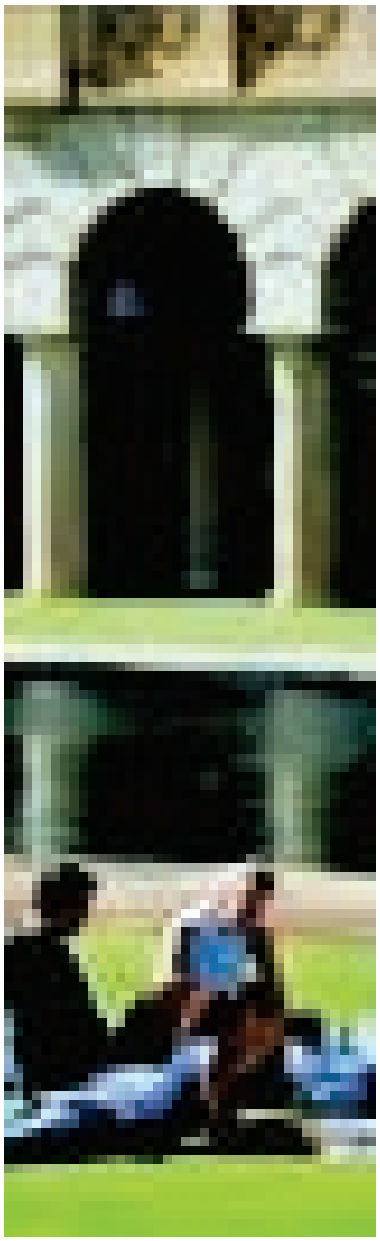
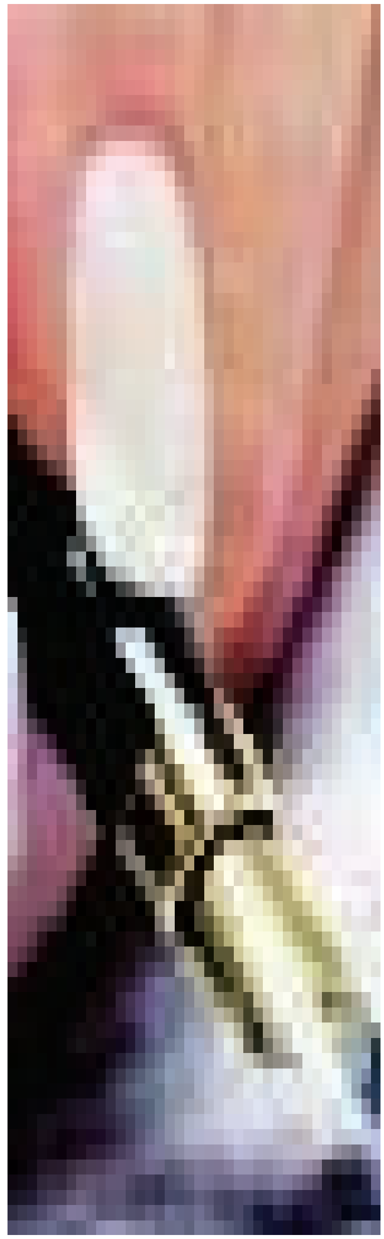
COLLEGE SCHOLARSHIP FRAUD PREVENTION ACT OF 2000

ANNUAL REPORT TO CONGRESS

May 2007


Department of Justice   Department of Education   Federal Trade Commission

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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 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. 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 financial aid fraud awareness page 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.

ED and the FTC have continued their consumer education efforts. Using a variety of media, including websites, booklets, brochures, videoconferences, flyers, posters, and bookmarks, ED and the FTC are disseminating information to help consumers avoid falling prey to financial aid 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.

Complaints regarding financial aid fraud have remained fairly constant for over a decade with one anomalous spike in 2004 and a return to the general trend in 2005. In addition, except for 2004, financial aid-related complaints have diminished as a percentage of all complaints received by the FTC. A review of these complaints indicates that the nature of financial aid fraud has changed over time, shifting from scholarship search services to financial aid consulting services.

In terms of law enforcement, the FTC has continued its Project Scholarscam campaign designed to prosecute and prevent financial aid fraud. This year, the FTC obtained an injunction permanently banning a fraudulent purveyor of college financial aid services from marketing such services. In addition, DOJ brought several actions against individuals engaged in financial aid fraud, three of which resulted in the imposition of the Act's sentencing enhancement for fraud in connection with obtaining, providing, or furnishing financial assistance for an institution of higher education. The FTC and DOJ continue to monitor complaints to determine if law enforcement action is necessary. 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 faster than the rate of inflation, 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 directed the Secretary of Education, working in conjunction with the Federal Trade Commission (FTC), to implement national awareness activities, including a financial aid fraud awareness site on the Department of Education's (ED) website. The Act further 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 seeking financial aid for higher education.

The Department of Justice (DOJ), ED, and the FTC prepared this Report according to the Act's directive. Building on previous reports,[2] this Report provides an update of the activities of DOJ, ED, and the FTC to combat financial aid fraud and an assessment of the nature and quantity of financial aid 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, it amended Section 2B1.1(b)(7)(D)[3] of the Sentencing Guidelines to add a provision raising the relevant "offense level" by two levels if the crime involved misrepresentations to a consumer in connection with obtaining, providing, or furnishing financial assistance for an institution of higher education. There were three cases reported in 2006 and one case in 2005 in which the sentencing enhancement was imposed.[4]

B. National Awareness Activities

1. ED's National Awareness Activities

ED continues to provide consumer education products and engage in outreach efforts to increase awareness of financial aid fraud. The primary awareness products are a brochure and associated website, both called "Looking for Student Aid," which list sources of free information about financial aid and warn students about financial aid scams. As discussed in more detail in prior Reports, ED also publishes booklets, a poster, fact sheets, and a video that provide fraud prevention information to consumers. Distribution of print publications with scam warnings totaled nearly 7.7 million copies in 2006. Visitors to ED's www.studentaid.ed.gov website, which hosts the online versions of those publications, numbered more than 10.4 million in 2006.

ED's outreach activities include numerous presentations to students, parents, counselors, and college financial aid administrators. Staff members make an effort to include at least a brief warning about financial aid fraud in each workshop.

In order to stay aware of issues concerning various audiences, ED staff members monitor listservs directed to professionals (such as high school or TRIO[5] counselors) involved in helping students obtain financial aid. List members sometimes post messages asking or warning about companies charging fees for aid or information about aid. In response to such messages, ED staff members 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). ED's reminders are sent to more than 5,000 listserv members.

2. FTC's Consumer Education and Outreach Efforts

The FTC has an ongoing project to prosecute and prevent 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 financial aid scams. The FTC's consumer education campaign includes a package of consumer education materials, a website (www.ftc.gov/scholarshipscams), as well as a series of flyers, posters, and bookmarks. The website contains comprehensive information about financial aid 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 financial aid scams.

To reach the largest number of at-risk consumers, the FTC developed partnerships with public and private organizations, including ED and the National Association of College Admissions Counselors. From October 1996 through December 2006, the FTC and its partners distributed over 3.4 million print publications and had more than 900,000 accesses on its website, for total distribution of more than 4.3 million English and Spanish publications. In 2006, the FTC and its partners distributed over 38,560 print publications and had more than 117,525 accesses to its financial aid scams website.

The FTC also has continued to provide print publications to students and their parents through local school districts' college and career fairs. During 2006, the FTC distributed over 40,000 publications at such school events. The FTC also conducts outreach directly to high school students and their parents. For example, the FTC has included materials on financial aid fraud in presentations to students as part of its High School Financial Literacy project. Moreover, the media often are interested in financial aid scams. Accordingly, the FTC staff frequently provides, through the media, tips for consumers to avoid these scams.

Continuing the partnership between ED and the FTC, ED's 2006-07 Counselors and Mentors Handbook includes a fact sheet based on the FTC's consumer information, "Don't get scammed on your way to college!," as well as numerous other references to information on avoiding financial aid scams. In addition, ED's www.studentaid.ed.gov site includes links to the FTC's website, and the FTC financial aid scams website includes links to ED's website.

III. Nature and Quantity of Incidents of Financial Aid Fraud

A. Overview of Financial Aid Fraud

As discussed in previous Reports, operators of financial aid scams generally promise their services will ensure that students receive either a scholarship or more financial aid than students and parents could get on their own. Other typical claims include: (1) 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; (2) that the advertiser has extremely high success rates, including "testimonials" from satisfied customers; and (3) that the advertiser is endorsed or approved by a federal or state agency, a chamber of commerce, or a Better Business Bureau.[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.

DOJ, ED, and the FTC are also aware of recently disclosed allegations concerning college lending practices.[7] These allegations include claims of financial relationships between student loan companies, college financial aid officers, and others in the financial aid lending industry. The agencies will continue to monitor and investigate these developments as appropriate.

ED is currently engaged in a rulemaking process on issues including strengthening regulations around preferred lender lists and prohibited inducements. On April 24, 2007, the Secretary of Education announced the formation of a Task Force on Student Loans http://www.ed.gov/news/pressreleases/2007/04/04242007.html that includes representatives from ED's Office of Postsecondary Education, Federal Student Aid and Office of the General Counsel. In addition, representatives in the Office of Inspector General will participate in an advisory role. The Task Force will examine issues such as preferred lender lists, financial benefits provided to schools to obtain referrals, and access to the National Student Loan Data System, and to advise on appropriate regulatory responses. ED expects to issue regulations, after public comment, by November 1, 2007.

B. Assessment of Current Status of Fraud

Both the FTC and ED receive financial aid related complaints from consumers. The FTC reviewed complaints in its Consumer Sentinel[8] database to assess the current status of financial aid fraud, while ED reviewed complaints received by the Federal Student Aid Information Center and its Office of Inspector General.

1. FTC Complaint Database

The FTC has been monitoring consumer complaints related to financial aid fraud for over a decade. Figure 1 shows the number of complaints attributable to financial aid fraud in the FTC's Consumer Sentinel database between 1996 and 2006.[9]

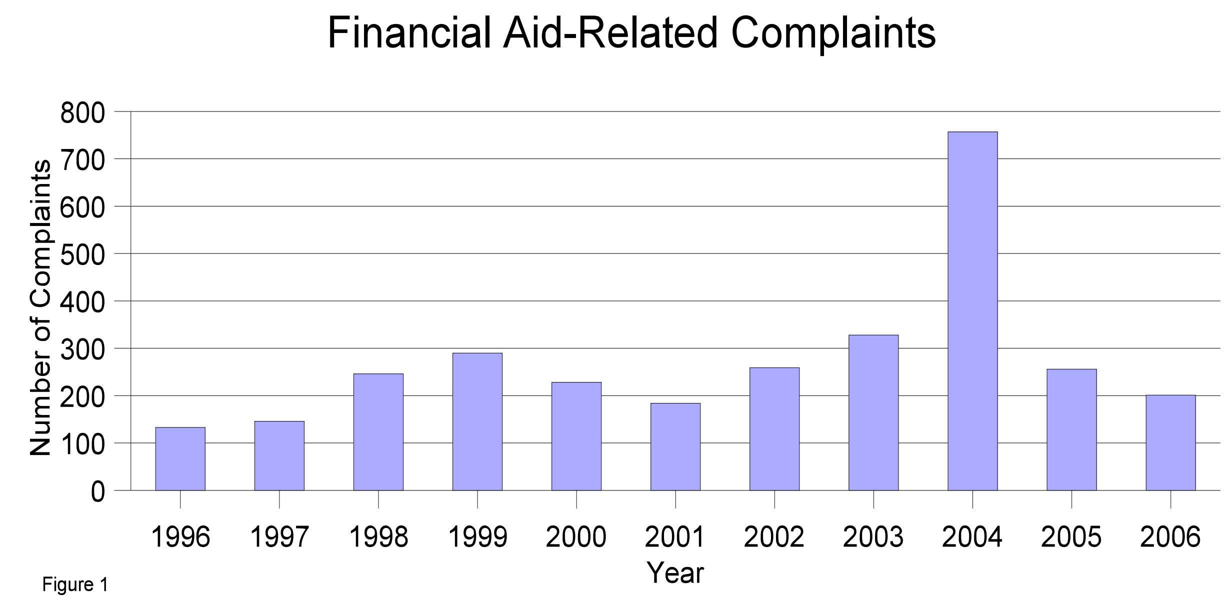

Figure 1

Between 1996 and 2006, the incidence of financial aid-related complaints has remained historically flat, with a spike in 2004. Using the data available, the FTC cannot conclusively explain the 2004 spike. As discussed in last year's Report, the influx of complaints that year may have been due, in part, to the FTC's then-recent actions against two companies, The College Advantage and National Student Financial Aid. It is not unusual for complaints to temporarily rise after the FTC announces law enforcement actions.

To further evaluate the extent of financial aid fraud, it is useful to place the raw numbers of complaints in the context of all complaints received by the FTC on a yearly basis. Figure 2 shows the ratio of financial aid-related complaints to total fraud complaints.

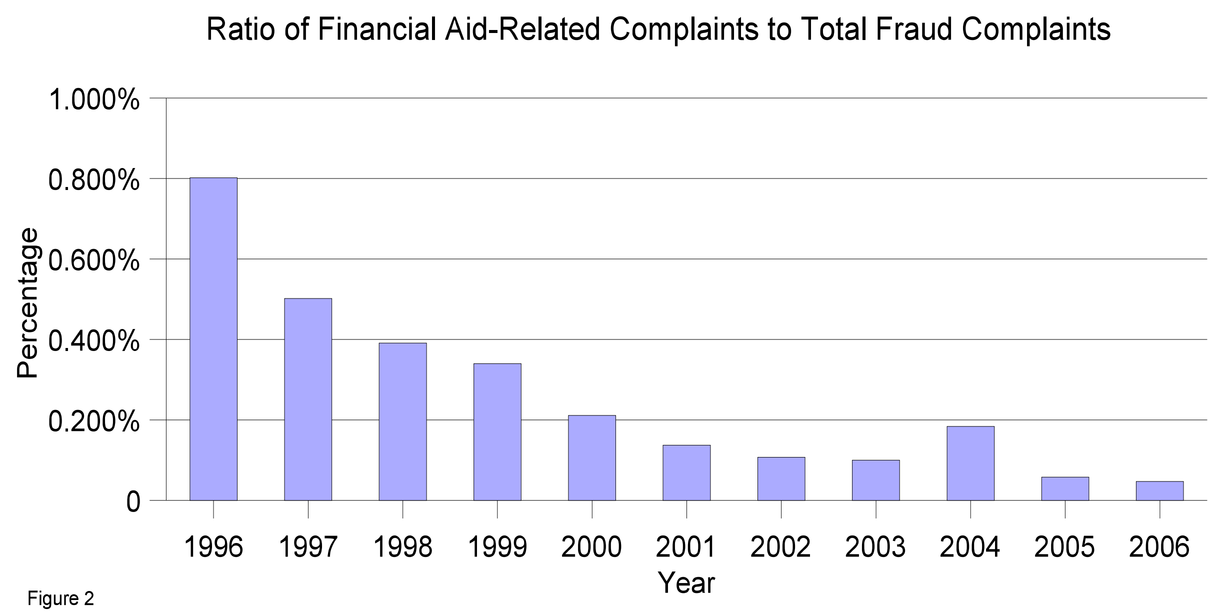

Figure 2

With the exception of the previously discussed anomaly in 2004, since 1996, financial aid-related complaints have diminished steadily as a percentage of all complaints received by the FTC. As discussed in prior Reports, however, raw complaint and inquiry numbers are an imperfect gauge of the extent of fraudulent activities. For example, certain types of fraud may be under-represented, whereas in other instances the raw numbers may over-state the extent of the fraud.[10] Nevertheless, the FTC's successful law enforcement and consumer education campaign (begun in 1996), as well as ED's national awareness activities, may be contributing to the steady decline.

The Consumer Sentinel complaint database is a useful tool not only to estimate the extent of scholarship fraud, but also to assess the nature of financial aid fraud and identify possible targets for law enforcement action. A review of the complaints indicates that the nature of financial aid fraud has changed over time. A decade ago, the majority of complaints received by the FTC concerned telemarketing fraud by bogus scholarship search firms. Recent complaints, however, mainly involve financial aid consulting firms that promise customized, comprehensive financial planning to maximize the students' financial aid eligibility. These firms often use direct mail and oral presentations to market their services.

The FTC also monitors complaints in Consumer Sentinel to identify possible targets for law enforcement action. The FTC typically investigates companies or individuals that generate a sufficient number of complaints to indicate a pattern or practice of deceptive fraudulent conduct. The complaints filed in 2006 were against many different companies, and no one company was the subject of more than a handful of complaints.

2. ED's Complaint Monitoring

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

Complaints are submitted via two avenues: the Federal Student Aid Information Center (FSAIC) and the Office of Inspector General (OIG). In 2006, the FSAIC and OIG received a total of 86 fraud complaints relevant to this report. This number represents a decrease from the 2005 total of 143. It is unclear whether the decline is due to increased awareness on the part of students, decreased activity by scammers, or a combination of the two.

Complaints to ED's FSAIC

The FSAIC has two sections: the correspondence unit and the telephone hotline (1-800-4-FED-AID).

In 2006, the correspondence unit received one written complaint about a company charging students for help finding money for college. The inquirer stated that her family received an invitation to a meeting and paid $1,700 to a financial aid service that subsequently closed before providing any assistance. The FSAIC responded that ED has no jurisdiction over scholarship search companies and suggested the inquirer contact the Better Business Bureau, her state attorney general's office, and the FTC for further information and to make a complaint.

The FSAIC's hotline received five calls in 2006 (down from 22 in 2005) from consumers who believed they had been targets of financial aid scammers. In all cases, students received calls from telemarketers offering either a grant (or scholarship) or a reduction in student loan interest rates. When the telemarketers requested personal information such as checking account details or a Social Security number, four of the students declined and terminated the calls. The fifth student paid $44 to a company promising a $4000 scholarship.

The FSAIC also receives complaints about websites charging students a fee to submit the *Free Application for Federal Student Aid* (FAFSA).[11] ED has investigated the legality of companies charging students to help complete the FAFSA. Although the law prohibits companies from charging a fee for the "collection, processing, or delivery of financial aid" through the use of the FAFSA, those organizations that ED investigated claim that their fee is for providing advice and counsel to students and families, not for helping complete the FAFSA. Further, this statutory prohibition does not provide ED with a practical means of compelling commercial entities to change their practices because these entities have no direct relationship with either ED or the educational institutions, lenders, and guarantors with whom 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, and numbers of complaints regarding these companies are not included in this Report.

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 or directly to OIG field offices across the country. OIG staff reported that there were 80 complaints in 2006 (a decrease from 119 in 2005) regarding telemarketers offering "government grants." As appropriate, 57 complaints were investigated by OIG and 23 were forwarded to the FTC or ED's office of Federal Student Aid for handling. OIG's investigations of these complaints were ongoing as of the end of 2006.

C. FTC's Financial Aid Fraud Prevention Program

As mentioned above, the FTC's Project Scholarscam combines law enforcement[12] with consumer education to stop fraudulent purveyors of so-called scholarship or financial aid services. In total, 13 companies and 34 individuals are subject to federal court orders prohibiting future misrepresentations. Most of the orders permanently ban the defendants from marketing scholarship or financial aid-related services. Many of the orders also require the defendants to post performance bonds before engaging in telemarketing.[13] The FTC has refunded to consumers or disgorged to the U.S. Treasury more than $2.1 million.[14]

Since last year's Report, the FTC has announced another law enforcement action against a company and its principal alleging that they violated previous court orders prohibiting misrepresentations regarding college financial aid. *See FTC v. Integrated Capital, Inc.*, Case No. 3:03-cv-00412-ECR-RAM (D. Nev.).[15]

In previous Reports, the FTC noted that it had obtained a consent judgment, in August 2003, against Integrated Capital Inc. (doing business as National Student Financial Aid or NSFA) and its president, Sheila Cuccia. In July 2004, the FTC filed a contempt action against NSFA and its new president, Alan Wilson. The FTC charged NSFA and Wilson with violating the Order by misrepresenting NSFA's financial aid services and failing to make certain required disclosures. In March 2005, the court granted the FTC's motion, finding NSFA and Wilson in civil contempt and ordering the defendants to offer full redress.

In February 2006, the FTC alleged the defendants again violated the court order. Instead of providing refunds, they sent a "survey" asking customers to check a box to indicate whether they were "satisfied" or "dissatisfied." The letters did not mention the refunds or the court order, and did not contain a return envelope for the surveys. After receiving refund requests totaling $350,000, the defendants claimed they were financially incapable of providing the refunds, but did not back up that claim with records. The defendants later filed for bankruptcy.

In June 2006, the FTC and the defendants resolved these latest allegations by entering into a stipulated order modifying the 2003 final order and the 2005 contempt order. This order permanently bans NSFA and Wilson from selling academic goods or services, including financial aid-related services. In addition to the ban, the order also prohibits the defendants from making various misrepresentations in connection with the sale of any good or service and prohibits them from violating the Cooling-Off-Rule or the Truth in Lending Act.

D. DOJ's Financial Aid Fraud Prevention Program

Since last year's Report, several individuals who engaged in fraud in the offering of higher education financial aid were indicted, convicted, or sentenced. Three defendants in fiscal year 2006 and one defendant in fiscal year 2005 were subjected to the Act's two-level sentencing enhancement.

- *United States v. Matthew B. Skillman*, Case No. 6:05-cr-10060-WEB-1 (D. Kan.)
  United States v. Ryan Wolf, Case No. 6:04-cr-10257-WEB-1 (D. Kan.)
  United States v. David Campbell, Case No. 6:05-cr-10087-MLB-1 (D. Kan.)

From July 5, 2000 through September, 2005, the defendants willfully and knowingly embezzled, misapplied, and obtained by fraud and false statements funds by preparing and submitting false time sheets for student athletes under the Federal Work Study Program. On December 5, 2004, defendant Skillman was sentenced to 24 months probation, $26,239 in restitution, and a $200 special assessment. On August 17, 2006, defendant Wolf was sentenced to 3 years probation, $122,123.35 in restitution, and a $400 special assessment. On February 16, 2006, defendant Campbell was sentenced to 3 years probation, $7,714.72 in restitution, and a $100 special assessment. With each defendant, the United States requested and the Courts imposed the Act's two-level sentencing enhancement.

- *United States v. Jorge Luis Garrido Sanchez,* Case No. 3:03-cr-00295-SEC-1 (D.P.R.)

The defendant was the owner of Hamilton Professional School, a vocational educational institution. From October 1998 through January 2001, aided and abetted by his wife and others, the defendant falsified and directed others to falsify student attendance records and student withdrawal records by adding false attendance hours to student files and manipulating other student records, in order to provide a basis for Hamilton to request funds on behalf of students and a basis for Hamilton to avoid refunding overpayments to ED. The defendant and others stole, embezzled, and converted $452,500 in Pell Grant funds. On December 2, 2005, the defendant was sentenced to 33 months imprisonment, 3 years supervised release, $160,000 in restitution, and a $200 special assessment.

- *United States v. Anthony Armstrong*, Case No. 2:04-cr-00219-2 (D. Nev.)
  United States v. Michelle Armstrong, Case No. 2:04-cr-00219-4 (D. Nev.)
  United States v. Royale Armstrong, Case No. 2:04-cr-00219-1 (D. Nev.)
  United States v. Ann Armstrong, Case No. 2:04-cr-00219-5 (D. Nev.)

Beginning in January 2000 and continuing through March 2004, the defendants conspired with family members and several others to defraud ED out of $988,845 in federal financial aid in Nevada, Maryland, Colorado, Arizona, and Texas. The conspiracy involved fraudulently preparing 119 FAFSA forms submitted on-line. Specifically, the defendants used their checking accounts to cash and deposit the proceeds from the fraud. On January 20, 2006, defendant Anthony Armstrong was sentenced to 16 months imprisonment, 3 years supervised release, $16,529 in restitution, and a $100 special assessment. On January 6, 2006, defendant Michelle Armstrong was sentenced to 21 months imprisonment, 3 years supervised release, $26,809 in restitution, and a $100 special assessment. On February 24, 2006, defendant Ann Armstrong was sentenced to 57 months imprisonment, 3 years supervised release, $662,081 in restitution, and a $200 special assessment. On December 23, 2005, defendant Royale Armstrong was sentenced to 10 months imprisonment, 3 years supervised release, $50, 953 in restitution, and a $100 special assessment.

- *United States v. Louis Schwaber*, Case No. 1:05-cr-00471-GLS-1 (N.D.N.Y.)

The defendant was the Director of Financial Aid at the Troy School of Beauty and Culture in Troy, New York. From December 27, 2000 through July 30, 2004, the defendant stole a total of $410,675 in Pell Grant funds by forging the school's owner's signature or by using the institution's signature stamp, both without authorization. Furthermore, the defendant obtained funds from students who attended for only a few days before withdrawing from school and whose financial aid should have been refunded to ED, and by filing fictitious applications in the name of persons who never attended the school. On May 30, 2006, the defendant was sentenced to 18 months imprisonment, 2 years supervised release, and a $100 special assessment.

- *United States v. Magda Jules*, Case No. 2:05-cr-00894-MHM-1 (D. Ariz.)

The defendant was the Financial Aid Director at Long Technical College and was convicted of stealing $39,641 in student financial aid. Specifically, the defendant increased student loan amounts without the student's knowledge, forged the student's name, and deposited the money into her personal accounts. On May 31, 2006, the defendant was sentenced to 4 months imprisonment, 3 years supervised release, $39,641 in restitution, and a $100 special assessment.

- *United States v. William Nathan Harris, Jr.*, Case No. 2:06-cr-00076-RBS-JEB-1 (E.D. Va.)

The defendant, owner and president of Ghent Beauty Academy, defrauded the federal government out of $292,742 by obtaining federal financial aid for students in programs that did not qualify for such financial aid. Furthermore, the defendant admitted to receiving financial aid for students who never attended class. On September 26, 2006, the defendant was sentenced to 24 months imprisonment, 3 years supervised release, $291,837 in restitution, and a $100 special assessment.

- *United States v. Goddey A. Otagba*, Case No. 2:06-cr-20242-MOB-PJK-1 (E.D. Mich.)
  United States v. Emmanual O. Njoku, Case No. 2:06-cr-20242-MOB-PJK-2 (E.D. Mich.)

Metro Technical Institute, Inc. (MTI) was a privately owned, accredited post-secondary vocational educational institution offering non-degree programs in Oak Park, Michigan, from its incorporation in 1992 through and including October 16, 2002. The school was owned by defendants Otagba and Njoku, and was operated in large part by the executive director, George Zimmerman. From 1998 through October 16, 2002, MTI fraudulently obtained approximately $540,000 in higher education assistance funds, either grants or federally subsidized loans, by processing financial aid applications and collecting and retaining financial aid awards for those who were known to be ineligible to receive them, either due to poor attendance or the lack of high school diplomas or their equivalent. False documentation was prepared on site for program reviews and audits. The executive director pleaded guilty to financial aid fraud on July 6, 2005, and is cooperating in the investigation and prosecution and awaiting sentencing. Five defendants, the owners and three employees, were indicted on July 27, 2006 and charged with conspiracy to defraud the government, financial aid fraud, and mail fraud. Three employees have subsequently pleaded guilty and are awaiting sentencing. The two owners are awaiting trial.

- *United States v. Shane Bybee*, Case No. 6:03-cr-06152-DGL-JWF (W.D.N.Y.)

Last year's Report noted that the defendant had been indicted on 26 counts of bank fraud and student loan fraud. Counts 1-12 charged Bybee with submitting 12 fraudulent Stafford Loan Applications to Citibank requesting $220,000. Counts 13-26 charged Bybee with submitting 1,600 false and fraudulent student loan applications, requesting approximately $29,600,000 from Citibank, and intending to submit an additional 770 false and fraudulent student loans for approximately $14,245,000. Bybee pled guilty, and on November 9, 2004, he was sentenced to 37 months imprisonment, 3 years supervised release, $161,505 in restitution, and a $100 special assessment. This year's Report notes that, at sentencing, the United States requested and the Court imposed the Act's two-level sentencing enhancement.

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 prosecute and prevent financial aid fraud.

Endnotes

1. David Ellis, *College Costs: Up, up and away*, CNN/Money.com, Aug. 17, 2006, http://money.cnn.com/2006/08/17/pf/college/college_costs/index.htm ("The cost of higher education looks like it's climbing ... again. While the final trend figures for the fast-approaching 2006-2007 academic year are still being compiled, students can expect about a 5 percent increase in both tuition and fees. . ."); The College Board, *Trends in College Pricing 2006* (2006), *available at* http://collegeboard.com/prod_downloads/press/cost06/trends_college_pricing_06.pdf (stating that over the past five years, tuition and fees at public four-year colleges and universities increased by 35 percent in inflation-adjusted dollars); *Fact Sheet: The Skyrocketing Cost of Higher Education*, House Comm. on Educ. and the Workforce, 108th Cong. (2003), http://www.house.gov/ed_workforce/issues/108th/education/highereducation/factsheetcost101003.htm (noting that since 1981, "the cost of a public four-year college education has increased by 202 percent, while the Consumer Price Index has gone up only 80 percent").

2. The inaugural Report can be found at http://www.ftc.gov/opa/2002/05/scholarshipfraud.htm. The second Report can be found at http://www.ftc.gov/opa/2003/05/scholarshipfraud.htm. The third Report can be found at http://www.ftc.gov/opa/2004/05/scholarshipfraudrpt.htm. The fourth Report can be found at http://www.ftc.gov/opa/2005/05/scholarship.htm. The fifth Report can be found at http://www.ftc.gov/opa/2006/05/scholarshipfraud.htm.

3. On November 1, 2004, this provision was re-designated as U.S.S.G. § 2B1.1(b)(8)(D).

4. The United States Sentencing Commission collects statistical information on the use of specific provisions of the Sentencing Guidelines. This year the statistics for the most recent fiscal year, 2006, were available for preparation of this report.

The Executive Office for United States Attorneys (EOUSA) provides another source for statistics on the use of the sentencing enhancement. The EOUSA tracks case statistics from each district by criminal statute, for example 20 U.S.C. § 1097, which involves fraud in the procurement of financial aid. The EOUSA survey identified four cases — three in FY 2006 and one in FY 2005 — in which the U.S.S.G. § 2B1.1(b)(7)(D) sentencing enhancement had been requested and imposed.

5. The title "TRIO" refers to a group of programs operated by post-secondary schools and nonprofit organizations to increase awareness among secondary school students of opportunities for post-secondary education and to support students enrolled in post-secondary education. The programs are called "TRIO" 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 Programs, 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 S. Comm. on the Judiciary*, 106th Cong. (1999) (statement of Mark Kantrowitz, publisher of the www.finaid.org website).

7. *See* NY Office of the Attorney General Press Release, *Attorney General Andrew Cuomo Reveals Deceptive Practices in the College Loan Industry; Sends Letters to More Than 400 Colleges and Universities Cautioning Them of Potential Conflicts of Interest; Advises College-Bound Students to Protect Themselves* (Mar. 15, 2007), *available at* http://www.oag.state.ny.us/press/2007/mar/mar15a_07.html; NY Office of the Attorney General Press Release, *Attorney General Announces Landmark Student Loan Agreements – Schools to Adopt New College Code of Conduct and Repay Students* (Apr. 2, 2007), *available at* http://www.oag.state.ny.us/press/2007/apr/apr02a_07.html; NY Office of the Attorney General Press Release, *Attorney General Cuomo Announces Settlement With Sallie Mae Over Its Student Loan Practices* (Apr. 11, 2007), *available at* http://www.oag.state.ny.us/press/2007/apr/apr11a_07.html.

8. Consumer Sentinel is a secure, password-protected complaint database designed to allow law enforcers to share data about fraud. Consumer Sentinel now contains over 3.7 million fraud and identity theft complaints and is accessible to more than 1,600 law enforcement agencies – including every state attorney general in the U.S. and consumer protection agencies in 19 nations. In addition to consumer complaints, Consumer Sentinel offers its law enforcement members a variety of tools to facilitate investigations and prosecutions, including: law enforcement alerts about companies currently under investigation; information to help agencies coordinate effective joint action; an index of telemarketing sales pitches; and data analysis to determine trends in fraud. Consumer Sentinel collects complaints from the FTC and over 115 other organizations. More information on Consumer Sentinel can be found in *Consumer Fraud and Identity Theft Complaint Data – January - December 2006*, issued by the FTC in February 2007 and available online at http://www.consumer.gov/sentinel/pubs/Top10Fraud2006.pdf.

9. As discussed in last year's Report, the Consumer Sentinel category "scholarship/educational grants" previously included both financial aid-related complaints and non-educational grants complaints, and the ratio between the two groups remained relatively constant through 2003. Due to a significant increase in the number of non-educational grants complaints in 2004 and 2005, the ratio changed dramatically making it difficult to compare accurately increases or decreases in the "scholarship/educational grant" category. Accordingly, the FTC performed an analysis to estimate the number of financial-aid related complaints in 2005 and prior years. To avoid that problem in the future, the FTC introduced a new Sentinel complaint category in 2006, "non-educational grants," so that the two groups of complaints could be collected and maintained separately. The number of financial aid-related complaints and total fraud complaints per year are set forth in the following table.

Year	Financial Aid-Related Complaints	Total Fraud Complaints	Percentage of Financial Aid Complaints to Total Fraud Complaints
1996	133	16,588	0.802%
1997	146	29,069	0.502%
1998	246	62,840	0.391%
1999	290	85,248	0.340%
2000	228	107,910	0.211%
2001	184	134,136	0.137%
2002	259	241,498	0.107%
2003	328	327,479	0.100%
2004	757	410,709	0.184%
2005	256	437,906	0.058%
2006	201	428,319	0.047%

10. 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. These numbers could be skewed for several reasons, including: (1) some consumers may have complained directly to the company or to law enforcement authorities that do not input their complaints into the Sentinel database; (2) some financial aid scams that operate on the Internet are relatively inexpensive, and consumers often do not complain when the financial injury is low; (3) increases in the number of complaints may reflect an increase in the number of law enforcement and consumer protection agencies referring complaints to the Consumer Sentinel database; and (4) increases in the number of complaints may reflect greater consumer awareness of the fraud and how to report it.

11. To apply for federal student financial aid, and to apply for many state student aid programs, students must complete the FAFSA. ED uses 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.

12. 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.

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

14. Although the FTC obtained approximately $22.8 million in judgments, the full amount of these judgments was not collected. In the case of judgments obtained through settlement, the FTC suspended some or all of the judgment amount based upon the defendants' demonstrated inability to pay the full amount. In other cases, the FTC referred to the U.S. Treasury for further collection efforts unsatisfied judgment balances.

15. *See also* FTC Press Release, *Repeat Offenders Can No Longer Sell Academic Goods & Services: Accused of Repeatedly Violating Court Orders When Selling College Financial Aid Services* (July 6, 2006), *available at* http://www.ftc.gov/opa/2006/07/nsfa.htm.