



March 18, 2013

Garry Reeder  
Bureau of Consumer Financial Protection  
1700 G Street NW  
Washington, DC 20552

Re: Docket No. CFPB-2013-0003

Dear Mr. Reeder:

The National Association of College and University Business Officers (NACUBO) is pleased to provide this response to the Consumer Financial Protection Bureau's request for information regarding financial products marketed to students published in the *Federal Register* on February 5 (Docket No. CFPB-2013-0003). NACUBO represents more than 2,100 public and nonprofit colleges and universities. Our primary members are chief financial officers and their staff, including bursars and student accounts staff. The Coalition of Higher Education Assistance Organizations, a national association of institutions of higher education and their service providers with a shared interest in fostering access to postsecondary education, joins in these comments.

Many policy, technical, and management issues impact student financial services operations on campus. NACUBO offers professional development for controllers, bursars, student financial services directors, financial aid administrators, and other staff, offering programs that address big-picture issues, legislative and regulatory developments, and a wide range of other topics. NACUBO also provides opportunities for institutions to share their experiences, solutions, and best practices in a variety of areas such as collections, payment processing, new technologies, compliance, information security, and customer service.

In response to this request for information (RFI), NACUBO's comments stem from one central point—*colleges and universities continually strive to enhance student services and to meet the needs of their students, while keeping administrative expenses low*. Administrators and students all agree that students are in school to learn, not to waste time standing in line. Business office staff also take seriously their responsibility to educate students in their role of consumers through financial literacy programs.

We also want to take the opportunity to point out the diversity of the higher education landscape as campus business operations do not fit a "one size fits all" approach. Not only do public and private universities have different business demands because of their legal status and funding arrangements, within and across those sectors business operations and student services look vastly different depending on institutional size and student demographics. Different student bodies have varying needs and preferences. For example, and relevant to this RFI, our members report that students at community colleges often arrive without existing banking relationships or may even be ineligible to open an account on their own due to pre-existing circumstances. Additionally, CFPB should not assume that all college students are "young consumers." Student demographics show that "traditional" students, those 18–22 years old, are a declining proportion of college students; those over 24 or financially independent from their parents are fast becoming the majority population of college students.

## **NACUBO Responses to Selected Questions from the RFI**

### **1 (a) What types of campus affinity products are being offered to students (e.g., financial aid disbursement accounts, student banking, prepaid cards, and credit cards)?**

There are at least four broad categories of financial products offered by colleges to their students. (We do not address others, such as loans or tuition payment plans, here.)

**Closed-Loop Debit Cards.** Closed-loop debit cards are probably the oldest, and still the most common, type of financial product offered to students. Students or their parents deposit funds to an underlying account that can be accessed to make purchases at various places on campus. The debit card functionality is built into the student ID, which has evolved into a multipurpose tool, acting as an ID, library card, and door key as well. It can also be used, either separately or in conjunction with debit card functionality, as the student's "meal card," tracking his or her use of a prepaid meal plan (which often includes "dining dollars" that can be spent *ad hoc* at various venues). The cards are designed to work with vending machines, laundry machines, copiers, and other campus services obviating the need for students to carry cash or have correct change. Over the years, these on-campus systems have expanded at many campuses—often at the behest of students—to also include off-campus merchants and restaurants in the immediate vicinity.

The underlying accounts may be maintained by the college, or the college may contract with a financial institution to hold the funds and manage the accounts. These accounts are generally not co-branded or tied to consumer bank accounts. A financial institution may act as the agent of the college or university. A vendor often supplies necessary card reading equipment or the interface with various campus offices or offsite merchants. Institutions may have a revenue stream from these programs as well as cost savings from automating manual processes, or improved service to the campus community.

Adding this debit card feature to the ID is voluntary and students are seldom charged any fees in connection with the accounts. Although some schools allow students to choose to funnel credit balance refunds to the underlying deposit account, at most institutions they are not tied in any way. The various participating on-campus business centers may or may not be assessed fees or a percentage of revenues associated with card use, while off-campus merchants typically pay two to four percent of each sale to the school to support the program.

There is a cost to operating such programs. The cost of a campus card program goes well beyond the initial purchase of equipment and software. Other cost factors include properly trained employees to support the program; networking facilities and infrastructure space; and ongoing maintenance expenses to the vendor and others on campus that support the program.

Before technology made multipurpose campus cards safe, efficient, and convenient, colleges and universities often had separately administrated door key systems, library copy cards, and dining cards. The whole process was labor-intensive, inaccuracies were common, and there were significant time lags, with student account information and the various systems often out of sync. Campus cards have evolved to provide an administratively efficient, cost-effective, customer-oriented product. Additionally, the ability to use cards with off-campus merchants provides more options to students and can bring greater economic benefits to towns and communities near campuses.

**Credit Balance Disbursements.** When a student account at an institution has a positive balance (payments have exceeded charges), most often due to the receipt of financial aid that includes funds to cover non-institutional charges for room, board, travel, books, and other living expenses, the school pays the student the credit balance. Traditionally, schools paid credit balances by cutting checks which students picked up at the appropriate office, sometimes after standing in long lines. Many schools moved to mailing credit balance checks but that was slow and students are not always good about providing up-to-date addresses to their college, leading to many checks being returned by the post office.

However, paper checks are expensive for the school to process and cumbersome for students to cash or deposit. Those without a bank account are particularly disadvantaged and may have to resort to check cashing services that take a percentage off the top, leave them holding too much cash for safety, and preclude purchasing books and other products over the Internet. In today's world where electronic transactions have become the norm, distributing funds by paper check is becoming an anachronism. That said, checks are still the most prevalent means of providing credit balance refunds, particularly at small colleges.

Over the last decade, campuses have increasingly moved to disbursing credit balances to students by electronic funds transfer (EFT). They do this in a number of ways, either using in-house processes or the services of various vendors. At many schools, students are not offered any financial product in connection with these services but are merely asked, or sometimes required, to provide routing information for a bank account designated by the student. The institution may or may not use a vendor to facilitate this process.

Other schools, perhaps because of the different make up of their student body, their location, or other factors, have determined that students are better served by having more options, including new bank accounts (online or with a local financial institution) or standalone prepaid or stored value cards. One large community college, for instance, surveyed their students several years ago and discovered that more than half did not have a checking account or had difficulty qualifying for one. The institution then opted for a vendor who agreed to make bank accounts available to its students.

Some schools provide an option for a prepaid card for those who do not have bank accounts or do not care to provide their account information to the institution. This has the advantage of allowing students to get their funds more quickly and conveniently than a paper check without committing them to a bank account or requiring them to make the effort to open an account, but has the disadvantage of not encouraging students to join the financial mainstream. At one public institution with an enrollment of more than 25,000, only a handful of students have opted to receive their funds on a prepaid card. At other institutions, considerably more students choose a debit card option.

Many campuses contract with third parties to help them process credit balance refunds effectively and efficiently. A range of services and providers are available to institutions which have to determine the best match for their student body and administrative resources.

**Student Affinity Checking Accounts.** Some institutions, primarily large universities, have entered into agreements with financial institutions to provide banking services to students, staff, and faculty. These agreements vary in many respects so it is difficult to generalize. They may allow a bank account to be connected to the student or staff ID card so that the ID operates as a debit card, affording students and staff who choose to do so the convenience of carrying only one card. NACUBO knows of no agreements that coerce students or staff into opening a bank account—they merely provide the option.

Many students appreciate the simplicity of having one card to carry. Students are not bound or forced into these relationships with financial institutions, nor are punitive measures taken against those not choosing those arrangements. For the convenience of students and staff, agreements with banks often stipulate that branch locations be provided on campus along with ATM access.

**Affinity Credit Cards.** Since the passage of the Credit CARD Act of 2009, the number of affinity credit card agreements between campuses or campus-affiliated organizations and financial institutions has decreased by about 25 percent. Fewer than 300 of the almost 800 agreements in effect in 2011 were with institutions of higher education themselves. Alumni associations, booster clubs, and foundations are more frequently party to such agreements. Such affinity card programs give graduates and others connected to the institution the option of using a credit card bearing the name and logo of their alma mater.

To offer an affinity card, an institution, alumni association, or other entity enters into contractual agreement with a credit card provider (typically a bank) that gives the card provider the right to market the card to individuals who have a close relationship, or “affinity,” with the institution. In most cases, the cards are marketed to alumni, though some agreements also allow marketing to students.

Affinity card programs can benefit both the alumni association and alumni. An alumni association typically receives a payment, or royalty, from the credit card provider for use of the association’s name and logo, or a financial benefit tied to alumni use of the card or both. Revenue generated from affinity card programs saves alumni associations and their institutions from having to find other funds to support alumni engagement activities, scholarships, and programming. For alumni, an affinity credit card is a simple way to support the work of their institution’s alumni association and show pride in their alma mater.

As the CFPB has extensive information on affinity credit card arrangements, NACUBO will not address them in the remainder of these comments.

**1 (d) What information about students is provided by institutions of higher education to financial institutions (e.g., email address, date of birth, program of study)?**

Privacy of student information is tightly regulated under the Family Educational Rights and Privacy Act (FERPA). What level of information a school shares with a partnering financial institution will depend upon the contractual relationship between the two. For instance, for affinity bank account arrangements, the school would probably not release any more than the directory information allowed under FERPA (and may not release that if the agreement does not provide for exchange of marketing information). If, however, a financial institution operates as an agent of the institution, performing duties that school employees would otherwise perform, the school will share all necessary information with the contracting financial institution and the financial institution itself would be required to comply with FERPA privacy protections. Institutions are required under FERPA to provide an annual notice to students detailing any disclosures that it will make to third parties.

Data security is often cited as one of the reasons that colleges or universities decide to use a third-party vendor to process credit balance refunds. The schools are reluctant to take on the task of collecting, verifying, and storing personal bank account information for their students and feel that many vendors are better equipped to handle the tasks and the security.

**1 (e) How are card or other products offered to students (e.g., mandatory, opt-out, opt-in)? Does the student have a choice to decline the product? If so, what steps are required to exercise that choice? Are there any consequences to the student for declining the product?**

First, for affinity bank accounts, all programs that NACUBO is aware of operate as an opt-in, with no consequences for failure to do so.

Under Department of Education regulations (34 CFR 668.164), schools are allowed to adopt a policy that students be paid their Title IV credit balance refunds electronically. These rules were adopted in 2007 when ED was persuaded that electronic disbursement provided considerable benefit to students and schools. Students who do not comply with an institution's request to take the necessary steps to facilitate direct deposit must still be provided with a paper check within the regulatory timeframes. Generally, bank accounts or prepaid card products are offered on an opt-in basis, and the school or its vendor work hard to encourage incoming first-time students to make a choice in a timely manner, because students often need their credit balance refunds quickly at the beginning of the term in order to buy books, pay rent, and cover other expenses. Schools are under strict time tables set by ED for disbursing funds to students so it is important for students to make their choices and provide necessary information early. To this end, schools or their servicers sometimes mail unactivated prepaid cards to students in advance so that they will have them in hand when needed, should the student choose that method of disbursement.

Schools have sought to maximize participation in direct deposit for credit balance payments, using a variety of incentives and disincentives. Some run drawings with prizes for students who take appropriate actions by a certain date. Disincentives are related to the inherent drawbacks of failure to use EFT that slow receipt of funds. Some institutions, for instance, run direct deposits on a daily basis during the first few weeks of the term but cut checks (which require more staff effort) only once a week.

**1 (f) What percentage of students at a college or university use the affinity product (e.g., financial aid disbursement, student checking accounts)? What percentage of financial aid recipients use the affinity product?**

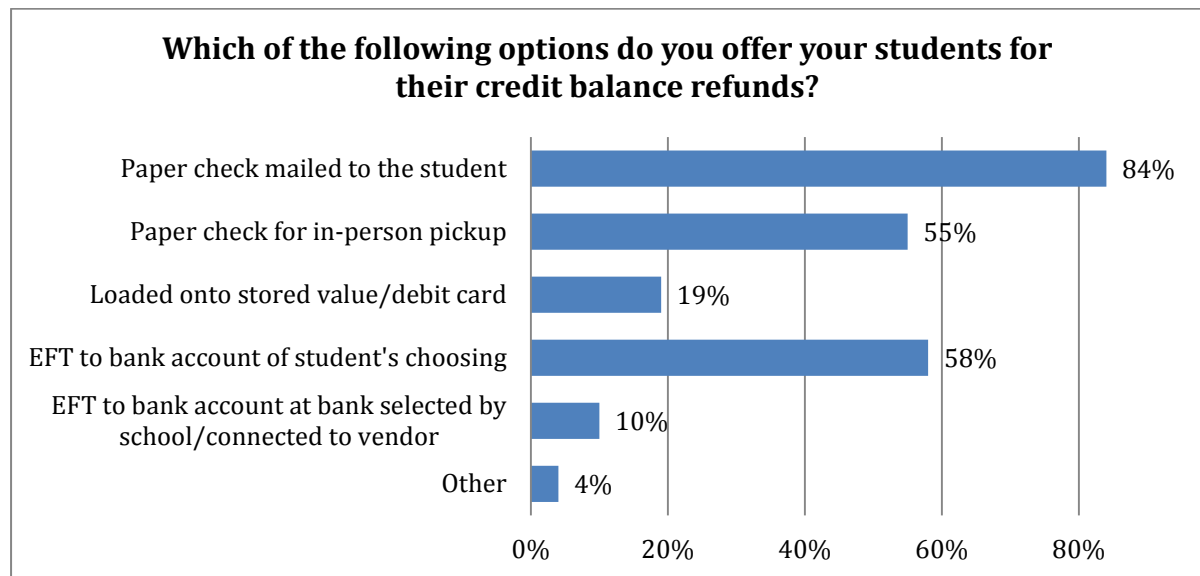
**1 (g) What percentage of students are able to choose a product other than the affinity banking product associated with the institution of higher education? What percentage of students do so?**

NACUBO surveyed colleges and universities about student debit card options in July 2012 to gather more comprehensive and complete information on credit balance refunds and campus-affiliated banking options. Over 400 institutions responded. Our survey did not ask the questions as posed by CFPB, but we did collect relevant data.

Many students who receive financial aid may be eligible for a credit balance refund from their institution. After federal financial aid is applied to tuition and other eligible fees, excess funds (the credit balances) are refunded to students to use for books, housing, food, transportation, and other miscellaneous costs. Credit balances may also result from payments from other sources, such as the student, the institution, and aid from states or other organizations.

Credit balance refunds may be paid in a number of ways, and many institutions offer several options to students. The graph below describes the different ways that responding institutions allow students to receive their credit balance refunds.

We would like to stress that under federal regulations, students are never required to have their reimbursement deposited to an affinity product. An institution may not open an account with a third-party vendor without authorization from the student or parent. Many students arrive at college with a bank account, and they can continue to use their bank account to receive the benefits of EFT. For those students who do not, a pre-existing campus-bank relationship can streamline the process of establishing a new account or a pre-paid card option provides an alternative to a check.



The 2012 NACUBO Student Financial Services Benchmarking survey conducted by NACUBO last spring provides insight on the distribution of credit balance refunds by dollar volume through various payment methods. For FY11, 30 percent were paid by direct deposit, 61 percent by check, and just under 5 percent to a stored value or other transaction card. Community colleges disbursed more funds to cards (20 percent) than other types of institutions. Less than 2 percent of credit balance payments went to cards at research universities or small colleges.

NACUBO encourages colleges and universities to pay credit balance refunds to students by EFT as a way to improve service, protect students, and streamline operations.

**1 (i) To what extent are students able or not able to readily access funds from affinity products while on campus? Does the financial institution provide multiple ATMs? Where are those ATMs located (e.g., on campus, near campus)? Are ATMs also located on branch campuses? Do ATMs charge fees for withdrawal? If so, what are the fees and how are they assessed?**

In NACUBO's July 2012 survey, 64 percent of institutions that have a relationship with a bank apart from the credit balance refund process reported that the bank contract requires on-campus ATMs. In addition, 38 percent required the bank to provide on-campus branch offices. Other contract requirements are included in NACUBO's response to question 1(m).

**1 (j) What is the nature, number, and frequency of complaints related to these campus affinity products?**

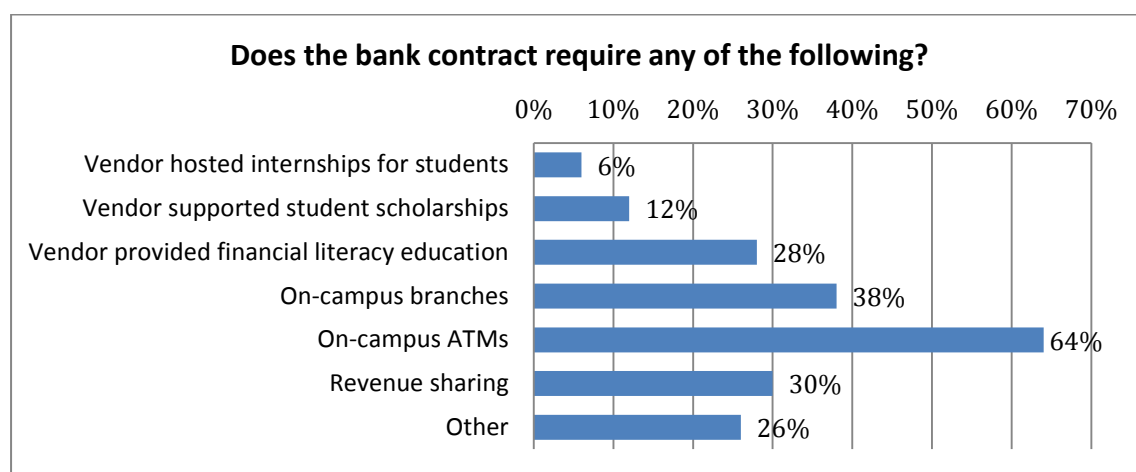
While the July 2012 survey did not ask participants using third-party vendors to report the number of complaints received, we did ask institutions to report their experiences using the vendors. Of those using third-party vendors to distribute credit balance refunds, 69 percent

reported an increase in customer satisfaction. Only 6 percent reported an increase in customer complaints.

**1 (m) What terms do institutions of higher education agree to when they affiliate with a financial institutions to offer students financial products and services?**

Of the 412 institutions responding to the July 2012 NACUBO survey, only 12 percent indicated that they have a relationship with a bank, separate from the credit balance refund process, which allows students to tie bank accounts to the institution’s primary campus ID card. However, nearly 14 percent of institutions that do not have an existing banking-ID card relationship are considering it for the future.

The following chart describes some common requirements found in the contract agreements with financial institutions as reported by those institutions that do have such relationships.



**1 (q) Does an institution of higher education save in operating costs or generate revenue by contracting with a financial aid disbursement vendor? If so, in what amounts?**

Institutions generally save a moderate amount in operating costs when contracting with a vendor of financial aid disbursement. Because the various models differ quite a bit and each institution’s situation is different, it is difficult to put a number to the savings. Institutions that pay servicers realize savings if that amount is less than it would cost the school to use its own systems and employees to perform the necessary functions. Colleges and universities, depending on their available resources, may determine that it makes sense to outsource while others may decide to keep the functions in-house.

Some years ago, when third parties first began offering outsourced processing services for credit balance refunds, some of the contracts did provide revenue back to the institution in certain circumstances. We are told, however, that except for a few legacy contracts that are still in effect, this is not true today.

## **1 (r) What are best practices or model terms for institutions that are looking to set up and/or renegotiate an agreement with financial institutions to offer products and services?**

In December of 2012, in response to the growth of campus-based banking options for students in recent years and to growing public interest in student debit card options, NACUBO recommended to colleges and universities the best practices outlined below. NACUBO places an emphasis on keeping students' interests first and urges colleges and universities to ensure that students have sufficient information available to allow them to be informed consumers.

- 1. Keep Students First.** In ongoing efforts to hold tuition and administrative expenses down, college administrators seek cost savings in a number of ways, including automating manual processes, contracting with private operators for support functions, and establishing new revenue streams. Institutions should put students' interests at the forefront, making business decisions to enhance services available to students—and not do so at their expense.
- 2. Encourage Students to Use Financial Institutions.** Many students enrolling for the first time at a college or university have not yet established personal checking or savings accounts. However, those with bank accounts can typically better manage their money, do not have to carry large amounts of cash, and can benefit from the convenience of debit cards and transaction records. Additionally, most bank accounts are insured and offer fraud protection. Therefore, institutions should encourage students to use financial institutions.
- 3. Offer Choices.** Students have the right to choose their banking relationships, and this should be unambiguous in campus communications. Campus communications should also clearly state that students who already have accounts can use them. Some students may not have or be eligible for a traditional bank account so may prefer a campus-affiliated debit card option. Institutions should ensure that students have sufficient information available to allow them to be informed consumers.
- 4. Encourage Electronic Refunds.** Electronic transactions have become the norm in all aspects of consumer finance—from government payments to retail transactions—because they are faster, safer, less expensive, and more convenient. Schools should encourage students to receive their refunds electronically.
- 5. Utilize a Competitive Process and Limit Exclusivity.** The financial services arena is a fast-changing world for both the industry and consumers, with new options regularly emerging in the marketplace. Students and institutions should not be limited by outmoded choices. When seeking a vendor for financial services, institutions should use a competitive selection or bidding process. Institutions should also limit contracts to no more than five years.
- 6. Engage Students in the Vendor Selection Process.** Students are directly affected by campus contracts with financial institutions for student services, but are not always part of the decision-making process when a vendor is selected. Institutions should encourage student involvement in the process, which can include focus groups, representation on a selection committee, or consultation through student government.
- 7. Comply with Federal and State Regulations.** Colleges and universities take seriously their compliance with the U.S. Department of Education's regulatory and administrative requirements for the Title IV federal student aid programs. Institutions should take steps to ensure that administrators, staff, and vendors comply with all applicable federal and state regulations.
- 8. Negotiate Low or No-Fee Options and Convenient Services for Students.** Just as colleges and universities strive to provide high-quality academic experiences for their students, they must ensure that school-sanctioned services are also good consumer values. For example, school-endorsed financial institutions should provide adequate ATM access on campus or ensure that banking facilities are readily accessible on or near



campus, offer low-cost student account options, educate students to be informed consumers of financial services, and publish clear and transparent fee schedules. Examples of fees and services institutions should pay particular attention to include:

- Account fees—set-up, requesting a card, monthly service, minimum balance.
- Spend fees—making a credit card or debit transaction at a point of sale.
- Cash fees—ATM fees, available surcharge-free networks, cash back at point of sale.
- Deposit fees—depositing money by ATM, ACH, direct deposit, teller.
- Help fees and services—online help, voice help, live agent and/or teller options, balance inquiry.
- Caution fees—inactivity, replacement, overdraft.
- Bill payment options and fees—online pay anyone.

**9. Avoid Unscrupulous Marketing.** Institutions should use great discretion when agreeing to a communication plan to ensure that students are presented with a fair explanation of services and not with misleading, biased, or aggressive marketing schemes.

**10. Make Contracts Transparent.** Institutions should publicly disclose the terms of any agreements with third parties issuing debit cards to students.

These recommendations were developed in consultation with NACUBO's Student Financial Services Council, a group of members representing all types of institutions, and were disseminated widely among the membership.

**1 (s). What types of incentives do affinity agreements offer institutions of higher education?**

Agreements relating to affinity bank accounts may include monetary support to the school in the form of donations to scholarship funds or other earmarked expenses and general revenue support. Some also include favorable terms for student and staff accounts. Other negotiated benefits have included internship opportunities for students, financial literacy programs, alumni association programming, and service learning projects.

**1 (u). To what extent do institutions of higher education solicit requests for proposal for affinity agreements? What are some examples of an institution's request for proposal? Do institutions of higher education provide access to campus property to financial institutions in order to market products or provide workshops?**

Of the 412 institutions responding to NACUBO's July 2012 survey, 26 percent indicated that they use a third-party vendor to process credit balance refunds. Nearly 60 percent of those reported using a competitive bidding process when selecting the vendor. And while only 12 percent reported having a relationship with a bank, apart from the credit balance refund process, that allows students to tie bank accounts to primary campus identification cards, 78 percent of those used a competitive bidding process.

**1 (w). To what extent are financial products bundled with student ID cards? What percentage of students utilize these bundled financial products (e.g., a student ID card that doubles as a debit card, or closed-loop meal card accepted by local business)? Are there any charges or fees associated with the use of the bundled financial product? If yes, how are they assessed?**

Institutions responding to the July 2012 NACUBO survey that indicated that they use a third-party to process credit balance refunds also reported that 24 percent of those stored value or

debit cards used in the refunding of credit balances were linked to the institution's primary campus ID card.

In closing, a bank account is considered by most citizens to be a necessary tool for personal financial management. Few bank accounts, checking or savings, are completely free of fees. Whether a student opts to use an existing bank account or an account opened through a campus third-party vendor, they are likely to face common fees for monthly maintenance, balances below the required minimum, bounced checks, stop payments, ATM or teller use, and debit card use. NACUBO encourages CFPB to perform an independent, objective comparative cost analysis of the fees associated with "affinity" products being examined in this process with account fees at national or regional banks.

We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the CFPB may have about our response. Please direct your questions to Anne Gross, vice president of regulatory affairs, at 202.861.2544 or [agross@nacubo.org](mailto:agross@nacubo.org).

Sincerely,

A handwritten signature in black ink, appearing to read "John Walda". The signature is stylized with a large, looping initial "J" and a cursive "Walda".

John Walda  
President and CEO