

**Prepared Statement of  
the Federal Trade Commission**

**Before the  
United States Senate  
Committee on the Judiciary**

**on**

**Solving the Problem of Scholarship Scams:  
The College Scholarship Fraud Prevention Act of 1999**

**Washington, DC  
October 6, 1999**

Thank you, Senator. I am pleased to have this opportunity to describe the Commission's consumer protection activities in the area of scholarship scams. The Commission applauds you, Senator Abraham, and also Senator Feingold for focusing on this area of serious law enforcement issues raised by fraudulent purveyors of scholarship services.

In the fall of 1996, the Commission launched Project ScholarScam, a joint law enforcement and consumer education effort aimed at the fraudulent purveyors of so-called scholarship services. At that time, the Commission announced six law enforcement cases against companies we alleged falsely promised scholarships to students and their parents nationwide.

In November 1997, the Commission followed through with two additional cases, known as ScholarScam II. The Commission obtained the most recent settlements in the fall of 1998. These cases were filed in Federal district courts in Florida, Maryland, Georgia, and New York, and a summary of these cases can be acquired as an appendix to my written statement.

The Commission sought and obtained temporary restraining orders with asset freezes, and in some cases the appointment of a receiver over the corporate defendants. All Commission litigation has been concluded, with permanent injunctions obtained either through settlements or ordered by the court. The orders either ban the defendants from telemarketing or providing scholarship services, or they require the defendants to post a performance bond in a significant amount. In several instances, the Commission obtained partial or complete redress for consumers, and in two cases the defendants posted \$100,000 telemarketing bonds pursuant to Florida law.

We estimate that the companies involved in these scams have scammed, in total, approximately 175,000 consumers, to the tune of about \$22 million. Tough penalties are needed for these scam artists. The civil remedies afforded by an FTC action can deprive defendants of their ill-gotten gains through restitution, but only if the victims' money can be found.

The penalties resulting from criminal prosecutions by the U.S. Department of Justice and State authorities sends the strongest possible message, which is particularly needed here because there is a never-ending pool of potential victims, college-bound students and their families.

The Commission has undertaken extraordinary efforts to educate consumers about scholarship scams. As part of this effort, we teamed up with a variety of private and public partners, including Sallie Mae, Who's Who Among American High School Students, the College Board, and the Educational Testing Service, which administers the SAT exams.

Our consumer education materials include bookmarks, posters, and consumer alerts warning students and their parents of the red flags to look for when evaluating scholarship service sales material and sales pitches. The six signs that your scholarship is sunk are the scholarship is guaranteed or your money back. You can't get this information anywhere else. Number three, may I have your credit card or bank account number to hold this scholarship. Number four, we will do all the work. Number five, the scholarship will cost some money. Number six, you have been selected by a national foundation to receive a scholarship, or you are a finalist in a scholarship contest.

We have distributed over 2.5 million pieces of consumer education materials, including mass mailings of bookmarks listing these six red-flag signs, to 2,000 college bookstores across the country, and have materials posted on our Web site. In addition, we have posted a Web page of a fictitious scholarship service company that had typical claims that we saw in our cases. And when consumers clicked to sign up for the services, they were warned that they too could be scammed. We call these teaser Web site pages, and we have used these to help disseminate our message on the Internet.

The Commission continues to monitor the industry and to provide both consumer and business education. In May this year, we issued a new consumer alert to inform consumers about a recent trend, the seminar for financial aid or scholarships. Instead of telemarketing, the scam artists now invite students and their families to a free seminar in some local hotel and then give them a hard sales pitch to get them to sign up for the scholarship service at a fee of approximately \$800 to \$1,200, which is quite a lot of money for some families.

The story of Project Scholarscam has garnered tremendous coverage in the media, and through this coverage and by enlisting those who are on the front lines, financial aid advisers and guidance counselors, we have spread the word about these pernicious scams. We hope the Commission's strong record of enforcement and education has served as an effective deterrent in this industry. But as education costs continue to rise, and given the unlimited supply of potential victims, fraudulent operators will always have an interested audience and an enticing sales pitch. Thus, we will continue our efforts, and we will also continue to provide cooperation to any criminal investigation or prosecution of a Scholarscam defendant.

Thank you.

## **I. INTRODUCTION**

Mr. Chairman and members of the Subcommittee, I am Sheila F. Anthony, a Commissioner of the Federal Trade Commission ("FTC" or "Commission"). I am pleased to have this opportunity to describe the Commission's consumer protection activities in the area of scholarship services.<sup>1</sup> The Commission applauds Senator Abraham and Senator Feingold for focusing on the serious law enforcement issues raised by fraudulent purveyors of scholarship services.

## **II. THE COMMISSION'S CONSUMER PROTECTION MISSION**

The FTC is a law enforcement agency whose mission is to promote the efficient functioning of the marketplace by protecting consumers from unfair or deceptive acts or practices and increasing consumer choice by promoting vigorous competition. The Commission's primary legislative mandate is to enforce the Federal Trade Commission Act ("FTCA"), which prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting

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<sup>1</sup> This written statement presents the views of the Federal Trade Commission. Responses to questions reflect my views and do not necessarily reflect the views of the Commission or the other Commissioner.

commerce.<sup>2</sup> The FTCA generally provides the Commission with broad law enforcement authority over entities engaged in, or whose business affects, commerce and with the authority to gather information about such entities.<sup>3</sup> The Commission also has responsibility under approximately forty additional statutes governing specific industries and practices.<sup>4</sup>

### III. PROJECT SCHOLARSCAM

In the fall of 1996, the Commission launched "Project Scholarscam," a joint law enforcement and consumer education effort aimed at fraudulent purveyors of so-called "scholarship services." At that time, the Commission announced six law enforcement cases against companies we alleged falsely promised scholarships to students and their parents nationwide. In November 1997, the Commission followed up with two additional cases known as ScholarScam II. The Commission obtained the most recent settlements in the fall of 1998.

These companies employed similar tactics: the sales pitch usually started with a postcard proclaiming "FREE MONEY FOR COLLEGE" and providing a toll free number for students or their parents to call. A telemarketing sales pitch ensued whereby the company told students and parents that, for an up-front fee \$100 to \$400, the defendant would guarantee that the student would get a scholarship or the company would refund the up-front fee. To further entice the students, telemarketers claimed the student had prequalified for scholarships and that the company would "do all the work" necessary to obtain the scholarship. Getting the scholarships was easy, the telemarketers explained, because the company would match the student's qualifications with a database of scholarships and would send the student a list of sources tailored to that student. The telemarketers proclaimed that the company had "information you can't get anywhere else. "

Naturally, the telemarketer would impress upon the student the need to act quickly and typically would press the student or parent to provide over the telephone a credit card number or checking account number. Once students and their parents paid the up-front fee, they would complete a questionnaire detailing their interests, school activities and other personal information. Subsequently, they would receive a list of available scholarships and sources of money--but the list was hardly "tailored" to the student's qualifications. In fact, as the Commission alleged, it was a useless list--containing outdated information, scholarships whose deadlines had passed, entries that were not even scholarships but were student loan programs, and scholarships that the student clearly could not qualify for (for example, a scholarship for children of veterans or residents of a particular state when the student was neither).

When consumers sought refunds for these useless lists, the defendants foiled their attempts by putting hurdles up at every turn instead of honoring their much-heralded and unconditional "money-back guarantee." Students were required, the defendants said, to apply to each and every source on the list and to obtain and send to the company all rejection letters received. In reality,

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<sup>2</sup> 15 U.S.C. Sec. 45(a).

<sup>3</sup> 15 U.S.C. Sec. Sec. 45(a), 46(a).

<sup>4</sup> These include, for example, the Truth in Lending Act, 15 U.S.C. Sec. Sec. 1601 et seq., which mandates disclosures of credit terms, and the Fair Credit Billing Act, 15 U.S.C. Sec. Sec. 1666 et. seq., which provides for the correction of billing errors on credit accounts. The Commission also enforces over 30 rules industries and practices.

this was an impossible condition to fulfill because scholarship organizations typically notify only those who are selected as recipients. In addition, because the list contained scholarships for which the students could not qualify, students had no reason to apply to those sources. In one FTC case, the defendant stopped providing any lists at all--leaving consumers to write futile complaint letters to a nonexistent "scholarship foundation."

These cases were filed in federal district courts in Florida, Georgia, Maryland, and New York. A summary of these cases is provided to the Committee as an Appendix to my written statement. The Commission sought and obtained temporary restraining orders with asset freezes and, in some cases, the appointment of a receiver over the corporate defendants. All Commission litigation has been concluded with permanent injunctions obtained either through settlements or ordered by the court. The orders obtained either ban defendants from engaging in telemarketing or providing scholarship services or require defendants to post performance bonds in significant amounts to protect consumers from future fraudulent practices should defendants resume telemarketing of scholarship services.

In several instances, the Commission obtained partial or complete redress for consumers. In two cases, the defendants posted \$100,000 telemarketing bonds pursuant to Florida law, which requires all telemarketers to make such commitments. We worked with the Florida Department of Agriculture and Consumer Services to revoke the bonds and, for the first time, Florida consumers received refunds derived from a Florida telemarketing bond. In another case, as part of the settlement, the defendant relinquished mail containing checks from almost 500 consumers which enabled the Commissioner to provide full refunds to those consumers. In many FTC cases, however, the defendants have depleted the monies received, leaving little, if any, for consumer redress. In addition, FTC defendants frequently attempt to use bankruptcy laws to avoid paying consumer redress required by our orders.

We estimate that the companies involved in these cases scammed, in total, approximately 175,000 consumers to the tune of \$22 million. In addition, one of the Scholarscam defendants, Christopher Nwaigwe, was criminally prosecuted by the U.S. Attorney's Office in Baltimore, Maryland. Commission staff provided substantial assistance to the U.S. Attorney's Office, including having a staff attorney testify at trial. Nwaigwe was convicted of seven counts of mail fraud in March of this year and in June was sentenced to 36 months in prison. Tough penalties are needed for these scam artists. The civil remedies afforded by an FTC action can deprive defendants of their ill-gotten gains through restitution, but only if the victim's money can be found. The penalties resulting from criminal prosecutions by the U.S. Department of Justice and state authorities send the strongest possible message, which is particularly needed because there is a never-ending pool of potential victims: college-bound students and their parents.

The Commission has undertaken extraordinary efforts to educate consumers about scholarship scams. As part of this effort, we teamed up with a variety of private and public partners, including:

- Sallie Mae
- College Parents of America
- Who's Who Among American High School Students

- The College Board
- Educational Testing Service
- National Association of Student Financial Aid Administrators
- National Association of Secondary School Principals
- National Association of College Stores

Our consumer education materials include bookmarks, posters, and consumer alerts warning students and their parents of the red flags to look for when evaluating scholarship service sales materials and sales pitches. We have distributed over 2 ½ million pieces of our consumer education materials, including a mass mailing of bookmarks to 2,000 college bookstores across the country and have the materials posted on our Web site. In addition, we posted a Web page of a fictitious scholarship service company that had the typical claims we saw in our cases and, when consumers clicked to sign up for the service, they were warned that they could have been scammed. We call this a "teaser Web site" and have used it to help disseminate our message on the Internet.

The Commission continues to monitor the industry and to provide both consumer and business education. In May, we issued a new Consumer Alert to inform consumers about a recent trend: the seminar for financial aid or scholarships. We warn consumers to take their time when attending these seminars and to avoid high-pressure sales pitches that require them to buy now or risk losing out on the opportunity. Consumers should investigate the organization by talking with a high school or college guidance counselor or financial aid advisor before spending money--many colleges and universities are offering Web-based scholarship searches for free to potential students. Consumers shouldn't rely solely on "success stories" or testimonials of extraordinary success offered by the seminar company. Instead, they should ask for a list of three local families who have used the service in the last year and then contact them to find out if they were satisfied with the products and services received. As always, consumers should keep in mind that they may never recoup the money they give to an unscrupulous operator, despite stated refund policies.

#### **IV. PROPOSED LEGISLATION**

S. 1455, the "College Scholarship Fraud Prevention Act of 1999," provides some useful tools to help combat scholarship fraud. It would enhance criminal penalties for fraud in connection with the obtaining or providing of scholarships. Also, it would prevent purveyors of college scholarship fraud from using the bankruptcy laws to shield their ill-gotten gains while their victims go without recompense. The Bankruptcy Code allows debtors to retain certain property even when their creditors receive little or no recompense. In particular, debtors can use state-law exemptions, including homestead exemptions that in some states can have no dollar limit, to shield their assets. S. 1455 would deny these exemptions to the extent that debts resulted from college scholarship fraud.

#### **V. CONCLUSION**

The story of Project ScholarScam has garnered tremendous coverage in the media. Through this coverage and by enlisting those who are on the front lines--financial aid advisors and guidance

counselors--we have spread the word about these pernicious scams. The Commission's strong record of enforcement and education has served as an effective deterrent in this industry. But, as education costs continue to rise and, given the unlimited supply of potential victims, fraudulent operators will always have an interested audience and an enticing sales pitch. Thus, we will continue our efforts and will also continue to provide cooperation to any criminal investigation or prosecution of "ScholarScam" defendants.



UNITED STATES OF AMERICA  
 FEDERAL TRADE COMMISSION  
 WASHINGTON, D.C. 20580

Bureau of Consumer Protection

October 1999

**LIST OF DEFENDANTS IN PROJECT SCHOLARSCAM**

1. **CAREER ASSISTANCE PLANNING, INC.**  
 Does business as College Assistance Planning, College Assistance Program, and C.A.P.  
 LOCATION: 400 Colony Square, Suite 2030, Atlanta, Georgia.  
 Complaint filed 8/96. Order granting summary judgment to Commission entered in September, 1997. Defendants ordered to pay \$6 million in consumer redress and post a \$6 million bond before engaging in telemarketing.  
  
 Contact: James Reilly Dolan, FTC Bureau of Consumer Protection, 202-326-3292
2. **COLLEGE ASSISTANCE SERVICES, INC.**  
 LOCATION: 4567 N. Pine Island Road, Sunrise, Fl.  
 Complaint filed 8/96. Settlement entered December, 1997. Defendants agreed to a ban on offering scholarship services and agreed to post \$200,000 bond before engaging in telemarketing. Consumer redress provided to consumers using bond posted by defendants with the State of Florida.  
  
 Contact: Darren Bowie, FTC Bureau of Consumer Protection, 202-326-2018
3. **DECO CONSULTING SERVICES, INC.**  
 LOCATION: Lauderhill, Florida  
 Complaint filed 10/96. Settlement entered December, 1997. Defendant agreed to ban on offering scholarship services and telemarketing. Judgment entered in the amount of \$100,000.  
  
 Contact: Peter Lamberton, FTC Bureau of Consumer Protection, 202-326-3274
4. **NATIONAL GRANT FOUNDATION, INC.**  
 LOCATION: Sunrise, Florida  
 Complaint filed 11/97. Settlement entered March, 1998 as to three telemarketers banning them from offering scholarship services and prohibiting them from making misrepresentations while telemarketing. Settlement entered March 1998 as to management defendant, banning him from offering scholarship services and telemarketing. In September 1998, the FTC obtained a default judgment against the corporate and management defendants banning them from scholarship service businesses and imposing a judgment of approximately \$600,000.  
  
 Contact: Dana Lesemann, FTC Bureau of Consumer Protection, 202-326-3146

5. **NATIONAL SCHOLARSHIP FOUNDATION, INC.**

LOCATION: Delray Beach, Florida

Complaint filed 11/97. Settlement in October 1998 requires defendants to pay \$50,000 and bans them from scholarship services and business information reporting services.

Contact: Gregg Ashe, FTC Bureau of Consumer Protection, 202-326-3719

6. **CHRISTOPHER EBERE NWAIGWE AND UDOKA MADUKA**

Nwaigwe also known as Christopher Maige, Michael Morge, and Michael Norge. Maduka also known as Michael Mann

Defendants use names Higher Education Scholarship Program; National Health Scholarship Program, Division of Nursing; National Scholarship Program; National Management Scholarship Program; and National Science Program, Division of Biological Sciences.

LOCATIONS: 724 Dulaney Valley Road, Boxes 131 and 199, Towson, Maryland; 2931 O'Donnell Street, Box 313, Baltimore, MD; 8604 Second Avenue, Silver Spring, MD; 1220 L Street NW, Box 298, Washington, D.C.; 2117 L Street NW, Boxes 250 & 280, Washington, D.C.; 4431 Lehigh Road, Box 276, College Park, Maryland.

Complaint filed 8/96; Amended Complaint filed 9/96. Settlement entered April, 1997.

Defendant Nwaigwe agreed to \$10,000 judgment and to post a \$300,000 bond before offering scholarship services. Defendant Maduka agreed to \$9,000 judgment and to post a \$50,000 bond before offering scholarship services.

In October 1998, Nwaigwe was indicted on mail fraud charges; was convicted on all counts in March 1999 and sentenced to 36 months in June 1999.

Contact: Alice Saker Hrdy, FTC Bureau of Consumer Protection, 202-326-2009

7. **STUDENT ASSISTANCE SERVICES, INC.**, formerly known as Student Financial Services, Inc.

LOCATION: 1868 N. University Drive, Suite 202 Ft. Lauderdale, FL; 2801 N. University Dr., Suite 200, Plantation, FL

Complaint filed 8/96. Settlement entered June, 1997. Defendants paid \$300,000 for consumer redress; agreed to ban on scholarship services and to post \$75,000 bond before telemarketing.

Contact: Dana Lesemann, FTC Bureau of Consumer Protection, 202-326-3146

8. **STUDENT AID INCORPORATED**

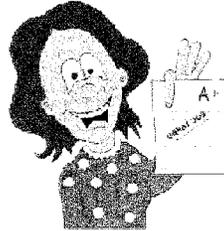
LOCATION: 1040 First Avenue, Suite 352, New York City; 99-44 62d Avenue, #2G, Rego Park, NY

Complaint filed 8/96. Settlement entered August, 1997. Defendants paid \$7,500 in consumer redress and agreed to injunctions regarding offering of scholarship services.

Contact: Carole Paynter, FTC New York Regional Office, 212-264-1225

**NEED MONEY FOR TUITION ????**

**A+ FAST CA\$\$H**



**YOUR ONLY SOURCE FOR COLLEGE AID !!**

**YOU'RE SMART ENOUGH TO GET INTO COLLEGE,  
NOW BE SMART ENOUGH TO LET SOMEONE ELSE PAY**

**A+ FAST CA\$\$H IS AN AAA RATED SCHOLARSHIP  
SERVICE**

We search Public and Private Databases with our Proprietary Software. This gives us access to THOUSANDS of Grants and Scholarships just waiting for

**\*\*\*\*\*YOU\*\*\*\*\***

**WE DO ALL THE WORK !!  
Using our service, you are GUARANTEED  
free money for all or part of your tuition.**

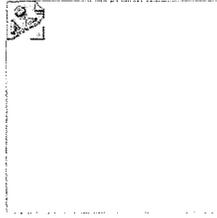


We get information directly from financial aid officers, corporate executives, and foundation heads about money returned to them by students who do not need assistance. We pass this inside information to our clients for no extra charge.



Because we provide personal attention to all our clients, we do not advertise in magazines or by direct mail. AND, you can get all your money back if you aren't satisfied.

TO START YOUR FAST CA\$\$H COMING COMPLETE THE APPLICATION FORM ON THE NEXT PAGE AND SEND IT TO US WITH YOUR CHECK FOR \$119.00. FOR FASTER RESULTS, CALL US WITH A CREDIT CARD NUMBER AND WE'LL START FINDING YOUR FAST CA\$\$H TODAY.



**IF YOU RESPOND TO AN AD LIKE THIS  
ONE**

**YOU COULD GET  
SCAMMED!**

**A+ FAST CASH is not a real company. The ad is a fake, posted by  
the Federal Trade Commission to increase awareness of potentially  
fraudulent scholarship services.**

**No information about you has been transmitted  
to or collected by the FTC.**

**[Click here](#) to learn more about how to avoid fraudulent scholarship services and other  
online scams, and for recommendations on where to find information on obtaining  
legitimate scholarship information.**

# SIX SIGNS THAT YOUR SCHOLARSHIP IS \$UNK

1 "THE SCHOLARSHIP IS  
GUARANTEED OR YOUR MONEY  
BACK."

No one can guarantee that they'll get you a grant or a scholarship. Refund guarantees often have conditions or strings attached. Get refund policies in writing before you pay.

2 "YOU CAN'T GET THIS  
INFORMATION ANYWHERE ELSE."

There are many free list of scholarships. Check with your school or library before you decide to pay someone to do the work for you.

3 "MAY I HAVE YOUR CREDIT CARD  
OR BANK ACCOUNT NUMBER TO  
HOLD THIS SCHOLARSHIP?"

Don't give out your credit card or bank account number on the phone without getting information in writing first. It may be a set-up for an unauthorized withdrawal.



4 "WE'LL DO ALL THE WORK"

Don't be fooled. There's no way around it. You must apply for scholarships or grants yourself.

5 THE SCHOLARSHIP WILL COST  
YOU SOME MONEY.

Don't pay anyone who claims to be holding a scholarship or grant for you. Free money shouldn't cost a thing

6 "YOU'VE BEEN SELECTED" BY A  
'NATIONAL FOUNDATION' TO  
RECEIVE A SCHOLARSHIP, OR  
'YOU'RE A FINALIST' IN A  
CONTEST YOU'VE NEVER  
ENTERED.

Before you send money to apply for a scholarship, check it out. Make sure the foundation or program is legitimate.

**NEED MONEY FOR COLLEGE? Check with your school guidance counselor or local librarian for free information about current scholarships before you pay someone for the same-or similar-scholarship lists. To find out how to spot, stop and report a scam, contact the Federal Trade Commission at <http://www.ftc.gov>, or call the National Fraud Information Center at, 1.800.876.7060**