

CHOOSING TO UNDERSTAND: STUDENT LOANS

Student Loan Terms

Accrued Interest - Interest that adds up during school and during grace and deferment periods. For subsidized loans, the federal government pays this interest. For unsubsidized loans, students are responsible for this extra amount.

Aggregate Loan Limit - A borrower's maximum allowable amount borrowed while in school. The maximum for undergraduate students is \$46,000 and for graduate students is \$138,500.

Annual Percentage Rate (APR) - The interest that you pay on a loan on an annual basis expressed as a percentage. (Includes fees)

At Least Half-time Enrollment - A student must maintain at least half time enrollment for subsidized, unsubsidized and PLUS loans.

Capitalization of Fees and Interest - Fees and accrued interest are added to the amount of your loan and interest continues to add up on the new loan amount.

Default - When the borrower is unable to repay the loan and the government is forced to take further actions.

Deferment - A period during which the borrower does not have to pay on the principal of the loan. The borrower still may have to pay the interest on the loan during this period.

Deferred Interest - Interest that adds up, but on which payment is delayed until a later time. This interest may be capitalized.

Delinquent Borrower - A borrower that has missed one or more payments and is behind on his loan.

Disclosure Statement - A statement given to the borrower at the time that the loan is made that reveals the actual loan costs including interest rate and fees.

Entrance/Exit Interview - Loan repayment counseling session given by the financial aid office that is required by the federal government in order to receive a federal loan. The student must go through this interview before he can receive his first loan disbursement and also before he leaves the school.

Extended Repayment - A loan repayment schedule where borrowers make fixed payments of at least \$50 a month over a period generally between 12 to 30 years.

Federal Consolidated Loan - A federal program that allows students to combine their federal loan and private loan into one new loan. This is simpler and you don't have 2 loan payments to make every month.

Fixed Interest Rate - The interest rate stays the same throughout the term of the loan.

Forbearance - An agreement between the lender and the borrower that can temporarily stop loan payments, accept smaller payments, or give an extension for making a payment. Forbearance can be given for extenuating circumstances that aren't covered by deferment.

Garnishment of Wages - Money that is directly taken out of an individual's paycheck, with or without their consent. This option is available to the federal government for those loans that go into default.

Grace Period - The period that begins the day after a student ceases to be enrolled at least half time. Payments begin 6 months later.

Graduated Payments - Loan repayment schedule where the payments are small at first and gradually become larger. This option is based on the premise that as you work longer, your income increases, making you able to handle larger loan payments. This isn't available for PLUS loans, and isn't based on income.

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Guarantee/Fee Insurance Premium - A percentage of the loan amount that is charged by the lender to protect them in case the borrower defaults on the loan.

Income-Contingent Repayment - A loan repayment schedule that is based on the borrower's income. Payments increase as income increases.

Interest - A charge for the use of money that is a percentage of the loan principal. The interest rate can be fixed or variable.

Lender - The entity from whom the borrower obtains the loan, usually a bank, credit union, or the federal government.

Loan Period - The period for which the borrower is seeking a loan, usually an academic year.

Origination Fee - A fee charged to process the loan application. The fee is a percent of the loan amount and is usually deducted from the loan proceeds.

Parent - For the purposes of a PLUS loan, a student's natural or adoptive mother, father, or the spouse of a parent who remarried.

Perkins Loans - A need-based federal loan program

Principal - The amount borrowed plus any interest or fees that were added to the loan balance.

Promissory Note - A legal document signed by the borrower that lists all the terms of the loan.

PLUS Loan - A federal loan that is eligible to a parent of a dependent undergraduate student. The parent usually starts making payments after 60 days.

Repayment Disclosure Statement - A statement of the loan repayment terms that is required to be mailed to the borrower before the due date of their first payment.

Repayment Schedule - A plan that states the interest and principal due each month, the number of payments required, the amount required to pay the loan off in full, what dates the payments are due and the interest rate.

Standard Repayment - A loan repayment schedule where borrowers make fixed payments of at least \$50 a month for up to 10 years.

Subsidized Stafford Loan - A federal loan that is need-based. The federal government pays the interest that accrues while the student is still in school.

Terms - The conditions of the loan, including the requirements for receipt and repayment of the loan.

Unsubsidized Stafford Loan - A federal loan that is NOT need-based. The borrower is responsible for the interest that accrues while they are in school.

Variable Interest Rate - The interest rate changes periodically during the term of the loan.