

Financial Aid-to-Debit Cards

Proposed Rule Changes

March 5, 2014

This document outlines TouchNet's proposal for improving the management and distribution of federal financial aid dollars to students. This proposed solution is based on a number of factors, including interaction with our client institutions, feedback from the first Program Integrity and Improvement negotiated rulemaking committee meeting, and by drawing comparisons between the federal financial aid disbursement process and similar federal disbursement programs, such as the distribution of federal benefits and tax refunds. We believe the resulting strategy for disbursing financial aid dollars is effective and efficient, as well as being fair and reasonable for schools, students, and businesses.

PROGRAM BASICS

Today, the majority of institutions use a combination of check printing, direct deposit (EFT), and debit card-based service providers to disburse excess financial aid dollars to students. Each of these distribution methods has its own set of pros and cons, and no one solution is perfect. With that said, TouchNet is recommending a program that uses the best aspects of all disbursement methods, while allowing each individual campus to implement a program that best fits its campus and student body profile. The following list provides the basic details of our proposed program:

1. **Checks: Schools should have the option to offer paper checks.** Although many institutions want to eliminate the use of paper checks, a number of schools still rely heavily on check printing, and some students simply prefer checks. As such, institutions should have the option to deliver funds via paper check as is specified in current regulatory language.
2. **Direct Deposit: Schools should make direct deposit the first choice and the easy choice.** Direct deposit is highly efficient and is the disbursement option preferred by students. Most students arrive on campus having made an informed choice about their bank. This is reflected in the adoption rates experienced by many of our client institutions. Adoption rates for direct deposit well over 80% are not uncommon. These rates can climb to over 90% when schools require students to furnish a direct deposit bank account profile. Adoption rates for these programs are consistent with national statistics for unbanked consumers. Today, schools that offer direct deposit as the primary disbursement method mostly rely on paper checks as a fall back for those students who do not provide a bank account.
3. **Debit Card: Institutions that offer a debit card disbursement product should also be required to offer direct deposit as the first choice and recommended option.** Most debit card service providers offer multiple disbursement options to students. However, they aggressively promote the debit card option while implementing unnecessary and time-consuming processes that students must overcome in order to receive their financial aid money through other

disbursement options. It's this aggressive promotion and misleading positioning that has precipitated student protests and lawsuits. Establishing new rules requiring schools to present direct deposit as the recommended choice and a debit card as a secondary option for those students without a bank account will result in more students choosing to have funds direct deposited into their existing bank account. Institutions may choose whether or not to include paper checks as part of this program.

No new regulatory language is required for the first two disbursement options. The third option, however, does require added regulatory focus. Financial firms of all types have higher incentive to push the debit card option, since this is where they make the most money. However, when recent studies show that more than 80% of college students have an existing bank account, it is clear that the best option is to present direct deposit as the recommended option for receiving financial aid funds. Presenting direct deposit as the recommended option, however, will resolve many of the issues presently reported by students. In the following pages, TouchNet expands on the issues related to debit card programs and makes several other recommendations for shaping a fairer, equitable, and student-friendly financial aid disbursement program.

PART I: NO PUSH MARKETING

A. Reforming Pushy Marketing Tactics

The basis for many of the student complaints regarding debit card programs is the overly aggressive, often deceptive, marketing tactics used to steer students into selecting the debit card. This issue arises because third-party service providers are allowed to market directly to students. Such direct marketing goes against the spirit of the Credit CARD Act of 2009, which was intended to protect students from aggressive marketing practices by banks and financial firms. Many, if not most, of the ills found to exist with credit cards exist in equal measure with debit cards.

Tactics that unduly influence students towards selecting bank products include:

- Using the campus logo and brand to imply that the card program is endorsed by the institution.
- Mailing (email, text, social media, etc.) of a physical card or of a paper or virtual representation of a card to students before they have given their consent to have the debit card mailed to them.
- Using student personally identifiable information ("PII") to create or preset bank accounts or numbered accounts (in the case of prepaid debit cards) without the student's advance authorization.
- Using rewards programs or other incentives to entice students to select the debit card option.
- Artificially delaying the delivery of financial aid dollars when a student chooses to use direct deposit instead of the vendor's debit card.

These practices often leave students feeling pressured into selecting the debit card option, or by their estimation, even victimized by their own schools. There are literally hundreds of articles, blog postings and stories of how students feel let down and taken advantage of – all within the process of receiving their own financial aid funds. TouchNet has provided supporting documentation illustrating examples of how students respond to these marketing tactics. Supporting documents include:

- A statement from Western Washington University (WWU), which established a task force to define recommendations on how its debit card programs should work. The task force came to many of the same conclusions as those above.
- A recent study by the Merced College student organization cited many of these same concerns.
- A copy of the consolidated, multi district Class Action lawsuit still pending in the U.S. District Court for the district of Connecticut.

The Department should eliminate the aggressive marketing tactics used to promote debit cards and bank products to students. Any campus marketing campaigns related to the disbursement of federal financial aid should be aimed at informing students of their options to receive refunds electronically and not to promote a specific bank card or other financial instrument.

B. Eliminate Steered Card Enrollment

Third-party debit card vendors do not present students with balanced information and easy enrollment for both the debit card and direct deposit options. Instead, students are strongly encouraged to activate the card that they receive in the mail. Other options such as direct deposit or paper checks are buried in a series of clicks and paperwork that make it extremely difficult for the student to choose anything but the debit card option. The Department should take steps to eliminate any bias from the enrollment process used by the student to select a refund preference. This can be done by requiring any institution that is implementing a debit card program to present direct deposit as the recommended method to receive funds and the debit card option as the secondary choice for those students truly needing a bank account.

This model requires each institution to maintain a standardized, Department-approved web site for students to select their preferred refund profile. The following screen shots provide a visual roadmap for the requirements we are proposing for the direct deposit and debit card option. When the Department publishes its cash management regulations, it would be beneficial to students and their vendors for the Department to provide a sample set of software user interface screens to demonstrate compliance with the rules.

Main Menu Student Disbursement Selection Screen

Students would log into the site by using their campus-provided student ID/username combination, not a vendor provided login. Once logged in, students should be presented with all options available for receiving their excess student aid disbursements. Most of the language on this screen should provide instructions to the student on how to select an electronic refund method of their choice. Direct deposit should receive the majority of the screen space to highlight how it works and how to enroll. The direct deposit option is positioned as the institution recommended option, while the card is offered as a secondary method to those without a bank account or those looking for an alternative to their current bank account.

YOUR CAMPUS

Select Your Refund Method ✕

Select your preferred method for refund below.

[Institution Name] is going electronic! Sign up today to receive your financial aid refunds to your current bank or credit union account. Sign up is easy and can be done all online.

Get Direct Deposit
It's fast and easy to have your refund direct deposited into your existing checking or savings account.

Sign up for direct deposit 

- Any existing checking or savings account
- Easy enrollment
- Receive your funds fast and securely

[Get Direct Deposit](#)

Don't have a bank account? You can still receive your funds via direct deposit by signing up for New Debit Card. To receive the card, you must review all fees and terms and conditions, and complete a simple application. Your card will arrive within 3 to 5 business days from your application approval. [Get the card here.](#)

Student Selects Direct Deposit

Step 1: Direct Deposit Sign-up Screen

Students opting for direct deposit should be able to complete the entire sign-up process online and fully electronically. No paper forms or faxing should be required.

The screenshot shows a web interface for selecting a refund method. At the top left is the 'YOUR CAMPUS' logo. The main heading is 'Select Your Refund Method' with a close button (X) in the top right corner. Below the heading, there is a sub-heading 'Select your preferred method for refund below.' followed by a paragraph: '[Institution Name] is going electronic! Sign up today to receive your financial aid refunds to your current bank or credit union account. Sign up is easy and can be done all online.'

The main section is titled 'Get Direct Deposit' with the text 'It's fast and easy to have your refund direct deposited into your existing checking or savings account.' To the left of this text is a dark button with the text 'Sign up for direct deposit' and an icon of a person at a computer. To the right is a list of bullet points: 'Any existing checking or savings account', 'Easy enrollment', and 'Receive your funds fast and securely'. Below the list is a green button labeled 'Get Direct Deposit'.

At the bottom of the screen, there is a paragraph: 'Don't have a bank account? You can receive your funds via direct deposit by signing up for New Debit Card. To receive the card, you must review all fees and terms and conditions and complete a simple application. Your card will arrive within 3 to 5 business days from your application approval. [Get the card here.](#)'

A large black arrow points downwards from the 'Sign up for direct deposit' button area.

Step 2: Direct Deposit Account Set-up

The first screen should ask the student for the following information:

- Bank routing number
- Bank account number
- Re-enter bank account number for accuracy



Direct Deposit Account Set-up Information ✕

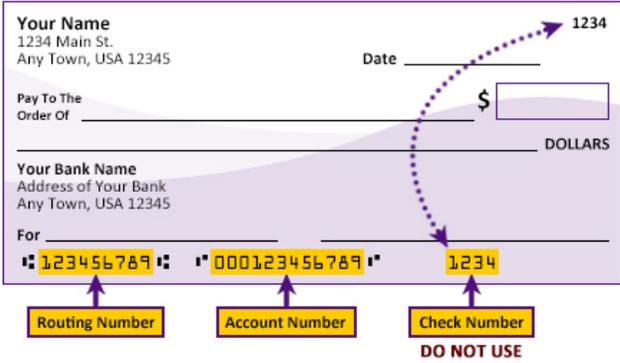
Account Information

**Indicates required fields*

Personal accounts only. No corporate accounts, i.e. credit cards, home equity, traveler's checks, etc. Do NOT enter debit card number. Enter the complete routing number and bank account number. The illustration shown is only an example to show where to find the routing number and bank account number on a personal check.

*Account type:

*Name on account:



The illustration shows a check with the following fields: Your Name (1234 Main St., Any Town, USA 12345), Date, Pay To The Order Of, \$ amount, DOLLARS, Your Bank Name (Address of Your Bank, Any Town, USA 12345), For, and MICR line (⑆ 123456789 ⑆ ⑆ 000123456789 ⑆ 1234). Callouts point to the routing number (123456789), account number (000123456789), and check number (1234). A note says "DO NOT USE" under the check number.

*Routing number:

*Bank Account number:

*Save payment method as: (e.g. Primary Checking)

Step 3: Direct Deposit Confirmation Screen

Once this information has been entered, the student should be prompted to sign a standard ACH agreement, which gives the school permission to credit the student's bank account.



Direct Deposit Account Set-up Information ✕

I hereby authorize **YourCampus** to initiate recurring credit entries to my Depository according to the terms below, and for my Depository to debit or credit the same to such account.

Name:	Amy Student
Address:	1234 Main St.
Depository:	COMMERCE BANK, N.A.
Routing Number:	****
Account Number:	xxxxx3445

This agreement is dated Monday, March 3, 2014.
For fraud detection purposes, your internet address has been logged: 172.16.255.97 at 3/3/14 10:48:18 AM CST

Any false information entered hereon constitutes as fraud and subjects the party entering same to felony prosecution under both federal and state laws of the United States. Violators will be prosecuted to the fullest extent of the law.

To revoke this authorization agreement you must contact: businessoffice@yourcampus.com

Print and retain a copy of this agreement.
Please check the box below to agree to the terms and continue.

I Agree

[Print Agreement](#)

Student Selects Debit Card

Step 1: Debit Card Sign-up Screen

Those students choosing the debit card option should be required to “opt in” and fully sign up for the card account. The underlying bank account or numbered account should not be preset or prepopulated with the student’s PII – especially when such PII is used without the student’s advance knowledge and informed consent. The sign-up process should require the student to successfully complete these basic steps:

YOUR CAMPUS

Select Your Refund Method

Select your preferred method for refund below.

[Institution Name] is going electronic! Sign up today to receive your financial aid refunds to your current bank or credit union account. Sign up is easy and can be done all online.

Get Direct Deposit
It's fast and easy to have your refund direct deposited into your existing checking or savings account.

Sign up for direct deposit

- Any existing checking or savings account
- Easy enrollment
- Receive your funds fast and securely

[Get Direct Deposit](#)

Don't have a bank account? You can still receive your funds via direct deposit by signing up for New Debit Card. To receive the card, you must review all fees and terms and conditions, and complete a simple application. Your card will arrive within 3 to 5 business days from your application approval. [Get the card here.](#)

Step 2: Debit Card Standardized Fee Schedule Display and Approval

The fee schedule should use language that is descriptive and easy to understand. Students should not have to guess at the meaning of specific charges. Any fees the student could potentially incur should be listed. Any penalty fees, such as those for insufficient funds, should be clearly indicated to the student. Students should be required to click a flag or button which indicates they have reviewed the fee schedule and have agreed to it before proceeding to the next step.

YOUR CAMPUS

The Debit Card Select Plan Personal Information Submit X

The Debit Card Fee Schedule

Category	Type	Basic Plan
Cost of Setup	Card Request	Free
	Monthly Fee	Free
Spend Money	Signature Purchase	Free
	PIN Purchase	Free
Get Cash	On-Campus ATM	Free
	MoneyPass ATM	Free
	Out of Network ATM*	1 free per deposit; \$2.00 per additional
Add Money	Direct Deposit	Free
	Cash (at a store)*	Free
	Bank Transfer	Free
Information	Online/Mobile	Free
	Automated Voice Help	Free
	Live Agent Calls	Free
Outside US	Fees	
Pay Bills	Online Bill Pay	Free
Caution	Replacement Card	\$5.00
	Expedited Replacement	\$25.00
	Inactivity	\$2.00 per month after 12 months

*ATM Operator/Owner fees apply

Continue Cancel

Step 3: Debit Card Entry of Personal Information

Students should be required to provide all necessary information to register for the debit card program, as they would if when applying for any bank account product. Currently, this information is sometimes provided by the school to the debit card vendor so the debit card can be automatically issued and sent to the student. Students report feeling that the “preset” of a bank account with their personal information is a violation of their privacy. Requiring students to provide this information serves as another validation step to ensure that students have elected the new debit card account for the right reasons, and not because it was the easiest, quickest, or default choice.

YOUR CAMPUS

The Debit Card - Personal Information

Select Plan Personal Information Submit

Personal Information

*Indicates Required Information

Name and Address

*First Name: Amy
*Middle Initial: L
*Last Name: Student
*Address One: 123456 South Alcan
Address Two: apt 123
*City: Overland Park
*State: Kansas
*ZIP Code: 66210

SSN and Date of Birth

*Social Security Number: 000-00-0000
*Date of Birth: 00/00/0000

Email

*Email: amy.student@yourcampus.com

Phone

*Primary Phone: 123-456-7890 Use for text
Alternate Phone: 000-000-0000 Use for text

Notification Preferences

Tell us how to reach you.
*Fees from your service provider may apply.

- Send email alerts only
- Send text alerts only
- Send both email and text alerts

Continue Cancel

Step 4: Debit Card Review and Approve the Terms and Conditions

Students should be clearly presented with the terms and conditions of the program and should acknowledge that they have read, understand, and agree to such terms and conditions. Requiring disclosure of the terms and conditions upfront is crucial for maintaining transparency in the debit card enrollment process.

Step 5: Debit Card Confirmation of Card Registration

Students should be provided the opportunity to review all of the information they have entered and to confirm they are requesting that funds be placed on the debit card. Students should also be notified that they are able to switch their refund disbursement preference at any time.

YOUR CAMPUS

The Debit Card - Confirmation

Select Plan Personal Information **Submit** X

Confirmation Information

Name and Address	
Name:	Amy L Student
Address:	123456 South Alcan apt 123
City:	Overland Park
State:	Kansas
ZIP Code:	66210
SSN and Date of Birth	
Social Security Number:	***-**-6789
Date of Birth:	**/**/1990

*I agree to all terms and conditions. [View Terms and Conditions](#)

Submit **Edit** **Cancel**

Email	
Email:	amy.student@yourcampus.com
Phone	
Primary Phone:	123-456-7890
<i>Used for text messages</i>	
Alternate Phone:	000-000-0000
Notification Preferences	
<input type="checkbox"/> Send email alerts only	

Step 6: Debit Card Vendor Displays Card and Envelop

The service provider may show the mailing envelope and an image of the card to the student, but only after the full process of signing up for the card is complete. Showing these items is then informational. Showing them earlier is potentially prejudicial and/or confusing.

YOUR CAMPUS

The Debit Card

Your theDebitCard is in the mail.

You can expect delivery within five business days. You can add funds and begin using your theDebitCard card immediately after activation. Here are some basic "how to's" for getting started.

Adding Money
Add funds to your theDebitCard using one of three options – direct deposit, a bank transfer, or through a retail reload network.

Shopping
Online or in person, swipe or PIN, your theDebitCard can be used anywhere MasterCard is accepted.

Getting Cash
Use your theDebitCard to withdrawal funds from on-campus ATMs or at any MoneyPass surcharge free network location.

Paying Your Bills
Pay your bills directly on your biller site or through theDebitCard online bill pay function.

Keeping Track of Your Account
Access your theDebitCard transaction history and real-time account balance any time by logging onto www.thedebitcard.com.

YourCampus University
Business Office
Campus Box 17346
Overland Park, KS 66223

Amy L. Student
2908 W145th St.
Leawood, KS 66224

How to Use the Card | Privacy Policy | More About theDebitCard

FINANCIAL AID DEBIT CARD

1234 5678 9000 0000
00/00 00/00
CARDHOLDER NAME

PART II: ELIMINATE UNUSUAL FEES AND INCREASE ATM ACCESS

Providing a clear and transparent process for choosing direct deposit or a debit card for receiving financial aid funds is only part of the regulatory solution. Multiple student complaints cite unnecessary debit card fees and challenges in withdrawing funds via ATM as significant problems related to card programs. The Department should take this opportunity to set basic guidelines for various account fees and ATM accessibility that each card program should offer.

A. Account / Usage Fees

All fees associated with debit card programs must be similar in nature to fees associated with checking accounts normally issued to college students. This means eliminating fees that are not necessary or commonplace in the market (“Unusual Fees”). Examples of Unusual Fees may be found in the following reports:

- A recent report released by the GAO cited two issuers who charged a fee of \$.50 every time a student paid with the card at the point of sale using the student’s PIN number. This fee is outside the normal bank account offerings available today and is particularly confusing to students. Students are more familiar with the PIN debit process, and statistically prefer debit to credit. This fee led to so much frustration on the part of students that one vendor was forced to create a video which provided instructions on how to avoid the fee. The video can be seen here: <http://www.youtube.com/watch?v=leBsOz6QvIA>. This fee also discourages students from getting cash back at the point of sale.
- A recently-introduced Unusual Fee charges a monthly account fee to students who do not meet certain usage requirements. This fee is promoted as the cornerstone of a low-cost account. In reality, this fee was put in place as a softer form of inactivity fees charged by companies to lower the balance of the card until the balance hits zero. It’s our belief that these accounts should not require a monthly fee or any inactivity fee as long as the student is in good standing with the school.
- Another fee currently causing problems is the high cost of transferring funds to another bank account from the debit card account. In some cases, this Unusual Fee can be as high as \$25.00. In the U.S. Treasury Direct program, the cost is \$1.50.

These are only a few examples. The Department needs to evaluate the current programs available to students to make firm recommendations on fee structures that are acceptable.

B. ATM Access / Fees

ATM access is a significant issue for students and debit card programs in general. Most students agree that there are not enough financial aid debit card ATMs on campus and that those that are on campus often run out of cash or are out of service. The Department should introduce new regulatory language establishing a metric for the number of ATMs that must be present on campus and should articulate clear definitions on where ATMs must be located on campus. TouchNet recommends requiring one ATM

for every 7,500 students on the main campuses and one per 2,500 students on remote campuses. These ATMs should be publicly accessible at least 12 hours a day.

In addition to on-campus ATM locations, debit card financial aid vendors should be required to provide access to a nationwide surcharge fee network of at least 40,000 U.S. locations. Doing so provides options for the growing number of online learners who never reach campus and for those students wishing to draw funds from their account while away from campus.

In addition to accessibility, ATM fees should be simplified. Students should not be charged for balance inquiries, declines, or withdrawals from any in-network ATMs or surcharge free network ATMs. It is reasonable for students to pay out-of-network fees for accessing funds on foreign ATMs. These fees, however, should be limited to \$1.00 per cash withdrawal and \$.50 per balance check or transaction decline. These fees do not include the fees charged by the ATM operator.

OTHER KEY PROVISIONS:

The Department should craft rule changes in contemplation of fraud controls, potential technological changes, and unintended consequences. A couple of areas to consider as rulemaking language is formulated include the following:

- A benefit of using direct deposit, whether to an existing bank account or a debit card program, particularly when offered by a third party servicer, is added fraud prevention tools to mitigate the disbursement of funds to individuals who frequently enroll with no intention of completing coursework. By centralizing the distribution point, third party services are able to determine where money is being sent and flag transactions which may be all directed to a single account from various locations.
- The definition of debit card is important. Any new regulation should cover the underlying bank account or numbered account, more so than the physical card. Technology is rapidly changing the nature of payment instruments, and the Department should have definitions that are applicable regardless of how the account is represented. Virtual debit cards, e-wallets, and smartphone payment schemes should be included in the definition.
- Current vendors in the card space may evolve their business into other areas related to the distribution of financial aid. Comparing financial aid to other disbursement programs, the potential exists for vendors to shift into areas like online payday loans or refund anticipation loans, both of which have become problematic in the tax refund space. TouchNet encourages the Department to draft language that prevents the marketing and promotion of other financial products to students who have elected the debit card option, as long as the students are in good standing.

Last, the Department may want to partner with the Consumer Financial Protection Bureau (CFPB), which also has been examining the issues associated with financial aid-to-debit card disbursements, to require

debit card service providers to submit all contracts to the CFPB on an annual basis for a disclosure of program terms offered to students. In doing so, providers should be required to disclose the program terms offered to students and quantify (1) the economic value of the service they provide to the school, (2) the cost to the school, and (3) the revenue generated by the vendor from offering debit cards and bank products to students on each campus.

SUMMARY RECOMMENDATIONS FOR THE DEPARTMENT OF EDUCATION

Part 1: No Push Marketing

1. Promotion of electronic student refunding should be limited to encouraging students to sign up for direct deposit as the best way to receive financial credit balances. Institutions should position direct deposit as the option “recommended by the institution.”
2. The Department should provide templates of acceptable screen design and layout to ensure direct deposit is positioned as the preferred and recommended option.
3. If the institution decides to offer a debit card option in partnership with a financial firm, then students must clearly opt in to receive a new debit card. This eliminates the pre-mailing of debit cards and other marketing used by third-party services to direct students to pick the debit card.
4. Student PII should be entered by the student at the time they are requesting a debit card. Doing so further validates that a student is deliberately selecting the debit card and not just taking the fastest option.
5. Neither disbursement option should have a speed or time advantage in receiving funds.

Part 2: Eliminating Unusual Fees for Debit Card Users

1. All fee tables associated with a debit card program should use a standardized display format as defined by the Department. Students should be required to provide consent to the fee schedule before providing personal information or learning of other features of the program.
2. The Department should eliminate monthly account maintenance fees or account activity fees while the student is in good standing with the institution.
3. The Department should eliminate “pay to play” fees for both swipe and PIN debit transactions.
4. ATM access should be based on a formula using the number of students on each campus. ATMs should have required hours of operation of at least 12 hours per day, 7 days a week.
5. Debit card providers should belong to a nationwide network of surcharge free ATMs of at least 40,000 locations. This network is in addition to placing service provider ATMs on campus.