

Consumer Bureau Urges Banks to Disclose Product Partnerships with Schools

BNA Snapshot

Development: Disclosure practices for credit card partnerships should apply to other financial products, CFPB says.

Takeaway: Lack of transparency about debit, prepaid cards marketed to students could lead to regulations or enforcement action by the CFPB.



By Mike Ferullo

Dec. 17 — The Consumer Financial Protection Bureau (CFPB) wants financial institutions to publicly disclose agreements with colleges and universities to market debit cards, prepaid reloadable cards, and other financial products to students.

“Students and their families should know if their school, whether well-intentioned or not, is being compensated to encourage students to use a specific account or card product,” CFPB Director Richard Cordray said in a statement.

The CFPB has been looking into so-called “co-branding” arrangements, in which bank accounts, debit cards, and prepaid cards are linked to student IDs. Such products have become increasingly common at schools for the disbursement of financial aid and other student activities.

Currently, financial institutions only make disclosures about credit card agreements with colleges and universities, as required by the 2009 Credit Card Accountability, Responsibility, and Disclosure (CARD) Act.

The CFPB also released its annual report on credit card arrangements, which showed a decline of 23 percent in college agreements from 2011 to 2012. Since 2009, the number of college card agreements in effect has declined by 41 percent, according to the study.

In addition, colleges and universities are receiving less from credit card issuers. In 2009, colleges and universities were paid nearly \$85 million for credit card partnerships, compared to approximately \$50 million in 2012, the CFPB said.

However, the marketing partnerships have shifted to student checking and debit and prepaid card products. The agency expressed concern about this trend, saying that the terms of these product agreements are often not understood by consumers and other outside parties.

Consumer Awareness

In some states, consumers must file requests under open records laws to learn the details of product arrangements between schools and financial institutions, according to the CFPB. The lack of transparency could compel the agency to take action on its own.

“The CFPB prioritizes its supervisory examinations based on the risks posed to consumers,” the agency said in its Dec. 17 press release. “When institutions do not make these college financial product arrangements transparent to students and their families, they may increase such risks.”

Since February, the CFPB has been collecting information about how campus financial products are marketed to students and

the consumer fees most often associated with the products. The CFPB is also examining marketing agreements as well as the data-sharing practices between schools and affiliated financial institutions (25 BBD, 2/6/13).

Terry Maher, a partner at Baird Holm LLP and general counsel to the Network Branded Prepaid Card Association (NBPCA) said card programs are popular because they provide convenience, safety and flexibility to students.

He also said that campus cards “may not be the best choice for every student” and expressed support for the CFPB's effort to improve transparency.

“The NBPCA believes that students should make fully-informed decisions about how they will receive student aid disbursements and the financial institutions with which they want to do business. The NBPCA supports complete transparency of the terms associated with both campus card programs and other financial account options available to students,” he told Bloomberg BNA.

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For More Information

The college credit card agreements report is available at: <http://op.bna.com/bar.nsf/r?Open=mfeo-9egrv7>.

The CFPB press release can be found at: <http://www.consumerfinance.gov/newsroom/cfpb-calls-on-financial-institutions-to-publicly-disclose-campus-financial-agreements/>.