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Banking on Campus Forum

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Note: This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.

Consumer Financial Protection Bureau

Colleges and universities have long played a role in the offering of financial products to students

- Institutions of higher education have partnered with banks and nonbanks to offer:
  - Loans under the now-discontinued Federal Family Educational Loan (FFEL) Program
  - Private student loans
  - Credit cards
  - Student checking accounts
  - Closed-loop stored value card services tied to student ID cards

- To better understand the latest trends in the market, the CFPB published a notice in the *Federal Register* earlier this year and scanned publicly-available information
  - 162 responses from institutions of higher education, nonbank financial companies, technology providers, deposit-taking institutions, students, and consumer advocates

Input from stakeholders has yielded several initial observations

1. While partnerships have potential to provide benefits to students, historically there have also been challenges
2. Financial product marketing partnerships have shifted to student checking and debit and prepaid card products
3. Providers monetize relationships with schools through varying business models
4. College affinity products generally do not appear to have more attractive features compared to other student checking products
5. Arrangements between financial institutions and institutions of higher education on many student banking products not well-understood

1 While partnerships have the potential to provide benefits to students, there have also been challenges

- Student lending
  - *Questionable conduct by school officials:* NY AG found some university personnel to be accepting compensation and gifts from lenders included on school preferred lender lists; some officials owned stock in companies offering loans to students
  - *Cash payments to schools:* some schools received large cash awards from lenders based on volume
  - *In-kind contributions to schools:* financial institutions on preferred lender list were also found to be providing staff support at no charge

- Credit cards
  - *Targeted marketing*: while on campus, some card issuers offered gifts (such as clothing with college insignia) in exchange for applying for a credit card
  - *Incentive payments:* some schools earned commissions for each student who carried a balance

The Higher Education Opportunity Act of 2008 and the Credit CARD Act of 2009 led to changes

- Schools must clearly disclose the method and criteria used to choose lenders appearing on a “preferred lender list” to ensure lenders selected on basis of best interest of borrowers; lender list must include multiple unaffiliated lenders
- Required that covered schools develop a code of conduct, including prohibiting conflicts of interest between the institution’s agents and FFEL lenders (34 CFR 601.21)
- Generally restricts co-branding (such as the use of a university logo or mascot) by student lenders
- CARD Act restricts the use of “freebies” in exchange for a credit card application when marketing on campus
- Credit card issuers who enter into “college card affinity agreements” must submit agreements to a public database administered by the CFPB

Last year, federal regulators reached a settlement with a major provider of student debit card products

- The Federal Deposit Insurance Corporation reached a settlement with Higher One, Inc. and The Bancorp Bank for alleged “unfair and deceptive” practices in violation of the law

- The FDIC found that Higher One and the Bancorp Bank were:
  - Charging student account holders multiple nonsufficient fund (NSF) fees from a single merchant transaction
  - Allowing these accounts to remain in overdrawn status over long periods of time, thus allowing NSF fees to continue accruing

- The FDIC ordered Higher One to provide restitution to approximately 60,000 students and to pay civil money penalties

For further information, see: FDIC Announces Settlements With Higher One, Inc., New Haven, Connecticut, and the Bancorp Bank, Wilmington, Delaware for Unfair and Deceptive Practices

2 Financial product marketing partnerships have shifted toward student checking and debit/prepaid cards

- The CFPB's College Credit Card Agreement Database has shown a reduction in agreements, from 1,045 in 2009 to 798 in 2011, with a large number of agreements focusing on alumni
- According to a submission to the Request for Information, there are almost 900 schools that have a relationship with a third-party provider of student checking, debit card, or prepaid card products
- *Student ID Cards*. Many colleges and universities allow students to use their identification cards to access banking services or partner with banks to offer student checking accounts that carry the university brand
- *Financial Aid Disbursement Cards and Accounts.* Many schools have financial aid disbursement arrangements to disburse credit balances of Pell grants, scholarships, and student loan proceeds, often directing the funds to a debit or prepaid card offered by a third party

3 Providers monetize relationships with schools through varying business models

- *Customer acquisition.* Financial institutions can build an early relationship with young adults with the intent that this relationship will continue and expand

- *Fees.* Financial institutions generate revenue through interchange and account fees (e.g. overdraft, ATM) on student checking and debit card products

- *Cross-selling to schools.* Some providers of financial aid disbursement services also market other business outsourcing or technology solutions to school officials

4 Affinity products do not always have more competitive features, compared to other student checking products

- A search of student checking products unaffiliated with colleges and universities revealed that they have similar product features; in some cases, the unaffiliated financial institutions offered more attractive options (e.g. automatic reimbursement of any ATM fee charged by a third-party operator, mobile check deposit)

- However, some request for information submissions described how students benefit from convenience. For example, students activating debit features on identification cards can carry just one card. Many partnerships between schools and financial institutions include physical branches on campus

- In relatively few instances, a student may be unable to get a checking account unless it is a product arranged through a school partnership

5 Arrangements between financial institutions and schools to offer student banking not well-understood

- The National Association of College and University Business Officers issued best practices in 2012, including a provision that schools publicly disclose terms of arrangements. However, adoption of this best practice appears to be quite low

- *Monetary benefits.* According to the association's survey, 30% of bank contracts included revenue sharing (e.g. commissions paid to schools per student account opening). Other benefits include rents for on-campus branches and contributions to school funds

- *Non-monetary benefits.* Third parties may provide in-kind contributions of staff for identification card offices and other business processing. Some assume liability for compliance with requirements under Title IV of the Higher Education Act

Little information is available about whether codes of conduct exist at schools with product partnerships

- Required codes of conduct restricting conflicts of interest limited to FFEL program (student lending).

- Prior to enactment of the Higher Education Opportunity Act, gifts to school officials included meals, entertainment, sponsorship of conferences, and fees for service on “advisory committees.”

- *Federal Register* notice responses did not indicate whether schools with financial product partnerships restrict the acceptance of gifts by employees and agents.

For further exploration

- How can colleges and universities better use their bargaining power to negotiate product terms and conditions that are more competitive than products available to the general public?
- How can students be better equipped to shop for student checking, debit, and prepaid card products?
- What obstacles do colleges and universities face when seeking to adopt established professional best practices on disclosure of debit card arrangements?
- Have colleges and universities established codes of conduct for employees who negotiate marketing agreements for checking, debit, and prepaid card products (like those required for preferred student lenders)?
- How does the delivery model for federal student aid impact this market? What can be learned from other federal benefit delivery models, such as the Department of the Treasury’s Direct Express program?