

Important Financial Terms

accrued interest

Interest that accumulates on any unpaid principal on a loan.

borrower

An individual who is legally responsible for repaying a loan.

consolidation

Combining several student loans into a single loan. This practice allows you to simplify your repayment and potentially extend your repayment term and lower your monthly payment amount.

default

Failure to make installment payments when due or to meet other terms of the promissory note, provided that this failure persists for the most-recent consecutive 270-day period. The consequence of default are serious.

deferment

A period during repayment when you meet certain conditions—such as you lose your job, return to school, face financial hardship or are serving on active duty in the military—and you are not required to make principal payments. For subsidized Stafford loans, you are responsible for the interest that accrues during a period of deferment. Deferments generally must be requested, and specific documentation might be required.

delinquent *or* delinquency

An account status indicating that you are late in making scheduled loan payments. Delinquent status may result in losing out on the opportunity to earn borrower benefits for on-time payments.

disbursement

The amount of loan monies paid to the borrower. Disbursements are usually paid in installments.

forbearance

A period of time during which you are permitted to temporarily ease making payments or lower your monthly payments. You are responsible for all interest that accrues during periods of forbearance. To be granted forbearance you must prove to your lender that you are willing but financially unable to make your payments on your loans.

Free Application for Federal Student Aid

This form, commonly known as FAFSA, is required to apply for student aid, including Stafford loans. You must include financial information about your household so the government can calculate your Expected Family Contribution.

grace period

The period of time allowed before you must begin repaying your student loan. Grace periods on Federal Stafford loans run six months after you leave school or reduce your enrollment to less than half-time.

grant

Form of financial aid that does not have to be repaid.

guaranty agency *or* guarantor

A nonprofit organization or state agency that guarantees a Stafford, PLUS or Consolidation loan issued by private lenders. Guarantors protect lenders against the risk that a loan will not be repaid.

holder

The organization that holds or has title to the student loan.

interest

A fee charged to you for use of loan money, calculated as a percentage of the principal of the loan. The interest rates on most student loans first disbursed prior to July 1, 2006, are variable with a maximum interest-rate cap. The interest rates are adjusted at preset intervals, usually annually. Interest rates on federal student loans first disbursed on or after July 1, 2006, are fixed and do not change.

late charges or fees

Charges that the lender can require the borrower to pay if the borrower fails to pay all or a portion of a required installment within 10 days after it is due.

lender

The bank or other organization that lends the money for the student loan.

loan

Money that is borrowed and must be repaid, usually with interest.

master promissory note

A contract between you and the lender, under which you may receive loans for one or more periods of enrollment. Under this contract, you promise to repay all loan amounts and agree to the terms and conditions of the loans.

prepayment

Paying off the loan earlier than the due date—a good way to avoid additional interest costs.

principal

The outstanding loan amount on which the lender charges interest. As the loan is repaid, a portion of each payment is used to satisfy interest that has accrued, and the remainder of the payment is used to reduce the principal amount.

return on investment

The percentage of profit or total income made on an investment.

scholarship

Financial award based on academic or other achievement or financial need.

servicer

The organization hired by the lender to collect your loan payments and perform other student-loan-administration duties. If a servicer is handling your loan, you will make your payments directly to the servicer instead of to the lender.

subsidized loan

A loan eligible for interest benefits paid by the federal government. The federal government pays the interest that accrues on subsidized loans during the student's in-school, grace, authorized deferment and (if applicable) post-deferment grace periods, if the loan meets certain eligibility requirements.

unsubsidized loan

A non-need-based loan such as an unsubsidized Federal Stafford Loan or a PLUS loan. The borrower is responsible for the interest on an unsubsidized loan during in-school, grace and deferment periods, in addition to repayment periods.