

Financial Aid Glossary

Chapter 1.2: Paying for Post-Secondary Education

A

Academic Year

The period of time schools use to measure a quantity of study. An academic year typically consists of two semesters, three quarters, or a defined number of hours of instruction.

Example: "Financial aid is awarded for one academic year at a time, so you'll need to reapply each year."

Accreditation

A status granted to schools and educational programs that meet minimum standards of quality. Students must attend an accredited institution to be eligible for federal financial aid.

Example: "Before enrolling, verify that the school has regional or national accreditation recognized by the U.S. Department of Education."

Adjusted Gross Income (AGI)

A measure of income calculated from your gross income and used to determine how much of your income is taxable. AGI is reported on your tax return and used on the FAFSA to determine financial need.

Example: "Your AGI can be found on IRS Form 1040, line 11 for 2023 tax returns."

Award Letter

A document from a college that states the type and amount of financial aid the school is willing to provide if you accept admission and register to take classes at that school.

Example: "After comparing award letters from three colleges, she chose the one offering the most grant money and least loan amount."

C

Cost of Attendance (COA)

The total amount it will cost you to go to college during an academic year. COA includes tuition and fees, room and board, books, supplies, transportation, loan fees, dependent care, disability costs, and miscellaneous expenses.

Example: "The university's published COA for an in-state student living on campus is \$25,000 per year."

Credit Score

A numerical expression based on analysis of a person's credit history that represents the creditworthiness of an individual. Credit scores influence eligibility for private student loans and interest rates offered.

Example: "With a credit score of 720, Taylor qualified for a private student loan with a lower interest rate."

CSS Profile

A financial aid application used by some private colleges and universities to determine eligibility for non-federal financial aid, in addition to the FAFSA.

Example: "Many Ivy League schools require both the FAFSA and the CSS Profile to be considered for all available financial aid."

D

Default

Failure to repay a loan according to the terms agreed to in the promissory note. For most federal student loans, default occurs when you fail to make payments for 270 days (about 9 months) or more.

Example: "Defaulting on student loans can severely damage your credit score and lead to wage garnishment."

Deferment

A temporary postponement of loan payments that is available to eligible borrowers under certain conditions. During deferment, borrowers are not required to make payments, and interest does not accrue on subsidized federal loans.

Example: "After enrolling in graduate school, Maya qualified for an in-school deferment on her undergraduate loans."

Dependent Student

A student who does not meet any of the criteria for an independent student. Dependent students must report their parents' information on the FAFSA.

Example: "As a 19-year-old undergraduate living at home with her parents, Emily is considered a dependent student for financial aid purposes."

E

Entrance Counseling

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

Example: "Before receiving federal loan funds, Jason completed entrance counseling online at studentaid.gov."

Expected Family Contribution (EFC)

A number used to determine your eligibility for federal student financial aid, calculated according to a formula established by law using the information reported on your FAFSA. Now known as the Student Aid Index (SAI) beginning with the 2024-2025 academic year.

Example: "With an EFC of \$8,000, Aaliyah was eligible for a partial Pell Grant and subsidized loans."

F

FAFSA (Free Application for Federal Student Aid)

The standard form used to apply for federal financial aid, including grants, work-study, and loans. Many states and colleges also use the FAFSA to determine eligibility for non-federal aid.

Example: "The FAFSA becomes available on October 1 each year, and it's recommended to complete it as soon as possible."

Federal Direct Loan Program

The most common federal student loan program, where the U.S. Department of Education is the lender. Includes Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans.

Example: "Michael borrowed \$5,500 through the Federal Direct Loan Program for his freshman year."

Financial Aid Package

The total amount of financial aid (federal and non-federal) a student is offered by a college or career school. The school's financial aid staff combines various forms of aid in a package to help meet a student's financial need.

Example: "Her financial aid package included a \$5,000 grant, a \$3,500 subsidized loan, and a \$2,000 work-study award."

Financial Need

The difference between the cost of attendance (COA) at a school and your Expected Family Contribution (EFC). This is used to determine eligibility for need-based financial aid.

Example: "With a COA of \$25,000 and an EFC of \$8,000, Christopher's financial need is \$17,000."

Forbearance

A temporary postponement or reduction of loan payments for a period of time because you are experiencing financial difficulty. Unlike deferment, interest continues to accrue on all types of loans during forbearance.

Example: "After losing her job, Sarah requested forbearance on her student loans until she could find new employment."

Grace Period

A period of time after graduation, leaving school, or dropping below half-time enrollment before you must begin repaying your student loans. For most federal student loans, the grace period is six months.

Example: "During the six-month grace period after graduation, Lucas researched repayment options and created a budget for his loan payments."

Grant

Financial aid that doesn't need to be repaid, usually based on financial need. Examples include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant (FSEOG), and state grants.

Example: "Due to her family's financial situation, Jasmine qualified for a \$6,495 Pell Grant, the maximum amount for the 2021-2022 academic year."

I

Income-Driven Repayment Plans

Federal student loan repayment plans that set your monthly payment based on your income and family size. Examples include Income-Based Repayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE) plans.

Example: "By enrolling in an income-driven repayment plan, Noah's monthly payment decreased from \$400 to \$150 based on his starting salary."

Independent Student

A student who meets at least one of the following criteria: 24 years or older, married, a graduate or professional student, a veteran, a member of the armed forces, an orphan, a ward of the court, someone with legal dependents other than a spouse, an emancipated minor, or someone who is homeless or at risk of becoming homeless. Independent students do not have to provide parent information on the FAFSA.

Example: "As a 25-year-old returning student, Olivia qualified as an independent student and only needed to report her own financial information on the FAFSA."

Interest

A loan expense charged for the use of borrowed money. Interest is paid by a borrower to a lender. The expense is calculated as a percentage of the unpaid principal amount of the loan.

Example: "With a 4.5% interest rate on his \$10,000 loan, Daniel will pay about \$450 in interest during the first year if he makes no payments."

L

Loan Forgiveness

The cancellation of all or some portion of federal student loan debt for borrowers who meet specific eligibility requirements. Common programs include Public Service Loan Forgiveness (PSLF) and Teacher Loan Forgiveness.

Example: "After making 120 qualifying payments while working for a non-profit organization, Sophia had the remainder of her federal student loans forgiven through the PSLF program."

M

Master Promissory Note (MPN)

A legal document in which you promise to repay your loan(s) and any accrued interest and fees to the U.S. Department of Education. It also explains the terms and conditions of your loan(s).

Example: "Before receiving his first loan disbursement, Ethan signed the Master Promissory Note, which covered all federal loans he would receive during his undergraduate education."

Merit-Based Aid

Financial aid that is awarded based on a student's skills, talents, academic achievements, or other non-financial criteria rather than financial need.

Example: "With a 3.9 GPA and strong leadership experience, Zoe received \$10,000 in merit-based scholarships from her university."

N

Need-Based Aid

Financial aid that is awarded based on a student's financial need as determined by the financial aid application process. Examples include Pell Grants, subsidized loans, and many institutional grants.

Example: "Coming from a low-income household, Marcus qualified for significant need-based aid, including grants and subsidized loans."

Net Price

The actual cost of attending a specific college after subtracting grants and scholarships (but not loans or work-study) from the cost of attendance. It represents what you'll have to pay through savings, income, or loans.

Example: "Although the sticker price was \$50,000 per year, after grants and scholarships, Aiden's net price was only \$20,000."

Net Price Calculator

An online tool that provides an estimate of how much it will cost to attend a specific college based on your personal circumstances and the financial aid you might expect to receive. All colleges are required to have one on their websites.

Example: "Before applying, Emma used net price calculators on five different college websites to compare her estimated costs at each school."

O

Origination Fee

A fee charged by the lender and deducted from the loan amount at the time the loan is disbursed. For federal student loans, the origination fee is a percentage of the loan amount.

Example: "On his \$5,500 federal loan with a 1.057% origination fee, William received \$5,442 after the fee was deducted."

P

Parent PLUS Loan

A federal loan available to parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid. Parents must pass a credit check to qualify.

Example: "To cover the remaining cost after scholarships and student loans, Mia's parents took out a \$10,000 Parent PLUS Loan."

Pell Grant

A federal grant for undergraduate students with financial need. Unlike loans, Pell Grants do not have to be repaid (except in rare circumstances).

Example: "As a student from a low-income family, Carlos received the maximum Pell Grant award of \$6,895 for the 2022-2023 academic year."

Private Loan

A non-federal loan issued by a lender such as a bank, credit union, state agency, or school. Private loans generally have higher interest rates and fewer borrower protections than federal student loans.

Example: "After exhausting her federal loan eligibility, Hannah obtained a private loan from her credit union to cover the remaining costs."

Professional Judgment

The authority of a school's financial aid administrator to make adjustments to the data elements on the FAFSA or to override a student's dependency status in cases of unusual circumstances.

Example: "After his father lost his job, David requested a professional judgment review, which resulted in additional financial aid."

S

Satisfactory Academic Progress (SAP)

A set of standards that students must maintain to continue receiving financial aid. SAP typically includes requirements for GPA, percentage of courses completed, and progress toward degree completion.

Example: "To maintain her scholarships and grants, Lydia needs to maintain a 3.0 GPA and complete at least 67% of the credits she attempts each semester."

Scholarship

Money awarded to students based on academic or other achievements to help pay for education expenses. Scholarships generally do not have to be repaid.

Example: "Benjamin received a \$5,000 scholarship from his community foundation for his community service work."

Student Aid Index (SAI)

Beginning with the 2024-2025 academic year, the SAI replaces the Expected Family Contribution (EFC) on the FAFSA. Like the EFC, it's a number used to determine eligibility for federal financial aid.

Example: "With the new FAFSA changes, Isabella's Student Aid Index was calculated differently than the previous year's EFC, resulting in slightly higher aid eligibility."

Subsidized Loan

A federal student loan for which the government pays the interest while the student is in school, during grace periods, and during authorized deferment periods. Eligibility is based on financial need.

Example: "Thanks to her subsidized loan, Rachel didn't have to worry about interest accumulating while she completed her bachelor's degree."

U

Unsubsidized Loan

A federal student loan for which the borrower is responsible for paying all interest that accrues throughout the life of the loan. Interest begins accumulating when the loan is disbursed. Eligibility is not based on financial need.

Example: "To minimize his debt, Jackson made interest payments on his unsubsidized loans while still in school, preventing the interest from capitalizing."

V

Verification

A process where the school reviews the information provided on your FAFSA to ensure accuracy. If selected for verification, you'll need to submit additional documentation to the financial aid office.

Example: "When Amelia was selected for verification, she had to submit her parents' tax transcripts and a verification worksheet to the financial aid office."

W

Work-Study

A federal program that provides part-time employment to students with financial need, allowing them to earn money to help pay for education expenses. Jobs are often on campus and have flexible hours designed to accommodate student schedules.

Example: "Through his work-study position in the campus library, Tyler earned \$3,000 during the academic year while maintaining his class schedule."
