MILKEN INSTITUTE

Michael W. Frerichs
ILLINOIS STATE TREASURER

FINANCIAL INNOVATIONS LAB®

New Models for Funding Post-Secondary Education in Illinois

About the Milken Institute

The Milken Institute is a nonprofit, nonpartisan think tank.

We catalyze practical, scalable solutions to global challenges by connecting human, financial, and educational resources to those who need them.

We leverage the expertise and insight gained through research and the convening of top experts, innovators, and influencers from different backgrounds and competing viewpoints to construct programs and policy initiatives. Our goal is to help people build meaningful lives in which they can experience health and well-being, pursue effective education and gainful employment, and access the resources required to create ever-expanding opportunities for themselves and their broader communities.

About Financial Innovations Lab®

Financial Innovations Labs® bring together researchers, policymakers, and business, financial, and professional practitioners to create market-based solutions to business and public policy challenges. Using real and simulated case studies, participants consider and design alternative capital structures and then apply appropriate financial technologies to them.

Acknowledgments

Maressa Brennan prepared this report.

We are grateful to those who participated in the Financial Innovations Lab for their contributions to the ideas and recommendations summarized in this report. We would especially like to thank the Office of the Illinois State Treasurer Michael W. Frerichs for its partnership on the project. We want to thank our Milken Institute colleagues Caitlin MacLean, Théo Feldman, Jason Davis, Michelle Mountain, Rodrigo Bettini, and Danielle Andino for their work on the project. Finally, we would like to thank Editor Dinah Nichols for her work on the report.

CONTENTS

INTRODUCTION

Education is largely recognized as a gateway to career options and upward mobility, both in the groundwork it lays for job opportunities and the critical thinking it fosters. A high-school diploma can be the basis of a fulfilling profession, but a college (post-secondary) degree alters one's lifetime earnings dramatically. In 2015, according to the Social Security Administration, a man holding a bachelor's degree would earn $900,000 more in median lifetime earnings, and a woman some $630,000 more than their high school-educated counterparts would.[1] "An investment in knowledge pays the best interest," wrote Benjamin Franklin in 1758. Yet while few would deny the intrinsic value of a college degree, for some years now, an increasing number of students, researchers, and policymakers have begun to weigh the immense debt burden associated with tuition and related costs against today's tangible outcomes.

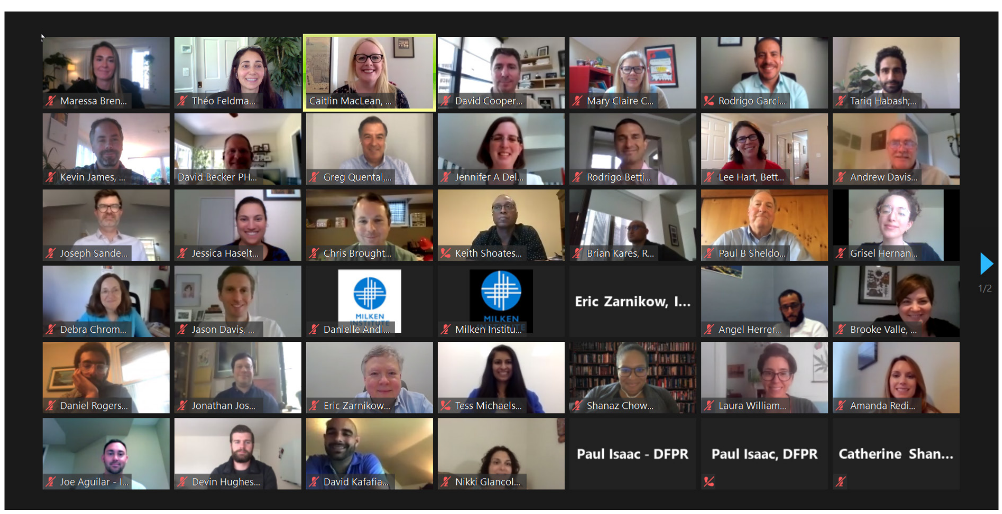
> "With costs and debt loads continuing to rise, it is imperative to expand and enhance equitable financing options.

A 2018 *Atlantic* magazine article looked at the Organization for Economic Co-operation and Development (OECD) data to examine the state of higher education in 46 developed and G20/OECD accession countries. They found that, at $30,000, the average annual US "investment" in education—which includes not only direct family payments but also private grants and public funding—was twice the average among reporting countries, and that the "interest" on that investment was questionable.[2] Meanwhile, the student loan debt crisis hit a record with the Class of 2020, according to a compilation of data by *Forbes*, which notes that student loans are the second-highest consumer debt category, ranking behind only mortgages. Some 44.7 million student loan borrowers owe on average $32,721 individually, for a total of $1.56 trillion.[3] With costs and debt loads continuing to rise, it is imperative to expand and enhance equitable financing options.

Illinois has been at the forefront of addressing this issue. The Illinois Legislature and the Office of Illinois State Treasurer Michael W. Frerichs ("Treasurer" or "Treasurer's Office") have worked for several years to develop accessible, affordable, and innovative mechanisms by which students can finance or refinance their post-secondary education. A major achievement has been the Student Investment Account Act, spearheaded by Treasurer Frerichs and signed into law by Governor J.B. Pritzker in August 2019 as a supplement to current state and federal student loan and grant programs. The new law establishes the formation of a Student Investment Account, to be designed, implemented, and managed by the Treasurer and administered as an impact investment portfolio aimed to balance measurable social benefits with financial returns.

The law gives the Treasurer the authority to allocate an annual investment of 5 percent (approximately $800 million at current estimates) from the State Investments portfolio, on an ongoing basis, into the new investment account. As of summer 2020, the funds were expected to be invested as follows: $200 million to fund low-interest loans for underrepresented and low-income students and families who cannot access credit; $550 million for refinancing student loans at below-market-rate to help graduates with their outstanding debts; and $50 million for innovative products, such as income share agreements, which are equity-like investments in a student's education for which repayment is based on a percentage of future salary for a set number of months or years. The target returns on investment—coming from the repayments of loans and new refinancing products—can be low. In the nature of an impact investment vehicle, the funds could earn below-market-rate returns, from just above 0 percent to perhaps 2-3 percent, to allow for the capital to recycle and plow back into the State Investments portfolio, or be utilized to provide loan forgiveness, loan forbearance, loan deferments, hardship assistance, scholarships, and/or educational grants.

In June 2020, the Milken Institute, in collaboration with the Office of the Illinois State Treasurer, organized two virtual Financial Innovations Labs to explore how the state's $800 million capital investment in higher education finance could have the most significant impact. The Lab brought together educators, government leaders, investors, loan servicers, consumer protection experts, alternative loan providers, and state agencies to develop recommendations to expand the range and availability of traditional loan products and refinancing options, as well as introduce newer financing options.



Financial Innovation Lab Virtual Zoom Participants

ISSUES & PERSPECTIVES

State of the Market: United States

More adults than ever are getting post-secondary degrees. In 2018, 47 percent of all US adults held at least an associate's degree, up from 38 percent in 2000, according to data compiled by the US Department of Education's (ED) National Center for Education Statistics (NCES). While 29 percent of adults held at least a bachelor's degree in 2000, that share had grown to 37 percent in 2018. Also, in 2000, just 5 percent of US adults held at least a master's degree; in 2018, that number had nearly doubled to 9 percent.[4] These increases may be due in part to worsening employment in traditional manufacturing and service-sector jobs. But opportunities in fast-changing sectors like health care, data science, computer science, green technologies, and artificial intelligence no doubt also play a role. Also worth mentioning is credential inflation—jobs that previously did not require a degree and now do.

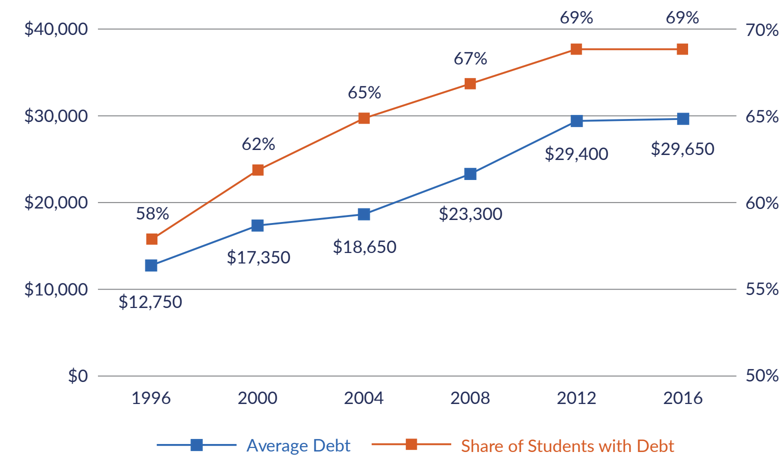
Unfortunately, the lure of a college degree is often marred by fear of a debt burden that may compel the borrower to forgo homeownership, delay starting a family, or be unable to save for retirement. Research by the Federal Reserve found that "a $1,000 increase in student loan debt (accumulated during the prime college-going years and measured in 2014 dollars) causes a 1 to 2 percentage point drop in the homeownership rate for student loan borrowers during their late 20s and early 30s."[5] A 2015 study by American Student Assistance learned that 62 percent of student loan borrowers put off saving for retirement due to their debt.[6] Down the line, that will put further strain on social service resources.

Factors Delayed by Student Debt

- Saving for retirement
- Buying a house
- Starting a family
- Paying off other debt

Every four years, the ED publishes its National Postsecondary Student Aid Study with statistics on how undergraduate and graduate students are financing their higher education, including data on public and private scholarships as well as student loans and other debt. The most recent numbers, published for 2015−16, show that average debt has steadily increased since the mid-1990s, as shown in figure 1. Almost 70 percent of all four-year undergraduate students had some form of student debt.[7] A separate 2019 study addressing the effects of student debt on family wealth finds that 20 percent of all households hold some kind of student debt and that the loss of family net worth is particularly significant and disproportionate for poor and Black and Hispanic/Latino households.[8]

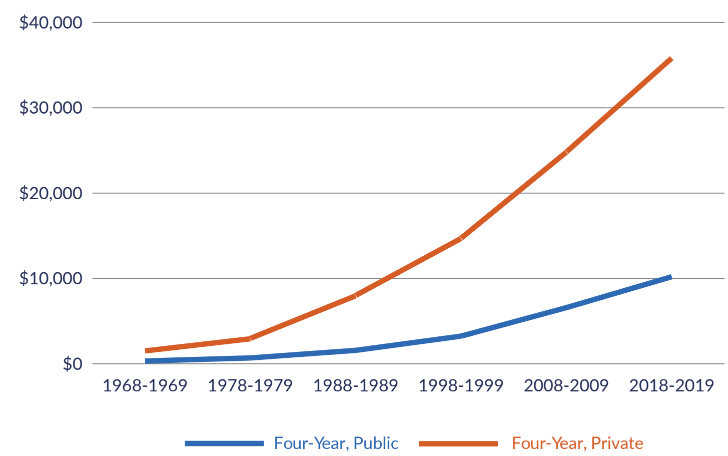
FIGURE 1: AVERAGE STUDENT DEBT OVER TIME



Source: The Institute for College Access and Success (2019), based on NPSAS 2015–16 undergraduate data, https://ticas.org/files/pub_files/qf_about_student_debt.pdf

Not only are more people borrowing, but they are borrowing more money—the cost of college has risen sharply, much faster than inflation, over the past 50 years. In the late 1960s and 1970s, the average annual cost of tuition and fees, based on National Center for Education Statistics data, was around $329 for public schools and $1,487 for private schools. By the 2018–19 academic year, those numbers had increased to $10,230 for public schools and $35,830 for private schools.[9] State and federal budget cuts that have deepened since the Great Recession are partly to blame. Between 2008 and 2018, state spending on higher education fell 13 percent, or by $1,220 per student. Nationwide, state and local tax revenues cover only 54 percent of the direct costs of teaching and instruction.[10] For the same period in Illinois, the average tuition and fees at public, four-year colleges rose 28.2 percent to $3,010. Despite a state per-student funding drop between school years 2017 and 2018 of more than $500, overall per-student funding for the 10 years was up 31.7 percent to $3,197.[11] While it is important to prioritize funding for higher education in federal and state budgets, institutions of higher education have a responsibility to address the skyrocketing costs. As the college application process has gotten more competitive, schools have added wraparound services to stand out and attract students. However, costs such as increased professor salaries and high-end dorm accommodations should not be forced on to the students. The institutions must keep the cost of earning a degree attainable, in line with inflation, and centered on value.

FIGURE 2: AVERAGE ANNUAL COST OF FOUR-YEAR COLLEGE TUITION AND FEES



Source: National Center for Education Statistics and The College Board (2019), https://finance.yahoo.com/news/average-cost-college-jumped-incredible-122000732.html

The decrease in public funding, unfortunately, has aligned directly with increased enrollment numbers of lower-income, first-generation, and minority students. In 1980, minority students made up 16.5 percent of the enrollment at public colleges; by 2010, their share had risen to 35.8 percent, and for 2020, the share was projected to be 40.6 percent.[12] This means that families who are already disadvantaged by generational wealth disparities are being asked to pay some of the highest tuition prices yet. And while the current student loan structures are seemingly neutral and universally accessible, they exist within a system that perpetuates racial inequalities.

Data in figure 3 show that, in 2016, the share of Black, American Indian, and Native Hawaiian/Other Pacific Islander (NH/OPI) students with debt was much higher than their fellow White, Hispanic/Latino, or Asian students.[13] Black students, in particular, numerous studies report, are routinely targeted by predatory lenders for high-interest private loans and recruited by expensive, for-profit institutions. These students have the added challenge of being less likely to graduate, for reasons beyond the scope of this report. But seven in ten Black students who dropped out of college cited student debt as their reason for leaving.[14] Black students who do graduate hold more debt, on average, four years later than their White counterparts: $52,726 versus $28,006, according to the Brookings Institution. Black students are five times more likely to default in the 10 years after graduation (21 percent versus 4 percent) as well.[15]

FIGURE 3: DIFFERENCES IN AMOUNT AND SHARE OF STUDENT DEBT ACROSS RACIAL GROUPS

	All	White	Black	Hispanic/ Latino	Asian	American Indian	NH/OPI
Average Debt	$29,669	$30,039	$33,993	$25,452	$25,447	$26,380	$26,515
Share of Recipients with Debt	68.9%	69.4%	84.9%	66.3%	45.1%	76.1%	89.4%

Source: US Department of Education, National Post-Secondary Student Aid Study (2016), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-quicksand-student-debt-crisis-jul2019.pdf

A 2016 report on student loan debt burdens at Historically Black Colleges and Universities (HBCUs) found that these students take out more federal loans for larger amounts, often combine several kinds of loans, and have lower average repayment rates.[16] And for Black students whose families lack generational transfers of assets, a college education can mean a greater immediate financial burden. "Indeed, Black families whose head earned a college degree have only 2/3 of the wealth of white families headed by a high school dropout," notes a 2016 study that examines race and economic well-being.[17]

Federal assistance in the form of need-based Pell Grants has also dropped. In the 1970s, these grants, which do not require repayment, covered nearly 75 percent of a student's college costs. By 2014, they covered less than 33 percent of the expenses at public institutions and 15 percent for private schools.[18] For 2020–21, the award cap was set at $6,345, dramatically insufficient to meet the average annual cost of fees and tuition. Public funding, without a doubt, needs to be increased for higher education, but post-secondary institutions have an equally important role to play. Tuition prices are exorbitant and must be addressed on the front end to reduce the overall sticker price of a degree. Both institutions and students have been put in a challenging position. It is no surprise that the student loan market has exploded as new lenders step in to fill the gap.

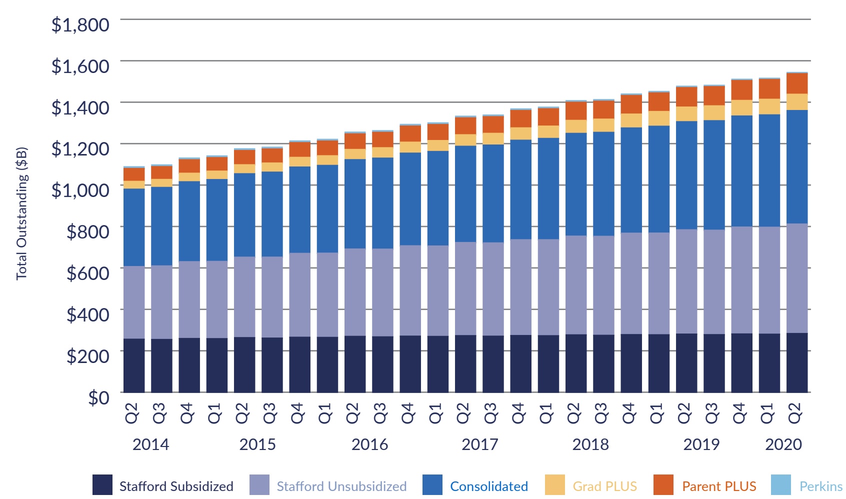
Funding and Repayment Options

The student loan market began in earnest in 1965 when the federal government introduced its Federal Family Education Loan Program (FFELP). Private banks issued low-interest student loans in exchange for the government's default guarantees. After years of concerns regarding reporting, followed by policy shifts and program modifications, the program came to an end in 2010. Nevertheless, in 2020, nearly a third of outstanding debt was in legacy FFELP loans.[19] Since then, federal loans have been structured as direct loans issued through the Education Department's William D. Ford Federal Loan (Direct Loan) Program.[20] Federal Direct loans in 2020 account for 92 percent of outstanding student debt, with the terms and conditions for all options set by law. Private companies under contract to the ED service all federal loans. Known as servicers, they handle billing and loan communications, and can modify repayment options; their services are free of charge for the borrower.[21]

Direct Subsidized Loans, also known as Stafford Subsidized Loans, are based on financial need, do not require a co-signer, and are available to any eligible undergraduate. The student is the borrower, and there are almost 30 million of them with $280 billion in outstanding debt.[22] On top of Direct Subsidized Loans, students can apply for a Direct Unsubsidized Loan (also known as Stafford Unsubsidized), a Direct Grad PLUS Loan, or a Direct Parent PLUS Loan. In each case, the ED is the lender, but the terms and allotments differ. Direct Unsubsidized Loans are available to both undergraduate and graduate students with the interest rates fixed for the duration of the loan but earning interest during all periods. These loans constitute a large share of the federal loan portfolio, with 9 million borrowers owing approximately $516 billion in debt.[23]

Direct PLUS Loans, both Parent and Grad, are the final ED loan options. With stricter lending criteria, higher interest rates, and fewer borrower protections, PLUS Loans are seen as a government-backed alternative to private loans. In 2020, some 1.4 million Grad PLUS borrowers had $75.2 billion of outstanding debt, while 3.6 million Parent PLUS loan holders owed $96 billion.[24] Loan limits, credit requirements, and other terms mean that students often take out several kinds of ED-backed loan types to round out their college financing. The ED allows students to apply proactively to consolidate their federal loans, simplifying payments into one monthly contribution, with a single averaged interest rate. As of 2020, 11.7 million borrowers owe $536.1 billion in outstanding consolidated loans.[25]

FIGURE 4: TOTAL FEDERAL LOAN TYPES OVER TIME



Source: National Student Loans Data System (2020), https://studentaid.gov/data-center/student/portfolio

Because the federal government, through the ED, is the lender, it can "afford" to be more consumer-friendly and try to work within a borrower's means. The repayment plan can be modified throughout the life of the loan. As shown in figure 5, students can repay their Direct Loan debt in one of eight ways. Private loans have few repayment options because the lender, who often raises the underlying capital by issuing bonds sold in the capital markets, needs a reliable repayment stream.

FIGURE 5: FEDERAL DIRECT LOAN REPAYMENT OPTIONS AND BALANCES (AS OF MARCH 2020)

Repayment Plan	Terms	$ of Outstanding Loans (billions)
Standard Repayment	Fixed for up to 10 years	$217.5
Graduated Repayment	Increase every 2 years, ensure loans are paid off within 10 years	$99.1
Extended Repayment	Fixed or graduated, ensure loans are paid off within 25 years (must have >$30,000 in Direct Loans)	$98.4
Pay as You Earn	10% of discretionary income	$107.5
Revised Pay as You Earn	10% of discretionary income	$182.8
Income-Based	15% of discretionary income	$196.5
Income-Contingent	The lesser of: • Repayment amount at a fixed rate over 12 years • 20% of discretionary income	$35.4
Income-Sensitive	Based on income and repaid in 10 years	$0

Source: National Student Loans Data System (2020), https://studentaid.gov/data-center/student/portfolio

Any loan issued outside of the Federal Direct Loan Program is considered a private loan. These loans make up a small percentage (7.7 percent) of the total student loan market, but their holdings are substantial, at $128 billion.[26] Banks, credit unions, online lenders, and some state-affiliated organizations generally offer private loans. Terms vary and can differ from federal loans in substantive ways, from interest rates and terms, credit requirements, fees, and prepayment penalties.[27] While private loans do offer necessary funding to students who have exhausted or are not eligible for the federal loan options, they are seen as riskier. The Lab participants were unanimous in their recommendation that students explore all federal loan opportunities before considering a private student loan.

Emerging alternatives to private loans are gaining momentum. An income share agreement (ISA) is a contract in which the student commits a percentage of future income toward paying for his or her education. In the case of an ISA, the student is not taking on a traditional loan but is committing to a varying payment obligation of future earnings for a pre-set length of time. There are a handful of ISA programs on the market, and they range by terms, schools, and target audiences.

State of the Market: Illinois

Illinois has been forward-thinking for its students, but even it is not immune to the nationwide student debt crisis. With 1.57 million borrowers owing $59.1 billion (in principal and interest balances) as of March 2020, the state represents 3.78 percent of the total US student debt market of $1.56 trillion. Illinois has taken steps to strengthen student borrower protections through the Student Loan Servicing Rights Act, the Attorney General's Student Loan Ombudsman, and various lawsuits filed against unfair lending practices. The state now needs to be progressive as it considers the development of new financing tools because, according to responses from institutions of higher education, 65 percent of its graduates (Class of 2018) hold loans, with the average debt amount of $29,692.[28] In an attempt to address higher education financing and lower student debt burdens, Illinois Treasurer Michael W. Frerichs and other state officials are championing several initiatives.

Illinois Treasurer Michael W. Frerichs joins the virtual Lab from his home office to discuss the Student Investment Account Act.

One success story has been structural improvements to Bright Start and Bright Directions, two of the state's 529 College Savings Plans (529s) managed by the Office of the Illinois State Treasurer. The 529s are state-administered plans that provide tax benefits while saving either directly or through financial advisors for future education. In 2017, the Treasurer worked to reduce account management fees by 50 percent and enhance easy-to-access investment options. Moreover, Treasurer Frerichs was provided the authority to implement a universal Children's Saving Account Program in 2019 via the Illinois Higher Education Savings Program. That initiative will provide a $50 seed deposit in a 529 account for every newborn in the state once launched. Prior efforts have expanded access for undocumented Illinois students. The DREAM Act of 2012 made scholarships, college savings, and prepaid tuition programs available to undocumented students who are ineligible for federal aid.[29]

In addition to these changes and the passage of the previously mentioned Student Investment Account Act, three additional bills, designed to improve student debt outcomes, are currently in the legislature. The first, the Know Before You Owe Private Education Loan Act (HB5361), stands to benefit individuals directly. It mandates an institution to inform a student borrower of all lending options and to let that student know whether or not he or she has applied for all available federal assistance.[30] This is important because federal loan options ensure the highest consumer protection and tend to be the lowest-cost options. In the vein of consumer protection, amendments to the Debt Settlement Consumer Protection Act (HB5320/SB3571) require notice and communication about debt relief services before a student signs a loan contract.[31] Improving knowledge of the range of options a student borrower has is crucial to ensure positive outcomes. Finally, updates to the Consumer Installment Loan Act (HB5524/SB3514) add consumer protection parameters to any Income Share Agreement programs that might be launched in Illinois.[32]

Legislative measures serve as a guide to the agencies on the ground. The Illinois Student Assistance Commission (ISAC) acts as the state's clearinghouse for information, guidance, programs, and services focused on financial aid for college-bound students. The commission's stated mission is "to help Illinois increase to 60 percent the proportion of adults with a post-secondary credential by 2025 … [and] to help Illinois increase to at least 45 percent the post-secondary completion rate of low-income students."[33] Its most important program is the Monetary Award Program (MAP), which provides need-based financial aid grants to undergraduates. As the fourth-largest program of its kind nationwide, MAP awards $400 million in grants annually to approximately 145,000 undergraduates.[34] In addition to MAP, ISAC offers loan forgiveness programs, assists with processing and servicing of third-party loans, and provides training and financial literacy programming.

Barriers

The Lab process helped to identify key barriers that exist in the student loan market. Interviews with a range of stakeholders identified five areas of primary concern:

- the way credit risk is designated and applied,
- the complicated loan process,
- the issue of expensive private and predatory lenders,
- how certain educational investments can yield poor returns, and
- the disparate outcomes minority and low-income students experience by taking on student debt.

INCOMPLETE RISK ASSESSMENT LEAVES STUDENTS BEHIND

Complex paperwork, lack of support, the complexity of questions, the need for a co-signer, the fine print, and the rigid criteria associated with receiving a high-quality student loan are challenging for students with little to no credit history. Naturally, a lender wants to feel confident that the loan will be repaid. But, too often, private lenders base their decisions on one metric: a FICO score. FICO predicts the ability to repay a loan based on the applicant's financial history and is the baseline qualifying metric for most US loan products. Most student lenders require their applicants to have a minimum score around 670. Those who "fail" in this metric may find their loans denied or subject to onerous terms. Lenders rarely consider that a full-time student incurring debt will, likely in a few years, be employed and able to show a higher income. The lack of alternative metrics taken into consideration often means a student is not able to qualify for a loan.

Applicants for Direct PLUS loans and private student loans who do not meet the FICO threshold—such as those who may not have work or repayment history—must bring in co-signers. According to MeasureOne, a financial technology firm specializing in data analytics, 92 percent of all newly originated US undergraduate private student loans for the 2019–20 academic year were co-signed.[35] Co-signers are most commonly parents or grandparents, and according to a May 2019 AARP survey, 49 percent had made a payment on the loan. Of these, 25 percent had done so because the primary borrower was unable to.[36] Thus, the debt weight can ripple across a family. Incorporating alternative metrics as loan application qualifiers can alleviate the burden on co-signers and allow more students to qualify for loans within boundaries they can sustain.

> "Poor communication and limited guidance are huge issues in the student debt market—beginning with the student's first step in the loan application process.

A COMPLICATED BORROWING PROCESS

Yet even those who do qualify for student loans, along with their co-signers, may not be fully aware of what they have committed to do. Poor communication and limited guidance are huge issues in the student debt market—beginning with the student's first step in the loan application process. The Free Application for Federal Student Aid (FAFSA) has more than a hundred questions, some of which require detailed financial knowledge, such as "What is the net worth of your parents' investments, including real estate?" Applicants are advised to have at hand tax returns, bank records, investment records, and records of untaxed income.[37]

Financial aid is complicated from step one, and there is minimal support for many. The average public high school student shares a college counselor with 430 others.[38] Individual attention is, therefore, at a premium, and a significant portion of graduating high school seniors fail even to complete the FAFSA. The financial services firm NerdWallet reports that "the high school Class of 2018 missed out on $2.6 billion in free money for college…because about 661,000 of the nation's graduates who were eligible for a Pell Grant simply didn't complete their federal financial aid application."[39] Perhaps even more distressing, the FAFSA only qualifies students for federal aid. Students must submit separate applications for any additional state, school, or private aid programs. For this reason, although outside the scope of this project, it's important to note that local education systems can do more to assist high-schoolers through the application process. High schools in low-income neighborhoods are typically underfunded, putting their students at an even greater disadvantage as their parents and other close adults are less likely to be familiar with the process.

Failures of communication and transparency persist after obtaining a loan. Lab participants identified a handful of critical gaps in the market. First (and related to a shortage of counselors) is a shortage of guidance. Content abounds, but students often miss out on counseling around specifics. Even when websites offer glossaries of terms, putting them into context can be a challenge. Second, there's a significant need to develop "life-cycle communication." Students need help linking relevant content. First as a high school senior applying for financial aid, then as a college senior assessing career opportunities, through to students considering graduate school or opportunities to advance their careers while managing current student debt burdens. Finally, communication needs to be enhanced for at-risk borrowers. Students in default on their loans have a historically lower rate of ever applying for deferment or forbearance.

CURRENT PRIVATE LOAN TERMS ARE ONEROUS

Predatory lending often includes targeted and high-pressure sales tactics, exorbitant interest rates that go up over time, prepayment penalties, unforeseen fees and costs, and few, if any, flexible repayment plans. Sometimes a student must pledge another high-risk asset, such as a car, as a "deposit," or agree to arbitration, surrendering the right to sue. With sky-high interest rates, students often end up owing two to three times more than their original loan. Without the ability to refinance or access income-based repayment plans, they may find themselves talked into loans that delay payment without stopping interest. The aggressive push in this market, which includes for-profit schools as well as for-profit lenders, has had a devastating effect on its borrowers and the rate of default. "Among all new students entering the for-profit sector in 2004, nearly half had defaulted within 12 years (47 percent), compared to 'just' 24 percent in the 1996 cohort," notes a report by Brookings.[40]

Federal loan terms are constrained by law, but the private market has been the Wild West, with little regulation. In 2017, the federal Consumer Financial Protection Bureau sued the nation's largest loan service provider of government and private loans, accusing it of shortcuts, deception, and cheating.[41] In July 2020, the Illinois Attorney General joined the attorneys general of 22 other states and the District of Columbia in suing the federal Department of Education and the Education Secretary. The lawsuit cites the "arbitrary and capricious" repeal of "borrower defense" regulations that were introduced in 2016 to help protect holders of student loans from fraud and predatory lending by for-profit schools and allowed them a means for redress.[42] These are the types of behaviors that improved consumer protection standards would deter.

As noted, Black students (and Black women in particular) are more likely to take on private loans. The Century Foundation cites research showing that Black students account for "21 percent of students at for-profit colleges, but only 13 percent of students at public colleges." They are targeted and recruited by schools that "exploit the failures of the non-profit higher education system—from the byzantine financial aid processes to recruitment practices that rarely reach high schools where the majority of students are people of color—for their own gain."[43]

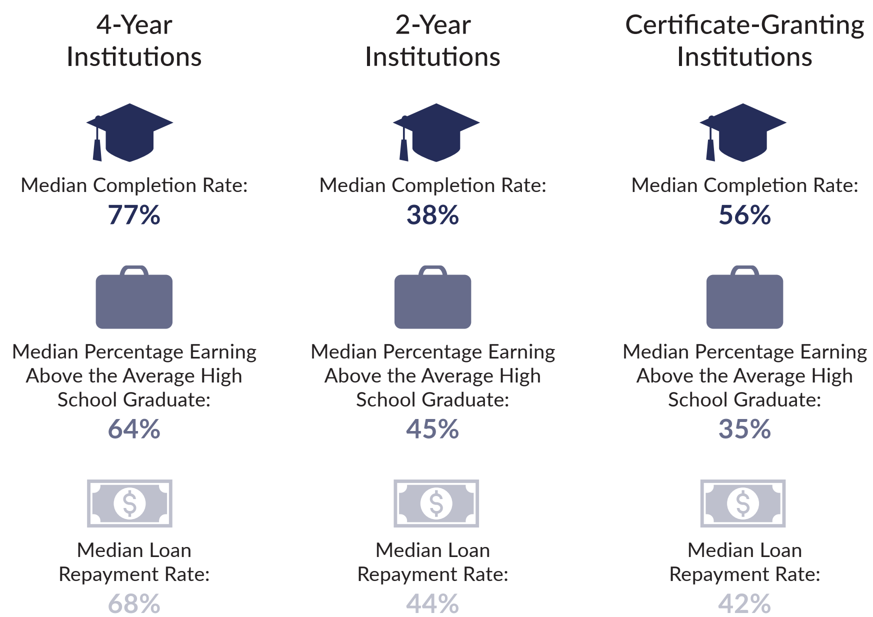
Predatory lending and for-profit institutions are often referred to in tandem. Unlike traditional nonprofit colleges and universities, for-profit colleges are run by private organizations, including private equity firms, whose business models are based on returns to investors. About one-third of for-profit enrollment comes from for-profit schools owned or owned-then-sold by private equity firms, according to a 2018 study.[44] Unfortunately, a handful have been caught tailoring their marketing to attract at-risk groups—minority, lower-income, single parent, and first-generation students—for both admission and loans. Quite a few have garnered a reputation for misrepresenting educational excellence and failing to provide the career training promised. In 2011 there was a class-action lawsuit settled against a large for-profit entity for falsely inflating graduation and job-placement rates.[45]

By targeting these students, they can access millions of dollars in federal aid while keeping their costs to a minimum. Federal aid is a huge boon for for-profits schools—while they account for just 10 percent of college enrollment, they collect almost 25 percent of federal financial aid.[46] Some of them have converted to nonprofit status even as they maintain their for-profit operations.[47] Any new funding products introduced to the student debt market must adequately address consumer concerns and match borrowing terms and limits to specific projections of economic and educational outcomes.

STUDENT DEBT PROGRAMS CAN BE MISALIGNED WITH EDUCATION OUTCOMES

The goal of the federal loan program is to offer the opportunity to obtain a higher education that will translate into better career prospects (and, therefore, the ability to pay off the student loan debt). The historical expectation has been that students could pay off their loans within 10 years, but soaring debt often means loans take closer to 20 years to pay off, and education as a gateway to upward mobility has lost some of its allure. For many students, the risks outweigh the rewards. This is particularly apparent in the for-profit model; for example, in 2014, some tuition was twice as high as at Ivy League schools, and five to six times higher than community colleges.[48] In addition, more working students are taking longer to complete their degrees, and taking longer to graduate means accruing more interest on private loans. Figure 6 below demonstrates the value add of a degree in terms of expected earnings over a high school diploma.

FIGURE 6: RETURN ON INVESTMENT BY DEGREE TYPE



Source: Third Way (2019), https://www.thirdway.org/report/the-state-of-american-higher-education-outcomes-in-2019

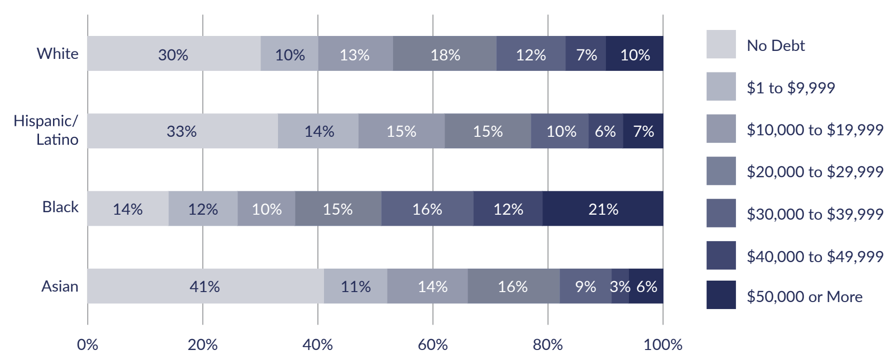
Studies show that graduating from a four-year college can generate "returns" on the knowledge investment of 10–15 percent on average and that a community college associate degree can bring "returns" of an average 7–15 percent.[49] Meanwhile, students who receive two-year associate degrees from for-profit schools can expect to earn a mere 10 percent more than high school graduates—and less than those students picking up similar degrees from community colleges.[50] That hardly makes a case for buying into a for-profit program, much less taking on debt to do so.

New models, incentives, and safeguards must be worked into the student loan system. It is unconscionable that borrowers should see their futures, paved with federal and private loans, disappear behind a brick wall of debt around which there is no equitable path of repayment and little redress against deceptive businesses. To ensure that consumer protection is front and center, state officials should work to ensure that loan options align with a proven institution and degree outcomes.

MINORITY AND LOW-INCOME STUDENTS HAVE DISPARATE ACCESS AND OUTCOMES

In addition to having to contend with each of the barriers previously mentioned, minority and low-income students have a unique set of added challenges in attaining and repaying student loans. Due to generations of wealth accumulation policies that have had an underlying racial bias, particularly against Black families, minority students often have lower balances of family wealth. This pushes them to take out larger loans to finance a higher share of their cost of education. Acquiring an added layer of student debt affects the economic mobility of these students, which can have long-term consequences and, in many cases, perpetuates factors of racial inequality. Figure 7 below demonstrates just how much more significant the cumulative debt burdens are for Black and Hispanic/Latino students.

FIGURE 7: CUMULATIVE DEBT OF 2015-16 BACHELOR'S DEGREE RECIPIENTS BY RACE/ETHNICITY



Source: College Board (2016), https://research.collegeboard.org/trends/student-aid/figures-tables/distribution-cumulative-debt-family-income-age-and-race-ethnicity

Lower-income students also have an unfair disadvantage in the current student debt system. Lower-income school districts are notoriously underfunded, meaning college and financial aid counselors are even more of a rarity. Given the lengthy and complicated FAFSA process, a lack of guidance often means lower-income students fall behind before they have even graduated high school. Worth noting is that undocumented students are not eligible for federal aid, leaving them no choice but to turn to the higher-cost private markets. Even then, lower-income students and their families are less likely to have a member able to qualify for private loan products based on FICO score or debt-to-income ratio lending criteria. This means these students are, more or less, left out of the student debt market entirely—with their only option predatory private loans.

Impact of COVID-19 on the Student Loan Market

The coronavirus has had a sweeping impact across all aspects of the US economy. The federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020 to provide relief for Americans hit hard by the novel virus. The CARES Act addresses a multitude of issue areas, including assistance for small businesses, relief for needy families, curbing skyrocketing unemployment and job loss, and stimulus payments to state, local, and tribal governments. The unprecedented federal package also addresses student loan debt, suspending all principal and interest payments on federal student loan debt through September 30, 2020.[51] Borrowers with outstanding debt have been automatically submitted into an administrative forbearance, which suspends, yet allows, payments through the fall.[52]

The federal relief on Direct student loans through the CARES Act is substantial and necessary for many borrowers. However, the program does not apply to private loans. Private loans are subject to the terms set by the private lender. In many cases, private student debt is ultimately owned by the capital markets. This structure generally does not allow private lenders to suspend payments or offer the same extended relief options as Direct Loans held by the Department of Education.

INNOVATIVE SOLUTIONS

Throughout the virtual Lab sessions and subsequent working group meetings, Lab participants debated the most effective strategies to ensure this investment has the most significant impact. As noted, the 5 percent (current estimate, $800 million) of state investment portfolio funds that the Illinois Treasurer will redirect annually into the Student Investment Account is expected to target three areas: $200 million toward new loans and loan products; $550 million for refinancing products; and $50 million for creative financing options such as income share agreements. The recommendations below add detail to how each investment can reach the target, currently underserved, student markets—emphasizing access for low- and middle-income families, as well as undocumented students.

Create a Statewide Education Impact Fund

As referenced, a significant portion of the budget allocation is to design new loan and refinancing products. To help meet return expectations, Lab participants suggested that the Treasurer develop market-rate and impact models for both new loan and refinancing borrowers that cross-subsidize one another.

- Terms for the market-rate new loan and refinance product options would be in line with existing private options. The benefit to borrowers will be the stronger consumer protection standards, compared to the private market, incorporated by the Treasurer as the lender.
- The terms on the impact new loan and refinance product offerings would be slightly lower and more affordable for students, from 0-3 percent, and designed to cover the fund's administrative costs.

TARGET STUDENT MARKETS

The Lab addressed the disproportionate cost burden on low-income and minority students. The Illinois Board of Higher Education offers further detail in its "Underrepresented Groups Report," which comes out each year and concluded in 2018 that the state has a pipeline problem, with disparities in completion rates in both high school and higher education.[53] At the high school level in 2018, Black students had the

Target Student Markets

- Minority & underrepresented students
- Low- & middle-income students
- Undocumented students
- Students needing bridge loans
- Co-signed loans

lowest completion rate (75.0 percent). Asian Americans had the highest rate (93.6 percent), followed by Whites (90.6 percent), Native Hawaiian/Pacific Islander (81.0 percent), Hispanic/Latinos (80.7 percent), and American Indians (79.8 percent). The report also found that 72.2 percent of Asians and Pacific Islanders, and 50.3 percent of White working-age adults ages 25–64 have at least an associate's degree, but the attainment rates for other groups are much lower: just 30.7 percent for Black adults, 20.4 percent for Hispanic/Latino adults, and 35.5 percent for Native American adults. The new impact fund should target this issue.

> "The Student Investment Account aims to fund products and systems that enable and encourage these students to graduate.

The Student Investment Account aims to fund products and systems that enable and encourage these students to graduate. It will also be open to other high-need segments of the population, including Dreamers and undocumented Illinois students. In June 2019, the governor signed into law the Retention of Illinois Students and Equity Act, known as RISE, allowing eligible undocumented students to apply for MAP grants and aid from public institutions. Analysis by the Migration Policy Institute estimates that Illinois has around 4,000 undocumented students who graduate from public high schools each year.[54] Because there is no federal student aid for these students, their need for alternative options is high.

Another potential market segment to target could be students who are close to graduating but find themselves with a remaining funding gap. Lab participants noted that sometimes a small loan is all it takes to bridge an unexpected financial need and increase the odds that a student will cross the graduation finish line. An already fragile financial situation can change between freshman and senior years for any number of reasons, from difficulties meeting the academic requirements to keep grants, to unexpected issues with the "fine print" in financial aid and unforeseen tuition and fee increases. A *New York Times* analysis concludes that students at private colleges lose an average of $1,000 in grant aid throughout their undergraduate careers.[55] While that may not seem like much, it can be enough to force a student with no savings or family money to drop out. The analysis notes that grant rates at public universities remain reasonably steady. "But far fewer students received them," the *New York Times* continues. "Only 31.8 percent of freshmen at public colleges got institutional scholarships, compared with 79 percent at private colleges. And that dipped to a low of 28.7 percent during students' junior year."

Research from the University of Illinois at Urbana-Champaign (UIUC) was presented at the Lab as a case in point. For the 2018–19 academic year, the university awarded bachelor's degrees to 7,923 students.[56] The Institute for College Access & Success (TICAS) suggests that 65 percent of students who graduated from public and private nonprofit colleges in 2018 took on student loans.[57] By applying that percentage to the UIUC graduating class, we can assume that 5,150 students had some form of student debt. If each of these students required a $1,000 bridge loan, the market need stands at $5.1 million at just one institution and just for its undergraduates. A new loan product could address the sizable opportunity to address juniors and seniors who require only small amounts of additional financing to complete their education.

The co-signer requirement was found to be another area of the market to consider targeting with the Student Investment Account. Many products allow for co-signer release but at too high a price: To qualify, lenders typically require not only proof of graduation, but proof of income, creditworthiness, and years of on-time payments. Statistics on co-signed debt in Illinois are hard to nail down, so the Lab used a proxy formula with available data to estimate the market need: Of the $1.56 trillion total US student loan debt, private lenders own $123.1 billion (7.7 percent). Research on private loans by the data analytics firm MeasureOne finds that (as of 2018–19), 88.80 percent of total loans or $108.3 billion (undergraduate and graduate) are co-signed.[58] Assuming Illinois represents the same share (3.78 percent) of the private co-signed debt as it does the total national student debt market, then co-signed private debt in the state could total $4.09 billion. Relieving even a portion of that could have positive impacts on the broader state economy.

PRODUCT OFFERINGS

As mentioned, a low-cost, cross-subsidizing loan portfolio could provide a small return on the State Investments portfolio and meet the Treasurer's fiduciary requirements while also supporting options such as loan forgiveness and educational grants. The most at-need students could access loans at the lowest interest rates (1–2 percent; returns on these loans could perhaps cover the administrative costs). Students who meet slightly higher underwriting criteria would be eligible for loans with interest rates more in line with other private market products. However, because the state will back these loans, they can carry higher protection standards and more flexible terms such as income-driven repayment options. These loans would offset lower-interest loans and provide a small return on the State Investments portfolio and meet the fiduciary requirements of the Treasurer's Office.

Lab participants looked to existing low-cost fund models to serve as a guide for the design of a new loan product in Illinois. One standout is the Missouri Higher Education Loan Authority (MOHELA). In 2010, MOHELA created the Missouri Scholarship & Loan Foundation, a tax-exempt, nonprofit, 501 c(3) corporation that provides low-cost and innovative loan products and services through its private special purpose credit program, the Missouri Family Education Loan Program (MOFELP). MOFELP offers a 0 percent interest rate, need-based loan product to Missouri students who have financial need but do not meet the traditional credit requirements for conventional private loans.[59] In this case, the foundation is the Family Education Loan program lender, and the Loan Authority services the loans.[60]

The distribution of the loans is similar to that of the Perkins Loan Program, which was part of the federal Direct Student Loan Program and offered 10-year loans to low-income students until 2017. The MOFELP no-cost loans are allocated to nonprofit institutions using the same formula used to appropriate state grant aid. The Loan Authority, MOHELA, determines how much each school receives in federal aid to develop a percentage of funds. That percentage is then used to allocate the MOFELP funds directly to the schools. The allocation correlates with the state's underserved populations and functions as a revolving loan product. Since its inception, the product has an 8 percent default rate, lower than the federal student loan default average of 10.1 percent, with bad loans penciled as a loss. The program targets students who do not qualify for any other form of aid; the $5,000 per-year loan is used as an option of last resort. The application requires a credit check but not for the typical reasons. The agency is not interested in FICO scores; it looks for a history of fraud or bankruptcy. Many of these terms and awarding conditions could be applied to the development of an education impact fund.

Students who are sorting out their financing stack will undoubtedly benefit from new loan offerings that look at different underwriting variables. But there is an even higher number of state residents who do not need to qualify for a new loan and instead need student loan refinancing relief. Like innovative loan structures, alternative refinancing investments can require a total portfolio approach to meet the Treasurer's fiduciary duties. Traditional refinancing options factor in debt-to-income ratios and FICO scores. But the market now includes firms that work with "super-prime" student borrowers and help top-tier students refinance their debt. Private loan refinancing organizations such as CommonBond and SoFi are great options for students in competitive career paths who have strong academic records and strong credit scores.

However, most at-need borrower populations are unlikely to qualify. Lab participants discussed the possibility of the Treasurer's Office using a "360-degree" approach to qualify students for refinancing, including the option to remove a co-signer. Existing providers only serve a limited pool, but the Treasurer can use this approach to reach a larger spectrum of borrowers.

A Portfolio of Product Offerings

- **Impact New Loan:** target the most at-need students and offer the lowest interest rates
- **Market Rate New Loan:** target underrepresented students using alternative metrics
- **Impact Refinancing:** target students who do not qualify by existing private financing criteria
- **Market Rate Refinancing:** serve as an alternative to existing private refinancing options

ELIGIBILITY AND UNDERWRITING CRITERIA

Lab participants discussed alternatives to FICO and different metrics that could be used to underwrite loan products for students. Players in the space are already proving the method works. The Chicago-based loan company A.M. Money, for example, provides loans to low- and middle-income students based on GPA, satisfactory academic progress, and the historical loss rate of the school.[61] While A.M. Money does not use FICO as a lending qualification, it does track its borrowers' credit scores over time. It claims that the average borrower has a FICO score of 600 at the time of origination (too low to qualify for most student loan products) and has seen a noticeable improvement in credit scores over time.

An improved credit score is likely to enhance its possessor's future borrowing and refinancing options. On the refinance side, lenders like CommonBond and SoFi, mentioned above, take a 360-degree approach and use such metrics as free cash flow (income minus monthly expenses) and employment. A suggestion was made to work with the credit reporting agency TransUnion to help collect information that could enhance credit reports for student loan applicants. Lab participants also discussed looking at an applicant's total indebtedness by considering total payments relative to total income to reflect the debt burden. By reviewing alternative metrics, the Treasurer will expand the pool of students eligible for loans and loan modifications, and reach a segment of the market that most needs secure funding.

Alternative Metrics for Loan Underwriting

- GPA
- Satisfactory academic progress
- The historical loss rate of school
- Free cash flow
- Employment
- Improvement in FICO over time

Borrower protection standards must be baked into these products, and that can occur on the back end. For example, several Lab participants raised the prospect of income-driven repayment (IDR) options. Most private lenders are unable to support IDR options because of their responsibility to bondholders, but the Treasurer's Office may have more flexibility because it is lending off its balance sheet. For example, the New Jersey Higher Education Student Assistance Authority (NJ HESAA) offers income-contingent repayment options to a segment of its private loan portfolio. While it's not the automatic option, if a borrower is nearing delinquency, NJ HESAA offers IDR as a last resort before the borrower falls into default. NJ HESAA can make the argument to the capital markets that IDR is a default aversion tool and thus a net positive to the total portfolio. Because it is working off its balance sheet, the Office of the Illinois State Treasurer is in a unique position to set up a simplified repayment scheme that provides a safety net for borrowers. Offering these products to Illinois residents will encourage and facilitate educated adults to build a life and career in the state. Borrowers enrolled could be automatically set up for an income-based repayment plan. Because they will be in-state residents, this could allow automatic repayment of the loans through the state tax system.

CRITICAL TERMS

To familiarize borrowers with the process of making monthly repayments, the Missouri Higher Education Loan Authority uses a Keep in Touch (KIT) payment tool for its borrowers. The monthly KIT payment is $5 while the student is in school, paid to the servicer toward the balance of the loan, intending to establish familiarity and a routine of repayment. Illinois should follow this model of instilling good borrower habits early on, and flexible consumer protection on the back end, to improve the risk of default rates.

Critical Terms

- Income-driven repayment option
- Direct repayment through taxes
- Keep-in-Touch payment
- Borrower saving accounts

While the immediate goal of the Treasurer's program is to help students cover the cost of higher education, the program should help borrowers achieve long-term financial success. Lab participants suggested that any "borrower savings" realized by lower interest rate products be used to fund personal savings accounts as an investment towards homeownership, retirement, or future education costs. This automatic savings account deposit could be triggered by a borrower who is approved for refinancing or those who meet certain targets (such as repayment history or credit counseling). A borrower who is able to reach a predefined saving balance, say $10,000, could qualify for a further reduction on their loan interest rate.

DISTRIBUTION AND PARTNERSHIP OPTIONS

Issuing student loans is a multistep process, and for each link in the chain, the Treasurer must weigh the benefits of completing the process in-house versus outsourcing to qualified partners. The Lab process looked at existing state agencies to understand how they have tackled the process. Most agencies have their own underwriting criteria and use in-house staff to review applicants. Loan distribution and servicing can often be efficiently managed through a third party. Larger agencies in states such as Missouri (MOHELA) and Pennsylvania (Pennsylvania Higher Education Assistance Agency) do everything from issuing debt to servicing loans (both their own and third-party) in-house. These organizations are sizeable and have the in-house resources to do so. Illinois leaders need to understand what their in-house capacity will allow for and choose outsourced partners when needed.

An infrastructure of state agencies supports Illinois' robust higher education system. Among these is the Illinois Student Assistance Commission (ISAC), which distributes the state's need-based grant aid through the MAP program. Grants are awarded to students who demonstrate financial need through information collected from their FAFSA applications, which strengthens ISAC's relationships with the schools that interact with the state's underserved and low-income populations. If the Treasurer's Office follows the model of Missouri's MOFELP fund, ISAC would be a great distribution partner for loans made by the new impact fund.

Some Lab participants debated the merits of partnering with existing providers to leverage in-place distribution channels. On the refinancing side, there are organizations recognized for offering strong alternative options. SoFi and CommonBond, among others, have application platforms that collect detailed information on all applicants. As referenced earlier, these private organizations have finite resources, so they are only able to refinance the debt for a segment of those who apply. Conversations at the Lab covered the possibility to build an option into the application process to "push" candidates who are not approved to alternative providers. With a creative refinance product that applies different eligibility requirements, the Treasurer's Office can serve a complementary student market, while leveraging existing technologies and distribution channels.

DATA AND METRICS TO ASSESS AND PRICE RISK EFFECTIVELY

The Treasurer's Office is fortunate to have $800 million with which to capitalize its products. Yet addressing even one of the target markets—whether minority and underrepresented students, undocumented students, co-signed loans, or bridge financing—will take time to fine-tune and ultimately require billions of dollars. Lab participants suggested using the fund's initial capital to develop a proof of concept that can demonstrate feasibility.

Most private lenders lack the capital to underwrite student loans. To source the money, they pool the loans and sell them as asset-backed securities in the bond markets. Rating agencies are involved, to assess the bond risk, based on the likelihood of the underlying borrowers repaying the loans. The bonds are offered to institutional investors, who often make investment decisions based on the credit ratings and, ultimately, the confidence of earning back their investment. The perceived risk is indicated through the interest rate. A higher interest rate says the investor believes they are lending to a higher-risk borrower—the interest rate price is determined by the probability of being repaid.

> "If a state impact fund can develop a track record that results in default rates falling below market expectations, it can securitize pools of these loans to attract millions of additional dollars.

The Massachusetts Educational Financing Authority (MEFA) has effectively integrated the capital markets into its lending portfolio. It has developed in-house capacity to model its cash flows, which gives it a leg up when interacting with ratings agencies and investors. An arbitrage opportunity exists in the current student lending market because of the way investors price risk for at-need borrowers. To protect bondholders, the capital markets assume high default and zero recovery rates, which forces borrowers into high-interest products. But if a state impact fund can develop a track record that results in default rates falling below market expectations, it can securitize pools of these loans to attract millions of additional dollars.

Lab participants focused on the importance of measuring outcomes and equitability in new loan products. Measuring front end data as part of the application process, including race, income level, and program type can help to understand if the funding is meeting target underrepresented markets. On the back end, post-graduation and through repayment, the program should track metrics such as on-time repayments and repayment type, employment, individual cash flows, and general economic mobility. These data sets are likely to have to be reported voluntarily by borrowers through surveys. Exploring the option of alternative lending criteria offers the opportunity to collect data not traditionally available with student debt products—including the economic value that comes when more students overcome financial hardship to obtain their degrees and in fields where entry once seemed impossible.

Measuring Impact

Is the program attractive to at-need groups?

- Race
- Income
- Program Type

Is the program having a positive impact?

- High repayment
- Increased employment
- Higher individual cash flows
- Improved economic mobility (i.e., saving for retirement, purchasing a house/car)

Next Steps:

- Understand target market needs and tailor products to address specific funding gaps.
- Compile alternative metrics to use as underwriting criteria for the underserved target market.
- Calculate the blend of interest rates needed in both new loan and refinance products to meet state fiduciary requirements.
- Explore the option of income-based repayments and automatic repayment through the state tax system.
- Develop a parallel savings program for debt holders with "borrower savings."
- Decide what components of the process can be done in-house versus outsourced to existing providers.
- Consider existing state agencies, such as ISAC, and private market relationships to streamline the loan and refinance distribution process.
- Collect robust data using in-house resources from the onset to allow for the opportunity to integrate capital market investors down the road.

Develop an ISA Program

The Treasurer's Office is considering an allocation of roughly $50 million of the $800 million toward the development of an innovative product, such as a consumer-driven income share agreement (ISA) program, and Lab participants offered suggestions for the program's structure. ISAs, whose payment systems comprise a percentage of future income for a set number of years, are increasing in popularity. Still, the tried and trusted traditional student loan will likely continue to dominate the market. As a general statement, Lab participants urge students to exhaust all federal aid options before entering into an ISA. To ensure that this ISA program has the most meaningful impact, the Lab focused on three areas: accessibility, sustainability, and protection.

TARGET STUDENT MARKETS

One of the key Lab debates was defining the specific issue area an ISA program should aim to resolve. ISAs and traditional loan offerings share similar target markets and, for both, serve to fund gaps created by the current student debt system. The Treasurer's Office should determine what critical state needs—brain drain, a targeted workforce shortage, or a more general wish to attract and keep talent—to address with an ISA program.

ISA Target Student Markets

- Minority & underrepresented students
- Continuing education programs
- Undocumented students
- Students needing bridge loans
- Workforce needs

For perspective on ISAs helping minority students, participants looked at a brand-new program, the Student Freedom Initiative, designed for students at HBCUs. The ISA was launched by philanthropist Robert F. Smith in June 2020 with a start date of fall 2021. The ISA is funded with $50 million through a foundation Smith directs (Fund II Foundation) and will target STEM majors at up to 11 HBCUs.[62] The initiative aims to close the racial equity gap driven largely by huge tuition costs.

An ISA lends itself well to bridging gaps in funding. Many ISA contracts cover a few thousand dollars—the amount students may be desperate for in their final semesters. One of the best-known university-administered examples is Purdue University's Back a Boiler program, which launched in 2016.[63] Funded by the Purdue Research Foundation, a private, nonprofit corporation, the ISA is available to students who have declared a major and are in at least their sophomore year. Future payment is determined according to the student's major. Prepayment is allowed, at the agreed-upon total. In December 2018, the university announced that it had raised $10.2 million, enough to sustain the program for three more years.[64]

Whereas Purdue's program helps undergraduates, an ISA program might also find a market niche among adults who want to pursue additional degrees or complete higher levels of certification. Nursing is a good example, with its different credential and certification levels, each of which requires additional education hours and coursework. A licensed practical nurse (LPN) needs a vocational certificate. In contrast, a registered nurse (RN) must complete "a bachelor's degree in nursing, an associate's degree in nursing, or a diploma from an approved nursing program," according to the Bureau of Labor Statistics. The projected annual earnings for an LPN ($47,480) can increase to $73,300 with the additional training required to attain an RN degree.[65]

The San Diego Workforce Partnership, the workforce development board in San Diego County, takes part in local and regional planning and provides services to adults and employers by funding job training programs.[66] It collaborates with businesses, employer councils, and community workforce groups to help fill talent and skill gaps for in-demand jobs in the region. It is the first public workforce system to launch an ISA. The Workforce ISA Fund targets adults continuing education. Launched in 2019 with $3.35 million in grants and gifts, and in partnership with the University of California San Diego (UCSD) Extension school, the ISA targets students who study "digital marketing, business intelligence, Java programming or web development."[67] While the target market differs between these examples, all help to fill a funding gap for students in their respective communities.

CRITICAL TERMS

Participants acknowledged the challenge of developing an ISA's specific terms without knowing who the eventual audience will be. Still, they suggested a series of guardrails about the upfront agreement amount, the total commitment factor, and the minimum salary that triggers payments that can ensure consumer protection, regardless of the recipient.

As in a conventional loan, an ISA program must take care that its contribution will not force the student into a financial over-commitment. To this end, an ISA program should consider the full portfolio of aid the applicant has committed to as a way to guide the agreement and the upfront agreement amount. The San Diego Workforce Partnership considers its ISA contracts as a complement to any public scholarships the student might receive. The Treasurer's Office should think of the ISA as a bridge between the cost of attendance and the student's state and federal loans. Having looked at data during the development of other programs, Lab participants suggested that students graduating from the Chicago Public School system typically struggle to secure "bridge" amounts between $4,000-$7,000 to complete their college degrees. This known capital gap should help to guide the size of ISAs made by the Treasurer.

The "commitment factor" is defined as the percentage of income due over the term of the ISA multiplied by the number of years remaining in the ISA. It is used to determine the maximum annual payment obligation.[68] Lab participants acknowledged the conventional method of expressing this maximum payment obligation as a fixed multiple. For example, proposed federal legislation has capped the agreement commitment factor at 2.25 times the initial contract amount.[69] Discussions suggested that some students might be interested in prepaying their agreements and could benefit from an agreed-upon dollar amount that is not punitive but tied to an annualized rate. This would allow the obligation to function similarly to an income-driven repayment option and give the student greater flexibility. Participants suggested a rate of around 2.5 percent, ensuring that the program is capital efficient and sustainable while maintaining protections for the students.

It is necessary to design the terms of an ISA in a meaningful way to protect downside risk. ISA payment is contingent upon income, and it is of utmost importance to set the minimum income for payment as an amount that is helpful rather than harmful. If the income level is set too low, then a student who has multiple student loan commitments will see their debt burden enlarged. Rather than design a universal minimum salary, the Treasurer's Office should view it as a dynamic factor. Lab participants suggested calibrating it to five times the poverty rate of the state, which equates to a low $30,000 annual salary. The salary requirement should also exclude any types of social benefits (e.g., food stamps) that a student is receiving. In the best interest of the borrower, the program should operate at a level above what is considered minimum self-sufficiency in the area.

FIGURE 8: PROPOSED ISA TERMS

Terms	Traditional ISA	Lab ISA Suggestion
Agreement amounts	$1,000–$10,000	$4,000–$7,000
Payment cap	1.1x–2.5x	2.5% (annualized rate)
Minimum salary to pay	$20,000–$40,000	Dynamic floor (5x the area poverty rate)
Duration of payment	3–20 years	No more than 10 years

Source: Milken Institute (2020)

DISTRIBUTION AND PARTNERSHIP OPTIONS

As with any financial assistance product, the essential factor for ISA program success will be the outcomes of those the program serves. Therefore, it is vital that the Treasurer's Office directly engages with ISA program students and their employers to incorporate feedback and keep partner interests aligned. Lab participants discussed three levels of partnership for an ISA program. The first is in the funding partners, who must share expectations on returns.

The Treasurer's Office has a pivotal question to answer: Does it prefer to fund the ISA program independently or in partnership? If the latter, Lab participants overwhelmingly felt that its partners should be philanthropic and have an interest in Illinois specifically. The focus of all contributors should be on student borrower accessibility and protection alongside the fiduciary duty of producing financial returns. As noted earlier, it is important to be able to prove the intended impact is feasible before diversifying the funding model with blended capital. If, down the road, the ISA program should bring in for-profit capital, Lab participants suggested the expected return on a pool of ISAs should align with what the federal government earns on a pool of PLUS loans. For the 2020-21 school year, interest rates of PLUS loans are 5.30 percent.[70] That way, capital investors are receiving the same kind of return on investment as the Department of Education.

Once funding sources and partners have been decided, it is also crucial to engage with strong education and employer partners. The ISA program will only be fair if the agreements sponsor credible, well-regarded degree or certificate programs that align with and anticipate healthy, growing job markets. Offering ISA options in slow-hiring or vanishing sectors is predatory. Lab participants suggested offering ISA programming only to institutions that are eligible to receive federal student aid (Title IV schools). Deciding on education partners goes hand in hand with choosing employer partners. The organizations that will be hiring should be involved in the ISA design process to verify the type of talent they need and want and which programs they view favorably. For example, developing an ISA program that offers teacher credentials must involve schools that offer licensing programs as well as the education hiring systems and teachers' unions. Incorporating all perspectives from the onset will ensure consumer and investor protection and align interests in favor of the student.

CONSUMER PROTECTION

The legal protections associated with ISAs have made headlines since the model was created. Economist Milton Friedman proposed the concept in 1955, and since then, ISAs have been the subject of numerous debates. In July 2019, the bipartisan-sponsored ISA Student Protection Act of 2019 was introduced in the US Senate with endorsements from several existing ISA programs, including Purdue University and the San Diego Workforce Partnership.[71] In the year since, there has been no action on the bill; it was sent back to committee the same day it was introduced.[72] If the bill does pass and is signed into law, it will reference many of the components of an ISA contract discussed throughout the Lab—individual exemptions, minimum payment caps, and bankruptcy laws.[73]

The Illinois Legislature is also considering legislation (HB5524/SB3514) to protect consumers. However, given the disruption to the spring 2020 session, the bill had been introduced but not voted on by the time of the Lab. Given the proposed timeline for the Treasurer's investment, Lab participants suggested that any ISA product be held to the same level of regulation and consumer protection as current student loan products in the state.

Next Steps:

- Ensure that any state ISA program developed is designed within the existing legal and protective frameworks for student loans and that proposed ISA legislation enhances consumer protections.
- Learn from existing examples; decide who to target for the ISA program by looking at the key needs of the state.
- Confirm that funding partners are primarily focused on improving outcomes for student graduation and gainful employment rates.
- Design terms of the ISA that prioritize positive student outcomes.
- Choose education and workforce partners with proven records and high rates of success.

Create a Loan Navigator Platform

Illinois has made strides to simplify the student loan process and improve transparency for students. The Know Before You Owe legislation helps to inform students of all their federal financial assistance options. In 2019, the state began the Education Loan Information Pilot Program. Under oversight from ISAC, the program "requires public universities and public community colleges to provide students enrolled at their institution, or the students' parents or guardians, with information about outstanding education loans each year."[74] The program also gives students an annual snapshot of their education loan portfolio. Still, Lab participants recommended this be taken a step further with the development of a Know What You Owe loan navigator platform. This would use the information collection model from the current pilot program but add the data to an online platform with up-to-date interest accrual amounts, total debt, and payment schedules.

While having real-time data will be immensely helpful to students across the board, there is also a great need for online and in-person counseling. ISAC runs the ISACorps program, which pairs recent college graduates with high school students they can mentor. The program is widely successful and flagged by many as an important program to expand and replicate. The state should explore the option of integrating the ISACorps program with a Know What You Owe loan navigator tool for timely data and ongoing guidance.

Next Steps:

- Gather lessons learned from the Education Loan Information Pilot Program, which will expire in June 2023.
- Identify potential partnership opportunities to build out an online platform.
- Explore the opportunity to combine two critical factors to success—data and counseling/mentoring—to offer Illinois students ongoing support through their college years.

Relief for Borrowers Affected by COVID-19

As the coronavirus continues to be a factor of daily life, the economic factors are no less severe than when COVID-19 first hit. The CARES Act provided necessary relief for many, but it is unlikely that its level of federal relief can continue for much longer. With people struggling to pay for necessities like housing and groceries, it is easy to predict that student loan repayments will suffer. The Treasurer's Office's investment could supplement student debt offerings moving forward, and many Lab participants raised the suggestion that some of the funds be used to relieve current borrowers during these trying times.

Lab participants pointed to the capital markets and the relief triggers built into the system. US markets experienced market-wide circuit breakers as recently as March 2020. These triggers immediately halt all trading to protect the liquidity of the equity and options markets in extreme downturns. A necessary halt is caused by "extreme market declines as measured by a single-day decrease in the S&P 500 Index. A cross-market trading halt can be triggered at three circuit breaker thresholds that measure a decrease against the prior day's closing price of the S&P 500 Index—7 percent (Level 1), 13 percent (Level 2), and 20 percent (Level 3)."[75] Hitting Level 1 or Level 2 requires the trading to pause for 15 minutes; reaching Level 3 halts activity for the rest of the trading day. Lab participants suggested incorporating a similar system for any student financing options offered by the Treasurer's Office. These "triggers" could be predefined rates of unemployment or economic downturns of a specified magnitude. Hitting one of them could automatically suspend loan repayments or cancel interest accrual.

CONCLUSION

Getting a degree should mean that graduates can seek greater professional opportunities and increase their economic mobility. Productive communities attract talent and business, which bolster local economies, strengthen the tax base, and make the state more competitive in regional and global markets. But high college tuition costs and few affordable financing options have put the dream of a college education out of reach and have left many graduates in worse financial condition than before they enrolled. The Lab process has developed tangible recommendations for the development of new and creative financing options. With the investment from the Treasurer's Office, Illinois should be able to reach a segment of the student market left behind by traditional products.

The incorporation of alternative metrics into the underwriting and refinancing criteria for loans can provide financing to students who currently struggle to qualify for funding. Innovative options, such as an ISA, will offer payment choices and enable students to fund their post-secondary education in a way that works best for them. Providing a loan navigator platform as a one-stop-shop for everything a student needs to know about his or her debt and financial options will improve transparency throughout the process. The cost of higher education has left too many Illinoisans behind. Finding new ways to cover the bill is essential to ensuring that students who want to graduate can, regardless of their financial circumstances.

About the Author

Maressa Brennan is an associate director of innovative finance at the Milken Institute. She contributes to the research, development, execution and follow-up of the Institute's Financial Innovations Labs, which address market failures and funding gaps within social or environmental issues. During Brennan's time at the Institute she has worked on projects to streamline the green bond market for municipal issuers, accelerate the development of affordable housing, and designed funding models to build a biomedical translational research market in Singapore. Before joining the Milken Institute, Brennan worked in investor relations at Mark Asset Management, a boutique hedge fund in New York, and spent three years at Russell Investments on the Hedge Fund Research team as an Associate Research Analyst. Brennan graduated from The George Washington University with a BA in International Affairs. She is currently pursuing a CPA in Sustainable Finance from Columbia University.

PARTICIPANT LIST

Session One Participant List

FIRST NAME	LAST NAME	TITLE	ORGANIZATION
Mike	Abrahamson	Policy Analyst	Partnership for College Completion
Joe	Aguilar	Director, Investment Analysis & Due Diligence	State of Illinois Treasurer's Office
Allison	Angeloni	Director of Policy	Steans Family Foundation
Rodrigo	Bettini	Advisor	Milken Institute
Maressa	Brennan	Associate Director, Innovative Finance	Milken Institute
Grant	Carwile	Managing Director	SL Capital Strategies
Jason	Davis	Senior Associate, Innovative Finance	Milken Institute
Jennifer	Delaney	Associate Professor, Higher Education	University of Illinois Urbana-Champaign
Fernando	Diaz	Chief Financial Product Officer	State of Illinois Treasurer's Office
Kathy	Facenda	Director, Business Development	Sallie Mae
Théo	Feldman	Associate Director, Innovative Finance	Milken Institute
Michael	Frerichs	State Treasurer	State of Illinois Treasurer's Office
Seth	Frotman	Executive Director	Student Borrower Protection Center
Rodrigo	Garcia	Deputy Treasurer	State of Illinois Treasurer's Office
Nikki	Giancola-Shanks	Director of External Affairs and Student Loan Policy	Illinois Department of Financial and Professional Regulation
Mindy	Hager	Senior Vice President, Student Lending Sales	Citizens Bank
Kurt	Hansen	Senior Director, Partner Channel	Sallie Mae

FIRST NAME	LAST NAME	TITLE	ORGANIZATION
Grisel	Hernandez	Investment Analyst	State of Illinois Treasurer's Office
Angel	Herrera	Director of Portfolio & Risk Analytics	State of Illinois Treasurer's Office
Devin	Hughes	Vice President, Business Development	LendKey Technologies Inc.
Josh	Hurlock	Assistant Director	Connecticut Higher Education Supplemental Loan Authority
Paul	Isaac	Deputy to Secretary	Illinois Department of Financial and Professional Regulation
Caitlin	MacLean	Senior Director, Innovative Finance	Milken Institute
Terence	Maloney	Vice President, Business Development	Pennsylvania Higher Education Assistance Agency
Aida	Martinez	Manager of Recruitment Enrollment and Retention	Rock Valley College
Eric	Ong	Principal	Lightbank
Jim	Pass	Managing Director	Guggenheim Partners
Felipe	Perez	Director, Teacher Talent Pipelines	Chicago Public Schools
Christy	Phillips	Managing Director, Client Services	Nelnet
Daniel	Rogers	Founder	A.M. Money
William	Shaffner	Business Development & Government Relations	Higher Education Loan Authority of the State of Missouri
Catherine	Shannon	Chief Legislative & Policy Officer	State of Illinois Treasurer's Office
Jay	Smith	Correspondent Lending Director & General Counsel	Bank of Lake Mills
David	Socolow	Executive Director	Higher Education Student Assistance Authority (State of New Jersey)

FIRST NAME	LAST NAME	TITLE	ORGANIZATION
Derek	Standarowski	External Affairs, Office of Financial Institutions	Consumer Financial Protection Bureau
Jeff	Wagner	Managing Director	RBC Capital Markets
Ryan	West	Senior Director, Head of Platform & Solution Delivery	EnTech
Laura	Williams	Director of Policy	State of Illinois Treasurer's Office
Steve	Winnie	CEO, Co-Founder	Campus Door

Session Two Participant List

FIRST NAME	LAST NAME	TITLE	ORGANIZATION
Joe	Aguilar	Director, Investment Analysis & Due Diligence	State of Illinois Treasurer's Office
David	Becker	Vice President, Student Lending	Pennsylvania Higher Education Assistance Agency
Rodrigo	Bettini	Advisor	Milken Institute
Maressa	Brennan	Associate Director, Innovative Finance	Milken Institute
Chris	Broughton	Executive Director, Chicago	Bottom Line
Mary-Claire	Cartwright	Back a Boiler Program Manager	Purdue Research Foundation
Shanaz	Chowdhery	Chief of Staff	Vemo Education
Debra	Chromy	President	Education Finance Council
David	Cooper	CIO	Purdue Research Foundation
Andy	Davis	Founder	Education Equity
Jason	Davis	Senior Associate, Innovative Finance	Milken Institute
Jennifer	Delaney	Associate Professor, Higher Education	University of Illinois Urbana-Champaign
Fernando	Diaz	Chief Financial Product Officer	State of Illinois Treasurer's Office

FIRST NAME	LAST NAME	TITLE	ORGANIZATION
Théo	Feldman	Associate Director, Innovative Finance	Milken Institute
Michael	Frerichs	State Treasurer	State of Illinois Treasurer's Office
Rodrigo	Garcia	Deputy Treasurer	State of Illinois Treasurer's Office
Nikki	Giancola-Shanks	Director of External Affairs and Student Loan Policy	Illinois Department of Financial and Professional Regulation
Tariq	Habash	Head of Investigations	Student Borrower Protection Center
Lee	Hart	VP of Development & Community Partnerships	Better Future Forward
Jessica	Haselton	Director, Program-Related Investments	ECMC Foundation
Grisel	Hernandez	Investment Analyst	State of Illinois Treasurer's Office
Angel	Herrera	Director of Portfolio & Risk Analytics	State of Illinois Treasurer's Office
Devin	Hughes	VP, Business Development	LendKey Technologies Inc.
Paul	Isaac	Deputy to Secretary	Illinois Department of Financial and Professional Regulation
Kevin	James	Founder & CEO	Better Future Forward
Joshua	Jonathan	General Counsel	Vemo Education
David	Kafafian	VP, Business Development	Stride Funding
Brian	Kares	Vice President, Investment Banking	RBC Capital Markets
Caitlin	MacLean	Senior Director, Innovative Finance	Milken Institute
Tess	Michaels	CEO	Stride Funding
Greg	Quental	Co-Founder	PERQ
Amanda	Rednick	Attorney	Ice Miller LLP
Daniel	Rogers	Founder	A.M. Money
Joe	Sanders	Student Loan Ombudsman	Illinois Attorney General's Office

FIRST NAME	LAST NAME	TITLE	ORGANIZATION
Catherine	Shannon	Chief Legislative & Policy Officer	State of Illinois Treasurer's Office
Paul	Sheldon	Managing Director	RBC Capital Markets
Keith	Shoates	Vice President, Office of the CEO	Vista Equity Partners
Derek	Standarowski	External Affairs, Office of Financial Institutions	Consumer Financial Protection Bureau
Michael	Stynes	CEO, Executive Vice President	Jain Family Institute
Brooke	Valle	Chief Strategy and Innovation Officer	San Diego Workforce Partnership
Laura	Williams	Director of Policy	State of Illinois Treasurer's Office
Eric	Zarnikow	Executive Director	Illinois Student Assistance Commission

ENDNOTES

1. “Education and Lifetime Earnings,” Social Security Administration, November 2015, www.ssa.gov/policy/docs/research-summaries/education-earnings.html#:~:text=Men%20with%20bachelor’s%20degrees%20earn,earnings%20than%20high%20school%20graduates.
2. Amanda Ripley, “Why Is College in America So Expensive?” *The Atlantic*, September 11, 2018, www.theatlantic.com/education/archive/2018/09/why-is-college-so-expensive-in-america/569884/; for the report from the Organization for Economic Co-operation and Development, see: www.oecd-ilibrary.org/education/education-at-a-glance-2018_eag-2018-en.
3. Zack Friedman, “Student Loan Debt Statistics in 2020: A Record $1.6 Trillion,” *Forbes*, February 3, 2020, www.forbes.com/sites/zackfriedman/2020/02/03/student-loan-debt-statistics/#56f57542281f.
4. “Educational Attainment,” National Center for Education Statistics, accessed July 2020, https://nces.ed.gov/fastfacts/display.asp?id=27.
5. Alvaro Mezza, Daniel Ringo, and Kamila Sommer, “Can Student Loan Debt Explain Low Homeownership Rates for Young Adults?” (Federal Reserve Board Division of Research & Statistics, January 2019), https://www.federalreserve.gov/publications/files/consumer-community-context-201901.pdf.
6. “Life Delayed: The Impact of Student Debt on the Daily Lives of Young Americans” (American Student Assistance, 2015 Edition), www.canisius.edu/sites/default/files/*/life_delayed_12-2015_1.pdf.
7. “Quick Facts About Student Debt” (The Institute for College Access & Success, April 2019), https://ticas.org/files/pub_files/qf_about_student_debt.pdf.
8. Veno Kakar, Gerald Eric Daniels Jr., and Olga Petrovskaz, “Does Student Loan Debt Contribute to Racial Wealth Gaps? A Decomposition Analysis,” *Journal of Consumer Affairs* (2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3094076.
9. Andrew DePrieto, “Average Cost of College Has Jumped an Incredible 3,009% in 50 Years,” GoBankingRates.com, April 9, 2019; found at: https://finance.yahoo.com/news/average-cost-college-jumped-incredible-122000732.html.
10. Michael Mitchell, Michael Leachman, Matt Saenz, “State Higher Education Funding Cuts Have Pushed Costs to Students, Worsened Inequality,” Center on Budget and Policy Priorities, October 24, 2019, www.cbpp.org/research/state-budget-and-tax/state-higher-education-funding-cuts-have-pushed-costs-to-students.
11. Ibid.
12. “Fall Enrollment of US Residents in Degree-Granting Postsecondary Institutions, by Race/Ethnicity: Selected Years, 1976 through 2026,” National Center for Education Statistics, US Department of Education, https://nces.ed.gov/programs/digest/d16/tables/dt16_306.30.asp.

13. “Quicksand: Borrowers of Color and the Student Debt Crisis” (Unidos US, Center for Responsible Lending, National Urban League, and Leadership Conference Education Fund, September 2019), www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-quicksand-student-debt-crisis-jul2019.pdf.
14. Mark Huelsman, “The Debt Divide: The Racial and Class Bias behind the ‘New Normal’ of Student Borrowing” (Demos, 2015), www.demos.org/sites/default/files/publications/Mark-Debt%20divide%20Final%20(SF).pdf.
15. Judith Scott-Clayton and Jing Li, “Black-White Disparity in Student Loan Debt More Than Triples after Graduation” (Brookings Institution, October 20, 2016), www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation/.
16. Katherine Saunders, Krystal L. Williams, and Cheryl L. Smith, “Fewer Resources, More Debt: Loan Debt Burdens Students at Historically Black Colleges and Universities” (UNCF Frederick D. Patterson Research Institute, 2016), https://cdn.uncf.org/wp-content/uploads/reports/FINAL_HBCU_Loan_Debt_Burden_Report.pdf?_ga=1.91207322.1056278660.1475505317. See also: Josh Mitchell and Andrea Fuller, “The Student-Debt Crisis Hits Hardest at Historically Black Colleges,” Wall Street Journal, April 17, 2019, www.wsj.com/articles/the-student-debt-crisis-hits-hardest-at-historically-black-colleges-11555511327.
17. Darrick Hamilton et al., “Umbrellas Don’t Make It Rain: Why Studying and Working Hard Isn’t Enough for Black Americans” (Insight Center for Community Economic Development, April 2015), www.insightcced.org/wp-content/uploads/2015/08/Umbrellas_Dont_Make_It_Rain_Final.pdf.
18. Huelsman, “The Debt Divide.”
19. “Student Loan Debt Statistics,” Educationdata.org, accessed July 2020, https://educationdata.org/student-loan-debt-statistics/.
20. “Student Loan History,” New America, www.newamerica.org/education-policy/topics/higher-education-funding-and-financial-aid/federal-student-aid/federal-student-loans/federal-student-loan-history/#:~:text=The%20federal%20government%20began%20guaranteeing,Education%20Loan%20(FFEL)%20program; See also: “Federal Student Loans for College or Career School Are an Investment in Your Future,” Office of Federal Student Aid, Department of Education, https://studentaid.gov/understand-aid/types/loans.
21. “Who Is My Student Loan Servicer?” Federal Student Aid, https://studentaid.gov/manage-loans/repayment/servicers.
22. “Federal Student Loan Programs,” The Office of Federal Student Aid, https://studentaid.gov/sites/default/files/federal-loan-programs.pdf.
23. Ibid.
24. “Student Loan Debt Statistics,” Educationdata.org.
25. Ibid.

26. Ibid.
27. "When It Comes to Paying for College, Career School, or Graduate School, Federal Student Loans Can Offer Several Advantages Over Private Student Loans," Office of Federal Student Aid, accessed July 2020, https://studentaid.gov/understand-aid/types/loans/federal-vs-private.
28. "Average Student Loan Debt Statistics by School by State 2019," LendEDU, accessed July 2020, https://lendedu.com/student-loan-debt-by-school-by-state-2019/.
29. Dream Fund Commission, Illinois General Assembly, Senate, SB2185, 97th General Assembly, (August 1, 2011).
30. Know Before You Owe Private Education Loan Act, Illinois General Assembly, House, HB5361, 101st General Assembly, Introduced in the House, (February 21, 2020), https://www.ilga.gov/legislation/fulltext.asp?DocName=09900HB5361&GA=99&SessionId=88&DocTypeId=HB&LegID=94767&DocNum=5361&GAID=13&Session=.
31. Amends the Debt Settlement Consumer Protection Act, Illinois General Assembly, House, HB5320, 101st General Assembly, (February 18, 2020), https://ilga.gov/legislation/fulltext.asp?DocName=09500HB5320&GA=95&SessionId=3&DocTypeId=HB&LegID=10355&DocNum=5320&GAID=3&Session=.
32. Amends the Consumer Installment Loan Act, Illinois General Assembly, House, HB5524, 101st General Assembly, Introduced February 18, 2020, https://ilga.gov/legislation/fulltext.asp?DocName=&SessionId=108&GA=101&DocTypeId=HB&DocNum=5524&GAID=15&LegID=126191&SpecSess=&Session=.
33. "ISAC's Big Goal," Illinois Student Assistance Commission, accessed July 2020, www.isac.org/about-isac/.
34. Ibid.
35. "The MeasureOne Private Student Loan Report" (MeasureOne, June 18, 2019), https://docs.wixstatic.com/ugd/0aaff0_5a3f9e397ee247e5b33454f5c014c89d.pdf.
36. "The Student Loan Debt Threat: An Intergenerational Problem" (AARP Public Policy Institute, May 2019), www.aarp.org/content/dam/aarp/ppi/2019/05/the-student-loan-debt-threat.doi.10.26419-2Fppi.00064.001.pdf.
37. "What Will I Need to Fill Out the FAFSA?" Federal Student Aid, accessed July 2020, https://studentaid.gov/help/info-needed.
38. "Student-to-Counselor Ratio 2018-2019" (American School Counselor Association, 2018-19), www.schoolcounselor.org/asca/media/asca/home/Ratios18-19.pdf.
39. Anna Helhoski, "2018 FAFSA Study: Students Missed Out on $2.6 Billion in Free College Money," NerdWallet, October 16, 2018, www.nerdwallet.com/blog/2018-fafsa-study/.
40. Judith Scott-Clayton, "The Looming Student Loan Default Crisis Is Worse Than We Thought," Brookings Institution, 2018, www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/.

41. "CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment," US Consumer Financial Protection Bureau, January 18, 2017, www.consumerfinance.gov/about-us/newsroom/cfpb-sues-nations-largest-student-loan-company-navient-failing-borrowers-every-stage-repayment/.
42. "Attorney General Raoul Files Lawsuit against Department of Education Over Critical Borrower Defense Regulations," Illinois Attorney General, July 16, 2020, www.illinoisattorneygeneral.gov/pressroom/2020_07/20200715b.html; See also: John L. Culhane Jr., "State AGs sue Dept. of Education to Invalidate 2019 'Institutional Accountability Regulations' Allowing Use of Pre-Dispute Arbitration Agreements by Schools Receiving Title IV Aid for Student Borrowers," Ballard Spahr LLP, www.jdsupra.com/legalnews/state-ags-sue-dept-of-education-to-44118/.
43. Jen Mishory, Mark Huelsman, and Suzanne Kahn, "How Student Debt and the Racial Wealth Gap Reinforce Each Other, The Century Foundation, September 2019, https://tcf.org/content/report/bridging-progressive-policy-debates-student-debt-racial-wealth-gap-reinforce/?session=1.
44. Charlie Eaton, Sabrina Howell, and Constantine Yannelis, "When Investor Incentives and Consumer Interests Diverge: Private Equity in Higher Education" (UNC Kenan-Flagler Business School, 2018), http://uncipc.org/wp-content/uploads/2018/12/Eaton-Howell-Yannelis_wp_PE-in-Higher-Ed.pdf.
45. Amador, et al. v. California Culinary Academy and Career Education Corporation; Adams, et al. v. California Culinary Academy and Career Education Corporation, Securities Exchange Commision, December 31, 2010, www.sec.gov/Archives/edgar/data/1046568/000119312511304320/R13.htm.
46. Astra Taylor and Hannah Appel, "Subprime Students: How For-Profit Universities Make a Killing By Exploiting College Dreams," *Mother Jones*, September 23, 2014, www.motherjones.com/politics/2014/09/for-profit-university-subprime-student-poor-minority/.
47. Alia Wong, "Why For-Profit Colleges Become Nonprofits," *The Atlantic*, October 7, 2015, www.theatlantic.com/education/archive/2015/10/the-covert-for-profit/409477/.
48. Taylor and Appel, "Subprime Students."
49. Ibid.
50. Stephanie Riegg Cellini and Nicholas Turner, "Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data" (National Bureau of Economic Research, 2018), www.nber.org/papers/w22287.
51. "The CARES Act Works for All Americans," US Department of the Treasury, accessed July 2020, https://home.treasury.gov/policy-issues/cares.
52. "Coronavirus and Forbearance Info for Students, Borrowers and Parents," Office of Federal Student Aid, accessed July 2020, https://studentaid.gov/announcements-events/coronavirus.

53. "Underrepresented Groups in Illinois Higher Education: 2018 Annual Report" (Illinois Board of Higher Education, 2018), www.ibhe.org/board/2019/03March2019/Item_C-Underrepresented_Groups_Report.pdf.
54. Jie Zong and Jeanne Batalova, "How Many Unauthorized Immigrants Graduate from U.S. High Schools Annually?" Migration Policy Institute, April 2019, www.migrationpolicy.org/research/unauthorized-immigrants-graduate-us-high-schools.
55. Rochelle Sharpe, "Why Upperclassmen Lose Financial Aid," *New York Times*, April 6, 2016, www.nytimes.com/2016/04/10/education/edlife/why-upperclassmen-pay-more-they-may-get-less.html.
56. "Illinois Success Annual Report: All Campus Undergraduate 2018–2019" (University of Illinois at Urbana-Champaign, 2018-19), https://uofi.app.box.com/s/f3h6vu27nksz02gur75jcw8ki3cd6xn2.
57. "Student Debt and the Class of 2018" (The Institute for College Access & Success, September 2019), https://ticas.org/wp-content/uploads/2019/09/classof2018.pdf.
58. "The MeasureOne Private Student Loan Report," MeasureOne.
59. "MOFELP: Missouri Family Education Loan Program, 2018–2019," MOFELP, www.mohela.com/DL/forms/MOFELP%20Application%20Packet%202018-19.pdf.
60. Ibid.
61. "FAQs," Chicago Student Loans by A.M. Money, accessed July 2020, https://chicagostudentloans.com/faqs.
62. Katie Reilly, "Billionaire Robert F. Smith Launches New Initiative to Ease Student Debt at Historically Black Colleges," *Time*, June 23, 2020, https://time.com/5857186/robert-f-smith-historically-black-colleges/; See also Emma Whitford, "Billionaire Robert Smith Announces New ISA for HBCUs," *Inside Higher Ed*, June 25, 2020, www.insidehighered.com/quicktakes/2020/06/25/billionaire-robert-smith-announces-new-isa-hbcus.
63. "Back a Boiler Program Overview," Purdue University, accessed July 2020, https://purdue.edu/backaboiler/overview/index.html.
64. "Purdue Research Foundation Raises $10.2 million for Back a Boiler Income Share Agreement Fund II," Purdue University, December 4, 2018. www.purdue.edu/newsroom/releases/2018/Q4/purdue-research-foundation-raises-10.2-million-for-back-a-boiler-income-share-agreement-fund-ii.html.
65. "Registered Nurses," US Bureau of Labor Statistics, accessed July 2020, www.bls.gov/ooh/healthcare/registered-nurses.htm.
66. "San Diego Workforce Partnership Local Plan for Program Year 2017-2020" (San Diego Workforce Partnership, 2017-20), https://workforce.org/wp-content/uploads/2018/10/San-Diego-Local-Plan-.pdf.

67. "San Diego's New Income-Share Program Wants to Help Students Go Back to School Now, Pay Later," *CNBC.com*, *Channel 7*, May 17, 2019, www.cnbc.com/2019/05/17/san-diego-launches-isa-program-with-the-help-of-donors-like-google.html.
68. "Regulatory Treatment of Educational ISAs Under Federal and Select State Consumer Credit Statutes" (Morrison & Foerster, LLP, March 2019), https://media2.mofo.com/documents/190408-regulatory-educational-consumer-credit-statutes.pdf.
69. Ibid.
70. "Understand how interest is calculated and what fees are associated with your federal student loan," Federal Student Aid, accessed July 2020, https://studentaid.gov/understand-aid/types/loans/interest-rates.
71. "Young, Warner, Rubio, Coons Introduce innovative Higher Ed Financing Proposal," Warner.senate.gov, July 16, 2019, warner.senate.gov/public/index.cfm/2019/7/young-warner-rubio-coons-introduce-innovative-higher-ed-financing-proposal.
72. S.2114: ISA Student Protection Act of 2019, Congress.gov, All Actions S.2114, 116th Congress, (2019–2020), www.congress.gov/bill/116th-congress/senate-bill/2114/all-actions?overview=closed#tabs.
73. Ibid.
74. "Education Loan Information Pilot Program," Illinois Student Assistance Commission, accessed July 2020, www.isac.org/e-library/partner-e-messages-and-newsletters/faa-e-messages/elibrary-faa-2019-0125.html.
75. "Trading Information," New York Stock Exchange, accessed July 2020, www.nyse.com/markets/nyse/trading-info.

MILKEN INSTITUTE

SANTA MONICA | WASHINGTON | NEW YORK | LONDON | ABU DHABI | SINGAPORE