

The power to expand e-payment choices



New student-friendly options for disbursing financial aid funds

Business officers at colleges and universities have more payment choices today when disbursing federal financial aid funds to their students. To move to safer and more efficient disbursement practices, schools are wise to investigate new, innovative electronic payment methods that reflect student preferences. This paper reviews two disbursement alternatives that schools have when managing Title IV Higher Education Act student aid.

A move to electronic payments

Similar to many other businesses and government agencies, institutions of higher education are seeking ways to make their operations more efficient and secure while targeting higher levels of customer satisfaction. This has led to a focus on migrating to electronic payment methods, including when making payments to students.

Recent U.S. Department of Education amendments to Title IV Higher Education Act cash management regulations have placed a spotlight on one area of student payments in particular, the disbursement of federal financial aid funds, such as Pell Grants, federal scholarship and student loan dollars. Colleges and universities receive these funds from the federal government and then, after applying a portion for direct expenses such as tuition, disburse them to their students. Over the years, some schools have implemented electronic options for making these disbursements, including direct deposit to student checking or savings accounts.

However, today there are some alternative, student-friendly options to consider beyond traditional Automated Clearing House (ACH) funds transfers.

Below we provide an overview of two such options—prepaid cards and alias-based payments.

Average internal costs per transaction¹



Paper check
\$3-\$6 or more



Electronic payments
\$1 or less

Key takeaways

- Regulatory changes have placed a spotlight on the disbursement of federal financial aid funds
- Prepaid card programs can enable schools to disburse payments electronically to students without a local bank account
- Alias-based payments, such as Digital Disbursements, can help schools exceed speed of settlement requirements

Prepaid card

For a college or university, one of the key advantages of any electronic payment method is that it's less expensive than the past default practice of making payments to students by check. The average internal costs associated with making an electronic payment can be \$1 or less per transaction, compared to \$3 to \$6—and sometimes much higher—for issuing a paper check.¹

As one of the electronic payment options for Title IV financial aid disbursements, prepaid cards can offer both lower costs and other advantages.

For one thing, prepaid card is the only alternative that does not require the student financial aid recipient to have a bank account. That's important, because some students are unbanked, they may have a bank account that does not provide local access, or they are uncomfortable providing their account information to the bursar's office.



According to the Federal Deposit Insurance Corp., 13% of those 15 to 24 years of age in U.S. households were unbanked in 2015.² Unbanked students are unable to receive their Title IV payments through ACH direct deposit, and therefore, absent a prepaid card option, generally must accept a paper check. This results in added cost and inconvenience for students when converting their financial aid into liquid funds.

Unbanked students may rely on costly check cashing services to cash their financial aid checks. And since financial aid payments are generally made in lump sums at the beginning of the semester, they also need to find ways to safely store the funds for access throughout the semester.

Even those students with a bank account may find a Title IV prepaid card to be less costly than a checking account from their hometown bank. Non-local bank accounts may come with costs to access funds through out-of-network ATMs on or near campus. In addition, many bank accounts assess monthly maintenance fees unless a minimum balance is maintained or the account holder receives consistent monthly direct deposits.

A financial aid prepaid card can help students avoid some of these issues. They need not take time to cash their checks or pay check-cashing fees. Unlike a check, the funds can remain in the prepaid card account throughout the semester, and if the card is lost or stolen, students are protected.³ With the amended Department of Education Title IV regulations, students can be assured they will have free and reasonably convenient access to their funds on the prepaid card when they are on or near campus.

To issue a prepaid card to the student, all a school needs is the student's name, address and one or two additional pieces of information for security purposes, such as a social security or telephone number.

How the new rules impact prepaid card

The amended Department of Education regulations that went into effect in July 2016 establish specific rules and prohibitions on how higher education institutions may use prepaid or debit cards for the disbursement of Title IV financial aid funds. Schools considering using prepaid cards as a method of disbursing such funds need to educate themselves about these rules.

The alias-based payment option

Another cost-effective alternative for making electronic disbursements of Title IV financial aid funds that schools should consider is an alias-based payment. Most students carry a mobile phone or computing device with them 24/7. Alias-based payments—at Bank of America Merrill Lynch we call our offering “Digital Disbursements”—enable a college or university to send Title IV funds to a student using either a mobile phone number or email address. The funds are deposited directly into the student's designated account.



The payments are referred to as “alias-based” because the phone number or email address acts as an alias or identifier that's linked to the student's actual bank account information. Unlike with an ACH payment, the higher education institution doesn't have all the administrative work of updating and maintaining critical bank account information, nor the associated data breach risks.

Digital Disbursements are made in partnership with ZelleSM (previously called clearXchange), a payment network founded by Bank of America and some of the nation's other leading financial institutions.⁴ The registry maintains a digital catalog of consumer mobile phone numbers and email addresses, along with corresponding bank account information. Once a student receives a Digital Disbursements text or email and registers, the network is able to deposit those funds into the appropriate student bank account.

To receive financial aid funds through Digital Disbursements, a student must use a checking or savings account domiciled with a U.S.-based bank and register with *Zelle* or a bank that participates in *Zelle*. Registration is a fairly simple process.

In addition to being well received by mobile-savvy students, Digital Disbursements, like prepaid cards, are more secure and less expensive than checks. They are deposited directly into designated accounts, and in most cases, the funds are available in minutes or as soon as the next business day — avoiding delays associated with mailing a check to the wrong address.⁵

Digital Disbursements help schools exceed the Department of Education's speed of settlement requirements.



Responding to innovative new options

A best practice in treasury management these days is giving customers options so they can choose their preferred method of accepting payments. Institutions of higher education can do just that for their students by offering the emerging electronic payment methods discussed here.

By offering both prepaid card and alias-based payment (Digital Disbursements) options for disbursing financial aid funds, schools can meet the needs of both students without bank accounts and those who prefer to manage as many financial transactions as possible using their mobile phones or laptops.

To learn more about Title IV financial aid disbursement alternatives, contact your Bank of America Merrill Lynch relationship manager or treasury management sales representative.

Registering students to accept Digital Disbursements

- Registering students to accept Digital Disbursements payments is as secure as it is fast, and the higher education institution never sees students' critical account information.
- A link directs students to a web page with a list of banks. Clicking on their bank directs students to their institution's online banking, where they use their normal online banking login credentials and complete the registration process. If their bank is not shown, students are directed to click on the **"My bank isn't listed"** link and will visit the *Zelle* website, where they are asked to establish a username and password and provide a few fields of data to register.
- Both registration processes provide students with an authentication code to their email address or phone, and they will need to enter this code to complete the registration process. Once students are registered, they are immediately ready to receive funds directly into their designated account.

¹ 2015 AFP Payments Cost Benchmarking Survey.

² 2015 FDIC National Survey of Unbanked and Underbanked Households.

³ Certain requirements must be met in order to receive these protections.

⁴ *Zelle* and *Zelle* related marks and logos are property of Early Warning Services, LLC.

⁵ Transactions typically occur in minutes for registered *Zelle* users. If a recipient has not yet registered with *Zelle*, it could take between 1 and 3 business days.

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