

Protecting Yourself from Scholarship Scams

This advice can help you avoid becoming the victim of a scholarship scam.

Rules of Thumb

1. If you must pay money to get money, it might be a scam.
2. If it sounds too good to be true, it probably is.
3. Spend the time, not the money.
4. Never invest more than a postage stamp to get information about scholarships.
5. Nobody can guarantee that you'll win a scholarship.
6. Legitimate scholarship foundations do not charge application fees.
7. If you're suspicious of an offer, it's usually with good reason.

Warning Signs of a Scholarship Scam

Certain telltale signs can help you identify possible scholarship scams. Note that the following signs do not automatically indicate fraud or deception; however, any organization that exhibits several of these signs should be treated with caution.

Application fees. Be wary of any "scholarship" which requests an application fee, even an innocuously low one like \$2 or \$3. Most scams have application fees of \$10 to \$25, but some have had fees as low as \$2 and as high as \$5,000. Don't believe claims that the fee is necessary to cover administrative expenses or to ensure that only serious candidates apply, or that applicants who do not receive any money "may" be entitled to a refund. Even if the outfit gives out a token scholarship, the odds of your winning it are less than your chances of winning the lottery. Legitimate scholarship sponsors do not require an application fee.

Loan fees. If you have to pay a fee in advance of obtaining an educational loan, be careful. It might be called an "application fee", "processing fee", "origination fee", "guarantee fee", "default fee" or "insurance fee", but if it must be paid in advance, it's probably a scam. Legitimate educational loans deduct the origination and default fees from the disbursement check. They never require an up-front fee when you submit the application.

Other fees. If you must pay to get information about an award, apply for the award or receive the award, be suspicious. Never spend more than a postage stamp to get information about scholarships and loans.

Guaranteed winnings. No legitimate scholarship sponsor will guarantee you'll win an award. No scholarship matching services can guarantee that you'll win any scholarships either, as they have no control over the decisions made by the scholarship sponsors. Also, when such "guarantees" are made, they often come with hidden conditions that make them hard to redeem or worth less than they seem.

Everybody is eligible. All scholarship sponsors are looking for candidates who best match certain criteria. Certainly there are some scholarships that do not depend on academic merit, some that do not depend on athletic prowess and some that do not depend on minority student status, but some set of restrictions always applies. No scholarship sponsor hands out money to students simply for breathing.

The unclaimed aid myth. You may be told that millions or billions of dollars of scholarships go unused each year because students don't know where to apply. This simply isn't true. Most financial aid programs are highly competitive. No scholarship matching service has ever substantiated this myth with a verifiable list of unclaimed scholarship awards. There are no unclaimed scholarships.

The most common version of this myth, that "\$6.6 billion went unclaimed last year", is based on a 1976-77 academic year study by the National Institute of Work and Learning. The study estimated that a total of \$7 billion was potentially available from employer tuition assistance programs, but that only about \$300 million to \$400 million was being used. This is a 20-year-old estimate that has never been substantiated. Furthermore, the money in question is not available to the general public, only to certain employees enrolled in eligible programs of study whose employers offer tuition assistance. This money goes unused because it can't be used. Popular variations on this myth include the figures \$2.7 billion, \$2 billion, \$1 billion and \$135 million.

We apply on your behalf. To win a scholarship, you must submit your own applications, write your own essays and solicit your own letters of recommendation. There's no way to avoid this work.

Claims of influence with scholarship sponsors. Scholarship matching services do not have any control over the awarding of scholarships by third parties.

High success rates. Overstated claims of effectiveness are a good tip-off to a scam. For example, less than 1% of users of fee-based scholarship matching services actually win an award. If something sounds too good to be true, it probably is.

Excessive hype. If the brochure or advertisement uses a lot of hyperbole (e.g., "free money", "win your fair share", "guaranteed", "first come, first served" and "everybody is eligible"), be careful. Also be wary of letters and postcards that talk about "recent additions to our file", "immediate confirmation" and "invitation number".

Unusual requests for personal information. If the application asks you to disclose bank account numbers, credit card numbers, calling card numbers or social security numbers, it is probably a scam. If they call and ask you for personal information to "confirm your eligibility", "verify your identity" or as a "sign of good will", hang up immediately. They can use this information, in conjunction with your date of birth and the names of your parents, to commit identity theft and apply for new credit cards in your name. They can also use the numbers on the bottom of your checks (the bank routing number and the account number) to withdraw money from your bank account using a "demand draft". A demand draft works very much like a check, but does not require your signature.

No telephone number. Most legitimate scholarship programs include a telephone number for inquiries with their application materials.

Mail drop for a return address. If the return address is a mail drop (e.g., a box number) or a residential address, it is probably a scam.

Masquerading as a federal agency. If you receive an offer from an organization with an official-sounding name, check whether there really is a federal agency with that name. Don't trust an organization just because it has an official-looking "governmental" seal as its logo or has a prestigious-seeming Washington, DC return address.

Claims of university, government, Chamber of Commerce or Better Business Bureau approval. Be wary of claims of endorsement and membership, especially if the recommendation is made by an organization with a name similar to that of a well-known private or government group. The federal government, US Department of Education and the US Chamber of Commerce do not endorse or recommend private businesses.

If a financial aid "seminar" is held in a local college classroom or meeting facility, don't assume that it is university sanctioned. Call the school's financial aid office to find out whether it is a university approved or sponsored event.

Suggesting that they are a non-profit, charitable organization when they are not. Don't assume from an organization's name that it has a charitable purpose. Although it is illegal in most states to use a misleading business name, enforcement of the law is lax. For example, an organization with "Fund" or "Foundation" in its name is not necessarily a charitable foundation and may even be a for-profit business.

Unsolicited opportunities. Most scholarship sponsors will only contact you in response to your inquiry. If you've never heard of the organization before, it's probably a scam.

Failure to Substantiate Awards. If the organization can't prove that its scholarships are actually awarded and disbursed, be cautious.

Typing and spelling errors. Application materials that contain typing and spelling errors or lack an overall professional appearance, may be an indication of a scam. Many scams misspell the word "scholarship" as "scholorship".

Time pressure. If you must respond quickly and won't hear about the results for several months, it might be a scam. A scholarship scam might say that grants are handed out on a "first come, first served" basis and urge you to act quickly. Few, if any, legitimate scholarship sponsors make awards on a rolling basis. Take the time you need to carefully consider their offer.

Notification by phone. If you have won a scholarship, you will receive written notification by mail, not by phone.

Disguised advertising. Don't believe everything you read or hear, especially if you see it online. Unless you personally know the person praising a product or service, don't believe the recommendation. One scam set up its own fake BBB and used it as a reference. Another offered a forged certificate of merit from the local BBB. Yet another distributed a paid advertisement as though it were an article written by the newspaper. A Ponzi scheme gave out a few scholarships initially as "sugar money" to help attract victims.

A newly-formed company. Most philanthropic foundations have been established for many years. If a company was formed recently, ask for references.

Gives you a runaround or nonspecific information. Demand concrete answers that directly respond to your questions. If they repeat the same lines again and again, the caller is probably reading a standard pitch from a boilerplate script.

Abusive treatment. If the caller swears at you or becomes abusive when you ask questions, it's probably a scam.

A Florida or California address. A disproportionate number of scams seem to originate from Florida and California addresses.

(For more information, visit the FTC's scholarship scams section and the FTC Consumer Alert about scholarship scams. Also a consumer alert about free grants. For warnings about scholarship matching services, also see Evaluating Scholarship Matching Services.)

Practical Tips for Students on Avoiding Scholarship Scams

Be cautious if fees are involved. Even if the organization turns out to be legitimate, it is never in your best interest to respond to an offer with an up-front fee.

Get an independent opinion from a trusted source, such as a financial aid administrator at a local college or university, the local reference librarian or your high school guidance counselor.

Call Directory Assistance to see if the company has a listing. If they don't, they're unlikely to be legit. You can reach Directory Assistance by dialing 1 followed by the area code and 555-1212. (Use 1-800-555-1212 to see if they have a toll free number.) You can also look for a listing online using 555-1212.com, BigBook, Switchboard, WhoWhere, Yahoo People Search and Zip2.

Never give out personal information to strangers. Don't divulge your checking or savings account numbers, social security number or other personal information, no matter how reasonable-sounding the request.

Get it in writing before responding. Get offers, cancellation and refund policies and guarantees in writing before sending money. Then read all the fine print. Don't rely on verbal promises.

Don't respond to unsolicited offers.

Ask the organization how it got your name. If they got your name from a reputable source, verify it with the source. The College Board, for example, only releases its mailing lists to colleges, universities and carefully vetted nonprofit tax-exempt foundations. Scams often use carefully written scripts designed to elicit your SAT score or GPA and then feed it back to you later in the conversation to reassure you as to their legitimacy.

Ignore offers that involve time pressure. If the company demands an immediate response, respond by hanging up the phone.

Trust your instincts. If you feel uneasy about an offer, don't spend any money until you've addressed your concerns. Your initial suspicious reaction to an offer is often correct.

Keep good records. Keep photocopies of your correspondence with the company and the company's promotional materials and take notes during any telephone conversations. If it does turn out to be a scam, include these materials with your complaint to law enforcement agencies.