Alternatives to student loans in the US

THE US

By Aliredha Walji

Student loans, arguably one of the highest costs incurred after paying a mortgage, are one of the most challenging financial issues affecting US society today. According to The College Board, parents of a toddler can expect to pay more than US$172,000 for four years of tuition, fees, room and board at a state school or more than a whopping US$390,000 for a four-year degree from a private college. Add additional years of schooling and you increase the debt figure.

Graduates who should be excited to apply their knowledge and skills in the workplace not only find it hard to get good paying jobs, but also have to carry around debt — along with having to pay high amounts in interest — for decades. Over 44 million Americans have outstanding student loan debt totaling over US$1.5 trillion.

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Alternative models are desperately needed, and there are at least a few that seem to be gaining traction. As mentioned in a prior contributed piece, credit unions such as the Jaffari No-Interest Credit Union are playing a crucial role in helping their communities obtain financing for college tuition without the burden of having to pay any interest.

Another option is the non-profit organization A Continuous Charity, which collects funds from donors, sponsors and investments and in turn distributes them to those in need within the US Muslim community. They also help with refinancing existing loans to eliminate interest.

So far, five chapters have been started which, as of 2018, have awarded a total of 127 loans totaling US$1.47 million and saving borrowers US$878,214 in interest.

Lastly, Defynance, launched by Farrukh Siddiqui of Zayan Takaful in November 2018, utilizes income shared agreements (ISAs) whereby a person contractually agrees to share a percentage of their income with an ISA investor for a set term in exchange for upfront financing.

Traditional loans provide borrower money in exchange for payment of the principal along with interest.

With an ISA, however, if a student graduates and does not meet a certain income threshold, they are not required to pay back their financed amount.

This is because the payments are completely income-based: the more you earn, the more you pay. The model has been practiced before with success, and while there is investor risk involved, there is also a huge upside potential: investors can earn as much as 2.5 times the amount of the loan initially provided to any one student.

Since Defynance was in their pilot phase in 2019, it will be interesting to see how things fare for them in the coming years.

In the end, regardless of which particular route they choose, one thing is for certain: students and parents will need to consider alternative options for financing education in the years to come.

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