Testimony of Abraham Scarr, Director
Connecticut Public Interest Research Group (ConnPIRG)
in support of
Proposed House Bill 5490:
An Act Concerning Financial Literacy

Chairperson Tong, Chairperson Leone and Members of the Committee: My name is Abe Scarr and I am the Director of the Connecticut Public Interest Research Group (ConnPIRG). Thank you for the opportunity to testify today in support of proposed House Bill No. 5490: An Act Concerning Financial Literacy

ConnPIRG is a statewide non-profit, non-partisan citizen and student funded consumer group with chapters on three college campuses. Our consumer program works to alert the public to hidden dangers and scams and to ban anti-consumer practices and unsafe products.

As an organization founded by students and with an ongoing campus program, we take a special interest in consumer issues that affect students including student loans, textbook prices, and credit and debit cards. In recent years, we have advocated for the adoption of the CARD Act and the creation of the Consumer Financial Protection Bureau. Our 2012 Report, The Campus Debit Card Trap[1], called national attention to problems associated with debit card agreements between universities and financial institutions. We are currently running a peer to peer campus education program, "Avoid the Debt Trap."[2]

College students are prime targets for financial institutions that use confusing, invasive, and even misleading practices to recruit students to buy products and subsequently make money off of them through fees and other charges. As a population generally new to financial decisions, students are particularly vulnerable to these methods.

A 2008 ConnPIRG study[3] found that 25% of students surveyed paid late fees and 15% paid "over the limit" fees on their credit and debit cards. Furthermore, bank overdraft fees cost students one billion dollars each year. More students drop out of college due to financial pressures than due to academic issues, and 67 percent state that money matters accounted for a lot or some of their daily stress.

This strain does not disappear after graduation. Prospective employers for positions with financial responsibilities frequently check applicants' credit reports, placing students who graduate with high debt and low credit scores at a disadvantage. Furthermore, students' credit histories can also impact their ability to rent an apartment, or qualify and get good rates for auto or home loans and insurance.

[1] http://connpirgstudents.org/reports/sp/campus-debit-card-trap
[2] http://connpirgstudents.org/resources/ct/avoid-debt-trap
[3] http://www.uspirg.org/reports/usp/campus-credit-card-trap-2008

We support proposed House Bill 5490, which takes steps to provide student consumers with better information when making financial decisions, and applaud the committee for raising it.

The proposed bill would direct the Department of Education and the Board of Regents for Higher Education, in consultation with the Department of Banking, to create a plan to ensure high school students receive financial education before graduation. The bill also requires universities and credit and debit card issuers to provide students with financial literacy information before they sign up for a credit or debit card on campus or associated with a university. Finally, the bill calls for increased fee disclosure on campus based ATMs.

These are positive reforms and we encourage the committee to support them.

We also believe that the scope of the problem is larger than will be addressed by these reforms, and respectfully recommend further reforms to protect student consumers.

Below are more detailed recommendations, but to summarize, we recommend:

- Requiring financial institutions to **publicly disclose *all* of the financial product marketing agreements** they have with colleges and universities. Currently they disclose credit card agreements, but not agreements with debit cards or other financial products.
- **Reform "push marketing" tactics** that limit student's understanding of the choices they have and aggressively and unfairly steer students into choosing the marketed financial product.

Scope of the problem
Across the country, two in five college students now have access to a campus debit or check card linked to their student ID card, many exclusively loaded with students' financial aid. Push marketing tactics used by financial firms limit student choice and ensnare them in products that increase their debt.

While colleges gain revenue and reduce costs by outsourcing services to banks and financial firms, the cards push costs directly on to students. Students may be forced to pay junk fees to access their financial aid. Examples of these fees include:

- *Overdraft, transaction, and inactivity fees.* A student is allowed to overdraw on her financial aid and is docked $29 to $38. She is charged a *per-transaction* fee, which contributes to the likelihood she may overdraw. She is charged an inactivity fee for not using the account.
- *Lack of documentation fee.* Despite the fact that a student's credentials have already been verified by the college and the Department of Education, financial firms will dock the student $50 for failing to send additional documentation within a certain time frame.
- *Balance inquiry fees.* A student is subject to balance inquiry fees, among other fees, when using ATMs out of network. She may incur high ATM fees for transactions that are normal, or encouraged, as in-network ATMs are often inaccessible to students, or have run out of cash.

Contract Transparency
The CARD Act of 2009 included many important reforms, including the establishment of transparency of college credit card contracts. The Consumer Financial Protection Bureau is responsible for analyzing these contracts and making them available to the public.

In their annual report on campus credit card agreements[4], released in December, the CFPB found that:

- "Fewer college card agreements are in effect: The number of college card agreements in effect has declined by 41 percent between 2009 and 2012. In 2009, 1,045 college card agreements were in effect for over two million accounts, compared to only 617 agreements for just over a million accounts in 2012.
- Institutions of higher education are paid less by credit card issuers: In 2009, colleges and universities were paid $84,462,767 by credit card issuers. In 2012, that figure was $50,396,103—a decline of about 40 percent.
- Fewer new college accounts are being opened: While the number of college card issuers has increased from 18 to 23 in recent years, fewer new accounts are being opened. In 2009, there were 55,747 new accounts opened. In 2012, that number decreased by 18 percent to 45,519."[5]

Disclosure of campus credit card agreements is clearly making an impact. Consumers are being made aware of the tricks and traps that were layered into credit cards marketed on campus. At the same time, financial products marketing partnerships have shifted to campus debit cards, prepaid cards, and banking accounts, where there is not the same level of transparency.

Recommendation: *We support the CFPB's call[6] for financial institutions to publicly disclose all agreements they make with colleges and universities. Students and families have a right to know the details.*

Push Marketing

According to the industry's own reports, within 4 years of a college or university entering into a financial aid debit card agreement, 80% of their students has a card. It is not obvious that the terms and conditions of these debit accounts are superior to other accounts. Marketing tactics for the cards are aggressive and unfair. These tactics include:

- *PINs for all students push them into accounts.* When a campus outsources financial aid disbursement, *every* student at the school gets a debit card account PIN. To opt out, a student must first activate her account. Alternately, the student can do nothing, and a paper check will be mailed, but this alternative is not clearly communicated.
- *Materials are biased against direct deposit of aid into a student's bank account.* Every student is mailed a financial aid debit card, regardless of whether she has opted out; the receipt of the card in the mail biases the student toward activating the card. Additionally, a student must opt out of the pre-arranged debit account for her aid on industry websites, where she is forced to click through many more pages to opt out.
- *Students encounter barriers in setting up direct deposit.* A student must opt out through faxing or emailing scanned documents, adding an unnecessary layer of inconvenience that blocks her from opting out; no methods for opting out online or over the phone exist.

[4] http://www.consumerfinance.gov/reports/2013-college-credit-card-agreements/

[5] http://www.consumerfinance.gov/newsroom/cfpb-calls-on-financial-institutions-to-publicly-disclose-campus-financial-agreements/

[6] Ibid

- *Students opting for paper checks don't get their money in time.* A student opting out should always be eligible to receive her aid through a check within 14 days, yet financial firms do not always provide it in time, further pushing the student into the debit card account.

Recommendation: *Students should know they have the choice to use a new financial product or not. This choice should be presented on equal terms. It should be just as easy to choose to use direct deposit into an existing bank account or receive a paper check as it is to opt into a new financial product*.

Conclusion

Even a well-educated consumer cannot make good financial decisions without access to information. Requiring financial institutions to publicly disclose all marketing agreements they make with colleges and universities is in line with the spirit and intent of House Bill 5490 and we encourage the committee to strongly consider this recommendation.

Again, thank you for the opportunity to testify in support proposed House Bill No. 5490: An Act Concerning Financial Literacy. I will be happy to take any questions you have.

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