**Departmental Minute from the Department for Education on behalf of Government: Notification of sale of student loans**

It is normal practice when it is necessary for a Government department to undertake a contingent liability in excess of £300,000 for which there is no specific statutory authority, for the Ministers concerned to present a departmental minute to Parliament giving particulars of the liability created and explaining the circumstances of it, and to refrain from incurring the liability until fourteen parliamentary sitting days after the issue of the statement, except in cases of special urgency and/or confidentiality.

In this case, although there is specific statutory authority for the liability under the Sale of Student Loans Act 2008, the Government believes it is appropriate to allow Parliament 14 sitting days for due consideration before incurring these liabilities.

Today, the Government is announcing the start of the process to sell a second part of the pre-2012 English student loan book under the Sale of Student Loans Act (2008). The first sale completed in December 2017.

A sale would not alter the mechanisms and terms of repayment and sold loans would continue to be serviced by Her Majesty’s Revenue and Customs (HMRC) and the Student Loans Company (SLC) on the same basis as unsold loans. These protections mean that purchasers would have no right to change any of the current loan arrangements or to directly contact borrowers.

As with every market transaction, the sale arrangements include a number of warranties and indemnities for sale arrangers and investors which give rise to contingent liabilities for Government. These are necessary in order to maximise the prospect of attracting a wide range of bidders and ultimately securing value for money for the taxpayer.

There are four areas of potential liability for government, all of which will be disclosed in due course as contingent liabilities in Department for Education (DfE) financial statements.

First, Government will be required to repurchase all the sold loans in certain remote circumstances as a remedy to investors:

(i) If student loans repayments for the sold loans, all pre-2012, ceased to be collected through the UK tax system by HMRC (or equivalent).

(ii) If the Retail Price Index which is used to calculate the interest rate on the loans was abolished without a substitute being put in place.

(iii) If there was a problem with the collection of loan repayments that could not be remedied after three consecutive annual payment dates.

These risks have been considered and the Government assessment of their likelihood is low. It is not possible at this stage to accurately quantify the value of liability however, the maximum liability in these circumstances is capped at the amount outstanding on the rated securities issued, adjusted for reinvestment risk and an agreed internal rate of return on the junior tranche. Liability is limited to the life of those securities.

(iv) If (a) there is a breach of warranty on the sold loans, e.g. that they should not have been sold in the first place, (b) it is determined by SLC after the portfolio cut-off date that historic tuition fee payments were incorrectly made as a result of SLC becoming aware of a change in the maximum amount the borrower was eligible for under the loan or (c) any loans are impacted by a future policy to forgive teachers’ loans that is implemented by partial or complete write-off (the current pilot scheme reimburses borrowers for their repayments), the Government will be required to repurchase the affected loans (but not all loans) at the price at which they were sold to investors. We anticipate the amounts to be low and not exceed 1% of the face value of the loans.

Secondly, Government will offer investors an indemnity against significant ‘Servicing Events’. Where a Servicing Event is triggered under the Master Servicing Agreement and cannot be remedied by DfE and its Delegates (SLC, HMRC and UK Government Investments), or is not remedied before a longstop date, DfE will provide pound for pound reimbursement for any losses stemming from the inability of DfE as Master Servicer to perform its obligations. This is necessary because investors will not have the option of exiting the servicing arrangements (in contrast to usual market practice). This indemnity is not capped and will be in place for the lifetime of the loan book. It is limited, however, so that it will not be triggered in certain scenarios. The Government has considered the risk of these events arising, and has assessed the likelihood of them giving rise to indemnities as low.

A third area of contingent liability arises due to the offer of a compensation mechanism which provides assurance to investors that they will be made whole should the Government ever make changes (i) to the terms of the sold loans which affect repayments and therefore cashflows; and/or (ii) specified changes to their regulatory status which would have a material adverse effect on the securities. This would only apply to pre-2012 loan terms. The risk of these specific events occurring depends on the direction of future government policy.

Fourthly, Government will offer a Joint Lead Managers (JLM) Indemnity. This indemnity is market standard and offered in the Subscription Agreement between DfE (as the Seller) and the JLMs. This offers the banks distributing notes to investors on our behalf an uncapped indemnity if they suffer or incur any loss as a result of misrepresentation, misleading statement or omissions or breach of duty by Government. This indemnity is uncapped and will be in place for as long as there are outstanding securities. In practice, in the unlikely event that a liability is called, the maximum amount that could be claimed under the indemnities will be the entire value of the securitisation along with any associated legal, transactional or regulatory costs.

It is expected that all liabilities will expire when loans are fully repaid, written off or repurchased. This is currently forecast to be in the late 2030s.

If any of these liabilities are called, provision for any payment will be sought through the normal Supply procedure.

Parliamentarians may signify objections by giving notice of a Parliamentary Question or by otherwise raising the matter in parliament within 14 sitting days. Final approval to proceed with incurring the liability will be withheld pending an examination of the objection.