

Student Loan Repayment Problems

In 2010-11, the Canada Student Loans Program (CSLP) provided \$2.2 billion in loans to approximately 425,000 full-time students in the ten participating provinces and territories. On average, students completing their studies (whether they graduated from their program or not) in 2010-11 had accumulated \$13,000 in CSLP loans from the federal government. Total debt levels for these students were several thousand dollars higher, since

many students also borrow from provincial student loan programs, credit cards, and private lenders.

Many students encounter difficulties in repaying their student loans. In 2010-11, 165,000 borrowers turned to CSLP's Repayment Assistance Program (RAP) to reduce their repayment amounts. Others become delinquent or even default on their student loan obligations. For example, 14% of CSLP borrowers entering repayment in recent years have defaulted on their loans within the first three years after leaving school. Box 1 provides a brief description of a few important CSLP repayment assistance programs and defines key terms such as delinquency and default in reference to the CSLP.

Given the scope of the CSLP and the central role it plays in financing human capital accumulation, it is important to understand why some borrowers experience repayment difficulties. In [CIBC Working Paper 2013-3](#), Lance Lochner, Todd Stinebrickner, and Utku Suleymanoglu analyze two recent surveys by the CSLP to study this issue in Canada: the 2012 CSLP Defaulter Survey and the 2010-12 Client Satisfaction Surveys (CSS). See Box 2 for a brief description of these surveys.

The Importance of Post-School Income

Many factors affect student loan repayment; however, post-school income is of central importance. Results from the 2012 CSLP Defaulter Survey reveal that roughly half of all

Canadian student loan recipients that default on their loans are earning less than \$10,000 per year at the time they default, while about three-in-four have an annual income of less than \$20,000. Consistent with this, 93% of respondents report that difficult economic circumstances contributed in some way to their default, while 71% say that economic circumstances

Box 1

Description of CSLP Programs and Repayment Terms

Delinquency – Failure to make timely loan payments.

Default – A CSLP loan is deemed in default when no payments have been made for at least 270 days.

Repayment Assistance Program (RAP) – Since 2009, this program reduces CSLP loan payments for eligible borrowers to 'affordable' amounts no greater than 20% of gross family income. Eligibility is based on the borrower's family income, family size and outstanding loan balance.

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contributed a great deal. Two-thirds of respondents listed a lack of income as the most important reason for missing payments.

But, just how much does low income increase the likelihood of student loan delinquency or default? Lochner, Stinebrickner and Suleymanoglu turn to the 2010-12 CSS to answer this question. This survey includes both respondents who have and have not experienced different forms of repayment problems. A unique set of questions was included on the CSS to elicit information about a comprehensive set of factors that might influence whether a person experiences difficulties with repayment.

The analysis of Lochner, Stinebrickner and Suleymanoglu considers several different measures of adverse repayment outcomes. This brief focuses on results related to a broad measure of repayment problems that includes delinquency, default, bankruptcy, and participation in repayment assistance programs like RAP. This broad measure is motivated by an examination of extended administrative data on CSS borrowers, which show that borrowers receiving repayment assistance at the time of the CSS are much more likely than those making timely standard payments to experience adverse repayment outcomes 12-18 months later. Still, their analysis of more serious forms of repayment difficulties yields similar conclusions.

Analysis of the CSS data confirms the central message from the Defaulter Survey regarding quantitatively important relationships between adverse repayment outcomes and borrower income. Accounting for many other personal differences (e.g., differences in completed schooling, amount borrowed, and beliefs about the importance of repaying student

loans), borrowers currently earning less than \$20,000/year are 32 percentage points more likely to have an adverse repayment outcome at the time of the survey than those earning \$20-40,000. They are 47 percentage points more likely to have a repayment problem than those earning at least \$40,000.

Other Factors

Lochner, Stinebrickner and Suleymanoglu also identify important roles for student debt, educational attainment, and beliefs about the importance of CSLP repayment. Conditional on current income and other factors, adverse repayment outcomes are increasing in CSLP debt with the effects diminishing as debt levels increase. Estimates imply that someone with \$10,000 in CSLP debt is 14 percentage points more likely to experience a repayment problem at CSS than an otherwise identical person with only \$1,000 in CSLP

debt. Someone owing \$40,000 is 24 percentage points more likely than someone owing \$10,000 to have a repayment problem.

Beliefs about the importance of repaying student loans also play a role. Repayment problems are 10 percentage points higher among borrowers who report that they would stop paying their CSLP loan first if they could not afford to repay all their debts. Still, results from the Defaulter Survey suggest that many students in default experience difficulties making other payments (e.g., credit card or auto loan payments) as well.

Educational attainment and institutional choices also influence repayment outcomes, even when conditioning on current income, student loan debt, and repayment beliefs. CSS respondents with university degrees or higher are 11% less likely to run into repayment problems compared to

Box 2

Description of 2012 CSLP Defaulter Survey and Client Satisfaction Surveys

The *2012 CSLP Defaulter Survey* is based on interviews of 3,200 borrowers in March, 2012, who had defaulted between August 1, 2009, and July 31, 2011. With the aim of providing a better understanding of why borrowers go into default, the survey collected information on student loan amounts, income, awareness of repayment assistance programs, educational attainment, course of study, and various demographic characteristics.

The CSLP measures the satisfaction of its loan and grant recipients through an annual *Client Satisfaction Survey* (CSS). For the years 2010-2012, survey questions were included on the CSS in an effort to understand why some people experience repayment problems for their student loan obligations while others do not. The survey collected information on student loan amounts, income, assets, educational attainment, course of study, beliefs about the importance of repaying loans and consequences of default, measures of access to parental financial help, and various demographic characteristics.

college/vocational school graduates. Completion of a college/vocational program has relatively small and statistically insignificant effects after controlling for income and debt levels. Attendance at a private institution is associated with an 11% higher rate of adverse repayment outcomes. Other demographic factors are generally not statistically significant determinants of repayment outcomes.

The Importance of Family Support

The analysis of Lochner, Stinebrickner and Suleymanoglu also highlights the importance of intergenerational relationships for student loan repayment. Children whose parents are able and willing to help them out financially in times of economic stress are much less likely to experience repayment problems. The 2011 and 2012 CSS contain a unique question that asks borrowers how much money they could receive from their family in the next six months if they needed help. Students with sufficient family support (potential transfers of at least \$2,500) are only 11 percentage points more likely to experience repayment problems if their income falls below \$20,000 than if their income ranges between 20 and 40 thousand dollars. By contrast, students with potential family support of less than \$2,500 are 36 percentage points more likely to have adverse repayment outcomes if their income falls below \$20,000. See Figure 1.

Policy Implications

With a borrower's income beyond the control of the CSLP, an open question is whether policy levers exist that could significantly reduce default rates. One possibility would be to attempt to make repaying CSLP loans a higher priority

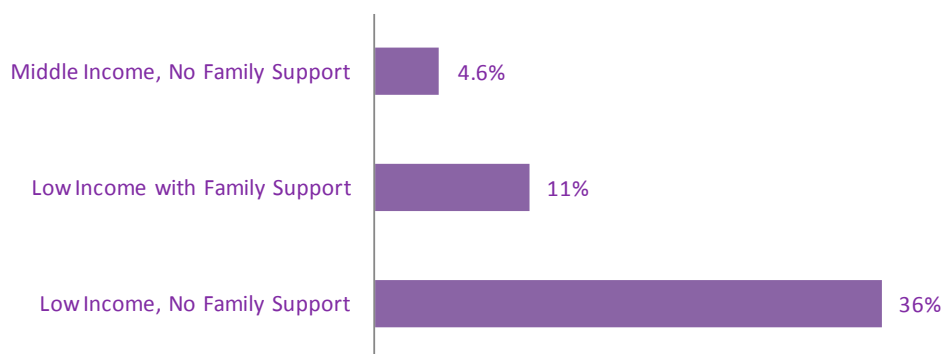
(relative to repaying other debt) among borrowers by influencing perceptions about the importance of student loan repayment. Suggesting that this may be worthwhile, defaulters in the Defaulter Survey often report that the consequences of default were worse than they had anticipated. However, there may be natural limits to this approach, since defaulters often miss other types of payments (e.g., credit card or cell phone payments) at the time they default on their student loans. Perhaps, more importantly, over 80% of all defaulters earned less than \$1,600 per month at the time they went into default. Many of these borrowers are likely to have a difficult time making even modest payments.

A second policy effort would bolster forms of repayment assistance to help borrowers with low income levels. The CSLP currently offers an array of repayment assistance programs, so it is important to make sure that clients

are fully informed about these options. Results from the Defaulter Survey suggest that these programs are likely to be of the greatest value for borrowers earning less than \$20,000 per year and with little family support. A broader question is whether the design of repayment assistance meets the needs of low-income debtors, while ensuring that students meet their obligations when they can. To that end, results from the Defaulter Survey suggest that many borrowers who go into default return to good standing within a couple years. The return to good standing is strongly related to subsequent earnings outcomes – defaulters whose income rises above \$20,000 per year are much more likely to begin making payments again. Thus, an important role for repayment assistance programs may be to maintain connections with borrowers experiencing financial distress, so that they return to timely repayment when their economic situation improves.

Figure 1.

Increased Probability of Repayment Problems due to Low Income and/or Lack of Family Support (Compared to Middle Income Borrowers with Family Support)



References

Lochner, Lance, Todd Stinebrickner, and Utku Suleymanoglu. “[Analysis of the CSLP Student Defaulter Survey and Client Satisfaction Surveys](#)”, CIBC Centre for Human Capital & Productivity Working Paper 2013-3, 2013

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