

LOAN TERMINOLOGY

Accrued Interest- Interest that accumulates on the unpaid principal balance of a loan

Alternative Loan - Private loans provide supplemental funding when other financial aid does not cover costs. Offered by banks and other financial institutions. Borrower/co-borrower need to meet credit criteria; often requires school certification; rates and terms differ from federal loan programs

Borrower - The person who receives the loan

Co-Borrower - A person who signs the promissory note, in addition to the borrowers, and is equally responsible for the debt.

Capitalization - Accrued interest is added to outstanding principal balance at designated times

Consolidation Loan –also called Loan Consolidation, combines several student or parent loans into one bigger loan from a single lender, which is then used to pay off the balances on the other loans. Consolidation loans are available for most federal loans, including FFELP (Stafford, PLUS and SLS), FISL, Perkins, Health Professional Student Loans, NSL, HEAL, Guaranteed Student Loans and Direct loans. Consolidation loans often reduce the size of the monthly payment by extending the term of the loan beyond the 10-year repayment plan that is standard with federal loans.

Credit Scoring - A method, based on statistical analysis of applicant characteristics, through which lenders determine the applicant's qualification for credit.

Credit -worthy - An individual with no negative credit history per the criteria established by the lender.

Default - Failure to make scheduled monthly payments according to the agreed - upon terms. Occurs at 270 days delinquency (as of 10/7/98).

Deferment - A period during which a borrower, who meets certain criteria, may suspend loan payments. For some loans the federal government pays the interest during a deferment. On others, the interest accrues and is capitalized, and the borrower is responsible for paying it.

Delinquency – Occurs due to failure to make monthly loan payments when due. Delinquency begins with the first missed payment.

Direct Lender (FDLP) - schools that are given loan funds directly from the federal government to award and disburse to eligible students; also known as the William D. Ford Direct Loan Program for Stafford and PLUS

Disbursement - when funds are made available to the student at the school; school determines dates based on academic year and federal regulations

Disclosure Statement/Notice of Guarantee (NOG) - notice to student regarding loan given at time of guarantee by lender; indicates amounts of disbursements and payment dates

Electronic Funds Transfer (EFT) - Any transfer of loan funds from lender to school that is initiated through electronic means rather than a paper based transaction, such as a check.

Entrance/Exit Interview - pre- and post counseling of student borrowers provided by the school and required by the federal government

Federal Direct Student Loan Program (FDSLSP) Stafford and Plus loans are available directly from the federal government rather than through private lenders. Selected colleges and universities participate in this program.

Federal Family Education Loan Program (FFELP) - Stafford and PLUS loans are financed by private lenders and guaranteed by the federal government

Forbearance - Temporary cessation of regularly scheduled payments or temporarily permitting smaller payments than were originally scheduled.

Federal Stafford Loan - Loans guaranteed by the federal government and available to students to fund education.

Subsidized - federal government pays interest on loan while student is in school, during grace period and times of deferment; based on need

Unsubsidized - student is responsible for interest on loan; not need based

Grace period - Specified period of time between the date a student graduates or drops below half-time status and the date loan repayment begins.

Guarantee Agency/Guarantor - agency that guarantees the funds for the federal government to the lenders; Great Lakes Higher Education Corporation and United Student Aid Funds are two common agencies in Ohio

Master Promissory Note (MPN) - A promissory note under which the borrower may receive loans for either a single academic year or multiple academic years.

The MPN forms, developed by FFELP participants and approved by the Department, are the Stafford Master Promissory Note (Stafford MPN) and the PLUS Application and Master Promissory Note (PLUS MPN). Can be used for 10 years of loan borrowing from point of signing

NSLDS - National Student Loan Data System; federal database of student borrowers and their borrowing levels

PLUS - Federal Parent Loan for Undergraduate Students program

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

Repayment - repaying student loan as agreed upon in promissory note; students should check with lender at time of repayment to understand responsibilities

Secondary Market - Institutions, like Sallie Mae, that buy student loans from the institutions that originate or own them.

Servicer - Organization that administers and collects loan payments. May be either the loan holder or a third party agent acting on behalf of the holder.