

Credit Card Policy Changes

Ms. Lois Stahlke
Office of Accounting
The University of Texas at Austin

Abstract

The University of Texas at Austin began offering online payment services more than four years ago. Payment options include credit card, electronic funds transfer and financial aid awards. Payment via credit card became the most used option for students and parents. As a result, the University faced increased costs associated with the credit card transaction fees for providing this service, reaching approximately \$2 million annually. To offset a portion of this increasing cost, a new credit card acceptance policy was implemented in April 2003.

Negotiations between the University and the credit card companies left the University in a position of conflicting requirements. A committee was formed to look at alternatives, and the result was a change in the credit cards accepted, and a convenience charge to be assessed on payments of tuition and mandatory fees using these cards.

Two teams of personnel from various campus offices worked together to implement the technical changes that were required, as well as to communicate the change in policy to the students, their parents, and University staff. Various means of communication were employed in an effort to inform all customers who may have been affected by the changes.

Several benefits were achieved by these changes, the most tangible being a cost savings of almost \$2 million annually. Although change inevitably creates some resistance, the overall impact of the revised credit card acceptance policy was positive and valuable.

Introduction to the Organization:

The University of Texas at Austin is the largest university campus in the United States, serving over 51,000 students with approximately 25% in graduate and professional programs. The University employs approximately 22,000 full-time faculty and staff, and has an annual operating budget in excess of \$1.4 billion.

The University of Texas at Austin is a major research university offering more than 100 undergraduate degree programs and 170 graduate degree programs from 15 colleges and schools. The outstanding faculty includes several Nobel laureates and Pulitzer Prize winners, as well as many other leaders of prestigious academic and scientific organizations. The University annually garners more than \$370 million in Research grants and contracts, and is further supported by endowments exceeding \$1.6 billion for the campus, and another \$8.2 billion at The University of Texas System level. From teaching and research to public service, the University's activities support its core purpose, which is to transform lives for the benefit of society through learning, discovery, freedom, leadership, individual opportunity and responsibility.

Statement of the Initiative:

Due to the increased popularity of online payment options, many students and parents chose to pay University charges by using a credit card over the secured "What I Owe" Web site.

Consequently, between November 1999 and August 2002, credit card discount costs rose to \$1.8 million per year, with an expected increase of an additional \$400,000 per year for each of the next two years.

From the time credit cards were first accepted as a payment option, the University absorbed the cost of providing this service to its customers. This resulted in increased operation costs absorbed by the entire student body, and not just by those students making use of this convenience. Coupled with a budget shortfall of several million dollars, the University was determined to find an alternative to this situation.

Design:

In 2001, legislation was passed and the Texas Education Code (TEC) was amended to allow institutions of higher education to charge a processing fee to individuals using a credit card to pay tuition, fees, or other charges. At that time the processing fee could not exceed the amount charged to the institution by the issuer of the credit card in connection with the payment. The University's state funding for general operations had been declining in real dollars since the mid-1980s; and, since tuition rates and new fees were set and approved by the state legislature, there was not an opportunity to simply institute a fee to cover the rising cost. Therefore, the decision was made to initiate a convenience charge only on payments of tuition and mandatory fees made by credit card.

Several legal issues had to be resolved concerning the method of assessing this convenience charge. Visa and MasterCard were the only credit cards accepted at the time. Visa required the University to assess a fixed dollar amount, as opposed to a percentage based fee; however, a fixed fee would create problems with the enabling legislation. MasterCard would allow the University to assess a percentage based fee. Therefore, the University was faced with conflicting

requirements. A solution was reached by making credit card payment options available through the companies that offered agreeable conditions - MasterCard and Discover.

Implementation:

A team representing the offices of Student Accounts Receivable, Bursar, and Information Technology was formed to plan and facilitate the technical changes to information systems and processes. Visa was removed and Discover was added as a payment option. The calculation of the percentage based convenience charge was formulated for the online payment service, and was added to the accounts receivable billing structure. A policy was developed to no longer accept credit cards through the lockbox processor for mailed-in payments because a convenience fee could not be programmatically assessed. Payments by credit card could no longer be accepted by the Bursar's Office since MasterCard regulations prohibit charging a convenience fee to counter transactions.

In addition to the technical changes that were required, a communications team was created to inform the students and the University community of the new credit card acceptance policy. The changes were scheduled to become effective April 21, 2003, coinciding with the billing of tuition and fees for the summer session. The communications team began meeting in February to develop and implement a communication plan.

Three target groups were identified to receive the information: students, parents, and University staff. Several communication methods were employed in this effort, including electronic information, printed material, and public media. The University administrators met with several student organizations, such as Student Government, briefing them on the financial strain the current policy created, outlining the steps that led to the policy change, and identifying the exact changes and timeline for implementation.

A Web site describing the new policy was created and was referenced in all other communications in order to make a concise, unified statement on the changes to minimize confusion and to provide the audience a resource with more detailed information. This site is still accessible, along with an associated Frequently Asked Questions page, providing the specifics of the policy. The Student Accounts Receivable Web site also spotlighted the changes with a link to the policy page. Several weeks prior to the summer tuition billing, every student on campus was sent an e-mail message outlining the changes and the effective date. A spotlight in the electronic version of the student newspaper also advertised the changes in an inexpensive way to reach many of the students on campus.

Printed information concerning the policy changes was included in the payment information brochure which accompanied the summer session and fall semester tuition bills. Flyers were distributed to academic department offices and student service centers, so students visiting these locations would have an opportunity to read about the upcoming changes. The University alumni magazine printed a news brief in an effort to reach parents who were former UT students.

Local newspapers and television stations also helped get the word out. The Austin newspaper ran articles about the upcoming changes, as did the student-run newspaper. The Director of Accounting also did several television interviews that were aired over a local Austin news channel and through the student-run television station.

Benefits:

Cost savings to the University, by simply shifting the cost of the credit card transaction fee to those who use the convenience of paying by credit card, is estimated to be \$1.83 million.

Several residual benefits also arose in the process.

- To address the inconvenience of credit cards no longer being accepted by the Bursar's Office, six laptop computers were installed in the cashier's lobby. This enables students who walk in to make payment with a credit card the opportunity to complete their transaction online without going to another location. This has created a small-scale "one-stop" financial center. Students may also access their student bill, view their financial aid information, take out a short-term tuition loan, and even apply for certain tuition waivers online while in a location close to the Student Accounts Receivable office if they need assistance.
- The number of tuition payments made by credit card has decreased sharply since implementing the policy changes. For the fall semester preceding the changes, approximately 15,200 payments were made using a credit card. For the same semester immediately following the policy change, only 6,900 payments were made using a credit

card. In the long term, this change in payment trend could reduce the cost of higher education because students or their parents will not incur the higher interest associated with most credit cards in comparison to local education lending and financial aid options. As the trend has shifted away from payment by credit card, it has increased the electronic funds transfer payment option. Users who choose this option have the same convenience of paying online, but directly from a bank account instead of using a credit card, and without incurring a convenience fee.

Retrospect:

Even though the students attending the University are responsible for their financial obligations, the reality is that many parents actually pay the bills. Even though communication was sent with the summer and fall tuition bills, many parents – especially those who waited close to the due date to make payment – were caught off guard by the changes. Complaints were almost equally split between objections to the discontinuation of accepting Visa and the implementation of the convenience charge. Many parents who initially complained (approximately 25%), when given the rationale that led to the changes, actually changed their position and supported the University's decision, commending the effort to reduce costs.

Even though the University endeavored to avoid negative consequences of the changes, a very small number of international students found themselves in a difficult situation due to not being able to use Visa. These few students had placed all of their funds for educational expenses into international Visa accounts, which they could no longer use to pay tuition. To make matters worse, they would incur a penalty for removing funds from their account. Working with local

lending institutions, a solution was offered to these students so that a difficult situation was overcome.