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# Parent Loan Forgiveness

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## What you need to know before applying for student loan

By Carmen Chai

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Getting into university is tough, but the financial aid process is, arguably, tougher. Student loans, grants, bursaries and scholarships are essential for most Canadians going to school, and the process for getting any kind of funds is complicated if you don't know some basic information going into it.

"The history of most of these agencies is that they were created to help lower income students get an education and to help cover the user fees they'll have to pay up front," says Adam Awad, a Canadian Federation of Students researcher. "But it's more complicated than it should be."

### What you need to gather before you apply

Two separate agencies run student loans in Canada and make up every student's integrated loan: individual provinces and the federal government.

For the most part, these agencies are looking for your personal income, your household income (including your parents' wages), your savings and investments (including any TFSAs, RESPs and RRSPs), and other assets (such as a car).

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When putting together your loan, you'll even need to differentiate between your pre-study income -- how much money you're making in the summer, for example -- and your income during the school year.

Then you must calculate all the costs you'll accrue during the school year, such as tuition, rent, textbooks, transportation and groceries.

### Be aware of income qualifications

It's critical to pay attention to earnings limits that could disqualify you for loans, grants and bursaries, according to Mike Gomes, a certified financial planner at Toronto-based Ironshield.

For instance, if you work two jobs during the summer and pick up extra hours during the school year, you could be losing out on financial aid because you're earning too much.

"There are so many variables that can impact what you would qualify for in terms of loans and grants," Gomes says. "These income thresholds can make or break your application."

All provinces factor in your income and your parents' income (except for Alberta where you can apply for loans without as many stipulations). But income can be misleading as an indicator of your financial need. Your parents' income, for example, isn't necessarily an accurate portrayal of how much financial assistance you'll be receiving from them, if any, Awad notes.

"That happens all the time," he says. "The biggest squeeze that we see, especially with tuition fees, comes from middle- and upper-income families who cannot access these loans because they don't qualify due to income thresholds."

There are a couple of exemptions to the thresholds. If you're holding onto retirement savings, you're allowed an exemption of up to \$2,000 for each year that you're over the age of 18.

In addition, the federal government is exempting motor vehicles from its assessments says John Boylan, president of the Canadian Association of Student Financial Aid Administrators (CASFAA), which advocates on behalf of students to help remove financial aid barriers. The reasoning goes that a student's car may be a necessity to get to work, school or to look after family needs, so it should not be counted as an asset that could be liquidated to pay for tuition.

### What to keep in mind upon and after application

Students heading into college or university are typically only 17 or 18 years old in Canada. They need to think carefully before





signing any documents, Awad says.

For starters, you should understand if you're agreeing to a loan you'll have to pay back or a grant, which is essentially a gift. The semantics can be confusing as government loan programs are touted as opportunities to go back to school with financial help.

Understand when you'll need to start making payments, when interest kicks in and what happens if you can't keep up with your payments.

The Ontario Student Assistance Program (OSAP), for example, offers a six-month grace period, but the federal portion of your loan starts accumulating interest once you graduate or cease classes. Students with loans out of Newfoundland, Manitoba, Nova Scotia and Prince Edward Island don't have to deal with interest at all -- they just have to pay back the principle.

Finally, if you default on your loans, the federal portion ends up in the hands of the Canada Revenue Agency, while the provincial half could be sold off to a private debt collector. It's your responsibility to look after both portions.

#### **Common student loan mistakes**

The CASFAA is zeroing in on three concerns: the widening gap between students' needs and available government assistance; the complex nature of the student loan delivery program, which leaves some students "lost" in the system or with accessibility issues; and, finally, a lack of financial literacy, Boylan says.

The biggest misconception students have is that they think a loan is meant to cover their entire year of education. "It's a misunderstanding that the student doesn't realize," Boylan says. "Financial aid is a supplemental program."

Another common setback, according to Boylan, is starting your application process too late. If you're shopping for an entrance scholarship or bursary, you should begin researching in grade 10, he suggests. When it comes to loans, you can prepare early by making sure you're not exceeding earning limits at summer jobs. This is especially important the summer before you start university.

Finally, it may be tempting to accept a bigger loan than you need if you've qualified for it, but that's a mistake. "Don't start using [student loans] for other purposes and adding ... debt you don't need and will need to pay back later down the road," he says. "You'll be dealing with the aftermath in paying off student loans during exciting milestones in your life like getting your first job or moving into your first home."

**See related:** [What happens if you default on your student loan?](#), [Get a diploma, avoid the debt](#)

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