Purdue revolutionizing college finance with Back a Boiler—ISA Fund

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August 31, 2018

College is an investment with a known, large upfront cost and an unknown future payoff in enhanced earning power, an inherently risky proposition. As with any investment, it's important to know if the interests of the person selling the investment are aligned with yours.

For an investment advisor, the best way to demonstrate this alignment is by "eating your own cooking" and investing alongside your clients.

Similarly, Purdue takes an ***ownership*** interest in its students' financial success with an Income Sharing Agreement (ISA). If the Purdue degree is valuable and leads to a well-paying job, Purdue and the student both benefit. If not, Purdue absorbs some or even all of the financial pain.

With traditional student loans, ***post-graduation payments are determined solely by the amount borrowed and interest rate***, ***regardless of income or ability to pay.*** Student debt is a crisis, with 44 million borrowers owing a crushing ***$1.5 trillion,*** exceeding the total amount of vehicle ($1.1 trillion) and credit card debt ($977 billion). Recent graduates owe an average of just under $40,000.

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." Graduates pay a set percentage of their salary over a term of about 9 years.

Back a Boiler is available to sophomores and above and offers terms based on students' majors and projected salaries in those fields. ISAs for majors with higher projected salaries pay a smaller share of earnings and have shorter contract terms. You can use the interactive Comparison Tool at www.backaboiler.org to compare terms of the ISA with a federal Parent Plus Loan (assuming 7.6% interest) and a private loan (assuming 10% interest) for 10 years.

For instance, if you are an Electrical Engineering major graduating in May of 2020, your salary is estimated to start at $61,000 and grow 3.8%/year. Accept an ISA of $25,000 and you will pay a fixed 7.50% of your salary for the first 92 months after graduating. With the ISA, your monthly payments will start at $380.39, reach $513.52 by the end and total $40,852. Monthly Parent Plus Loan payments are fixed at $360.66 and total $43,279. Monthly private loan payments are fixed at $399.21 and total $47,905.

The key advantage of ISAs is ***built-in affordability***. If your actual salary is lower than estimated, so is your payment. In this example, as long as you pay 7.50% of your salary for 92 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.

Launched in 2016, Purdue was the first major American university to offer an ISA. There are currently 500 Back a Boiler ISA contracts covering $6 million outstanding, representing every Purdue college and more than 120 majors. Since taking over in 2013, President Mitch Daniels has been fanatical about holding the line on costs (no tuition increases) and reducing student debt.

In an article in *The Atlantic*, Daniels said his main goal for Back a Boiler was "to liberate as many students as we can from *avoidable* student debt. As I said, we're doing that by other means—freezes and reducing costs and counseling—and this is just helping us take another percent or two off the total, and we hope it will do more as we go forward."

According to the article: "College-backed ISAs have been lauded as a way for colleges to have skin in the game with regard to the financial success of their students and give institutions incentives to equip their students with marketable skills and support their alumni in securing employment."