

Lesson 1: Student Loans: What Are They?

Lesson Objectives: By the end of this lesson, you should be able to:

- explain what a student loan is and what it can be used for
- explain why determining educational expenses doesn't really matter
- explain the difference between subsidized and unsubsidized loans
- identify the most important number you need to know about your student loans

Lesson Summary:

What's a student loan? Let's break this down. *Student* means someone enrolled in some form of school. A *loan* is rented money. So, a *student loan* is *rented* money to pay for school. This sounds simple enough, but millions of students, from career schools to four-year, private colleges, somehow mess it up.

Many students who borrow money don't realize they are actually borrowing it because they confuse their loans as some sort of scholarship or grant. While you may have some scholarships or grants that do not need to be paid back, remember this one thing about student loans: They must all be paid back, and they are paid back with interest.

The second problem that arises with student loans is that many students stretch the definition of *educational expenses* to infinity. They say things like, "Well, I have to watch some DVDs as homework, so I need a 52-inch plasma TV to watch them on. That's an educational expense, right?" You might laugh, but this happens all the time.

Students frequently ask, "Is a car an educational expense? Can I use my loans to take an educational vacation?" The short answer to both is no, but the bigger answer is that it doesn't matter. What really matters is whether or not you can afford to pay back what you borrow, with the assigned interest.

If Student A spends \$5,000 of a loan on a trip to Vegas and Student B spends all that money on tuition, Student A clearly broke the law. However, if Student A pays on time and Student B is late, Student B will be the one with problems to solve.

We don't have time to go through all the legal definitions of educational expenses, so use your reasonable judgment. Start by realizing that cars and televisions and trips to Vegas are not in this category. The big idea is simply to not borrow

more than you can afford, and if you use your reasonable judgment, chances are that won't happen. Just don't borrow it if you cannot pay it back.

Student loans come in two forms. A *subsidized* loan is a loan where the government pays the interest while you are in school. With an *unsubsidized* loan, the interest builds throughout the school year. In short, unsubsidized loans get bigger, while subsidized loans don't. It's important to know which types of loans you have, because if they are unsubsidized, you will owe more than you originally borrowed.

Even more important than knowing whether your loan is unsubsidized or subsidized is knowing what the payments will be. Student loans, like many loans, are paid monthly; no one pays off their loans all at once, unless you win the lottery or do well in Vegas. Then again, if you have student loans, you should not be buying lottery tickets or going to Vegas.

Review Questions:

- A student attends a one-year educational program. She borrows \$10,000 to pay for her tuition at 6 percent interest, an unsubsidized loan. At the end of the year, how much does she owe?

- How much would the student owe if the above loan was a subsidized loan?

Homework Assignment:

Research your student loan paperwork and find these numbers for every student loan you have. Try www.nsls.ed.gov for help.

- Total amount borrowed: _____
- Interest rate: _____
- Monthly payment upon graduation: _____
- Subsidized (yes or no): _____

Class Activity:

Discuss as a class some items you might buy or have already bought with your student loans. What have you bought? What are you planning on buying?

Putting the legal definitions aside, since they are very hard to find anyway, what do you think is a fair use of student aid money? Gas? A bus pass? An iPad? Why do you feel these count as an educational expenses?

Additional Information:

www.nsls.ed.gov: The National Student Loan Data System (NSLDS) is the U.S. Department of Education central database for student aid. By plugging in your information, you can access data on your loans and federal grants, including the name of the company that services your loan, your loan status, and loan disbursements. You will need a PIN; go to the FAQs to learn how to get one.

www.studentaid.ed.gov: The Department of Education Federal Student Aid Office provides information about student loans, loan repayment plans with accompanying repayment calculators, loan forgiveness for public service, postponing repayment of your loans, and more.

www.finaid.org: This is a very comprehensive website on financial aid, with everything from FAQs to calculators to the ability to ask questions and receive personalized answers.

Fun Facts:

Total student loan debt in the United States is now increasing at a rate of approximately \$2,853.88 per *second*! It pays to pay attention! (www.finaid.org)

Notes: _____

