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# Dept. of Education Student Debit Card Report Doesn't Make the Grade

*By Brian Tate, Network Branded Prepaid Card Association*

Heading to college is all about the quest for knowledge. Part of that process is learning to use fact-based, impartial research to reach educated conclusions. Unfortunately, the March 10 Department of Education's Inspector General's report, "Third-Party Servicer Use of Debit Cards to Deliver Title IV Funds," doesn't make the grade.

In short, the report focuses on student card programs from Sallie Mae and Higher One at only four colleges and makes several sweeping recommendations to reform the distribution of Title IV funds based on the findings from this exceptionally small sample. There are a number of shortcomings in the report, and the Network Branded Prepaid Card Association (NBPCA) advises against implementing the report's recommendations to the entire student cards industry. In rebuttal to the report, we'd like to highlight four key facts:

### Fact One: The report examines less than 1% of student card programs

The Inspector General did not review enough student card programs to determine where, when or if improvements need to be made on a large scale basis. In fact, the report analyzed less than 1 percent of student card programs. Only four schools were examined. According to the Government Accountability Office, there are currently 852 colleges and universities with card agreements.

The report even discloses its own shortcomings, noting "specific results obtained at the schools and servicers in our review may not be representative of the actual circumstances at other schools or servicers." And, "we judgmentally selected and performed limited work at three schools that contracted with third-party servicers." In addition, "we performed only limited work to corroborate the amounts and figures presented in the report."

The report contains no underlying statistics or facts to support its assertions, nor does it cite research from or outreach to banking regulators or industry for more information. Further, the Inspector General doesn't list any research from federal prudential banking regulators (such as the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation or National Credit Union Administration) or third-party reports from banking trade associations.

It's clear the report is based on limited data from which it isn't reasonable or statistically valid to draw conclusions and make recommendations to apply to the entire industry.

### Fact Two: The industry hasn't been accused of any widespread wrongdoing. So, why the suggested overhaul?

It would make sense for an industry that has received significant complaints from consumers and/or has been accused of pervasive wrongdoing or illegal activity to be examined. This protects us all.

However, the Inspector General's report doesn't cite a wave of student complaints or other supporting factors for this review. In fact, it states "officials at the three schools had not received many student complaints regarding delivery of


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Title IV funds." The report then asserts, without foundation, that there may be complaints from students that aren't being addressed.

The report alleges that marketing used by Higher One and Sallie Mae could be misleading and potentially in violation of Department of Education regulations. This statement, however, is not supported by facts. Nor does the report cite any student polling regarding their attitudes and experiences with prepaid cards.

Why recommend major changes when students and educational institutions are satisfied with the product?[1]

### Fact Three: Student cards are already heavily regulated

Student cards that disburse Title IV funds are heavily regulated through the following existing federal protections:

- Student consent: Schools must obtain consent from students or parents to open a bank account or load funds onto a student card.
- FDIC insurance: The FDIC or NCUA must insure the funds deposited onto the student cards.
- Account fee limits: Schools must ensure students or parents do not incur costs when opening accounts, receiving student prepaid cards or delivering funds.
- Regulation E protection: Reg. E applies to every student card and provides for initial disclosures, error resolution notices, periodic statements and limitation of liability for unauthorized transactions, among other protections.
- Convertible to cash: Student cards must be convertible to cash and widely usable. Schools must ensure students have convenient and free access on campus or immediately adjacent to campus.

### Fact Four: Student cards provide important benefits to students and schools

Like all prepaid products, student cards provide users an efficient, convenient and cost-effective way to manage and move funds. For colleges and universities, the cards provide a less expensive option than issuing paper checks.

Indeed, the report details the benefits that schools and students receive from outsourcing disbursement services (i.e., cost savings, efficiencies, accounting, quicker disbursements, etc.). The report even acknowledges that, when presented with a choice, "most students chose the debit card option."

For students, the cards provide value, convenience and safety in several key ways:

- The funds loaded onto the cards are protected if lost or stolen. Student cards have the consumer protections of Regulation E, as well as the zero-liability policies of the payments networks. Students are protected against losses arising from lost or stolen cards and unauthorized transactions.
- Access to funds is immediate once loaded to the card. There is no need for students to pick up their checks and travel to check cashing locations to pay a 3 to 5 percent fee to access their money or to wait for funds to clear in checking accounts.
- Student cards make bill payments and online purchases secure and easier for students and provide access to the financial payments system for those without access to bank accounts.
- As noted by the Government Accountability Office, student card fees are comparable to similar products provided by banks. Student cards may provide a more cost-effective and safer solution for students versus checking accounts, because they are protected from overdraft fees and minimum monthly balance requirements.

The NBPCA promotes complete transparency of the terms associated with student card programs, and never condones marketing tactics intended to trick or deceive students in any way. It's important for students to examine all their financial services options and make the right choice depending on their specific needs and sensibilities. The NBPCA has an active interest group focused solely on these products along with leading practices that have been shared with members, industry leaders, media and third parties. There should be transparency in the relationship between colleges/universities and their financial services providers. (And students or parents should be made aware of such relationships.) Student cards also must comply with all state and federal banking and consumer protection laws and regulations.

The industry wants to partner with regulators, schools and students to continuously improve student cards and solve problems if they exist. And, the NBPCA supports research that has a legitimate purpose when a clearly defined problem has been raised, provided that research questions are informed and valid, the research is fair and defensible, and a statistically significant sample is used to draw accurate conclusions on which meaningful and useful recommendations can be based for the benefit of all parties.

[1] Tuition Management Systems recently surveyed students (at 15 institutions of higher learning) who receive their refunds on university-branded prepaid cards. Four hundred fifteen students with active cards responded to the question: "How likely would you be to recommend the Visa Prepaid card to others?" The resulting Net Promoter Score (NPS) of 55.9 percent significantly exceeded the financial services industry sector NPS average of 29 percent for products that include bank checking accounts, credit cards and similar products. NPS was calculated by subtracting the percentage of active cardholders who were "detractors" (indicating the likelihood of "recommending" at six or below on a 10-point scale) from the percentage of active cardholders who were "promoters" (indicating the likelihood of "recommending" at nine or 10 on the same scale). For more information on NPS: http://www.prweb.com/releases/2013/4/prweb10663049.htm.

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March 25, 2014

Ms. Carney McCullough
U.S. Department of Education
Office of Postsecondary Education
1990 K Street, N.W.
Washington, DC 20006

Ms. Pam Moran
U.S. Department of Education
Office of Postsecondary Education
1990 K Street, N.W.
Washington, DC 20006

Re: Issue Paper 4 - Department of Education (DOE) Negotiated Rulemaking Committee on Program Integrity and Improvement

Dear Ms. McCullough and Ms. Moran:

This letter is submitted on behalf of the Network Branded Prepaid Card Association ("NBPCA")[1] in response to the release by the DOE of Issue Paper 4 on Program Integrity and Improvement Issues ("Issue Paper 4"). The NBPCA appreciates the opportunity to respond to proposals raised by the DOE regarding some of these financial products, specifically those provisions applicable to network-branded prepaid cards offered to students in connection with their attendance at a college or university ("Campus Card(s)") and their use on college and university campuses.

**34 CFR § 668.164(d)(4) and (5) and 34 CFR § 668.164(e) Proposed Revisions**

We are concerned that the DOE proposals to revise 34 CFR § 668.164(d)(4) and (5) and 34 CFR § 668.164(e), as set forth in Issue Paper 4, will, for all practical purposes, make it impossible for an educational institution to offer students an option of establishing a "sponsored account" (e.g., either a checking account or prepaid card account), and this will end up hurting students, especially those students who are economically disadvantaged.

[1] The NBPCA is a nonprofit, inter-industry trade association that supports the growth and success of network branded prepaid cards and represents the common interests of the many participants in this new and rapidly growing payments category. The NBPCA's members include banks and financial institutions, the major card networks, processors, program managers, marketing and incentive companies, card distributors, payment industry consultants and law firms. The comments made in this letter do not necessarily represent the position of all members of the NBPCA.

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The NBPCA believes that students should have the right to choose the loan disbursement method that best meets their individual needs. This freedom of choice should include, after full disclosure of all terms and conditions, the ability to choose Campus Cards, which in some cases are a less expensive option for students than basic or traditional checking accounts at national banks.[2] The revisions set forth in 668.164(d)(4) limit student choice by making direct deposit of student-aid refunds to an existing account held by the parent or student the preferred option, requiring colleges to request that students use their personal bank accounts for receiving refunds before helping them apply for a sponsored account. This preference may end up costing the students more to access their funds, as the parent or student most likely has their account (if they have one at all) at a financial institution located in the city or town of their permanent residence, and not the city or town where they attend college. Their existing financial institution may not have either bank branches or fee-free ATMs located anywhere in close proximity to the college, forcing the student to undertake out-of-network ATM transactions to access their funds, incurring fees to both their bank and to the owner of the out-of-network ATM. Alternatively, the parent or student has to take the time to establish a new account at a financial institution with branches and in-network ATMs that are convenient to the college campus, and potentially incurring fees related to maintaining the existing and new accounts.

For the parent or student who does not have an existing account, especially those students who come from economically disadvantaged families, the process required to be followed under 668.164(d)(4) and (5) will likely result in a delay in the disbursement of student-aid refunds to the student. Or more likely given that it is doubtful that a college would be able to locate a willing financial institution to provide a sponsored account to students, given the restrictions set forth in 668.164(e), the student-aid refund would have to be disbursed to the parent or student without an existing account, by paper check.

If the parent or student is forced to receive their student-aid refunds by check, they face the following consequences:

- Delays in accessing funds. The parent or student has to wait for the check to arrive. Then, once the check is received and deposited, may have to wait for the bank to make funds available.
- Check-cashing and money order fees. Given that they do not have an existing bank account into which the funds can be deposited, the parent or student would be forced to go to a check cashing location to cash their check, incurring check cashing fees of 2%-5% of the amount of the check. These fees can add up quickly. For example, the average family incurs $700 a year in fees to check

[2] United States Government Accountability Office, Report to the Chairman, Committee on Health, Education, Labor, and Pensions, U.S. Senate: College Debit Cards, Actions Needed to Address ATM Access, Student Choice, and Transparency, February 2014, available at http://www.gao.gov/assets/670/660919.pdf (last visited March 24, 2014)

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cashing facilities.[3] Further, in order to pay creditors, such as landlords or utilities, the student would either have to take the time to go to the office of the creditor to pay the bill in cash, or bear the costs of purchasing money orders to pay bills, then the time and cost of mailing or delivering these.

- The funds are gone if lost or stolen. Debit cards and prepaid cards loaded with federal government funds have the protections of Regulation E, as well as the zero liability policies of the card brands. Students are protected against lost or stolen cards, or unauthorized transactions.
- No access to online services. Debit cards and prepaid cards make bill payments and online purchases easier for the student and provide access to the financial payments system, access unavailable with a cash based approach.

The revisions set forth in § 668.164(e) prohibit educational institutions from offering Campus Cards bearing that institution's logo or mascot or otherwise implying affiliation with the institution. This restriction will eliminate the ability of educational institutions to offer a program under which they can disburse Title IV funds to the same card that the student uses for campus identification, to access campus facilities, and to perform a variety other functions relating to student life. The restriction thus hurts students by taking away a flexible and convenient turnkey payment solution for nearly all aspects of campus life and hurts educational institutions by forcing them to manage two programs rather than one and incur additional expenses and decreases in efficiency as a result.

Additionally, § 668.164(e) imposes various restrictions on fees charged in relation to Campus Cards. Specifically, the revisions limit the charging of fees for use of a Campus Card to conduct any transaction at an ATM, for maintaining a Campus Card, or for opening a Campus Card account or receiving funds onto a Campus Card. These fee restrictions make it impracticable or even impossible for educational institutions to offer Campus Cards to students and demand deposit accounts are not subject to similar restrictions. Particularly troubling are the limitations on any ATM fees. The ATM fee limitations do not differentiate between in and out of network costs, a step even government cards do not take, and are unnecessary under the current law, which guarantees free ATM access for students by requiring in-network ATMs to be conveniently placed on or adjacent to college campuses. Thus, further fee limitations in this area are unnecessary and limit student choice by making the offering of Campus Cards impracticable.

[3] Tuition Management Services, Infographic: The Who, The Why, and the How of Helping Unbanked Students, available at http://tuitionmanagementsystems.com/the-who-the-why-and-the-how-of-helping-unbanked-students/ (last visited March 24, 2014) (citing Pew Report, Unbanked by Choice: A Look at how Low-Income Los Angeles Households Manage the Money they Earn, July 2010).

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**Conclusion**

The NBPCA appreciates the opportunity to comment on the important discussions that will take place during the Committee's meetings on March 26-28, 2014. The NBPCA recognizes that sponsored accounts are not the right choice for every student. The NBPCA fully supports requirements for written authorization from students and/or parents prior to disbursing Title IV funds to a sponsored account and the full disclosure of all terms and fees associated with a sponsored account. The NBPCA does not believe, however, that the regulations addressing disbursements of student-aid refunds in Issue Paper 4 are necessary in this area in order to protect the interests of students. As discussed in our prior letter to the DOE, substantial regulations, as well as other existing consumer financial services regulations already apply to protect the interests of students and their parents and to ensure that Title IV funds are both managed and disbursed appropriately. The NBPCA thus believes that the disbursement proposals set forth in Issue Paper 4 are not necessary and would harm students and parents by potentially restricting student choice in loan disbursement options and limiting the many benefits the sponsored accounts currently offer.

If you have any questions, please do not hesitate to contact me at (201) 746-0725.

Sincerely,

Kirsten Trusko, Executive Director
NBPCA

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