



This document is the result of a collaborative effort of students, alumni and the financial aid office at the Faculty of Law.

The material is intended to be a starting point for students who are exploring how to manage the financial dimensions of a legal education and the early stages of a legal career.

While efforts have been taken to ensure the accuracy of this information, we do not assume any responsibility. It is provided at no charge and as-is. If you do identify inaccuracies, please report them to financialaid.law@utoronto.ca for correction.

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GLOSSARY

Amortization Period

The amortization period is the fixed period during which you pay back your debt.

Credit Rating

A credit rating is a score used by lenders to determine your creditworthiness. It is based on your previous borrowing history.

For more info: <http://www.cbc.ca/news/canada/how-to-check-your-credit-report-1.1185975>

Interest Rate

This is the cost of borrowing money. Interest is charged as a percentage of the amount you have borrowed and is charged monthly.

Line of Credit

A line of credit is a loan arrangement which allows you to borrow up to a fixed amount of money. Lines of credit generally have lower interest rates than other forms of debt such as credit cards.

National Student Loans Service Centre (NSLSC)

Once you graduate, this is where you can check your student loan balance and where you will repay your government loans, regardless of the province or territory they came from.

Ontario Student Assistance Program (OSAP)

This is the Ontario government's financial aid program which consists of grants and interest free loans while you are a student. Each province administers its own system. If you are a resident of BC for example, you would apply through Student Aid BC.

Ontario Student Opportunity Grant (OSOG)

OSAP recipients may be eligible to receive grants after graduation to reduce the amount of their OSAP loans. Beginning in 2017, the post-graduation OSOG grants have been eliminated and the grants will be received upfront when students receive OSAP funding.

Prime Interest Rate

This is the interest rate used by banks to determine the cost of borrowing. It is used as an index rate for other interest rates. The rate of interest on lines of credit with the law school's preferred lenders (Scotiabank and TD Bank) is prime. The prime rate of interest can change. The most up-to-date rate is posted here: <http://www.bankofcanada.ca/rates/daily-digest/>

FREQUENTLY ASKED QUESTIONS (FAQ)

MANAGING MY MONEY

How should I budget for law school?

Here are some basic tips:

- Make a budget and break down realistic spending categories by detailing what is expected to happen during the school year.
- Develop a detailed spending plan. Figure out how much you expect to spend on rent, utilities, food, entertainment, travel expenses and textbooks.
- Track how much you are spending each month on each category of expenses.
- Revisit your budget and compare what you have actually spent with the budgeted amounts.

How should I budget once I graduate and am earning an income?

Very simply, your monthly expenses should not exceed your monthly after-tax income. You should plan for your debt repayment and understand how increasing payments will speed up your overall debt repayment and reduce interest costs (discussed below).

Apps for tracking spending

- <http://www.tomsguide.com/us/pictures-story/548-best-budget-expense-apps.html#s6>
- <https://www.dailyworth.com/best-budgeting-apps-and-spending-trackers>

For budget templates

- <https://www.mint.com/budgeting-3/student-budget-template-simple-tips-for-students>
- <http://www.mymoneycoach.ca/budgeting/budgeting-calculators-tools/budgeting-spreadsheet>

Other resources to help manage your money

- <https://www.youtube.com/watch?v=3joPGr2gWBo&feature=youtu.be>
- <http://thefinancialdiet.com/>
- <http://www.theglobeandmail.com/globe-investor/personal-finance/genymoney/globe-student-money-hub/article20986147/>
- <https://www.cba.org/Publications-Resources/CBA-Practice-Link/Young-Lawyers/2016/debt>
- https://www.oba.org/JUST/Archives_List/2016/August-2016/SchoolDebt
- <https://www.canada.ca/en/employment-social-development/services/student-financial-aid/student-loan/student-loans/pay-back/manage-debt.html>
- <http://www.gailvazoxlade.com/articles.html>

BORROWING TO PAY FOR LAW SCHOOL

How does the law school's financial aid program work?

- The Faculty of Law's financial aid program is need-based and designed to ensure that the students with the most demonstrated financial need receive the highest level of financial support.
- You are expected to access all income sources available to you to fund your law school education, *e.g.* personal assets and summer savings, parental and spousal contributions, government student loans, grants and external scholarships. If there is a shortfall between your resources and the cost of attending law school, you should consider applying for financial aid. The financial aid program provides a combination of bursaries and interest-free loans.
- If your parents have a relatively high income, you may not be eligible for Faculty support regardless of whether or not they give you financial support. This is because we use parental income as a proxy to help determine a student's need relative to their classmates in the financial aid program.
- You can borrow \$50,000 per year up to \$150,000 over 3 years at prime with our preferred lenders Scotiabank and TD bank. The law school negotiated an interest rate of prime for these lines of credit. Even if you are not applying for financial assistance from the Faculty or government loans, you still have access to these special lines of credit from our preferred lenders
- Link to financial aid program policy:
https://www.law.utoronto.ca/sites/default/files/documents/financial_aid/jd_finaid_booklet_2019-2020_v1.0.pdf

Will I be eligible for government financial aid?

The formula used by individual provinces to determine financial need by is different from the formula used by the Faculty of Law. It is important to note that for government financial aid, you will be considered independent of your parents' financial resources if you have been out of high school for more than 4 years (this is different from the Faculty of Law's policy). This means that students who do not qualify for financial aid through the Faculty should still consider applying for government financial aid.

You should apply through the province or territory you are a resident of (generally the province you were born in or the province you spent 12 continuous months in while not attending post-secondary education).

For more information, please visit your respective province/territory's financial aid website at <https://www.canada.ca/en/employment-social-development/services/student-financial-aid/provincial-offices.html>

For an estimate of how much aid you would receive from OSAP see <https://www.ontario.ca/page/osap-ontario-student-assistance-program>

What do the recent (2017) changes to the OSAP program mean?

Starting in the 2017-2018 academic, there will be one single upfront grant available to students, the Ontario Student Grant. Students will receive the same grant amount, but now students receive it upfront instead of after graduation.

The Ontario Student Opportunity Grant (OSOG), which was received upon completing your education, will be discontinued. If you received this grant before 2017, it will be applied at graduation.

If you receive the maximum funding from OSAP then the following will be applicable:

GRANTS you don't pay	Ontario Grant	\$4,300
	Canada Grant	\$3,100
LOAN you pay back	OSAP Loan	\$7,500
TOTAL OSAP FUNDING		\$14,900

Does OSAP consider my line of credit?

Do they have access to this information?

Lines of credit have no bearing on an OSAP assessment, since the government does not have access to your bank loan information. However, your outstanding OSAP debt may have an impact on your eligibility to access a student line of credit.

TAX CONSIDERATIONS

What tax deductions are available and when can I claim them?

You can claim tax credits for tuition in the same year in which you paid your tuition. The unused amount of the tax credits can be carried forward to future years or transferred to a third party.

If you are a low-income student, you may not need to use the entire tax credit in a particular year if you don't owe taxes. Instead, you can transfer up to \$5,000 in tax credits to a partner, parent, or grandparent to help reduce their taxes. Any amount that you cannot use and cannot transfer can be carried forward and used in a year during which you do have to pay taxes.

There are also tax credits for moving expenses, and professional licensing fees.

What are the tax implications of articling being split across years?

Taxes are based on income earned in a calendar year. Therefore, your articling period will be split into two tax years.

How can tax deductions, government loan grants, bursaries, etc. impact the amount of tuition I end up paying?

2017-2018 Academic Year	Eligible for Faculty of Law financial aid	
	Yes	No, but eligible for OSAP
Tuition	\$34,986	\$34,986
CRA* tuition credit	-\$7,015	-\$7,015
OSAP grant	-\$7,351	-\$7,351
Average Faculty bursary & interest assistance	-\$10,760	\$0
Effective tuition	\$9,860	\$20,620

** CRA refers to the Canada Revenue Agency. Note: As a student you will likely not have sufficient income to receive these credits while in school. These credits can be deferred so once you start working and earning income they will offset the amount of taxes you will pay.*

Resources regarding taxes:

- The University of Toronto Students' Union has a free tax clinic to assist you need to file your return at <https://www.utsu.ca/tax-clinic/>
- The Canada Revenue Agency (CRA) has also compiled a resource of tax considerations for students available at <http://www.cra-arc.gc.ca/E/pub/tg/p105/p105-16e.pdf>
- To determine your rate of income tax at various levels of income use the following calculator at <http://www.ey.com/ca/en/services/tax/tax-calculators-2017-personal-tax>

BAR EXAMS AND ARTICLING

What happens if I run out of money after graduation before I start articling?

You can access your Scotiabank and TD bank lines of credit.

Will I still be able to access funds from my line of credit while I am articling?

Yes, if you have a line of credit from our preferred lenders Scotiabank and TD, you will still be able to borrow from your student line of credit while you are articling provided you have not yet reached the limit on your line of credit. Depending on your lender, they may also increase your borrowing limit while you are articling. However, you should note that 12 months after the articling period has finished you can no longer withdraw funds from your line of credit (the line of credit closes and becomes a loan in repayment), and you should plan accordingly.

Can I claim EI before or after articling?

If you are unemployed after articling, you may be eligible for employment insurance.

For more information, please consult with the government of Canada:

<https://www.canada.ca/en/services/benefits/ei.html>

Will I have to repay my student debt while I am articling?

Line of Credit

If you have a line of credit with one of the Faculty's preferred lenders (Scotiabank and TD), you will not be required to make payments until 12 months after you have finished articling, though interest will accrue during this 12 month period.

Even though you do not have to make payments on the principal during this period, if you are capable of doing so, you can reduce the length of time it will take to pay back your debt and the amount of interest you will have to pay.

Government Loans

For government loans, you will have 6 months after the end of your study period before you have to start making payments. Interest accrues during this time. For example, if you finish school in April 2018, your first payment will be in November 2018.

Government student loans not repaid by your line of credit have a monthly repayment obligation that will be indicated in the Consolidated Student Loan and Repayment form sent to you by the National Student Loans Services Centre (NSLSC) after your graduation (around mid-end of October).

Debt Repayment Timeline

Month	Event
April 2018	School ends
June 2018	Bar Exam
August 2018	Begin articling
November 2018	Begin making payments on OSAP
June 2019	Finish articling
June 2020	Begin making payments on LOC

PAYING BACK MY DEBT

How long will it take me to repay my debt?

The standard amortization term for most debt repayment is 10 years. If you are able to make more than the minimum payments, your debt will be paid off sooner and you will incur less interest costs.

Debt Repayment Scenarios

Student A

Has \$100,000 in debt. Interest rate is constant at 3.95% for the life of the loan, and makes the minimum monthly payment of \$1,010.08 each month.

Student B

Has \$100,000 in debt. Interest rate is constant at 3.95% for the life of the loan, and makes the minimum monthly payment of \$1,010.08 each month, and makes an additional payment of \$200 each month

Student C

Has \$100,000 in debt. Interest rate is constant at 3.95% for the life of the loan, and makes the minimum monthly payment of \$1,010.08 each month, and makes an additional payment of \$200 each month

Student	Time to Repay Debt	Total Interest Paid
A	10 years	\$20,965
B	8.2 years	\$19,265
C	6.3 years	\$14,195

Figures calculated with <http://www.youcandealwithit.com/borrowers/calculators-and-resources/calculators/debt-repayment-calculator.shtml>

Should I repay my OSAP or my line of credit first?

Should I use my line of credit to pay back my OSAP?

Generally, the interest rate on your line of credit will be lower than the interest rate on your loan from the government (3.95% vs 6.45%)*.

If you have additional debt capacity, you may want to use your line of credit to pay back your government loans so that you can benefit from the lower interest rate.

** These rates reflect the amounts at the time this resource was posted. The rates will vary over time. Please check current interest rates with your lender.*

Will I be eligible for OSOG if I repay OSAP with my line of credit?

OSOG is assessed 60 days after the end of your study period. You will be eligible for OSOG even if you have paid off your OSAP with your line of credit.

Starting in 2017-2018, OSOG no longer existed and your grant funding will be received in its entirety upfront.

When will I lose access to my line of credit?

Once the interest-only period of your line of credit ends, it is converted into a loan.

This means that 12 months after the end of articling, you can no longer borrow from your line of credit.

When should I start repaying my debt?

How flexible is repayment of my line of credit?

Although you don't have to start repaying your line of credit until 12 months after you finish articling, if you are capable of doing so you may want to consider making payments as soon as possible.

The earlier you start paying back your debt the less interest you will pay, and you will pay off your debt sooner. You may also want to consider making lump sum payments if you have access to additional cash (such as a tax refund or bonus).

Will I be able to afford to pay back my debt?

While this will vary greatly based on individual situations, you should be aware of the cost of repaying your debt load in comparison to your potential income. The following tables involve plausible hypothetical scenarios for illustrative purposes only.

Income			
Annual Pre-Tax Income	\$50,000.00	\$75,000.00	\$100,000.00
Annual After-Tax Income - Total	\$41,689.00	\$59,265.00	\$75,069.00
After-Tax Income - Monthly	\$3,474.08	\$4,938.75	\$6,255.75

		Annual Pre-Tax Income		
		\$50,000.00	\$75,000.00	\$100,000.00
Debt Load	Monthly Payment	Money left after debt repayment - monthly		
\$30,000.00	\$303.02	\$3,171.06	\$4,635.73	\$5,952.73
\$60,000.00	\$606.05	\$2,868.03	\$4,332.70	\$5,649.70
\$90,000.00	\$909.07	\$2,565.01	\$4,029.68	\$5,346.68

Notes

These illustrations show how much money you would have left after paying taxes and your debt payments. These figures assume a 10 year amortization (pay-back) period and a 3.95% rate of interest.

Income tax calculated with

<http://www.ey.com/ca/en/services/tax/tax-calculators-2017-personal-tax>

Debt Repayment Calculators

- <http://www.getsmarteraboutmoney.ca/tools-and-calculators/Student-debt-calculator/Student-debt-calculator.aspx#.WRDdUYkrLVo>
- <http://tools.canlearn.ca/cslgs-scpse/cln-cln/crp-lrc/af.nlindex-eng.do>

How much money should I allocate to repayment of debt?

A structured payment program can help control your debt. If your financial situation permits it, consider making more than the minimum payment as you will pay off your debt sooner and end up paying less interest. You can also set up automatic withdrawals with your bank.

There are many online resources available to help you plan your debt repayment:

- <http://my-alternate-life.com/my-debt-repayment-spreadsheet/>
- <https://www.thebalance.com/free-debt-reduction-spreadsheets-1294284>

Should I be investing or paying back my debt once I start earning income?

There are different points of view on this question. Some suggest that it is always best to prioritize debt repayment. Others believe that if your after-tax return on investment is greater than your after-tax cost of debt you should invest once you have made your minimum payment. It is always best to consult a financial adviser when making these types of decisions (see question on financial advisors).

For some helpful discussions/illustrations of the above issue please see:

- https://www.thestar.com/business/personal_finance/2013/05/26/a_graduates_52000_student_loan_repayment_dilemma.html
- <http://www.theglobeandmail.com/globe-investor/personal-finance/genymoney/choosing-between-repaying-student-loans-and-saving-for-a-down-payment/article29618599/>
- <http://getsmarteraboutmoney.ca/en/managing-your-money/planning/managing-debt/Pages/video-Should-you-pay-back-your-student-loan-or-invest-with-Caitlin-Lloyd-and-Rob-Carrick.aspx#.WRRz7IdllsM>

What is the impact of changing interest rates?

Can I do anything about this?

Student lines of credit with the Faculty's preferred lenders are charged interest at prime. This is a variable rate which means your cost of borrowing can fluctuate. Although there is nothing you can do about the changing interest rate, you should be prepared for your payments to increase in your monthly budget.

The following table shows the impact of rising interest rates and the equal impact of a shortened amortization period on the cost and timing of your debt repayment.

Scenario

Student graduates with \$50,000 of debt. Interest rate is constant at 3.95% for the life of the loan.

Amortization Period	5 years	10 years	15 years
Payment Amount (per month)	\$920	\$505	\$369
Total interest paid life of loan	\$5,151	\$10,482	\$16,074

THE IMPACT OF INCREASING INTEREST RATES

Amortization Period	5 years	10 years	15 years
Per month at 3.95%	\$920	\$505	\$369
Per month at 4.5%	\$932	\$518	\$383
Per month at 5.5%	\$955	\$542	\$409

TOTAL INTEREST PAID OVER LIFE OF LOAN

Amortization Period	5 years	10 years	15 years
Per month at 3.95%	\$5,151	\$10,482	\$16,074
Per month at 4.5%	\$6,480	\$12,939	\$20,455
Per month at 5.5%	\$8,164	\$16,837	\$26,134

TOTAL PAYMENT OF LIFE OF LOAN

Amortization Period	5 years	10 years	15 years
Per month at 3.95%	\$55,151	\$60,482	\$66,074
Per month at 4.5%	\$56,480	\$62,939	\$70,455
Per month at 5.5%	\$58,164	\$66,837	\$76,134

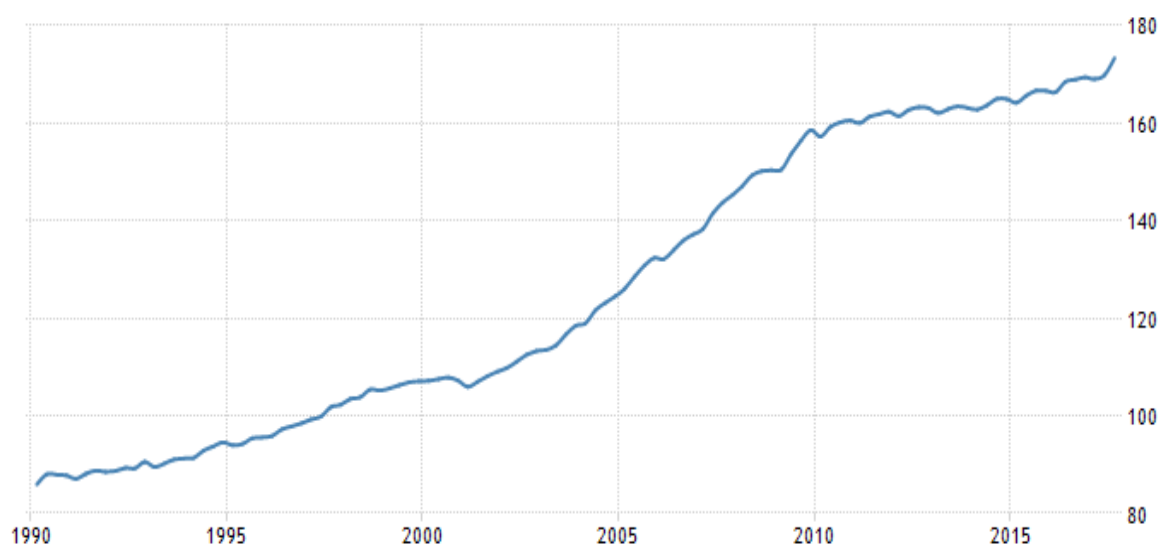
Canadians carry a lot of consumer debt – that is money to buy houses, cars and other consumer goods. On average, Canadian families have \$1.73 of debt for every \$1.00 of after-tax income. As can be seen, this is up quite sharply in recent years and is now at a record high level, having just about doubled in the past 27 years.

CANADA HOUSEHOLDS DEBT TO DISPOSABLE INCOME



SOURCE: TRADINGECONOMICS.COM | STATISTICS CANADA

CANADA HOUSEHOLDS DEBT TO DISPOSABLE INCOME



SOURCE: TRADINGECONOMICS.COM | STATISTICS CANADA

How can people afford to carry so much debt? In large part it is a result of low interest rates and longer amortization periods.

CANADA CHARTERED BANKS PRIME LENDING RATE



SOURCE: TRADINGECONOMICS.COM | BANK OF CANADA

The prime bank lending rate (which U. of T. students enjoy on their line of credit) is at a historically low level today. Prior to 2002, the prime rate had not been less than 5% for over 50 years. Even if the prime rate rises by a full 2% it will still be very low. Obviously the ability to carry debt is directly related to the prevailing rate of interest. For a person with an income of \$50,000 and outstanding debt of \$85,000 (that is, 170% of income, around the Canadian average) the interest cost with a prime rate of 3% is \$2,550/yr or about 5% of income. With a prime rate of 5% it becomes \$4,250 or 8.5% of income, and with a prime rate at 8%, \$6,800 or 13.6% of income. It is easy to see that as interest rates have come down, consumer debt has become much affordable, and debt loads have increased.

The other factor in debt service capability is the amortization rate of the debt. A 10 year amortization on \$85,000 of debt requires payments of \$8,500/yr. Coupled with the lowest level of interest (3%) total payments required are (\$8,500 + \$2,550 = \$11,050) or just over 22% of income. At the highest prime rate of 8% the total payments rise to (\$8,500 + \$6,800 = \$15,300) or just over 30.6% of income. The ratio of debt payment obligations to after-tax income is called the debt service ratio or DSR.

When does the DSR become too high and unsustainable? Bankers re-phrase this as “what is the debt service capability?” The Canadian Mortgage and Housing Corporation (CMHC) insures mortgages where the mortgage DSR is no more than 32% of gross (that is, before tax) family income, and where total household DSR is less than 40% of gross family income. So, in our example, with a gross income of \$50,000, even at a high prime rate, the DSR of 30.6% is comfortably below the level that the CMHC uses as a red-line. Note that on a \$50,000 income, the DSR at various interest rates is as follows (10 Year amortization):

Prime Rate:	3%	5%	8%
\$ 85,000	22%	25.5%	30.6%
\$130,000	33.8%%	39.0%	46.8%
\$170,000	44%	51.0%	51.2%

By this measure, the CMHC and most banks would consider \$130,000 at 5% to be just about the limit of debt service capacity for someone with a gross income of \$50,000.

What are the chances that the prime rate will rise to 5%? In general interest rates move in lock-step with inflation, or sometimes, in the anticipation of inflation. The rate of inflation has been remarkably benign in Canada over the past ten years, rarely rising about 2% per year.



However, recent very strong gains in employment and increases in interest rates in both the US and in Europe have increased the odds of rates rising in Canada.

How does government/private debt affect access to additional credit?

Your income and your debt load will determine the accessibility to additional credit. Your OSAP loan and the limit of your line of credit, whether you maxed it or not, will be considered as your debt load when you are applying for additional credit. Once your line of credit has converted to a loan, it is the carrying amount that will be considered when applying for additional credit.

What if I don't earn enough to repay my debt?

Post-Graduation Debt Relief Program (PDRP)

The Faculty of Law provides assistance to those whose income may not be sufficient to meet their debt obligations. The Post Graduation Debt-Relief Program assists students in repaying eligible academic student debt once they have graduated. For more information:

<https://www.law.utoronto.ca/academic-programs/jd-program/financial-aid-and-fees/back-end-debt-relief-program>

Repayment Assistance Program (RAP)

The government RAP can only be used for government loans and not private loans. It is based on your monthly income. For example, as a single person household, your gross monthly income would have to be less than \$2,083 (approximately \$25,000 annually) in order to qualify.

For more information:

<https://www.canada.ca/en/employment-social-development/services/student-financial-aid/student-loan/student-loans/student-loans-repayment-assistance-plan.html>

Do I need to work a Bay Street job in order to be able to repay my debt?

Although many graduates practice corporate law after graduation, there are many other rewarding career paths that graduates pursue. Students should not assume they need to practice a specific area of law in order to pay back their debt. For example, the average salary at Legal Aid Ontario for new lawyers is approximately \$76,000. See “**Will I be able to afford to pay back my debt?**” above for different debt repayment scenarios at this income level.

Source: http://www.legalaid.on.ca/en/about/communityclinics_comparators.asp

Are there resources available to students for financial planning?

Consider speaking to a professional financial planner. You can call Scotiabank or TD and make an appointment with one of their representatives.

Additional resources

- [http://www.oba.org/JUST/Archives_List/2016/August-2016/Sample-\(3\)?utm_source=LYR&utm_medium=EM&utm_campaign=Just+Magazine&utm_content=Just+Magazine+Email+August2016+8/18/2016+12:14:24+PM](http://www.oba.org/JUST/Archives_List/2016/August-2016/Sample-(3)?utm_source=LYR&utm_medium=EM&utm_campaign=Just+Magazine&utm_content=Just+Magazine+Email+August2016+8/18/2016+12:14:24+PM)
- https://beta.theglobeandmail.com/globe-investor/personal-finance/taxes/student-debt-should-be-tied-to-earning-potential-after-graduation/article36082625/?ref=http://www.theglobeandmail.com&utm_source=Academica+Top+Ten&utm_campaign=c5782a9636-EMAIL_CAMPAIGN_2017_08_25&utm_medium=email&utm_term=0_b4928536cf-c5782a9636-51494897