THE

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Tuition fees: a Times Higher Education guide

From 2012-13, full-time undergraduates applying to study in England could be entitled to three main types of support: a loan to cover their tuition fees, a loan to aid with living costs and a grant to help with living costs. Only those studying for a first degree will be entitled to the support – students already holding an equivalent or higher-level qualification will not be eligible.

1 Tuition fee loans

These will be available to cover the cost of a course up to the £9,000-a-year limit. Most undergraduates study for three years, so their total tuition fee loan will be a maximum of £27,000. However, the significant minority that study for longer – for example, those studying medicine – may have to borrow more.

2 Maintenance loans

The maximum loan for living costs will be £5,500 a year for those studying outside London and £7,675 for those at a university or college in the capital. For students living with their parents, the highest available loan will be £4,375. The size of the maintenance loan available will depend on a student's family income.

3 Maintenance grants

While loans covering both tuition fees and maintenance will be subject to repayment after graduation, grants for living costs will not have to be paid back. However, they will be made available only to students from the poorest families. Anyone from a household earning less than £25,000 will be entitled to the full grant of £3,250. Those with household incomes of between £25,000 and £42,600 will be eligible for a partial grant, which will reduce on a sliding scale as family income rises.

Repayment of loans

Graduates will become eligible to repay their loans the April after they graduate, so the first students under the new system could start paying back in April 2016.

They will pay back 9 per cent of any income earned over £21,000. Therefore someone with a salary of £25,000 in April 2016 will pay 9 per cent of £4,000 – equivalent to £360 a year or £30 a month.

Repayments will continue until the loans are repaid in full, but if repayments are still due after 30 years, the outstanding debt will be written off. The £21,000 repayment threshold will increase every year in line with general earnings across the country.

The total amount of money that students end up paying to the government – the major factor in calculating whether they will ever pay off their loan – will depend on the amount borrowed in fee and maintenance loans and the interest rate that students face on the loan. Because of interest, and as with any other loan, all students will end up "owing" more in cash terms than the original amount they borrowed.

However, the £21,000 threshold and limit of the repayment period to 30 years means that many students will never repay the full amount.

Student loans could affect the amount of money a graduate could borrow from other sources – for example, a mortgage.

Although the loan itself will not stop a bank from lending the money, it may take the monthly repayments into account when considering how much to lend. This is because lenders often look at monthly net income when considering the size of a mortgage.

Interest rate

Fee and maintenance loans will attract interest of 3 per cent above the retail prices index measure of inflation (which stood at 5.5 per cent in February 2011) from the moment they take them out until the April after they graduate.

Therefore, loans of £16,675 (equivalent to a £9,000 fee and the maximum London living loan) taken out in September 2012 will be worth at least £1,000 more just a year later if RPI inflation remained at 3 per cent or higher all year (6 per cent of £16,675 is £1,000.50). From this, it is clear that by April 2016, a graduate from a full-time three-year course in London could have borrowed a nominal amount of £50,000, but this could already have grown by several thousand pounds more because of interest.

Once a graduate starts repaying the loan, the debt will continue to accrue interest at RPI inflation plus 3 per cent if they are earning £41,000 or more.

For anyone earning less than £21,000, the loan grows only at the rate of RPI inflation. Between salary levels of £21,000 and £41,000 the interest rate will gradually rise from inflation only to RPI plus 3 per cent.

Part-time students

Part-time undergraduates starting in 2012-13 will also be entitled to loans to cover tuition fees, provided they are studying at least a quarter the intensity of a full-time course.

Like full-time undergraduates, they must also be studying for a first degree.

The terms of repayment are mostly the same as for full-time students – part-timers will pay 9 per cent of all income earned over the £21,000 threshold. However, the rules are slightly different for when repayment is due. Part-time students will be liable to start repaying loans from the first April three years after the course began, whether they have completed the course or not. Therefore, a part-time student beginning a course in September 2012 will have to start repaying their loan in April 2016 even if they are still studying, provided they are earning more than £21,000 a year.

Loans to part-time students will also accrue the maximum interest rate of 3 per cent above RPI inflation until their repayments are liable, after which the interest rate will depend on income in the same way as for full-time students.

Students from Scotland, Wales, Northern Ireland and the rest of the European Union

These students will face different rules depending on where they live.

Those from Scotland, Wales and Northern Ireland will receive support for tuition and living costs according to the rules laid down by the devolved governments.

European Union students will be entitled to apply for fee loans on the same basis as English students, but will generally not be entitled to loans or grants for living costs.