Financial Aid Lingo: A Glossary

Navigating the financial aid waters can be tricky and frustrating. This glossary of financial aid terms that you're likely to come across may be helpful.

Accrual Date: The accrual date is the time when the interest from your loans is added to your overall balance. This could be the day you initially took out the loan or it could come months after you leave school.

Award Letter: Often received in mid-April, these letters outline the financial aid package awarded to a student. There is no set form for these letters; all schools compose theirs differently. Therefore, you'll need to read each award letter closely to ensure you fully understand the package you are being offered.

Award Year: As you might suspect, an award year is the calendar year for which financial aid is requested and/or received. The year runs from July 1st to June 30th.

Capitalization: Capitalization is when unpaid interest is added to the principal balance of your loan (and thus, unfortunately, increasing the amount you owe).

Consolidation: Consolidation is when you combine all of your various educational loans into one new loan. This allows you to make a single monthly payment, which is better/easier for some borrowers.

Cosigner: A cosigner is a second party who acts as a co-borrower for a loan. The cosigner is obligated to pay the debt should the primary borrower default. Typically, cosigners are required if a borrower has a bad or marginal credit history.

Cost of Attendance (COA): Don't be fooled into thinking that cost of attendance simply refers to tuition; it does not. Cost of attendance refers to all costs incurred once you enroll in college. This includes room and board, books, additional fees, living expenses, personal expenses, laptop purchase, study abroad programs (potentially), etc. The higher the COA estimate is, the greater your need.

CSS Profile Form: Created by the College Scholarship Service (CSS), this is an additional form some schools require you to fill out in order to be considered for scholarships.

Default: Defaulting is when you fail to make your monthly loan payments as outlined in your promissory note (see below). When you default, the lender and/or the government can take legal action against you. This will no doubt adversely affect your credit score as well as possibly prevent you from receiving loans in the future.

Deferment: A deferment is a lawful period during which a borrower can postpone making loan payments. Deferments are granted during times of economic strife, if the borrower is enrolled in either a rehabilitation program or school (at least half-time) or a graduate fellowship program.

Direct Loans: Distributed via the William D. Ford Federal Direct Loan Program, direct loans allow for schools to become the lending agency. Hence, they are able to manage the funds directly (while the government provides the actual money). The terms for direct loans are the same as those for Stafford loans. However, not all colleges participate in this program.

Disbursement: A disbursement is a release of loan funds to the school. Said institution will then pass along the funds to the borrower. Typically, disbursements are made in multiple installments (of equal value). They are made co-payable to both the borrower and the college.

Disclosure Statement: Disclosure statements present the borrower with information pertaining to the loan (ex. interest rates, loan fees, origination, etc.). Lenders are required to provide these statements before issuing a loan.

Expected Family Contribution (EFC): The EFC is the total amount (out of pocket) that your family is expected to contribute towards your college expenses. It is determined based upon your family size, number of family members already enrolled in college (if any) and both taxable and non-taxable family income and assets. The EFC is calculated using the information you fill out on your FAFSA.

Federal Stafford Loan: Federal Stafford loans are government-issued, low interest loans. You won't have to worry about repaying them until six months after you graduate/leave school. Moreover, the interest on these loans will never exceed 8.25%. Stafford loans can be both subsidized and unsubsidized.

Fixed Rate: A fixed rate is an interest rate which will not change throughout the length of the loan.

Forbearance: This term refers to a period during which loan payments are temporarily suspended (or reduced). A forbearance may be obtained when an individual is willing but unable to make a payment due to financial difficulties (or other unusual circumstances). However, while principal payments will be postponed, interest will still accrue. And any unpaid interest will be added to the principal balance thus increasing the money owed. Forbearances are typically granted at the discretion of the lender.

Free Application for Federal Student Aid (FAFSA): As a student applying for financial aid, FAFSA is a term with which you'll quickly become familiar. The FAFSA is a basic form you must fill out if you wish to receive federal student aid.

Gift Aid: Gift aid is any type of financial aid that does not need to be paid back. These are often based upon merit – be it academic, athletic or artistic. Types of gift aid include grants and scholarships.

Grace Period: The grace period is the time between when you either leave school or drop below half-time status and the time in which you must begin paying back your loans. This period often ranges from six to nine months.

Graduated Repayment: This is a payment schedule wherein the monthly loan repayments start out smaller and slowly grow over time.

Income-Based Repayment: This is a repayment schedule wherein the amount of the monthly payment is based upon the borrower's income. If an individual's income rises, his/her payments will as well. This plan is available with both the FFEL and Direct Loan programs. Unfortunately, it cannot be implemented in conjunction with PLUS Loans.

Lender: A lender is any institution (typically financial) that provides money to borrow for educational loans. Lenders are most often banks, credit unions or savings and loans. However, schools sometimes operate as lenders as well.

Need: In the world of financial aid, need is defined as the difference between the cost of a school and how much your family can afford to pay. Financial aid is determined and doled out based upon need. Therefore, the greater your need the larger your aid package will presumably be.

Need-Based Aid: Need-based aid is determined solely based upon *the need* of your family. Your grades, community involvement, athletic prowess, etc. *do not* come into play. The amount of need-based aid will be generated by subtracting your expected family contribution from the cost of attendance. Types of need-based aid include Pell grants, work-study programs, Perkins Loans, scholarships/tuition waivers, state grants and the subsidized portion of the Stafford Loan.

Need-Blind: When a university is need-blind, it does not consider an applicant's financial need/status when making admissions decisions. Fortunately, many schools are need-blind.

Non Need-Based Aid: As you might have deduced after reading the above definition, non need-based aid is aid based upon factors such as academic merit, athletics, artistic talent, etc. Types of non need-based aid include scholarships/tuition waivers, Unsubsidized Stafford loans and Parent Loans for Undergraduate Students (PLUS).

Origination Fee: An origination fee is a fee paid to the bank to compensate them for the cost of administering a loan. The fees are usually 3% of the amount disbursed. A portion of the money is paid to the federal government to also help offset its administrative costs.

Over-Award: Over-awarding is that rare occurrence when the amount of aid and loans you receive exceed the cost of your education. Unfortunately, this is actually prohibited by federal law.

Pell Grants: Federally-funded, Pell grants are available to those freshmen who have demonstrated financial need. Students can apply for Pell grants via the FAFSA. And, similar to all grants, it does not need to be repaid. However, there is a maximum amount that the grant doles out.

Perkins Loans: Available to students who are enrolled at least half-time, Perkins loans are awarded based upon both financial need and availability of funds.

Parent Loans for Undergraduate Study (PLUS Loans): A federally-subsidized loan, PLUS loans are taken out exclusively by your parents. They can be used to finance your entire education if need be (once you subtract any other aid you've received).

Principal Balance: The principal balance is the amount of money you borrow before interest is considered.

Promissory Note: A promissory note is a document you are required to sign when you take out a loan. The document states that you agree to pay back all of the money you have borrowed, including interest.

Renewable Scholarship: A renewable scholarship is one that is awarded for more than one year. Often, renewable scholarships require a recipient to maintain certain academic standards. Some might require students to reapply every year.

Satisfactory Academic Progress (SAP): It's pretty simple; in order for a student to continue receiving federal aid, he/she must remain in good academic standing.

Student Aid Report (SAR): You'll receive this lovely piece of mail after you send in your FAFSA. The SAR is your opportunity to review all of the information you have submitted and to make sure everything is accurate and up-to-date. Be sure to look it over and return the document ASAP.

Subsidized Loans: Subsidized loans are strictly need-based loans. More importantly, with this type of loan, the government will cover the interest while you're still in school, during the six month grace period after you leave and during any deferment period. However, subsidized loans cannot be used to fulfill any of the family's contribution.

Supplemental Educational Opportunity Grant (SEOG): This grant is federally awarded and based upon data provided in your aid application. Priority is given to those students who are also eligible for Pell Grants. Finally, the SEOG is only for undergraduate students pursuing their first bachelor’s degree.

Unmet Need: Unmet need is the amount of money left uncovered by your financial aid package. If you have unmet need that you’re not sure how to cover, contact your financial aid office immediately to discuss your further options.

Unsubsidized Loans: Unsubsidized loans are *not* need-based loans. Hence, they can be used to help finance the family contribution. However, unlike subsidized loans, the government will *not* help cover the interest.

Work-Study: A staple of many financial aid packages, work-study is a program that provides students in need with on-campus jobs. The salary is intended to help off-set the cost of tuition. Most work-study jobs are generally no more than 20 hours/week. Work-study positions can be found everywhere from the library to the school cafeteria.