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How Service Restrictions Help Your Student Accounts Receivable

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Students and their families often find themselves in situations where they encounter financial difficulties or have not planned out how to finance their education. Confusion about the financial aid and student loan processes or failure to follow up with necessary information through verification or other school inquiries lead to late or no payments on student accounts for tuition, fees, room and board charges, along with assessment of late charges.

In the world of student accounts receivable management, where additional charges may not deter students from paying late(r) or not until a stronger action is put in place, service restrictions become the primary and/or ultimate sanction to enforce debt collection.

Service restrictions, known by other terms such as “blocks” or “holds” against student accounts/records, are most likely to prevent future course registrations and issuance of transcripts. Stronger sanctions may include withholding of licensure verifications, denial of building access or other actions that stop current and/or former students from receiving any form of institutional services.

Student retention efforts can be thwarted by having high numbers of students who cannot continue their education because of unpaid balances. Students’ efforts to transfer to another institution also will be halted when they cannot submit the academic transcript to prove prior coursework, etc. These sanctions also can impact institutional graduation rates when students’ academic careers are delayed while trying to figure out if/when they can repay these obligations to the school.

Colleges and universities cannot afford to carry excessive amounts of outstanding delinquent accounts, which can affect cash flow, provide a basically “interest-free” loan for extended periods, impact future retention efforts and create potentially excessive expenses to collect. Schools can either use staff resources to collect these outstanding obligations or

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may need to utilize third party collection agencies or law firms, who will charge a contingent fee, or percentage, of the recovered amounts for their services. At the same time, institutions must set aside reserve funds as a contingency for uncollectible debts, based on the age of the delinquent accounts.

So why use service restrictions? Students may not understand

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the importance of on-time payment – one of the reasons why more institutions of higher education are developing and implementing financial literacy or wellness programs for their students. These programs often target parents as another means of helping them understand that the tools needed for financing a student's education are more than filing a FAFSA every year. Other times, students, particularly first semester freshmen or transfers, unofficially withdraw, creating potential R2T4 issues as well as leaving outstanding tuition debt without thinking that registering for classes creates an implied contract. Registering for classes is no different than buying an airplane ticket – you cannot resell that seat once leaving the terminal!

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No matter what the cause of delinquent payment, service restrictions bring the outstanding balance to the forefront. Best practices have the institution issue warning notice(s) to the student before imposing sanctions (late fees or service restrictions). Having a clear and concise communications process that sets expectations and consequences reduces the "I didn't know" contact and often brings students to the business and/or financial aid offices to either pay or explain their situation and seek assistance.

Setting minimum balances for imposing service restrictions usually is an institutional decision. While some public colleges and universities may have statutory or regulatory requirements that set balance limits or timing for the sanctions, the institution should try to reduce the number of students impacted by considering such steps as using late fee amounts or the $200 Title IV limit for paying off certain prior year amounts as a threshold for using the sanction.

Many colleges and universities now use a Financial Responsibility Statement or Agreement that is incorporated into the start of the student's course registration process to serve as initial notice to students that they are expected to follow institutional payment policies and indicate potential consequences. The National Association of College and University Business Officers (NACUBO) has published a white paper that outlines best practices and legal requirements for these documents, which can be in either electronic or paper format. Using this type of agreement can establish the necessary standards and expectations while taking the "contract" from an implication to a real agreement between student and school.

Once the service restriction is imposed, it is counter-productive to lift the restriction solely on a promise to pay, although the institution should have a set of pre-established procedures for reviewing any potential exceptions, but more importantly, to have standards for account resolutions. For example, having a student or family just apply for a student loan is insufficient; having a loan approval following school certification with completed Truth-in-Lending documents means there is minimal risk of non-payment.

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Remember that indiscriminate removal of a service restriction will send the wrong message to chronically delinquent students. When making an exception, always document the terms and conditions for the action and set a definite date for repayment. Besides having good documentation in your student system, have a process to identify due dates for these payments and don't delay your follow up if payment is not received. Some schools may even cancel these permitted registrations for non-payment.

In any event, don't set up a process that mitigates the importance for students to honor their promises and pay. And don't communicate an action for which you will not actually follow through and do! By doing so, you could be seen as conducting unfair, deceptive or abusive acts or practices, known as UDAAP, by state attorneys general or the (federal) Consumer Financial Protection Bureau (CFPB).

Also, consider FERPA implications if you do not provide delinquent students with a means to see their grades. Check with your institutional attorney about what you can and cannot do under federal and state laws as it relates to providing grades or possibly unofficial transcripts. But remember that providing an official academic transcript is tantamount to eliminating any leverage you might have to get the debt paid.

Business officers can work with other administrative offices, such as Financial Aid and Housing, as well as academic units to conduct outreach efforts. One such initiative is to contact delinquent students with service restrictions. If the student responds, the school can identify opportunities for additional one-time funding and/or encourage students to contact the business office to facilitate repayment activities. These institution-wide initiatives can be leveraged to facilitate improvement of retention and graduation rates as well as bring in real dollars already recognized as tuition and fee revenue back to the school.

Institutions can often establish best practices and enhance internal collection processes by their business offices through a business process assessment. This can focus on reviewing existing policies and procedures as a means to implement best practice activities that will enhance both student services and internal collection efforts. Thus, schools may benefit on many levels of their operations by utilizing both internal and external resources to help effect change and efficiency.

Utilizing service restrictions as a collections tool is just one facet of an effective program to minimize delinquent accounts receivable and deliver quality customer service.