EXPLANATORY MEMORANDUM TO

THE EDUCATION (STUDENT LOANS) (REPAYMENT) (AMENDMENT) REGULATIONS 2026

2026 No. 743

1. Introduction

1.1 This Explanatory Memorandum has been prepared by Department for Education ("the Department") and is laid before Parliament by Command of His Majesty.

1.2 These are composite regulations with the Welsh Ministers and these Regulations will also be laid before the Welsh Parliament.

2. Declaration

2.1 The Rt Hon Baroness Smith of Malvern, Minister for Skills at the Department for Education confirms that this Explanatory Memorandum meets the required standard.

2.2 Anne Rimmer, Deputy Director for Student Funding Policy and SLC Sponsorship, at the Department for Education confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Pippa Jones at the Department for Education can be contacted by email at the following address with any queries regarding the instrument: pippa.JONES@education.gov.uk. Alternatively, the department can be contacted by telephone on 0370 000 2288.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Education (Student Loans) (Repayment) Regulations 2009 (S.I. 2009/470) ("the 2009 Regulations"), which govern the repayment of income contingent repayment ("ICR") student loans. The purpose of this instrument is to set a maximum interest rate of 6% for plan 2 and plan 3 student loans in the 2026/27 academic year. This change removes the risk of any temporary increase in inflation causing loan balances to compound at an unsustainable rate, and helps to protect students and graduates with these loans from inflationary pressures due to the situation in the Middle East.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales because it concerns the repayment terms of loans made to borrowers ordinarily resident in England and Wales.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales only.

5. Policy Context

What is being done and why?

5.1 A maximum interest rate of 6% for plan 2 and plan 3 student loans is being introduced for the 2026/27 academic year. This change removes the risk of any temporary increase in inflation causing loan balances to compound at an unsustainable rate, and helps to protect students and graduates with these loans from inflationary pressures due to the situation in the Middle East.

What was the previous policy, how is this different?

5.2 ICR student loans were introduced in 1998. One of the main features of these loans is that they are income contingent. The relevant UK administration sets an income threshold for repayment, below which borrowers are not required to make repayments on their loan. Borrowers earning above this repayment threshold are required to make repayments of a set percentage of their income that falls above the threshold. These loans also accrue interest, and have many protections for borrowers, including any outstanding balance, including interest, being cancelled at the end of the loan term. There are currently five different ICR loan types in operation, referred to as 'plans', details available here: https://www.gov.uk/repaying-your-student-loan/which-repayment-plan-you-are-on.

5.3 This change does not affect plan 1 loans, available pre-2012. Interest rates for these loans are governed by the 2009 Regulations, which provide that plan 1 loans have an interest rate of RPI or the Bank Base Rate + 1%, whichever is the lower. The RPI figure used in setting this interest rate is the annual percentage increase between the retail prices all items index published by the Office of National Statistics ("ONS") for the two Marches immediately before the commencement of the academic year. Where RPI is used within the rest of this document, this is what we refer to. With a relevant rate of RPI of 4.1% for the 2026/27 academic year, the interest rate applicable to these loans in academic year 2026/27 will remain below 6% with no intervention.

5.4 This change applies to plan 2 loans (including Advanced Learner Loans), available between 2012-2023. The 2009 Regulations provide that for these loans different interest rates apply depending on the borrower's circumstances. While borrowers are still in study, interest is charged at RPI + 3%. Student loans become due for repayment from the beginning of the tax year after the borrower leaves study. From this point, the interest rate varies depending on income, starting at RPI for those earning £29,385 or less per annum and rising linearly to a maximum of RPI + 3% for those earning more than £52,885. With a relevant rate of RPI of 4.1% for the 2026/27 academic year, the interest rate applicable to these loans in academic year 2026/27 may exceed 6% depending on the borrower's circumstances without this change.

5.5 This change also applies to plan 3 loans, available for postgraduate courses. These loans have an interest rate of RPI + 3% throughout the loan term. With a relevant rate of RPI of 4.1% for the 2026/27 academic year, the interest rate applicable to these loans in academic year 2026/27 will exceed 6% without this change.

5.6 Plan 4 loans are loans for Scottish students, managed by the Scottish government and are therefore not in scope of this change.

5.7 This change does not affect plan 5 loans (including Advanced Learner Loans), available post-2023. These loans have an interest rate of RPI throughout the loan term. With a relevant rate of RPI of 4.1% for the 2026/27 academic year, the interest

rate applicable to these loans in academic year 2026/27 will not exceed 6% without intervention.

5.8 Plan 2, Plan 3 and Plan 5 student loans are protected such that their maximum interest rate is capped if it would otherwise exceed the Prevailing Market Rate (PMR) for comparable unsecured loans, to ensure that the interest rate applied to student loans remains compliant with the requirements set out in section 22(4)(a) of Teaching and Higher Education Act 1998 ("THEA 1998"). The applicable interest rates for student loans have been amended in line with the PMR at various points during the post-Covid inflation spike, e.g. from 1 October 2021 for a period of three months. The change made by this instrument will mean the maximum Plan 2/Plan 3 interest rate is 6% in academic year 2026/27. This is unlikely to interact with the PMR, which is currently over 8%.

6. Legislative and Legal Context

How has the law changed?

6.1 This instrument amends the 2009 Regulations made under section 22 of the THEA 1998, which govern the repayment of ICR student loans. It sets a maximum interest rate of 6% for plan 2 and plan 3 student loans for the 2026/27 academic year in line with the following written ministerial statement: https://questions-statements.parliament.uk/written-statements/detail/2026-04-13/hcws1489.

Why was this approach taken to change the law?

6.2 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 No consultation was undertaken. A consultation was not deemed necessary as this instrument is being implemented as a short-term measure applicable for one academic year only.

8. Applicable Guidance

8.1 Information and guidance relating to the interest rate applied to all student loan plan types is available on gov.uk, including details of past and present rates. An announcement confirming the interest rate cap was made on 7 April 2026. This announcement will be most useful for borrowers who currently hold either a plan 2 or a plan 3 loan, or who are looking to apply for a plan 3 loan (noting that plan 2 loans for undergraduate level study were replaced with plan 5 loans in 2023). The announcement is available here: https://questions-statements.parliament.uk/written-statements/detail/2026-04-13/hcws1489

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the change in interest rate introduced by this instrument does not impact businesses. The change will be implemented and administered by the Student Loans Company. No additional burden on employers is expected as a result of this change.

Impact on businesses, charities and voluntary bodies

9.2 There is no impact on business, charities or voluntary bodies because the change will be implemented and administered by the Student Loans Company and impact only on plan 2 and plan 3 student loan borrowers.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because the change will be implemented and administered by the Student Loans Company, who adjust interest rates on an annual basis for plan 2 and 3 loans, depending on the applicable rate of RPI.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is limited as the legislation will only apply for one academic year. At the end of the year period, the maximum interest rate cap will automatically terminate, and the interest rates applied to plan 2 and plan 3 loans will revert to the standard method used to calculate the interest rate applicable, as set out in the 2009 Regulations.

10.2 The instrument does not include a statutory review clause.

10.3

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").