

Paying off student loans

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Traditionally, financing postsecondary education has been the joint responsibility of society (through tax dollars) and students and their parents (through personal savings). Since 1980, tuition fees have grown by 115% while average family income has risen by only 1%, after inflation. The result is increased pressure on students to find other ways to pay for postsecondary education. A government-sponsored loan is one option.

Although student loans provide essential financial help for many, they are not without risk. Some observers have expressed concern about the effect of student debt levels on both the graduates and society. Are students defaulting on loans, particularly if they are unable to find well-paying jobs after graduation? Using data from the National Graduates Survey (NGS), this article assesses the debt and repayment record for holders of college certificates and diplomas and of bachelor's degrees. It also considers the effect of high debt on these graduates (see *Data source*).

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Data source

In June 1997, Statistics Canada, in partnership with Human Resources Development Canada (HRDC), interviewed nearly 43,000 people in the National Graduates Survey. This sample represented over 295,000 Canadian residents who had graduated from trade/vocational, college or university programs during 1995. The survey focused on the education, training and labour market experiences of these graduates in the two years immediately following graduation. Graduates were also asked how they had financed their education (including the extent of any student loans, scholarships or bursaries) and whether they had had difficulty repaying their student loans.

As well, the survey asked how much they owed to government-sponsored student loan programs at graduation in 1995, and at the time of the interview. In addition, it asked about money owed to other sources.

The results presented in this article are for graduates of **college** (community college and similar institutions) programs and **bachelor's** degree programs. Undergraduate certificates and diplomas and first professional degrees (for example, medicine, dentistry, veterinary medicine and law) are excluded from the bachelor's degree group. Results for 1982, 1986 and 1990 graduates provide a comparison.

Borrowing patterns vary

Student loan programs aim to help students of limited financial means acquire postsecondary education (see *Canada Student Loans Program* and *Student loans in the United States*). Eligibility is based on students' living arrangements, education, living costs and financial resources, including parents' income and contributions.

When asked how they had financed their education, both college and university³ graduates most frequently identified employment earnings (59% college, 69% bachelor's) and student loan pro-

grams (41% college, 42% bachelor's) as primary sources of funds. Parents ranked a close third for respondents with bachelor's degrees. Graduates rarely cited scholarships, fellowships, prizes, grants or bursaries.⁴

This study found that graduates whose fathers had not completed high school were more likely to use government-sponsored student loan programs than those whose fathers had graduated from university.⁵ However, while the use of student loans decreased as fathers' education increased, borrowing from other sources (for example, personal loans, loans from relatives

Canada Student Loans Program

Human Resources Development Canada (HRDC) estimates that in 1996, the typical living costs for an eight-month college or university program were between \$10,000 and \$13,000 for students living away from home, and between \$3,400 and \$6,400 for students living with their parents. Based on these estimates, the cost of a four-year program can exceed \$50,000 and \$25,000, respectively (HRDC, 1998).

The Canada Student Loans Program (CSLP) allows eligible Canadian citizens and permanent residents to finance their postsecondary education with government-sponsored loans.¹ Since 1964, the program has provided \$15 billion to students in financial need (Department of Finance, 1998). Full-time students in a program lasting at least 12 weeks may qualify for a loan based on the costs of their program and on the financial resources available to them. For the 1997-98 academic year, CSLP funding met 60% of a student's assessed need for the period of enrolment (up to a maximum of \$165 per week). Part-time students may also qualify for a loan if their family income is below a specified threshold (based on the number of people in the family). The CSLP can be supplemented with provincial student loan programs.

The 1998 federal budget revised the Canada Student Loans Program. The government pays interest on the loan while the borrower is in school. Interest accrues after graduation, but the borrower is not required to make payments for 6 months; after this grace period, he or she must pay off the loan, usually in less than 10 years. For those facing financial difficulties, the federal government may pay the interest for a maximum of 30 months after the borrower has left school (extended from 18 months); also during this time, the borrower need not make payments on the principal.

The 1998 budget also introduced a 17% federal tax credit on the interest portion of payments for both federal and provincial student loans. It raised income thresholds for interest relief, and will make partial interest relief available in 1999 to those with higher incomes. For borrowers who have used all of their interest relief, the government may extend the loan repayment schedule to 15 years and interest relief to 54 months. For those who still have financial difficulty at least 5 years after their studies, the government may reduce the principal if payments exceed a certain proportion of income (Department of Finance, 1998). (The NGS interviewed 1995 graduates before the introduction of many of these relief measures.)

and credit cards) increased. Overall, 46% of college graduates and 50% of those with bachelor's degrees borrowed from a student loan program.

Compared with the class of 1982, graduates in 1995 owed between 130% and 140% more to student loan programs at graduation (after adjusting for inflation). On average, the 1995 graduates owed \$9,600 (college) and \$13,300 (bachelor's) when they graduated. Averages, however, do not tell the whole story. While some borrowers (7% of college and 22% of bachelor's) owed more than \$20,000 at graduation, others (21% and 14%, respectively) owed less than \$5,000. With these widely varying amounts, graduates face different pressures to find good jobs and begin repaying their loans.

The age of graduates also appears to influence borrowing patterns. Graduates aged 25 to 29 were more likely than others to borrow and to owe larger amounts. While younger graduates may rely on their parents for financial help, many of those over 30 have a career prior to starting their courses and study part time. With help from parents and income from a steady job, both younger and older graduates in this study relied less on government-sponsored student loans to finance their education (Chart A).

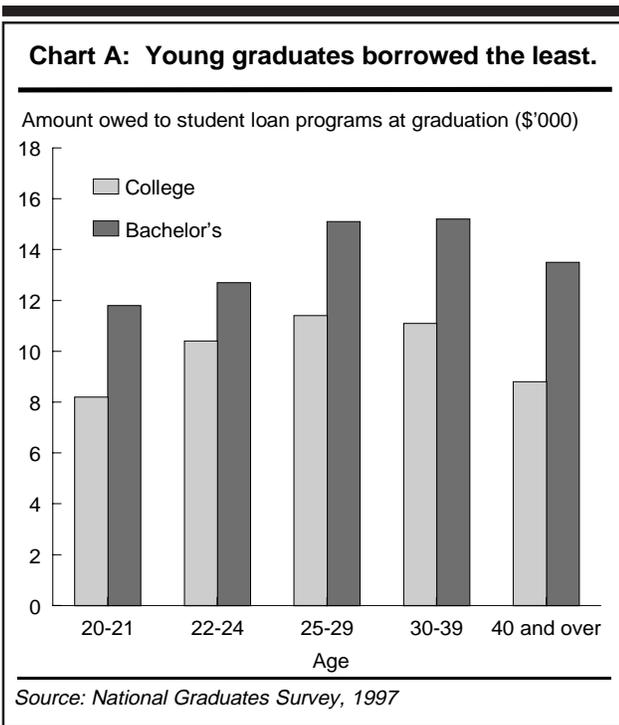
Class of 1995 slower at repaying

Borrowers are not required to begin repaying their student loans if they continue studying full time after they graduate. Although not necessarily full time, 31% of college and 45% of university graduates were back in

Student loans in the United States

As in Canada, tuition in the United States has increased much more quickly than family income. Between academic years 1980-81 and 1995-96, tuition fees increased by more than 90%, while family income grew by 9% after inflation (The College Board, 1997). In 1995-96, some 60% of graduates in American bachelor's degree programs had borrowed an average \$18,200 (Canadian dollars)² to finance their education. Among associate degree recipients, similar to Canadian community college graduates, 42% had borrowed an average \$6,900 (Canadian dollars) (U.S. General Accounting Office, 1998).

The U.S. Department of Education's PLUS program provided another source of financing; about 10% of parents of 1996 graduates made use of this program. And a study conducted by the University of Michigan indicated that 21% of borrowers tapping home equity lines of credit used some or all of those loans to finance education; only 7% of borrowers with traditional equity loans did so.



school after their “first” graduation in 1995. So it is not surprising that by June 1997, some 17% of those who had borrowed for college and 23% of those who had done so for university were not making loan payments. In fact, 11% of college graduates and 16% of bachelor’s degree holders owed more than they had at graduation.

Other borrowers don’t make payments because they are having financial difficulty. On average, 1995 graduates had repaid less in the two years after graduation than had the class of 1990. While 1995 college graduates had repaid just 19% of their loans, their 1990 counterparts had paid off 35% by 1992 (Table 1). Similarly, those with bachelor’s degrees had repaid only 17%, compared with 27%. This means that 1995 graduates will probably repay their loans over a longer period than previous borrowers, for several reasons: pursuit of further studies; inability to find a well-paying job; or a wish to take advantage of lower interest rates, which may encourage some people to pay off their loans more slowly.

Are repayments being made?

Although the debt burden of graduates has increased substantially, about 41% of college and 32% of university 1995 graduates had already paid off their loans

or expected to do so before 2001. Another 40% did not know when their loans would be repaid.

During the two years following graduation, one-sixth of 1995 borrowers said they were having difficulty making payments on their student loans.⁶ Only about one-third of those reporting problems received assistance from other sources, such as the Interest Relief Program.⁷ Some 4% of all 1995 borrowers had defaulted by 1997.

Not surprisingly, the two most significant factors affecting loan repayment were the size of the loan and the level of graduates’ income. For example, only 8% of university graduates with a loan of less than \$2,000 had difficulty repaying, compared with 34% of those who owed \$30,000 or more. Similarly, among those with incomes below \$30,000 nearly three times as many had trouble repaying their loan as graduates with incomes over \$50,000 (21% versus 8%).

Stability of employment also significantly affected repayment of student loans. While 19% of graduates employed for less than 6 months in June 1997 had

Table 1: Status of loan repayment for graduates of college and university (all levels)

	Year of graduation			
	1982	1986	1990	1995
Average owed at graduation	1995 \$			
College	4,000	6,200	6,700	9,600
Bachelor's	5,800	9,000	9,700	13,300
First professional	9,500	13,700	14,600	21,100
Master's	6,700	8,500	10,000	13,700
Doctorate	5,400	6,900	9,500	12,900
Average owed two years later	1997 \$			
College	..	3,400	4,400	7,700
Bachelor's	..	5,400	7,100	11,000
First professional	..	8,000	10,800	16,600
Master's	..	4,600	6,700	10,000
Doctorate	..	2,700	4,700	7,800
Average loan reduction	%			
College	..	45	35	19
Bachelor's	..	40	27	17
First professional	..	42	26	21
Master's	..	45	33	27
Doctorate	..	60	50	39

Source: National Graduates Survey

difficulty, only 12% of those who had held their job for two or three years had similar problems. However, bachelor's degree holders who had job tenure beyond three years were as apt to have difficulty repaying their loans as borrowers with less than 6 months in the same job (19%). As might be expected, unemployed borrowers had more problems honouring their commitments than those working full time (one-quarter versus one-sixth).

Among graduates with bachelor's degrees, women were more likely than men to say they had difficulty repaying their loans: 20%, compared with 15%. Women borrowed, on average, about \$1,000 more than their male counterparts and their 1996 incomes were approximately \$3,700 lower. In contrast, men and women with college certificates or diplomas faced similar challenges.

Difficulty in repaying loans varied from province to province. In Newfoundland, 24% of university graduates reported having trouble paying off their loans. Those from Quebec, where undergraduate tuition fees were lowest, were least likely to report difficulties (14%). Quebec graduates also had one of the lowest debt levels at graduation (\$11,600), while those in Saskatchewan had the highest (\$16,400).

Field of study makes a difference

Tuition fees and living expenses can vary significantly by field of study. Specialized programs often have higher tuition fees. As fewer universities or colleges offer these programs, some students must move from home to attend. In contrast, general programs are offered at most colleges and uni-

versities, giving many students the option of living with their parents to reduce expenses.

At the college level, students in mathematics and physical sciences (primarily computer science) were most likely to borrow (54%) and had the highest average debt at graduation (\$13,300) (Table 2).

Two years later, their debt was still above the college average, but had dropped by 33%. This represented the largest percentage reduction in student loans among college graduates, a reflection of the low unemployment rates and higher earnings typical of college computer science graduates.

Table 2. Characteristics of student debt by field of study

	1995 graduates owing money	Average owed		Average reduction	Students reporting difficulty repaying
		At grad- uation	In June 1997		
	%	\$			%
College certificate or diploma	46	9,600	7,800	19	17
Educational, recreational and counselling services	39	9,200	8,600	7	12
Fine and applied arts	50	11,400	9,300	18	21
Humanities and related fields	50	10,400	8,400	19	30
Social sciences and related fields	53	9,300	8,000	14	18
Commerce, management and business administration	42	8,400	6,700	20	18
Agricultural and biological sciences/technologies	42	9,000	7,100	21	11
Engineering and applied sciences, technologies and trades	46	9,600	7,400	22	16
Health professions, sciences and technologies	53	10,300	7,800	24	14
Mathematics and physical sciences	54	13,300	8,900	33	--
Interdisciplinary/no specialization/unknown	38	11,200	14,100	-26	18
Bachelor's degree	49	13,300	10,900	18	17
Educational, recreational and counselling services	55	13,400	9,800	27	20
Fine and applied arts	47	13,700	11,800	14	27
Humanities and related fields	46	13,100	12,100	8	17
Social sciences and related fields	48	14,100	13,300	6	21
Commerce, management and business administration	45	11,900	8,600	27	11
Agricultural and biological sciences/technologies	50	13,300	12,700	4	20
Engineering and applied sciences	55	12,800	8,600	33	10
Health professions, sciences and technologies	48	14,600	9,800	33	14
Mathematics and physical sciences	55	12,700	9,100	28	11
Interdisciplinary/no specialization/unknown	45	11,600	10,700	8	12

Source: National Graduates Survey, 1997

Only about 3% of 1995 college graduates were enrolled in studies in humanities.⁸ Nearly 30% of these graduates reported difficulty repaying their student loans (Chart B), which averaged \$10,400 at graduation. Their earnings in 1996 were among the lowest and their unemployment rate in June 1997 was 16%.

College graduates in interdisciplinary studies or who had no specialization actually owed more in 1997 than they had when they graduated in 1995, in part because nearly two-thirds had gone on to further studies and had probably borrowed more for those studies.

At the bachelor's level, engineering and applied science graduates had low unemployment rates in June 1997 (6%) and higher earnings in 1996 than graduates from other fields. They also had better-than-average

employment prospects. As a result, only 10% of engineering graduates had difficulty repaying their loans, the lowest percentage of all. By June 1997, they had repaid about one-third of their student loans even though nearly 15% had gone on to study at the master's level. Although engineering students had higher tuition and laboratory fees and most had to purchase or maintain computers, their debts at graduation were about 4% below average for bachelor's graduates. This may reflect their participation in co-operative programs that enable many to finance their studies along the way.

In contrast, fine and applied arts bachelor's graduates had the most difficulty repaying their student loans (27%) and had paid off only 14% of the loans within two years of graduation.

Summary

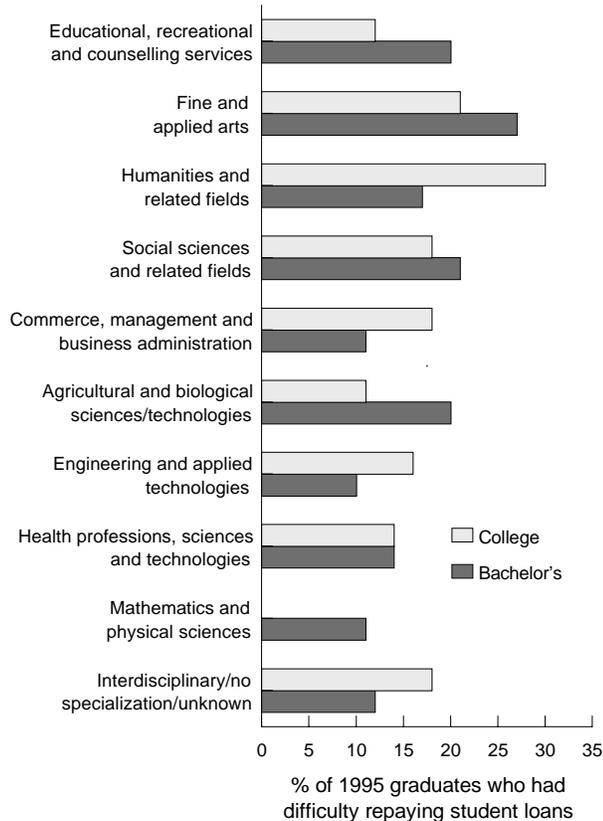
The class of 1995 borrowed more from student loan programs than any group of graduates in the previous 15 years. Although many students repaid their loans within 2 years of graduation, others had problems. Because their earnings could not keep pace with the debt, one in 20 borrowers had defaulted within 2 years.

Perspectives

Notes

- 1 Quebec and the Northwest Territories operate their own student assistance plans and receive alternative payments from the federal government.
- 2 This calculation is based on the May 1996 exchange rate (C\$1.369 = US\$1).
- 3 Unless otherwise stated, university graduates refer to those with bachelor's degrees.
- 4 Scholarships, fellowships, awards and prizes were more often mentioned by first professional (14%), master's (23%) and doctoral (59%) graduates.
- 5 Since parents' income is not available in the National Graduates Survey, fathers' education is used as a proxy for students' socioeconomic well-being. Of college graduates whose fathers had not completed high school, 48% borrowed from student loan programs. In contrast, 40% of those whose fathers had a bachelor's degree borrowed from a student loan program. A similar pattern was evident for university graduates (56% and 44%, respectively).
- 6 Students' responses reflect their *perceptions* of difficulty.

Chart B: Bachelor's engineering graduates had the least difficulty repaying their student loans.



Source: National Graduates Survey, 1997

7 This federal program suspends principal payments and assumes graduates' interest payments when their income falls below a specified threshold.

8 Some 63% of college humanities graduates majored in mass media studies, while another 17% studied library or records science.

■ **References**

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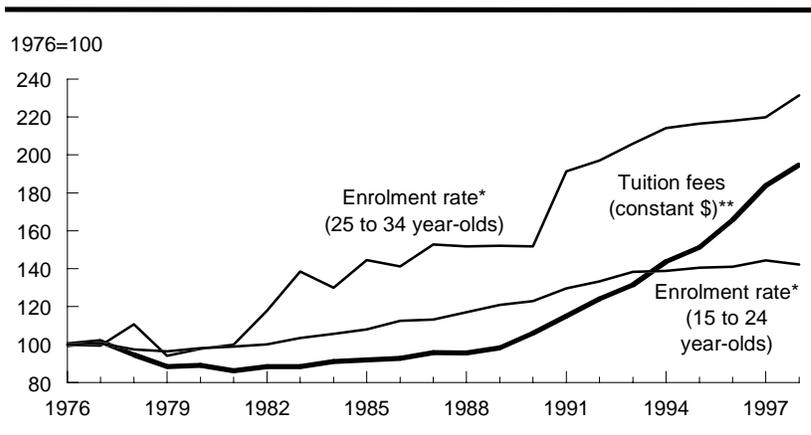
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Speaking of students...

The accompanying chart shows tuition fees (in constant dollars) and student enrolment rates, indexed to 1976. Despite the steady rise in tuition fees, enrolment rates for both younger (15 to 24 years) and older (25 to 34 years) full-time students have continued to increase. This has been especially true in the 1990s, as youths have chosen to remain in or go back to school because of reduced employment prospects.



Sources: Labour Force Survey; Education Division; Prices Division
 * Proportion of age group enrolled as full-time students during the October Labour Force Survey reference week.
 ** Average fee for general arts degree.

Perspectives