Testimony on "Financial Products for Students: Issues and Challenges"

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U.S. PIRG

Federation of State PIRGs

Thank you Chairman Johnson, Ranking Member Crapo, and other distinguished Senators for giving me this opportunity to speak. My name is Chris Lindstrom, and I am the Higher Education Program Director with the U.S. Public Interest Research Group (U.S. PIRG). U.S. PIRG is a federation of state based consumer protection groups, which have 75 campus chapters in 20 states across the country. On behalf of those student chapters, our project works to promote affordable and manageable student loan policy, to increase grant aid, and to protect student consumers on campus.

The topic of today's hearing is broad, so I will focus my remarks on issues that U.S. PIRG has been actively tracking and promoting related to the role of financial institutions on campus. Our top priority over the past two years has been the debit cards and bank accounts that millions of students are exposed to on campus each term. I will also briefly touch on the private and institutional loans that students may take up to pay for college.

Since 2007, we've worked to ensure that students are protected from the tricks and traps layered into high-cost products like campus credit cards, private student loans, and campus bank accounts and debit cards. Right now, students are being hit with high fees that are hard to avoid as they try to access their federal aid refunds through campus-sponsored bank accounts and pre-paid debit cards. The lowest income students, who receive the most in financial aid, are the prime targets for these products and are the hardest hit. Paying extra fees to access financial aid through a campus-sponsored account, combined with a high student debt burden and other pressing financial concerns such as child care and transportation costs, can overwhelm low income students and cause them to withdraw from post-secondary programs.

We found in our 2012 report, *The Campus Debit Card Trap*, that two in five college students in the country are exposed to debit cards on campus that may drive up their costs. Students at some campuses are charged steep and unusual fees to get to their federal financial aid, including PIN transaction fees at the point of sale and overdraft fees at $37 or more. On the whole, these accounts are not necessarily a better deal for students than what they might find through a bank not affiliated with campus.[i]

Still, industry leading banks and financial firms can see 40 to 75 percent of students on a campus using the campus based products after a few years of marketing.[ii] How do they do it? How do they get such high uptake into accounts that are not any better, and in many cases, worse, than what they would get in accounts off campus? How are they profiting?

First, banks and financial firms behind these products often rely on revenue-sharing agreements with campus administrations to gain dominant access to students on campus. Contracts disclosed to the Consumer Financial Protection Bureau, as part of its investigation launched last year include receiving direct payment to use the school's logo, providing bonuses for recruiting students, and discounted pricing in exchange for marketing access.

Second, they use push marketing and other strategies to steer students into opening up these new accounts over using their existing accounts. Higher One, a prominent financial firm in this market, pre-mails a card to every student on campus, before they have opted in or out. The cards are co-branded with the college logo, giving the impression that the student must open the account.[iii]

Once the student logs on-line to opt in or opt out, Higher One steers folks into their accounts by slowing down their aid disbursements if they make a choice other than Higher One. This makes it unfairly onerous to set up direct deposit to an existing bank account to receive funds.

At another college, bank representatives actually set up tables right outside the student ID office, and pitch students as they apply for their IDs to sign up for a bank account right then and there. These bank accounts can be accessed right through the student ID card. Students can get freebies like bags and tee shirts for signing up.[iv]

Finally, the fees can be high, and unusual. Fees on university-sponsored cards include a variety of PIN swipe fees, inactivity fees, overdraft fees, ATM fees and fees to reload prepaid cards. These fees can be hard to avoid – for example, if a merchant only accepts PIN debit, or there is no fee-free ATM available. Additionally, if these fees are being paid out of federal loan funds, then students are paying interest on these fees for at least a decade.

All campus bank accounts and prepaid card services charge overdrafts. Overdraft coverage is a form of credit, since the financial institution covers the consumer's shortfall and subsequently is repaid the amount extended plus a fee. Some banks engage in the abusive practice of purposefully "reordering" transactions to maximize overdraft fees. In 2012, the FDIC settled a case with Higher One for $11 million dollars over similar claims.[v] Overdraft fees are inconsistent with the Department of Education's existing rules on school-sponsored accounts, which state that schools, and the financial institutions handling financial aid refunds on the school's behalf, *cannot* market a card or account as credit or convert it to a credit instrument.

Department of Education rules also require that students be provided 'convenient' fee-free ATM access. In practice, such access can be limited. At many community colleges, there is a run on the campus ATM machines on the day that financial aid is disbursed. The machines are cleaned out of cash early so students at the back of the line must go to a foreign ATM machine to access their aid, where they incur fees. Also, machines on campus may be closed for maintenance for days at a time, or be located in buildings that are locked at nights and on weekends.

One argument that is being made in defense of these campus banking products is that too many low income students are not able to acquire a bank account other than on campus, and by controlling their access to campus bank accounts, their access to other beneficial products available in the mainstream financial marketplace is blocked. The CFPB laid this argument to rest at a recent presentation to the U.S. Department of Education. The agency analyzed data from the Federal Deposit Insurance Commission and the Current Population Survey. It found that very few students – less than half a percent -- are legitimately unable to secure a bank account. What that means is that a new student on campus doesn't have a bank account because she has chosen not to have one, or hasn't gotten one yet.[vi] So, put simply, students do not *need* campus sponsored bank accounts.

There is a steady drumbeat of evidence that campus-sponsored accounts are a bad deal for students. In the past two years, at the request of Senator Dick Durbin (D-IL) and Representative George Miller (D- CA), the CFPB has undertaken an investigation;[vii]so has the Department of Education's Inspector General which resulted in a recent report,[viii] and finally, the General Accounting Office has recommended policy changes that would benefit students.[ix] There is also a class action lawsuit pending in Connecticut[x] and two major enforcement actions by the FDIC[xi] and the Federal Reserve Board[xii] with another still in development. The Department of Education is also in the process of updating its rules to address similar concerns.

While these actions are encouraging, I urge you to promote solutions from this chamber as well. Our elected leaders in the Senate can act directly on behalf of students and families shouldering high costs associated with higher education.

I urge you to consider legislation that bans revenue-sharing agreements between colleges and banks or financial firms crafted specifically to offer bank accounts and related banking products to students on campus. The conflict of interest inherent in these agreements is problematic for the student consumer. We've seen this conflict of interest before in the campus marketplace around private student loans and campus credit cards. In fact, both Congress and the Department of Education have acted decisively in recent years to limit push-marketing tactics, revenue sharing, and unfavorable terms on private student loans and credit cards offered on campus. Now is the time to extend similar solutions to campus bank accounts and related products. Such a solution would remove any financial incentive for a college to "monetize" its relationship with a bank in a way that harms students. Specifically, effective legislation would ban banks and financial firms from offering compensation to schools for assisting in the marketing of financial products; and would further require that any financial products recommended by the college to students be in the students' best interests.

Private student loans are another financial product targeting students. While these loans only accounted for seven percent of all educational loans made last year, they are very risky. Private student loans, like credit cards, generally offer variable interest rates that are higher for those borrowers with the least means. Repayment options are also severely limited. While the market for private student loans shrunk due to the financial crisis, it is expanding once again.[xiii] According to the CFPB, the majority of private student loan borrowers have not maximized their federal student loans before turning to private loans. I encourage you to consider legislation that will add more checks and balances into the private student loan market, specifically by requiring that all private student loan products must be certified by the student's financial aid office before approval.

In a similar vein, institutional private loans deserve scrutiny. A Senate HELP committee investigation found that half a million students leave their for-profit college without a degree, shouldering high debt levels that are more challenging to manage without credentials.[xiv] Before the financial crisis, for-profit colleges played the role of financial institution, offering institutional private loans to student recruits on top of their federal loans. While many of these institutional loan programs have been discontinued, borrowers who are in repayment now carrying these loans are dealing with high costs and little recourse. We urge you to consider offering restitution for these borrowers who are ensnared in these bad loan deals.

[i] Report, The Campus Debit Card Trap, U.S. Public Interest Research Group Education Fund, May 30, 2012.
[ii] Issue brief, Perspectives on Financial Products Marketed to College Students, The Consumer Financial Protection Bureau, March 26, 2014.
[iii] News story, New Haven's Higher One Faces New Restrictions in Draft Federal Rules, The New Haven Register, March 25, 2014.
[iv] News story, Bank Pays $34 Bounty for New College Customers, ABC News, September 5, 2013.
[v] Press release, FDIC Announces Settlements With Higher One, Inc., New Haven, Connecticut, and the Bancorp Bank, Wilmington, Delaware for Unfair and Deceptive Practices, Federal Deposit Insurance Commission, August 8, 2012.
[vi] Issue brief, Perspectives on Financial Products Marketed to College Students, The Consumer Financial Protection Bureau, March 26, 2014.
[vii]Press release, CFPB Launches Inquiry On Campus Financial Products, January 31, 2013.
[viii] Report, Third-Party Servicer Use of Debit Cards to Deliver Title IV Fund, Department of Education Office of the Inspector General, March 10, 2014.
[ix] Report, College Debit Cards: Actions Needed to Address ATM Access, Student Choice, and Transparency, General Accounting Office, February 13, 2014.
[x]Press release, Higher One Agrees to Settle Class Action Regarding OneAccount Fees, Tycko and Zavareei, July 23, 2014.
[xi] Press release, FDIC Announces Settlements With Higher One, Inc., New Haven, Connecticut, and the Bancorp Bank, Wilmington, Delaware for Unfair and Deceptive Practices, Federal Deposit Insurance Commission, August 8, 2012.
[xii] Press Release, Board of Governors of the Federal Reserve System, July 1, 2014.
[xiii] Report, Private Loans, Public Complaints: The CFPB's Consumer Complaints Database Gets Real Results for Student Borrowers, U.S. Public Interest Research Group Education Fund, October 24, 2014
[xiv] Report, For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success, Senate Health Education, Labor and Pensions Committee, July 30, 2012.