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ATTORNEY GENERAL MIKE MCGRATH STATE OF MONTANA

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McGrath: Report on Student Loans in Montana Finds No Abuses

HELENA – Attorney General Mike McGrath today released a [report \(PDF\)](#) that examined the way Montana institutions of higher education handle student loans, particularly how lenders qualify to be included on the preferred lender lists given to students and their parents.

In the report, McGrath said that the results of a survey his office conducted last summer "are reassuring for student borrowers and their families."

"We found no evidence in Montana of the conflicts of interest discovered in other states," McGrath said. "Students who need to take out a loan for their education here have a real choice of lenders, and they can be confident that the advice they get from our educational institutions isn't based on kick-backs or a trip to Hawaii."

In June McGrath sent a letter to Montana's institutions of higher education seeking detailed information about their relationships with lenders. The report noted that, contrary to what occurred in other states, "Montana's institutions of higher education cooperated and responded fully."

Investigations by other states found widespread problems. Students were steered toward particular lenders based on inappropriate relationships between educational institutions and lenders – relationships that financially benefited the loan officers while hurting the students who had to borrow money for their education. In Montana, no institution of higher education disclosed any kind of relationship between an individual financial aid administrator and a lender that created a real or apparent conflict of interest.

Among the most serious problems discovered in other states were:

- kick-back schemes or "revenue-sharing" agreements in which a lender paid an institution of higher education a percentage of the principal of each loan a student at that institution took out;
- undisclosed criteria for selecting the lenders included on an institution's preferred lender list; and
- conflicts of interest created by financial aid administrators who had stock in a particular lender or had been paid for "consulting" with a lender.

In contrast, the Montana Attorney General's report concluded:

"It is clear from the Department of Justice inquiry that the deceptive and illegal conduct that has been found to exist in the school loan industry in some other states is not occurring in Montana's institutions of higher education."

To avoid the potential for conflicts of interest, McGrath's report recommended that Montana institutions of higher education develop comprehensive guidelines explaining the criteria they use to select lenders for inclusion on their preferred lender lists. It also recommended that they ensure that students are aware that they can borrow from any lender, not just those on a preferred list.

Since Montana's student loan and higher education community involves relatively few individuals and those individuals often serve in more than one capacity, the report encouraged the higher education system to develop policies that would avoid future conflicts of interest.

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