



Written by [Rebecca Terrell](#) on June 9, 2026

Dead People, Bots, and Phantom Registrants Are Taking Out Student Loans

U.S. Secretary of Education Linda McMahon highlighted a [major initiative](#) by President Donald Trump's administration to combat widespread fraud in federal student-aid programs. Though she did not address the core issue that federal student aid is unconstitutional, McMahon revealed that the Department of Education uncovered systemic vulnerabilities allowing bots, fabricated "ghost students," and even identities of deceased individuals to receive billions in taxpayer-funded loans and grants.



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The findings centered on the Free Application for Federal Student Aid (FAFSA) process. Prior to recent reforms, identity verification was minimal, creating opportunities for exploitation. Fraudsters used automated bots, stolen identities, and synthetic profiles to submit applications, enroll in institutions (often without actual attendance), and trigger disbursements of Pell Grants and federal student loans.

In a Fox Business interview, McMahon described the findings: "There were bots, ghost students, dead people getting these loans. We enforced and tweaked the entire system so we have real-time fraud identity now." She emphasized the simplicity of the fix: requiring applicants to prove they are real people, often via government-issued ID verification. This [fraud-detection program](#) began April 27.

\$1 Billion Saved So Far

Already the administration reports preventing more than [\\$1 billion](#) in fraudulent disbursements. In one period, roughly \$90 million in aid was identified as fraudulent, including more than \$30 million to deceased individuals and more than \$40 million linked to bot-operated schemes. In the first two weeks of enhanced measures, officials claimed in some reports around \$60 million saved, with ongoing savings projected in the billions. States such as California and others saw tens to hundreds of millions of dollars in blocked fraud.

Examples include "ghost student" operations, such as those investigated in Minnesota, where fabricated enrollments siphoned off millions of dollars. Criminal networks, sometimes international, exploited the system using AI tools and stolen personal data sold cheaply online.



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Student Loans Are Big Business

Student-loan debt is big business. In fact, Treasury lists it as one of the largest assets that the American government holds. The U.S. federal government has on its [balance sheet](#) nearly \$1.7 trillion in outstanding federal student loans. This portfolio effectively positions the Department of Education (now transitioning management aspects to Treasury) as comparable in scale to a major bank. The asset generates revenue for the government, which can sell this debt on the secondary markets to private equity firms and hedge funds.

This large asset creates perverse incentives: Federal policy and funding mechanisms encourage broad college enrollment to sustain or expand the loan portfolio, including through guidance counselors who steer students toward postsecondary paths as a default. Scandals related to “ghost students” and dead people signing up for loans may run deeper than mere mismanagement or government inefficiency. But, thus far, a wider investigation (beyond mere criminal cartels) into the broader economic incentives that gave rise to systemic misappropriations has eluded regulators.

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