

Date of Hearing: August 6, 2013

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Das Williams, Chair
SB 595 (Calderon) – As Amended: April 22, 2013

SENATE VOTE: 39-0

SUBJECT: Postsecondary education: financial aid.

SUMMARY: Prohibits a California Community College (CCC) and the California State University (CSU) from entering into a contract on or after January 1, 2014, with any depository entity that requires a student to open an account with that entity as a condition of receiving his/her financial aid disbursement. Specifically, this bill:

- 1) Requires CCC and CSU to offer a student the option of receiving his/her financial aid disbursement via direct deposit into an account at a depository institution of the student's choice and requires that contracting entity be required to initiate the direct deposit within one business day of the receipt of the financial aid disbursement moneys from the campus.
- 2) Requests all of the aforementioned provisions be adopted by the each campus of the University of California (UC).
- 3) Provides for reimbursement to CCC if the Commission on State Mandates determines that these requirements contain state mandated local costs.

FISCAL EFFECT: Pursuant to Senate Rule 28.8, this bill was determined to have no significant fiscal impact and was not heard in the Senate Appropriations Committee.

COMMENTS: Current federal requirements. The U.S. Department of Education (USDE) regulates the process and timelines for the disbursement of Title IV Higher Education Act student aid funds. Under USDE regulations, 34 CFR §668.164, institutions are required to disburse funds through (1) the issuance of a check to the student or parent, (2) initiating an electronic transfer to a student/parent designated bank account, or (3) dispensing cash under signed receipt from the student/parent. Institutions are permitted to require students to provide bank account information, or open an account at a bank of the student's choosing as long as the policy does not delay the disbursement of funds. However, if a student does not comply with the requirement, institutions must disburse funds through one of the authorized alternative procedures. Institutions are permitted to open a bank account on behalf of a student under specified rules that require, among other provisions, student consent, disclosure, adequate access to ATMs, and prohibitions on marketing and conversion to credit accounts. These rules apply to institutional disbursement of federal aid funds.

These requirements are not currently directly applicable to California's student aid programs; however, according to the California Student Aid Commission (CSAC) institutions generally incorporate Cal Grant procedures into the institution's current federal aid disbursement procedures. Thus, to the degree that institutions are following federal requirements, institutions are likely also utilizing these rules when disbursing Cal Grant B Access or Cal Grant C Books & Supplies award funds.

Purpose of this bill. According to the author, banks and other financial firms are creating partnerships with colleges and universities to control the process of student aid disbursements. The author notes that the functionality of these partnerships allows students to access their funds in a suitable time frame. However, the author argues that, in some of these partnerships, students are required to open an account with the bank or financial firm in order to receive their financial aid funds. This bill would prohibit the campus, moving forward, from entering into a contract with an entity that requires a student open an account with that entity and would require the student be offered the opportunity to receive the disbursement via direct deposit within a 24 hour time frame from the financial entity receiving the funds from the institution.

Debit card trap. In May of 2012, the U.S. PIRG Educational Fund issued a report "The Campus Debit Card Trap: Are Bank Partnerships Fair to Students?" evaluating the persistence and effects of financial firm debit and prepaid card partnerships with college campus on students. According to the report, nationwide, of the 7,300 schools participating in the federal aid system, nearly 900 colleges had card partnerships with banks, including 32 of the 50 largest public 4-year institutions, and 26 of the top 50 community colleges. Under these partnerships, financial firms offer open-loop debit card accounts that allow a card to be used almost anywhere. The benefit to the financial firm is the potential to recruit large numbers of potentially long-term customers. Revenues to schools resulting from these contracts can also be substantial. Students, on the other hand, can pay steep and frequent fees associated with using the university-adopted cards, including swipe fees, inactivity fees, ATM fees and fees to reload prepaid cards. The U.S. PIRG report makes several recommendations to ensure that students are protected within campus debit card programs, including recommendations to campuses, to students, and to policymakers. The policymaker recommendations focus on changes to USDE regulations and potential Consumer Financial Protection Bureau actions.

Banking options. The first part of this bill requires CCC and CSU to offer a student the option of receiving his/her financial aid disbursement via direct deposit into an account at a depository institution of the student's choosing. As previously noted, students are currently provided this option under USDE regulations. According to U.S. PIRG, USDE regulations are not strongly enough enforced, and, because of marketing practices, students often do not realize that they have a choice of where to bank and which disbursement method to use. U.S. PIRG's report includes recommendations to update and improve this regulation. This bill, as currently drafted, codifies the existing USDE regulation in California statute. This bill does not contain provisions to address enforcement or marketing standards of financial firms.

One-day disbursement. The second part of this bill specifies that the contracting entity be required to "initiate" the direct deposit within one business day of the receipt of the financial aid disbursement moneys from the campus. According to the author, this one business day requirement is intended to implement a shorter turnaround time in making the funds available to students. The author notes that some colleges take weeks to disburse funds and in the meantime students are waiting to purchase their books or pay for school necessities. Committee staff notes that this bill does not directly impact the timeline associated with college disbursement of financial aid funds; unless, as a potential indirect result of this legislation, institutions are encouraged to enter into contracts with financial firms in order to meet the "one business day" disbursement standard.

Existing practices. According to the CCC Chancellor's Office, 41 CCC campuses use partnered vendors to distribute financial aid funds to students and 71 CCC campuses have internal processes for the disbursement of aid funds. According to CSU, only one campus currently participates in a partnership for the disbursement of financial aid funds. CSU notes that there are many variables that can impact how quickly a student receives their disbursement, including the volume of students receiving aid and the time of year. CSU notes that there is some time savings when financial institutions already have account information available. For CSU campuses who directly distribute funds for students, there may be a slight delay due to dealing with multiple vendors or having to cut a paper check for a student. While it is difficult to establish an exact time frame, CSU indicates that, from the time of receipt of funds to applying funds to the appropriate account, it may take a financial institution 2-3 days to complete all of the necessary requirements and it may take the campus 2-4 days. Committee staff was unable to determine, prior to the publication of this analysis, the relevant time frames for financial institutions.

According to the UC Office of the President, UC advances cash to both state and federal financial aid recipients so that students have access to funds when needed; UC then seeks reimbursement from both federal and state financial aid sources. Therefore, there is no time delay in disbursing funds to students. A handful of UC campuses appear to use vendors for the purpose of financial aid disbursement. According to UCOP, once funds are in UC campus bank accounts funds are moved overnight, both when where third party vendors are engaged to manage campus disbursement and in cases where the campus manages such disbursements without the assistance of a third-party vendor. UC indicates that there is no significant difference in the timing of the disbursements to students.

Related legislation. AB 1162 (Frazier) would have required the CCC Board of Governors and the CSU Trustees, and request UC Regents and the governing bodies of accredited private postsecondary educational institutions to adopt policies to be used to negotiate contracts with financial institutions. This bill was approved by this committee on April 9, 2013, by a vote of 9-1. The bill was heard in Senate Banking and Finance Committee on July 3, 2013. The Committee analysis recommended several amendments which were not accepted by the Author. The bill failed passage by a vote of 2-3; reconsideration was granted.

Requested amendments. In a letter received by the Committee on July 30, 2013, CALPIRG requests amendments to this bill to incorporate the provisions of AB 1162, to require higher education segments to adopt policies that result in contracts with financial institutions that best serve the needs of students. Specifically, CALPIRG notes that "earlier this year we strongly supported AB 1162 (Frazier) and felt SB 595 was a good supplement. With AB 1162 no longer moving forward, SB 595 on its own does not go far enough to address the biggest issues students face with these contracts."

REGISTERED SUPPORT / OPPOSITION:

Support

California Bankers Association
California Credit Union League
CALPIRG
Student Senate for California Community Colleges

Opposition

None on File

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