

# PFL Academy

## Teacher Guide: Chapter 5.5 — Understanding Student Loans

### OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Consumer Credit Legislation (L-24)

### LESSON FLOW

#### 5 min THE CHALLENGE

- Read Alex and Jordan's contrasting scenarios.
- Ask: "What do you already know about student loans? Federal vs. private?"

#### 10 min CORE CONCEPTS

- Create a T-chart: Federal vs. Private loans.
- Explain FAFSA as the gateway to federal aid.
- Discuss income-driven repayment and loan forgiveness options.

#### 25-30 min APPLY IT

- **Part A (8 min):** Feature matching. Review answers as a class.
- **Part B (12 min):** Cost comparison. Emphasize the \$9,336 difference in interest.
- **Part C (10 min):** Personal strategy development.

#### 10 min CHECK YOUR UNDERSTANDING

- Review Q3 calculation together.
- Discuss Q5—connect to students' actual college plans.

### DIFFERENTIATION

#### Support

- Create a side-by-side comparison chart for reference.
- Provide a FAFSA overview handout.
- Walk through Part B calculations step-by-step.

#### Extension

- Research Public Service Loan Forgiveness requirements.
- Compare starting salaries for intended careers to loan amounts.
- Create a 10-year repayment plan with budget projections.

## ANSWER KEY

### Part A: Federal vs. Private Loan Analysis

**Fixed rates set by Congress:** Federal

**Requires credit check:** Private (except Federal PLUS loans)

**Income-driven repayment:** Federal

**May require co-signer:** Private

**Loan forgiveness available:** Federal

### Part B: Student Loan Cost Comparison

Total Repaid:

- Federal (Standard):  $\$30,000 + \$8,184 = \$38,184$
- Private (Good Credit):  $\$30,000 + \$11,760 = \$41,760$
- Private (Fair Credit):  $\$30,000 + \$17,520 = \$47,520$

4.  $\$47,520 - \$38,184 = \mathbf{\$9,336 \text{ more}}$  for fair credit private loans.

5. Monthly payments would increase significantly. Variable rates mean uncertainty—Jordan could face payment shock and struggle to budget.

### Part C: Personal Borrowing Strategy

*Good strategies include: work part-time during school, apply for scholarships/grants, attend community college first, live at home, choose in-state schools, take AP/dual-credit courses in high school.*

### Check Your Understanding

1. B (Federal student loans)

2. Any two: damaged credit (7+ years), wage garnishment (up to 15%), tax refund seizure, ineligibility for future federal aid, professional license restrictions.

3.  $\$212 \times 120 \text{ months} = \mathbf{\$25,440 \text{ total}}$ . Interest =  $\$25,440 - \$20,000 = \mathbf{\$5,440}$

4. Income-driven repayment caps payments at a percentage of discretionary income. With \$35,000 salary, Alex's payment would be affordable and any remaining balance forgiven after 20-25 years.

5. Responses should include specific strategies: scholarships, part-time work, community college, choosing affordable schools, and understanding loan terms before borrowing.

## COMMON MISCONCEPTIONS

Misconception	Clarification
"Private loans are always cheaper because banks compete."	Federal loans have government-subsidized rates. Private loans vary by credit and can be much more expensive, especially for borrowers with fair credit.
"Student loans disappear in bankruptcy."	Student loans are extremely difficult to discharge in bankruptcy. Unlike other debts, they typically follow you until repaid.
"I should borrow the maximum to have spending money."	Only borrow what you need for educational expenses. Every dollar borrowed costs more to repay with interest.

