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CFPB Reports on Potential 'Junk Fees' From School Lunch Payment Platforms

July 31, 2024

On July 25, 2024, the Consumer Financial Protection Bureau (CFPB) released a report on the costs and potential risks to families using electronic payment platforms to load money to their children's school lunch accounts. The Issue Spotlight report – the latest report in the CFPB's campaign against so-called junk fees – builds off CFPB supervisory findings that certain online payment processors of school lunches may have violated federal consumer financial law by imposing transaction fees that customers could have avoided with full information.

Report overview

The CFPB analyzed publicly available information from the 300 largest public school districts in the United States, which covers more than 16.7 million students across more than 25,000 public K-12 schools. Noting that school districts generally are moving toward cashless operations, to take advantage of administrative savings and also to embrace the general shift to digital payments, the CFPB found that 87% of the sampled school districts contract with payment processors to facilitate electronic payments for expenses, including school lunch.

The report highlights the transaction fees associated with the payment processing platforms for school lunches – with average fees of $2.37 or 4.4% of the total deposit per transaction – and notes that the fees "are widespread, regressive, and may be burdensome for families and districts, who have little control over fee rates and few opportunities to shop around." In addition to per-transaction fees, the report notes, some school district websites mentioned other fees assessed to families, including program fees and convenience fees for transferring funds between student accounts within the same family. Certain processors also impose limits on the amount a family may transfer to an account in one transaction, which could require families to incur multiple transaction fees if the maximum limit is not sufficient to cover the cost of school lunch for the year.

Main findings

The CFPB report highlights a number of key findings, which we've outlined below, including the various costs and challenges that electronic payment processing of school lunches poses for families.

Inaccessible fee-free options

The CFPB notes that school districts are required by the US Department of Agriculture to provide fee-free payment methods for school lunch and to inform families of the fee-free options. However, only some school district websites let families know they can add funds in person or by sending cash or a check (thereby eliminating the online processing fee), while other schools may not inform families or actually may have policies limiting the use of alternative payment methods. This means families may be paying transaction fees that they would not incur if they were fully aware of fee-free options.

Challenges canceling automatic payments

The CFPB learned from school officials of challenges for families who set up autopay, then could not or forgot to cancel autopay once it was no longer needed. As automatic transactions incur the same per-transaction processing fee as non-automatic payments , families using autopay may be accruing per-transaction fees for funds they do not actually need.

Difficulties obtaining refunds

Some school officials noted the administrative challenges they face when processing refunds for families, and the resultant delays in families receiving the refunds. The CFPB suggests that families using payment platforms may "be less willing to add a substantial amount to their accounts, due to the difficulty of accessing refunds, which may result in incurring additional per-transaction fees."

Impact on lower-income families

The report notes that while all families are impacted by transaction fees, the payment processing fees may disproportionately impact lower-income families. For example, the report notes that families with less disposable income may make smaller, more frequent payments, thereby incurring more transaction fees compared to families who make larger, less frequent payments over the course of the year.

The report also notes the challenges school districts may face in negotiating fee provisions in contracts with payment companies, due in part to the market dominance of just three payment processors – and the fact that families must use the payment platform chosen by their school district. The CFPB suggests that because families have no choice in which provider their school uses, they "may be particularly vulnerable to harmful practices, including those that may violate federal consumer protection law."

Looking ahead

The Issue Spotlight underscores the continued focus on so-called junk fees by the CFPB under the Biden administration. This latest release highlighting the CFPB's junk fee initiative follows its final rule to reduce credit card late fees, a proposed rule regarding overdraft fees, a circular on junk fees charged on international money transfers and a public inquiry into fees associated with mortgage closing costs.

Further, the report appears to send a warning signal to online payment processors in the school lunch space regarding their imposition of transaction fees. As the CFPB noted, the report builds off "initial observations" in the CFPB's fall 2023 Supervisory Highlights, which was focused on "junk fees" charged by financial institutions and companies. In that 2023 report, the CFPB had noted that certain covered persons maintained payment platforms "where consumers may have paid fees that they would not have paid if they had known of the existence of free options for adding meal funds to the student's account. Because consumers did not know their options, they incurred transaction fees that they could have avoided." As a result, the CFPB informed the covered persons that such practices "may not comply with consumer financial protection laws" such as the prohibition on unfair, deceptive, or abusive acts or practices.

As the press release announcing the report specifically notes that the CFPB is authorized to supervise payment processors – and that the report is part of the CFPB's initiative to monitor such companies – the CFPB appears poised to take further action to mitigate so-called junk fees by payment processors.

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