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# Student finance – a tough financial lesson

This year thousands of students are receiving their results for A-levels awarded in the most extraordinary of circumstances. Because of Covid-19 and school closures, students did not have to sit exams but are being judged on coursework and teacher assessments (tough on the last-minute crammers).

Covid may mean many more of them will be able to take a place at university as the anticipated drop in demand for places from overseas students leaves gaps universities will be desperate to fill. But what their experience will be when they get there is anyone's guess, with many lectures and seminars likely now to be held via Zoom.

I cannot help feeling this generation is getting the raw end of the deal in so many ways. I know of no university that is reducing its fees to compensate for the diminished experience on offer. Most will still charge £9,250 a year.

This is not surprising, as the costs of delivering education will be the same and many universities are staring at a 20 per cent or more hole in their budgets as the lucrative overseas market collapses.

But there is another way we are penalising this generation – through the way they are expected to fund their education. If you are a business you can currently get an interest-free loan. If you are an elderly couple looking at equity release, the cost is as low as 2.5 per cent. Yet if you are a student repaying your loan you are charged 5.4 per cent a year (RPI plus 3 per cent). And that punitive interest starts kicking up and compounding from the day your first loan starts.

It applies to maintenance loans, too. Study away from home in London and you can borrow up to £12,010 a year in maintenance loans (but with a big caveat that we will come to shortly).

In all, a three-year degree is likely to cost up to £27,750 in fees and realistically over £30,000 in living costs – so typically more than £60,000 in total. With the 5.4 per cent interest rate those taking the maximum loans available can expect to accrue £5,000 in interest before they have even finished studying a three-year degree.

Many say you should not see student loans as a normal debt but a graduate tax because most students will never pay it off (not surprisingly with that interest rate!) Repayments start the April after graduation. They are set at 9 per cent of earned income above £26,575 and normally taken out of wage packets automatically. After 30 years any debts still outstanding are written off.

### Family support

Where do parents fit in all this? Parents are not required by law to help their student children financially, but the government assumes they will and means tests maintenance loans on the basis of parental income.

So, if you are studying away from home in London and your parents between them earn £69,977 or more, that maximum available maintenance loan shrinks from £12,010 to £5,981. In other words your parents are expected to find around £6,000 a year (and probably more) from their taxed income to support you. If you have a sibling studying at the same time it makes no difference. Your parents may find themselves paying £12,000 a year.

Of course, many well-off parents and grandparents will be so distressed at the interest rate that they will want to pay off the whole student debt — and perhaps do so up front without recourse to the loans system. But is this the best way to help?

Let's put the interest rate to one side for a moment. Many students will not even repay the amount borrowed. And there is an albeit faint chance that a future government might even reduce or write off the debt. So families choosing to pay all university costs from the outset risk paying thousands more than necessary.

That said, there are a few sensible arguments for families with the wherewithal to cover the costs. Student loan repayment obligations affect a graduate's future disposable income, which can be taken into account by mortgage lenders. If your child goes on to work in a high-earning profession, they are much more likely to have to pay back the debt and all that interest. Finally, loan terms are subject to change in the future.

### Wait and see

Undecided parents may be better off postponing the decision until their child graduates. The loan can be repaid in full at any time. Waiting will allow you to see if your child wants to go on to further study. If they do a masters degree the likelihood of their paying off the debt becomes even more remote. It will give you an inkling as to what profession they wish to enter too and their likely earnings. At that point you might want to give them the choice of wiping out the loan or keeping the money to use towards a house deposit.

Let's take an undergraduate who studies for three years away from home in London who is only eligible for the minimum loans. Their debt on graduation is likely to be around £50,000.

The current average rate on a two-year fixed-rate mortgage with a 95 per cent loan-to-value ratio is 2.74 per cent. Reducing a mortgage by £50,000 would save £204 a month in mortgage repayments on a 30-year term loan. Yet you would have to be earning £53,775 a year to pay £204 in student loans per month.

Furthermore, adding £50,000 to any savings your child might have for a property deposit could also help tip the loan-to-value ratio of their mortgage to below 75 per cent, which can currently save them another 1 per cent on their mortgage rate and help them even more.

Each student's circumstances differ. Explore this dilemma with your children, and if you have one, your financial adviser. But don't pay off those university costs just because you don't like your loved ones having "debts" without giving thought to whether your generosity might be better utilised elsewhere.

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