With higher education debt at record levels, income sharing plans protect students and incentivize higher education institutions to invest in students beyond their college years.

**BACKGROUND**

Student loan debt in higher education has developed into a financial crisis for far too many American families. According to *Forbes*, “Student loan debt in 2019 is the highest ever,” with over 44 million borrowers owing over $1.5 trillion in debt in the United States. On average, Class of 2017 borrowers owe $28,650.2

Higher education is a massive economic enterprise. Combined spending of all degree-granting institutions of higher education (IHE) for the 2016-2017 academic year reached $583 billion, or 3.1 percent, of U.S. gross domestic product (GDP). The Department of Education (ED) estimates that approximately 26 percent of federal undergraduate student loans in 2018 will default, nearly half of student borrowers will negatively amortize within five years, and a plurality of student loan borrowers will never repay their loans.4

As student loan debt has exploded, so has federal spending on higher education. In Fiscal Year (FY) 2017, the federal government spent $101 billion on postsecondary education, and an additional estimated $35.9 billion on research at educational institutions.5 Under the current student loan system, borrowers are paying an increased portion of their income to service student loans, as well as a growing percentage of their income taxes to higher education.

Income Sharing Agreements (ISA) are becoming increasingly more common across states and universities. ISAs, a type of income-driven repayment (IDR) plan, provide borrowers the opportunity to make payments based on their individual income and family size instead of a traditional loan balance and interest rate.6 While approximately 7.8 million federal loan borrowers are enrolled in some type of income-driven repayment plan,7 there is no federal ISA program.8

Under an ISA program, “the investor takes an ownership stake in the [asset, student or program participant], and [the investor’s] return rises and falls with the asset’s performance,” which transfers risk from the student to the investor. Unlike traditional student loans, where a student repays a fixed amount, the student’s payments to the investor are based on the student’s earnings over the course of their career.9 This provides students and investors with a safety net, as high-earning students cross-subsidize investor losses to lower earning student recipients, and differs from traditional private student loans that “require the average student to pay a high interest rate.”10

**Quick Take**

Student loan debt in higher education is the highest in our nation’s history.

Congress should expect recipients of higher education dollars or federally guaranteed loans to offer financing options which ensure continued interest in student financial success.
These plans also provide borrowers with certainty about their payment window, the percentage of their income they must pay towards the loan, and, ideally, the maximum repayment amount. Students graduating with lower income levels may ultimately pay less than the cost of their degrees, while those with higher incomes may pay more.

**CONSTITUTIONAL AUTHORITY AND REPUBLICAN PRINCIPLES**

The Constitution gives Congress the authority to tax and spend for the general welfare. IHEs receiving federal funds and federally-guaranteed loans should offer financing options to students which ensure continued interest in the financial success of graduates.

**POLICY SOLUTIONS**

The Institute for College Access and Success notes a number of areas of bipartisan consensus regarding the broader category of IDR plans which may also apply to ISAs:

- IDR is provided as an option to borrowers rather than mandated or universal;
- IDR is available to all student borrowers with federal loans, regardless of their debt-to-income ratio;
- All borrowers in IDR always make payments based on their income;
- Married borrowers are treated consistently, regardless of how they file their taxes; and
- Borrowers enrolled in IDR have the option for automatic annual income certification to make staying enrolled simpler and more efficient.

Transparency is critical to any loan program, especially with respect to more novel loan products such as ISA plans. The “Back a Boiler” program at Purdue University requires prospective student borrowers to
“read about the ISA and take a quiz about the cap and the downsides so they fully understand [the program].”

The President’s FY2020 budget request for the U.S. Department of Education, as well as S. 1292, the Leveraging Opportunities for Americans Now (LOAN) Act of 2019, introduced by Senator Marco Rubio (R-FL), contain options for streamlining IDR plans.

Please contact Cameron Smith or Kelsey Wall with the Republican Policy Committee at (202) 225-4921 with any questions.

2 Id.
3Negative amortization occurs when the net loan balance increases during repayment due to interest charges larger than loan payments.
8Blair and Cooper, supra, note 4 at 9.
9Blair and Cooper, supra, note 4 at 7.
10Id.
11Blair and Cooper, supra, note 4 at 7.
12U.S. Const. art. I, sec 8, cl. 1.
13Alhman, supra, note 6.