

College Students to Benefit from Proposed Regulations Targeting Troubling Practices in Rapidly Expanding College Debit, Prepaid Card Marketplace

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The U.S. Department of Education announced proposed regulations, available for public inspection today in the [Federal Register](#), aimed at protecting as many as 9 million college students receiving \$25 billion in federal student aid by providing tougher standards and greater transparency surrounding agreements between colleges and companies in the rapidly expanding college debit and prepaid marketplace. The proposed regulations are intended to safeguard students from excess fees and provide students the freedom to choose how to access their federal student aid funds when paying for college. The action by the Department would bring much needed reforms to a sector that has operated without sufficient transparency, putting taxpayer dollars at risk of financial loss.

"It is critically important to ensure that students can freely choose how to receive their federal student aid refunds," said U.S. Under Secretary of Education Ted Mitchell. "Students need objective, neutral information about their account options. For example, students should be able to choose to receive deposits to their own checking accounts and not be forced to utilize debit cards with obscure and unreasonable fees."

Recent changes in the higher education marketplace have led to the proliferation of campus debit and prepaid card accounts offered to students in exchange for monetary and other benefits to schools. Increasingly, students are receiving their Title IV credit balances — money refunded to them after tuition and fees are paid to the school — through these accounts.

Reports from consumer groups and government sources have described troubling practices arising from college card agreements. Such as:

- The lack of meaningful choice in the student financial products marketplace.
- The lack of clear and neutral information for students considering account options.
- The lack of transparency surrounding college card agreements.
- Evidence that third-party servicers use their access to student information to persuade students to select their account over other options. And,

- Evidence that some students are incurring unreasonably high fees by using these accounts and are losing their federal student aid funds as a result.

Given the number of students potentially affected by these agreements, the amount of taxpayer-funded assistance at stake, and the expanding breadth of the market, regulatory action has become necessary.

About 40 percent of all postsecondary students — 9 million — are enrolled in institutions that have debit or prepaid card agreements with about \$25 billion in Pell Grant and Direct Loan program funds disbursed to students at those institutions annually.

Under the regulations being offered for public comment today, institutions would be required to give students greater choice about how to receive their student aid. The proposed regulations would:

- Prohibit institutions from requiring students or parents to open a certain account into which their credit balances are deposited.
- Require institutions to ensure that students are not charged overdraft fees if students select an account offered directly or indirectly by contractors that assist institutions in making direct payments of federal student aid.
- Require an institution to provide a list of account options that a student may choose from to receive credit balance funds, where each option is presented in a neutral manner and the student's preexisting bank account is listed as the first, most prominent, and default option. And,
- Require institutions to ensure electronic payments made to a student's preexisting account are as timely as, and no more onerous to the student than, payments made to accounts marketed through the institution.

Through these proposed protections, the Education Department seeks to protect students from unreasonable account fees, safeguard taxpayer dollars, provide transparency regarding accounts offered to students by requiring disclosure of the agreements between institutions and financial account providers as well as the costs students incur, ensure students have a choice about how to receive their federal aid, and prohibit their personal information from being shared without their consent.

Members of the public can submit comments on the proposed regulations for the next 45 days by selecting the Department's "Program Integrity and Improvement" package on www.regulations.gov.