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U.S. Could Target Colleges Steering Students To Certain Banks

A Rule Would Prevent Steering Students Awarded Financial Aid to School-Affiliated Banks

By Alan Zibel

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WASHINGTON--The U.S. government is considering preventing colleges and universities from steering students who receive federal financial aid into bank accounts offered by firms that have business relationships with schools.

An Education Department proposal would require schools to make sure students are "not steered to, or compelled to select, a particular option" for receiving financial-aid money, according to a draft reviewed by The Wall Street Journal. The plan is being discussed at a public hearing starting Wednesday and could change based on feedback.

The government proposal would put limits on a practice in which some schools encourage students to open accounts with a particular institution, often through a debit card that bears their college's logo. These arrangements, popular at state schools and community colleges, have come under fire from consumer and student groups, who say they are too costly.

Students use these accounts to receive federal student loan money after their school deducts tuition payments. More than 850 schools with around 10 million financial-aid recipients have such arrangements, according to a Government Accountability Office study published in February. Some schools receive a cut from financial firms to use the cards, which often also function as a student's identification card.

The Education Department proposal, if put into place without major changes, would mean stiff new regulations for financial firms signing deals with schools.

The agency has convened a panel of financial companies, colleges and consumer groups to try to negotiate a mutually agreeable compromise. If they don't, the government can still move ahead with its proposal.

Under the Education Department's plan, fees for account maintenance, automated-teller-machine use and overdrafts would be banned, and cards associated with such accounts would no longer be able to carry school logos. Colleges would have to make sure it is easy for students to have money deposited into bank accounts they have already set up.

"This is a big step forward in trying to clean up the marketplace," said Chris Lindstrom, higher education program director at the U.S. Public Interest Research Group, which has been campaigning for such changes.

Schools are already required to offer other options besides such accounts, including paper checks and direct deposit. But critics say some schools and card companies market such cards aggressively and make it inconvenient to get financial-aid money deposited into other accounts.

One company, Higher One Holdings Inc., is the main player in the market for college-sponsored accounts, with a 57% share of the market, the GAO report said.

The company's practices have triggered a backlash on some campuses, with students criticizing Higher One for imposing excessive fees on its accounts, including a \$2.50 fee for using a non-Higher One ATM and a 50-cent fee for some debit transactions.

"There was a fee for almost anything you could imagine," said Bill Campbell, a 2013 graduate of Western Washington University in Bellingham, Wash., who led an anti-Higher One campaign on his campus. Students, he said, would be far better off using another bank or credit union.

Higher One executives say they have cut fees in response to such criticism, but say the Education Department's proposal is too stringent. "The new rules have the potential to create new barriers for students who want to get their (money) immediately, additional administrative responsibilities for colleges and universities, and increased potential for fraud," Mark Volchek, the company's chief executive, said in a statement.

College officials say they save money through these relationships, avoiding the administrative expense of paying out financial-aid money themselves. The cards are most prevalent at schools that have been hit by budget cuts and are looking for ways to earn money through fees paid by financial firms.

In one such arrangement, PNC Financial Services Group Inc. paid Oxford, Ohio-based Miami University, \$400,000, plus up to \$200,000 a year, according to a 2012 agreement. The Consumer Financial Protection Bureau, which has been critical of such relationships, published that document online last month.

A Miami University spokeswoman said students aren't compelled to use PNC. "Students have the choice of bank that they want to use," she said. A PNC spokeswoman said the company's student accounts have no debit card fees and protections against overdraft charges.

Major banks, such as U.S. Bancorp and Wells Fargo & Co., also have arrangements with universities to offer accounts to students. A Wells Fargo spokesman declined to comment on the Education Department proposal, but said students in its college-card programs have "a clear, upfront choice to receive funds through the method they select." A U.S. Bank spokeswoman didn't comment, and a Citigroup spokeswoman declined to comment.