

College Financial Scams & How to Avoid Them



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Many college students find themselves in a financial struggle when it comes to paying bills, and resources like financial aid and scholarships are tools that are intended to provide a reprieve from the monetary hassle that attending college may create. Being able to understand and identify scams will help you to make a wise decision about financing your education.

Scholarship Scams

Every year, several hundred thousand students and parents are defrauded by scholarship scams. The victims of these scams lose more than \$100 million annually. Many scams encourage you to send money up front but provide little or nothing in exchange. Usually victims write off the expense thinking that they simply didn't win the scholarship. These scam operations often masquerade as government agencies, grant foundations and educational lenders in order to appear legitimate.

Common Scams

Scholarship for Profit. This scam looks just like a real scholarship program but requires an application fee. These typical scams receive 5,000 to 10,000 applications and charges fees of \$5 to \$35. These scams can afford to pay out a \$1,000 scholarship or two and still pocket a hefty profit, if they happen to award any scholarships at all.

The Scholarship Prize. This scam tells you that you've won a college scholarship worth thousands of dollars but requires that you pay a "disbursement" or "redemption" fee or the taxes before they can release your prize. If someone says you've won a prize and you don't remember entering the contest or submitting the applications, be suspicious.

The Guaranteed Scholarship Search Service. Beware of scholarship matching services that guarantee you'll win a scholarship or they'll refund your money. They may simply pocket your money and disappear, or if they do send you a report of matching scholarships, you'll find it extremely difficult to qualify for a refund.

Loan Scams

The Advance-Fee Loan. This scam offers you an unusually low-interest educational loan with the requirement that you pay a fee before you receive the loan. When you pay the money, the promised loan never materializes. Real educational loans deduct the fees from the disbursement check. They never require an up-front fee when you submit the application. If the loan is not issued by a bank or other recognized lender, it is probably a scam. Show the offer to your local bank manager to get their advice.

Preferred Lender Lists. Some colleges and universities enter into an agreement to promote certain loan institutions to student and parent borrowers in exchange for revenue sharing, referral fees and other mutually beneficial services. This information is rarely



disclosed; and, as a result, students and their parents are tricked into thinking that their options are limited only to the listed lenders rather than the lender of their choice. This also limits the competitiveness of the loan industry, eliminating the necessity to offer better incentives or lower rates.

In 2007, the Senate passed legislation to correct questionable lending practices. Some highlights of the SLATE (Student Lending Accountability Transparency and Enforcement Act) are:

- Disclosure of certain criteria to prospective borrowers.
- Advising students of their right to select a lender of their choice, regardless of whether they are on the “preferred list.”
- A “preferred lender list” made solely on the best interests of the borrower, not the financial interests of the college.
- If a lender has an agreement to sell its loans to another lender, this will be disclosed before appearance on a “preferred lender list.”
- Prohibits lenders and schools from agreeing to certain quid-pro-quo high-risk loans that prejudice other borrowers or potential borrowers.

source: www.finaid.org

How to Avoid Being Scammed

- If you must pay to get money, it might be a scam.
- If it sounds too good to be true, it might be a scam.
- Spend the time, not the money.
- Never invest more than a postage stamp to get information about scholarships.
- Nobody can guarantee that you’ll win a scholarship.
- Legitimate scholarship foundations do not charge application fees.
- Don’t give out any credit or account information.

Student Bill of Rights

- ✓ The right to unbiased advice about loans and lenders from your financial aid office.
- ✓ The right to choose the lender that is best for you, even if that lender is not included on your school’s preferred lender lists.
- ✓ The right to know what criteria your school uses to select preferred lenders. And the right to know whether preferred lenders are paying the school or financial aid officials.
- ✓ The right to know what benefits or rate discounts lenders offer, and whether those benefits or discounts will be available immediately, or only after a certain number of consecutive timely payments.
- ✓ The right to know if a lender has agreed to sell its loans to another lender.
- ✓ The right to know whether borrower benefits and discounts will continue if the loan is sold.
- ✓ The right to know what interest rate you will be paying for the loan before you borrow.
- ✓ The right to exhaust your federal borrowing options (Stafford, PLUS, and Perkins) before turning to higher-cost private loans.

For more information, visit these websites:

- www.studentaid.ed.gov
- www.nasfaa.org
- www.finaid.org/scholarships

source: www.oag.state.ny.us

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