



## THE SECRETARY OF EDUCATION

WASHINGTON, D.C. 20202

August 9, 2007

Dear Colleague:

While we all agree there is much to be proud of in the U.S. higher education system, our system faces a number of challenges that we must confront in order to serve the needs of a growing and diverse population of students and maintain and enhance our high standards of excellence. In recognition of the growing importance of a postsecondary credential, I have made higher education a priority for the U.S. Department of Education and have focused my attention on finding ways to better meet the needs of students and families. As noted by my Commission on the Future of Higher Education in September 2006, "our financial aid system is confusing, complex, inefficient, duplicative, and frequently does not direct aid to students who truly need it."

Early on in my tenure, I recognized the need to update, strengthen, and clarify certain regulations that guide the administration of federally sponsored and guaranteed higher education programs, including the federal student loan program. In late 2006, the Department began the process of updating our regulations through statutorily required negotiated rulemaking, a process that engaged relevant stakeholders in discussions about a number of challenges in the student loan program. Included in our conversation were concerns about the potential use of improper inducements or the improper use of preferred lender lists to inappropriately influence students' borrowing decisions.

Although the Department has published for public comment the proposed regulations on student loans, the final regulations will not take effect until July 1, 2008 (<http://www.ed.gov/legislation/FedRegister/proprule/2007-2/061207a.html>). I urge you to act now to assure students and parents that we have their best interests at heart in providing competitive student loans. The Department is moving on multiple fronts to enhance its review and monitoring processes. I am writing to suggest you begin to incorporate these principles into your institutional practices. For your convenience, I will outline key elements of the proposed regulations that I believe will strengthen the federal student loan program and the public's trust.

First, I urge my institutional colleagues to pledge to your students and parents and to the American taxpayers:

1. To protect the borrower's choice of lenders;
2. To base lists of preferred, recommended, or suggested lenders, if provided by your institution, solely on the best interests of the student or parent borrowers, considering

factors such as interest rates, fees, and loan benefits provided by the lender to the borrower;

3. To not request or accept any payments or benefits of any kind from a lender in exchange for being included on a preferred or recommended lender list or in exchange for the school recommending the lender to its students or parents;
4. To clearly and fully disclose to students and parents the criteria and process used to select the lenders for preferred, recommended, or suggested lender lists;
5. To ensure that employees of lenders who make loans to students or their parents do not identify themselves as employees of the institution of higher education and that employees or agents of a lender, servicer, or guaranty agency do not work in or provide staffing to an institution's financial aid office unless they do so at fair market value; and
6. To ensure that the institution's employees will not receive any gift, including travel gifts, of more than nominal value from any lender, servicer, or guaranty agency.

Similarly, I urge my student lender colleagues to pledge the following to their borrowers and investors:

1. To not provide any payments or benefits to an institution and its employees in exchange for being included on that institution's preferred, recommended, or suggested lender list;
2. If included on a school's list of preferred, recommended, or suggested lenders, to clearly and fully disclose any promises or offers relating to the terms of the loans or any services to borrowers that your organization made to be included on the list;
3. To ensure that the employees of your organization and its contractors do not identify themselves as employees of a school and to refrain from providing employees or agents to work in or provide staffing to a school's financial aid office unless they do so at fair market value;
4. To refrain from offering anything of more than nominal value, including travel, to an employee of any institution;
5. To refrain from providing payment or gifts of more than nominal value to employees or agents of an institution who serve on an advisory board for your organization; and
6. To restrict use of the Department's National Student Loan Data System to authorized personnel and for authorized purposes only.

I look forward to reviewing the comments provided in response to the proposed regulations published in the *Federal Register* and to continuing my dialogue with associations and organizations that represent students, parents, institutions of higher education, and lenders. Above all, we must work together to maintain a student loan system that best serves the needs of students and parents and enables new generations to reap the numerous benefits afforded by higher education.

Sincerely,

/s/

Margaret Spellings