

Student Line of Credit

What is a student line of credit?

A student line of credit (LOC) is a source of funding extended to an individual by a bank or financial institution. We generally see Canadian medical students hold a student line of credit with one of the big Canadian banks (Canada's "Big Five" include Royal Bank of Canada, Toronto-Dominion Bank, Scotiabank, Bank of Montreal, Canadian Imperial Bank of Commerce). These LOCs can provide students with around \$300,000 during their medical schooling and through the completion of their residency. However, it is important to understand the terms and conditions of your LOC, while they may have the same name, they may be different. Some questions you may want to ask are: when are you required to start making payments? Will you have a grace period on payments when you start practice?

Interest is charged monthly, only on the amount drawn from the LOC similarly to an interest payment on an outstanding credit card balance, but at a much lower interest rate (near-prime versus 15+%). Should the student not pay the loan/interest back at the end of the month, these amounts can be "capitalized", which means the LOC is further drawn down by the amount of accrued interest (that is to say, using your LOC to pay interest on your LOC).

For example, if a student is extended a \$275,000 (3.70% interest rate) line of credit by the Bank of Montreal (this means the student has simply signed up for the LOC by opening an account, signing a few documents, and passing a credit check), but leaves it untouched, he or she pays no interest and can close the LOC at any time at no charge. If the student takes out \$1,000 for cover tuition, he or she will be charged approximately \$37 (= \$1,000 x 3.70% interest) as interest should the \$1,000 not be paid back by the end of the year.

While lines of credit are generally "secured" or "collateralized" by an asset (think of a bank foreclosing on a home if the owners fail to make mortgage payments), Canadian medical students are in a particularly fortunate situation: banks choose to extend lines of credit based on the certainty that we will be able to pay back whatever we borrow once we enter the job market as practising doctors. In general, that means that you can open a LOC without any proof of income or parental co-signer, and all that is typically required is proof of enrolment. Situations such as a bad credit may still require you to have a co-signor on the LOC.

Why would a medical student need to consider opening a line of credit?

Given how time-consuming medical training is, it is not uncommon for medical students to not have time to work a part-time job in order to sustain themselves financially. For obvious reasons, financial instability can have devastating effects on students, especially during the trying times of their medical education. For this reason, medical students commonly stay afloat financially using lines of credit.

What are the steps I should take if I am considering opening a line of credit?

Shop around! Banks are in the business of managing risk, so they prefer to lend their money to low-risk borrowers, which means all the banks will be vying for your business once you decide to open a line of credit. With that in mind, it is important to speak to representatives from all the banks, to make sure you are getting the best deal. This might mean a particularly low interest rate (which is always quoted relative to the "prime rate", currently 3.95% in Canada), a free iPad or attractive repayment terms. For further advice, speak to upper year students who have recently gone through the same decision-making process as you are. You may consider speaking to members of your local medical students' society, and your medical school's student affairs office.