



# FINANCIAL LITERACY GUIDANCE FROM FEDERAL STUDENT AID

This document is designed to help counselors and mentors assist postsecondary students in developing the skills necessary to make informed financial decisions, in particular with regard to the student loan process. Choosing how to pay for college is often one of the first major financial decisions that young adults make. Financial literacy education can provide an understanding of how to manage personal finances, establish financial goals, and form a plan to reach them.

The following pages provide information on key concepts that student loan borrowers should understand, good financial habits for students to practice, and tools and resources available to help communicate these concepts to students. Counselors, mentors, and school representatives can use this information to tailor their financial education programs to students' needs.

## Federal Student Aid

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## BUDGETING

### The Basics of Budgeting

The basics of budgeting are to form good financial habits and develop an awareness of spending. Many resources exist to help students create and manage their budgets. Counselors should work with students to find the budgeting tools and techniques that work for them. **StudentAid.gov** hosts a budgeting video that can be useful when helping students in the early stages of this process.

The methods for conveying the basics of budgeting will vary by school and by student. Within the framework of the financial literacy information and resources provided here, we strongly recommend promoting the use of a budget and addressing the benefits and concepts discussed below.

### The Benefits of Budgeting

Budgeting is important because

- it helps students meet their expenses and create plans to reach their financial goals;
- short-term and/or long-term financial goals help create a framework conducive to financial success;
- it helps students develop a sense of control over their money;
- it reduces students' anxiety levels regarding financial and academic matters;
- it can contribute to students' creditworthiness;
- it improves students' understanding of their school's Cost of Attendance (COA); and
- it identifies where funds should be going versus where they were actually spent, and demonstrates the importance of maintaining a balance between earning and spending.

### Cost of Attendance

Cost of attendance (COA) plays a large role in forming students' budgets. The COA is what it will cost students to attend school based on their enrollment status. Here are some examples of items that can be included in COA:

- Tuition
- Non-tuition-related fees (registration fee, graduation fee, lab fee, etc.)
- Textbooks (buy, rent, access online)
- Supplies (computer, printer, ink cartridges, etc.)
- Housing fee or rent
- Transportation expenses (fuel, general vehicle upkeep, etc. Not to be used for purchase of a vehicle.)
- Food and/or meal plans
- Living expenses and costs related to a disability

### Expected Family Contribution

The information students report on their *Free Application for Federal Student Aid* (FAFSA®) (income, savings, number of people in household, number of household members in college, etc.) is used to calculate their Expected Family Contribution (EFC). The EFC isn't the amount of money students and families will have to pay for college, nor is it the amount of federal student aid awarded. It is a number used to determine the types of and calculate the amounts of financial aid students are eligible to receive. EFC is not used to determine eligibility for non-need based aid such as unsubsidized loans or PLUS loans. To learn more about EFC and how aid is calculated go to: **StudentAid.gov /how-calculated.**





The amount of aid a student receives is a key component of a student's budget.

- Students can understand more by viewing this concise, two-minute video explaining the benefits of budgeting at [StudentAid.gov/resources#budgeting-video](https://StudentAid.gov/resources#budgeting-video).
- Additional "how-to" information on budgeting is available at [StudentAid.gov/budget](https://StudentAid.gov/budget).

## Setting Goals

Establishing academic, financial, and personal goals is a good way to start the budgeting process. Goals can provide students a context that allows them to better understand the benefits of saving and the long-term impacts of poor money management.

### Academic Goals

- Graduating on time (the length of time spent in school has significant financial impacts)
- Getting good grades while in school (these can lead to financial merit awards)
- Obtaining a certificate, degree, or degrees
- Publishing one's work
- Becoming a leader in one's field

### Financial Goals

- Short-term savings goals (placing a percentage of every paycheck in a savings account or accumulating minimal debt prior to graduation)
- Long-term savings goals (e.g., paying off a car within five years or saving for a down payment to purchase a house)

### Personal Goals

- Establishing a Career
- Choosing place of residence

Federal Student Aid offers additional budgeting tips at [StudentAid.gov/budgetingtips](https://StudentAid.gov/budgetingtips).

## Tracking Earnings and Spending

Tracking daily spending provides students with an understanding of where their money is going. To fully appreciate the impact of routine expenditures, students can calculate the total amounts of such purchases over the course of a year. For instance, a \$2 coffee each morning would cost a student \$730 annually. The ability to visualize the long-term costs of daily expenditure choices can provide a powerful motivation to curb discretionary spending.

## Understanding Income

Students need to understand their income in order to create a functional budget. Some aspects of income, such as personal income and family contributions, are easy to grasp. Other forms, such as scholarships, loans, and grants, require students to understand their responsibilities as aid recipients or borrowers. Many scholarships and grants require students to maintain a defined grade point average in order to remain eligible to receive them. Students should also understand the money management concepts that correspond to the ways in which they receive their grants or loan funds, such as via a monthly stipend versus a lump sum.

Sources of funding and income include:

- Grants
- Scholarships/fellowships
- Loans
- Federal Work-Study
- Teaching assistantships
- Universities and colleges
- Savings
- Family contributions
- Personal income



## Needs vs. Wants

It is a good idea for students to create a needs versus wants checklist. Doing so, in combination with creating a budget, is a good starting point for students to reach their short- and long-term goals. Needs are required for survival (food, clothing, shelter), and wants are things that might not be as necessary as students think. The goals that students identify should be used as a basic framework for deciding which expenses are necessary and which are optional.

Creating a budget requires making compromises, such as

- eating in instead of eating out;
- keeping a current phone instead of buying a new one; and
- making coffee at home instead of buying it already made.

This simple exercise is an effective tool for helping students create a budget and manage their limited funds.

## Banking

Many students may be opening bank accounts for the first time, or, if relocating for college, they may need to open accounts with new, local institutions. Local credit unions can be a good first stop as a banking option as many offer low-cost features that are well suited for students.

Financial aid and other income will likely be deposited into a student's bank account. Students should be encouraged to use the "pay yourself first" method when creating their budgets. To pay yourself first means simply this: Before paying bills, buying groceries, or spending money on anything else, set aside a portion of your income to save. Doing so (easily accomplished via an automatic transfer from a bank account) is an important step toward creating financial security and personal wealth.

Students should aspire to have at least the amount needed for three months' worth of expenses in their savings account at any given time. These funds will help students weather unexpected financial circumstances, such as auto repairs, health-related expenses, or periods of unemployment.

## Questions to Ask When Choosing a Financial Institution

- Is the institution insured?
  - Banks should be insured by the Federal Deposit Insurance Corporation
  - Credit unions should be insured the National Credit Union Association
- Does the institution charge monthly fees?
- Is a minimum balance or regular direct deposit required to avoid monthly fees?
- Are users charged for using out-of-network ATMs?
- Does the institution charge overdraft fees? Does it offer overdraft protection?
- Are users charged fees for debit card use or online bill pay?
- Is the institution easily accessible and open during hours convenient to the student?

## Building and Maintaining Credit

Building and maintaining credit should be important financial goals for college students. On-time bill payment, as well as avoiding bounced checks or overdrafts, will help build a student's credit. A good credit history will open up financial options to students after they graduate, such as obtaining auto or home loans with favorable interest rates. Student loan payments will impact a borrower's credit history. Credit reports and credit scores provide students with the capability of monitoring their credit.

Free credit reports (not credit scores) are available at [www.annualcreditreport.com](http://www.annualcreditreport.com).

## Importance of Record Keeping

Students can set themselves up for success by maintaining comprehensive records of their financial transactions. Good record keeping can help prevent financial discrepancies by providing a reference for past interactions and agreements. This helps protect students in the event of a mistake by their financial institution or loan servicer that could adversely affect them.



## BORROWING

### Borrowing Fundamentals

Most students use federal loans to help finance their studies and some may turn to private loans. Taking out a loan is an important financial decision that can affect a student for years to come. It is critical for students to understand their loan options and associated responsibilities in order to make good borrowing decisions.

Before taking out a loan, students should be encouraged to use all available grants and scholarships since they do not need to be paid back. After accepting all grants and scholarships, students should consider if they are eligible to participate in the Federal Work-Study Program. Many work-study job opportunities are on or near campus and earnings from this program do not reduce eligibility for grants in the future. Students should consider the time commitment when working and weigh this with the need to focus on academic studies.

If all of these options are not sufficient to pay tuition and other education-related expenses, students should consider the William D. Ford Federal Direct Loan Program. This federal program offers more repayment options and critical protections for students than private loans.

### Private Loans

Private loans should be the last financing option to be considered and used. Private student loans are nonfederal loans made by a lender, such as a bank, credit union, state agency, or a school. They do not typically offer many of the benefits of federal student loans, such as fixed interest rates and income-based repayment plans.

Borrowers of private loans also have fewer options for forbearance or deferment, and may have more difficulty getting back into good standing after default. Students should be encouraged to seek financial counseling before taking out private loans.

## Federal Loans

### William D. Ford Federal Direct Loan Program

#### *Direct Subsidized Loans*

- Direct Subsidized Loans are available to undergraduate students who demonstrate financial need.
- Generally, no interest is charged when the student is enrolled at least half-time, during the grace period, or during deferment periods.

#### *Direct Unsubsidized Loans*

- Direct Unsubsidized Loans are available to undergraduate, graduate, and professional students.
- Students do not need to demonstrate financial need.
- Interest is charged during all periods.

#### *Direct PLUS Loans*

- Direct PLUS Loans are available to graduate and professional students, and to parents of dependent undergraduate students to pay for their children's education.
- Borrower must not have an adverse credit history.
- Interest is charged during all periods.
- Parent borrowers may request deferment while the student is enrolled at least half-time, and for an additional six months after the student ceases to be enrolled half-time.

#### *Direct Consolidation Loans*

- Direct Consolidation Loans combine eligible federal student loans into a single loan with a single servicer.
- Borrowers should check to see if they qualify for this option at [StudentAid.gov/consolidation](https://studentaid.gov/consolidation).

## Borrower Responsibilities and Options

Whether using federal or private student loans, students should be aware of the details of their loan(s), as well as their responsibilities and options as borrowers. Some questions to ask are:

- Is it necessary to accept the full loan amount that is offered?
- When does the repayment period begin?
- Does interest accrue while the student is enrolled in school?
- How long is the repayment period?
- When will a loan be considered delinquent?
- If a loan becomes delinquent, when will it enter default?
- Can a defaulted loan be rehabilitated?
- What are the repayment options and when is it necessary to select one (e.g., at time of origination versus upon graduation)?
- What can be done to reduce debt burden (e.g., pay interest or a small amount of loan principal) while in school?

## REPAYMENT

### Understanding Repayment

Educating borrowers about their responsibilities and options will help decrease default and delinquency rates. Schools can help students significantly by counseling them and/or reviewing with them the repayment process prior to originating the loan, and by revisiting the loan information prior to graduation. Students are required to complete entrance counseling before receiving their first loan. FSA's online entrance counseling [StudentLoans.gov/myDirectLoan/counselingInstructions.action](https://studentloans.gov/myDirectLoan/counselingInstructions.action) includes a financial literacy component.

Students can use the Financial Awareness Counseling Tool (FACT) to access their loan balances, understand their repayment options, and use helpful interactive budgeting tools. FACT and other counseling tools can be accessed, with or without a student login, at [StudentLoans.gov/myDirectLoan/financialAwarenessCounseling.action?execution=e1s1](https://studentloans.gov/myDirectLoan/financialAwarenessCounseling.action?execution=e1s1).

Students should be encouraged to explore their repayment plan options, including income-based repayment plans. Federal Student Aid's *Repayment Estimator* is a useful tool which can help borrowers get an early look at which plans they might be eligible for and see estimates for how

much they would pay monthly and overall. It is available at [StudentAid.gov/repayment-estimator](https://studentaid.gov/repayment-estimator). Exercising basic money management skills will reduce students' chances of making repayment mistakes that may adversely impact their credit scores.

Establishing contact with their loan servicer(s) prior to beginning repayment will help avoid misunderstandings about the payment amount and schedule. Students should be mindful of keeping the school and loan servicer updated on any changes in their contact information, such as their mailing address, that could lead to missing important notices or correspondence.

As a reminder, private loans have different repayment options and requirements than federal loans. Borrowers of private loans should be encouraged to contact their loan holders for relevant repayment information.

Borrowers experiencing difficulty meeting their repayment obligations may have options, including loan consolidation, changing repayment plans, deferment, or forbearance. Educated borrowers are more likely to appropriately use these options to avoid delinquency or default. Schools should strive to educate students about these options, as borrowers lacking the ability to repay their loans often let them lapse into default or delinquency when they could benefit from those options available to them.

Students can contact their loan servicers with any questions regarding repayment at [StudentAid.gov/servicer](https://studentaid.gov/servicer).

### Federal Direct Loan Repayment Options

#### *Standard Repayment Plan*

- Time borrower has to repay: Up to 10 years. (10- to 30-year repayment period for Direct Consolidation Loans)
- Payments remain constant throughout the repayment period.
- Borrower will pay less interest for the loan over time under this plan than he or she would under the other plans.
- The loan will be paid in full by the end of the repayment period.

#### *Graduated Repayment Plan*

- Time borrower has to repay: Up to 10 years. (10- to 30-year repayment period for Direct Consolidation Loans)
- Payments start low and gradually increase every two years over life of loan.
- The loan will be paid in full by the end of the repayment period.

### *Extended Repayment Plan*

- Time borrower has to repay: Up to 25 years.
- Payments will be an amount that ensures the loan will be paid in full in 25 years. Borrower can choose to make either fixed or graduated payments.
- Borrower must have more than \$30,000 in Federal Direct Loans to qualify.
- The loan will be paid in full by the end of the repayment period.

### *Income-Driven Repayment Plans (Income-Based Repayment Plan, Pay as You Earn Repayment Plan, and Income-Contingent Repayment Plan)*

- Time borrower has to repay: Up to 20 or 25 years depending on the repayment plan.
- Monthly payment amount tied to borrower's income and adjusted annually.
- Any outstanding balance remaining at end of loan repayment period will be forgiven.
- Learn more about income-driven repayment plans at [StudentAid.gov/idr](https://studentaid.gov/idr).

For more information about federal student loan repayment plans, visit [StudentAid.gov/plans](https://studentaid.gov/plans).

### **Public Service Loan Forgiveness**

The Public Service Loan Forgiveness (PSLF) Program is intended to encourage individuals to enter and continue to work full-time in public service jobs. PSLF allows certain borrowers who work in public service to qualify for forgiveness of the remaining balance of their Direct Loans after they have made 120 qualifying payments on those loans while employed full-time by certain public service employers.

Details on qualifying loans and employment sectors can be found at [StudentAid.gov/publicservice](https://studentaid.gov/publicservice).

## **RESOURCES**

### **Tips for Working with Students**

**Financial Coaching:** Students identify their goals and financial coaches provide accountability and assistance in reaching them.

**Train the Trainer:** Resources throughout campus can be identified and used to train, counsel, and coach students.

### **Peer-to-Peer Financial Counseling:**

- People relate to peers with shared experiences; and positive role models exhibiting positive behaviors encourage the same in others.
- Those with positive peer-to-peer counseling experiences often are willing to share their knowledge with their fellow students.

## **Resources for Counselors and Mentors**

### **FinancialAidToolkit.ed.gov**

- Provides information and resources to help counselors and mentors reach and work with students, families, and borrowers, including outreach resources such as financial-aid-night materials, facts sheets, videos, infographics, and presentations; social media content; and FSA publications.
- **FinancialAidToolkit.ed.gov/resources**—Search FSA's consolidated online database of resources. Try searching Financial Literacy.
- **Money Management Checklist**—Helps students manage their money while in school. Find the checklist at [StudentAid.gov/sa/sites/default/files/money-management-checklist.pdf](https://studentaid.gov/sa/sites/default/files/money-management-checklist.pdf).

*Federal Student Aid: Find the Information You Need*—Provides a list of common financial aid topics and the website addresses where you can find information:

[StudentAid.gov/sites/default/files/federal-student-aid-info-online.pdf](https://studentaid.gov/sites/default/files/federal-student-aid-info-online.pdf)

### **Federal Student Loan Servicers**

FSA assigns federal student loans to loan servicers to handle the billing and other repayment services. Many servicers offer free financial literacy resources:

[StudentAid.gov/servicer](https://studentaid.gov/servicer)



