



JUN 21 2019

Honorable Susan Davis
Chairwoman
Subcommittee on Higher Education and
Workforce Development
Committee on Education and Labor
United States House of Representatives
Washington, DC 20515

Dear Chairwoman Davis:

Thank you for your letter to U.S. Department of Education (Department) Secretary Betsy DeVos concerning the Payment Vehicle Account pilot program. Your letter has been referred to my office, and I am pleased to respond.

The Payment Vehicle Account pilot program will provide a free, secure, and convenient way for students to access and manage credit balance funds. The pilot program will offer real-time information for borrowers and eliminate the costs associated with school-sponsored accounts. Today, when students use their Federal student aid credit balance funds—utilizing one of the payment account or card options currently made available by their schools—there are usually costs and fees associated. The Payment Vehicle Account pilot program would eliminate these costs and fees to students, which can be quite expensive. Additionally, the pilot program will offer schools access to a world-class financial product at no cost to the schools. Participation in the pilot program by students and schools is voluntary.

The Department published a Notice Inviting Applications (NIA) in the Federal Register on October 17, 2018, 83 Fed. Reg. 52427, inviting parties to submit applications to implement a pilot of the Federal Student Aid (FSA) Payment Vehicle Account program. The pilot program is part of the Next Generation Financial Services Environment (Next Gen FSA), an enterprise-wide initiative to transform the delivery of Federal student aid. Next Gen FSA aims to provide a world-class student aid customer experience—using industry best-in-class financial services technologies—to provide better outcomes for students and greater value to taxpayers. The Payment Vehicle Account program is an essential part of Next Gen FSA; through the program FSA can establish early and consistent connections with customers that will help them better understand and successfully manage their financial obligations. When we help customers minimize excess borrowing and achieve better repayment outcomes, everyone benefits, including customers and taxpayers.

Below, the Department addresses the specific questions posed in your July 30, 2018, letter regarding the proposed Payment Vehicle Account pilot program.

Question 1: Please explain the Department's express statutory authority to conduct its own payment card program. What section of the Higher Education Act defines the Department's regulatory authority to disburse credit balances, for both Title IV and non-Title IV funds as described in the pre-solicitation notice, through its own payment card program?

FederalStudentAid
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As a Performance-Based Organization, Congress has charged FSA “to improve service to students and other participants in the student financial assistance programs...” 20 U.S.C. § 1018(a)(2)(A). Consistent with that responsibility, the Department’s Title IV cash management regulations include provisions intended to ensure that students have convenient access to their Federal student aid funds; do not incur unreasonable and uncommon financial account fees on their title IV funds; and are not led to believe they must open a particular financial account to receive their Federal student aid.

FSA is in a unique position to help deliver a superior financial product that meets the Department’s responsibility to American students and taxpayers to ensure that student aid funds are disbursed using methods that provide the funds to the student without unnecessary costs.

Question 2: Since the cash management regulations went into effect in July 2016, have student financial accounts offered by third party servicers maintained reasonable fees consistent with or below market rates? Please describe the due diligence the Department has conducted in this area and explain why the Department feels compelled to start its own pilot program.

Student financial products have improved since the cash management rules went into effect, but there is still room to improve the benefits for student borrowers. When students use the payment accounts or card options currently available, there are usually associated costs and fees. FSA conducted extensive market research, including discussions with the Consumer Financial Protection Bureau (CFPB) about their own independent research. For example, the CFPB’s research reviewed 573 schools with marketing agreements during the 2016-2017 Academic Year and found that 116 schools reported receiving \$16,657,800 in total payments from banks to promote these accounts, for which account holders paid an average of \$36.52 annually per account. At the remaining 457 colleges where schools received no compensation from financial institutions, account holders still paid an average of \$11.93 in annual fees per account. The Payment Vehicle Account pilot program would eliminate all costs and fees to students.

Question 3: Is the Department anticipating selecting a single vendor or multiple vendors to participate in the payment card pilot program?

FSA envisions multiple Pilot Implementers for the Payment Vehicle Account pilot program.

Question 4: What is the Department's position on providing an implicit endorsement of one or several financial institutions that will be used to disburse student aid funds?

The Payment Vehicle Account pilot program will be supported by one or more financial institutions. The physical and virtual cards will display the FSA brand, the name of the financial institution, and the payment brand. Our practice in this area is the same as other government payment card options currently utilized by Federal agencies. For example, the U.S. Department of the Treasury’s Direct Express® Debit MasterCard® card is issued by Comerica Bank and contains both the Comerica Bank and MasterCard® markings. The Direct Express card is used for Veterans Affairs’ benefits, Social Security, Supplemental Social Security, Railroad Retirement Board funds, and by the Office of Personnel Management. Likewise, the General Services Administration’s (GSA) SmartPay Travel Card, which displays the GSA and United States of America branding, is issued by either Citibank, JPMorgan Chase Bank, or U.S. Bank utilizing either a Visa® or MasterCard® platform.

Question 5: What steps will the Department take to ensure that a student does not feel required or pressured to establish a payment card account under this pilot program? What steps will the Department take to make students aware of the range of cash disbursement options available to them?

The pilot program requirements create a Tier 2 arrangement between the school and the Pilot Implementer, as defined in the Department's cash management regulations at 34 C.F.R. § 668.164(f). Thus, participants in the pilot must comply with the applicable cash management regulations. The cash management regulations ensure that customers are not led to believe that they must open a particular financial account to receive their Federal student aid. The regulations also require a school to inform the customer of the terms and conditions of a Tier 2 financial account before the financial account is opened. The Payment Vehicle Account pilot program will follow all existing cash management regulations regarding marketing to ensure that the options are presented in a clear and neutral manner.

Question 6: Given the fact that the proposed payment card program is an interchange-only model, how does the Department envision the vendor maintaining a financially sustainable model given the prohibition on account fees, institutional charges for the service, and the prohibition on interchange revenue for on-campus transactions?

The pilot program requires that on-campus interchange fees be waived at school-owned retail establishments. These interchange fees are typically paid by the school. However, off-campus transactions would still generate interchange income, and off-campus sales activity is typically greater than on-campus sales activity. In addition, the value of the Payment Vehicle Account pilot program stems from FSA co-branding, rather than from charging fees to customers or schools. Co-branding allows for the visibility of a company's brand and logo to a wide audience.

Question 7: How does the Department envision the vendor modifying the interchange rate within the payment network for individual merchants given the fact that financial institutions do not control how the rates are set or charged? Has the Department considered the fact that payment networks do not allow financial institutions to set rates for individual merchants or merchant categories?

The Pilot Implementer is responsible for providing a turnkey solution that includes at least the combination of an issuing financial services institution, processor, payment brand, and Payment Vehicle Account product. Payment brands control interchange rates and are an integral component to the Payment Vehicle Account pilot program.

Question 8: If the payment card accounts are not financially viable, does the Department anticipate the vendor recouping losses through the cross-selling of other financial products? If cross-selling is allowed, please provide detailed information on data restrictions and consumer protections the Department would impose. If selling is not allowed, will the Department explicitly state this in the solicitation?

The pilot includes restrictions on the marketing use of data associated with customers using the Payment Vehicle Account. Pilot Implementers may not use participating customer data for marketing purposes without explicit permission from the customer. Any use of the participating customer data to offer other financial relationships can only be requested by the Pilot Implementer and granted by the participating customer on a specific individual case-by-case basis. As such, any use of Payment Vehicle Account information for marketing purposes may be authorized only with an explicit opt-in (on a by-occurrence only basis and not through general or blanket opt-in or through any opt-out methods) by the participating customer.

Question 9: How will FSA ensure that the card provider will clearly notify students when their data is requested and allow them to actively give or deny their consent? Will students be notified every time a new entity has requested access to their information?

Customers have control over the sharing of their data. As part of the oversight of the Pilot Vehicle Account pilot program, FSA sets the requirements that Pilot Implementers must adhere to, including the

requirement to allow participating customers to opt-in to marketing. Outside of opting-in or opting-out of opportunities provided by the issuing financial services institution, the participating customer controls the ability to share or export data with other external entities (e.g., budgeting software, financial apps such as Mint, etc.).

Question 10: How does the Department anticipate the vendor handling compliance with applicable laws and regulations that may prohibit restricting purchases at certain merchants and/or on certain products?

Except for transactions flagged for potential fraud, the issuing financial services institution will not include transaction holds in the authorization process or otherwise place limits on how or where customers may spend funds. However, the institutions will comply with any applicable laws restricting the use of debit cards to make specific purchases.

Question 11: The pre-solicitation notice requires the contractor to abide by "Privacy Rules." Which privacy rules does this include? How does the Department intend to enforce these rules through the pilot program?

Financial institutions are required to comply with applicable Federal rules and laws, privacy rules and laws, and consumer protection laws. Furthermore, under the Department's cooperative agreement with the Pilot Implementers, they will be required to abide by these laws, rules, and regulations governing privacy.

Question 12: As it relates to real-time transaction alerts, does the Department anticipate the vendor freezing a transaction during the authorization process and requiring the account holder to authorize continuation of the transaction? If so, how does the Department envision the account holder authorizing continuation of the transaction (e.g., via the app, by responding to a text message, receiving an email, etc.)?

Except for transactions flagged for potential fraud, the issuing financial services institutions will not include transaction holds in the authorization process or otherwise place limits on how or where customers may spend funds, except as required by other laws. Methods employed to address fraudulent transactions are dependent upon a financial institution's existing suite of solutions and may include self-service via the vendor's mobile account, web, or interactive voice response and live agent assistance via phone, chat, email, or short message service.

Question 13: How does the Department anticipate receiving student and credit balance information, if at all? Would participating institutions be required to transmit student and credit balance information directly to the Department, which would in turn submit the data to the vendor or would schools directly communicate the student and credit balance information to the vendor? Please explain the process.

FSA established the parameters of the Payment Vehicle Account pilot program, as published in the Federal Register Notice and in our agreements with the Pilot Implementers. The Pilot Implementers will then implement the Payment Vehicle Account pilot program directly with the participating schools, providing credit balance funds and associated financial services to customers and schools. The Pilot Implementer will only provide non-identifying, aggregated, pilot program-related information to FSA. FSA will not receive any individual customer records, transactions, or individually-identifiable information from other entities involved in the pilot.

Question 14: Will the Department collect, maintain, or have access to student-level data for pilot program participants? If so, please list all the data pieces that the Department will be able to collect, maintain, or access.

No. The Pilot Implementer will only provide non-identifying, aggregated, pilot program-related information to FSA. FSA will not receive any individual customer records, transactions, or individually identifiable information from other entities involved in the pilot.

Question 15: What data will the Department monitor, regardless of whether the data is at a student level or in aggregate form? How does the Department want to use that data?

The Pilot Implementer will only provide non-identifying, aggregated, pilot program-related information to FSA that will be used to assess the effectiveness of the pilot program. Reports provided to the Department by the Pilot Implementer may include, but may not be limited to, aggregated data to demonstrate the following: vendor mobile app reports demonstrating adoption rates; call center activity reports; complaint management dispute requests; fraud reports; lost and stolen card reports; ATM usage; on-campus usage and off-campus usage; and calculation of fee avoidance (savings to customers and schools). Additionally, the Pilot Implementers will provide FSA with periodic reports gauging customer and school satisfaction.

Question 16: Would the proposed payment card program require the vendor to offer and manage a menu of disbursement options or will the payment card be the default option? If the vendor is required to manage a full-service disbursement program, which includes disbursements via ACH and paper check, how will the Department compensate the vendor for all the costs associated with handling all non-card disbursements without charging institutions or students a fee?

The Pilot Implementer is not managing a full-service disbursement program, nor will the Payment Vehicle Account be the default option. The pilot program requirements create a Tier 2 arrangement between the school and the Pilot Implementer, under the Department's cash management regulations. Our regulations at 34 C.F.R. § 668.164(d)(4)(i) require a school to establish a selection process that allows customers to choose one of several options for receiving direct payments of Title IV aid. The school is required to inform the customer that he or she is not required to open a financial account offered through a specific financial institution. Therefore, the Payment Vehicle Account will be an option for customers to voluntarily elect.

Question 17: Does the Department expect the vendor to disburse non-Title IV funds as part of the payment card program? Please explain the process.


Schools will continue to disburse credit balance funds to students utilizing existing institutional processes and the Payment Vehicle Account will be a new option for customers to elect. To elect the Payment Vehicle Account and receive credit balance funds for Title IV Federal student financial aid and other student aid from a participating school, customers must complete the Free Application for Federal Student Aid (FAFSA®) and be eligible to receive Title IV funding.

Question 18: How will the Department determine the success of the Payment Card Program Pilot? What metrics and methodology will the Department use to evaluate the program? Will the program be evaluated by an independent company or will staff at the Department be responsible for evaluating the program?

Evaluation of the pilot program will be conducted by an independent party using a mixed-methods research protocol, which combines quantitative and qualitative assessments to measure benefits and perceptions of program utility, efficiency, and ease-of-use by customers and schools.

Thank you, again, for your interest in the Payment Vehicle Account pilot program. If you have further concerns, please contact the Department's Office of Legislation and Congressional Affairs at (202) 401-0020.

Sincerely,


Mark A. Brown
Chief Operating Officer