

Glossary

ANNUAL PERCENTAGE RATE (APR)

The yearly cost of a loan, including interest and fees, expressed as a percentage. To determine your APR, take the periodic rate and multiply it by the number of billing periods in a year.

ANTICIPATED GRADUATION DATE

The date you are expected to complete your academic program. Your school reports this date to your lender, who uses it to determine when you are expected to begin repayment of your student loans.

BUYER'S REMORSE/IMPULSE PURCHASES

Regretted purchases usually bought in the heat of an emotional moment.

CAPITALIZATION OF INTEREST

The addition of accrued (accumulated) interest to the outstanding principal loan balance. Interest then begins to accrue on the new, higher loan balance.

CHECKING ACCOUNT

A common way to pay your bills. You write a check, use a debit card or authorize a transfer of funds and that money is deducted from your checking account.

CONSOLIDATION

Combining one or more federal education loans into a new loan with a single monthly payment. The interest rate of the consolidation loan is fixed and various repayment options are available.

CONSUMER CREDIT REPORT

A visual summary of how you handle credit.

CREDIT BUREAU/CONSUMER REPORTING AGENCY

A credit bureau is a national consumer reporting agency. A company that collects and sells information about how people handle credit. Consumer reporting agencies issue credit reports that list how individuals manage their debts and make payments, how much untapped credit they have available and whether they've applied for any loans. The reports are made available to creditors and others with a legitimate need for the information.

CREDIT RATING

The overall summary of how you handle credit; sometimes expressed as a number referred to as a credit score.

CREDIT SCORE

A number generated by a mathematical algorithm using information in your consumer credit report to indicate your overall credit worthiness on a scale from 350 (poor rating) to 850 (excellent).

DEBIT

A purchase authorized by you in which a retailer uses money electronically withdrawn from your checking account as payment for goods and services. You initiate the purchase by using your debit card, generally tied to your checking account.

DEFAULT

Failure to make scheduled loan payments or failure to honor the other terms of your loan agreement. Defaults may be reported to national consumer reporting agencies.

DEFERMENT

An authorized postponement of student loan repayment in situations where

borrowers meet certain requirements. While in deferment, borrowers do not make principal payments on their loans.

DELINQUENCY

When loan payments are late or unpaid. Delinquent loans may be reported to consumer reporting agencies. Delinquent loans can become defaulted loans.

ENTRANCE COUNSELING

A mandatory information session that takes place before you receive your first federal student loan that explains your rights and responsibilities as a student loan borrower.

EXIT COUNSELING

A mandatory information session that takes place when you graduate or attend school less than half-time that explains your loan repayment responsibilities and when repayment begins.

FEDERAL PLUS LOAN

An education loan from the federal government for parents of dependent undergraduate students and for eligible graduate or professional students. Interest begins to accrue when the loan is disbursed and continues to accrue until the loan is paid off.

FEDERAL DIRECT LOAN

An education loan from the federal government for eligible undergraduate, graduate and professional students. The federal government pays the interest on subsidized loans while you're in school, in grace and during authorized periods of deferment. You're responsible for paying the interest on unsubsidized loans.

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FEE

Costs to you as part of doing business with a company. Fees may be charged to you for processing a transaction or as a penalty if you handle your account improperly.

FIXED INTEREST

An interest rate which is set and will not change over a given period.

FORBEARANCE

The temporary postponement or reduction of loan payments that is typically granted at the discretion of the lender/servicer. Interest continues to accrue during the forbearance period and you're responsible for paying the accrued interest.

GRACE PERIOD

A period of time, prior to repayment, when payments are not required. The grace period—typically six consecutive months for federal Stafford loans—begins after dropping below half-time enrollment, graduating or withdrawing.

GRANT

Financial aid, often based on financial need, that does not need to be repaid.

INTEREST

The periodic fee charged by the lender to borrow money.

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 SERVICER

A company that handles the billing and other services for your federal student loans. They work with borrowers on choosing a repayment plan and consolidation.

MASTER PROMISSORY NOTE

A legally binding contract between a lender and a borrower. The Master Promissory Note contains the terms and conditions of the loan and is a multi-year document that generally allows you to borrow additional student loans without needing to sign a new promissory note.

OVERDRAFT PROTECTION

By opting in for overdraft protection, you authorize your bank to cover charges even if you don't have money in your account. Fees for overdraft protection transactions can be very expensive.

PREPAYMENT

The payment of all or part of a loan prior to its due date. All or part of a federal student loan can be paid without incurring a prepayment penalty.

PRINCIPAL

A sum of money owed (a loan), on which interest is charged.

PRIVATE LOANS

Education loans provided by private lenders (banks and others) to supplement the student and parent education loans available from the federal government.

SATISFACTORY ACADEMIC PROGRESS (SAP)

Basic eligibility criteria (like maintaining certain grades and completing enough classes) that you must maintain in order to continue to get federal student aid. Each school has its own standards.

SCHOLARSHIP

Free money that does not have to be paid back. Can be awarded based on merit, need or for meeting certain criteria.

VARIABLE INTEREST

An interest rate that changes according to the underlying interest rate index, such as a Treasury Bill or prime rate.

ABOUT ECMC

Educational Credit Management Corporation (ECMC) is a nonprofit company providing services in support of higher education finance. We work to support college access and success, and we provide students with tools and resources for planning and paying for college. The Financial Awareness Basics (FAB) Series is designed to help you make informed decisions about your financial future.