Transcription for

THE KEY WITH INSIDE HIGHER ED

EP. 26: FINANCING CAREER COLLEGE PATHWAYS

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PAUL FAIN

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PAUL FAIN: Pearson, the world's education company and the renowned authors are bringing engaging and informative sessions to educators on the topics of politics, government, and the 2020 presidential election in a new webinar series. Save your seat by registering at go.pearson.com/election series.

Welcome to The Key with IHE, a podcast focused on the pandemic's impact on vulnerable students. I'm Paul Fain, the host and a contributing editor with Inside Higher Ed.

So the scale of the challenge facing higher ed started to come into clearer focus last week. It's not a pretty picture. The National Student Clearinghouse Research Center found fall enrollments were down 23 percent among first-time community college students this fall, and 14 percent for first-year students at four-year public institutions. Many of these students will not enroll in higher education, and the cost of attending college is a major barrier for them. So how do we help college students finance career-education pathways and in ways that pay off for them?

Chris Keaveney, the founder and CEO of Meritize thinks he has some answers. Meritize is a private lender focused on risk and friction for students, employers, and colleges. We talked with Chris about the Meritize model and what it means for skills-based learning more broadly.

CHRIS KEAVENEY: All of the schools we work with in some way, shape, or form share in the risk associated with the outcomes of students. So it's something that's very fundamental to us is that a sustainable solution around providing financing for education requires that everyone who's involved in the transaction have their interests and risks aligned.

PAUL FAIN: I also spoke with Carlo Salerno, vice president for research at Campus Logic, a student financial success technology company. Salerno is a higher education economist who brings national perspective to student loans and models like that of Meritize and income share agreements.

CARLO SALERNO: I think what we're going to see is that a lot of these financing mechanisms are really beneficial to both parties, right? Backers will get rewarded for good investments, and borrowers/fundraisers will get dollars they need, but they'll also get a safety net they need to make sure that payments or shares are never unaffordable and that they're not on the hook for debt forever. And so everybody wins.

PAUL FAIN: Let's get to the conversation.

I'm speaking with Chris Keaveney. Chris, how are you?

CHRIS KEAVENEY: Good. Good morning. How are you, Paul?

PAUL FAIN: Doing well. So we spoke a couple of times over the years and I never got around to writing about Meritize, which I regret. But I remember thinking it was a really fascinating model, and even more so now, given the pandemic and recession. Can you give listeners a sense of how you all work?

CHRIS KEAVENEY: Yeah, absolutely. So, you know, Meritize, the way we talk about it is that we are here to promote awareness, access, and advancement within the skills-based space. And that can mean a lot of things, but, really, we started about four years ago and focused first on creating access for people to get skills-based educations. We work with all sorts of programs outside of the traditional higher ed space, and we tackled that because we found that there were a lot of people who just could not go and get the skills that they wanted to get because of barriers to paying for it.

And so what we do is we look at someone's merit in evaluating them for this financing. So we look at educational history, military history, and in some cases, we're learning into this, we'll use someone's work history to evaluate them for financing. We've built the analytics around this over the course of 12 years. It's been a long project for us, and we've found strong correlations between not someone's GPA or what they may have majored in or classes they've taken, but dimensions of information that we can glean from their past around persistence, trend, and consistency in what they've done. The idea is, is that we can then assess their determination and their grit, and apply that to the likelihood they're going to be successful in getting the skills they want.

PAUL FAIN: So, you know, I get it's a derisking play for both the student and the education provider. Can you talk a little bit about what programs and what partners you work with, and then how the financing actually works?

CHRIS KEAVENEY: Yeah, absolutely. So we do this a little bit differently than what's done in most of the education space, in that we start by having, we have a team of analysts who spend all day every day looking for market dislocations between supply and demand for certain skills, right? Even geographically. We're looking for areas where, you know, the demand for certain skills outpaces the supply. Once we find situations like that that meet our criteria, we then go and find training programs that will give people those skills. And we have a pretty robust diligence process for those training programs. But at the end of the day, we'll have a contractual relationship with those training programs and provide financing for their students, with the aim of sending them right into the workforce to satisfy that skills gap.

One thing I would say is that, you know, we now have contractual relationships with over 300 schools and training programs across the country. We put them in basically five main verticals. You know, one is industrial, so that could be welding, to CNC machinist, to commercial divers, and all sorts of things in between. Allied health, which is everything from certified nursing assistants up to some pretty high-end nursing programs, medical technology, which would include things like diagnostic medical stenography and cardiomyopathy technicians. And then we have IT, which can be some of the, you know, popular boot camps and some other less obvious technology programs, cyber security, etc. And aviation, so we do work with people in the aviation industry who are training commercial pilots and aviation mechanics.

All of the schools we work with in some way, shape, or form share in the risk associated with the outcomes of students. So it's something that is very fundamental to us is that a sustainable solution around providing financing for education requires that everyone who's involved in the transaction have

their interest and risks aligned. So that means the student, the school, the financer, and ultimately the employer as well.

PAUL FAIN: I know there's more labor market analytics coming online all the time. You know, but as somebody who's doing it, I'm guessing it's a lot harder to get right than a lay person might think. But I'm wondering just generally, what sort of gulf are you seeing out there between education programs and the actual needs? I mean, how big is that gap?

CHRIS KEAVENEY: Yeah, it's a great question. And I wish I had a precise number. The only thing I can tell you is it's big. It is materially big. And, you know, the further we've gotten into to this, the more fascinating I find it, because it is truly fairly nuanced, and it's also very, very interesting, you know. So we find significant gaps in the supply and demand for certain skill sets geographically. And it has driven our strategies quite a bit, right? And we've learned over time that to think about something like on a national level, you miss a lot of the key trends and the good that you can do.

PAUL FAIN: So how has the current crisis affected what you do? Obviously, tremendous impact on lower income families, particularly Black and Latinos, and job dislocation is substantial impact on education providers is really just beginning. What... I would imagine this opens some doors for you all though in terms of opportunity.

CHRIS KEAVENEY: Yeah. I think so. You know, it's still... Obviously, this year was a shock to the system, and I would tell you that, from where we sit, not all the dust is settled yet. But I do think that, you know, like I mentioned, we started this four years ago in a very benign economic environment, right? And we kind of talked that whole time internally and to people around it, look, we were basically operating at full employment, right, so there wasn't a massive need for people to find employment. And we always said that when the inevitable turn in the economic cycle occurs, there's going to be, you know, a change in that scenario, and there are going to be lots of people who need the new skills. They need to be able to transition from what they were doing before to something new.

No one could have possibly imagined what happened this year. And I think what happens, the result of this is that it's going to take what would have been, you know, a much more gradual decline, you know, ebbing of the economic cycle and it created a very crisis almost. You know, 30, 40 million people were thrown out of work. I still believe some of them are going to go back to what they were doing before and it hasn't happened yet. And so I think we've already seen this, but I think it's going to continue over

the next I have no idea how long, but there's going to be a massive need for people to transition to new sectors, new jobs, which is going to require new skills, more skills, etc.

And so like I've said, we've started to see an uptick in demand, but I don't think it's going to go away. I think it's going to actually increase over the next six to 12 months. That does offer a big opportunity to us. It also creates a fairly big responsibility for us, because we want to be part of the solution. But it also complicates things too, right? The capital markets are still a little bit screwed up in terms of the flow of money, where that money is flowing. The political environment obviously offers some challenges. We'll see. I think 2021 will also be a pretty exciting year.

PAUL FAIN: Indeed. I'm afraid when people say 2020 can't end soon enough are forgetting we don't know what 2021's going to be like. So, you know, one of the things we've seen anecdotally, and growing data as well, that dislocated workers, potential adult students, are interested in higher education, postsecondary training, but they're anxious and uncertain about whether or not to take out, the risk is a barrier that has grown, given the anxiety and the uncertainty of the environment. You derisk, obviously. Do you think that the potential there to help students pull the trigger on a program that works if the risk seems manageable increases the need, the interest in financing options that are creative in higher education, you know, income share agreements, etc.?

CHRIS KEAVENEY: Yeah, I think that's a very critical question. It's also, you know, we could probably talk about this for hours, so I'll try to give you a couple of quick thoughts. You know, one is that, student loan has become a bad word, right? Or two words... It's a bad two words. Certainly, I would agree that, not, you know, the ideal scenario is someone not having to borrow money to get an education. I don't think there is a enough money in the government coffers to make that happen. I don't see a solution where that's feasible.

At that point, I think that, you know, giving access to education for folks is incredibly important for the future of our country. And doing it in a way that you can feel very confident that there's going to be a return on that investment. So borrowing against your education is essentially an investment. If you can be confident that there's a return on there that makes it a positive ROI decision, then that is about the best scenario we could hope for.

And that's what we focus on myopically. We have actually turned away schools that we won't work with for reasons that we could not get comfortable with that the return was there, whether their charging too much for tuition or their outcomes weren't good enough. Like it could be a couple of different

things. I think that any type of financing solution that does that ensures that there's a return on investment is something that should be discussed and something that we should look into.

I personally believe that the second dimension, which is important and we can't lose sight of, is that a solution that does make sure that there's good return on investment, if it does not have the risk and incentives aligned between all the parties participating, it won't work in the long run.

To be honest with you, like ISAs, I think they check the first box, right? They ensure that there's a return there for the person who is getting that education. And I think that's fantastic. The thing that I'm concerned about with ISAs is that the risks and interests get a little bit muddled, I believe, right? And so the person who is successful after finishing their education is actually taking on more risk than the person who is unsuccessful. And it creates weird incentives in the system, right? And so, you know, I could go on and on, but I'll leave it at that. I think that there's a way that this could be a good product. I think it's going to have its limitations in terms of the broad market.

PAUL FAIN: Thanks for indulging that. I agree with you. We could go on for a long time there. You know, but can you give us a sense... What is a successful generally outcome for you in a program? Like what are you looking for to kind of meet the threshold, just to give folks a sense of what works?

CHRIS KEAVENEY: That's another great question and it's a tough one to answer. But I will tell you that what we found in the time we've been doing this is that almost half of the folks that we have as customers, so we've helped finance their educations, are people who would not have gotten financing under any other model. There's been a lot of discussion lately, you know, the Senate Finance Committee sent out that request to a number of people using alterative data, and the subsequent requests and information that came out about that.

From day one, we have taken our responsibility seriously by using alternative data and making sure that we're going it in a compliant way. So, you know, we do test ourselves. We've had a third party look at what we do, a third party law firm, and we have found that the approach of looking at someone's merit actually is beneficial to protected classes and it does not disadvantage them. Everyone knows that credit does create barriers for protected classes. It is the nature of the beast. So we've been able to serve a large number of folks who otherwise wouldn't have been able to.

The thing that we're proud of and I think the best way that I can answer this question is that if you look at the 300 schools that we work with and look at their completion rates, I think the latest data I looked at is that the weighted average completion rates for the schools we work with is about 80 percent, which, by the way, is significantly above the overall six-ear graduation rates reported by the Department of Ed in their IPEDS data for the Title IV schools, which is another conversation. But the students that we're able to help finance their education are completing at rates that are much higher than 80 percent. It nearly 90 percent or slightly above 90 percent.

And so, you know, the model that we're employing is actually helping to find people who are going to be successful at what they're doing. If they are successful at completing, the analysis we do on the program makes sure that the employment they're going to get on the backend allows them to responsibly repay that loan and it's part of lot of our decision. That is think is probably the best way I can answer your question.

PAUL FAIN: No, I appreciate it. And, you know, I feel like we barely scratched the surface, but that tends to be what I do on this show. So I'll encourage folks to check out Meritize and the model. It definitely seems like one, as I said earlier, that can only be more interesting now, given what's happening to the economy. So Chris, appreciate you and your perspective on all this. Thanks for joining me.

CHRIS KEAVENEY: Year, look, I appreciate the opportunity to do so, and I appreciate what you're doing here. I think it's incredibly important for us to be talking about this stuff.

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All righty, we're live. I'm speaking with Carlo Salerno. How are you doing, Carlo.

CARLO SALERNO: Good morning, Paul. How are you?

PAUL FAIN: Doing well. So we today, meaning higher ed and those you care about it, read the news of a pretty substantial confirmation of the enrollment declines that we were worried about. You know, the

National Student Clearing House saw a 26 percent decline in first-year students at community colleges, sorry 23, I believe. And 16 percent at four-years. What does it mean to you?

CARLO SALERNO: Well, I think what is means more than anything is that we have a much bigger crisis than we ever thought possible, right? Like you can't have a conversation about how precariously financed most institutions are and then pull anywhere from a quarter to an eighth of tuition revenue off the table and figure out how people are going to be able to respond to that, right? There's services that need to be covered. There's, you know, bills that need to be paid. One of the things that higher ed does exceptionally well is just-in-time financing, right? Like every dollar that comes in is spent, right? We don't hoard dollars in higher ed. So when a dollar does come in, that dollar's already spent. And if that dollar is already spent, then, you know, you take those dollars away and you have to start taking resources away or thinking of where those resources are going to get pulled back. That's pretty dangerous if you're an institution that has to decide should I cut this student service, should I cut this academic service? Should I but this research function? That's a hard choice and I don't envy any university leader that has make that decision right now.

PAUL FAIN: Absolutely. You know, we're here to talk about financing and career education, career education pathways, and it just felt wrong to not start with what the community college sector, and really, what all of higher ed are looking at now. So, as you know, I talked with Chris Keaveney of Meritize about how they offer financing to students to kind of derisk that pathway. What do you think of that model and the potential for others like it right now?

CARLO SALERNO: Well, I mean, again, if we go back to the current crisis, right, like the challenge right now is... Let's take even a step higher back, right? Federal student loans, the whole federal student loan program was designed to solve the problem of, hey, I don't have any money to go to school. Is there some way that I can kind low cost, easy to access financing because maybe I'm low income or maybe I'm unemployed. And so in practice we should think, oh well, COVID has created a situation where there are low-income people and more unemployed people. And so the federal student loan program should be the obvious solution to this.

And it's not, right? Like people are worried about taking on debt or looking at the college experience and saying, you know, hey, I can't go right now. I can't figure out how to make this work. And so if the consumer struggles with figuring out how to pay for it, any tool that's designed to give them either comfort or give them some kind of financial relieve is valuable. And so if you look at the Meritize model, right, and you look at a situation where somebody can help shave basis points, make borrowing a little bit cheaper, take a different tack, give people the ability to think about... The traditional model, right, is

you know, I go get credit based on my prior history and this idea of like, well, let's not look at that. Let's look at forward future potential instead as a way to assess risk. Like that gives people of all walks of life a more even shot, because it doesn't matter if you're low income or maybe struggle with, you know, less than stellar credit, if you still want to be a biochemist and you go to the right school, or you go to school with a high value reputation, you can essentially find financing that's on a similar level to somebody who probably would have higher credit, you know, better credit score and more means and resources. And so it's a leveler, right? It gets people who traditionally wouldn't have a loan option on favorable terms a chance to get loans on favorable terms. So if you can do that, and you make borrowing cheaper, and you make loans cheaper, then you make it more affordable and that should in principle benefit everybody. That should help lift all boats, essentially. So it's a great model.

And it's also a model that ports really nicely to whether you're doing traditional higher ed or whether you're doing short form courses, right, and whether you're doing a six-month, nine-month, 12-month certification, or you looked at a boot camp arcade or some of these other places. It's just a valuable financing option. It's a better financing option because most people who are training anyway are most of the traditional market doesn't have the credit runway that you'd need to sort of give them a fair rate anyway. So it almost makes you take a step back and wonder why haven't we always done it this way, right? Like, why haven't we always just like looked at what people want to do, and base their likelihood of success on what they're planning to do rather than on what an 18 to a 20-year old who may have just a Macy's card, right, as their form of credit, you know, be their marker for how good a bet they're going to be down the road? So...

PAUL FAIN: Even for me, this is broad question about a complex topic. But income share agreements, you know, you were talking about short-form courses. you know, I wonder, I know that those are getting some extra attention right now from the General Assembly, from others, of course, even in traditional higher ed. And in the context of what we're seeing right now with the economy, where do you see the role for ISAs?

CARLO SALERNO: Yeah, well, I mean, again, ISAs are another one of those alternative forms of financing that I think provide a safety net because they give the fundraiser a manageable share or payment. And they give them protection, so if you have economic hardship, you're not held on the hook in perpetuity for some debt. But at the same time, right, like they have this sort of forward underwriting sense about them, right? Again, they reward future action rather than not only past behavior but typically it's always going to be somebody else's past behavior, right? Since you can't look at my credit rating, you're going to probably go to my parents' credit rating. My parents' ability to repay their debt or their willingness to repay their debt is not mine.

So, again, backward-looking traditional underwriting just has always been a poor fit for higher ed to begin with, right? In principle, it just doesn't make sense. ISAs are another example of filling that gap, and I think the big struggle, right, if you had to point to a challenge with forward-looking underwriting and say, well, why don't we always do it and why hasn't this been the norm? If think the challenge, right, is that perceptions and intentions change, right? It's hard to lock in and commit. I can offer you, Paul, $20,000 because you tell me you want to become a biochemist. But what if you decide that biochemistry's not for you in your third year, and you decide, you know what, I really just like write poetry. Now I've given you $20-, $30,000 thinking you're going to earn all this money in this job market in biochemistry, and now I have to reconcile that with the new economic reality that you're going to be a poet, and then, you know, I have to then figure out how to adjust. And so it creates...

There's similar logistical challenges to forward-looking underwriting that just make it really hard to practice at scale, right? It can be done. It just makes it harder to do, right? Like it's easy to look at past behavior and say this was null. It's harder to look at forward-looking behavior and say, will it persist, right? Is this person going to stay in this path? And even if they don't stay in that path... Like I could stay in the biochemistry route, to use my example, but I could also academically struggle. I could drop out as well, right? Like I don't have to change majors, I can still drop out. I could have a life event where by parents get sick or my spouse gets sick, or my child, you know, gets hurt, or my car breaks down if I'm low income. And suddenly I find myself derailed. And all of those future activities are not predictable. So I think anybody who tries to model future risk, right, has to take all these things into account and that just makes it harder. It makes it an order of magnitude harder to do that model compared to the traditional route. Even though we probably think it should be done, if that makes any sense.

PAUL FAIN: It does. You know, I wonder, given the uncertainty in the system right now, particularly what sort of jobs are going to be on the other side, does that make this forward-looking approach to underwriting harder even still?

CARLO SALERNO: So I think it depends... Again, I think it depends on where you want to look at your focus, right? Like, for folks who go into programs that are very narrowly targeted and lead to very specific job outcomes and very specific wages, in very specific employment markets, all the stuff can be modeled and it's predictable. And obviously, the shorter the course you have to endure, the more likelihood you're going to complete the course, right? It's less of a financial burden.

So all of that works in favor of forward-looking underwriting, which is probably why you see things like the Meritize model or ISAs in particular show up in the boot camp space, for example, right? Like that's a great example of where all the stars align for a financing model like this.

But it get harder as you move into the more traditional academic route, where A) I'm a freshman at a traditional university, and, you know, I know it's a four-year program, but in principle, we know it's going to take a typical student five to five and a half years. There's all these potentials for change that I talked about before in terms of preferences and choices. You know, the risk just starts to blow itself up. And even that, even if a choose, for example, and say, okay, I'm going to get an economics degree, right? I'm going to go get a bachelor's degree in economics. Well, there's probably 200 different jobs I could take as a quote "economist," right? So it gets really hard to just model what is an economist at that point. Is it somebody who works in the banking sector? It is somebody who works in a think tank? Is it somebody who works in health care as a actuarial, right? Like there's a lot of different career paths, and more career paths you have that tie back to a single degree, the hard it is to, again, manage the risk of where that graduate's going to go. So it gets hard. It's a financing program that scales better the tighter the linkage between the program and the job is. And it's a financing mechanism that scales better the shorter the program duration is, if that makes any sense.

PAUL FAIN: It does. You know, you've already noted that Meritize and the current universe of ISAs are pretty boutiquy. To get to scale, incentives, guardrails, anything that you'd like to see help nudge these things in a responsible way to being a viable option for a lot of students?

CARLO SALERNO: Yeah, sure... A better regulatory environment, right? Like I think most people will tell you that law and legislation to help sort of frame what this market looks like is really what I think investors/backers need to have the comfort to put dollars into the space right now. Without it, right, I think there's just this really... I think there's a real risk of while the market looks rosy and it looks like there's great potential to do some great things, right, like without that sort of regulatory sandbox that you know you're going to play in, you run the risk of putting money into something.

And then let's say a student doesn't make their payments or their shares, or let's say any issue crops up, without a good regulatory environment, now that issue becomes a court dispute, and now a court ends up legislating what's going to happen. And not only does it legislate, but it only legislates for a certain region, right, depending on which level of court you're going to. And that doesn't simplify things. That complicates things and it fragments things, and it just makes investment in this market even harder.

So I think if you want to see dollars flow into alternative forward-looking financing markets like this, what we need to do is give backers the comfort that they know what the rules are around getting into this market. And if can give them that kind of comfort, they can understand, you know, the risks and

rewards a little bit better and have a legal protection, their own legal safety net, we'll see more dollars flow in there.

And as more dollars flow in there, I think what we're going to see is that a lot of these financing mechanisms are really beneficial to both parties, right? Backers will get rewarded for good investments and borrowers/fundraisers will get dollars they need, but they'll also get a safety net that they need to make sure that payments or shares are never unaffordable, and that they're not on the hook for debt forever. And so everybody wins. And the longer that that happens and the larger that that market eventually grows, eventually what we'll hopefully see is a pull-back from the taxpayer-funded model that we have today, because we don't need federal student loans. You know, we will increasing need fewer student loan dollars as the private market is willing to take on the risk that taxpayers, you know, basically have dropped on them today.

PAUL FAIN: Well, I always appreciate hearing your thoughts on financial aid and financing. And I really like the way you pulled all this together. It's really complicated stuff, but I think, I actually learned a lot here listening to you. So thanks for indulging the questions. And it's also always good to talk to a fellow fan of hitting the heavy bag in the gym, you more recently than me. Even though we're across the country, good to see you as well.

CARLO SALERNO: Yeah, no. Thanks for having me. This has been great, really appreciate talking about these things. And, you know, looking forward to a chance to chat again, Paul. Thanks again.

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PAUL FAIN: Educators around the world rely on the trusted content and digital learning resources from Pearson to improve outcomes in face-to-face or hybrid learning environments. Visit Pearson for all your online teaching resources at go.pearson.com/teachingonline.

That's it for this episode. Thanks for listening. I'll be back next Tuesday. We'll be talking about transfer. Lots of swirl in higher ed, so should be a good one. I hope you'll tune in.

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