



## SALE OF STUDENT LOANS BILL

*Alan Simpson (Nottingham, South) (Lab):* The amendments raise some important points, which I hope that the Minister will tackle. I believe that my concerns fit the same pattern.

They begin from the same question: who, in their right mind, would want to buy someone else's debt? Why would they want to do that?

*Rob Marris (Wolverhampton, South-West) (Lab):* Ask Northern Rock.

*Alan Simpson:* Indeed. The obvious answer is that it would be done for foolish or speculative reasons or on the calculated basis that the purchasers would make money. For most of us, if we try to move our debts around, we do so to avoid or reduce costs. People do that when they reschedule their mortgages or move their credit card debts between different companies. However, in the context of the transfer of student loans, we are offering the prospect of transferring those debts from the public sector—the Government—to the private sector, which must envisage opportunities to make money out of the process.

We, as the Government, have a duty to protect students who have entered into debt in the first place. The guarantees and protections of the students and the taxpayers, of whose interests we must take account, must be clearly bolted in position. My current difficulty is that I cannot see those belt-and-braces protections. It is clear from the comments so far that prospective purchasers cannot hope to make money through taking on increased risk because, as Opposition Members made clear, there will be some selection in the process to minimise the risk. It will be hard to justify the notion of selling the debts below value because a risk element will be built into the calculation.

On the first tranche of student loan sales, the then Minister, my hon. Friend the Member for Leeds, East (Mr. Mudie), conceded that the loans had been undervalued. He said in response to a question on 9 March 1999:

“The estimated cost to the Government of selling these loans will therefore be in the region of £85-£100 million or 25-30 % above the cost of keeping loans in the public sector over the lifetime of the portfolio.”—[ *Official Report*, 9 March 1999; Vol. 327, c.106W.]

That estimate was made of the increase in cost of transferring the loans from the Government to the private sector. It would be a somewhat strange and curious transaction if we sought to make those transfers at a cost, rather than at a benefit. I am therefore looking to the Minister to clarify that we will not expose people to predictable additional costs to themselves, or to losses as taxpayers, through the three most obvious ways in which people can make money from the transaction.

The first way in which the banks could make money would simply be to do nothing, if the debts of the student loans are transferred at below their real asset values. The banks could then just

sit on the debts, which will appreciate, because at some point they will be realised at their true market price. The second way would be to sell the debt at a higher price to another bank, so that the selling bank would make an immediate profit and the buyer would take on the cost of the risk. Again, that would happen only if we as a Government sold the debt at a below-par valuation.

The third way of making a considerable gain out of the process would be to have the ability to increase the interest rates being charged on the loans. That would transfer the risk to the students who had entered into those loans, at what they thought were guaranteed and defined interest rates. Failing to lock in a binding obligation to adhere to the original terms would leave the debts open to quite an attractive speculative purchase on the part of the banks, which would know that we as Government might walk away not only from the management of the loans, but from the protections that were attached to them, in terms of interest rate guarantees. If the House fails to put in place those guarantees, we risk creating a huge potential to discredit the student loans system as a whole, because those who enter into those loan agreements need to be able to do so in the belief that what we say the terms of the loan are will indeed be the strictly adhered-to terms of that loan. If people believe that those terms are only the opening gambit and that they could in future face serious increases in the cost of servicing those loans, either they will be saddled with huge debts that they might not be able to service or the prospect of such increases will act as a deterrent against people taking on those loans and accessing the university system in the first place.

*Mr. John Hayes (South Holland and The Deepings) (Con):* Not for the first time in the 20 years in which I have known the hon. Gentleman and exchanged ideas with him, he is making a great deal of sense. He is making a case for including a series of criteria in the Bill that would limit the Government's capacity to jeopardise either the public interest or, as he has so eloquently argued, the interests of those taking out the loans.

*Alan Simpson:* I am indeed making precisely that case. That is why I am inviting the Minister to give the House an undertaking that precisely those guarantees will be written into the Bill. The issue is not the integrity of the existing Minister, with whom I have no dispute and on whom I cast no doubts; rather, such an undertaking would be a recognition not only that ministerial appointments are, at best, something of a magic roundabout and that people's tenure is limited, but that Governments change. Unless the terms are set out clearly in the Bill, it would be impossible to prevent someone else from intervening in the parliamentary process and, as an act of political whim, completely rewriting the script.

*Angela Watkinson (Upminster) (Con):* The hon. Gentleman is making some powerful points about guaranteeing the terms and conditions of student loans. Does he agree that currently under-represented groups whom we would wish to attend college—perhaps from low-income families—would be additionally cautious and therefore seek to ensure that they did not take on loans with open-ended conditions and repayments that could escalate to levels that involved them in debt collection?

*Alan Simpson:* That is an important and serious point. I happen to have grown up on a different planet, where I went to university only because I could do so on a full student grant. Had my

family been required to entertain the notion of taking out loans to go to university, they probably would not have done so. However, they certainly would not have entered into any loan agreements that included the prospect of the terms being spun away from them, by being changed in the middle of the repayment period.

*Rob Marris:* Will my hon. Friend give way?

*Alan Simpson:* I will happily give way, but I have been trying to finish for the past few minutes!

*Rob Marris:* Perhaps my hon. Friend has covered this point and I have missed it, but if I take out a loan from bank A, which then sells it to bank B, bank B cannot change the terms of the agreement unless the original agreement with bank A contained within it a provision enabling the creditor—now bank B, formerly bank A—to change those terms. Is my hon. Friend saying that the agreements that individual students have entered into with the Student Loans Company, via the Government, already contain such variation clauses? If there are no such variation clauses within those agreements, his fears will not be realised.

*Alan Simpson:* That is an important point. My answer is that as I read through the provisions in the Bill, it was not clear to me that such a legally binding lock was in place. If there is any ambiguity in the process, there is nothing wrong in putting those belt-and-braces locks in place—in fact, it would be irresponsible of the House not to do so. Those provisions would include specific arrangements covering variations of the terms of the loan, which would include interest rates.

Those are the points that I wanted to make. I hope that the Minister will take this opportunity to respond to them.

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### **Further Amendments**

*Alan Simpson:* It is difficult for someone who is not a lawyer or an accountant to speak in this part of the debate. For the record, I would like to make it clear that I am in favour of amendment No. 4 in principle, and in favour of amendments Nos. 9 and 10 and the strengthening of protection that is built into the Bill. It is perfectly legitimate to seek to include protections against the breaking up of the loans package, the transfer of loans outside the jurisdiction of the Secretary of State, or multiple purchases.

Northern Rock has been mentioned. Experience of the financial collapse in the United States has made us suddenly aware of the complex world of debt sales in which packages of debts are broken up. Good debt is mixed with bad debt, and when the system collapses, all debt goes down the pan. The question for the House is how do we protect those who have taken out debts—people who would be exposed if everything did go pear-shaped? That is a perfectly legitimate question. My difficulty is with the legal significance of the words “shall” and “may”, and whether it makes any difference to the transfer of undertaking if a change is placed in the opening line of clause 3(6), or between subsection (6)(a) and (b). I ask the Secretary of State to clarify that.

*Rob Marris:* He is not Secretary of State yet.

*Alan Simpson:* I mean the Minister.

During earlier exchanges, I thought that I was clear about the matter when the Minister's comments in Committee were read out. In the light of those comments, amendments Nos. 9 and 10 appeared appropriate, as they would give precisely the sort of protection that the House sought without compromising Treasury rules about what amounts to a transfer of undertakings.

In principle, I oppose the sale of student debt—full stop.

*John McDonnell:* I should like to define my position because I do not want my hon. Friend to misunderstand. I wish to replace “may” with “shall” because I want future sales to take place by way of the Secretary of State's consent. Otherwise, there is no long-term assurance or security. I recognise the ingenuity of the Opposition amendments. If they gave us that control, it would satisfy me but fall foul of Treasury rules. They therefore fall between two stools. I humbly say that my amendment is simpler and clearer and that the Government should accede to it. If they did, we would all get the security that we want.

*Alan Simpson:* I agree with my hon. Friend but I am not sure whether the technical argument is that the amendment would preclude the whole process happening. Some of us may argue that that is no bad thing, but I am trying to explore the next level of protection.

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### **Third Reading**

*Alan Simpson:* I begin by reassuring my hon. Friend the Member for Hayes and Harlington (John McDonnell) that there is a consensus in this House—certainly between us—that the shift from grants to loans was undesirable, and that the plan to shift loans from being public debts to private ones, which are somehow seen as more morally virtuous, is not acceptable. We are at one. He can rest secure as part of that consensus. However, it is important to recognise that important concessions have been made during the debate. I do not think anyone in the House needs the Minister to repeat the reassurances he has already given. Some important amendments were moved and debated this afternoon, and I am hopeful and confident that when they are reconsidered in another place, many of the points on which we were reassured by the Minister will be discussed.

I shall focus on two points. First, at some stage, this House ought to consider Treasury rules—what is permitted and what is not. It seems perverse to me that we have moved to a position where debt is morally virtuous if it is in the private sector rather than the public sector. That shift has taken place on a much larger canvas in society. We in this House are obsessed with the control of public debt, but we have turned a completely blind eye to the escalation of private debt that ultimately has thrown the economy into a severe crisis. I hope that we all recognise that the Government are a more competent borrower than any of us are individually. They can

borrow at rates that none of us could. We ought to consider why we adhere to rules that make a debt virtuous simply because it disappears off the Government's balance sheet. Enron tried to work in the same way and got into an horrendous mess. There is a case for philosophically considering how we honestly address the levels of debt and the management of debt in society. Secondly, an inequality and an injustice is embedded in the system. It would have been tackled by an amendment tabled by my hon. Friend the Member for Hayes and Harlington, but unfortunately, we were not able to debate it. It dealt with the interest charges relating to student debt. They are supposed to be inflation-only debts, but we almost ended up in an "Animal Farm" situation where some measures of inflation are more equal than others—and some measures are more manageable than others. I am talking about the benchmark measurement against which inflation is judged as it is applied to student debt. That has a crucial impact on the management of debt for the individuals involved, and the scale of it is about £20 billion. In the next 10 years, that debt will amount to about £55 billion—a figure ominously similar to the undertakings given to guarantee Northern Rock's survival. Those affected by the repayment of that debt are critically influenced by the calculation of inflation. The Government measure for the calculation of inflation has been the retail prices index. That is a snapshot measure, taken in March, which judges the rate of inflation that is taken into account for student debt repayments. Last March, the rate doubled from 2.4 per cent. to 4.8 per cent. This was the subject of a huge number of complaints from students and graduates who are repaying debts. They pointed out that the Government use a number of different measures for inflation. The Prime Minister legitimately claims that inflation in the UK is 2 per cent. The consumer prices index measures it at just over 2 per cent. That is the benchmark against which the Government judge what is affordable for public sector pay increases. It leaves many students in a terribly anomalous position.

I tried to get the figures for students who, on graduation, move into some form of public sector employment. The latest figures that I could get were for 2005-06. In that year, more than 120,000 graduates went into public sector employment and carried with them their student loan debts. Since then, they have repaid the debts at the rate defined by the retail prices index, but their pay increases have been defined against the benchmark of the consumer prices index. Those 120,000 graduates—more than half the university graduates in the UK—find themselves in a position whereby the charges on their debt repayments increased at twice the rate of the inflation that was recognised in their pay settlements. That injustice built into the process has been a constant source of grievance.