

Interest rate cap introduced to protect Plan 2 borrowers

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Interest on Plan 2 and 3 student loans will be capped at 6%, instead of RPI+3%, to provide borrowers with certainty in an uncertain world.

The government is capping the maximum interest rates on Plan 2 and 3 student loans at 6% from 1 September, for the 2026/27 academic year, delivering stability and protections for graduates from escalating student loan interest.

This measure will protect students and graduates in England and Wales from the potential of inflation pressures due to the situation in the Middle East. Graduates will not pay the price for a war which the UK has no direct involvement in.

This reform removes the risk of any temporary increase in inflation causing loan balances to compound at an unsustainable rate and is in line with actions taken in the past to secure stability in the student finance system.

Graduates with Plan 2 loans currently pay interest rates of between RPI and RPI plus 3%, depending on their earnings. Current students on Plan 2 and Plan 3 also attract an interest rate of RPI +3% while they are studying.

Interest on Plan 2 and 3 student loans will be capped at 6% instead of RPI+3% to protect borrowers. This will ensure no Plan 2 or Plan 3 borrower faces an interest rate of 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. The government is clear this is not our war and the UK will not be dragged into conflict, but the impacts will affect the future of our country.

It 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.

The government is continuing work to make the student finance system fairer for students, graduates and taxpayers.

Minister for Skills, Jacqui Smith, said:

We know that the conflict in the Middle East is causing anxiety at home, and while the risk of global shocks is beyond our control, protecting people here is not.

Capping the maximum interest rate on Plan 2 and Plan 3 student loans will provide immediate protection for borrowers, supporting those who are most exposed within this already unfair system.

We're acting now to defend against the consequences of far-away conflicts in an uncertain world. More broadly, we're bringing back maintenance grants and continuing to look at the broken Plan 2 system we inherited, and the wider student finance system,

to make it fairer for students, graduates and taxpayers.

The Prime Minister has outlined plans to protect the UK public from the impacts of the conflict in the Middle East, including cutting energy bills, extending the cut to fuel duty, supporting those exposed to heating oil rises and taking back control of our energy security, by investing in clean British energy.

The government is making this change ahead of student loan interest rates being confirmed for the coming 2026/27 academic year. The interest that applies to student loans is fixed by academic year, from 1 September to 31 August the subsequent year, using the RPI value for the year to March prior (in this case, March 2026).

The student finance system also protects lower-earning graduates, with repayments determined by incomes and outstanding loans and interest being written off at the end of repayment terms. This write-off is a deliberate investment in our people and the economy.

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.

<https://www.gov.uk/government/news/interest-rate-cap-introduced-to-protect-plan-2-borrowers>