

Issue Paper 4

Program Integrity and Improvement Issues

Issue: Cash Management

Statutory Cites: §§484, 487, and 498 of the HEA

Regulatory Cites: 34 CFR Part 668, Subpart K

Summary of issues: Determining if and how cash management regulations in Part 668, Subpart K should be revised to address the allowable timeframes, methods, and procedures for institutions to pay students their Title IV student aid credit balances; whether additional consumer/end user safeguards should be built into procedures that utilize debit/prepaid cards or other financial products for such purposes, to ensure safe, convenient and free access to the full credit balance; and if and how regulations should be promulgated that outline required or prohibited marketing behaviors by institutions, their preferred banks, or contractors for bank accounts, cards or other financial products that are offered to students for, or in conjunction with, the delivery of Title IV credit balances.

Timely delivery of credit balances

Credit balances are the Title IV student aid funds that remain available to students for non-institutional, educational costs, such as living expenses, after institutions have credited their students' accounts with their Title IV student aid funds to pay for institutional charges. Current cash management regulations (34 CFR 668.164 (e) (1) and (2)) require that, after all allowable charges have been paid to an institution using Federal funds, any credit balance remaining must be paid directly to the student within a 14-day period. Institutions can currently satisfy this requirement by:

- Issuing a check to the student;
- Initiating an electronic fund transfer (EFT) to a bank account designated by the student; or
- Disbursing the credit balance to the student in cash and receiving a signed receipt in return.

The use of debit cards to disburse credit balances

When an institution offers to initiate an EFT to an institutionally sponsored bank account, some institutions' contracted financial representatives have been offering students the opportunity to utilize a stored-value or debit card or other financial product to access credit balances. Under many arrangements, students may withdraw their money at ATMs or use the cards to make purchases at selected establishments. Often, institutions have partnered with third-party servicers or other contractors to establish such accounts through a financial partner.

During public hearings held in preparation for these negotiations, some members of the public provided feedback regarding potential negative consequences associated with this method of disbursement. For example, commenters stated that students have complained that the initial

marketing of the debit card is unsolicited and the card bears the institution's insignia, implying that the card is required to secure the student's matriculation. Commenters also voiced concerns that these arrangements may not be in the students' best interests; rather, they may be structured to be in the best interests of the institutions and/or their partners. Others claimed that their funds were not easily accessible.

Finally, commenters voiced concern that some institutions and/or their preferred banks discourage a student's receipt of a credit balance via check or EFT to a student's pre-existing bank account. The commenters stated that disbursements of funds are often delayed to those accounts, further encouraging use of the institutionally sponsored financial product.

Many students are dependent on these funds to meet living expenses and other costs associated with postsecondary education. These comments raise the question of whether the regulations should be revised to ensure that students can reasonably, conveniently, and reliably access the critical Title IV funds they have been awarded, without fees or other costs.

Comments and questions:

Timely delivery of credit balances

- Should the 14-day period for the disbursement of credit balances be revised?

The use of debit cards or other financial products to disburse credit balances

- Should the regulations provide additional banking protections to the more than 9 million students with campus debit cards?
- Does the concept of active consent and authorization by the student before an account can be established and activated need to be clarified or expanded?
- Should the regulations ensure that students receive convenient and free access to the full amount of their credit balance within the time frame designated, which may include explicitly defining what constitutes convenient access to ATMs or other withdrawal methods?
- Should a debit card or other financial product used to deliver student aid be linked to a bank account in the student's name?
- Should the feasibility of a Federally provided stored-use card be explored?
- Should the regulations specify allowable behaviors in cases where Title IV funds and other funds are comingled on a campus debit card?
- With regard to debit card/financial product offerings recommended by institutions to students, should the regulations prohibit specific marketing practices by the institution (or its third party servicer)?
- Should the regulations address the issuance of institutional debit cards or other financial products that depict a co-branding of the institution's logo alongside the logo of its preferred bank/contractor?

- Should the regulations address the practice of coupling the student's school identification card with a debit/prepaid card or other financial product?
- Should the regulations address revenue-sharing agreements between institutions and their preferred banks if the financial product may be used to deliver Title IV student aid?
- Should the regulations require schools, debit card providers, and other financial product providers to present students with objective and neutral information and options on receipt of Federal student aid payments?