



FINANCIAL AID REFUNDS AT COLLEGES AND UNIVERSITIES

- Colleges and universities do not profit by providing electronic refunds.
- Electronic refunds are safer, more efficient and more convenient for students, parents and institutions.
- The federal student aid refund process is forcefully regulated by the Department of Education.
- NACUBO strongly encourages campuses to identify banking services that offer low or no fee options for students.

Do colleges and universities profit when processing financial aid payments?

No. Electronic refunds are offered for the benefit of students and families to improve the speed of delivery of refunds.

What are financial aid refunds?

Many students who receive federal financial aid may be eligible for a **credit balance refund** from the institution they are attending. After federal financial aid is applied to tuition and other eligible fees, excess aid is refunded to students to use for books, housing, food, transportation and other miscellaneous costs. Federal regulations strictly define when credit balance payments must occur.

How are refunds distributed to students?

By check. A school may pay credit balances by check. In this case, the checks are either mailed to students or students are notified that the check is available for immediate pick-up.

By an electronic funds transfer (EFT). A school may pay a credit balance by initiating an EFT to a bank account designated by the student or parent. If a student or parent does not provide bank account information, schools must disburse the funds by dispensing cash or issuing a check. Some institutions also offer the option of an EFT to some type of debit or stored-value card but the funds are held in an underlying bank account.

Why do some colleges and universities, as well as many students and parents, prefer EFT?

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.

Faster. Historically, the refund process at colleges and universities entailed long lines of students queuing up at the bursars' office to receive their paper checks. If mailed, paper checks are typically sent by first-class mail. A unique challenge for higher education institutions is the propensity for students to either use their permanent "home" address or change addresses—sometimes multiple times per year—resulting in delays in receipt and hundreds of lost and undeliverable checks. As a result, EFT is usually more convenient and beneficial to students.

Safer. Refunds sent by EFT are sent directly to personal accounts, eliminating the risk of loss or stolen checks. Unbanked students can be left to manage hundreds or thousands of dollars in unprotected cash.

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Cheaper. Providing refunds via EFT creates real cost savings for institutions by automating formerly manual processes and making more efficient use of staff time. Although sometimes less visible to the public and to students and families, covering the cost of administrative activities is a part of the cost of providing a college education. Those students who arrive at college without a bank account often have to pay a check-cashing service to cash their checks.

Why do some institutions partner with banks or other servicers for disbursement management?

Colleges and universities are not banks. Campuses design administrative and financial functions to improve service to students and their parents and find cost savings for the institution. Shifting more financial transactions to a third-party, electronic process has proven beneficial to students and the colleges and universities that serve them. Third-party vendors can assist institutions with data management, compliance with federal regulations, identity and information protection, and more. This is particularly beneficial for large campuses enrolling tens of thousands of students, and to small and under-funded institutions lacking resources to invest in administrative improvements.

Opening an account with a third-party vendor is optional. 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. **When entering into these agreements, NACUBO strongly encourages campuses to identify banking services that offer low or no fee options for students.**

Is student aid being “eaten up by fees”?

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. **The recent U.S. PIRG report claiming student aid is being “eaten up by fees” does not provide an independent, objective comparative cost analysis of the fees associated with accounts they are calling into question versus average checking account fees at national or regional banks.**

How prevalent is the disbursement of financial aid by EFT or to debit-linked campus cards?

While electronic banking is increasingly popular, the majority of credit balance refunds are still paid by check. According to the 2011 NACUBO Student Financial Services Benchmarking survey, direct deposits accounted for 27.6 percent of such payments made by responding institutions. The number was higher, 55.5 percent, at research universities. In contrast, small institutions and community colleges are the most likely to issue paper checks for student refunds (12.6 and 18.5 percent of refunds, respectively, were direct deposits at small institutions and community colleges). The dollar volume of credit balance refunds going to stored value or other transaction cards was quite small, ranging from 12.4 percent at community colleges to less than one percent at small institutions and research universities. 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.