

Date: November 04, 2019
Subject: UW Analysis: Income Share Agreements (ISAs) – Updated

Income Share Agreements (ISAs) are designed to give students an alternative to typical loans and loan repayment plans. Under the terms of an ISA, an investor (private or public) pays the upfront cost for some or all of a student's education in exchange for a fixed percentage of the student's income for a set number of years following their graduation.

To manage risk and maximize return on investment, investors generally offer varying rates and terms to students based on a variety of factors, including field of study, loan length, family income, and institution. These rates vary significantly, but most ISAs range between 3 to 15 percent of income over a term of 5 to 15 years.

Types of ISAs

Private ISAs (privately funded and administered) are unaffiliated with a university or college. These ISAs are still uncommon in the U.S., but are already in place in several countries in Latin America. As of 2015, Lumni, a self-described "human capital investment" company founded in Colombia in 2010, had paid for the education of over 7,000 students in Chile, Colombia, Mexico, and Peru¹. ISAs are viewed as an attractive option in Latin America in part because few student loan options are available. If the ISA Student Protection Act (see "Recent Legislative Efforts" below) were to pass, it would likely create more openings for private and hybrid programs in the United States.

Public ISAs (publicly funded and administered) are funded and run by government entities instead of private investors. They generally lean towards being more revenue neutral rather than making a profit for investors. In a publicly funded ISA, initial funds come from a state rather than an outside investor. Oregon became the first state to enact legislation to study the feasibility of publicly funded ISA programs in 2013, and now [22 other states](#) have considered similar studies. To learn more about a type of public ISA called Pay It Forward, please see our [brief](#).

Hybrid programs (privately funded and publicly administered) combine aspects of public and private ISAs. Most commonly in the U.S., academic institutions offer students an ISA directly by partnering with an independent company to design and operate the agreement. Several traditional four-year institutions, most notably Purdue University, offer this type of program, and it is popular with non-traditional institutions such as coding academies. In Washington state, SB 5774 (see "Recent Legislative Efforts" below) would have created a pilot program whereby the Washington Student Achievement Council (WSAC) would contract with an ISA provider and private financial institutions to offer ISAs to Washington students. Such a program would combine private ISA investors with public state agency oversight.

How do ISAs compare to traditional student loans?

In the current ISA market in the U.S., ISAs are meant to supplement subsidized loans, not replace them. Typically, students who use private ISAs are expected to take on federal student loans as well (assuming they are eligible for them). Most colleges and universities encourage students to use ISAs only after they have used the maximum amount of subsidized federal loans, suggesting ISAs as an alternative only to private loans, Parent PLUS loans, and other loans with higher interest rates. For the most part, the only institutions where ISAs are the primary source of financing for students are those ineligible for student financial aid, such as coding academies and other nontraditional education models. At some institutions, ISAs are marketed to students who are ineligible for federal financial assistance, such as undocumented students in the Deferred Action for Childhood Arrivals (DACA) program.

¹ [Catalyzing Innovation with Regulation](#), Rutgers Law Review

ISAs share some similarities with the federal Income-Based Repayment (IBR) plan and other [income-driven repayment options](#), in that payments vary based on a borrower's income. For a more detailed analysis on how ISAs compared to IBR and other income-driven loans, see our [2016 brief](#) on this topic. Since the publication of that brief, the conversation has shifted from ISA's as a potential replacement for IBR and fully financing the entirety of a student's education, to ISAs supplementing federal funding and only being used to replace private loans, or only being used when federal loans are not an option. For that reason, this brief does not provide an extensive comparison between ISAs and IBR.

Research and case studies

Published research on ISAs is difficult to come by. Reports and papers do exist^{2,3,4}, though they are largely produced by conservative-leaning think tanks. ISAs are also a newer concept with limited implementation, so the length and breadth of data and outcomes to evaluate is minimal. This is not an indication that ISAs are ineffective, but does mean that there is little historical data to prove their efficacy, or to see how they compare to traditional loan programs.

Over the past few years, ISAs have grown in popularity and have been adopted by an increasing number of programs and institutions. Major universities such as Purdue have created ISA programs, while new institutions and models, such as coding academies, have turned to ISAs as a financing tool. Purdue University, in partnership with [Vemo Education](#), has begun using privately funded ISAs to help students pay for college. Other institutions have also implemented ISA programs, including Clarkson University, Colorado Mountain College, and the University of Utah. Each institution has different terms, including maximum available amount, length of obligation, income-share rate, cap on total payments, annual income minimum, and eligibility requirements. At some schools, those terms vary by major, while others are uniform across the institution. Since most of the programs discussed here have only recently been implemented, they cannot provide much case study data yet, but may be able to in the future⁵. For a more thorough comparison between different ISA programs in the US, see the Manhattan Institute's [The Future of Income Share Agreements](#) report.

Recent legislative efforts

Over the past several years, ISAs have received significant attention from political candidates, higher education advocates, and news sources including [Forbes](#), [EdSurge](#), [U.S. News](#), [NerdWallet](#), [The Economist](#), [The New York Times opinions and editorials](#), [The Brookings Institute](#).

Over the summer, a bipartisan group of U.S. Senators introduced the [ISA Student Protection Act of 2019](#), which would create a legal framework for ISAs offered to students. If approved, the Act would, among other things:

- Require ISA funders to disclose to student how their monthly payments would compare to private or federal loans;
- Exempt individuals who make up to 200% of the Federal Poverty Level (approximately \$24,980 in 2019) from making loan payments; and,
- Allow ISAs to be discharged in bankruptcy, and limit payments at 7.5% to 20% of the graduate's income, depending on the loan length.

The bill's introduction and the increasing popularity of ISAs prompted letters of [support](#) and [concern](#). The merits, risks, and technicalities of ISAs remain a prominent aspect of higher education policy debate.

² [The Future of Income Share Agreements](#), Manhattan Institute

³ [Investing in Value, Sharing Risk](#), American Enterprise Institute

⁴ [Students' Futures as Investments](#), American Enterprise Institute

⁵ Some [initial research has been done on Purdue's ISA](#), with hopefully more in the future.

In 2019, some members of the Washington state legislature sought to investigate and implement income share agreements at the state-level through [SB 5774](#), a bill on relieving student debt. SB 5774 passed the Senate but did not pass the House. The bill would:

- Create the Washington Income Share Agreement (ISA) Pilot Program;
- Establish ISA regulations for any ISA entered into by a resident of the state; and,
- Establish the Washington Student Loan Refinancing Program.

[Testimony](#) in support of the bill argued that ISAs are innovative and can be used as a workforce development tool. Opponents, meanwhile, cited the lack of evidence that ISAs reduce students' debt burden. The introduction of SB 5774 and its Washington ISA Pilot Program indicates that there is interest and energy among policymakers in Washington state for student loan alternatives. The bill is eligible for consideration in the upcoming 2020 legislative session.

ISAs are likely to continue being a conversation topic in coming the months and years. The Trump administration has [expressed interest in ISAs](#), causing [warnings and skepticism](#) among some, and potentially turning these programs into a partisan issue. Student loans and college affordability have been especially popular topics during the 2020 democratic primary debates. It is likely that ISA's will be a part of that broader conversation and debate.

Where do we go from here?

Concerns remain about ISAs. Critics argue that the programs could become exploitative and predatory, discriminate against and/or negatively affect certain students and demographics, alter the academic programs and career paths that students choose and that universities invest in, and otherwise change the financial aid and educational landscape in our country. There is also significant skepticism for private, for-profit investments and individuals and companies financially benefiting from ISAs and loans at the expense of students.

The inclusion of ISAs in the student financing market does little to solve the student debt crisis at its root. Efforts may be better spent helping students avoid and escape debt in the first place, re-investing in and re-committing to higher education on a state and federal level⁶, expanding and improving the Public Service Loan Forgiveness program, and other mechanisms to reduce the burden of higher education costs on students and their families.

⁶ See Figure 2 in our [Published Price vs. Net Price in Higher Education brief](#).