

Business Working life

STARTING OUT Private lender gets undergraduates to pay back part of their debt while still studying rather than waiting until they are in full-time work

Teaching students how to manage money can pay off

An American-backed finance company is set on shaking up the campus loans market, writes **Alexandra Freen**

For some, the arrival of financiers from the United States in the British student loan market provides further evidence that the cost of studying has spiralled out of control.

Brian Norton, the American chief executive of Future Finance, a new private student loan lender in the UK, says that he has devised a way to cut defaults and to get borrowers into the repayment habit early: the company requires its customers to pay back small monthly amounts as soon as they take out a loan rather than wait until they graduate and have a job, as is traditional with student borrowing.

The Dublin-based business, backed by American venture capital, is also making loans in a way that is different from traditional lenders, using its algorithms that combine its data on courses, university completion rates and first-year potential earnings with other government data to make underwriting decisions.

This is how it knows, for example, that a nursing student from London

South Bank University, statistically, is more likely to earn more in his or her first year after graduation than a Cambridge graduate.

"We love making loans to nurses. Their tuition, but not cost of living, is free and they are guaranteed a job for life," the chief executive says. "We make bigger loans, of up to \$30,000 [£21,100] to postgraduate students at the London Business School. We can be comfortable with these large sums because of the expectations we have of their earnings."

Future Finance's expansion push comes amid a fierce debate about whether the average university degree provides an acceptable return on investments.

Universities in England and Wales can charge students up to £9,000 a year in tuition, with undergraduates able to take out a loan from the government-backed Student Loans Company to pay for the fees and to help with the cost of living. But Mr Norton says there is, on average, an £8,000 gap between what students have to pay over the course of their studies and what the government provides. Not everyone

Brian Norton seeks to fill a gap in the market



TIMES PHOTOGRAPHER JACK TAYLOR

has a parent able to pay that.

"If we don't fill this gap, somebody else will," Mr Norton says. "We believe that nobody who is qualified should be denied an education just because of tuition fees. But we are not a charity. We hope to be a successful business and that in five to seven years' time we will be the Sallie Mae of student lending in the UK," he says, referring to the American publicly quoted student lender.

Mr Norton also hopes that his company's fresh approach to lending will help to change the mindset in the UK towards student borrowing, which lags far behind the US, where many parents set up college funds for their children from birth. He also hopes that Future Finance will maintain low default rates and thus drive down the cost of student lending by educating his borrowers.

"By asking someone to pay back a little bit while they are studying, our hope is that there would be a big difference in continued payments. If you have to pay back £25, you are going to think twice about taking on other debt," he says. "We say to students, 'If you go two weeks without Starbucks, we can lend you £5,000'. We are the wake-up call that's educating them in terms of what it means to budget properly."

Future Finance first directs all applicants to the Student Loans Company. "They come to us when they've got a student loan and a maintenance grant and a pub job but they are still £4,000 short for the year. We are a top-up for undergraduates. For postgraduates we are often the only lender they can call on," he says.

Future Finance offers ten-year loan terms, no early repayment charges and built-in payment holidays. The company has made about 3,300 loans, averaging £8,000 since launching two years ago. Students apply online and receive an immediate response.

The company is averaging about 100 applications a day. It accepts about half but not everybody takes up the offer, so the acceptance rate is from 10 to 15 per cent. Most loans require a guarantor, usually a parent.

The company completed a £119 million funding round last month and has raised a total of £185 million since 2014 from a mix of institutional and individual investors. Backers include QED Investors, a US venture capital firm specialising in financial services led by the British businessman Nigel Morris, a founder of Capital One bank. Mr Norton's Ridge Road Partners is also an investor, as is Blackstone, through its strategic opportunity fund, and Goldman Sachs, which has put in \$25 million.



'They said yes – which was the best news'

Case study

Hannah Kennerley, 25, a paramedic science student at St George's, University of London, a medical school, has wanted to be a paramedic since the age of 12 (Alexandra Freen writes).

"I'm from a small village in Cheshire," Ms Kennerley, left, says. "My dad is a firefighter and everybody was always telling me what a great guy he is, so I always wanted to do something like that."

Two months into her course, however, she was informed by Student

Finance England that it had made a mistake and that she did not qualify for any money. Ms Kennerley needed £16,000 for her two-year course and £16,000 for living costs at short notice to carry on. Because her studies require her to go out on ambulance duty, she had no time for a job.

"I was heartbroken. My dad, who is retired, had to go back to work as a caretaker to help me pay," she says.

She scraped through the first year and did not know how she would pay for the second until a friend found out about Future Finance on the internet. She now has a £16,000 loan with it and is paying back £75 a month, which she funds by baby-sitting.

"When Future Finance said 'yes', it was the best news. I was so determined to become a paramedic. I love the job. It's such a privilege to be welcomed into people's houses to help them."