

Student Loans **vs. Student Line** **of Credit**

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FEDERAL AND PROVINCIAL STUDENT LOANS

LINE OF CREDIT FROM A FINANCIAL INSTITUTION

Provider

A government loan is funding provided by the government (provincial and/or federal) to students pursuing post-secondary education and who are in financial need.

A student line of credit is a loan provided by a financial institution to students pursuing post-secondary education and who are in financial need.

Overview

Loans are provided while the student is attending school and must be paid back with interest after the student graduates. Financial need is the main factor when determining loan amounts.

While in school, students are responsible for making interest-only payments and the line of credit must be paid back with interest after the student graduates. The parent(s) or guardians' income is the major consideration in determining loan amounts.

Payments

The government loan requires no payments while the student is in school. The student may qualify to delay the repayment depending on their financial situation.

The line of credit is a little more flexible. The student can borrow only what they need and make repayments in any amount of time.

Signing

The student automatically needs to put in their parents' information in order to fill out the application.

If the student does not qualify on their own, they will need a co-signer (usually a parent or guardian) who becomes responsible for the outstanding balance if they cannot make the payments.

Interest

The student can apply for debt repayment assistance each year. If they qualify, the government pays the interest portion of their student loan or defers their payments.

The student is expected to pay back the interest only on a monthly basis while they are still enrolled in school. Once the student has graduated, or if they leave school, they are entitled to a 6- to 12-month grace period where they continue to only pay the interest. Always read the fine print and make sure the student is aware of the repayment terms and expectations.

Amounts

Repayment assistance is based on income level and must be applied for each year.

The amount the student receives depends on how much money they apply for.

Tax

Interest paid on a government loan generates an income tax credit.

Interest is paid on a student line of credit while the student has it and does not generate a taxable credit.

After School

The student has a six-month grace period to begin paying on their student loans after graduation or after they leave school. Once this six-month grace period begins, the student will start to accumulate interest on their remaining balance.

The student begins paying their student line of credit immediately, starting with only the interest rates and then moving towards a larger monthly payment.

Telling the difference between a student loan and a student line of credit is no easy task. The major differentiators are how the qualification process works, how interest is paid, and the fact that you have to pay the money back only a few months after you graduate.

QUALIFICATION

Cady from *Mean Girls* said “the limit does not exist”. If she was referring to qualifying for student loans, she was totally off base. When it comes to a government student loan, prime candidates are students whose parents have lower-than-average income, meaning that the limit is determined based on the students’ financial need. So, the higher your parents’ income, the less you will be approved for. More often than not, we see students who use a student line of credit as a secondary form of student-borrowing or emergency fund because their parents earn too much money and they are unable to qualify for the maximum student loan amount.

INTEREST

Interest is more than that feeling you get when your new classmates ask you to go to a theme night on campus. On a student loan, you don’t have to pay interest until you receive your degree or diploma. With a student line of credit, interest is applied immediately and the student (or co-signer) is required to make (fairly small) monthly interest payments while attending school.

REPAYMENT

Now the part that makes it real—paying it back. Both student loans and student lines of credit have a grace period for repayment. With a bank loan, students are required to make the minimum payment after a 6- to 12-month grace period and have a requirement to have it paid off within a certain time frame, meaning that a student line of credit can offer a little less flexibility.

If you would like to know more about student loans or lines of credit, contact your local credit union to see which option makes the most sense for you.