

Student Loan Designation

Background

Designation is the process by which post-secondary education institutions are deemed eligible for certain government programs and funding. Currently, the provinces are responsible for the designation of post-secondary educational institutions. Applicable funding can take the following forms:

1. Federal and provincial student loans;
2. Canada Education Savings Grants and Registered Education Savings Plans;
3. Millennium Scholarships;
4. Canada Study Grants;
5. Education and tuition fee tax credits;
6. Loans and grants through the Employment Insurance program; and
7. Aboriginal student grants.

In March 2003 the Intergovernmental Consultative Committee on Student Financial Assistance introduced a designation policy framework. It is intended to “guide jurisdictions in the development of their designation policies”. All of the provinces agreed to implement a designation policy that will “manage” the “financial risk” associated with student loans. Institutions that fail to meet guidelines within the framework run the risk of losing student loan designation. The framework was officially implemented in November 2004.

As the federal government negotiates new student loan agreements with each province in order to integrate federal and provincial loans (“harmonisation”), designation policies will be a part of any new agreements.

The Wrong Approach

Designation policies are rooted in the notion that low quality programs or institutions produce unqualified graduates who in turn cannot find employment to pay back their student loans. By choking off access to “low quality” programs by making student loans unavailable, governments hope to pressure institutions to respond by increasing quality and post-graduate employment strategies. Yet, this logic ignores the fundamental causes of student loan default and the government’s role in exacerbating the problem.

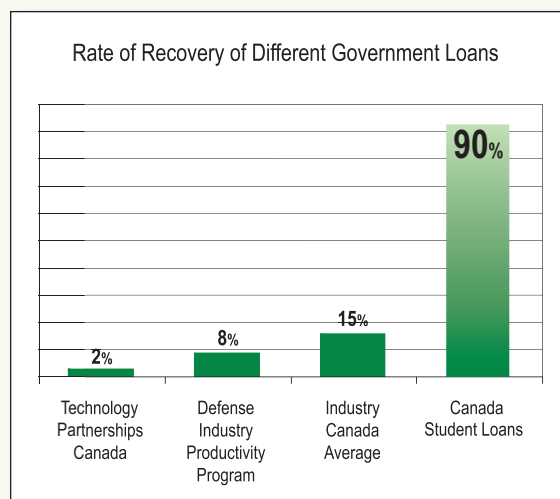
Between 1995 and 2005, the federal government cut nearly \$7 billion from transfers to the provinces for post-secondary education and training. As a direct result, tuition fees have more than doubled, causing student debt to climb to

unprecedented levels. Graduates of public universities and colleges who are unable to make monthly payments are in this position because of a mortgage-sized debt and an unstable job market, not because their education was of low quality.

If the federal government is truly committed to equality and student success, it would restore funding to public post-secondary education in ways that lower tuition fees and reduce student debt.

A Short-Sighted Policy

In recent years, the federal government and most provinces have introduced several policies that ignore the role of post-secondary education in mitigating the effects of socio-economic inequality in Canada. Student loan designation—as with the ten-year bankruptcy prohibition and credit checks for Canada Student Loans—treats public investments in education like private investments in stock markets. The broader social value of public education cannot simply be measured by examining statistics about the most indebted graduates.



In fact, much of the statistical information upon which banks and service providers rely is deeply flawed. The complexity of repayment combined with the notorious service errors of lending institutions leads to default data that are unreliable. Furthermore, “default” rarely means that a loan does not get repaid, but simply that payments are missed. The vast majority of students eventually repay their loans: the rate of

“Sham College Run Without Teachers: Instructors at Toronto vocational school absent for weeks at a time, ex-student says”

Globe & Mail headline, September 6, 2003

\$208 Million

Level of public subsidy to private career colleges each year in student loans

“Concerns were expressed about [...] the debt loads of students as a result of high tuition fees, [and] what was seen as low standards for admission to many programs,”

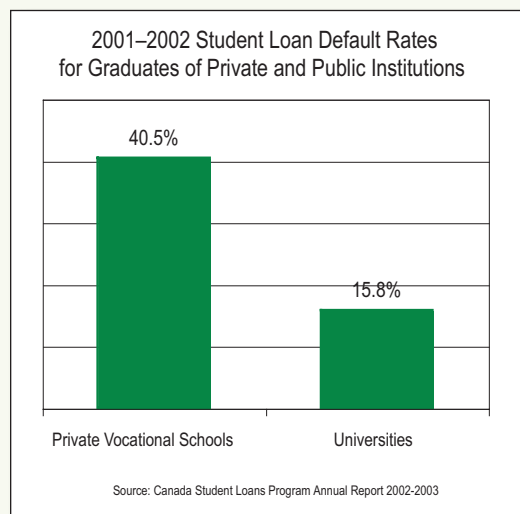
The Warren Report, Government of Newfoundland and Labrador, 1999

repayment for student loans exceeds 90%. This financial reality is not considered in designation data.

The obsession with student loan default rates is even more unreasonable given the standards in other government departments. Industry Canada corporate loans have a 15% repayment rate.¹

Holding Private, For-Profit Institutions Accountable

The student loan default rate at private institutions is approximately four times higher than that of public universities. De-designation is currently used in some jurisdictions to prevent millions of dollars of public funds from being used to support programs that do more to generate profit than provide skills training.



In Ontario, a designation policy is in place that details the type of information and support that private institutions must give to students using financial assistance and requires institutions to meet certain tests of financial stability. In 1997, a policy of institutional accountability for student loan defaults was introduced so that private educational institutions ensure that loan defaults among their graduates do not exceed specified targets. Schools at which defaults exceed these targets must pay a portion of the costs incurred from these defaults.

It has become clear in discussions with federal government officials that the primary target of

the designation policy framework is the fly-by-night, for-profit education industry. The industry currently collects a \$208-million public subsidy in the form of Canada Student Loans every year. These “career colleges” frequently go bankrupt and leave their students in limbo with no qualifications and no compensation.

Given the poor record of private institutions in Canada, the massive public subsidy to this industry is in dire need of review. Yet, if the primary goal of a designation policy is to curb the flow of public student loans to private colleges, its net is cast too wide. The answer to preventing profit-driven education shops from needlessly squandering public funds is to not subsidize them in the first place.

Conclusion

Rather than recognising the social and economic benefits of an educated workforce, de-designation policies treat those in need of financial assistance with suspicion or even contempt. In the words of Intergovernmental Consultative Committee on Student Financial Assistance’s designation framework, designation will give provinces the assurance that “taxpayers will receive the appropriate return on their education investment”.

Accountability in the public post-secondary education system is accomplished through legislation and discipline-wide reporting mechanisms. In-house structures like boards of governors and senates are other ways by which academic integrity is assured. Canada should restore funding to the provinces for post-secondary education in recognition of the fact that Canada’s public community colleges are well positioned to offer high-quality education to those seeking a trade or skills development. In order to best promote the quality and integrity of post-secondary education in Canada, the federal government must act to restrict the for-profit private sale of education credentials.

Endnotes

1. Canadian Taxpayer Federation, “Lies My Government Continues to Tell Me” January 2002.