Rules, Tools, and Opportunities to Innovate Using Savings and Secured Credit Cards Towards Student Success

Sponsored by Achieving The Dream
June 30, 2016. 1pm to 2:15 EST

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Agenda

- Welcome
- Working Students Success Network Overview -- Achieving The Dream, LaShawndra Thornton
- Safe Student Account Toolkit – Consumer Financial Protection Bureau, Richard Williams
- Using Secured Credit Cards to Build Student Credit and Healthy Financial Habits – Community Financial Resources, Lauren Leimbach; Skyline College, Chad Thompson
- Upcoming Events & Publications-- LaShawndra Thornton
Achieving the Dream was conceived as a national initiative in 2004 and is a comprehensive non-governmental reform movement for student success. ATD’s network includes more than 200 institutions, 100 coaches, and 15 state policy teams in 35 states and the District of Columbia.

Together with ATD’s network of higher education institutions, coaches and advisors, state policy teams, investors and partners, ATD is helping more than 4 million community college students have a better economic opportunity and achieve their dreams.

After more than a decade of experience, ATD has learned that improving student success on a substantial scale requires colleges to engage in bold, holistic, sustainable institutional change.
ATD’s Working Students Success Network

Working Students Success Network (WSSN) is a strategy that supports 19 community colleges in four states as they create pathways and provide integrated services that prepare low-income students for jobs with family-sustaining wages. The WSSN strategy was developed to help low-income people reach financial stability and move up the economic ladder by promoting an innovative framework that strategically integrates and bundles three distinct but related services:

- Education and employment advancement— education, job readiness, training, and placement;
- Income and work supports— access to student financial aid, public benefits, tax credits, and free tax assistance; and
- Financial services and asset building— financial education and coaching linked to affordable products and services to help families build self-sufficiency, stabilize their finances, and become more economically competitive.
Cash Management Regulations Overview

Nathan Arnold | June 2016
U.S. Department of Education
Government and Consumer Investigations

• 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
<table>
<thead>
<tr>
<th>Tier 1 (T1) Arrangement</th>
<th>Tier 2 (T2) Arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• U.S. school with third party servicer;</td>
<td>• U.S. school that has a contract with provider;</td>
</tr>
<tr>
<td>• Servicer processes Title IV aid; and</td>
<td>• Provider is not a third party servicer;</td>
</tr>
<tr>
<td>• Aid disbursed to contracted account or;</td>
<td>• One or more Title IV credit balance recipient; and</td>
</tr>
<tr>
<td>• Information about contracted account is provided to student</td>
<td>• Product is marketed to students through school communication, student IDs, or cobranded cards</td>
</tr>
</tbody>
</table>
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
Student Choice – The Menu

- 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

- 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 Consent

<table>
<thead>
<tr>
<th>Problems</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Private student information given to account provider without consent</td>
<td>• Required for all T1 and T2 arrangements.</td>
</tr>
<tr>
<td>• Provider used this information to open account or market to students,</td>
<td>• Student consent to open account required before PII can be shared</td>
</tr>
<tr>
<td>even if student never received Title IV funds</td>
<td>• Once shared, information can only be used for disbursement, not</td>
</tr>
<tr>
<td></td>
<td>marketing</td>
</tr>
<tr>
<td></td>
<td>• Consent required before sending card to students, except for</td>
</tr>
<tr>
<td></td>
<td>unlinked student ID</td>
</tr>
<tr>
<td></td>
<td>• Consent required before linking a student ID to financial account</td>
</tr>
</tbody>
</table>
Fees

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

<table>
<thead>
<tr>
<th>Problems</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contracts are often private</td>
<td>• Required for all T1 and T2 arrangements</td>
</tr>
<tr>
<td>• Students do not have sufficient information to assess cost of account</td>
<td>• School must post full contract (excluding security and IT information) to school website</td>
</tr>
<tr>
<td>• Students receive poor account terms because schools do not negotiate on behalf of students</td>
<td>• School must sent up-to-date URL to Department</td>
</tr>
<tr>
<td></td>
<td>• Department will aggregate list of websites and publish list for public and government review</td>
</tr>
</tbody>
</table>
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 Interest of Students

School must ensure that the terms of the accounts are not inconsistent with the best financial interests of students.

School must document it has reviewed that fees under the arrangement are consistent with or below market rates.

Ensure contract can be terminated due to complaints or excessive fees.
Convenient ATM Access

• 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

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
<table>
<thead>
<tr>
<th>Allowed if</th>
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</thead>
<tbody>
<tr>
<td>School has arrangement with book publisher or other entity</td>
</tr>
<tr>
<td>Books/supplies available to students for prices below competitive market rates</td>
</tr>
<tr>
<td>Provides a way for students to obtain the books and supplies by the seventh day of the payment period, and</td>
</tr>
<tr>
<td>Has a policy permitting students to opt out*</td>
</tr>
</tbody>
</table>

* Also an opt out of the credit balance based books and supplies provision; now applies to all students.
Books/Supplies in Tuition & Fees

<table>
<thead>
<tr>
<th>Allowed if</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The books and supplies are not available elsewhere or accessible by students from sources other than those provided or authorized by the school, <strong>OR</strong></td>
</tr>
<tr>
<td></td>
<td>The school documents there is a compelling health or safety reason</td>
</tr>
</tbody>
</table>
Safe Student Account Scorecard

Rich Williams, June 30th, 2016

Note: This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.
Colleges and universities have long played a role in the offering of financial products to students

- Institutions of higher education have partnered with banks and nonbanks to offer:
  - Loans under the now-discontinued Federal Family Educational Loan (FFEL) Program
  - Private student loans
  - Credit cards
  - Student checking accounts
  - Closed-loop stored value card services tied to student ID cards

- To better understand the latest trends in the market, the CFPB published a notice in the *Federal Register* and scanned publicly-available information
  - 162 responses from institutions of higher education, nonbank financial companies, technology providers, deposit-taking institutions, students, and consumer advocates
Input from stakeholders has yielded several observations

• While partnerships have potential to provide benefits to students, historically there have also been challenges

• Financial product marketing partnerships have shifted to student checking and debit and prepaid card products

• College affinity products generally do not appear to have more attractive features compared to other student checking products

• Arrangements between financial institutions and institutions of higher education on many student banking products not well-understood
While partnerships have the potential to provide benefits to students, there have also been challenges

- **Student lending**
  - Questionable conduct by school officials: NY AG found some university personnel to be accepting compensation and gifts from lenders included on school preferred lender lists; some officials owned stock in companies offering loans to students
  - Cash payments to schools: some schools received large cash awards from lenders based on volume
  - In-kind contributions to schools: financial institutions on preferred lender list were also found to be providing staff support at no charge

- **Credit cards**
  - Targeted marketing: while on campus, some card issuers offered gifts (such as clothing with college insignia) in exchange for applying for a credit card
  - Incentive payments: some schools earned commissions for each student who carried a balance
The Higher Education Opportunity Act of 2008 and the Credit CARD Act of 2009 led to changes

• Schools must clearly disclose the method and criteria used to choose lenders appearing on a “preferred lender list” to ensure lenders selected on basis of best interest of borrowers; lender list must include multiple unaffiliated lenders

• Required that covered schools develop a code of conduct, including prohibiting conflicts of interest between the institution’s agents and FFEL lenders (34 CFR 601.21)

• Generally restricts co-branding (such as the use of a university logo or mascot) by student lenders

• CARD Act restricts the use of “freebies” in exchange for a credit card application when marketing on campus

• Credit card issuers who enter into “college card affinity agreements” must submit agreements to a public database administered by the CFPB
Affinity products do not always have more competitive features, compared to other student checking products.

- A search of student checking products unaffiliated with colleges and universities revealed that they have similar product features; in some cases, the unaffiliated financial institutions offered more attractive options, such as:
  - No overdraft or NSF fees
  - Automatic reimbursement of any ATM fee charged by a third-party operator
  - Mobile check deposit
Arrangements between financial institutions and schools to offer student banking not well-understood

- The National Association of College and University Business Officers issued best practices in 2012, including a provision that schools publicly disclose terms of arrangements. However, adoption of this best practice appears to be quite low.

- **Monetary benefits.** According to the association’s survey, 30% of bank contracts included revenue sharing (e.g. commissions paid to schools per student account opening). Other benefits include rents for on-campus branches and contributions to school funds.

- **Non-monetary benefits.** Third parties may provide in-kind contributions of staff for identification card offices and other business processing. Some assume liability for compliance with requirements under Title IV of the Higher Education Act.
Safe Student Account Scorecard

• Designed to help colleges evaluate whether to co-sponsor a prepaid or checking account with a financial institution.

• Colleges can choose to use the Safe Student Account Toolkit to evaluate costs and benefits for students, including accessing upfront information about fees, features, and sales tactics before agreeing to a sponsorship. Components include:
  o Safer Student Account Features
  o Identifying more Affordable Accounts
  o Marketing and Transparency Practices

Features of a “Safer” Student Account

Question 1: Does the account(s) include the following set of safer features?

Vendors submitting proposals that do not maintain all of the features listed below should provide an additional explanation, including information about each specific fee or feature.

<table>
<thead>
<tr>
<th>Safe Account Features</th>
<th>Fee/Feature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdraft fees</td>
<td>None</td>
</tr>
<tr>
<td>Access to a network of fee-free regional or national ATMs</td>
<td>Included</td>
</tr>
<tr>
<td>Deposit insurance</td>
<td>Included</td>
</tr>
</tbody>
</table>
Identifying More Affordable Accounts

• The Scorecard helps colleges solicit clear information on fees and features and make apples-to-apples comparisons between accounts.

• With better information, colleges can:
  o Identify how many accounts would incur different fees
  o Evaluate the “net” fees charged to students
  o Compare the financial effect on students across different accounts

• The Scorecard also provides information on how colleges can negotiate fees and features that meet their students’ needs
Marketing Practices and Transparency

The Scorecard can help colleges strengthen marketing practices and improve transparency, by:

- Assisting colleges seeking to distribute objective and neutral information to students about their banking options
- Providing opportunities to improve marketing practices and create codes of conduct
- Identifying opportunities to ensure accounts continue to meet students’ needs over the long-term, through on-going oversight and performance monitoring
Contact Information

For more information, visit:
www.consumerfinance.gov/students

Access the Scorecard at:

Contact:
Students@cfpb.gov
Skyline College’s Credit Building Program

Lauren Leimbach, Community Financial Resources
Chad Thompson, Skyline College
Prototyping New Ways To Help Students Become Financially Stable

• Employ behavioral economics and financial products and services

• Integrate within the structure and culture of colleges in ways that are scalable and sustainable

• Use common metrics across participating colleges
## Financial Products Prototypes

<table>
<thead>
<tr>
<th>Prototype</th>
<th>Challenge to be Addressed</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Providing emergency grants or loans with vehicle for future cushion</td>
<td>Lack of a financial cushion</td>
<td>Northern Virginia Community College</td>
</tr>
<tr>
<td>2. Automatic allocation to savings</td>
<td>Lack of a financial cushion</td>
<td>Walla Walla Community College</td>
</tr>
<tr>
<td>3. Credit building tools</td>
<td>Ability to build credit</td>
<td>Skyline Community College</td>
</tr>
</tbody>
</table>
| 4. Improving Financial Literacy efforts to include behavioral change interventions | Inability to manage cash flow/ Lack of a financial cushion/ Ability to build credit | Cañada College
East Los Angeles College
North Arkansas College |
| 5. Modifying distribution of financial aid           | Inability to manage cash flow                                  | n/a                                      |
| 6. Renaming financial aid refunds                   | Inability to manage cash flow                                  | n/a                                      |
Skyline College: WSSN’s Financial Prototype

• History: Existing CFR – Sparkpoint Relationship

• Why Credit Builder Program?
  – Everyone needs a good credit history
  – Credit affects the cost and availability of Housing, Employment, Insurance, Utilities, Loans, etc.
  – Credit provides flexibility and opportunity
  – Students were either already struggling or confused

• Approach: Learn through product usage, i.e. secured credit card
Why Addressing Credit is Important

Student Findings from Baseline Surveys (132 surveys: 12/13 - 4/15)

- 54% had <$100 in savings
- 6 had payday loans
- 72% had debt
- Only 31% had reviewed their credit report before
- 38% surmised that their credit history was not good
- 34% did not know how to improve their credit
The CARD Act of 2009: The Issue

- Includes provisions to protect students

- CFR developed an analysis of how the Credit Builder Program would comply with the Act

- Sparkpoint leadership used this analysis in seeking approval from the California Chancellor’s office
Credit Builder Program Design

2015:
• Goal of 30 students
• $200 savings account (security deposit) and a secured credit card with a $200 credit line (all students receive product at beginning of program)
• Student contributes $40 and earns the rest of the security deposit by completing activities
  o Orientation and baseline credit score review
  o How to use card and on-line banking set-up
  o Credit versus Debt workshop
  o Progress credit score review

2016:
• Goal of 60 students (balancing demand and college capacity)
• Design modifications
  o Half of students to receive secured credit card at beginning; other half after completion
  o More use of groups and workshops to enable scalability and sustainability
Starting Point and Progress

Baseline Data:

- 50% of participants start with no credit score
- The average credit score is 599 for those participants who start with credit history

In 2015:

- 47 participants started the enrollment process
- 70% of participants completed the enrollment process and received their Secured Credit Cards (met goal of 30)
- After a minimum of 5 months, the average credit score for a participant with no previous credit history was 676
- After a minimum of 5 months, the average credit score improvement for a participant with credit history was 43

In 2016:

- To-date, 26 participants have started the enrollment process
Integration and Growing Demand in Skyline College

• The Credit Builder Program is fully integrated into the SparkPoint at Skyline College service offering

• Implemented by SparkPoint financial coaches and supported by SparkPoint staff

• Credit Builder marketing materials have been incorporated into standard SparkPoint outreach efforts as well as specialized outreach efforts

• Participation has been specifically requested by certain programs including TRiO, Summer Scholars Institute, and Guardian Scholars Program
Upcoming WSSN Events and Publications

• October 20, 2016 -- Peer Learning Workshop on Financial Behavior Prototypes

• December 2016 – Financial Products’ Lessons Learned Brief released


• SAVE THE DATE: February 21- 24, 2017 DREAM Conference - Achieving the Dream’s Annual Institute on Student Success
Join Achieving the Dream’s list serve to learn more:
http://achievingthedream.org/join-mailing-list

Working Student Success Network: LaShawndra Thornton, lthornton@achievingthedream.org

Skyline College: Chad Thompson, thompsonc@smccd.edu

U.S. Department of Education: Nathan Arnold, nathan.arnold@ed.gov

Consumer Financial Protection Bureau: Richard Williams, richard.williams@cfpb.gov

Community Financial Resources: Lauren Leimbach, lauren@communityfinancialresources.net