

Learning Objectives

- What is a student loan? How does it work?
- What are the main terms related to a student loan that I need to understand (e.g. interest rate, repayment period, origination fees, co-signer)?
- How much student loan debt can I afford to take on? (debt-to-income ratio)
- How can I choose the right student loan for me?
How do I learn about and compare my options?

Lesson length:

This is a LOT of material to cover, and gets quite mathy. We, therefore, recommend this lesson plan be broken up into 3 parts/lessons unless you have a long workshop slot:

- Sections 1-3 (basic info): 35-45 mins
- Sections 4-5 (affordability): 35 mins
- Section 6 (comparing offers): 35 mins

You can also pre-assign certain sections as homework, to do beforehand and save time.

Student Worksheets

- [Student loans student worksheet](#)

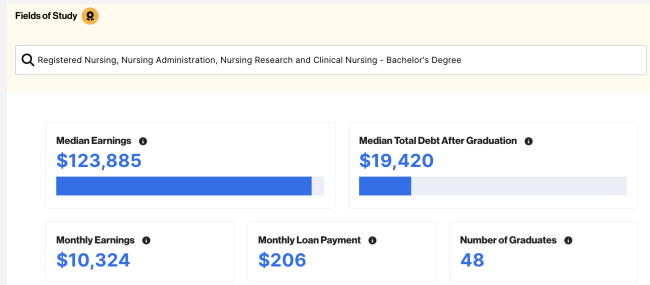
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LESSON PLAN

	Resources	Questions	Est. Time
1	Introduction VIDEO: Student loans: How they work (also accessible for students with GM accounts here). OR ARTICLE: first section of this blog post Types of student loans “What’s the difference between government & private loans?” section	Introduction to loans First, watch the video, or have your students read the first section (“The basics: How do student loans work”) of the blog post. Write these key terms on the blackboard, and then go through the discussion questions below: • Loan • Interest rate • Origination/Disbursement/Administration Fee • Principal • Loan servicer <i>Discussion questions:</i> 1. First off, what’s a loan? <i>A loan is money you borrow (usually for a specific purpose) and need to pay back, with “interest” (a fee for borrowing it).</i> 2. What are different examples of a loan? <i>Student loans, Auto (car) loans, Personal loans, Business loans, and Home loans (mortgage). If you use a credit card, that’s also a kind of loan because you are spending the bank’s money and then you pay it back.</i> 3. What’s the “price” or “cost” of a loan comprised of? <i>All loans will have an “interest rate.” This is a percentage (per year) that the loan is costing you. Every month, you are paying 1/12th of that percentage. In addition, some loans will have a one-time upfront fee, usually called an origination fee, administration fee, or disbursement fee. This can be a</i>	10-15 mins

		percentage or a dollar amount. 4. What is the “principal” amount? <i>That’s the amount you are originally borrowing, before all the fees.</i> 5. How or where do you get a loan from? <i>In most cases, you get loans from a bank or loan company. However, for student loans, you may also get loans from the federal government. Even when you take out a federal loan though, you’ll be paying it back to a “loan servicer,” which is a private company the government has contracted, to administer the loans and collect payments. You are not actually paying directly to the government.</i>	
2		An example For many students, even after financial aid, the cost of college is simply too high for them (or their families) to pay out of pocket. In that case, they will need to turn to student loans. Go over this example: For 2024-2025, the Direct Subsidized Loans and Subsidized Federal Stafford Loans had these standard terms: • Interest rate: 6.53% fixed • Origination fee: 1.06% • Repayment term: 10 years (standard) • Minimum monthly payment: \$50 Based on this, if you borrowed \$3500, here’s what your loan would look like: • Borrowed: \$3500 • Total paid over 10 years: \$4478.91 Discussion questions: 1. How much did the loan cost you in dollars, over the 10 years? \$4478.91 - \$3500 = \$978.91 – So it costs \$978.91 to borrow that original \$3500. <i>NOTE: To simplify things for students, we ignore the time-cost of money, i.e. the fact that \$1 in Year 1 is worth more than \$1 in Year 10 due to inflation.</i> 2. What do you think of that number? <i>It’s quite a lot! It’s about 25% of the original amount. That’s why, although 6.53% doesn’t seem like a lot, remember you’re paying it every year on whatever balance is remaining. AND these are terms for government student loans, which tend to be better (lower interest rates).</i> 3. What does that mean in terms of how much you should try to pay now, instead of borrowing in student loans? <i>Loans are pricey. So you should try to pay as much as possible to your college now, instead of borrowing it as student loans. Think of it like this: You could either pay \$1 now or \$1.18 later. So if you have the \$1, then it’s better to pay that now.</i>	15 mins
3	ARTICLE: • “How do student loan payments work?” section • “Should I make	Repayment “As you saw in the example, loans can be expensive. They are even more expensive if you miss payments or take longer to repay. Conversely, they are cheaper if you finish repaying early, or to repay more than the minimum amount in some months (if you can afford to).” Read the two sections (see left) of the article on repayment.	10-15 mins

	payments while I'm still in college?" section	Discussion questions: ● Explain how repayment generally works. Normally during college, you don't need to make payments, but "interest accrues," meaning the interest rate is still being charged. After you graduate, you usually have a grace period of about 6 months to start repayments. Once you begin repayments, you usually need to repay a certain amount every month. ● Why is it cheaper if you finish your loan payments early? The interest rate is charged every year, the shorter your repayment period, the less you're actually paying. (For example, if you repay a 10-year loan in 9 years, then you pay less overall because you're not paying any interest in Year 10.) ● Why is it cheaper if you repay more than the minimum amount required each month? You pay your interest rate (percent fee) on the remaining balance. So if you repay more than the minimum amount, then you're reducing your remaining balance even faster. This means your interest rate is charged on a smaller amount. (For example, if you owe \$100 and are paying 10% interest, and you repay \$50 immediately, your remaining balance is \$50, and then your 10% interest is only \$5 instead of \$10.) In addition, if you repay more than the minimum amount each month, you will finish repaying your loan earlier, so that will also mean you're paying a lower cost overall. ● Why is it cheaper if you start repayments while in college? Normally, even though you're not required to make any loan payments while in college, you have the option to. This is because if you don't make loan payments while in college, interest will still accrue, so that by the time you graduate, your remaining balance is higher, so your interest payments will be higher. (It's the same percent x a bigger amount.) [NOTE: You may want to go through the example in the article as well, to make sure students understand this.]	
4	VIDEO: Student loan affordability TOOL: Dept of Education College Scorecard (for UCLA)	How much can you afford? Now that you understand the costs and how loans work, you may be trying to figure out: Can I afford to take student loans? How do I know I can make those monthly payments? ● Watch the student loan affordability video Exercise: ● Let's say you're going to UCLA to study Nursing. Go to the DOE College Scorecard here, to find out your likely salary after graduation. What is it? Note: You'll need to search "Nursing" under the "Fields of study" dropdown search. Then select "Registered Nursing, Nursing Administration....". (See screenshot below.)  Answer: \$123,885	15 mins

		How much could you therefore be able to afford in monthly student loan payments? 10% of the monthly salary (pre-tax) So $\\$123,885 / 12 = \\$10,323$ per month 10% of $\\$10,323 = \\$1,032$ Therefore $\\$1,032$ is the maximum that you'd be able to comfortably afford, if you were going to study nursing at UCLA.	
5	TOOL: Student loan calculator	Student loan calculators Now you know how to figure out what you can afford to pay <i>monthly</i>, how do you know how that translates to actual loan offers (interest rates and fees)? You can use a loan calculator like this one from FinAid! Remember two things: - You might be taking out several separate loans. Many students max out their government loans and then top up with additional private loans. You'll need to calculate these separately to figure out if you can afford it. - You are likely attending the college for 2 or 4 years, so you will probably need to take out loans for each year you're attending. EXERCISE: Let's pretend that after scholarships and grants, you need to pay \$14,000 to attend UCLA, per year. - Each year, you take a government loan with these terms: Amount: \$5,000 Interest rate: 5.5% Loan term: 10 years Loan fees: 1.06% Minimum payment: \$25 How much is your monthly payment from that government loan? Just plug those numbers into the student loan calculator. Answer: \$55.56 - Since that government loan isn't enough, you also take out a private student loan with these terms: Amount: \$9,000 Interest rate: 4.50% Loan term: 10 years Loan fees: None Minimum payment: \$50 How much is your monthly payment from that private loan? \$93.96 In total, how much is your monthly payment, for one year of loans? It's the sum of the two numbers: $\\$55.56 + \\$93.96 = \\$149.52$ - You attend college for four years. How much is your monthly payment, for all four years of loans? That would be 4 times the annual amount, so $4 * \\$149.52 = \\598.08 (Note: In reality, it would be slightly more than this because interest would have accrued on the loans from the first three years.) - Based on your likely after-graduation nursing salary of \$123,885, can you afford these loans? Yes because you could afford up to \$1,032 in monthly student loan payments, and \$598.08 is less than that.	20 mins

		This is the kind of affordability exercise you can do on your own, for your own loans!	
6	Types of student loans “What’s the difference between government & private loans?” section	Comparing loan offers First, have your students read the section on Government vs. Private loans One of the most important things you can do when accepting student loans is to shop around first, for the most favorable terms. The most important term is the interest rate because that’s the majority of the cost. Low interest rates are why the main type of federal student loan (Direct Stafford) is better than any other type of private loan. DISCUSSION QUESTION: When should you choose a government loan vs a private loan? <i>You should always max out your Federal Direct/Stafford loans first (subsidized, then I subsidized). But there is a limit to how much you can borrow in that type of loan.</i> <i>Then you might choose between Parent PLUS loans or private loans.</i> ○ <i>You might choose PLUS loans because you don’t qualify for private ones (maybe because your parents don’t have good enough credit)</i> ○ <i>You might choose private loans because you get better rates for it (this is often the case if your parents have good credit), or because your parents want you to take the loan instead of them (Parent PLUS loans are made out to the parents, not to the student).</i> But there are many other factors you might consider: → When looking for student loans, you’re looking for the most affordable option, with flexibility, that meets your needs. DISCUSSION QUESTION: Break down that sentence above. What do we mean by: ● Most affordable <i>Low interest rates, low fees, low monthly payments</i> ● Flexibility <i>What are the policies on prepayment (can you repay early, without penalties/fees?) and late payment (what if you lose your job and miss a payment?)</i> ● Meets your needs <i>Will this loan give you enough money to be able to afford college (and focus on your studies, so that you can graduate on time)?</i> The following info has been copied and pasted into the Student Worksheet accompanying this Lesson Plan: To make things extra easy for you, we’ve translated those into a list of specific questions. If a student loan provider hasn’t given you all their answers on their website, check the fine print or contact one of their sales representatives. ELIGIBILITY - Sometimes you apply for a loan and then don’t get it. By understanding the requirements upfront, you can know whether you’ll likely get it or not. 1. Do I need a cosigner? If so, what are the eligibility requirements for a cosigner? 2. Do I need a minimum credit score? 3. What other eligibility requirements are there? (e.g. for nationality, full-time/part-time school, four-year vs. two-year degrees, etc.)	30-45 mins

		BASIC LOAN TERMS - These are generally the main terms you'll see attached to any student loan offering. - What is the maximum amount I can borrow? - What's the interest rate? - Is the interest rate fixed or variable? - What are the fees? (Are there fees for origination, administration, or disbursement?) - How many years is the repayment term? - What's the minimum monthly payment? - What are my payments while I'm still in school? FEES, PENALTIES, and PERKS - These are additional questions you might have to dig a bit deeper to answer. - Is there a grace period? How long is it, and does interest accrue during it? - Is there a prepayment penalty? - What relief do you provide if I lose my job? Can I miss any payments without penalty? (If not, what is the penalty for missing a payment?) - Is there a discount if payments are made via automatic debits from my bank account (AutoPay)? - Are there any other benefits associated with this student loan? Discussion questions: - Do you have any doubts about what these questions or terms mean? - Which of these factors matters more to you? <i>(Students may mention any of them, as long as they have solid reasons for why.)</i> - How might you shop around for loans? <i>You can get personalized eligibility checks and interest rate estimates online at each bank's/lender's website. Note that you'll probably need a co-signer (someone who guarantees you will pay, and if you don't, then they need to). Usually, this is a parent or guardian. You'll need your co-signer with you to enter their financial details and get interest rate estimates. For all other terms (like fees, benefits, and penalties), this is usually listed on the website and doesn't require you to get a personalized estimate. [Note: You can also have your students actually Google for different student loan companies, to make sure they know how to do this.]</i>	
7		Homework (optional) You may choose to give your students follow-up assignments based on what they learned in this lesson. Examples include: - Read this article about federal student loans, in particular, - Get an estimate of your post-graduation salary, and then calculate how much you'd be able to afford in monthly student loan payments. - If you're planning to accept student loans, calculate how much your monthly payments would likely be. - Talk to your parents/guardians about whether they would be willing to serve as co-signers on your loans and/or whether they'd be willing to accept Parent PLUS loans in their own name. - Try to answer all 15 questions about loan terms (from Step 6), for one student loan company. Look at their website to look for answers. Note that some websites may be less transparent about all these terms.	N/A

Did you know this is just one part of a four-part series on financial aid?

Check out the other parts:

- Part 1: [The three types of financial aid](#)
- Part 2: [Creating a cost-conscious college list](#) (Encouraging students to apply to affordable colleges!)
- Part 3: [Comparing financial aid offers](#)
- Part 4: [Borrowing responsibly with student loans](#)

Want resources more focused on scholarships?

We've got a 2-part lesson plan for that:

- Part 1: [Researching scholarships and grants](#)
- Part 2: [Applying to scholarships: Essays, LORs, etc.](#)

Want more handouts? Feel free to print or email out these PDFs: [Six Scholarship Websites](#), [Top 10 Essay Prompts](#), [Essay Writing Process Checklist](#), and [College Prep Checklist](#) (for Grades 10-12).