

**Prepared Statement of
the Federal Trade Commission**

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

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.

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commerce.² 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.³ The Commission also has responsibility under approximately forty additional statutes governing specific industries and practices.⁴

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 "

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

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- 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 ½

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

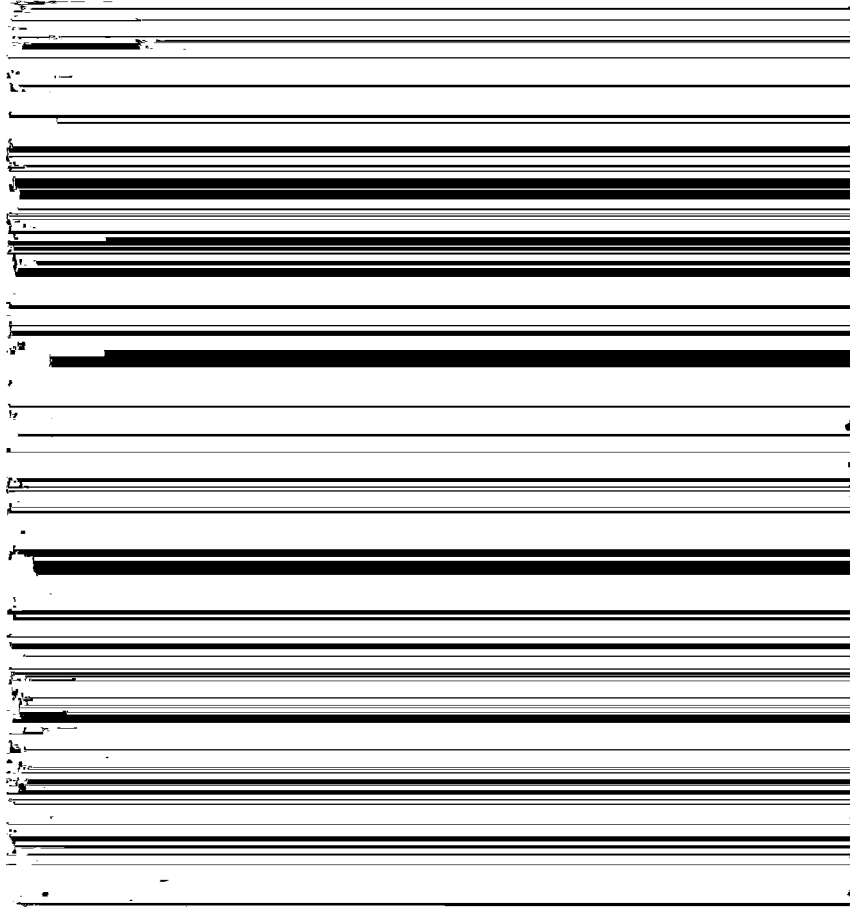
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100	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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.

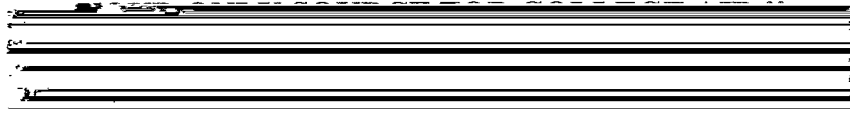
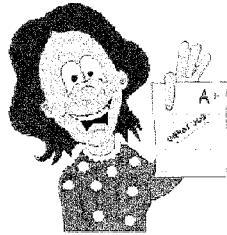
5 NATIONAL SCHOLARSHIP FOUNDATION, INC.

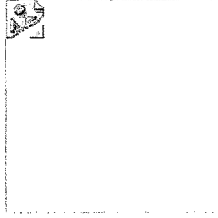
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Complaint filed 11/97. Settlement in October 1998 requires defendants to pay \$50,000 and



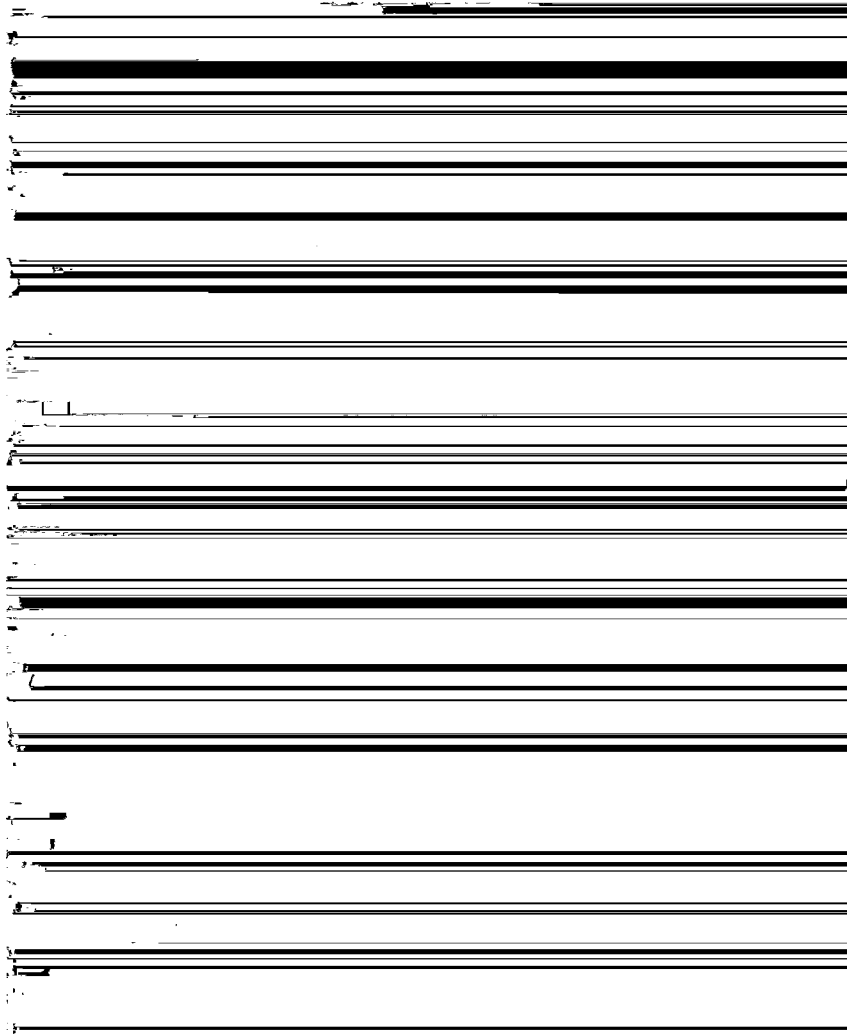
A+ FAST CASH





IF YOU RESPOND TO AN AD LIKE THIS
ONE

YOU COULD GET



SIX SIGNS THAT YOUR SCHOLARSHIP IS \$UNK

