



Student Loans: Part A

The FAFSA

Standard 7

The student will identify the procedures and analyze the responsibilities of borrowing money.

Lesson Objectives

- Describe the purpose of the FAFSA

Personal Financial Literacy Vocabulary

FAFSA: An application called the Free Access to Federal Student Aid that is required to be submitted for most financial aid when attending colleges, universities, and career schools.

Introduction

Jonah, Ross, and Taylor have gone to school together since the first grade, and now they are getting ready to graduate from high school. All three are planning to continue their education after

graduation, but find it hard to believe they will not be going to the same school any more. Jonah is headed into a technical school to get certified as a medical assistant; Ross is headed to a university out of state to eventually get his law degree, and Taylor is going to the local community college to start her degree in business. Jonah's parents have been saving for him to go to school, but he is hoping to get some kind of financial aid to help pay for his education. Ross has already received a great scholarship that will cover most of his expenses for the first year, and he is sure he can complete college without getting any loans. Taylor is hoping to qualify for some kind of scholarship and get a job on campus, but she is prepared to apply for loans as needed to pay for her education.

Which of these young people will need to complete the FAFSA (Free Application for Federal Student Aid)?

Lesson

For most students, completing the FAFSA is the first step toward getting some kind of financial aid for college, career training, or graduate school. You and your parents will need to complete this application before you will be eligible for student loans, grants, work-study programs providing student jobs on campus, and even most scholarships when continuing your education after high school. Regardless of your grades or your family income, the FAFSA is an important part of the process to receive any type of financial aid. And, you will need to re-apply every year you are still in school to continue your eligibility for financial aid.

The form, along with the guidelines and tips for completing it, are available online at www.fafsa.gov. While you can download the form and complete it in paper form, it is highly recommend that you and your parents complete the online version because it speeds up the process of your application.

If you are a dependent, you will need to have your parent's financial information as part of the process. That information includes a copy of your family's federal income tax return, as specified in the FAFSA guidelines. The online version allows you to transfer this information directly from the Internal Revenue web site, making it easier to access the information and ensures more accurate information. The FAFSA is available on October 1 each year, and it is recommended that you complete the application soon after that date because funds for some federal programs may be limited and could be gone if you wait too late in the school year to apply.

REMINDER

The Financial Aid office can always provide you with assistance in answering your questions. Remember don't pay for someone to fill out the FAFSA application.

It is also recommended that you have applied and been accepted by the school of your choice before completing the FAFSA because you will need to work with its financial aid office to finalize the process. However, you can choose to send the FAFSA to several schools even if you have not been accepted to all of them.

You will be required to set up a FAFSA account by creating a user ID and password, which will also help you track the processing of the application and make any necessary changes. In addition, your FAFSA ID will become your online identifier for all federal financial aid programs. Your FAFSA application will be processed once it is complete and submitted, which should take about three weeks. Once processed, you can begin working with the financial aid office where you plan to attend to determine exactly what types of

financial aid and the specific amounts you are eligible to receive at that institution. The financial aid officer will also be able to explain how you will receive the funding; for example, will it go directly to you or will it go directly to the school.

Before accepting any funds, be sure you understand if any of the funds you are receiving will need to be repaid and when the payments will start. Generally, scholarships and grants are like gifts that require no repayments; however, student loans are like any other loans that accumulate interest and must be repaid over a period of time. Work-study funds are a little different; you are basically receiving hourly wages for working in designated jobs on campus. The financial aid officer should provide you with specific details on any type of financial aid you receive, but it is your responsibility to understand what you are accepting and the terms of accepting it.

You may be offered a financial aid package including scholarships, grants, student loans, and work-study. However, you do not have to accept everything you are offered. If your scholarships and grants will cover your expenses, then it is best not to accept the debt that comes with the student loans.

Questions to Ask the Financial Aid Office

The financial aid officers can answer specific questions about costs, the financial aid process and options for financing your education.

Here are a dozen questions to get you started:

1. What's the average total cost — including tuition and fees, books and supplies, room and board, travel, and other personal expenses — for the first year?
2. How much have costs for the average student increased over the last three years?
3. Does financial need have an effect on admission decisions?
4. What is the priority deadline to apply for financial aid and when am I notified about financial aid award decisions?
5. How is financial aid affected if I apply under an early decision or early action program?
6. Does the college offer need-based and merit-based financial aid?
7. Are there scholarships available that aren't based on financial need, and do I need to complete a separate application for them?
8. If the financial aid package the college offers isn't enough, are there any conditions under which it can be reconsidered, such as changes in my family's financial situation or my enrollment status (or that of a family member)?
9. How does the aid package change from year to year?
10. What are the terms of the programs included in the aid package?
11. What are the academic requirements or other conditions for the renewal of financial aid, including scholarships?
12. When can I expect to receive bills from the college, and is there an option to spread the payment over equal monthly installments?

Conclusion

While the process for completing the FAFSA is standard for everyone, the process of actually awarding the funds can vary from one school to another – just as the financial aid you receive will vary from what someone else is receiving. However, the key to starting the process is to complete the FAFSA. Without taking that step, you will probably not be eligible for any financial aid when continuing your education after high school.

FINAL NOTE: If you said all three friends need to complete the FAFSA, you were correct! Whether getting loans, scholarships or other types of financial aid, most post-secondary education schools today require you to complete the FAFSA to receive any type of financial aid.

It is not necessary to pay for the FAFSA or for help to complete it. Beware of any Web site or other source that asks you to pay for help to complete it. It is a free application, and you are never required to pay to complete it or to submit it. Check out the free help online from FAFSA if you need assistance.

This lesson was written and created by
Oklahoma educators in partnership with



Name: _____ Class Period: _____

Completing the FAFSA Review 7.5A

Each of the following statements is FALSE. Explain why they are false and return the completed assignment to your teacher.

1. You and your parents need to complete the FAFSA only if you are planning to attend a college or university.

2. You and your parents need to complete the FAFSA only if you are applying for student loans.

3. The financial aid officer where you have applied makes the final decision about how much financial aid you receive.

Student Loans:

Part B – The Loans



Lesson Objectives

- Distinguish between federal and private student loans
- Explain the responsibilities of getting student loans

Personal Financial Literacy Vocabulary

Deferment: A postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue on the loan.

Consolidation Loan: A federal loan made by the U.S. Department of Education that allows you to combine one or more federal student loans into one new loan.

Federal Student Loan: A loan funded by the federal government to help pay for your education. A federal student loan is borrowed money you must repay with interest.

Forbearance: A period during which your monthly loan payments are temporarily suspended or reduced.

Student Loan Lender: The organization that made the loan initially; the lender could be the borrower's school; a bank, credit union, or other lending institution; or the U.S. Department of Education.

Work Study. A federal student aid program that provides part-time employment while you are enrolled in school to help pay your education expenses.

Introduction

Jonah, Ross, and Taylor have completed the FAFSA process and met with their financial aid offices to determine what they are eligible to receive. Jonah and Taylor are both eligible to receive loans, scholarships, and work-study, but Ross is only eligible for scholarships and loans because his parents earn too much money for a work-study position.

Jonah and his parents decide it is best to get loans because he can complete his certification in two years, live at home, drive the same car, and use the money saved to help him get a car and place to live after graduation. He can continue his part-time job to help pay for other expenses. He can also apply for whatever scholarships are available at the school for additional assistance.

Taylor and her parents decide that she should get an apartment with her friends close to campus to reduce her cost of commuting, look for a job on campus, and apply for loans and scholarships to pay any additional expenses. She is also considering getting a credit card to use for her books and living expenses, to reduce the amount borrowed on student loans.

Ross and his parents decide that he will live on campus and use his scholarships to cover his tuition, fees, books, and living expenses, and his parents will help provide other funds needed for the first year. They will re-assess their decision at the end of his freshman year to decide their best option for the next year.

Which of the friends is making the best decision? What would you do differently?

Lesson

The need for a post-secondary education is rather apparent in today's world. By getting some kind of degree or certification after high school, you are preparing yourself to secure a better financial future. Taking that additional step, however, has a cost because most colleges, universities, career centers, and other advanced training programs require you to pay some type of tuition or fees to attend. As the demand for higher education and certification programs has increased, so has the price. That means the cost of continuing your education after high school continues rising and more money is needed to pay for it. Most students will need some kind of financial aid to help cover these additional expenses.

For many students, financial aid includes getting a loan to assist in paying for their post-secondary education. The responsibilities of having a student loan are very similar to the responsibilities of borrowing money for any other purpose. Like any other loan, they require you to repay what you have borrowed plus interest. However, the process and the terms are somewhat different for students because payments on some of these loans can be deferred as long as you are in school.

Taking out a student loan is an investment in your future, as long as you make good choices about how much to borrow. Overspending and over-borrowing can have a long-term impact on your financial future as you struggle to make those loan payments on top of paying for your living expenses. Keeping loans to a minimum will help ensure you have sufficient funds as you start your new job or career after completing your degree or certification.

While you can obtain federal and private loans to pay for your education, most experts recommend getting federal loans because they tend to offer better options than private loans or even using credit cards. Following are several advantages that federal student loans have over the other two options:

- The interest rate on federal student loans is usually lower than the interest on private loans — and much lower than interest rates on most credit cards.
- You do not need a credit check or a cosigner to get most federal student loans.
- You do not have to begin repaying your federal student loans until after you leave college or become a part-time student.
- If you demonstrate financial need, you can qualify to have the government pay your interest while you are in school.
- Federal student loans offer flexible repayment plans and options to postpone your loan payments if you are having trouble making payments.
- If you work in certain jobs, you may be eligible to have a portion of your federal student loans forgiven if you meet certain conditions.

Source: U.S. Department of Education (studentaid.ed.gov)

In addition, the table below provides a summary of the differences between federal and private student loans:

Federal Student Loans	Private Student Loans
You will not have to start repaying your federal student loans until you graduate, leave school, or change your enrollment status to less than half-time.	Many private student loans require payments while you are still in school.
The interest rate is fixed and is often lower than private loans and much lower than most credit card interest rates.	Private student loans may have variable interest rates, some greater than 18%, which affects the total amount you repay.
Undergraduate students with financial need will likely qualify for a subsidized loan where the government pays the interest while you are in school on at least a half-time basis.	Private student loans are not subsidized. No one pays the interest on your loan but you.

Federal Student Loans	Private Student Loans
You don't need to get a credit check for most federal student loans (except for PLUS loans). Federal student loans can help you establish a good credit record.	Private student loans may require an established credit record. The cost of a private student loan will depend on your credit score and other factors.
You do not need a cosigner to get a federal student loan in most cases.	You may need a cosigner.
Interest may be tax deductible.	Interest may not be tax deductible.
Loans can be consolidated into a Direct Consolidation Loan.	Private student loans cannot be consolidated into a Direct Consolidation Loan.
If you are having trouble repaying your loan, you may be able to temporarily postpone or lower your payments.	Private student loans may not offer forbearance or deferment options.
There are several repayment plans, including an option to tie your monthly payment to your income.	You should check with your lender to find out about your repayment options.
There is no prepayment penalty fee.	You need to make sure there are no prepayment penalty fees.
You may be eligible to have some portion of your loans forgiven if you work in public service.	It is unlikely that your lender will offer a loan forgiveness program.

Source: U.S. Department of Education (studentaid.ed.gov)

Using credit cards to pay for your post-secondary education is somewhat similar to private loans because you will generally pay higher interest rates than on federal loans, you will not be able to defer your payments, and your interest will not be tax deductible.

Regardless of the options you choose, racking up debt with frivolous spending and poor choices will create future problems for you to overcome. Being aware of the differences in your obligations to repay what you have borrowed is an important factor in financing your post-secondary education. It is also important to note that federal student loans cannot be discharged if you file bankruptcy; you are still required to pay them. In some cases, private student loans are eligible for discharge as are credit card bills.

The U.S. Department of Education offers the following tips to assist you in making responsible choices about financing your education:

- Keep track of how much you are borrowing. Think about how the amount of your loans will affect your future finances, and how much you can afford to repay. Your student loan payments should

be only a small percentage of your salary after you graduate, so it is important not to borrow more than you need for your school-related expenses.

- Research starting salaries in your field. Ask your school for starting salaries of recent graduates in your field of study to get an idea of how much you are likely to earn after you graduate. You can use the U.S. Department of Labor's *Occupational Outlook Handbook* to estimate salaries for different careers or research employment opportunities advertised in the area where you plan to live to get an idea of a local starting salary. You also can use the Department of Labor's career search tool to research careers and view the average annual salary for each career.
- Understand the terms of your loan and keep copies of your loan documents. When you sign your loan papers, you are agreeing to repay the loan according to the terms of the loan even if you do not complete your education, cannot get a job after you complete the program, or you did not like the education you received.
- Make payments on time. You are required to make payments on time even if you do not receive a bill, repayment notice, or a reminder. You must pay the full amount required by your repayment plan; partial payments do not fulfill your obligation to repay your student loan on time.
- Keep in touch with your loan servicer. Notify your loan servicer when you graduate; withdraw from school; drop below half-time status; transfer to another school; or change your name, address, or Social Security number. You also should contact your servicer if you're having trouble making your scheduled loan payments. Your servicer has several options available to help you keep your loan in good standing.

Conclusion

Because a student loan is a legal obligation like any other loan, you are required to repay it with interest and meet all terms or conditions of the contract you signed. Just because the payments on federal loans may be deferred until later does not excuse you from keeping your legal obligations. While federal student loans require you to accumulate future debt, they tend to have several advantages over using private loans or credit cards to finance your college education or any post-secondary certification programs. Continuing your education after graduating from high school is important, but so are the choices you make when deciding how to pay for it. Most importantly, remember you can reduce your overall debt of continuing your education by starting a savings plan to pay those costs and making good grades to help you qualify for scholarships.

FINAL NOTE: It would seem that Jonah and Ross are making a better decision than Taylor because using credit cards to pay for college expenses is generally not a good plan unless she has sufficient income to repay the total amount charged each month. She would probably be better off in the long run to use student loans to finance the balance of her college education.

