

# Colleges' Debit-Card Deals Draw Scrutiny

Tie-ins with school IDs can hurt students, critics say

By Kathy Chu  
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*USA TODAY*

The ID card at Portland State University in Oregon has long been the key to campus life, allowing students to check out books, get into buildings and access their meal plans. A few years ago, the school created another use for the IDs: buying books and school supplies.

Students just had to activate their ID as a debit card by opening a bank account promoted by the university. The school, under an exclusive deal with a bank, earned money when students swiped their cards and signed for a purchase. It also profited based on how much money students kept in their accounts.

STORY: Cuomo examining pacts between colleges, banks  
EXCLUSIVE: Debit-card policies at the 15 largest universities  
CHART: How overdraft fees impact young consumers

Hundreds of students protested, angry that the school was promoting a bank account they felt cost students more than other banking options. Their objections now are being echoed by a growing number of consumer groups and college students across the nation. They argue that universities are profiting at students' expense through exclusive debit card and checking account deals that can net a school hundreds of thousands of dollars a year.

"I'm not an angry long-haired hippie against corporations," says Ryan Klute, 25, a graduate student at Portland State. "But it's a bad idea when the university and the company have a vested interest in you spending your money so they can make money off you."

Such concerns are beginning to draw attention from state officials.

New York Attorney General Andrew Cuomo, who investigated the student-loan industry last year, has begun examining debit card relationships between colleges and banks, his office said late last week.

Cuomo's inquiry into student-loan providers led to changes within a system in which major colleges apparently received financial perks for touting lenders that didn't necessarily offer the best deals for students.

Banks have long pitched credit cards on campuses through exclusive deals with university alumni and athletic groups. But in marketing financial products to students, debit card partnerships have become the next frontier.

Why? One major reason is that debit card use is growing faster than credit card use, and young adults have proved especially willing to embrace the financial industry's push for cashless payments.

Students also tend to be short on cash. That makes them a reliable source of fees for banks, which charge up to \$38 each time consumers overdraw their accounts. There's another factor, too: Banks want to forge ties with students that will last well beyond the college years.

"You'd hope that if we have established a relationship with an individual in college, when they go to buy the first car, their first house, they would think of us," says Steve Dale, a spokesman for U.S. Bank, which has partnered with 28 colleges to issue ID cards that can double as debit cards.

Such deals are particularly attractive to public universities facing severe cuts in state funding. That helps explain why, even as some colleges limit credit card marketing on campus, they still let banks pitch accounts and debit cards to students.

Banks want to attract students with debit cards — through combination ID cards — and then sell them other products, such as credit cards, says **Robert Huber**, who consults with colleges on multipurpose cards.

Debit card partnerships are "not a backdoor way but a gateway for banks to market other products," says Ed Mierzwinski, consumer program director at the U.S. Public Interest Research Group.

Far fewer colleges have debit card than credit card alliances, but more are joining the move to ID-debit cards. In 2007, 127 schools had joined with banks to issue ID cards that double as debit cards, a 144% jump from 2002, according to CR80News, an industry publication.

A USA TODAY survey of the nation's 15 largest universities by enrollment reveals that more than half now have bank card relationships with financial institutions. In most cases, that means the student ID card doubles as a debit card.

"If the big universities are doing it, then it's likely the small ones will follow," says Margaret Reed, an associate accounting professor at the University of Cincinnati. "If I were a student, I wouldn't be happy" that colleges are pushing a product that earns them money.

Students shouldn't assume the bank account and debit card promoted by the university will be a good deal for them, says Greg McBride, a senior financial analyst at Bankrate.com.

"In life, you're going to pay for convenience," McBride says. "If the goal is to get the most out of your money, it pays to shop around."

### **'Hard to walk away from'**

Under these contracts, large universities can generate revenue — up to \$1 million or so a year, USA TODAY found.

The University of Minnesota has one of the most lucrative deals among the 15 largest schools. It receives a guaranteed \$1 million a year — on top of a \$2 million signing bonus — under its contract with TCF Financial.

The university uses that revenue for student services, including scholarships and late-night buses, says Shirley Everson, director of University of Minnesota's campus card office.

"You can go from university to university, and they'll tell you that (the revenue) carrot is hard to walk away from," says Andrew Perkins, campus card manager at Arizona State University, which hopes to soon link its ID card to a bank card that students can use anywhere in the world.

Portland State's 4-year-old deal, which was reviewed by USA TODAY, projects that the school will reap more than \$300,000 and save hundreds of thousands more in administrative costs from the ID-debit card over five years.

Portland State and other schools say money isn't the main reason they seek partnerships with financial institutions.

"Frankly, (the money) is not enough for us to do much with," says Dee Wendler, Portland State's associate vice president for finance, adding that the school is getting "much less" than originally projected.

"We wanted to move our systems away from Social Security numbers, and this was a way to recard the campus" without significant cost to the school, Wendler

says. (Typically, banks bear the administrative costs of reissuing ID cards under the deals.)

The school encourages students to open a bank account with its bank partner, Higher One, and to have any financial aid transferred electronically — rather than by check — to save them time and the school money, Wendler says.

Portland State students are issued a free ID card with a MasterCard logo, but they're not required to link it to the bank account and use it as a debit card. Those who prefer a regular ID card that can't double as a debit card can get one for \$20.

The school agreed to provide the alternative ID after students protested the new card, Wendler says. But only 110 current active students — out of about 25,000 — have paid for the alternative ID, she notes.

The university and Higher One also have addressed other student concerns, they say, such as revamping the card-activation process after students complained that it was too easy for them to accidentally sign up for the bank account.

Some consumer groups worry that colleges are choosing financial partners mainly for the revenue they stand to receive and ignoring bank fees imposed on students of modest means.

One big moneymaker for banks is letting customers overdraw their accounts, then hitting them with a fee for doing so.

The Center for Responsible Lending, a consumer advocacy group, estimates that overdraft fees cost consumers \$17.5 billion each year — 11% more than the \$15.8 billion that consumers are overdrawing on their accounts. College students tend to be hurt disproportionately, the center says.

"More so than anyone else, they are willing to use their debit cards for small-dollar transactions," says Eric Halperin, director of the center's Washington office. "When they do overdraft, it can be amazingly expensive."

Young adults ages 18-24 pay more than \$3 in fees on average for every \$1 overdrawn, compared with nearly \$2 in fees paid by other adults, the center's data show.

Because of the outsize impact of these fees on college students, Halperin says, schools that strike deals with banks should require the financial institution to deny a transaction — at no charge to the student — if there isn't enough money to cover it.

If the bank mistakenly approves a transaction that overdraws an account, Halperin adds, it should waive any resulting fee.

Colleges with ID-debit card deals typically let banks charge students overdraft fees.

"Given the debt loads students have, the last thing a university should be doing is adding more debt to a student's life, and that's what overdraft fees do," Halperin says.

But Gail Cunningham, a spokeswoman for the National Foundation for Credit Counseling, says she believes that "it's OK for (college students) to be charged overdraft fees as long as they're not (excessively) punitive.

"The reality," Cunningham says, is that "in the real world, no one is going to coddle them along."

Banks say the earlier students learn about financial management, the better.

By charging students fees for overdrawing their accounts, says Nessa Feddis, senior federal counsel at the American Bankers Association, banks are providing them with "an opportunity to learn to manage a bank account."

Jean Ann Fox, director of financial services at the Consumer Federation of America, rejects that argument: "That's like saying we're going to let you drive into trees so you can learn (not to abuse) alcohol."

### **Coffee overdrafts: \$150**

Kevin Wendt, a graduate student at the University of Minnesota, says he sees nothing wrong with his school teaming with a bank, TCF Financial, to provide him with a student ID that doubles as a debit card.

"Because the university had a relationship with the bank, I knew exactly where to go," says Wendt, 23, adding, "I even got a free sweatshirt for opening up an account."

Wendt overdrew on his account a few times, he says, but "almost every time, I'd be able to call up and say, 'Can you reverse it?' And (the bank) did."

TCF doesn't always waive overdraft fees. But its overdraft policies are "well-publicized, and students know the rules and generally abide by them," TCF spokesman Jason Korstange wrote in an e-mail.

Meanwhile, PNC Bank automatically waives the overdraft fee for first-time offenders at the 14 schools it partners with on ID-debit cards.

Wachovia, with 16 such alliances, gives all students who open a new checking account a one-day free pass on overdraft fees.

Brad Vehaftric, a junior at Portland State, signed up for a bank account linked to his student ID card when he was a freshman.

He bought a couple of coffees with the card one day, he says, assuming he had enough money in the account. The debit-card transactions went through, but because he didn't have enough money to cover them, he was charged about \$150 in fees.

He asked Higher One to refund the charges, he says, but was denied. Vehaftric paid the fees and closed his account soon after.

Mark Volchek, Higher One's chairman, says the bank account it offers to students charges no monthly fees and requires no minimum balance, but "like any other checking account, there are some times when students will incur fees."

Overall, the fees charged are comparable to those of other national banks, he adds.

If students lack enough money in their accounts, Higher One, unlike many other financial institutions, generally denies the debit card transaction, Volchek says.

But that's not always possible, he notes, because some merchants will authorize a purchase without checking the buyer's available balance. In such cases, Volchek says, if an overdraft occurs, the bank charges students a fee to offset its costs and to hedge against losses if students don't repay the amount overdrawn.

Vehaftric says that if banks are partnering with universities to pitch products to college students, they should be more lenient with their fees — and more willing to forgive minor transgressions.

"Why charge \$30 for a \$2 cup of coffee?" he asks. "It's obvious that some profit angle is associated with it, and that's not congruent with student interests."

Contributing: Barbara Hansen

# Cuomo examining pacts between colleges, banks

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On the heels of an investigation of the student loan industry, New York Attorney General Andrew Cuomo's office has begun examining whether college students are being hurt by their schools' partnerships with banks that offer debit and credit cards.

The inquiry is part of Cuomo's probe into colleges' ties to providers of food, books and financial services, says Benjamin Lawsky, special assistant to Cuomo.

Colleges' debit- and credit-card alliances are "at the top of our list" of priorities, says Lawsky, who led the probe into the student loan industry last year that resulted in a settlement with 12 lenders — including SLM Corp. known as Sallie Mae — that agreed to stop offering perks to college employees who directed students to certain products.

Lawsky says debit- and credit-card deals are worth examining "because these are really where the banks are able to put that albatross around middle-income students' necks and weigh them down for years and years."

Lawsky declined to say whether Cuomo's office has issued subpoenas to colleges about such financial relationships. But the staff is "busy gathering information" and "already, it's readily apparent that schools seem to have chosen the partners based on financial benefits."

Lawsky says Cuomo's office is concerned that stiff fees banks charge when students overdraw can build quickly, and that banks may be using debit-card relationships to pitch other products.

Ada Meloy, general counsel of the American Council on Education, which represents more than 1,800 colleges and universities, says Cuomo's investigation of debit- and credit-card partnerships may find "isolated cases of irregularity, but we expect the majority of (colleges) to pass muster because there has been so much attention paid to these potential conflicts of interest."

Lowell Adkins, executive director of the National Association of Campus Card Users — which represents colleges and universities that run multi-purpose card programs — says he doesn't believe colleges are doing anything "inappropriate" by partnering with banks to issue ID-debit cards.

But, he says, "I don't know if we know the definition of what inappropriate is right now."

[http://www.usatoday.com/money/industries/banking/2008-03-16-college-debt-side\\_N.htm](http://www.usatoday.com/money/industries/banking/2008-03-16-college-debt-side_N.htm)

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<b>How Overdraft Fees Impact Young Consumers</b>				
Overdraft fees hit young people's wallets harder because the group tends to use debit cards more often for small transactions.				
	Median Overdraft Fee	Median Transaction Amount	Median Amount Overdrawn	Median Fee per \$1 Borrowed *
Young Adults (18-24)	\$ 33	\$ 12	\$ 10	\$ 3.25
All Adults	\$ 34	\$ 20	\$ 16.46	\$ 1.94
* -- Median fee divided by median amount overdrawn does not equal fee per \$1 borrowed due to rounding.				
Source: Lightspeed Research and Center for Responsible Lending				

[http://www.usatoday.com/money/industries/banking/2008-03-16-cover-college-debit\\_N.htm?loc=interstitialskip](http://www.usatoday.com/money/industries/banking/2008-03-16-cover-college-debit_N.htm?loc=interstitialskip)

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# Survey: Colleges and debit cards

USA TODAY surveyed the 15 largest colleges and universities in the nation about their agreements with banks to promote checking accounts and debit cards. USA TODAY focused on the largest universities because, according to academics and educational consultants, they tend to be bellwethers for other schools.

15 largest schools	Bank-Card Pact? *	Financial Institution	Value to college of deal	College compared partner's fees to competitors?	Partner gets special access to students?	If college has bank deal, do students get access to financial guidance?
<b>Miami Dade College</b>	Y	Higher One	No fixed amount <sup>1</sup>	Y Generally better	Y Higher One is the sole provider for most banking services	Y Campus groups
<b>Arizona State Univ.</b>	Considering One	None	None	N/A	N/A	N/A
<b>Univ. of Minnesota</b>	Y	TCF	\$1 million a year plus upfront \$2 million bonus	Y About the same	Y TCF can promote bank account at campus card office	Y Through various campus departments, general banking education through TCF
<b>Ohio State Univ.</b>	N	None	None	N/A	N/A	N/A
<b>Univ. of Texas, Austin</b>	N	None	None	N/A	N/A	N/A

<b>Univ. of Fla.</b>	Y	Wachovia	\$13,000 a year <sup>2</sup>	Y About the same	Y Wachovia can market checking accounts at student orientations	Financial literacy course available in financial aid office
<b>Mich. State Univ.</b>	N	None	None	N/A	N/A	N/A
<b>Texas A&amp;M</b>	Y	Wells Fargo	<sup>3</sup>	Y About the same	Y Wells Fargo gets space on campus	Y Information on bank site; bank provided seminars in beginning but poorly attended
<b>Univ. of Central Fla.</b>	Y	SunTrust	\$30,000 a year <sup>4</sup>	Y Generally better	Y SunTrust can present services at student orientations	Personal finance courses available; university will also start offering workshops for freshmen on financial management
<b>Univ. of South Fla.</b>	Y	USF credit union	\$30,000 a year	N	Y Credit union in campus card office	Credit union has information
<b>Univ. of Illinois</b>	Y Urbana and Chicago	TCF	\$600,000 a year <sup>5</sup>	Y About the same	Y TCF can market card options at certain school events	Through partnership, TCF offers free seminars on banking basics
<b>Univ. of Wis., Madison</b>	Considering one	None	None	N/A	N/A	N/A
<b>Penn State Univ.</b>	Y	PNC	[Did not answer]	[Did not answer]	[Did not answer]	[Did not answer]

<b>Purdue Univ.</b>	N	None	None	N/A	N/A	N/A
<b>New York Univ.</b>	N	None	None	N/A	N/A	N/A
* In most, but not all, bank-card relationships, a student ID doubles as an ATM/debit card.						
1: Receives 0.08% of net transaction volume for certain debit-card transactions plus 8% to 12% of the average daily Federal Funds rate for the quarter based on average deposits						
2: Average based on one-time fee of \$3 for each bank account linked to student card that remains open longer than one year						
3: Fixed guarantee, with potential for additional revenue, but actual figures are proprietary, according to college						
4: Receives 30 cents per non-SunTrust ATM transaction, 0.18% of the balances of connected accounts, calculated monthly						
5: Includes a signing bonus, actual amount will depend on number of bank accounts opened						
6: PNC often provides financial literacy information at its schools						

Source: USA TODAY research

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[http://www.usatoday.com/money/industries/banking/2008-03-14-college-credit-chart\\_N.htm](http://www.usatoday.com/money/industries/banking/2008-03-14-college-credit-chart_N.htm)

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