

PRESS RELEASE

AG Campbell Announces \$2.5 Million Settlement With Student Loan Lender For Unlawful Practices Through AI Use, Other Consumer Protection Violations

Earnest Operations Allegedly Failed to Mitigate Risks of Disparate Harm to Non-White and Non-Citizen Consumers from Its Use of AI Underwriting Models

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Office of the Attorney General

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BOSTON — Attorney General Andrea Joy Campbell today announced that her office has reached a \$2.5 million [settlement](/doc/earnest-aod/download) with Earnest Operations LLC (Earnest), a Delaware-based student loan company, resolving allegations that the company's lending practices violated various consumer protection and fair lending laws, including through the use of artificial intelligence (AI) models that could lead to disparate harm to Black, Hispanic, and non-citizen applicants and borrowers.

As part of the settlement, Earnest will pay \$2.5 million to the Commonwealth and implement extensive changes to its business practices, including taking steps to mitigate risks of unfair lending and ensure compliance with state and federal laws. Additionally, the company must regularly report on its compliance to the Attorney General's Office (AGO).

"Earnest's failure to comply with consumer protection and fair lending laws, including through its AI models, unfairly put historically marginalized student borrowers at risk of being denied loans or receiving unfavorable loan terms – impeding their chances of economic growth and opportunity," **said AG Campbell**. "I am proud to announce this settlement, which will put lenders on notice that Massachusetts will not tolerate unlawful practices that harm our consumers."

According to the AGO, Earnest uses artificial intelligence models, specifically algorithmic models, to make lending decisions, including determinations on loan applicants' eligibility and loan terms and pricing.

The AGO alleged that Earnest failed to take reasonable measures to mitigate fair lending risks in its underwriting practices, including failing to test its models for disparate impact and training its models based on arbitrary, discretionary human decisions.

The AGO alleged that Earnest engaged in other unfair and deceptive practices in violation of state and federal consumer protection and fair lending laws. This included the company's use of the "Cohort Default Rate" – an average rate of loan defaults associated with a specific educational institution – variable in its algorithmic model, which resulted in disparate impact in approval rates and loan terms for a certain product, with Black and Hispanic applicants more likely to be penalized than White applicants.

The AGO further alleged that Earnest's unfair and deceptive conduct included making arbitrary human-based loan assessments; using a "Knockout Rule" to automatically deny applications based on immigration status; sending inaccurate adverse action notices that prevented

applicants from understanding their own creditworthiness; and failing to implement policies and procedures to comply with fair lending laws and mitigate risks to consumers.

Under the terms of the settlement, amongst other changes, Earnest will implement a detailed corporate governance structure and develop and maintain robust written policies to ensure responsible and legally compliant use of AI. Earnest will also discontinue use of both the “Cohort Default Rate” variable and “Knockout Rule” based on immigration status.

The settlement, reached via an assurance of discontinuance filed in Suffolk County Superior Court, may be viewed in its entirety [here](#) (/doc/earnest-aod/download).

This matter was handled by Assistant Attorney General Alda Chan, Division Chief Yael Shavit, and Paralegal Noam Miller of the AGO’s Consumer Protection Division, which is tasked with enforcing Massachusetts’ nation-leading consumer protection laws. Investigator Anthony Crespi of the AGO’s Civil Investigations Division also assisted with this matter.

In April 2024, AG Campbell issued an

[advisory](#)

(/news/ag-campbell-issues-advisory-providing-guidance-on-how-state-consumer-protection-and-other-laws-apply-to-artificial-intelligence?_gl=1%2A1sfusfw%2A_ga%2AMTE5NTI clarifying that existing state consumer protection, anti-discrimination, and data security laws apply to emerging technology, such as artificial intelligence and algorithmic decision-making systems, just as they would in any other applicable context.

Consumers who believe they have been subjected to an unfair or deceptive business practice, including by a student loan lender, may file a consumer complaint with the AGO by visiting [mass.gov/ago/consumercomplaint](#) (/how-to/file-a-consumer-complaint).

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The Attorney General is the chief lawyer and law enforcement officer of the Commonwealth of Massachusetts.