

Testimony of Mark Kantrowitz, Publisher of FinAid

Mr. Chairman, I thank you for convening this hearing on the Rising Cost of College Tuition and the Effectiveness of Government Financial Aid, and for inviting me to testify before the Senate Governmental Affairs Committee this morning. My name is Mark Kantrowitz, and I am the publisher of the FinAid and eduPASS web sites, free resources that exist to aid students in navigating the sea of financial aid and to combat scholarship scams and financial aid schemes. Both sites are associated with FastWeb, the nation's leading free scholarship search. Together, our sites had more than 2 million visitors last year. I am pleased to have the opportunity to share my experiences with the Committee today.

Every year, several hundred thousand students and parents are defrauded by scholarship scams. The victims of these scams lose more than 100 million dollars annually.

The most common types of scholarship scams include scholarships for profit and guaranteed scholarship search services. The first type charges an application fee for scholarships that never materialize or are less than advertised, or disburses less money in scholarships than is received from application fees. The second type charges a fee to match student information against a database of scholarships and guarantees that the student will actually receive money. Both types of scams were targeted by the Federal Trade Commission's Project ScholarScam, which was initiated in 1996.

Recently, a third type of scholarship scam has grown in prominence: the financial aid seminar scam. This scam sends students a misleading letter inviting them and their parents to a financial aid seminar or interview. To illustrate, I would like to read an excerpt from a letter received by my cat:

We are pleased to inform you that NASH has been selected, by our College Review Board, as one of the Pittsburgh area students eligible to apply for grants, scholarships, negotiated tuition discounts and interest free loans through our college assistance program.

"We are committed to maximizing your eligibility to receive financial assistance and to reducing or even eliminating your family's expenses for NASH's college education.

Your personal interview has been tentatively scheduled for Saturday or Sunday, ..., at which time you will receive your free Financial Aid Information Packet....

Our program is dedicated to making higher education an affordable reality to all families regardless of income. There is no cost for your financial aid information packet or interview. ...

Together, we can make your dream of a college education an affordable reality.

I attended this meeting and several other seminar scams, and discovered them to be

nothing more than a high-pressure sales pitch for financial aid services and products of doubtful value. After a 45 minute fast-paced presentation filled with incorrect and misleading information about financial aid, each family was invited to stay for a personal interview. The interview was a one-on-one attempt to sign up the family for the company's services, at a cost of hundreds or thousands of dollars per year.

This type of scam is especially troubling because they appear to target lower income families, and because they aggressively discourage families from seeking advice from recognized financial aid experts, such as college financial aid personnel.

Scholarship scams are difficult to recognize because they often mimic legitimate organizations. A good rule of thumb, however, is: If you have to pay money to get money, it's probably a scam.

Foundations that award scholarships exist to give away money, not get money. Most scholarship scams try to trick students into giving them money, with little or no benefit to the student in return.

Other common signs of a scholarship scam include:

1. The unclaimed aid myth, which falsely states that millions or billions in aid went unclaimed last year and promises to get the student their fair share. This is an extremely pernicious myth, because it not only defrauds consumers, but also suggests to private sector benefactors that there is no need for them to create new scholarships.
2. Bogus guarantees, which often include restrictions that render them meaningless, such as requiring the student to submit rejection letters, or which include federal aid as part of the total.
3. False claims of government or nonprofit affiliation or endorsement. One scam even created its own bogus Better Business Bureau. Others misrepresent the nature of their businesses by using an eagle in a formal seal as their logo, and words like "National", "Federal" and "Foundation" in their names.

When a family encounters a fraudulent scholarship scheme, they should report it to the state attorney general and the Federal Trade Commission. It is also helpful to report the scam to college financial aid administrators and to the US Department of Education's Federal Student Aid Information Center (1-800-4-FED-AID). Private consumer fraud organizations are not able to deal with the volume of inquiries.

Mr. Chairman, I once again thank you and the committee for taking an interest in the issue of scholarship scams and financial aid fraud, and for inviting me to share my thoughts on the matter. I would be happy to answer any questions you may have on this or other topics.