Common Financial Aid Terms and Definitions

**Default:** Failing to make payments on your student loan as scheduled according to the terms of your promissory note, the binding legal document you signed at the time you took out your loan. Has a serious impact on your consumer credit score and your ability to get financial aid and other types of credit in the future.

**Deferment:** Period during which repayment of the principal and interest of your loan is temporarily delayed. Must be requested from your lender; is only granted in specific situations.

**Expected Family Contribution (EFC):** Measure of your family’s financial resources, calculated according to a formula established by law. Taxed and untaxed income, assets, and benefits (such as unemployment or Social Security) as well as family size and the number of family members who will attend college during the year (based on the information you report on your FAFSA) are used to calculate your EFC. Schools use the EFC to determine your federal student aid eligibility and financial aid award. **Note:** Your EFC is not the amount of money your family will have to pay for college nor is it the amount of federal student aid you will receive.

**Federal student loans:** Offered as part of your financial aid package (based on your FAFSA), you receive loans directly from the federal government; offers the best loan terms and various repayment methods.

**Financial aid award:** A package of financial assistance options offered to you by the school(s) you are considering. Consists of a combination of free or “gift” money such as scholarships and grants, work study, and student loans. A financial aid package should never consist only of student loans unless you are very high income or have been in college a long time (6+ years).

**Forbearance:** If you can’t make your scheduled loan payments, but don’t qualify for a deferment, your loan servicer may be able to grant you a forbearance. With forbearance, you may be able to stop making payments or reduce your monthly payment for up to 12 months. Interest will continue to accrue on both subsidized and unsubsidized loans.

**Free Application for Federal Student Aid (FAFSA):** First step in getting financial aid, which can be completed online at [http://www.fafsa.ed.gov/](http://www.fafsa.ed.gov/) or by paper if needed. Filled out using the previous year’s tax return; applications available January 1st prior to the fall you plan to start classes (i.e. January 1, 2013, for a fall 2013 semester start date).

**Grace period:** Set period of time after you graduate, leave school, or drop below half-time enrollment before you must begin repayment on your loan to give you time to get financially settled and to select your repayment plan. Not all student loans have a grace period and interest will accrue during your grace period. Direct Subsidized Loans and Direct Unsubsidized Loans (both federal student loans) have a six-month grace period before payments are due.

**Grants:** A type of financial aid, often based on financial need, that does not need to be repaid (unless, for example, you withdraw from school and owe a refund).

**Loans:** Money you borrow to pay for school and that you must pay back with interest. Some loans may be necessary to pay for your education; a good rule of thumb is not to take out more in loans than you expect to earn in your first year out of college.
**Loan Forgiveness:** Also known as **cancellation** or **discharge** of your loan, means that you are no longer expected to repay your loan. Programs available for teachers and those who work in public services; for a full list visit http://studentaid.ed.gov/repay-loans/forgiveness-cancellation

**Merit-based:** Based on a student’s skill or ability. Example: A merit-based scholarship might be awarded based on a student’s high grades.

**Minnesota State Grant:** Grant program for low-and middle-income college students who are residents of Minnesota; time limited to 8 full-time semesters in college (pro-rated based on number of credits a student takes each semester)

**Need-based:** Based on a student’s financial need. Example: A need-based grant might be awarded based on a student’s low income.

**Pell Grant:** Federal grant program for low-income college students that awards up to $5,500 in free aid annually; newly limited to six years.

**Perkins loans:** School-based loan program for undergraduates and graduate students with exceptional financial need. Under this program, the school (not the federal government) is lender.

**Private student loans:** Offered through banks, you have to seek these loans out on your own. Often have higher and adjustable interest rates, not as much flexibility in repayment options (i.e. more expensive option).

**Repayment:** Student loans must be repaid even if your financial circumstances become difficult and cannot be canceled because you didn’t get the education or job you expected, or because you didn’t complete your education (unless you couldn’t complete your education because your school closed). There are a variety of repayment options and terms available to borrowers. Student loans are typically not discharged during bankruptcy.

**Scholarships:** Another type of financial aid which is awarded to students based on academic or other achievements to help pay for education expenses. Scholarships generally do not have to be repaid.

**Student Aid Report (SAR):** Report summarizing the data reported on your FAFSA. Sent to you 3-5 days after you complete your FAFSA, it is important to check carefully for any errors and keep a copy for your records. Any colleges you list on your FAFSA will receive a copy of your SAR and use it to determine your financial aid package.

**Subsidized:** Loan where the federal government pays all interest while a student is in school more than half time or during periods of deferment.

**Unsubsidized:** Federal loans where the interest accumulates from the moment the loan is taken out and is capitalized (added) on the principal once the borrower drops below half time status.

**Work Study:** Federal financial aid program that provides part-time jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay education expenses. Encourages community service work and work related to the student’s course of study.

*For additional financial aid information, please visit http://www.fafsa.ed.gov or http://studentaid.ed.gov*