

 BUILDING BLOCKS STUDENT WORKSHEET

# Using a student loan calculator

When you take out a student loan, you're responsible for paying back the principal plus the interest. The principal is the amount you borrowed. The interest is a fee charged for borrowing money.

If your budget allows, a good rule to live by is to pay more than the monthly payment because the quicker you pay off the loan, the less interest you'll have to pay.

## Instructions

1. Review the student loan scenario about Jamilla.
2. To figure out Jamilla's monthly payments for the standard repayment option for federal student loans, use the Repayment Estimator at <https://studentloans.gov/myDirectLoan/repaymentEstimator.action>.
3. To see what happens when you pay more than the monthly payment, use the [Finaid.org](http://www.finaid.org/calculators/prepayment.phtml) loan prepayment calculator at <http://www.finaid.org/calculators/prepayment.phtml>.
4. Answer the "Digging deeper" questions.

## The scenario: Jamilla graduates with federal student loan debt

Jamilla lives in your state. She recently graduated from a four-year public university and got a job making \$35,000 per year. To help pay for college, Jamilla took out the average amount of federal student loans. As she creates her first monthly budget, she needs to figure out how much her monthly loan payments will be. An online loan calculator can make this an easy task.

## Getting Jamilla's student loan information

- Go to the Office of Federal Student Aid's Repayment Estimator at <https://studentloans.gov/myDirectLoan/repaymentEstimator.action>.
- Scroll to the section: "Estimate your Payments."
  - Select "Use average loan balances" and "4-year public."
  - Leave all the other information on the default setting (single, no children, etc.)

1. Record Jamilla’s basic loan information as it appears on the web page.

Average federal student loan balance	Interest rate

- Scroll down to the section of the page with the heading “Repayment Estimator.”
  - Enter Jamilla’s salary in the “Adjusted Gross Income” box.  
**Note:** Adjusted gross income is an individual’s (or couple’s) total taxable income minus specific reductions. It’s not the same as annual salary, but annual salary is being used here for simplicity.
  - Enter your state.
  - Review the loan repayment options available.



To learn more about loan repayment options, visit:

<https://www.consumerfinance.gov/ask-cfpb/how-long-does-it-take-to-pay-off-a-student-loan-en-621/>

2. Record Jamilla’s results for the standard payment option for her federal student loans.

Total loan payment (Principal plus interest)	Loan term (Total number of months)	Estimated monthly payment amount

## Reducing the total cost of the loan

Jamilla believes that the quicker she can get out of debt, the more money she’ll have for other things in life. She wants to try to reduce her federal student loan’s total cost (principal plus interest) by paying more than the minimum required payment each month.


- Go to the loan prepayment calculator at <http://www.finaid.org/calculators/prepayment.phtml>.
- From the information you recorded above, enter Jamilla’s loan amount into the calculator’s “Loan Balance” box.
- Enter the loan’s term and interest rate.

- Enter the extra amount she'd pay each month in the calculator's "Extra Payment" box.
  - In the "Prepayment Frequency" drop-down box, select "Monthly."
  - Click "Calculate."
  - Under the "With Extra Payments" section, review the results for "Overall Total Payments" and "Total Interest Paid."
3. Record how Jamilla's total loan amount changes when she pays extra each month.

Extra payment: \$0 (Taken from above)	Extra payment: \$10	Extra payment: \$30
Amount paid monthly (basic payment; no prepayment):	Amount paid monthly (basic payment plus prepayment):	Amount paid monthly (basic payment plus prepayment):
Total interest paid:	Total interest paid:	Total interest paid:
Total loan amount (principal plus interest):	Total loan amount (principal plus interest):	Total loan amount (principal plus interest):

## Digging deeper

4. On a separate sheet of paper, show this comparison visually through a graph or chart.
5. What is one piece of advice you would give friends who are just beginning to pay off their student loans?

 [Findaid.org](http://findaid.org/calculators/loanpayments.phtml) offers free calculators that cover a range of payment scenarios for federal and most private student loans at <http://findaid.org/calculators/loanpayments.phtml>.