

LifeSmarts U Personal Finance Lesson

Financial Aid—Funding Post-Secondary Education

Promissory Note Scenarios: Key and Discussion Prompts

Directions

Use the sample Promissory Note and the content vocabulary as the basis for answering these questions about the following scenarios. Be specific with each response. Explain your answers, but do not copy the language of the note. Use your own words to “decode” the contract language.

1. Rihanna has applied for a loan to finish her music degree. A credit check is ordered before her loan application is approved. Why is this done? What is her lender looking for?
2. Paul has a \$15,000 loan for his first year at State University. The promissory note states, “The interest on the loan will be capitalized.” What does this mean? How will this affect the total amount paid?
3. Selena, with the help of her parents, received a private loan. Unfortunately, she was seriously injured in a car accident and is unable to return to school to finish her degree. What happens to her school loan? Who is obligated to pay?
4. Bruno notices that a few months after receiving his school loan, robocalls and messages to his cellphone have increased. What could be the possible cause? What could he do to reduce the frequency of these contacts?

5. Taylor's loan has been disbursed and she is looking for the loan check in the mail. What is the most probable reason she has not received it? Where did it go? What is the COA?

6. Elvis's loan papers included a clause about deferment and a grace period. What is the connection between these two clauses of the contract? How do they impact his repayment of the loan?

7. Billie is relieved to qualify for a loan, and she wants her part-time job at a fashion boutique to cover interest only payments while she is in school. Which option did she check on the loan application? How is that payment calculated?

8. Ed graduated with a business major and immediately was employed as an accountant. Unfortunately, after two years his company downsized. As the latest hire, he lost his job. He still has 12 years of loan payments, but at this time he cannot afford them. He will need to discuss repayment options with the bank or his loan servicer. Explain forbearance. How will forbearance effect his balance and payments going forward?

9. Shawn is trying to decide between a variable and a fixed interest rate for his college loan. Describe the basic differences between fixed and variable rates?

10. Britney notices the terms "repayment period," and "default" in her loan note. They are both related to repaying her loan. Explain these terms.