Student Refunds and Personal Banking at Colleges and Universities

October 2012

Introduction

NACUBO surveyed colleges and universities about student debit card options in July 2012 to gather more comprehensive and complete information on two very important, but separate, issues for students and higher education institutions: credit balance refunds and campus-affiliated banking options.

Responses from 412 institutions have allowed NACUBO to respond more accurately to inquiries from Congress, federal officials, and others who have become interested in these topics following the release of a report prepared by U.S. PIRG earlier this year entitled, "The Campus Debit Card Trap: Are Bank Partnerships Fair to Students?"

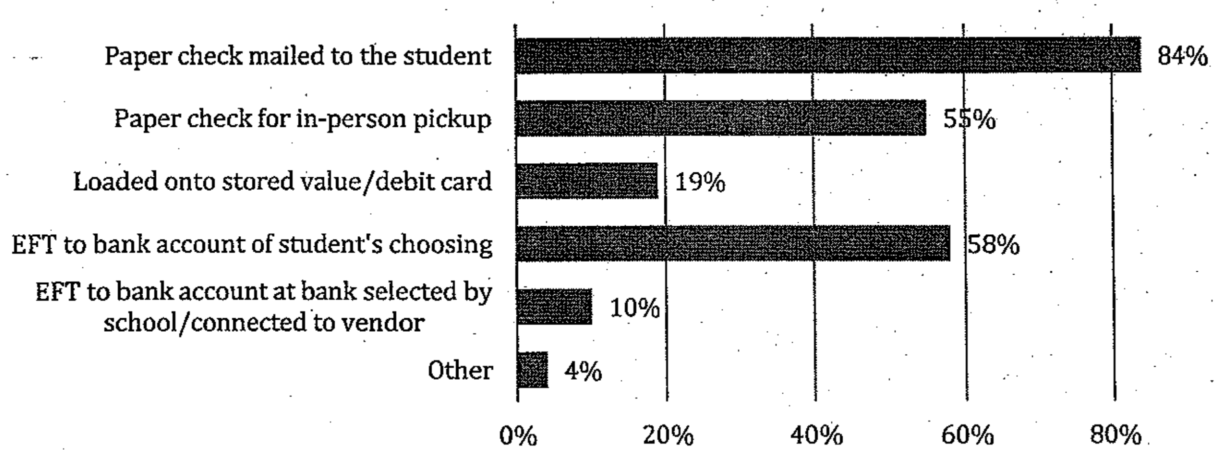
Of 412 responding institutions, 26 percent use a third-party servicer to help make credit balance payments to students. Only 12 percent indicated that they have a relationship with a bank, separate from the credit balance refund process, which allows students to tie bank accounts to the institution's primary campus identification card.

Credit Balance Refunds

Many students who receive federal financial aid are eligible for a credit balance refund from their institution. After federal financial aid is applied to tuition and other eligible fees, excess funds are refunded to students to use for books, housing, food, transportation, and other miscellaneous costs. Credit balances may also result from payments from other sources, such as the student, the institution, and aid from states or other organizations.

Credit balance refunds may be paid in a number of ways, and many institutions offer several options to students. The graph below describes the different ways that responding institutions allow students to receive their credit balance refunds.

Which of the following options do you offer your students for their credit balance refunds?



Another survey conducted by NACUBO last spring provides insight on the distribution of credit balance refunds by dollar volume through various payment methods. For FY11, 30 percent were paid by direct deposit, 61 percent by check, and just under 5 percent to a stored value or other transaction card. Community colleges disbursed more funds to cards (20 percent) than any other type of institution. Less than 2 percent of payments went to cards at research universities or small colleges.

When asked to describe some of the primary considerations during the process of selecting a third-party vendor for credit balance refunds, some respondents replied:

"The school was interested in a more efficient way to process refunds. The delivery of checks was slow and very inconsistent. During difficult budget times, this option was cost effective for the college and provided students with options for a quicker method to receive their refunds."

"The manpower related to handling thousands of paper checks and returned checks was an overwhelming factor. Streamlining the refund process (going from paper to electronic), getting refunds into students hands faster and better service were other considerations."

"We were looking for a financial institution that would provide excellent service to our students and one that would offer a bank debit card at no cost, no fees for receiving refunds and low rates."

Third-party vendors can assist institutions with payment processing, data management, compliance, identity and information protection, and more. This is particularly beneficial for large campuses enrolling tens of thousands of students, and to small and underfunded institutions lacking resources to invest in additional staff and administrative improvements.

Of the 412 institutions responding to the July 2012 survey, 26 percent reported that they contract with a third-party vendor to process credit balance refunds; a third of those that do not are considering doing so in the future.

These third-party vendors provide a variety of services to campuses. Institutions reported that third-party vendors collect information needed to set up EFTs (78 percent), offer debit cards tied to checking accounts (58 percent), cut checks for students (56 percent), communicate directly with students to solicit information and choices (53 percent), and initiate EFTs to pay credit balance refunds (48 percent).

Enhancing Student Service

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. Institutions, students, and families are finding that EFT is more convenient and beneficial to all parties.

Responding institutions contracting with third-party vendors for credit balance refunds reported experiencing faster disbursements (80 percent), cost savings (80 percent), fewer lost checks (71 percent), and increased customer satisfaction (69 percent).

Recognizing that very few bank accounts, checking or savings, are completely free of fees, most schools negotiate good terms for students: nearly 77 percent considered potential bank fees (overdraft fees, transaction fees, etc.) when selecting their vendor and almost 60 percent used a competitive bidding process. Over 38 percent reported that student advisors and student organizations were involved in the selection process.

Of the institutions that contracted with a third-party vendor, 55 percent indicated that their agreements are publically available. Agreements are most likely accessible through public records requests (39 percent) or by written request to a specific office on campus (33 percent). An overwhelming majority of institutions (76 percent) contracting with third-party vendors reported that the stored value or debit cards used for refunds were not linked to the campus ID card.

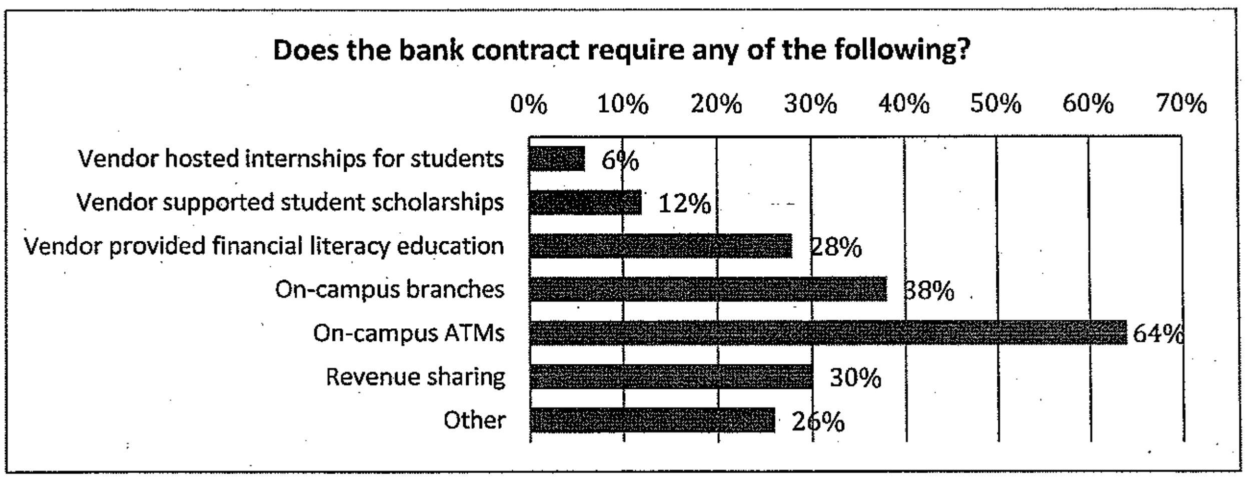
Campus Cards and Personal Banking

Campus cards come in many varieties. The classic student ID cards which historically only enabled students to check out library books can now do everything from unlocking doors to paying for campus goods and services (dining hall, laundry, bookstore) to serving as a debit card affiliated with a personal bank account, typically a checking or prepaid account. First and foremost, these cards are developed to enhance services available to students and the campus community.

Some institutions have opted to coordinate with financial institutions to associate checking or prepaid accounts with campus ID cards and allow the campus card to function as a debit card. These are generally available as a choice to students. Students are not forced into relationships with financial institutions, but many prefer the convenience of only needing to carry one card.

Of the 412 responding institutions, only 12 percent indicated that they have a relationship with a bank, separate from the credit balance refund process, which allows students to tie bank accounts to the institution's primary campus identification card. However, nearly 14 percent of institutions that do not have an existing banking-ID card relationship are considering it for the future.

The following chart describes some common requirements found in the contract agreements with financial institutions as reported by those institutions that do have such relationships:



As with credit balance refund vendors, nearly 78 percent of institutions with bank contracts indicated that they followed a competitive bidding process and 53 percent reported that students were involved in the bank selection process.

The details of agreements between banks and institutions are publicly available at 69 percent of participating institutions, with contract documents accessible through written request to a specified campus department or office (46 percent) or through an official public records request (26 percent).

Conclusion
The U.S. PIRG report, which is highly critical of business arrangements between financial institutions and colleges and universities, led policy-makers to call on institutions to promote transparency in these partnerships, negotiate the terms of these arrangements so that students are not charged unreasonable and inappropriate fees, and to protect student privacy.

NACUBO's survey demonstrates that electronic transactions can be faster, safer, and provide cost-savings. Most schools are already making the effort to negotiate good terms for students and use a competitive bidding process, be it for processing credit balance refunds or arranging campus-card affiliated personal banking choices. However, NACUBO also recognizes that there is room for improvement.

NACUBO strongly encourages all campuses to identify banking services that offer low or no fee options for students and endorses transparency and full disclosure in marketing financial products and services to college students.

Commenting on third-party debit card and bank account arrangements two respondents said:

"$5 opens an account with no minimum balance required. We partnered with a federally chartered credit union headquartered in our community. They bested four other bank offers during a competition 5 years ago. They were recently renewed for another 5 years due to outstanding performance."

"We have been pleased overall. We do make extra effort to educate students, faculty and staff on fee avoidance."

NACUBO is preparing recommended best practices for institutions as they establish business arrangements involving student banking choices and further enhance cost-effective student-centered services.

The survey was sent electronically to the chief business officers at 2,036 public and private NACUBO member institutions; 412 institutions responded by the end of the brief data collection period. Respondents represented private four-year institutions (52 percent), public four-year institutions (27 percent), public two-year institutions (20 percent), and private two-year (1 percent).

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CAMPUS CARDS & PERSONAL BANKING

- **The recent U.S. PIRG report conflates the student aid refund process with debit-linked college and university campus cards.**
- **Students have a choice in deciding where and how to manage personal banking and financial transactions.**
- **Campus cards are offered to students for service, convenience, and security.**
- **Effective cost management and streamlining administrative services are ongoing components of institutions' continuing efforts to contain college costs.**
- **NACUBO strongly encourages campuses to identify banking services that offer low or no fee options for students and endorses transparency and full disclosure in marketing financial products and services to college students.**

Campus cards at colleges and universities come in many varieties. The classic student identification cards which historically only enabled students to check-out library books can now do everything from unlocking doors to paying for campus goods and services (dining hall, laundry, bookstore) to serving as a debit card affiliated with a personal bank account, typically a checking or prepaid account. First and foremost, these cards are developed to enhance services available to students and the campus community.

Colleges and universities are not banks. Higher education institutions are constantly exploring ways to offer improved service to students and their parents as well as find cost savings for the institution. Shifting more financial transactions to third-party, electronic processes have 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, such as PCI DSS compliance, and more. This is particularly beneficial for large campuses enrolling tens of thousands of students.

Cost containment is a priority for colleges and universities. Institutions realize cost savings by automating manual processes and in some cases, establishing new revenue streams other than tuition increases or fundraising activities. Because of the complexity and breadth of services that colleges and universities provide, institutions have a long history of contracting with private operators for support functions, including food services, printing, bookstores, and housing. These relationships often provide both direct and indirect returns such as access to technology and equipment, including state-of-the-art software; increased efficiency and better use of staff time, and auxiliary revenues which are much needed with constant decreases in state support as well as pressure to curtail tuition increases.

Campus cards typically fall into one of two categories:

Closed-Loop Campus Cards. These cards operate as pre-paid debit cards. Funds deposited by students may be held in underlying bank accounts or campus-based student accounts. A closed-loop card may provide student identification, dining, vending, laundry, printing, door entry, and on some campuses, debit transactions at specifically designated off-campus locations, including supermarkets, pharmacies, and restaurants. There is an institutional cost for any campus card program and merchant participation or transaction fees may help cover closed-loop card service costs. Student organizations may also accept debit transactions at campus and student union events. A student's relationship with a closed-loop campus card account ends when the student graduates or withdraws from the institution.

Bank and Financial Firm Affiliated Campus Cards. Some institutions have opted to coordinate with financial institutions to associate checking account or prepaid accounts with campus identification cards and allow the campus card to function as a debit card. These are generally available as a voluntary choice to students. Many students appreciate the simplicity of having one card to carry. **Students are not bound or forced into these relationships with financial institutions, nor are punitive measures taken against those not choosing those arrangements.**

Before technology made multipurpose campus cards safe, efficient, and convenient, colleges and universities often had separately administrated door key systems, library copy cards, and dining cards. The whole process was labor-intensive, inaccuracies were common, and there were significant time lags, with student account information and the various systems often out of sync. Campus cards have evolved to provide an administratively efficient, cost-effective, customer-oriented product. The ability to use cards with off-campus merchants provides more options to students and can bring greater economic benefits to towns and communities near campuses. For the convenience of students and staff, agreements with banks often stipulate that branch locations be provided on campus along with ATM access.

NACUBO strongly encourages campuses to identify banking services that offer low or no fee options for students. Additionally, NACUBO endorses a standard for transparency and full disclosure in marketing financial products and services to college students.

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FINANCIAL AID REFUNDS AT COLLEGES AND UNIVERSITIES

- **Colleges and universities do <u>not</u> 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.

National Association of College and University Business Officers
1110 Vermont Ave., NW, Suite 800 • Washington, DC 20005 • 202.861.2500
www.nacubo.org

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.