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Student Lines of Credit and Loans: What's the Difference?

There are so many financial aid options for students that it can get confusing and overwhelming. Some of the **most popular forms of financial aid** are **student lines of credit and loans**. So, which one is best for you? Read on to **get info on both forms of financial aid**. [ScholarshipsCanada.com](https://www.scholarshipscanada.com) has even more advice on financial aid and scholarships!



Student Lines of Credit

A student line of credit is a product offered by financial institutions to help students like you pay for expenses related to their post-secondary education. These lines of credit are a type of loan that lets you borrow money up to a pre-set limit depending on the bank.

Benefits of a Student Line of Credit

1. Lower interest rates

These interest rates are usually based on each bank's prime rate, but some can be individually-based. These rates can be calculated based on your degree, program, employment, and other factors.

2. Interest-only payment plans catered directly for students

While you're attending school and during the grace period, you'll make monthly, interest-only payments.

3. Grace periods

Make interest-only payments during this time after your graduation. These grace periods can range from **six months to two years**.

4. Manageable monthly payment plans

These plans are created by both you and the bank after your grace period is over and you must begin repaying the initial amount borrowed.

5. Simple sign-up process

You need to submit a government-issued photo ID as proof of Canadian citizenship/permanent residency, proof that you're a student at your school, and possibly someone to be your co-signer if your credit history is limited.

6. You're **only charged interest on the amount that you borrow**

For example, if you have a \$10,000 line of credit in your first year and you only spend \$3,000 of it, then you're only charged interest on the \$3,000.

7. Increase your credit score

Your student line of credit can boost your credit score and benefit you in the future if you make your payments on time.

Possible Disadvantages of a Student Line of Credit

1. Possible need for a co-signer (usually your parents)

If you don't have a stable income then you'll need your parents to be a co-signer on your line of credit.

2. Making payments while in school

If you're not planning on working during school, this may not be the best option for you.

Student Line of Credit Options for Undergraduates from 5 Major Canadian Banks

BMO's Student Line of Credit offers students \$15,000 in their first year, and \$10,000 in each remaining year, for up to a maximum of \$45,000 in four years. The interest rate is calculated on an individual basis. There is a grace period of two years.

CIBC's Education Line of Credit offers a range of credit as low as \$5,000 and up to \$60,000 with their interest rate calculated using the CIBC Prime Rate. They offer a grace period of 12 months.

RBC's Student Line of Credit offers a range of credit limits based on your program of study. These limits start at \$5,000 with an interest rate of RBC's Prime Rate + 1.00%. They offer a grace period of two years.

Scotiabank's Personal Line of Credit for Students offers full-time students a range of credit from \$1,000 to \$15,000 per year with a maximum credit limit of \$40,000. Their interest rate is calculated on an individual basis and they offer a 12 month grace period.

TD Bank's Student Line of Credit for full-time students offers \$20,000 per year with a maximum of \$80,000 over four years. Their interest rate is TD's Prime Rate + 1.00% and they offer a two year grace period.

Student Loans

A student loan is **financial aid provided by the government** (provincial and/or federal) for students pursuing post-secondary education.

Benefits of a Student Loan

1. **Amount of the loan is calculated based on several factors:**

Your province/territory of residence, your family income, if you have dependents, your tuition fees and living expenses, and if you have a disability. However, the main factor when determining loan amounts is **your financial need**.

2. [Financial assistance estimator](#)

For students who want to have a better idea of the amount they could receive before applying for the loan.

3. **Repayment plan**

You do not make any payments for your student loan until after graduation.

4. [Repayment assistance plan](#)

For students who are having difficulty or are unable to make their payments.

5. **A six-month grace period**

You do not have to make payments until six months after you finish your final school term, reduce from full-time to part-time studies, leave school or take time off school. After this grace period you'll be sent a package detailing your repayment options.

6. **Choose your interest rate option**

A **floating interest rate** is Canada's prime rate, which is calculated using the rates from five of the largest Canadian banks. This option means that your interest rate can fluctuate up or down depending on the other banks.

A **fixed interest rate** is Canada's prime rate + 2%. Although this option is more expensive, you do get the stability of paying the same rate.

7. **No co-signers required**

When applying for a student loan, you'll need the following documents: a government-issued photo ID, a social security number, proof that you're a student at your school, completed tax return documents, and employment and income verification.



Possible Disadvantages of a Student Loan

1. **Must pay back the entire amount received**, even if you did not spend it all.
2. **If your parents' income is above average, you may receive less money**

Lines of Credit vs. Student Loans: **Direct Comparison**

	Student Line of Credit	Student Loan
Pros	<ul style="list-style-type: none"> ● Low interest rates customized for students ● Interest-only payments while in school and during grace period ● Longer grace periods ● You only owe what you spend ● Boosts your credit score if payments are made on time ● Can get more money than a student loan 	<ul style="list-style-type: none"> ● Don't have to make payments until after six-month grace period ● Don't need a co-signer ● Can choose interest rate option ● Repayment Assistance Plan ● Amount loaned is largely based on financial need
Cons	<ul style="list-style-type: none"> ● May need a co-signer ● Have to make interest payments while in school 	<ul style="list-style-type: none"> ● Parents' income affects loan amount ● Have to repay entire loan amount and interest

Overall, there is no one better option between a student line of credit and a student loan. Each option provides both positives and negatives, but ultimately, the choice will depend on **what works best for you**. You're also not limited to one or the other. You can have both if you qualify!

Best of luck in your quest for financial aid this year!



As of April 1, 2021, the Canadian government has decided not to charge interest on student loans. This will be in effect until March 31, 2023.