

Glossary of Financial Terms

Below is a list of consumer finance terms and definitions. Not all of them relate to student loans. However, a familiarity may be helpful in future transactions.

ACCRUED INTEREST: Interest which accrues on the loan and is payable by the borrower or federal government. Each day, interest is calculated on the unpaid principal balance and becomes "accrued interest."

ADJUSTED GROSS INCOME: Income listed on your federal income tax return.

AMORTIZATION: The gradual reduction of a loan debt by periodic installment (usually monthly) payments of principal and interest.

BALLOON PAYMENT: The last payment of a loan that is much larger than the preceding payments. If there is to be a balloon payment, it should be clearly stated in the loan contract.

BANKRUPTCY: A legal action in which a person who is unable to meet financial obligations is declared bankrupt by a decree of the court; under the Federal Bankruptcy Law this person's property becomes liable to administration to satisfy creditors.

BORROWER: Any "legal entity" who obtains funds from a lender by the extension of credit for a period of time; said borrower signs a "promissory note" as evidence of the indebtedness.

CANCELLATION: The balance of a student loan may be cancelled upon the death or disability of the borrower.

CAPITALIZING INTEREST: Having interest payments added to the principal amount borrowed rather than paying them as they become due in the period between assumption of a loan and its repayment period.

COMPOUNDED INTEREST: The frequency with which interest is computed and added to the principal to arrive at a new balance.

CONSOLIDATION: Combining one's loans by the process of selling and transferring all loans to ONE HOLDER.

COSIGNER: A second credit-worthy party who is required to sign a promissory note for a loan with a borrower who has no collateral or credit history; this party, by signing, guarantees that the loan will be repaid if the borrower defaults.

CREDIT BUREAU: An agency that compiles and distributes credit and personal information to creditors. Such information may include payment habits, number of credit accounts, balance of accounts and length and place of employment.

DEFAULT: The failure of a borrower to make an installment payment when due, or to meet other terms of the promissory note, and it is reasonable to conclude that the borrower no longer intends to honor the obligation to repay.

DEFERMENT: An approval postponement of payment for a specific period.

DELINQUENT: The borrower fails to make an installment payment when due, or to meet other terms of the promissory note.

DISBURSEMENT: The date the loan check is issued by the lender.

DISCLOSURE STATEMENT: Statement of the actual cost to the borrower of a loan, that is, the interest rate and any additional finance charges. This must be presented to the borrower by the lender.

FIXED INTEREST: Rate of interest which does not change during the life of the loan, is determined at the time that the loan is negotiated, and is given in the disclosure statement and the promissory note.

FOREBEARANCE: Permitting the temporary cessation of principal payments or accepting lower payments than were previously agreed upon, due to financial hardship.

GRACE PERIOD: A six or nine month period before the borrower enters repayment.

GRADUATED REPAYMENT: A form of payment schedule calling for various monthly payment amounts over the life of the loan based on periodic appraisal of income or simply the passage of time.

GUARANTEE AGENCY: A state or private non-profit agency that administers a student loan insurance program.

HOLDER: The entity which holds a legally effective promissory note and which has the right to collect from the borrower.

INSURANCE FEE: A fee charged for guaranteed student loans that is actually default insurance and is deducted from the loan amount.

INTEREST: The price paid or fee charged for the use of borrowed money, computed as a percentage of the principal borrowed for a given period of time.

MAKER: The borrower.

MATURITY DATE: The date upon which a promissory note becomes due and payable.

NEED ANALYSIS: The computation of expected student and family contribution to the cost of an education and consequent "need" for financial assistance; it is based on analysis of detailed financial information about the income and assets of students, spouse and family.

NEGATIVE AMORTIZATION SCHEDULE

(PAYMENTS): The monthly payment is insufficient to repay the scheduled amortized loan amount.

ORIGINATION FEE: Fee charged by the government to process a loan; it is deducted from the loan amount.

PER DIEM: Daily.

PRO FORMA: Projection of income and expense, usually prepared annually, based on historical performance.

PROMISSORY NOTE: A written promise to pay a sum of money to a specified person or holder for certain time period.

PRINCIPAL: The face value of the loan; the amount upon which interest is charged.

SECONDARY MARKET: A state or private agency that purchases SSL and PLUS loans from lenders.

SERVICER: The entity designated to track and collect a loan on behalf of the holder.

SIMPLE INTEREST: Interest calculated on the original principal only.

VARIABLE INTEREST: Rates of interest that are tied to a certain index (depending on the loan) and change periodically as the index changes.