

Choosing a student loan that's right for you

Students use a graphic organizer to compare and contrast federal and private student loans to help them find the one best suited for their needs.

Learning goals

Big idea

You have a choice about how you pay for your education. Understanding your choices can help you make the right decision for your situation.

Essential questions

- What are my options if I have to borrow money to pay for higher education?
- What should I consider when shopping for a private loan?

Objectives


- Identify similarities and differences between federal and private student loans
- Explain why it's best to borrow as much as you can through federal student loans before taking out any private student loans

What students will do

- Research federal and private student loans on the Consumer Financial Protection Bureau (CFPB) website.
- Use a graphic organizer to illustrate important similarities and differences between these types of loans.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Borrow (Getting loans)

School subject: CTE (Career and technical education), English or language arts, Social studies or history

Teaching strategy: Simulation

Bloom's Taxonomy level: Analyze

Activity duration: 45-60 minutes

STANDARDS

Council for Economic Education
Standard IV. Using credit

Jump\$tart Coalition
Financial decision-making -
Standards 1 and 2

Preparing for this activity

- Print copies of all student materials, or prepare for students to access them electronically.
- While it's not essential, having students complete activities such as "[Reading about federal financial aid](#)" or "[Learning how federal financial aid can help you pay for higher education](#)" before this one may make it more meaningful.
- Become familiar with the following CFPB resources on student loans:
 - Student Loans: Your financial path to graduation:
<http://consumerfinance.gov/gradpath>
 - Ask CFPB: What are the different ways to pay for college or graduate school?
<https://www.consumerfinance.gov/ask-cfpb/what-are-the-different-ways-to-pay-for-college-or-graduate-school-en-545/>
- Secure access to the Internet and computers or tablets so students can access the CFPB resources.

What you'll need

THIS TEACHER GUIDE

- [Choosing a student loan that's right for you \(guide\)](#)
[cfpb_building_block_activities_choosing-student-loan_guide.pdf](#)

STUDENT MATERIALS

- [Choosing a student loan that's right for you \(worksheet\)](#)
[cfpb_building_block_activities_choosing-student-loan_worksheet.pdf](#)
- **Computer or tablets and Internet access**

Exploring key financial concepts

Many students need loans to cover the full cost of higher education. When it comes to student loans, there are basically two choices: federal student loans and private student loans. For most borrowers, federal loans are the best option. When you start to pay back your federal loans, the interest rate will be fixed. This will help you predict your payments after graduation. And in some cases, the federal

government will pay the interest on your loans while you are in school. These loans are called subsidized loans.

The most common private student loans are offered by banks and credit unions. Private student loans could have variable interest rates, which means your interest rates and payments could go up over time. Private loans can also be more expensive – rates have been as high as 16 percent in the past decade. And when it’s time to repay, private loans don’t offer as many options to reduce or defer payments.

TIP

Because financial aid rules and programs change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

Whole-class introduction

- Distribute the “Choosing a student loan that’s right for you” worksheet.
- Explain that this activity will help students understand the two basic types of student loans: federal and private.
- Be sure students understand key vocabulary:
 - **Federal student loans:** These loans are funded by the federal government and have terms and conditions that are set by law. Federal loans also include benefits that private student loans don’t usually offer. These benefits could include lower interest rates, repayment plans based on income, and possible loan forgiveness for people who choose to work for a certain amount of time in government or for certain not-for-profit organizations or teach in a low-income school.
 - **Federal work-study:** A program that provides part-time jobs to help you earn money to pay for college expenses.
 - **Financial aid:** When money is given in the form of grants, work-study, loans, and scholarships to help pay for post-secondary tuition and fees, as well as related expenses such as room and board, books, supplies, and transportation.
 - **Grant:** A type of financial aid that does not have to be repaid, unless, for example, you withdraw from school and you need to pay back some of the tuition money; often need-based.
 - **Loan:** Money that needs to be repaid by the borrower, generally with interest. (You’ll have to pay interest on student loans.)

TIP

Visit CFPB’s financial education glossary at consumerfinance.gov/financial-education-glossary/.

- **Post-secondary education:** Includes all forms of schooling after high school, not just college.
- **Private student loans:** These loans are from private organizations, such as banks and credit unions, which set their own terms and conditions. Private loans are generally more expensive than federal loans.
- **Scholarships:** Money that students receive based on academic or other achievements to help pay education expenses. Scholarships generally don't have to be repaid.

Individual or group work

- Students can work individually or in groups to complete this activity.
 - If they work in groups, you may want them to each complete their own worksheet.
- Ask students to review the graphic organizer to make sure they understand how they'll organize the information they find about the two types of loans.
- Ask students to go to two CFPB webpages that have information about student loans.
 - Student Loans: Your financial path to graduation:
<http://consumerfinance.gov/gradpath>
 - Ask CFPB: What are the different ways to pay for college or graduate school?
<https://www.consumerfinance.gov/ask-cfpb/what-are-the-different-ways-to-pay-for-college-or-graduate-school-en-545/>
- Students will record the relevant information on their graphic organizer, clearly showing how the two loans are similar and how they differ.

Wrap-up

- Bring students back together to compare their findings.
- Discuss what evidence supports the idea that for most borrowers, federal student loans are the best option.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topics of spending (paying for college), saving (saving for college), or borrowing (getting loans).

Measuring student learning

Students' answers on the worksheet can give you a sense of their understanding.

Keep in mind that students' answers may vary. The important thing is for students to have reasonable justification for their answers.

This answer guide provides possible answers for the "Choosing a student loan that's right for you" worksheet.

Answer guide

Federal student loans	Similarities	Private student loans
Interest rates are fixed	There's interest on the loan	Interest rates are often variable
The federal government may pay the interest on your loan while you're in school (subsidized)	Six-month grace period for loans after graduation	You're charged interest while you're still in school
Low interest rates	Loan limits vary	Higher interest rates
Almost everyone is eligible		Lenders decide eligibility based on your credit history and other factors
Loan forgiveness is possible in some cases depending on your location and profession		Loan forgiveness is not available