

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

Ouch! Students Getting Stung Trying to Find \$\$\$ for College

Washington, D.C. — Need money for college? Doesn't everybody? With tuition bills skyrocketing, and room and board going through the roof, students and their families are looking for creative ways to finance a college education. Unfortunately, in their efforts to pay the bills, many of them are falling prey to scholarship and financial aid scams.

According to the Federal Trade Commission (FTC), unscrupulous companies guarantee or promise scholarships, grants or fantastic financial aid packages. Many use high pressure sales pitches at seminars where you're required to pay immediately or risk losing out on the "opportunity."

Some unscrupulous companies guarantee that they can get scholarships on behalf of students or award them "scholarships" in exchange for an advance fee. Most offer a "money back guarantee" — but attach conditions that make it impossible to get the refund. Others provide nothing for the student's advance fee — not even a list of potential sources; still others tell students they've been selected as "finalists" for awards that require an up-front fee. Sometimes, these companies ask for a student's checking account to "confirm eligibility," then debit the account without the student's consent. Other companies quote only a relatively small "monthly" or "weekly" fee and then ask for authorization to debit your checking account — for an undetermined length of time.

The FTC cautions students to look and listen for these tell-tale lines:

- "The scholarship is guaranteed or your money back."
- "You can't get this information anywhere else."
- "I just need your credit card or bank account number to hold this scholarship."
- "We'll do all the work."
- "The scholarship will cost some money."
- "You've been selected" by a "national foundation" to receive a scholarship — or "You're a finalist" in a contest you never entered.

If you attend a seminar on financial aid or scholarships, follow these steps:

- Take your time. Don't be rushed into paying at the seminar. Avoid high-pressure sales pitches that require you to buy now or risk losing out on the opportunity. Solid opportunities are not sold through nerve-racking tactics.
- Investigate the organization you're considering paying for help. Talk to a guidance counselor or financial aid advisor before spending your money. You may be able to get the same help for free.

- Be wary of “success stories” or testimonials of extraordinary success — the seminar operation may have paid “shills” to give glowing stories. Instead, ask for a list of at least three local families who’ve used the services in the last year. Ask each if they’re satisfied with the products and services received.
- Be cautious about purchasing from seminar representatives who are reluctant to answer questions or who give evasive answers to your questions. Legitimate business people are more than willing to give you information about their service.
- Ask how much money is charged for the service, the services that will be performed and the company’s refund policy. Get this information in writing. Keep in mind that you may never recoup the money you give to an unscrupulous operator, despite stated refund policies.

The FTC says many legitimate companies advertise that they can get students access to lists of scholarships in exchange for an advance fee. Other legitimate services charge an advance fee to compare a student’s profile with a database of scholarship opportunities and provide a list of awards for which a student may qualify. And, there are scholarship search engines on the World Wide Web. The difference: Legitimate companies **never** guarantee or promise scholarships or grants.

For more information on scholarship fraud or for a complete list of free publications, contact the FTC. The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

This publication was produced in cooperation with the College Parents of America. CPA is a resource, advisor and advocate working on behalf of the millions of parents of current and future college students throughout the United States. For more information about CPA, call toll free 1-888-761-6702 or visit CPA online at www.collegeparents.org.



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Financial Aid Information Page Debunks the "\$6.6 Billion in Unclaimed Aid" Myth

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Pittsburgh, PA -- Commercial scholarship search services sometimes claim that billions of dollars in private-sector scholarships and grants go unused every year. These claims are based on a 20-year-old estimate of education benefits provided by employers for their employees, not money from private foundations and philanthropic organizations. If the money is going unused, it's because it can't be used; employees can only take advantage of tuition assistance programs and company scholarships when they or their children are enrolled in college. Moreover, these funds are available only to employees and their dependents, and not the general public.

"At best a handful of scholarships go unclaimed each year because of poor publicity or very narrow eligibility restrictions," according to Mark Kantrowitz, author of the Financial Aid Information Page on the World-Wide Web. "Scholarship sponsors try to generate considerable publicity for their scholarships. It is very rare that a scholarship program does not receive enough applications from qualified candidates."

Most scholarship programs receive many more applications than they have funds. The least selective scholarship programs award scholarships to one out of every 10 applicants; the most selective scholarship programs to one out of every 10,000 applicants. For example, the Westinghouse Science Talent Search awarded scholarships to 2.1% of its applicant pool in 1996.

The Citizen's Scholarship Foundation of America administers more private-sector scholarship programs than any other organization. According to their annual report, they awarded \$41.7 million in scholarships in 1995, and not one penny went unclaimed. Their Scholarship Management Services awarded \$33.6 million to 20,000 students on behalf of 528 clients. Their Dollars for Scholars program awarded \$8.1 million to 15,400 students through 753 chapters in 40 different states.

Pat Somers, Associate Professor of Higher Education at the University of Arkansas at Little Rock, conducts research on student financial assistance. Prof. Somers says "The myth of unclaimed billions in financial aid is exploitative and demoralizing to students and their families. Most aid awarded to students is either from the state or federal government, or from the colleges. Less than 5% of aid is available from outside sources." She adds, "To have already frugal students paying finder's fees to scholarship search services for the little unclaimed aid that is available is hucksterism at its worst."

Figures reported for the total amount of private-sector aid vary considerably, even among reputable sources that do not have a vested interest in exaggerating the results. Nevertheless, there seems to be some consensus that a total of about \$1.25 billion is awarded to 750,000 undergraduate and graduate students from about 3,100 private-sector sources each year, when employee tuition benefits and college-controlled aid is excluded. This represents about 4.0% of the student population.

The unclaimed aid myth is harmful not only because it misleads students, but also because it undermines efforts to establish new private-sector scholarship funds. Why should a philanthropic organization create a new scholarship program, if current programs are "underutilized"?

To be fair, there are many scholarship search services that do not make this unproven claim. But there are also many that use this or similar claims to market their services. Any search service that repeats these claims is propagating a rumor that has no basis in reality.

ORIGINS OF THE MYTH

Scholarship search services lend credence to their claims by attributing them to a Congressional committee. For example, Daniel Cassidy, president of a California scholarship search service, writes in the preface to the fourth edition of a scholarship book based on his database, that

"The National Commission on Student Financial Assistance, a U.S. Congressional Subcommittee, found that while there was more than \$7 billion available to students from corporations, only \$400 million was used! Some \$6.6 billion went unclaimed, not because people were unqualified but because they didn't know where to look."

Similar statements are presented in promotional materials from Educational Information Services (EIS) of Sarasota, Florida and Computer Business Services Inc. (CBSI/FAFC) of Sheridan, Indiana. Many scholarship search services use these companies to match student profiles against a database of possible scholarships. A marketing brochure from EIS states that

"A U.S. Congressional study concluded that "over \$6.6 billion of private sector financial aid went unused because parents and students did not know where to apply"."

and a cassette tape from CBSI/FAFC claims that

"According to a 2-year study by the National Commission on Student Financial Assistance and the House Subcommittee on Post-Secondary Education, \$6.6 billion of financial aid from the private sector has gone unclaimed each year. That's enough for every student to get \$600 per year!"

This unclaimed aid myth derives from a misinterpretation of an old report issued by the National Commission on Student Financial Assistance. The Commission published Report #7, "ACCESS AND CHOICE: Equitable Financing of Postsecondary Education", in July 1983 (ERIC Document ED 234-734), and presented its findings at a hearing held on November 10, 1983 before the Subcommittee on Postsecondary Education of the Committee on Education and Labor of the US House of Representatives. Page 6 reports figures from testimony by the National Institute of Work and Learning (NIWL) based on the results of a 1976-77 NIWL study of employer tuition aid programs:

"About \$7 billion is available annually from the private sector for tuition assistance, but less than \$400 million is actually used each year. For the last decade between 3 percent and 5 percent of eligible employees used their tuition aid plans. For blue collar employees the rate is between 1 percent and 2 percent. In other words, about 1.5 million employees use their tuition aid plans annually.

Despite the wide availability of employment-based tuition aid, the use rate has remained low. The reasons usually given for such a low rate are the lack of information and the lack of counseling. Most employees do not know they are eligible for tuition assistance because educational and career counseling is usually not available."

A variation on this myth claims that \$2.7 billion goes unused each year. This estimate is based on a questionable use of statistics. The argument is that the 6,334 foundations listed in the 1993 Foundation Directory have a combined assets of \$151.2 billion, that those assets increased by \$11.1 billion from gifts and investments in 1992, but that the foundations awarded only \$8.4 billion, leaving an undistributed gain of \$2.7 billion. There are several fallacies with this argument. The Economic Recovery Tax Act of 1981, section 4942, mandates that private foundations give away only 5% of their funds each year. Foundations are permitted to retain the excess gain, and most do so to protect their endowments against the effects of inflation. Moreover, only 6% of foundation giving goes to student financial aid, meaning that even if the foundations were to distribute the entire "excess" gain, it would yield an increase of only \$162 million in student aid funds. In any event, none of this money represents student aid funds that are currently available and unclaimed.

The bottom line is that no scholarship search service has ever documented its claims of unused scholarships with hard evidence.

ABOUT THE FINANCIAL AID INFORMATION PAGE

The Financial Aid Information Page, also known as the FinAid® Page, provides free and unbiased advice about paying for a postsecondary education and serves as an objective guide to student financial aid information on the World-Wide Web. The page is located at the address <http://www.finaid.org/> and can be viewed using Web browsers like Netscape, Mosaic, or Lynx.

The FinAid® Page is the central resource for student financial aid information on the Internet, with more than 15,000 people accessing the page every week. According to Lycos, the FinAid® Page is the most popular financial aid page on the World-Wide Web, with more sites linking to it than to any other financial aid page.

The Financial Aid Information page received a four-star rating from Magellan and Yahoo Internet Life, was named one of the top 100 web sites by PC Magazine, won in two categories on the I-Way 500, and was rated among the top 5% of all web pages on the Internet by Point Survey. The page is also listed in GNN's Personal Finance Center. Kiplinger's Personal Finance Magazine called the site "one of the best finds" on the Internet for personal finance resources. Money Magazine said it "provides an excellent general introduction to the aid chase plus a number of electronic extras..." NetGuide Magazine said the Financial Aid Information Page "is probably the best of what the Web offers, with its links to in-depth and helpful information." Internet World said that "this site is exceptional". USA Today called it "one of the most comprehensive sites".

Mark Kantrowitz was named one of six 1995 Pittsburgh Outstanding Citizens by the Pittsburgh Post-Gazette and KDKA-TV for his "exceptional volunteer work" in creating the Financial Aid Information Page. He was awarded the Jefferson Medal from the American Institute for Public Service and a Meritorious Achievement Award from the National Association of Student Financial Aid Administrators.