

Progress Report to the Standing Committee on Public Accounts: Informing Credit Bureaus of Student Debts in Default

REQUEST

The House of Commons Standing Committee on Public Accounts (PACP) has requested a status update to Recommendation 3 of the PACP Report 6 (43rd Parliament, 2nd Sessions) regarding informing credit bureaus of student debts in default. This status update is a follow-up to the May 31, 2022, October 19, 2022, and January 31, 2023, letters from the Minister of Employment and Social Development Canada (ESDC) to the Chair of the Standing Committee on Public Accounts.

CONTEXT

In February 2021, the Standing Committee on Public Accounts produced a report on Student Financial Assistance, which included the following recommendation:

“Recommendation 3 – on informing credit bureaus: ESDC should provide the Committee with a report outlining its progress on informing credit bureaus about student debts in default. A final report should also be provided.”

This recommendation stems from the Committee’s study of the Office of the Auditor General of Canada (OAG)’s Spring 2020 report on Student Financial Assistance, which included the same recommendation.

On May 31, 2021, the Honourable Carla Qualtrough, former Minister of Employment, Workforce Development and Disability Inclusion, provided a written response further to the request for a progress report to the Committee. With respect to the recommendation related to credit bureaus (Recommendation 3), the response indicated that ESDC would provide an interim progress report and a final report on how ESDC is informing credit bureaus about student debts in default.

At the time of the OAG audit, ESDC was in the middle of replacing its accounts receivable system with a new Public Sector Collection and Disbursement (PSCD) system, which has now been completed. It was expected that the new system with enhanced accounts receivable and collection functionality would make it easier for ESDC to implement a process to report student loans in collections to credit bureaus.

As part of this work, ESDC reviewed the current credit bureau reporting process that the Service Provider undertakes on the Program’s behalf. This analysis confirmed that the Service Provider reports the status of all loans (in-study, repaying, or up to 270 days in arrears) to the Credit Bureaus on a monthly basis; the negative remarks remain on the borrowers’ credit report for six years.

When a loan is in arrears for over 270 days, it is considered in default and transferred from the Service Provider to the Canada Revenue Agency (CRA) to begin collection activities; and monthly credit bureau reporting ceases.

While the OAG recommendation was intended to act as an incentive to repay if the Government continued to report students who were in default to credit bureaus, ESDC has concluded that the costs and the risks of implementing it outweigh the benefits, which are uncertain and likely to be small. First, as per legislation, CRA can only collect for up to six years since the last acknowledgement of the debt by the borrower, after which the loan is written-off. Second, CRA already has a number of effective tools at their disposal to collect loans, such as, income tax set-off and garnishment of wages upon receiving judgment against the borrower. Finally, if the department were to proceed, it would be at the expense of other higher priority projects (such as Old Age Security under Business Delivery Modernization) with a direct impact on service to Canadians.

Given the above, ESDC will not be adding the functionality to its PSCD system to report monthly to the credit bureaus on student loans in default that are with the CRA for collection.

PROGRESS REPORT

In response to the OAG and PACP recommendations, ESDC launched the Credit Bureau Reporting Project to implement the new credit bureau reporting process. To date, a dedicated project team has advanced this work, along with key internal and external stakeholders, including the two major credit bureaus, Equifax Canada and TransUnion Canada.

ESDC recognizes the importance of improving student borrower responsibility and the repayment and collection of loans, by prompting borrowers who are able to repay their loans to be more diligent about repayment. Through the National Student Loans Service Center, student loans in repayment are reported to credit bureaus on a monthly basis and remain on the borrower's credit record for approximately six years. However, should a borrower default on their loan payments, their loan is transferred to the CRA for collections, at which point monthly credit bureau reporting stops. That said, a negative remark from a delinquent student loan will remain on the borrower's credit record for six years.

Over the past year, the Department has completed a number of key steps to implement the OAG recommendation.

Establish Information-Sharing Agreements with Credit Bureaus

An agreement-in-principle was reached with Equifax Canada to establish an information-sharing agreement (ISA). Further discussions would be required to reach a

similar agreement with TransUnion Canada. The ISAs would have helped to ensure a more consistent approach to information sharing throughout the lifecycle of a Canada Student Loan, including compatibility with existing federal and provincial legislations.

Completion of Project Business Requirements

As part of the ESDC's efforts to implement the initiative, the Department completed the development of business requirements to incorporate the reporting functionality in a future PSCD system release.

An analysis was undertaken, in consultation with stakeholders, to determine if the business requirements align with ESDC's business processes and operations. The result of the analysis indicated that, while the solution could support the implementation of credit bureau reporting, the project was more complex and would require significantly more work than originally anticipated.

Competing Priorities

ESDC currently has multiple information technology projects underway with overlapping timelines and resources, affecting bandwidth across teams. Examples of some of the key priority projects include development work and testing to support Old Age Security on Benefits Delivery Modernization (BDM); planning and requirements definition for Employment Insurance on BDM; upgrade of our financial system to S4/HANA in line with Office of the Controller General of Canada direction; and Innovation activities (Robotic Process Automation, other enhancements) to generate efficiencies within the Branch/Department. Work on each of these priorities requires changes to the same system – and use of the same experts – as the work required to implement credit bureau reporting. Based on the current PSCD release schedule, if the Department decided to continue to pursue the credit bureau reporting project, implementation would be delayed for multiple years, given the need to deliver critical benefits to Canadians associated with other higher priority projects.

Uncertain and Limited Benefits of Additional Credit Bureau Reporting

While ESDC agreed with the OAG recommendation, it was also noted in the Department's response that the Canada Student Financial Assistance Program Service Provider currently reports regularly to credit bureaus on loans they administer. This reporting is done before an account is in default and transferred to the CRA and remains on the borrower's credit record for 6 years. Keeping in mind that, as per legislation, loans are written off (and collection actions stopped) after six years of lack of acknowledgement by the borrower, all borrowers in default have already had a negative remark on their credit record from the Service Provider. In addition, for borrowers in default, CRA's Refund Set-Off program has proven to be an effective recovery tool used to collect loans where an individual's tax refund and certain federal, provincial, and territorial tax credits are applied against debts owed to the Crown. CRA also has the

option to seek legal judgments against borrowers in default, which enables CRA to take additional collection measures, such as garnishing wages. While there may be some residual benefits from further reporting after the accounts have been transferred to the CRA, the anticipated benefit is uncertain and would likely be small.

Conclusion

ESDC will not be moving forward with recommendation 3, given the anticipated benefit is small and the need to focus on higher priority projects.