

How Loan-Averse Young Adults 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% 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 a 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.

Introduction

Inequality in college access is a serious challenge for America's higher education system, with many students who are college-eligible facing substantial obstacles to enrollment. One of these obstacles is price, which includes tuition after grants as well as the opportunity cost of lost wages while the student is enrolled. Research has shown that perceptions of price and attitudes toward student loan debt can have a negative impact on decisions to enroll in or prepare for postsecondary education (Cunningham & Santiago, 2008; Hahn & Price, 2008). Underrepresented minority students may be less likely to take on student debt (Cunningham & Santiago, 2008), further exacerbating inequality in access to higher education. Negative attitudes toward assuming debt, or *loan aversion*, can deter students from taking on debt that may be necessary for succeeding in postsecondary education. Some have suggested that income share agreements could help alleviate the stress of paying for college for loan-averse students (Palacios, DeSorrento, & Kelly, 2014; Boatman, Evans, & Soliz, 2014).

Income share agreements (ISAs), also known as *human capital contracts*, complement traditional student aid by providing students with a new private option for financing college. Both ISAs and the federal government's new income-driven student loan repayment options help minimize the risks associated with unpredictable future incomes by setting the amounts that participants pay as a percentage of what they earn. In addition, ISAs are different from traditional student loans in that participants do not have to pay a fixed debt amount—rather, their repayment is tied to their income.

Given that student loans are a barrier for some prospective students, ISAs could provide a means of expanding college access for a population of students whose opportunities are otherwise limited. In this study, we focus specifically on the perspectives of loan-averse young adults and examine the multiple, intersecting social contexts that shape decisions about financial aid, including their families and communities (Perna, 2006; Tierney & Venegas, 2009). If loan aversion is based on negative experiences with debt and/or student loans in students' social networks, then students may be interested in newer, non-loan—but financially equivalent—forms of financing, such as ISAs.

Defining Loan Aversion

Boatman, Evans, and Soliz (forthcoming) offer three definitions of loan aversion: aversion to borrowing in general, aversion to borrowing to pay for education, and aversion to accepting loans as part of a financial aid package. The authors explored the prevalence of each type of loan aversion through a survey of high school students, college students, and adults. They found that each type of loan aversion was widespread, but the definitions did not appear to be highly correlated. In this study, we address each of these definitions of loan aversion in order to understand all of the possible ways in which ISAs might compare to student loans.

Our study also aims to understand the sources of participants' views on loans. Opinions on this topic are mixed. Some argue that loan aversion is a function of a dearth of quality information about financial aid (Barr, 2004; Heller, 2008). Other researchers advance the idea that loan aversion stems from students' backgrounds and social contexts, and may not follow traditional economic theories that students' decision making is based purely on financial cost-benefit analyses (Burdman, 2005; Caetano, Palacios, & Patrinos, 2011; Evans, Boatman, & Soliz, forthcoming).

Where observation of loan-averse behavior is concerned, little conclusive evidence exists. Some studies have shown that students are more likely to choose financial aid options that are not labeled loans in both domestic and international contexts (Field, 2009; Caetano et al., 2011), whereas a study in Canada found no evidence of loan aversion among adults (Eckel, Johnson, Montmarquette, & Rojas, 2007). Existing research has also shown that attitudes toward loans are connected with postsecondary enrollment decisions, with students either choosing lower cost institutions to avoid debt (Cunningham & Santiago, 2008) or not enrolling in college at all (Hahn & Price, 2008).

Research Questions

To move toward a deeper understanding of whether and how students are loan averse as well as how ISAs could mitigate loan aversion, thus increasing college access, we sought to answer the following research questions:

1. What concerns do young adults have about taking on student debt, particularly with regard to debt amounts and repayment length?
2. How do participants in this study understand ISAs?
 - a. How do participants understand amounts paid and payment length?
 - b. How do participants understand differences between ISAs and loans?
3. Do ISAs as a college financing option offer a viable alternative to loans for young adults who are loan averse, increasing the likelihood that they will enroll in college?

Key Findings

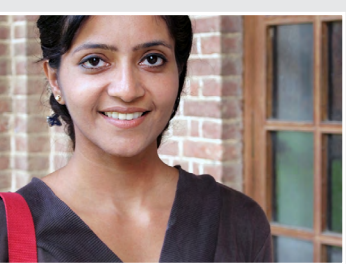
This study concluded that ISAs could provide an alternative to student loans—in particular, for loan-averse individuals whose views of student debt are determined primarily by negative experiences with debt among family and friends, thereby removing one key barrier to college-going for this population. Several key findings

led to this conclusion. First, we found that the cost of attending college was a substantial barrier, both practically and psychologically, for the study participants; however, they also perceived real personal and financial value in attending college. Second, the majority of participants expressed some degree of loan aversion as a result of their personal experiences and social context. At the same time, they saw taking on debt as an inevitable step in their future. Finally, participants' attitudes toward the flexibility and fixed payment terms of ISAs suggest that ISAs could provide a viable alternative to student loans for many young adults who have experienced the negative consequences of debt in their personal lives.

Approach

To better understand loan aversion and perceptions of ISAs among young adults, we held focus groups with young adults in a metropolitan area in the Mid-Atlantic. We recruited participants through outreach to local community organizations and by posting recruitment materials on Craigslist. Some participants recruited their friends to participate as well. In our recruiting materials, we specified that participants could be considered eligible if they were “not willing to use loans to pay for college.” There was no requirement that participants be familiar with the financial aid process or with college admissions, because our goal was to understand how individuals make decisions about college based on whatever information is available to them. Participants received a gift card to thank them for their time.

We focused on recruiting opportunity youth; that is, young adults between the ages of 16 and 24 who were neither enrolled in college nor working full time. Each focus group comprised between two and six participants; in total, 18 young adults participated in the focus groups. Their employment status varied somewhat; 11 worked part time (15 to 20 hours per week), and seven were not employed at the time of the study. Four participants were enrolled in high school.



To explore multiple types of loan aversion, we structured the focus group protocol such that participants discussed general attitudes toward borrowing, as well as attitudes toward student loans specifically. We also discussed grants and student loan forgiveness, to introduce the idea that many financial aid options are available. Following these discussions, we presented participants with a simple description of several financial aid options: federal student loans under standard repayment plans (or *traditional loans*), income-driven repayment (IDR) for federal student loans, and ISAs (Table 1). For the sake of simplicity, we did not refer to specific repayment program names, such as Pay As You Earn. Each group discussed the information in these tables, and we answered any questions that they had about them. Participants shared their perspectives on the benefits and drawbacks of each financial aid option. Once participants understood the basic structure of these options, we presented them with more detailed information about each one (Table 2). Again, we answered participants' questions; then we discussed whether or not participants' perspectives had changed.

- > **The cost of college is a barrier to entry for young adults, but they still see personal and financial value in attending college and aspire to enroll.**
- > **Attitudes toward debt and ISAs are deeply influenced by personal experience and social context.**
- > **The flexibility and fixed payment terms of ISAs make them an attractive alternative to loans for some young adults.**

One of the complications of financial aid research is that incorrect information and assumptions are common. Participants' understanding of these financial aid options varied, even after we answered questions about the information that was shared in the handouts distributed at the focus groups. For example, several participants stated that interest rates for student loans were higher than those for credit cards or other forms of debt. When this assumption was communicated, we offered the correct information. The focus group format also allowed participants to learn from one another. For example, at several points during the focus groups, participants corrected others about the definition of the Free Application for Federal Student Aid (FAFSA) or about the total amount paid under an ISA.

Recordings of the focus groups were transcribed and coded using NVivo 11. All quotations in this brief refer to participants by pseudonyms.

Table 1. Basic Scenarios

Financial Aid Option	Description
Traditional Loan	<ul style="list-style-type: none"> You pay the same dollar amount every month. You stop paying when your total debt is paid off, no matter how long it takes.
Income-Driven Loan Repayment	<ul style="list-style-type: none"> You pay the same percentage of your income every month. You stop paying when your total debt is paid off, or after a certain number of years, whichever comes first.
Income Share Agreement	<ul style="list-style-type: none"> You pay the same percentage of your income every month. You stop paying after a certain number of years, no matter how much you pay in total.

Table 2. Detailed Scenarios

Financial Aid Option	Description
Traditional loan	<ul style="list-style-type: none"> You pay the same dollar amount every month. You stop paying when your total debt is paid off, no matter how long it takes. For example, you have a \$10,000 student loan. You pay \$103 every month for 10 years.
Income-Driven Loan Repayment	<ul style="list-style-type: none"> You pay the same percentage of your income every month. You stop paying when your total debt is paid off, or after a certain number of years, whichever comes first. For example, you have a \$10,000 student loan. You pay 10% of any money you earn above a certain level. You stop paying after 20 years, or after your debt is paid off, whichever comes first.
Income Share Agreement	<ul style="list-style-type: none"> You pay the same percentage of your income every month. You stop paying after a certain number of years, no matter how much you pay in total. For example, you have a \$10,000 ISA. You pay 5% of any money you earn. You stop paying after 10 years, no matter how much money you pay during that time.

Findings

We present our findings in three main sections. First, we consider the attitudes that participants expressed toward the value and cost of college, drawing on their own personal experiences and the experiences of people in their lives. Next, we move to a discussion of how participants perceive debt in general and student loans in particular, to explore the ways in which participants might be defined as loan averse. We conclude by considering

participants' perspectives on ISAs, describing how they compared ISAs to traditional financing options and their opinions regarding the benefits and drawbacks of ISAs.

Attitudes About College

We first present an overview of participants' attitudes about going to college. We found that, for many participants, college is synonymous with opportunity and growth, and the main barriers along their paths to college are its price and how to pay for it. Participants' stories about relatives or friends in college revealed that few people in their social networks could provide information about the benefits of college and how to pay for college. Stories also focused on the difficulty of repaying student debt.

College Aspirations

Many of the study participants spoke of being highly motivated to attend college and described their expectations in detail. For these participants, college was the path to achieving their goals. Among these goals, some listed earning a high income, with some noting plans to earn a specific dollar amount. For others, going to college was necessary to earn the basic amount required to live. One participant, Emily, commented, "A [high school] diploma is worth nothing now, so you got to get a college degree to make money." Ray remarked, "I have anxiety of not getting a good job or nothing if I don't go." These concerns about earnings often were related to specific fields or degree programs that would lead to well-paying careers, particularly in business.



The college aspirations of participants were also linked to their nonfinancial goals. Matthew expressed the desire to "do what I love" and "turn my dream into [an] actual reality." These aspirations extended beyond vocational success to personal development. As Taylor observed, college offers an opportunity to "transform to adulthood and [see] how it is to live on your own." Others said that college lets you "be somewhere new" (Charlie), "meet a lot of new people, try different things" (Emily), and is "a fun time in your life" (Jacob). Participants' positive views of college and understanding of the benefits that college offers indicate that participants do believe that college is a worthwhile investment. Their comments on the financial barriers to college attainment, however, indicate that participants were unwilling to borrow money to finance this investment.

Financial Barriers

When asked about the cost of college and student loans, most participants characterized these factors as barriers to achieving their dreams. Many stated that costs were an obstacle to achieving their goals and dreams. Almost unanimously, participants agreed that college costs were "too high," "even in some community colleges" (Chris). Matthew noted that paying tuition "gets harder every year."

Some participants perceived the high cost of college as an injustice. Jacob remarked that college costs are high to keep college exclusive: "You have to pay to be in the club." He compared college pricing strategies to those of Apple, which he perceived as charging an unwarranted premium for its products to maintain its position as a highly desirable brand. Tyler emphasized how financial resources determine college-going:

My whole family has attended college. However, most of my family members didn't go straight after. Most took a year or two off, and then went to college. This would be called a "leap year." For some, it's a luxury, but for most, it is a necessity, to make enough money for college.

Students who delay enrollment to save money, as Tyler describes, may also be trying to avoid borrowing. Although this strategy may make sense in the short run, students might actually lose money by delaying enrollment because they are spending more time working at lower wage jobs. Amanda commented that college is expensive, but loans can add to those expenses: *“Some people are low income, and some people can’t afford all that money that they charge them; plus, if you don’t pay it back, they charge interest, and it cost a ridiculous amount.”* For some participants, the cost of college seemed to be interchangeable with student loan debt. When asked about the main drawback of attending college, Jacob explained:

You’re basically going out and living by yourself. If you want to work, you can work, but then you have to think about the fact that you’re going to have to pay this college twenty thousand dollars in a couple years.

The cost of living and tuition were both seen as financial obligations that add to the stress of future debt repayment. In Charlie’s explanation of the relationship between debt and cost, he emphasized that future job prospects add to the risk of going to college: *“Getting a degree and going into debt to get a degree and not getting a job that pays back the price that you paid for school.”* As we will discuss in the next section, many participants were unaware of financial aid options, such as income-driven loan repayment, that are designed to address these concerns.

Furthermore, the financial processes associated with going to college were perceived as confusing and daunting. The FAFSA was sometimes erroneously perceived as synonymous with loans. For example, Ray remarked that he was *“anxious about when you sign up for FAFSA... you have to pay it all back when you finish.”* The role of FAFSA confused others as well. As Jacob explained:

I applied for a FAFSA, and they didn’t cover the cost of college for me. My parents didn’t have the money, so they said I would have to take the loans out, and I didn’t really want to do that.

Taylor mentioned that she had heard positive things about FAFSA:

I don’t have the time, honestly. I have definitely thought about financial aid. I’ve heard stories about it, how beneficial it could be and the plenty of resources that they have.

The fact that Taylor had not pursued financial aid opportunities may indicate that she perceived the process as complex or time consuming. Participants’ uncertainty about applying for financial aid and about different kinds of aid compounded the stress of managing college costs.

College Experiences in Participants’ Social Networks

Overall, participants had limited social connections with people who had experience with college, resulting in fewer resources that would support their own postsecondary attendance. Although not all students would be the first in their families to attend college, and although some had friends who had attended college, their descriptions of these friends or relatives highlighted concerns around debt and financing, rather than experiences that would help them on their path to postsecondary education. Chris shared concerns about his cousin’s interactions with the federal loan system:

My cousin, he just moved to the country, and his parents were trying to push him to go to college. I was staying over at his house, and he was showing me how, when he signed up for a loan, there’s some documents you have to sign. There is a permissionary [sic] note, and it’s really long. This kid can’t read English, but they asked him to sign it electronically.... I was interested seeing how he is getting money, but he’s not understanding. He needs my help to interpret that. I think it’s kind of ridiculous how it’s structured like that.

When participants were asked about others they knew who had gone to college, many shared stories of how their friends or family had paid for it. In particular, participants shared others' negative experiences with repaying their debt. Amanda described how student loans had negatively impacted her family:

Both of my sisters went to college, and they said they pay them back right now, and they said that it's ripping their pockets. Also, they had told me if you don't pay the loans back, whatever, and you work, and you put money in the bank, whatever, you can't do bankruptcy and get them loans taken away; it's still going to be there, regardless. They can take it out your bank account.

Ray enviously remarked that his sister did not have to go into debt for college:

My sister's in college. I hate her right now because she don't have to pay for anything. She got scholarship... so she don't have to pay for anything, she doing other activities. She want to be an animal veterinarian. Something like that. I hate her.

In both cases, loans were described as a barrier to getting the most out of college, either during enrollment or afterward. Amanda's sisters lives were troubled by debt payment, whereas the absence of debt allowed Ray's sister to pursue her career aspirations as well as extracurricular activities. In both stories, loans appeared to be nearly inescapable. In the first, Amanda focused on the dire consequences of nonpayment, including paycheck withholding. In the second, Ray seemed almost incredulous that his sister managed to avoid borrowing, as though that would not be an option for him.

Attitudes About Debt

Understanding participants' attitudes toward student loan debt as well as debt in general provides another picture of participants' loan aversion. Overall, participants' remarks about debt in general suggest a bleak financial future: Participants' perceptions of debt and its impact on their lives were strongly negative, yet they overwhelmingly saw debt as inevitable.

Debt Stories

When asked about others they knew with student loan debt, participants' stories emphasized the perceived long-term, negative consequences of student loan debt. Some noted that student loan debt is an additional burden on top of other debt, such as car loans and credit card debt. As Matthew stated, this situation could be "stressful," particularly for those who are working and going to school at the same time.

For other participants, the consequences associated with debt were severe and frightening.

My sister, she had to file bankruptcy. She get behind on auto loan, and student loan... Once you get behind, it's just like you never catch up. (Michael)

I have one friend who was institutionalized because of school debt, and he just couldn't handle it. I've seen some scary stuff from people struggling with it. (Charlie)

These accounts emphasize the perceived long-term, negative consequences of student loan debt. Although a few participants mentioned that student loan debt payments could cause temporary financial stress, several focused on major financial and health crises experienced by borrowers and seemed to attribute these disasters to student loan borrowing. And, although these student loan experiences are atypical for most

borrowers nationwide, the fact that they occurred to friends or family members may explain why participants accorded them so much importance in their own estimations of the risks associated with student loan debt.

Taking on Debt

Despite the fact that we explicitly recruited participants who did not want to take on student loans, nearly all participants said that they would likely take on debt to go to college. Debt was described as an unavoidable part of life. When asked whether or not they would take out a student loan, participants replied, “I’ll definitely have a little debt” (Matthew), “Something going to probably be put on you’ll that you have to pay” (Ray), and “You got to think, you’re going to take it on” (Michael). Taylor explained:

Debt is a normal life, whether it’s you owe a car note, you owe a phone bill; everyone is going to be in debt some way, somehow in their life.

Participants’ perceptions of their own likelihood of taking on debt did not contradict the negative accounts that some had shared of their friends’ or family members’ experiences with debt. Rather, participants’ perceptions that they were likely to incur debt in the future focused on the downside risk. There were no guaranteed benefits to debt. The best possible outcome, as Taylor explained, was to avoid a financial crisis:

You’re trying to raise money and save money; no one wants to owe debt. If you file for bankruptcy, I guess that could be a pro. That’s the only thing.

Participants’ expectations of their student loan experiences were pessimistic. Charlie described the risk of using a student loan to pay for college as a “toss-up” equivalent to “gambling” on future success. Equally grim were participants’ expectations of the effects of debt on their post-college lives. Debt was associated with sacrifices and disastrous consequences: moving back in with their parents, declining credit scores, and mental and emotional stress. Charlie predicted:

I don’t think it would ever leave my mind. I think it would be a daily thought because it’s like selling your soul or something.

On the one hand, some of these statements were linked to misconceptions about student debt. Several participants believed that interest rates for student loans are higher than those for credit cards or other kinds of debt. Others mentioned that having student loans would negatively impact their credit rating or make it impossible to buy a house.

On the other hand, concerns about the effects of student loans seemed to be based on broader anxieties about financial stress after completing college:

When you get out of college, you’re not guaranteed a job. It may take you a year to get one... interest building up and all this time.... (Sarah)

It’ll affect our pockets. Once you get out of college, you might as well say you want to go back home to your parents because you’re going to have rent, everything else, phone bills.... (Ray)

It makes you more selective in the opportunities that you want. Because if you have 50K of student loans, you’re not trying to take a job with 50K because 50K isn’t really 50; you got taxes, bills, and utilities. You won’t really have much, so you want to be more selective in your opportunities. (Ashley)

These remarks indicate that participants are prepared to take steps to minimize financial stress and that they believe student loans will be a significant factor in their post-college decisions about where to live and work. For the most part, participants' comments focused on traditional student loans, which might have been more familiar to them. Despite being introduced to the Department of Education's income-driven loan repayment options, participants said little about them or their benefits. A loan was, at least from their perspective, a loan.

Perceptions of Income Share Agreements



Participants' attitudes about college-going and taking on student loan debt demonstrate that while they saw value in and aspired to attend college, they associated taking on debt for this purpose with a substantial psychological burden. Thus, participants' views of ISAs are important in understanding whether or not ISAs offer a viable alternative to student loans for young adults who are loan averse. Participants held a variety of views on ISAs, and no single response characterized their comparisons between ISAs and other financial aid options. Several themes emerged during the focus groups as participants reflected on the information that they received about ISAs:

- The flexibility of monthly payment amounts under ISAs was attractive. Some expressed concerns about total payment amounts under ISAs compared to traditional loans.
- The relatively short length of payments under ISAs in the examples given was also attractive.
- Questions about contract terms and funders indicated uncertainty about ISAs.

Payment Amounts

Participants discussed both the total amount paid over the course of an ISA agreement and the amount paid monthly. They understood that the dollar value of monthly payment amounts varied because they were based on a percentage of an individual's income. In particular, participants focused on the fact that the percentage paid would remain the same, regardless of income level. This idea was expressed in contrast to traditional student loans with fixed monthly payment amounts.

Some participants described ISAs in neither an entirely negative nor an entirely positive manner; these participants described the relative merits of taking an ISA as contingent on their income levels or on the amount of the initial investment relative to their income level.

It would depend on your balance. Like I said earlier, if you went to law school and had 100K, you may not have the monthly payment for 100K, because your salary's only 50K, but if it's a percentage of your income, you should more feasibly be able to afford whatever that percentage is.... It seems like the more you have, the more student loan debt you have, the better the income share, because then the loan amount would be irrelevant, it would be based on your income, whatever that may be. (Ashley)¹

Participants viewed this idea of paying a fixed percentage of one's monthly income both positively, in that it provides flexibility to accommodate low incomes or job loss, and negatively, given the potential

¹ A feature of some ISAs may be that the income percentage varies based on the initial amount that the student received from the funder. To facilitate clear and easy comparisons in the focus groups, participants were not provided this level of detail.

of paying larger amounts each month than on traditional loans, along with a possible lack of early repayment options.²

On the positive side, participants reflected on the fact that paying a percentage of income rather than a fixed dollar amount allows for “a safety net” (Jacob). This was appealing to participants, who frequently discussed unpredictable events such as job loss, changes in income, or injury. As Sarah noted, “*Anything can happen,*” and Hannah echoed this sentiment by stating, “*You never know what situation you’re going to be in.*” For Jacob, what a borrower can “*afford*” is based on the ratio of the monthly payment amount to monthly income:

We were saying the [ISA] gives you a safety net just in case you are in a job that’s pretty low income. You don’t have to be paying these high dollar amounts every month that you can’t really afford. It’ll adjust to however much you’re making so you can still at least live.

This flexibility in payment amount was a topic of discussion among participants who favored ISAs over other financial aid options. Some participants stated that this was the most important difference between ISAs and student loans paid through standard repayment plans. Ashley explained:

We had said that it’ll allow you flexibility because it gives you more time. The ISA would give you more time. If it took you 12 to 15 months to find a job, you would still have time to catch up, essentially, because there wouldn’t be... a time limit, essentially.

On the other hand, some participants were more skeptical of ISAs, and they preferred a payment structure more similar to that of traditional loans. For these participants, paying a fixed percentage of one’s income, regardless of income level, was perceived as preventing them from prepaying the obligation, if desired. As Chris observed:

It’s way too structured. A regular loan I can at least pay a little bit more every month if something... if that happens, you know, or I could restructure it. With the percentage, it’s kind of locked in, and it’s too structured.

Other participants expressed concern about the total amount paid over the full ISA repayment term. Because the amount paid is dependent upon income, some participants were concerned that this could lead to a total payment amount greater than the initial investment. Participants did not acknowledge that this could also occur with student loans using standard repayment plans or using income-driven loan repayment. Charlie described this situation with ISAs as being “*unfair.*” Jacob remarked:

If they’re asking for twenty-five years, I feel like you’re probably pretty likely to pay off your loan before that time’s over. You’d just be paying them money for no reason.

This was especially true for participants who had a more optimistic outlook for their future earning potential. Alexis, whose parents are highly educated professionals, commented:

I see myself as working in a prestigious firm, and I would earn more, and with ISA I would have to pay much more than my original loan.

These views appeared to be based on participants’ internal calculations of their expected wages and the likelihood of repaying their debt within a particular time frame. For those who were confident in their future ability to pay, the difference in total cost between student loans and ISAs was not worth the investment.

² As with the discussion of variation in income percentage paid, the ISA option was not presented with a prepayment option, although prepayment is available on some ISAs, to promote ease of comparison. We consider this issue further in the *Discussion* section.

Payment Length

When asked to compare ISAs with traditional loans or IDR, many respondents stated that the fact that ISAs had a fixed payment length regardless of amount paid over the course of the term was the most important difference between the two options. Participants took both favorable and unfavorable views of ISA repayment lengths. Some participants liked the fact that payments would stop after a predetermined amount of time, even if they had not yet repaid the initial investment.

What I like about the ISA is that you stop paying no matter how much you've paid over the course of the [term, as] opposed to a traditional loan. (Emily)

In the income shared, I like the fact that after a certain amount of time, no matter what you paid, you done. You're finished. That's what it comes down to me the most. (Josh)

I would probably feel more comfortable taking an ISA than a traditional loan because then I would know the years, they're going down, they're going down, but then with this one, it's saying no matter how long it takes, so I could be dying and I still got to pay my loans. (Hannah)

In addition to the participants who were concerned that paying a fixed percentage of their income could lead to higher amounts paid in total, some individuals worried that a fixed payment term could limit flexibility. For instance, Jacob noted that traditional loans could potentially be paid off earlier than the established repayment length, whereas ISAs did not provide this option:

Sheesh. Yeah, I don't know about that. This one [income-driven loan repayment] says it's either after a certain number of years or when your debt is paid off. That means if you pay it off early, you stop paying them, which is convenient.

Although some participants expressed concern about the lack of flexible payment terms with an ISA, in general, the 10-year payment length listed for the sample ISAs in the handouts did not appear to be a major concern.

Uncertainty About ISAs

As participants considered the benefits and drawbacks to taking ISAs, several themes emerged regarding additional information that participants believed was necessary for making a decision about taking an ISA. First, participants expressed concern with the length of the payment period for an ISA; they wanted a clear idea of how long they would be making payments and an understanding of factors that would impact the repayment length. For instance, Samantha, comparing ISAs to income-driven loan repayment, noted that the repayment length was clearer for IDR:

What's a certain amount of years? A certain amount of years could be two years to me. A certain amount of years to them could be twenty... I like this one better, the income-driven loan repayment. It says you stop payment when your debt is totally paid off, at least what I borrowed is paid off. I don't have to sit there and wonder how many years am I being condemned to pay you guys back until you feel like you've gotten enough money from me.

This remark underscores the need for clear information about the time commitments necessary for each payment option, highlighting a sense of wariness or distrust regarding the terms of the payment options.



Similarly, participants were uncertain about the amount of the monthly payments that they would be required to make. Although the handouts provided examples (e.g., “5% of your income each month”), questions remained about whether this would change and about what would be considered income. Emily, for example, expressed concern about whether the percentage would change based on her income situation:

The interest rate doesn't increase, does it? Do they still want the ten thousand after the ten years? You see what I'm saying? If I'm not making no money within the first two years, do they want more money after the fact once I start making money?

The other piece of information that participants desired was a definition of what “counts” as income. A question frequently posed was whether income from sources other than employment, such as an inheritance, would be considered in the percentage calculation.

What does that mean? Because when I read that, “money you earned,” my initial thought was your salary, but let's say you came into money through an inheritance or a settlement. Is that also money you earned? Because, technically, it would be yours. (Ashley)

The key word “any” money you earn, so it's not just income. Just say you go to Vegas one weekend, get a million dollars, five percent of that is theirs. (Charlie)

Finally, participants expressed concern about the funding sources for ISAs, reflecting on the fact that the funder's identity could change how participants feel about entering into an ISA. In general, participants were hesitant to trust funders, stating that the funder should be “credible” (Josh). This sentiment is reflected in the following conversation between several participants and the focus group facilitator.

Facilitator: Usually run by a company or by a nonprofit.

Ashley: Oh, lord. What company?

Facilitator: There are a lot of different ones out there.

Matthew: I said, “What company? Oh, wow, oh.”

Ashley: That's interesting, because I feel like if it was a federal thing, I'd be... Now that you said “private,”... now I go, like, “Hey.” Who, specifically—like, if this is their business—to actually lend out these loans... a little hesitant.

Matthew: Sketch.

This exchange highlights the sense of distrust that participants had toward ISA funders or lenders in general and demonstrates the need for transparency of information on ISAs and other financial aid options.

Discussion

Our findings from the focus groups reveal several key takeaways that warrant further discussion:

- Despite obstacles in the form of high college costs, loan aversion, and limited social capital, participants saw real value, both personal and financial, in postsecondary education and aspired to attend college.
- Many participants expressed aversion to borrowing money to pay for their education, as well as aversion to accepting loans as part of a financial aid package as a result of their personal experiences and social context; however, they also viewed taking on student loan debt as necessary and inevitable.
- Many participants viewed the flexibility and fixed payment terms of ISAs as positive features; however, views on ISAs were influenced by students' sociocultural contexts.

These findings underscore the importance of contextual issues that influence perspectives on financial aid. As participants explained their views on loans and ISAs, they revealed aspects of the internal cost-benefit analysis behind their decisions on how to pay for college. The contextual influences that they cited indicate that access to information about financial aid is critical, but information will not necessarily change preferences and decisions. The usefulness of ISAs ultimately depends on how participants viewed the risk of student debt. In this section, we discuss the implications of these findings for research and practice.

Additional Information

In some instances, additional information could have persuaded participants to change their perspectives. For example, information about the economic benefits of college, including salary ranges and unemployment rates for chosen careers, would have helped to dispel some of the participants' misconceptions.

Many tools already exist for providing better information about the return on investment of a college education, such as the U.S. Department of Education's College Scorecard or the College Measures tools in Tennessee, Colorado, Texas, and Florida. Theoretically, better information could lead to students choosing institutions or programs with better outcomes. If participants in this group had a better sense of the risks associated with their preferred institution or career, then they could decide whether or not to pay a risk premium. Many local and national efforts aim to address this knowledge gap.

Furthermore, participants' reflections on financial aid options in particular and on college-going in general often revealed misconceptions or lack of knowledge about these topics (e.g., participants who did not realize that payment amounts greater than the initial investment were possible with both traditional loans and ISAs). Thus, lack of information seemed to influence participants' opinions on the various options, which might have changed once they had gained a better understanding of these concepts.

In addition, participants likely would have benefited from additional information about the types of ISAs available. We provided simplified descriptions of ISAs in order to introduce the concept (see Tables 1 and 2). These simplified examples did not mention that some ISAs offer prepayment options and caps on total amounts paid, and participants' negative views of the total amounts paid under ISAs might have been reversed had they been offered additional information about these options. However, additional information about ISAs will not always result in a positive perspective; for example, the participants who learned that ISAs were offered by private entities expressed less interest in ISAs as an option for funding their college education. Given the

number of unresolved regulatory and legal issues regarding ISAs, it may be challenging to develop standardized and comprehensive information about ISA options across providers (American Institutes for Research, 2015; James & Holt, 2015).

Contextual Factors

Although additional information has the potential to mitigate some aspects of young adults' negative perceptions of college-going and financing options, some aspects of participants' perspectives on financial aid could not be directly influenced through additional information. Contextual factors, such as family experiences with debt, are one such issue. For example, one participant in this study mentioned that, according to her religious beliefs, she could not pay interest on loans. Her family used alternative financing to make major purchases, such as houses and cars, and providing the participant with additional information about student loans would not change her perspective. For other young adults with similar beliefs or views, ISAs could serve as an alternative to loans because they do not involve interest charges.

For other participants, negative experiences with student loans in their family or community shaped their views on borrowing money to pay for their college education. The importance of social capital in their knowledge about going to college and their beliefs in the benefits of college extended to their knowledge and beliefs about financial aid as well. Given the overall negative consequences that their family and friends had experienced with loans, it is not surprising that these participants were loan averse. Providing information about average loan payment amounts, for instance, might not influence those whose friends and family had experienced bankruptcy or institutionalization as a result of taking on debt. Although some participants provided extreme examples of the consequences of nonpayment, it is important to note that many others mentioned the typical results of nonpayment, such as its effects on credit scores and interest capitalization.

Future Outlook

Ultimately, participants' optimism about their own future colored their perspectives on financial aid. If participants felt confident in their ability to repay their debt, based on the careers, income, and loan experiences of those close to them, then they were not as interested in mitigating the risk of nonpayment. These participants would not perceive the benefit in paying extra for a risk-mitigating financial aid option, such as an ISA or IDR. The cost of insurance against nonpayment is worth it for those who believe, based in part on the negative experiences of those close to them, that nonpayment is a very real possibility.

ISAs and Loan Aversion

This study's findings show that loan aversion can be a substantial barrier for young adults interested in pursuing higher education; however, we do not find that loan aversion prevents students from considering going to college. The participants in this study, who appeared to experience both aversion to borrowing to pay for education and aversion to accepting loans as part of a financial aid package, understood the value of college, and they themselves were determined to attend college. Many seemed convinced that some form of debt would be necessary to attend college and described loans as an inescapable fact of life. Although participants' loan aversion, which was rooted in deeply personal experiences and social contexts, was not so strong that it prevented them from considering college, it appeared to add a major psychological burden to their decisions to attend college.

Because our study participants' loan aversion did not stop them from planning for their postsecondary education, we cannot declare with certitude whether ISAs serve as a viable alternative for those whose loan aversion

prevents them from even considering college. Our findings can, however, shed light on the usefulness of ISAs in mitigating the psychological burden associated with taking on student debt to pay for college. Participants' responses indicated that they believed some sort of deferred payment option would be necessary to go to college. Because loans were the most common and widely known college financing option, participants accepted the inevitability of student debt. They were, however, interested in learning more about ISAs, which offer an alternative means of deferring payments. It is also important to note that the extent to which participants differentiated between loans and ISAs was unclear. Although the information on ISAs that we provided to the study participants never involved the use of the term loan, some of the participants referred to ISAs as loans; in fact, they seemed to regard ISAs simply as loans with different kinds of terms.

Conclusion



This study sought to understand how loan-averse young adults understand and value attending college, how they think about loans, and how they perceive ISAs. Through conversations about the costs and benefits of going to college, we found that ISAs have the potential to mitigate the psychological burden associated with paying for college for those students whose sociocultural contexts have negatively influenced their views on taking on student debt such that they view the “safety net” feature of ISAs as necessary. For other students who are also loan averse but who have a more positive outlook for their future, the drawbacks of ISAs may not outstrip the benefits.

Although research indicates that additional information and guidance can help some students access financial aid and increase college-going (Bettinger, Long, Oreopoulos, & Sanbonmatsu, 2012), the availability of more information may not help to counter deeply entrenched, negative perceptions of debt informed by students' sociocultural contexts. ISAs may be helpful for such loan-averse young adults. It would be useful to know more about the aspects of young adults' social contexts that most strongly influence their perceptions of student debt and college-going.

Notably, those participants who expressed interest in the risk-mitigating features of ISAs did not focus on similar features included in IDR. Like ISAs, IDR ties payments to students' monthly incomes. If the variability of loan payments were the only attractive part of ISAs, then participants should have been equally interested in IDR. Because this was not the case, it may be that participants were reacting to the word *loan* rather than to the features of this option itself, which other researchers have called a “labeling” problem (Caetano et al., 2011). It follows that policies for expanding enrollment in IDR should be coupled with policies for expanding the financial aid options available to those who associate extremely negative outcomes with student loan borrowing. Institutions that choose to offer ISAs to their students also should consider how to incorporate ISAs into their financial aid advising processes. We expect that the experience of Purdue University, which will begin offering ISAs to upper-division students in fall 2016, will provide an invaluable learning opportunity for financial aid administrators and researchers alike.

The scope of this study does not allow us to answer the question of whether ISAs will change college-going behavior; however, our findings lead us to be optimistic about the potential of ISAs to change loan-averse young adults' perceptions of paying for college, which could increase college access. Based on our findings, we recommend further research into the potential of ISAs to remove barriers to college access. In particular, longitudinal research that observes college enrollment and financial aid use over time could help by connecting students' precollege opinions to their post-enrollment behavior.

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