

Paying back a student loan



student finance england

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INTRODUCTION

Going off to university or college for the first time is a daunting thought for both students and their parents. There's a lot to think about and a lot to do, including making sure student finance is sorted.

We know from talking to students and parents that student loans are generally accepted as part of student life. However, we also know that most students tend to put the question of repaying student loans to one side until the time comes when they have to deal with it.

But our research tells us that parents have a very different view. Parents want to know exactly what their son or daughter is taking on, what their obligations will be and how it will affect their future.

They want to know that, when the time comes, their child will be able to manage their student loan repayments.

We hope that this booklet will be useful to students and their parents and that it will tell you everything you need to know about repaying a student loan. We hope that by finding out about, and understanding how repayment works now, you will feel confident that there is nothing to worry about later.

If, once you've read this booklet, you still have questions about repaying a student loan, please visit **www.studentloanrepayment.co.uk**.

THINGS YOU NEED TO KNOW ABOUT REPAYMENT

- 1 By taking a student loan the student, not their parents or partner, are entering into a legal agreement to repay this at a future date.
- 2 You only repay the loan once you have left your course and are earning more than the threshold of £1,250 a month (or £15,000 a year or £288 a week).
- 3 If at any time your income falls below this, or stops altogether, your student loan repayments will also stop. They will start up again once your earnings rise above the threshold.
- 4 You will pay 9% of your income above this threshold until you have fully repaid your loan.
- 5 You pay interest on student loans. This is subsidised by the Government and is very low.
- 6 Repayments are mainly collected through the UK tax system.
- 7 You must repay your loan so we can continue to provide financial support for students in the future.

PAYING BACK A STUDENT LOAN

The most important thing to understand about this kind of loan is that it is an 'Income Contingent Loan' which means that the repayment figure is based on your future earnings and not on the amount you borrowed.

Your Income Contingent Loan:

- is money that you borrowed to help pay for your studies which you must repay; and
- could be made up of either a Maintenance Loan or a Tuition Fee Loan, or both.

You begin to make repayments once you have finished your higher education and are earning more than the threshold, which is £15,000 a year, or £1,250 a month, or £288 a week. When this happens, your employer will collect 9% of your earnings above this amount through the Pay As You Earn (PAYE) tax system. This means your employer will automatically take repayments without you having to do anything. If you pay tax through Self Assessment or go abroad to work, there are other arrangements for repaying your loan.

As long as you are earning over the repayment threshold, you will start to repay your student loan in the April after you graduate or leave your course. For example, if you graduate in June 2013, your repayments would start in April 2014.



EXAMPLE OF REPAYMENT AMOUNTS

Income each year before tax	Monthly salary	Monthly repayment
Up to £15,000	£1,200	£0
£16,000	£1,333	£7
£21,000	£1,750	£45
£24,000	£2,000	£67
£27,000	£2,250	£90
£30,000	£2,500	£112

We may include unearned income, for example, interest on stocks, shares or savings, if it adds up to more than £2,000 a year. If your combined earned and unearned income is more than £15,000 a year, you will have to make repayments.

If your income increases or reduces during the tax year (the tax year runs from 6 April to 5 April), your repayment amounts will change to reflect this. Your employer will automatically take money off your salary to repay student loans during any pay period where your earnings are more than the weekly or monthly threshold.

For example, if you are paid weekly and normally earn less than £288 (the weekly threshold), you wouldn't be expected to repay. But, if you did an extra shift or received a bonus which put your weekly salary up to, for example, £350 for only one week, you would make a payment based on this amount as it is over the threshold.

In a situation like this you may have made student loan repayments even though over the whole year, your earnings are less than the £15,000 threshold. If this happens, you will be able to apply for a refund of these repayments at the end of the tax year by sending us your P60. Or you may decide not to apply for a refund, which will allow you to repay your loan more quickly.

PAYING INTEREST ON A STUDENT LOAN

Student loans are not commercial loans and the interest is low. This means the amount you pay back will broadly be the same as the amount you borrowed

You are charged compound interest on your loan from when you receive your first payment until you have repaid it in full. Compound interest is interest on the money you have borrowed, plus interest on any interest already added to the loan.

The interest rate can vary, and the regulations around what rate applies to student loans and how changes to this rate may affect you are complicated.

You can find the most accurate and up-to-date information about interest rates on the repayment website at

www.studentloanrepayment.co.uk.



COLLECTING REPAYMENT

Between the time you finish your course and the following April, we will tell Her Majesty's Revenue & Customs (HMRC) that you are due to start repaying your student loan or loans. If you work as an employee and pay tax and National Insurance through 'Pay As You Earn' (PAYE), your employer will work out any student loan repayments that may be due each pay period, based on your earnings for that period, and take them from your pay. This is done using your National Insurance Number (NINO) which you give to us when you apply for student finance.

At the end of the tax year your employer will give you a P60 which shows your earnings and any deductions, including income tax, National Insurance contributions and student loan repayments. They will also tell HMRC about your student loan deductions (repayments), and HMRC then let us know what you have paid.

It is very important that you keep track of your repayments. The best way to do this is through the repayment website at

www.studentloanrepayment.co.uk.

STATEMENTS

Just before you start repayment, we send you an 'interim statement' which tells you how much you owe at that point.

We will send you your next statement between 12 and 23 months after that. Depending on your repayment method and the date, HMRC will tell us the amount collected through PAYE or Self Assessment.

We will send you regular statements to help you keep a record. However, we depend on the information we receive from HMRC for this. Because HMRC only pass us this information after they have received the information from your employer, it can be out of date by the time we receive it. Your statement from us will reflect the most up-to-date information we have been given but you may have made several further repayments since then.

MAKING VOLUNTARY REPAYMENTS

If you are not earning over the £15,000 repayment threshold, you may still choose to make voluntary repayments to pay back your loan more quickly. If you are earning more than this amount, your repayments will be collected through the tax system, but you can make extra voluntary repayments above this.

Whatever your circumstances, if you choose to make voluntary repayments to pay off your loan more quickly, you can do so through the repayment website at, by phone or in writing, using the following methods:

- Direct debit
- Standing order
- Debit or credit card
- Cheque



TAKING A GAP YEAR OR WORKING ABROAD

You may choose to take time out when you finish your studies and plan to travel or work abroad. If you are overseas, or you plan to go overseas for more than three months, you must fill in the Overseas Income Assessment Form which gives us evidence of your income during this time. We can then work out a repayment schedule for you.

If you think you may not be in regular contact while you are away, you may also want to grant Power of Attorney to someone else. This allows them to act on your behalf.

We cannot take instructions from, or make arrangements with, anyone while you are away unless you have granted them Power of Attorney.





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You can get a copy of this guide by calling the Student Finance publication line on 0800 731 9133, quoting reference SFE/PBSL/DEC09. There is a free textphone service available on 0800 328 8988.

You can also get braille, large-print and audio versions of this guide by calling the Freephone information line.

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