

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

### Types of Loans

- **Federal Loans:** Federal loans are provided by the federal government and offer several benefits not available through private 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: 12

### MEFA PATHWAY SECTIONS WITHIN THIS LESSON:

- Loan Cost Estimator

### DOMAIN:

- Financial Literacy

### TIME:

- 45 minutes

### MATERIALS NEEDED:

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

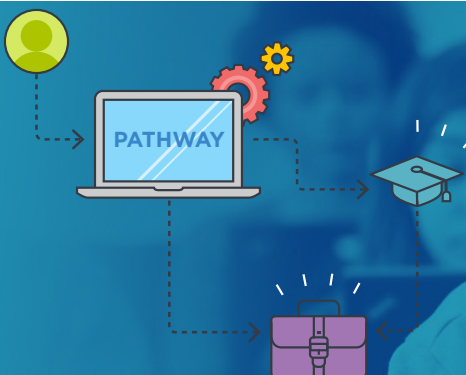
### FUTURE READY SKILLS:

- Problem Solving
- Evaluating
- Self Management

### VOCABULARY:

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

Email any questions to:  
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# LESSON PLAN

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- **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 and require the borrower or a co-borrower to have good credit.

Tell students that they should always borrow their Direct Subsidized Loan and 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 navigate to [studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized](http://studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized) to learn more about Direct Subsidized and Direct Unsubsidized Loans, including the current interest rate, fees, and numbers of years to repay. Additionally, have students look up three 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. For each private loan, students should record the lender, loan application requirements, interest rate, fees, and number of years given to repay the loan.

## PART 3

### Evaluating Information

Students should record 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.

## 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. They should use the *Loan Cost Estimator* on the MEFA Pathway website under the *Pay for College* tab to help them calculate the average monthly payment, total interest cost, and total loan cost.

Students should write a reflection in their *My Journal* under their *Create Profile* tab 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 why. Students should also calculate the affordability of their monthly loan payment and incorporate this information into their reflection. They can calculate this information underneath the *Loan Cost Estimator* by choosing a career goal.

# Understanding Loans Grading Rubric

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CATEGORY	EXCELLENT 4	GOOD 3	SATISFACTORY 2	NEEDS IMPROVEMENT 1
Sequencing of Information	The information is organized in a clear, logical way.	Most information is organized in a clear, logical way.	Some information is logically sequenced.	There is no clear plan for the organization of information.
Effectiveness	The reflection includes all material needed to give a good understanding of the topic.	The reflection is lacking one or two key elements.	The reflection is missing more than two key elements.	The reflection is lacking several key elements and has inaccuracies.
Font Choice & Formatting	Font formats (size, bold, italic) have been carefully planned to enhance readability and content.	Font formats have been carefully planned to enhance readability.	Font formats have been carefully planned to complement the content. It may be a little hard to read.	Font formatting makes it very difficult to read the material.
Conventions. Student uses proper grammar, punctuation, and spelling.	The reflection has no misspellings or grammatical errors.	The reflection has 1- 2 misspellings, but no grammatical errors.	The reflection has 1- 2 grammatical errors but no misspellings.	The reflection has more than 2 grammatical and/ or spelling errors.