



STUDENT LOANS

Test Drive Overview:

(Estimated Time: 25 min)



Students calculate the return on investment for various college majors and anticipated career fields using a ROI calculator. The teacher guides the class through an example to become acquainted with the tool. Students should use the tool to calculate the ROI of at least one college/major they have interest in. Next, students can use the second tab in that same Excel file to plan for Paying for College, comparing the cost of Federal and Private loans.

Did You Know?

Before students finish college, they estimate it will take 10 years to pay-off their student loans. The actual average bachelor's degree holder takes 21 years.

Pit Stop Summary: This Pit Stop prepares teachers for conversations with students about approaching college as an investment in themselves and evaluating financing options such as student loans.

Navigation Tips:

1. In the U.S., there are two types of student loans: Federal loans (subsidized or unsubsidized) and Private loans.
2. Subsidized Federal student loans do not accrue interest while students are in school.
3. The six month deferment period for student loans starts the day after students graduate, leave school or drop below half-time enrollment.
4. Student loans are difficult to discharge even in bankruptcy.

Budget Challenge® Road Test for Personal Finance® — Rubber Meets the Road:

Navigation tip #1: In the simulation students have already incurred federal student loan debt, graduated college and have been in the workforce for at least six months.

Navigation tip #2: There is only one choice in the simulation for student loan, so costs are identical in this category. A federal subsidized loan is used for the scenario because it is less expensive, interest did not accrue while the student was in school and the majority of U.S. students qualify for this type of loan as long as they are in school at least half-time.

Navigation tip #3: In the simulation, the student loan is in repayment. It is important to make students aware that not completing a degree program does not remove the liability to repay the student loan.

Navigation tip #4: The student loan in the simulation opens students' eyes to the commitment made when obtaining a student loan and payment responsibility each month. The budget is tight in the simulation, but there is enough money to satisfy all the bills when managed properly. Discuss with your students the consequences of defaulting on a collateralized loan (where the asset can be repossessed by the lender) and a student loan (where the asset is the knowledge/degree which can't be taken away). Discuss the differences in the case of bankruptcy.

Terminology Tune-Up:



Payback period – Amount of time for an investment to break even

ROI – A measure that compares the benefits to the costs of an investment.

$ROI = (Gains - Costs) / Costs$

Cost of Living Adjusted Salary – Adjusting salary to reflect how much more or less expensive it is to live in a given city

Mid-Career Salary – Expected salary of a career after 10-15 years of experience

Opportunity Cost – Cost of not choosing an option

Extended Learning Topics:

- FAFSA
- U.S. Department of Labor Occupational Handbook

The Test Drive Necessities: Paying for College and ROI Calculator | Test Drive

