

Congress of the United States
Washington, DC 20515

June 7, 2012

The Honorable Kathleen Tighe
Inspector General
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202

Mr. Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Dear Inspector General Tighe and Director Cordray:

The U.S. Public Interest Research Group (U.S. PIRG) Education Fund recently released the results of an investigation into the use of debit cards to disburse federal financial aid to students.¹ The report identified nearly 900 partnership agreements between colleges and financial institutions that offer debit cards for students to withdraw the balance of their student aid in excess of tuition and fees in order to purchase books or for other educational expenses. If managed and used appropriately, debit cards can be an effective way to disburse student aid. However, much to our concern, U.S. PIRG asserts that more than 9 million students across the country are at risk because these debit cards may come with high user fees, hidden transaction costs and insufficient consumer protections. Accordingly, we respectfully request that you carefully examine the full-range of bank-affiliated student debit card practices at participating schools and ask that you coordinate your work with each other as appropriate.

As you know, when eligible students are awarded federal aid in excess of tuition and fees, institutions are required to disburse these funds directly to students. Often, this disbursement takes the form of a check or a direct deposit into a student's existing bank account. However, as the U.S. PIRG report reveals, at an increasing number of institutions, these funds are deposited into newly-created debit card accounts that may not provide sufficient consumer protections to students. In addition, students may be automatically and unwittingly enrolled in a debit-card program and must affirmatively "opt-out" to receive payment by other means.

¹ U.S. PIRG Education Fund, *The Campus Debit Card Trap: Are Bank Partnerships Fair to Students?* (May 2012).

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The U.S. PIRG report identifies many troubling practices with campus-based debit cards. For example, the report highlights how debit card partnerships can deplete students' financial aid by charging numerous, opaque fees and subjecting students to aggressive and misleading marketing. As the total of student loan debt reaches the \$1 trillion mark and students and their families struggle to repay the cost of a college education, they should not be burdened further by having to pay unnecessary, costly, and unknown bank fees.

Banks may, for example, charge students per-swipe fees to use foreign ATMs, make balance inquiries, or make PIN debit purchases. At some campuses, institutions may even enter into arrangements with one bank to handle financial aid disbursements and simultaneously hold an exclusive on-campus ATM agreement with another bank. In these instances, on-campus access for students to ATMs that hold their financial aid funds may not exist, which results in students paying unnecessary and burdensome fees.

Further, according to the report, students are also often pressured into registering for additional financial services, such as overdraft protection, that can incur additional, excessive fees. For many college students, the complex financial packages and fee structures offered by these debit cards may not be fully understood, resulting in a further loss of student aid dollars for educational expenses.

Students have also reported that ATMs often carry insufficient funds or are not accessible 24 hours a day, seven days a week, giving students no option but to use foreign ATMs, often resulting in charges averaging \$5 per transaction. The U.S. PIRG report highlights one financial institution – Higher One – that serves 520 campuses nationwide, but has only about 600 ATMs in service. One student reported a line over 50 students long in the days after financial aid funds were disbursed to the cards.

We are also concerned by the close relationship between institutions and banks through co-branding of financial products. As we discovered in the 2007 investigation of prohibitive student lender practices, co-branding can mislead students to believe that their school has endorsed the banker and its products and creates, at a minimum, the appearance of a conflict of interest. On some campuses student ID cards also serve as their debit card with their financial aid disbursement accessed through their joint ID-debit card. These relationships give the appearance of institutional endorsement, and may result in students failing to appropriately assess the individual benefits of the card.

We have opened an inquiry into the use of bank-sponsored debit cards to disburse federal student aid. As part of your examinations, we ask that you determine the following and provide your results to our offices as soon as practicable.

1. How much the fees and penalties associated with campus-based debit cards cost a student, on average;

2. How much Title IV funding is devoted each year to fees and penalties associated with campus-based debit cards;
3. Whether a conflict of interest exists when schools enter into partnerships with a financial institution and default students into products from those institutions or fail to disclose the terms of the partnership to students;
4. Whether students are sufficiently aware of all features of the financial products they are offered by their campuses and are given sufficient opportunity to opt-out of them;
5. Whether campus-based debit cards provide adequate consumer protections to students;
6. Whether the fees and penalties associated with these debit cards violate any federal statutory or regulatory requirements;
7. Whether the Department of Education is adequately ensuring that partnership agreements between schools and financial institutions comply with federal law;
8. Whether the contractual agreements between schools and financial institutions violate the privacy rights of students; and
9. To the extent applicable, whether the Department of Education is appropriately pursuing enforcement action.

We appreciate your attention to this matter and ask that you keep us apprised of your efforts. Please contact me directly or direct your staff to contact Kate Ahlgren (202-225-3725) of Congressman Miller's staff and Joanna Serra (202-224-2152) of Senator Durbin's staff.

Sincerely,



GEORGE MILLER
Senior Democratic Member
Committee on Education and the Workforce
United States House of Representatives



RICHARD J. DURBIN
United States Senator
Assistant Majority Leader