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Welcome Students! Need a Checking Account?

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23–30 minutes

In her first weeks of graduate school, Akanksha Sharma had a problem: an ever-growing shopping list. Textbooks for classes, essentials for her new apartment, lab and activity fees, notebooks, folders, pens, graph paper, and so on: If there was any money left, she'd even consider buying something to eat.

A paycheck was on the way for Ms. Sharma's work as a research assistant at the University of Arizona. She just needed a place to deposit it. Fortunately, Wells Fargo Bank had a branch on campus, and various university materials described the company as its "official banking vendor." It was an easy choice.

Little did Ms. Sharma know, she wasn't just getting a college-sponsored checking account. She was also signing up for an expensive financial re-education.

Ms. Sharma had arrived recently from India, where she had found the terms and conditions of her state-run, low-fee bank account easier to understand. But in America, she said the rules for her checking account confused her, with every misstep triggering a hefty penalty charge. Those fees slowly drained her meager savings. In her first 18 months, Ms. Sharma paid nearly $600 for overdrafts, ATM withdrawals, and other issues, according to bank statements provided to *The Chronicle*.

A spokesman for Wells Fargo said the bank provides all new account holders with an explanation of all the fees they might face. He added that the company gives presentations on the basics of banking at all of the colleges that sponsor its checking accounts.

But Ms. Sharma said her foray into American banking left a sour taste. “That’s ridiculous to me, for a student to be dealing with that,” she said.

Ms. Sharma is not the only student whose college experience has included a hard lesson in finance. More of her peers are enrolling in checking accounts through their colleges, thanks to a surge in agreements the institutions are making with banks. Wells Fargo’s presence at the University of Arizona that day was the result of one such agreement.

As part of that deal, the University of Arizona received a one-time signing bonus of $100,000 in 2012. On top of that, Wells Fargo’s five-year deal with the university came with performance payments. If less than 25 percent of the total student body opened or maintained university-sponsored Wells Fargo accounts in a year, the institution still stood to receive $20,000. But if 25 percent or more of the student body opened accounts, the university could receive anywhere from $25,000 to $175,000. At its inception, the five-year deal was potentially worth $887,500 to the University of Arizona, which has the option to renew the contract annually after its first five years. In the 2016-17 academic year, the university received $35,000 from Wells Fargo, along with $17,500 in additional marketing and operational support.

At least 135 colleges have similar deals with banks, worth potentially tens of millions of dollars.

Altogether, banks paid 103 colleges and systems more than $16.5 million in monetary and in-kind payments during the 2016-17 academic year for access to students’ business, according to a

Chronicle analysis of university disclosures. At least 466,000 students had opened college-sponsored accounts with university banking partners by the end of the 2016-17 year. Average account fees for students ranged from $4, at Michigan's Grand Valley State University, to $93, at Iowa's Kirkwood Community College. Aggregate payment figures are understated, as not all colleges have published fee data and payment information.

The practice makes financial sense for both the banks and the institutions, but opponents argue that the agreements prey on students. Young college students are relatively high-risk checking-account holders: Many have limited incomes, and many more are managing their own finances for the first time. As a result, they are more likely than other account holders to incur overdraft fees.

Consumer advocates argue that if a college points a student toward a checking account with various fees, and that student then incurs such charges, the university bears some responsibility. The government requires colleges to make some basic disclosures on their websites about the details of such bank deals. But advocates say institutions that stand to benefit from connecting banks with students should feel obligated to take further steps to protect those students' financial well-being.

Officials from various universities say they understand the concerns, but they argue that college-sponsored checking accounts are a net positive for students. Students who opt in, they point out, get the convenience of campus ATMs or bank branches. In some cases, their student ID cards double as debit cards.

Convenience was a major reason Ms. Sharma banked with Wells Fargo. The young grad student was able to turn to her parents, still in India, for emergency financial help. But whenever their funds landed in her account, another fee was applied because the money had been transferred internationally. The vicious cycle further frustrated her.

In a statement to *The Chronicle* about Ms. Sharma's experience, a University of Arizona spokesman said that "no amount of revenue would excuse customer mistreatment, and we will be working with the bank to see if more can be done."

"Unfortunately," he said, "we have no way of knowing if students have problems with overdrafts or fees unless they tell us."

Good Deals?

The Chronicle reviewed 50 of at least 135 known college-sponsored checking-account contracts. The deals can be lucrative for colleges, with banks paying millions of dollars in signing bonuses. Since 2001, the three big players — Wells Fargo, PNC Bank, and U.S. Bank — have agreed to pay almost $9.4 million in signing bonuses to 42 of the 50 colleges and college systems. The University of Illinois system alone received $2 million as part of a 2015 deal with PNC. These marketing arrangements with banks like PNC differ from arrangements with banking services like Higher One, now BankMobile, that are primarily used to distribute financial aid.

Also of concern to observers are performance targets, present in 41 of the contracts *The Chronicle* reviewed. If all 41 colleges failed to reach those targets, they would still bring in at minimum $3.2 million this year under the contracts' terms. But according to *Chronicle* analysis, if those colleges were able to hit all of their performance targets in 2017, they would net more than $7.5 million.

“The more that a school has a financial incentive to get a lot of students enrolled in a particular bank account, the more you have to worry about whether the school will inappropriately push an account for money-making reasons, rather than because it’s the best account for students,” says Lauren Saunders, associate director at the National Consumer Law Center.

Colleges and banks say that they don’t engage in high-pressure sales and that no employee is compensated based on how many students sign up. The money they bring in, colleges say, is put to good use for activities that benefit students. At Iowa State University, which receives standard annual payments rather than performance incentives, program revenues support overhead expenses for an educational gift-certificate program. At Washington State University, the money supports the office that distributes student-identification cards.

On top of signing bonuses and performance pay, contracts at 28 out of the 50 colleges include “soft dollar” budgets for ancillary support of the card program, such as marketing, staff support or website development. Likewise, some banks agreed to pay some or all of the expenses associated with producing cards. Banks that open branches on campus make monthly rent payments to the universities. And contracts for at least five colleges included provisions requiring a banking partner to provide money for scholarships.

Nine public colleges responded to *Chronicle* open-records requests for actual performance-compensation figures. Those documents showed that payments received by the colleges tended to land far short of the maximum performance targets.

Jim Hawkins, an associate professor at the University of Houston Law Center who specializes in consumer law, likens the checking-account deals to past college arrangements — with student-loan companies like Sallie Mae and with on-campus credit-card marketers — that were criticized for putting students at financial risk. Although Congress passed a law in 2009 that banned the use of gifts to market credit cards on campus, the ban does not apply to the marketing of checking accounts.

At an event for new students at DePaul University in 2015, PNC Bank raffled off gifts like backpacks to students. Lysa Beebe recalled that the contest enticed her daughter, Caitlyn, to give the PNC table a look. Caitlyn went on to win that backpack, and to open a college-sponsored PNC checking account. Like Ms. Sharma, she later incurred insufficient-funds fees on her account. However, Ms. Beebe said she was able to get the fees wiped out after speaking with a PNC bank manager.

Mr. Hawkins says banks like the unspoken endorsement that comes with a university deal. He pointed to research on campus credit-card marketing that found students had greater levels of trust in banks that did business on campus. According to the research, led by Jill Norvilitis, a professor of psychology at the Buffalo State College, students believed their university was acting in their best interests. “You trust your university to help you make good decisions,” Mr. Hawkins says, “so if they are saying, ‘This is the bank we team up with’ — you think, ‘Oh, okay, that must be the best one.’”

Ms. Beebe said DePaul's apparent endorsement of PNC at the vendor event had put her and other parents at ease. She recalled how DePaul officials talked about the depth and length of the university's relationship with PNC. "It made me feel like they thought it was a good idea for PNC to be there." Ms. Beebe said.

In a statement provided to *The Chronicle*, a DePaul spokeswoman said "aggressive marketing" is not allowed at its campus events. "Orientations, in particular, are focused on information and welcoming students; not on sales," the statement read.

'Customers in the Door'

In college students, banks see great potential for growth. Visa has predicted that the collective income of the millennial generation will surpass that of all others by 2020, and millennials tend to use debit and credit cards more than previous generations. (They also are more likely to leave parts of their monthly credit balances unpaid and pay fees.)

In 2011, PNC's then-chairman and chief executive, James E. Rohr, told shareholders that the bank's agreements with 200 colleges and universities would allow it "to market PNC's retail products to more than 300,000 incoming freshmen and approximately 1.9 million students overall." Those 200 relationships included college-sponsored checking arrangements as well as campus branch locations and other services.

"Once we have these customers in the door," Mr. Rohr said, "our wide branch network and innovative products provide us with long-term retention opportunities."

That long-game strategy, proponents argue, acts as a check on bad behavior. Kristopher Dahl, a communications consultant at Wells Fargo, says the bank's goal is to build "lifelong relationships with customers," so exploiting students would not be in its best interests. Craig Howard, who oversees the sponsored-account program at Washington State University, echoes that point.

"These are not programs that are designed to make money off students in the short run," he says.

But Mr. Hawkins and consumer advocates are skeptical that long-term customer development is the only factor influencing banks' deals with colleges. Possible profits on a mortgage loan to a former student-account holder 10 years in the future can't be booked now. Fee income from overdrafts can. "You don't need to have a lot of money to start being profitable for a bank," Mr. Hawkins says. An analysis of Consumer Financial Protection Bureau data by NerdWallet, a consumer-finance website, shows that people aged 18 to 25 are charged more in overdraft fees than any other age group.

University officials say they, too, are concerned about heavy fees against participating students' accounts. Washington State had resisted making banking agreements for some time, according to Mr. Howard, but eventually moved ahead with U.S. Bank after repeated demands from students for an on-campus banking option. To counteract financial illiteracy among students, colleges and banks say they heavily invest in money-management training sessions. Under Washington State's agreement, U.S. Bank holds financial-literacy workshops with sororities, fraternities, and other student groups. PNC offers financial-literacy webinars online, available to all of its student customers. PNC also works with universities to establish financial-literacy and wellness programs.

The financial-literacy resources included within PNC's offer to Youngstown State University, which included online tips and campus workshops, were one of the deal's most important selling points, said Gloria J. Kobus, bursar at the university.

"Of course, they're going to promote the product, but they're also doing a lot of education with our students," Ms. Kobus said. "And our students, I think, feel like they have a place to go if they don't know where to go to ask questions about banking."

"I do think it falls on the student to educate themselves," says Sarah L. Sanders, a 2015 graduate of the University of North Texas who racked up $140 in fees and charges when Netflix kept billing an empty account. "But when you move to a new town and you are starting college, you are already overwhelmed with information, and getting into a new routine and a new life. It just wasn't really on my radar."

Making Better Deals

Rather than offer checking accounts that levy overdraft fees, says Ms. Saunders of the National Consumer Law Center, colleges should work with banks to offer reloadable prepaid debit cards. Just as with college-sponsored checking accounts, opting in would be voluntary, she says. But with a prepaid card, a student couldn't be charged an overdraft fee if a purchase exceeded the card's balance. Instead, the purchase would simply be declined at the point of sale.

According to the CFPB, only one university offers such an option: Stetson University, with its banking partner Fifth Third Bank. Jeff Margheim, associate vice president of finance at Stetson, says the institution's decision to go with a prepaid card stemmed from a desire to avoid fees altogether.

"We didn't want anything that was going to — I don't know if there is a better word for it — harm the students or just put them in a position where they're going to be paying extra," he said. "We didn't want to fall into the same trap that the other schools did with the accusation of, This school is just trying to benefit from this card and force me to have it."

Although Stetson does allow bank representatives on campus at special events like orientations, students can't sign up for the prepaid cards on the spot. To obtain a card, they have to hoof it to the Fifth Third Bank branch near campus and complete a one-on-one meeting with banking staff. Under the contract, Stetson has earned $7,500 per year based on the percentage of students who have signed up — roughly one in six.

As more colleges look to enter into checking-account agreements, says Joan Piscitello, treasurer at Iowa State University, they would be wise to take a proactive approach to disclosing the nature of their financial relationship with the banks they sponsor.

At Iowa State, students receive a letter from U.S. Bank informing them of the college-sponsored checking accounts. A line at the bottom of the letter makes it clear that the university receives payment from the bank. That transparency is exactly what Jim Hawkins would like to see more of from universities. Some students who feel burned by the accounts say such transparency would have made a difference. Ms. Sanders says she would not have signed up for an account if North Texas had made a similar disclosure. A UNT spokeswoman said that at orientations, Wells

Fargo representatives tell parents and students account sign up is voluntary. Likewise, the spokeswoman said, UNT and Wells Fargo's financial relationship is disclosed online.

Ms. Sharma has her account back in the black, and she plans to stick with Wells Fargo for at least as long as she studies in the States. Having completed the 2012 deal's first five-year term, the University of Arizona renewed its arrangement with Wells Fargo for another year.

Larger changes have already taken place at DePaul. The university announced in February that it had selected Wintrust Financial to replace PNC as its sponsored student-checking-account partner. A university spokeswoman said the decision to change partners was not related to student complaints.

But while DePaul may be done with PNC, Lysa Beebe and her daughter are not. Ms. Beebe's daughter has maintained her college-sponsored account with the bank, and after her fees were cleared away, the last two years have been uneventful. Still, Ms. Beebe says she feels like her daughter and other students "weren't told the whole truth" on the day of the new-student event.

"We should be setting them up to succeed," she said, "not setting them up for failure."