[i] This is the first in a planned series of five annual offers. The government aims to sell as many of the 1998 to 2012 loans as possible in the next five years. It is offering investors the right to buy 'securities' with a minimum denomination of £100,000. This will entitle owners of the securities to a share of repayments made by graduate borrowers. If it goes through, this sale will represent the first sale by the government of 'income contingent repayment loans'. Previous governments have sold the 'mortgage-style' loans issued to those who started university before 1998. These loans were very different, and their sale was a lot simpler and did not require the kind of financial engineering seen in the current sale.
For further information see: https://www.ft.com/content/2b66bfaa-ec7a-11e6-930f-061b01e23655

[ii] https://www.gov.uk/government/news/government-launches-first-sale-from-the-student-loan-book

[iii] https://www.ft.com/content/726e3158-d522-11e7-8c9a-d9c0a5c8d5c9

[iv] Read Andrew McGettigan's blog to understand more about this:
https://andrewmcgettigan.org/2017/02/06/governmet-put-loan-sale-hopes-in-securitisation/

[v] https://www.ft.com/content/2b66bfaa-ec7a-11e6-930f-061b01e23655