Student Loan Terminology

Are you thinking about taking out a federal student loan to help pay your school expenses? Do you already have student loans, or are you in repayment? Wherever you are in your higher education journey, understanding basic loan terminology can assist you in making informed decisions through this process. Here's a list of common student loan terms, defined by the U.S. Department of Education.



Award Letter - An offer from a college or career school that states the type and amount of financial aid the school is willing to provide if you accept admission and register to take classes at that school.

Capitalization - The addition of unpaid interest to the principal balance of a loan. When the interest is not paid as it accrues during periods of in-school status, the grace period, deferment, or forbearance, your lender may capitalize the interest. This increases the outstanding principal amount due on the loan and may cause your monthly payment amount to increase. Interest is then charged on that higher principal balance, increasing the overall cost of the loan.

Consolidation - The process of combining one or more loans into a single new loan.

Cost of Attendance (COA) - The total amount it will cost you to go to school—usually stated as a yearly figure. COA includes tuition and fees; room and board (or a housing and food allowance); and allowances for books, supplies, transportation, loan fees, and dependent care. It also includes miscellaneous and personal expenses, including an allowance for the rental or purchase of a personal computer; costs related to a disability; and reasonable costs for eligible study-abroad programs. For students attending less than half-time, the COA includes tuition and fees and an allowance for books, supplies, transportation and dependent care expenses, and can also include room and board for up to three semesters or the equivalent at the institution. But no more than two of those semesters, or the equivalent,

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han two of those semesters, or the equivalent, may be consecutive. Contact the financial aid administrator at the school you're planning to attend if you have any unusual expenses that might affect your COA.

Default - Failure to repay a loan according to the terms agreed to in the promissory note. For most federal student loans, you will default if you have not made a payment in more than 270 days. You may experience serious legal consequences if you default.

Deferment - A postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue on Direct Subsidized Loans, Subsidized Federal Stafford Loans, and Federal Perkins Loans. All other federal student loans that are deferred will continue to accrue interest. Any unpaid interest that accrued during the deferment period may be added to the principal balance (capitalized) of the loan(s).

Disbursement - Payment of the loan funds to the borrower by the school. Students generally receive their federal student loan in two or more disbursements.

Forbearance - A period during which your monthly loan payments are temporarily suspended or reduced. Your lender may grant you a forbearance if you are willing but unable to make loan payments due to certain types of financial hardships. During forbearance, principal payments are postponed but interest continues to accrue. Unpaid interest that accrues during the forbearance will be added to the principal balance (capitalized) of your loan(s), increasing the total amount you owe.

Grace Period - A period of time after borrowers graduate, leave school, or drop below half-time enrollment where they are not required to make payments on certain federal student loans. Some federal student loans will accrue interest during the grace period, and if the interest is unpaid, it will be added to the principal balance of the loan when the repayment period begins.

Interest - A loan expense charged for the use of borrowed money. Interest is paid by a borrower to a lender. The expense is calculated as a percentage of the unpaid principal amount of the loan.

Interest Rate - The percentage at which interest is calculated on your loan(s).

Lender - The organization that made the loan initially; the lender could be the borrower's school; a bank, credit union, or other lending institution; or the U.S. Department of Education.

Loan Holder - The entity that holds the loan promissory note and has the right to collect from the borrower.

Master Promissory Note (MPN) - A binding legal document that you must sign when you get a federal student loan. The MPN can be used to make one or more loans for one or more academic years (up to 10 years). It lists the terms and conditions under which you agree to repay the loan and explains your rights and responsibilities as a borrower. It's important to read and save your MPN because you'll need to refer to it later when you begin repaying your loan or at other times when you need information about provisions of the loan, such as deferments or forbearances.

National Student Loan Data System (NSLDS) - A centralized database, available at www.nslds.ed.gov, which stores information on federal grants and loans. NSLDS contains information on how much aid you've received, your enrollment status, and your loan servicer(s). You can access NSLDS using your Federal Student Aid ID (FSA ID).

Net Price - An estimate of the actual cost that a student and his family need to pay in a given year to cover education expenses for the student to attend a particular school. Net price is determined by taking the institution's cost of attendance and subtracting any grants and scholarships for which the student may be eligible.

PLUS Loan - A loan available to graduate students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.

Satisfactory Academic Progress - A school's standards for satisfactory academic progress toward a degree or certificate offered by that institution. Check with your school to find out its standards.

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Subsidized Loan - A

loan based on financial need for which the federal government pays the interest that accrues while the borrower is in an in-school, grace, or deferment status. For Direct Subsidized Loans first disbursed between July 1, 2012, and July 1, 2014, the borrower will be responsible for paying any interest that accrues during the grace period. If the interest is not paid during the grace period, the interest will be added to the loan's principal balance.

Unsubsidized Loan - A loan for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.

For a complete glossary of terms, visit http://studentaid.ed.gov/glossary.

