

**April 2007**

**DLB-07-06**

**Subject: Origination Fee Reduction for Direct Subsidized Loans and Direct Unsubsidized Loans**

Dear Partner:

As part of the changes to the student loan programs made by the Higher Education Reconciliation Act of 2005 (the HERA), Pub. L. 109-171, the origination fee for Direct Subsidized Loans and Direct Unsubsidized Loans will be gradually reduced over the next three years. Through a series of questions and answers, this bulletin provides operational guidance for schools and third party software providers on implementing the first reduction in the origination fee.

**Q1: What is changing?**

**A1:** For *all* Direct Subsidized Loans and Direct Unsubsidized Loans that are first disbursed on or after July 1, 2007 and before July 1, 2008, the origination fee is changing from 3.0 percent to 2.5 percent.

The following chart shows the change in the origination fee for Direct Subsidized Loans and Direct Unsubsidized Loans:

	Loans first disbursed before July 1, 2007	Loans first disbursed on or after July 1, 2007 and before July 1, 2008
<b>Origination Fee for Direct Subsidized and Direct Unsubsidized Loans</b>	3.0%	2.5%

**Q2: What is not changing?**

**A2:** The Direct PLUS Loan origination fee is not changing and will remain at 4 percent for Direct PLUS Loans made to both parent and graduate/professional student borrowers.

The up-front interest rebate amount is also not changing and will remain at 1.5 percent for Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans.

**Q3: When will the Common Origination and Disbursement (COD) System be ready to receive Direct Subsidized Loan and Direct Unsubsidized Loan awards with the new origination fee?**

**A3:** Beginning with implementation of the COD System for the 2007-2008 Award Year (scheduled to occur during the period April 13-14, 2007), the COD System will process awards with the 2.5 percent origination fee. The COD System will continue to accept awards with a 3 percent origination fee provided that the earliest disbursement date is before July 1, 2007.

**Q4: How will the COD System determine whether a school has submitted the correct origination fee for a Direct Subsidized Loan or Direct Unsubsidized Loan award?**

**A4:** Beginning with implementation of the COD System for the 2007-2008 Award Year (scheduled to occur during the period April 13-14, 2007), the COD System will compare the origination fee submitted in the award with the earliest disbursement date submitted in the award. Actual disbursements (Disbursement Release Indicator (DRI) = 'true') will take precedence over anticipated disbursements (DRI = 'false') when determining the earliest disbursement date.

- If the earliest disbursement date is before July 1, 2007, the origination fee must be 3 percent. The COD System will reject the award if this is not the case.
- If the earliest disbursement date is on or after July 1, 2007, the origination fee must be 2.5 percent. The COD System will reject the award if this is not the case.

**Q5: Will there be new edits related to the origination fee change for Direct Subsidized Loan and Direct Unsubsidized Loan awards?**

**A5:** Yes. To ensure that the correct origination fee is submitted, the COD System will evaluate records using a series of edits pertaining to the origination fee percentage and the earliest disbursement date.

- COD Reject Edit 140 (Incorrect Origination Fee Percent on New Awards) will be returned when the Origination Fee Percent submitted with the award origination record does not correspond to the origination fee period in which the earliest disbursement date falls.
- COD Reject Edit 141 (Cannot change the Origination Fee Percent on an Active Loan) will be returned when a school attempts to change the Origination Fee Percent for an active loan. An active loan is one that has an award amount greater than \$0 on the COD System.
- COD Reject Edit 142 (Invalid Origination Fee Percent on Award Changes) will be returned when the Origination Fee Percent submitted with the award change record does not correspond to the origination fee period in which the earliest disbursement date falls.
- COD Reject Edit 143 (Disbursement Net, Fee, and/or Rebate Amounts are Incorrect based upon the Origination Fee Percentage) will be returned when the Origination Fee Percent for an award does not correspond to the Net, Fee, and/or Rebate amount for the disbursements.
- COD Reject Edit 144 (Disbursement Dates do not match Origination Fee Percent on file) will be returned when a change to the earliest disbursement date does not correspond to the Origination Fee Percent on file.

For complete information about the new edits, including how to correct affected records, refer to Volume II, Section 1 of the [2006-2007 COD Technical Reference](#) and the [2007-2008 COD Technical Reference](#).

**Note:** As always, a school must carefully work all COD System reject edits to ensure the accuracy of the information in an award record, including the dates disbursements are made. Disbursement dates reported to the Department of Education (the Department) must comply with all regulatory requirements and must

be consistent with the school's records. With the upcoming origination fee reduction, a change to a disbursement date may also result in a change to the origination fee.

**Q6: What does my school need to do to be able to originate Direct Subsidized Loan and Direct Unsubsidized Loan awards with the new origination fee?**

**A6:** The answer to this question varies depending on whether a school uses a mainframe system or third party software, or uses EDEExpress.

***For Mainframe Users and Third Party Software Users:***

A school should work with its technical staff or third party software provider to ensure that the necessary changes are made in the system/software. The system/software will need to use the correct origination fee percentage (based on the earliest disbursement date) to calculate gross disbursement, fee, rebate, and net disbursement amounts.

**Note:** Systems and software will need to be flexible in using more than one origination fee percentage (based on the earliest disbursement date) as the origination fee is gradually reduced over the next three years.

***For 2006-2007 EDEExpress Users:***

EDEExpress for Windows 2006-2007 Release, 5.0 (scheduled to be available April 13, 2007) uses the current 3.0 percent origination fee for all Direct Subsidized Loans and Direct Unsubsidized Loans. If a school needs to originate 2006-2007 loans with a first disbursement date on or after July 1, 2007, it will need to change the origination fee percentage from 3.000 to 2.500.

***For 2007-2008 EDEExpress Users:***

EDEExpress for Windows 2007-2008, Release 2.0 (scheduled to be available April 13, 2007) will default to the reduced 2.5 percent origination fee for all Direct Subsidized Loans and Direct Unsubsidized Loans.

- If a school does not plan to use EDEExpress for Windows 2007-2008, Release 2.0 to disburse loan funds before July 1, 2007, it does not need to make any changes to the origination fee percentage in the COD School Setup (Direct Loan).
- If a school plans to use EDEExpress for Windows 2007-2008, Release 2.0 to disburse loan funds before July 1, 2007, it will need to change the Sub/Unsub Loan Fee Percentage field in the COD School Setup (Direct Loan) from the default value of 2.500 to 3.000 before originating the loans.

When the school subsequently needs to originate 2007-2008 loans with a first disbursement date on or after July 1, 2007 and before July 1, 2008, the school must change the Sub/Unsub Loan Fee Percentage field back to the default value of 2.500 in the COD School Setup (Direct Loan) before originating these loans.

- If a school imports Prior Year User-Defined Queries, Setup and File Formats from EDEExpress for 2006-2007 into EDEExpress for 2007-2008 with the COD School (Direct Loan School) checkbox selected, the default value for the Sub/Unsub Loan Fee Percentage will be set to 3.000 unless the school already changed the value to 2.500 in EDEExpress 2006-2007 Direct Loan Setup. In this case, the school needs to check the COD School Setup (Direct Loan ) options before originating Direct Subsidized Loans and Direct Unsubsidized Loans with first disbursement dates on or after July 1, 2007.

EDEExpress users can contact CPS/SAIG Technical Support at 800/330-5947 (TDD/TTY 800/511-5806) or by e-mail at [CPSSAIG@ed.gov](mailto:CPSSAIG@ed.gov) for assistance with making origination fee changes.

**Q7: My school has already originated and transmitted to the COD System Direct Subsidized Loan and Direct Unsubsidized Loan awards with a 3 percent origination fee and a first disbursement date that is on or after July 1, 2007. What do we need to do with these awards?**

**A7:** Schools that have originated Direct Subsidized Loans and Direct Unsubsidized Loans with a 3 percent origination fee, but plan to make a first disbursement on or after July 1, 2007, must change the origination fee for these loans to 2.5 percent.

To successfully make this change, a school will need to determine if the originated award contains only anticipated disbursements or at least one actual disbursement and then follow the applicable steps outlined below.

<i>When Award Contains Only Anticipated Disbursements</i>	
<p><b>Option 1</b></p> <p>Step 1: Reduce the award amount to \$0 to inactivate the award.</p> <p>Step 2: <b><i>Submit a new award</i></b> that includes all of the following information:</p> <ul style="list-style-type: none"> <li>• The 2.5 percent origination fee;</li> <li>• An earliest disbursement date that corresponds to the origination fee period; and</li> <li>• The award amount and appropriate disbursement amount(s).</li> </ul>	<p><b>Option 2</b></p> <p>Step 1: Reduce the award amount to \$0 to inactivate the award.</p> <p>Step 2: <b><i>Reactivate the award</i></b> by submitting all of the following information:</p> <ul style="list-style-type: none"> <li>• A change to the origination fee;</li> <li>• A change to the earliest disbursement date that corresponds to the origination fee period; and</li> <li>• An updated award amount and the appropriate disbursement amount(s).</li> </ul>

<i>When Award Contains At Least One Actual Disbursement</i>	
<p><b>Option 1</b></p> <p>Step 1: Reduce the disbursement amount(s) to \$0 to inactivate the disbursement(s).</p> <p>Step 2: Reduce the award amount to \$0 to inactivate the award.</p> <p>Step 3: <b><i>Submit a new award</i></b> that includes all of the following information:</p> <ul style="list-style-type: none"> <li>• The 2.5 percent origination fee;</li> <li>• An earliest disbursement date that corresponds to the origination fee period; and</li> <li>• The award amount and appropriate disbursement amount(s).</li> </ul>	<p><b>Option 2</b></p> <p>Step 1: Reduce the disbursement amount(s) to \$0 to inactivate the disbursement(s).</p> <p>Step 2: Reduce the award amount to \$0 to inactivate the award.</p> <p>Step 3: <b><i>Submit a change</i></b> to the origination fee and a change to the earliest disbursement date that corresponds to the origination fee period.</p> <p style="text-align: center;">**All disbursement amounts must = \$0.**</p> <p>Step 4: <b><i>Reactivate the award</i></b> by submitting an updated award amount and the appropriate disbursement amount(s).</p>

***In all cases, a school must first inactivate the award before making changes.*** Regardless of whether the originated award contains only anticipated disbursements or at least one actual disbursement, we strongly recommend the use of Option 1. However, the method the school chooses will depend on what its software will allow or its procedural preference. The school should discuss options with its technical staff or third party software provider to determine software capability. EDEExpress users should refer to the Direct Loan Origination Fee section of the “Other HERA Changes Overview” topic in EDEExpress Online Help.

**Note:** The guidance in this Q&A also applies when a school needs to change the origination fee for a loan from 2.5 percent to 3 percent.

**Q8: When changing the origination fee for Direct Subsidized Loan and Direct Unsubsidized Loan awards originated at 3 percent, are there any timing issues with regard to sending in change records?**

**A8:** Yes. A school must first inactivate the award (by reducing the disbursements and/or award amount to \$0 as explained in Q&A #7) and receive a response to the change record before sending a record with the new origination fee and earliest disbursement date.

**Q9: My school has Direct Subsidized Loan and Direct Unsubsidized Loan awards with loan periods that begin before July 1, 2007 and end after that date. If these awards are first disbursed before July 1, 2007, will students receive the lower origination fee on the subsequent disbursements made on or after July 1, 2007?**

**A9:** No. The origination fee applies to the entire loan rather than to individual disbursements, and the percentage that is charged depends on the date the loan is first disbursed, regardless of the loan period dates. If a loan’s earliest disbursement date is before July 1, 2007, the 3 percent origination fee will be deducted proportionately from all disbursements of the loan, including disbursements made on or after July 1, 2007. Students will receive the 2.5 percent origination fee only on loans with an earliest disbursement date that is on or after July 1, 2007.

We appreciate schools’ assistance in providing this new benefit to students. If you have questions about the information contained in this bulletin, please contact the COD School Relations Center at 800/848-0978 or by e-mail at [CODSupport@acs-inc.com](mailto:CODSupport@acs-inc.com).

Thank you for your ongoing partnership in the Direct Loan Program.

Sincerely,

Bill Leith  
Acting General Manager, Application, Operations and Delivery Services