# Lesson 8.4: Understanding the Financial Aid Process

## Lesson Author
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## Standards and Benchmarks
See page 6.

## Lesson Description
In this lesson, students will be able to explain the basic steps involved in obtaining financial aid. They will compare federal and private loans and explain what it means to take out each type of loan. They will also identify various strategies they can use to be a responsible borrower. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

## Concepts
Credit
Decision Making

## Objectives
Students will be able to:
- explain the basic steps involved in obtaining federal student financial aid.
- compare federal and private loans and explain what it means to take out each type of loan.
- identify various strategies they can use to be a responsible borrower.

## Compelling Question
Why is it important to understand different student loan options?

## Time Required
90 minutes

## Materials
- Understanding the Financial Aid Process Lesson 8.4 Slides
- Handout 8.4.1: How America Pays for College, one copy for each student
- Handout 8.4.2: The Financial Aid Process, one copy for each student
- Handout 8.4.3: Financial Aid Steps, one copy per 3-4 students, cut apart and mixed up
- Handout 8.4.4: How Much Money Can You Receive?, one copy for each student

- Handout 8.4.5: Federal and Private Student Loan – Game Cards, one copy per 3-4 students
- Handout 8.4.6: Assessment, one copy for each student
- Video, "The Different Types of Federal Student Loans"
- Chart paper

## Preparation

- Cut apart and mix up the financial aid steps from Handout 8.4.3: Financial Aid Steps

## Procedure

1. Display the prompts below found on Slide 2. Ask students to individually make predictions:
    a. What percent of families use loans to pay for college?
    b. What percent of college costs come from scholarships and grants?
    c. What is the largest source of funding for most families for postsecondary education?

2. Pass out or display Handout 8.4.1: How America Pays for College. Students make corrections to their predictions.
    a. What percent of families use loans to pay for college? (*48%*)
    b. What percent of college costs come from scholarships and grants? (*27%*)
    c. What is the largest source of funding for most families? (*Family income/savings-48%*)

3. Ask students to turn to a partner and discuss:
    a. Were your predictions accurate?
    b. What does this data suggest about the importance of understanding financial aid?
    c. What other information from this infographic is important to know and why?

4. Explain that today's lesson will focus on the process of how students access financial aid and what borrowing truly means.

5. Distribute Handout 8.4.2: The Financial Aid Process. Have students respond to the questions associated with each step of the financial aid process. See Answer Key to answers, and discuss the answers as a whole group.

6. Divide students into groups of 3-4 and give each group a set of scrambled Financial Aid Steps (Handout 8.4.3).

7. Instruct the groups to arrange the steps in the correct order. (*Research college costs, Create an FSA [Federal Student Aid] ID at www.studentaid.gov, Complete the FAFSA, Complete Additional Aid applications [private scholarships, state aid programs, etc.], Review the Student Aid Index [SAI], Receive Financial Aid Award Letters, Compare and Evaluate Aid Packages, Accept or Decline Aid, Complete Loan Requirements [entrance counseling, sign a Master Promissory Note], Manage Loans and Repayment*)

8. After completing the activity, explain to students: “We’ve identified the steps in the financial aid process. Now, let’s talk about why these steps are important.” Ask students the following questions:
    a. Why is it important to research the total cost of attendance before applying for aid? (*Financial aid is based on total cost. Understanding tuition, fees, housing, books, and living expenses helps you determine how much you actually need.)*
    b. Why is it dangerous to assume all financial aid is “free money”? (*Award letters often combine grants, scholarships, and loans, so you may mistake borrowed money for gift aid. Loans have to be repaid with interest; they are not “free”.)*
    c. What are the consequences of missing FAFSA or state deadlines? (*Students may lose access to federal grants, work-study, state aid, and even some institutional scholarships. Some aid is first-come, first-served*.)
    d. Why is accepting the full loan amount not always a good idea? (*The more you borrow, the more interest accrues and the higher your total repayment cost. Students should borrow only what they truly need*.)
    e. How can borrowing too much affect someone’s future choices (career, housing, lifestyle, etc.)? (*High monthly loan payments can limit career flexibility, delay buying a home, reduce savings, increase financial stress, and restrict lifestyle choices for years after graduation*.)

9. Distribute Handout 8.4.4: How Much Money Can You Receive? to each student. Ask the students to read the handout and then work with the person next to them to answer questions a to f. Discuss the answers to the questions as a whole class.

10. Explain that for most students, federal loans should be their first option if they are looking to borrow money for postsecondary education. To help students understand their options, they will watch a brief video about three of the most common federal loan types: subsidized Direct Loans, unsubsidized Direct Loans, and Direct PLUS loans. The students should take notes as they watch and be prepared to answer questions at the end of the video.

11. Show the video "The Different Types of Federal Student Loans" found on Slide 4.

    NOTE: You may also access the video here:
    https://www.youtube.com/watch?v=aMw3oLDqxHs

12. Discuss the following questions with students found on Slide 5.
    a. All three loan types are **fixed-interest loans**. What is a fixed-interest loan, and what are the benefits of having a fixed-interest loan? (*A fixed-interest loan means that the amount of interest you’ll have to pay each month stays the same until you pay off the loan. Predictable payments make it easier to plan your monthly budget*.)
    b. What is a **Subsidized Direct Loan**? (*The federal government pays the interest on your loan while you're still in school at least half time. This type of loan is available to undergraduate students with financial need*.)
    c. What is an **Unsubsidized Direct Loan**? (*The federal government does not pay interest on your loan while you are in school. Therefore, interest starts adding up as soon as the loan is taken out. Unsubsidized loans are available to undergraduate and graduate students with no requirement to demonstrate financial need*.)

d. If you have an **Unsubsidized Direct Loan**, why might making interest payments during college be a good strategy? (*The interest compounds so if you allow the interest to remain unpaid, then the total amount after college will grow to a much larger size. For example, if you take a $5,000 loan every year and pay none of it during college, you will be left with $28,277 of debt—20,000 for the debt and $8,277 for the interest.*)
e. What is the benefit of the **Direct PLUS Loans**? (*These are very similar to unsubsidized Direct Loans, but they're offered to graduate and professional students as well as parents of dependent undergrads.*)

13. Using Slides 6-10, go over the key differences between Federal and Private student loans. Students will use what they learned in a game that compares them in the next activity.

14. Instruct students to get into the same groups from Procedure Step 6. Inform them that they will now take part in a game in which they will identify whether each statement applies to a federal student loan, a private student loan, or both.

15. Pass out the cards from Handout 8.4.5 to each group. Instruct students that they will see various statements that describe federal loans, private loans, or both. They will need to hold up the correct sign for each statement.

16. Go through each statement on Slides 11-34. Assign each team one point for a correct answer.
    a. Interest rates are often variable (*Private*)
    b. There's interest on the loan (*Both*)
    c. Almost everyone is eligible (*Federal*)
    d. Interest rates are fixed (*Federal*)
    e. Loan forgiveness is not available (*Private*)
    f. Six-month grace period for loans after graduation (*Both*)
    g. Higher interest rates (*Private*)
    h. Loan forgiveness is possible in some cases depending on your location and profession (*Federal*)
    i. The federal government may pay interest on your loan while you're in school (subsidized) (*Federal*)
    j. Lenders decide eligibility based on your credit history and other factors (*Private*)
    k. Lower interest rates (*Federal*)
    l. You're charged interest while still in school (*Private*)

## Closure

17. In a whole group discussion, review the important points of the lesson by asking students the following questions found on Slide 35:
    a. Explain the basic steps in applying for federal financial aid. (*Prepare by saving for college and researching and applying for scholarships and state funding sources; Complete the FAFSA to apply for federal financial aid; Review the Student Aid Report for accuracy; Review the Award Letters to determine which schools offer the combination of federal grants, loans, and work study that works best for you.)*

b. What are three major differences between federal and private student loans? (*1. Almost everyone is eligible for federal loans. Lenders decide who is eligible for private loans based on credit worthiness and will likely require a co-signer. 2. Federal loan interest is the same rate until the loan is paid off; private loan interest rates often vary and change over time. 3. Subsidized federal loans have no interest while the borrower is in school; private loans charge interest while the borrower is in school. 4. Federal loan amounts cannot exceed your college costs; private lenders may loan larger amounts, depending on your credit worthiness. 5. Federal loans have flexible monthly payments based on income or financial hardship, and possible debt forgiveness for public service work; private loans have limited flexibility for financial need or hardship.*)
c. Why should students explore federal student loan options before private loan options? (*Answers may vary and may include the following: flexible repayment, possibility of loan forgiveness, fixed interest rates, anyone is eligible, possibility of interest being subsidized*.)
d.

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## Assessment

18. Pass out Handout 8.4.6: Assessment. Ask students to respond independently.

**Standards and Benchmarks**

**National Standards for Personal Financial Education**

## Standard 1: Earning Income

Most people earn wage and salary income in return for working, and they can also earn income from interest, dividends, rents, entrepreneurship, business profits, or increases in the value of investments. Employee compensation may also include access to employee benefits such as retirement plans and health insurance. Employers generally pay higher wages and salaries to more educated, skilled, and productive workers. The decision to invest in additional education or training can be made by weighing the benefit of increased income-earning and career potential against the opportunity costs in the form of time, effort, and money. Spendable income is lower than gross income due to taxes assessed on income by federal, state, and local governments.

**Benchmarks: Grade 12**

3. People vary in their willingness to obtain more education or training because these decisions involve incurring immediate costs to obtain possible future benefits. Discounting the future benefits of education and training may lead some people to pass up potentially high rates of return that more education and training may offer.
4. Employers generally pay higher wages or salaries to more educated, skilled, and productive workers than to less educated, skilled, and productive workers.

## Standard 5: Managing Credit

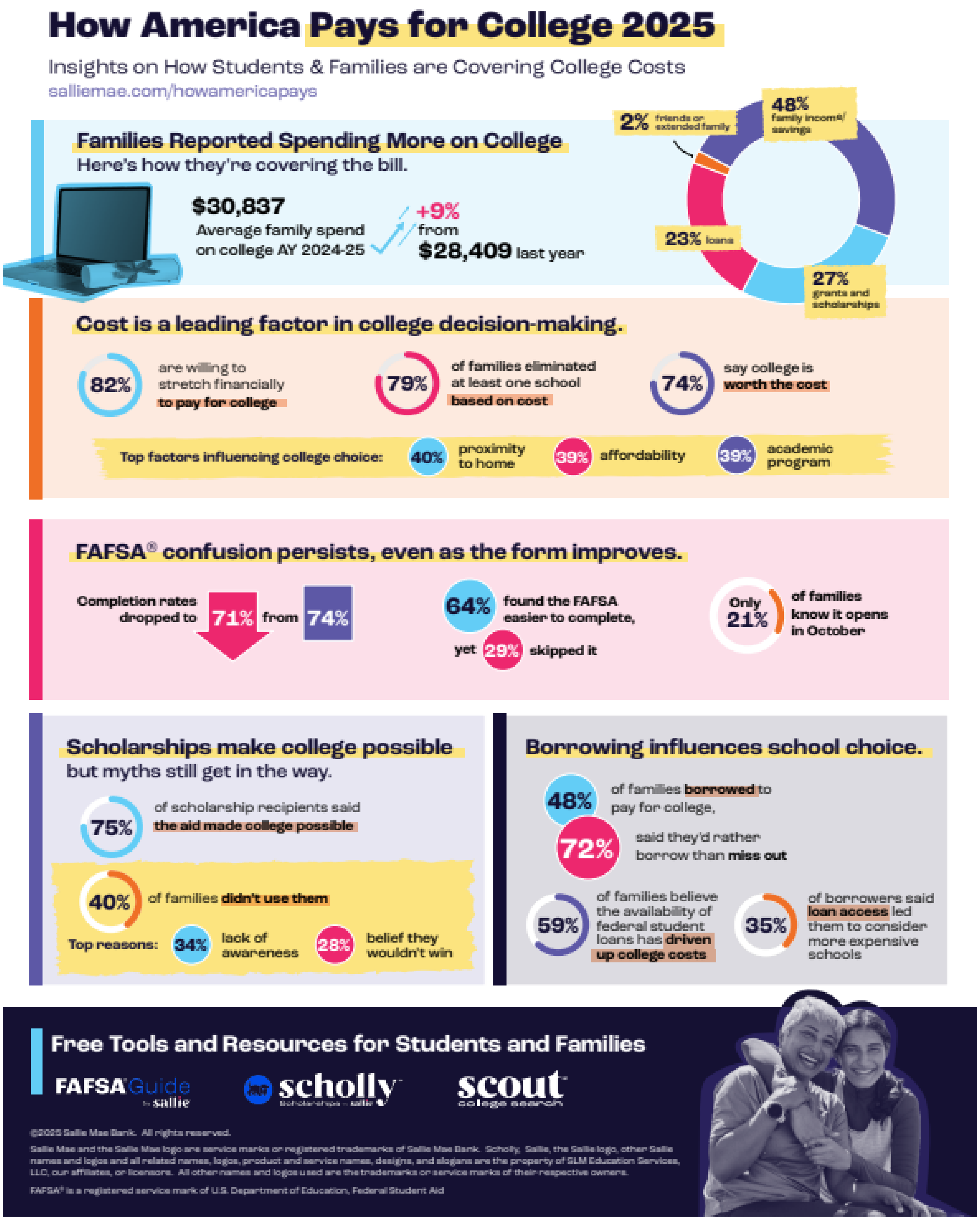
Credit allows people to purchase and enjoy goods and services today, while agreeing to pay for them in the future, usually with interest. There are many choices for borrowing money, and lenders charge higher interest and fees for riskier loans or riskier borrowers. Lenders evaluate creditworthiness of a borrower based on the type of credit, past credit history, and expected ability to repay the loan in the future. Credit reports compile information on a person's credit history, and lenders use credit scores to assess a potential borrower's creditworthiness. A low credit score can result in a lender denying credit to someone they perceive as having a low level of creditworthiness. Common types of credit include credit cards, auto loans, home mortgage loans, and student loans. The cost of postsecondary education can be financed through a combination of grants, scholarships, work-study, savings, and federal or private student loans.

- **Benchmarks: Grade 12**

4. Post-secondary education is often financed by students and families/caregivers through a combination of scholarships, grants, student loans, work-study, and savings.

5. Federal student loans have lower rates and more favorable repayment terms than private student loans, and may be subsidized.

**Handout 8.4.1: How America Pays for College**



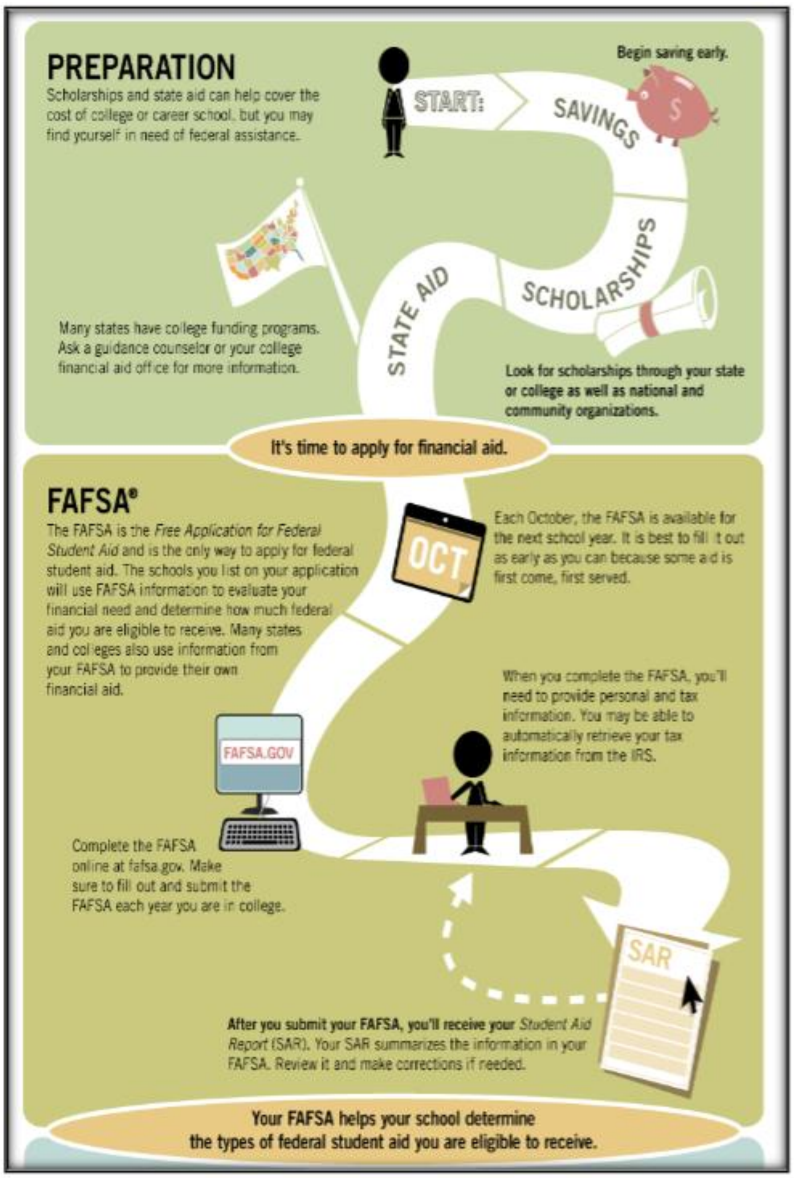

**Source:** Salliemae.com, **"How America Pays for College", 2025 Fact Sheet**

**Handout 8.4.2: The Financial Aid Process (page 1 of 2)**

## The Financial Aid Process

Finding financial aid can seem overwhelming when you're trying to get ready for college or career school. This infographic from the US Department of Education's Office of Federal Student Aid puts the financial aid process in a "roadmap" format to help you understand how to get the money you need to pay for your education.

**<u>Part I</u>**




Read the two sections titled "Preparation" and "FAFSA" in detail and answer Questions "a" through "c" below.

**<u>Questions:</u>**

a. What are three ways to prepare for paying for college *before* you apply for financial aid?

1)

2)

3)

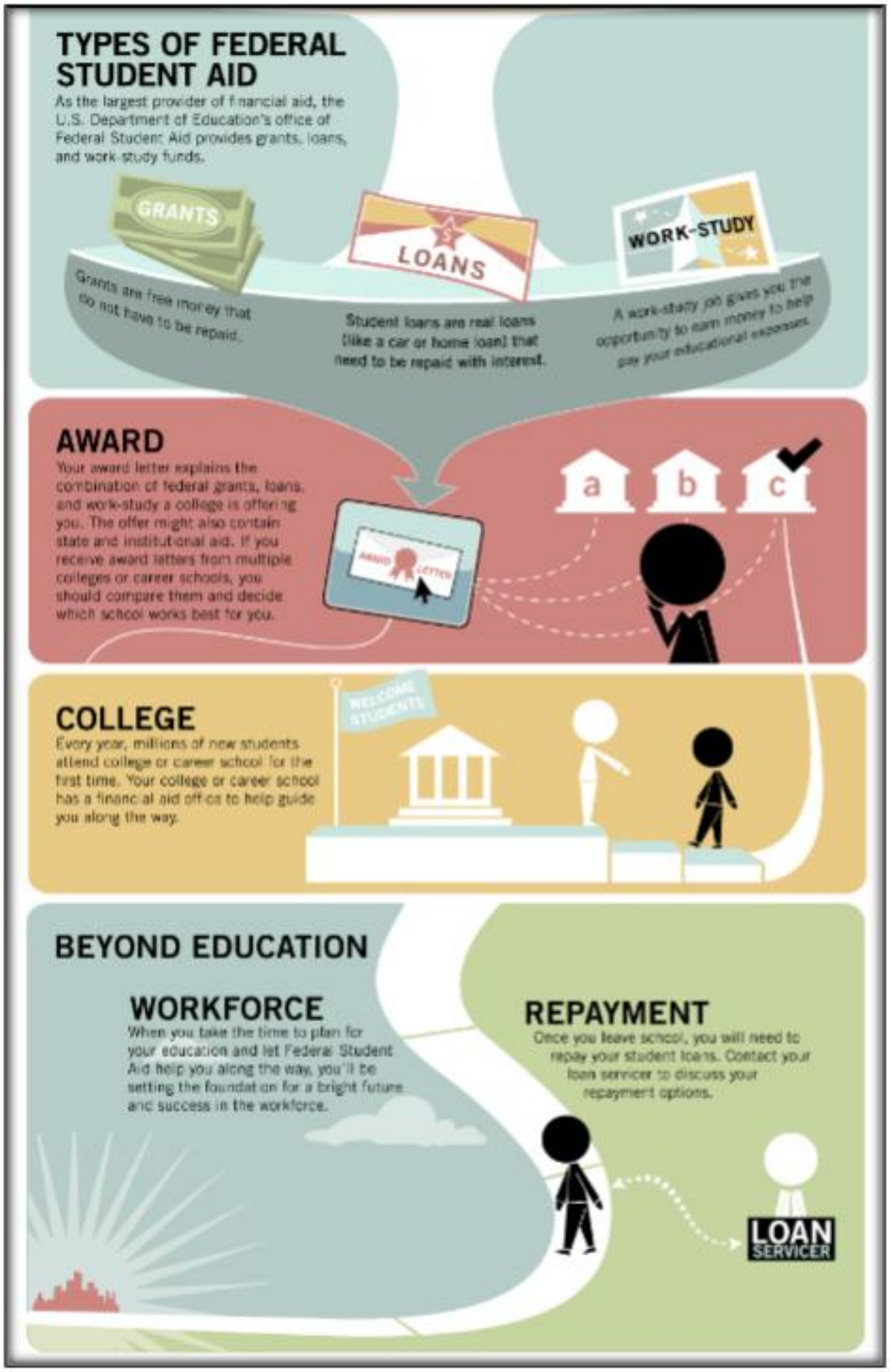
b. Why is it important to complete the FAFSA?

c. What is the importance of the Student Aid Report?

Source: StudentAid.gov

**Handout 8.4.2: The Financial Aid Process (page 2 of 2)**

**<u>Part II</u>**
Read each section and answer Questions “d” through “f” below.




Source: StudentAid.gov

**<u>Questions:</u>**
d. Define each of the three types of federal student aid:
1) Grants

2) Loans

3) Work-study

e. What is the purpose of the Award Letter?

f. Would you be comfortable having $5,000 of student loan debt after college? What about $25,000 of debt? What about $100,000?

**Handout 8.4.3: Financial Aid Steps**

| |
|---|
| **Research college costs** |
| **Create an FSA (Federal Student Aid) ID at www.studentaid.gov** |
| **Complete the FAFSA** |
| **Complete Additional Aid applications (private scholarships, state aid programs, etc.)** |
| **Review the Student Aid Index (SAI)** |
| **Receive Financial Aid Award Letters** |
| **Compare and Evaluate Aid Packages** |
| **Accept or Decline Aid** |
| **Complete Loan Requirements (entrance counseling, sign a Master Promissory Note)** |
| **Manage Loans and Repayment** |

## Handout 8.4.4: How Much Money Can You Receive? (page 1 of 2)

Both the amount and type of federal financial aid you receive are based on several factors. One significant factor is the **Cost of Attendance (COA)**, which is the amount it will cost you to go to a postsecondary school. This is typically calculated for a school year. Programs that follow different calendars, such as an 18-month certificate program, might have a COA that covers a time period other than a year. COA factors in such expenses as tuition, room and board, books and supplies, transportation, dependent care, and costs related to a disability.

Another important factor that is used to calculate the amount of federal aid you are eligible to receive from a school is the **Expected Family Contribution (EFC)**. The information reported on your FAFSA is used to calculate your EFC index number. This is done according to a formula established by law. Your total family income, assets, and benefits, as well as your family size and the number of family members enrolled in higher education, are all considered in this formula.

In very basic terms, a college or post-secondary program will determine whether you have financial need by using this simple formula:

**Need-based Financial Aid =**
**Cost of Attendance (COA) – Expected Family Contribution (EFC)**

**Need-based aid** is financial aid that you receive if you have financial need and meet the other eligibility criteria described above. You can’t receive more need-based aid than the amount of your financial need. For instance, if your COA is $16,000 and your EFC is $12,000, then your financial need is $4,000. So, you aren’t eligible for more than $4,000 in need-based aid.

EXAMPLES of need-based aid include: Federal Pell Grant, Direct Subsidized Loans, Federal Perkins Loan, and Federal Work-Study

**Non-need-based aid** is financial aid that is not based on your expected family contribution (EFC). This is based only on your cost of attendance (COA) and how much other assistance you’ve been awarded so far. For instance, if your COA is $16,000 and you’ve been awarded a total of $4,000
in need-based aid and private scholarships, you can get up to $12,000 in non-need-based aid.

EXAMPLES of non-need-based aid include: Direct Unsubsidized Loans, Federal PLUS Loan, and Teacher Education Access for College and Higher Education (TEACH) Grant

When you apply for federal financial aid, you agree to use those funds to pay for school-related costs. Approved costs usually include: tuition, housing, food, textbooks, technology (such as a computer), and transportation (such as a bus, train, or subway pass) to get to and from campus, an allowance for dependent care, and costs related to a disability.

**Handout 8.4.4: How Much Money Can You Receive? (page 2 of 2)**

**<u>Questions:</u>**

a. What factors are considered in calculating the Cost of Attendance (COA) used to determine the amount of aid you receive?

b. What factors are considered in the calculating Expected Family Contribution index used to determine the amount of aid?

c. What is the simple formula used by colleges or postsecondary programs to determine whether you have financial need for student aid?

d. What are three types of need-based financial aid from the federal government?

e. What are three types of aid that are not based on need?

**f. For what eight school-related costs can federal financial aid be used to pay?**

**Handout 8.4.5: Federal and Private Student Loans – Game Cards (page 1 of 3)**

# Federal Student Loan

# Private Student Loan

**Handout 8.4.5: Federal and Private Student Loans – Game Cards (page 3 of 3)**

# Both

**Handout 8.4.6: Assessment**

Jordan is a senior in high school who has been accepted to two colleges and received financial aid offers from both schools. Jordan is excited about College A but is considering accepting all loans offered to cover costs.

Advise Jordan on what steps to take next and what factors to consider before making a decision.

a. In your answer include:
    i. At least two key steps in the financial aid process.
    ii. A comparison of federal vs. private loans.
    iii. At least two responsible borrowing strategies.

| | **College A** | **College B** |
|---|---|---|
| **Cost** | $30,000 per year | $22,000 per year |
| **Scholarship** | $5,000 | $4,000 |
| **Federal Grant** | $3,000 | $3,000 |
| **Federal Student Loan** | $7,500 | $5,500 |
| **Private Loan** | $4,000 | $0 |