



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

DCL ID: GEN-08-06

FP-08-06

Subject: School Use of a Preferred Lender List in the FFEL Program.

SUMMARY: This letter provides guidance to schools that provide students, prospective students, and their families with a list of preferred lenders to assist with the selection of a FFEL Lender.

Dear Colleague:

On November 1, 2007, the Department published final regulations to amend the Federal Perkins Loan (Perkins Loan) Program, Federal Family Education Loan (FFEL) Program, and William D. Ford Federal Direct Loan (Direct Loan) Program regulations. The Secretary amended the regulations to strengthen and improve the administration of the loan programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA) (See <http://ifap.ed.gov/fregisters/FR11012007.html>). A key component of those regulations are new rules, which become effective July 1, 2008, governing the development and use of preferred lender lists by the schools that participate in the FFEL Program.

When we published the final regulations, we expressed our view that a preferred lender list can be an effective tool to help families looking for federal student loans to finance the costs of postsecondary education, when the list reflects the school's unbiased research to identify lenders providing the best combination of services and benefits to borrowers at that school. Additionally, by providing this information, schools may help students and their parents navigate the increasingly complex student loan landscape. Further, we believe that a borrower's choice of lender may be better informed by preferred lender lists and other consumer information on the federal student loan process, which play a useful role in assisting financial aid administrators in dealing with the large volume of requests for information and assistance, and in informing borrower choice.

The student loan marketplace has changed significantly since the final regulations were published on November 1, and questions have been raised about the regulations governing preferred lender lists that warrant our response at this time. Some schools have reported that they are having difficulty finding the required minimum of three lenders to include on a preferred lender list. Other schools that have identified lenders for their preferred lender list are concerned that one or more of those lenders may, in the future, choose not to make loans to the school's students, reducing the school's list to less than the required three lender minimum.

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Still other schools have asked whether they are free to provide general information about lenders that will or have made FFEL Program loans for attendance at the school without violating the preferred lender list regulations. Finally, schools and lenders have requested clarification of the Department's interpretation of the requirement that the list must contain a certain number of lenders not affiliated with each other.

A school that has been unable to identify at least three lenders that will make loans to its students or parents sufficient to meet the requirements of a preferred lender list may provide the names of the lenders that have indicated that they would provide FFEL loans to the school's students and their parents. In providing this information, the school must make it clear that it is not endorsing the lenders, and that the borrower can choose to use any FFEL lender that will make loans to the borrower for attendance at that institution. Similarly, a school that wants to provide basic information to the school's students and their parents may provide a comprehensive list of lenders that have made loans to the school's students or parents in the past three to five years (or some other period) and that have indicated that they would continue to make such loans. The school should not provide any additional information about the lender, including, for example, the percentage of the school's loans made by the lender. **The school must provide a clear statement that a borrower can choose to use any FFEL lender.**

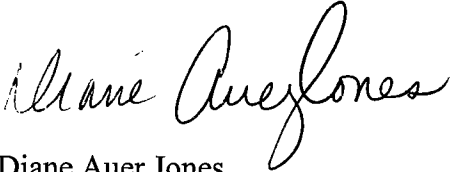
We are aware that schools meeting the preferred lender list requirement of including a minimum of three lenders on their lists may be notified that one or more of those lenders may decide to discontinue making loans to the school's students and parents. We will take such circumstances, over which a school has no control, into consideration in determining compliance with the regulations until at least July 1, 2009.

Since publication of the regulations, several schools and lenders have asked whether all the lenders on a school's preferred lender list must be unaffiliated, or whether only three lenders on a school's list must be unaffiliated. The Department has reviewed this issue and has determined that the regulations only require that at least three lenders on a school's preferred lender list must be unaffiliated with each other regardless of the number of lenders on that list. While not a requirement, we believe that it would be helpful to consumers for a school to identify, as part of its preferred lender list disclosures, any affiliations among the lenders on the institution's preferred lender list.

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If you have any questions on the issues discussed in this letter, please contact Pamela Moran by email at pamela.moran@ed.gov or by phone at (202) 502-7732.

Sincerely,

A handwritten signature in cursive script that reads "Diane Auer Jones". The signature is written in black ink and is positioned above the printed name.

Diane Auer Jones