

Name:

Why 'Interest' Should Interest You? OSAP Student Loan

Scenario

This scenario applies to Parts 1-5 of this activity.

You are planning to pursue post-secondary studies after high school. You researched about different schools and programs, and you are interested in a 2-year full-time program. You will apply for OSAP student loan every year, and will receive the following amounts to support your tuition fees:

Academic Year	Tuition Fee	OSAP Loan Received
Year 1	\$ 5,500	\$ 3,500
Year 2	\$ 6,500	\$ 4,200

Use the "Grade 11 OSAP Calculator: No Repayments" spreadsheet to answer the following questions. You may record the answers on the page or show them on the spreadsheet.

Part 1: Principal

You verified with the National Student Loans Service Centre (NSLSC) that 80% of your OSAP loan is the federal portion and 20% is the provincial portion.

1. For Year 1, what is the federal and provincial portion of your OSAP loan?
2. When you graduate from the program, how much is your total OSAP loan?

Part 2: Interest

3. What is the current prime rate in Canada?
4. When the repayment of your student loan begins, assume that the prime rate will be the same as question 3. What is the interest rate for the federal portion of your loan?
5. What is the interest rate for the provincial portion of your loan?

6. Would you choose a floating or fixed interest rate? Explain here.

Part 3: Future Value Without Repayments

For this part of the activity, you will calculate how your OSAP loan grows if you do not make repayments.

For the simplicity of our calculations, we will make the following assumptions:

- You will not make repayments to your OSAP loan.
- You opt for a floating interest rate (the interest rate will change when the prime rate changes).
- Canada's prime rate stays the same for the entire repayment period of your OSAP loan.

7. Using the OSAP Calculator, calculate your total OSAP loan after 9.5 years.

8. How much is your total interest payment?

9. Calculate your total OSAP loan after 15 years. How much is the total amount of the loan?
How much is your total interest payment?

10. Calculate your total OSAP loan after 4 years. How much is the total amount of the loan?
How much is your total interest payment?

Part 4: Make Lump Sum Payments

Option A: Before you leave the program

11. For your 2-year program, you received \$7,700 in OSAP loans. You decided to make a lump sum payment of \$2,000 before you graduate from the program. 80% of the lump sum payment goes towards the federal loan, and 20% goes towards the provincial loan. Using the OSAP Calculator, how much is your federal and provincial loan when you graduate from the program?

12. With the new principal and current prime rate, calculate your total OSAP loan after 9.5 years (or 114 months).
13. How much is your total interest payment?
14. Compare your answers from questions 7 and 12. How much money did you save by making the lump sum payment of \$2,000?
15. What happens to your total OSAP (future value) and total interest when you change the lump sum payment amount? Explain here.

Option B: After you leave the program

16. For Option B, you make a lump sum payment of \$2,000 after you graduate from the program. You make the payment in the 8th month after you leave the program. What is your new principal after you make the lump sum payment?
17. With the new principal and current prime rate, calculate your total OSAP loan after 9.5 years.
18. How much is your total interest payment?
19. What would happen to your total OSAP and total interest if you delayed making the lump sum payment? (For example, if you made the payment on the 20th month, 50th month, or 100th month.) Ensure the repayment period adds up to 114 months.

Comparing Options A and B

20. Is it more beneficial to make a lump sum payment before or after you leave the program?
(Compare questions 4b and 4f) Explain here.

21. Is it more beneficial to make a lump sum payment earlier or later in the repayment period?
Explain here.

22. Do you think it would benefit you to repay your student loan *while* you are in school? Why?

23. What would happen to your OSAP loan and interest if you made multiple lump sum payments?

24. How would you apply some of these repayment strategies when you take on student loans in the future?

Part 5: Increase Your Monthly Payment

25. OSAP repayment defaults to a 9.5-year repayment period. Using [Hellosafe Student Loan Calculator](#) and the scenario in this activity, complete the default option in Chart 1.
26. Then, choose three different repayment periods that are shorter than 9.5 years. Complete Options 1-3 in Chart 1.

<i>Chart 1</i>	Default Option	Option 1	Option 2	Option 3
Repayment Periods:	9.5 Years	Years	Years	Years
Monthly Payment	\$	\$	\$	\$
Total Interest Paid	\$	\$	\$	\$
Total Payment (Total Loan)	\$	\$	\$	\$

27. Now, compare each option to the default option. Find out how much time and money you will save when you increase your monthly payment.

<i>Chart 2</i>	Option 1	Option 2	Option 3
Time saved:	Years	Years	Years
Increase in Monthly Payment			
Total Payment Saved			

28. Looking at Chart 2, would you opt for the repayment plan given to you by the NSLSC (default option)? Explain why or why not.

Part 6: Final Reflections

29. Write down three important things you learned from this lesson.

30. Summarize some of the repayment strategies that you will use when you take on student loans in the future.

31. What are some goals you will set for yourself so to better manage your finances in the future?

Suggested Answers for Teachers

Why “Interest” Should Interest You? OSAP Student Loan

Part 1: Principal

1. For Year 1, what is the federal and provincial portion of your OSAP loan?
Federal portion = \$2,800, provincial portion = \$700
2. When you graduate from the program, how much is your total OSAP loan? \$7,700

Part 2: Interest

3. What is the current prime rate in Canada? Answer will depend on the current prime rate.
4. When the repayment of your student loan begins, assume that the prime rate will be the same as question 3. What is the interest rate for the federal portion of your loan? It will be the same as the prime rate.
5. What is the interest rate for the provincial portion of your loan? It will be the prime rate + 1%.
6. Would you choose a floating or fixed interest rate? Explain here.
Student answers will vary. It depends on their risk tolerance and their comfort with uncertainties. Some students would prefer a floating rate because they would like to benefit if the prime rate goes down. They may also dislike the fact that a fixed rate means an additional 2% in interest. Other students would prefer a fixed rate because they will know in advance how much interest they will pay on the loan. They may also believe that the prime rate is unlikely to go down in the future, so they want to lock in their interest rate now. As stated in the PowerPoint lesson, students *generally* benefit more from a floating rate because of the additional 2% on a fixed rate for federal loan.

Part 3: Future Value Without Repayments

7. Using the OSAP Calculator, calculate your total OSAP loan after 9.5 years. Answer will depend on the current prime rate.
8. How much is your total interest payment? Answer will depend on the current prime rate.
 $Interest = Future Value - Principal$
9. Calculate your total OSAP loan after 15 years. How much is the total amount of the loan? How much is your total interest payment? Answer will depend on the current prime rate.
10. Calculate your total OSAP loan after 4 years. How much is the total amount of the loan? How much is your total interest payment?
Answer will depend on the current prime rate. Answer for question 10 should be much lower than question 9. This helps students to see that a shorter repayment period helps them save money on interest payments.

Part 4: Make Lump Sum Payments

Option A: Before you leave the program

11. For your 2-year program, you received \$7,700 in OSAP loans. You decided to make a lump sum payment of \$2,000 before you graduate from the program. 80% of the lump sum

payment goes towards the federal loan, and 20% goes towards the provincial loan. Using the OSAP Calculator, how much is your federal and provincial loan when you graduate from the program?

Federal portion = \$4,560, provincial portion = \$1,140

12. With the new principal and current prime rate, calculate your total OSAP loan after 9.5 years (or 114 months).

Answer will depend on the current prime rate.

13. How much is your total interest payment? Answer will depend on the current prime rate.

14. Compare your answers from questions 7 and 12. How much money did you save by making the lump sum payment of \$2,000?

Step1: Students find the difference between the future value in questions 7 and 12.

Step 2: Using the difference in future value, subtract \$2,000.

The difference is the money saved from interest payments.

15. What happens to your total OSAP (future value) and total interest when you change the lump sum payment amount? Explain here.

Student answers will vary. When lump sum payment increases, future value and total interest will decrease. When lump sum payment goes slowly towards \$0, then future value and total interest will be closer to the answers in question 7 and 8.

Option B: After you leave the program

16. For Option B, you make a lump sum payment of \$2,000 after you graduate from the program. You make the payment in the 8th month after you leave the program. What is your new principal after you make the lump sum payment?

Answer will depend on the current prime rate. In the OSAP Calculator cell H26, students should enter "7" months.

17. With the new principal and current prime rate, calculate your total OSAP loan after 9.5 years. Answer will depend on the current prime rate.

18. How much is your total interest payment? Answer will depend on the current prime rate.

19. What would happen to your total OSAP and total interest if you delayed making the lump sum payment? (For example, if you made the payment on the 20th month, 50th month, or 100th month.) Ensure the repayment period adds up to 114 months.

Ensuring that the repayment period adds up to 114 months will help students compare Options A and B. When you delay making the lump sum payment, future value and total interest will increase.

Comparing Options A and B

20. Is it more beneficial to make a lump sum payment before or after you leave the program? (Compare questions 4b and 4f) Explain here.

Before you leave the program (Option A). Student explanations will vary.

21. Is it more beneficial to make a lump sum payment earlier or later in the repayment period? Explain here.

Earlier in the repayment period. Student explanations will vary.

22. Do you think it would benefit you to repay your student loan *while* you are in school? Why?

Student answers will vary. Everyone has their individual circumstance, and this option may not be feasible. From a financial perspective, it is very beneficial for students to repay their student loan while being in school. Some reasons:

- OSAP does not accrue interest while they are in school, so their entire repayment goes to pay down the principal. When the principal of a loan decreases, then all the future interest payments will decrease.
- This is the same as making a lump sum payment. However, it can be overwhelming to make one big lump sum payment. Students can contribute a set amount of money towards their loan every month/semester/year. It can be more manageable, and they will reap the same benefits as if they made a large lump sum payment.

23. What would happen to your OSAP loan and interest if you made multiple lump sum payments? Future value and total interest will decrease with each lump sum payment.

24. How would you apply some of these repayment strategies when you take on student loans in the future?

Student answers will vary. Students are encouraged to reflect on what is feasible according to their own circumstance.

Part 5: Increase Your Monthly Payment

25. and 26. Answers will depend on the current prime rate. Student answers will vary for Options 1-3.

27. Now, compare each option to the default option. Find out how much time and money you will save when you increase your monthly payment.

See Slide 39 on the PowerPoint lesson for an explanation on how to complete Chart 2.

28. Looking at Chart 2, would you opt for the repayment plan given to you by the NSLSC (default option)? Explain why or why not.

Student answers will vary. From Chart 2, students will see how much time and money they would save if they increased their monthly payment. Some may determine it is within their means to increase their monthly payment. Others may feel otherwise. It is interesting to note that increasing the monthly payment by just \$15 can save someone a lot of time and money. This is a good opportunity to have a discussion with students about financial priorities, needs vs. wants, examining our own spending habits now so to benefit ourselves in the future.

Part 6: Final Reflections

29. Write down three important things you learned from this lesson.

30. Summarize some of the repayment strategies that you will use when you take on student loans in the future.

Students can reflect on both of the repayment strategies they learned from the lesson. They can combine the two strategies: make lump sum payment and increase their monthly payment. Doing so will certainly benefit them greatly.

31. What are some goals you will set for yourself so to better manage your finances in the future?