CH. 7 USING CONSUMER LOANS

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TYPES OF CONSUMER LOANS

- Student loans, mortgage loans, auto loans, durable goods loans (e.g. furniture/appliances), credit cards, personal loans, etc.
- Open-end loan vs. Close-end loan
  - ✓ An open-end consumer loan, also known as revolving credit, is a loan in that the borrower can use for any type of purchases but must pay back a minimum amount of the loan, plus interest, before a specified date. Open-end loans are generally unsecured. If a consumer is unable to pay off the loan in full before the specified date, interest is charged.
  - ✓ A closed-end consumer loan, also known as installment credit, is used to finance specific purchases. In closed-end loans, the consumer makes equal monthly payments over a period of time. Such loans are generally secured. If a consumer is unable to pay the installment amounts, the lender can seize the assets that were used as collateral.

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CONSUMER LOAN TERMS

- Interest rate: Higher interest rates result in higher monthly payments.
- Repayment term: The length of your repayment term dictates the size of your monthly payment.
- Fees (including annual fees for revolving accounts): Different lenders will charge different amounts of fees.
- Collateral requirements: Depending on your credit and other lending factors, you may need to provide collateral for your loan.
- Early repayment fees: Some loans may charge you an additional fee if you decide to pay off the debt ahead of schedule.

3

PAYING FOR SCHOOL

- Grants & Scholarships
  - ✓ Unlike loans, grants and scholarships do not need to be repaid.
  - ✓ Eligibility for a grant is based on demonstrated financial need, which is the difference between the college's cost of attendance (COA) and the expected family contribution (EFC).
  - ✓ Eligibility for a scholarship is based on merit. Examples of merit scholarships include those that are awarded based on academic, artistic or athletic talent.
- Student Loans
  - ✓ Federal Student Loans
  - ✓ Private Student Loans

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FEDERAL PELL GRANTS

- Federal Pell Grants: Usually awarded only to undergraduate students who display exceptional financial need and have not earned a bachelor's, graduate, or professional degree.
- A Federal Pell Grant, unlike a loan, does not have to be repaid, except under certain circumstances.
- The maximum Federal Pell Grant award is $7,395 for the 2024–25 award year (July 1, 2024, to June 30, 2025).
- The amount you get, though, will depend on
  - ✓ your Expected Family Contribution (EFC),
  - ✓ the cost of attendance,
  - ✓ your status as a full-time or part-time student, and
  - ✓ your plans to attend school for a full academic year or less.

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WHEN YOU MAY HAVE TO REPAY A GRANT

- You withdrew early from the program for which the grant was given to you.
- Your enrollment status changed in a way that reduced your eligibility for your grant (for instance, if you switch from full-time enrollment to part-time, your grant amount will be reduced).
- You received outside scholarships or grants that reduced your need for federal student aid.
- You received a TEACH Grant, but you did not meet the requirements of your TEACH Grant service obligation.

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FEDERAL STUDENT LOANS

- The federal government first began its student loan program in 1958 by capitalizing loans directly from the U.S. Treasury.
- In 1965, it switched its focus to guaranteeing student loans through the Federal Family Education Loan (FFEL) program.
- President Obama replaced FFEL Loans with Direct Loans during his first term.

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TYPES OF FEDERAL STUDENT LOANS

- Direct Subsidized Loans: Loans made to eligible undergraduate students who demonstrate financial need to help cover the costs of higher education at a college or career school.
- Direct Unsubsidized Loans: Loans made to eligible undergraduate, graduate, and professional students, but eligibility is not based on financial need.
- Direct PLUS Loans: Loans made to graduate or professional students and parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid. Eligibility is not based on financial need, but a credit check is required.
- Direct Consolidation Loans allow you to combine all of your eligible federal student loans into a single loan with a single loan servicer.

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BENEFITS OF FEDERAL LOANS

- No need for a cosigner — the government guarantees your loan.
- Interest rates are set by Congress and are typically much lower than on private student loans.
- Your financial need determines whether you are eligible to take out a federal student loan — not your credit history.
- Repayment terms are more flexible and more varied.
- More flexibility in the event of a personal financial crisis, enabling you to put loans on deferment or in forbearance.

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DISADVANTAGES OF FEDERAL STUDENT LOANS

- The amount you can borrow is set by Congress — so the loan may not cover all your costs.
- If you default on your loan, the federal government has wide-reaching power to get its money back, including garnishing your wages and your federal tax returns.
- Federal student loans are not bankruptable (even if you declare Chapter 7 or Chapter 13 bankruptcy, your federal student loans will not be wiped out).

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FEDERAL DIRECT LOAN: STAFFORD LOANS

- The Stafford Loan currently provides more aid dollars than any other individual government educational aid program.
  - ✓ Stafford Loans (subsidized and unsubsidized) must be repaid.
  - ✓ Lenders: Banks, credit unions, savings and loans, loan associations, schools, and the U.S. Department of Education
  - ✓ Stafford Loans are fully insured by both state and federal governments.
  - ✓ Interest rates change regularly.
  - ✓ Deadlines: Apply as soon after January 1 as possible.

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STAFFORD LOAN ELIGIBILITY

- You must be enrolled at least half-time in a participating school.
- You must be a U.S. citizen or eligible non-citizen.
- Unsubsidized Stafford Loans are issued regardless of income; students are able to borrow money whether they have financial need or not.
- Students studying overseas are also eligible as long as they are earning credit from their state institution.
- You must not have previously defaulted on any other student aid loans.

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STAFFORD LOAN INTEREST RATES

Disbursement Date	Rate
7/1/24-6/30/25	6.53%
7/1/23-6/30/24	5.50%
7/1/22-6/30/23	4.99%
7/1/21-6/30/22	3.73%
7/1/20-6/30/21	2.75%

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DIRECT SUBSIDIZED LOANS

- Direct Subsidized Loans are available to undergraduate students with financial need.
- Your school determines the amount you can borrow, and the amount may not exceed your financial need.
- The U.S. Department of Education pays the interest on a Direct Subsidized Loan
  - ✓ while you're in school at least half-time,
  - ✓ for the first six months after you leave school (referred to as a grace period), and
  - ✓ during a period of deferment (a postponement of loan payments).

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DIRECT UNSUBSIDIZED LOANS

- Direct Unsubsidized Loans are available to undergraduate and graduate students; there is no requirement to demonstrate financial need.
- Your school determines the amount you can borrow based on your cost of attendance and other financial aid you receive.
- You are responsible for paying the interest on a Direct Unsubsidized Loan during all periods.
- If you choose not to pay the interest while you are in school and during grace periods and deferment or forbearance periods, your interest will accrue (accumulate) and be capitalized (that is, your interest will be added to the principal amount of your loan).

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ANNUAL AND AGGREGATE LIMITS FOR SUBSIDIZED AND UNSUBSIDIZED LOANS

Year	Dependent Students (except students whose parents are unable to obtain PLUS Loans)	Independent Students (and dependent undergraduate students whose parents are unable to obtain PLUS Loans)
First-Year Undergraduate Annual Loan Limit	$5,500-No more than $3,500 of this amount may be in subsidized loans.	$9,500-No more than $3,500 of this amount may be in subsidized loans.
Second-Year Undergraduate Annual Loan Limit	$6,500-No more than $4,500 of this amount may be in subsidized loans.	$10,500-No more than $4,500 of this amount may be in subsidized loans.

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ANNUAL AND AGGREGATE LIMITS FOR SUBSIDIZED AND UNSUBSIDIZED LOANS

Year	Dependent Students (except students whose parents are unable to obtain PLUS Loans)	Independent Students (and dependent undergraduate students whose parents are unable to obtain PLUS Loans)
Third Year and Beyond Undergraduate Annual Loan Limit	$7,500 per year-No more than $5,500 of this amount may be in subsidized loans.	$12,500-No more than $5,500 of this amount may be in subsidized loans.
Graduate or Professional Student Annual Loan Limit	Not Applicable (all graduate and professional degree students are considered independent).	$20,500 (unsubsidized only).

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ANNUAL AND AGGREGATE LIMITS FOR SUBSIDIZED AND UNSUBSIDIZED LOANS

Year	Dependent Students (except students whose parents are unable to obtain PLUS Loans)	Independent Students (and dependent undergraduate students whose parents are unable to obtain PLUS Loans)
Subsidized and Unsubsidized Aggregate Loan Limit	$31,000-No more than $23,000 of this amount may be in subsidized loans.	$57,500 for undergraduates-No more than $23,000 of this amount may be in subsidized loans. $138,500 for graduate or professional students-No more than $65,500 of this amount may be in subsidized loans. The graduate aggregate limit includes all federal loans received for undergraduate study.

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STAFFORD LOANS PAYMENT PLANS

- Standard plan: Monthly payments of at least $50 and can repay the loan for a period of up to 10 years, depending on how much has been borrowed.
- Extended plan: Allows you to pay back the money over a period of up to 30 years. The monthly payments are lower, but the added interest will mean you'll pay more in the end.
- Graduated plan: Payments begin as low as 50 percent that of the Standard plan, plus you can repay the loan over an extended period of up to 30 years. The monthly payments for the Graduated plan increase about every two years, and by the end of the repayment cycle you will be making monthly payments of up to 150 percent that of the Standard loan.
- Income-Contingent plan: Payments are based on your income, as well as your family situation. This very flexible plan takes into account your ability to pay, and if by the end of 25 years there is still a balance due, the unpaid amount will be forgiven.

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PRIVATE STUDENT LOANS

- Private student loans are a form of unsecured personal loan. Unlike federal student loans, which are guaranteed by the government, private student loans are not guaranteed.
- Advantages of private student loans:
  - ✓ The total amount of a private student loans is not limited — you can take out as much as you need to cover your costs.
  - ✓ They are not need-based, so even if your parents make a good income, you are not barred from qualifying.

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DISADVANTAGES OF PRIVATE STUDENT LOANS

- Eligibility depends on your credit score (e.g. 700 FICO score) to qualify.
- Most lenders require you to have a cosigner (who also has a high FICO score).
- Have higher interest rates than federal student loans (7.62% average rate in Oct. 2024).
- Have more restrictive repayment terms than federal student loans.
- There are decreasing number of lenders making private student loans.

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IDENTIFY A STUDENT LOAN SCAM

- They require you to pay up-front or monthly fees for help.
- They promise immediate and total loan forgiveness or cancellation.
- They ask for your FSA ID username and password.
- They ask you to sign and submit a third-party authorization form or a power of attorney.
- They claim that their offer is limited and encourage you to act immediately.

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IDENTIFY A STUDENT LOAN SCAM

- "Act immediately to qualify for student loan forgiveness before the program is discontinued."
- "You are now eligible to receive benefits from a recent law that has passed regarding federal student loans, including total forgiveness in some circumstances. Federal student loan programs may change. Please call within 30 days of receiving this notice."
- "Your student loans may qualify for complete discharge. Enrollments are first come, first served."
- "Student alerts: Your student loan is flagged for forgiveness pending verification. Call now!"

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PREDATORY LENDERS & LOAN SHARKS

- Predatory Lending: Fraudulent, deceptive, and unfair tactics that dupe people into loans that they can't afford. Predatory lending benefits the lender and ignores or hinders the borrower's ability to repay the debt. These lending tactics often try to take advantage of a borrower's lack of understanding about loans, terms or finances.
- Predatory lenders typically target minorities, the poor, the elderly and the less educated. They also prey on people who need immediate cash for emergencies such as paying medical bills. These lenders also target borrowers with credit problems or people who recently lost their jobs.

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PREDATORY LENDERS & LOAN SHARKS

- While the practices of predatory lenders may not always be illegal, they can leave victims with ruined credit, burdened with unmanageable debt, or homeless.
- Predatory lending can also take the form of payday loans, car loans, tax refund anticipation loans or any type of consumer debt.
- Loan sharks generally make short-term loans to those who are experiencing sudden financial difficulty. They charge well above market interest rates to borrow the cash.

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PREDATORY LENDERS & LOAN SHARKS

- Payday loan: Usually a short-term, high-cost loan, generally for $500 or less, that is typically due on your next payday.
- Despite their questionable tactics, payday lending is, unfortunately, a legal form of high-interest loan offer to consumers.
  - ✓ $500 is a common loan limit although limits range above and below this amount.
  - ✓ A payday loan is usually repaid in a single payment on the borrower's next payday, or when income is received from another source such as a pension or Social Security. The due date is typically two to four weeks from the date the loan was made.
  - ✓ Payday loan companies such as Money Mart, Eazy Loans, and CashMax are examples of modern-day loan sharks.

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PREDATORY LENDERS & LOAN SHARKS

- The interest rates attached to payday loans is sky-high. Many state laws set a maximum amount for payday loan fees ranging from $10 to $30 for every $100 borrowed. A typical two-week payday loan with a $15 per $100 fee equates to an annual percentage rate (APR) of almost 400 percent.
- If you fall behind on their payments, payday loan companies are infamous for engaging in a range of collections law violations, including:
  - ✓ Excessive collection calls, including calls after legal hours
  - ✓ Collection calls at work
  - ✓ Harassing family members
  - ✓ Threats

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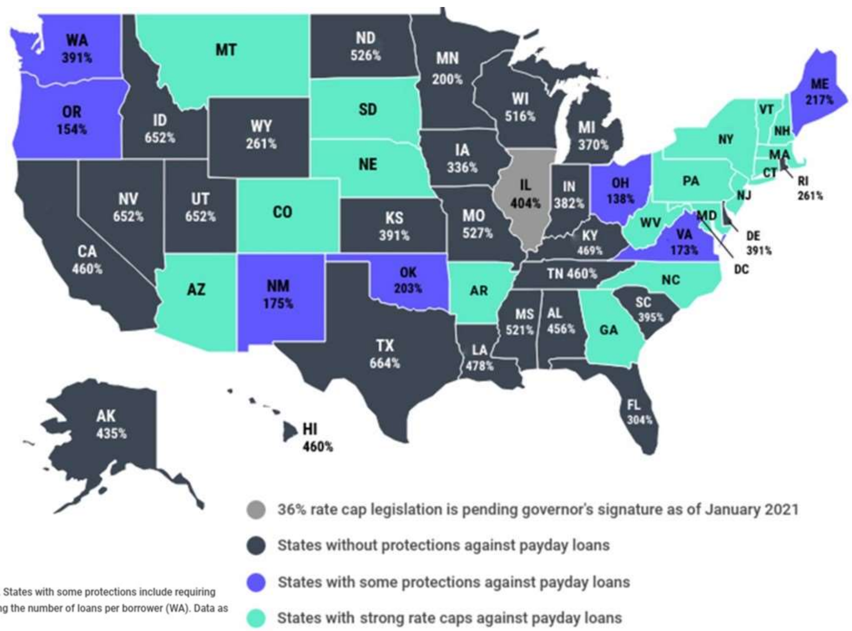
PAYDAY LOAN INTEREST



Source: Center for Responsible Lending
Notes: Typical APR rate calculated based on a $300 loan borrowed for a 14-day period. States with some protections include requiring loan periods of 14+ days (NM, OH, OK, OR, VA), limits on fees (OR, ME) and/or restricting the number of loans per borrower (WA). Data as of February 2021.

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