Department for Education

The Rt Hon Bridget Phillipson MP
Secretary of State for Education

[via email]

7th April 2026

Dear Helen and Dame Meg,

Changes to student loan interest rates for Academic Year 2026/27

Today the Government has announced changes to the interest rates for Plan 2 and Plan 3 student loans for Academic Year 2026/2027. This letter sets out the details and rationale for the change.

The Government has decided to cap the maximum interest rates on both Plan 2 and Plan 3 loans at 6% for Academic Year 2026/27. This measure will protect students and graduates from the potential of inflationary pressures due to the situation in the Middle East and removes the risk of any temporary increase in inflation causing loan balances to compound at an unsustainable rate.

The Government is making this change ahead of student loan interest rates being confirmed for the coming 2026/27 academic year. Student loan interest rates are ordinarily set for each academic year by reference to the Retail Prices Index (RPI) value for the year to the preceding March. On that basis, interest rates for Academic Year 2026/27 would normally be determined using the outturn RPI figure for March 2026, which is due to be published on 22 April 2026.

Under existing arrangements, borrowers on Plan 2 loans may be charged interest of up to RPI +3%. This maximum rate applies to borrowers in repayment earning above the upper interest rate threshold – which increased to £52,885 on 6 April 2026 – and all Plan 2 students in study. For Plan 3 loans, a flat rate of RPI +3% applies to all borrowers.

Capping the maximum interest rate at 6% instead of RPI +3% will ensure no Plan 2 or Plan 3 borrower faces an interest rate above 6%, protecting them from any short-term increase in RPI due to global shocks, such as temporary spikes in oil prices, outside the government's control.

This follows changes this Government has already made to the student finance system we inherited to improve it and make it fairer for students, graduates and taxpayers. This includes increasing the repayment threshold for Plan 2 loans to £28,470 in April 2025 – its first increase since 2021 – and we have increased it again on 6 April this year, to £29,385.

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Since 2024, we have been committed to supporting the aspiration of anyone who can and wants to attend higher education. We have reintroduced targeted, means-tested maintenance grants from the 2028/29 academic year, providing students from low-income households with up to £1,000 extra support that will not need to be repaid to ensure those from the poorest families receive more support without increasing their debt. We have also set an ambitious target of two thirds of young people taking a gold standard apprenticeship, higher-level training or heading to university by the age of 25.

While I'm pleased that we can take this preventative, short-term measure to protect students, we have inherited a broken student finance system which will not be fixed by this measure alone. I want to reassure both committees that we continue to keep the system under review.

We look forward to further engagement with the Treasury Select Committee's inquiry into student loans.

Yours sincerely,

The Rt Hon Bridget Phillipson MP
Secretary of State for Education

The Rt Hon Rachel Reeves MP
Chancellor of the Exchequer