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Remarks to the National Summit on College Financial Wellness
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Thank you to the Ohio State University for inviting me to speak today on the importance of financial wellness for students. Institutions of higher education, and all of you here, have a role in supporting and promoting students' overall financial health and wellbeing. Schools play a critical role as a trusted source of information in many facets of students' lives. This is particularly true for students participating in the marketplace for consumer financial products and services for the first time, whether they are considering student loans, credit cards, or other financial products. I want to take time today to discuss how the choices made by the higher education community can support students as they work to find their financial footing and achieve their financial goals.

'Paying for college' and financial well-being

A recent study from Ohio State University paints a troubling picture of widespread financial distress among our nation's college students. This study observed that seven out of 10 college students feel stressed about their personal finances; nearly 60 percent said they worry about having enough money to pay for college and half are concerned about paying their monthly expenses.

This should serve as a reminder that we need to take a holistic view of what it means to "pay for college." It is much more than filling out the FAFSA and accepting a financial aid offer. The financial choices and products students navigate every day, affect the total cost of their higher education, for better or for worse. Products with high fees and traps hidden in fine print can increase students' financial stress. Too many financial lessons are learned through trial and error, where it is costly to recover from a mistake, let alone to achieve financial goals.

In the course of the Bureau's research into what contributes to financial well-being, people told us their financial norms, expectations, knowledge, skills, attitudes and habits were strongly shaped by their experiences, what they had observed, and what they were told by their parents, caregivers, and mentors.

These findings underscore the critical role that colleges play as trusted sources of information for their students, as young people develop their financial decision-making skills and navigate a marketplace where missteps can drive up the cost of college. Colleges are trusted to put their students' interests first, schools can provide a safe place for students to learn these basic financial lessons and avoid the tricks and traps that have placed too many students on precarious financial footing.

Banking on students

Unfortunately, a look back at the recent past suggests that, too often, some colleges ignore their students' needs when considering arrangements with companies that provide financial products or services—striking deals to endorse, sponsor, or steer students into high-cost loans, cards or accounts. These fees can add up for students in a big way. Our research has found that some consumers spend hundreds of dollars a year in these fees—eating away at valuable financial aid dollars.

The troubling practices arising out of these relationships caused one state Attorney General to describe "an unholy alliance between banks and institutions of higher education that may often not be in the student's best interest." And in the past when colleges have failed to protect their students from risky financial products, Congress, the Department of Education, law enforcement agencies, and federal financial regulators have taken action. The pervasiveness of these challenges can be illustrated through marketing arrangements for student loans, credit cards, and checking accounts.

Student loans and "preferred lender lists."

For much of the past half-century, private lenders were the primary source of financing for students and families who borrowed to pay for college. In 2010, Congress ended the guaranteed loan program and switched to direct lending—a decision welcomed by those concerned about unscrupulous practices by student lenders and financial aid officials.

In 2007, the state of New York, under the leadership of then-Attorney General Andrew Cuomo, initiated an investigation into the use of "preferred-lender lists," which are used by college financial aid officers to compile and recommend student loan companies to students.

The investigation found lenders paid large inducements to dozens of colleges in exchange for being placed on their preferred lender lists. This behavior was pervasive, with some of the nation's largest student lenders providing inducements to financial aid administrators directly, including gifts or all expenses paid trips to conferences in exotic places. For example, financial aid staff at one college in the state of New York was found to have accepted all-expense-paid trips to resorts, free meals, and tickets to professional sporting events. The college's director of financial aid even accepted thousands of dollars in payments from one of their recommended lenders–a clear example of pay to play.

When the marketing tactics paid off, the lender would be at the top of a college's preferred lender list or one of only a few lenders recommended to students. Because students and families trust colleges' recommendations and endorsements, students rarely comparison shopped. The New York Attorney General's investigation showed nearly 90 percent of financial aid recipients used a lender from their campus' preferred lender list, many using the lender at the top of the list.

In 2009, in the face of the nationwide investigation, Congress stepped in and passed legislation to require schools to clearly disclose the method and criteria used to choose lenders appearing on a "preferred lender list" and to develop a code of conduct which prohibits revenue sharing. The legislation sought to realign incentives for financial aid administrators and promote a process where students can make decisions based on the merits of each financial product.

As the Chairman of the House Education Committee at that time noted, "Families are already paying too much to send their kids to college, so the idea that lenders would enhance their profits—at the expense of students and families—by offering gifts or other inducements to college officials or engaging in other unethical behavior is especially abhorrent."

Credit Cards and the CARD Act.

At the same time, the credit card industry greatly expanded its marketing efforts on campuses, often marketing co-branded products featuring a college mascot or logo. Credit card issuers would market high interest cards intensively to college students, a population already more likely than other credit card users to end up with high debts. Combined with additional educational debt, high credit card debt began to create a substantial burden for students working to repay their debts.

Widespread marketing efforts featured "free" gifts to students in exchange for completing a credit card application. As one consumer advocate noted in a 2008 House Financial Services Committee hearing, on average, students got five solicitations a month from credit card issuers who used free gifts as inducements to fill out applications. The gifts were intended to take advantage of students' cash shortages by enticing them with offers including pizza, T-shirts, and even iPods.

Colleges were often paid directly by credit card issuers, in exchange for endorsement, sponsorship, or co-branding agreements. These royalty payments, totaling nearly $85 million in 2009 alone, were driven by performance metrics, including the number of new accounts opened and the usage of these credit cards. Simply put, some colleges received more money the more students charged to their cards.

As a result, millions of students took on hundreds of millions of dollars in high-rate credit card debt. According to one industry analyst, 84 percent of undergraduates had at least one credit card and half of all college students had four or more. Graduating seniors carried an average balance of more than $4,100 in credit card debt—debt over-and-above any student loans borrowed to pay for college.

Congress stepped in again to protect students. The Credit Card Accountability, Responsibility and Disclosure (CARD) Act of 2009 set new standards for the credit card industry, including new requirements related to credit card marketing practices on campuses—banning "free gifts" in exchange for completed applications and requiring financial institutions to ensure that student consumers under the age of 21 have the ability to pay their credit card bill, if approved, or to obtain a co-signer. Financial institutions must now disclose their marketing agreements and the amount of any payments they make to institutions of higher education, alumni associations, or associated foundations.

However, I will note that we continue to see signs that some schools sidestep the intent and spirit of these protections and are pushing the boundaries. For example, while the CARD Act requires that colleges publicly disclose their credit card marketing agreements upon request, a recent analysis by the Bureau found that four out of five colleges in our sample did not disclose their agreements on their websites and more than two-thirds of the remaining colleges did not provide access to agreements upon request. As a result, the CFPB has sent warning letters to schools that did not meet these basic transparency requirements. As we've noted before, colleges could easily satisfy their obligations by posting contracts publicly on their websites.

Campus debit cards and other financial products.

But, the story doesn't end with credit cards and student loans. By 2014, multiple government audits documented how financial institutions had aggressively pursued marketing agreements to sponsor checking and prepaid accounts—in total, inking deals at 800 colleges that collectively enrolled 10 million students. In many cases, these co-branded accounts were designed to receive students' financial aid funds directly from school financial aid offices.

An analysis released by the Bureau last year showed that financial institutions are engaging in many of the same marketing tactics to promote these accounts that would be prohibited or restricted for the marketing of student loans or credit cards. Colleges receive substantial new revenue in exchange for promoting these products, including, in some cases, tens of millions of dollars in up-front and ongoing payments, as students adopt and use sponsored accounts.

In contrast, students often saw few benefits. A government audit found that financial companies were steering millions of financial aid recipients into their own college-sponsored financial accounts to collect hundreds of millions of dollars in high and unusual fees, and noted that, in some cases, these products were more expensive for students than those available to the general public.

Again, federal financial regulators and the Department of Education stepped in to protect students from these practices. Between 2012 and 2015, the Federal Deposit Insurance Corporation and Federal Reserve settled several cases with campus account providers for engaging in unfair and deceptive acts and practices. In 2015, the Department of Education issued new rules to ensure that students will be able to freely choose how to receive their federal student aid refunds, that students will be given objective and neutral information about their financial aid disbursement options, and that they will no longer be forced to pay excessive fees to access their federal student aid. Many of these new protections will go into effect at the end of this month.

Hard lessons

In each of the cases I've highlighted today, we observe a common set of facts. First, financial institutions and colleges enter into contracts to market products to students. These contracts provide compensation to the college and, in many cases, do not specify the terms and conditions of the products pushed out to their students. Next, students raise concerns about how these products impact their financial wellbeing, grabbing the attention of consumer advocates, regulators, policymakers, and other stakeholders. In response, policymakers are forced to step in and take action by establishing new consumer protections, such as restrictions on marketing practices, prohibiting high and unusual fees, and expanding transparency requirements.

This cycle of backroom dealing, consumer harm, public outrage, and regulatory reaction does students a disservice. And it teaches us that when colleges and banks make deals behind closed doors, students pay a steep price.

It's up to us to break this cycle and put students first.

As centers of higher learning and pillars of your community, colleges can play a powerful role in helping young people develop their financial decision-making skills and in providing them with safer and more affordable financial products. Ultimately, any effort to chart a new course starts with colleges leading the way.

For three years, we’ve been actively engaged in a dialogue with students, colleges and universities, and financial institutions, in order to understand these stakeholders’ needs. Based on these conversations, we’ve observed a common set of general principles colleges can use to identify safer and more affordable accounts for their students.

- **First, remember, there is no such thing as a free lunch.** While it may be tempting for college officials to look first to financial institutions that offer a direct appeal to a school’s bottom-line, remember this new revenue often comes at a price—companies pass along the costs to your students in the form of fees and finance charges. Before picking a vendor, responsible schools should also consider the economic impact that financial products will have on their students. Colleges can require vendors document the expected fees or finance charges they project your students will pay, making it easier to compare between different product offerings. By leveraging your negotiating power, you can solicit bids for financial products that may be safer and more affordable than what your students could otherwise access. Colleges with current agreements in place may also wish to renegotiate these deals, in order to secure terms and conditions that better meet your students’ needs.

- **Second, don’t negotiate contracts behind closed doors**. Federal law requires certain companies and colleges to publicly report information about marketing agreements for credit cards, such as account openings, revenues generated through college partnerships, and fees charged to students. The new Department of Education rules will require similar reporting for certain deposit accounts, beginning later this year. The Bureau has called on financial institutions to follow this lead and post all marketing agreements between financial services companies and schools. Colleges can play a role here too by posting marketing arrangements on their own websites and requiring vendors to disclose critical information about fees charged to students and revenue generated under these arrangements. Enhanced transparency can spur greater trust that these arrangements are beneficial for students.

- **Finally, seek financial products that can help students reach their financial goals.** Whether intended or not, endorsing or co-branding a financial product signals to your students that your college stands behind the quality of the product—that, in effect, you believe these products are the “right fit” for your students. Trusting your recommendation, students may be lured into a financial product with high or unexpected fees, adding to the burden of paying for college. We’ve heard some college officials defend these arrangements as a way to help control runaway tuition growth or supplement financial aid budgets. However, colleges should be wary of deals that pass on costs to the students least-able to shoulder them. Instead, colleges can view partnerships as an opportunity to help their students overcome common financial challenges. For example, colleges can seek out financial products that protect borrowers from high fees when their financial aid money runs out, or help minimize finance charges when students need cash to cover unexpected expenses. We encourage responsible colleges to think creatively about how to use these partnerships to help meet their students' financial needs.

These three common-sense principles informed the Bureau's Safe Student Account Toolkit, which we released earlier this year to assist schools considering marketing arrangements for college sponsored banking products. I wanted to highlight them today in the belief that you may find them broadly applicable as you evaluate any potential partnership or product that can affect your students' financial wellbeing.

Putting students first

Schools have an opportunity and a responsibility to help prepare young adults to effectively manage their personal finances, both during their time as students on your campuses and beyond. We believe this includes fostering an environment that puts students first, equipping the next generation with the tools to promote financial wellness to others, and promoting safer and more affordable products for your students.

For example, colleges play a critical role in teaching and preparing the next generation of teachers, social workers, and other financial educators. Individual service professionals can have a profound impact on whether future generations have the skills and knowledge for a strong financial life. Through this work you can help ensure they have financial skills and capability that can be passed to others.

It is also important for colleges to prioritize students' financial wellness when considering marketing arrangements with financial institutions instead of an opportunity to supplement their own finances. We know that schools' budgets have been stretched thin over the past decade. We also know that alternative sources of revenue, including lucrative marketing arrangements with banks, are increasingly appealing to school business officers searching for creative ways to fill a gap.

But for far too long, these incentives have pushed a growing segment of the higher education community to think of their students as another resource to "monetize." Our recent history suggests that this thinking is a root cause of these problematic practices and backroom bargains.

The Bureau's research on financial wellbeing indicates that people who are in control of their day-to-day finances have the financial resources and mental bandwidth to weather a financial shock, plan for the future, and make choices about how they live their lives. Unfortunately, a growing body of evidence suggests that the financial strain on today's college students place these foundational goals beyond reach for too many.

As the market for college-sponsored financial products migrates from student loans and credit cards to checking accounts and beyond, we remain concerned about a culture on campus that encourages college officials to maximize revenue coming in the door, even at the expense of students.

As rising college costs cause more students to borrow more and to consider other types of debt in order to make ends meet, student financial wellbeing should be paramount when colleges make business decisions that affect a student's finances. When you consider the next potential product or the next potential partnership, we stand ready to work with you to put your students first.