



Snapshots™

STARTING OUT: STUDENT LOANS

YOU MAY BE ONE OF THE MANY PEOPLE WHO HAVE TAKEN OUT STUDENT LOANS TO PAY FOR YOUR POST-SECONDARY EDUCATION.

The assumption behind student loans is that the debt you have taken on should be more than offset by the increased long-term income you should be earning with your degree. Still, your debt burden may seem high, especially when you are first starting out. Remember, though, a student loan is still a legal debt obligation and must be paid off—ideally sooner rather than later. Repaying your student loan is definitely something you should incorporate into your budget.

Repayment Terms

The loan repayment period begins when you graduate or leave school. There is typically a six-month grace period where loan repayments are not required, but interest will accumulate over this period. The loan repayment period will be a maximum of 120 months or 10 years, including the six-month grace period. In the last month of your studies you will receive notice from the Provincial loan authorities as well as the National Student Loans Service Centre (NSLSC) informing you that you will be entering the grace period. In the fourth month of the grace period, you will be contacted again to either confirm that you are still in school or to arrange loan repayment terms.

Making the Payments

Most people choose to arrange payment through direct debits of their bank account. This can be done by providing a cancelled cheque to the NSLSC and your SIN number and/or loan code number. Alternatively, monthly payments can be sent directly to the NSLSC.

Interest Rate

Interest will be charged on the loan. You are allowed an option on the interest terms: a floating rate of the Prime Rate plus 2.5% or a fixed rate of Prime plus 5%. If you select the floating rate, you can change to the fixed rate at any time but cannot change back to the floating rate.

Fixed or Floating?

There is no simple answer to this question. You will notice from above that the fixed rate is higher than the floating rate by 2.5% (If, for example, the Prime Rate is 3%, then the floating rate will be 5.5% while the fixed rate will be 8%). Although it might be tempting to select the lower floating rate, you should keep in mind that if the Prime Rate rises over the loan period, the floating rate can eventually exceed the fixed rate. Currently, interest rates are near historical lows and an increase in rates over the next 10 years is quite likely. As well, you should consider the ongoing effect of the loan on your budget; with a fixed rate loan you will know with certainty what your ongoing loan payments will be.

Prepaying a Student Loan

You can pay off your student loan at any time or arrange to increase your payments. This is a good choice since you will be reducing, or even eliminating, the interest you pay over the long term.

Repayment Assistance

You may find that your financial circumstances make it difficult or impossible to make the required payments. There are measures you can take to restructure your loan in these circumstances. Generally, if you are experiencing financial difficulties, you can arrange to extend the payment period of the loan from 10 to 15 years. Although you will pay more interest, the monthly payments will be lower. First, though, you must provide proof of financial need. Ask me about more specific information about the options available and the process of restructuring the loan.

How Much Will the Monthly Payment Be?

The amount of the loan repayment will depend on the principal of the loan, the interest rate, and the payment period. For example:

Loan principal = \$30,000
Interest rate = 8% Fixed
Repayment period = 10 years
Monthly payments = \$364

The following [federal government online calculator](#) will give you an idea of the monthly payments you will have to make on your loan, using different assumptions.

Interest Relief

Interest relief is designed to help you meet your student loan obligations in times of low income or unemployment. During this period, which can be from six months to 30 months, you are not required to make any payments on the loan. Eligibility for interest relief is based on your income. I can provide you with additional information about the details of this plan.

Debt Reduction in Repayment

If you are experiencing ongoing, long-term financial difficulties and cannot meet your student loan commitments, you may be eligible for debt reduction. Generally, you must have been out of full-time school for five years and have exhausted any other debt relief measures. Debt reduction will reduce the principal of the loan and can be applied for up to three times with total debt reduction of \$26,000. I can definitely provide you with more details on this program.

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