KIM: Purdue invests in students' success with Back a Boiler—ISA Fund

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We face dual crises of declining college-affordability and crushing student debt. There is $1.2 ***trillion*** in student debt owed by 37 million borrowers, 5.4 million of whom have already defaulted.

Teens take on tens of thousands of dollars of debt without a clue about the implications of 10-20 years of repayment. Many graduate (or don't—even worse) with little hope of meeting monthly payments, leading to bankruptcy or blemished credit reports for life.

Nobel Prize-winning economist Milton Friedman proposed a novel solution to today's crises in ***1955.*** Under an Income Sharing Agreement (ISA), a student receives a fixed amount of money now to pay for educational expenses and in exchange agrees to pay back a percentage of their income for a fixed period following graduation. ISAs enable students to borrow against their future earnings to pay for college.

College is an investment with a known, large upfront cost and an unknown future payoff in enhanced earning power (versus not going to college), an inherently risky proposition. With traditional loans, this risk is reflected in a high interest rate. Post-graduation payments are determined by the amount of the loan and interest rate, ***regardless of the graduate's income or ability to meet the repayment schedule***.

Enter the Back a Boiler—ISA Fund, managed by the Purdue Research Foundation under the slogan, "It's Not a Loan and You're Not Alone." Following a 6-month post-graduation grace period, students pay back a set percentage of their salary over a term of 9 years or less.

Back a Boiler offers terms based on students' majors and projected salaries in those fields. You can use the interactive Comparison Tool at www.backaboiler.org to compare terms of the ISA with a federal Plus Loan (assuming 6.84% interest for 10 years) and a private loan (assuming 9% interest for 12 years).

For instance, if you are an Accounting major graduating next May, Purdue anticipates your starting salary will be $46,000 and grow 3.7%/year. Accept an ISA of $15,000 and you will pay a fixed 5.07% of your salary for the first 100 months after graduating. With the ISA, your monthly payments will start at $194.67, reach $272.54 by the end and total $23,049. Monthly Plus Loan payments are fixed at $194.03 and total $23,284. Monthly private loan payments are fixed at $187.35 and total $26,978.

The key advantage of ISAs is ***built-in affordability***. If your actual salary is lower than anticipated, so is your payment. In this example, as long as you pay 5.07% of your salary for 100 months, your commitment is fulfilled, ***even if the total amount repaid is less than the original amount of the ISA.*** In essence, the financial risk is shifted from the student to the Back a Boiler—ISA Fund.

Purdue is the first major American university to offer an ISA. Purdue president Mitch Daniels says, "In our continuing efforts to help as many students as we can get through college without mountains of debt, we thought this was an idea that should be tried. For some students, it may be a very preferable option to the private loans that are out there."

We're big believers in "eating our own cooking." For a university, I don't think there's better proof of walking that talk than investing in the success of your students.
