

Report Highlights Federal Efforts to Combat Scholarship and Financial Aid Fraud

Students and parents are advised of the following news release provided by the Federal Trade Commission and the National Association of Student Financial Aid Administrators (NASFAA) concerning federal efforts to combat scholarship and financial aid fraud.

With the cost of college education rising over 600 percent since 1969, students and their families often look for alternate ways to finance their education. Some fall victim to scholarship and financial aid scams. Recognizing that a substantial amount of fraud occurs in offering college education assistance, Congress passed the College Scholarship Fraud Prevention Act of 2000. In their first report to Congress on scholarship fraud (<http://www.ftc.gov/os/2002/05/scholarshipfraudreport2001.pdf>) as required by the Act, the Federal Trade Commission and the Departments of Justice and Education describe their efforts to combat this type of fraud. The FTC has been active in monitoring and prosecuting financial aid fraud for several years, and the report explains the FTC's "Project Scholarscam" - a law enforcement effort and comprehensive consumer education campaign targeting purveyors of so-called "scholarship services."

The College Scholarship Fraud Prevention Act of 2000 established stricter sentencing guidelines for criminal financial aid fraud and charged the Department of Education (ED) and the FTC with implementing national awareness activities, including a scholarship fraud awareness site on the ED Web site. The Act also requires the Attorney General, the Secretary of Education, and the FTC to submit a consolidated report to Congress each year assessing the nature and quantity of scholarship fraud incidents since the date of enactment. The FTC, DOJ, and ED have implemented all the provisions of the Act, and their accomplishments are highlighted below:

The FTC

Project Scholarscam, formally initiated in 1996, is the FTC's ongoing project to prevent and prosecute scholarship fraud. The FTC's law enforcement actions have resulted in the entry of federal court orders prohibiting future misrepresentations against 11 companies and 30 individuals. Most of the orders permanently banned the defendants from marketing scholarship services, and many require the defendants to post performance bonds before engaging in telemarketing. As a result of the FTC's law enforcement actions, more than \$560,000 has been refunded to consumers or disgorged to the U.S. Treasury. In one case, the civil action by the FTC led to criminal prosecution by DOJ.

Project Scholarscam also includes a comprehensive consumer education campaign. The FTC has set up a Web page, <http://www.ftc.gov/bcp/online/edcams/scholarship/index.html>, and a package of other consumer education materials including flyers, posters, and brochures. The FTC's Web site includes information about scholarship scams and tips for consumers on how to avoid fraudulent marketing schemes. Scholarscam information is also available on the FTC's Spanish language Web site, <http://www.ftc.gov/bcp/online/spanish.html>. To ensure widespread distribution of its materials, and to reach the largest number of at-risk consumers, the FTC also has developed partnerships with public and private organizations.

The report states that since enactment of the Act, the number of complaints made by consumers regarding scholarship scams to the FTC's Consumer Sentinel database has declined. The database contains complaints filed by consumers with the FTC and over 200 law enforcement authorities - federal, state, local and international. The Sentinel database may not provide a complete picture of the extent of consumer injury from any type of fraud, however, because some consumers complain directly to the company alleged to have engaged in deceptive practices or to other law enforcement authorities. Also, some of the financial aid scams operating on the Internet impose relatively small costs on consumers, and the FTC has found that when financial injury is low, consumers often do not complain.

An evaluation of the Sentinel complaints also indicates that the nature of the fraud appears to have changed over time. In the 1990s, most of the complaints concerned telemarketing fraud by bogus scholarship search firms. The more recent complaints, however, concern financial aid consulting firms that use direct mail solicitations and oral sales presentations to market their services. This shift may be due in part to the fact that the FTC's Project Scholarscam was successful in stopping fraudulent scholarship search telemarketing operations.

DOJ

Effective November 2, 2001, the U.S. Sentencing Commission amended its guidelines to increase the offense level for financial aid misrepresentations. A reporting procedure between the Sentencing Commission and DOJ has been established to track this information for future reports. It is too soon for the Sentencing Commission to report any judicial imposition of the enhanced sentences at this time. The Department of Justice also conducted a survey of all of the U.S. Attorney's Offices to report on scholarship fraud cases it prosecuted. The survey results indicate that the majority of the DOJ cases involved consumers who defrauded the U.S. government in an attempt to obtain financial aid illegally - not cases where the consumer was victimized by financial aid fraud.

Education Department

The Department of Education also monitors scholarship fraud and offers several consumer informational products. The "Looking for Student Aid" brochure lists typical scholarship scams and tells students where to find free information about financial aid. A poster headed "Don't Get Stung" reminds students that there is no fee to learn about or to submit the Free Application for Federal Student Aid. The poster recommends that the student contact a high school counselor, college financial aid administrator, or ED for free information on financial aid. "The Student Guide" and "Funding Your Education" are booklets primarily covering federal student aid, but both mention scams and how to avoid them. The "High School Counselor's Handbook" covers the basics of the federal student aid programs and includes both a scam warning for counselors and a one-page scam awareness sheet that can be photocopied and distributed to students. These materials are available at <http://www.ed.gov/studentaid> or by calling 1-800-4-FED-AID (1-800-433-3243; TTY: 1-200-730-8913). The ED and FTC Web pages link to each other.

The Department of Education also receives complaints about financial aid fraud but it is not a major clearinghouse for complaints.

In conclusion, the report notes that the FTC will continue to monitor the Consumer Sentinel database for new targets, and that ED has implemented procedures to monitor its complaint activity as well. The FTC and DOJ will continue to coordinate parallel civil/criminal actions in appropriate cases.

Copies of the Report, as well as the consumer education materials and other documents related to Project Scholarscam, are available from the FTC's Web site at <http://www.ftc.gov/opa/2002/05/scholarshipfraud.htm> and also from the FTC's Consumer Response Center, Room 130, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580. The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free, 1-877-FTC-HELP (1-877-382-4357), or use the complaint form at <http://www.ftc.gov>. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.