



CanadaStudentDebt.ca

A site providing support for student loan problems!

Canada Student Loans: The Need for Change

**The 'Why' Behind Our
Eight Point Plan**

Mark O'Meara, M.Ed.

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1 About The Author

Mark O’Meara has a Masters degree in Education and an undergraduate degree in Management Science. He is the founder of the Canadastudentdebt.ca website and co-founder of the Coalition for Student Loan Fairness. He is also the author of the national best selling book “Here I Am – Finding Oneself through Healing and Letting Go” which taught readers how to heal from bullying, loss, and adversity.

Mark graduated in 1999 from his master’s degree with over \$30,000 in student loans and experienced first hand the bureaucracy and inconsistent rules and regulations regarding bankruptcy and student loans.

The years 1999 and 2000 saw significant challenges in the Canadian publishing industry resulting in many publishers going bankrupt or experiencing serious sales declines and losses. Combining his business difficulties with significant health problems, financial problems exacerbated by a misrepresented masters program, and only subsistence contract work, Mark declared bankruptcy in 2000.

Despite student loans no longer being discharge in bankruptcy, he found that HRSDC was barring him from making payments but charging interest, denying him any form of interest relief, and even quoting non-existent rules.

Realizing that the Canada Student Loan Program had significant problems and that there must be other people having similar problems, he created the CanadaStudentDebt.ca website to provide information, support and community for those dealing with Canadian student loans.

Over the history of the website, Mark has moderated over three thousand members, fifteen thousand posts, and traffic of thousands of website hits per day. The website has been regularly featured in media and is a recommended resource for student loan borrowers on hundreds of websites. After recovering from health and financial difficulties, Mark updated and re-published his book as “The Feeling Soul – A Roadmap to Healing and Living”

Given his education, advocacy work, and writing ability Mark has a unique perspective into the workings of the Canada Student Loan Program and is in a valuable position of being able to clearly and articulately identify the key issues facing borrowers and make positive and sound recommendations.

Given the current government’s commitment to review and improve the Canada Student Loan Program in advance of the February 2008 budget, it is hoped that this document will have a significant impact on the decision making of the federal government.

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2 Introduction

The children are our future, let’s not saddle them with debt and outrageous interest charges.

Since 1994, the impacts of spiraling tuition fees on post-secondary students who attend — and those who cannot afford to attend — institutions of higher learning, have been well-documented. At the same time, the wide-ranging economic and social benefits enjoyed by countries who invest generously in higher education are also well-known, and have been affirmed by many educators and research organizations across the political spectrum. Perhaps most notable is the World Economic Forum, which has cited adequate investment in higher education as a driving factor in the productivity of Scandinavian countries.

Comments in these boxes are from the Coalition’s online petition unless otherwise noted.

But even tuition fees in Canada were rolled back or eliminated tomorrow, such a move would do nothing to alleviate the financial situation of thousands of graduates struggling with growing levels of student debt, both public and private.

I've recently graduated and my loan payments are debilitating. I pay \$10 per day in interest alone!

While rising tuition fees — now upwards of \$5,000 a year in many provinces — continue to garner some — but not enough — attention, the plight of graduates, many of whom are faced with debt-loads approaching the level of mortgages, the issue continues to receive inadequate attention. This is particularly ironic, given the lip-service paid to productivity and our nation’s commitment to building a “knowledge economy.”

However, even people with mortgages or car loans rarely encounter the problems that graduates experience with the administration of student loan debt. While Human Resources and Social Development Canada’s (HRSDC) surveys claim customer satisfaction rates of 70%, it is important to note that in most financial sectors, this rate would be unacceptable. Further investigation reveals that those surveyed were mostly new borrowers, while only a minority were actually in repayment when they were being surveyed.

Within the new economy of our millennial students, the level of service being provided to graduates is far below the standards of other lending types. Student Loan Legislation was written by a different generation in different¹times, when high paying jobs were more plentiful, when a huge student loan was \$10,000 not \$60,000, and when annual tuition was \$875, not \$4500. In no other lending sector would one be in a position to owe \$60,000 dollars and not be able to obtain a statement of payments and interest charges, or an accurate balance. But as far as problems with the Canadian Student Loans System go, that is only the beginning.

¹ See Access to Information request #2007-00119:
<http://www.studentloanfairness.ca/documents/Borrowerscantgetbalances.pdf>

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3 NSLSC History

Until the early 1990’s, the National Student Loan Centre was staffed by public servants with few complaints from both students and borrowers. For reasons that remain unknown, the well functioning program was outsourced to major banks that, in turn, established their own call centers. With the major banks abandoning student loans in 2000, there was again a need to create a national student loan centre. The government of the day decided to tender a contract to outsource the centre. CIBC created a company called Edulinx from its own call centre, bid on and won the contract for operating the NSLSC. As reported in numerous stories in the press and postings on the Canadastudentdebt.ca website, the outsourcing of student loan administration resulted in serious service quality issues and, in some cases, defaults due to lost documentation, underestimated documentation volumes, faxes machines that did not function properly, and poorly trained staff. Numerous complaints were sent to the CIBC head office in Toronto, and a phone-in campaign was initiated to request resolution of these and other problems.

CIBC eventually sold Edulinx to Nelnet, a subsidiary of a US firm, making Canadian student loan information available to the US government under the Patriot Act. SEC documents filed by Nelnet indicated a concern that profits would diminish if borrowers paid off their loans quickly. In 2005, Edulinx lost the contract for the outsourcing of the NSLSC to Resolve Corporation, which had been set up by First Service Corporation, also an American company. Resolve later bought Edulinx. Resolve Corporation is a publicly traded company accountable to its shareholders rather than student loan borrowers. Canadians can now buy shares in Resolve and hope that the share price will go up based on improved and continued earnings from administering Canada’s student loan program. The CSLF has still not been able to determine who Resolve’s shareholders are.

Google the keywords Nelnet USA Scandal. Very disturbing reading.

4 Major Issues

Planning is Impossible

It is now almost a certainty that the regulations in place when one commences with their education will not be the same regulations in place when one graduates. Students who carefully plan the financing of their education will almost always find their planning frustrated by government regulatory changes as well as cuts to education funding by both provincial and federal bureaucrats who do not understand the implications of their decisions. For example, consider the situation facing a single mother who enrolls in a 4 year program today and who carefully attempts to calculate what her education costs will be based on her available savings, potential grant funding. She would have (NEED DATES HERE) graduated with a loan of \$15,000, however with provincial grant cuts, which triggered the loss of her matched federal grant; she will graduate with additional loans of \$18,000 (\$3000 grant provincial and lost federal matching grant times 3 years) for a new debt load of \$33,000.

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‘Grace Period’ is a Deceptive Term

In the earlier days of the student loan program, graduates were not charged interest during the first six months after graduation. In 1993, this benefit was eliminated by the federal government, but the use of the term “six-month grace period” by the federal government has left most borrowers with the impression that they are not paying any interest during this period. In fact, while graduates currently do not have to make payments in the first six months after completing their studies, but they are compounded daily interest charges, which are capitalized when the borrower consolidates their loans. This amounts to a 3.5% to 5% premium added on to their loan when they commence repayment. A recent survey showed that 64% of borrowers were unaware that interest was being charged during what the government calls the ‘the grace period.’ Under student loan regulations, the term consolidation means to set up payments. It does not mean that the borrower will consolidate their loans into one payment.

I am buried under \$55,000 of student loan debt...with 4 separate lenders. WE NEED CHANGE!

One Graduate – One Loan

With the changes in student loan programs—guaranteed bank loans (from 1964-1995), risk-shared loans (from 1995-2000) and more recently national student loan centre direct loans, and provincial counterparts) — graduates can find themselves with up to six different loans. Many graduates are unaware of this and negotiate their loan in good faith--only to find out that additional loans are outstanding. This also means that defaulted borrowers may face calls from up to six different collection agencies; and after negotiating with one collection agency, the borrower may not know that there is still another outstanding portion of their loan being held by another collection agency, which will try to collect. All of this makes the repayment process completely unmanageable and out of frustration many debtors simply give up trying to work with the system. Proactive defaulters who call HRSDC in the hopes of finding out who is managing specific loans get the thoroughly unhelpful response “please wait a few months and they will call you.”

A Broken System

Countless newspaper articles and website postings have reported lost documentation, failed pre-authorized payments and incorrect information being supplied to borrowers, and requests for forms going unanswered. The Ombudsperson must have the authority to act on behalf of all borrowers regardless of when they took their loans. A recent poll indicated overwhelming support for the creation of an ombudsperson.

According to a CSLP report still listed on their website, “In August 2003 the automatic pre-authorized payment system was temporarily unavailable for legal reasons. This situation has led to a higher than normal default for the consolidating cohort for the year 2003-2004.” This means that borrowers who wanted to pay were frustrated in their attempts and were defaulted even though they were clearly willing to pay, which in turn destroyed their credit rating. In addition to the many problems reported, it is situations like these that clearly call for an ombudsperson.

**In my work in Ontario I concluded that the current system is broken. I am glad to add my name to the petition, and to support the key points in your message.
- Bob Rae**

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Parental Support

The student loan application process takes into account the student’s parents’ income, but incorrectly assuming that the parents have paid off their own student loans. With the sharp increase in debt levels, student loan debt has become intergenerational. A couple who marry in their twenties may not have paid off their loans by the time their children attend school. The rules for evaluating parental contribution must be modified to include the new economic realities.

I've been through it all, interest relief, default, collections (still ongoing). Royal couldn't tell me where my Ontario loan was, and then I had 3 different collectors contacting me by phone, etc, lying about who they were and refusing to send me documentation. A nightmare.

What is My Balance?

Many borrowers are confused by the amounts claimed to be owed by collection agencies, banks, or by the National Student Loan Service Center. Statements showing the history of payments and interest charges are rarely provided by collection agencies and the banks, and in some cases, borrowers find that the amount owing has doubled or tripled with no explanation. Tax seizures, for example, are not applied against existing loans in a timely manner, with many collection payments going unreported, and some borrowers being harassed for payment on a loan which they actually they paid off years earlier. Borrowers have had to file Freedom of Information requests to obtain statements or a justification of the amount owing. Lenders can not provide statements because they do not have the data, especially if a file has been passed from one collection agency to another. It seems the student loan system has no historical data about a borrower’s payments and interest charges. Statements should be available to borrowers upon request.

Interest Rate

The interest rate on student loans is much higher than the rate charged on other types of loans. Car financing can be obtained for 0%, a mortgage at close to prime, but student loans financed at prime plus 2.5% for variable rate, and prime plus 5% even though the government’s cost of borrowing is substantially lower. In many cases it is not the loan that is causing the default but the exorbitant interest rates being charged on the loan.

Default Rules – Full Amount Is Due Immediately

Current legislation states that if a borrower defaults, the full balance becomes due immediately. This rule is unreasonable and does not help in the collection process. This regulation needs to be removed, as it only serves the collection agency in their quest for a higher commission. Clearly borrowers can not come up with tens of thousands of dollars in a few days, as demanded by collection agencies. Removal of this rule would force collection agencies to work with borrowers.

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Applications Forms, Financial Questionnaires and Privacy

Filling out a student loan application form requires that an applicant provide next of kin information, which is often used in the collections process. While the privacy commissioner has ordered the removal of this information from the application form, the data is still on file and is being used inappropriately. Borrowers in default are required to submit a financial questionnaire to the collection agency. One would assume that the information would be used to arrive at reasonable payment terms, which many borrowers comply with. But the information is being used at a later date to force the borrower to justify all expenses in an attempt to get the borrower to increase their monthly payment, so that the collection agent can increase his or her commission.

I borrowed the money, I'm responsible for paying it back.

The federal government shuts out all those of us that went through a job loss or a divorce or some other interrupting circumstance, in which we were just a bit slow to respond, and like in my case, I thought there was nothing that could be done, until it was too late.

Collection agencies break the law routinely with me. I live in Virtual fear of a letter or phone call at work threatening legal action etc etc.

I feel like I am living in a virtual work-house. I fully acknowledge my responsibilities, but there has to be a better way to deal with this.

Faulty Contract with Service Providers

The contract between HRSDC and the NSLSC is faulty in that it provides no penalties for errors on the part of the NSLSC and does not include incentives for the NSLSC to work with debtors to rehabilitate the loan.

A consultants’ report stated that feedback provided by the Service Providers concerning the current incentive regime indicates that:

- The level of incentives provided under the contract do not make it worthwhile to be pro-active about rehabilitating accounts, although the penalties are steep enough to ensure some minimum level of effort. The net result is that many accounts are allowed to go far too long without paying, which establishes a pattern of behaviour which is hard to break.
- In general, the incentives are not large enough to encourage performance that goes beyond the basics. Because penalties are high, the tendency is to do just enough to avoid being penalized.

Negative Incentive Banking Climate

As reported in the press, major Canadian banks involved in student loans abandoned the program (known as the risk-shared regime) when they realized how serious the losses were becoming. At CIBC, accounting procedures for student loans resulted in losses being applied to individual branches. As a result, managers and employees’ performance bonuses were reduced. However, if a borrower defaulted, the loan was removed from the branches books and sent to collections, thus eliminating the negative financial implications for employees and managers, and actually increasing the performance bonuses paid at the branch. In effect, keeping borrowers out of default or restoring an incorrectly defaulted loan meant reduced performance bonuses for bank staff.

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Lost Documentation

With the National Student Loan Centre and participating banks losing students’ Continuation of Enrollment forms and Interest Relief applications thousands of borrowers over the last 10 years have been defaulted, denied interest relief and Debt Reduction in Repayment, and have been harassed by collection agencies, with the full amount of the loan due immediately. The current legislation states that it is the student’s responsibility to communicate with the lender or the NSLSC. This rule needs to be changed so that the NSLSC can no longer use the “student’s responsibility” clause to exonerate them from accountability for lost documentation. In some cases, borrowers who have complained about their treatment to the Prime Ministers Office have had this specific clause invoked by the NSLSC and the banks, even though documents were allegedly sent by registered mail, and signed with a signature confirmation.

I have a student loan in default because the National Student Loan Service Centre repeatedly lost documents, interest relief applications and payments. They refuse to accept responsibility for their own incompetence and are useless when attempting to deal with problems they created.

Credit Reporting

Student loan credit reporting has failed to act as an incentive to pay student loans. In some cases, as a result of errors on the part of NSLSC and the banks, it has actually forced some students out of school because they have been denied funding due to incorrectly reported defaults.

And even if the NSLSC or the banks admit to making an error, it is virtually impossible for borrowers to have incorrect information removed from their credit reports. This has far-reaching ramifications: damage to one’s credit rating is instantaneous. A process to dispute credit reporting information, which would ensure contested defaults are temporarily removed until the matter is investigated, is necessary.

Furthermore, the negative credit reporting actually inhibits the repayment of loans as graduates are unable to obtain funds to start a business, obtain credit for an automobile when required for work, or obtain accommodation due to credit checks. The negative reporting stays on their file for six years after the last date of activity, meaning that if a student takes 10 years to pay off their student loan, they will have a negative credit rating for another six years after paying the loan in full. This is too harsh a penalty for defaulting.

The current credit reporting system has no system in place to make mention of a rehabilitated loan under the provisions of the CSLP Program. If a loan is rehabilitated, it still shows as in default on the borrower’s credit bureau.

Several instances of negative credit reporting have occurred when borrowers return to school without taking out further loans. In this situation, a “Continuation of Enrollment” form is sent to the Student Loan Centre. In many cases, the NSLSC seems to lose these documents or does not process them in a timely manner, resulting in unnecessary payment requirements and interest charges being applied to the loan, and, in the worst case scenario, a

I am still paying my students loans upon graduating in 1998 from University. I was told that I have another 7 years to pay to effectively pay off my loans. It has affected my credit rating and ability to purchase or borrow money for a car and a home.

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default. If the student can not pay the outstanding interest resulting from the delay in the processing, the loan is defaulted and the loan is then negatively reported to the credit bureau.

This reporting can result in a student being denied further funding, and seriously harms the borrower’s credit rating for years. In addition, the stress of sorting out the credit bureau reporting and having the system flag removed from the student loan system is a source of considerable stress for students.

Paying off one’s student loan should be considered a positive, not a negative. Paying an outstanding defaulted loan results in a negative report that stays on a borrower’s bureau report for six years after the last payment. Once the student loan has been paid off, negative credit reporting should be removed. Therefore, the current reporting practices being used actually act as a disincentive for paying one’s student loan.

It has recently been revealed that borrowers with 6 loans in repayment have lower credit scores than those with 2 or 4 loans due to the formula used for determining the credit scores, thus some borrowers are being penalized simply due to the number of regime changes that occurred while they were in studies.

I am still in school yet have been forced to enter repayment on my federal loans because I have been in school for over 520 weeks. This policy is prejudicial against graduate students who require loans. Canada wonders why good scientists don't stay here?

Interest Free Status While In School

The Canlearn website has until recently incorrectly stated "The Government of Canada will pay the interest on the federal portion of your loans while you are in school full-time. During this time you are not required to make payments on your Canada Student Loans." The web site did not tell students that Canada student loans are only interest free for a limited time period – a maximum of 340 weeks. An additional 60 weeks of interest relief is available for doctoral studies but not for master’s students. But what is not said is that the full-time status of students who may be enrolled in programs longer than four years (e.g. Doctoral degrees or medical school) will not have enough interest-free weeks available to them, making it virtually impossible for many students to complete these longer programs. It would be best if the time limits were removed, but at the very least, the rules should be changed so that students in longer programs can complete the academic program they are currently enrolled in—beyond the current limit--interest free and in non repayment status. This would allow students to actually complete their credentials in order to help facilitate repaying their loans. Students are now required to use the Interest Relief program while in school, which was not the original purpose of the Interest Relief program.

Educational Institutions’ Misleading Policies

While there are penalties for a student making deceptive or inaccurate claims with respect to a student loan application, there are no penalties for educational institutions (public or private) that make false claims about the length of a program or the prospects of jobs upon graduation. Postings on

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Canadastudentdebt.ca regularly refer to false hopes given by public and private institutions about job prospects, and in some cases, students have been misled about the length of the given program. While such statements meet the criteria for a fraud investigation, such matters are left to the civil legal efforts of the student as Industry Canada, HRSDC and other federal and provincial departments have stated that it is not their jurisdiction to investigate these matter and that it is up to the educational institution to monitor itself. Legal costs to initiate a court action begin at about \$40,000. Educational institutions should be held accountable for their advertising and suggestion that jobs await graduates.

Private Institution Bankruptcy

Numerous postings on Canadastudentdebt.ca report the bankruptcy of a private institution, sometimes just days or weeks after collecting tuition. While the school administrators and owners have their assets protected, and their liabilities absolved by the Bankruptcy Act, students are left holding loans without any education for their debt. There needs to be a change in consumer protection laws, and a change to the bankruptcy act to help these students. As well, new debt reduction regulations need to be adopted, so that students do not shoulder the debt of a failed private business.

Please work with us to help us repay our debts. We just want to arrange payments we can live with, pay off our debts and be responsible without being treated as second class citizens. We need to be treated like regular debtors and have payment options that work with our income - all we ask is the opportunity to make things right.

Availability of Interest Relief and Debt Reduction

Historically, payment assistance programs, such as Interest Relief and Debt Reduction (IR and DRR), have always been underutilized by students because of overly rigid government regulations. Debt Reduction, for example, was an abysmal policy failure in the first few years, as only a handful of people qualified.

Currently, Interest Relief and Debt Reduction are not available if one’s loans are in default. As stated in research, those in default are most in need yet they are denied help. Being in default should not eliminate a borrower from assistance. Often it is a NSLSC error or slowness in processing applications that resulted in the default,

The application for IR and DRR uses gross income in the determination of eligibility. Net income is a far better and fairer measure of a borrower’s ability to pay.

Currently, Interest Relief is run on an “all or nothing” model. A borrower earning \$1 above the income threshold is denied any relief. Graduated interest relief would reduce defaults and help the program meet its targets. Providing levels of 25%, 50%, 75% and 100% would provide much needed assistance and reduce default rates. It has been clear from postings on Canadastudentdebt.ca that there is a group of borrowers who do not have the resources to pay, but do not qualify for interest relief. Recent statistics indicate that 22% of borrowers who are denied interest relief end up defaulted and in collections. With the

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government spending millions of dollars on collections, perhaps some of this money should instead be used to fund an increase in the availability of Interest Relief. While it is commonly acknowledged that it can take up to 14.5 years to pay back a student loan, Interest Relief is only available during the first five years after graduation.

The Interest Relief eligibility tables stop at a maximum combined family payment of “\$975 or more” for a federal loan, thereby denying a fair and equitable assessment for Interest Relief to families with payments above \$975 per month. The table needs to be extended to reflect the current debt loads of families. Some borrowers have been denied due consideration for interest relief as their combined family payments are \$1400, well above the \$975 figure.

For Canadians who are filing for bankruptcy and who have student loans among their debts, bankruptcy is a last resort; their economic situation is even more difficult than that of the average person seeking bankruptcy protection.

Saul Schwartz

A Major Legislative Flaw

There are a number of sections of the Canada Student Loan legislation such as Debt Reduction that require the borrower been “out of full-time and/or part-time school for at least five years (60 months) to qualify for Debt Reduction, and out of school for 10 years for the discharge of loans under bankruptcy laws..

The first problem with this rule is that it punishes those who returned to school after completing their major studies and discourages people from furthering their education. The second problem is the lack of guidelines as to what constitutes a full or part time course, and whether personally funded courses would disqualify a borrower from assistance. Do continuing education courses count in this rule? What about taking an EI funded program? What needs to be questioned is the underlying rationality for this rule.

Furthering one’s education should not be grounds for being disqualified from assistance. Taking further courses at ones one expense should not be a reason for denying relief. Additionally, some professions require membership in accreditation societies, which in turn required continual upgrading. Upon gaining employment, employers may request that their employee takes some upgrading courses in perhaps computer skills. All of these borrowers would be disqualified due to the requirements of their employment. This rule should be eliminated or at least changed to “out of full-time school for at least five years since the completion of studies that was funded by the Canada Student Loans Program”

Ten Year Bankruptcy Rule

Student loans are no longer discharged in bankruptcy. Students can apply for discharge if it as been 10 years since the borrower has been either a full time or part-time student. This bankruptcy rule was hastily introduced in 1997 without a full analysis of the student loan legislation. The first flaw was in the fact that only the bankruptcy act was changed but rules regarding bankruptcy

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Insolvency practitioners criticized the lack of consultation about the rule change, particularly in light of the extensive consultations that had preceded previous bankruptcy amendments. They argued that the ten-year period was too long and failed to strike the appropriate balance between allowing bankrupt students to rehabilitate themselves with a fresh start and combating alleged abuse of the bankruptcy system

From Proceedings of Standing Senate Committee on National Finance on Bill C-36

in the student loan act were not modified to consider the new bankruptcy legislation and provide relief or payment guidelines. Borrowers who did declare bankruptcy on consumer debt found that even though their student loans were not discharged they were barred from interest relief and debt reduction and were automatically defaulted and barred them from making payments until their trustee was discharged.

After much protest, these rules were later remedied, but left some borrowers with out any forms of relief for the life of the loan even though they were the borrowers who needed help the most

Bill C-55, which changed the ten year rule to seven years, was passed in 2005 and given royal assent, the coming into force date was never set. The government then initiated another bill to amend C-55 again delaying the implementation. Numerous studies have shown the 10 year rule to be unwarranted and that it is creating severe hardship. Again, as a creditor the government can simply delay the process and protect its interest as a creditor, going against the intention of the bankruptcy act.

The changes in the bankruptcy legislation bring forth a unique ethical question. In this case, the creditor being the government of Canada has the ability to re-write the bankruptcy legislation in its favour, and stall any amendments in its favour. Is it ethical to allow a creditor the right to modify legislation in its favour particularly when the legislation creates severe hardship for some individuals?

Clearly some form of assistance is needed for borrowers experiencing extreme hardship. The purpose of the bankruptcy act is to give people a fresh start. The student loan exemption regulations go against the very nature of the bankruptcy act.

Disability Relief

For those who negotiated their loans between August 1995 and July 2000, disability relief is only available if the disability occurred within the first 6 months after graduating. This is an absurd rule that needs to change. Disabled people's mental health is worn down by dealing with HRSDC, the NSLSC, and collection agencies. Disabled borrowers find that their initial application is denied with no reason given, but after subsequent appeals, the disability is accepted. The current practice is to leave the loan as owing but removed from collections, even though the legislation says that the loan is forgiven. HRSDC does not appear to be following the legislated definition of disability, as HRSDC requires a full and total inability to work, instead of the act's definition of a restriction in the ability to work. The assessment process fails to take into account the amount of the loan payments, only assessing the individual's income without having to make a loan payment, which is not what the legislation states. HRSDC is inappropriately using the surplus income form from the Bankruptcy Act to determine exceptional hardship. This form was not designed nor intended to be used for this purpose.

"I told them she is in a coma. She has no money, no income and never will have an income. It was not like we were ignoring them, we would talk to them, they weren't listening. They kept hounding us for money."

- Father of disabled borrower

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Defaulting on my student loan was not really my intention. I will have it paid off this year but, it is still defaulted. I can't get out of collections no matter how hard I try. I will pay it off this year and I think the student system is a brutal system. When a student loan borrower gets his life back together, makes consistent payments, the student should come out of collections so that the student loan borrower can get on with his/her life.

Recalling Loans from Collections

There should be a provision for loans to be recalled from a collection agency back to the NSLSC if the borrower has rehabilitated the loan or if it can be shown that an error was made. It is in the interest of the collection agency to keep the file to earn commission and therefore the agency is in a position of conflict of interest in rehabilitating loans. As described above, with up to four different collection agencies involved, it is impossible for the borrower to successfully co-ordinate and initiate such a request for the return of the file to the NSLSC.

Monthly verse Weekly Pay

Few if any people are paid on a monthly basis. Interest Relief and debt reduction criteria should be changed to reflect economic realities. The current system discriminates against those applying in a 3 pay month, as the interest relief calculations to monthly income distort the income. The same applicants would qualify if they applied the following month,

Abuse by Collection Agents

The Student Loan Program treats all borrowers the same way regardless of the borrower's situation or willingness to pay. Postings on canadastudentdebt.ca frequently refer to the frustrations of dealing with the abusive collection agencies. Collections laws and directives are routinely not followed, borrowers are called at work, and postings have referred to collection agents speaking to the children of borrowers. Collection agencies threaten legal action without the authorization required by HRSDC, and in many cases women borrowers have been reduced to tears by the disparaging comments of the agent. Agents also apply these tactics to borrowers who have made payment arrangements and are meeting those obligations.

Forms and information are a nightmare to decipher, sloppy and chaotic. CSL employees refuse to answer specific questions, refuse to mail out necessary forms. I've been screamed at, & abused with contempt. Very badly managed, a disgrace.

Repayment Agreements Not Honoured

Borrowers who reach an agreement with the collection agency find later that the agency does not honor negotiated agreements. Borrowers find themselves being harassed a few weeks after they have sent postdated cheques because a new collector tries to get a higher commission through larger payments. Borrowers are threatened with additional legal action even though they are making the agreed payments. Clear and enforceable guidelines must be written and followed to facilitate payment not hamper the recovery of defaulted loans, which may have been defaulted through no fault of the borrower. HRSDC has lost control of its collection agencies who abuse borrowers without any fear of recrimination. The Auditor General reported that audits of collection agency payments and directives were not being carried out.

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“I’m hurting. Real bad. Don’t want to fight this fight any more. They win...I lose. Just so tired. Just can’t keep on. I’m done.

Please, keep on fighting for the cause. I’m sorry if I let you all down, but I’m tired and just can’t keep on with the struggle.

Please let them (the government) know that their program is costing lives.”

Posting on Canadastudentdebt.ca requiring 911 call and intervention

Student Loans and Mental Health

I have heard countless stories of students frantically trying to resolve NSLSC errors so that they can continue their schooling, missing studying time while they sort out the problems of receiving a default notice during the exam period. Clearly this stress has a negative impact on student’s education and perhaps their marks, as valuable study time is wasted dealing with errors due to NSLSC errors and lost documentation

As moderator of Canadastudentdebt.ca I have had to intervene in 3 separate cases of possible suicide attempts due to overwhelming debt, a sense of hopeless, and the abusive and aggressive actions of collection agencies. Borrowers in repayment experience mental health issues as a result of the overwhelming debt, harassment and the fact that they can never seem to make progress despite their best efforts. As one poster on Canadastudentdebt.ca wrote and initiated my calling 911 “I’m hurting. Real bad. Don’t want to fight this fight any more. They win...I lose. Just so tired. Just can’t keep on. I’m done. Please, keep on fighting for the cause. I’m sorry if I let you all down, but I’m tired and just can’t keep on with the struggle. Please let them (the government) know that their program is costing lives.”

5 Summary and Recommendations

Based on the issues raised above, members of Canadastudentdebt.ca and the Coalition for Student Loan Fairness hope that the government of Canada will take the steps to create a more fair student loan program and to remedy the damage done to borrowers and to provide meaningful help for those who need it.

Students are getting lost in a maze of misplaced forms and interest relief foul-ups. The confusion is causing depression and real mental damage, say counselors.

St. Albert Gazette

An Eight Point Plan

From the points above, I recommend the following 8 point plan which hopefully will address the above issues and return the Canada Student Loan Program to a state of integrity.

Point 1 – Significantly Reduce or Eliminate the Interest Rate on Student Loans.

Borrowers are faced with interest rates of 8.75% – 11.25%, yet the government’s cost of borrowing is about 4%. Borrowers who are required to pay their loans over 8 to 10 years end up paying interest of over 33% or more of their principal over the lifetime of the loan. Borrowers experiencing hardship who opt for interest-only payments pay even more. Reducing the interest rate would reduce defaults and collection costs. In order to be fair and equitable, the interest rate reduction needs to be applied to all outstanding student loans, regardless of the outsourcing organization holding the loan.

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Point 2 – Improved Access to Grants, Interest Relief and Debt Reduction.

Eliminate or significantly increase the limit on the total allowable months of Interest Relief available to assist borrowers with persistent financial difficulty. Increase the income threshold and use net income for determination of eligibility. Adjust the income level threshold annually to reflect inflationary increases in the cost of living. Allow borrowers to apply for Interest Relief on-line to make the application process more efficient and timely. Improve promotion of the Interest Relief program to ensure that all borrowers who need interest relief are aware of the program, what it does, and who is eligible.

Point 3 – Create a Student Loan Ombudsperson Office.

Borrowers have had significant difficulties getting errors investigated and corrected. Similar to the recent Veterans Ombudsman, create an Ombudsperson Office with legislative powers to investigate issues such as, but not limited to: lost documentation, payment processing errors, incorrect defaults, while also ensuring timely and correct credit bureau reporting and eligibility for interest relief and debt reduction. The Ombudsperson’s office must have the power to prescribe resolution actions that will be binding on various outsourced service providers, including but not limited to: National Student Loan Centre, banks involved in risk-shared and guaranteed loan programs, and their outsourced companies--as well as credit reporting bureaus. The Ombudsperson must also be viewed as part of a larger campaign to improve the education and awareness of student loan borrowers about the financial commitments involved in taking out a student loan.

“In August 2003 the automatic pre-authorized payment system was temporarily unavailable for legal reasons. This situation has led to a higher than normal default for the consolidating cohort for the year 2003-2004.”

**CSLP 2004-2005
Annual Report**

Point 4 – One Graduate, One Loan, One Payment.

Due to the number of program changes over the last ten years, graduates may have up to six different loans (provincial and federal loans for each of risk-shared, guaranteed, and direct lending programs) and have to juggle up to six different payments. If in default, there are up to six different collection agencies demanding payment. Some borrowers have been unable to determine who actually holds their loan(s) due to the outsourcing of collections and reassignment of accounts. Graduates should have one integrated loan and one payment. When the program is established, existing student loan balances should be transferred to the new integrated loan where possible.

Point 5 – Provide Up to Date and Accurate Statements.

Graduates need to know how much they owe, that their payments are being applied, and that interest is being charged appropriately. There is presently no way to get an accurate and timely student loan statement. Some graduates have had to file Freedom of Information requests to get statements. We need an accountable system that charges interest correctly and applies payments in a timely manner. The program needs to provide accurate statements on request and provide online real-time access to statements, ensuring that borrowers have an up-to-date account of their loan.

Point 6 - Enforce Collection Directives.

The Student Loan Collection Directives are not being enforced. Numerous complaints have been filed with regard to abusive collection agents who

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improperly threaten legal action, have been verbally abusive, and have violated provincial collections guidelines. Business Practices and Consumer Protection Acts, or Acts which govern the conduct of collection agencies across Canada, should be harmonized so that Canadians nationwide can receive the same respectful and consistent service no matter where they live in the country. Create a policy for setting up repayment terms that will be binding on the borrower and the collection agency so that the collection agency does not try to increase its commission by harassing the borrower again and again for more money even though payment terms are in place.

Point 7 – Provide Hardship Relief.

Sometimes bad things happen to good people through no fault of their own. For those who negotiated loans between August 1995 and July 2000, disability relief is only available to those became disabled within the first six months after graduation. Even if one qualifies, the process of applying is onerous and usually requires many appeals. For those who have extenuating circumstances, the option of bankruptcy has also been removed. There needs to be some method of helping those most in need.

Point 8 – Reinstate the 6 Month Interest-Free Grace Period.

Previously, graduates were given a six-month interest and payment-free period to allow time to search for employment and to launch themselves into the workforce. The current grace period does not require payments but interest is charged, resulting in a 3.5% - 4% premium on their loan that is capitalized.

Additional Recommendations

Tax Seizures

Tax seizures should be applied against the loan principle, not interest. This way the borrower will obtain some relief, as the principle will be reduced. There is also poor communication between Canada Revenue Agency, Service Providers and Collection Agencies. Borrowers who have paid off their loan through tax seizures still find themselves being harassed for a debt that has been repaid.

Improve the Canlearn Website

Despite recommendations for improvements for the Canlearn Website, the information is still confusing and hard to find. The site is grouped under Student, Parent, and Advisor categories with still no “Repayment” section to help borrowers find the information they need. The site still provides incorrect information for borrowers by implying a six month grace period by stating that you must repay your loan “starting 6 months after you have completed your full-time studies.” It fails to mention that borrowers are in fact charged interest during this period. A recent survey indicated that over 60 percent of borrowers were unaware that they were being charged interest during this six month period.

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The CanLearn Website currently directs borrowers to wrong information based on the residency questions. If I personally answer the question regarding where I have lived for the last two years, I end up at the BC loans information, even though my loans were through Ontario. The website needs a separate “Repayment” Section.

Payment Capping

Some borrowers find themselves in the frustrating position of having repaid the full amount of their loan in interest charges while only reducing their principle by as little as 10%. To begin to address this situation that ensures so many graduates must repay their debt several times over, a ceiling should be implemented to limit the amount of interest paid on a student loan over a period of time. For example, if a borrower has borrowed \$10,000 and has paid back \$15,000, then the loan should be considered paid in full.

Remove International Restrictions

We are in a global economy. The restriction on having to live in Canada to obtain interest relief unless on an international internship restricts borrowers from international education, valuable global co-op placements, and international aid service. Remove the restriction for interest relief of overseas graduates and in particular for those who volunteer overseas.

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