GLOSSARY OF LOAN TERMS

Accrued Interest

Interest that accumulates on the unpaid principal balance of a loan.

Accrual Date

The date on which interest charges on an educational loan begin to accrue.

Amortization

The process of gradually paying off a loan over time through scheduled payments of principal and interest.

Appeal

A formal request to have a financial aid administrator review your aid eligibility and possibly use professional judgment to adjust the figures. For example, if you believe the financial information on your financial aid application does not reflect your family's current ability to pay (because of death of a parent, unemployment, or other circumstances, you should definitely make an appeal. The financial aid administrator may require documentation of the special circumstances or of other information listed on your financial aid application.

Asset

An item of value, such as a home, business, farm, real estate, stocks, bonds, mutual funds, cash, certificates of deposit, bank accounts, trust funds and other property and investments.

Asset Protection Allowance

A portion of your parents' assets that are not included in the calculation of the parent contribution, as calculated by the Federal Methodology need analysis formula. The asset protection allowance increases with the parents' age.

Award Letter

An official document issued by a school's financial aid office that lists all of the financial aid awarded to the student. This letter provides details on their analysis of your financial need and the breakdown of your financial aid package according to amount, source and type of aid. The award letter will include the terms and conditions for the financial aid and information about the cost of attendance. You are required to sign a copy of the letter, indicating whether you accept or decline each source of aid and return it to the financial aid office. Some schools call the award letter the "Financial Aid Notification (FAN)."

Award Year

The academic year for which financial aid is requested (or received).

Balloon Payment

A larger than usual payment used to pay off the outstanding balance of a loan without penalty. Not all loans allow balloon payments. Simple interest loans, like many educational loans, generally do allow balloon payments.

Bankruptcy

A person is declared bankrupt when they are found to be legally insolvent and the person’s property is distributed among his/her creditors or otherwise administered to satisfy the interests of creditors.

Base Year

The tax year prior to the academic year (award year) for which financial aid is requested. The base year runs from January 1 of the junior year in high school through December 31 of the senior year. Financial information from this year is used to determine eligibility for financial aid.

Borrower

The person who takes out the loan.

Bursar’s Office

The university office that is responsible for the billing and collection of university charges.

Cancellation

Some loan programs provide for cancellation of the loan under certain circumstances, such as death or permanent disability of the borrower. Some of the federal student loan programs have additional cancellation provisions.

Capital Gain

An increase in the value of an asset such as stocks, bonds, mutual funds and real estate between the time the asset was purchased and the time the asset was sold.

Capitalization

The practice of adding unpaid interest charges to the principal balance of an educational loan, thereby increasing the size of the loan. Interest is then charged on the new balance, including both the unpaid principal and the accrued interest. Capitalizing the interest increases the monthly payment and the amount of money you will have to repay. If you can afford to pay the interest as it accrues, you are better off not capitalizing.

Collateral

Property that is used to secure a loan. If the borrower defaults on the loan, the lender can seize the collateral. For example, a mortgage is usually secured by the house purchased with the loan.

Collection Agency

A company hired by the lender or guarantee agency to recover defaulted loans.

Compounded Interest

Interest that is paid on both the principal balance of the loan and on any accrued (unpaid) interest. Capitalizing the interest on an unsubsidized Stafford loan is a form of compounding.

Consolidation

A loan that combines several student loans into one bigger loan from a single lender. The consolidation loan is used to pay off the balances on the other loans.

Cosigner

A cosigner on a loan assumes responsibility for the loan if the borrower should fail to repay it.

Cost of Attendance (COA)

The total amount it should cost the student to go to school, including tuition and fees, room and board, allowances for books and supplies, transportation, and personal and incidental expenses. Loan fees, if applicable, may also be included in the COA. Child care and expenses for disabilities may also be included at the discretion of the financial aid administrator. Schools establish different standard budget amounts for students living on-campus and off-campus, married and unmarried students, and in-state and out-of-state students.

Credit Rating

An evaluation of the likelihood of a borrower to default on a loan. Credit bureaus and credit reporting agencies provide this information to banks and businesses to help them decide whether to issue a loan or extend credit. Your credit rating may include your payment history, a list of current and past credit accounts and their balances, employment and personal information, and a history of past credit problems. Defaulting on a loan can hurt your credit rating.

Default

A loan is in default when the borrower fails to pay several regular installments on time (i.e., payments overdue by 270 days) or otherwise fails to meet the terms and conditions of the loan. If you default on a loan, the university, the holder of the loan, the state, and the federal government can take legal action to recovery the money, including garnishing your wages and withholding income tax refunds. Defaulting on a government loan will make you ineligible for future federal financial aid, unless a satisfactory repayment schedule is arranged, and can affect your credit rating.

Deferment

Occurs when a borrower is allows to postpone repaying the loan. If you have a subsidized loan, the federal government pays the interest charges during the deferment period. If you have an unsubsidized loan, you are responsible for the interest that accrues during the deferment period. You can still postpone paying the interest charges by capitalizing the interest, which increases the size of the loan.

Most federal loan programs allow students to defer their loans while they are in school at least half time. If you don't qualify for a deferment, you may be able to get a forbearance. You can't get a deferment if your loan is in default.

Delinquent

If the borrower fails to make a payment on time, the borrower is considered delinquent and late fees may be charged. If the borrower misses several payments, the loan goes into default.

Direct Loans

The William D. Ford Federal Direct Loan Program (aka the Direct Loan Program) is a federal program where the school becomes the lending agency and manages the funds directly, with the federal government providing the loan funds. Not all schools currently participate in this program. Benefits of the program include faster turnaround time and less bureaucracy than the old "bank loan" program. The terms for direct loans are the same as for the Stafford Loan program. For more information about Direct Loans, contact the Direct Loan Servicing Center at 1-800-848- 0979.

Disbursement

The release of loan funds to the school for delivery to the borrower. The payment will be made co-payable to the student and the school. Loan funds are first credited to the student's account for payment of tuition, fees, room and board, and other school charges. Any excess funds are then paid to the student in cash or by check. Unless the loan amount is under $500, the disbursement will be made in at least two equal installments.

Discharge

To release the borrower from his or her obligation to repay the loan.

Disclosure Statement

Provides the borrower with information about the actual cost of the loan, including the interest rate, origination, insurance, and loan fees, and any other kinds of finance charges. Lenders are required to provide the borrower with a disclosure statement before issuing a loan.

Due Diligence

If a borrower fails to make payments on their loan according to the terms of the promissory note, the federal government requires the lender, holder, or servicer of the loan to make frequent attempts to contact the borrower via telephone and mail to encourage him or her to repay the loan and make arrangements to resolve the delinquency.

Electronic Funds Transfer (EFT)

Used by some schools and lenders to wire funds for Stafford and PLUS loans directly to participating schools without requiring an intermediate check for the student to endorse. The money is transferred electronically instead of using paper, and thus is available to the student sooner.

Equity

The dollar value of your ownership in a piece of property.

Expanded Lending Option (ELO)

Under ELO, some schools can offer higher annual and cumulative loan limits to students receiving the Perkins Loan. The ELO is restricted to schools with a Perkins Loan default rate of 15% or less.

First-Time Borrower

A first-year undergraduate student who has no unpaid loan balances outstanding on the date he or she signs a promissory note for an educational loan. First-time borrowers may be subjected to a delay in the disbursement of the loan funds. The first loan payment is disbursed 30 days after the first day of the enrollment period. If the student withdraws during the first 30 days of classes, the loan is cancelled and does not need to be repaid. Borrowers with existing loan balances aren't subject to this delay.

Fixed Interest

In a fixed interest loan, the interest rate stays the same for the life of the loan.

Forbearance

During a forbearance, the lender allows the borrower to temporarily postpone repaying the principal, but the interest charges continue to accrue, even on subsidized loans. The borrower must continue paying the interest charges during the forbearance period. Forbearances are granted at the lender's discretion, usually in cases of extreme financial hardship or other unusual circumstances when the borrower does not qualify for a deferment. You can't receive a forbearance if your loan is in default.

Garnishment

The practice of withholding a portion of a defaulted borrower's wages to repay his or her loan, without their consent.

Grace Period

A short time period after graduation during which the borrower is not required to begin repaying his or her student loans. The grace period may also kick in if the borrower leaves school for a reason other than graduation or drops below half-time enrollment. Depending on the type of loan, you will have a grace period of six months (Stafford Loans) or nine months (Perkins Loans) before you must start making payments on your student loans. The PLUS Loans do not have a grace period.

Graduated Repayment

A schedule where the monthly payments are smaller at the start of the repayment period and gradually become larger.

Guarantee Agency or Guarantor

State agencies responsible for approving student loans and insuring them against default. Guarantee agencies also oversee the student loan process and enforce federal and state rules regarding student loans.

Guarantee Fee

A small percentage of the loan that is paid to the guarantee agency to insure the loan against default. The insurance fee is usually 1% of the loan amount (and by law cannot exceed 3% of the loan amount).

Holder

The lender, institution or agency that holds legal title to a loan. The holder may be the bank that issued the loan, a secondary market that purchased the loan from the bank, or a guarantee agency if the borrower defaulted on the loan.

Home Equity

Current market value of a home less the mortgage's remaining unpaid principal. It is based on the market value, not the insurance or tax value.

Horizontal Equity

The principle of horizontal equity is that families with similar financial circumstances should pay the same amount, regardless of how their assets, investments and income are defined.

Income

The amount of money received from employment (salary, wages, tips), profit from financial instruments (interest, dividends, capital gains), or other sources (welfare, disability, child support, Social Security and pensions).

Income Contingent Repayment

Under an income contingent repayment schedule, the size of the monthly payments depends on the income earned by the borrower. As the borrower's income increases, so do the payments. The income contingent repayment plan is not available for PLUS Loans.

Installment Loan

A consumer loan in which the principal and interest are repaid on a regular (usually monthly) schedule. The payments are called "installments" and are all for the same amount.

Insurance Fee

Fee passed on by the lender to the federal government as insurance against default. Insurance fees are charged as the loan is disbursed and typically run to 1% of the amount disbursed.

Interest

Amount charged to the borrower for the privilege of using the lender's money. Interest is usually calculated as a percentage of the principal balance of the loan. The percentage rate may be fixed for the life of the loan or it may be variable, depending on the terms of the loan. All federal loan issued since October 1992 use variable interest rates that are pegged to the cost of US Treasury bills.

Internal Revenue Service (IRS)

Federal agency responsible for enforcing US tax laws and collecting taxes.

Lender

A bank, credit union, savings and loan association, or other financial institution that provides funds to the student or parent for an educational loan. Note: Some schools now participate in the Federal Direct Loan Program and no longer use a private lender, since loan funds are provided by the US Government.

Line of Credit

Pre-approved loan that lets you borrow money up to a pre-set credit limit, usually by writing checks. A line of credit doesn't cost you anything until you write a check. Then you begin repayment just like a regular loan.

Loan

A type of financial aid which must be repaid, with interest. The federal student loan programs (FFELP and FDSLP) are a good method of financing the costs of your college education. These loans are better than most consumer loans because they have lower interest rates and do not require a credit check or collateral. The Stafford Loans and Perkins Loans also provide a variety of deferment options and extended repayment terms.

Loan Forgiveness

The federal government cancels all or part of an educational loan because the borrower meets certain criteria (e.g., is performing military or volunteer service).

Loan Interviews

Students with educational loans are required to meet with a financial aid administrator before they receive their first loan disbursement and again before they graduate or otherwise leave school. During these counseling sessions, called entrance and exit interviews, the FAA reviews the repayment terms of the loan and the repayment schedule with the student.

Maturity Date

The date when a loan comes due and must be repaid in full.

Mortgage

A loan of funds for purchasing a piece of property which uses that property as security for the loan. The lender has a lien on the property and will receive the property if the borrower fails to repay the loan.

Origination Fee

Fee paid to the bank to compensate them for the cost of administering the loan. The origination fees are charged as the loan is disbursed, and typically run to 3% of the amount disbursed. A portion of this fee is paid to the federal government to offset the administrative costs of the loan.

Prepayment

Paying off all or part of a loan before it is due.

Principal

The amount of money borrowed or remaining unpaid on a loan. Interest is charged as a percentage of the principal. Insurance and origination fees will be deducted from this amount before disbursement.

Promissory Note

The binding legal document that must be signed by the student borrower before loan funds are disbursed by the lender. The promissory note states the terms and conditions of the loan, including repayment schedule, interest rate, deferment policy and cancellations. The student should keep this document until the loan has been repaid.

Repayment Schedule

The repayment schedule discloses the monthly payment, interest rate, total repayment obligation, payment due dates, and the term of the loan.

Repayment Term

The term of a loan is the period during which the borrower is required to make payments on his or her loans. When the payments are made monthly, the term is usually given as a number of payments or years.

Secondary Market

An organization that buys loans from lenders, thereby providing the lender with the capital to issue new loans. Selling loans is a common practice among lenders, so the bank you make your payment to may change during the life of the loan. The terms and conditions of your loan do not change when it is sold to another holder. Sallie Mae is the nation's largest secondary market and holds approximately one third of all educational loans.

Secured Loan

A loan backed by collateral. If you fail to repay the loan, the lender may seize the collateral and sell it to repay the loan. Auto loans and home mortgages are examples of secured loans. Educational loans are generally not secured.

Servicer

An organization that collects payments on a loan and performs other administrative tasks associated with maintaining a loan portfolio. Loan servicers disburse loan funds, monitor loans while the borrowers are in school, collect payments, process deferments and forbearances, respond to borrower inquiries, and ensure that the loans are administered in compliance with federal regulations and guarantee agency requirements.

Simple Interest

Interest that is paid only on the principal balance of the loan and not on any accrued interest. Most federal student loan programs offer simple interest. Note, however, that capitalizing that interest on an unsubsidized Stafford loan is a form of compounded interest.

Stafford Loans

Federal loans that come in two forms: subsidized and unsubsidized. Subsidized loans are based on need; unsubsidized loans aren't. The interest on the subsidized Stafford Loan is paid by the federal government while the student is in school and during the six month grace period. The subsidized Stafford Loan was formerly known as the Guaranteed Student Loan (GSL). The unsubsidized Stafford Loan may be used to pay the EFC.

Subsidized Loan

With a subsidized loan, such as the Perkins Loan or the subsidized Stafford Loan, the government pays the interest on the loan while the student is in school, during the six month grace period, and during any deferment periods. Subsidized loans are awarded based on financial need and may not e used to finance the family contribution. See also Unsubsidized Loan.

Term

The number of years (or months) during which the loan is to be repaid.

Title IV Loans

Title IV of the Higher Education Act of 1965 created several education loan programs which are collectedly referred to as the Federal Family Education Loan Program (FFELP). These loans, also called Title IV Loans, are the Federal Stafford Loans (Subsidized and Unsubsidized), Federal PLUS Loans and Federal Consolidation Loans.

Title IV School Code

When you fill out the FAFSA you need to supply the title IV Code for each school to which you are applying. This code is a six-character identifier that begins with one of the following letters: O, G, B or E.

Unsecured Loan

A loan not backed by collateral, representing a greater risk to the lender. The lender may require a co-signer on the loan to reduce their risk. If you default on the loan, the co-signer will e held responsible for repayment. Most educational loans are unsecured loans. In the case of federal student loans, the federal government guarantees repayment of the loans. Other examples of unsecured loans include credit card charges and personal lines of credit.

Unsubsidized Loan

A loan for which the government does not pay the interest. The borrower is responsible for the interest on an unsubsidized loan from the date the loan is disbursed, even while the student is still in school. Students may avoid paying the interest while they are in school by capitalizing the interest, which increases the loan amount. Unsubsidized loans are not based on financial need and may be used to finance the family contribution. See also Subsidized Loan.

Variable Interest

In a variable interest loan, the interest rate changes periodically. For example, the interest rate might be pegged to the cost of US Treasury Bills (e.g., T-Bill rate plus 3.1%) and be updated monthly, quarterly, semi-annually or annually.

Verification

Verification is a review process in which the financial aid office (FAO) determines the accuracy of the information provided on the student's financial aid application. During the verification process, the student and parent will be required to submit documentation for the amounts listed (or not listed) on the financial aid application. Such documentation may include signed copies of the most recent federal and state income tax returns for you, your spouse (if any) and your parents, proof of citizenship, proof of registration with Selective Service, and copies of Social Security statements and W2 and 1099 forms, among other things.

Financial aid applications are randomly selected by the federal processor for verification, with most schools verifying at least 1/3 of all applications. If there is an asterisk next to the EFC figure on your Student Aid Report (SAR), your SAR has been selected for verification. Schools may select additional students for verification if they suspect fraud. Some schools undergo 100% verification.

If any discrepancies are uncovered during verification, the financial aid office may require additional information to clear up the discrepancies. Such discrepancies may cause your final financial aid package to be different from the initial package described on the award letter you received from the school. If you refuse to submit the required documentation, your financial aid package will be cancelled and no aid awarded.