

FEATURE

Dealing with debt

by Melanie Bell

the circumstances of debt

It's that time of year again. With Christmas gifts bought and given, it is time to make payments for a second semester – and in many students' cases, plunge deeper into debt.

While it is common for students to incur debt from credit cards and sometimes car loans, the vast majority of student debt in Canada comes, unsurprisingly, from student loans. According to the Canadian Millennium Scholarship Foundation, approximately one third of university students take out government loans every year.

Most students are able to meet their monthly payments on loans from the government and other entities. Statistically speaking, the average level of student debt has stabilized since 2000. After doubling in the 1990s, it has increased by only 3% in the following six years.

While this is good news, it has

been offset by other obstacles. At 50% in 2006, the proportion of students who graduate in debt is on the rise. In the 2007-08 school year, government loans will be available to more students from middle-income families, and borrowers with greater financial need will be eligible for more loan money. Both measures will help individual students but add to the frequency of debt. Atlantic Canada's debt is the highest of all regions in the country, at an average of \$29,747 per student. What's more, students are finding that government loans are not enough to fund their education. 39% of funds that students borrowed in 2006 came from non-governmental sources such as banks and family members. Not only are students seeking more sources to fund their studies, they are also reporting difficulty paying off their loans in increasing numbers.

The more debt a student has, the more likely they are to drop out of school and the less likely they are to pursue post-graduate studies. Debt can affect a student's entire future.

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keeping tabs

Recent changes in loan legislation have made it easier for students to keep track of their payments. In 2005, the New Brunswick and Canadian governments signed an agreement integrating their student loan programs. However, students who took out loans prior to this year, as well as those who hold bank loans, may owe money to more than one lender. It is important for these students to keep track of payments for all of these loans and keep administrators up-to-date on their student status.

crunch time

In the six months following completion of studies, students are required to contact the National Student Loans Service Centre (NSLSC) to make arrangements for repayment. They are not required to repay anything until the end of these six months, but interest will accumulate on unpaid loans during that time period. Students can either pay this interest or add it to the amount borrowed. They are required to begin payment on the first day of the seventh month following the end of studies. This is known as the consolidation date. At this time, the amount of interest accrued within the six months can either be paid off or added to the principal (capitalized).

If nothing is repaid at this date, the loan enters default status. The default is reported to credit bureaus, leaving a negative credit rating, and the borrower cannot acquire additional financial assistance (from the government) until the default is cleared. During default, borrowers' wages can be garnished. Their income tax and GST refunds can be withheld and used to pay off a portion of their debt. They may face collection agencies and even lawsuits. Students who have defaulted are not eligible for further student loans until three years after their final discharge.

A student who declares bankruptcy will still be required to make payments on government loans, which are not included in the calculation of estate. According to the Bankruptcy and Insolvency Act, bankruptcy cannot be discharged for ten years following the end of studies. With the addition of the three years required after the loan's discharge, students who declare bankruptcy will not be eligible for further financial assistance for a minimum of the next 13 years. Given the circumstances of bankruptcy, it is unlikely that repayment will occur within such a short time frame.

on debt

A commonly cited standard for loan repayment states that graduates' monthly payments should not exceed 8% of their pre-tax earnings. However, this benchmark dates back to mortgage underwriting standards. Consequently, it works to the lender's advantage and not necessarily the student's. In their paper on debt management, Saul Schwartz and Sandy Baum suggest alternative guidelines for managing debt. The more a graduate earns, they argue, the higher the percentage of their income they should devote to repayment. Lower-income graduates should devote 5-10% of their discretionary income to repayment, while those in the highest income brackets should devote 18-20%.



living on a student budget

While credit card debt is unsecured and therefore does not entail all the potential consequences of student loan default, its own effects are equally miserable. A negative credit rating impacts employment and housing prospects, as well as increasing the prices of further loans and credit. People with negative credit ratings may be required to pay more for insurance, or may be refused renewal. Many credit card companies raise defaulters' interest by 25-30%. Defaulters' accounts may be turned over to authorities, charged excess fees, and their wages may be garnished.

Luckily, there are programs available to help students manage their debt in extreme circumstances. Interest relief allows graduates to defer payments during times of underemployment. Applicants must have entered into an agreement to consolidate their loans and have paid all outstanding interest. They can qualify for six-month periods without payment requirements or accumulation interest for up to 54 months. If borrowers cannot repay their loans following this period, they can apply for debt reduction programs. Together, these programs could prevent the majority of defaults. However, most graduates are unaware of their existence, so many who qualify do not take advantage of them. Out of a recent sample of Ontario graduates from the 2001-02 year, 47% would have qualified for interest relief at one point, but only a third of that number applied.

If working can't pay off all your debt, what can you do? You can manage debt by working actively towards minimizing it. This can be achieved by being conscious of personal spending and planning to live economically. It is said that if you live like a professional during your student days, you will end up living like a student as a professional. Keep in mind that you will have a higher income later, and the less debt you have to pay off, the more you can enjoy it.

Housing: Live with one or more roommates and split expenses.

Transportation: Carpool or split cabs.

Food: Look for no-name brands in grocery stores. Buy in bulk. Share meals with friends. Prepare large dishes where you can freeze much of what is made and eat it later.

Energy: Use less heat in winter and wear warm clothes.

If possible, enroll in a work study program or look for part-time employment.

Shop low-budget and secondhand. Look into opportunities such as the Sunday flea market in the Fredericton High School cafeteria and the radio price club discounts. Look for yard sales. Check out clothing swaps around campus, or initiate your own.

Pay your credit card bills on time.

Ask about student prices at restaurants and stores.

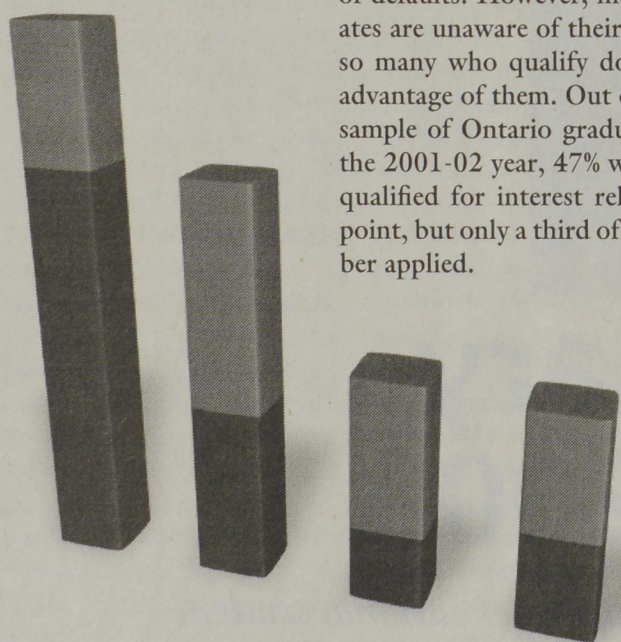
If you choose to travel, stay in hostels.

Rent movies rather than watching them in a theatre.

Develop a realistic budget for the school year and follow it. Resist the urge to splurge on significant items that are not on your budget. Don't use student loan money for anything that you haven't set it aside for.

Prioritize needs over wants.

credit card debt



One of the best ways to overcome debt is to find employment. A survey by the Canadian Millennium Scholarship Foundation showed that on average, employed students earn no more than \$5,151 per school year, a figure which includes their summer wages. While this figure is not nearly enough to cover the \$17,000 required for attending UNB, it is nonetheless significant. Many students find jobs in retail outfits and fast food restaurants. UNB's Work-Study program is an on-campus alternative to these jobs. A result of collaboration between the Financial Aid Office and Student Employment Services, the program provides part-time, on-campus employment to students in fields related to their course of study. Candidates' financial need is assessed by the Financial Aid office and serves as the basis for eligibil-

workin' for a living

ity. Students must be enrolled in a full-time course of study with a GPA of 2.0 or above. They are allowed to apply for a maximum of eight potential positions.

"It's a great opportunity for students to get employment on campus and more flexibility with their schedules," says Anne Soucy, Manager of Student Employment Services. "It gives them an opportunity to get career-related experience and see the university from the inside, to really see what's going on, and to build some ties with the university."

During the fall semester, the Work-Study program employed 64 students at a wage of \$9 per hour,

benefits included, for a 20-week period. Some of these students will resume their jobs after the Christmas holidays, while several new positions are also open for the second semester. Job opportunities are divided by year of study. There are positions for students in years one to four, and additional availabilities for graduate students. "We've been very pleased with the amount of positions," Soucy says. Since last year, participants have the option of working over March break.

Soucy acknowledges that the program is competitive. "There are always way more people who apply for the jobs than there are jobs. We're hoping to raise the number of

positions next year." She encourages interested students to apply early. 70 new eight-week positions are available for the winter semester. Students can bring their cover letters and résumés for the program to the Student Employment office in Neville Homestead between now and January 18. Following interviews, chosen students will begin work on February 4.

Student Employment Services also coordinate two government job programs, SEED and Canada Summer Jobs. Applications are currently available for SEED, which provides opportunities for summer employment with New Brunswick's provincial government.

