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Income Share Agreements

Market Structure, Communication, and Equity Implications of a Student Loan Alternative

Postsecondary education, such as a certificate, an associate's degree, or a bachelor's degree, is a key pathway to economic mobility for many Americans (Ma, Pender, and Welch, 2020), but it can be a risky investment. That is to say, postsecondary education is a good investment on average, but individual experiences can vary widely (see, e.g., Cooper, 2021; Georgetown University Center on Education and the Workforce, 2022). The need to pay tuition up front—before the education pays off in the form of a job—can pose an additional barrier for students.

Financing postsecondary education has become more challenging in recent decades. Learners are paying a larger share of public postsecondary education costs than in decades past (Laderman,

KEY FINDINGS

- Income share agreements (ISAs) are an alternative way to finance postsecondary education and training.
- There appear to be two distinct sectors within the ISA market. One is composed of Title IV institutions, which are typically two- and four-year colleges and universities. The other is composed of non-Title IV institutions, which are typically workforce development and training programs, such as bootcamps.
- ISA contract terms are interrelated—for example, a high income percentage is often associated with a short repayment term—and the learner must evaluate the terms together to understand the repayment obligation. There is no single metric that learners can use to assess and compare ISA contract terms.
- Public awareness of ISAs is low. However, about 40 percent of adults nationally said that they would consider an ISA to pay for their postsecondary education, which suggests that the idea has appeal.
- The information that learners need to make an informed decision about an ISA is often missing from publicly available documentation. For example, one-half of ISA-offering institutions did not provide the minimum information that learners need to evaluate an ISA.
- We found evidence to suggest that historically underserved groups (such as learners who are Black, Hispanic, or experiencing low income) are disproportionately exposed to ISAs, but we found no evidence that they receive systematically different ISA terms. Therefore, the potential for ISAs to disproportionately harm or benefit such learners in the future is substantial.

Weeden, and Carlson, 2019; Ma, Pender, and Welch, 2020). A growing proportion of learners finance postsecondary education using student loans, primarily federal loans (Snyder, de Brey, and Dillow, 2019).

In addition, the process of applying and reapplying for federal aid is complicated, which prevents many students from accessing such financing, even if they meet eligibility requirements (Kofoed, 2017; Martorell and Friedmann, 2018; Page and Scott-Clayton, 2016). These financial challenges make it difficult for many learners to enroll in, persist through, and successfully complete postsecondary education.

The financial burdens of postsecondary education are unevenly distributed and experienced. Black and Hispanic Americans and residents from low-income neighborhoods are less likely to have any credit history (Brevoort, Grimm, and Kambara, 2015) and may struggle to obtain private credit. Moreover, Black and Hispanic students are less willing than White non-Hispanic students to take on a loan (a tendency known as *loan aversion*; Boatman, Evans, and Soliz, 2017). Loan aversion may cause students to underborrow for their education—thus increas-

ing financial stress—or to underinvest in education altogether (Marx and Turner, 2018).

Postsecondary financing options vary by type of institution. Many financing options are available to learners, but they neither serve all learners nor address the complete needs of learners who *are* eligible. Institutions that are eligible for federal financial aid under Title IV—which we refer to as *Title IV institutions* (see Box 1)—typically offer for-credit degrees and certificates. Learners pursuing education at these institutions have access to Pell Grants, subsidized federal student loans, unsubsidized federal student loans, and the private loan market.

At Title IV institutions, subsidized federal loans are capped at an amount that is usually less than the cost of obtaining a degree, which means that learners may need to seek additional (more-expensive) financing to cover the gap. Among learners who do borrow, the fixed nature of loan payments puts pressure on students to choose a high-paying job after graduation, even if the job is not the best long-term match. Research has found that large amounts of student debt can influence choice of occupation and can lead

BOX 1

Terms in This Report

- **Learner:** A person enrolled in postsecondary education or training.
- **Underserved learner:** A learner in a group that is not adequately served by current postsecondary financial aid options.
- **Institution:** A postsecondary education provider, such as a bootcamp, college, or technical school.
- **Contract:** The specific income share agreement (ISA) contract offered to a learner; often directly corresponds to a program of study or a major (e.g., biology, data science).
- **Title IV institution:** Generally, a two- or four-year college or university or an institution whose students are otherwise eligible for Title IV federal student financial aid programs. Such institutions offer degrees (e.g., bachelor's degrees), and examples include community colleges, technical colleges, and universities. Some Title IV institutions may also offer programs that are not eligible for federal student aid or loans, such as coding bootcamps. These institutions are included in the Integrated Postsecondary Education Data System (IPEDS) database.
- **Non-Title IV institution:** An education or training program that is not eligible for Title IV federal student financial aid programs. Non-Title IV institutions tend to offer nondegree credentials, such as licenses, certifications, or certificates. Most of these institutions focus on one or a handful of programs. Examples include coding bootcamps, commercial driver training, and tech sales education. These institutions are not included in the IPEDS database.
- **Financing:** Financial support to pay for education or training through a method other than cash.
- **Key ISA terms:** The minimum information a learner would need in order to estimate their monthly payment. There are three key ISA terms: *income percentage*, *income threshold*, and *repayment term*.

learners to seek out high-salary, high-cost-of-living areas (Sauers, 2023), which can further increase financial burdens (e.g., Park and Coles, 2022; Rothstein and Rouse, 2011). To mitigate these tendencies, the federal government offers public student loan forgiveness programs for individuals working in jobs that serve the public interest, but these jobs often pay less than other jobs for which a worker is qualified.

Another recent antidote for those at Title IV institutions is *income-based repayment* (IBR), also offered by the federal government. Under IBR, the monthly payment is not fixed; it changes with a borrower’s current income. This feature ensures that monthly loan payments are affordable because they will not exceed 10 percent of income under most plans (Federal Student Aid, undated-b). But IBR can stretch out repayment timelines for borrowers with lower incomes because the total amount of the loan must be repaid over a longer period and because interest continues to compound. Recent revisions to the federal student loan program have shortened the repayment period before the loan can be forgiven, but critics argue that this approach does nothing to address the growing cost of postsecondary education and the increase in less regulated, for-profit education programs (e.g., Ortagus and Hughes, 2021).

Although there are more than 7,000 Title IV institutions in the United States serving 2.6 million first-time students (National Center for Education Statistics, 2021), they constitute only one portion of the postsecondary education options available to learners. Many of the shorter, more-accessible forms of postsecondary education, such as noncredit certificates, bootcamps, and workforce training, are ineligible for federal aid and subsidized loan programs (including IBR). Some of them may be funded through the Workforce Innovation and Opportunity Act (WIOA). In this report, we refer to shorter-term education and training institutions as *non-Title IV institutions*. It is difficult to estimate the number of learners in the non-Title IV sector because federal data systems do not track all programs. WIOA programs served more than 220,000 learners in program year 2021 (U.S. Department of Labor, 2022). Coding bootcamps served at least 44,000 learners in 2020, a steady increase from prior years (Gallagher, 2021). Other institutions in this sector include private tech-

Abbreviations

ALP	American Life Panel
APR	annual percentage rate
HBCU	historically Black college or university
IBR	income-based repayment
IPEDS	Integrated Postsecondary Education Data System
ISA	income share agreement
SFI	Student Freedom Initiative
STEM	science, technology, engineering, and mathematics
WIOA	Workforce Innovation and Opportunity Act

nical and trade schools, which serve an unknown number of learners.

Learners attending non-Title IV programs must finance them through the private credit market or personal savings. This factor limits access and narrows the population pursuing postsecondary education (Kelly and Columbus, 2016). In addition, non-Title IV institution offerings frequently do not qualify for even *private* student loans, which means that learners need to finance their education using consumer loans. Consumer loans typically have much higher interest rates than unsubsidized (federal or private) student loans, and their interest is not tax-deductible (unlike a portion of the interest paid on student loans). Thus, regardless of institution type, the current options for financing education and training do not meet the complete needs of all learners.

Income Share Agreements Could Alleviate Learner Financial Burdens and Align Learner and Institution Incentives

Income share agreements (ISAs) are another method to finance postsecondary education and training and are often viewed as an alternative to traditional private or consumer loans.¹ Some institutions use ISAs as the sole method of financing, and others use them in addition to loans. Under an ISA, a learner promises a share

(*income percentage*) of post-completion income to a funder for a set period (*repayment term*) in exchange for immediate money for school. Repayment begins once the learner’s earnings exceed a set amount (i.e., once earnings are above the *income threshold*).

ISA terms are interrelated, so the learner must evaluate them together to fully understand the repayment obligation. For example, a learner who agrees to a contract with an income percentage of 8 percent, a repayment period of 48 months, and a repayment threshold of \$30,000 would make no payments while earning \$25,000. If they received a raise to \$40,000, they would be obligated to pay \$3,200 per year, and this amount would increase as their earnings increased. If they were laid off and had a period of no income, they would make “payments” of \$0, which would count as payments under the repayment term. Box 2 explains key ISA terms and the structure of an ISA in more detail.

The size of the ISA market—in terms of the dollar value, learners served, and number of institutions—is unknown. ISAs have existed conceptually for decades. Yale was the first to experiment with ISAs in the 1970s; its lack of success was attributed to lack of enforcement (Ladine, 2001). ISAs have gained popularity over the past decade among software development bootcamps and are now also being

used for *last-dollar*, or stopgap, financing at a small number of Title IV institutions.

We are not aware of any definitive estimates of the total value of the ISA market; a spokesperson for the now-defunct ISA trade association—the Invest in Student Advancement Alliance—approximated the value of new ISAs at \$300 million in 2020.² In comparison, student loan originations in 2020 totaled just over \$100 billion, \$12 billion of which was private student loans, which are the more likely alternatives to ISAs. There are also no definitive estimates on the total number of ISA-offering institutions or programs; to our knowledge, the largest published estimate to date is “at least 60” (Wan, 2020).

Although ISAs are relatively uncommon as a postsecondary education financing mechanism overall, they appear to be more common in non–Title IV institutions. Non–Title IV institutions tend to offer programs oriented toward workforce training and therefore may be more likely to attract different groups of learners (such as adult learners without a college degree). Non–Title IV institutions do not have the same federal reporting requirements as Title IV institutions and are thus subject to less oversight.

In theory, ISAs offer four distinct benefits to learners, as shown in Table 1 (Zaber and Steiner, 2021). First, they serve as a form of *insurance*, since

BOX 2

What Learners Need to Know to Estimate ISA Payments

There is no single metric that learners can use to assess ISA contract terms. At a minimum, learners need to know **three key ISA terms** to evaluate an ISA and estimate their monthly payments:

- *Income threshold* is the minimum earned income (“earnings”) at which payments are required.
- *Income percentage* is the fraction of earnings promised if earnings exceed the income threshold.
- *Repayment term* is the length of the repayment period (e.g., ten years). (Some situations may pause or restart the payment clock.)

To estimate total repayment amount, learners also need to know the *repayment cap*, which is the maximum amount a learner would repay, and the *repayment window*, which is the maximum length of time a learner would have to repay if there are pauses.

ISAs are different from traditional loans in three ways:

- The repayment amount is conditional on income.
- Payments begin when earnings rise above a certain amount.
- Payments end when the repayment cap, repayment term, or repayment window is reached.

SOURCE: Zaber and Steiner, 2021.

TABLE 1
Potential ISA Benefits and Downsides for Learners

Type	Theme	Description
Potential benefit	Insurance	ISAs provide a form of insurance against periods of low earnings, since payments pause if earnings fall below the income threshold (e.g., because of unemployment).
	Incentive alignment	Repayment of an ISA is contingent on the learner earning more than the income threshold, which effectively ties the success of the learner to the success of the institution. Institutions might provide tailored services to learners to promote program completion and employment.
	Access	ISAs can provide access to postsecondary education financing—and subsequent employment opportunities—for learners who may not be eligible for student loans. This is because payments are deferred and a creditworthy cosigner is not required. ISAs could help learners who have exhausted other forms of financing complete their education.
	Quality of the match between the learner and the job	ISAs have a flexible repayment structure, which makes high earnings relatively less critical to learners and could allow them to pursue desired, but lower-paying, careers.
Potential downside	Overpayment	If their earnings are higher than typical for their programs, learners could pay more for their education under an ISA than under a traditional loan.
	Expansion of access to less regulated institutions	ISA institutions include workforce training institutions that receive limited federal oversight. If these programs do not operate in good faith, learners could experience harm.
	Limited comparability to other forms of financing	ISAs are not easily comparable to traditional loans because there are more, and different, key terms that determine payment obligations. For example, a learner cannot compare income percentages across providers without also consulting repayment term and income threshold.
	Pricing that reinforces labor market discrimination	Discrimination (e.g., on the basis of race, ethnicity, or gender) in the labor market in the form of wage gaps means that the information used to price ISAs is inherently biased. Thus, some learners—particularly learners who attend minority-serving institutions—could receive less favorable contract terms because of their personal or group characteristics.

payments scale to income and pause during periods of low income (Friedman, 1955). Second, the repayment structure of ISAs is an incentive for institutions to ensure that learners complete their programs and are employed in jobs that pay well and are valued in the labor market, a benefit known as *incentive alignment*. Third, ISAs can increase *access* to postsecondary education for learners who (individually or due to their programs) are not eligible for student loans or who have exhausted other forms of financing. In increasing access to postsecondary education, ISAs could, in turn, increase access to improved economic circumstances. This benefit is most likely to be realized if institutions take incentive alignment seriously and make investments to support learner success. Finally, the income-contingent nature of ISA payments could improve the *quality of the match* between the learner and their job by allowing learn-

ers to choose the job of best fit, especially if that job is lower paying. For example, an ISA could enable a learner to pursue a nonprofit or public-sector job that is highly aligned with their interests and goals, even though such jobs are often lower paying than private-sector jobs.

Some ISA benefits accrue to some, but not all, learners. Because payments scale with income, ISA payments are (in theory) “always affordable” for learners. However, this benefit only helps those with lower earnings (and is also a benefit of IBR). Similarly, ISAs can help learners “consumption smooth,” preserving their disposable income for other necessities early in their careers when income is lower and taking a larger dollar amount later in their careers when income is (presumably) higher. However, this is primarily a benefit for learners with higher earnings

(and is also a benefit of IBR) and only applies to ISA contracts with longer repayment terms.

ISAs are not without their risks, or downsides, for learners (Zaber and Steiner, 2021). First, the most salient downside is overpayment. If a learner earns more than expected in their field, they are likely to pay more for their education under an ISA than they would under a traditional loan. A small amount of overpayment under an ISA, relative to a traditional loan, could be considered the price of the insurance benefit. Despite the insurance benefit, we consider overpayment to be a risk of ISAs for three reasons. First, the true amount of overpayment relative to a traditional loan is difficult to calculate when deciding on an ISA because future income is unknown and unknowable. Second, the amount of overpayment (under an ISA or a loan) relative to the *value* of the education is unknowable. Third, the amount of overpayment relative to the value of the insurance provided by an ISA is difficult to measure.

The repayment cap mitigates some of the risk of overpayment by limiting total repayment. ISAs have been criticized for their inherent “prepayment penalty”: A learner cannot reduce their ISA repayment obligation by paying the obligation off early, unless the ISA has an atypical structure.³ Usually, the only way to pay off an ISA is to pay the repayment cap.

A second downside is that ISAs could enable learners, especially those with less access to financ-

ing, to access less regulated educational programs. ISAs tend to be offered by workforce training programs that are not eligible for federally funded student financial aid programs (i.e., at non–Title IV institutions) and thus receive less federal oversight. Expanding access to less regulated programs, some of which may not operate in good faith, has the potential to harm learners, especially if that access is concentrated in a historically underserved population.

Third, ISAs are difficult to evaluate and compare relative to other financing options. ISAs operate in a legal gray zone, with elements of both insurance and loans, and providers are not obligated to provide standardized information in accessible formats. For example, ISAs use terms that are different from those used in traditional loans, and multiple terms determine the payment obligation. These factors could make ISAs difficult to understand and evaluate.

Fourth, ISA pricing has the potential to discriminate on the basis of learners’ personal attributes (e.g., race, ethnicity, gender identity), even when ISAs are priced at the program level. The discrimination present in the labor market means that the inputs to standard ISA pricing models can result in unintended algorithmic bias, putting some learners at a disadvantage according to their personal or aggregate student body characteristics, as we discuss in Box 3. A paper by Pollack and Sullivan (2022) found no evidence of discriminatory pricing at the individual level,

BOX 3

When Paying Less for Your Education Is Not a Bargain

Across education levels, workers of color are paid consistently less than their White counterparts (Gould, 2020).

ISAs theoretically charge learners for what they get out of their education. With identical ISA terms, if a Black woman earns less than a White man, she will pay less under her ISA than a White man would.

However, ISA terms are typically priced on the basis of group average labor market outcomes for the institution and program; they are shaped by who enrolls. So, if there is demographic concentration in who pursues a particular program or attends a given institution, the outcomes of that demographic group will be baked into the ISA terms to ensure adequate repayment.

Moreover, paying less under an ISA happens only in the undesirable circumstance of having a low income. The Black woman would likely prefer to pay more for her education under her ISA and have the benefit of a White man’s higher salary.

Thus, any short-term ISA benefits to learners of color or women in the form of lower cost of education are the result of labor market discrimination.

but a review of one third-party ISA provider’s pricing across institution types suggests that learners at historically Black colleges and universities (HBCUs) were offered contracts with worse terms than those offered to learners at nearby institutions of similar quality (Student Borrower Protection Center, 2021).

In addition, ISAs pose some risks to the institutions that offer them because they are difficult to price fairly and optimally; the costs of suboptimal pricing could be detrimental to the institution. Some institutions may not have the internal capacity to assess labor market trajectories to properly set the key terms that determine the price of an ISA, although they can outsource that component to ISA servicers. ISAs may attract learners who know that they are likely to earn less (an economic phenomenon known as *adverse selection*) or encourage learners to take jobs with lower earnings once they receive ISA funding (called *moral hazard*). These factors combine to potentially make ISA recipients’ outcomes different from those of other learners, complicating the estimations needed to price ISAs. Pricing an ISA incorrectly could result in an institution profiting too much, which could harm its reputation (e.g., Mulhere, 2020), or too little, making the ISA a financial loss for the institution. (For further discussion of these issues and how they relate to institutional sustainability, see Herbst and Hendren, 2023; Mumford, 2020; and Ritter and Webber, 2019.)

Little Is Known About How ISAs Function in Practice

We do not know much about how ISAs function in practice. Part of the challenge in providing prospective learners and policymakers with the information they need to make sound decisions is that there is no readily available dataset of ISA institutions and contracts to analyze.

From the learner’s perspective, we do not know how familiar prospective learners are with ISAs. A campus-based survey of student loan borrowers at a handful of colleges found that three-quarters of respondents (who held loans) could not identify the major differences between federal and private student loans (Rathmanner, 2023), suggesting that

There are few, or inconsistent, regulatory safeguards to prevent the use of potentially misleading ISA language.

even traditional student loans may be opaque to most learners. The relative novelty of ISAs means that many learners will likely not be familiar with the key components of ISAs, with the information they need to estimate anticipated payments, with the potential benefits and downsides, or with how to find such information.

There are no industrywide requirements for what information ISA-offering institutions and servicers provide to learners (e.g., which terms are disclosed), where such information is provided (e.g., where on the website it is provided, whether it is provided digitally or in print, or whether it is provided only upon request), or how it is provided (e.g., language used, reading level). There are also few, or inconsistent, regulatory safeguards to prevent the use of potentially misleading language or to ensure that servicers and institutions provide the same information to learners in a way that is easily comparable across institutions, programs, or contracts.⁴

From the policymaker’s perspective, there are foundational gaps in common understanding and evidence base. We do not know, for example, how many postsecondary institutions offer ISAs. We do not know the characteristics of these institutions (e.g., four-year, two-year, nondegree credential programs), which servicers they use, or whether the offered ISAs are explicitly marketed toward particular groups of learners (e.g., first-generation college attendees). We do not know how ISA terms vary by institution, servicer, or target learner population.

This report aims to fill some of these gaps. We compiled a novel dataset to describe the ISA market

by creating an exhaustive list of discoverable ISA-offering postsecondary institutions with publicly available materials, capturing their learner-facing ISA materials, and abstracting relevant information about the institution, the ISA contract, and each document. We also present nationally representative survey results from the RAND American Life Panel (ALP) that speak to public perceptions of ISAs and their potential benefits.

We aimed to understand what information about ISAs would be accessible to learners. We analyzed the language used to market ISAs; examined how ISA structure, implementation, and communication varied by program characteristics; and assessed the likely implications for systemic inequities. Box 4 shows our research questions. Our findings, therefore, describe what ISA information is available to prospective ISA users. An accompanying tool for prospective ISA users decodes language used to describe ISAs and provides a framework for comparing ISAs across programs and institutions and with non-ISA financing options (Zaber, Steiner, and Arana, forthcoming).

This report proceeds as follows. First, we briefly discuss our data sources and methods. Next, we describe our findings about ISA market structure. We then present survey findings that describe awareness of ISAs among members of the general public, followed by a discussion of how ISAs are communicated to learners. After that, we explore potential implications for mitigating systemic inequity. We conclude with a discussion of implications and offer recommendations for policymakers, ISA-offering institutions, and prospective ISA users and financial aid professionals.

Overview of Sample and Methods

In this section, we provide a brief overview of our sample and methods; more information is available in a separate technical report (Zaber et al., 2023). We designed this study with a learner-centered approach. As mentioned earlier, we aimed to understand what information would be accessible to learners, so we tailored our methods to actions that a learner searching for information about ISAs might reasonably take: specifically, access publicly available information on institution websites. Therefore, our approach excludes institutions that offer ISAs but do not make their materials public. This framing shaped our ISA inclusion criteria and document capture approach.

Definition of the Sample and Document Capture

We conducted web searches for ISA-offering institutions from October to December 2021. Our search terms included *income share agreement* and related terms (e.g., *income sharing*) with the name of each U.S. state. We also searched for each known ISA servicer's name, various credential levels (degree, certificate), and fields that commonly had ISA funding (such as data science, coding bootcamps, welding, technician occupations, and nursing). We replicated these searches in more than one browser to account for any differences in search methodology. We included institutions that met the following criteria, in order:

BOX 4

Research Questions

- 1. Structure:** What are the most- and least-common ISA contract terms (e.g., *income threshold*), learner supports (e.g., stipends), and eligibility criteria?
- 2. Perception:** How do members of the public perceive ISAs and ISA marketing?
- 3. Communication:** What information about ISAs is available to prospective learners, and how accessible and accurate is it? To what extent do ISA materials employ misleading or predatory language?
- 4. Equity:** Are ISAs implemented in ways that unfairly target underserved groups of learners or contribute to inequitable outcomes? For example, are ISAs disproportionately concentrated in institutions or fields that serve underserved learners?

1. served primarily U.S. learners; we excluded international institutions that could enroll a small number of U.S. learners
2. provided public verification of an ISA's existence, such as a webpage about the ISA; for example, we excluded a small number of institutions for which we could only find a press release announcing the ISA
3. offered ISAs directly to enrolled learners; we excluded ISAs offered directly to learners by the servicer or another third party⁵
4. offered some form of education, training, or education-adjacent mentoring; we excluded a small number of institutions that offered, for example, networking services
5. used the term *income share agreement* and described payments as being contingent on income.

Ultimately, we found 262 ISA-offering institutions (hereafter, *institutions*), 160 of which met our five criteria (for more details, see Zaber et al., 2023). We use 160 as our denominator for analyses involving institutions. Between November 2021 and April 2022, we downloaded all the available ISA documents from these 160 institutions and created PDF versions of webpages that contained information about ISAs. Some institutions provided forms or contact information to request additional materials; these generally required personal information beyond an email address, so we did not pursue them.

We captured all available documents for up to three ISA contracts per institution and sampled contracts at institutions that offered more than three ISAs. When we sampled, we prioritized (in order) contracts in psychology, business, nursing, biology, accounting, digital marketing, and user interface and user experience design. We chose these fields because they are more diverse—in terms of race, ethnicity, and gender—than other science, technology, engineering, and mathematics (STEM) fields (see, e.g., National Center for Education Statistics, 2022).

Coding Framework and Approach

We developed a coding framework to abstract information about the institution, specific ISA contracts,

and each document. The institution and contract information that we coded allowed us to understand the structure of the ISA market (research question 1). The information we coded for each document enabled us to understand how ISAs are communicated to prospective learners (research question 3). We synthesized our findings across research questions 1–3 to examine implications for equity (research question 4).

In the discussion that follows, the term *institution* is the institution that offers the ISA (e.g., Purdue University or Tech Elevator). The information we captured at the institutional level included the demographics of enrolled learners, the ISA service provider, and the number and descriptions of ISA contracts offered.

The *contract* is the specific ISA contract offered to the learner. A contract often directly corresponds to a program of study or a major because the expected earnings of graduates—and thus contract terms—often vary. Thus, an institution that offered ISAs to business majors, biology majors, and psychology majors typically offered three distinct ISA contracts. Information we captured at the contract level included ISA eligibility criteria and ISA terms.

We also coded each specific document that we captured in our web searches, which allowed us to assess how ISAs are communicated to learners. For example, we calculated the Flesch-Kincaid grade-level reading score (Kincaid et al., 1975) using the functionality built into Microsoft Word. We coded where the document was found on the institution's website and whether the key ISA terms were included. We also coded benefits and downsides, language targeting specific groups of learners (e.g., learners with low incomes), presence of anchor examples, presence of expected earnings, and language that did not accurately describe the ISA financial obligation.

We developed our coding framework and approach through an iterative process that allowed us to test and refine the structure of the codebook using a sample of institutions and captured documents that represented a variety of institutions and contracts. We also developed a clear set of agreed-on coding guidelines. A student finance expert external to the RAND Corporation reviewed the coding framework,

and we revised the framework based on their feedback. The final codebook can be found in our technical report (Zaber et al., 2023). Two qualitative analysts and the two project leaders coded the same six institutions using the final version of the codebook to ensure that they were applying the codes reliably and to clarify any discrepancies. The two qualitative analysts coded the remaining institutions; one analyst completed the bulk of the coding. The two analysts double-coded an additional seven institutions (and all underlying documents) to ensure that they continued to apply the codes reliably. The qualitative team met weekly to resolve ambiguities and adjust codes or code definitions and to ensure that the analysts were consistently and reliably applying the codes.

The RAND American Life Panel

To assess public perceptions of ISAs (research question 2), we leveraged the RAND ALP. The ALP is a nationally representative sample of U.S. adults, recruited through random-digit dialing and address-based sampling, who routinely respond to surveys about their social and economic circumstances. Panel members are provided with access to the internet if needed. We administered a short series of questions about ISAs to a sample of 2,463 U.S. adults in February 2022. We weighted the data along key dimensions, such as race/ethnicity, gender, age, and socioeconomic status, to ensure that the results are representative of the U.S. population. Additional details about sampling and weighting are available in Pollard and Baird (2017). Our questions assessed familiarity with ISAs, the appeal of an ISA-like contract, the resonance of common ISA marketing approaches, and the key criteria used in entering a financial contract. Descriptive statistics for this sample, the full text of the survey items, and univariate results are available in our technical report (Zaber et al., 2023).

We analyzed binary items (e.g., *yes* or *no*) using logistic regression, linear probability models, and *t* tests; we analyzed Likert scale items using ordered logistic regression. We used *t* tests to determine whether differences between groups were statistically significant. We explored differences by race/ethnicity, education level, age, and gender.

Limitations

Our study has five main limitations. First, the design of the study limits our data to a snapshot of the ISA market at a single point in time, after the Consumer Financial Protection Bureau (CFBP) consent order against Better Future Forward (CFPB, 2021) and before the Department of Education rule clarification that it considers ISAs to be loans (Office of Post-secondary Education, 2022). We are thus unable to shed light on how the ISA market has changed since the Department of Education rule clarification or how the market has made longer-term adjustments to this guidance. Second, time and budget restrictions required us to code a sample of ISA contracts at most institutions, and we focused on specific fields to allow deeper analysis within that subset. This does not affect our depiction of ISA institutions, but it does mean that our sample of contracts might not reflect the universe. Third, the design of the study was limited to the subset of the ISA contracts with publicly available documentation. Fourth, our examination of equity was limited by the fact that we were unable to find enrolled-learner demographics for most institutions because they were not part of the federally documented Title IV universe. Finally, although our ALP survey of U.S. adults is representative of the overall adult population, it is too small to detect all possible differences across demographic groups. The true population of potential ISA users likely skews younger than the U.S. adult population (our ALP sample has a [weighted] average age of 48).

Although this study is the first, to our knowledge, to document the characteristics of institutions that offer publicly available information about ISAs, it is not, by design, able to address many pressing questions about ISAs. For example, because we are working from public documents, we do not have the ability to draw insights about learner outcomes. We are unable to estimate the true size of the ISA market in terms of the dollar value or the total number of learners using ISAs. We were also unable to examine how ISAs are implemented by institutions, explore repayment patterns, or document how ISAs are experienced by learners. We are not able to determine whether ISAs are “net good” or “net bad” for learners. These are promising avenues for future research.

ISA Market Structure

Most ISA-Offering Institutions Were Bootcamps or Workforce Development Programs

Only 45 of the 160 institutions in our sample (28 percent of our sample) were two- or four-year Title IV institutions included in the IPEDS database; the other 115 institutions (72 percent) offered workforce development or bootcamp programs or were outside the Title IV system and thus not in the IPEDS database. For ease of reference, we refer to these two groups throughout this report as *Title IV institutions* and *non-Title IV institutions*. Nine of the Title IV institutions, or 20 percent of our Title IV sample, were members of Student Freedom Initiative (SFI), which consists of HBCUs that offer ISAs (SFI, undated). This is a relatively large share of our sample of Title IV institutions but a very small proportion of all Title IV institutions in the IPEDS database, which includes more than 7,000 institutions. All but three of the Title IV institutions were four-year institutions; a majority of the four-year institutions are private, not-for-profit institutions. A subset of both Title IV and non-Title IV programs were eligible for funding under WIOA. We were able to find ten of the 45 Title IV institutions and 29 of the 115 non-Title IV institutions on their respective states' Eligible Training Provider Lists.

Table 2 displays some key characteristics of the institutions in our sample. Title IV and non-Title IV institutions offered similar numbers of contracts. At the time of our data collection (December 2021–March 2022), the 45 Title IV institutions in our sample used five servicers, the most common of which was Vemo, which was used by about one-half of the institutions. Nine of the 22 institutions that used Vemo were members of SFI. Non-Title IV institutions used 14 servicers, the most common of which was Leif (27 institutions) followed by Vemo and Mia Share (12 institutions each). Vemo Education shut down in 2022, so the distribution of servicers has likely shifted. Comparison tools, which allow learners to look up ISA terms for different majors, were relatively uncommon, only offered by about one in five institutions overall, and by similar proportions of Title IV and non-Title IV institutions.

Most of the Title IV institutions in our sample offered bachelor's and master's degrees. Non-Title IV institutions tended to offer certificates, but a few also offered bachelor's degrees. Title IV institutions in our ISA-offering sample tended to serve larger proportions of Black and Hispanic learners and to have higher graduation rates, higher tuition, and lower admissions yield than similar Title IV institutions that did not offer ISAs (see Table 9 in Zaber et al., 2023). We were unable to find information on learner demographics for nearly all the non-Title IV institu-

TABLE 2
ISA Implementation by Institution Type

Characteristic	Not Found (out of 160)	All Institutions (160)	Title IV Institutions (45)	Non-Title IV Institutions (115)
N contracts	9	1 to more than 100	1 to 95	1 to more than 100
N servicers	52	14	5	14
Most common servicer	52	Vemo (34)	Vemo (22)	Leif (27)
Comparison tool	129	31	8	23
Credentials offered and eligible	52	<ul style="list-style-type: none"> • Certificate • License • Associate's • Bachelor's • Master's 	<ul style="list-style-type: none"> • Bachelor's or master's (9) • Certificate (7) 	<ul style="list-style-type: none"> • Bachelor's or master's (5) • Certificate (60) • License (1)
Eligibility criteria for ISA	43	117	21	55

NOTE: "Title IV" indicates an institution eligible for federal grant and loan programs indexed in the IPEDS database. "Not Found" means that the information was not available in the documentation we captured.

tions in our sample; such information was generally not advertised on institution or program webpages.

Across institution type, ISA contracts tend to be offered in the STEM fields, such as biology, software engineering, business, and health care, although our practice of sampling STEM-focused contracts at institutions that offered more than one contract accounts for some of this pattern. Non-Title IV institutions tended to offer training in software development, data analysis, web development, or user interface or user experience design, and a handful offered training in professions, such as welding or driving commercial vehicles. The ISA contracts offered by Title IV institutions tended to focus on business, the sciences, or health care.

Most institutions—nearly three-quarters—enumerated some ISA eligibility criteria. ISA eligibility criteria were generally consistent within an institution. That is, in most cases, if an institution had ISA eligibility criteria, those criteria were consistent across all ISA contracts offered by that institution.⁶ Eligibility criteria did vary *across* institutions, even within a given sector. U.S. citizenship and residency in a particular state were the most common eligibility criteria (mentioned by 113 institutions), followed by age of the learner (54 institutions). Fifty-four institutions required that learners demonstrate financial need in order to be eligible for an ISA.

Across Contracts, Key ISA Terms Varied, and Considerable Information Was Missing

The values of the key ISA terms—*income percentage*, *income threshold*, and *repayment term*—varied widely

across contracts (Figure 1). Income percentage—the percentage of postgraduate income learners are obliged to repay—ranged from 1.4 percent to 30 percent, but the most common value was 10 percent. Income threshold—the amount of pre-tax earnings at which ISA payments begin—ranged from \$12,000 to \$100,000; the most common value was \$40,000. The repayment term—or the length of the repayment obligation—ranged from 14 months to 120 months; the average was 47 months (just shy of five years). Of course, ISA terms are interrelated: Contracts with shorter repayment terms tend to have higher income percentages. As mentioned earlier, we define *contract* as the specific ISA contract offered to the learner. A contract often directly corresponds to a program of study or a major because expected earnings of graduates—and thus contract terms—often vary.

By this definition, the three key ISA terms were present in roughly 60 percent of the contracts we coded and missing in roughly 40 percent of contracts. About 40 to 50 percent of contracts in Title IV institutions were missing key terms, compared with about 32 to 40 percent of contracts in non-Title IV institutions. Title IV institutions tended to have lower income percentages, lower income thresholds, and longer repayment terms. They also tended to have a wider range of repayment caps, topping out at 2.5 times the funded amount. Non-Title IV institutions tended to have higher income percentages, higher income thresholds, and shorter repayment terms, but a lower range of repayment caps, topping out at twice the funded amount. We explore the availability of key ISA terms in more detail when we discuss ISA communication in a later section of this report. Other information that would help learners make a

The three key ISA terms were missing in roughly 40 percent of contracts. About 40 to 50 percent of contracts in Title IV institutions were missing key terms, compared with about 32 to 40 percent of contracts in non-Title IV institutions.

FIGURE 1
Variation of Key Terms Across ISA Contracts



NOTE: Because of time and resource constraints, we coded a sample of three contracts at institutions that offered more than three contracts. Thus, this figure provides information about a subset of available contracts. “Low” and “High” represent the minimum and maximum of each term in our analysis sample. Numbers of institutions are as follows: All = 160, Title IV = 45, and Non-Title IV = 115.

decision about an ISA—such as the repayment cap and total program tuition—was not found in about half of the documents. For these key terms, the variation between institutions was much larger than the variation within institutions (i.e., across programs or majors for institutions offering more than one ISA).

Most contracts that provided a repayment cap expressed it as a specific amount (e.g., \$15,000), and a smaller share expressed it as a function of the amount financed (e.g., 1.5 times the ISA amount; see the technical report for more detail). Tuition information was generally present (82 percent of contracts), but the information was not always useful.




Because the amount financed could be equal to the total tuition, repayment cap and tuition elements should be examined in tandem. For example, an institution could set the tuition artificially high, which could lead learners to perceive the ISA terms (e.g., a 1x cap or a relatively lower income percentage) as more appealing. This is particularly important to keep in mind when looking at ISAs at non-Title IV institutions, which were more likely to use ISAs as the sole source of financing. In another, albeit rare, example, two contracts claimed “\$0 tuition.” Of course, the program is not actually free; this language instead indicates that there is no cash-pay option at the time of enrollment.

ISA Terms Varied Widely by and Within Occupational Field

We examined the contracts in our sample to identify the key sources of variation in the ISA market. First, we examined variation by occupational field. Six fields—welding, software development, web development, data science, psychology, and biology—accounted for nearly half of the ISA contracts we coded. We present contract characteristics from three of these in Table 3 (for full results, see Zaber et al., 2023). Some of this concentration was the product of our approach to sampling ISA contracts within institutions (for example, psychology was a field we sampled when institutions offered more than three ISAs), and some was due to the market, particularly among non–Title IV institutions.

The table demonstrates that there is substantial variation in contract terms within fields. For example, the income percentage for web development alone covers almost the entire observed contract range. A variety of factors—such as different underlying tuition, instructional quality and number of contact hours, different institutional uses of ISAs, alignment with careers within a field, or institutions experimenting to find optimal pricing—could lead to this amount of variation, and we cannot determine which factors are driving it. But we found that each field was generally concentrated by institution type. For example, all of the institutions that offered welding ISAs were non–Title IV institutions, and all of the institutions that offered biology ISAs were Title IV institutions. Note that the fields covered by non–Title IV institutions feature shorter repayment

TABLE 3
ISA Terms by Field

Field	Minimum	Mean	Median	Maximum
 Welding (15; non–Title IV)				
Income percentage	8.0%	10.7%	11.0%	13.0%
Repayment term	36 months	52 months	50 months	77 months
Income threshold	\$18,000	\$32,444	\$32,000	\$40,000
Repayment cap	\$21,705	\$26,660	\$22,752	\$35,000
Tuition	\$3,250	\$12,500	\$12,500	\$25,700
 Web development (24; non–Title IV)				
Income percentage	5.0%	13.4%	12.9%	30.0%
Repayment term	12 months	42 months	39 months	97 months
Income threshold	\$25,000	\$41,619	\$40,000	\$50,000
Repayment cap	\$15,000	\$42,648	\$30,000	\$85,000
Tuition	\$3,500	\$20,167	\$14,973	\$55,000
 Biology (14; Title IV)				
Income percentage	2.5%	3.4%	2.5%	6.2%
Repayment term	Too few obs.	Too few obs.	Too few obs.	Too few obs.
Income threshold	\$20,000	\$27,535	\$29,780	\$30,580
Repayment cap	Too few obs.	Too few obs.	Too few obs.	Too few obs.
Tuition	\$43,616	\$98,545	\$88,900	\$219,840

SOURCE: Authors' analysis of data collected from institution websites.

NOTE: The minimum, mean, median, and maximum are for the specified ISA term across contracts (within the field). "Too few obs." = "Too few observations"; indicates that there were fewer than three institutions with nonmissing data (observations) for that element.

terms, higher income percentages, and lower tuition than Title IV institutions offering ISAs (see “Biology” in the table).

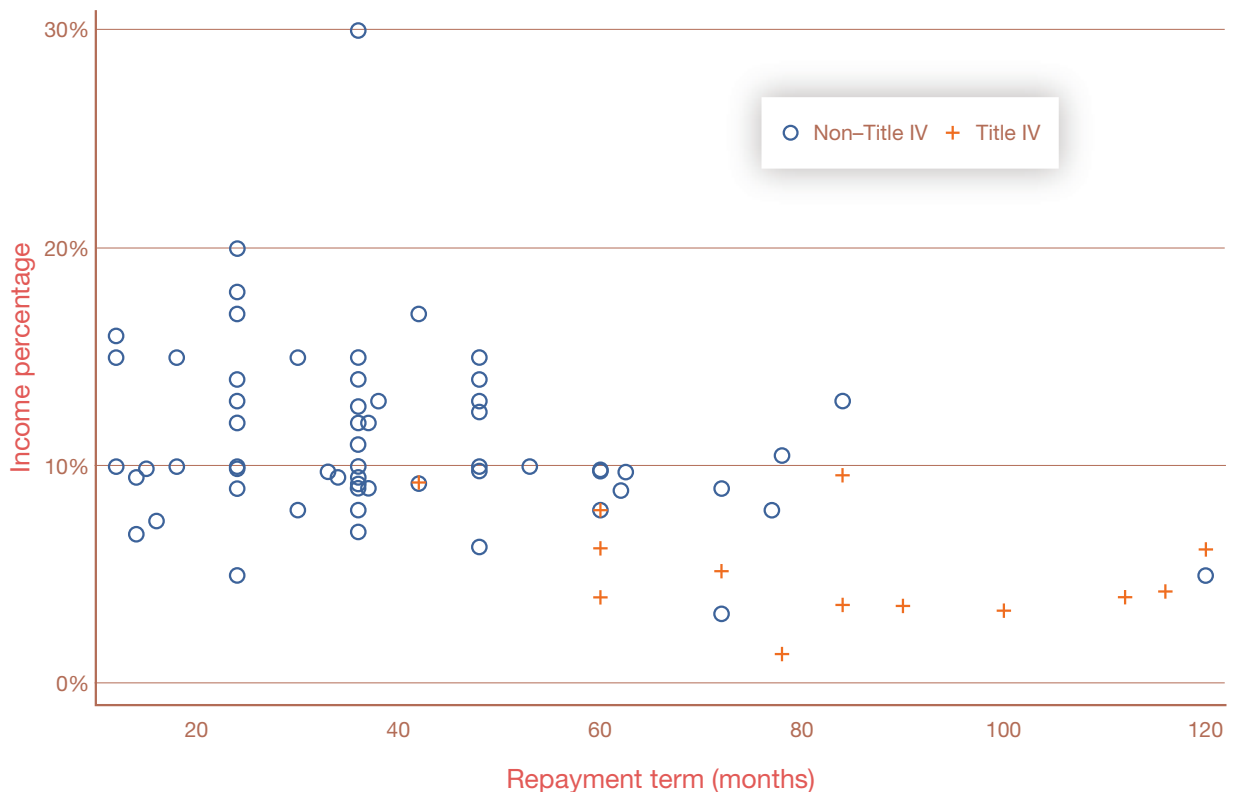
Institution Type (Title IV or Non-Title IV) Accounted for Most of the Variation in ISA Terms

Figure 2 shows that the distributions of two key ISA terms—*income percentage* and *repayment term*—varied by institution type. Title IV institutions—which typically offer two- and four-year degrees—tended to have longer repayment terms and lower income percentages. Non-Title IV institutions—bootcamps and workforce training programs, which are shorter duration—tended to have shorter repayment terms and higher income percentages. When considered with the variation in income threshold and repayment cap presented in Figure 1 and Table 3, this finding suggests that Title IV institutions may be using ISAs differently from non-Title IV insti-

tutions. However, it is important to contextualize these differences in ISA terms with the differences in total tuition, shown in Table 3. Title IV institutions tended to have longer programs with a higher total tuition burden.

Contrary to our expectations, servicer did not account for much of the variation we saw between contracts; institution type (Title IV or non-Title IV) was a clearer classifier of the market. This is particularly surprising because the servicers appear to have certain specialties (e.g., Mia Share has a disproportionate number of welding programs; Vemo had an outsized share of the Title IV institutions and, thus, STEM degree programs). One contract element stood out in contrast: Repayment cap had notably less variation within servicer than between servicers, a pattern not observed for repayment term or income threshold. This might be due to servicer specialization, or it could reveal the preferred contract structure of the servicer.

FIGURE 2
Distribution of Income Percentage and Repayment Term by Institution Type



Title IV Institutions Tended to Use ISAs to Provide Last-Dollar Funding

Using an ISA to provide last-dollar funding appeared to be a more common practice in Title IV institutions than in non-Title IV institutions, as shown in Table 4 and the box on the next page. Table 4 enumerates each of the financing options we found in our sample of contracts. Last-dollar funding is generally intended to help learners graduate after they have exhausted their other sources of funding; just under half of the Title IV institutions in our sample used ISAs in this way. For example, if, as a senior, a learner at a Title IV institution had used up their scholarships, federal grants, and federal and private student loans and had \$3,000 remaining in tuition, the institution might offer an ISA to cover that remaining amount.

Alternatively, ISAs can be designed to cover the majority of—or even all—educational expenses. ISAs can be used as an alternative to other financing options or as the only noncash option (“sole financing”). Using an ISA as one of many financing options or as sole financing appeared to be more common among non-Title IV institutions than among Title IV institutions. Just under half of non-Title IV institutions used ISAs as one of many financing options, and just over one-third used them as the sole source of funding. These practices appeared to be relatively less common among Title IV institutions. Informa-

tion about how institutions used ISAs in combination with other financing was missing for very few institutions (9 percent overall).

ISA Terms Were Generally Uncorrelated with Institutional Demographics Among Title IV Institutions

To understand whether historically underserved populations were disproportionately represented at Title IV ISA institutions with higher income percentages or longer repayment terms, we looked at an institution’s percentage of Pell Grant recipients (as a proxy for share of lower-income learners), Black undergraduates, Hispanic undergraduates, and women. Income percentage and repayment term were generally weakly correlated with ISA terms, with one exception: Institutions with a larger percentage of Pell Grant recipients generally featured shorter repayment terms.

In a multivariate regression model accounting for tuition, graduation rate, HBCU status, and institutional demographics, the percentage of Pell Grant recipients was associated with a lower income percentage and the share of Black learners was associated with a higher income percentage, after controlling for HBCU status. For repayment term, the institution’s percentage of women was associated

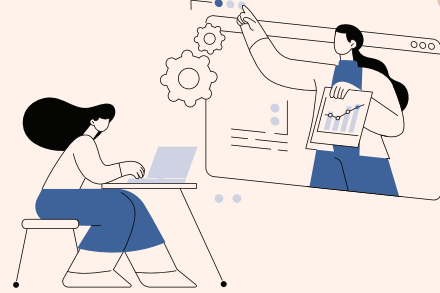
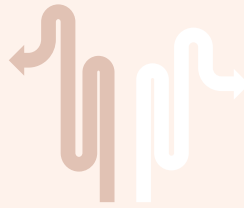
TABLE 4
Use of ISAs in Combination with Other Financing

Financing	All	Title IV	Non-Title IV
<i>N</i>	160	45	115
Last dollar	14%	44%	2%
One of many options	38%	29%	42%
Sole financing	27%	2%	37%
Up-front payment + ISA	12%	4%	15%
Not found	9%	13%	8%

SOURCE: Authors’ analysis of data collected from institution websites.

NOTE: “Up-front payment + ISA” indicates that the institution required a small (relative to the tuition amount) deposit up front, and then an ISA was used to finance the remaining tuition balance.

Title IV and Non-Title IV Institutions Use ISAs in Different Ways



TITLE IV COLLEGES AND UNIVERSITIES

- 45 ISA institutions in our sample (28%)
- Longer repayment terms with lower income percentages (average is 79 months, 5 percent)
- Key terms were missing in more than one-half of contracts (53 to 64 percent)
- ISAs were comparatively more likely to be *last dollar*, meaning they filled in the gap after grants and federal loans

NON-TITLE IV BOOTCAMPS, WORKFORCE DEVELOPMENT

- 115 ISA institutions in our sample (72%)
- Shorter repayment terms with higher income percentages (average is 25 months, 11 percent)
- Key terms were more commonly present (32 to 40 percent missing)
- ISAs were comparatively more likely to be *sole financing*, meaning they were the first and primary way to pay for all program costs

with a shorter repayment term; no other institutional demographic factors, including HBCU status, were statistically significant. Because these regressions rely on a small sample of institutions and contracts, we caution readers that they are exploratory and descriptive and the relationships they suggest should not be interpreted as causal.

Public Perceptions of ISAs

Public Awareness of ISAs Was Low

About one in five members of the public whom we surveyed through the ALP said that they had heard of ISAs. Awareness was slightly higher among respondents younger than 41 years of age and slightly lower among female respondents. In keeping with the relatively small size of the ISA market and novelty of the product, actual use of an ISA was uncommon. Only 1 percent of adults nationally reported having

used an ISA themselves, and only about 3 percent said that they knew someone who had used an ISA.

Members of the Public Found ISAs Appealing but Were Skeptical of Purported Benefits

About 40 percent of adults nationally said that they would consider an ISA, which we described as a financial arrangement in which payment is deferred and they instead promise to pay a share of their future income once they make enough to live on. We did not find significant differences by age, gender, or race/ethnicity.

We surveyed respondents about two purported benefits of ISAs. As shown in Box 5, we asked the questions about a general, non-ISA context. Each benefit that we asked about—the insurance benefit and institution-learner incentive alignment—resonated with about one-quarter of the sample.⁷ The

Survey Items About ISA Benefits

Insurance benefit: “If I don’t get a good job after I graduate, I shouldn’t have to pay for my postsecondary education.”

Incentive alignment: “Educational institutions generally care about whether their graduates get a good job.”

Respondents were asked to rate the above statements on a five-point Likert scale from “strongly agree” to “strongly disagree.”

insurance benefit protects learners from burdensome repayment if their postgraduation income is low. Adults 40 years of age and younger and respondents who identified as Black and/or Hispanic were significantly more likely than their older and non-Black and/or non-Hispanic counterparts, respectively, to agree or strongly agree with the question about the insurance benefit. Respondents with less education tended to be more likely to agree that they should not have to pay for their education if they did not get a good job after graduation, whereas respondents with more education tended to disagree. Younger respondents were less likely to agree with the incentive alignment statement, but respondents with a bachelor’s degree were more likely to agree than respondents with some or no education beyond high school. Because an ISA can provide these benefits to learners, understanding differences in agreement with these statements may point to differential appeal of ISAs as a financing mechanism.

ISA Communication

Half of All Institutions Did Not Include Key ISA Terms in Their Publicly Available Documentation

We examined the accessibility of key ISA terms based on whether they were available in the institution’s overview document (i.e., the first webpage or document a learner is likely to access), in a clickthrough document (i.e., a document that is accessible by clicking a link in the overview document and thus takes a bit more effort to access), or “somewhere” (i.e., in any of the overview or clickthrough documents captured

for that institution). Table 5 presents these results by institution type.

Availability of all three key ISA terms—the minimum information a learner would need to estimate their ISA payment—was low. One-half of the institutions in our sample did not specify the three key ISA terms anywhere in their publicly available documentation. Presentation of key terms was more common in clickthrough documents than in overview documents. One-quarter of all institutions specified these terms in their overview documents, and just over one-third specified them in their clickthrough documents. Presenting all three key terms was a more common practice in non-Title IV institutions, about one-half of which included them somewhere in their documentation, compared with about one-third of Title IV institutions.

We also evaluated the presence of each of the three key terms individually. Income threshold—the minimum level of income a learner must earn before triggering an ISA payment—was the most commonly presented key term overall. Seventy percent of non-Title IV institutions included income threshold somewhere in their documentation, compared with 47 percent of Title IV institutions. Income threshold is a key component of the insurance benefit of ISAs. Omitting it (as the majority of Title IV institutions do) limits an institution’s ability to advertise that particular benefit.

ISA Documents Are Likely Difficult to Understand for Most Adults

We assessed understandability by calculating the reading grade level of documents using the Flesch-Kincaid algorithm, which is built into Microsoft

Word. Flesch-Kincaid uses a combination of sentence length and word syllables to calculate reading grade level (Kincaid et al., 1975). The U.S. Government Accountability Office and the Security and Exchange Commission use the Plain English Handbook to assess clear and effective communication of financial products, such as mortgage and mutual fund disclosures. The Plain English Handbook recommends that financial documents be written at a 6th- to 8th-grade reading level to ensure that the information is clear and understandable to investors (U.S. Government Accountability Office, 2006). Prior work has noted that financial documents, such as privacy notices, are often written well above this level (Hochhauser, 2001).

The overview documents we coded—which are likely to be the first a learner would access—had an average reading grade level of 8.4, slightly above the recommended 6th- to 8th-grade reading level. Clickthrough documents—which included sample contracts and disclosures, as well as frequently asked questions and examples or testimonials—had an average reading level of grade 9, suggesting that they would likely be difficult for most adults to understand (see, e.g., Nietzel, 2020). We found some varia-




tion in reading grade level by servicer, suggesting that documents from some servicers may be more difficult to understand than those from other servicers.

Although the reading level of most documents tended to be higher than recommended, most of the documents we coded used the term *income share agreement* and described or defined the concept as distinct from a traditional loan. Only 30 of the 395 documents we coded did not include enough information to assess whether the ISA was described as distinct from a traditional loan. We found potentially mischaracterizing or opaque language (e.g., “pay it forward,” “deferred payment”) in only 14 of the 397 documents, representing seven institutions.

ISA Documents Tended to Emphasize Benefits

There are four main ways ISAs could benefit learners, as we discussed in the first section of this report. First, ISAs provide a form of insurance against periods of low earnings because payments grow or shrink with earnings, and periods of exceptionally low earnings have no payment requirements. Second, ISAs can provide access to postsecondary educa-

TABLE 5
Accessibility of Key ISA Terms in Documents by Institution Type

Key ISA Term	Document	All Institutions	Title IV	Non-Title IV
All three key terms	Overview	24%	16%	27%
	Clickthrough	39%	29%	43%
	Somewhere	49%	39%	53%
 Income threshold	Overview	41%	34%	43%
	Clickthrough	51%	39%	55%
	Somewhere	64%	47%	70%
 Income percentage	Overview	31%	21%	34%
	Clickthrough	45%	34%	48%
	Somewhere	57%	45%	61%
 Repayment term	Overview	33%	29%	34%
	Clickthrough	44%	34%	47%
	Somewhere	57%	45%	61%
Sample size	Institutions (documents)	152 (388)	38	114

About two-thirds of the documents we coded mentioned one or more benefits. Very few documents—only about 12 percent—mentioned downsides.

tion financing for learners who might not be eligible for federal student loans and cannot afford to pay cash, which can lead to postsecondary education and career options that these learners might not otherwise have had. Third, the success of the institution is linked to the success of the learner, a benefit sometimes called incentive alignment. Fourth, ISAs could improve the quality of the match between the learner and their job.

ISAs also have potential downsides for learners. The most prominent downside is *overpayment*: Learners could repay more than the sticker price of their education under an ISA than under a traditional loan. Learners with high earnings after graduation are more at risk of particularly high payments than are learners with low earnings. Although a small amount of overpayment under an ISA, relative to a traditional loan, could be considered the price of the insurance benefit, we consider overpayment a risk because the amount is impossible to calculate at the time a learner must decide whether to participate in an ISA.

Some institutions that mentioned the overpayment downside articulated it clearly—for example, “ISAs may provide a risk to students who are among the highest income earners” or “you will typically repay more than you borrowed.” Others used less-straightforward phrasing—for example, “It [an ISA] might not be the best alternative funding option for every student.” Of course, as with a loan, the amount paid over the sticker price is dependent on the terms

of the contract: in the case of an ISA, the income percentage and the repayment cap.

Another downside is that there is no ISA-specific industrywide regulation, which increases the risk for the use of potentially misleading practices. ISAs may be subject to broader federal regulations on credit and lending advertising truthfulness, but there is limited affirmative guidance on how these regulations relate to the ISA context. Very few institutions mentioned this downside. Some institutions mentioned the risk of potentially misleading practices—for example, “We feel that deferring payments, similar to student loans in higher-ed, can be used in a predatory way”—while others simply referred to the lack of regulation, saying, for example, that “ISAs are largely unregulated.” We did not see any discussion of the “prepayment penalty” that is typical of most ISAs. Although there is no explicit fee imposed for early payment of an ISA, learners looking to end their obligation typically owe the repayment cap whether they are in their first or their final year of the repayment term. Put another way, unlike loan-funded learners, ISA-funded learners do not have a financial incentive to pay off their obligation early.

Benefits were more commonly mentioned than downsides. About two-thirds of the documents we coded mentioned one or more benefits, such as insurance against low income and/or unemployment or access to a higher-paying career. About one-third of the overview documents mentioned at least one benefit, compared with about two-thirds of the clickthrough documents. Very few documents—only about 12 percent—mentioned downsides, such as potentially paying more under an ISA than under a traditional loan. Unsurprisingly, downsides were more commonly mentioned in clickthrough documents, which included sample contracts, than in overview documents. Only about 11 percent of the documents we coded mentioned both benefits and downsides. Nearly all the institutions in our sample (89 percent) listed at least one benefit or downside in their documentation. Discussing either benefits or downsides appeared to be a more common practice in non-Title IV institutions than in Title IV institutions.

Access to Postsecondary Education or a Different Career Was the Most Commonly Listed Benefit





The most commonly mentioned benefit was access—generally to postsecondary education or to a different career. Access was discussed in two-thirds of the documents we coded and by almost one-half of the institutions in our sample. The insurance benefit was the next most common, mentioned in about one in four documents and by just under half of the institutions in our sample. About one in ten documents (at one in four institutions) mentioned incentive alignment; only one institution specifically mentioned wraparound supports for program completion and job seeking. None of the documents we coded mentioned an improved match between the learner and the job.

A small number of documents (32 of the 388) mentioned potential learner benefits related to the repayment cap; documents that mentioned this ISA feature often described it as a “built-in consumer protection” to prevent the learner from overpaying for their education. As shown in Table 6, some descriptions of the repayment cap included “you will not pay more than the payment cap” or “total payments will

not exceed tuition amount.” These claims could be true, but it would be difficult for a learner to assess, on the basis of these statements alone, whether they were overpaying for their education. To assess this, learners would need information about the repayment cap and total tuition, as well as information about how tuition compared with that of other programs relative to program quality and instructional hours. Most institutions (128, or 80 percent) did provide total tuition somewhere in their documentation, but only half (82 institutions, or 51 percent) provided the repayment cap. Learners would be left to seek comparable information about tuition and assess program quality independently, making this claim of protection against overpayment difficult to evaluate.

Table 6 presents quotes that illustrate common and uncommon phrasing used to describe the benefits mentioned by ISA-offering institutions. Because many institutions use the same or similar language in their agreements, we do not identify the specific institution(s) for any given quotation in the table (or any quotation in the rest of the report). See Zaber et al., 2023, for a complete list of the institutions whose documentation we reviewed.

TABLE 6
Quotes Illustrating Common and Uncommon Phrasing of ISA Benefits

ISA Benefit	Common Phrasing	Uncommon Phrasing
 Access to postsecondary education or a new career	<ul style="list-style-type: none"> • “Access to education/new career” • “Alternative financing option” 	<ul style="list-style-type: none"> • “Increasing [students’] social and economic mobility”
 Insurance	<ul style="list-style-type: none"> • “Built-in downside protections” • “Won’t have to pay anything until you receive your first paycheck” • “Flexible tuition payments” 	<ul style="list-style-type: none"> • “The ISA is designed to protect its participants from the uncertainty of more traditional financing options” • “Repay when you have income”
 Incentive alignment	<ul style="list-style-type: none"> • “We’re confident that the vast majority of [learners] will start thriving careers that align with the guarantee.” • “Aligned incentives = no unnecessary financial risk” 	<ul style="list-style-type: none"> • “Aligned Risk Between Schools and Students. With many traditional private student loans, the student takes on almost all the risk of the debt. With an ISA, schools are able to confidently signal to students that the skills the student will learn through their program will allow them to find a job in their field.”
 Repayment cap	<ul style="list-style-type: none"> • “Built-in consumer protections against overpayment” • “Repayments are capped” 	<ul style="list-style-type: none"> • “Total repayment will not exceed tuition amount” • “Known maximum repayment amount”

NOTE: We did not include common and uncommon phrasing for benefits coded as “other,” because the category included a wide variety of benefits. We did not include phrasing for improved match between learner and job because none of the documents mentioned this benefit.

Potentially Misleading Language Appeared in One-Fifth of ISA Documents

Potentially misleading language (see Box 6) appeared in about one in five documents—and 40 percent of the institutions—in our sample. The most-common examples of misleading language that we found used terms that implied that ISAs are loans and communicated to learners that they would pay “zero percent interest.” This language is misleading because ISAs do not have the same terms as traditional loans and characterizing them as such could lead learners to misunderstand their financial obligations. Other wording indicated that learners would put “zero money down” or that ISAs had “zero down payment.” This language is misleading because these statements are true of all standard postsecondary education financing (i.e., noncash) approaches. The next most-common examples presented ISAs as an alternative to the “heavy burden of debt” experienced by learners

who hold student loans and a “debt-free alternative” to student loans. This language is misleading because it implies that there is no repayment obligation, which is inaccurate.

Instances of misleading language appeared in Title IV and non–Title IV institutions with similar frequency. A total of 65 institutions had misleading language in their ISA materials. Forty-seven of these were non–Title IV institutions, or 40 percent of the non–Title IV institutions in our sample. The remaining 18 were Title IV institutions, accounting for 40 percent of our Title IV sample.

Uses of Targeting Language Were Informative Rather Than Predatory

The uses of targeting language we found were informative rather than predatory. Targeting language was uncommon, appearing in only 11 percent of documents, which represented about 20 percent of institutions. Use of targeting language was similar

BOX 6

How We Looked at Communication Practices

We examined communication practices because whether and how ISAs will be regulated is uncertain, at least at the federal level. There are no industrywide federal requirements governing the appearance or content of information presented to learners about ISAs, unlike with other financial instruments, such as mortgage loans or credit cards (e.g., CFPB, 2018). In other words, institutions or servicers can choose to communicate about ISAs in a way that providers of other financial products may not. Three of the four communication practices we looked at are potentially predatory: misleading language, targeting language, and presentation of expected earnings. One—providing anchor examples—is a positive practice.

Potentially Predatory Communication Practices

- *Misleading language* does not accurately describe the financial obligation a learner assumes when they agree to an ISA.
- *Targeting language* is explicitly geared toward a specific group of people (e.g., learners experiencing low income). It could be predatory if used to persuade people in underserved groups to use an ISA when doing so would not be to their benefit. It could be informative (e.g., conveying eligibility criteria) or positive if learners are presented with balanced information about benefits and downsides.
- *Expected earnings* are a key input for understanding ISA repayment. Providing a low number makes an ISA more attractive relative to a loan because lower earnings will result in smaller payments for a given income percentage.

Positive Communication Practice

- *Anchor examples* are a positive practice and use example ISA terms and a realistic postgraduate income to illustrate how ISA payments will fluctuate based on income. Absence of anchor examples is potentially predatory.

among Title IV and non–Title IV institutions. Most instances of targeting language mentioned racial or ethnic identity in reference to the institution’s status as an HBCU or a minority-serving institution and motivation for offering the ISA. For example, one institution stated that its ISA was “for students attending Minority Serving Institutions.” In a few cases, language that mentioned racial or ethnic identity was directed toward the individual learner. For example, one institution noted that its ISA was intended for learners “from racial and ethnic backgrounds that are traditionally underrepresented in tech.”

The second most common use of targeting language was directed toward learners who are experiencing low income. Use of this language tended to involve learners who might not be able to afford to finance their education or might need additional financial assistance. For example, one document explained that the program was for learners from “low-income, high-need communities,” and another said that its ISA was intended for “students who may not have had the financial or social capital” to finance their education.

Expected Earnings Were Often Not Found and Were Uninformative When Present

In contrast to the “example earnings” provided in anchor examples that show earnings levels that are *possible*, ISA documentation can provide guidance on what postgraduation level of earnings is *likely*. About one-quarter of institutions (43 institutions) included some information on learners’ expected postgraduation earnings in at least one document (57 documents total). Most of these documents (49) provided explicit numbers or ranges. About one-half depicted earnings closer to an entry-level wage,⁸ while another 15 provided something close to the median wage. The remainder mentioned wages that were at or above the average wage in the field, which is likely higher than what the learner would be earning during ISA repayment, especially if the repayment term is short.

We are able to make these assessments because we benchmarked entry-level, median, and above-

Potentially misleading language was used by 40 percent of the institutions in our sample, which could lead learners to misunderstand their financial obligations.

median wages against data from the Bureau of Labor Statistics. However, it is unlikely that most prospective learners would have access to this information, which would make institution claims about postgraduate earnings difficult to evaluate. The remaining eight documents did not present a specific number and instead described expected earnings as an improvement in learners’ financial circumstances; for example, prospective learners could anticipate earning “twice their previous income” at one institution and receiving a “\$20,000 increase” in pay at another.

From the perspective of an ISA-offering institution, the decision about which earnings numbers are the best to provide (including which source to use, if the institution does not collect the information itself) may not be straightforward, which may be one reason why most institutions omit them entirely. Presenting higher expected earnings may make ISAs appear less attractive as a form of financing than loans. Presenting lower expected earnings could lead learners to believe that they are likely to pay less than the repayment cap, thus making the ISA appear more attractive than a loan. But leading learners to believe that postgraduation earnings are likely to be low could make the program itself less attractive relative to competitors that may advertise higher postgraduation earnings. Non–Title IV institutions were more likely to provide information on expected earnings than their Title IV counterparts. One possible expla-

nation for this difference is that presenting earnings (and earnings gains) may be a more important marketing strategy for non–Title IV institutions.

Clearly stating the type and interpretation of expected earnings could improve learner understanding. For example, if an institution included median earnings for a field, the materials should clearly state that the amount is the median, which means that it is unlikely to be what the learner earns immediately after finishing their program. If the institution presented the 10th percentile of earnings or another entry-level earnings statistic, the materials should note that the learner’s earnings will likely grow (and ISA payments will correspondingly rise). Including such information can help reduce the risk of prospective learners overestimating the value of the program (a risk with median earnings) or underestimating their total repayment (a risk with entry-level earnings). Recent research suggests that learners have a notable amount of private information about their future earnings trajectories (Herbst and Hendren, 2023). Including clearly labeled and explained labor market data in ISA documentation could improve learner decisionmaking.

Anchor Examples, a Positive Communication Practice, Were Uncommon

Anchor examples, which help learners understand how an ISA is repaid and how to estimate repayment amounts, were relatively uncommon. We found

anchor examples in about one in five documents, which represented about 30 percent of institutions. Among institutions that provided anchor examples, we found that institutions provided about three anchor examples, on average. Anchor examples were more common in non–Title IV institutions. Two-thirds of non–Title IV institutions provided at least one anchor example, with an average of about four examples per institution. In contrast, only one-third of Title IV institutions provided anchor examples, with an average of two examples per institution. Table 7 shows a common format for anchor examples. Note that anchor examples generally do not suggest that a given earnings level is likely for a learner; they often cover a wide range, as shown in Table 7.

Institutions Did Not Advertise Learner Supports for Program Completion or Employment in ISA Documents

As we discussed earlier in this report, because repayment of an ISA depends on the learner earning more than the income threshold, the success of the institution is effectively tied to the success of the learner—a benefit known as *incentive alignment*. In theory, incentive alignment could motivate institutions to invest more time and resources in helping learners complete their programs and find high-paying jobs. For example, many Title IV institutions encourage instructors to offer office hours, employ teaching assistants, provide help with writing resumes and cover letters, employ career services staff, and host

TABLE 7
Common Anchor Example Format

\$6,500.00 ISA 8.00% income share, up to 60% monthly payments			
Annual Earned Income	Monthly Payment	Number of Payments	Total Payment
<\$40,000	\$0	0	\$0
\$40,000	\$267	44	\$11,700
\$60,000	\$400	30	\$11,700
\$80,000	\$533	22	\$11,700
\$100,000	\$667	18	\$11,700

SOURCE: Reproduced from University of California San Diego Division of Extended Studies, digital marketing ISA.
NOTE: This information is counted as five anchor examples in our analysis.

networking events. Institutions might also provide more support services that meet the unique needs of their learners, such as computer or internet access, one-to-one tutoring, a stipend to defray cost-of-living expenses, transportation to interviews, or child care during interviews or networking events.

We reasoned that the incentive alignment benefit could prompt institutions to communicate, or advertise, support services to ISA learners in ISA documentation to encourage uptake and demonstrate commitment to learner success. We found scant evidence to support this hypothesis. Only one institution mentioned such services in its ISA documentation.

We found it especially surprising that non–Title IV institutions did not advertise tailored supports for program completion and employment in ISA documents. As we discussed earlier in this report, non–Title IV institutions tend to use ISAs to cover a larger portion of tuition than Title IV institutions do, which means that nonpayment or incomplete repayment is a greater threat to institution sustainability.

Equity Implications

ISAs have the potential to benefit learners from historically underserved groups, such as those who are Black, Hispanic, or experiencing low income. For example, a key benefit is that ISAs can enable greater financial access to postsecondary education—and thus to higher-earning jobs.

But there is also the potential for harm. For example, standard methods for pricing ISAs rely on postgraduation earnings, which vary greatly by institution. On average, graduates with a degree in psychology from a college that admits only women earn less upon graduation than do graduates from a comparable program at a college that admits both men and women. The earnings difference means that a graduate from a college that admits only women would have a higher income percentage for the institution to recover a similar repayment and could pay more for their education than a graduate of a college that admits both men and women.

The extent to which ISAs benefit or harm learners in historically underserved groups depends on two things: (1) whether learners in these groups are more likely than other learners to know about and/or participate in ISAs—*differential exposure*—and (2) whether ISAs are structured differently for learners in these groups—*differential implementation*. We analyzed prior research and reviewed the evidence from our study to evaluate claims of differential exposure and differential implementation in Table 8.

Differential exposure could occur in three ways. First, it could occur if ISAs were disproportionately concentrated in institutions or fields that serve a greater share of learners from historically underserved backgrounds. At present, this aspect of differential exposure does not appear to be a mechanism for ISAs to affect equity. A majority of ISA programs we identified were at non–Title IV institutions. These institutions generally did not publicly provide learner demographics, which made this concern difficult to evaluate. The small number of Title IV institutions in our sample enrolled a higher share of Black learners and a lower share of Hispanic learners relative to their non-ISA-offering Title IV peers (see Table 9 in Zaber et al., 2023). However, SFI, which is composed of only minority-serving institutions, expanded after our document capture period from nine to 34 Title IV institutions, thus increasing the number of learners of color who could be exposed to ISAs.

There were no significant institutional differences in rates of Pell Grant receipt, a potential indicator of economic disadvantage. It is possible that, within institutions, ISAs are concentrated in fields of study that tend to attract learners from underserved groups. We did not find any evidence of this claim in our analysis of eligibility criteria, but we were unable to code the complete universe of contracts. No prior research has substantiated the claim that ISAs are concentrated in institutions where learners from underserved backgrounds are likely to be.

Second, differential exposure could occur if ISAs were disproportionately targeted to and taken up by certain groups of learners, regardless of the underlying learner population at the institutions. Strong evidence exists that learners in underserved groups might be more likely than their peers to adopt an ISA, but we found limited evidence that ISAs were

TABLE 8
Claims Related to Equity and Evidence to Date

	Claim	Evidence to Date		True or False
		Prior Research	This Study	
Differential exposure	ISAs are concentrated at institutions with more underserved learners	No evidence. However, SFI, which includes only minority-serving institutions, includes 34 Title IV schools as of June 2023 (SFI, 2022).	Within Title IV: Higher share of Black learners (mostly driven by SFI), lower share of Hispanic learners	True for Title IV institutions; unable to evaluate for non-Title IV institutions
	ISAs are concentrated in fields that attract underserved learners	No evidence	No evidence of this claim; ISAs are offered either for all STEM programs or for all programs	False
	ISAs specifically and persuasively target underserved learners	No evidence	Some potentially targeting language focused on institutional characteristics; targeting language at individual level focused on eligibility, not fit or persuasion	False
	ISA benefits resonate more strongly with underserved learners than with their peers	Loan aversion and negative experiences with loans may lead members of underrepresented groups to ISAs (Peek, Mason, and Soldner, 2016); Black and Hispanic Americans are loan averse (Boatman, Evans, and Soliz, 2017)	Insurance benefit resonates with Black and Hispanic adults	True for some learner groups
	Underserved learners are underfinanced and are more likely to need an ISA	Black and Hispanic Americans and residents from low-income neighborhoods are less likely to have any credit history (Brevoort, Grimm, and Kambara, 2015) and are less likely to be able to finance education with loans or cash (Kelly and Columbus, 2016)	Not in scope	True for some learner groups
Differential implementation	ISAs offer worse terms to underserved learners	From Pollack and Sullivan, 2022, p. 4 (which examined a limited set of ISAs): “ISAs appear to neither disproportionately advantage nor disadvantage Black or Latinx students or female students of any background”	Not in scope	Likely false
	ISA institutions with more underserved learners have worse contract terms	From Student Borrower Protection Center, 2021 (comparison of a third-party ISA provider’s contract terms at select HBCUs and non-HBCUs): “a student attending an MSI [minority-serving institution] can expect to pay significantly more . . . than an otherwise-identical peer who attends a comparable school that is not an MSI.” Pollack and Sullivan, 2022, p. 13 (which examined a limited set of ISAs) found “a positive relationship between the share of Latinx contract holders and the number of payment months [repayment term] in the ISA contract.”	No evidence of this claim being systematically true at Title IV institutions with accessible contract terms	Unsure

NOTE: See our technical report (Zaber et al., 2023) for more information on direct-to-student ISAs, the focus of Student Borrower Protection Center, 2021, referenced in this table.

disproportionately targeted to learners in underserved groups. Our analysis of public perceptions of ISA benefit statements suggests that the insurance benefit is more likely to resonate with Black and Hispanic residents (see Table 15 in Zaber et al., 2023). Prior literature (e.g., Boatman, Evans, and Soliz, 2017; Peek, Mason, and Soldner, 2016) suggests that Black and Hispanic Americans have higher rates of loan aversion, and members of these groups, along with residents from lower-income neighborhoods, disproportionately lack access to credit. These characteristics may steer members of these groups away from loans and toward ISAs.

However, in our analysis of ISA materials, most instances of potentially targeting language related to race or ethnicity were informative and described the institution as an HBCU or a minority-serving institution. In the few cases in which language that referenced race or ethnicity described or was directed toward the learner, it did not appear to be intended to persuade learners in particular groups to participate in an ISA. This evidence for differential appeal suggests that whatever impacts ISAs have (positive or negative) are likely to be concentrated among underserved learners.

Finally, ISA contract terms and structure could be implemented differently for learners who are Black, Hispanic, or low income than for their counterparts. We found little evidence of less favorable terms at institutions that serve more learners from historically underserved groups (see Table 8 in Zaber et al., 2023), but this analysis was limited to a small sample of the ISA institutions for which demographic data and key terms were available. Still, some direct-to-student ISA providers provide individualized contracts, which may present an additional opportunity for learners in historically underserved groups to receive less favorable terms. For example, if contracts are priced according to a learner's projected earnings, inputs that correlate with a learner's race/ethnicity or gender may result in learners of color and women being offered less attractive contract terms. We were not able to evaluate whether ISAs offer individually less favorable terms to underserved learners. Other research (focused on limited samples of institutions) has mixed conclusions (see Pollack and Sullivan, 2022; Student Borrower Protection Center, 2021).

Whatever impacts ISAs have (positive or negative) are likely to be concentrated among underserved learners.

Our study cannot determine whether ISAs are net good or net bad. Although the evidence to date for differential implementation of ISAs is mixed, the potential for differential impact is substantial given the suggestive evidence of differential exposure. We found few studies of ISA impacts to date; what exists suggests neutral to positive effects for ISAs. These studies are limited in their ability to explore differences in effects by learner characteristics. One small randomized controlled trial found higher rates of persistence and competency completion among learners offered an ISA (Castleman and Bildner, 2021). A study at a larger ISA-offering institution found a marginally statistically significant increase in graduation among ISA participants relative to nonparticipants who had expressed interest in the ISA (Mumford, 2020). This relationship was strongest among Hispanic learners but not statistically significant for Black learners. Given the sample size and composition at these two institutions, the findings may not be universal.

Implications

ISAs have the potential to overcome some of the challenges that can prevent learners—particularly underserved learners—from pursuing and completing postsecondary education. ISAs exist in a legal gray zone, and we know little about how they function in practice. Policymakers might not have necessary information about ISA market structure to guide regulation. Learners and financial aid professionals might not have—or know where to find—the information they need to make (or help learners make)

informed decisions about whether to participate in an ISA.

There appear to be two distinct sectors within the ISA market that correspond to institution type. One sector is composed of Title IV institutions—typically four-year colleges and universities. The other is composed of non-Title IV institutions—typically workforce development and training programs, such as bootcamps. Most ISA-offering institutions—nearly three-quarters—were non-Title IV institutions, which tended to offer higher income percentages, shorter repayment terms, and higher income thresholds than Title IV institutions. Non-Title IV institutions tended to provide more information that would allow learners to make an informed decision about participating in an ISA than did Title IV institutions.

The patterns of ISA terms among non-Title IV and Title IV institutions reinforce the finding that ISA terms are interrelated, so they must be evaluated together to fully understand the repayment obligation. Thus, the specific limits that policymakers might set on ISA terms should be informed by the purpose of the regulation. For example, if the intent of the repayment cap is to limit the profit an institution can recoup, regulating terms in tandem is logical. But if it is to ensure that monthly payments are affordable for the learner, focusing on income percentage is logical.

Our survey of U.S. adults revealed that awareness of ISAs is low. Only about 20 percent of adults nation-

ally said that they had heard of ISAs, and only about 1 percent had used one. However, about 40 percent of adults nationally said that they would consider an ISA to pay for their postsecondary education, which suggests that the idea has some appeal. ISAs may be more appealing to adults who are younger than 40 years of age, identify as Black and/or Hispanic, and have no postsecondary education.

The low level of public awareness and the fact that ISAs may be more appealing to learners who have historically been underserved by the postsecondary financing system reinforce the importance of ensuring that learners have access to the information they need to make an informed decision. We found that such information is often missing from public ISA documentation. For example, only half of ISA-offering institutions provided the minimum three pieces of information learners need to estimate their monthly ISA payments—the income percentage, income threshold, and repayment term—in publicly accessible documents.

Public ISA documents tended to emphasize the benefits of ISAs for learners rather than the downsides, which suggests that the intent might be to encourage participation. Although few documents used potentially misleading language to describe ISAs, ISA documents were, on average, written at a reading level that could be difficult for most adults to understand. The institutions in our sample did not advertise supports for program completion or employment for ISA recipients.

The prevalence of missing information and the relatively advanced reading level of most documents do not, in the absence of other evidence, suggest that ISA-offering institutions intend to mislead learners. ISAs, like most postsecondary financial aid packages, are complex and thus difficult to explain and communicate. We are unaware of communications templates or other standards for conveying financial aid information to learners (Conroy, 2023),⁹ leaving institutions in the position of doing what they perceive makes the most sense.

Lack of information may also be a challenge to institutions in setting the terms for their ISAs. It is possible that institutions lack systematic data on graduate outcomes, but assessing institutional access to this information was out of scope for this study.

ISA terms are interrelated, so they must be evaluated together to fully understand—or shape—the repayment obligation.

In the absence of such data, it would be challenging for institutions to set income percentages, repayment terms, and income thresholds that are fair to learners and that enable institutional sustainability.

The description of the ISA landscape in this report may provide some guidance on peer practices for setting terms. However, lack of learner data (or access to such data) may remain a particular challenge for non–Title IV programs, which may be more reliant on ISA repayment to remain in business. This increases the risk of adverse selection faced by ISA-offering institutions operating with limited information, decreasing the likelihood of sustainable ISAs (Ritter and Webber, 2019).

We did not find compelling evidence that ISAs are likely to exacerbate existing inequities, as some have theorized. However, we did find evidence that ISAs are likely to disproportionately affect learners from historically underserved backgrounds. Limited access to other sources of funding, greater aversion to loans, greater appeal of ISA benefits, and SFI make it likely that these populations will be overrepresented among ISA-funded learners. This means that any differential impacts ISAs have—positive or negative—will be extensive within this population.

Although we were not able to assess whether there is differential impact (positive or negative) for historically underserved learners, the potential is high. The negative impacts of the recent student loan crisis among learners at for-profit educational institutions were felt primarily by the same groups of historically underserved learners who might be more likely to participate in an ISA (White, 2015). The ISA market is similarly concentrated among non–Title IV institutions, which receive limited oversight. In addition, ISAs exist in a legal gray zone with little affirmative guidance, which could compound both the risks to learners and the difficulties for institutions looking to offer ISAs. Thus, policymakers should consider the potential for ISAs to improve equity and the risks of negative differential outcomes when developing regulations and communications guidance.

Policymakers should consider the potential for ISAs to improve equity and the risks of negative differential outcomes.

Recommendations

In this section, we offer recommendations for federal and state policymakers, for financial aid professionals and learners, and for ISA-offering institutions.

For Federal and State Policymakers

When designing a regulation, consider the purpose of the regulation, interactions among ISA terms, the structure of the ISA market, and equity implications. The specific limits policymakers set on ISA terms should be informed by the purpose of the regulation. For example, if the intent of the repayment cap is to ensure that monthly payments are affordable for learners, focusing on income percentage is logical. At the same time, ISA terms are interrelated and regulating only one term (e.g., income percentage) would likely do little to shape the total financial burden assumed by learners.

The two-sector structure of the ISA market suggests that Title IV and non–Title IV institutions tend to use very different ISA terms and that ISA repayment might play a larger role in program sustainability for non–Title IV institutions. Policymakers should consider regulations tailored to each sector; action by the Department of Education alone will not govern the majority of ISA institutions in our study.

The evidence of differential exposure, when coupled with historical examples, raises the concern that the risk of differential impacts is high, especially if future research suggests that ISAs are net negative. At the same time, ISAs could benefit learners in his-

torically underserved groups—especially those who have limited financing options—by increasing access to postsecondary education and associated higher earnings while tying educational cost to the benefit received. Thus, policymakers should consider designing regulations to mitigate the high risk of differential negative impact and create structures that ensure that ISAs are implemented equitably.

Develop guidance to standardize disclosures (i.e., how ISAs are communicated to learners).

This guidance could follow existing examples, such as the Federal Student Aid office’s best practices for communicating financial aid offers (Federal Student Aid, undated-c) or the CFPB’s consumer education resources (CFPB, undated). Specifically, this guidance could

- require that a sample contract be publicly available
- specify that overview documents must include income percentage, income threshold, repayment term, repayment cap, tuition cash price, and at least one anchor example
- require that documents be written at a 6th- to 8th-grade reading level
- require balanced and complete presentation of benefits and downsides
- prohibit language that mischaracterizes the ISA or the type or extent of the ISA financial obligation
- provide examples of clear language that explains ISA repayment and key terms
- ensure that targeting language is informative rather than predatory
- require that expected earnings statistics are appropriately sourced, labeled, and explained
- require that institutions provide program-specific data, such as graduation rate and earnings, to allow learners to understand their likely repayment scenarios under an ISA. Title IV institutions could access such data through the College Scorecard (U.S. Department of Education, 2023).

Collect standardized learner outcome data at all postsecondary institutions, not just a subset.

Systematic collection of learner outcomes at both non-Title IV and Title IV institutions would

(1) enable learners to understand likely total repayment, (2) help learners estimate the labor market value of a program, and (3) help institutions appropriately and sustainably price ISA contracts.

The College Scorecard is a great start for providing sufficient data (completion rate and median earnings) at the institution level (U.S. Department of Education, 2023), but such data are only available for Title IV institutions. Collecting learner data at all institutions would be challenging. Federal financial aid is the carrot to incentivize Title IV institutions to report these outcomes, and not all non-Title IV institutions receive federal funding. In the short term, learner data collection could be required for programs that *do* receive federal funding (including WIOA funding and any future short-term version of Pell funding) while policymakers consider structures to incentivize data collection throughout the postsecondary universe.

For Financial Aid Professionals and Learners

Request key information that is not publicly available. Financial aid professionals and learners should request information needed to estimate monthly payments—income percentage, income threshold, and repayment term—and/or request a sample contract if it is not available. Financial aid professionals and learners could also request information about the repayment cap, tuition, and expected earnings if such information is not publicly available, because these inputs can help potential users estimate the total ISA payment and compare the ISA with other financing options.

Consider the full variety of financing options and—when possible—compare terms. Best practice guidance recommends that learners exhaust grants and subsidized traditional student loans before turning to other financing options (Federal Student Aid, undated-a). This is because grants do not have to be repaid and subsidized traditional loans are the least costly type of loan. When comparing ISAs with loans, learners and their advisers should keep in mind that ISAs function differently from loans (e.g., repayment is contingent on income and increases

with growth in income) and that ISA terms are set in relation to one another (e.g., high income percentage, short repayment term). Thus, simply comparing the income percentage with the interest rate, for example, will not be informative. To aid learners and financial aid advisers, we created a tool to provide a framework for evaluating ISAs and to decode ISA terms and contract language (Zaber, Steiner, and Arana, forthcoming).

For ISA-Offering Institutions

Provide enough information for learners to make an informed decision. Only one-half of ISA-offering institutions provided the three key ISA terms— income percentage, income threshold, and repayment term—somewhere in their public documents. In the absence of federal and state guidance on disclosure requirements, we recommend that institutions provide, at minimum, the three key ISA terms in their public overview documentation, as well as anchor examples to reflect different earnings scenarios. Earnings examples should be appropriately labeled as entry level or mid-career and indicate whether they are for the field or specific to the program’s graduates, especially when framed as *expected* earnings. Where possible, anchor examples could include a calculation of effective APR to facilitate comparisons with traditional loans.

In the absence of federal or state guidance, convene within the industry to develop communications standard templates and share promising practices. While federal and state policymakers are developing communications guidance and best practices, ISA-offering institutions could convene to develop such guidance. Industry standards for disclosures and other communications with learners could adhere to the suggestions for content and presentation we made in our recommendation to

policymakers earlier in this section. Institutions could also share promising practices for ISA implementation (e.g., for setting key terms), which could promote institutional sustainability. Although the ISA trade association, the Invest in Student Achievement Alliance, disbanded in 2022, postsecondary professional associations might be well positioned to lead this effort.

Advertise supports designed to help ISA learners graduate and find employment (if such supports are offered). One of the unique benefits of ISAs is incentive alignment; the success of the institution is effectively tied to the success of the learner. In theory, incentive alignment could motivate institutions to provide supports that help learners complete their programs and find high-paying jobs. Institutions could also advertise such supports and ensure that they are accessible to ISA learners. The ISA-offering institutions in our sample offered such services, but they did not advertise them in their ISA documents. We recommend that they do so. Helping learners access such supports could benefit program sustainability.

Collect learner outcome data to aid equitable and sustainable pricing of ISA contracts. Title IV institutions can access most of the information they need to inform equitable and sustainable pricing, such as completion rate and median earnings, through the College Scorecard at the institutional level—and sometimes at the program level (U.S. Department of Education, 2023). Non-Title IV institutions should put structures and systems in place to collect and report data and should follow established practices (U.S. Department of Education, 2023), such as collecting cohort and subgroup graduation rates, linking to tax records to verify earnings data, and providing multiple earnings snapshots (such as mean and median earnings six and ten years after enrollment or the share of program enrollees earning more than a given threshold in addition to mean earnings).

Notes

¹ There are several emerging models with characteristics similar to ISAs. Some are deferred tuition programs with IBR (similar to federal IBR). *Outcomes-based financing* is another term used for ISA-adjacent products. One example is Social Finance’s Google Career Certificates Fund, which involves zero-interest loans (in ISA language, a 1x repayment cap) with an IBR schedule. Ascent Funding also offers this form of financing (with a program-customized interest rate) for participating bootcamps (Fain, 2022).

² Invest in Student Advancement Alliance, email communication with the authors about the estimated dollar value of the ISA market, February 2022.

³ A minority of ISAs frame the repayment cap as an effective annual percentage rate (APR). A “7.5-percent effective APR” means that the learner’s obligation ends once the learner’s total ISA payments would have paid off an equivalent loan (i.e., a loan with the same amount financed—e.g., \$10,000) that had a 7.5-percent APR. Under this style of cap, the learner can know that the ISA will be a better deal than any loan with an APR greater than 7.5 percent.

⁴ The Truth in Lending Act (TILA) is designed to safeguard against misleading information in interactions related to credit. However, it is unclear whether ISAs meet the definition of credit as set forth in TILA. One legal analysis suggests that the conditional repayment of ISAs and the lenders’ inability to compel payment likely exclude ISAs from TILA, as well as the Equal Credit Opportunity Act (Morrison & Foerster LLP, 2019). This argument is disputed: The CFPB’s consent order against Better Future Forward references the use of prepayment penalties in its ISAs as a violation under TILA (CFPB, 2021).

⁵ Direct-to-student ISA providers are generally not advertised by the institutions they work with, although there were a couple

of exceptions. Rather, the learner would need to know about the provider’s existence and then determine whether the institution and program are eligible for that provider’s ISA (via seeing their institution listed on the provider’s dropdown menu or making an inquiry to the provider). We explored collecting information for ISAs offered directly to learners but found that we could not access the materials without disclosing personal information.

⁶ Eligibility criteria varied within an institution in only one case. Colorado Mountain College offers a different ISA to learners who are “Dreamers” under the Deferred Action for Childhood Arrivals program (who are ineligible for subsidized federal student loans) from that offered to learners in the nursing program.

⁷ Note that we intentionally asked about these benefits outside the ISA frame. We did not want potential misunderstanding of ISA structure or benefits to confound interpretation. However, we recognize that just because a respondent finds a benefit appealing in a vacuum does not necessarily mean that the same benefit would resonate within an ISA framework.

⁸ We estimated wages by linking programs to their closest U.S. Bureau of Labor Statistics (BLS) Standard Occupational Classification codes (using researcher judgment) and pulled national data from BLS’s Occupational Employment and Wage Statistics (May 2021) on the 10th percentile of wages, the median wage, and the mean wage for that occupation (U.S. Bureau of Labor Statistics, 2021). We refer to the 10th-percentile wage as closest to an entry-level wage; BLS does not provide granular occupation wages by years of experience.

⁹ One exception is the College Financing Plan, formerly known as the Financial Aid Shopping Sheet. However, this option focuses on financing availability relative to the cost of college rather than on the potential monthly and total repayment costs, so it does not provide much guidance for how to communicate an ISA.

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About This Report

This report presents the results of a landscape analysis of income share agreements (ISAs) offered by 160 U.S. postsecondary educational institutions. The analysis relied on an original dataset we compiled by gathering publicly available ISA information (e.g., disclosures, term sheets, contracts, marketing and other materials) from institution websites. We abstracted information about the availability and accessibility of key ISA contract terms and marketing practices across institutions and linked these data to publicly available information on Title IV institutions. In this report, we describe how ISA structure, ISA implementation, and readability of ISA materials vary by program characteristics in ways that could affect equity. We also present the results of a nationally representative survey of U.S. adults to document public awareness of ISAs and how the potential benefits of ISAs may hold differential appeal. We found evidence of two distinct sectors within the ISA market, partitioned by institution type (i.e., Title IV and non–Title IV institutions). The information that learners need to make informed decisions is often missing; when present, it is often difficult to find or understand.

RAND Lowy Family Middle-Class Pathways Center

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