

glossary

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

AMORTIZATION: The process of gradually repaying a loan over an extended period of time through periodic installments of principal and interest.

AWARD LETTER: The official document issued by the financial aid office that lists all of the financial aid awarded or recommended to a student. This letter provides details on the 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.

CAPITALIZATION: The process of adding unpaid interest charges to the principal balance of an educational loan, thereby increasing the size of the loan. Capitalizing the interest increases the monthly payment and the amount of money you will eventually have to repay.

COMPOUND INTEREST: The frequency with which interest is computed and added to the principal to arrive at a new balance.

CONSOLIDATION: The refinancing of multiple educational loans into one new loan with a new repayment term and interest rate. For example, you can borrow a Federal Consolidation Loan (FCL) to pay off some or all of your existing eligible federal student loans (such as Stafford Loans). The FCL has a fixed interest rate with a repayment term of up to 30 years, depending on your total student loan debt. Borrowers typically consider an FCL either to reduce their monthly loan payments or to take advantage of the fixed interest rate structure, especially when interest rates are low. However, the FCL may result in a higher overall loan cost, due to the increased amount of interest paid over a repayment term longer than the standard 10 years.

COSIGNER: An individual who assumes responsibility for the loan if the borrower should fail to repay it.

COST OF ATTENDANCE: The total estimated amount it should cost a student to go to school. Also known as the cost of education or “budget,” this amount includes tuition and fees, room and board, and allowances for books, supplies, transportation, and personal and incidental expenses.

CREDIT BUREAUS AND CREDIT REPORTING

AGENCIES: Credit bureaus and credit reporting agencies provide credit information to creditors, such as banks and businesses, to help them decide whether to issue a loan or extend credit. This information may include your payment history, a list of current and past credit accounts and their balances, credit problems, and employment and personal information.

CREDIT RATING: An evaluation of the likelihood of a borrower to default on a loan. Borrowers who make all their payments on time are considered good credit risks. Borrowers who are frequently delinquent in making their payments are considered bad credit risks.

CREDIT SCORING: A system creditors use to help determine whether to give you credit. Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your loan application and your credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points—a credit score—helps predict how creditworthy you are; that is, how likely it is that you will repay a loan as agreed and make the payments when due.

DEFAULT: A loan is in default when the borrower fails to pay installments on time or otherwise fails to meet the terms and conditions of the loan. If you default on a loan, the holder of the loan can take legal action to recover the money, including garnishing your wages and withholding income tax refunds.

DEFERMENT: A period of time when a borrower is allowed to postpone repaying the principal and/or interest on a loan. Most federal loan programs allow students to defer repaying their loans while they are in school at least half time.

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 and legal action may be initiated.

FINANCIAL AID PACKAGE: The collection of grants, scholarships, loans, and work-study employment from all sources (federal, state, institutional, and private) that may be offered to a student to enable him/her to attend a college or university.

FORBEARANCE: A temporary adjustment to the repayment schedule for cases of financial hardship. During forbearance the lender allows the borrower to temporarily postpone repaying the principal, but the interest continues to accrue. In some cases it may be postponed and in others it must be paid. Forbearance is granted at the lender's discretion, usually in cases of extreme financial hardship or other unusual circumstances.

GRACE PERIOD: A specified period of time after a student graduates or leaves school during which loan payments are not required. The grace period will vary depending on the type of loan.

GRADUATED REPAYMENT: Under a graduated repayment schedule, the monthly payments are smaller at the start of the repayment period and gradually become larger.

GUARANTEE FEE: A small percentage of the loan that is paid to the guarantee agency to insure the loan against default. It is payable by the borrower and deducted from the principal of a loan prior to disbursement of funds or assessed at the time of repayment.

GUARANTOR: A state agency or private, nonprofit organization that insures lenders against default of loans in federal and private programs.

INCOME-SENSITIVE REPAYMENT: Under an income-sensitive repayment schedule, the size of the monthly payments depends on the income earned by the borrower.

INTEREST-ONLY PAYMENT: A payment that covers only accrued interest owed on a loan, not the principal balance.

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. You may have several lenders if you borrow through federal, institutional, and private loan programs.

ORIGINATION FEE: A fee that is payable by the borrower and deducted from the principal of a loan prior to disbursement of funds.

PRIVATE LOANS: Education loan programs established by private lenders to supplement the programs available from federal and state governments. Some private loan programs offer terms that are highly competitive with those of the PLUS and Federal Unsubsidized Stafford Loans.

PROMISSORY NOTE: The binding legal document that must be signed by the borrower before loan funds are disbursed by the lender. It includes all of the terms and conditions under which the borrower promises to repay the loan.

SERIALIZATION: The combining of several loans into one account so that the borrower only pays one monthly bill. Original loan terms do not change with serialization.

SERVICER: An organization that administers loans on behalf of a lender. Servicers manage accounts, collect payments, and perform customer service activities.

SUBSIDIZED LOAN: This loan is awarded based on financial need. The federal government will pay the interest on the Federal Subsidized Stafford Loan while you are in school or during the times when you qualify for authorized postponement of loan payments.

UNSUBSIDIZED LOAN: This loan is not need-based; borrowers are responsible for interest payments beginning immediately after disbursement, but interest payments may be postponed during the in-school period and added to the principal balance.

VARIABLE INTEREST: In a variable-interest loan, the interest rate changes periodically. For example, the interest rate might be linked to the cost of U.S. Treasury Bills (e.g., 91-day Treasury Bill rate plus 2.30%) and be updated monthly, quarterly, semiannually or annually.