

Understanding Loans

This lesson is designed to help students learn to understand the role loans play, how they are different from other financial aid, and what types of loans might be available for them.

OBJECTIVES

1. Learn the difference between federal and private loans and how they are different from other forms of financial aid
2. Review the details of federal loans and find a private loan
3. Evaluate the differences between the federal and private loans they've researched
4. Create a comparison chart that details the differences in the loans and write a reflection about the one they find most suitable for their situation

ACTIVITIES

PART 1

Content Knowledge

Ask students to reflect in writing on the following prompt: *Loans are often provisioned to students to provide assistance in paying for college. Student loans require that you pay back the money borrowed with interest. Some loans allow you to pay the money back after you've finished your studies, while others require that you make payments beginning with your first month of college. What do you think is the difference between federal and private loans? Explain.*

Types of Loans

● Federal Loans

- **Direct Subsidized Loan:** Available to undergraduate students that demonstrate financial need. The U.S. Department of Education is the lender. Your school determines the amount you can borrow with a maximum of \$3,500 for freshman year, \$4,500 for sophomore year, and \$5,500 for both junior and senior year. The U.S. Department of Education pays interest on your loan while you are in school at least half time, for the first six months after you leave school (this is your grace period), and during any period of deferment or forbearance (when you postpone payment on your loan) Your Subsidized Loan repayment begins after the end of your grace period.

Grade Level: 10 - 12

MEFA PATHWAY LINKS FOR LESSON:

- Loan Cost Estimator

SUBJECT AREAS:

- Personal Finance
- Econ

MATERIALS NEEDED:

- Internet connection to work with the MEFA Pathway website
- Internet connection to research loans

Email any questions to:
info@mefapathway.org



LESSON PLAN

Email any questions to:
info@mefapathway.org

- **Direct Unsubsidized Loan:** Available to both undergraduate and graduate students. The U.S. Department of Education is the lender. There is no requirement to demonstrate financial need. Your school determines the cost you can borrow based on the cost of attendance and any other financial aid you receive. The maximum of your Subsidized and Unsubsidized Loans cannot exceed \$5,500 for freshman year, \$6,500 for sophomore year, and \$7,500 for both junior and senior year. Your loan starts accruing interest as soon as the loan funds are disbursed into your college account to pay for your expenses. Though your interest is accruing while you are in school, your Unsubsidized Loan repayment doesn't begin until after the end of your grace period.
- **Direct PLUS Loan:** Available to graduate students and parents of dependent, undergraduate students in order to help pay for educational expenses. The U.S. Department of Education is the lender. The borrower must have good credit. The maximum amount of the loan is equivalent to the student's cost of attendance minus any other financial aid.
- **Private Loans:** Non-federal loans that are made by a lender, such as a bank, credit union, state agency, or school. These generally have higher interest rates than federal loans.

Tell students that they should always borrow their Direct Subsidized Loan and Direct Unsubsidized Loan before borrowing any private loans, as federal loans offer many benefits not offered by private loans. Ask students how loans are different from other forms of financial aid. Student responses should indicate that loans are borrowed money that needs to be repaid, generally with interest.

PART 2

Applying Information

Using the internet, students should review the different types of federal loans. Additionally, have students look up 3 potential private student loans. They can start with their family's bank to see if that institution offers a student loan (for example, a Wells Fargo student loan). Beyond that, they can do a simple online search.

PART 3

Evaluating Information

Students should record information on what they determine to be the best private loan for them. Remind them that private loans should only be borrowed after their full federal loan eligibility is exhausted. They should make sure to note the lender, loan requirements, interest rate, loan fees, and the number of years given to repay the loan.

PART 4

Critical Thinking/Creative Application

Students should create a comparison chart detailing the loan type, lender, loan requirements, interest rate, average monthly payment, total interest cost, and total loan cost including interest for their potential loans. Encourage students to use the Loan Cost Estimator on the MEFA Pathway website to help them calculate the average monthly payment, total interest cost, and total loan cost.

Students should write a reflection about the differences in the federal and private loans they've researched. They should make sure to indicate which private loan they'd prefer and if the loan would be an affordable option.