Lesson Plan for College Debt

The goal of this activity is to increase students' financial literacy, which has been defined as "the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security." Many *adults* lack basic knowledge about finances and, according to one source, only about one-quarter of the states require students to take a personal finance course in high school. Yet, despite inadequate preparation to understand finances, many young people, and their families, must make difficult decisions about paying for a college education.

Financing college has become more challenging during the past generation because the cost of attending post-secondary schools has grown faster than inflation for decades. As a result, many students must borrow substantial amounts of money to pay for education. They and their parents should make informed decisions. For example, borrowers should understand the terms of any loan they take out, including the required monthly payments, penalties that may be incurred (such as for late payments), forgiveness provisions (if any), and so on.

The Jump\$tart Coalition has developed National Standards in K-12 Personal Finance Education (see jumpstart.org). Standard 1 is, "Take responsibility for personal financial decisions and Standard 2 is, "Find and evaluate financial information from a variety of sources." This SmartGraphs activity addresses both standards 1 and 2. Because paying for college requires a complex set of decisions, no single, short activity, such as this one, can substitute for research, conversations with well-informed counselors, and thinking carefully about one's individual needs and circumstances. There are many sources of information about paying for college, including websites maintained by the College Board, the federal government, news organizations, and other institutions.

¹ Jump\$tart Coalition for Personal Financial Literacy. (2007). *National standards in K-12 personal finance education*. Author: Washington, DC.

² Coombes, Andrea. (September 4, 2012.) True or false: Many Americans don't understand the basics of investing. *The Wall Street Journal*.

Lesson Title: College Debt Date: __ **Subject:** Borrowing Money for College **Topic:** Comparing Loan Options Grade: 10 -12 **Designer:** Eli Shaheen **Stage 1 - Desired Results Lesson Overview** In this lesson, students will investigate the cost of borrowing money for college. Standards Addressed (From National Standards in K-12 Personal Finance Education) Given a scenario, identify relevant financial information needed to make a decision. (Financial Responsibility and Decision Making -Find and evaluate financial information from a variety of sources. Grade 12) Use a financial or online calculator to determine the future income needed to maintain a current standard of living. (Income and Careers--Identify sources of personal income Grade 12). Identify various types of student loans and alternatives to loans as a means of paying for postsecondary education. (Credit and Debt--Identify the costs and benefits of various types of credit Grade 12.) Describe possible consequences of excessive debt. (Credit and Debt--Describe ways to avoid or correct credit problems Grade12) Identify the appropriate types of investments for accumulating the money for a four-year college education. (Saving and Investing--Evaluate investment alternatives Grade12) Financially responsible individuals accept the fact that they are accountable for their financial futures. (Financial Responsibility and Decision Making -Apply reliable information and systematic decision making to personal financial decisions Grade 12) Identify various types of student loans and alternatives to loans as a means of paying for postsecondary education. (Financial Responsibility and Decision Making -Credit and Debt Grade **Enduring Understanding: Essential Question(s):** The decision to borrow money for post-secondary • How can one find and evaluate financial education is one that should not be taken lightly. It information? involves research, logical decision making, • How can one be sure that his/her financial appreciation of the consequences of one's decision, goals are achievable? responsibility and planning for the future. • How can income-earning potential be estimated? • How can one use financial services effectively? Students will be able to: Students will need to know: **Kev terms:** Credit, debt, credit worthiness, Find and evaluate financial information systematic decision making, default, disposable Determine what amount of debt is income, financial advisor, financial plan, income, appropriate for his/her goals. Estimate income potential.

- inflation, interest, liability, net worth, principal, risk, rule of 72, standard of living.
- Units of measure for interest periods and rate of change.
- Determine the rate of loan repayment.
- Select from several loan options.
- Judge the effectiveness of financial services.

Stage 2 - Assessment Evidence

Performance Tasks

In this activity, students:

- Find and evaluate financial information using on-line resources such as collegeloan.com and finaid.com, studentaid.ed.gov.
- Plot points, calculate slope, determine rate of change and qualitatively judge faster and slower rates of change.
- Determine what amount of debt is appropriate in relation to goals.
- Determine the most cost-effective way to re-pay a loan.
- Learn the long-term financial impact of borrowing money for college.
- (other tasks tbd by teacher)

Other Evidence:

- College Debt Check-In
- (other assessments tbd by teacher)

Stage 3 - Learning Plan

Lesson Procedure Many days before:

- Discuss choices that students have for post-high school and the financial impact of their choice.
- Have students locate data on taking out a loan.
- Have students investigate cost of various colleges and tech schools.
- Have students research cost of living, salary data.
- Have students evaluate information on websites (e.g., collegeloan.com, studentaid.ed.gov)
- Have students research the *Rule of 72*

Day of:

- Set up groups and computers.
- Introduce lesson (method tbd by teacher).
- Have students complete *College Debt*.
- Conclude lesson (method thd by teacher)

Required Materials:

- Computers for research on college debt, cost of borrowing, cost of college tuition.
- Supported Internet browser with access to SmartGraphs portal
- Projection device (LCD, SmartBoard, or large monitor) preferred but not required
- Note-taking supplies.

• Conclude lesson (method tod by teacher).	
Possible Discussion Questions for Students:	Sample Answers to Discussion Questions:
What determines what you do after high school?	Cost, curriculum, family history, etc.
Define the term living wage.	Salary required to support a household.
How would the amount necessary to live be	Total all expenses and add a percentage for
determined?	miscellaneous expenses.
What variables would be involved in comparing the	Amount of the loan, interest rate, time taken to pay it off,
cost of paying back a debt such as a loan?	monthly payments.
What data might be graphed to illustrate costs related	Years to payoff vs. monthly payment
to loan debt?	Years to payoff vs. total amount re-paid.
What would be a reasonable length of time in which to payoff a college loan?	Answers will vary. Could be up to 30 years.
What would be a reasonable monthly payment?	Answers will vary. Depends on data from above
	expenses. Could be up to \$600 or more.
What is the <i>Rule of 72</i> and why is it surprising?	Rule that calculates how long it takes for the loan to
	double in value (i.e. Borrow \$10,000, re-pay \$20,000)
What would you consider to be the most important	Answers will vary. Could be interest paid, length of pay
consideration when borrowing money for college?	back time, monthly payments, possible salary in first job.