

Date: November 1, 2024

Memo code: SP 04-2025

Subject: Fees for Electronic Payment Services in the School Meal Programs

To: Regional Directors, Child Nutrition Programs, All Regions
State Directors, Child Nutrition Programs, All States

This memorandum clarifies policy related to fees associated with electronic (online) payments in the school meal programs¹ and ensures students who are determined eligible for free or reduced price meal benefits receive the benefits they qualify for without having to pay additional fees. Effective school year (SY) 2027-2028, families with students eligible for free or reduced price meals must not be charged any fees along with the cost of a meal, including fees for using electronic payment services.^{2,3} While this memorandum clarifies prior guidance on this topic by focusing on fees incurred with electronic payments, nothing in this memorandum should be construed to suggest other fees associated with school meals are acceptable. Moreover, school food authorities (SFAs) should not construe this memorandum to suggest that fees should be shifted to, or increased for, students paying the full price for meals. This memorandum supersedes SP 02-2015, *Online Fees in the School Meal Programs*.

This memorandum also offers best practices and strategies for SFAs to ensure that all families are made aware of payment options and to ease the financial burden that electronic payment processing fees impose. Finally, in the [appendix](#), this memorandum provides several questions and answers related to the Consumer Financial Protection Bureau's (CFPB) report

¹ For the purposes of this memorandum, *school meal programs* include the School Breakfast Program, Special Milk Program, and National School Lunch Program, including Afterschool Snacks.

² This memorandum focuses only on fees incurred with electronic payments as those are the only payment methods that currently incur fees. However, this policy applies to any payment method in which fees may be incurred.

³ Because students eligible for free meals should already be receiving meals without cost, this guidance focuses on students eligible for reduced price meals.

published in July 2024, [Cost of Electronic Payments in K-12 Schools](#).⁴ CFPB’s report highlights average costs and potential risks for families using electronic payment platforms to add money to their child(ren)’s school meal account(s). Families are paying more than \$100 million annually for these services and are often unaware of the availability of free methods of making payments for school meals and/or free methods are not meaningfully available to families.

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⁴ See CFPB’s report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 1.1, Key Findings. The report is available at <https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-costs-of-electronic-payments-in-k-12-schools/>.

Background

Many SFAs offer online services to families, including providing electronic options for adding money to student meal accounts. The electronic services that families use to manage their child(ren)'s meal account(s) often charge fees for processing payments and managing the account(s).

[FNS Instruction 782-6, Fees for Lunchroom Services](#), explains the agency's longstanding policy that students participating in school meal programs may not be charged additional fees beyond the basic meal charge for services provided in conjunction with the delivery of these Programs.

In 2014, the Food and Nutrition Service (FNS) issued guidance (SP 02-2015) on the application of FNS Instruction 782-6 to fees charged to families who use online services in the school meal programs, including electronic payment options families may use to add money to their child(ren)'s school meal account(s). Electronic payment options, which were not in existence when FNS Instruction 782-6 was issued, have become increasingly popular, and today 87 percent of school districts offer one of these platforms.⁵ This guidance (SP 02-2015) indicated that SFAs may charge fees to families that choose to use electronic payment services, but only if families also have a free method for adding money to school meal accounts. Memorandum SP 02-2015 again explained and reinforced the longstanding agency position that students participating in school meal programs may not be required to pay additional fees.

Although electronic payment services are convenient, CFPB found that the fees for using the services can significantly increase a family's total spending on the cost of school meals. Overall, CFPB estimates that these fees collectively cost families of students almost \$100 million each year. This cost can disproportionately impact low-income families. For example, CFPB estimates that families receiving reduced price meal benefits may send \$0.60 to

⁵ See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 1.1, Key Findings.

payment processing companies for each \$1 they spend on school lunch due to the frequency of deposits.⁶ This financial burden on low-income families is compounded, because such families generally add money to their child(ren)'s school meal account(s) more frequently compared to families who can afford to add greater amounts at a time.⁷

Requirements Related to Fees for Electronic Payments in the School Meal Programs

FNS reiterates its longstanding policy position that students participating in school meal programs may not be required to pay additional fees beyond the basic meal charge for services provided in conjunction with the delivery of these Programs. This is particularly important for households eligible for reduced price meals in light of the CFPB findings about the excessive impact that these fees have on such households. By statute, students cannot be charged more than \$0.40 per lunch and \$0.30 per breakfast for reduced price meals (42 U.S.C. §1758(b)(9)(B)(ii); 42 U.S.C. §1773(b)(1)(C)). Accordingly, this memorandum clarifies that, effective in SY 2027-2028, students eligible for reduced price meals must not be charged any fees for using electronic payment services in the school meal programs. This restriction applies to the various types of fees that are charged for using electronic payment options to purchase school meals, including transaction fees for credit/debit card payments and bank account/Automated Clearing House (ACH) transfers, one-time program fees, annual fees, convenience fees, etc.⁸

This policy is effective SY 2027-2028, or the school year immediately following the expiration of the SFA's current contract with a payment processing company, if the contract expires after SY 2027-2028. FNS is delaying implementation of this requirement to provide ample lead time to allow SFAs to modify current systems and/or establish new contracts. However, SFAs are encouraged to implement this requirement as soon as they are able and may use funds in the nonprofit school food service account to cover the fees under their current contract.

⁶ See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 1.1, Key Findings, and Section 5.4, Fee Burden.

⁷ Lower income families may make smaller payments more frequently, often incurring a flat fee with each payment.

⁸ Please see questions 2 and 3 of the appendix for information regarding the types of fees that may apply to electronic payment services.

This clarification is specific to children eligible for reduced price meals. By statute, any child that is eligible for free meals must be offered a free meal (42 U.S.C. §1758(b)(9)(A); 42 U.S.C. §1773(e)(1)(A)). Therefore, families with children eligible for free meals will not incur any fees with regard to funds used to purchase school meals, because they do not need to add any such funds to the account. While this clarification is specific to school meals, FNS continues to examine fees charged to all families throughout its programs and will take additional actions as necessary.

The following list provides additional clarification for schools that choose to provide electronic payment services.

- 1) SFAs must provide all families (including families paying the full price for school meals) a free and accessible method of making deposits to the student meal account.
- 2) SFAs must provide a method of making deposits to the student meal account that does not require computer access to meet the needs of families who do not have access to a computer, do not have a bank account, or who prefer to make their payment by other means. Common methods SFAs use for families to add money to their child(ren)'s meal account(s) that do not require computer access include accepting money (i.e., cash and checks) at the school office or allowing families to mail in checks.
- 3) SFAs must notify families of available payment options and any associated fees in ways that are easy to find and understand.
- 4) All families must have access to all payment methods made available by an SFA for adding money to their student(s)' meal account(s). Schools cannot discriminate against children receiving free or reduced price meals, including by limiting their options to pay for the cost of meals in comparison to the options available to other

school children. For example, SFAs may not exclude families eligible for reduced price meals from using electronic payment services.

Best Practices and Strategies

Although SFAs are required to provide fee-free payment options to all families, CFPB found that free options are not always well-advertised or accessible, and families may be paying more in fees than they would choose to if they had access to convenient payment options with lower or no fees.⁹ To address ways SFAs can mitigate the financial impact fees impose on families, FNS has compiled the following suggested best practices and strategies.

Increase Availability of Free or Low-cost Payment Methods

- Negotiate contracts with payment processing companies to ensure fees associated with electronic payment services are minimal and these fees are not shifted to students paying full price for meals.
- Seek outside sources to cover the costs associated with providing electronic payment services, including monies provided by the general fund or donated by outside organizations.
- Use nonprofit school food service account funds to cover the cost of providing electronic payment services to families.
- Allow families to make deposits to their accounts by cash and/or check.
- Use electronic payment systems that allow bank account/ACH transfers, as these fees are typically lower than fees for credit card transactions and should result in lower or no fees being charged to families. Establish contracts in which payment processing companies pass this cost saving on to families by making this option fee-free for all students.

⁹ See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 1.1, Key Findings, and Section 6, Conclusion.

Increase Awareness of Payment Methods

- Include information about free payment methods with the meal charge policy, which must be provided in writing to all families at the start of each school year and to families transferring to the school during the school year.¹⁰
- Post the free payment methods and other available payment options and associated fees on the school district's website, including all webpages where the school meal payment services are mentioned. Also include this information on menus and share via email.
- Include information regarding free payment methods in notices sent to families when a student's meal account balance is low.
- When sending information about school meals, highlight contact information that includes a phone number and designated person to call for information about free methods to add money to a child's account.
- Prominently inform families through all communications regarding meal payment options that they can make deposits to their accounts for free, including communicating about free methods when families are using a fee-based option.

FNS encourages SFAs to immediately review their policies, procedures, and, if applicable, contracts to identify ways to offer more free or low-cost payment methods and to improve communication with families.


FNS is committed to continuing engagement with State agencies and others on this issue and to ensure that all families have a readily available fee-free payment method. FNS also plans to provide technical assistance to assist SFAs in complying with the requirement that families

¹⁰ Please see [SP 23-2017, Unpaid Meal Charges: Guidance and Q&A](#), Question 5, for additional information and suggested methods of communication.

eligible for reduced price meals are not charged fees for using optional electronic payment services in the school meal programs.

State agencies are asked to distribute this memorandum to Program operators immediately. SFAs should contact their State agency for additional information. State agencies may direct any questions concerning this guidance to the appropriate FNS Regional Office.

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for

Andrea Farmer

Director

School Meals Policy Division

Child Nutrition Programs

Appendix

This informational Q&A is intended to provide an overview of CFPB's report, *Cost of Electronic Payments in K-12 Schools*.¹¹ FNS recommends reading CFPB's report in its entirety.

1. Why do SFAs contract with payment processing companies?

SFAs contract with third-party payment processing companies with the expectation that they will lower SFA processing costs and increase administrative efficiency, accuracy, and security. For example, digital payment information can automatically be integrated with student information, potentially minimizing errors from manually applying funds to a student's account balance. Many payment processing companies also offer electronic solutions that purport to lessen administrative burden on SFA staff, such as automated messaging features to families about unpaid academic fees or negative school meal account balances.¹²

2. What types of fees do payment processing companies typically charge to families using electronic payment services in the school meal programs?

Payment processing companies often charge transaction fees each time an electronic payment is made. Transaction fees may be a flat fee, which is a fee that does not vary based on payment amount, or a percentage-based fee, which is a variable fee based on the amount of the transaction. CFPB found that flat fees in their sample range from \$1 to \$3.25 per transaction. Percentage-based fees ranged from 3.25 percent to 5 percent per transaction. Some transaction fee models incorporate both a flat fee and a percentage fee that varies based on deposit size. Instead of a fee on every transaction, CFPB observed one payment processing company offering an annual fee of \$12.95 per year for a single student or \$26.95 per year for a family that covers

¹¹ CFPB's report uses "school district" and "school food authority" interchangeably. This appendix uses SFA for consistency.

¹² See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 2, Background.

certain electronic transactions for a full year.¹³

3. Aside from the fees described in Question 2, are there other fees that are charged to families who use electronic payment services in the school meal programs?

Payment processing companies may charge other fees like convenience fees, which may include a fee for transferring funds between student meal accounts, or one-time program fee to be paid when a new account is opened.

In addition, some payment processing companies set a maximum amount that can be deposited per transaction, which is frequently less than the total meal costs in a year for a student that pays for school lunch every day. This limits how much families can add to their child(ren)'s school meal account(s) in one transaction, which can result in higher fees over time.¹⁴

4. Why do payment processing companies charge transaction fees?

Electronic transactions incur costs for payment processing companies. These costs differ depending on which payment mechanism is used. On their online portals, payment processing companies typically offer payment options using credit, debit, and prepaid cards, and, less often, Automated Clearing House (ACH) transactions. Typically, payment processing costs fall around 1.53 percent of a total transaction for credit, debit, or prepaid cards, and between \$0.26 and \$0.50 per transaction for ACH transfers. Nonetheless, even the lowest transaction fees assessed by payment processors in SFAs observed in the CFPB sample (\$1.00 or 3.25 percent) are significantly higher than the payment processing companies' costs of processing electronic transactions, which often do not vary by payment method.¹⁵

¹³See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Sections 4.2.1, Transaction Fees, and 4.2.2, Other Fees.

¹⁴See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 4.2.2, Other Fees.

¹⁵See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 3.2.3, Costs of Electronic Transactions.

5. Can SFAs negotiate with payment processing companies to lower the fees for electronic payment services in the school meal programs?

Yes. CFPB conducted interviews with school officials across the country and learned that SFAs are often unaware that they are able to negotiate fee rates or felt that fee rates were non-negotiable; however, CFPB found two SFAs out of 300 sampled that have successfully negotiated lower fee rates, and payment processing companies reported that SFAs have the opportunity to negotiate fee rates during the contracting process.

Though SFAs may be able to negotiate fee rates during the contracting process, negotiating with payment processing companies may be difficult for SFAs. SFAs may be limited in which payment options they can provide due to cost or resource constraints that incentivize choosing payment processing companies who ultimately charge fees to families. In addition, negotiating power may vary by school district, as large districts may have additional leverage with payment processing companies or may benefit from fee discounts based on higher overall transaction volume. Smaller districts may not have the same advantages.¹⁶

6. How do transaction fees impact families with lower incomes?

Fees charged by payment platforms affect all families, though low-income families may be disproportionately impacted depending on the fee type and how often they make deposits over the course of a school year. Flat transaction fees, as opposed to percentage fees, are much more prevalent among SFAs and have a disproportionate impact on lower-income families. Payment platforms appear to charge the same transaction fee for all families, regardless of whether a student receives reduced price meals. Flat transaction fees are also much more expensive for families who make

¹⁶ See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 1, Executive Summary, and Section 3.1, School District Contracts.

deposits more frequently, compared to those who can afford to deposit more money less frequently. Lower-income families may not have money available to make larger, lump sum payments, and, therefore, need to make payments to their child(ren)'s meal account(s) more frequently. Frequent deposits exacerbate the effect of flat rate fees, which are applied for every electronic transaction.¹⁷

¹⁷ See CFPB's report, *Cost of Electronic Payments in K-12 Schools* (July 2024), Section 5.4, Fee Burden.