

student debt

the problem

Whether a student has private loans, publicly-subsidized aid or both forms of assistance, the end result is inevitably debt. Loan repayments and the omni-present threat of default are a crippling financial and psychological burden imposed on students when they are most financially vulnerable. These individuals are trying to get a leg up in the world, but instead are dragged down by the damaging financial legacy of their education.

There are many issues in student debt in Ontario, which include the following:

A. DEBT LEVELS

Student debt in Ontario has more than doubled in the past ten years, following increases in both tuition and overall cost of living. The average debt for an undergraduate student with a loan was \$22 589 – an increase from \$10 800 in 1990 and \$14 504 in 1998. Debt levels for professional programs are much higher. For example, the average debt accumulated by medical students at the University of Western Ontario is between \$80 000 and \$120 000.

B. PRIVATE DEBT

Thirty per cent of students in Ontario have a private loan, which is double the national average. Unlike public assistance, students must service their loan while at school. The average level of private debt is \$7 500, which translates into an average payment of \$108 per month or \$1 296 per year to service debt. In order merely to service this debt, it would require a student to work 5.5 hours per week during school. Students with private debt also do not receive the benefit of any form of interest relief or debt reduction on their loans.

C. UNRECOGNIZED DEBT

In addition to debt from public and private institutions, 43 per cent of students receiving support from their parents expect to pay back at least 64 per cent of their familial assistance. From a policy perspective, it is impossible to suggest changes to this intensely personal form of support. However, when considering the total student debt picture this reality cannot be ignored. Given this additional source of indebtedness, it is even more important to reduce the debt accrued through public sources.

the result

Although a relatively new public policy issue, it is clear that there are potentially damaging effects of student debt in Ontario. These results include:

A. DEBT AVERSION: IMPACTS ON ACCESS & CAREER CHOICE

The prospect of high debt is a serious deterrent for students from lower socio-economic backgrounds in pursuing post-secondary education. Since a university or college degree is an unquestionably valuable investment in both individual and provincial human capital, it is wholly unacceptable that the long-term financial cost of attaining an education is so high.

Evidence for debt aversion spans the globe. A study in the mid-nineties in the United States concluded that debt impacted students' decisions to pursue certain pathways in medicine, specifically the decision to enter a primary care specialty. In Australia, a government inquiry discovered significant evidence of debt aversion to

higher education among individuals of low socio-economic status. In the United Kingdom, which has recently undergone rigorous debate over top-up fees, research has come to similar conclusions. A study undertaken by Universities UK found that debt aversion deters participation in higher education of lower-income groups, and concern over student debt is greatest among the poorest and lone parents. According to Dr. Diana Green, Vice-Chancellor of Sheffield Hallam University and Chair of the Student Debt Project Steering Group in the UK, "...current student funding policies, which are based on the accumulation of debt, deter participation among those who are the focus of widening participation policies."

B. LONG-TERM BURDEN OF DEBT

Student debt unfairly penalizes those most unable to pay for a university education—students from lower socio-economic backgrounds. Forced to borrow high amounts of money, these students will end up paying much more for their education than individuals with relatively low debt. A \$28,000 loan paid back over ten years will cost a student \$43,047 in total payments, with monthly payments of over \$375 dollars. Although paying the same loan back in five years reduces the total cost to \$35,094, the monthly payments for such a plan are a punishing \$615 dollars a month. Many students are simply unable to make these payments. The default rate on OSAP loans is now over seven per cent.

Student loans also represent a huge amount of the total Canadian debt load. Thirty-one per cent of Canadian families have some form of student debt. For these households, student loans represent 51 per cent of their total debt.

This long-term debt can have two major impacts. First, there are the impacts on the graduate's quality of life – given their limited financial resources. Second, there are the unknown long-term economic impacts of absent capital from students in debt. Student debt places roadblocks to individuals who wish to purchase cars or homes, and thereby contribute to the overall economy.