

August 11, 2014

The Honorable Arne Duncan  
Secretary  
U.S. Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202

The Honorable Richard Cordray  
Director  
Consumer Financial Protection Bureau  
1700 G Street, NW  
Washington, DC 20220

Dear Secretary Duncan and Director Cordray:

I write regarding the need for strong consumer protections relating to “campus banking product” or “campus card” arrangements between educational institutions and financial service providers. In particular, as the Department of Education prepares to move forward with new rules governing colleges’ and universities’ arrangements with financial service providers to deliver student financial aid, students need strong protections relating to the fees they can be charged to access their financial aid funds, fair choice in how funds are delivered, protection from potential conflicts of interest for a university or its officials, and privacy of student information.

As you know, many educational institutions are increasingly partnering with financial service providers to deliver student financial aid through campus banking products or campus cards, which typically involve a prepaid card

loaded with the student's financial aid credit balance or a debit card linked to a checking account opened for a student. While these arrangements can sometimes offer benefits, such as helping some schools to reduce payment processing expenses or expanding student options for receiving funds, they also present challenges.

Most notably, campus cards can expose students to hidden or abusive fees, including overdraft fees, swipe fees, ATM fees, inactivity fees, account closure fees, and fees to transfer the student's money from the campus card to his or her own account.[1] Even worse, students may not be fully aware of these fees up front or of their alternatives for receiving financial aid funds, or the school or financial institution may sign them up through a process that disfavors lower-cost options. Some card providers, for example, will provide a student with an inactive card and allow students to access their aid money immediately if they use the provider's product, but make them wait several days for their funds if they opt for a direct deposit or check instead.[2] At least one school's website also allowed students to sign up for a partner provider's product directly through its main page, while burying alternatives under a much more cumbersome process many clicks away.[3]

Put simply, students should not be charged extra fees to access their financial aid funds, whether at account opening or later, and schools should not be steering students towards high-fee products. The Department of Education and Consumer Financial Protection Bureau (CFPB) can remedy these problems by requiring clear disclosures of all fees and prohibiting the most abusive fees—especially overdraft—for all prepaid cards and other accounts established in connection with the financial aid process or relationship with the school and receipt of student aid funds. In addition to overdraft fees, other examples include charges for customer service, inactivity, to use or transfer the money in an account or close an account, or for failure to maintain a minimum balance. In the case of prepaid cards, which are not yet required to have the same protections as debit cards despite their similar use by consumers, I also urge the Department and CFPB to require Regulation E protections if a card is lost or stolen and FDIC or NCUA insurance.

The structuring of student options also matters. What selection is made for students, for example, when they fail to make an affirmative choice at enrollment or account closure? Does a school or financial institution make it more difficult for students to sign up for lower-fee options than higher-fee ones? Students should have a fair choice to receive funds by direct deposit to an account of their choice, in a manner that is no more onerous or less timely than for a sponsored campus card option. While banks may wish to use campus account relationships to market other services, students' accounts and cards should not be linked to or converted into credit cards or other credit products; the distinction between a campus card and any credit products should be clear, so that students are not inadvertently steered into arrangements that can create additional debt and fees. And when a student closes his or her account, any balance remaining should be transferred to an account of the student's choice without additional charge.

In addition, because many financial service providers pay schools to be the preferred or exclusive provider of campus banking products such as campus cards, there is a clear need for strong rules to address potential conflicts of interest, both at the institutional level and regarding incentives for university personnel involved in the selection of campus banking partners and the financial aid process. Earlier this year, the Department of Education's Office of the Inspector General reported that three of four schools whose campus banking agreements it reviewed "had contractual relationships that included some form of financial incentive that could create the potential for conflicts of interest." [4] As the CFPB has noted, cases in the private student loan and credit card contexts have also sharply illustrated the conflicts that can arise at both the institutional and personal levels.[5] The financial aid system exists for the benefit of students, and students and their parents should have no doubt that school officials are putting the best interests of students first.

Finally, because campus financial product arrangements can involve the use of students' personal information, I also encourage the Department of Education and CFPB to require strong safeguards and oversight to protect

students' privacy and data security. Schools should not be providing, for example, and third-party financial companies should not be collecting, information from students beyond what is necessary to perform their contracted functions.

In an era of tight budgets, schools may be seeking to reduce their costs whenever possible. It is unacceptable, however, if the result means greater expenses or vulnerability for students, particularly those receiving financial aid who, by definition, have the least capacity to bear additional expenses.

I appreciate your attention to this important matter.

Sincerely,

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[1] See U.S. General Accountability Office, College Debit Cards: Actions Needed to Address ATM Access, Student Choice, and Transparency, Feb. 2014, at 45-48 and US PIRG Education Fund, The Campus Debit Card Trap: Are Bank Partnerships Fair to Students?, May 2012, at 32-34.

[2] See U.S. Department of Education, Office of the Inspector General, "Third-Party Servicer Use of Debit Cards to Deliver Title IV Funds," March 10, 2014 ("OIG Report"), at 9.

[3] See OIG Report at 9-10.

[4] OIG report at 15.

[5] Consumer Financial Protection Bureau, Banking on Campus Forum, Sept. 30, 2013, at 4, [http://files.consumerfinance.gov/f/201309\\_cfpb\\_banking-on-campus-forum.pdf](http://files.consumerfinance.gov/f/201309_cfpb_banking-on-campus-forum.pdf). See also, e.g., Jonathan D. Glater, "College Officers Profited by Sale of Lender Stock," The New York Times, April 5, 2007, available at: [http://www.nytimes.com/2007/04/05/education/05loans.html?\\_r=0&pagewanted=all](http://www.nytimes.com/2007/04/05/education/05loans.html?_r=0&pagewanted=all).