

Lender's Language:

Concepts that Every Borrower Should Know

This topic is one of several in the Access Group's Personal Finance and Debt Management Series.

Access Group, Inc. is a nonprofit organization dedicated to providing access to education through affordable financing and related services. For more information, visit our Web site at www.accessgroup.org.



Accrued Interest — Interest that accumulates on the loan and is payable by the borrower or, in the case of subsidized Federal Stafford Loans, by the federal government, during in-school, grace, and deferment periods.

Amortization — The reduction and retirement of a debt through periodic payments of interest and principal.

APR (Annual Percentage Rate) — A percentage calculation that reflects the total cost of a loan (interest plus all fees) on an annual basis.

Capitalization of Fees and Interest — Fees and accrued interest on a loan are added to the principal balance. Both then become part of the principal balance and begin to accrue interest.

Credit Bureau — An agency that compiles, maintains, and distributes credit and personal information to creditors. This information may include a borrower's payment habits, number of credit accounts, balance of those accounts, place of employment, length of employment, and records of financial transactions. Lenders check with credit bureaus 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 Bureau Scoring — A quick and consistent method of determining the likelihood that you will repay your loans. It is an evaluation tool that predicts how well you will manage credit, relative to other borrowers, based on your past credit performance. The credit

bureau score is a snapshot that focuses on individual borrower behavior. Some examples of the factors used to calculate your credit score include promptness in paying bills, number of credit cards, total credit limit, and the amount owed on accounts.

Credit Report — A summary of your credit history. It is maintained by an authorized credit reporting agency and sent to potential creditors, when requested. Credit reports include information such as current and recent addresses, employer information, payment performance for seven years, 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 when due or to comply with other terms of the promissory note.

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.

Delinquent (Borrower) — A borrower who has failed to make one or more scheduled payments by the due dates.

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 include the name of your lender, guarantor, and servicer.

Entrance Interview — A loan repayment and debt management counseling session required by federal regulations that is arranged and conducted by a school's financial aid office for students who are receiving their first federally guaranteed student loan associated with attendance at the school. This counseling session must be conducted before the student can receive the proceeds of the first disbursement of any federally guaranteed education loan.

Exit Interview — A loan repayment and debt management counseling session required by federal regulations that is arranged and conducted by a school's financial aid office for students who have received federally guaranteed loans while attending school. This counseling session must be conducted before the student graduates or leaves the school, whenever possible.

Extended Repayment — Loan repayment for borrowers who have a total education debt exceeding \$30,000. This plan allows borrowers to repay their loans over a maximum term of 25 years, instead of 10 years, using either graduated or fixed payments that are adjusted on an annual basis. Available only to new Stafford Loan borrowers as of Oct. 1, 1998.

FAFSA — Free Application for Federal Student Aid.

FDL (Federal Direct Loan Program) — Stafford and PLUS loans that are available directly from the federal government rather than through a commercial lender. Only certain institutions participate in this program.

Federal Consolidation Loan — A program offered by eligible lenders that allows many federal education loans to be combined into a single new loan.

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

Federal Stafford Loans — A federal education loan issued by a participating lender. There are two types, subsidized and unsubsidized. Subsidized Federal

Stafford Loans are based on need, and the interest is paid by the federal government while the student is in school. Unsubsidized Stafford Loans are not based on need, and the borrower is responsible for the interest.

Federal Supplemental Loans for Students (SLS) — This program was merged with the unsubsidized Federal Stafford Loan program on July 1, 1994.

FFEL (Federal Family Education Loan Program) — A loan program offering Stafford and PLUS loans financed by private lenders and guaranteed by the federal government.

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 the borrower's ability to meet loan payment obligations, such as economic hardship.

Garnishment of Wages — The deduction of a portion of a borrower's paycheck, by his/her employer, with or without the borrower's consent. A lender or the government may take this action to force repayment of a loan that is in default.

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

Guarantee — To insure a loan and agree to pay the holder if the borrower default. Federal Stafford Loans are guaranteed by numerous state and national agencies on behalf of the federal government. Private loans are guaranteed by private guarantee agencies.

Guarantee Fee/Insurance Premium — A percentage of principal charged to the borrower by the guarantor to insure a lender against loss resulting from a borrower's failure to repay.

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.

Income-Sensitive Repayment — Loan repayment that is based on the borrower's income and total federal education loan debt. Payments increase as income rises. The repayment term may be lengthened in this program.

Index — A financial instrument that provides the basis for the interest rate charged on a loan. Federal Stafford loans are typically *indexed* to the current rate of the 91-day U.S. Treasury bill. Alternative student loans are typically indexed to other widely accepted financial instruments, such as the current LIBOR rate, the current T-bill rate, or the current Prime rate.

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 percentage 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 the borrower obtains a loan.

Loan Period — The academic year or portion thereof for which the applicant is enrolled and is seeking one or more loans.

Mandatory Forbearance — A forbearance that is authorized on federal loans for conditions such as temporary hardship; economic hardship; internship or residency; to align repayment of multiple loans; Student Loan repayment Program (for students eligible for assistance from the Department of Defense); and national and community service.

MPN (Master Promissory Note) — This is the legally binding contract between the borrower and the lender of a Federal Stafford Loan. By signing the MPN, the borrower agrees to all terms and conditions, including the responsibility to repay all borrowed funds along with any interest and fees that are charged. Unlike other

promissory notes where only one loan can be borrowed per signed note, the MPN allows a school to make multiple Federal Stafford Loans to a borrower using the single note (up to 10 years).

Notification of Change in Lender/Holder/Servicer — In the event that your loan is sold or transferred between lenders/holders or servicers you will be notified of this change. The notification is intended to inform you of changes in who holds the promissory note, or owns, your loan and to whom you should send payments or correspondence regarding your loan.

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.

Originate — Origination includes receiving a loan application, entering that record into a records database, processing the loan application, and sending loan funds (money) to the borrower.

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

Promissory Note — A legal document signed by the borrower when obtaining a loan. It lists the conditions under which the loan is made and the terms under which the borrower agrees to repay the loan. You should keep copies of your promissory notes so you know what you agreed to for each loan.

Repayment Disclosure Statement — A statement of repayment terms of the loan that is required to be sent to the borrower prior to the due date of the first payment of the loan.

Repayment Schedule — A plan which 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.

Secondary Market — A lender, agency, or institution that buys education loans from the originating lenders or other holder. Lenders sell education loans to secondary markets to replenish and generate capital for their continuing operations, including making additional loans.

Servicer — Companies that specialize in handling billing, collections, deferments, etc., for student loans. Many lenders and secondary markets hire servicers.

Subsidized Federal Stafford Loans — Loans based on need. The interest on such loans is paid by the federal government while the student is in school, during the grace period, and during eligible deferment periods.

SLS — *see Federal Supplemental Loans for Students.*

Terms — The specific conditions of a loan, including the requirements governing receipt and repayment of a loan. It is often used more specifically to refer to the charges for the loan, such as interest rate and fees.

Unsubsidized Federal Stafford Loans — Loans that are not based on need. The borrower is responsible for paying the interest.