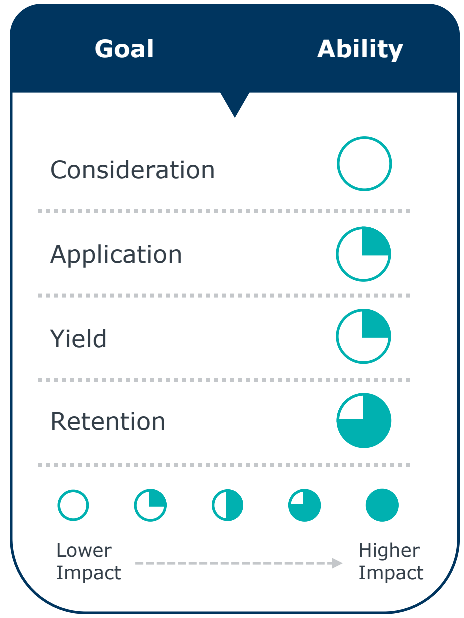
Income Share Agreements

Last-Mile Financing Options for Students with a Financial Need Gap

Under an income share agreement (ISA), institutions award upfront funding to students on the condition that they pay a fixed percentage of their future earnings for a specified period of time post-graduation until a repayment cap or time limit is met.

By diversifying financial aid options beyond loans, ISAs can help students who are ineligible or maxed out on traditional aid offerings. In that sense, ISAs are best fit to cover the gap between financial aid and what a student is able to pay. ISAs, however, do not lower the overall cost of attendance. Students are still required to cover today's cost with future obligations.

ISA contracts do not always require repayment in full. If a student makes the required number of payments and does not fully repay the amount obtained through the contract, the contract is nonetheless fulfilled. Institutions fund that risk of nonrepayment when students with higher salaries pay back more than the amount borrowed.



Anatomy of an ISA Contract

Ranges Based on a Review of College, University, and Third-Party Vendor ISAs

Term	*Definition*	*Ranges*
ISA Award	Total amount of funding per annual contract	$2,500 to $10,000
Income Share	Percentage of gross monthly income students pay	1%-7%
Max Number of Monthly Payments	Greatest number of monthly payments students are obligated to make	Up to 100
Payment Cap	Maximum amount of money students could be obligated to pay	1x to 2.8x
Payment Window	Amount of time before ISA obligation automatically expires	Up to 10 years
Minimum Income Threshold	Minimum gross monthly/annual income students must earn before payments are due	Typically $20,000
Grace Periods	The period of time after students leave an institution before payments start	6 months

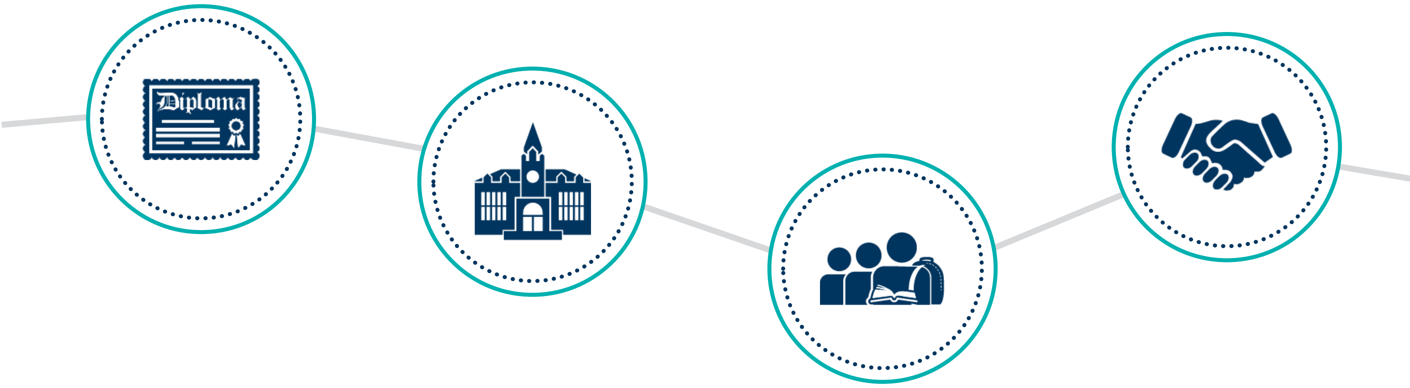
In some cases, institutions have started offering ISAs that only require students to pay back the initial amount of funding awarded. These ISAs effectively serve as zero-interest loans, presenting a potentially more attractive option to students. These ISAs may better help address the high cost of college, but institutions assume greater risk under this model. Institutions are likely to lose money, as not all students will pay back the full amount of their contract. Institutions have demonstrated success in fundraising for this type of ISA, but third-party vendors are unlikely to invest.

These types of ISAs are not yet widespread in the market, and institutions must weigh the option against giving smaller portions of money in grants. However, they may present a potential new affordability measure, and EAB will continue to monitor them.

Source: EAB interviews and analysis.

Financing Options to Retain and Support Niche Groups

How ISAs Can Help Institutions Achieve Enrollment Goals



1

Help students with financial need gaps persist through graduation

All too often, students are forced to stop out for financial reasons. ISAs, however, can provide students experiencing liquidity problems with the money they need to avoid stopping out in their final years.

2

Signal confidence in post-grad outcomes

As students become more informed, ROI-focused consumers, institutions can show that they have "skin in the game" when it comes to student success by directly funding their students through ISAs.

3

Support niche student demographics

Institutions can tailor the eligibility criteria of ISAs to target student niches and fill gaps in aid. For example, some institutions offered ISAs only to seniors with unmet need, while others target students who are ineligible for federal funding (e.g., DACA students) or those who cannot access private or parent-plus because they do not have co-signers or their parents have inadequate credit scores.

4

Attract funding from investors and donors

While ISAs require significant upfront capital, institutions have led successful fundraising campaigns to support the programs. Increasingly, third-party vendors also are helping to create a marketplace where investors can support ISA programs for a return on their investment. That said, third-party investors are most likely to support limited ISA programs available only to seniors and those within specific programs like health care fields.

Source: EAB interviews and analysis.

Pre-Implementation Analyses

Determining the Need for and Feasibility of an Income Share Agreement

1 Need/Right Fit

	Yes	No
We have a large population of students with unmet need after exhausting grant and loan options	☐	☐
Those students with financial need gaps often stop out or take on extra private loans in their final years that place an undue burden on them	☐	☐
We serve a large population of students who are ineligible for federal aid (e.g., DACA, international students)	☐	☐
We serve a large population of students that cannot access private or Parent-Plus loans	☐	☐
We are concerned about students not enrolling because of growing debt aversion	☐	☐

2 Feasibility

	Yes	No
We have alumni or other investors interested in funding such a program	☐	☐
We are willing (and capable through alternate revenue streams) to weather the lag in revenue from the first few years of offering an ISA	☐	☐
We can afford to partner with a third-party vendor to help design and service the contracts	☐	☐
We are comfortable with the unpredictability and long-term structure of ISA repayments	☐	☐
We can anticipate our graduates' future earnings	☐	☐
We are capable of tracking student outcomes after graduation	☐	☐
We have systems in place for communicating the complexities of ISAs with all stakeholder groups	☐	☐

Source: EAB interviews and analysis.

Implementation Guidance

ISA Design

Limit Eligibility to Targeted Audiences

Institutions should tailor the eligibility criteria of ISAs to target student niches and fill financial need gaps of students. EAB recommends limiting the number of students offered ISAs. Two potential audiences include: (i) seniors who have exhausted their federal student loan options, which are heavily subsidized and likely to much cheaper than ISAs and (ii) students who are ineligible for federal aid (e.g., DACA students). ISAs are typically intended as stopgap financing options for older students who have unmet need.

Start with a Small Pilot to Limit Risk of Significant Upfront Investment

Given the high cost of establishing an ISA program, institutions—even those partnering with a third-party vendor to fund it—should pilot ISAs with a small group of students (e.g., 50 seniors with an unmet need gap) to test student interest, assess payback risks and returns, and monitor PR reactions.

Include Strong Student Safeguards

With many unknowns surrounding ISAs, institutions should provide and advertise relevant consumer protections and contract safeguards including:

- Income exemptions where no repayment is required below a certain income ($20,000 at the very least)
- Maximum payment of 1-2.5 times the funding issued
- At least a six-month grace period after graduation
- Ability to pause payments for up to 5 years for graduate school or voluntary workforce exit

Track and Act on Student Outcomes Data

Due to the nature of the contract, students with an ISA are tracked post graduation in many ways. Over years the ISA model transforms the predictive model by learning what happens to students. More information will lead to more effective changes in the program offerings and designs.

Examples of recommendation in practice on page 6

Source: EAB interviews and analysis.

Implementation Guidance

Communication and Marketing

Ensure Clear Communication about ISA Contracts

Ensure students have complete and accurate information when deciding if an ISA is the right option for them. Provide resources to students such as:

- A dedicated webpage: Include FAQs, potential student journeys, student outcomes
- Comparison tool: Allow students to explore potential ISA contracts based on their major and expected graduation date, allowing them to compare potential outcomes of ISAs against Parent-Plus loans and Private loans
- Financial counseling: Train staff to walk students through their financing options

Market How ISAs Reflect Confidence in Student Outcomes

As students become more informed, ROI-focused consumers, institutions can show that they have "skin in the game" when it comes to student success by directly funding their students through ISAs. This can also signal the economic value of education to students.

Counsel Students on the Differences between ISAs and Loans

Institutions can use dedicated webpages and comparison tools to clearly explain the differences between ISAs, Parent-Plus loans, and private loan. Students can use such tools to compare the potential outcomes of ISAs, Parent-Plus loans, and private loans based on their major and expected graduation date. Institutions also should emphasize downside protections during times of un- and under-employment.

Pitch the Benefits to Alumni to Help Fund ISAs

ISAs require significant upfront capital, but many institutions have led successful fundraising campaigns among alumni who are interested in donating to programs that support students directly. Institutions that successfully fundraise for an ISA may be able to lower their payback caps for students.

Examples of recommendation in practice on page 6

Source: EAB interviews and analysis.

EAB's Recommendations in Action

How Institutions Implement Key Components of ISAs

The below institutions exemplify various aspects of a successful ISA implementation and rollout, in accordance with EAB's recommendations:

	Examples	Why it Works
Target Niche Student Audiences	• Colorado Mountain College offers ISA contracts only to DACA students • Clarkson University limits recipients and requires a 2 to 3-minute video or a 200-word essay, demonstrating "grit, diligence, and the desire to do the right thing" to identify right-fit students	• Provides financing options to students who cannot access federal aid • Qualitative supplement may help identify applicants likely to perform well in their careers after graduation
Prioritize Student Protections	• Higher income thresholds (e.g., $30K), lower payment caps, longer grace periods • Messiah College, Rockhurst University, and Colorado Mountain College only require students to payback the initial funding amount	• Protects students in absence of regulatory, statutory framework • Demonstrates confidence in student outcomes and can signal the economic value of education
Facilitate Informed Decision Making	• Purdue's interactive tool allows students to compare contracts to Parent-Plus and private loans • Guided financial counseling from trained staff	• Personalized estimates of both ISA and loans students to compare implications of loans vs. ISAs against projected job outcomes • May ultimately help students avoid choosing an ISA when there are better-suited alternatives

Source: EAB interviews and analysis.