Student Loan Fraud On The Rise

June 19, 2013 - A new report from the Department of Education's (DOE) Inspector General says that student loan fraud has increased by 82% since 2009. While the overall amount of fraud remains relatively low, it is clear from the report that crooks have found a new target and that taxpayers are footing the bill. The IG report identified at least $187 million in losses over the last year and stated that those loses could go as high as $874 million. The report goes on to blame the DOE for the losses, stating that the department is using antiquated tools to prevent fraud.

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Fraud losses from federal student loans are relatively small. Between 2009 and 2012 students and their families borrowed more than $500 Billion through the student loan program. Taxpayer losses in the program due to defaulting borrowers are significantly higher than those caused by fraud.

But losses due to fraud are growing rapidly. The report and its authors have identified several suspected reasons for this increase.

One of the primary targets for crooks is the use of federal student loans in internet-based distance learning programs. Students enrolled in distance learning never have to present themselves to anyone. They fill out their loan applications online. They take their courses online. They submit all of their work online. Nobody ever sees them.

There is absolutely nothing to prevent someone from enrolling in distance learning courses in several different schools at the same time. And because of the antiquated monitoring tools used by the DOE, until very recently there was no way for the department to flag individuals who did this. If someone was enrolled in four different schools, they could receive four

different loans.

Another target is low cost institutions. Student's receiving loans are not simply approved for payment of their tuition. They can also borrow money to cover books, living expenses and other education related costs. By enrolling in a lower cost institution, there may actually be more money available for the student to borrow for these additional expenses.

Finally, the IG report stated specifically that the DOE wasn't using technology to help identify fraudsters. Since the release of the report last week, the DOE has publically come out and agreed with many of the findings. The department has also stated that it plans on changing its ways - and the technology tools it uses - to prevent fraud.

The report comes at an inopportune time for borrowers. Congress and the White House are in the middle of negotiations that could result in significant interest increases on student loans. Beginning on July 1st, the interest rate on federal Stafford loans is set to double from its present 3.4% to 6.8%. The report is likely to become a part of the debate.

byJim Malmberg
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