

Articles Program



Repaying your student loan

Congratulations — you have graduated from university. However, your excitement about graduating may quickly be tempered by the realization that you must soon begin to repay sizeable student loans.

“A student loan is not free money; you have to repay it,” says Chartered Accountant Joel Podbere, Senior Manager, Assurance & Advisory, with Soberman LLP in Toronto. Here are some tips from Podbere on repaying your student loan.

Understand the repayment rules – “It’s time to start repaying your loan when you have graduated from your studies, have transferred to part-time studies, have dropped your studies altogether, are taking time off school for more than six months, or have reached your lifetime limit for financial assistance,” says Podbere. “You are given a grace period for the first six months after graduating before you are required to make any loan payments.” If you have an Ontario Student Assistance Program (OSAP) loan, no interest will be added to the Ontario portion of your student loan during this grace period. However, if all or some of your student loan was funded through the Canada Student Loan Program, interest on the federal portion will start to accrue during this six-month period.

Contact the National Student Loans Service Centre – “You must contact the National Student Loans Service Centre (NSLSC) or your lender within the first six months after you leave school to ensure that all your repayment arrangements have been made,” explains Podbere. The NSLSC will send you a Consolidation Agreement, which tells you how much you owe, your expected monthly payment and the interest rate. You must sign and return a copy of the Consolidation Agreement.

As of your consolidation date, the amount of interest that accrued on your loans during the grace period is calculated and you can either pay the interest or add it to your loan principal. If you choose to add it to your loan principal, your monthly payment amount is adjusted accordingly. If you choose to pay the grace period interest, you may be eligible for a tax credit when you file your tax return in the following year.

Repayment assistance is available – “Under the Repayment Assistance Plan, you make affordable payments based on your family income and family size,” says Podbere. “The affordable payment increases gradually with your income and can’t exceed a maximum of 20 per cent.” Borrowers with very low income are not required to make any payments until their income increases. “The plan also guarantees that if you keep your loan in good standing, your loan will be paid off over a maximum of 15 years and over a maximum of 10 years for borrowers with permanent disabilities,” Podbere explains. “If you are having difficulty repaying your student loan, it is important to sit down with a loan officer and work something out.”

Manage your money – “Establishing a budget will tell you how much you spend on a monthly basis and help you manage your student loan repayment,” says Podbere. “In addition to repaying your student loan, make sure you put aside money for other priorities, such as your emergency fund, a down payment on a house or your Registered Retirement Savings Plan (RRSP) or Tax Free Savings Account (TFSA).”

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