Class of 2000 — Student loans

by Mary Allen and Chantal Vaillancourt

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Students finance their education in a variety of ways including employment income, savings, family support, scholarships, and loans from government and private sources. Although student loans are not the most frequently cited source of financial support for postsecondary students, they are an important source of funding for those who do borrow.[1]

About half of college and bachelor's graduates left school owing money for their education

At the time of graduation in 2000, about half of college and bachelor's graduates had some kind of debt for their education, and most of these graduates had government student loans. Government student loan programs were the major source of student borrowing: 45% of bachelor's graduates and 41% of college graduates left school with government student debt.

Almost one in five college and bachelor's graduates, however, borrowed from other sources to finance their education. Among college graduates, 33% had only government student loans, 8% owed money only to non-government sources and 8% owed money to both. Bachelor's graduates were more likely to turn to both sources for funding. While 34% had only government student loans and 8% had only non-government student loans, 11% had both.

On average, the amounts owed to non-government sources were generally smaller than government loans. However, for graduates who owed money to both sources, the combined debt was considerably larger than for those with debt from only one source.

On average, the Class of 2000 owed more than the Class of 1995

The rest of this article focuses on government-sponsored student loans. For both the Class of 1995 and the Class of 2000, just over 40% of college and bachelor's students owed money to government student loans programs at the time of graduation. However, the 2000 graduates owed significantly more than their 1995 counterparts, who in turn owed more than the 1990 graduates did.[2]

On average, the Class of 2000 bachelor's student loan borrowers owed 30% more than the Class of 1995. Average debts for college

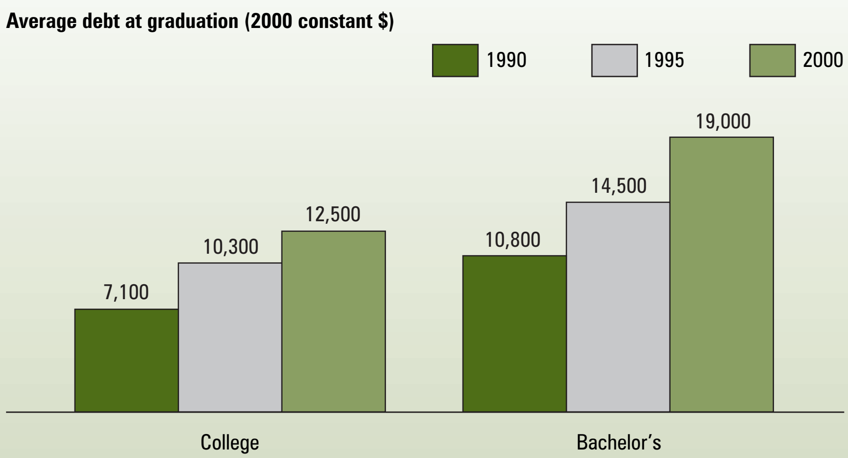
1. According to the 2002 Postsecondary Education Participation Survey, 26% of young postsecondary students (aged 18 to 24) used government student loans to finance their current academic year. However, the median amount borrowed was $5,000, a substantial amount when compared to the typical cost of schooling ($11,200 for university students, and $9,330 for college). Barr-Telford, L., F. Cartwright, S. Prasil and K. Shimmons. 2003. "Access, persistence and financing: First results from the Postsecondary Education Participation Survey (PEPS)." *Education, Skills and Learning – Research Papers*, no. 7 (Statistics Canada Catalogue no. 81-595-MIE2003007).

2. To enable comparisons with the Class of 1990 and the Class of 1995, average student loans are calculated for graduates who have not completed any further studies. This differs from the population covered in the rest of the article as graduates who pursued further studies without completing them are included for the comparison of the class cohorts, but are excluded for the presentation of the rest of the Class of 2000 results. All comparisons are made in 2000 constant dollars. Information on amounts owing to other sources at graduation is not available for 1995 graduates.

CST What you should know about this study

This article uses data from the 2002 National Graduates Survey (Class of 2000) to examine the management of student loans. It includes students who completed the requirements for or graduated with a degree, diploma or certificate in 2000 from college or a bachelor's program (including first professional programs such as law or medicine). Data for master's and doctoral graduates are available but are not discussed in this article. This analysis primarily focuses on graduates who had government-sponsored student loans and examines how much money they owed at graduation and two years later in 2002. Data referring to the Class of 2000 graduates is restricted to graduates who did not pursue further education during the two years after graduating from their program in 2000. Comparisons of graduates between the Classes of 1990, 1995 and 2000 used a slightly different group of graduates including only those who did not **complete** further studies in the two years after graduation. This would include graduates who pursued but did not complete studies.

CST Average government student debt at graduation is increasing



Note: Includes graduates who have not completed any further education in the two years after graduation.
Source: Statistics Canada, National Graduates Surveys (Classes of 1990, 1995 and 2000).

graduates were 21% higher than for the Class of 1995.

One in five borrowers had paid off their government student loans by 2002

Usually students are required to begin repaying government student loans within six months of completing their studies. With rising student debt, there has been much discussion about the level of debt and how repayment is managed.

The ability to pay off debt is influenced by a number of factors: size of debt, employment, earnings, interest rates, and personal circumstances. It is not surprising, therefore, that the graduates who were able to eliminate their student debt in the first two years following graduation were advantaged in many of these respects. In fact, about one in five graduates who had left school with government student loans had paid them off completely two years after graduation. For the graduates who still owed money two years after graduation, about three-quarters of their debt remained to be repaid.

Not surprisingly, graduates with smaller loans were more likely to have paid off their loans two years later than those who had large loans. In addition to starting out with lower debt, Class of 2000 graduates who were able to pay their loans off by 2002 had significantly higher incomes than those who still had student debt two years after graduation. On average, personal income for graduates who had paid off their debt was 13% higher for bachelor's graduates ($4,000) and 24% higher for college graduates ($6,000) than those graduates who had not paid off their loans.

College graduates who had repaid all of their student debt were more likely to have a job than those who had not, but bachelor's graduates had no difference in employment rates between those who had completely repaid their loans and those who still owed. Family circumstances and responsibilities may also have an impact on the ability of graduates to pay off their debt quickly. College graduates who had paid off their debt by 2002 were less likely to be married than those who still owed money, and graduates at both levels were less likely to have dependent children if they had paid off their loan than those who still owed.

Two years after graduation, graduates had paid off about a quarter of their government student loan debt

Two years after graduating, about one third of all college and bachelor's graduates who had not continued their studies still owed money on government student loans. On average, graduates who still owed had repaid about one quarter of their government student debt and bachelor's graduates still owed $16,300 while college graduates owed $10,300.

Graduates who were still repaying student loans had higher debt loads and were more likely to have large debts than those who had repaid all of their student debt by 2002. In fact, bachelor's graduates who still owed started out with $8,000 more debt, on average, than those who had repaid all of their student loans. College graduates who still owed started out with twice the debt of those who had repaid their loans ($6,000 more).

The higher levels of debt may have led to graduates with remaining debt in 2002 being more likely to report repayment difficulties. Of those who were still repaying, 28% of bachelor's and 34% of college graduates reported difficulties repaying their debt, compared to only 9% of bachelor's and 9% of college graduates who had paid off their debt by 2002.

One in seven bachelor's graduates owed $25,000 or more in government student loans upon graduating

The size of government student debt owed upon graduation varied widely. Some students accumulated large debts, while others only had small debts that readily could be paid off after graduation.

Bachelor's graduates were the most likely to leave school with large student debts of $25,000 or more. Fourteen percent of bachelor's graduates who had not continued their studies owed $25,000 or more when they graduated. Although these graduates were more likely to be employed and had higher earnings than those with smaller debts, they had higher debt-servicing ratios (median 11%) and 38% of them reported having difficulties repaying their loans.

Almost half of college borrowers owed under $10,000. A small number

CST Debt-servicing ratio as a measure of debt burden

While debt size is a key factor in the ability to manage debt, the relationship between income and debt payments is equally important as a measure of the ability to pay. The debt-servicing ratio is the ratio of debt payments in 2001 expressed as a percentage of personal income in 2001. This measures the level of debt burden on an individual and is a rough indicator of ability to pay. In some cases, the ratio may be high because payments are high or it may be high because income is low.

To put these values in context, there is a variety of similar measures used by creditors (including student loan programs) to identify possible debt burden. For example, American studies on student loan debt burden often use a debt-servicing ratio benchmark of 8% as the threshold beyond which student debt becomes difficult to manage.[1]

In Canada, the debt-servicing ratios in the Canadian Student Loan Program (CSLP) interest relief program vary depending on the size of the monthly loan repayment, household income and family size. To be eligible for interest relief, the borrower may revise the terms of payment to reflect a 15-year amortization period.

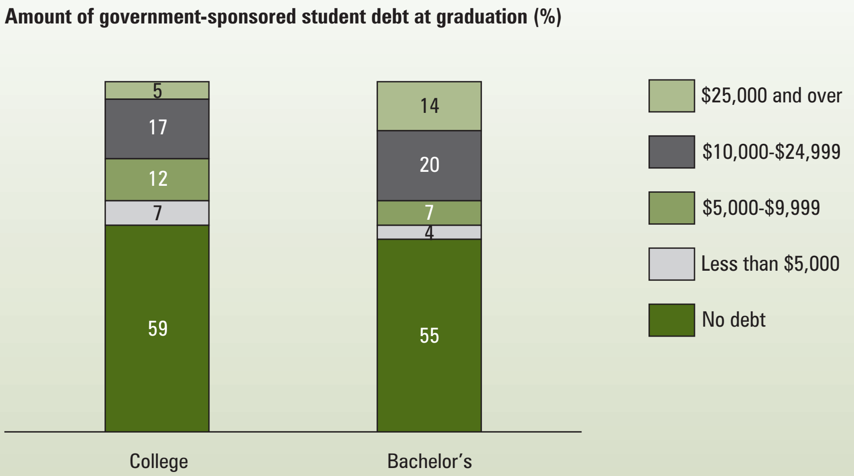
For those graduates with debt remaining two years after graduation, median debt-servicing ratios were 6% for college and 8% for bachelor's graduates. While these values do not exceed the 8% threshold used in a number of American studies, there are still a considerable number of graduates with high debt-servicing ratios. In fact, at the college level, one quarter of these graduates had debt-servicing ratios of 10% or higher while one quarter of bachelor's graduates had ratios exceeding 13%.

The debt-servicing ratios calculated here, however, may not indicate by themselves debt burden. In some cases, the minimum payment that is required to service the debt might constitute a relatively high proportion of the debtor's income. In other cases, debtors may choose to make lump sum payments or payments exceeding the minimum to repay their debt more quickly. Further analysis is required to understand fully how graduates are managing their student debt.

1. National Association of Student Financial Aid Administrators (NASFAA). March 7, 2003. *Federal Student Loan Debt Burdens for Most Borrowers Remain Stable*. Press release available at www.NASFAA.org/publications/2003/rnnedrc030703.html; Scherschel, P.M. June 2000. "Student debt levels continue to rise: Stafford indebtedness: 1999 update." *USA Group Foundation New Agenda Series*, vol. 2, no. 3. www.luminafoundation.org/publications/debtburden.pdf (accessed May 6, 2004); Choy, S. 2000. *Debt Burden Four Years after College*. Washington, D.C.: National Center for Education Statistics.

of college graduates, about 5%, left school with large debts of $25,000 or more. Nearly 60% of these graduates reported having difficulties repaying and half of them had debt-servicing ratios of 10% or more. College graduates with large debts tended to be older, and were more likely to be married and have children than graduates with smaller debts.

One in seven bachelor's graduates owed $25,000 or more in government student loans at graduation



Note: Graduates who pursued further studies after graduation are excluded.
Source: Statistics Canada, National Graduates Survey, 2002.

Doctors in debt

Medicine stands out as having the highest proportion of graduates with student loans and also the highest average student debt at any level of education. At graduation, 80% of medicine graduates (M.D.s)[1] who did not pursue further studies had student debt: on average, they owed $38,200. Three-quarters of medicine graduates owed more than $25,000. In part, these large debts are related to higher tuition fees for medicine programs and longer studies at university to obtain a degree in medicine than the average bachelor's graduate.

However, medicine graduates who did not pursue further studies paid off their debts faster than the average bachelor's graduate. Despite the size of medicine graduates' debts, over one quarter (26%) of them had paid off their debt two years after graduation compared to 22% of all bachelor's graduates. On average, medicine graduates paid down 40% of their debt in the two years after graduation compared with 35% of all bachelor's borrowers.

1. M.D.s are first professional degree graduates and are included with bachelor's degrees in this article.

Summary

About half of the college and bachelor's graduates from the Class of 2000 carried student debt when they graduated. Just over 40% of graduates owed money to government student loan programs, about the same proportion as for the Class of 1995. Average debt sizes were notably higher, however, than for the 1995 college and bachelor's graduates.

Two years after graduation, about one in five borrowers from the Class of 2000 had paid off their government student loans completely. Not surprisingly, graduates who managed to do so had started out with smaller than average debts, and they had higher incomes than the graduates who still owed money in 2002.

A small, but notable, proportion of graduates left school with large student debts. Despite having higher than average incomes, they were more likely to report difficulties repaying their loans.

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