#News #Student Aid And Loans

Lifting the Curtain on Income-Share Agreem

Income-share agreements are drawing attention from lawmakers, although relatively few students so far have signed up for the loan alternative. Two organizations with markedly different approaches are looking to change that.

By Andrew Kreighbaum // September 26, 2019

For a certain corner of higher ed, income-share agreements have emerged as the most exciting innovation to finance a college degree.


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The contracts obligate students to pay back a portion of their future income for a set number of years rather than take out student loans to cover unmet financial need. The concept was first tested in short-term programs like coding boot camps but increasingly is being pushed as an option for students at traditional colleges as well.

The annual Education Finance Conference in Washington, D.C., this month attracted nearly 200 attendees for a series of sessions focused mostly on ISAs, a 40 percent increase in turnout from the year before.

Sheila Bair, the president of Washington College and former commissioner of the Federal Deposit Insurance Corporation, told attendees her preference was to "ditch debt completely" in favor of a federal ISA program. And Senator Todd Young, an Indiana Republican, told the crowd that ISA supporters have shifted opinion on financial products "no one wanted to go near" until recently because they were viewed as predatory financial instruments.

"Let's demonstrate that it works," said Young, who has co-sponsored legislation to establish a new regulatory framework for ISAs. "And it will work -- people will love it."

The rhetoric and the headlines often suggest that income-share agreements are a key part of the solution to staggering amounts of student debt. But the organizations that are making ISAs a reality on the ground for college students can be more circumspect about the new model.

"Nobody has an income-share agreement problem at a college. They have some other problem they're trying to fix," said Tonio DeSorrento, CEO of Vemo Education.

Vemo has worked with dozens of colleges to set up ISA programs, although only a handful have publicly announced the programs so far. Students enrolled at two- and four-year colleges that participate in federal aid programs still make up just a sliver of the larger marketplace for income-share agreements. Most contracts are still awarded at alternative providers like General Assembly. To the extent that's changing, Vemo is playing a big role.

The company's work with those institutions begins, DeSorrento said, when college leaders identify some kind of problem they want to address by offering a new financing mechanism. That might include low graduation rates for debt-averse students or limited financial support for students who face barriers to federal aid.

The company plans a customized program with the college as client, training financial aid staff, tracking enrollment and eventually collecting student payments after graduation. DeSorrento describes the programs as "targeted success and aid initiatives."

"We design income-share agreement programs to complement some identified strategic objectives," DeSorrento said.

For example, at the University of Utah, one of the only large institutions to offer an ISA, leaders zeroed in on a six-year graduation rate that badly lagged peer institutions.

Colorado Mountain College last year launched its income-share program, Fund Suenos, to provide undocumented students access to financing for their degrees. Because those students aren't eligible for federal aid, their options are limited to state support, private scholarships or assistance from their college.

At smaller institutions like Messiah College, which is located in rural Pennsylvania, administrators see income-share agreements as a tool for a segment of students to fill gaps in aid after they've reached limits on federal grants and loans.

David Walker, vice president for finance and planning at Messiah, said ISAs give financial aid officers another tool when they might otherwise have limited resources to help students cover gaps in aid. The typical example is a fifth-year senior who is self-supporting and doesn't have other financial aid options besides additional scholarships from the college.

"We're able to start a revolving, pay-it-forward type program," Walker said. "Students will help fund the viability of this program for future Messiah students."

When the program officially began at Messiah last fall, nearly half of the roughly 40 students who participated were freshmen. Walker said for some of those students, the option to take out an income-share agreement factored into their decision to enroll.

Because Vemo designs income-share agreements to fit each institution, repayment obligations vary. DeSorrento said tailoring the ISAs to each college's goals is an advantage of the company's model.

"There's no temptation to misalign when success is measured at the school level," he said. "Our schools are choosing success metrics, and we're helping achieve those."

ISA proponents say that approach creates accountability for colleges that doesn't exist in the federal student loan program. But consumer advocates say those incentives aren't nearly enough, absent strong oversight.

"Good intentions are really important," said Joanna Darcus, a staff attorney at the National Consumer Law Center. "Impact is really important, too."

The Direct-to-Student Model

While Vemo is looking to make inroads with colleges on income-share agreements, a former D.C. policy wonk is working to offer ISAs directly to students in a handful of Midwest cities -- Chicago, Milwaukee and the Twin Cities. Kevin James, CEO at Better Future Forward, targets the contracts to low-income students who are enrolled in a short list of colleges with relatively strong student outcomes.

"We're trying to create funds that are anchored within communities and that are accessible to every low-income individual and student within that community," he said.

Better Future Forward, a nonprofit, provides ISAs by working with a handful of college access and success organizations in those cities. To be eligible, students must be enrolled full-time and in good academic standing, but otherwise the financing is awarded on a first-come, first-served basis. Participating students typically have maxed out their federal student loans and are not likely to qualify for private loans to cover unmet costs, James said.

"What we've observed is that a lot of students work an incredible number of hours. We've encountered many working 20 to 30 hours a week while enrolled full-time," James said. "Some are working for a term, then going to school for a term. We're trying to help them close those gaps."

Like every other ISA program, Better Future Forward has a short track record so far. The first cohort of students received financing from the group's income-share agreements in fall 2017. Across all programs, there has been a 95 percent student retention rate, James said. But the size of the program is still quite small -- there were 73 students in the first cohort, and roughly the same number received ISA financing last year.

James was previously a research fellow at the American Enterprise Institute. Before that, he was an aide in the office of then U.S. representative Tom Petri, a Wisconsin Republican, where he worked on legislation to make income-driven repayment universal.

He said the concept of basing repayment on a student's income should play a larger role in shaping the federal student loan system -- an idea that has found some support among both liberal and conservative policy thinkers. But James said the ISA venture is designed to allow the private sector to back students on a bigger scale and in a sustainable way.

"We're looking to harness philanthropic and investment capital that really wants to make a big difference and get its money back in a sustainable way," he said.

Carlo Salerno, vice president for research at Campus Logic, said neither approach to income-share agreements is looking to fully address the problem of higher ed financing. (Salerno previously launched a platform that allowed college students to market themselves directly to investors for financial support and has been an early proponent of the income-share model. CampusLogic announced a partnership with Vemo in June.)

"They're looking to cover some unmet need, to help somebody cover that last mile," he said. "They're trying to figure out a way to help people solve a problem to the extent financing is a barrier to entry or completion."

Growing Scrutiny

In part because ISAs are so new, there's little evidence from most programs to demonstrate their effectiveness in either aiding colleges' goals or providing greater access to students. Few colleges offering the programs have had a full cohort of students graduate yet, much less enter repayment.

The Lumina Foundation announced in July that it's funding a study to measure the postgraduation effects of several income-share programs, including those offered by the University of Utah, Colorado Mountain College and the San Diego Workforce Partnership.

Julie Margetta Morgan, a fellow at the Roosevelt Institute, said the lack of comprehensive data on outcomes for income-share agreements is just one of several areas where information and research about the contracts is lacking. It's not clear, she said, how many colleges enforce mandatory arbitration provisions or when a student is considered to be in default according to the contracts. It's also not clear what the typical ISA holder earns after college or what their repayment obligations look like, she said.

The institute is studying the terms of ISA contracts at various colleges where those details are available.

"The problem from a consumer-advocate perspective is that ISAs look a lot like a traditional loan. When we step back from the rhetoric about them, they look a lot like a traditional credit product," Morgan said. "And yet they're treated differently."

The loudest voice raising concerns about ISAs has been Senator Elizabeth Warren, the Massachusetts Democrat vying for the party's 2020 presidential nomination. In June, Warren and other congressional Democrats asked several colleges that have partnered with Vemo to provide documents on their promotion of income-share agreements as well as on student protections.

DeSorrento said Warren's interest in scrutinizing ISAs is understandable. There should be accountability for what happens in those programs, he said.

"We generally agree strong consumer protections are needed," he said. "People should be looking out for students so that they're not taken advantage of."

However, there's considerable disagreement about proper federal oversight. Vemo supports bipartisan legislation introduced by Young in July that would put ISAs under the jurisdiction of the Consumer Financial Protection Bureau. Consumer advocates, though, think there is also a role for the Education Department to play in oversight of the contracts. And Darcus argues the Senate legislation essentially carves out exemptions in existing regulations for income-share agreements.

For its part, Vemo says it's taking a cautious approach as interest in ISAs grows. Vemo has turned down dozens of colleges that have expressed an interest in starting a program, DeSorrento said. Some can be ruled out because their programs have poor results, or their tuition is too high.

"We're not on some artificial timeline where we need to sign up a bunch of colleges to say we did it," DeSorrento said. "We need to do this with colleges who are not curious, but serious."

Read more by Andrew Kreighbaum