

The confusing world of student loans

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It all seems so straightforward when looking at information on getting a student loan for college or university. Fill out the online application, get the money deposited to your account, pay your tuition and get a degree. This leads to a well-paying job allowing you to start what's known as "real life" while paying off your student debt.



[Enlarge Image](#)

Katherine Giroux-Bougard, national chairperson of the Canadian Federation of Students: 'The programs are flawed.'



A true picture for some, but for others it's a quagmire of bureaucratic regulations students often don't understand, and not following instructions properly can result in being turned down for loans, or being unable to pay them after leaving school.

The Canadian Federation of Students, a student lobby group, is working to improve student loans and their repayment regulations.

"We are reaching an unfortunate milestone on our Student Debt Clock," says Katherine Giroux-Bougard, national chairperson of the Canadian Federation of Students. This amount has now reached \$13-billion and only represents what students owe on federal government loans, and doesn't include debt owed for provincial or private loans for students.

The government's most recent annual report on student loans states that 40 per cent of full-time post-secondary students had government loans in 2005-2006 with the average loan at approximately \$4,800. According to recent government reports, this figure has risen to approximately \$5,500 in 2007-2008 and is projected to continue increasing.

As for default rates, statistics vary but government reports put the figure at between one-quarter to one-third of all outstanding loans. The 2007 Auditor's General's reports a default debt of \$800-million.

ELIGIBILITY

Problems with the loan system start at the beginning with eligibility.

"There are strict guidelines on who can apply and government calculations are based on your family contributions. There is not a lot of room for situations in life like estrangement from your parents or where your parents are making money but they have a high level of debt themselves," says Ms. Giroux-Bougard.

FEDERAL AND PROVINCIAL LOANS

Student loans come from two sources: government and private institutions such as banks. Where government loans are concerned, there is both a federal and provincial portion, generally a 60/40 split, says Ms. Giroux-Bougard. The amount students get depends on individual circumstances and varies from province to province, as does the interest rate they'll end up paying.

In some provinces and territories, students apply for the two loans separately, while in others they apply in one place, though repayment is separate for the two portions.

"It's such a patchwork of different programs, it's hard to believe we're talking about one country," says Julian Benedict, co-founder of the Coalition for Student Loan Fairness, a B.C.-based organization aimed at student loan reform.

INTEREST RATES

One of the biggest concerns for student advocates points to the next major problem with government loans: interest rates, which Mr. Benedict calls "some of the highest for student loans in the G8."

Over the years, interest rates and repayment programs have changed - a problem in itself as borrowers try to understand which terms apply to which loans.

"Under some repayment contracts people are paying as much as 11 per cent fixed-rate interest on government loans," says Mr. Benedict.

Currently, interest charged on federal loans is prime plus 2.5 per cent and provincial rates vary.

BANK LOANS

For those who are not eligible for a government loan, or who don't get enough to cover their expenses, banks are another option.

Bank loans are somewhat more straightforward to understand. They usually take the form of a line of credit for a student, with a guarantor co-signer, usually a parent. Students must pay interest while in school but only on the amount they actually borrow. For instance, if a student is approved for a \$10,000 line of credit and only borrows \$5,000, the interest would only be paid on the \$5,000.

The interest rates are tied to the prime rate. For instance, the Bank of Montreal currently offers interest at prime plus 1 per cent. Canada Trust's rate is advertised as "prime plus variable," although that rate is typically between 1 to 1.5 per cent, according to the bank.

Upon graduation, the line of credit is closed and full repayment, including principal, begins one year later, or in six months if a student leaves school before graduating.

GOVERNMENT V. BANK LOANS

When comparing government and bank loans, there are distinct advantages to the public route, says Claudia Barrett, Associate Director of Student Awards and Financial Aid at the University of Calgary.

"Under bank programs, students aren't eligible for the various government grants that are available to qualifying students. These can substantially reduce the amount of debt a student has upon graduation," she says.

GRANTS

Federally the Canada Study Grant - up to \$3,100 a year - is set to replace the soon-to-expire Millennium Scholarship Program. In addition to grants for low-income students, the program has provisions for students with permanent disabilities and those with dependents.

"In Alberta, we also have provincial grants and loan relief that is given each term, not at the end of studies, so the amount of interest owing at graduation is less," says Ms. Barrett.

Ontario has recently reinstated a grant portion for qualifying students and it includes modest to middle-income families. For example, the net income ceiling for a two-parent family with two dependents is currently \$77,746.

While all of this sounds simple, the formula to calculate eligibility for many programs is complex, difficult for students to understand and thus hard to challenge if turned down for a loan.

REPAYMENT

The federal government has introduced a new repayment program tied to income after graduation to a maximum of 20 per cent. While this sounds good in theory, both Ms. Giroux-Bougard and Mr. Benedict have some concerns.

"There may be some improvements under the new plan," says Ms. Giroux-Bougard, "but we are concerned that it will be complex and not available to everyone who may want this plan but may not qualify."

A provision wiping out remaining debt after 15 years of payments will mean "taking longer (than the current 9.5-year amortization), resulting in more interest paid by the end of the term," says Mr. Benedict.

And repayment is also fraught with complexity. Many students are "sent a huge package of forms filled with legalese that completely confuses them," says Mr. Benedict. His coalition has heard from many students with repayment problems, not least of which is conflicting or incorrect information from the National Student Loans Service Centre, the government agency set up to administer loan contracts.

Students often experience a form of sticker-shock, he says, when they find out that the so-called "grace period" requiring no payments until six months after graduation didn't prevent interest from accruing during that period.

Mr. Benedict advises students to "set up a file and keep records of all transactions, correspondence and phone calls from the day you first apply for a loan."

This is especially important if a loan falls into default, something that can happen "without a student even knowing they were in repayment mode," says Mr. Benedict. It can occur if students drop out or take a semester off without realizing the implications for their loan.

While there are interest relief and debt reduction programs, relatively few students take advantage of them, signalling "the programs are flawed," says Ms. Giroux-Bougard.

The problems students say they've experienced with these programs are legion and recounted on websites, including the Coalition for Student Fairness. Their eight-point plan to reform student loans includes calls for improvement to the grants, interest relief and debt reduction programs and for a student loan ombudsperson who can provide an avenue for redress now lacking, says Mr. Benedict.

It's a complicated roadmap for young people to navigate. At the end of the journey, the destination is a degree on your wall stamped "paid in full."

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