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Overdraft U.: Student Bank Accounts Often Loaded with High Overdraft Fees

CRL Research Paper
March 2015

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INTRODUCTION

This report examines the harmful impacts of overdraft fees on student bank accounts. Financial institutions[2] are increasingly entering into marketing agreements with colleges to provide checking accounts or prepaid cards to students to conduct routine financial transactions and to receive financial aid disbursements.

These partnerships are typically exclusive in nature, with students offered a co-branded debit card that also serves as a student ID for their school. In return for allowing financial institutions to offer these accounts to students, schools may receive a share of the revenue or in-kind benefits, such as assistance with federal financial aid disbursement. Such arrangements are lucrative to financial institutions not only because of the fee income and exclusivity, but because they are a very effective pipeline to new customers. Once a consumer chooses a bank, they are unlikely to switch, and reaching college students allows banks to attract a new, likely long-term, customer base.

Because schools have the opportunity to select among financial institutions that will offer these products to a captive audience, the best interests of students should be a key driver in negotiating account fees and policies. But the financial benefits schools derive from these agreements, or simply their lack of understanding of how certain account terms may be financially harmful to students, may serve to misalign incentives between the schools and their students. This may result in students being steered to accounts with less competitive or harmful features, such as overdraft fees.

College-financial institution marketing partnerships have recently been the source of government investigation and regulatory reform by the General Accounting Office (GAO), the Consumer Financial Protection Bureau (CFPB), and the Department of Education (CFPB, 2013a; CFPB, 2013b and CFPB, 2015; Department of Education Office of Inspector General, 2014; GAO, 2014). Financial institutions have also been

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[2] In this publication, the term "financial institution" broadly refers to entities which partner with schools to provide checking accounts or debit cards to students, including both banks and credit unions. It also includes non-bank providers of financial aid disbursements, such as Higher One, that partner with banks and schools to market these accounts to students.

sanctioned for consumer protection violations related to these sponsored accounts, including policies related to overdrawn accounts (FDIC, 2012; Federal Reserve, 2014).[3]

This report focuses on overdraft features present in many student bank accounts. We find many accounts offered through these exclusive partnerships have abusive overdraft policies that can result in draining the financial aid funds that are disbursed directly to students for living expenses, books, and other related costs.. Looking across accounts with large market shares, we find that:

- Despite being touted for their low upfront costs, all but one of the student bank products surveyed included high-cost overdraft fees similar to those on more generally-available bank accounts—allowing students to incur over $100 in overdrafts in one day.

- Accounts with abusive overdraft features place needed financial aid funds at substantial risk, with the heaviest overdrafters paying around $700 in fees per year.

- At best, many bank accounts offered through school-financial institution partnerships have no better overdraft policies than accounts that students could obtain on their own.

These co-sponsored accounts need to be significantly improved to offer students greater protections from abusive overdraft fees, particularly those triggered by debit card purchases and ATM withdrawals. Accordingly, we urge the Department of Education to bar schools from entering into marketing partnerships that allow financial institutions to offer accounts with harmful debit card overdraft fees. This protection is already offered through many accounts available in the general marketplace, and student accounts should—at a minimum—have the safety features that these other accounts incorporate.

We first provide background on the prevalence of student accounts offered through these partnerships, and the benefits and risks such arrangements offer to schools, financial institutions, and students. Then, we model the annual costs to students with varying overdraft risk profiles using some of the more prevalent student accounts offered through these partnerships, and close with policy recommendations.

[3] See Consent Order, *Higher One*, Inc., available at https://www5.fdic.gov/EDOBlob/Mediator.aspx?UniqueID=a1c0de07-ec9e-4ba6-a539-7948baa2de98; Consent Order, *The Bancorp Bank*, available at https://www5.fdic.gov/EDOBlob/Mediator.aspx?UniqueID=bf9c9297-c8cc-41b2-850b-7544d266d5c7; and Order to Cease and Desist, Cole Taylor Bank, available at http://www.federalreserve.gov/newsevents/press/enforcement/enf20140701b1.pdf. Higher One is also the defendant in a multi-district litigation filed by students, *In re Higher One Marketing and Sales Practice Litigation*, No. 12-02407 (D. Conn.).

BACKGROUND

In the late 1990s and early 2000s, school-financial institution partnerships focused on marketing credit cards on campus. After the reforms implemented by the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009[4] restricted campus-based marketing and imposed stricter underwriting criteria for consumers under 21, these partnerships moved towards marketing non-credit card products, especially checking accounts and prepaid cards that students can use to receive their federal financial aid disbursements[5] electronically and conduct everyday financial transactions.

These products are typically marketed to students in one of two ways: (1) banks and credit unions may either partner directly with schools to market accounts to students or (2) a non-bank may contract with the school to manage the financial aid disbursement process while also partnering with a bank or credit union to offer an account or prepaid card onto which that aid can be disbursed. Often, these products take the form of an all-in-one student ID card that also functions as a debit card associated with a checking or prepaid account. The ID card is co-branded with the logos of both the school and the financial institution.

The marketing of these checking accounts and prepaid cards to students has become widespread. A recent GAO report found that these products are offered by over 850 post-secondary institutions which enroll 40 percent of college students (2014).

Financial institutions reap considerable benefits from these agreements. The partnerships are typically exclusive, with the school's students only offered financial products from a single entity. The result is a high rate of adoption of these products by students, who are a captive audience. A PIRG study reported a 70-80% take-up rate for students receiving financial aid at a school with a partnership in place (Williams and Mierzwinski, 2012). Likewise, the CFPB found that, within a few years, between about 40-75% of students in one university system with multiple campuses adopted these co-branded products (2014b).

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[4] 123 Stat. 1734-1766.

[5] Under the current Department of Education Cash Management rule, which governs the financial aid disbursement process, a student's federal financial aid (both grants and loans) goes first to the school. The school may directly pay itself for tuition, fees, and room and board if on campus. The remaining balance is then "refunded" or disbursed to the student by the school for remaining costs, such as living expenses and books. The Cash Management rule allows schools to disburse the funds by cash, check, or EFT to a student account. The rule also allows the school to open an account on behalf the student, with the student's consent. Accounts opened by the school for the student must adhere to a set of modest consumer protection features, including: no fee for opening the account or receiving a debit card; "convenient" access to a branch or ATM where a student can make free withdrawals; the payment device must be widely accepted; and the account cannot be marketed as or converted to a credit instrument. See 34 C.F.R. 668.164 for more information. In 2014, the Department of Education initiated rulemaking proceedings to re-examine the Cash Management rule and determine whether to add additional consumer safeguards in light of the marketing and revenue sharing arrangements between financial institutions and schools (Department of Education, 2014).

Checking accounts tend to be "sticky," meaning that once a consumer chooses to use a particular financial institution, they are unlikely to switch to another, even in the face of increasing costs. One study found that a small minority of consumers noticed when their bank announced an increase in fees. While many of those consumers decided to shop around for other options, very few ended up actually switching (Cvsa et al., 2012). Other studies cite the hassle and potential cost of transferring automated payments and deposits as a key reason that consumers remain with their bank or credit union (New, 2012; Consumer Reports, 2012).

Because of this stickiness, financial institutions view agreements with colleges as a potent marketing channel. Even if a school negotiates significant benefits for itself or for its students (such as lower fees than the bank's regularly-available products), the financial institution will likely view such a partnership as an attractive business opportunity to gain a young customer it is likely to retain for years to come.

In order to secure these lucrative agreements, financial institutions typically provide substantial financial and/or in-kind benefits to entice schools to enter into exclusive partnerships to offer these products. Financial contributions include revenue sharing (usually based on the number of students opening accounts) and proceeds from renting space in campus buildings for account-related services. In addition, financial institutions may offer discounted or in-kind services, such as administration of financial aid disbursements to students.

Financial institutions and schools have argued that students benefit from these partnerships, particularly those students who—because of past problems—are unable to secure an account on their own. Presumably, these students would instead have to turn to check cashers to conduct financial transactions and cash a financial aid check. However, a recent CFPB analysis found that less than one percent of students are unable to open an account, casting significant doubt on the contention that co-sponsored accounts or debit cards are needed (2014b). Industry surveys have also found that the vast majority of college students already have an account when they arrive on campus, which makes direct deposit a convenient option for receiving financial aid funds (Everfi, 2014; TouchNet, n.d.).[6]

One of the most troubling aspects of many of these co-sponsored accounts is the abusive overdraft features that are included in these products. Among checking accounts generally, overdraft fees average $35 per incident, regardless of the amount by which the account is overdrawn (Pew Charitable Trusts, 2014). Many banks and credit unions allow consumers to be charged several overdraft fees per day, and—if the account remains overdrawn for several days—additional "sustained overdraft" fees can take the account farther into the red. Compounding, expensive overdraft fees that cause vulnerable accountholders to quickly get in over their heads are a leading reason that

[6] A survey conducted for HigherOne, a leading provider of student banking products, found that 86% of incoming first-year students have a checking or savings account when entering college. Similarly, TouchNet, another financial firm that contracts with college and university to disburse federal financial aid, estimates that 98% of all college students have existing bank accounts.

consumers lose access to the banking system (Barr, 2008; Campbell, Martinez, and Tufano, 2008; FDIC, 2009).

While banks and credit unions used to offer overdraft coverage as an occasional courtesy instead of bouncing an accountholder's check, the automated overdraft coverage programs adopted by banks in the early 2000s allowed for transactions of any kind to be covered, including debit card transactions and ATM withdrawals that—previous to this change—would have simply been declined. As a result, previous CRL research found that a significant share of overdraft fees were triggered by debit card transactions in which the amount of credit extended by the bank to cover the shortfall was often less than the fee charged.[7] Debit card overdrafts are entirely preventable, as banks are able to decline these transactions at no charge when the account lacks sufficient funds. Because of this, the Federal Reserve published a rule in 2009 requiring banks to obtain consumer consent before allowing customers to overdraw their account through a debit card transaction[8] or ATM withdrawal and assessing a fee.[9] While the opt-in rule has reduced the incidence of overdraft fees charged, consumers remain confused about this option, and many banks and credit unions have aggressively marketed debit card overdraft coverage to the populations most likely to overdraw their accounts (CRL, 2011; Parrish, 2010).

Federal regulators report that young adults—who are often the least experienced and maintain relatively low balances—are at the greatest risk of overdrawing their bank accounts (CFPB, 2014a; FDIC 2008). Because young adults also use debit cards more frequently than other accountholders, they are not only more vulnerable to overdraft costs generally, but the most expensive relative to the size of the transaction, and completely preventable type of overdraft.

METHODOLOGY

To measure the financial impact on students who use these accounts, we calculated the total cost for students with three different propensities to overdraft, based on the fees and terms outlined in each financial institution's account agreement. Since we are most interested in the financial impact of overdrafts triggered by debit card and ATM transactions that banks could otherwise decline, we calculate these costs assuming that these students have opted-in to overdraft coverage, unless their bank does not provide the choice to opt-in.

We identified the schools with the largest student enrollments that offer co-sponsored accounts, as well as the financial institutions identified by the GAO as having the largest

[7] For an overview on abusive debit card overdraft programs generally, see Borne & Smith, 2013 and Halperin, James, & Smith, 2007. For a discussion of how these policies have affected young adults (and college students in particular), see Parrish & Smith, 2007.
[8] Pre-authorized, recurring debit card transactions, such as automatic monthly payments for a cell phone bill or gym membership, are excluded from this opt-in requirement.
[9] Electronic Fund Transfers, Regulation E (Final rule), 74 Fed. Reg. 59033 (Nov. 17, 2009).

partnering market share across schools (2014).[10] We exclusively examined checking accounts tied to debit cards, rather than prepaid cards, since the market seems to increasingly offer the former over the latter (GAO, 2014). In total, we examined 8 financial institutions that offer co-sponsored bank accounts in partnerships with schools:

Figure 1: Financial institution with largest overall market share or partnership with largest schools

Financial institution partner	School partner	Reason for inclusion	
		Large partner school enrollment	Large overall bank market share
Fairwinds Credit Union	University of Central Florida	X	
Higher One*	Miami-Dade College		X
Huntington Bank	Ohio State University	X	
MidFirst Bank	Arizona State University	X	
PNC Bank	Penn State University		X
TCF Bank	University of Minnesota	X	
US Bank	Cal State-Fullerton		X
Wells Fargo	Texas A&M	X	

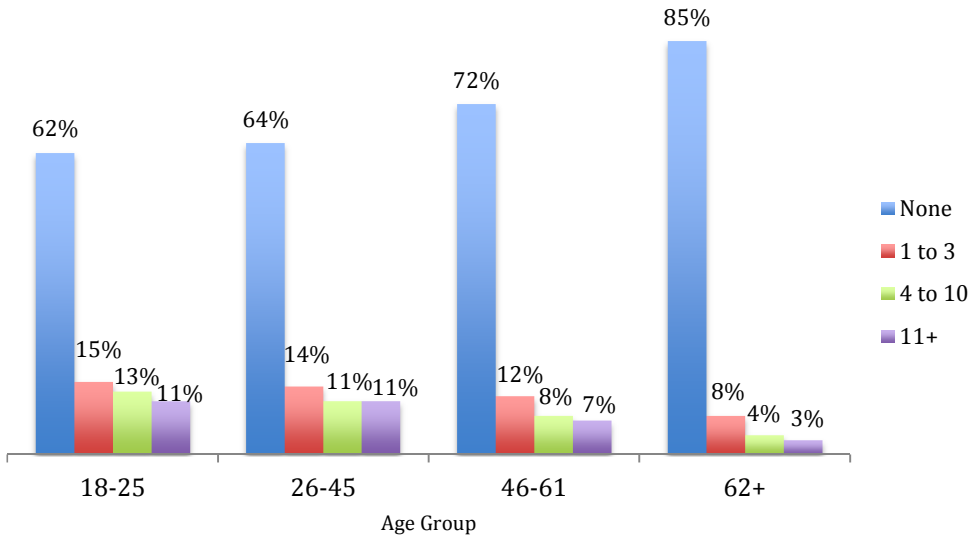
*Higher One is a non-bank and thus uses bank partners (Customers Bank and WEX Bank) to provide accounts to students.

While we take into account any monthly maintenance fees a student would incur when using their account, we focus in particular on the impact of each bank's overdraft policies on the total annual cost of the account. To provide estimates of these annual costs, we use data from CRL's previous analyses and data reported by the CFPB on the extent to which accountholders overdraw their accounts, the types of transactions that trigger overdrafts, and how quickly these overdrafts are likely to be repaid. Since young adults have different transaction patterns than other age groups and may have lower account balances, we use data for adults age 18-25 as a proxy for college students when possible.

In a recent analysis, the CFPB divides overdrafters into three categories: those who overdraw their accounts 1-3 times, 4-10 times, and 11 or more times per year. As shown in the table below, young adults are the most likely to overdraft, and also more likely to fall into the heaviest overdraft category.

[10] For the financial institutions with large overall market share we generally looked at the accounts offered at a large school at which the banks partnered.

Figure 2: Number of overdrafts incurred, by age group



Source: Table 4B, CFPB, 2014a. Note that figures made not add up to 100% due to rounding.

We use these three categories to examine the annual cost of student bank accounts for three different hypothetical students. For the 1 to 3 and 4 to 10 overdraft categories, we use the midpoint of 2 and 7 overdrafts respectively to calculate a total annual cost. We assume that accountholders who overdrew 11 or more times had 19 overdrafts based on CRL data showing that accountholders with 11 or more overdrafts in a year have a median of 18.5 overdraft occurrences.

As part of our analysis of the total overdraft incidents that occur in a year, we must determine how many would be triggered by debit card transactions or ATM withdrawals (that are preventable) rather than checks or other triggers. As noted above, because we are most interested in how debit card and ATM overdraft coverage can impact the overall cost of an account to students, we assume that the student opts-in to overdraft coverage for debit card transactions and ATM withdrawals if provided that option. Based on a recent CFPB publication (2014a), we estimate that about 71% of overdrafts are triggered by debit card or ATM transactions for all accountholders who opt-in to overdraft coverage for those transaction types..[11] Therefore, we assume that the number of overdrafts caused by these types of transactions in our model is close to or below 71%.

[11] Using data from tables 5 and 8 of CFPB's Data Point (CFPB, 2014a), CRL estimates that, together debit card and ATM overdrafts constitute 70.7% (64.8% + 5.9%) of total overdrafts incurred by accountholders who opt-in to debit card overdraft coverage, as shown in the following table:

Finally, we must also estimate how quickly overdrawn accounts are repaid. The CFPB report notes that about a quarter of all overdrafts remain outstanding a week after they occurred. To account for any extra fees assessed by banks for sustained overdrafts, we assume about a quarter of overdrafts for those students incurring 7 or 19 of these fees in our model incurred these fees, if part of the bank's overdraft policy.

Table 3: Summary of assumptions used to estimate annual cost

For students who annually overdraw….	Number of total overdrafts incurred	Of total overdrafts, those that were triggered by a debit card or ATM	Overdrafts incurring sustained overdraft charges
1 to 3 times	2	1	0
4 to 10 times	7	4	2
11 or more times	19	13	5

We compare these accounts to others that are widely available in the marketplace to assess whether student bank accounts offered through these partnerships have more consumer-friendly overdraft policies.

FINDINGS

Finding 1: Despite being touted for their low upfront costs, all but one of the student bank products surveyed included high-cost overdraft fees similar to those on more generally-available bank accounts—allowing students to incur over $100 in overdrafts in one day.

One of the most apparent benefits of opening a sponsored account is that there is typically no monthly maintenance fee as long as the student is enrolled at the partnering school. Only one financial institution—Higher One—has account options that incur monthly fees (although it also offers a more basic account for free). Several banks also offer free withdrawals from other banks' ATMs, in addition to the use of their own machines. These front-end benefits, coupled with the convenience of using a single card

A. Transaction type	**B. # of Transactions per month, among those opted-in**	**C. % of transactions resulting in an overdraft**	**D. Total overdraft transactions (B*C)**	**E. % of all overdraft transactions attributable to transaction type (D/sum of D)**
ACH/Electronic	4.5	1.85%	0.0833	13.7%
ATM	2.2	1.64%	0.0361	5.9%
Check	3	2.56%	0.0768	12.6%
Debit card	23.9	1.65%	0.3944	64.8%
Other	1.2	1.30%	0.0156	2.6%
Teller	0.3	0.78%	0.0023	0.4%
Total	35.1		0.6084	

for their school and banking needs, may entice students into thinking they are getting a great deal. Many of these banks, however, have overdraft policies that can cause students to incur very high overdraft fees over the course of a year that can substantially outweigh any special deals to waive monthly maintenance fees, ATM fees, or other nominal charges.

The table below summarizes each bank's overdraft fee policies. Several accounts allow students to not only incur a fee for an overdraft that could otherwise be declined, but additional charges if the overdraft is not quickly repaid.

Figure 4: Overdraft policies by bank

Bank	Overdraft fee per incident	Maximum overdraft fees charged per day	Extended overdraft fee?	Overdraft fee charged on debit card/ATM transactions (if opted-in)?
Fairwinds	$35	Not disclosed	No	Yes
Higher One-Basic	$29 first lifetime; $38 subsequent	3	No	No
Higher One-Edge	None	None	No	No
Higher One-Premier	$29 first lifetime; $38 subsequent	3	No	No
Huntington	$23 first annually; $37.50 subsequent (no fee if account repaid by end of next business day)	4	$25 if overdrawn 5+ days; additional $25 fee charged each subsequent week remaining overdrawn	Yes
MidFirst	$32.50	4	$25 if overdrawn 7+ days	Yes
PNC	$36	4	$7 per day if overdrawn 5+ days; max total fees of $98	Yes
TCF	$37	5	No	Yes
US Bank	$36	4	$25 each week account overdrawn, assessed on 8th day	Yes
Wells Fargo	$35	4	No	Yes

Source: Fee schedules and terms and conditions for each student bank account, last accessed March 2015.

Just based on the number of overdraft fees allowed in a single day, students can quickly amass over $100 in overdraft fees before they are aware they are overdrawn. For example, a student with a TCF account could be charged up to $185 daily.

Figure 5: Maximum possible overdraft cost per day

Financial Institution	Cost
Fairwinds	Unknown, fee schedule does not disclose how many fees can be charged per day.
Higher One-Basic	$114 ($38*3 per day)
Higher One-Edge	N/A
Higher One-Premier	$114 ($38*3 per day)
Huntington	$150 ($37.50*4 per day)
MidFirst	$130 ($32.50*4 per day)
PNC	$144 ($36*4 per day)
TCF	$185 ($37*5 per day)
US Bank	$144 ($36*4 per day)
Wells Fargo	$140 ($35*4 per day)

Source: Fee schedules and terms and conditions for each student bank account, last accessed March 2015.

Finding 2: Accounts with abusive overdraft features place needed financial aid funds at substantial risk, with the heaviest overdrafters paying around $700 in fees per year.

As discussed in the methodology section above, we calculated the annual cost for students who incur 2, 7, or 19 overdraft fees per year. We also included the monthly fees in these annualized costs if charged by the bank, since students would bear these costs regardless of how many times their accounts became overdrawn. We use CFPB data to estimate overdrafts based on debit, ATM, check, and ACH transactions.

In our sample of eight school-financial institution partnership bank accounts, seven allow students to overdraft on one-time debit card and ATM transactions that easily could instead be denied. The eighth, Higher One, does not charge overdrafts on such transactions, but has come under fire for other “atypical” upfront fees, such as a fee for pin-based debit card transactions, and deceptive marketing practices that steer students to higher cost products (Consumer Reports, 2014).

Figure 6: Estimated annual cost per account (including any monthly fees), by overdraft occurrences

		Number of times in a year transaction is attempted that would overdraw account, annually		
		2	**7**	**19**
Type of transaction triggering overdraft	Debit card/ATM overdrafts (if opt-in available)	1	4	13
	Checks/ACH/other	1	3	6
Bank	Fairwinds	$70	$245	$665
	Higher One-Basic*	$29	$105	$219
	Higher One-Edge*	$59	$59	$59
	Higher One-Premier*	$100	$176	$290
	Huntington**	$23	$223	$598
	MidFirst	$90	$278	$743
	PNC	$72	$294	$789
	TCF	$74	$259	$703
	US Bank	$72	$302	$809
	Wells Fargo	$70	$245	$665

*The Higher One Edge Account has a $4.95 monthly fee ($59.40 annually) and the Higher One Premier Account has a monthly fee of $5.95 (71.40 annually). While the Higher One Basic Account has a $3.95 monthly fee, it is waived for accountholders who identify as "students" and thus is not counted towards annual cost.

**Overdrafts that are repaid within a business day at Huntington Bank are not assessed a fee. We assume accountholders with 2, 7, and 19 overdrafts avoid fees on 1, 2, and 6 overdrafts respectively in this example.

If a bank does not charge overdraft fees on debit card or ATM transactions, then its product is substantially less expensive for those at risk of an overdraft, even if a monthly maintenance fee is charged for the account. For example, Higher One does not charge overdraft fees on one-time debit card or ATM transactions, so a student who might otherwise incur 19 overdraft fees at a cost of $600 or more would instead only incur six overdraft fees while the remaining 13 overdrafts attributable to a debit card transaction would be declined at no cost. To a lesser extent, Huntington Bank's policy to only charge a fee if the student fails to bring the account balance positive by the end of the next business day also results in a somewhat relatively lower cost than other banks in our sample.

Looking across the seven banks in our sample that allow overdraft fees to be charged on any type of transaction, we find that the average cost[12] a student may incur annually is:

- **$67**, if they are among the 15 percent of young adults that overdraw about twice per year;
- **$264**, if they are among the 13 percent of young adults that overdraw about seven times per year; and,

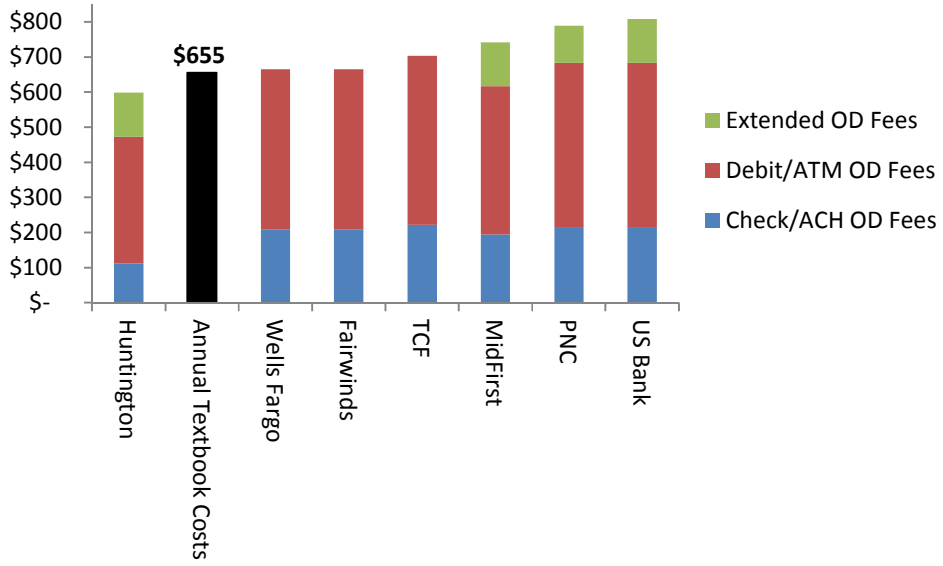
[12] This is the average of the seven banks' total annual overdraft costs, assuming equal weight for each bank. Because Higher One does not allow debit card and ATM overdraft fees, they are excluded from this calculation.

- **$710**, if they are among the 11 percent of young adults that overdraw about 19 times per year.

To put the cost of overdraft fees to the most vulnerable students in perspective, the National Association of College Stores, which represents retail stores such as campus bookstores, found that students spend an average of $655 on textbooks annually (2012). Thus, many students could use the financial aid funds that are now being diverted to pay overdraft fees to pay for their textbooks for some or all of an entire school year.

The chart below illustrates the relative cost of overdraft fees among the heaviest overdrafters (those who overdraw their account 19 times per year) among those banks that allow overdraft fees on debit card transactions and ATM withdrawals. Each bank's annual cost is broken out by (1) fees triggered by checks or ACH transactions, (2) debit card or ATM transactions, and (3) extended overdraft fees to show the dramatic reduction in cost that would result if these banks changed their overdraft policies to simply decline debit card and ATM transactions that would otherwise result in an overdraft fee.

Figure 7: Annual cost of textbooks compared with annual overdraft fees incurred by accountholders with 19 overdrafts per year (among banks that charge debit card/ATM overdraft fees)



Finding 3: There are many examples of widely-available bank accounts with more consumer-friendly features than those currently available through school-bank partnerships. At best, many student bank accounts offered through these exclusive deals have no better overdraft policies than accounts that a student could obtain on their own.

Several large banks now offer accounts that do not charge overdraft fees on transactions that could otherwise be declined. Some examples of large banks with this policy include Bank of America, Citibank, and online-only banks with large market shares such as Capital One 360 (formerly ING Direct) and Ally. While some of these accounts have monthly maintenance fees, others are offered without such charges or the charges can be waived. Such fees are upfront and transparent, unlike overdraft fees, the full impact of which may be a surprise to consumers who unintentionally overdraw their accounts.

Figure 8: Overdraft policies at selected banks with widely-available accounts

Bank	Overdraft policy	Monthly maintenance fee?
Ally Financial (online-only)	No overdraft fees on one-time debit card transactions or ATM withdrawals. Other transactions may incur an overdraft fee of $9 (only one overdraft fee can be assessed per day).	No
Bank of America-Student Core Checking Account	No overdraft fees on one-time debit card transactions. Other transactions may incur an overdraft fee of $35 (up to four overdraft fees assessed per day).	$12/month ($144 annually); can be waived with $250 monthly direct deposit or balance of $1500.
Bank of America-Safe Balance Account	No overdraft fees assessed.	$4.95/month ($59.40 annually)
CapitalOne 360 (online-only)	No "per incident" overdraft fees assessed. Instead, if account is overdrawn, consumer can opt for credit to be extended at the prime rate (currently 11.25% APR) to cover the shortfall.	No
Citibank-Basic Checking Account	No overdraft fees on one-time debit card transactions or ATM withdrawals. Other transactions may incur an overdraft fee of $34 (up to four overdraft fees assessed per day).	$12/month ($144 annually)
Citibank-Access Checking Account	No overdraft fees assessed.	$10/month ($120 annually)

Source: Fee schedules and terms and conditions for each bank account, last accessed March 2015.

The availability of these accounts in the general marketplace—as well as the accounts offered through some partnerships already that have more favorable overdraft policies—demonstrate the feasibility of offering accounts with less, if any, potential overdraft costs to students. Co-sponsored accounts offered to students through exclusive marketing agreements should, at a minimum, have overdraft policies that are at least as consumer friendly as others readily available nationwide, such as these examples.

POLICY RECOMMENDATIONS

Students at schools that offer co-sponsored bank accounts are a captive audience. They often receive aggressive marketing messages about the convenience of carrying an all-in-one student ID and debit card onto which their financial aid disbursements can be quickly deposited. The high take-up rate of these accounts benefits schools, which can receive revenues and in-kind support from their financial institution partners, and financial institutions, which are granted exclusive rights to market to students with whom they can create long-term relationships. The school-financial institution partnerships sometimes take advantage of the federal financial aid disbursement process by steering students to the sponsored account to receive their funds.

At a minimum, these types of partnerships should carry significant benefits for students, with the most protection from overdraft fees possible. Because schools have largely failed to take advantage of their bargaining power to offer these protections directly, the Department of Education should take steps to ensure students—and their financial aid funds—have these important protections.

Barring overdraft fees, especially on transactions that can readily be declined at no charge, is consistent with the Department's existing Cash Management rule governing financial aid disbursement. Under the current rule, an account the school "assists" the student to open or opens on the student's behalf may not be marketed as or "subsequently convert[ed] to a credit card or credit instrument."[13] Overdraft is a form of credit, and thus the Department of Education should clarify that providing overdraft coverage already violates this provision of the Cash Management rule.

The Department should ensure that an overdraft ban covers all accounts and prepaid card offerings that result from school-financial institution partnerships, not just those that are provided in order to receive financial aid disbursements. Students may be steered into accounts into which their federal funds will be deposited at other key moments, such as orientation.

Schools also have a role to play. They should ensure that if they enter into exclusive agreements with banks that the products offered maximize protections for students. The CFPB recently proposed a Safe Student Account Scorecard, which provides schools that are considering these types of partnerships with banks or credit unions some guidance, including a recommendation that these accounts have no overdraft or non-sufficient funds fees (CFPB, 2015).

Finally, the Department should consider banning revenue sharing agreements in addition to ensuring that sponsored accounts are safe and affordable. The financial misincentives created by revenue sharing agreements effectively use the school to offer up a lucrative new customer base to the banks, rather than the school using its market power to negotiate good deals for students.

[13] 34 C.F.R. 668.164(c)(3)(vii).

Taken together, these actions by the Department of Education, the CFPB, and schools that enter into partnerships with financial institutions would ensure that students are not steered to harmful accounts that can strip them of critical resources intended for their post-secondary education.

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