The determinants of student loan take-up in England

Ariane de Gayardon, Claire Callender and Francis Green

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Introduction

- More students in England are taking out student loans, to pay for their tuition fees and/or for living costs and are taking out larger loans.

- Not all students take out loans. Yet we know little about the differences between borrowers and non-borrowers in England, despite the considerable advantages of being debt-free both during and after the study period.

- This research examines which students do and do not take out tuition fees loans and maintenance loans. It looks at which factors are the most important in determining the take-up of both types of loans including the role of the student's family income, family wealth, parental education, gender, ethnicity, and debt aversion.

Student loans in England: the context

Since the 1990s, England's higher education funding policies have been informed by the notion of cost sharing, whereby more of the costs of higher education shift from government and taxpayers to students and their families. The key cost-sharing policies introduced have been the establishment and subsequent increases in tuition fees supported by tuition fees loans and the replacement of maintenance grants with maintenance loans for low-income students. Since 1998, all student loans in England have been income-contingent.

Because of these policy changes, more students are reliant on larger loans to fund their studies. In 2006/07, 397,000 tuition fees loans were taken out by full-time students worth an average of £2,030. By 2017/18, the number of loans for tuition fees had nearly tripled to 1.1 million, a take-up rate of 94%. The average amount borrowed was over four times higher at £8,350. The take-up of maintenance loans has similarly risen from 28% in 1990 when they were first introduced to 89% in 2017/18, while the average value of these loans grew from £390 to 14 times that amount (£5,590)[1].

As a result of this growth in the amounts borrowed, debt at entry into repayment reached an average of £35,950 in 2019 up from £2,690 in 2000 – reflecting the reforms of student funding[2].

Influences in loan take-up

Student loan take-up is influenced by two main factors: financial need and willingness to borrow. Financial need dictates whether students who have decided to enter higher education can do so without taking out student loans, which is primarily determined by their family's financial resources. Students' willingness to borrow also influences loan take-up, which is related to a number of factors including their culture and values as well as their attitudes toward debt.

Methods

We used the Next Steps dataset, which follows the lives of English people born in 1989-90. The sample used in this paper consists of all 4,368 Next Step respondents who had enrolled in higher education by 2010 (19/20 years old). Our analysis captures the vast majority of respondents who enter higher education as national data show that around three-quarters of first year undergraduates in England are aged 20 and under[3].

The results presented below stem from two analyses using multi-variate statistical methods and controlling for student demographics, their socio-economic background, and attitudes towards debt. The first describes who borrows student loans versus those who do not borrow. The second explores the take-up of the two different types of student loans available - tuition fee loans and maintenance loans.

[1] Bolton, P. (2019). *Student Loan Statistics* (Briefing Paper No. 1079). House of Commons Library.
[2] Student Loans Company. (2019). *Student loans in England: Financial year 2018-19. Tables and footnotes*. (Statistics Publication). Author.
[3] Higher Education Statistics Agency. (2018). *Figure 4 - HE student enrolments by personal characteristics 2012/13 to 2016/17.* https://www.hesa.ac.uk/data-and-analysis/sfr247/figure-4

Six factors determining student borrowing

1. **Parents' wealth**: Students from wealthy backgrounds are less likely to take out a student loan. Students with home-owning parents are 8.0 percentage points less likely to borrow than otherwise similar students whose parents are not homeowners. Privately educated students are 5.5 percentage points less likely to borrow than comparable state schools students. These two effects are reinforcing and independent. The take-up of both maintenance and tuition fees loans are also negatively related to the student's family income.

2. **Parents' level of education:** Students whose parents have a first degree or higher are, ceteris paribus, 4.0 percentage points more likely to take out a maintenance loan.

3. **Gender**: All else being equal, female students are 2.5 percentage points less likely to borrow than male students.

4. **Attitudes towards debt**: The more debt averse the student, the less likely they are to borrow. A one-standard deviation rise in debt aversion is associated with a 2.4 percentage point reduction in the probability of loan take-up, effecting the take up of both maintenance and tuition fee loans.

5. **Debt avoidance strategies:** Living at home while studying is a significant debt avoidance mechanism but, consistent with earlier studies, working in term-time is not. Living at home is more strongly linked with lower maintenance loan take-up than with lower tuition fees loan take-up (27 percent compared with 15 percent).

6. **Ethnicity and religion:** Students of Indian origin are 11.7 percentage points less likely to take out maintenance loans compared with otherwise similar students from other ethnic groups. Muslim students are 9.7 percent less likely to take out both tuition fee and maintenance loans. These effects are much smaller and insignificant when accounting for living at home.

In summary

Understanding who does and does not take out student loans is important because those who manage to study without borrowing enjoy significant advantages both during and after their studies. The financial advantages might spill over to academic achievements and to post-graduation choices and opportunities (e.g. career choices, housing, health…).

Student loan take-up is surprisingly broad across the income and social spectrum. But, family wealth remains a significant factor in determining take-up, potentially creating inequalities and social mobility issues. Similarly, gender, ethnicity and religion might impede educational achievements for those deterred by debt. Finally, the role of parental education and living at home in encouraging or inhibiting geographic mobility for higher education might also influence social mobility. The findings highlight a contradiction between the increased popularity of student loans globally and rising concerns in many countries about equity in higher education. Whether student loans and equity can coexist is yet to be determined.

Dr Ariane de Gayardon is a Research Associate on CGHE's social and economic impact of higher education research programme.

Email: a.gayardon@ucl.ac.uk

Professor Claire Callender is Deputy Director of the Centre for Global Higher Education, and leads CGHE's social and economic impact of higher education research programme.

Professor Francis Green is a Co-Investigator on CGHE's social and economic impact of higher education research programme.

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