



NASFAA ISSUE BRIEF

ORIGINATION FEES

NOVEMBER 2017

KEY TAKEAWAYS

1. STUDENT LOAN ORIGINATION FEES, THE HIDDEN STUDENT LOAN TAX, GENERATED A STAGGERING \$1.6 BILLION IN REVENUE FOR THE FEDERAL GOVERNMENT IN AWARD YEAR 2016-17, AND \$8.1 BILLION OVER THE PAST FIVE AWARD YEARS.
2. THE AVERAGE UNDERGRADUATE BORROWER IN A FOUR-YEAR PROGRAM WILL PAY AN ESTIMATED \$235 IN ORIGINATION FEES AND ASSOCIATED INTEREST IF ENROLLED IN A STANDARD 10-YEAR REPAYMENT PLAN, WHILE THE AVERAGE GRADUATE STUDENT IN A TWO-YEAR PROGRAM PAYS ABOUT \$1,145 IN FEES AND INTEREST ON THAT FEE IF REPAYING OVER 10 YEARS.
3. ORIGINATION FEES, A RELIC OF BANK-BASED STUDENT LENDING, INCREASE COMPLEXITY IN THE FEDERAL STUDENT LOAN SYSTEM AND SHOULD BE ELIMINATED.

“Student loan origination fees should be eliminated, as they were created to offset risk for bank-based lenders. Under the Federal Direct Loan program, they are unnecessary and a complex burden on students. Origination fees are costly and, unlike interest rates, they withhold funds from students during their education at a time when they need funding the most.”

Aid administrator at a four-year public institution

The Higher Education Act of 1965, as amended, specifies a loan origination fee of 1 percent for all Direct Subsidized Loans and Direct Unsubsidized Loans, and a fee of 4 percent for all Direct PLUS Loans for both parent borrowers and graduate and professional student borrowers. Origination fees are adjusted annually due to sequestration. Origination fees are a relic of the bank-based guaranteed student loan program, a program where the fees offset subsidies to lenders.

HOW ORIGINATION FEES WORK

Before a federal student loan is disbursed, the loan proceeds are reduced by the origination fee percentage; those funds are withheld by the Department of Education (ED). For all Direct Subsidized Loans and Direct Unsubsidized Loans with a first disbursement date on or after Oct. 1, 2017, and before Oct. 1, 2018, the origination fee is 1.066 percent of the loan amount. For example, if a student borrows an unsubsidized loan of \$4,124 (the average annual loan amount in 2016-17 for undergraduates¹) and the first disbursement is on or after Oct. 1, 2017, \$43.96 is withheld by ED. Even though the student only receives \$4,080.04, he or she is responsible for repaying the full \$4,124, plus the interest on that amount, which accrues both during school and in repayment.

For all Direct PLUS Loans with a first disbursement date on or after Oct. 1, 2017, and before Oct. 1, 2018, the origination fee is 4.264 percent. For example, if a graduate student borrows a graduate PLUS loan for \$23,986 (the average annual loan amount for 2016-17²) with a first disbursement date on or after Oct. 1, 2017, the origination fee is \$1,022.76. That means \$22,963.24 is disbursed to the student, yet the student is responsible for repayment of \$23,986, which will accrue interest in school and in repayment.

\$1.6 billion

Dollars the federal government charged in origination fees in 2016-17.

WHAT CONGRESS CAN DO

Eliminate origination fees. Origination fees stand in clear opposition to the overwhelming congressional support for simplification, transparency, and affordability in the federal student aid system. These fees, a relic of the increased cost to operate federal student loans under the defunct bank-based student lending program, now work solely as a federal budget deficit reduction tool. Congress should eliminate student loan origination fees, the hidden student loan tax.

^{1,2} College Board, “Trends in Student Aid 2017.”

"I wholeheartedly believe we should get rid of this fee. It is difficult to explain, it is difficult to implement due to sequestration, and I strongly believe that it is and feels to the student/parent as a 'gotcha' in higher education. We spend copious amounts of time explaining why the amount a student received was different from what they owe in return. The savvy students understand that they are basically paying interest on fees and that is a difficult conversation to have without resorting to 'call your Member of Congress.'"

Aid administrator at a four-year public institution

\$8.1 billion

Federal revenue from origination fees over five years from 2012-13 to 2016-17.

Origination fees are a relic of the bank-based guaranteed student loan program, a program where the fees offset subsidies to lenders.

A CLOSER LOOK AT ORIGINATION FEES

The federal government charged \$1.6 billion in origination fees in 2016-17, and collected more than \$8.1 billion in origination fees from students and parents from 2012-13 to 2016-17. Parent PLUS loans generate the most revenue for the federal government at 29 percent of all origination fee revenue.

FEDERAL REVENUE FROM ORIGINATION FEES BY LOAN TYPE (AWARD YEAR 2016-17)

Loan Type	Fee ³	Federal Revenue
Direct Subsidized Loan	1.069%	\$219,013,613
Direct Unsubsidized Loan - Undergraduate	1.069%	\$229,520,441
Direct Unsubsidized Loan - Graduate	1.069%	\$259,060,402
Direct PLUS Loan - Parent	4.276%	\$525,635,016
Direct PLUS Loan - Graduate	4.276%	\$369,097,050
TOTAL		\$1,602,326,523


FEDERAL REVENUE FROM ORIGINATION FEES BY LOAN TYPE OVER FIVE YEARS (AWARD YEARS 2012-13 TO 2016-17)

Loan Type	Federal Revenue
Direct Subsidized Loan	\$1,290,402,641
Direct Unsubsidized Loan - Undergraduate	\$1,362,689,101
Direct Unsubsidized Loan - Graduate	\$1,391,105,422
Direct PLUS Loan - Parent	\$2,330,295,312
Direct PLUS Loan - Graduate	\$1,756,778,165
TOTAL	\$8,131,270,641

Source: NASFAA Analysis of Federal Student Aid Direct Loan Program Volume Report

Because interest accrues on origination fees, an undergraduate borrower who took four years to complete her program from 2013-14 to 2016-17 and who repays her loans over 10 years would pay an estimated additional \$69 in interest during repayment on her \$166 in origination fees, a total of \$235.4 If she repaid in 25 years, she would pay \$338 in origination fees and associated interest. The average graduate student in a two-year program was charged \$709 in origination fees from 2015-16 to 2016-17. If paid over 10 years, the average graduate student would pay \$1,145 in origination fees, \$436 of which is interest, and \$1,800 if paid over 25 years, \$1,091 of which is interest on the fee.⁵

ORIGINATION FEES AND SEQUESTRATION

Because of sequestration, an automatic deficit reduction cutting mechanism imposed under the Budget Control Act of 2011, origination fees are modified annually based on an adjustment percentage determined by the Office of Management and Budget (OMB). Sequestration adjustments are tied to the federal fiscal year, not the award year, meaning origination fees change on October 1 of each year. Unfortunately, this often means colleges and universities must change fees in the middle of fall enrollment. When the rate changes, a school must cancel all loans that have not yet been disbursed and re-award the loans with the updated origination fee. 

³ Origination fees are adjusted on October 1 of every award year. Fee percentage applicable on October 1 of the award year was used for calculations.

^{4,5} NASFAA Analysis of Federal Student Aid Direct Loan Program Volume Report.



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