

College Debit Cards Hit Financial Aid Hard

Critics fear students are being steered toward debit cards instead of better options

By Charlene Crowell
NNPA Columnist

As 21st Century employers continue to seek a highly-trained workforce, the marketable value of a college education has never been higher. At the same time, the rising costs of a college education force growing numbers of families and students to seek federal financial aid. In FY 2012, according to the Department of Education, federal student aid programs provided about \$142 billion in grants and loans to 15 million students. Although a large portion of these funds are paid directly towards tuition costs, many students also receive a portion of their aid to cover the costs of textbooks or living expenses. To facilitate these direct student payments, many colleges have partnered with financial firms that provide debit cards and/or bank accounts. These disbursement products can serve as a revenue opportunity for colleges; but they may not be the best deal for students.

In a recent report, the Government Accounting Office identified 852 colleges and universities with agreements to offer either a prepaid debit card or a debit card linked to a

regular checking account. In instances that the debit card becomes part of the student’s campus identification, the single debit card can also be used to access banking services. The GAO expressed concerns about the potential steering

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of students to these debit cards instead of encouraging them to shop independently for a bank account or prepaid debit cards with potentially better terms and lower fees. As institutions receiving revenues from these debit card



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partnerships grow dependent on the funds generated, students might be better served by determining whether these debit cards are best for them.

With these and other findings, the GAO report called for actions to address student choice, transparency, and access for the growing market of college debit cards.

This report will likely serve as a factual reference for the current rulemaking process that DOE is developing for college debit cards. For consumer advocates – including the Center for Responsible Lending – a major concern is whether these debit cards will put students at risk of incurring hefty overdraft fees. Some banks simply decline debit card transactions at no cost to the consumer when consumers lack adequate funds. Other banks charge overdraft fees each time a transaction that lacks available monies on account is attempted. This extension of credit also comes at a high cost.

In 2013, CRL research found that debit card transactions were the most common trigger of overdraft fees, causing consumers to incur a median \$35 fee per incident. An earlier study of overdraft charges by the FDIC found that young adults were particularly vulnerable to debit card overdrafts.

Two leading civil rights leaders, Wade Henderson, President and CEO of the Leadership Conference on Civil and Human Rights and Hilary Shelton, NAACP Washington Bureau Director co-authored a commentary on the effects of overdraft fees on communities of color.

“Surveys have found that high overdraft fees disproportionately impact people of color and lower-income communities—those who already suffered a disproportionate impact from the financial crisis, and who are now having the hardest time recovering”, said the leaders.

Now with so many colleges and universities entering into contracts with debit card providers the opportunity for these lucrative fees to strip away needed student aid is at hand. The DOE faces a major decision. Should the Department restrict schools from entering into partnerships with financial institutions that allow students to overdraw their accounts with the swipe of a debit card? If so, that decision would be consistent with the Department’s existing policy to disallow disbursements of student aid onto debit cards or accounts that can be used or converted into a credit instrument.

Allowing consumers to spend more than they have in exchange for a fee is the equivalent of offering them a loan to be repaid with interest.

Until DOE finalizes its rulemaking, students and their parents should set out on a mission to better understand the terms of the college debit cards issued. If review of the ‘fine print’ details lead to more questions, those concerns should be brought to the attention of the debit card providers, college officials and if necessary, to the Consumer Financial Protection Bureau through its online complaint forms. Those forms can be found at www.consumerfinance.gov.

Just as the United Negro College Fund slogan advises that ‘a mind is a terrible thing to waste’, so too is financial aid. Funds disbursed to support higher education should not be snatched away for private gain.

Charlene Crowell is a communications manager with the Center for Responsible Lending.

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