

# Cash Management Regulations Overview

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U.S. Department of Education

# Need for Regulatory Action

# Proliferation of Campus Cards

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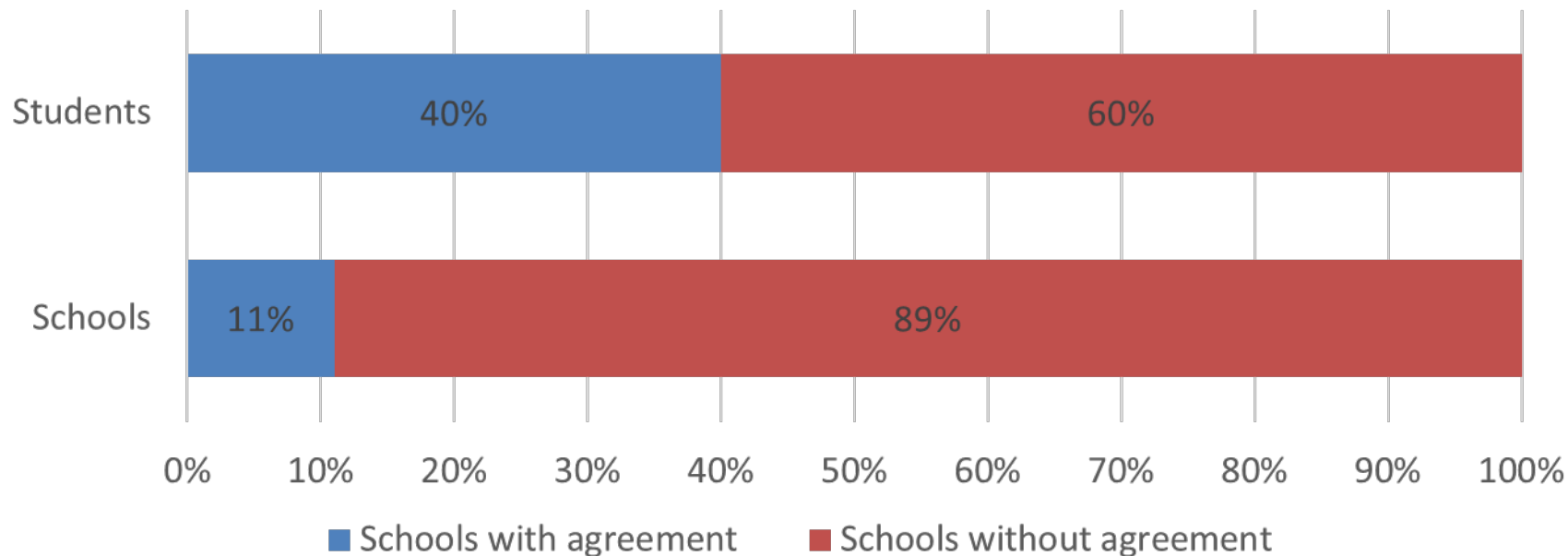
- Passage of the CARD Act restricting credit card marketing, preferred lender lists, declining State funding
- Widespread increase of debit and prepaid card agreements
- Marketed as a way for students to receive credit balance refunds
- Typically on student IDs or cobranded cards

# Government and Consumer Investigations

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- 2012 USPIRG report identified several troubling practices in this market
- Later confirmed by Government Accountability Office, ED Inspector General, Consumers Union
- Enforcement actions by FDIC, Federal Reserve
- Troubling practices included unfair fees, misrepresentation, and transmission of private student information without consent

# Impact of Agreements



Source: Government Accountability Office

# Debit Card Provisions

# Overview of Regulations

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Require  
convenient  
access to aid

Prohibit fees  
uncommon in  
market

Require  
disclosures

Other updates  
to modernize

Most provisions  
effective July 1,  
2016

Two provisions  
delayed until  
July 1, 2017

# Who is covered?

## Tier 1 (T1) Arrangement

- U.S. school with third-party servicer; and
- Servicer processes Title IV aid; and
- Aid disbursed to contracted account or;
- Information about contracted account is provided to student

## Tier 2 (T2) Arrangement

- U.S. school that has a contract with provider; and
- Provider is not a third-party servicer; and
- One or more Title IV credit balance recipient; and
- Product is marketed to students through school communication, student IDs, or cobranded cards



# Overview of new requirements

## All T1 and T2

Student choice menu

No automatic opening of accounts

Privacy restrictions

Contract disclosure

## All T1

ATM network

Fee restrictions

Contracts negotiated in best interest of students

Average student cost disclosure

## T2 (more than de minimis)

Fee-free ATM

Contracts negotiated in best interest of students

Average student cost disclosure

# T1 and T2 Arrangements

# Student choice – the problems

- Students forced to use preferred accounts to receive Title IV funds
- Schools were not neutral actors in recommending accounts
- Schools gave biased or misleading information about terms, conditions, or fees
- Implication that account terms were negotiated for students' benefit
- Students pressured to sign up for account
- Students delayed in getting Title IV funds if they chose non-preferred account

# Student choice – the menu

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Menu of options required

Tell student in writing that no specific account is required

Menu options must be presented neutrally with no default option

Existing bank account must be first and most prominent option

Paper checks don't need to be listed, but can be at school's option

# Student choice – menu contents

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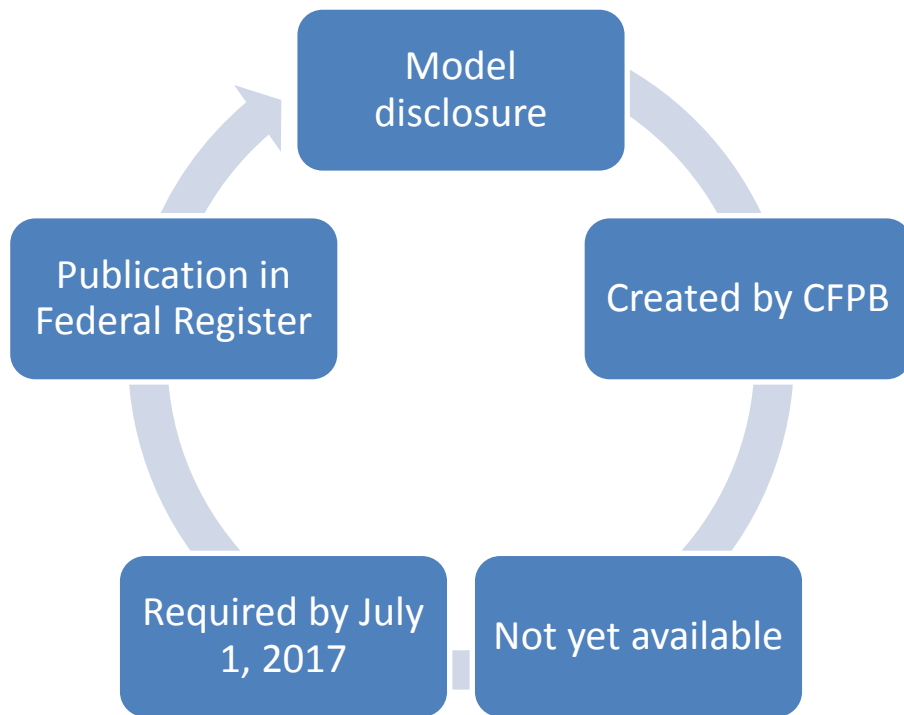
All T1 and T2  
accounts must be  
listed

Other accounts  
may be listed

Major features  
and fees of T1/T2  
must be disclosed

Link to full terms  
and conditions of  
T1/T2 accounts

# Student choice – menu format



# Student consent

## Problems

- Private student information given to account provider without consent
- Provider used this information to open account or market to students, even if student never received Title IV funds

## Requirements

- Required for all T1 and T2 arrangements.
- Student consent to open account required before PII can be shared
- Once shared, information can only be used for disbursement, not marketing
- Consent required before sending card to students, except for unlinked student ID
- Consent required before linking a student ID to financial account

# Fees

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## Problems

- Limited ATM access makes out-of-network fees common
- Point-of-sale fees of \$0.50 per transaction when using PIN (uncommon in market)
- \$25-\$35+ for each overdraft (if offered), with transaction re-ordering to maximize fees

## Requirements

- Only T1 arrangements are subject to fee restrictions
- No fees charged to students for point-of-sale transactions or overdrafts are allowed
- School must provide national or regional ATM network that are fee-free for balance inquiries or withdrawals
- School must provide at least one convenient way for student to access Title IV credit balance



# Disclosures

## Problems

- Contracts are often private
- Students do not have sufficient information to assess cost of account
- Students receive poor account terms because schools do not negotiate in the best interests of students

## Requirements

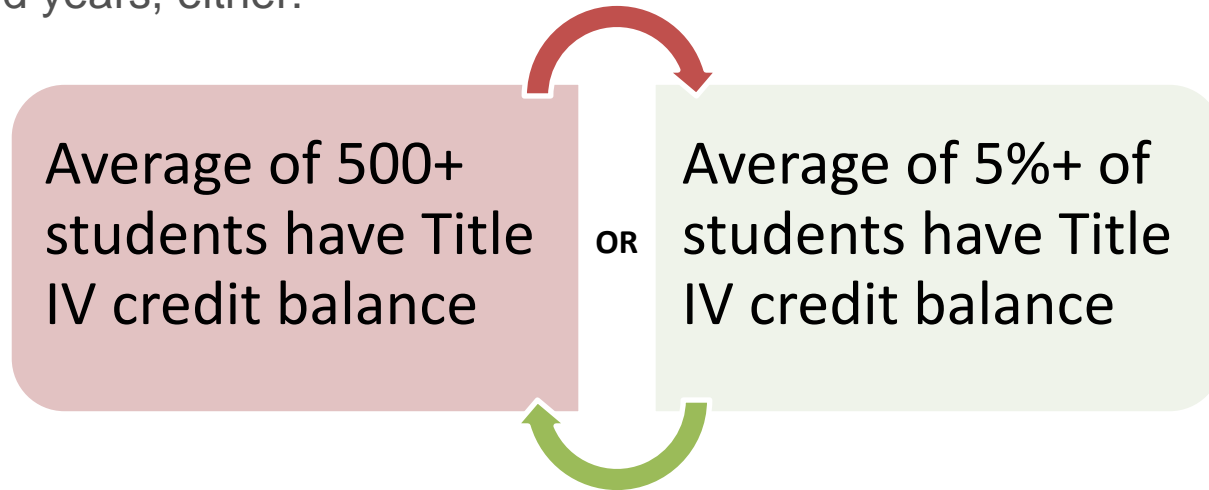
- Required for all T1 and T2 arrangements
- School must post full contract (excluding security and IT information) to school website
- School must send up-to-date URL to Department
- Department will aggregate list of websites and publish list for public and government review

# T1 and T2 arrangements (with sufficient credit balance recipients)

# T2 *De Minimis* Threshold

Some regulatory provisions limited to T2 arrangements with a sufficient number of credit balance recipients.

The school must comply with the additional requirements if during the school's prior three award years, either:



T1 arrangements do not have a *de minimis* threshold

# Summary Cost Disclosures

- Required for accounts offered under T1 arrangements or T2 arrangements with more than a *de minimis* number of credit balance recipients
- Requirement begins on July 1, 2017
- If the institution had 30 or more credit balance recipients in the prior award year, it must publish the following on the same website as contract disclosure:

The total consideration paid, monetary and non-monetary, by the parties under the contract during the past award year

Number of students with financial accounts under the contract at any time during the past award year

Mean and median annual costs to student account holders

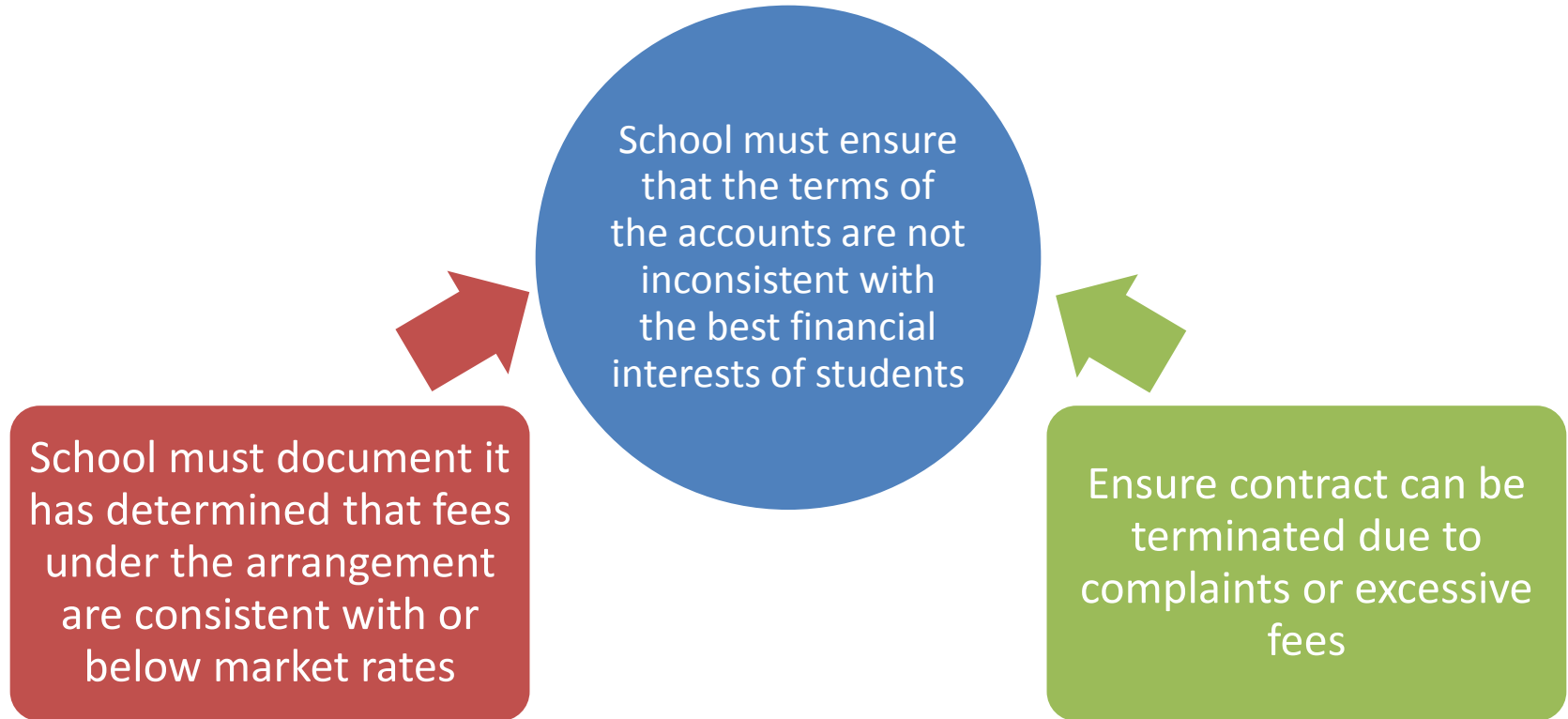
# Best Interests of Students

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- Future contracts, fees, and technological changes must occur without harming students
- Required for accounts offered under T1 arrangements or T2 arrangements with more than a *de minimis* number of credit balance recipients

# Best Interest of Students

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# Convenient ATM Access

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- Surcharge-free ATMs must be present in sufficient number and must be housed and serviced such that Title IV funds are reasonably available to students
- Required for accounts offered under T1 arrangements or T2 arrangements with more than a *de minimis* number of credit balance recipients

# Direct Disbursements to Students

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Other Federal agencies already make benefits payments directly (e.g. Treasury Direct Express Card for Social Security benefits)

The regulations do not establish a direct payment system, but gives notice of the Secretary's authority in this area

If we determine that a direct payment system would be more beneficial, we would provide advance notice by a notice in the Federal Register



# Other Cash Management Provisions

# Overview of Changes

Prohibit practices that risk loss of Federal funds, sweeps

Reimbursement/HCM: must pay credit balances before requesting funds

Eliminate investment accounts

Adopt OMB guidance for interest-bearing depository accounts

Provide flexibility for foreign-school depository accounts

Credit account to pay only for allowable charges associated with the payment period

Cost of books and supplies can be included as part of tuition and fees

Provide flexibility for prior-year charges

Third-party servicers must confirm eligibility if they conduct certain activities

Reimbursement/HCM: cannot hold credit balances, even with authorization

# Risk of Loss

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Schools may not engage in any practice that risks the loss of Federal funds

Refers primarily to sweeps

Includes funds held in a Title IV depository account or a school's operating account

Nothing prohibits a school from sweeping its own funds, but it must ensure that any Title IV funds are not part of the sweep

# Reimbursement and HCM

## Reimbursement/HCM2

- Must pay any credit balances due to the students for whom it seeks reimbursement
- Must provide documentation as part of its request that the credit balances were paid
- May not obtain authorization to hold credit balance funds

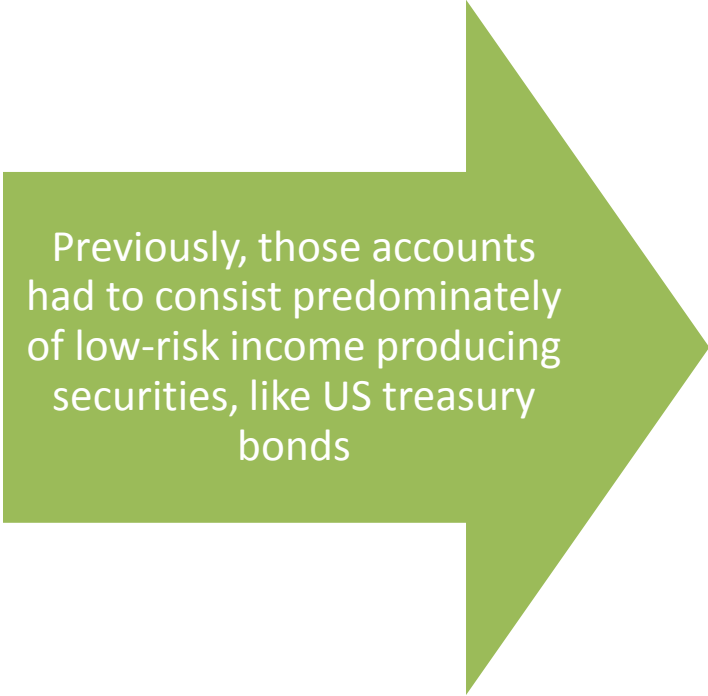
## HCM1

- Must pay any credit balances due to the students for whom it intends to draw down funds
- May not obtain authorization to hold credit balance funds

# Maintaining & Accounting for Funds

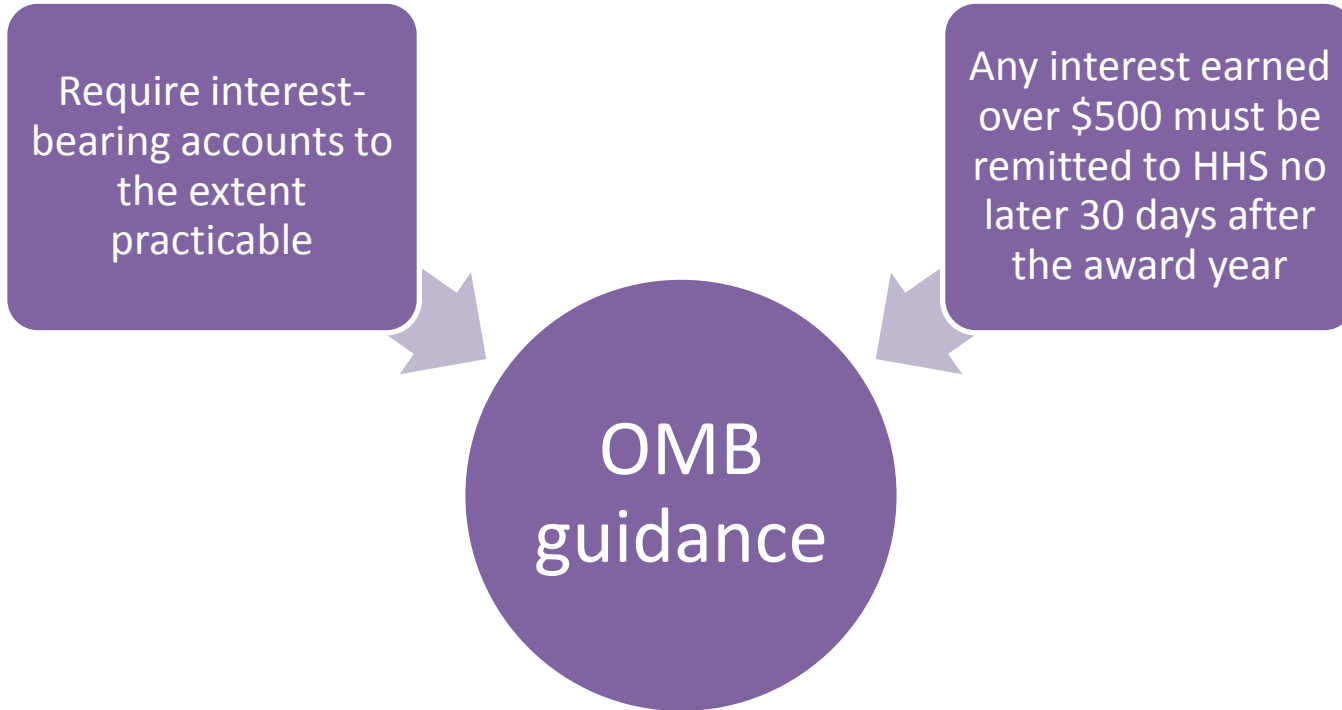


Eliminate investment  
accounts altogether

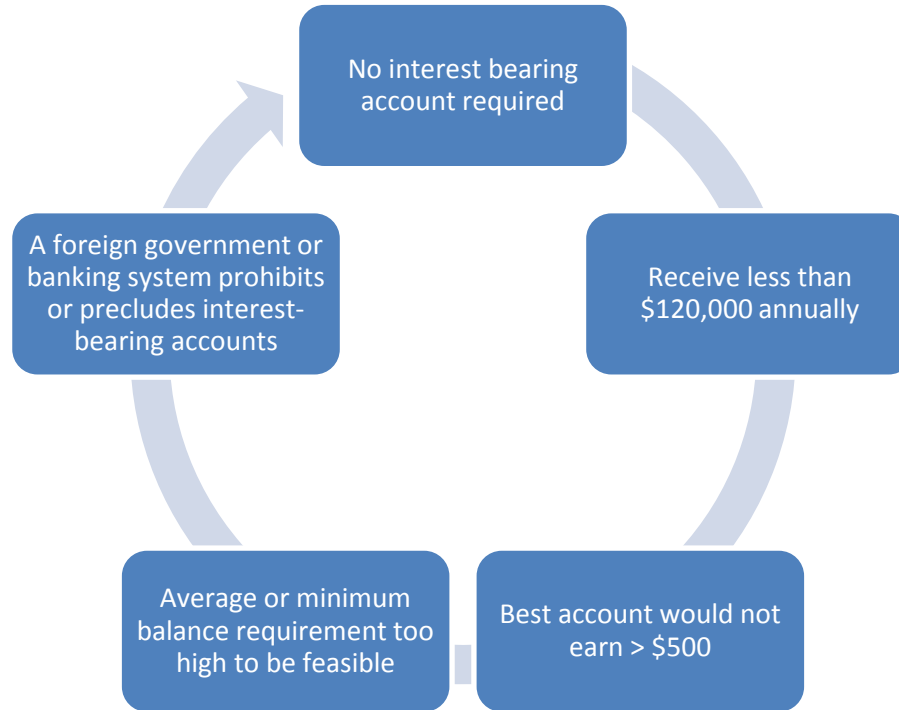


Previously, those accounts  
had to consist predominately  
of low-risk income producing  
securities, like US treasury  
bonds

# Maintaining & Accounting for Funds



# Maintaining & Accounting for Funds



# Foreign Schools

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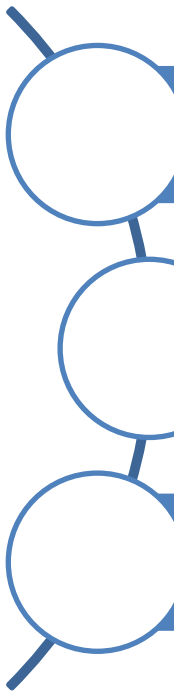
May be insured by the FDIC or NCUA, or by an equivalent agency of the country in which the school is located

If no equivalent agency, Secretary may approve the depository account designated by the school

Not required to have interest-bearing account



# Disbursement by Payment Period



School must disburse the Title IV funds for the current payment period during that payment period

Exceptions: late disbursements, retroactive payments, and payments for prior-year charges

School may credit a student's account with Title IV funds to pay only for charges associated with the current payment period

# Disbursement & Upfront Costs

For programs with substantially equal PPs:

$$\frac{\textit{Total Institutional Charges for Program}}{\textit{Number of PP in Program}} = \textit{Disbursement Amount Per PP}$$

For all other programs:

$$\left( \frac{\textit{Credit or Clock in PP}}{\textit{Credit or Clock in Program}} \right) \times \textit{Total Institutional Charges} \\ = \textit{Disbursement Amount Per PP}$$

# Prior-Year Charges

## Amount

No change

Still \$200

## When allowed

In one or more payment periods in the current year

## Current year

Student receives DL: the current loan period

Student does not receive DL: the current award years

Student receives DL and other: Either the current loan period or award year

# Books/Supplies in Tuition & Fees

## Allowed if

School has arrangement with book publisher or other entity

Books/supplies available to students for prices below competitive market rates

Provides a way for students to obtain the books and supplies by the seventh day of the payment period, **and**

Has a policy permitting students to opt out\*

\* Opt out of the credit balance based books and supplies provision now applies to all students.

# Books/Supplies in Tuition & Fees

## Also allowed if:

The books and supplies are not available elsewhere or accessible by students from sources other than those provided or authorized by the school, **OR**

The school documents there is a compelling health or safety reason

# Confirm Eligibility & Disbursement

## School

- Must confirm that a student is eligible for the type and amount of Title IV funds represented by the disbursement

## Third-party servicer

- Also must confirm eligibility if engaged to conduct activities or transactions that lead to or support a disbursement

## Activities or transactions

- Determining the type and amount of Title IV funds that a student is eligible to receive
- Requesting Title IV funds
- Accounting for funds to the Department

# QUESTIONS?

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