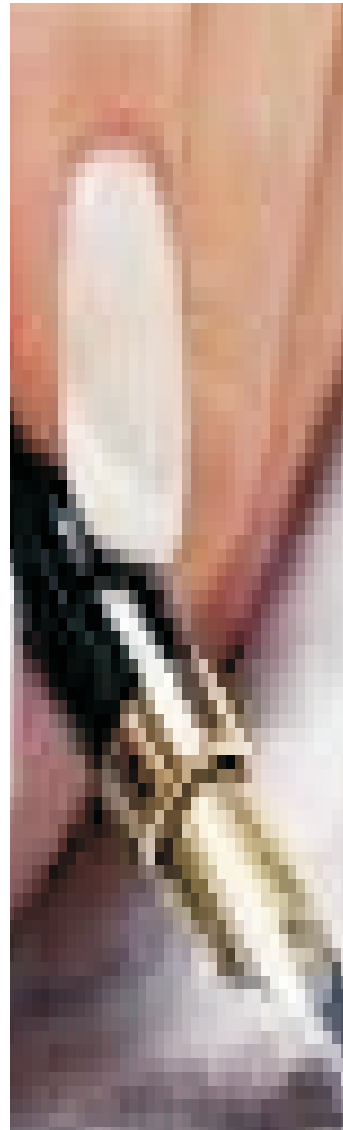
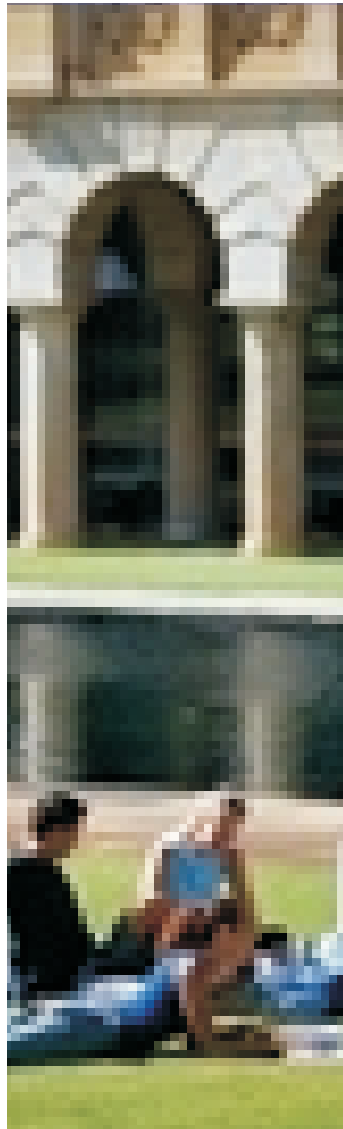
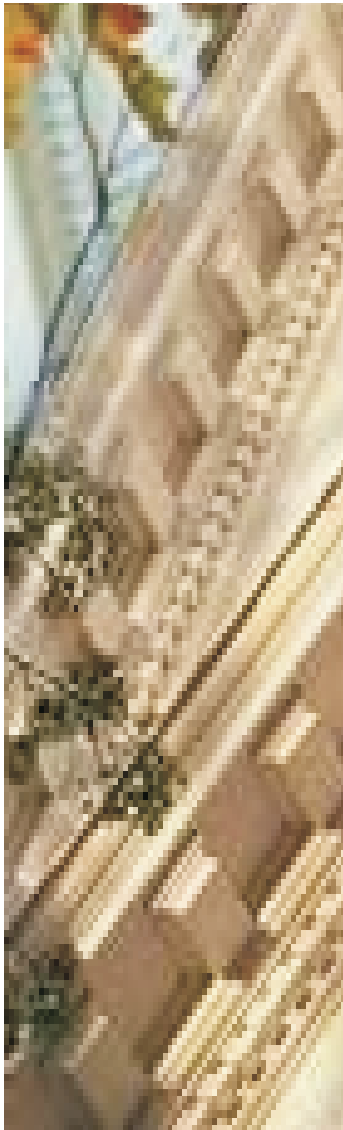


# COLLEGE SCHOLARSHIP FRAUD PREVENTION ACT OF 2000

## □ ANNUAL REPORT TO CONGRESS □

MAY 2004



Department of Justice

المنارة للاستشارات



Department of Education



Federal Trade Commission

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ANNUAL REPORT TO CONGRESS**

May 2004

**Submitted by:  
Department of Justice  
Department of Education  
Federal Trade Commission**

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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 U.S. 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 previous years' Reports, 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 continued to increase slightly in 2003. The percentage of the total fraud complaints in the Consumer Sentinel database attributable to scholarship fraud, however, has continued to decline. This decrease in the percentage suggests that the increase in number of complaints is likely not due to more scholarship fraud activity, but rather better reporting. For example, it is possible that an increase in the number of law enforcement agencies contributing complaints to the Consumer Sentinel database accounts for the increase.

A review of the complaints received by Consumer Sentinel continues to indicate that the nature of the fraudulent activity has shifted from scholarship search services to financial aid consulting services, a trend that was identified in previous reports. ED has found a similar trend, with the vast majority of complaints centered around services that claim to help students simplify the process of applying for aid.

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 brought two law enforcement actions against fraudulent purveyors of college financial aid services. The FTC also revisited several Internet sites previously identified as making problematic claims regarding their scholarship services. Many of those sites either shut down or voluntarily agreed to modify the problematic language. In addition, the FTC continues to monitor the Consumer Sentinel database for new targets and solicits information from ED regarding its complaint 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.<sup>1</sup> 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.<sup>2</sup> 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

As discussed in previous Reports, 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. Although DOJ and the FTC continue to coordinate on cases that the FTC refers for criminal investigation and prosecution, the Sentencing Commission has not reported any such case reaching the sentencing stage to date.

## 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.** This page ([www.studentaid.ed.gov/LSA](http://www.studentaid.ed.gov/LSA)) lists sources of free information about financial aid and warns students about scholarship scams. Since May 1, 2003, ED has updated the site and added significant amounts of information in Spanish. ED staff publicized the site by prominently featuring it in the *2004-05 High School Counselor's Handbook* and linking to it from other areas of ED's federal student aid website ([www.studentaid.ed.gov](http://www.studentaid.ed.gov)). The site had nearly 90,000 visits in 2003.
- **“Looking for Student Aid” brochure.** The brochure is an abbreviated version of the information available on the Looking for Student Aid web page. The brochure was updated and translated into Spanish in summer 2003. By the end of the year, nearly 88,000 English brochures and 35,000 Spanish brochures had been distributed to schools, community organizations, and individuals. In 2003, over 8,200 copies of the PDF version were downloaded.
- **“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).<sup>3</sup> The poster, advertised in the *High School Counselor's Handbook*, also refers students to sources of free information on all types of financial aid for college. In 2003, 90 copies of the full-size poster were ordered from ED's publication warehouse, while 2,358 of the 8.5" x 11" version were downloaded at [www.studentaid.ed.gov/stung](http://www.studentaid.ed.gov/stung).
- **The *High School Counselor's Handbook 2004-05*.** The *Handbook* explains ED's federal student aid programs and the application process. For 2004-05, staff added information on how counselors can order or download the “Don't Get Stung” poster. The 2004-05 *Handbook* was mailed to nearly 30,000 high school, TRIO,<sup>4</sup> and other college access counselors in December 2003. It is also available at [www.fsa4schools.ed.gov/counselors](http://www.fsa4schools.ed.gov/counselors).
- **The *Student Guide (2004-05 edition)*.** Geared toward high school seniors, college students, adult students, and parents, the *Guide* explains ED's aid programs in detail. As with the 2003-04 edition, the front page of the online *Guide* ([www.studentaid.ed.gov/guide](http://www.studentaid.ed.gov/guide)) has a link to the scholarship scam section. To further publicize the book, there are links to the *Guide* from other areas of the [www.studentaid.ed.gov](http://www.studentaid.ed.gov) site. More than 8 million copies of the 2004-05 English edition, and more than 600,000 of the Spanish version, were printed. There were

over 842,600 visitors to the online 2003-04 version at [www.studentaid.ed.gov/guide](http://www.studentaid.ed.gov/guide); approximately 20,400 visitors accessed the page that warns about scholarship scams. More than 2,034,000 copies of the 2003-04 PDF version were downloaded in 2003. (The 2004-05 version was not available online until 2004.)

- **Funding Your Education (2004-05 edition).** This is an abbreviated edition of *The Student Guide*. Approximately 5.5 million English copies, and more than 400,000 Spanish copies, of *Funding* were printed for 2004-05. The online version, at [www.studentaid.ed.gov/fye](http://www.studentaid.ed.gov/fye), had over 119,000 visitors in 2003. Of those visitors, over 14,600 visited the web page that warns about scholarship scams. Meanwhile, nearly 355,000 copies were downloaded from the website.
- **Videoconferences.** Each fall, ED hosts a federal student aid videoconference for high school and TRIO counselors. In 2003, ED staff again ensured the script for the conference discussed 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 (OCBE) produced a package of consumer education materials, a website ([www.ftc.gov/bcp/conline/edcams/scholarship/index.html](http://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 from October 1996 through December 2002, the FTC, alone or in partnership with others, distributed nearly 3,180,000 print publications and had more than 345,000 accesses or "hits" on its website, for total distribution of more than 3,500,000 consumers. In 2003, the FTC, alone or in partnership with others, distributed an additional 102,000 print publications and had 111,000 more hits on its website, for a total distribution of more than 3.73 million English and Spanish publications.



In 2003, the OCBE initiated an outreach program to provide print publications to students and their parents through local school districts' college and career fairs. During the year, they distributed over 40,000 publications at these school events. In addition, FTC regions continued their outreach efforts, distributing several hundred scholarship scams publications at local events.

Continuing their partnership, ED's 2004-05 *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](http://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

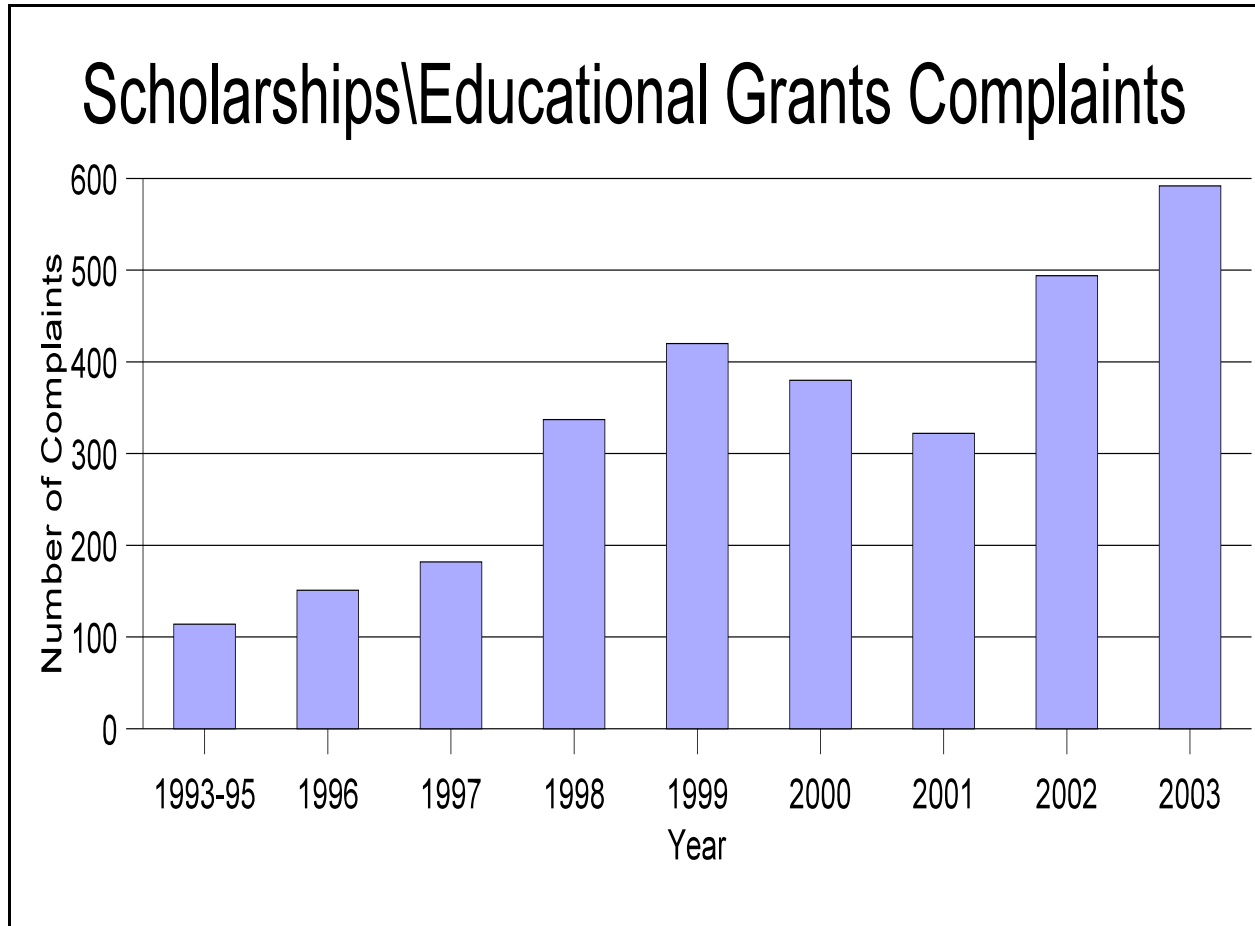
As discussed in previous Reports, operators of financial aid scams generally promise that their services will ensure that students receive either a scholarship or increased financial aid. Other typical claims made by financial aid scam artists include: claims that millions (in some cases billions) of dollars of scholarships go unclaimed every year, with promises to get the student his or her fair share; claims of extremely high 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.<sup>5</sup> 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 limited 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.

#### 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.

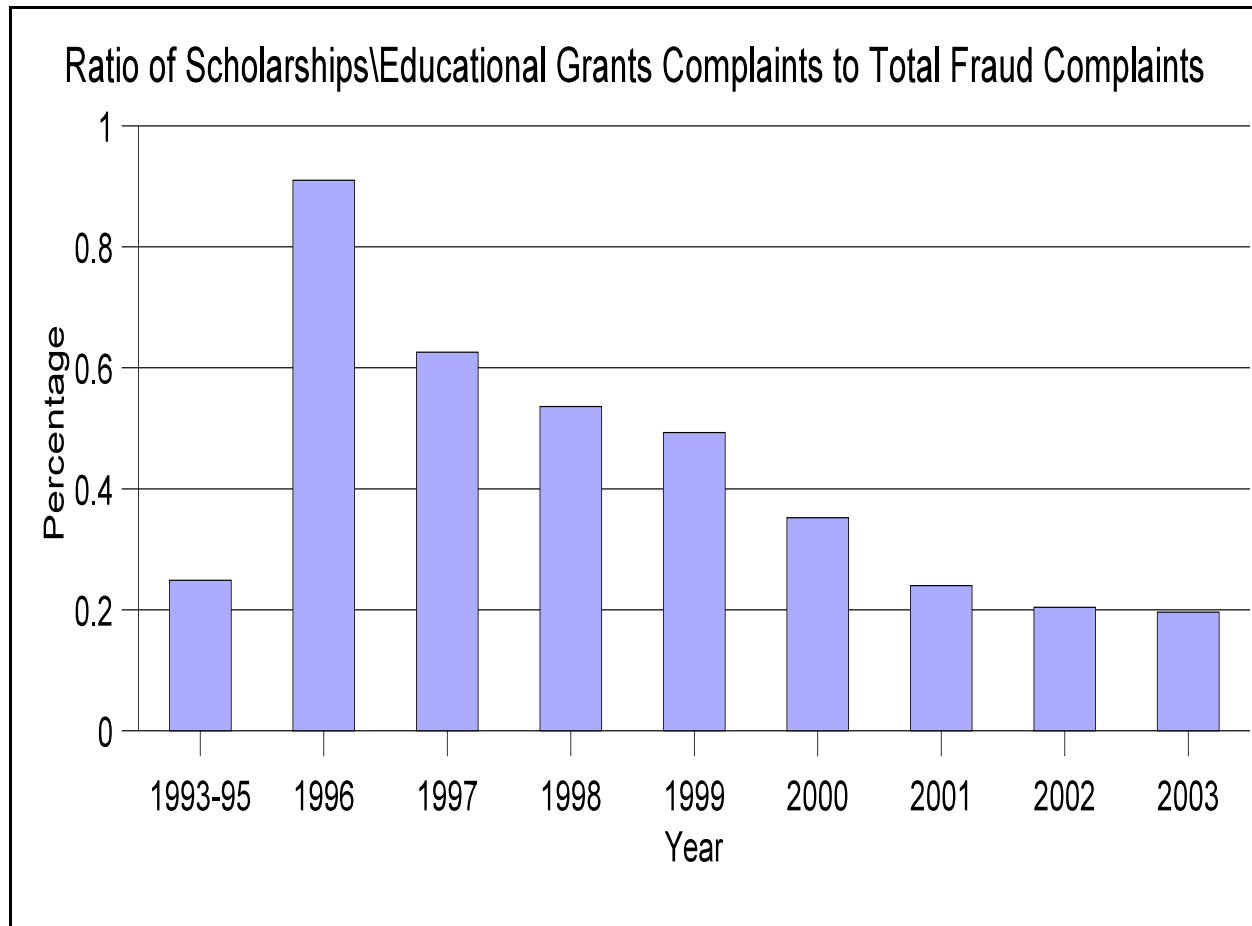
##### 1. FTC Complaint Database

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 database<sup>6</sup> between 1993 and 2003.<sup>7</sup>



After a small downturn in 2000 and 2001, the number of complaints to the FTC's Consumer Sentinel database increased in 2002 and 2003.<sup>8</sup> As discussed in last year's Report it is uncertain whether these increases are due to more fraudulent activity or better reporting attributable to 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.<sup>9</sup>

The following chart shows the ratio of scholarship-related complaints to fraud complaints between 1993 and 2003.<sup>10</sup>



The chart shows that since the FTC first launched Project Scholarscam in 1996, the ratio of scholarship-related complaints to total fraud complaints has been steadily decreasing. This suggests that the increase in the absolute number of scholarship-related complaints to the Consumer Sentinel database is likely attributable to factors other than an actual increase in the amount of scholarship fraud. As discussed above, these factors include more contributors to the Consumer Sentinel database, and increased consumer awareness of fraud and how to report it. In addition, the FTC's successful law enforcement and consumer education campaign may also be contributing to the steady decline in the percentage of fraud attributable to scholarship scams.

Previous Reports discussed that the nature of complaints in the Consumer Sentinel database has changed over time. In 1996 when the FTC launched Project Scholarscam, many complaints concerned telemarketing fraud by bogus scholarship search firms (*e.g.*, guaranteed scholarships or scholarships for profit). Although there are still complaints against these types of firms, more recent complaints involve financial aid consulting firms that promise customized, comprehensive financial aid planning to maximize the student's financial aid eligibility, using direct mail solicitations and oral sales presentations to market their services. This trend

continues to hold: in 2003, 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).

In 2003, the FSAIC received one written complaint about a company charging students for help finding money for college. From the complainant's brief e-mail, it appears he believed that the company in question would prepare and submit his FAFSA. As of the date of his e-mail, however, he had not received any aid and wanted to know whether there had been other complaints against the company. The FSAIC responded that ED does not make recommendations concerning such companies and suggested that the inquirer contact the Better Business Bureau or his State Attorney General's office regarding the reputation of the company in question.

The FSAIC's hotline (1-800-4-FED-AID) also added a scholarship scam subject category to its database. In 2003, the hotline received 43 calls from consumers who believed they had been unfairly charged for scholarship or financial aid information or applications. Most of those complaints were from students who had been charged a fee to submit the FAFSA. Upon receiving such calls, PIC customer service representatives routinely advise the inquirer to contact the Better Business Bureau and/or the FTC with their concerns.

The number of complaint calls decreased from 97 received in 2002. As discussed above in reference to the FTC's Consumer Sentinel database, an increase in consumer awareness of scholarship fraud and how to avoid becoming a victim may be contributing to the decrease in calls. Nevertheless, ED takes all complaints seriously and has investigated the legality of companies charging students to help complete the FAFSA. While it is clear that the law prohibits a fee from being charged for the "collection, processing, or delivery of financial aid" through the use of the FAFSA, the organizations ED has looked at claim that the fee they charge is for providing advice and counsel to students and families, not for helping them complete the FAFSA. Further, this statutory prohibition does not provide ED with a practical means of compelling a change in practice by such commercial entities, because these entities have no direct relationship with either ED or the educational institutions, lenders, and guarantors with which ED has a funding and regulatory relationship under the student aid programs. ED therefore has no way to impose any administrative sanction upon these companies.

## **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. Upon searching its database, OIG staff found that there were five items in the "scholarships" category in 2003. Three of the five were complaints about companies charging money to fill out the students' FAFSAs (and, in some cases, other financial aid forms). The fourth was from a student who paid a \$5.00 scholarship application fee and never heard from the company again. The fifth accused a company of promising SAT tutoring and then renegeing on its promise.

The OIG does not routinely investigate such cases. Because scholarship fraud falls within the FTC's jurisdiction, four of the five complaints were forwarded immediately to the FTC. The exception was one of the complaints about being charged for help completing the FAFSA and other forms. That complaint was not received via the hotline. Instead, it was sent directly to the Special Agent in Charge of Investigation in ED's Chicago regional office. As a result, a case was opened in order to investigate that particular complaint.

ED's OIG also investigates cases of fraud, waste or abuse involving ED's federal student aid funds. In 2003, there were 568 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 2003, list members posted a total of 68 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 spring, when high school seniors typically choose a college and prepare to pay the first semester's tuition. In response to these messages, ED staff occasionally post reminders that students can receive free advice from college financial aid administrators and from ED (as well as from high school and TRIO counselors themselves).

The number of messages posted dropped from 82 last year to 68 this year. Although the decrease could be attributable to a decrease in the amount of scholarship fraud, the more likely reason is greater awareness on the part of counselors. As a result of ED's and the FTC's consumer education efforts, counselors may be telling their students simply not to purchase the services of a particular company rather than first posting a message to the list asking whether the company in question is legitimate.

Nearly all of the messages on counselor listservs were about financial aid consulting services, whereas the majority of student complaints received at ED have to do with being charged for help filing the FAFSA. This disparity could be due to counselors' greater understanding (compared to students') that the FAFSA is a free application.

## C. FTC’s Scholarship Fraud Prevention Program

As mentioned above, the FTC’s Project Scholarscam combines law enforcement<sup>11</sup> with consumer education to stop fraudulent purveyors of so-called “scholarship services.” In total, 12 companies and 31 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.<sup>12</sup> More than \$675,000 has been refunded to consumers or disgorged to the U.S. Treasury when redress to consumers was impracticable.<sup>13</sup>

### 1. Law Enforcement Actions

Since last year’s Report, the FTC has announced two additional law enforcement cases against companies alleged to have falsely promised scholarships to students and their parents or to have misrepresented the services they offered.

- *The College Advantage, Inc.*

In May 2003, the FTC sued The College Advantage, Inc. (also doing business as College Funding Center), C Funding Group, LLC (also doing business as College Funding Group), and their principals, Alan Baron and Edward Jacobs. The defendants, operating out of Plano and Katy, Texas, allegedly defrauded approximately 12,000 consumers out of \$13 million.

According to the FTC’s complaint, the defendants sent letters to thousands of parents of college-bound high school students inviting them to attend a financial assistance program. The letters touted the features of the defendants’ program, focusing primarily on the defendants’ guarantee that the program would secure 100% of the funding necessary to attend college from sources that would reduce out-of-pocket expenditures. During the seminars, parents met one-on-one with the defendants’ salespeople. Consumers were told that if they paid the up-front fee of \$895, they would receive 100% of the funds necessary for their children to attend college. The defendants also promised to reduce consumers’ out-of-pocket tuition expenditures by obtaining scholarships and grants. The program was underscored with a money-back guarantee. The defendants also maintained several Internet websites that reinforced the claims made in the letters and seminars.

The FTC alleged that the defendants’ program was a scam. It did not provide 100% of the costs of college or reduce out-of-pocket expenses. Rather, the defendants simply provided consumers with readily-available public information that consumers could otherwise obtain for free. Those students who did receive financial aid generally did so through their own efforts – not those of the defendants. Further, the FTC charged that the defendants’ money-back guarantee was as illusory as their claims of funding.

The FTC filed its complaint in May 2003. At the request of the FTC, on May 7, 2003, the court entered an *ex parte* temporary restraining order against the defendants prohibiting further misrepresentations of their financial aid program. The order also froze all of the defendants' assets. On May 24, 2003, the court entered a preliminary injunction against the defendants, continuing the terms of the temporary restraining order including the asset freeze. The case remains in litigation.<sup>14</sup>

- *Integrated Capital Inc.*

The FTC obtained a consent judgment, in August 2003, against Integrated Capital Inc. (doing business as National Student Financial Aid) and its president, Sheila Cuccia. The defendants, based in Carson City, Nevada, allegedly defrauded approximately 40,000 consumers out of \$10 million.

The defendants marketed their financial aid services through a direct mail campaign targeted to high school students and their parents. The National Student Financial Aid letter stated that students “had been selected, by our College Review Board” as “eligible” to apply for financial assistance through the defendants’ “college assistance program,” that over 90% of the defendants’ clients have had their financial aid eligibility increased. The letter also invited students to attend an interview. The interviews, typically held at local hotels, were really high-pressure sales seminars during which the defendants promoted their college planning and financial aid services. These services, ranging in price from \$795 to \$1,200 depending upon whether parents paid up-front or over time, purportedly helped consumers obtain more financial aid than they could on their own. The defendants stated that they would prepare personalized financial aid reports and design customized strategies to maximize the amount of financial aid a student would receive. Consumers were guaranteed to obtain at least \$2,500 in financial aid, or a reduction of \$2,500 in their Expected Family Contribution, or receive their money back. In reality, National Student Financial Aid provided only generalized information, and the “customized” strategies were not tailored to individual financial situations. Much of the materials consumers received consisted of readily-available public information that consumers could obtain for free.

Under the terms of the consent judgment, the defendants are prohibited from making misrepresentations in connection with the offering of academic goods and services. The settlement also requires the defendants to make certain affirmative disclosures in their sales presentations, including that purchasing their services does not guarantee a student will get any financial aid or more financial aid than he or she could have otherwise obtained. In addition, the defendants agreed to pay \$115,000 in consumer redress.

## 2. Monitoring and Compliance Initiatives

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 financial aid 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.

As discussed in last year's Report, in response 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.

To follow-up on these efforts in the second half of 2003, the FTC revisited the 12 websites that received warning letters in January 2003. Eight of the sites have come into compliance by deleting the problem claims, adding adequate disclaimers, or shutting down. The FTC will continue to monitor the remaining sites and take appropriate next steps. Further, the FTC reviewed the claims of one other website not included in the earlier surf. The operator of that site voluntarily agreed to modify the website advertising to remove problematic claims.

#### 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, 108<sup>th</sup> Cong. (available at [edworkforce.house.gov/issues/108th/education/highereducation/cost.htm](http://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](http://www.ftc.gov/os/2002/05/scholarshipfraudreport2001.pdf). The second report can be found at <http://www.ftc.gov/os/2003/05/collegesfpactreport.pdf>.
3. 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.
4. The title “TRIO” refers to a group of programs operated by postsecondary schools and nonprofit organizations to increase awareness among secondary school students of opportunities for postsecondary education and to support students enrolled in postsecondary education. The programs are called the TRIO programs 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.
5. *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*, 106<sup>th</sup> Cong. (1999) (statement of Mark Kantrowitz, publisher of the [www.finaid.org](http://www.finaid.org) website).
6. 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 over 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 2003*, issued by the FTC in January 2004 and available online at [www.consumer.gov/sentinel/pubs/Top10Fraud2003.pdf](http://www.consumer.gov/sentinel/pubs/Top10Fraud2003.pdf).

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

Year	Number of Complaints
1993-95	114
1996	151
1997	182
1998	337
1999	420
2000	380
2001	322
2002	514
2003	594

8. As discussed in previous years' Reports, 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.

9. 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.

10. The number of scholarship-related complaints versus total fraud complaints per year are as follows:

Year	Scholarship-Related Complaints	Total Fraud Complaints	Percentage
1993-95	114	45,765	0.25
1996	151	16,588	0.91
1997	182	29,069	0.63
1998	337	62,840	0.54
1999	420	85,347	0.49
2000	380	107,909	0.35
2001	322	134,133	0.24
2002	514	242,587	0.21
2003	594	310,639	0.19

11. Among other things, the FTC enforces Section 5 of the FTC Act, 15 U.S.C. § 45, which prohibits unfair or 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, by its own attorneys, 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. Section 13(b) also allows the FTC to seek preliminary relief, including temporary restraining orders and preliminary injunctions. In appropriate cases, the FTC may seek such preliminary relief on an *ex parte* basis.

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

13. 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.

14. In June 2003, the FTC filed an amended complaint naming Claudia Jacobs and Donna Baron, the wives of the named defendants, as relief defendants. As relief defendants, the amended complaint alleges that they received funds derived from the named defendants' violations of the FTC Act and for which they have no legitimate claim. The FTC is seeking an order requiring them to disgorge their unjust enrichment.