



Understanding Student Finance Undergraduate - 2020-2021

Introduction

Student Finance in England was radically overhauled several years ago. Myths, panic and confusion are still widespread with many not fully understanding how the system works or what support might be available for them.

It is important that you as a potential student are not put off from going to university because you think you can't afford it. The reality is, money should be the last reason you decide not to go to university. You need to be able to make informed decisions based on facts rather than what you've read online or heard from a friend. This guide aims to give you as much information as possible about the true cost of going to university.

How much will it cost me?

You've likely read or heard about possible changes. In 2017/18 fees were increased to £9,250 per year. The Government have recently agreed to freeze tuition fees again for 2020-2021 at £9,250.

You also need to factor in any maintenance loan you may decide to take out as well (more on this later.)

However, it's incredibly important to focus on the amount you'll repay rather than the amount you will actually borrow. The amount you repay depends wholly on the amount you earn after graduation. The more you earn, the more you repay however chances are, you'll never repay your full tuition fee loans but we'll get into that further on.

You don't need cash to pay for university

One of the biggest misconceptions from both prospective students and their parents is that these £9,250 fees are due in full before you actually start at university, this simply isn't the case. No public university in the country operates on a policy of 'pay up or you can't come'. Provided you meet certain eligibility criteria (go to www.gov.uk/student-finance for more information) Student Finance England will automatically make your tuition fee payments to your university. You will never have to worry about making a payment yourself. **(Unless you are assessed as a self-funding student!)**

It's your decision whether to apply for the full £9,250 or a lower amount however if you do apply for a lower amount, you will need to fund the remaining balance yourself. Tuition Fee Loans aren't means tested so if you meet the aforementioned eligibility criteria, you will be eligible for the full amount.

Almost £10,000 a year – I'll never be able to afford the repayments!

Great news! Repayments on Tuition Fee Loans depend wholly on the amount you earn and if you earn under £25,725 you'll never repay a penny. All repayments are taken directly from your salary by HMRC meaning you'll never need to worry about making or missing a payment. If you earn over £25,725 per year and your income changes to below £25,725, repayments will automatically stop.



As mentioned, the amount you repay will depend on the amount you earn however the percentage you repay will stay the same. You will repay 9% of any amount over £25,725. See below for a few examples:

If I earn £26,725 a year, how much will I repay?

£26,725 is £1,000 above the threshold meaning you will repay 9% of £1,000. This equates to £90 a year or £7.50 a month.

If I earn £35,725 a year, how much will I repay?

£35,725 is £10,000 above the threshold meaning you will repay 9% of £10,000. This equates to £900 a year or £75 per month

If I earn £44,725 per year, how much will I repay?

£44,725 is £19,000 above the threshold meaning you will pay 9% of £19,000. This equates to £1,710 per year or £142.50 per month.

I'll be repaying this for the rest of my life!

Not true – after thirty years any amount you currently owe is wiped out so if, for 30 years you earn £25,725 a year, you won't have repaid a penny and your debt will be clear. The reality is only those on high incomes will ever repay their loans in full. It's important to note that not repaying much because you're just over the threshold isn't a bad thing. These loans are designed as more of a graduate tax rather than a loan.

No debt collectors with student loans

Another common myth with student loans is that you'll have someone turning up at your door ordering you to make repayments – this may be the case with a lot of loans, but not these. As your repayments are made directly from your salary, there's never any possibility that this could happen. Even if you aren't repaying anything because you're earning less than £25,725, you'll never be asked to make a repayment. You will be able to see the amount you've repaid on your payslip each month, as well as your P60.

So how much interest will I pay?

For those who started university before 2012, there was no real cost to borrowing money via student loans, as the interest rate was set at the rate of inflation (RPI). So borrowing a shopping trolley worth of goods and you'll repay enough to buy the same, even though the actual cash amount may increase. Yet for those starting in or after September 2013, that's all changed. The interest rates are as follows:

While Studying – Your loan accrues inflation plus 3% of the outstanding balance. This continues until the first April after graduation when it changes to

After studying & earning under £25,725 – Your loan accrues inflation only.

After studying & earning between £25,725 & £41,000 – The interest rate will gradually rise from RPI to RPI plus 3%. The interest rate rises at 0.00015% per every pound earned. Or to put it another way, if you earn £1,000 more, you accrue 0.15% interest.

After studying & earning over £41,000 – Your loan accrues the full RPI inflation plus 3%.

It's worth noting that all the above scenarios assume inflation is positive (prices rising). It's not yet known what would happen in a period of deflation. So these figures cannot be deemed as 100% accurate but give you a rough idea.

You will owe money for longer than previous graduates and MAY pay a LOT more

The flipside of people repaying less due to the higher £25,725 threshold than previous graduates is that it will take *much longer* to pay off the loan. This is compounded by the fact the original debt is bigger and the interest rate is higher.

This is because under the post 2012 system the cost is effectively being spread over a much longer period. Initially, graduates will be able to keep more of their income to spend than pre 2012. Though later on when they would've paid off the loan under the old system, they'll have less as they'll still be repaying.

Maintenance Loan

If you meet the eligibility criteria (more details available at www.gov.uk/student-finance), then you will be able to apply for a Maintenance Loan to help towards the cost of living whether this be your accommodation costs, food, rent or travel. It will not cover everything so you need to budget accordingly.

A Maintenance Loan is paid in three instalments across the academic year – you will receive a payment in September, January & April. These payments are paid directly to the student and it's up to you how you spend them however, for many, this is the only income you'll have so it's wise to pay any bills first and budget the rest. These loans are means tested so the amount you receive will be dependent on your parent's household income however everyone who meets the eligibility criteria for a Maintenance Loan is eligible for the minimum amount.

The amount you receive is dictated by two elements:

The guaranteed bit – Everyone, regardless of parental income is eligible to receive a minimum of £3,410 per year, however if your parents earn less than £70,000 combined then you might be eligible for more.

The income assessed bit – The amount you can borrow is means-tested meaning it depends on your parent's income (pre-tax & minus pensions). Below are a few examples.

Wembley Campus based students

If your parents earn £25,000, you will receive £7,747 per year living at home with parents or £12,010 living away from the parental home in London.

If your parents earn £35,000, you will receive £6,442 per year living at home with parents or £10,670 living away from the parental home in London.

If your parents earn £50,000, you will receive £4,484 per year living at home with parents or £8,659 living away from the parental home in London.

If your parents earn £70,000, you will receive £3,410 per year living at home with parents or £5,981 living away from the parental home in London.



Etiihad Campus based students

If your parents earn £25,000, you will receive £7,747 per year living at home with parents or £9,203 living away from the parental home.

If your parents earn £35,000, you will receive £6,442 per year living at home with parents or £7,884 living away from the parental home.

If your parents earn £50,000, you will receive £4,484 per year living at home with parents or £5,905 living away from the parental home.

If your parents earn £70,000, you will receive £3,410 per year living at home with parents or £4,289 living away from the parental home.

If you want to find out exactly how much you will receive before you apply, then you can check out the following link - <https://www.gov.uk/student-finance-calculator>. It's a few straight forward questions, including your parent's household income, then at the end it will give you two amounts - one will be your Tuition Fee Loan of £9,250, and the other will be the Maintenance Loan.

My maintenance Loan is too small

One question I'm posed at every open day is that the amount offered on the Maintenance Loan is too small. It's not enough to cover rent or if it is it leaves you with barely anything to live on. Unfortunately, there are no alternatives available from Student Finance England. With no real signs of these amounts increasing, it's so important for you to budget appropriately. Part-time work and extra funds from parents could be an option for some.

You may also want to speak to our scholarship team at UCFB who may be able to help with a bursary or scholarship which might help towards travel, accommodation or tuition fee costs related to your course but you must apply early for those as they are limited and go very quickly. They can be contacted on scholarships@ucfb.com

Deadlines to apply for maintenance loans

To make sure these loans are in place for your first semester in September, students resident in England, need to apply before the final working day in May. If you live in Scotland you have until June but for Welsh & Northern Irish students, the deadline is a lot earlier. Unfortunately, these deadlines are subject to change each year so we cannot offer an exact date.

But hold on! Missing the deadline isn't all bad news - what it means is that you may not get your full allowance in September. What you will get is the minimum (£3,410) and then once all of your evidence has been reviewed, you will receive a top-up amount if you're eligible for any further support.

Will taking a loan affect my credit score?

One of the biggest myths around student loans is that because they are such high value loans, they are bound to have an effect on your credit score. In reality however, this simply isn't the case. When you borrow from a bank for a credit card, loan or mortgage, to evaluate whether they'll make money from you, lenders look at three pieces of information - your application form, any previous dealings they've had with you and crucially, the information on your credit reference files. Most normal financial transactions and credit relationships you have are listed on these files, yet student loans are not included.

So will my student loan affect my ability to get a mortgage?

One big worry from students and parents is that the high value loans and subsequent debt means they will undoubtedly have a negative effect on their ability to get a mortgage in the future. Of course, having a student loan is worse than not having one when it comes to applying for a mortgage, though it will not mean you definitely cannot get one. Completing a degree usually leads to better opportunity for employment and the potential to earn higher meaning those who don't have student loans are earning less than you. Essentially meaning you're on a level playing field.

Here's what the Council for Mortgage Lenders has said on the matter "A student loan is very unlikely to impact materially on an individual's ability to get a mortgage, but the amount of mortgage may depend on net income". What they're basically saying is that the fact you have a student loan won't affect your chances of getting a mortgage, however mortgage lenders will use your net salary rather than your gross salary to make any decisions

Can I repay my loan early?

Yes. In the early days of student loans, the Government consulted on penalties to stop people repaying early and avoiding interest – thankfully the mass of feedback they received was against the idea and it was scrapped. This doesn't mean that you should repay early though, in fact it's common knowledge that you shouldn't repay more than you absolutely have to, unless you're in a position to do so, and by that I mean you've won Euro millions. In general, we would encourage you to pay off your debts as quickly as possible however student loans are different, this is because many won't fully repay before the debt's wiped after 30 years. Overpaying each month could actually be pointless, as the overpayments not reducing the amount you'd need to pay back at all. Even if you have enough cash to clear the loan in full it may not be worth it as your repayments primarily depend on what you earn, not what you borrowed. It could mean you need to repay less than what you owed.

So how do I budget whilst at university?

Well, the simple answer is, you can't. Yet. Without knowing your income, you won't be able to know what you've got to spend. Your income is defined as your student loan plus any grants, bursaries, wages and additional money from parents. Add all this up and that's your total, now you know what you can spend. The only way you will know how much student loan you're going to get is by actually applying. You could always use the Student Finance Calculator mentioned earlier, however this doesn't confirm that you will definitely receive the money, only how much you may receive.

If you are working whilst at university, you should remember to take into account any tax and National Insurance you will be required to pay. Below is a handy table which details the tax rates on different levels of earnings. Chances are, if you are working whilst you're at university, you will only be part time and may not earn enough to pay any taxes.

Student Finance has changed once: can it change again?

The short answer is yes. It's important to remember that the Government is Omni competent. In other words, it's completely free to make and change rules that have already been implemented. There's no 100% guarantee that the system will remain unchanged for the next 30 years until your debt is wiped out.

That being said, it is incredibly unlikely that any negative changes made in the future will impact yourself. Policy makers in the UK are generally averse to retrospective change. When we examine the history of student loans, any changes brought in have only affected new students. While nothing is impossible, I would say with a certain degree of confidence, the system now, is the system that you will use for the entire life of the loans.

I hope this guide has been helpful – if you have any queries please feel free to contact us on fees@ucfb.com or 0333 241 7426. (Wembley campus) or 0333 241 7371 (Etihad campus)

For more information on student finance tuition fees and maintenance loans visit

www.gov.uk/student-finance or <https://media.slc.co.uk/sfe/quickstartfinanceguide/index.html>