Students: Don’t let debt weigh you down

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University of Ottawa student Leila Moumouni-Tchouassi has struggled to finance and finish her degree over the past six years. But she aims to finally get her BA in international development and globalization in 2019 and then find a job as a community services worker. After juggling full- and part-time jobs and helping her parents financially on occasion, she is feeling the strain of owing $30,000 on her government student loan and $6,000 on her credit card.

"Most of my stress comes from all this debt," says the 23-year-old undergrad who works for her university's student union as well as part-time at a clothing store for tall women. "I am 6 foot 5 and my clothes are very expensive. I started working at the store so that I could get a discount on clothes." Many students are relying on financial aid and part-time work to fund their education as tuition fees climb. For the 2018-2019 academic year, average undergrad post-secondary tuition in Canada rose to $6,838, up 3.3 per cent from the previous year. Loans may be the only way for some to afford higher education, but students need to be mindful of the pitfalls when borrowing and repaying them.

LOANS

"There is good debt and bad debt, but definitely getting a student loan to improve your education and employability is good debt," says Laurie Campbell, chief executive officer of Credit Canada, a credit-counselling agency.

"But one of the things that we see with students is that they don't judiciously use that money over the year. They sometimes blow it in the first couple of months."

To avoid a cash crunch after paying for tuition and books, students should consider a part-time job and figure out a monthly budget to cover rent, food and sundry costs such as transportation, Ms. Campbell advises. "What we see often is many young people coming out of school with large credit-card debt."

Students often don’t worry about racking up loans because they figure they can pay it off once they get their “plum career position, but the reality is that they have to start at the bottom,” she says. “Often, the income does not allow for a reasonable repayment for all this debt. They can find themselves in default, and not knowing how to manage it.”

But applying for a government loan is worthwhile, even if a student qualifies for only a small one, because it opens the door to potential scholarships, bursaries and grants, says financial blogger Kyle Prevost, co-author of More Money for Beer and Textbooks, a financial guide for Canadian students.

In addition to federal and provincial loans, students may be eligible for free money.

Ottawa offers grants of up to $3,000 a year for full-time students from lower-income families. Ontario and New Brunswick provide free tuition for students meeting income criteria. And Newfoundland and Labrador give students grants if they study in-province or outside for certain programs.

LINE OF CREDIT

A student line of credit is also an option for funding, he says. “If parents co-sign with the student, that should drop the interest rate substantially.” Interest on a credit line must be paid once money is withdrawn, while interest on a government loan need not be repaid until after graduation and will generate an income-tax credit, too, he adds.

Some provinces, such as Manitoba, Nova Scotia and Prince Edward Island, don't charge any interest on their loans.

REPAYMENT

Repayment rules on government loans also vary. Most graduates don’t need to pay back the federal portion until they earn $25,000 a year. For Ontario loans, graduates can wait until they make $35,000 a year. And British Columbia will forgive loans to students who work in publicly funded health-care facilities in underserved communities or with children in certain occupations.

Graduates need to “make an achievable plan to pay a loan back as soon as they are working,” says Steve Bridge, a financial planner with Money Coaches Canada. “It’s making sure you have enough money for everything else in your life, such as a cellphone, car insurance, rent, groceries and clothing. Sometimes people attack their loan too aggressively and they end up running up their credit cards.”