

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 that would be 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
- Understand why it's best to borrow as much as you can through federal student loans before taking out any private student loans

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Spend (Paying for college), 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

National Standards for Personal Financial Education, 2021

Earning income: 8-3, 8-4, 12-3

Spending: 12-8

Managing credit: 8-1, 8-6, 12-4, 12-5

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

What students will do

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

Preparing for this activity

- While it's not necessary, completing the "[Reading about federal financial aid](#)" or "[Learning how federal financial aid can help you pay for higher education](#)" activities first may make this one more meaningful.
- Print copies of all student materials, or prepare for students to access them electronically.
- Become familiar with the following CFPB resources on student loans:
 - The "Student loans" page
<https://www.consumerfinance.gov/consumer-tools/student-loans/>
 - 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/>
- Obtain computers or tablets with Internet access 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](#)
- Computers or tablets with 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 repayment or forgiveness options as federal loans.

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

- Ask students if they know someone who has student loans.
 - If so, ask volunteers to share some things they heard about that person's experience.
- Read the "Exploring key financial concepts" section to students.
- 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.

TIP

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

- **Financial aid:** Money 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 grant 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.)
- **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

- Distribute the “Choosing a student loan that’s right for you” worksheet and the computers or tablets to students.
- Tell students they’ll research the similarities and differences between federal and private student loans.
- Students can work individually or in groups to complete this activity but should complete their own worksheet.
- Ask students to review the graphic organizer on the worksheet to make sure they understand how they’ll organize the information they find about the two types of loans.
- Have students visit two CFPB webpages with information about student loans.
 - The “Student loans” page: <https://www.consumerfinance.gov/consumer-tools/student-loans/>
 - 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 types of loans are similar and how they differ.

Wrap-up

- Bring students back together to compare their findings.
- Ask students to share which type of loan they'd prefer and why.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topics of spending, including paying for college, or borrowing, including getting loans. Suggested activities include ["Using a student loan calculator"](#) and ["Understanding how much student debt you can afford"](#).

Measuring student learning

Students' answers on their worksheets and during discussion can give you a sense of their understanding.

This answer guide provides possible answers for the "Choosing a student loan that's right for you" worksheet. **Keep in mind that students' answers may vary.** The important thing is for students to have reasonable justification for their answers.

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