

Proposal for Adding Credit Cards as Payment Method on Student Receivable Accounts

Request for: Decision

Executive Summary

The implementation of a new student billing system provides the opportunity to build business processes that support accepting credit cards as a form of payment on student receivable accounts. A strategic decision is needed for SIS Project to proceed with critical path design and configuration.

- Option 1: Accept credit cards as a method of payment for charges on student billing accounts.
- Option 2: Continue the current practice not to accept credit cards except in specific cases where the transaction is interfaced to the student financials system (e.g., summer visitors, Statement of Intent to Register, self-supporting graduate program deposits)

Key assumption: Students/parents choosing to pay with a credit card will be charged a convenience fee of ~2.75% that will offset bank/association fees charged to the merchant account.

Risks: More credit card activity may increase exposure to a data breach; this can be mitigated with third-party processing options.

Impacts: Providing a new payment channel will increase workload to support processes that ensure data security compliance, to administer additional payment/refund channels, and to reconcile transaction activity. Funding will be needed to support this additional workload.

Considerations:

- The vast majority of payments to CARS are via e-check (79% - online debit from a checking account). Only 7% of CARS payments are by paper check. If credit cards are accepted, students will likely shift transactions from e-check, achieving no material efficiency or cash-flow benefit.
- The current convenience fee rate to pay with an e-check is \$0.50. Students who shift their payment method to credit card will incur a significant increase in the amount they pay for convenience fees.
- A survey of 55 UC Berkeley students showed:
 - 53% will not pay with a credit card when there is a convenience fee
 - The primary reason students will pay with a credit card is to receive rewards from their card issuer. The second reason is for convenience. Only 17% indicated that they would borrow against the credit card to pay educational costs; this is higher than the national average of 3%.
- The national average of dollars paid with credit cards at research universities is 19%.

Benefit to the school: Able to communicate that students and parents are provided with a full selection of payment options to meet their needs and expectations.

Benefit to students/parents: Able to pay using a preferred and convenient method as long as they don't mind paying extra for the fee.

Further details are discussed below.

1.1 Problem Statement

Some constituents (staff, faculty, students, parents) perceive the inability to pay the student's billing account with a credit card as an inconvenience and, therefore, a service deficiency by the campus.

The implementation of a new student billing system provides the opportunity to build business processes that support accepting credit cards as a form of payment on student receivable accounts.

The nature of credit cards introduces new considerations for financial risk, data security, and workload.

The SIS Project Team seeks a strategic decision on which direction to take:

- Option 1: Accept credit cards as a method of payment for charges on student billing accounts. (Note: The mechanics of how this would be accomplished, either within CS: Student Financials or through a third-party vendor, will be assessed in a separate analysis. For purposes of this decision, the assumption is made that either processing channel can be accomplished with comparable quality, efficiency and cost.)
- Option 2: Continue the current practice not to accept credit cards except in specific cases where the transaction is interfaced to the student financials system (e.g., summer visitors, Statement of Intent to Register, self-supporting graduate program deposits)

1.2 Participants

Proposal Developed By: SIS Student Financials

Stakeholder Community: Students, parents, campus departments requiring admission deposits

1.3 Glossary

Card Association – general label used to refer to the four major credit card brands (Visa, MasterCard, American Express, Discover).

Convenience fee, Surcharge, or Service fee¹ – Visa makes a distinction between these types of charges, but the handling rules are similar across all fee types. The fee is an additional charge that a merchant adds to a consumer's bill when he or she uses a card for payment. The fee must be clearly disclosed and processed as a separate transaction.

E-check – an abbreviated term used to identify an electronic, as opposed to paper, check; a transaction submitted via a website to authorize a withdrawal from a checking or savings account at a U.S. bank; the payer must provide the bank's routing number and the bank account number.

1.4 Background

Evolving Industry

¹ (Source: <http://usa.visa.com/download/merchants/card-acceptance-guidelines-for-visa-merchants.pdf>)

When the current student receivables system was implemented in 1992 the acceptance of credit cards was not as prevalent as it is today and the ability to pay via the internet was nonexistent. As the credit card industry grew, the card associations established rules by which merchants needed to operate.

Three rules in particular were especially challenging to educational institutions:

1. Credits for refunds must be processed back to the card that was used for the original payment. While this provides a sound audit trail and helps protect the merchant from disputes, student billing accounts were not set up to store all of the needed information (cardholder name if not the student, credit card number, etc.), nor were they built to interface the refund data through the credit card processing channel. In addition, billing accounts often have multiple sources of payment, so determining if it was a credit card, a check, or a financial aid award that created the overpayment was overly complex.
2. The associations and the banks that issue the cards assess fees to merchants. Most merchants roll these fees into the sales price. However, entities where the sales prices are set by regulation (i.e., DMV, courts, state school tuition, utilities, etc.) do not have this flexibility. Passing on service fees to consumers as a separate surcharge was highly restricted and discouraged by the associations who feared cardholders would see this as a deterrent to using their cards. To respond to merchant needs, the associations permitted a 'convenience fee' that could be charged to consumers who paid through channels that were more convenient than those normally offered by the merchant (e.g., websites in lieu of in-person).
3. To complicate the matter further, Visa, by far the industry's largest card association with 52.4% of the global payment market², required the convenience fee be a flat rate, despite the fact that the association's fee structure to merchants was based on a percentage of the sale amount. The flat-rate fee that a school might establish based on in-state tuition amounts would not cover the association fees charged on higher out-of-state tuition payments. As a result, many schools chose not to accept Visa. Schools that did accept credit cards often only accepted MasterCard, AMEX and Discover. Visa changed this rule in 2013 and now permits percentage-based convenience fees.

The payment industry also grew to include debit cards, most of which are now branded by either Visa or MasterCard. These cards have different rules (i.e., signature-based transactions versus PIN-based), fee structures and processing channels.

In 2010, the federal Dodd-Frank Wall Street Reform and Consumer Financial Protection Act was signed into law. A section of the act, known as the Durbin Amendment³, issued rules relating to debit card fees, network exclusivity and transaction routing. The Durbin Amendment impacts:

- Merchants may set a minimum credit card transaction amount of up to \$10
- Federal agencies and higher education institutions may set a maximum amount
- Merchants may provide a discount for certain payment methods (i.e., cash) in lieu of a surcharge for paying with a card
- Bank fees for debit card transactions were capped

² Source: <http://www.nerdwallet.com/blog/credit-card-data/credit-card-transaction-volume-statistics/>

³ Source: <http://www.cardhub.com/edu/the-durbin-amendment-in-review/>

In 2013, in a settlement to merchant litigation against Visa, rules changed regarding how merchants could accept card payments. As a result, a government or education merchant may assess a fixed or variable service fee, as long as it is processed as a separate transaction⁴. Surcharges are prohibited on debit or prepaid cards. Retailers must disclose any surcharges before the purchase and on the receipt.

California law (Cal.Civ. Code §1748.1(a) (West))⁵ prohibits surcharging, but grants exceptions to government entities and public agencies, such as the state, a city, or a county.

There are currently 140 campus merchants, none of which assess a convenience fee.

Emphasis on Data Security

As if accepting credit cards is not complicated enough with association rules, federal and state laws, and growing consumer demands, merchants must also comply with stringent data security requirements. In 2005, the card associations joined forces to combat credit card fraud by creating a framework in which merchants must operate their credit card acceptance environment. Known as the Payment Card Industry Data Security Standards (PCI DSS), merchants must certify on an annual basis that they are meeting or exceeding the prescribed practices for protecting cardholder data. The rigor of the actions needed to satisfy certification increases with the number of transactions and the methods by which the transactions are accepted (swipe terminal, online, etc.).

Each credit card merchant on the Berkeley campus conducts an annual PCI self-certification. However, based on projected growth in transaction volume, it is anticipated that in 2016, the campus will be upgraded to Level 2, which will require an extensive annual onsite review by a Qualified Security Assessor (QSA). The likely upgrade is irrespective of any decision that is made regarding accepting credit cards for student receivables, though accepting cards for student fees will make the upgrade a certainty.

Considerations for Cost/Benefit – Facts and Figures

- Many colleges and universities accept credit cards and pass a fee on to students. A survey of schools shows fee rates vary from 2.00% to 2.75%, with 2.75% most typical. For a list of schools surveyed, see Appendix A.
- Currently, there are three campus departments that accept credit cards for charges that ultimately are assessed in the student receivable system (CARS). In all cases, the payment is accepted through the department's local system, where record is made for other purposes, and the payment is interfaced to CARS. In separate actions not performed by the department, charges are assessed to the student's billing account where the payment is applied to settle the debt. The situations where this occurs are:
 - Undergraduate Admissions – Statement of Intent to Register
 - Summer Sessions Application/Enrollment – Visitors
 - Haas Self-Supporting Program Deposits
- In the past 5 years, payment methods currently accepted by UC Berkeley have shifted from paper checks to e-Check and to other methods, predominately international wire transfer:

⁴ Source: <http://usa.visa.com/merchants/merchant-support/merchant-surcharging.jsp>

⁵ Source: https://oag.ca.gov/consumers/general/credit_card_surcharges.

# Payments by Method	Berkeley 2010	Berkeley 2015
Web e-Check	72%	79%
Paper Check	18%	7%
Credit Card	7%	7%
Other (wire transfer, home banking, tax intercept)	3%	7%

- The national average dollar amount paid by credit card at research universities from 2008 through 2012 remained constant, while paper checks decreased and the use of web e-checks increased. See chart from 2012 NACUBO Benchmarking Survey in Appendix B Figure 1.

\$ Payments by Method	National Average 2008	National Average ⁶ 2012
Web e-Check	24%	44%
Paper Check	49%	29%
Credit Card	19%	19%
Other	8%	8%

- In an annual analysis conducted by Sallie Mae⁷ on how students and parents fund college expenses, only 3 % across all types of schools rely on this source. The NACUBO survey shows that 50% of the dollars paid by students at community college were paid with a credit card compared to 19% at research institutions; see Appendix B Figure 3. It's safe to conclude that that percentage of students/parents at research institutions borrowing on credit cards to fund educational costs is less than 3%.

	Students	Parents
% Financing expenses using credit card	3%	3%
Average \$ financed on credit card in 2013	\$3,156	\$4,681
Average \$ financed on credit card in 2014 (Current trend is to borrow less)	\$2,150	\$2,678

- A casual survey of 55 UC Berkeley students was conducted in June 2015 to get an indication of student interest in paying their school billing account with a credit card. Summary results:
 - 93% of the respondents have paid out-of-pocket for charges on their account; this sample population predicts those who would have opportunity to use a credit card in the future
 - 47% of the respondents would consider making a credit card payment with a convenience fee
 - 78% of the respondents who would make a credit card payment indicated the top 2 benefits to them for using a credit card are 1) rewards from the card issuer and 2) convenience

⁶ Source: 2013 NACUBO Benchmarking survey

⁷ Source: http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2014FNL.pdf

- 17% say they would borrow against the credit card to finance their educational costs; this is compared to the 3% national average of actual students/parents noted above
- 75% of the respondents who would pay a convenience fee will not pay more than a \$30 fee (2.75% fee on a \$1,110 payment)

For additional details on the survey results, see Appendix C.

- Berkeley currently assesses a \$0.50 convenience fee for each e-check payment submitted. The revenue collected from this fee is used to offset costs charged by the third-party vendor, Higher One, who hosts the payment platform and processes the transactions. Total fees paid to Higher One in FY13/14 were \$85,922; revenue collected was \$63,318.
- The risks for bad debt differ when processing an e-check versus a credit card.
 - When an e-check payment is submitted, there is no validation on the bank account number or the availability of funds in the bank account. Typically within 3 business days, the campus will receive notice that an e-check payment was not honored and the payment would be voided on the billing account. In FY13/14, 1.4% of the e-check payments were returned by the bank.
 - When a credit card payment is submitted, the transaction is authorized by the credit card issuer, which indicates that the card is active and that funds are available. However, the cardholder has up to six months to dispute the charge claiming a refund is due, services weren't provided, the charge was unauthorized by the cardholder, etc. The merchant receives a chargeback notice and must take action to respond or the payment is reversed by the bank. The total dollar amount of chargebacks across all campus merchants in FY11/12 was an extremely low 0.07% of sales.

1.5 Working Assumptions

- Some students and parents have a desire to pay campus bills using a credit card
- Some students and parents will pay with a credit card even if an additional convenience fee is assessed
- The convenience fee will be assessed on all credit card payments and will be non-refundable
- The proposed convenience fee rate will be 2.75%; \$2.75 for every \$100; a minimum convenience fee (i.e., \$3.00) may be considered; final decisions on this still need to be made
- All four major brands (Visa, MasterCard, Discover, American Express) will be accepted
- Credit cards will only be accepted through a website; in-person, mail, or over-the-telephone acceptance of credit cards will not be available
- Payers will be presented with fee-free payment alternatives (i.e., check, e-check)
- If credit cards are accepted, the student may submit a credit card payment for any type of charge on the account (i.e., registration fees, housing, health services, etc.)
- The system will be configured to allow a credit card payment to be applied to any charge on the billing account
- Unapplied credit card payments on the billing account will be refunded to the same credit card that was originally used to make the payment
- The process/system for accepting credit cards within CS: Student Financials must comply with PCI DSS
- Further research is needed to assess the value of and options for accepting debit cards

1.6 Options

Option 1 – Accept payment via credit card for all charges assessed on the CS: Student Financial billing account

Description: Students and parents will access outstanding charges through a website, where they will be presented with the option to submit an online payment via a credit card or e-check. The web pages will disclose that a convenience fee will be assessed for credit card payments, as well as the specific amount of the convenience fee before the transaction is completed.

Pros	Cons
<ul style="list-style-type: none"> • Offers the student/parent a more convenient online payment method than e-check • Offers the student/parent a payment method that they may prefer over others • Provides reliable funds availability at the time of payment; eliminates risk of payment bouncing • Facilitates international payments; may reduce wire transfer payments and the manual workload for processing • Eliminates need for outside applications (i.e., SIR deposits) to be developed and maintained to accept credit card payments and interface to SIS <p>Note: There may be a perception that the campus will receive funds sooner. There is no evidence to support this at this time. A contrary argument may be that students will wait until the last minute to pay.</p>	<ul style="list-style-type: none"> • Assessing the convenience fee to students increases their educational costs by 2-3%, which may be more than the value of the rewards they receive from the card issuer • Configuration and file interfaces specific to the credit card payment type must be created and maintained • Convenience fee will be assessed on payment for SIR deposits and Summer visitor registration; may be perceived as a deterrent to making payment • Refunds to credit cards require supporting a second refund channel in addition to accounts payable • Additional risk and workload to maintain data security and PCI compliance • Additional workload to reconcile credit card merchant account • Additional workload to monitor and reconcile convenience fee assessment • Cardholders can dispute payments up to six months later; (minimal) risk of financial loss • Disputed payments are processed as chargebacks; manual workload to administer <p>Note: Because the campus's paper check payment rate is low (7%), it is a good assumption that the e-Check rate (79%) will decrease perhaps by as much as 20% (the national average) as students shift to paying with credit cards; student will pay more in convenience fees.</p>

Option 2 – Do not accept credit cards as payment for receivables on CS: Student Financial accounts.

Description: The current payment methods of e-check, paper check, wire transfer, Western Union wire, and bank bill-pay file will be maintained. Credit cards may be accepted for deposit payments through CS: Student Financials or other systems that interface to CS: Student Financials.

Pros	Cons
<ul style="list-style-type: none"> • No change from current practice • Does not introduce new workload • Does not introduce new area of data security risk 	<ul style="list-style-type: none"> • Student/parent dissatisfaction that they can't use their preferred payment method • Campus will need to counteract the perception that we're not keeping current with a growing population of consumers who don't use cash or checks • Forces students/parents who assume credit cards are accepted to find alternative payment methods (perhaps on short notice or incur consequences of late payment, which can lead to frustration and panic)

1.7 Summary:

Benefit to the school:

Able to communicate that students and parents are provided with a full selection of payment options to meet their needs and expectations

Benefit to students/parents:

Able to pay using a preferred and convenient method as long as they don't mind paying extra for the fee

1.8 Decision of:

Rosemarie Rae, Associate Vice Chancellor and Chief Financial Officer
Delphine Regalia, Assistant Vice Chancellor and Controller

1.9 Decision Made:

Accept credit cards – see insert below of email approval and endorsement from:

Rosemarie Rae, Associate Vice Chancellor and Chief Financial Officer
Anne De Luca, Associate Vice Chancellor, Admissions and Enrollment
Walter Wong, Registrar

Do not accept credit cards

2.0 Resources:

For additional discussion on this topic, see:

<http://www.creditcards.com/credit-card-news/tuition-charge-fee-survey.php>

http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2014FNL.pdf

Re: Decision Needed 6/30 - Accepting Credit Cards in SIS - Proposal Attached

This looks like a good step forward. Joyce, thanks for putting this all together.
Walter Wong, Registrar

On Tue, Jun 16, 2015 at 1:04 PM, Anne DE LUCA <adeluca@berkeley.edu> wrote:

Joyce, thank you for sharing this analysis and the detail. I agree that we should enable option 1:
1. Accept credit cards with a convenience fee (~2.75%) charged to the student/parent.

A&E will work to support the change of adding this new payment option and look forward to providing this added convenience for students and their families, which is frequently requested at Cal Student Central.

Anne

On Mon, Jun 15, 2015 at 5:48 PM, Joyce STURM <jsturm@berkeley.edu> wrote:

Anne -- Can you please review the attached proposal regarding credit card acceptance for student bills and reply with you concurrence or concerns? Thanks --- Joyce

----- Forwarded message -----

From: **Rosemarie Rae** <r-rae@berkeley.edu>
Date: Mon, Jun 15, 2015 at 7:51 AM
Subject: Re: Decision Needed 6/30 - Accepting Credit Cards in SIS - Proposal Attached
To: Joyce STURM <jsturm@berkeley.edu>
Cc: Delphine Regalia <dmregalia@berkeley.edu>

Joyce,

I am supportive of the first option - accepting credit cards with a convenience fee (~2.75%) charged to the student/parent. Joyce, this is an excellent piece of work. It was clear and thoughtful. Thank you,

Rosemarie

Rosemarie Rae
Associate Vice Chancellor-Finance and Chief Financial Officer
UC Berkeley
Email: r-rae@berkeley.edu
Cell: [510-206-5377](tel:510-206-5377); Office: [510-642-7059](tel:510-642-7059)

On Fri, Jun 12, 2015 at 4:24 PM, Joyce STURM <jsturm@berkeley.edu> wrote:

Rosemarie and Delphine --

A strategic decision is needed as to whether or not the SIS should build the processes for students/parents to be able to pay charges on the student's billing account using a credit card.

Attached is a proposal discussing two options:

June 10, 2015

10/15

Acceptance of Credit Cards for Student Receivables

1. Accept credit cards with a convenience fee (~2.75%) charged to the student/parent.
2. Do not accept credit cards for general charges (tuition, registration fees, housing, etc.), but build processes to continue to accept credit cards for SIR, Summer visitors, and self-supporting deposits (units that currently take credit cards today).

Please provide final approval or guidance as to next steps. To meet the project timeline, a decision is needed by June 30.

Thanks --- Joyce

Joyce Sturm
Director, Financial Operations
Disbursements / Billing and Payment Services
University of California, Berkeley * Controller's Office
Phone: [510.642.3783](tel:510.642.3783) * Email: jsturm@berkeley.edu

Appendix A

Survey of peer schools:

Schools that assess a surcharge for accepting credit cards:

CSU Fullerton	2.75%
Georgia Institute of Technology	2.75%
Michigan State University	2.60% (sliding)
Mississippi State	2.70%
Northwestern University	2.75%
Ohio State University	2.75%
Oklahoma State	2.75%
Penn State University	2.50%
Purdue University	2.75%
Texas A&M University	2.25%
University of Colorado	2.75%
University of Florida	2.60%
University of Illinois	2.40%
University of Kansas	2.25%
UCLA	2.75%
University of Maryland	2.00%
University of Michigan Flint	2.75%
University of Minnesota	2.75%
University of North Carolina	2.75%
University of Pittsburgh	2.75%
University of South Carolina	2.50%
University of Southern Mississippi	2.75%

Schools that accept credit cards, but do not pass surcharges on to students:

John Hopkins University
Stony Brook University
USC

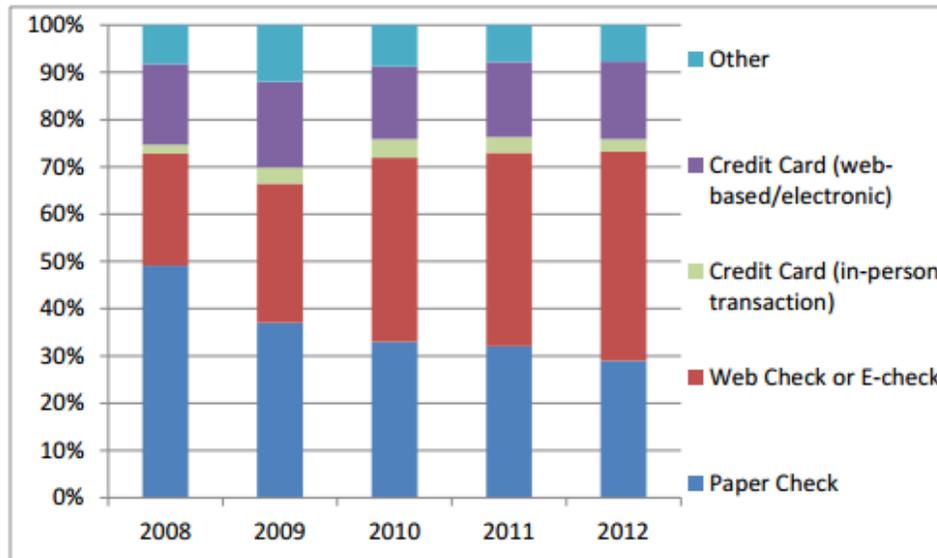
Schools that do not accept credit credits

Brown University
Emory University
Harvard University
Indiana University
McGill University
Northeastern University
University of Chicago
University of Iowa
University of Michigan
University of Wisconsin-Madison
Yale University

Appendix B –

The dollar amount paid by credit card at research universities from 2008 through 2012 remained relatively consistent:

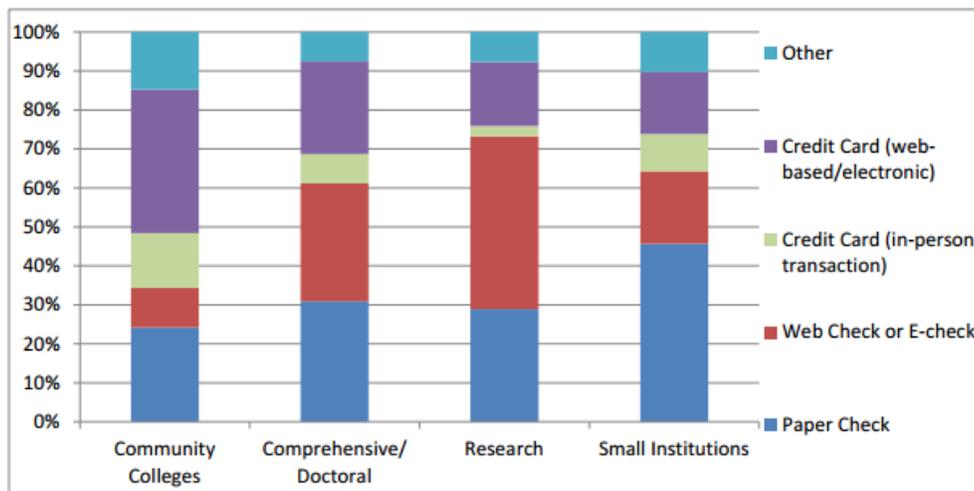
Figure 1 – Research Universities: Distribution by Dollar Volume of Payments Received from Students by Payment Methods, FY08 to FY12



Source: NACUBO Student Financial Services Survey, 2009 to 2013.

Community college receive 50% of the payment dollars via credit card compared to 19% at research institutions

Figure 2 - Distribution by Dollar Volume of Payments Received from Students by Payment Methods in FY12, by NACUBO Constituent Group



Source: 2013 NACUBO Student Financial Services Survey.

APPENDIX C – UC BERKLELEY STUDENT SURVEY – JUNE 2015

55 students responded to survey			
Question #1	How do the charges on your CARS account get paid today? Check all that apply:	# Students	% Students
	Debit from checking/savings using UCB's e-Check	41	74.55%
	Financial Aid, scholarships, loans, fellowships, fee remissions, departmental awards, outside third-party sponsoring agency, etc.	31	56.36%
	Personal bank's bill pay service	9	16.36%
	Paper check that is mailed or put in drop-box	3	5.45%
	International wire transfer	2	3.64%
	Other	1	1.82%
	Don't know	0	0.00%
	Summary of Question 1:	# Students	% Students
	# of students whose fees are paid 100% with personal funds regardless of method	24	43.64%
	# of students whose fees are paid 100% with financial aid	4	7.27%
	# of students whose fees are paid by both personal funds and financial aid	27	49.09%
	Total % of students who would have opportunity to pay with credit card (43.64 + 49.09) = 92.73%		
Question #2	UC Berkeley is assessing whether or not to accept credit cards as a method for paying CARS bills. An additional service fee would be charged. The amount of the service fee is still under analysis, but many schools charge 2.75% (\$2.75 for every \$100 paid). If UC Berkeley accepted credit cards with a service fee, how likely are you (or your parent) to use a credit card to pay your CARS bill?	# Students	% Students
	1-no way	17	30.90%
	2-likely no way	12	21.82%
	3-maybe	7	12.73%
	4-likely	7	12.73%
	5-absolutely	12	21.82%
	Summary of Question 2:	# Students	% Students
	# of students not likely to pay via credit card with a convenience fee (overall no)	29	52.72%
	# of students who may pay via credit card with a convenience fee (overall maybe)	7	12.73%

	# of students likely to pay via credit card with a convenience fee (overall yes)	19	34.55%
	Total % of students who would consider paying with a credit card (12.73 + 34.55) = 47.28%		
Question #3	If you (or your parent) would consider using a credit card and pay an additional service fee, what would be the single most benefit to you? Check one:	# Students	% Students willing to pay with card
	Rewards from card issuer	16	40.00%
	Convenience	15	37.50%
	Financing resource by borrowing on a line of credit	7	17.50%
	International payment option preferred over wire transfer	1	2.50%
	Other	1	2.50%
Question #4	If you (or your parent) would consider using a credit card and pay an additional service fee, is there a point at which the fee is too expensive and you will chose to pay with other methods? I would be willing to pay a fee up to:	# Students	% Students willing to pay fee
	\$3 - payment of \$110	7	25.00%
	\$30 - payment of \$1,110	14	50.00%
	\$50 - payment of \$1,850	4	14.29%
	\$100 - payment of \$3,650	1	3.57%
	\$275 - payment of \$10,000	1	3.57%
	Any amount	1	3.57%
	Summary of Question 4:	# Students	% Students
	Number of students willing to pay a convenience fee up to \$30	21	75.00%
	Number of students willing to pay a convenience fee over \$30	7	25.00%