Appendix II: History of “Pay It Forward” College Financing Concept Timeline and Highlights

History of "Pay It Forward" College Financing Concept

Yale University and economist James Tobin launched the Tuition Postponement Option (TPO), which allowed students to attend the university at no charge. Students agreed to pay back .04 percent of future earnings for 35 years for every $1,000 borrowed, or until the cohort's total debt was repaid, whichever came first. Due to inflation, tax law changes, and non-payment by some borrowers, all TPO accounts were closed in 2001, before the program's scheduled conclusion.

MyRichUncle pioneered the use of credit algorithms specific to the circumstances of student lending, developing a proprietary "human capital investment" approach to underwriting student loans in addition to utilizing traditional credit scoring.

Miguel Palacios, assistant professor of finance at Vanderbilt's Owen Graduate School of Management, put the Income Sharing Agreement (ISA) concept into practice when he helped launch Lumni, which raises capital from various for-profit and nonprofit entities and channels those funds to students who agree to pay a percentage of their income. The company is active in Colombia, Mexico, Peru and the United States.

The Portland State University capstone project was introduced to an ***Oregon*** state lawmaker and a bill to study the concept passed the legislature and was signed into law.

U.S. Senator Marco Rubio and U.S. Representative Tom Petri introduced the ***Investing in Student Success Act*** bill that would create a legal framework for Income Share Agreements (ISAs).

A bill to study the practical and fiscal impacts of a PIF program is passed by the ***Illinois*** legislature and signed into law.

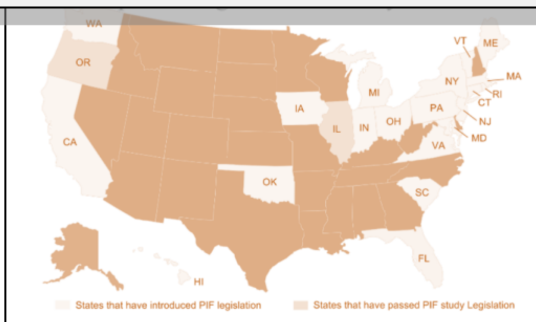
1945	1971	1989	2001	2002	2012	2013	2014

Economists Milton Friedman and Simon Kuznets suggested a system in which the government collects a portion of a student's future earnings in exchange for financial assistance during college, a model they believed would bring market discipline into investments in education and training.

The **Australian government** introduced an income-contingent loan for the payment of public sector higher education tuition charges, known as the Higher Education Contribution Scheme (HECS). The debt is repaid through the tax system. Since then similar arrangements have been adopted in New Zealand, South Africa, United Kingdom, Thailand, and Israel, and were considered in Germany and Canada.

A ***student capstone project at Portland State University*** resurrected Friedman's income-share concept. The plan allowed students to attend Oregon's public community colleges and universities without paying tuition and fees. Community college graduates would pay 1.5 percent of their gross earnings for 24 years after completion, and bachelor's and master's degree recipients would pay back 3 and 4 percent, respectively, during this period.

Lawmakers in ***more than 20 states*** introduced measures to direct state agencies to launch feasibility studies or initiate a pilot program. Only Oregon and Illinois have passed legislation to study PIF.



U.S. Senator Jeff Merkley and U.S. Representatives Suzanne Bonamici and Dan Kildee introduced the ***Pay It Forward College Affordability Act of 2014 -*** Directing the Secretary of Ed. to conduct studies regarding the feasibility of, and options for, implementing the Pay It Forward model for funding postsecondary education.

Source: American Association of State Colleges and Universities (AASCU) July 2014 Higher Education Policy Brief – *The "Pay It Forward" College Financing Concept: A Pathway to the Privatization of Public Higher Education*, and the National Association for College Admission Counseling (NACAC) website – *What is "Pay It Forward?"*

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History of "Pay It Forward College Financing Concept Highlights:

- The Tuition Postponement Option (TPO) enabled groups of Yale undergraduates to pay off loans as a "cohort" by committing a portion of their future annual income to pay back money borrowed from the University. The approximately 3,300 alumni who signed up for the program were to pay four percent of their annual income for every $1,000 borrowed until the entire group's debt had been paid off. Whether or not the group was successful, TPO was automatically set to end after 35 years. As inflation mounted, tax laws changed and some participants defaulted, the cohort's debt burden persisted. Making matters worse, the wealthier segment of student participants bought out of TPO early, paying 150 percent of what was borrowed plus interest. That left lower-income students with a greater burden to be split among fewer people. The program was discontinued in 1978, and in 1999 administrators were forced to change the terms of the program to address alumni concerns. Yale refunded the difference in payments to TPO as a result of a 1986 tax law change and put an end to installments in 2001, several years before most TPO groups were scheduled to stop contributing money.

- From the early 1970s to the late 1980s Australian universities were financed without any direct contribution from students. Based on significant increases in high school completion rates without a commensurate expansion in higher education places, coupled with government interest in redistribution, a small up-front student fee was instituted in 1987 as well as a request for a report outlining the costs and benefits of different approaches to the introduction of a user-pays higher education system. Based on one of the approaches outlined in the report and on a committee charged with studying the approach, the Higher Education Contribution Scheme (HECS) became policy in 1989, requiring all Australian undergraduates pay a uniform charge, with the timing and level of payment dependent on income. Under the original HECS, an $1,800 fee was charged to all university students, and the Commonwealth paid the balance. A student could defer payment of this HECS amount and repay the debt through the tax system, when the student's income reached a certain level. In 2005 a HECS debt became know as HECS-HELP, maintaining the same principles of HECS. The Government administers the Higher Education Loan Program (HELP) which consists of five HELP loan schemes to assist students with the cost of their fees. The right loan depends on the student's circumstances, eligibility and where she wants to study. The HECS-HELP scheme is both a student loan and a student discount. Eligible students may access a HECS‑HELP loan to pay their student contribution amount. Alternatively, eligible students can access the HECS‑HELP discount by receiving a 10% discount on any upfront payment of $500 or more, if they choose not to use a HECS‑HELP loan.

- The www.myrichuncle.com website was launched in May 2001, making it possible for investors to provide money to pay for a student's undergraduate or graduate degree expenses in exchange for a fixed percentage of that student's future income for a set period after graduation. In order to decide how to allocate investor financing to students and at what rates, the company built a proprietary data model which used historical data going as far back as the 1960s to predict the future income and career prospects of each student based upon a variety of academic and credit factors. Over the next few years demand for the MyRichUncle (MRU) Education Investment product grew to the point that it significantly exceeded the investment capacity of the company. Raising significant amounts of external capital allowed MRU to enter into the private student loan market in

2005 and the federal loan program in 2006. Between May 2005 and September 2008, the company originated over $550 million in student loans. However, despite its successes, the company was forced to cease further loan origination in 2008 due to the financial crisis and the increasingly limited supply of capital for making new loans from MRU's lenders, some of the largest investment banks in the world. As a result of the worsening crisis, MRU Holdings, Inc., the parent holding company of MyRichUncle, filed for Chapter 7 bankruptcy in 2009 and suspended all its operations.

- Miguel Palacios, assistant professor of finance at Vanderbilt's Owen Graduate School of Management, conducts research focusing on the intersection of human capital and asset-pricing, studying the size and riskiness of human capital, and measuring the effect that human capital has on the riskiness of firms. He also works on innovative instruments for financing education. His book, *Investing in Human Capital* (Cambridge University Press, 2004), builds the case for using innovative financial instruments based on students' future earnings to finance education. Lumni, a startup that he co-founded with Felipe Vergara, is a practical implementation of the ideas presented in the book. It currently finances students in Chile, Colombia, Mexico, Perú, and the United States. In 2002 Lumni had four students, today it has more than 5,000. Most recently, in February, he co-published an essay for American Enterprise Institute that outlined recommendations that are now addressed in federal legislation. In the American Enterprise Institute essay, "Investing in Value, Sharing Risk," Palacios suggests a student could agree to pay 10 percent of her income for 10 years after graduation. During the past decade, a handful of organizations have sprouted up to unite investors and students. For-profit groups such as Lumni, Pave and Upstart, as well as nonprofits including 13th Avenue, currently finance students through these Income Share Agreements (ISAs).
  - Pave provides a platform that helps pair teams of "backers" - older, experienced professionals - with "prospects" - 20- and 30-somethings just starting out - in what the founders call a "social financial agreement." Backers invest a certain amount of money upfront in prospects they're interested in funding and in return, prospects owe their backers a percentage of their annual income for 10 years. Prospects can use their funds however they'd like, from paying tuition or student loans to funding a film or starting a business. (www.pave.com)
  - Upstart combines crowdsourcing techniques with investment opportunities to help students finance their education and pay off their loans, and to help entrepreneurs find investors. Participants pay investors an agreed percentage of their salary for a required period, usually 10 years. (www.upstart.com)
  - 13th Avenue gives low-income students access to funds, then offers pay-as-you-go terms to graduates. The program currently has a very small "pay it forward" pilot program currently running in Santa Maria, California through Allan Hancock Community College. Eleven students who attended the community college received $15,000 to help pay for their third and fourth years of a bachelor's degree program. Once they begin earning more than $18,000 per year, they pay five percent of their salary to the group for up to fifteen years. The students were encouraged to go after scholarship money and possibly even federal loans as other options, and to use 13th Avenue to fill the gap. (13thavenuefunding.org)
  - Education Equity Inc. (EEI) is a Chicago-based start-up that hopes to change the way many students pay for their schooling. For each $5,000 of financing that a student obtains this way, he agrees to repay a total of 0.7% of his future earnings over the next 10 years. Right now the program is limited to master's degrees in teacher administration at select schools. EEI was founded by former Illinois

Student Assistance Commission Executive Director, Andy Davis. (www.educationequity.com)
    - Brain Futures are designed to democratize access to high quality seed money investment opportunities, primarily through funding and investor mentorship of entrepreneurial students and recent graduates of schools with disproportionately large numbers of ultra high net worth alumni. In addition, Brain Futures are applicable to the funding of inventors, athletes, entertainers, artists, and other individuals whose talents or other personal attributes suggest a reasonable possibility of extraordinary future financial success. Brain Futures combines long payback schedules with income-contingent payback terms that come into play only when a "BrainTrustee's" annual adjusted gross income (AGI) rises to a relatively high figure (e.g. $ 1,000,000 or more in 2014 dollars) or when a triggering event occurs (e.g. becoming CEO of a publicly traded company). (www.brainfutures.com)

- The "Pay It Forward College Affordability Act of 2013" (H.R. 3959 and S. 1884) would direct leaders at the U.S. Department of Education, U.S. Department of the Treasury, and the Consumer Financial Protection Bureau (CFPB) to conduct a study on the feasibility of, and options for, implementing a Pay It Forward model, "in a manner that is in the best interests of students." Not later than a year after the completion of such initial study, a limited number of states may apply for competitive grants to carry out a Pay It Forward pilot program in their state. Unlike the majority of state legislation introduced, the federal legislation includes a state contribution and maintenance of effort requirement. Both bills have been referred to committee.

- The "Investing in Student Success Act" (H.R. 4436 and S. 2230) was introduced to help create the legal framework for Income Sharing Agreements (ISAs). The framework is very similar to Oregon's Pay It Forward except the legislation allows private lenders to provide income sharing agreements. The legislation provides some basic restrictions on ISAs to protect consumers (15% Cap, 30 year limit) and also clearly focuses on the potential problem areas (definition of income, income tax treatment, disclosure requirements). It also reduces some of the legal uncertainty for parties that are trying to create Income Share Agreements by recognizing the agreements through federal law. Both bills have been referred to committee.