



ISAs & SOCIAL BONDS | OPPORTUNITIES FOR FUNDING

MARCH 14, 2019

2019 EFC ANNUAL MEMBERSHIP MEETING



ISAs & Social Bonds | Opportunities for Funding

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Key Features of Pay for Success



Government contracts to pay for
agreed-on, measurable

RESULTS



An impartial evaluator assesses
whether results are achieved

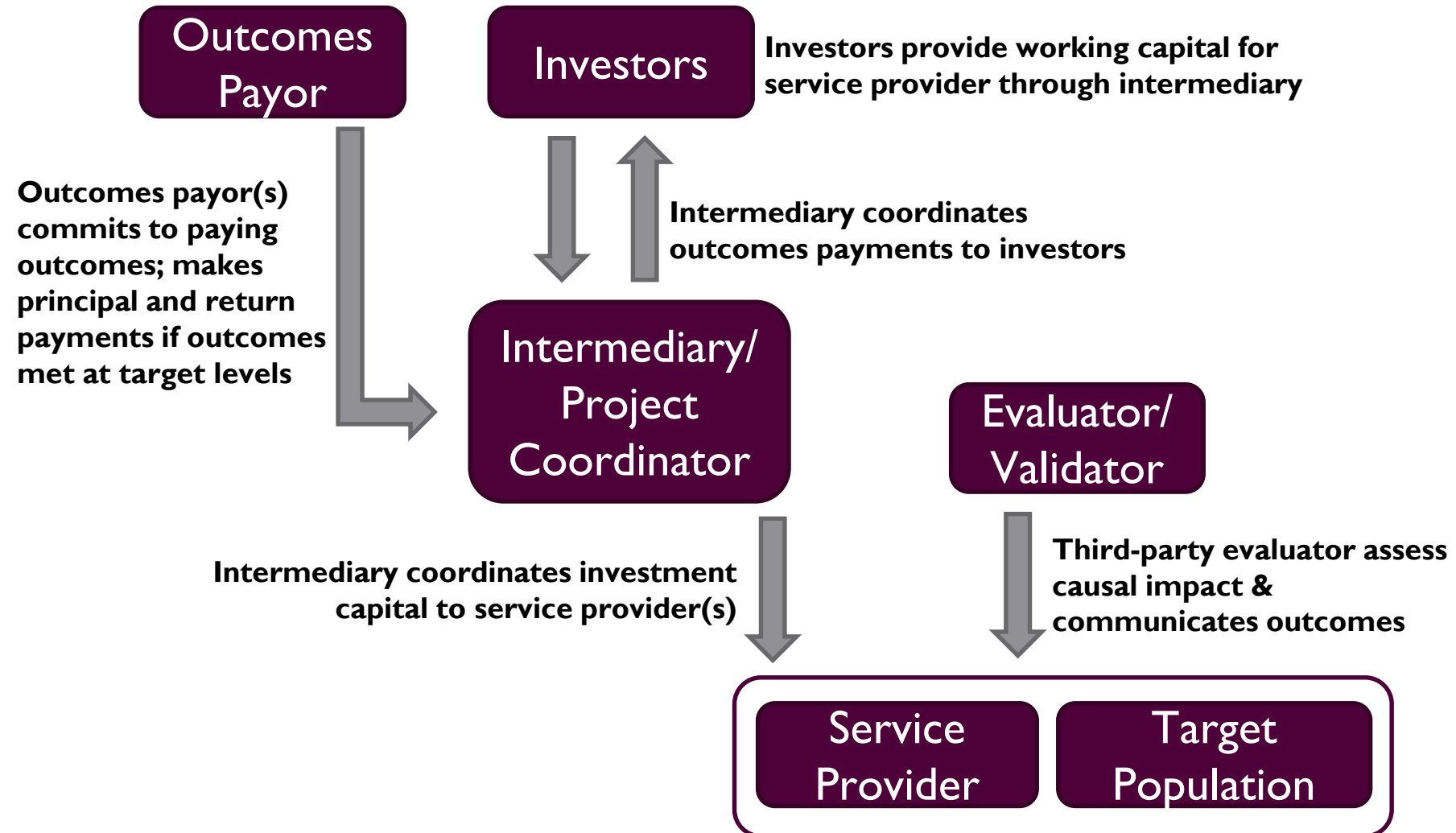
EVALUATION



Providers expand effective
programs

EXPANSION

Basic Project Structure

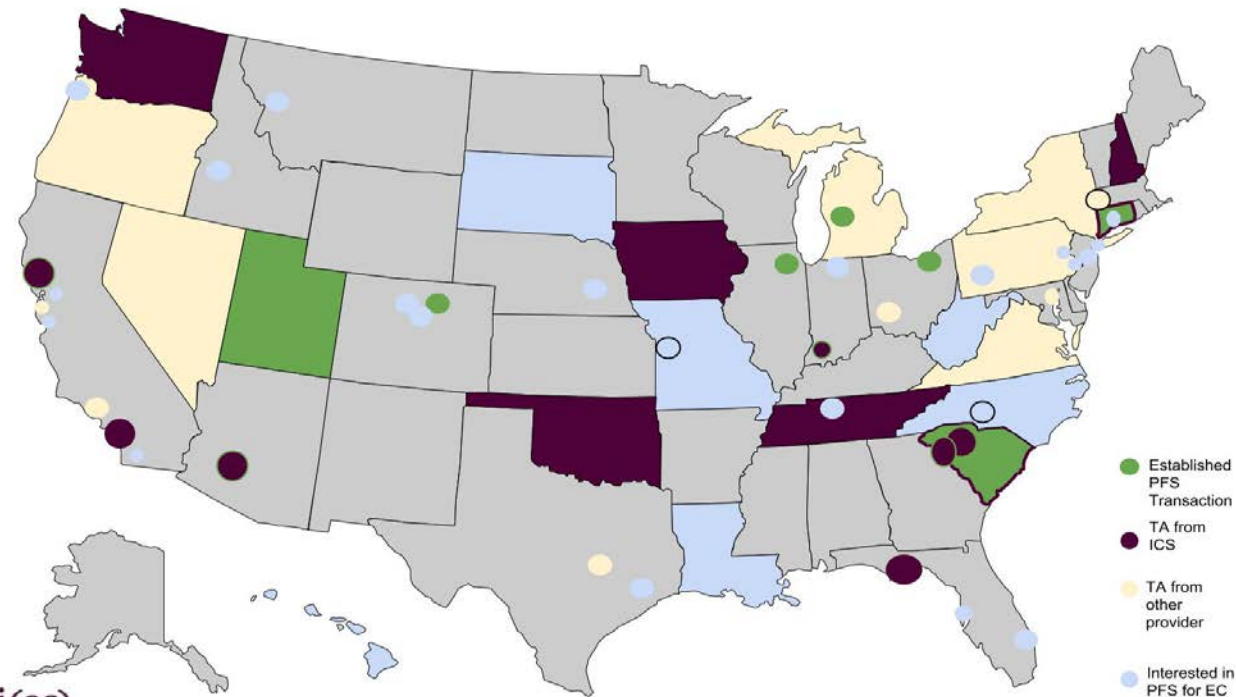


Adapted from: Office of National Drug Control Policy, Executive Office of the President, “Deploying the Pay for Success Model to Help Address the Opioid Epidemic in the United States: An Opportunity for State and Local Action.”

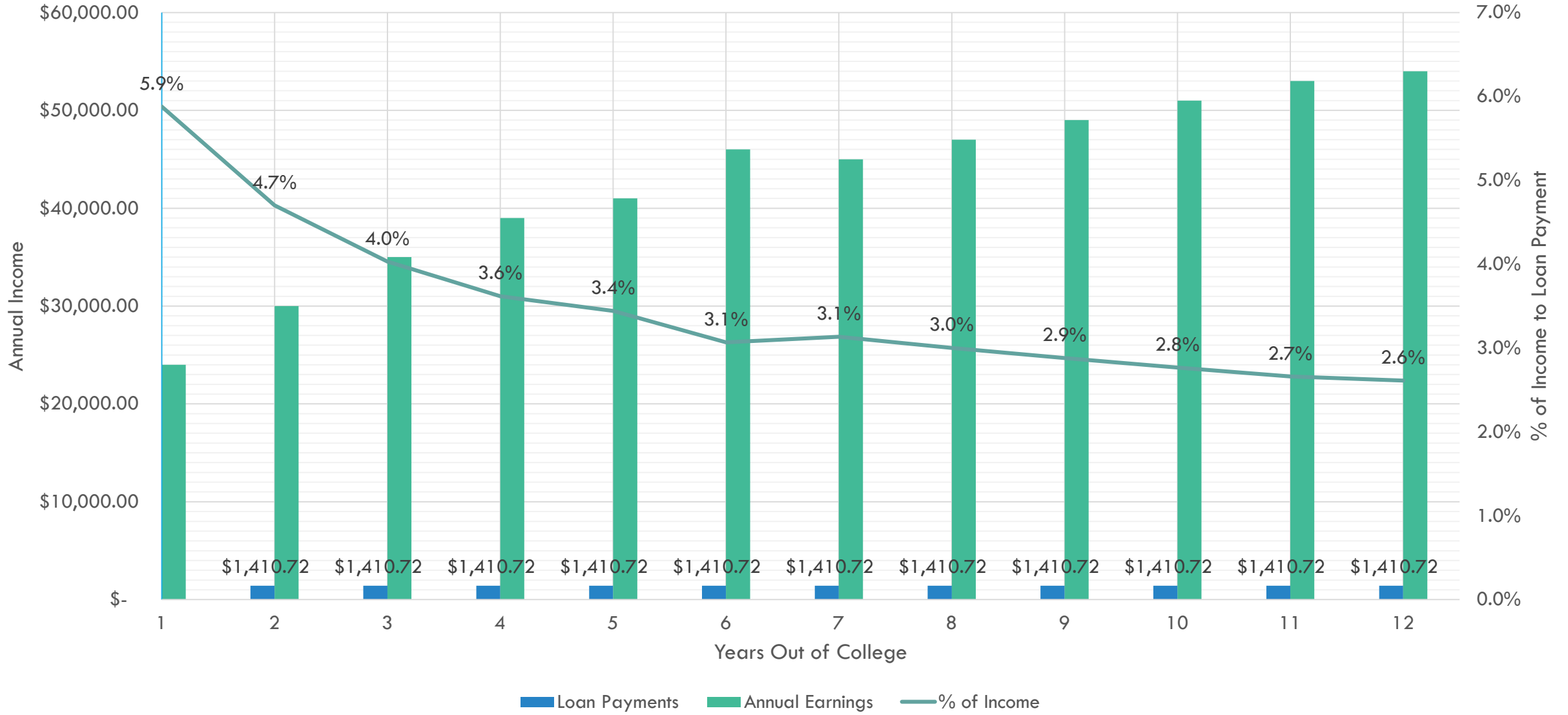
Innovative Funding for Preventive Programs

Since beginning in 2011, over 60 U.S. jurisdictions pursuing or using PFS to improve early childhood outcomes

Pay for Success for Early Childhood



Annual Earnings vs. Loan Payments vs. % of Income Paid on Loan



*Annual salary based on BROOKINGS *Hamilton Project*: bachelor's degree, all majors.

**Sallie Mae, 5.49% fixed APR, \$10,000 borrowed, 12 year term.

TOTAL RETURN TO STUDENT LENDER

Yearly Payments: \$1,410.72

Total for Life of Loan: \$16,928.64

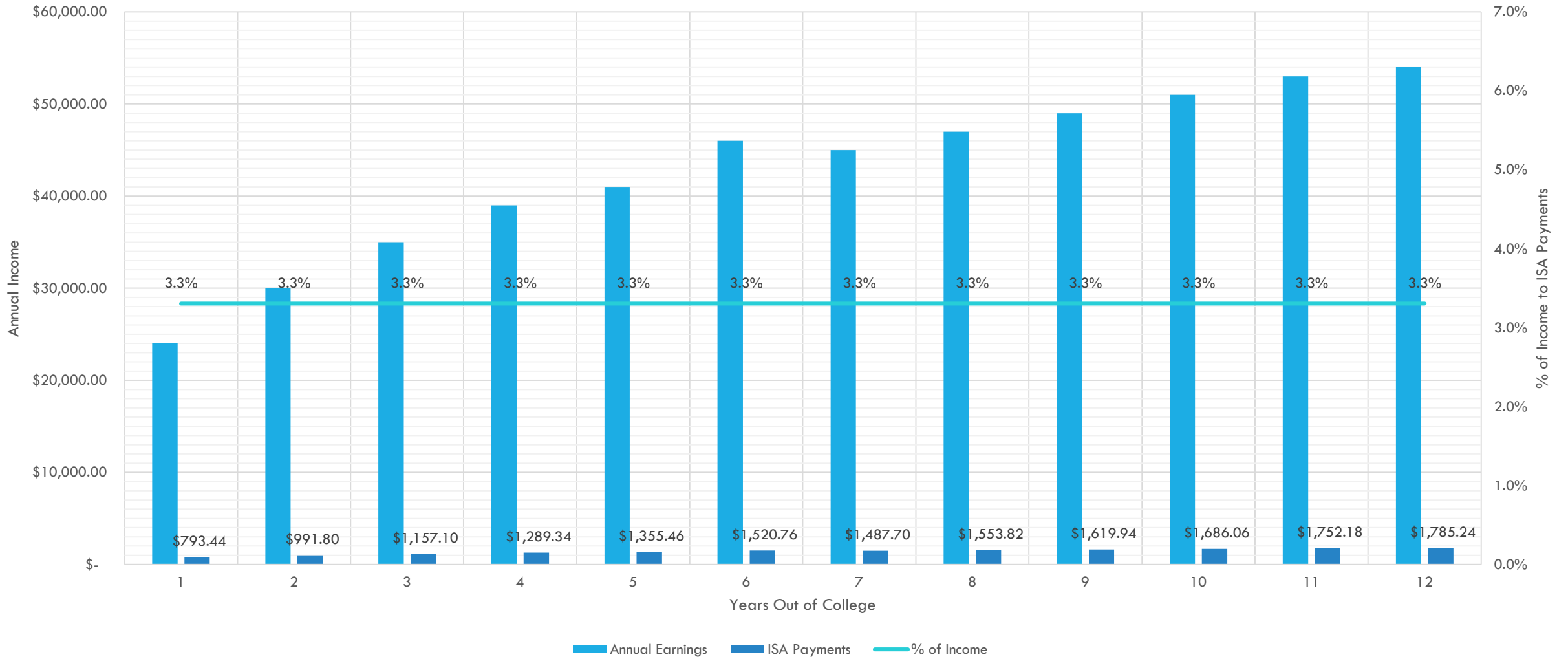
Total Projected Earnings for Student: \$512,000.00

Percent of Income Devoted to Loan Payments: 3.306% (over 12 years)

Most Difficult Year: Year 1—5.9% of income to pay student loan

Easiest Year: Year 12—2.6% of income to pay student loan

Annual Earnings vs. ISA Payments vs. % of Income Paid on ISA



*Annual salary based on BROOKINGS *Hamilton Project*: bachelor's degree, all majors.

**ISA with 3.306% Income Share, \$10,000 advanced, 12 year term.

TOTAL RETURN TO ISA PROVIDER

Yearly Payments: Variable with income

Total for Life of ISA: \$16,928.64 (SAME)

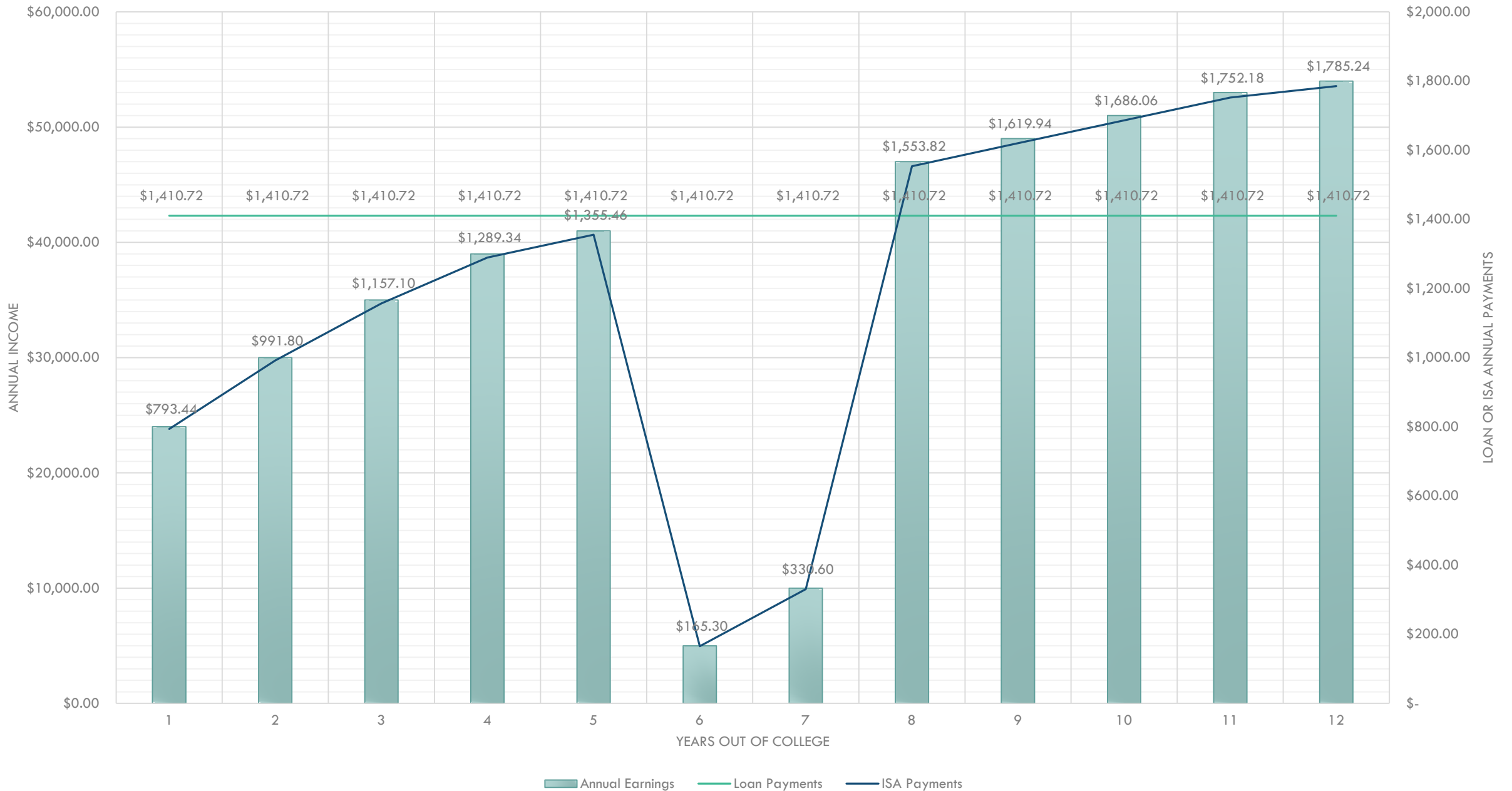
Total Projected Earnings for Student: \$512,000.00 (SAME)

Percent of Income Devoted to ISA Payments: 3.306% (over 12 years) (SAME)

Most Difficult Year: All the same—percentage of income driven

Easiest Year: All the same—percentage of income driven

Irregular Income Loan Payments vs ISA Payments



ADDITIONAL BENEFITS/RISKS OF AN ISA

Benefits:

- Looks at future “increase” in earnings, not past payment or credit history.
- Potentially more appealing to cultural groups that traditionally eschew debt.
- Does not obligate families/co-signers.
- Can accommodate students with irregular future income, family obligations, or higher income variance risks.
- Provides transparency to students to understand the true “cost” of the student’s education relative to future earnings.
- Many programs vary ISA percentage by major and institution. This can provide increased transparency to the “return” on educational expenses and courses of study.
- ISAs tend to provide opportunities for African-American students, Latino students, first-generation students, students with lower household income, students who had parents attend and not complete college, and students with less developed financial histories.*

Risks

- Though the overall return on each ISA is the same (generally), certain institutions or majors may pay a higher percentage of income for a longer period of time. (However, some institutions are experimenting with risk-sharing across majors.)
- Emphasizes wage discrepancy: The highest-earning majors are those in engineering fields, computer science, operations and logistics, physics, economics, and finance. The lowest-earning majors are early childhood education, family sciences, theology, fine arts, social work, and elementary education.
- The highest earning majors tend to skew male with over-representation of Asian and white students. The lowest earning majors tend to skew female with over-representation of Latino and African-American students.
- ISAs tend to emphasize and price based on outcomes by institution which can harm under-performing institutions.
- The highest performing students will pay an extra burden over a student loan because of the risk-sharing features of an ISA.

*Kevin J. Mumford, *Student Selection into an Income Share Agreement*, Purdue Univ., Sept. 2018.