New Cash Management Rules

How It Affects Your Refund Disbursement Process

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Background

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Rulemaking Process

- **2013 –** Public Hearings
- **2014 –** Negotiated Rulemaking
- **2015 –** Proposed Rules
- **2015 –** Final Rules
- **2016** – Rules Take Effect

Why the Need for change?

Since the regulations were written…

Technologies have changed and new payment instruments are available in the marketplace today for the disbursement of Federal Student Aid.

Current regulations included requirements when offering a debit or prepaid card as a way to make a direct payment to a student for Federal Student Aid:

- ✓ FDIC insurance and Regulation E protection,
- ✓ Limits on account fees,
- ✓ ATM access,
- ✓ Student consent, and choice.

Concerns were raised over whether the use of debit and prepaid cards, along with campus banking relationships were in students' best interests.

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Effective Timeline for New Regulations

- **July 1st, 2016** - Rules take effect

- **September 1st, 2016** – Publicly disclose contract on Institution’s website except any portion that would compromise personal privacy, proprietary information technology, or the security of information technology or of physical facilities

- **July 1st, 2017** - List major features and commonly assessed fees associated with the account

- **September 1st, 2017** - Publicly disclose on Institution’s website:
  - Total consideration, monetary and non-monetary, paid or received by the parties under the terms of the contract; and
  - The number of students who had a financial account under the contract, and the mean and the media of the actual costs incurred by account holders

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Major Changes

Program Integrity and Improvement: Topics

New Regulations Cover Three Topics:

1. Cash Management
2. Retaking Coursework
3. Clock-To-Credit Hour Conversions

Specific to Cash Management regulations, significant changes were made to address concerns over:

- transparency, choices, and fees to students
- including new requirements governing institutions' relationships with third-party servicers and financial institutions.

New Definitions for Banking Relationships

Pop Quiz!

What is the difference between a Tier One and a Tier Two Arrangement?

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Tier One (T1) Arrangements

In a **Tier One (T1) arrangement**—

An institution located in a State has a contract with a third-party servicer under which the servicer performs one or more of the functions associated with processing direct payments of Title IV, HEA program funds on behalf of the institution; and

The institution or third-party servicer makes payments to—

- One or more financial accounts that are offered to students under the contract;
- A financial account where information about the account is communicated directly to students by the third-party servicer, or the institution on behalf of or in conjunction with the third-party servicer; or
- A financial account where information about the account is communicated directly to students by an entity contracting with or affiliated with the third-party servicer.

Tier Two (T2) Arrangements

In a **Tier Two (T2) arrangement**—

An institution located in a State has a contract with a financial institution, or entity that offers financial accounts through a financial institution, under which financial accounts are offered and marketed directly to Students enrolled at the institution.

Provisions related to disclosure of contract data, ATM requirements, and the best interest provisions apply only to those institutions with at least 5 percent of the average enrollment for the 3 most recently completed award years or an average of 500 students with a credit balance for the 3 most recently completed award years. For the calculation of the 5 percent threshold, enrollment means students enrolled at the institution at any time during the three most recently completed award years.

Third-Party Servicer

A **Third-Party Servicer** is defined as—

An individual or a State, or a private, profit, or non-profit organization that enters into a contract with an eligible institution to administer, through either manual or automated processing, any aspect of the institution's participation in any Title IV, HEA program.

Some Title IV functions performed by a third-party on behalf of an institution:

- Processing student financial aid applications, performing need analysis; determining student eligibility, certifying loan applications
- Processing output documents for payments; loan servicing and collection;
- Receiving, disbursing, or delivering Title IV, HEA program funds, excluding lock-box processing of loan payments and normal bank electronic fund transfers;
- Preparing and submitting institutional eligibility, participation notices and applications; and preparing a Fiscal Operations Report and Application for Participation (FISAP).

Student Choice Process

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Pop Quiz

Student options must be presented in a clear, fact-based, and ___________ manner.

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Student Choice Process: Applicable T1 & T2

In implementing its selection process, the institution must—

1) Inform the students in writing that they are not required to open or obtain a financial account or access device offered by or through a specific financial institution;

2) Ensure that the student's options are described and presented in a clear, fact-based, and neutral manner;

3) Ensure that initiating direct payments by EFT to an existing financial account is as timely and no more onerous as initiating an EFT to an account provided under a T1 or T2 arrangement;

4) Allow students to change, at any time, previously selected payment option, as long as the student provides written notice within a reasonable time;

5) Ensure that no account option is preselected; and

6) Ensure that a student who does not make an affirmative selection is paid the full amount of the credit balance within the appropriate time-period (14 days) - by EFT, check, or cash with signed receipt

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Pop Quiz

What disbursement method MUST be presented first to the student?

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Student Choice Process: Applicable T1 & T2

In describing the options under its selection process, the institution —

1) Must present prominently, as the first option, the financial account belonging to the student;

2) Must list and identify the major features and commonly assessed fees associated with each financial account offered under the T1 and T2 arrangements, as well as a URL for the terms and conditions of each account.

   - *Takes affect July 1st, 2017*

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Consent to Open Account

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True or False: The student can be sent an access device before providing consent to opening an account.

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Consent to Open Account: Applicable T1 & T2

Student choice of the account or consent required to open account before:

- Providing information about student to financial account provider
- Sending access device to student
- Associating student ID with a financial account

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Consent to Open Account: Applicable T1 & T2

Under a T1 arrangement, ensure that any personally identifiable information that is shared with the third-party servicer before the student makes a selection—

Does not include information about the student, other than directory information under 34 CFR 99.3 that is disclosed pursuant to 34 CFR 99.31(a)(11) and 99.37, beyond—

1) A unique student identifier generated by institution (no SSN)
2) The disbursement amount
3) A password, PIN code, or other “shared secret” provided by the institution that is used to identify the student
4) Any additional items specified by the Secretary in the Federal Register

Under a T2 arrangement, the school must have student consent to open an account prior to providing any personally identifiable information other than directory information.

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Reasonable Access to Funds

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The student must have convenient access to funds in the financial account via a __________ national or regional ATM network.

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Reasonable Access to Funds: Applicable T1 & T2

Ensure that the student—

Has convenient access to the funds in the financial account through a surcharge-free national or regional Automated Teller Machine (ATM) network that has ATMs:

- sufficient in number and housed and serviced such that Title IV funds are reasonably available to students, including at the times the institution or its third-party servicer makes direct payments into the financial accounts of those students

Applies only to institutions located in a State.

For T2 arrangements, the threshold of 5 percent of the average enrollment over the most recent 3 award years or an average of 500 credit balance recipients for the 3 most recent award years applies.

Fee Mitigation

Pop Quiz

Can the school charge a fee to the student to open the financial account?

Fee Mitigation: Applicable to T1 Only

Does not incur any cost—

1) For opening the financial account or initially receiving an access device;

2) Assessed by the institution, third-party servicer, or a financial institution associated with the third-party servicer, when the student conducts point-of-sale transactions in a State; and

3) For conducting a balance inquiry or withdrawal of funds at an ATM in a State that belongs to the surcharge-free regional or national network;

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Pop Quiz

True or False: The financial account or access device can be converted into a credit card.

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Fee Mitigation: Applicable to T1 Only

Ensure that—

The financial account or access device is not marketed or portrayed as, or converted into, a credit card;

No credit is extended or associated with the financial account, and

- no fee is charged to the student for any transaction or withdrawal that exceeds the balance in the financial account or on the access device,
- except that a transaction or withdrawal that exceeds the balance may be permitted only for an inadvertently authorized overdraft, so long as no fee is charged to the student for such inadvertently authorized overdraft; and

The institution, third-party servicer, or third-party servicer's associated financial institution provides convenient access to Title IV funds

- in part and in full up to the account balance
- via domestic withdrawals and transfers without charge

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Contract Disclosure and Evaluation

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Contract Disclosure: Applicable T1 & T2

No later than **September 1, 2016**, and then no later than 60 days following the most recently completed award year thereafter—

Disclose contracts governing arrangements on Institution's website

- Except any portion that would compromise personal privacy, proprietary information technology, or the security of information technology or of physical facilities

Provide to the Secretary an up-to-date URL for the contract for publication in a centralized database accessible to the public

No later than **September 1, 2017**, and then no later than 60 days following the most recently completed award year thereafter —

Disclose conspicuously on the Institution's website and in a format established by the Secretary:

- Total consideration for the most recently completed award year, monetary and non-monetary, paid or received by the parties under the terms of the contract; and
- The number of students who had financial accounts under the contract at any time during the most recently completed award year, and the mean and the media of the actual costs incurred by account holders

Contract Evaluation: Applicable T1 & T2

Requires institutions to establish and evaluate T1 and T2 arrangements in light of the best interests of students—

The institution documents that it conducts reasonable due diligence reviews at least every two years to ascertain whether the fees imposed under the arrangement are consistent with or below prevailing market rates; and

All contracts for the marketing or offering of accounts pursuant to arrangements make provision for termination of the arrangement by the institution based on:

- complaints received from students or
- a determination by the institution that the fees assessed under the arrangement are not consistent with or are higher than prevailing market rates

Thank You.