

Glossary of Financial Aid Terms

Many terms and acronyms are used in financial aid discussions. It will be helpful to understand the meaning of these terms listed below. It is especially important to understand the difference between the two types of students financial aid:

Merit-based Aid: Financial aid distributed on the basis of high academic achievement or outstanding talent, regardless of the student's or family's financial need.

Need-based Aid: financial aid that is awarded because financial need has been demonstrated. A standardized process using the FAFSA application is used to apply for virtually all forms of financial aid that gives consideration to family income and need.

General Financial Aid Terms:

Award: the financial aid dollars that will be given to the student in the form of scholarships, grants, loans, stipends, work-study, or any combination of these forms of financial aid.

Commission: the Iowa College Student Aid Commission is a state agency that administers scholarship, grant, loan, and related programs to help Iowa students finance higher education at colleges and universities of their choice.

Expected Family Contribution (EFC): the dollar amount that a family is expected to pay toward a student's educational costs. This federal calculation is based on family earnings, assets, family size, and number of students in college.

Financial need: the difference between the student's educational costs and the Expected Family Contribution (EFC).

Free Application for Federal Student Aid (FAFSA): the application students must first complete in order to apply for virtually all forms of financial aid assistance.

Grants: need-based financial aid that does not have to be paid back. The federal government provides Pell Grants, and the State of Iowa funds several grant programs administered by the Commission.

Loan-Related Terms:

Accrued Interest: the interest that accumulates on the unpaid principal of a loan.

Capitalization: the addition of unpaid accrued interest applied to the principal balance of a loan which increased the total debt outstanding.

Default: the failure to repay a loan in accordance with the terms of the promissory note. Default occurs after 270 days of nonpayment on an account.

Deferment: an approved, temporary postponement of scheduled loan payments based on certain events and criteria. During deferment periods, the federal government pays the interest that accrues on your subsidized loans. You are responsible for paying interest that accrues on your unsubsidized loans from the date disbursement.

Delinquency: the failure to make scheduled monthly loan payments when they are due.

Disbursement: a transaction that occurs when a lender releases loan funds.

Forbearance: an approved, temporary postponement of schedule loan payments due to a financial hardship. You are always responsible for paying the interest that accrues during a forbearance period.

Grace period: a period of time when the borrower does not have to make a payment on the loan. Grace periods begin when students graduate, stops attending school, or drops below half-time attendance.

Scholarships: awards that do not have to be paid back and are usually distributed as merit-based awards. They are given to students who demonstrate or show promise of high achievement in areas such as academics, athletics, music, or a specific discipline. For some scholarships, financial need may be considered in the selection criteria; in other cases, leadership, or civic involvement may be factors.

State Grant Programs: state-funded programs administered by the Commission to provide need-based grants to Iowa residents who meet the eligibility criteria and are pursuing postsecondary education at eligible Iowa institutions.

Student Aid Report (SAR): the form students receive after filing a FASFA application. The SAR is used to notify the student of his or her calculated EFC. College and university financial aid officers use an electronic version of this report, the ISIR, to determine the amount of financial aid the institution may be able to offer to the student.

Undergraduate: a student who is enrolled in an undergraduate level program.

Guarantor: the agency or institution that insures up to permissible limits against loss to lender in the event of a default. The Commission is the designated guarantor for borrowers in the Federal Family Education Loan Program (FFLEP).

Interest rates: the percentage at which interest (money) is charged to a borrower by a financial organization. Rates can be **fixed** – a constant amount that never changes; or **variable** – a rate that is recalculated every year.

Promissory note: the legal and binding contract signed between the lender and the borrower which states that the borrower will repay the loan as agreed upon in the terms of the contract (often referred to as MPN –Master Promissory Note).

Subsidized loans: loans awarded based on financial need. The federal government pays the interest which states that accrues on subsidized Stafford Loans and on the portion of Consolidation loans that repaid subsidized Stafford Loans while you are enrolled in school at least half-time, during the six month grace period (if applicable), and during periods of authorized deferment.

Unsubsidized loans: loans on which the student is responsible for paying the interest that accrues on the loan from the date of disbursement until the loan is paid in full, regardless of enrollment status.

Independent vs. Dependent status:

Some parents believe their children will be eligible for more financial aid if the children are declared independent. However, federal law sets strict criteria that must be met to be considered independent for financial aid purposes. Once a student is considered to be independent, his or her income and assets are assessed at a more stringent level than those of a dependent student. To be independent, the individual must meet one of the following:

- be 24 years of age or older,
- be an orphan or a ward of the court at the present time or up until age 18,
- be a veteran of the U.S. Armed Forces,
- be a graduate or professional student,
- be married, or
- have legal dependents other than a spouse.