Glossary

Accrued Interest: The interest on a student loan that begins to accrue (accumulate) after a student completes school. This interest is charged on the principal (dollar) amount of the loan.

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

Capitalizing Interest: Adding accumulated interest to the loan principal rather than having the borrower make monthly interest payments. Capitalizing interest increases the principal amount of the loan and, therefore, the total cost of the loan.

CBO: The Congressional Budget Office determines the costs of government programs and of changes being proposed by Congress.

Cohort: Borrowers who enter repayment in a given fiscal year.

Consolidation Loans: Consolidation occurs when a borrower with multiple loans requests that all of his or her loans be consolidated into one loan. Repayment begins 60 days after discharge of prior loans; certain deferments are authorized.

Constant Dollars: Dollars adjusted using a price index to eliminate inflationary factors. This adjustment facilitates direct comparison over time.

Default: Failure to repay a loan in accordance with the terms of the promissory note.

Deferment: The temporary postponement of loan payments.

Delinquency: Incidents of late or missed loan payments, as specified in the terms of the promissory note and the selected repayment plan.

Dependent Student: A student that is financially dependent upon a parent or legal guardian or a student who does not meet certain criteria for being classified as independent (see Independent Student).

Disbursement: When loan proceeds are paid by the school to the student or parent borrower.

Discharge: The release of borrowers from their obligations to repay their loans. Borrowers must meet certain requirements to be eligible for discharges.

Exit Counseling: A group or individual session during which borrowers who are leaving school or dropping below half-time enrollment receive information about their repayment obligations and update information about themselves.

Expected Family Contribution (EFC): The amount that a family is expected to contribute toward college costs according to federal financial aid formulas.

Extended Repayment Plan: A plan that requires the borrower to pay at least $50 a month and allows up to 30 years to repay, depending on the amount borrowed.

Federal Family Education Loan (FFEL) program: The Federal Family Education Loan FFEL program is formerly known as Guaranteed Student Loans (GSL). Loan funds are provided primarily by commercial lenders but principal and interest are guaranteed by the federal government through federally-funded guarantee agencies. The same loan programs that exist under FDSL also exist under FFEL: the Stafford Subsidized program, the Stafford Unsubsidized program, the Parent Loans for Undergraduate Students (PLUS), the Supplemental Loan for Students (SLS), and Consolidation loans.

FFEL: See Federal Family Education Loan Program.

Forbearance: An arrangement to postpone or reduce a borrower's monthly payment amount for a limited and specified period, or to extend the repayment period. The borrower's interest is charged and accrues during forbearance.

GAO: The Government Accountability Office (formerly the U.S. General Accounting Office) is the auditing arm of Congress, and is led by the Comptroller General of the United States.

Grace Period: A six-month period before the first payment must be made on a Stafford Subsidized or Stafford Unsubsidized loan. The grace period starts the day after a borrower ceases to be enrolled at least half time. During the grace period on an Unsubsidized loan, accumulating interest must be paid or it will be capitalized.

Graduated Repayment Plan: A plan that allows monthly payment amounts to start out at one level and then increase every two years during the repayment period. Borrowers have up to 30 years to repay, depending on the amount they borrowed. The minimum payment must cover interest that accumulates monthly and must be at least half of the payment that would be required under the Standard Repayment Plan. The maximum amount may not be more than 1-1/2 times the payment that would be required under the Standard Repayment Plan.

Grant: Financial assistance that does not need to be repaid.

Guarantee Agency: A state or private nonprofit agency that has an agreement with the Secretary of Education to administer the FFEL program. The agency insures lenders against losses due to a borrower's default. Also called "guarantor" or "guaranty agency."

Half-time Student: A student who is carrying an academic workload that is considered at least one-half the workload of a full-time student (as determined by the school).

HEA: The Higher Education Act is the law that authorizes most of the federal programs that relate to financial aid for college.

Income Contingent Repayment Plan: Available only in the FDLP, this plan that allows the monthly payment amount to vary with the borrower's income, with any amounts remaining after 25 years forgiven.

Income Sensitive Repayment Plan: A plan that allows the monthly payment amount to vary with the borrower's income, except that all principal and interest must be fully repaid within 25 years.

Independent Student: A student who meets one of the following criteria: the student is 24 years or older, a graduate or professional student, married, orphaned or a ward of the court, veteran of the armed services, or has documents describing circumstances of independence. (See Dependent Student)

In-School Period: Under the Stafford Subsidized loan program, the period during which a borrower pursues his or her studies as at least a half-time student at a participating school. This period begins with the date of disbursement and ends with the beginning of the grace period. During the in-school period, borrowers are not charged interest (in FFEL, the federal government pays lenders interest benefits and special allowance).

Interest: A loan expense charged by the lender and paid by the borrower for the use of borrowed money. The expense is calculated as a percentage of the principal amount (loan amount) borrowed.

Interest Benefits: Under the Subsidized Stafford loan program, the government covers a borrower's interest payments during the in-school and grace periods, and during any authorized deferment periods.

IRS Offset: When other collection efforts fail, the Department of Education turns over a defaulted borrower's account to the Internal Revenue Service (IRS). This IRS offsets the debt against the defaulter's income tax refund.

Loan: Money borrowed that must be repaid.

Loan Limits: Limits placed on student borrowers in terms of the maximum numbers of dollars they may obtain through federally funded student financial assistance programs. Loan limits vary by type of loan, academic level, program length, and whether a student is dependent or independent.

Loan Principal: The total sum of money borrowed.

Loans in Repayment: Loans that have entered the repayment period after expiration of the grace period.

OMB: The Office of Management and Budget is responsible for the overall budget of the United States government, nd for the efficient operation of government agencies.

Origination Fee: A fee charged and deducted from the proceeds of a loan before the loan is disbursed. In the federal loan programs, the origination fee is paid to the government to offset its costs.

PLUS Loan (or FFEL): Parent Loans for Undergraduate Students. Loans taken out by parents for the purpose of helping to pay for their children's undergraduate education. Parents are responsible for all interest charges. The loan value may not exceed the full cost of the student's education, minus any other financial aid that the student receives.

Prepayment: Any amount paid on a loan by the borrower before it is required to be paid under the terms of the promissory note. There is never a penalty for prepaying principal or interest on federal student loans.

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.

Rehabilitation Loans: When 12 consecutive payments have been made on a formerly defaulted loan, it can become a rehabilitation loan. Once a loan becomes rehabilitated, it becomes a new loan. A borrower again becomes eligible for participation in federal financial aid programs.

Reinsurance Payments (Reinsurance Default Claims): Monies the federal government gives a guarantee agency as reimbursement for payments made to lenders for losses due to borrower default.

Repayment Period: The period, which a borrower is responsible for repaying his or her loan. In the case of Stafford loans, this period begins on the day after the last day of the grace period. In the case of PLUS and SLS loans, this period begins on the day the loan is disbursed. The maximum repayment period is ten years, not including any authorized deferment or forbearance periods.

Repayment Schedule: A statement provided to the borrower that lists the amount borrowed, the amount of monthly payments, and the date payments are due.

Secondary Market: An institution or organization that purchases eligible student loans and provides lenders with a source of liquidity to make new loans.

Special Allowance: A quarterly supplemental interest payment to lenders based on the outstanding principal balance of Stafford, PLUS, SLS and Consolidation loans. This payment assures that, as a complement to the borrower's interest rate, the lenders receive a guaranteed yield on their loans even when interest rates change.

Stafford Subsidized Loan (and FFEL): A federally subsidized student loan made on the basis of the student's financial need and other specific eligibility requirements. Stafford Subsidized loans have subsidized interest, which means that the federal government covers the interest on these loans while borrowers are enrolled at least halftime, during the six-month grace period following graduation, or during authorized periods of deferment. Stafford Subsidized loans are available to undergraduate and graduate students while the student is in school. The borrower begins to repay the principal and interest after leaving school.

Stafford Unsubsidized Loan (and FFEL): These loans are made to borrowers meeting specific eligibility requirements. Interest is charged throughout the life of the loan. The borrower may choose to pay the interest charged on the loan or allow the interest to be capitalized (added to the loan principal).

Standard Repayment Plan: A repayment schedule that allows up to 10 years to repay student loans, with a minimum monthly payment of $50 a month. This is the default repayment plan for unconsolidated federal student loans, although borrowers can choose other plans.

Title IV: The portion of the Higher Education Act (see HEA) that includes most of the federal financial aid programs.

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.