

# **Glossary of Loan Terms**

Adapted from: <https://www.accessgroup.org/glossary-terms>

## **Accrued Interest**

Interest that accrues on the loan and is payable by you during in-school, grace, and deferment periods.

## **Capitalization**

The process by which accrued interest (and potentially fees) on a loan is added to the principal balance. Both then become part of the principal balance and begin to accrue interest.

## **Consumer Reporting Agency**

An agency that compiles, maintains, and distributes credit and personal information to creditors. This information may include your payment habits, number of credit accounts, the balance of those accounts, place of employment, length of employment, and records of credit transactions. Lenders check with consumer reporting agencies to learn whether a potential customer seeking a loan is likely to repay based on the way other obligations have been handled in the past.

## **Credit Report**

A summary of your credit history. It is maintained by an authorized consumer reporting agency and sent to potential creditors when requested. Credit reports include information such as current and recent addresses, employer information, payment performance, type of debt you have and the lending institution for each account, available credit, and current balances.

## **Default**

The failure of a borrower either to make installment payments for a specified period of time, when due or to comply with other terms of the promissory note. If a borrower is 270 days late on a federal education loan, it is considered to be in default. This causes the loan to become due in full immediately and the school, lender, state and federal government may take legal action against the borrower to recover defaulted loan funds. This may involve garnishing wages or withholding income tax refunds. Defaulting on federal loan makes the borrower ineligible for future federal financial aid unless an acceptable repayment schedule is arranged. Defaulted loans may adversely affect a person's credit rating.

## **Deferment**

A period during which the repayment of the principal amount of the loan is suspended as a result of the borrower's meeting one of the requirements established by law and/or contained in the promissory note. During this period, the borrower may or may not have to pay interest on the loan.

## **Deferred Interest**

Interest that accrues, but on which payment is delayed until a later date. Such deferred (accrued) interest may be capitalized.

## **Disclosure Statement**

A statement of the actual loan costs, including the interest rate and any additional fees, which is presented to the borrower at the time the loan is made. Your disclosure statement should list your lender and servicer for the purposes of a federally guaranteed student loan.

## **Federal Perkins Loan**

A need-based federal loan for students, which is issued by a participating school.

## **Federal Direct Loan**

There are two types: subsidized and unsubsidized. Graduate and professional students are eligible for unsubsidized loans, which are not based on need, and begin accruing interest at disbursement.

## **Federal Consolidation Loan**

A program offered by eligible lenders that allowed many federal education loans to be combined into a single new loan, often with an extended repayment term.

## **Forbearance**

An agreement to accept a temporary cessation of loan payments, smaller payments than were previously scheduled, or an extension of time for making payments. Forbearance may be given for circumstances not covered by deferment that adversely affect your ability to meet loan payment obligations, such as economic hardship.

## **Grace Period**

A period of time that begins when you graduate, when you leave school, or when your enrollment status drops below half-time – whichever comes first – and ends when your first loan payment is due.

## **Graduated Repayment**

Loan repayment that is lower at the beginning of repayment and increases in steps during the repayment period.

## **Guaranty Agency (Guarantor)**

A state agency or private, nonprofit institution or organization that insures lenders against losses due to a borrower's default, death, disability, or bankruptcy.

## **Holder**

The lender, institution, or agency that originated the loan and holds its legal title, or a lender or secondary market that purchased the loan from the original holder.

## **IBR – Income Based Repayment**

Income-Based Repayment (IBR) is designed to reduce monthly student loan payments to assist with making student loan debt manageable by basing the payment in part on the borrower's annual income.

## **ICR – Income Contingent Repayment**

For Direct Loans, payment is based on the borrower's adjusted gross income, family size, and the total amount of outstanding student loans.

## **Interest**

A charge for the use of money. Interest is calculated as a percentage rate of the loan principal. The interest rate charged can be fixed, which means it does not change over the life of the loan, or the rate can be variable, in which case, it changes periodically. The variable rate may be tied to one of several indexes such as the Prime Rate, LIBOR, or U.S. Treasury Bills.

## **Lender**

The bank, savings and loan, credit union, or other approved entity from which you borrow a loan.

## **Loan Fee**

A fee calculated as a percentage of the principal amount borrowed; it is deducted from each disbursement of the loan and remitted to the federal government to offset the costs of administering the federal student loan program.

## **NSLDS – National Student Loan Data System**

The U.S. Department of Education's central database for student aid. It receives data from schools, agencies that guarantee loans, the Direct Loan program, and other U.S. Department of Education programs.

## **Origination Fee**

A processing fee that is calculated on the principal amount borrowed and is charged to the student by the lender. This fee is normally deducted from the amount of the loan proceeds.

## **PAYE – Pay as You Earn**

For borrowers with partial financial hardship with high debt and low income, this is another income-based repayment plan.

## **Principal**

Principal refers to the total amount borrowed plus any capitalized fees and interest.

## **PSLF – Public Service Loan Forgiveness**

The PSLF Program is intended to encourage individuals to enter and continue to work full-time in public service jobs. Under this program, borrowers may qualify for forgiveness of the remaining balance of their Direct Loans after they have made 120 qualifying payments on those loans while employed full time by certain public service employers. <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service>

## **Promissory Note**

A legal document signed by you when obtaining a loan. It lists the conditions under which the loan is made and the terms under which you agree to repay the loan. Borrowers should keep copies of their promissory notes so you know what you agreed to for each loan.

## **Repayment Schedule (Amortization)**

A plan that sets forth the principal and interest due in each installment, the number of payments required to pay the loan in full, the interest rate, and the due dates of the first and subsequent payments.

## **Servicer**

Companies that specialize in handling billing, collections, deferments, etc., for student loans.