Funding a College Education

Student Handout

Essential Question: What should I know about federal assistance for paying for college?

Context: As you approach the end of your high school career, many important decisions await you. None more important than:

1. What now?
2. Do I get a job and go straight into the working world?
3. Do I enroll in a trade school or other specialized training to prepare for a career?
4. Do I go to college, pursue a degree and prepare for a profession?

It is no secret that education costs money. It can cost a lot of money. How can you afford it? Did you know there is help available to pay for the costs of a higher education?

Objective: This activity is designed to help you understand some of your options for financing a higher education.

Instructions:

1. Use an Internet search engine to conduct research and answer the questions asked. You may run across several helpful sites, but here are a couple of links to get started:
    a. **US Department of Education Subsidized and Unsubsidized Loan Information**
        i. **DIRECT LINK:** http://studentaid.ed.gov/types/loans/subsidized-unsubsidized
    b. **US Department of Education Perkins Loan Information**
        i. **DIRECT LINK:** http://studentaid.ed.gov/types/loans/perkins

2. Copy the definition of the term Grant Money.
    a. Wikipedia web definition: Grants are non-repayable funds disbursed by one party, often a government department, corporation, foundation or trust, to a recipient, often a nonprofit entity, educational institution, business or an individual **(**http://en.wikipedia.org/wiki/Grant_money).

3. Research Federal Pell Grant and respond to the following questions:
    a. How much money can I get?
    b. What will the amount depend on?

Loans: The U.S. Department of Education offers eligible students at participating schools two types of loans to be used for funding college expenses.

4. Research the following questions based on the two types of loans:
    a. What are the two types of loans called?
    b. What is the difference between the two?
    c. Who pays interested on these loans? When?
    d. What makes you eligible for each type?
    e. How do you apply?
    f. Are there limits on how much money you can borrow?
    g. What are the current interest rates?

Grace Period: The grace period is a set period of time after you graduate, leave school, or drop below half-time enrollment before you must begin repayment on your loan. The grace period gives you time to get financially settled and to select your repayment plan.

5. What is the grace period for federal student loans?

6. Say the academic year for a college runs from August 1st through May 30th. You take out a student loan at the beginning of your junior year.
    a. How long (in months) before you are required to begin repayment of that loan?

Compound Interest: Compound interest arises when interest is added to the principal of a deposit or loan, so that, from that moment on, the interest that has been added also earns interest (source: Wikipedia.com).

Interest on student loans is calculated monthly, so at the end of a month, interest on the outstanding principal is calculated for that month and added to the principal of the loan. So, next month, the principal is a bit larger, and the interest owed becomes a bit larger.

With a *subsidized loan*, the government pays your interest while you are in school and during your grace period. So, when you begin paying back your loan, the balance is the same as it was when you took out the loan.

7. Say the academic year for a college runs from August 1st through May 30th. You take out a subsidized student loan at the beginning of your junior year for $10,000.
    a. How long (in months) before you are required to begin repayment of that loan?
    b. How much interest has the government paid on this loan on your behalf? (Interest is calculated monthly, but the interest is paid monthly, so no compounding occurs.)

With an *unsubsidized loan*, you are responsible for paying the interest that will accumulate while you are in school and during your grace period. To avoid interest compounding before you begin repaying the loan, you will need to pay the interest monthly while you are in school and during your grace period. There are choices available to you when deciding how to repay the loan. If you are able to pay the interest as you go, maybe with a part-time job, you can avoid the effects of interest compounding on your loan.

To determine what the balance on a student loan would be at that time in the future when you must begin repaying the loan, you can use a formula.

8. Research: **Future Value Formula**

9. As you research, be careful. The future value formula has a *time parameter*, and many of the examples given show this time parameter in years. However, the parameter is actually the *number of compounding periods.* So, examples showing the time parameter in years assumes annual compounding. Student loans compound *monthly*, so the formula requires an adjustment to the time parameter.

10. Say the academic year for a college runs from August 1st through May 30th. You take out an unsubsidized student loan at the beginning of your junior year for $10,000.
    a. How long (in months) before you are required to begin payment of that loan?
    b. What would the balance of the loan be if you deferred all payment until the end of the grace period? (This assumes you allow the interest to compound from the date the loan is taken out until the grace period ends and repayment begins.)

Conclusion:

There is great value put on a higher education in today's job market. Higher education can be expensive, however, and it can seem quite a daunting task to find the money for one without having an income to pay those costs. Of course, there are private sources of money for college, but the government can assist students in pursuing a higher education by offering access to grants and loans.

U.S. Department of Education grants and loans are available, and you should research your options carefully to determine which are best suited to your needs