

Searching for the Best Deal

HOW STUDENTS AND THEIR PARENTS VIEW INCOME SHARE AGREEMENTS

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How ISAs Work

In an ISA, a beneficiary receives up-front funding for educational expenses from an investor. In exchange for that funding, the recipient agrees to share a portion of his or her income with the investor for a set period of time. In some regard, the terms of an ISA mirror those of existing federal student loan programs. Anecdotally, the typical length of an ISA is 10 years, and the percentage of income shared rarely exceeds 10 percent of a student's adjusted gross income. ISA terms may vary depending on the price and the length of an educational program. Often, the recipient-funder relationship is brokered by a third party, which may be either a for-profit or nonprofit corporation. Often, the third party also fills the role of servicer, verifying a recipient's income using tax or payroll statements and handling monthly payments.

This is the third of a series of Issue Briefs dealing with ISAs.

Introduction

For undergraduate students and their parents, paying for college can be daunting, particularly if student loans are a factor. Some advocates have suggested that income share agreements (ISAs) may help these families finance postsecondary education.¹ ISAs are an alternative form of financial aid in which students pledge a portion of their future earnings in exchange for money to pay for college now (see How ISAs Work). Experts and advocates have argued that ISAs can reduce the financial risk associated with student debt (Akers, 2014) and signal differences in program quality through more favorable ISA terms (Palacios, DeSorrento, & Kelly, 2014). Similar to flexible repayment options for student loans, ISAs ensure that recipients' repayments will always be stable in proportion to their income.

To understand how prospective students and their parents perceive and make decisions about options for financing postsecondary education, we conducted 21 paired interviews with high school students and their parents. We intentionally selected participants from a wide variety of backgrounds, including families with different income levels and levels of parental education. (See the appendix for the methodology.) Although not generalizable to all students and parents, these participants' views indicate possible reactions to ISAs and highlight issues that ISA funders and others will need to consider if the ISA market is to grow.

At first blush, we found that students and parents preferred ISAs to student loans with a fixed repayment plan. However, when they were presented with a more detailed comparison of a hypothetical ISA and a loan with an income-driven repayment plan (see Student Loan Repayment Options), participants' views on ISAs were less favorable. This study provides insight into the characteristics of financing options that students and parents desire: flexibility to negotiate the terms of an agreement or accelerate payments plus predictable total payment amounts that do not greatly exceed the amount a student originally received to pay for school. Both ISAs and student loans are flexible, and both could require students to pay more than they originally receive, depending on the loan interest rate and the terms of the ISA. However, ISAs have less predictable total payment amounts.

Student Loan Repayment Options

Many borrowers repay their federal student loans through a standard repayment plan, with fixed monthly payments amortized across 10 years. However, borrowers whose incomes are low compared with their debt load have the option to repay their Direct Stafford Loans (both subsidized and unsubsidized) through several income-driven repayment plans. These plans are collectively referred to as IDRs. Under the most recent IDR plan, REPAYE, all Direct Stafford Loan borrowers' monthly payments are set at 10 percent of their discretionary income or the difference between their income and 150 percent of the federal poverty level. After 20 years, borrowers who still have undergraduate debt will have their remaining loan balances forgiven. Borrowers with debt from graduate school will receive loan forgiveness after 25 years.

We also presented the participants with comparisons of hypothetical ISA terms that varied based on the possible postgraduation earnings of particular majors and institutions. Our aim was to explore participants' receptiveness to these value signals. Most participants told us that they were indifferent to this information, although they thought that others might be compelled to act on it. These responses suggest that information about value, as conveyed by ISA terms, is something that students and parents believe might be helpful for making decisions about college, at least in the abstract. However, they indicated that they would not use this information themselves.

The main findings from these interviews are as follows:

- Students and parents desire flexibility, especially the ability to renegotiate the terms of an arrangement or accelerate payments.
- Students and parents want to be able to predict how much they will pay in total. Both also are concerned that the total payment amount could be very large if students are successful.
- Students are not open to using information about college value, as conveyed by variations in ISA terms, to make decisions about which institution to attend or which major to pursue. They highlighted nonfinancial factors, such as long-term happiness, among their considerations.
- However, students and parents believed that others would change their decisions if presented with similar information.

Baseline Views of Student Loans

We began each interview by asking the participants about borrowing to pay for college and asked them to describe student loans. We also directly asked students and parents whether they would likely take on student debt. These conversations helped us determine participants' perspectives on paying for college and informed our interpretation of their later comments on different kinds of loans and ISAs.

Overall, the participants had very negative opinions about student loans. Their opinions were based on information from the media, personal experiences, and information from others in their community, such as friends, coworkers, and teachers.

It's really scary. I want to avoid that—want to avoid taking out loans at all. (Student)

I don't have much experience, but [...] just all the talk that I hear about student loans, I may hear—whether it's the television or with my coworkers, [...] "I still gotta pay this back, I gotta pay this loan back," and so every time I hear about it, it's something negative about it, [...] and they [students] just seem so overwhelmed with paying for it. (Parent)

The participants also emphasized the stress associated with loan debt. Although many wished to avoid debt, some noted that it might be necessary.

We want it [student loans] to be the last resort. Because, you know, it's always a burden of having that big debt over your head. Because it sometimes makes you [...] not take the career path you want because you already have a debt. So try to be as stress free as possible so he can, you know—because he has to get the experience after he gets that degree. So, I want to make sure he doesn't have that debt over his head that makes him not choose the right—his career path. (Parent)

These comments indicate that the participants were concerned about using loans to finance education. Even if they were personally unfamiliar with loans, the information that the participants gleaned from others led them to believe that loans would be expensive and difficult to repay.

Comparing Income Share Agreements With Student Loans

When comparing ISAs with student loans, two main findings emerged:

- Students and parents desire flexibility, especially the ability to renegotiate the terms of an arrangement or accelerate payments.
- Students and parents want to be able to predict how much they will pay in total. Both also are concerned that the total payment amount could be very large if students are successful.

To explore students' and parents' preferences for ISAs compared with student loans, we presented two scenarios. We created a simple baseline scenario to elicit students' and parents' perspectives about ISAs and loans when given very little detail. Because so little information was provided with which a parent or a student could form a reasoned choice, we hoped to elicit participants' reactions to the general concept of loans.² Scenario 1 (Table 1) asked students and parents to explain which of the two options—a \$10,000 student loan with a fixed monthly repayment amount or a \$10,000 ISA—was a better deal.

Scenario 2 (Table 2) provided information that was more detailed and a different choice set: a \$30,000 student loan with an income-driven repayment and a comparable ISA. As with Scenario 1, the interviewer first explained each option and then asked the participants to discuss which option met their definition of a better deal.

In the following subsections, we contextualize participants' comments with their questions to describe both how they expressed their preferences and what additional information they wished to have to inform these preferences. Although some ISA funders may provide this information to ISA recipients, these scenarios intentionally presented relatively sparse information to elicit a wide range of questions and concerns. These questions could be used to help ISA funders, consumer advocates, and others understand what kinds of information to provide to parents and students.



Scenario 1: Simplified Comparison With Fixed Loan Payments

Table 1. Scenario 1

\$10,000 Student Loan	\$10,000 ISA
You borrow money from a bank or the government.	You receive money from an investor.
You repay a fixed dollar amount each month until the loan is repaid.	You repay a fixed percentage of your income for a fixed amount of time.

For many participants, the interview was the first time that they had heard about ISAs. Students and parents had many questions about ISAs and ISA funders as they thought aloud about this scenario, including the effect of ISAs on credit scores and professional choices.

What's the penalty with this income share [agreement]? How long will they give you to have a job, and what are the penalties if you're fired or released from your job or furloughed? With the student loan, I know that goes against your credit. I wonder what the terms would be for the income share [agreement]—would it also [...] affect your credit? (Parent)

Will this [ISA provider] insist that I go into a profession that pays a certain salary, even if it's not what I want to do? Or would he be fine with me doing whatever I want even though he's not gonna get as much money back? So I guess it all just depends on how much control he has. (Student)

The participants also asked about similarities to student loan agreements.

When you get a student loan, sometimes you can have—you would have—a cosigner. On [an] income share [agreement], would you also need a guarantor? So, that means, if [...] Let's say you got out of college and you weren't, you weren't employed, would the guarantor then have to pay that interest? (Parent)

Several participants expressed concerns about ISA payments being directly withdrawn from their bank accounts. Their remarks indicate that these participants may have been unfamiliar with automatic debit payments, which also are available for student loans, or they may have confused ISAs with wage garnishment.

Despite expressing misgivings about the lack of details in Scenario 1, many parents preferred ISAs (11) to mortgage-style student loans (6), and one parent was undecided (of those asked to indicate a preference). A few parents indicated that psychological factors, such as the stress of repayment, and previous experiences with student loans influenced their decisions.

I would probably go with the income share agreement because [...] I know how the student loans are, and the ones I have and just how hard it's been repaying them back, and [...] high interest rates and things like that. (Parent)

In a lot of ways [the income share agreement] sounds better than the student loan, especially with having known people who took out student loans and then had a hard time finding jobs, and, you know, ended up in

In a lot of ways [the income share agreement] sounds better than the student loan, especially with having known people who took out student loans and then had a hard time finding jobs ... I think it's ... less financial stress. [Parent]

situations where they had loans to pay and it was hard for them to come up with the money. [...] I do kind of lean towards the income share [agreement]; I think it's [...] a little less financial stress. (Parent)

The students were fairly balanced in their preferences, with about half preferring ISAs to student loans.

[T]hey're really similar; there's not much difference. I think it's just more of a mental thing. Whereas I see a percentage; I'm automatically thinking a tax, you know. So—I guess that's what it is, it's more of a mental thing, but in essence, they're pretty much the same. (Student)

Scenario 2: Detailed Comparison With Flexible Loan Payments

After reflecting on their preferences in Scenario 1, students and parents (in that order) were given a more detailed scenario with two alternatives, both involving an ISA and a student loan with income-driven loan repayment, and asked which they preferred.

Table 2. Scenario 2^a

\$30,000 Student Loan	\$30,000 ISA
Pay 10 percent of monthly income until fully repaid (maximum of 20 years).	Pay 10 percent of monthly income for 15 years.
The minimum monthly payment may never exceed \$310.	Total repayment varies based on your eventual income.
<i>Annual income: \$35,000 grows to \$72,800</i>	<i>Annual income: \$35,000 grows to \$69,300</i>
Monthly payment: \$145–\$310	Monthly payment: \$150–\$350
Repaid after 16 years	Payments end after 15 years
Total amount repaid: \$43,200	Total amount repaid: \$42,200
<i>Annual income: \$50,000 grows to \$81,400</i>	<i>Annual income: \$50,000 grows to \$99,000</i>
Monthly payment: \$270–\$310	Monthly payment: \$275–\$600
Repaid after 11 years	Payments end after 15 years
Total amount repaid: \$37,400	Total amount repaid: \$75,570

^a For the sake of simplicity, this scenario assumes the student receives one ISA that covers his or her entire program of study. However, ISAs are generally offered as unique contracts that may differ each year of a program, similar to the annual student loan borrowing process. It is more likely that the collective sum of income shares across ISA contracts would range from 8 percent to 15 percent, rather than each agreement having a 10 percent income share cap. We used a simplified scenario to avoid overwhelming the participants with information.

This illustrative example compares hypothetical payment amounts for a \$30,000 student loan (based on our estimate of the average student debt for students in this cohort, if they complete a bachelor's degree), to a \$30,000 ISA. We included multiple income levels in this example to demonstrate how earnings relate to monthly and total payment amounts. The income levels and amounts were chosen because they represented median incomes. We escalated wages at the same rate (5 percent, which matches U.S. Department of

Education student loan calculators). The differences in end points reflect the differences in the wage when the loan was paid off. Although these terms may not represent all ISAs, no standard currently exists for ISA terms. Based on a set of assumptions, we created hypothetical scenarios to elicit participants' comments.

The students slightly preferred student loans with income-driven repayment, as in Scenario 1. In contrast, nearly all the parents favored student loans with income-driven repayment to an ISA. Overall, the participants explained their choices based on their interest in flexibility, especially the ability to renegotiate the terms of an arrangement or accelerate payments. The participants also desired predictable and fair total payment amounts.

Flexibility

The participants emphasized a need for flexible financing options, although they differed on whether ISAs or loans would be more flexible. Flexibility was expressed as the ability to negotiate with the funder or lender and accelerate payment. In some cases, it appeared that the participants did not understand that both ISAs and income-driven repayment have payments that fluctuate according to a student's income.

Several participants noted that student loans often offered borrowers leniency in times of financial hardship.

I don't know much about the income share agreement, so I don't know. I know student loans have thousands of programs out there, and if you ever get in trouble, I don't know [as] much about the income share agreement and how that would work. So, it looks like you would have options with the student loan. (Student)

Borrowers can use deferment and forbearance to put off student loan payments, but it is unclear whether similar options would be available for ISA recipients.

The participants wanted ISA funders to be available to help students manage their payments during major life events, such as financial emergencies or job changes.

I think if you did encounter a situation where your income is impacted and with your income [share] agreement investor, depending on who they are and their rules for this kind of thing, I think it would be good to go talk to them, work out like an installment system plan or whatever. (Student)

Presumably, ISA recipients could contact their ISA servicer, just as a student loan borrower could contact a loan servicer. Because payments would fluctuate along with the recipient's income, this may not even be necessary. ISA payments would decrease along with a recipient's income, as long as the ISA funder or servicer had up-to-date information about the recipient's financial situation.

The student loan is better. You [...] can control the duration, when you're going to pay it off.... You can pay it off in two months if you want.... This [income share agreement], these guys want your income for the next certain number of years. [Parent]

In addition, a few participants remarked that they would prefer to be able to negotiate or alter ISA terms upfront to suit their circumstances:

Is [the Income Share Agreement] negotiable? You know, can I raise it—can I raise the percentage, lower the years, you know—if that is something that when you get ready to sign that agreement or get the loan, or the money lent—um, at that point, you negotiate those numbers. If that's a possibility, I would think it would be more beneficial for the borrower. (Student)

The participants also emphasized flexibility in terms of their ability to accelerate payments. Although student loan borrowers may pay more than the minimum monthly amount without penalty, ISA recipients cannot.³ Several participants expressed concerns that ISAs would prevent recipients from paying off their obligations more quickly. Given that ISA recipients are not paying off a fixed debt amount, it is unclear how recipients would be able to decrease the length of their agreement.

[B]ut with the student loan, you could probably, theoretically, pay it off faster than you could get through the income share agreement because—instead of a fixed percent[age] of your income over time, if you suddenly find yourself with a high-paying job and you make enough money, you can pay it off very quickly. (Student)

The student loan is better. You [...] can control the duration, when you're going to pay it off. You can pay it all off in one—you know, suppose you come into a large chunk of money. You can pay it off in two months if you want, and [...] that's it, you're finished. This [income share agreement], these guys want your income for the next certain number of years. I don't like that. (Parent)

In short, the participants focused on the fact that negative events, such as a job loss, and positive events, such as a salary increase, could influence their ability to make monthly payments. Their choices between student loans with income-driven repayment and ISAs seemed to be influenced by the degree to which they believed negative or positive events were more likely to occur and their assessment of which financing vehicle would be more accommodating.

Total Payment Amounts

Scenario 2 contained estimates of the total amount paid for the hypothetical ISA and income-driven loan options. In the first part of Scenario 2, an ISA would be less expensive (a total of \$42,200 in a 15-year repayment plan) than the student loan (a total of \$43,200 in a 16-year repayment plan) because the student loan would take longer to pay off. In the second part of this scenario, we pointed out that the ISA would be more expensive (a total of \$75,570 in a 15-year repayment plan) than the student loan (a total of \$37,400 in an 11-year repayment plan) because the student loan would take less time to pay off.

The participants expressed a desire for predictable total payment amounts, which they generally associated with student loans. In addition, the participants remarked that if ISA recipients earned a high income after college, ISA funders

could possibly make a very large return on their investments. The participants were uneasy with the idea of ISA funders making large profits.

Several students and parents said that it was important to have clear expectations for how much they would pay across time, which ISAs did not offer.

You're paying 10 percent of your monthly income for however many years [the income share agreement] say[s], but with a student loan, it's a little more like you're paying exactly what you paid plus interest, so at least you have a ballpark idea of what it is. (Student)

Going into something knowing what you're going to have to pay, in the end, I think that's more important than questioning if you're even going to be able to afford paying back. (Parent)



In addition to the security of knowing a total payment amount, the participants wanted a guarantee that ISA funders would not earn very large profits. They generally recognized that they faced the possibility of paying more than they initially received from an ISA funder. The participants were willing to pay the funders a return on their investment but not a very large one.

I would definitely go with the student loan because it says I basically only paid \$7,400 more [...] on the student loan side, and on the income share agreement, I will have paid well over the amount that I borrowed, and [...] that's just not realistic. Then, the fact that I would still have to pay after it, well over the time that I had paid them back, that's just not—not okay. (Student)

[Are you] going to stop paying when they've already gotten all of their \$10,000 [...] or is it based on whatever salary he's going to be making? You know, if he opens up a business and he all of a sudden becomes a millionaire because he's that smart, right—the fixed percentage has already been determined to be 5 percent of your income—well, they'll be making a killing. (Parent)

Summary

The views of the participants conflict somewhat with the hypothesis that prospective students who are risk averse would prefer to have a fluctuating financial obligation rather than a fixed debt amount. ISAs are believed to address possible risk aversion by replacing the idea of a fixed debt with a variable payment amount tied to income, essentially providing a safety net to minimize the risk of future adverse events (Akers, 2014). Participants' interest in flexibility supports this hypothesis. However, the fact that the participants strongly believe that they should not pay back substantially more than they originally receive suggests that a fixed debt amount has some benefits. More research is needed to determine whether this benefit holds for students who are especially risk averse.

To protect ISA recipients against unfair agreements, some have suggested that ISA funders be held to a minimum funding rate standard, under which a funder would be required to provide a minimum amount of support upfront for

each percentage point of income that the recipient commits to pay in the future (James & Holt, 2015). ISA funders also could collaborate to develop industry standards for disclosing the terms of ISAs, servicing and collecting the debt, and improving data transparency (Chopra, 2015). Some of these efforts are already underway, and they could improve the quality of information about ISAs and protect consumers, which would greatly benefit recipients.

Little Interest in Value Signals

In relation to value signals, two main findings emerged:

- Students are not open to using information about college value, as conveyed by variations in ISA terms, to make decisions about which institution to attend or which major to pursue. They highlighted nonfinancial factors, such as long-term happiness, among their considerations.
- However, students and parents believed that others would change their decisions if presented with similar information.

Some have argued that ISAs could send signals about the value of education (Daniels, 2015) and influence students' major and career decisions (Palacios et al., 2014) by offering better terms (e.g., length of payment and percentage of income) for institutions and programs that have high expected salaries after graduation. Through such value signals, ISAs could help steer more students toward educational pathways that lead to well-paying careers. However, students especially were not compelled to consider ISA terms when choosing a major or career.

To explore participants' reactions to value signals, we presented a subset of participants with a table displaying hypothetical ISA terms that differed according to major and institution type (Table 3). Although the participants recognized that the ISA term differences reflected differences in expected earnings after college, they did not consider these value signals important for their own decision making. The participants stated that they thought others might be influenced by this information but stated that their own behavior was not likely to change.

Table 3. Hypothetical ISA Terms by Major and Institution Type

	Ivy League University	State University	Community College
Engineer	5 years	6 years	7 years
	8%	8%	8%
Computer science	8 years	9 years	10 years
	10%	10%	10%
English	11 years	12 years	13 years
	12%	12%	12%
Social work	14 years	Not offered	Not offered
	14%		

Table 3 shows ISA terms that vary across institution type and major. Each set of terms includes the number of years a student would commit to pay after college plus the percentage of their earnings they would pay. We constructed the table this way on the assumption that ISA funders would make these value signals as clear as possible to recipients.

The participants very clearly indicated that the value signals we presented would not change students' educational or career decisions. They stressed that happiness was a critical consideration when making decisions about the future. Furthermore, the participants explained that teenagers are stubborn and difficult to influence.

Happiness and personal fulfillment were mentioned several times as the primary reasons for making educational and career decisions. Students in particular discounted the idea that money would guide their choices.

I like biology. I don't really want to change it, and, I probably—like, whatever college I end up choosing, I won't really choose it for the money—sorry Mom—I'll just choose it because I like it. (Student)

I don't know. Maybe it's because I'm young and naïve, but to me, it's not necessarily all about the money. Like I don't want to hate my job or be rich, [...] I mean, everyone knows that the doctors and engineers make a lot more money than government agents, but it doesn't make me like science. (Student)

Although many parents wished that their students would respond to the value signals shown in Table 3, they were not optimistic about changing students' behavior.

The information is out there, and I think it's very important. But—like I say—they're 17 and 18 years old. We were all invincible then. (Parent)

All our kids just do, you know, what they want to do and go to whatever school they would like to go to. Um, of course, we encourage [...], engineering. Her dad is an engineer, and we know it's [...], a good [...], field to go into, but now whatever they want to do, we support them. (Parent)

Students were more forthright about the intractability of their decisions:

Once I'm set with something, I'm set with it. It doesn't really matter. (Student)

No. Because I'm dead set on doing this. I'm stubborn. (Student)

When asked if similar information would cause other students or families to change their educational or career decisions, the participants were decidedly more optimistic about value signals. Most believed that ISA value signals would likely change somebody else's decision, even though they believed that these signals were unlikely to influence their own behavior.

I definitely think so, yeah, because—and if they interpret it the way we were saying, they would see, “[...] if I get a degree in engineering compared to social work from a state university or a community college,

"I'll have better access to loans, maybe a higher salary, attending a better school...." (Parent)

One participant imagined that students' responses to the value signals might differ based on their income level.

I think if anyone [it] would be [...] lower income students because I think lower income students are [...] they're more concerned with getting a good stable job that will make them a lot, that will make them a solid income versus students that grew up with [...] a wealthier background. (Student)

Contrary to this statement, we did not observe any differences in students' responses based on income or other factors. All students appeared equally indifferent to the value signals.

Summary

When presented with ISA terms that were more favorable for particular institution types and majors, the participants indicated they were not open to the idea of using such information to make choices about their education or future careers. Both students and parents explained that these choices were primarily based on students' happiness, not financial incentives. Both groups of participants imagined that others might be convinced to make different choices based on the ISA terms.

Overall, these findings do not lend support to the idea that ISAs could provide helpful information about the value of colleges or careers. Although students and parents acknowledge the importance of this kind of information in the abstract, they stressed that value signals would not influence their behavior.

Implications for Policy and Research

This first look at students' and parents' views on ISAs raises several important issues for policymakers and researchers. The participants stated that they are interested in payments that fluctuate with their income, which both ISAs and income-driven loan repayment offer. Some also expressed interest in the ability to negotiate the terms of their chosen arrangement, accelerate payments, and predict how much they would pay in total, which all ISAs may not offer. Increasing consumer information about ISAs would help students and parents choose based on these and other preferences.

Several promising consumer information efforts have recently been proposed. As an alternative to current disclosure requirements for private education financing options, some suggest that ISAs include comparisons between monthly loan payments and monthly ISA payments at certain income levels, similar to the information we presented in Scenario 2 (James & Holt, 2015). Given the number of questions that the participants had about the terms of this hypothetical ISA agreement, such comparisons would likely need to include even more details, such as accelerated payment options, to allow families to make informed decisions.

The participants very clearly indicated that the value signals we presented would not change students' educational or career decisions.... Happiness and personal fulfillment were mentioned several times as the primary reasons for making educational and career decisions.

Students and parents making decisions about paying for college in several years may have a very different set of options than students have today. The ISA market will likely continue to change. Income-driven loan repayment also may be more prevalent than it is today.... The future of both funding options will be determined by students' and parents' knowledge, the quality of ISA funders in the market, and the abilities of ISA funders to distinguish themselves from income-driven loan repayment.

The participants in this study also expressed concerns about paying substantially more than the initial amount they receive through an ISA. To address this concern, some policy analysts recommend that ISAs include a minimum funding rate standard, an income threshold below which ISA recipients would not be required to make payments, and caps on the percentage of income that recipients can commit across all ISA contracts (James & Holt, 2015). Others have suggested that policymakers consider creating additional protections to ensure high-quality servicing and prevent dishonest practices. Clear stipulations in cases of adverse events that affect recipients' ability to pay, such as medical emergencies, as well as resources to guide recipients through these events, could help address many of the concerns that the participants raised.

Standardized comparison information between ISAs and student loans will help families focus on the aspects of financing options that are most important to them: flexibility and fixed overall payment amounts. Because other flexible financing options, such as income-driven loan repayment plans, are available, more popular, and offer more predictable total payment amounts, ISAs will have to find a way to stand out from the crowd if the market is to grow.

One way for ISAs to do so would be to offer better terms than competing financing options do. ISA funders could likely compete with private student loans, but it seems unlikely that ISA funders would be able to offer lower interest rates or guarantee lower total payment amounts than that of federal student loan programs.

Alternatively, ISAs could use nonfinancial incentives to attract recipients. One participant in this study stated that his or her willingness to pay more for an ISA than originally received might change if the funder was a charitable organization. ISAs could attract altruistic students through a variety of initiatives, such as dedicating a portion of every monthly payment to a scholarship fund at the recipients' alma mater. Some students may be attracted to the novelty of an ISA if the funder chooses to market itself as an innovative alternative, similar to Kickstarter.com or other crowdfunding platforms. Alternatively, ISAs could market themselves by recognizing recipients publicly and offering additional benefits beyond funding, such as professional development opportunities.

Various opportunities exist to build on the findings of this study and learn more about how students and parents perceive ISAs. Future research could explore students' preferences for cross-subsidies in ISAs. Do they prefer an ISA in which their payments would subsidize others who have below-average earnings after college? Would students primarily choose ISAs based on what is personally beneficial? It also would be interesting to explore whether potential ISA recipients are more responsive to contract length or the percentage of income committed. For example, would a student perceive an increase from 10 to 15 years to be more important than an increase from 10 percent to 15 percent of income? Many interesting nuances of ISA contracts remain unexplored.

Students and parents making decisions about paying for college in several years may have a very different set of options than students have today. The ISA market will likely continue to change. Income-driven loan repayment also

may be more prevalent than it is today, particularly if it becomes the mandatory or automatic option as some have suggested (*Automatic for the borrower*, 2014; Dynarski & Kriesman, 2013). The future of both funding options will be determined by students' and parents' knowledge, the quality of ISA funders in the market, and the abilities of ISA funders to distinguish themselves from income-driven loan repayment.

Appendix

The findings in this brief are based on 21 interviews conducted in winter 2014 in Washington, D.C. A local research services company recruited the participants. We recruited a sample with an even distribution of households where (1) neither parent had education after high school, (2) either parent had some post-high school attainment but neither exceeds a bachelor's degree, and (3) either parent has a doctoral or professional degree (e.g., MD, DDS, or JD).

Each interview had two participants: a high school junior or senior and his or her parents (all were mothers). Approximately 16 students planned to attend a four-year institution, and five students planned to attend a two-year institution. Fifteen of the families had previously taken out a loan of any type. Among household adults helping the student make decisions about college (25 reported in total), 14 held a bachelor's degree, and 11 held less than a bachelor's degree.

Each interview lasted approximately one hour and consisted of four sections. First, students discussed their educational and career plans. Second, we asked students and then parents to describe how loans work and share their feelings about borrowing to pay for education. Third, we presented students and then parents with two hypothetical scenarios asking them to choose between a student loan and an ISA. The first scenario was simplified, offering only the most basic details; the second scenario added information such as the total expected repayment amount, the repayment length, and the monthly repayment amount for two levels of income. Finally, in the fourth section, we presented a table of ISA agreement terms varying by major and institution type. We probed for indications of price signaling. We also asked questions regarding trust and the desired characteristics of ISA funders.

We took several steps to increase the trustworthiness of this study. We asked key informants and subject matter experts to review our initial findings and later drafts. We also compared the findings with rival hypotheses from the literature on this topic.

Endnotes

1. See, for example, Palacios (2004): "A proposition that permits students to finance their education *without* the risk of being unable to pay after obtaining their degrees should be appealing to low-income prospective students, making [ISAs] an excellent alternative for students with scarce individual and family resources to finance their education" (pp. 72–73).
2. Although students and parents have other financial options in the real world, such as private loans, we chose to compare ISAs with federal student loans

because they are the most familiar alternative. In both scenarios presented in this section, the financing options are simplified to avoid overwhelming or confusing the participants. This simplification had the added benefit of allowing the participants to ask questions, thus giving us a sense of what information is most valuable to them when reviewing college financing options.

3. Most ISAs have prepayment options, but a minor penalty is charged.

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