

BACKGROUND: GRANTS VERSUS LOANS

Students in BC need grants, not loans. This is not just a values statement thrown around by current students who feel the crushing burden of student debt – it is backed up by wide-reaching public support and by empirical research time and time again.

BC's current student financial aid system is a patchwork of small grants for boutique programs and small amounts of loan forgiveness. Ultimately though, it centers around student loans, which are the main source of financial assistance for BC students from low- and middle-income families. But grants, loans, and loan forgiveness programs are **not** all created equal.

HOW LOANS WORK

Student financial aid in Canada consists of grants and loans from the federal government, supplemented with financial aid from the applicable provincial government. Federal student aid covers up to 60% of student financial need, and the province fulfills the remaining 40%, up to the maximum limit. Eligibility for student financial aid is based on the applicant demonstrating financial need; to determine financial need, students are assessed on a number of items: their own contribution, family income, tuition fees, books, ancillary fees, student living allowances (estimated food, shelter, transport, miscellaneous costs).

Students are first assessed for federal student loans, then, funds from federal student grants are applied to unmet need. If there is remaining assessed need, students are then eligible for provincial student aid. Only 5% of applicants are able to cover their entire assessed need from federal aid, so virtually all students need financial assistance from the provincial government as well. Since British Columbia doesn't have a comprehensive system of needs-based grants, most students in the province are forced to accumulate additional debt through provincial student loans.

BC COMPLETION GRANT IS JUST LOAN FORGIVENESS

StudentAidBC offers what it calls a "completion grant" of \$500 available for full-time students who have BC student loans, and have successfully completed a year of post-secondary education. However, this "grant" is actually a form of loan-forgiveness as described in the StudentAidBC 2016-17 policy manual. According to the manual, the purpose of the BC Completion Grant is to "keep debt loads manageable by reducing the BC portion of the Canada-BC integrated loan for eligible students who successfully complete each year of their studies."

GRANTS VERSUS LOAN FORGIVENESS

The distinction between up-front grants and loan forgiveness is critically important. A recent empirical study at New York University compared students who received up-front grants versus those who received the same amount in forgivable loans at the end of their program. The timing of student financial assistance was key: for those receiving grants, enrolment was twice as high, GPA was significantly higher, and graduates were more likely to choose careers in the non-profit (versus private) sector, compared to those who received forgivable loans¹. These results demonstrate the success of up-front grants as the solution to affordability and accessibility, as opposed to any version of student loans.

ISSUES WITH STUDENT LOANS

ACCESS DOES NOT EQUAL COMPLETION

Student loans are often touted as a solution for accessing post-secondary education for students and families who can't afford the high up-front costs (such as tuition fees, ancillary fees, and textbook costs). This supposed improved access then is seen as a means to increase enrolment at institutions. However, focusing on increased student enrolment does not paint a full picture. A comprehensive research summary on the ethics of student debt finds that student loans may have a positive impact on getting students to community college in their first year; yet the student loan debt then has a negative effect on continuing in later years, often resulting in students leaving school before completing in order to avoid further debt². This research suggests that the same mechanisms that may increase access (i.e. loans) may actually decrease completion rates³.

LET'S FIGHT FOR
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FINANCIAL STRESS DECREASES STUDENT SUCCESS

Research shows that student loans not only lead to dropout, but for those who stay in school the financial stress can start to negatively impact their grades. Specifically, empirical research from Gecowers identifies that “financial stress has a statistically significant negative impact on students’ performance for multiple reasons such as the inability to purchase required texts, or the requirement to work more hours to meet financial obligations.”⁴ Additional research finds that this negative impact of financial stress on student outcomes is greater for women, minorities, and first-generation college students⁵.

GRANTS KEEP STUDENTS IN SCHOOL

In today’s world of skyrocketing rents and record high tuition fees across the province, the costs associated with attending college or university create significant financial barriers not only to access, but to completion of studies. The toll that mounting student loan debt has on students’ mental health and academic success is increasingly negative.

A study conducted by the Millennium Scholarship Foundation found that students with large amounts of financial aid are more likely to dropout. Yet, if student aid was in non-repayable grants, this had a positive impact on their likeliness of staying in school⁶.

FULL-TIME WORK AND FULL-TIME STUDIES

Student aid has a maximum amount, and many students are left with ‘unmet need’. This means more and more students are working full-time alongside their studies. In fact, Statistics Canada Labour Force Survey shows that as post-secondary enrolment increases, so has the proportion of full-time students in employment⁷. Yet if a student drops down from full-time studies to part-time studies, they are no longer eligible for interest free status on the federal portion of their full-time loan, and loan repayments must begin after six months of their status change⁸. Thus, students who drop down to part-time studies in order to work full-time to cover their unmet need are then punished by accruing interest while in school.

CONCLUSION

Evidence of the positive effect up-front grants have on student outcomes, as opposed to the negative effect of the current system of predominantly student loans, is clear and well-documented. Student loan forgiveness in the form of completion grants is not the solution to student financial aid in BC; research shows that even when the student loan was fully forgiven, students were more hesitant to take that option because of the psychological effects of knowing there is a debt connected to their name. The mounting pressure for those students who do take on student debt often leads to them leaving school early to avoid further debt from their studies.

Up-front needs-based grants avoid the issue of student debt aversion while simultaneously offering an option that has been shown to increase enrolment, persistence, achievement, and completion. Students need grants, not loans.

The affordability of post-secondary education is a public policy issue that can be addressed through several avenues, but student loans are not a solution. The creation of an up-front, needs-based grant program will allow students from low- and middle-income backgrounds to access education with lower student loan debt, and will enable them to better complete their studies successfully.

Footnotes

¹ Field, E. (2009). Educational debt burden and career choice: Evidence from a financial aid experiment at nyu law school. *American Economic Journal. Applied Economics*, 1, 1.

² McKinney, L. & Burrige, A. (2015). Helping or hindering? the effects of loans on community college student persistence. *Research in Higher Education*, 56(4), 299.

³ Page, L. & Scott-Clayton, J. (2016). Improving college access in the United States: Barriers and policy responses. *Economics of Education Review*, 51, 4-22.

⁴ Gecowers, K. (2017). At What Cost? The Ethics of Student Debt. *The Siegel Institute Journal of Applied Ethics*, 1, 1-24

⁵ Bennett, D., McCarty, C., & Carter, S. (2015). The impact of financial stress on academic performance in college economics courses. *Academy of Educational Leadership Journal*, 19, 25-30.

⁶ McElroy, L. (2006). Student Aid and University Persistence: Does Debt Matter. *Canadian Millennium Scholarship Foundation*

⁷ Marshall, K. (2010). Employment patterns of postsecondary students. *Statistics Canada*.

⁸ Government of British Columbia (2017). *BC StudentAid policy manual 2016-2017*