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Dame Meg Hillier MP
Chair of the Treasury Committee
House of Commons
Palace of Westminster
London SW1A 0AA

Re: Treasury Select Committee Inquiry into Student Loans and the Taxation of Graduates

Tuesday 28th April 2026

Dear Dame Hillier,

I am very pleased that the Treasury Select Committee have launched an inquiry into Student Loans and the Taxation of Graduates.

Over the last few months, I have received a great deal of correspondence from students and graduates across my constituency, which led me to secure a Westminster Hall Debate on the issue on Wednesday, 25th February 2026.

I am writing this letter to supplement the Committee's inquiry into student loans. I have covered some of the steers in the call for written evidence.

1. Constituent testimony

Countless graduates in Ilford South have recounted how, despite making monthly repayments, their outstanding debt has skyrocketed. One constituent left university with £64,000 of student debt. After four years of making repayments, he now owes more than £99,000. Another graduate with £29,000 of debt has seen it snowball to £36,000 over the same period.

This has left graduates, at the precipice of their careers, feeling demotivated and demoralised. For some, their achievements at university have been overshadowed by the anxiety of debt repayments. One graduate shared that she was the first woman in her family's history to attend university and earn a degree. What should have been a proud and transformative milestone has been overshadowed by regret of having accrued such significant debt.

2. High interest rates

The principal flaw with Plan 2 Student Loans is that the interest rate, set between RPI and RPI+3%, is far too high for graduates to realistically pay back.

Whilst I welcome the Government's cap of 6% on Plan 2 loans, the interest rate remains far too high for graduates to make a meaningful dent in their debts. According to calculations by the Institute for

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Fiscal Studies, a graduate needs to earn £63,000 simply to prevent a debt of £50,000 from increasing.[1] This leaves most graduates watching their debts climb, while barely able to pay the interest they owe.

Since 2017-18, the interest rate added to outstanding loans has outpaced repayments and between 2023-24, the interest added to loans has been three times the value of repayments.[2]

With interest rising exponentially, my constituents on Plan 2 are not motivated to get ahead of payments and clear their debt upfront Rather, they have resigned themselves to the fact that, for the next three decades, student loans will eat up 9% of their income year on year, and there is nothing they can do about it. It is therefore unsurprising that government figures estimate that 68% of borrowers from the 2022/23 cohort will be unable to fully repay their loans.[3]

3. <u>Impact on Treasury finances</u>

With the majority of graduates on Plan 2 loans expected not to fully repay their loans, government write-offs of student loans are surging. Write-offs for the earliest Plan 2 loans in the 2040s are expected to cost the government around £30billion, over one hundred times the cost of what it is today.[4] We cannot afford to kick the can of reform down any longer – to do so risks leaving an entire generation behind and destabilising future public finances.

4. <u>Reform of the Interest Rate</u>

Aligning student loan interest rates more closely with the Bank of England's base rate would help ensure that graduates can see their outstanding debt fall over time. This would restore confidence in the repayment system, encouraging meaningful repayment rather than creating a sense of futility among borrowers who feel locked into paying debts with interest that persistently outpace monthly contributions.

This would not only make the system fairer for graduates but would also reduce the long-term cost to the Treasury by limiting the scale of debt write-offs.

5. <u>When student debt is accrued</u>

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[1] Ogden, K. (2026, 6 February). *How do Plan 2 student loans work, and how have they changed over time?* IFS
ifs.org.uk/articles/how-do-plan-2-student-loans-work-and-how-have-they-changed-over-time#:~:text=For%20instance%2C%20someone%20with%20an,it%20start%20to%20come%20down.
[2] Bolton, P. (2025, 10 December) *Student Loan Statistics.* House of Commons Library, page 21. researchbriefings.files.parliament.uk/documents/SN01079/SN01079.pdf
[3] Ibid
[4] Ibid, pg.16

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There is also an urgent need to reform how and when interest accrues. Plan 2 Loans accrue interest at a rate of RPI + 3% from the first year of university, long before most graduates can realistically be expected to repay.

An additional concern is the motherhood penalty, in which interest on student loans continues to accrue while women are on maternity leave, with reduced or no income. This throws new mothers deeper into debt in comparison to male counterparts in identical pay brackets who take shorter parental leave, if at all.

Allowing interest to compound during periods when repayment is structurally impossible undermines the fairness of the system and actively penalises life choices such as parenthood. Reforming the system is essential to prevent student debt from disproportionately disadvantaging women and those facing temporary income interruptions.

6. Lack of information given to students on student loans

From my discussions with graduates in Ilford South, two key experiences have been highlighted.

6a. Students are encouraged to go to university over other further education options

Firstly, when students are considering higher education opportunities, they are often encouraged to consider university and discouraged from other options. One constituent told me that despite wanting to pursue an apprenticeship, she was told that university was an easier and more beneficial route to achieve her future career goals. This portrayal of university as the gateway to a better life and a better option than others, without the relevant education on the financial burden has pushed young people into a 30-year debt they were not warned about.

6b. Lack of financial education on student loans

More concerning still, many constituents have agreed that they were not warned about the extent of student loans – many were told they would never feel the pinch of these loans and that they would be the easiest loans they would ever take out.

Most young people are not given proper financial education before taking out a student loan, and for many, this is their first loan. This information gap, coupled with the encouragement of university as a gateway to a better career, compels students to take these loans without fully understanding the extent of the decision they are making.

7. Impact of these loans on graduates

Following university, graduates then feel the pinch of 9% of their income being paid to debt interest repayments.

This impacts their ability to save and limits the financial decisions they may want to make. A recent survey by Barclays Bank revealed that savers with student loans put away £2,000 less per year towards a house deposit than those without.[5] This is corroborated by my constituents, some of whom have told me they feel unable to invest in big purchases, such as a house or car, or start a family because of the burden of student loans.

8. <u>The Changing terms of student loans</u>

The decision to freeze repayment thresholds, which has taken place under this government and other governments previously, compounds the unfairness of the student loan system, making it more regressive and reneging on the promise that repayment thresholds would keep up with inflation. Changing terms unilaterally, whilst within the bounds of the student loan contract, erodes graduates' trust in the Government and tightens the squeeze on graduates during a cost-of-living crisis, wiping out any benefit of wage inflation.

Graduates in Ilford South and across the country feel deceived by this decision. The student loans system was already predatory and regressive; freezing the thresholds only amplifies the problem.

9. <u>Accountability of the Student Loans Company</u>

The Student Loans Company is not under any obligation to abide by the FCA's regulations and principles. However, given that most graduates feel they were not warned about the extent of repayments nor the freezing of repayment thresholds, if SLC were obligated under these principles, the company would likely be in breach of them. In particular, Principle 7 of Communication with Clients, whereby firms should 'pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading'.

If the Student Loans Company were made to be compliant with FCA rules and principles, this would go some way towards restoring trust in the student loans system and preventing unilateral changes that disadvantage graduates.

10. <u>Cumulative tax impact of student loans</u>

Another problem with the current loans system is that they raise marginal tax rates to a level that is unreasonable. Once a graduate on Plan 2 earns £50,000, they will face a marginal tax rate of 51% once the loan deduction is taken.[6] According to Oxford Economics, Plan 2 graduates who are earning

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[5] 2026, 23 March. *Savers with student loans put away £2k less per year towards a house deposit than those without. Barclays Bank*
home.barclays/news/press-releases/20260/03/savers-with-student-loans-put-away-p2k-less-per-year-towards-a-h/
[6] Kelso, P. (2026, 20 March) *Student loans: The main problems caused by changes announced in the budget.* Sky News
news.sky.com/story/student-loans-the-main-problems-caused-by-changes-announced-in-the-budget-13520836

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between £100,000 and £125,000 face a marginal tax rate of 71%, 'one of the highest marginal tax rates for someone at this income level in Europe, and higher than any other income tax band. Combined with the loss of childcare benefits at this threshold, many workers lose income by getting a wage increase.'[7] This disincentivises ambitious young graduates from working towards promotions. As one constituent said to me, 'It feels as though my ambition is quite literally capped at £50,000.'

11. Equitable share of burdens and benefits between generations

The wider societal ramifications of student loans should not be ignored. The perceived unfairness of the student loans system has led many graduates to understandably feel they are not getting their fair share of government support, as generations before them did, especially those who benefited from free university.

Many graduates in Ilford South do not believe that the student loans system distributes burdens and benefits equitably across generations.

My constituents are fair; they do not deny that those who benefit from education should contribute to its cost. But ultimately, this cost must be fair. During this cost-of-living crisis, the need for reform to this hodgepodge system could not be more urgent.

I have laid out some reflections from my experience speaking with graduates in Ilford South and campaigning on this issue for some time. I hope these reflections will supplement the Committee's investigation into student loan issues.

My constituents and I believe a progressive, reformed student loans system is possible, and I will continue fighting for a fairer future for graduates.

Yours sincerely,
Jas

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[7] (2026 20 March) *Plan 2 student loan burden hits London hardest.* Oxford Economics www.oxfordeconomics.com/resource/plan-2-student-loan-burden-hits-london-hardest/