



Glossary of Lending Terms

APR

Annual percentage rate calculates the cost of borrowing money. It includes the annual interest rate, insurance and origination fees associated with lending money.

Borrower

Person responsible for repaying a loan, who has signed and agreed to the terms in the promissory note.

Borrower Benefits

Special interest rates, incentives, or terms offered by an individual lender. These benefits may lower your payments or reduce your cost of alternative borrowing.

Capitalization

Adding unpaid interest to the loan principal. Capitalization increases the principal amount of the loan and its total cost.

Consolidation

Combining all your loans into one new loan. You will make one payment to one lender. A consolidation loan has its own terms and conditions. Loan consolidation makes repayment easier if you have more than one federal educational loan. It combines all your eligible loan obligations into one new loan with one monthly payment. If you choose to do so, you may be able to extend your repayment schedule beyond the 10 year standard. The interest rate on a consolidation loan is fixed and the rate cannot exceed 8.25 percent. Federal Direct Loan Consolidation does not include private alternative education loans.

Default

Failure to repay a loan according to the terms of the promissory note. This failure must persist for 270 days.

Deferment

A postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue for subsidized loans.

Delinquency

The borrower fails to begin repayment (delinquency) or arrange a deferment or forbearance 270 days after repayment is scheduled to begin.

Dependent student

A student who does not meet any of the criteria for an independent student (see below).

Disbursement

A payment of loan money to the student or parent borrower.

Discharge

The release of a borrower from the obligation to repay his or her loan.

Direct Loan Program

The William D. Ford Federal Direct Loan Program provides loans to student and parent borrowers directly through the U.S. Department of Education rather than through a bank or other lender.

Direct Loan Servicing Center

The U.S. Department of Education's agent contracted to collect Direct Loans and handle deferments, repayment options, and consolidation.

Direct Subsidized Stafford Loan

A loan for students with financial need as determined by federal regulations. No interest is charged while you are in school at least half-time, during your grace period, and during deferment periods.

Direct Unsubsidized Stafford Loan

A student loan that is not based on financial need. Interest is charged during all periods.

Expected Family Contribution (EFC)

The EFC is a measure of the financial strength of a student's family. The U.S. Department of Education calculates a student's EFC based on information provided on the Free Application for Federal Student Aid (FAFSA).

Forbearance

A postponement of payment on a loan, typically if the borrower doesn't qualify for a deferment and is unable to make payments for a reason such as poor health. Interest continues to accrue during forbearance.

Grace period

The time between the end of enrollment (graduation, leave of absence, less than half-time enrollment, or withdrawal) and when repayment begins. No payments are required during the grace period. A six-month period is attached to each subsidized or unsubsidized Stafford loan. The grace period begins the day after the borrower ceases to be enrolled at least half time.

Independent student

A student who is at least 24 years old, married, a graduate or professional student, a veteran or on active duty in the military for other than training or state purposes, an orphan, a ward of the court, or who has legal dependents other than a spouse.

Interest

An expense of borrowing money that is calculated as a percentage of the amount borrowed.

Interest Rate

The rate at which interest accrues on a loan or cost of borrowing money.

Loan

Money borrowed that must be repaid.

Loan fees

Fees added to the amount borrowed to cover the expenses of lending. An expense of borrowing deducted proportionately from each loan disbursement.

Minimum monthly payment

The lowest amount you are required to pay each month during the repayment period.

Parent Loan for Undergraduate Students (Parent PLUS)

Allows parents of dependent students to borrow the difference between the total cost of the college and any financial aid offered to the student.

Principal balance

The amount owed on a loan, which includes any capitalized interest.

Private Educational Loans

Are offered by private lenders to meet the gap between the cost of college and any financial aid offered.

Promissory note

A legally binding contract between a lender and a borrower. The promissory note contains the terms and conditions of the loan, including how and when the loan must be repaid.

Repayment period

The period during which a borrower is obligated to make payments on his or her loan(s).

Repayment schedule

A statement provided by the Direct Loan Servicing Center to the borrower that lists the amount borrowed, the amount of monthly payments, and the date payments are due.

Repayment Date

The day following the end of the grace period

Servicer

The U.S. Department of Education contracts with entities called a "servicer". This third party company becomes responsible for collecting and processing payments for the USDOE.

Total Repayment Amount The amount you borrowed plus the accrued interest.

Variable interest

Rate of interest on a loan that is tied to a stated index and changes annually every July 1 as the index changes.