

United States Senate

WASHINGTON, DC 20510

November 7, 2016

The Honorable John King
Secretary
U.S. Department of Education
400 Maryland Avenue, SW
Washington, D.C. 20202

Dear Secretary King:

In light of recent enforcement actions against Wells Fargo by the Consumer Financial Protection Bureau with respect to private student loan servicing and employees opening unauthorized customer accounts to meet sales targets, we urge the Department of Education (the Department) to increase its technical assistance to, and oversight of institutions of higher education that enter into arrangements with financial institutions to offer financial products to students for distributing Title IV credit refund balances. Rigorous implementation of the Department's cash management regulations will be critical to protecting federal student aid and the financial interests of students.

One of the key components of the regulations is the requirement that an institution of higher education, in negotiating an arrangement with a financial services provider, establish and evaluate the contracts governing the arrangements "in light of the best financial interests of students." However, a recent survey of college affiliated checking accounts calls into question how institutions are implementing this important provision, finding that in many instances, there were local checking alternatives that charged no or lower overdraft fees to students.

This is particularly concerning when coupled with the recent news of unreasonable sales targets that pressured Wells Fargo employees to open unauthorized accounts. For example, some of the university contracts with financial institutions posted on the Department's website include financial incentives based on the number of accounts opened or the percentage of the student body that opens an account. It would appear that these incentives could lend themselves to a similar pattern of abuse, putting students at risk.


Given these concerns, we ask that you provide the following information about the Department's technical assistance and monitoring plans to ensure that institutions of higher education are in full compliance with the cash management regulations.

- What is the Department's process for reviewing the Tier 1 and Tier 2 financial arrangements between institutions of higher education and financial service providers?
- What action is the Department taking to ensure that institutions of higher education disclose Tier 1 and Tier 2 contracts on their websites?
- What criteria does the Department use to determine that the arrangements meet the requirement of the "best financial interests of students?"
- How does the Department collaborate with other agencies such as the Consumer Financial Protection Bureau to review financial arrangements and provide technical assistance to institutions on best practices in negotiating financial arrangements in the "best financial interests of students?"


- Has the Department identified any current agreements as deficient in meeting the standard of the “best financial interests of students?” If so, please provide a list of deficient agreements and rationale for their deficient identification.
- How does the Department’s review of the financial arrangements ensure that there are sufficient safeguards in any revenue sharing or incentive structures to guard against the kinds of abuses uncovered at Wells Fargo?
- How does the Department ensure that institutions track and remedy student complaints related to financial products offered under Tier 1 or Tier 2 arrangements?
- Are there additional tools that the Department needs to ensure that federal student aid and the financial interests of students are fully protected when an institution enters into a Tier 1 or Tier 2 arrangement?
- What resources has the Department made available to institutions of higher education to help them identify financial institutions that have entered into consent orders or settlements with federal regulators related to consumer practices, or have established patterns of behavior that could put students at risk of financial harm?

We would appreciate your response by December 1, 2016. We look forward to working with you to protect federal student aid dollars and the financial interests of students.


Sincerely,




Jack Reed
United States Senator



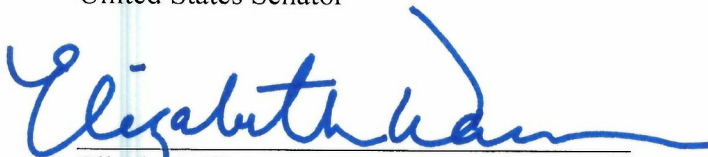
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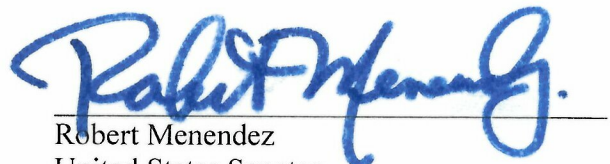
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