RUSA Bill F19 - 16

Author: Jhanvi Virani, *President*

Sponsor: Executive Committee, Student Affairs Committee, University Affairs Committee, Health and Wellness Committee, Legislative Affairs Committee, Public Relations Committee, Sexual Violence Education Committee, Academic Affairs Committee, and Internal Affairs Committee

Bill to Advocate Bringing Income Share Agreement to Rutgers Financial Aid

Whereas, 59% of the Rutgers University- New Brunswick Class of 2018 graduated with student debt, averaging to $34,113 of debt per borrower[12];

Whereas, New Jersey ranks within the top ten US states with the highest average student debt per borrower[13];

Whereas, in 2018 Rutgers University- New Brunswick ranked 51st in the Top 150 of American public colleges with the highest student debt per borrower[14];

Whereas, Income Share Agreement (ISA) contracts allow students to pay back student debt as a percentage of their postgraduate salary and, regardless of the amount of money paid off, guarantees a borrower becomes debt-free after a finite period of time;

Be it hereby resolved that, the Rutgers University Student Assembly (RUSA) endorses the letter (attached below) sent by RUSA President Jhanvi Virani to Chancellor Christopher Molloy and Executive Vice President Michael Gower to advocate for the exploration of bringing an ISA option to students at Rutgers University- New Brunswick;

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12 https://lendedu.com/student-loan-debt-by-school-by-state-2019/
13 Ibid.
14 Ibid.

Be it further resolved that RUSA charges President Virani with the task of advocating for ISA at the administrative level of the university.

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RUSA President Date

RUSA
RUTGERS UNIVERSITY STUDENT ASSEMBLY

Office of President Jhanvi Virani
613 George St
New Brunswick, NJ 08901
president.rusa@gmail.com

November 18, 2019

Dear Chancellor Molloy and EVP Gower,

Over the summer I had stumbled upon an article discussing Purdue University's Back a Boiler Program. By implementing an income share agreement (ISA) option into the university financial aid system, the university offers its students the opportunity to subsidize the cost of their education by taking out "loans" for up to $10,000 per academic year. In return, students pay the school a fixed percentage of their postgraduate salary for a fixed period of time. The system in place is a robust one, accounting for things like deferring payments for students pursuing graduate school and full-time parental leave, adjusting the payment percentage based on projected salary, and waiving payment requirements for any month where a graduate is making less than an annual salary of $20,000. The result is a payment plan that brings humanity back in loan repayment. It's an option that doesn't leave students struggling to pay back their loans with interest, and it's an option that ensures loans don't eat an overwhelming proportion of any graduate's income.

Last week I had the pleasure of having a more in-depth conversation with Rutgers Vice Chancellor of Enrollment Management Courtney McAnuff and Purdue Back a Boiler Manager Mary-Claire Cartwright. For more in depth information about ISA and details on Back a Boiler, I am attaching a document to this letter for your reference. I'm writing this letter because after discussing the details of how Purdue's program works, I believe bringing ISA to the Rutgers financial aid system is a real possibility.

With an extensive conversation with relevant stakeholders at this school, we could become among the first public schools in the nation to provide its students with a new way to pay for higher education and, similar to Purdue, we can do it at no additional cost to students. For that reason, I am advocating that by the end of the Fall 2019 semester, a working group be brought together that includes, along with at least one student, representatives from the Offices of Enrollment Management, the Senior Vice

President and General Council, Finance and Administration, and other relevant groups you see fit to explore bringing an ISA opportunity to the undergraduate students of Rutgers University- New Brunswick.

Yours in Scarlet Pride,

Jhanvi Virani
President
Rutgers University Student Assembly

Brief Overview of ISA

Income Share Agreements allow students to enter contracts with their school. While students can borrow money from the school to put towards their education, they pay the school back as a percentage of their salary for a fixed period of time. The specifics of a student's contract depends on:

- How much money their contract is worth
- What their major is / what their projected salary will be after they graduate

For example, suppose the projected salary of an Economics graduate at Purdue University is $50,000 per year. If Student A takes out an ISA worth $10,000, they will be asked to pay 3.1% of their salary for 100 months[15]. Suppose their salary is $49,000; they would have paid Purdue back $15,036 by the end of their contract. However, Student B is also an Economics graduate with an ISA of $10,000, but they make $25,000. By the end of their contract, they would pay back Purdue only $6,458. In both cases, the students **stop paying** after their 100 month contracts are up. However, it should be noted that both contracts bring the school a combined total of $21,494 while the school loaned $20,000.

ISA at Purdue University

The only ISA-offering university in the United States with a size and scope similar to that of Rutgers University- New Brunswick is Purdue University[16]. Started in 2016, the Back a Boiler Program launched as an opportunity for students who have exhausted all other financial aid opportunities and still cannot pay for their education. To date, the program has dispersed approximately $14M in contracts to about 770 unique students.

Some important nuances of the payment plan at Purdue University include:

- At Purdue, ISA is an option for students who have run out of other options for financial their education. However, as long as a student falls in this category, the school **does not discriminate by major, projected salary, GPA, or credit score**. They are eligible for an ISA of up to $10,000 per academic year.
- Citizenship or permanent resident status is required for students to be eligible for the program.
- A student's ISA repayment begins six months after they graduate. This acts as a cushion for students who do not have a job lined up immediately. Average ISA contracts last for about 10 years[17].
- Payment deferments are available to students for a variety of reasons including going to graduate school, going on full-time parental leave, or taking a break from working for other reasons.

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[15] Taken from Purdue's Back a Boiler Overview

[16] Most schools offering ISA are small private universities. Excluding Purdue, University of Utah is the only public school offering ISA; however its program is limited to students of select majors who are within one year of graduation.

[17] Taken from Purdue's Back A Boiler One Pager

- Even when a student is not deferred, months during which students are actively seeking employment or making less than $20,000 annually are not required to pay anything towards their ISA.
- A student who has paid back 2.5 times the value of their ISA is released of their contract, even if their contract time period is not up. This protects students who unusually outperform their salary projections from paying too much to the school.
- After the Financial Aid Office certifies that a student is eligible for ISA, all payment collection is handled by a third party corporation, Vemo Education. For that reason, Purdue does not need to have a thorough ISA infrastructure in their Enrollment Management Office outside a program manager and one part-time employee.

Funding Strategies for ISA

Purdue University has launched Back a Boiler at no immediate expense to the student population. Initially, the university funded the program with an initial round of $6M, from a total of three institutional investors. In 2018, the university, via the Purdue Research Foundation, raised an additional $10.6M from a total of eleven investors, seven of which were non-institutional[18]. Some were individual investors, one was even a hedge fund. Depending on the return on ISA contracts, investors are expected to turn a profit.

The reason behind that is the way Purdue crafts its ISA formulas. When a student makes the average projected salary, their ISA contract returns more than the initial amount borrowed, but it is important to note that ISA is often a cheaper option than a traditional PLUS loan with a 7% interest rate. For example, a Computer Science major graduating in 2021 is projected to make an average of $72,000 a year with an annual income increase of 3.8%[19]. For $10,000 towards their education, Purdue would offer the student an ISA contract which requires them to pay 2.43% of their monthly income for 88 months. Compared to both a PLUS loan with a 7.01% interest rate and a private loan with a 9% interest rate, the ISA contract is the cheaper option for the student. However, even then, the student is projected to pay back over $14,000. Students that make above the average salary will pay more, students that make less will make less, but on average, the ISA program would be projected to provide a return for investors.

In short, ISA can provide investors, whether they be wealthy alumni or registered corporations, an opportunity to invest in the education of Rutgers students with the hope that they succeed, without the hassle of setting up the infrastructure to support private lending. More importantly, it means ISA is a program that can be funded in the long term without substantial university investment or tuition increase.

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18 Round II Details

19 Taken from the Back a Boiler Comparison Tool