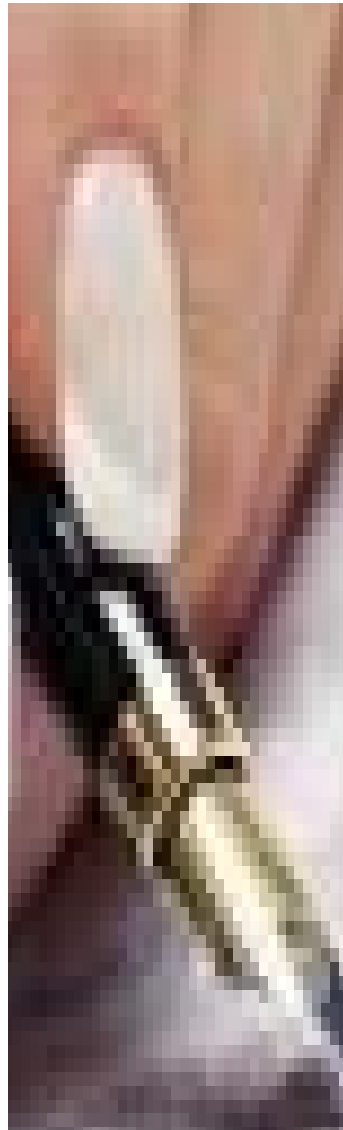
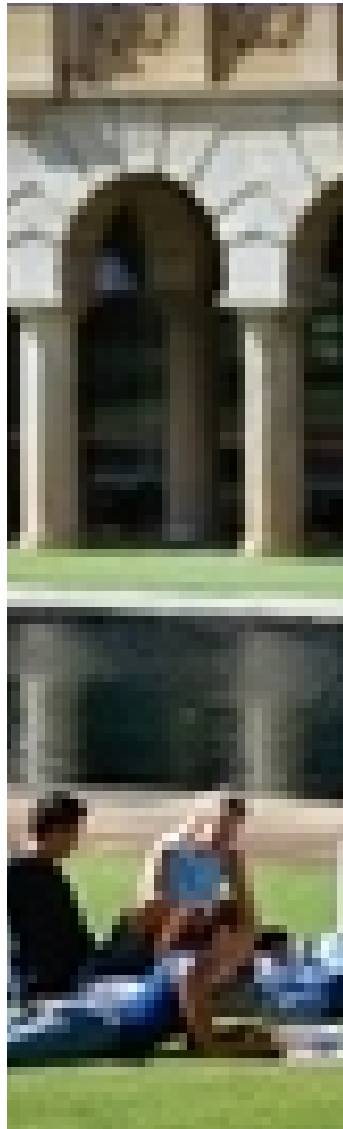


COLLEGE SCHOLARSHIP FRAUD PREVENTION ACT OF 2000

▪ SECOND ANNUAL REPORT TO CONGRESS ▪

MAY 2003



Department of Justice



Department of Education



Federal Trade Commission

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SECOND ANNUAL REPORT TO CONGRESS**

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**Submitted by:
Department of Justice
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Executive Summary

Every year, millions of high school graduates seek creative ways to finance the markedly rising costs of a college education. In the process, they sometimes fall prey to scholarship and financial aid scams. To help students and their families, on November 5, 2000, Congress passed the College Scholarship Fraud Prevention Act of 2000 (Act), Pub. L. No. 106-420, 114 Stat. 1867 (2000). This Act established stricter sentencing guidelines for criminal financial aid fraud and charged the Department of Education (ED), working in conjunction with the Federal Trade Commission (FTC), with implementing national awareness activities, including a scholarship fraud awareness site on the ED website. The Act also required that the Attorney General, the Secretary of Education, and the FTC jointly submit to Congress each year a report on that year's incidence of fraud by businesses or individuals marketing financial aid assistance services to consumers.

As noted in last year's inaugural Report, the Department of Justice (DOJ), ED and the FTC have implemented all the provisions of the Act. The U.S. Sentencing Commission has amended its guidelines, effective November 1, 2001, to include a provision increasing the offense level for financial aid misrepresentations. The Sentencing Commission and DOJ have established a reporting procedure to track this information for future reports, but the Sentencing Commission does not yet have data to report on any judicial imposition of the enhanced sentences.

ED and the FTC have continued and refined their consumer education efforts. Using a variety of media, including websites, booklets, brochures, videoconferences, flyers, posters, and bookmarks, ED and the FTC disseminate information to help consumers avoid falling prey to scholarship scams. The ED materials also provide information about the major federal student aid programs. They remind students that there is no fee to submit the Free Application for Federal Student Aid and that free assistance with applying for aid is available from ED, high school counselors, and college financial aid administrators.

After a small downturn in 2000 and 2001, the number of complaints to the FTC's Consumer Sentinel database increased in 2002. Whether the increase is due to more fraudulent activity or better reporting is uncertain. It is possible that the overall level of fraud is increasing because recent unfavorable economic conditions may lead more consumers to seek help from unscrupulous companies falsely promising help in obtaining financial assistance. However, it also is possible that factors not related to an increase in scholarship fraud, such as an increase in the number of law enforcement agencies contributing complaints to the Consumer Sentinel database, might account for the increase.

A review of the complaints received by Consumer Sentinel continues to indicate that the nature of the fraudulent activity is shifting from scholarship search services to financial aid consulting services, a trend that was identified last year. Next year, it is hoped to have an even

better snapshot of current trends because ED has implemented procedures to track the scholarship-related complaints it receives.

In terms of law enforcement, the FTC has continued its campaign to prevent and prosecute scholarship fraud. Project Scholarscam, formally initiated in 1996, combines law enforcement with consumer education to stop fraudulent purveyors of college financial aid services. This year, the FTC conducted a surf of Internet sites offering scholarship services. The FTC sent warning letters to the operators of 12 websites, advising them to reexamine and/or modify their promotional language or face possible legal action. In addition, the FTC continues to monitor the Consumer Sentinel database for new targets and will solicit information from ED regarding its activity. Finally, the FTC and DOJ will continue to coordinate parallel civil/criminal actions in appropriate cases.

I. Introduction

Every year, families lose money to fraudulent financial aid schemes. With four-year college education costs rising at a rate of twice the general inflation rate, many parents are understandably concerned about how to pay those costs without saddling themselves or their children with heavy debt.¹ Scam artists prey on those concerns. To help federal agencies combat financial aid scams, Congress passed the College Scholarship Fraud Prevention Act of 2000 (Act), Pub. L. No. 106-420, 114 Stat. 1867 (2000) on November 5, 2000. The Act required that the U.S. Sentencing Commission establish stronger sentencing guidelines for higher education financial assistance fraud. It also charged the Secretary of Education, working in conjunction with the Federal Trade Commission (FTC), with implementing national awareness activities, including a scholarship fraud awareness site on the Department of Education's (ED) website. The Act also required that the Attorney General, the Secretary of Education, and the FTC jointly submit to Congress each year a report on fraud by businesses or individuals that market advice or assistance to students and parents who may be seeking financial aid for higher education.

This report has been prepared according to the Act's directive. The inaugural report, issued on May 1, 2002, provided the following: how the agencies have implemented the Act's requirements; a detailed overview of financial aid scams; a description of the FTC's combined law enforcement and education campaign to stop scholarship fraud; and an assessment of the nature and quantity of scholarship fraud incidents since the date of enactment of the Act.² This report provides: an update of the activities of the Department of Justice (DOJ), ED and the FTC to combat scholarship fraud; and an assessment of the nature and quantity of scholarship fraud during the past year.

II. Implementation of the College Scholarship Fraud Prevention Act

A. Amendments to Sentencing Guidelines

The U.S. Sentencing Commission amended the Sentencing Guidelines, effective November 1, 2001, to include enhanced penalties for financial aid fraud. Specifically, Section 2B1.1(b)(7) of the Sentencing Guidelines was amended to add a provision raising the relevant offense level by two levels if the offense involved misrepresentations to a consumer in connection with obtaining, providing, or furnishing financial assistance for an institution of higher education. DOJ and the Sentencing Commission have initiated a reporting procedure whereby the agencies will be able to search the Sentencing Commission's database for judicial use of this sentencing enhancement for the purposes of reporting on scholarship fraud prosecutions. Given that the newly promulgated sentencing enhancements may only be applied to conduct occurring after November 1, 2001, actual imposition of the enhancement in criminal sentences will not occur until such cases proceed through the criminal process to the sentencing stage. The Sentencing Commission has not reported any such case reaching that stage yet.

B. National Awareness Activities

1. ED's National Awareness Activities

Since last year's Report, ED enhanced its consumer education products:

- **“Looking for Student Aid” scam awareness web page.** ED's Looking for Student Aid page (www.studentaid.ed.gov/LSA) lists sources of free information about financial aid and warns students about scholarship scams. Since May 1, 2002, ED has updated the site, changing information such as statistics and URLs (website addresses) and adding information in Spanish. A printer-friendly version of the site was added so that visitors can easily download, print and share the information. ED staff publicized the site by prominently featuring it in the 2003-04 *High School Counselor's Handbook*; mentioning it in messages posted to listservs for counselors; linking to it from other areas of ED's federal student aid website (www.studentaid.ed.gov); and promoting it in the cover letter accompanying the 2002-03 *High School Counselor's Handbook*. The site had nearly 108,000 visits over eleven months³ in 2002.
- **“Looking for Student Aid” brochure.** The brochure is an abbreviated version of the information available on the Looking for Student Aid webpage. The brochure was updated in fall 2001; 150,000 copies were distributed by the end of 2002.
- **“Don't Get Stung” poster.** The poster reminds students that there is no fee to learn about or to submit the Free Application for Federal Student Aid (FAFSA).⁴ The poster also refers students to sources of free information on all types of financial aid for college. Since last year's Report, the poster has been publicized on listservs reaching approximately 4,700 high school and TRIO counselors.⁵ Counselors were encouraged to request additional copies of the full-size poster or to download the 8.5" x 11" version at www.studentaid.ed.gov/stung.
- **The *High School Counselor's Handbook 2003-04*.** The *Handbook* explains ED's federal student aid programs and the application process. For 2003-04, staff added information on how counselors can help raise awareness of scholarship scams. To reinforce this message, the Looking for Student Aid URL was placed on the inside front cover of the book in the list of important websites to visit. The 2003-04 *Handbook* was mailed to nearly 30,000 counselors in December 2002 and is available at www.fsa4schools.ed.gov/counselors.
- **The *Student Guide (2003-04 edition)*.** Geared toward high school seniors, college students, adult students, and parents, the *Guide* explains ED's aid programs in detail. As with the 2002-03 edition, the front page of the online

Guide (www.studentaid.ed.gov/guide) has a link to the scholarship scam section. To better publicize the book, there are links to the *Guide* from other areas of the www.studentaid.ed.gov site. Nearly 9 million copies of the 2003-04 English edition, and more than 600,000 of the Spanish version, were printed.

- ***Funding Your Education (2003-04 edition)***. This is an abbreviated edition of *The Student Guide*. The URL for the online version has been simplified to www.studentaid.ed.gov/fye, and the Publications page of the www.studentaid.ed.gov site links to *Funding*. Nearly 7 million English copies, and more than 400,000 Spanish copies, of *Funding* were printed for 2003-04.
- **Videoconferences**. Each fall, ED hosts two federal student aid videoconferences: one for college financial aid administrators; one for high school and TRIO counselors. In 2002, ED staff ensured that scripts for both conferences focused on companies that charge to help students obtain student aid.

ED's Student Aid Awareness office continues to enhance its efforts, routinely including financial aid fraud warnings in publications and presentations.

2. FTC's Consumer Education and Outreach Efforts

The FTC has an ongoing project to prevent and prosecute scholarship fraud called Project Scholarscam. Formally initiated in 1996, it includes both law enforcement action and a massive consumer education campaign to help students, parents, educators and financial aid administrators identify and avoid scholarship scams. The FTC's Office of Consumer and Business Education produced a package of consumer education materials, a website (www.ftc.gov/bcp/conline/edcams/scholarship/index.html), and a series of flyers, posters and bookmarks. The website includes comprehensive information about scholarship scams and ways consumers can avoid falling prey to fraudulent marketing schemes. The flyers, posters, and bookmarks include abbreviated information from the website and tips to help consumers avoid scholarship scams, for example, "Six Signs That Your Scholarship Is Sunk."

To ensure widespread distribution of the materials and reach the largest number of at-risk consumers, the FTC developed partnerships with public and private organizations. Last year's Report noted that between October 1996 and January 2002, the FTC, alone or in partnership with others, distributed nearly 3,175,000 print publications and had more than 270,000 accesses or "hits" on its website, for total distribution to more than 3,445,000 consumers. As of January 2003, the FTC, alone or in partnership with others, distributed an additional 5,000 print publications and had 75,000 more hits on its website, for a total distribution to more than 3,525,000 consumers.

In 2002, the FTC translated its Consumer Alert into Spanish and posted it on the new Consumer Protection page, “En Espanol.” The FTC also provided copies of the Alert to its Regional offices for outreach to school systems with a large Hispanic student population.

Continuing their partnership, ED’s 2003-04 *High School Counselor’s Handbook* includes the FTC’s consumer information, “Don’t get scammed on your way to college!,” as well as numerous other references to information on avoiding scholarship scams. In addition, ED’s www.studentaid.ed.gov site includes links to the FTC’s website. Also, ED’s *Funding Your Education* includes information on avoiding scholarship scams and directs students to the FTC’s website.

III. Nature and Quantity of Incidents of Scholarship Fraud

A. Overview of Financial Aid Fraud

As discussed in last year’s Report, operators of financial aid scams generally promise that their services will ensure that students receive either a scholarship or increased financial aid. Other typical claims made by financial aid scam artists include: claims that millions (in some cases billions) of dollars of scholarships go unclaimed every year, with promises to get the student his or her “fair share;” claims of extremely high — 90% or more — success rates, including “testimonials” from satisfied customers; and claims to be endorsed or approved by a federal or state agency, a chamber of commerce, or a Better Business Bureau or its equivalent.⁶ In fact, for fees ranging from \$50 to more than \$1,000, these operators provide few, if any, services to help students and their families find financial aid. Any information provided is generally of little use.

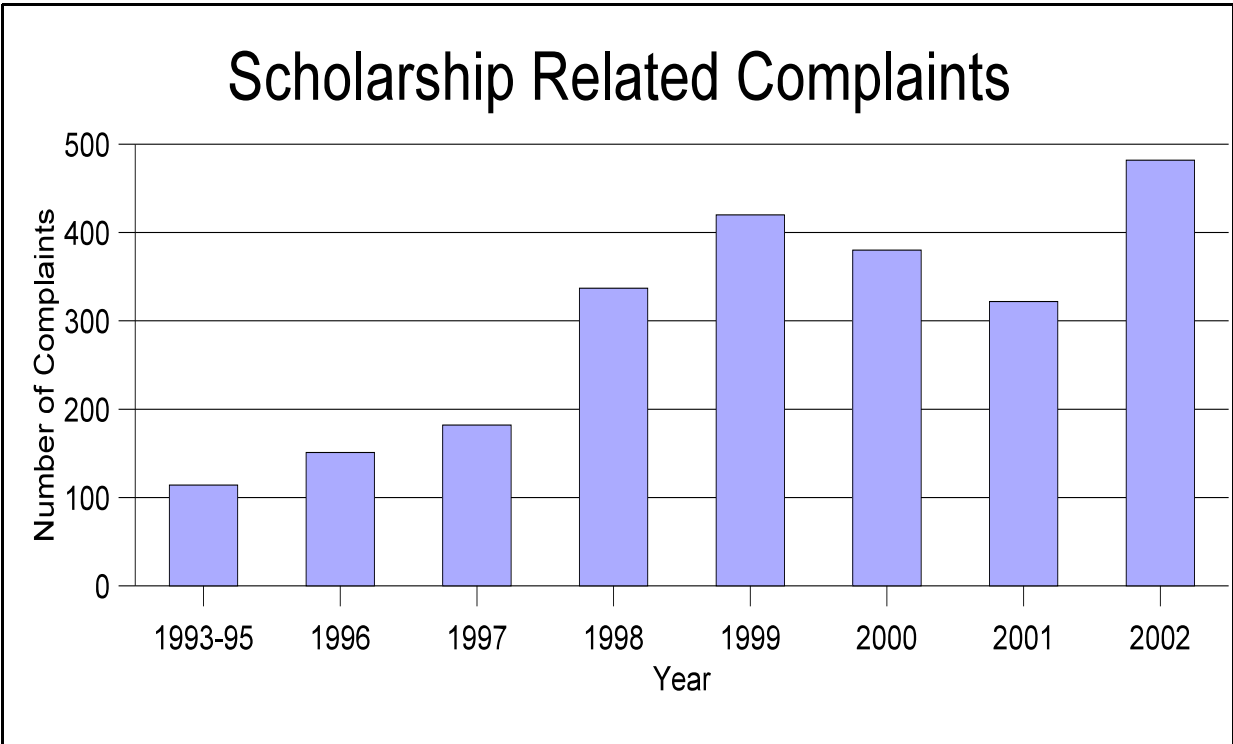
Financial aid scams are marketed to consumers in a variety of media, including: telemarketing, direct mail, e-mail, seminars, and ads on the Internet. As noted in last year’s Report, these scams generally have fallen into one of the following categories: scholarships for profit, guaranteed scholarship search services, guaranteed financial aid consultants, advance fee loans, and links to other products such as life insurance or annuities.⁷

B. Assessment of Current Status of Fraud

Every year millions of students apply for financial aid and scholarships to help finance their education at an institution of higher learning. Unfortunately, some of these students also become victims of financial aid or scholarship fraud.

1. FTC Complaint Database

The FTC has been monitoring consumer complaints related to financial aid fraud for nearly a decade. The following chart shows the number of scholarship fraud-related complaints in the FTC’s Consumer Sentinel database⁸ between 1993 and 2002.⁹



After a small downturn in 2000 and 2001, the number of complaints to the FTC’s Consumer Sentinel database increased in 2002. Whether the increase is due to more fraudulent activity or better reporting is uncertain.¹⁰ It is possible that the overall level of fraud is increasing because recent unfavorable economic conditions may lead more consumers to seek help from unscrupulous companies falsely promising help in getting financial assistance. However, it also is possible that factors not related to an increase in scholarship fraud, such as an increase in the number of law enforcement agencies contributing complaints to the Consumer Sentinel database and an increased consumer awareness of the fraud and how to report it, might account for the increase.¹¹ When compared to the total number of complaints received in the Consumer Sentinel database, however, scholarship-related complaints showed a small decrease.¹²

Last year’s Report discussed that the nature of complaints in the Consumer Sentinel database has changed over time. In 1996 when the FTC launched Project Scholarscam (see Section C), many complaints concerned telemarketing fraud by bogus scholarship search firms. Although there are still complaints against these types of firms, more recent complaints involve financial aid consulting firms that use direct mail solicitations and oral sales presentations to market their services. This trend continues to hold: in 2002, the FTC received more complaints involving financial aid consulting firms than scholarship search services.

2. ED's Complaint Monitoring

ED also receives written and telephone complaints about financial aid fraud. Because ED is not a major clearinghouse for complaints, the number of complaints it receives is small compared to the volume received by the FTC.

Complaints to ED's Federal Student Aid Information Center (FSAIC)

The FSAIC has two sections: the correspondence unit (the Editorial Services Contract, or ESC) and the telephone hotline (the Public Inquiry Contract, or PIC).

Since last year's Report, the ESC has added a scholarship scam subject category in the correspondence database to track such letters more easily. In 2002, the FSAIC received no written complaints about companies charging students for help finding money for college. Meanwhile, the form letters used to respond to scam complaints were revised and further standardized; the staff was reminded of the Act's goals and requirements.

The FSAIC's hotline (1-800-4-FED-AID) also added a scholarship scam subject category to its database. In 2002, the hotline received 97 calls from consumers who believed they had been unfairly charged for scholarship or financial aid information or applications.

Complaints to ED's Office of the Inspector General (OIG)

The OIG maintains a hotline (1-800-MIS-USED) and e-mail address (oig.hotline@ed.gov) for complaints relating to fraud, waste, and abuse involving ED's funds. Complaints also may be submitted by mail. In 2002, the OIG added a scholarship fraud subject category to its database. Upon searching the database, OIG staff found that there had been five e-mails in the "scholarships" category. However, all five referred to colleges' administrative practices allegedly resulting in students receiving too much or too little financial aid; none referred to companies charging students for information or applications for scholarships or other aid.

ED's OIG also investigates cases that affect ED's funds or programs. In 2002, there were no complaints regarding students defrauding ED.

Complaints or queries on e-mail listservs for college financial aid counselors, high school counselors and TRIO counselors

ED's Student Aid Awareness staff monitors listservs directed to professionals involved in helping students obtain student aid. In 2002, list members posted a total of 82 messages (nearly all on the high school and TRIO lists) asking or warning about companies charging fees for aid or information. The greatest surge in such messages was in the fall, when companies mailed invitations to "seminars" and "interviews." ED staff posted messages to the lists, providing

information about ED's and the FTC's awareness products and about avenues for complaint. (Following such messages from ED, complaints and questions tended to subside for a few weeks. However, because not all members of the list read every message, comments eventually reappear.)

C. FTC's Scholarship Fraud Prevention Program

As mentioned above, the FTC's Project Scholarscam combines law enforcement¹³ with consumer education to stop fraudulent purveyors of so-called "scholarship services." In total, 11 companies and 30 individuals are subject to federal court orders prohibiting future misrepresentations. Most of the orders permanently ban the defendants from marketing scholarship services. Many of the orders also require the defendants to post performance bonds before engaging in telemarketing.¹⁴ More than \$560,000 has been refunded to consumers or disgorged to the U.S. Treasury when redress to consumers was impracticable.¹⁵

In addition to its law enforcement investigations and court actions, the FTC is active in monitoring the financial aid industry. This includes periodic reviews of the Consumer Sentinel database for problem companies or new trends.

The FTC also has been active in monitoring the Internet for financial aid fraud. The Internet is especially conducive to scholarship search service fraud. Because this type of fraud relies on matching information from a student profile with a database of potential scholarship sources, it can be done easily and cheaply online. In addition, today's high school students are computer literate and may be conducting a large portion of their college search online. The scholarship search services have taken advantage of this trend and, given the relatively high overhead of maintaining a telemarketing boiler room, many of these services appear to have moved to the Internet.

Responding to this trend, in January 2003, the FTC conducted a "surf" of websites that advertised college scholarship services. The surf provided a snapshot of scholarship services advertising on the Internet and allowed the FTC to identify sites that may be making deceptive claims about the services in violation of the FTC Act. The FTC found that some of the websites promoting college scholarship services claimed they could guarantee a certain number of scholarships or a specified level of financial aid for those signing up. The FTC identified 12 websites as having suspect claims and sent those sites warning letters, advising them to reexamine and/or modify their promotional language. The operators also were alerted that any online misrepresentation could lead to legal action.

IV. Conclusion

As described above, the FTC, ED and DOJ have implemented the directives of the College Scholarship Fraud Prevention Act of 2000. Together, the agencies are continuing to work cooperatively to prevent and prosecute scholarship fraud.

Endnotes

1. *Fact Sheet: The Rising Cost of a College Education*, House Comm. on Education & the Workforce, 108th Cong. (available at edworkforce.house.gov/issues/108th/education/highereducation/cost.htm) (“[d]uring the ten-year period ending in 2000-2001, after adjusting for inflation, average public four-year tuition and fees rose 40 percent, and private four-year college tuition rose 33 percent. Additionally, while tuition has run more than 100 percent ahead of the CPI since 1981, median family income has risen only 27 percent in real terms.”)
2. The inaugural report can be found at www.ftc.gov/os/2002/05/scholarshipfraudreport2001.pdf.
3. Statistics for March 2002 are not available; based on February’s and April’s numbers, it is likely that there were approximately 9,000 visits to the site in March.
4. To apply for federal student financial aid, and to apply for many state student aid programs, students must complete a FAFSA. ED uses the information provided on a student’s FAFSA to determine the student’s eligibility for aid from the Federal Student Aid programs. Many states and schools also use the FAFSA to award aid from their programs. Some states and schools may require the student to fill out additional forms.
5. The title “TRIO” is used because there were three of these types of programs when they were first created in the 1960s — Upward Bound, Talent Search and Student Support Services. Currently, there are eight TRIO programs — Educational Opportunity Centers, Ronald E. McNair Postbaccalaureate Achievement Program, Student Support Services, Talent Search, Training Program for Federal TRIO Programs, TRIO Dissemination Partnership, Upward Bound, and Upward Bound Math/Science.
6. *Solving the Problem of Scholarship Scams: Hearings on S. 1455, The College Scholarship Fraud Prevention Act of 1999 Before the Senate Comm. on the Judiciary*, 106th Cong. (1999) (statement of Mark Kantrowitz, publisher of the www.finaid.org website).
7. *Id.*
8. Consumer Sentinel is a secure, password-protected complaint database designed to allow law enforcers to share data about fraud. It is accessible to about 630 law enforcement agencies in the United States, Canada and Australia, including more than 40 federal law enforcement organizations, every state Attorney General, local fraud fighting agencies, more than 12 Canadian law enforcement organizations, and the Australian Competition and Consumer Commission. In addition to consumer complaints, Consumer Sentinel offers its law enforcement members a variety of tools to facilitate investigations and prosecutions, including: a catalog of companies currently under investigation; information to help agencies coordinate effective joint action; an index of fraudulent telemarketing sales pitches; and data analysis to determine trends in fraud. Consumer Sentinel collects complaints from the FTC and over 100 other organizations. Currently, there are nearly 1 million complaints in the Consumer Sentinel database. More

information on Consumer Sentinel can be found in *National and State Trends in Fraud and Identity Theft – January - December 2002*, issued by the FTC in January 2003 and available online at www.consumer.gov/sentinel/pubs/Top10Fraud_2002.pdf.

9. The numbers of complaints per year are as follows:

Year	1993-95	1996	1997	1998	1999	2000	2001	2002
Number of Complaints	114	151	182	337	420	380	322	482

10. As discussed in last year’s Report, the number of complaints contained in the Consumer Sentinel database does not provide a complete picture of the extent of consumer injury from any particular type of fraud – although it is used extensively by the FTC and other law enforcement agencies nationwide to spot trends in fraudulent practices and identify potential targets for law enforcement. Some consumers may have complained directly to the company or to law enforcement authorities that do not input their complaints into the Sentinel database. In addition, some of the financial aid scams are operating on the Internet and are relatively inexpensive. Often when the financial injury is low, consumers do not complain.

11. Another factor may be an increase in non-scholarship education-related fraud. All complaints entered into the Consumer Sentinel database are assigned a product code. Scholarship-related complaints fall within the “scholarships\educational grants” product code. However, this product code also includes other education-related complaints, including those dealing with student loans, non-education-related grants and diploma mills. Thus, a marked increase in the number of non-scholarship education-related complaints will be reflected in the number of complaints in the scholarship product code.

12. In 2001, there were 133,891 total fraud complaints in the Consumer Sentinel database, of which 322 were in the scholarship product code (representing 0.24%). In 2002, there were 218,284 total fraud complaints, of which 482 were scholarship related (representing 0.22%). Thus, the ratio of scholarship complaints to total fraud complaints decreased by 8.33%.

13. Among other things, the FTC enforces Section 5 of the FTC Act, 15 U.S.C. § 45, which prohibits unfair and deceptive acts or practices in or affecting commerce. Section 13(b) of the FTC Act, 15 U.S.C. § 53(b), allows the FTC to bring actions in federal district court to halt violations of Section 5. Remedies available to the FTC include permanent injunctions and equitable monetary relief such as redress to consumers or disgorgement of unjust enrichment.

14. Bonds are designed to deter defendants from engaging in misrepresentations and provide a fund for consumer redress should the defendants violate the order.

15. The FTC actually obtained approximately \$7.3 million in judgments. Some of these judgments were not collectable and others have been referred to the U.S. Treasury for collection.