

Student Loans: A costly experience

By Dorothy Wright

EDUCATION TODAY IS FAST BECOMING A luxury that very few can afford. Even after you get your degree, the chances of getting a job in your field and making enough money to pay back your student loans quickly may be a lot to hope for. Yet the government, both federal and provincial, are still handing out thousands of student loans. Now the banks are getting into the act by targeting those students who don't qualify for Canada Student Loans. The decision to take out a student loan should not be made lightly because the consequences, with respect to your budget and credit, could outweigh the benefits of your education.

Whether you end up with a Canada Student Loan or a bank student loan, the total amount the bank will allow you to borrow is \$5,200 a year. For example, you could have a Canada Student Loan for \$2,000 and a bank student loan for up to \$3,200.

The main difference in the loans is that the Canada Student Loan is interest-free until you finish school, while the bank student loan requires you to pay interest while you are still in school. Paying interest while you are in school on the bank student loan could cost you an extra \$12,000 to \$13,000 more than the Canada Student Loan for the same amount of money.

The bank will grant a student a loan of up to a total of \$31,200 for a 4 year undergraduate degree and a 2 year graduate degree for a total of 6 years of school. Interest payments must be made monthly. Over the 6 year period, the interest would amount to approximately \$12,831 provided the interest rate doesn't rise above the current rate 11.75%. Out of their \$5,200 annual loan, the student would have to pay \$3,666 in interest alone that sixth year. If the loan is re-paid as agreed and the interest rate is constant, the total amount repaid over 16 years, (6 years of school, 6 months of no principal payments, and 9 1/2 years of principal and interest payments) would be approximately \$66,589-- of that, \$35,389 is interest.

The student has now graduated and even

has a job. For the next 9 1/2 years, there is \$455 to pay each month on the \$31,200 student loan. That \$455 a month payment will take a big bite out of any budget, no matter how much the graduate makes.

Buying a house could be out of reach while a student loan is still under repayment because of how it affects net worth (the difference between what is owned and what is owed). One of the

government pays the interest on the Canada Student Loan while the student is on interest relief.

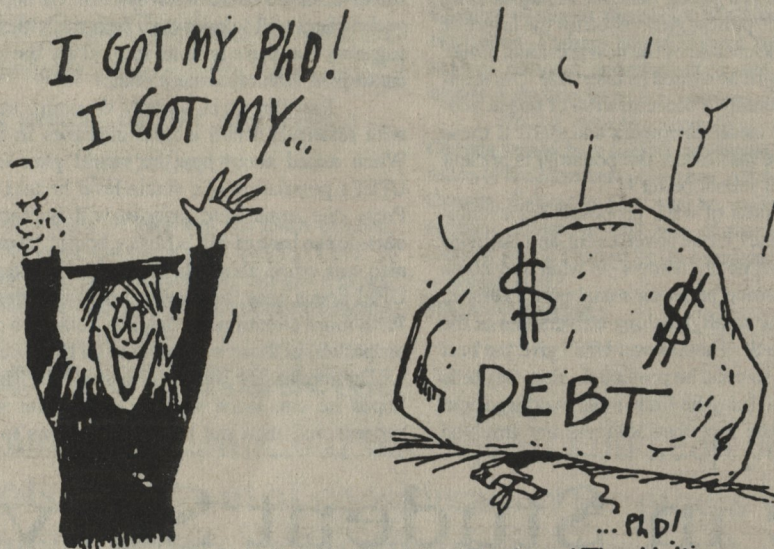
At the end of that period if the student still isn't working, they are nonetheless expected to make payments on their loan. After 3 payments have lapsed, the bank charges the student loan back to the government and then the loan is sent to a collection agency. Because these collection agen-

erty, the government can demand payment in full on the defaulted loan and take a judgement against the property. The judgement could force sale of the asset to pay the debt, with all legal cost incurred added to the debt.

Now suppose the student with the defaulted student loan has a job and is expecting a health income tax refund. He or she will be disappointed because that income tax refund will be applied to the defaulted loan.

Suppose this same now-working student would like to buy a car or a house. Because a credit investigation done by the financial institution shows a defaulted student loan, they are unable to lend this person any money. Bankruptcy is an option, but it would result in loss of any assets as well as loss of liability for debts. A year or so after being discharged from bankruptcy, the student could start to rebuild his or her credit. The debt, however, has not disappeared. It increases the national debt and is passed back to the taxpayers in increased taxes. There is no escaping the consequences.

Co-op education, fee-payer programs, employment education programs, continuing education programs through employers, or on-the-job training could be some alternatives to school without debt. If you decide that you are going to a student loan to further your education, consider carefully. Weigh the costs and consequences against the benefits and your ability and commitment to repay the loan in the future. Both the government and the banks have faith that you will be able to successfully complete your studies and repay your loan. Certainly, schooling by student loan will either be the most practical and rewarding lesson in economics the student will ever have, or a negative learning experience that haunts a student for the rest of his or her life. In any case, the student should certainly be aware of how costly student loans can be.



CUP Graphic/ Hans Beckers/ The Uniter

requirements for a mortgage loan is a positive net worth. While having an education is definitely an asset, it doesn't have a dollar value to offset the student loan liability. Thus a graduate has a negative net worth. Mortgage loans may be made in these cases, but on an exceptional basis only.

What happens to these student loans and the student if they don't find a job? If the student still can't find work after the 6 month "payment free" period, he or she can apply for interest relief for 3 months at a time, for a total of 18 months. The

agencies are paid on a commission basis, they harass the student for payments. With the past due interest added on, a \$17,000 student loan is now \$19,500.

With payments of \$200 a month, \$170 goes to current interest and the balance is applied against the past due interest. For about 8 years, nothing gets put on the principal. The student ends up paying on the loan for the next 22 years. After 22 years, if the payments were paid on time at \$200 a month, \$39,925 will have been paid in interest alone.

If the student has managed to acquire prop-

Presidential Candidates: Student Comments

Since September 27th candidates to be the next president of UPEI have each been spending four days on campus. The four candidates for president are Dr. Elizabeth Epperly, Associate Professor of English at UPEI; Dr. Tim Easley, Principal of Frost Campus, Sir Sanford Fleming College; Dr. Roger Barnsley, Vice-President Academic at St. Thomas University; and Dr. Colin Dodds, Vice-President Academic and Research at St. Mary's University. Dr. Colin Dodds is the final candidate to come on campus and students will, again have the opportunity to meet with the candidate at a Student Forum at the Barn on Thurs., Oct. 27 at 11:00am. All students are encouraged to attend. We welcome and thank you in advance for any comments that you might have on the presidential candidates. Responses must be received no later than Tuesday, November 1st.

Your student representatives on the Presidential search committee,
Paula MacFadyen and Patricia Embleton

Please respond in writing to the co-chairs
Philip Smith and/or Margaret Munro
smithp@upeil.ca munroe@upeil.ca

Box 25, University of Prince Edward Island, 550 University ave., Ch'town, PEI, C1A 4P3