

INCOME CONTINGENT REPAYMENT SCHEMES AND THE CANADIAN STUDENT LOANS PROGRAM

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Abstract

The goal of this paper is to propose a change to the current Canadian policy regarding student loans. The proposition is to shift from a mortgage-style loan system currently in place to an income-contingent loan scheme. It will consider the adverse selection effects of tuition fees and student debt using various scenario based examples. The goal of this paper is to convince readers that loan repayments based on income for student loans is an improvement to the current system. Section I will discuss the need for reform; Section II will provide a background of the current literature on income contingent loans; Section III will deal with the impact on students and discuss adverse selection; Section IV discusses the impact on the government (as lender) and taxpayers in general; Section V highlights some common concerns with income-contingent loan schemes; Section VI will discuss briefly the experience in Australia; Section VII will outline a potential program's design using examples; and Section VIII will provide conclusions based on the results of simulation.