PFL Academy

Chapter 5.5: Understanding Student Loans

Student Activity Packet

THE CHALLENGE

Alex borrowed $20,000 in federal student loans at 5% fixed interest with income-driven repayment options. Jordan borrowed $15,000 federal plus $10,000 in private loans at 10% variable interest, requiring a parent co-signer. Both graduated with similar degrees, but their post-graduation financial situations look very different.

What key differences in their loan choices will impact Alex and Jordan for years to come?

Learning Objectives

- Compare federal and private student loans in terms of rates, flexibility, and protections.
- Calculate the long-term cost of different student loan scenarios.
- Develop strategies for borrowing responsibly and managing student loan debt.

CORE CONCEPTS

Term	Definition
Federal Student Loans	Loans from the U.S. Department of Education with fixed rates and flexible repayment options.
Private Student Loans	Loans from banks or credit unions; rates vary by credit score and typically offer less flexibility.
Income-Driven Repayment	Federal loan plans that base monthly payments on your income and family size.
Loan Forgiveness	Programs that cancel remaining federal loan balances after meeting specific criteria.
Default	Failure to repay loans as agreed; results in severe credit and financial consequences.

Background: Student loans help millions of students afford education, but the type of loan you choose matters enormously. Federal loans offer **fixed interest rates**, income-driven repayment plans, and potential loan forgiveness. Private loans may have lower initial rates for excellent credit but lack these protections. Defaulting on student loans can damage your credit for years, lead to wage garnishment, and even affect professional licenses. Smart borrowing means understanding your options before signing.

APPLY IT

PART A: FEDERAL VS. PRIVATE LOAN ANALYSIS

For each feature, identify whether it applies to federal loans, private loans, or both.

Feature Comparison

Fixed interest rates set by Congress: ______________________________ (federal / private / both)

Requires credit check for approval: ______________________________ (federal / private / both)

Income-driven repayment available: ______________________________ (federal / private / both)

May require co-signer: ______________________________ (federal / private / both)

Loan forgiveness programs available: ______________________________ (federal / private / both)

Hint: *Federal loans are standardized by Congress; private loans vary by lender and borrower creditworthiness.*

PART B: STUDENT LOAN COST COMPARISON

Compare the total cost of $30,000 borrowed under different scenarios.

Loan Type	Interest Rate	Term	Monthly Payment	Total Interest
Federal (Standard)	5%	10 years	$318	$8,184
Private (Good Credit)	7%	10 years	$348	$11,760
Private (Fair Credit)	10%	10 years	$396	$17,520
Total Repaid				

4. How much more will a borrower with fair credit pay compared to someone using federal loans?

Show your work:

Difference: $___________

5. If Jordan's variable rate increases from 10% to 12% after year 3, how might this affect their repayment?

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PART C: PERSONAL BORROWING STRATEGY

6. List THREE strategies to minimize how much you need to borrow for education.

7. Why should you exhaust federal loan options before considering private loans?

CHECK YOUR UNDERSTANDING

1. Which type of student loan offers income-driven repayment plans?

- ☐ A. Private loans from banks
- ☐ B. Federal student loans
- ☐ C. Both federal and private loans
- ☐ D. Neither type

2. Explain TWO consequences of defaulting on student loans.

3. Calculation: A student borrows $20,000 at 5% for 10 years with a $212 monthly payment. What is the total amount repaid and total interest?

Show your work:

Total repaid: $___________ Interest: $___________

4. Alex chose federal loans with income-driven repayment. If Alex earns $35,000 per year after graduation, why might this option be valuable?

5. Reflection: If you plan to attend college, what is your strategy for financing your education? What steps can you take now to minimize borrowing?