

Understanding College Loans



Grade Level:



12

Domain:



Financial Literacy

TIME:



45 Minutes

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

Objectives

Students will:

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.

MEFA Pathway Activities

- Loan Cost Estimator
- My Journal

Materials Needed

- Internet connection
- *Private Loan Comparison Chart* (attached)

LESSON PREREQUISITE

Have students complete the **Comparing Financial Aid Offers to Help Make a Final Decision** lesson.

Vocabulary

- Federal Loan
- Direct Subsidized Loan
- Direct Unsubsidized Loan
- Direct PLUS Loan
- Private Loan

Future Ready Skills

- Problem Solving
- Evaluating
- Self Management

PART 1

CONTENT KNOWLEDGE



In-Class Activity

Ask students to reflect in writing on the following prompt.

Loans are often used by students to pay 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.

There are two main types of college loans: federal and private. What do you think is the difference between federal and private loans?

Review the following information with the class.

Types of Loans

- **Federal Loans:** Federal loans are provided by the federal government and offer several benefits not available through private loans including different repayment options and the opportunity to pause your loan repayment based on certain circumstances. There are a few different types.
 - **Federal Direct Subsidized Loans** are available to undergraduate students who demonstrate that they financially need the loan based on their FAFSA data. 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 junior and senior years. 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 called your grace period), and during any period of deferment or forbearance (when you postpone payment on your loan). Your Federal Direct Subsidized Loan repayment begins after the end of your grace period.
 - **Federal Direct Unsubsidized Loans** are available to both undergraduate and graduate students. The U.S. Department of Education is the lender. There is no requirement to demonstrate that you financially need the loan. Your school determines the amount 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 junior and senior years. 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 Loans** are available to parents of dependent, undergraduate students in order to help pay for college expenses. The borrower must apply and be approved based on their credit. The U.S. Department of Education is the lender. Starting in Fall 2026, parents may only borrow up to \$20,000 per year and up to \$65,000 in total in PLUS Loans per student.
- **Private Loans** are non-federal loans that are made by a lender, such as a bank, credit union, state agency, or school. Private loans generally have a range of interest rates, and lenders determine each borrower's interest rate based on their credit score. Borrowers must have moderately good credit to be approved. Students should always borrow their Federal Direct Subsidized Loan and Federal Direct Unsubsidized Loan before borrowing any private loans because of the benefits offered by federal 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

Have students access Federal Student Aid's page about Federal Direct Subsidized and Federal Direct Unsubsidized Loans at studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized to learn more about them, including the current interest rate, fees, and numbers of years to repay.

Then, have students look up three potential private student loans. They can start with their family's bank to see if it offers a student loan (for example, a Wells Fargo student loan). Beyond that, they can do a simple online search. For each private loan, students should use the *Private Loan Comparison Chart* (attached) to record the lender, loan application requirements, interest rate, fees, and number of years given to repay the loan. They will fill out the remaining fields of the chart in Part 3.

PART 3

EVALUATING INFORMATION

Have students click on **Loan Cost Estimator** under the *Financial Planning* tab in MEFA Pathway. Have students use the tool to calculate the estimated monthly loan payment, total loan cost, and total interest of each of the three private loans they researched. For the loan amount, have students use the amount they calculated in the *Comparing Financial Aid Offers to Help Make a Final Decision* lesson. For interest rate, have students use the mid-point of the interest rate range they found for each of their private loans. For the years to repay, have students use the repayment term listed for each of their private loans. Students should fill in their results in their *Private Loan Comparison Chart*.

Have students select a career at the bottom of the **Loan Cost Estimator** (they can choose one of the careers listed on their **My Careers** list under the *Discover Careers* tab) and then click **CALCULATE AFFORDABILITY** in the green box to view their *FINANCIAL OBLIGATION ANALYSIS*. This will give an estimate of the student's ability to repay their loan in the future. Have students do this for each of the three private loans they selected.

PART 4

CRITICAL THINKING/CREATIVE APPLICATION

After researching loans, students should take time to review the information they've gathered. Ask students to think about what loan options might be best for them and why. Remind students that private loans should only be utilized after they have taken their full eligibility in Federal Direct Subsidized and Unsubsidized Loans.

Students should click on **My Journal** under the *About Me* tab and write a journal entry about the differences between federal and private loans and the details they learned in their private loan research and their use of the **Loan Cost Estimator**. They should make sure to indicate which private loan they'd prefer and why.

PRIVATE LOAN COMPARISON CHART

	LOAN OPTION 1	LOAN OPTION 2	LOAN OPTION 3
LENDER			
LOAN APPLICATION REQUIREMENTS			
INTEREST RATE			
FEES			
YEARS TO REPAY			
AVERAGE MONTHLY PAYMENT			
INTEREST COST			
TOTAL LOAN COST			

GRADING RUBRIC FOR JOURNAL ENTRIES

CATEGORY	EXCELLENT	GOOD	SATISFACTORY	NEEDS IMPROVEMENT
	4	3	2	1
Description	Offers a vivid, detailed, and insightful description of the experience, setting the stage for deeper reflection.	Provides a clear and detailed account of the experience, including relevant details.	Clearly describes the experience, event, or learning.	Offers a limited description of the experience.
Analysis	Engages in critical thinking, questioning assumptions, and demonstrating a thorough understanding of the learning.	Connects the experience to personal learning and raises some insightful questions.	Attempts to analyze the experience but may lack depth or clarity.	Superficial analysis, lacking deeper thought.
Future Application	Formulates clear, actionable plans for utilizing new insights and knowledge in future learning and experiences	Identifies specific ways to apply the learning to future situations or goals.	Suggests some possible connections to future learning or practice.	Makes no clear connection to future learning/action.