Student Refunds and Personal Banking at Colleges and Universities

October 2012

Introduction

NACUBO surveyed colleges and universities about student debit card options in July 2012 to gather more comprehensive and complete information on two very important, but separate, issues for students and higher education institutions: credit balance refunds and campus-affiliated banking options.

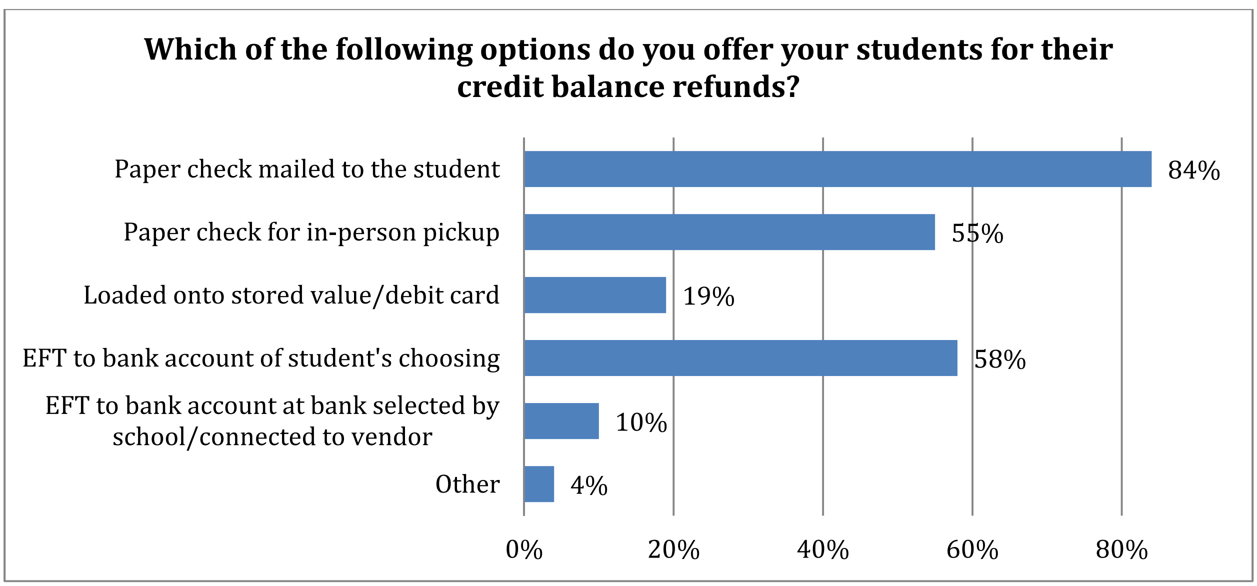
Responses from 412 institutions have allowed NACUBO to respond more accurately to inquiries from Congress, federal officials, and others who have become interested in these topics following the release of a report prepared by U.S. PIRG earlier this year entitled, "The Campus Debit Card Trap: Are Bank Partnerships Fair to Students?"

Of 412 responding institutions, 26 percent use a third-party servicer to help make credit balance payments to students. 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 identification card.

Credit Balance Refunds

Many students who receive federal financial aid are eligible for a credit balance refund from their institution. After federal financial aid is applied to tuition and other eligible fees, excess funds 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.



Another 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 any other type of institution. Less than 2 percent of payments went to cards at research universities or small colleges.

When asked to describe some of the primary considerations during the process of selecting a third-party vendor for credit balance refunds, some respondents replied:

"The school was interested in a more efficient way to process refunds. The delivery of checks was slow and very inconsistent. During difficult budget times, this option was cost effective for the college and provided students with options for a quicker method to receive their refunds."

"The manpower related to handling thousands of paper checks and returned checks was an overwhelming factor. Streamlining the refund process (going from paper to electronic), getting refunds into students hands faster and better service were other considerations."

"We were looking for a financial institution that would provide excellent service to our students and one that would offer a bank debit card at no cost, no fees for receiving refunds and low rates."

Third-party vendors can assist institutions with payment processing, data management, compliance, identity and information protection, and more. This is particularly beneficial for large campuses enrolling tens of thousands of students, and to small and underfunded institutions lacking resources to invest in additional staff and administrative improvements.

Of the 412 institutions responding to the July 2012 survey, 26 percent reported that they contract with a third-party vendor to process credit balance refunds; a third of those that do not are considering doing so in the future.

These third-party vendors provide a variety of services to campuses. Institutions reported that third-party vendors collect information needed to set up EFTs (78 percent), offer debit cards tied to checking accounts (58 percent), cut checks for students (56 percent), communicate directly with students to solicit information and choices (53 percent), and initiate EFTs to pay credit balance refunds (48 percent).

Enhancing Student Service

Electronic transactions have become the norm in all aspects of consumer finance, from government payments (e.g. federal tax refunds, social security payments, state unemployment benefits) to retail transactions because they are faster, safer, and cheaper. Institutions, students, and families are finding that EFT is more convenient and beneficial to all parties.

Responding institutions contracting with third-party vendors for credit balance refunds reported experiencing faster disbursements (80 percent), cost savings (80 percent), fewer lost checks (71 percent), and increased customer satisfaction (69 percent).

Recognizing that very few bank accounts, checking or savings, are completely free of fees, most schools negotiate good terms for students: nearly 77 percent considered potential bank fees (overdraft fees, transaction fees, etc.) when selecting their vendor and almost 60 percent used a competitive bidding process. Over 38 percent reported that student advisors and student organizations were involved in the selection process.

Of the institutions that contracted with a third-party vendor, 55 percent indicated that their agreements are publically available. Agreements are most likely accessible through public records requests (39 percent) or by written request to a specific office on campus (33 percent). An overwhelming majority of institutions (76 percent) contracting with third-party vendors reported that the stored value or debit cards used for refunds were not linked to the campus ID card.

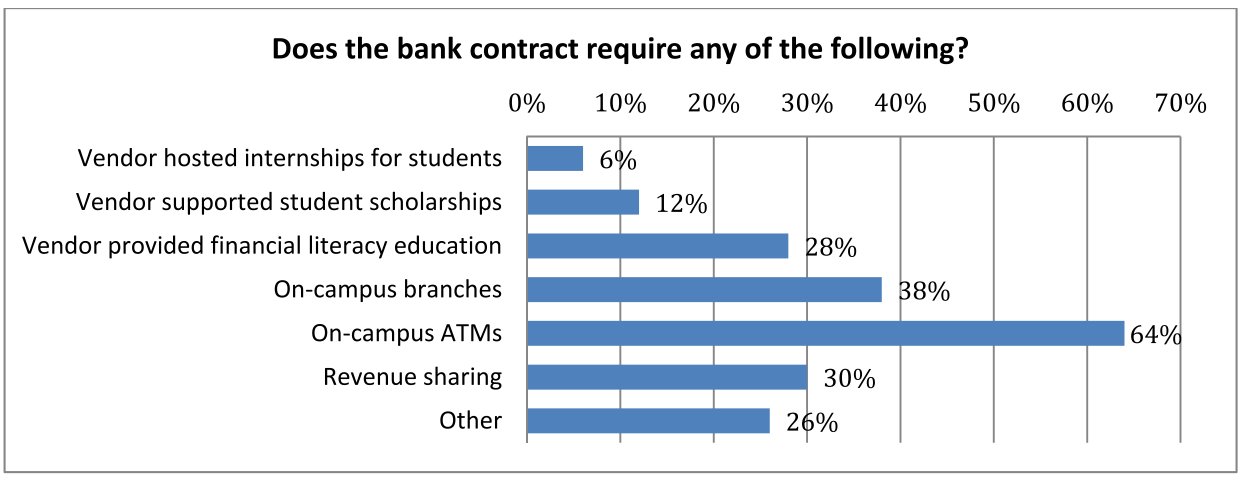
Campus Cards and Personal Banking

Campus cards come in many varieties. The classic student ID cards which historically only enabled students to check out library books can now do everything from unlocking doors to paying for campus goods and services (dining hall, laundry, bookstore) to serving as a debit card affiliated with a personal bank account, typically a checking or prepaid account. First and foremost, these cards are developed to enhance services available to students and the campus community.

Some institutions have opted to coordinate with financial institutions to associate checking or prepaid accounts with campus ID cards and allow the campus card to function as a debit card. These are generally available as a choice to students. Students are not forced into relationships with financial institutions, but many prefer the convenience of only needing to carry one card.

Of the 412 responding institutions, 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 identification 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:



As with credit balance refund vendors, nearly 78 percent of institutions with bank contracts indicated that they followed a competitive bidding process and 53 percent reported that students were involved in the bank selection process.

The details of agreements between banks and institutions are publicly available at 69 percent of participating institutions, with contract documents accessible through written request to a specified campus department or office (46 percent) or through an official public records request (26 percent).

Conclusion
The U.S. PIRG report, which is highly critical of business arrangements between financial institutions and colleges and universities, led policy-makers to call on institutions to promote transparency in these partnerships, negotiate the terms of these arrangements so that students are not charged unreasonable and inappropriate fees, and to protect student privacy.

NACUBO's survey demonstrates that electronic transactions can be faster, safer, and provide cost-savings. Most schools are already making the effort to negotiate good terms for students and use a competitive bidding process, be it for processing credit balance refunds or arranging campus-card affiliated personal banking choices. However, NACUBO also recognizes that there is room for improvement.

NACUBO strongly encourages all campuses to identify banking services that offer low or no fee options for students and endorses transparency and full disclosure in marketing financial products and services to college students.

Commenting on third-party debit card and bank account arrangements two respondents said:

"$5 opens an account with no minimum balance required. We partnered with a federally chartered credit union headquartered in our community. They bested four other bank offers during a competition 5 years ago. They were recently renewed for another 5 years due to outstanding performance."

"We have been pleased overall. We do make extra effort to educate students, faculty and staff on fee avoidance."

NACUBO is preparing recommended best practices for institutions as they establish business arrangements involving student banking choices and further enhance cost-effective student-centered services.

The survey was sent electronically to the chief business officers at 2,036 public and private NACUBO member institutions; 412 institutions responded by the end of the brief data collection period. Respondents represented private four-year institutions (52 percent), public four-year institutions (27 percent), public two-year institutions (20 percent), and private two-year (1 percent).