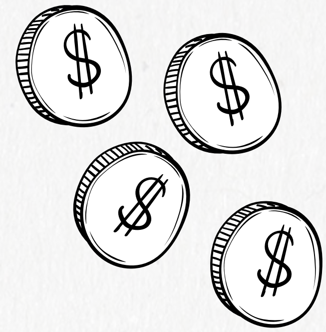
Activity 1

PART 3: CHOOSING A LOAN



Evaluating student loans can be complicated. Use this chart to compare the cost of borrowing the same amount of money from three different loan providers.

- Loan A is a subsidized loan in which there is no interest added until you graduate.
- Loan B is unsubsidized so interest begins accruing automatically.
- Loan C is also unsubsidized and the bank charges a 4% origination fee.

Item	Loan A	Loan B	Loan C
Loan balance	$5,500.00	$5,500.00	$5,500.00
Adjusted loan balance	$5,500.00	$5,500.00	$5,729.17
Loan interest rate	5.00%	6.80%	7.90%
Loan fees	0.00%	0.00%	4.00%
Loan term	10 years	10 years	10 years
Minimum payment	$40.00	$50.00	$50.00
Monthly loan payment	$58.34	$63.29	$69.21
Number of payments	120	120	120
Cumulative payments	$____________	$____________	$____________
Total interest paid	$____________	$____________	$____________

How does the interest rate affect the minimum monthly payment?

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How does it affect the total amount paid for the loan?

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Key Note: Each payment you make is divided up between the principal (original amount of money loaned) and interest. At the beginning of the repayment process, the portion of each payment that goes toward interest is at its highest, while the amount of principal paid is at its lowest. As you continue making payments, a smaller percentage of each payment is applied to interest while a larger portion goes toward principal.