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Event Weighs the Pros and Cons of Income-Share Agreements

By Hunter B. Martin, NASFAA Staff Reporter (<mailto:%20news@nasfaa.org>)

There's a consensus that college affordability is an issue for nearly all students and families. As lawmakers tussle over how best to address the problem in a legislative deadlock with the Higher Education Act, long overdue for reauthorization, some institutions are taking matters into their own hands by offering income-share agreements (ISAs) to students — a somewhat controversial option that allows students to repay an “investor” a percentage of their income for a fixed amount of time.

A panel of experts and higher education stakeholders gathered in Washington on Tuesday to debate the merits and potential drawbacks of ISAs. Like many other policy initiatives in higher education, the devil is in the details.

Throughout the **panel discussion (<https://www.thirdway.org/events/behind-the-bumper-sticker-income-share-agreements>)**, hosted by Third Way, a center-left think tank, the speakers dove into how the structure of ISAs can impact students and debated how such financing mechanisms should be — or could be — regulated by lawmakers.

According to Tamara Hiler, director of education at Third Way, there are more than 40 colleges and bootcamps nationwide that currently offer ISAs as an option to students, or are in the process of developing them.

Despite the growing popularity of ISAs, which are typically marketed as an alternative to student loans, some are still skeptical of the benefit to students.

“Is an ISA a contract or a loan? We actually don't know, because it's not defined legally,” said Terri Taylor, the moderator and strategy director for postsecondary finance at Lumina Foundation. “There isn't a legal definition of an ISA and you see ISA providers saying, ‘we are not loans,’ and you see others saying ‘absolutely, they're loans.’”

"I see ISAs as a way to fill gaps in our current system," Taylor added. "This is not a debate that's going to be settled today."

Joanna Darcus, a staff attorney at the National Consumer Law Center working in litigation, debt collection and student loan matters, is most concerned about the market claims of ISAs, noting the potential impacts on women and women of color when pricing ISAs by major.

"There's this myth that ISAs aren't loans," Darcus said. "We need to move away from the idea that ISAs aren't debt, that they're not loans, that they're not credit, and [realize] that many ISAs do bear interest. We really have to stop telling students that they don't."

Another concern among consumer advocates is that students may turn to ISAs before exhausting their eligibility for federal student loans, which come with more borrower protections than an ISA might.

"One thing that's particularly concerning about ISAs in higher education is that we have federal student loans that have income-based repayment options that are intended to keep student loans affordable," said Clare McCann, the deputy director of federal policy at New America.

Doubling up on both federal student loans and an ISA could impact students' ability to repay their federal student loans, McCann said.

Meanwhile, Darcus questioned whether all operators of ISAs have students' best interest in mind when structuring these programs.

"We have to be mindful of conflicts of interest," Darcus said. "When investors are looking for that return on investment. How the system can be rigged against students when investors are looking for yield."

Still, some institutions have found success with ISA programs, including Colorado Mountain College, which operates a privately-funded, donation-based ISA called "Fund Sueños," or "**The Dream Fund** (<https://coloradomtn.edu/foundation/support-fund-suenos/>)."

"Most of the students we serve are the people and the children of the folks who work in the communities [surrounding campuses in places like Aspen and Steamboat Springs]," said Matthew Gianneschi, the chief operating officer at Colorado Mountain College. "The folks we serve often work in the backside of the hotel or in the restaurants. It's not the easiest living given the cost of living in our region."

Colorado Mountain College created its ISA program after discovering that only 30% of local students were filling out the FAFSA, even though they had high need, according to Gianneschi. The college realized that a sizable portion of the local community wanted to attend classes, but were not eligible to receive federal student aid because they aren't citizens.

"What other options did they have?" Gianneschi said. When he learned about ISA programs his first thought was that such a program "would work for DACA students."

"They have work authorization, so the ability to participate in the income-share is totally feasible," he said. "The only gap for these students is that they don't qualify for federal financial aid."

"We wanted to have another tool in the toolbox," Gianneschi said. "If [Congress] could figure out how to provide support to all the students enrolled at [Colorado Mountain College] then maybe it wouldn't be necessary in all cases."

While ISAs are not a new form of financial assistance, they have become significantly more popular in the past few years, likely due to the increasing cost of college. But the programs are largely unregulated, especially at the federal level.

"We need regulations that are as strong if not stronger than already exist for traditional debt," said Ethan Pollack, the associate director for research and policy at The Aspen Institute.

While some lawmakers have introduced legislation to regulate ISAs — including the bipartisan [ISA Student Protection Act of 2019 \(/news-item/18865/Senators_Introduce_Bipartisan_Bill_Aimed_at_Regulating_Income-Share_Agreements\)](#) — no bills have made significant progress moving through Congress. The ISA Student Protection Act, for example, would establish guidelines and add consumer protections to ISAs.

"In the absence of federal policy for consistency, you will not have a consistent set of policies across states," Gianneschi said. "In the absence of action, ISAs will continue to grow. States are left to their own devices and there will be a growing level of inconsistency."

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Ashraf M | 9/25/2019 2:47:02 PM

Some months ago I received a LinkedIn post about a school considering an income share agreement, and they were reaching out for opinions. When I tabulated the figures the amount the student would have to pay in an income-share was the equivalent of approximately 20% interest on a private loan. And, unlike a loan, there is no such thing as pre-payment on an income-share.

As a parent, and not a financial aid officer, I wouldn't indenture my child for the next 15-20 years at such a high a rate. It is better to help secure a PLUS loan, or even a private loan. At least those options allow for a quicker repayment to save money.

David S | 9/25/2019 10:35:37 AM

We can debate all day about if it looks like a loan and it swims like a loan and it quacks like a loan, then it's a loan. It helps you pay for school, when you get out, you have to pay someone back. There. I settled the debate and it didn't even take all day.

I can see the value of "another tool in the toolbox" for various student populations not well served by existing financing programs. DACA students are probably a great example. And I have no reason to believe that anyone, school or private investor/private entity, are exploiting students with ISA's with horrible terms. But we shouldn't wait until we see evidence of that...these need to be legally defined and every bit as regulated as loans. I bet there are schools that have considered these until someone in the General Counsel's Office said no way.

Unfortunately, on the priority list in Congress right now, ISA's probably don't rank among the top 10,000 issues. Maybe if we ever see a Reauthorization bill...??

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