The Other Debt-Free College Idea

Only an industry as insular as academia could ignore the student-loan crack up that may eventually end traditional college, and students still load up on debt though 40% of borrowers aren't paying back what they owe. So some rare good news from this wreck: Purdue University is experimenting with a new way to finance an education.

Purdue University tries income sharing to finance education.

Rising juniors and seniors at Purdue can now apply for an income-share agreement, an equity instrument that allows a student to promise a share of future earnings in exchange for cash. The arrangement, funded by Purdue's research arm, is not a loan. A graduate who earns nothing pays nothing, and there's no risk of crushing debt if a career doesn't pan out. Recipients are free to pursue any jobs they wish.

A senior majoring in chemical engineering could sign a contract for $10,000 and pay 2.68% of her income over seven years, according to Purdue's online calculator. A student aspiring to work in less lucrative fields like comparative literature would shell out a larger portion of paychecks, but contracts last no longer than nine years. That is shorter than the federal-aid 10-year repayment plan that stretches out much longer if a borrower falls behind.

In many cases, an income-share agreement would be thousands of dollars cheaper than a federal loan, as there are no interest payments. The percentage of income is typically limited to single digits so graduates aren't tempted to ride out the repayment period on a multi-year vacation. A student in graduate school would be able to defer payment.

Some on the left bemoan income-share agreements as "indentured servitude," but that better describes today's borrowers saddled with an average of $28,000 that can't be unloaded even in bankruptcy. The objection is that successful workers might pay back more than they borrowed, though the irony is progressives cheer when top earners are forced to shell out their "fair share" in taxes. Purdue caps repayments at 2.5 times the value of the contract, and the point is to plow returns into helping future students.

Another concern is that only poor performing students will sign up, but perhaps Purdue's plan to offer contracts tailored to individuals will help the school recoup the investment. The question is whether the idea can compete with federal programs from Pell Grants to Parents Plus loans for mom and dad. But if income sharing takes off, students looking at contracts would see data on predicted earnings, and more might be inclined to choose departments that tend to produce value.

The real risk in this venture may be political. The lurkers at the Consumer Financial Protection Bureau have said they're watching income-share agreements "closely," and the government doesn't like competition. A bill introduced by Senator Marco Rubio (R., Fla.) would lay out ground rules for the arrangements and settle any lingering questions about legal enforceability, yet that has gone nowhere.

Income-share agreements can't address all the reasons college is so expensive, from armies of administrators to faculty members who don't teach. Still, Purdue deserves credit as a rare school willing to innovate now that it's clear that handing $50,000 loans to 18-year-olds isn't a sensible way to pay for college.

WSJ 4/18/16