



STUDENT BORROWER
PROTECTION CENTER

INEQUITABLE STUDENT AID

A Case Study of Disparate Lending Practices
and Educational Redlining Tactics in the Market
for Income Share Agreements

March 2021

Introduction

Income share agreements (ISAs) are a risky¹ but increasingly prevalent² form of credit used to finance attendance at colleges, coding bootcamps, and various other educational and vocational training institutions.³ Under an ISA, students pledge a predetermined portion of their future income in exchange for present-day tuition funding.⁴ Over \$250 million in ISAs were originated in 2019,⁵ and market participants expected \$500 million in ISAs to be originated in 2020 before the COVID pandemic began.⁶ Though industry-wide data are unavailable, the association between ISAs and the types of for-profit career training programs known to take advantage of economic downturns⁷ implies that the volume of ISAs originated in 2020 may have ultimately been much larger.⁸

¹ See, e.g., Tariq Habash & Ben Kaufman, *As Coronavirus Crisis Rages, ISA Companies Ramp Up to Reap the Reward*, Student Borrower Prot. Ctr. (May 5, 2020), <https://protectborrowers.org/coronavirus-isa/>; Press Release, Student Borrower Prot. Ctr., *Advocated File Complaint with Federal Trade Commission, Urge Enforcement Action Against Venmo Education for its Deceptive Marketing of Income-Share Agreements to Students* (Jun. 1, 2020), <https://protectborrowers.org/vemo-release/>; Jen Mishory & Anthony Walsh, *ISA Industry Relies on Age-Old Strategy to Ignore Existing Regulations*, The Century Found. (Aug. 7, 2020), <https://tcf.org/content/commentary/isa-industry-relies-age-old-strategy-ignore-existing-regulations/>; Jen Mishory, *Private ISA Student Loans Highlight Consumer Protection Challenges*, The Century Found. (Aug. 22, 2019), <https://tcf.org/content/commentary/private-isa-student-loans-highlight-consumer-protection-challenges/>.

² See James Gallagher, *Income Share Agreements (ISAs) State of the Market 2019*, Career Karma (Nov. 12, 2019), <https://career karma.com/blog/income-share-agreement-market-report-2019/>.

³ See *supra* note 1.

⁴ Student Borrower Prot. Ctr., *Income Share Agreements*, <https://protectborrowers.org/income-share-agreements-2/>.

⁵ Spencer Israel, *What Was Missing from the Income Share Agreement Market? A Marketplace.*, Benzinga (Nov. 9, 2020 11:13 AM), <https://www.benzinga.com/government/20/11/18217678/what-was-missing-from-the-income-share-agreement-market-a-marketplace> [<https://perma.cc/2HC3-TB3Y>].

⁶ *Id.*

⁷ Peter S. Goodman, *In Hard Times, Lured Into Trade School & Debt*, N.Y. Times (Mar. 13, 2020), <https://www.nytimes.com/2010/03/14/business/14schools.html>.

⁸ See *generally* Habash, *supra* note 1.

Because ISAs are priced in part based on the school and program a student chooses to attend⁹—two factors closely associated with race¹⁰—legal experts have increasingly voiced fears that they may pose a risk of generating disparate impacts on members of protected classes and perpetuating “educational redlining” practices that harm people of color, women, and members of other historically marginalized groups.¹¹

New data indicates that Stride Funding, Inc. (“Stride Funding”) may be engaging in these practices, highlighting broader risks inherent to ISAs as a form of credit and to the consideration of borrowers’ educational backgrounds as a component of credit decisioning. Stride Funding is a private company involved in the marketing and origination of ISAs.¹² Stride Funding’s founder recently claimed that the company expects to lend to 1,800 students in the next year through its ISA product¹³ and that the company plans “to have 100,000 [ISAs] funded” by 2025.¹⁴ These loans are offered “mostly to STEM grad students like people studying to be engineers, nurses and physicians’ assistants.”¹⁵ Stride Funding’s founder has also claimed that “80% of [Stride’s] borrowers are women and 75% are underrepresented minorities.”¹⁶

⁹ See generally Stephen Hayes & Alexa Milton, *Solving Student Debt or Compounding the Crisis? Income Share Agreements and Fair Lending Risks*, Student Borrower Prot. Ctr. (Jul. 28, 2020), https://protectborrowers.org/wp-content/uploads/2020/07/SBPC_Hayes_Milton_Relman_ISA.pdf.

¹⁰ Tomás Monarrez & Kelia Washington, *Racial & Ethnic Representation in Postsecondary Education*, Urban Inst. (Jun. 18, 2020), <https://www.urban.org/research/publication/racial-and-ethnic-representation-postsecondary-education>; Lisa Dickson, *Race & Gender Differences in College Major Choice*, Research Gate (May 2009), https://www.researchgate.net/publication/229050752_Race_and_Gender_Differences_in_College_Major_Choice.

¹¹ See generally Aryn Bussey, *Educational redlining? The use of educational data in underwriting could leave HBCU & MSI graduates in the dark*, Student Borrower Prot. Ctr. (Jul. 24, 2019), <https://protectborrowers.org/educational-redlining/>.

¹² *The most flexible way to pay for school.*, Stride Funding, <https://www.stridefunding.com/> [<https://perma.cc/W2BY-92KU>].

¹³ *Profile: Tess Michaels, Founder Stride Funding Los Angeles, Cal.*, Forbes, <https://www.forbes.com/profile/tess-michaels/?sh=4cbe3310306f> [<https://perma.cc/5XCM-KWCA>].

¹⁴ Osman Yildirim, *Startup Spotlight #15: AlmaPact*, Medium (Aug. 27, 2020), <https://medium.com/hackquarters/startup-spotlight-15-almapact-77f902960bc1> [<https://perma.cc/FZ99-9PV7>].

¹⁵ *30-Under-30 Tess Michaels, 27*, Forbes, <https://www.forbes.com/30-under-30/2021/education/?profile=tess-michaels> [<https://perma.cc/UX8H-JFWL>].

¹⁶ *Id.*

An investigation by the Student Borrower Protection Center (SBPC) has uncovered evidence that Stride Funding's lending model may violate federal fair lending law by penalizing borrowers of color for attending minority-serving institutions (MSIs) such as Historically Black Colleges and Universities (HBCUs). Specifically, Stride Funding's own data reveals that a student attending an MSI can expect to pay significantly more for the same ISA than an otherwise-identical peer who attends a comparable school that is not an MSI. This finding often holds even when the MSI is the higher ranked school.

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Innovation in education finance cannot simply be a veil for age-old discrimination. The present findings highlight the substantial risks that emerge when lenders consider a credit applicant's educational history and how pronounced those risks are in the market for ISAs.

Background

Alternative Data and Fair Lending Risk

Financial services firms have long touted the use of nontraditional or “alternative” data (e.g., consumers’ cell phone or utility bill repayment histories) in underwriting as a purported method to expand access to credit.¹⁷ However, policymakers,¹⁸ academics,¹⁹ advocates,²⁰ and law enforcement officials²¹ have warned that such data can introduce or amplify disparate impacts that companies’ lending models may have on protected classes.

In 2020, the SBPC published a report highlighting that the use of one type of alternative data—information about credit applicants’ educational history, referred to as “educational criteria”—can “penalize borrowers of color and community college students.”²² The report documented the results of an investigation involving mystery shopping on the website of a prominent fintech company and a large bank, both of which consider educational criteria when making lending decisions. This investigation found that at one company, a graduate of an HBCU

¹⁷ See e.g., *Alternative Data See Beyond Traditional Credit*, Equifax, <https://www.equifax.com/business/alternative-data/> [<https://perma.cc/Y2PY-NKQY>].

¹⁸ Press Release, U.S. Sen. Sherrod Brown, Brown, Warren, & Harris Call on CFPB to Protect Borrowers from Discrimination (Jul. 31, 2020), <https://www.brown.senate.gov/newsroom/press/release/brown-cfpb-protect-borrowers-from-discrimination>; Press Release, U.S. H. Comm. on Fin. Serv., Committee Democrats Request Information on the Role of Alternative Data in Expanding Access to Credit (Jan. 16, 2020), <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=406072>.

¹⁹ Christopher K. Odinet, *The New Data of Student Debt*, 92 S. Cal. L. Rev. 1617 (2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3349478.

²⁰ Press Release, NAACP Legal Defense Fund & Student Borrower Protection Center Send Letter to Financial Technology Firm over Equal Credit Opportunity Act & Fair Housing Act Violations (Jul. 30, 2020), <https://www.naacpldf.org/press-release/ldf-and-student-borrower-protection-center-send-letter-to-financial-technology-firm-over-equal-credit-opportunity-act-and-fair-housing-act-violations/>.

²¹ Notice & Request for Info., No. CFPB-2017-0005 CFPB (Feb. 14, 2017), https://files.consumerfinance.gov/f/documents/20170214_cfpb_Alt-Data-RFI.pdf; Fed. Trade Comm’n, *Big Data: A Tool for Inclusion or Exclusion? Understanding the Issues* (Jan. 2016), <https://www.ftc.gov/system/files/documents/reports/big-data-tool-inclusion-or-exclusion-understanding-issues/160106big-data-rpt.pdf>.

²² See Press Release, Student Borrower Prot. Ctr., *New Report Finds ‘Educational Redlining’ Penalizes Borrowers Who Attended Community Colleges & Minority-Serving Institutions, Perpetuates Systemic Disparities* (Feb. 5, 2020), <https://protectborrowers.org/new-report-finds-educational-redlining-penalizes-borrowers-who-attended-community-colleges-and-minority-serving-institutions-perpetuates-systemic-disparities/>; Bussey, *supra* note 11.

could pay “\$3,499 more over the life of a five-year loan” than an otherwise identical student who did not attend an HBCU.²³

The SBPC’s 2020 report underscored the serious consumer risk associated with the use of educational criteria in consumer lending: in addition to generating disparate outcomes for protected classes, the practice involves judging individuals’ creditworthiness based on their group identity, even though financial outcomes typical for

For borrowers who are members of protected classes, these practices may result in diminished access to credit or a need to pay more than similarly situated white peers for the same loan.

students of a given institution or program may not reflect the creditworthiness of any specific individual who attends that institution or program. For borrowers who are members of protected classes, these practices may result in diminished access to credit or a need to pay more than similarly situated white peers for the same loan.

Awareness of the phenomenon of educational redlining is not new. In 2007, the state of New York alleged that a student loan company had charged students with high credit ratings who attended non-selective institutions higher interest rates than borrowers with worse credit

scores who attended more selective institutions.²⁴ Reflecting on the case, representatives from the New York State Attorney General’s Office stated, “[j]ust as lenders in the mortgage industry once made judgments about credit lending in entire neighborhoods as a whole, so too are lenders making generalized judgments about student and parent risk based on a student’s school neighborhood.”²⁵ As state law enforcement saw it, such a use of non-individualized educational credit factors runs the risk of creating a tiered credit market that cements existing disparities across socioeconomic strata, race, and gender—favoring applicants for the “prestige” of their educational institutions rather than their individual creditworthiness.²⁶

Similarly, the Consumer Financial Protection Bureau (CFPB) warned in 2011 that there could be grave fair lending risks associated with the use of the cohort default rate (CDR) of the institution in which a student is enrolled to

²³ *Id.*

²⁴ *Cuomo charges ‘redlining’ in student loan probe*, NBC News (Jun. 19, 2007 2:45 PM), <https://www.nbcnews.com/id/wbna19316230#.XjnY6xNKhQI> [<https://perma.cc/F62B-EQUU?type=image>].

²⁵ Karen W. Arenson, *Some Lenders Are Setting Rates College by College*, N.Y. Times (Jun. 19, 2007), https://www.nytimes.com/2007/06/19/us/19loans.html?_r=1&oref=slogin.

²⁶ See *supra* note 22.

generate an “eligibility cutoff” for the purpose of credit decisioning.²⁷ CDR measures the proportion of student loan borrowers from a given college who enter repayment on federal student loans in a certain period and who ultimately default on their loans during that period.²⁸ Even though “CDR was not specifically intended to assist private lenders in eligibility, underwriting, and pricing decisions,” the CFPB noted that private creditors were increasingly using CDR to inform lending decisions by simply not lending to students attending institutions with CDRs beyond certain “eligibility cutoff” levels.²⁹ The CFPB warned that this practice is likely to be problematic, as “racial and ethnic minority students are disproportionately concentrated in schools with higher CDRs.”³⁰ Later, in 2014, the FDIC took action against the student lender Sallie Mae in part for using CDRs to price private student loans, a practice the FDIC determined to be in violation of the Equal Credit Opportunity Act (ECOA).³¹

²⁷ CFPB, Private Student Loans 78 (Aug. 29, 2019), https://files.consumerfinance.gov/f/201207_cfpb_Reports_Private-Student-Loans.pdf. Note also that Congress specifically directed the CFPB to consider the use of cohort default rates in underwriting by private student loan companies. Dodd-Frank Wall Street Reform & Consumer Protect. Act, 12 U.S.C. 5301 § 1077(D)-(F), <https://www.govinfo.gov/content/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf#page=702>.

²⁸ CFPB, *supra* note 27.

²⁹ *Id.*

³⁰ For example, the CFPB found that “African-American and Hispanic students were almost twice as likely as students generally to attend schools with a CDR above 8% than schools with a rate below the threshold.” Reliance by lenders on program-level CDR cutoffs to determine individual credit applicants’ access to and cost of credit could therefore result in educational redlining. As the CFPB put it, “use of CDR to determine loan eligibility, underwriting, and pricing may have a disparate impact on minority students by reducing their access to credit and requiring those minority students who meet the lenders’ eligibility thresholds to pay higher rates than are otherwise available to similarly creditworthy non-Hispanic White students at schools with lower CDRs.” *Id.*

³¹ In the Matter of Sallie Mae Bank, FDIC-13-0366b (May 13, 2014), <https://www.fdic.gov/news/press-releases/2014/salliemae.pdf> [<https://perma.cc/YG7S-7LWC>].

Educational Redlining and Income Share Agreements

The risk of educational redlining is pronounced in the ISA space.³² ISAs are consumer contracts wherein a student pledges a portion of his or her future income in exchange for money used to pay for college.³³ ISA providers will generally vary the terms of their product (including the proportion of income that a borrower must pay back, the income threshold that determines when a borrower must begin repayment, and the number of payments a borrower must make to fulfill their obligations) based on the student's institution and/or major of choice.³⁴ This design is intended to prevent adverse selection in the ISA market, as applying uniform ISA terms to all borrowers could lead only students who expect relatively low incomes after graduation to take up the product while students who expect to earn more (and who would be most lucrative to lenders) would prefer more traditionally structured private student loans.³⁵

³² See Am. Enter. Inst., Pricing Without Discrimination Alt. Student Loan Pricing, Income-Share Agreements, & The Equal Credit Opportunity Act (Feb. 2017), <https://www.aei.org/wp-content/uploads/2017/02/Pricing-Without-Discrimination.pdf> ("[W]ith AltFinance, which prices loans based on a student's perceived likelihood of repayment, and ISAs, in which an investor obtains repayment based on a student's future income, the risk of Equal Credit Opportunity Act (ECOA) claims is significant"); Fed. Res. Bank of Philadelphia, Modern Income-Share Agreements in Postsecondary Education: Features, Theory, Applications (Dec. 2019), <https://www.philadelphiafed.org/-/media/frbp/assets/consumer-finance/discussion-papers/dp19-06.pdf> ("Any financial contract with the potential for a high degree of market segmentation in payment terms is susceptible to overt or inadvertent discriminatory practices. ISA terms are selected in light of projected future earnings, but these earnings are highly correlated with a number of demographic characteristics."); Mike Koczal, *Human Capital Contracts Would Discriminate on Gender, Race & Class*, Roosevelt Inst. (Jan. 19, 2016), <https://rooseveltinstitute.org/2016/01/19/human-capital-contracts-would-discriminate-on-gender-race-and-class/> ("You can't say that ISAs would tease out the minor pay differences that would come from marginal higher education choices without also noting that they would focus like a laser on the pay differences that come from structural discrimination.").

³³ *Supra* note 4.

³⁴ *Supra* note 9.

³⁵ See, e.g., Kevin J. Mumford, Purdue Uni., Student Selection into an Income Share Agreement 26 (Feb. 2020), <https://www.krannert.purdue.edu/faculty/kjmumfor/papers/Mumford%20Income%20Share%20Agreement%20Selection.pdf> [<https://perma.cc/UVT8-4BTD>] ("If there were a single income share percentage applied to all students at the university, I believe there would be strong adverse selection by major and year in school.").

Given that income,³⁶ college selection,³⁷ and students' choice of major³⁸ are all closely associated with race, allowing ISA products to be priced based on a borrower's program of study or institution attended as a proxy for future income potential opens the door for educational redlining and other fair lending violations.³⁹ As described in an analysis published by the American Enterprise Institute, "there is a significant risk that evaluating students on these factors tends to generate disparate impact on protected classes. Because some of the best predictors of student performance and future income are familial factors, such factors will disparately affect traditionally underserved communities."⁴⁰ Put more simply in a recent blog post by a leading scholar of consumer finance, the practice of varying the cost of an ISA based on a student's institution or major means that "students at an HBCU or MS[I] (minority-serving institutions) or Gethemane Christian College or the Ploni Almoni Rabbinical Academy could be offered different terms than the students at Big Time State or at Olde New England College, irrespective of any actuarial differences. Similarly, computer science majors could be offered a different rate than, say psychology majors or Chicano studies majors, irrespective of any actuarial differences."⁴¹

Given that income, college selection, and students' choice of major are all closely associated with race, allowing ISA products to be priced based on a borrower's program of study or institution attended opens the door for educational redlining and other fair lending violations.

³⁶ Valeria Wilson, *Racial disparities in income & poverty remain largely unchanged amid strong income growth in 2019*, Econ. Policy Inst. (Sep. 16, 2020 10:49 AM), <https://www.epi.org/blog/racial-disparities-in-income-and-poverty-remain-largely-unchanged-amid-strong-income-growth-in-2019/>.

³⁷ Monarrez, *supra* note 10.

³⁸ Dickson, *supra* note 10.

³⁹ *Supra* note 32; see also Student Borrower Prot. Ctr., *Emerging Risks Virtual Conference Series Panel #2: Fair Lending, Discrimination, & ISAs*, YouTube (Jul. 31, 2020), https://www.youtube.com/watch?v=6J7l2eVcg4s&feature=emb_logo (then-FTC Commissioner Rohit Chopra saying, "our student debt market is definitely broken, and it needs a massive overhaul. And I'm not sure that new products like Income Share Agreements will be an antidote, especially if they worsen existing disparities. . . . However elaborate the financial product, discrimination is discrimination, and regulators need to be vigorous in rooting it out to protect those we've designated as in need of defense against discrimination").

⁴⁰ Am. Enter. Inst., *supra* note 32.

⁴¹ Adam Levitin, *How NOT to Regulate ISAs*, Credit Slips (Aug. 1, 2019 8:36 PM), <https://www.creditslips.org/creditslips/2019/08/how-not-to-regulate-isas.html>.

In fact, one need not speculate regarding whether ISAs could be priced in such a way as to generate disparate outcomes for protected classes, as recent analysis indicates that such products may already be present in the market.⁴² For example, fair lending experts recently noted that the advertised cost of an ISA offered at the University of Utah was thousands of dollars higher for students in majors with relatively more female students and students of color.⁴³

Table 1: Majors and advertised ISA cost at the University of Utah⁴⁴

	MAJORS THAT ARE NOT LARGELY WHITE AND MALE		MAJORS THAT ARE LARGELY WHITE AND MALE	
	LATIN AMERICAN STUDIES	SOCIOLOGY	FINANCE	MINING ENGINEERING
Major: Percent Female	63%	66%	15%	15%
Major: Percent Domestic Students of Color	50%	43%	17%	18%
ISA: Percent of Income to be Paid	4.90%	4.63%	3.49%	3.27%
ISA: Required Number of Payments	112	106	80	74
ISA: Advertised Total Cost	\$18,426	\$18,183	\$15,528	\$15,383

Though ISAs are often framed as “novel”⁴⁵ and “innovative,”⁴⁶ pricing disparities such as those depicted above indicate that these products may simply be a vehicle for age-old discriminatory practices.

⁴² *Supra* note 9.

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ *Income-Share Agreements Are a Novel Way to Pay Tuition Fees*, Economist (July 19, 2018), <https://www.economist.com/finance-and-economics/2018/07/19/income-share-agreements-are-a-novel-way-to-pay-tuition-fees> [<https://perma.cc/B54W-XCW8>].

⁴⁶ *Income Share Agreement*, Univ. of Utah, <https://isa.utah.edu/> [<https://perma.cc/32HA-XQVD>].

The Applicability of Consumer Protection and Fair Lending Law to ISAs

A defining feature of the marketing of ISAs is industry's insistence that the contracts are not student loans⁴⁷ or not even a form of credit⁴⁸ and that they therefore fall outside of the legal structures that may be used to address the potential disparate impacts described above.⁴⁹ However, legal experts increasingly agree that ISAs are simply another form of consumer credit that falls squarely within the purview of ECOA, the Truth in Lending Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, and the Consumer Financial Protection Act of 2010,⁵⁰ meaning that they fall under the CFPB's supervisory, enforcement, and rulemaking authority.⁵¹ As the authors of a recent analysis described the issue, "ISAs are just another type of student loan. To obtain an ISA, as with a student loan, students apply to a company to obtain money for their education in exchange for a promise to repay the company in the future The fact that borrowers can pay back their ISAs as a percentage of their post-graduate income is nothing special—in fact, payment plans based on a percentage of income are available to the vast majority of students repaying federal student loans and a growing number with private student loans. The thing an ISA most resembles in the world is a student *loan*."⁵² ISAs "therefore are already subject to federal regulation and enforcement."⁵³

If this is the case, it is possible that ISAs could be challenged under existing civil rights laws. Civil rights lawyers have already begun charting a course for challenges along these lines.⁵⁴ In a recent publication, for example, two

⁴⁷ Mitch Daniels, *Opinion: Here Is a Powerful Alternative to Student Loans*, Wash. Post (Nov. 28, 2019, 3:00 AM), https://www.washingtonpost.com/opinions/income-share-agreements-are-a-powerful-alternative-to-student-loans/2019/11/27/5290d0ee-0be3-11ea-97ac-a7ccc8dd1ebc_story.html.

⁴⁸ Lambda, Inc., *Income Share Agreement*, <https://lib.openlaw.io/web/default/template/Lambda%20Income%20Share%20Agreement%20%28LISA%29%20%28Tokenize%29> [<https://perma.cc/256D-G6WE>] ("[T]his Agreement is not 'credit' . . .").

⁴⁹ Joanna Pearl & Brian Shearer, Student Borrower Prot. Ctr., *Credit by Any Other Name: How Federal Consumer Financial Law Governs Income Share Agreements* (July 21, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3661989.

⁵⁰ *Id.*

⁵¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. § 5301, §§ 5481-5603.

⁵² Pearl & Shearer, *supra* note 49 (emphasis in original).

⁵³ *Id.*

⁵⁴ Student Borrower Prot. Ctr., *Solving Student Debt or Compounding the Crisis?: Income Share Agreements and Fair Lending Risks* (July 2020), https://protectborrowers.org/wp-content/uploads/2020/07/SBPC_Hayes_Milton_Relman_ISA.pdf.

experts working in fair lending law noted that ISA companies' practices "echo allegations of discriminatory targeting in reverse redlining case law," that "features of ISAs could raise risks under traditional disparate impact analysis," and that "in addition to ECOA, various other statutory vehicles exist for challenging discrimination in ISA programs" including "state and local fair lending laws, state and local public accommodations statutes, and federal funding and education antidiscrimination laws. . . ." ⁵⁵ As the legal foundation for fair lending claims against ISA providers solidifies, it becomes all the more important for researchers and law enforcement officials to identify firms in the ISA space deploying tactics that may pose fair lending risks.

⁵⁵ *Id.*

Stride Funding

To highlight the potential for ISA providers to engage in educational redlining, the SBPC examined the products offered by Stride Funding, a company that provides ISAs to students attending a variety of postsecondary institutions.⁵⁶ Stride Funding claims to set the cost of its ISAs based on “a number of factors including academic program, college or university, and when a student will start earning an income.”⁵⁷ It is not clear whether Stride Funding uses other educational criteria such as the average SAT score for a given institution to inform its underwriting.⁵⁸ Stride Funding notes that it does check applicants’ credit scores “to make sure your other obligations are manageable,” but the company states, “[w]e do not base our approval on a particular credit score.”⁵⁹ As discussed above, Stride Funding lends “mostly to STEM grad students like people studying to be engineers, nurses and physicians’ assistants,”⁶⁰ and Stride Funding’s founder has claimed that “80% of [Stride’s] borrowers are women and 75% are underrepresented minorities.”⁶¹

The SBPC conducted extensive mystery shopping on a random sample of Title IV schools, analyzed the relationship between school and program characteristics and Stride Funding’s marketing of its ISA offerings, and supplemented its findings with specific illustrative comparisons of ISA cost quotes provided by Stride Funding through its online ISA price estimation tool for specific programs and schools. Further methodological detail is available in Appendix A.

⁵⁶ *Supra* notes 1, 5-6 and accompanying text; see also *Paying for College with a Stride Funding ISA*, Scholarships360, <https://scholarships360.org/financial-aid/stride-funding-isa/> [<https://perma.cc/3KYN-3888>].

⁵⁷ *Why ISAs?*, Stride Funding, <https://www.stridefunding.com/students> [<https://perma.cc/SSB8-MNLF>].

⁵⁸ See Katherine Welbeck & Ben Kaufman, *Fintech Lenders’ Responses to Senate Probe Heighten Fears of Educational Redlining*, Student Borrower Prot. Ctr. (July 31, 2020), <https://protectborrowers.org/fintech-lenders-response-to-senate-probe-heightens-fears-of-educational-redlining/>.

⁵⁹ *Why ISAs?*, Stride Funding, <https://www.stridefunding.com/students> [<https://perma.cc/XRF3-XYDR>].

⁶⁰ *Tess Michaels*, *supra* note 15.

⁶¹ *Id.*

The results of this investigation include the following:

- **Stride Funding’s own data reveals that a student at an HBCU can expect to pay more for one of Stride Funding’s ISA products than an otherwise-identical peer who does not attend an HBCU.** Students choosing whether to attend an HBCU should not have to weigh their desire to enroll in the school of their choosing against the risk that doing so could lead them to face thousands of dollars of additional charges for financial products. With Stride Funding, however, that risk may be a reality.

Table 2 contains price quotes provided by Stride Funding for an undergraduate computer science major seeking funding to be disbursed in June 2021 with a projected graduation date of June 2022. Everything about this credit applicant was held constant to generate the following price quotes except for the school the credit applicant reportedly attended. All price quotes were provided directly from Stride Funding. Given that most college students choose which institution to attend in large part based on a school’s proximity,⁶² the following comparisons are structured as one-to-one matchings between relatively nearby schools that a student may reasonably choose between. This comparison structure is intended to more closely approximate the real-life choices and credit consequences prospective students face when considering where to go to college. Comparison schools were selected based on proximity and relative similarity in various metrics for student outcomes. See Appendix A for additional detail.

Stride Funding’s own data reveal that someone choosing between each of these nearby pairs of schools could expect to pay hundreds or thousands of additional dollars for the same amount of financing through Stride Funding if they attend an HBCU. For example, Tuskegee and Auburn may be only roughly

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⁶² See generally Abigail Wozniak, *Going Away to College? School Distance as a Barrier to Higher Education*, EconoFact (Mar. 22, 2018), <https://econofact.org/going-away-to-college-school-distance-as-a-barrier-to-higher-education> [<https://perma.cc/TGK9-XK5Y>]; see also Nicholas Hillman & Taylor Weichman, Am. Council on Educ., *Education Deserts: The Continued Significance of “Place” in the Twenty-First Century* (2016), <https://www.acenet.edu/Documents/Education-Deserts-The-Continued-Significance-of-Place-in-the-Twenty-First-Century.pdf> [<https://perma.cc/QXB8-W6VQ>] (showing that the median student in the U.S. attends a college only 13 miles from home).

20 miles apart,⁶³ but the quoted cost of a \$10,000 Stride Funding ISA for a computer science major attending these two schools is separated by over \$2,800 in additional charges for Tuskegee students.⁶⁴

The comparisons above are not isolated examples. Across a range of majors and schools, the SBPC identified disparities in Stride Funding's stated pricing for students at HBCUs. See Appendix B.

Table 2: Comparing Stride Funding's price quotes for a \$10,000 ISA for an undergraduate computer science major graduating in June 2022 with funding disbursed in June 2021 using Stride Funding's estimated starting incomes⁶⁵

HBCU	STRIDE'S QUOTED COST FOR THE ISA	NEARBY COMPARISON SCHOOL	STRIDE'S QUOTED COST FOR THE ISA	ADDED COST FOR THE HBCU ATTENDEE	DIFFERENCE IN COST OF CREDIT FOR THE HBCU ATTENDEE
Tuskegee	\$20,000	Auburn	\$17,198	+\$2,802	+39%
Morehouse	\$18,424	Emory	\$17,057	+\$1,367	+19%
Howard	\$17,952	Georgetown	\$16,702	+\$1,250	+19%
Hampton	\$18,122	William & Mary	\$16,889	+\$1,233	+18%
Florida A&M University	\$18,122	Florida State University	\$16,922	+\$1,200	+17%
Xavier University of Louisiana	\$18,122	Tulane	\$17,304	+\$818	+11%
North Carolina A&T	\$18,596	UNC Greensboro	\$18,036	+\$560	+7%
Spelman	\$17,404	Emory	\$17,057	+\$347	+5%

⁶³ *Transportation*, Tuskegee Univ., <https://www.tuskegee.edu/tours/visiting-tuskegee/transportation> (last accessed Feb. 26, 2020).

⁶⁴ See *infra* Table 2.

⁶⁵ Stride Funding, *Funding Terms*, [<https://perma.cc/S9DK-B5HX>] (Computer Science, Tuskegee University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/DP7E-F42U>] (Computer Science, Auburn University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/UPR3-WCAS>] (Computer Science, Morehouse College) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/RWL6-K9CM>] (Computer Science, Emory University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/FKH8-4XRU>] (Computer Science, Howard University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/87NH-DA23>] (Computer Science, Georgetown University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/7R2L-DVKR>] (Computer Science, Hampton University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/ES3F-HAM3>] (Computer Science, College of William and Mary) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/H2KJ-8XKW>] (Computer Science, Florida

- **After graduation, HBCU alumni owing on Stride Funding’s products can expect to pay substantially more for an ISA than identical people working in the same job who graduated from a non-MSI.** The preceding analysis shows the disparities that appear to arise in Stride Funding’s model when the company estimates the cost of an ISA based on data it supplies regarding graduates’ expected starting incomes.⁶⁶ However, that is not the only avenue through which Stride Funding’s model may generate the expectation of disparities for students at HBCUs. Analysis of Stride Funding’s pricing patterns reveals that the company’s advertised ISA terms could lead an HBCU graduate to pay substantially more for the same amount of funding than someone with the same income and who is otherwise financially identical but who did not attend an HBCU.⁶⁷ This finding illustrates how educational redlining harms borrowers in the real world—even though the two people may be identical, the HBCU graduate could face thousands of dollars in added costs for credit.

Consider two recent graduates: one from Morehouse and one from Emory. Both studied economics during undergrad, both graduated in the same year, and both chose to stay in Atlanta after graduation. In fact, the two took on the exact same job as financial analysts at the same firm, where they each earn the average salary for a financial analyst in Atlanta: \$59,774.⁶⁸ The two recent graduates both borrowed \$10,000 through a Stride Funding ISA to help finance their undergraduate education. Though they differ

Agricultural and Mechanical University) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/9FPT-E746>] (Computer Science, Florida State University) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/PCZ5-78GM>] (Computer Science, Xavier University of Louisiana) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/SM7A-DABB>] (Computer Science, Tulane University of Louisiana) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/B3SZ-EJ24>] (Computer Science, North Carolina A & T State University) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/ZBY2-8YAY>] (Computer Science, University of North Carolina at Greensboro) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/3LJL-5K7W>] (Computer Science, Spelman College) (accessed Jan. 12, 2021).

⁶⁶ Regarding the sourcing of Stride Funding’s data on graduates’ starting salaries, see Stride Funding, *How do we predict your future income?*, [<https://perma.cc/CEN3-5PST>] (excerpt from standard landing page stating: “Stride leverages public and proprietary data sets to predict starting salaries and raise rates across schools and majors. You are encouraged to do your own research, but some of our favorite sources include the Department of Education’s College Scorecard Database, the Bureau of Labor Statistics wage database, the US Census Bureau’s American Community study. Stride also uses private and proprietary databases, and we strive to ensure predictions are validated across multiple data sources”).

⁶⁷ See Appendix A. In general, the SBPC calculated the cost of an ISA using data Stride Funding generated on the income share, minimum income threshold, repayment cap, and repayment period length of an ISA for students in various courses of study at various institutions of higher education. Assumes constant income growth at 4% per year.

⁶⁸ *Financial Analyst Salaries in Atlanta, GA Area*, Glassdoor, [https://www.glassdoor.com/salaries/atlanta-financial-analyst-salary-SRCH_IL07_IM52_KO8,25.htm] [<https://perma.cc/NQU6-7F3M>].

in the college they attended, the two people are identical in every discernable aspect of their financial lives.

In this case, the person who attended Morehouse, an all-male HBCU, can expect to pay \$1,619 more for their ISA (equivalent to a 20 percent higher cost of credit) than the person who attended Emory based on Stride Funding's quoted pricing structure.⁶⁹ This is because Stride Funding quotes Morehouse undergraduates studying economics the price of 6.15 percent of their income for a \$10,000 ISA while quoting Emory undergraduates with the same major only 5.65 percent of their income as the price for the same amount of funding.

This is not an isolated example. See Appendix C.

⁶⁹ SBPC calculation. Assumes constant income growth at 4% per year. See Appendix A.

Table 3: Comparing the estimated price of a \$10,000 Stride Funding ISA for an undergraduate economics major graduating in June 2022 with funding disbursed in June 2021 using the same starting income across schools⁷⁰



- \$10,000 ISA
- June 2021 funding date
- June 2022 graduation
- Bachelor's degree, Economics

Borrower A
 Job: Financial Analyst
 Location: Atlanta, GA
 Income: \$59,774
 College:



Morehouse College
 95% Black
 HBCU

Borrower B
 Job: Financial Analyst
 Location: Atlanta, GA
 Income: \$59,774
 College:



Emory University
 9% Black
 Not an HBCU

Stride's income share: 6.15%
ISA cost: \$19,911

Stride's income share: 5.65%
ISA cost: \$18,292

Stride's penalty for attending an HBCU: \$1,619

Perhaps even more concerning, had the exact same Morehouse student been female, studied economics at Spelman (an all-female HBCU that is adjacent Morehouse), and applied for the same ISA,

⁷⁰ Stride Funding, *Funding Terms*, [<https://perma.cc/EW35-6ALF>] (Economics, Morehouse College) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/SG5B-2HBK>] (Economics, Emory University) (accessed Jan. 12, 2021); *Morehouse Demographics: How Diverse Is It?*, College Factual, [<https://www.collegefactual.com/colleges/morehouse-college/student-life/diversity/>] (last accessed Feb. 26, 2021); *Emory Student Population Stats*, College Factual, [<https://www.collegefactual.com/colleges/emory-university/student-life/diversity/>] (last accessed Feb. 26, 2021); SBPC calculation. Assumes constant income growth at 4% per year. See Appendix A.

Stride Funding simply would not have offered her one.⁷¹ Instead, she would have been met with a message saying, "unfortunately, based on the information you provided, Stride Funding is unable to fund your education at this time."⁷²

- **Stride Funding's apparently disparate pricing behavior extends across other MSIs.** Stride Funding's practices may not only harm students attending HBCUs, as there is evidence that the company's pricing model may also penalize students attending Hispanic-Serving Institutions (HSIs). For example, Table 4 revisits the example of an undergraduate computer science major seeking a Stride Funding ISA to be disbursed in June 2021 with a projected graduation date of June 2022 but this time with the borrower choosing between an HSI and a nearby school that is not an HSI. The price quotes included were provided directly from Stride Funding, and everything about this potential credit applicant was held constant except for the school they reportedly attended. See Appendix A for additional detail.

Just as in the case of students considering an HBCU, Stride Funding's own data reveals that students who attend HSIs can expect to be charged thousands of dollars more for the same amount of financing if they take on a Stride Funding ISA.

Students at other types of MSIs may also be penalized by Stride Funding's model. For example, there is evidence that Stride Funding may be selectively targeting its high cost, high risk product toward students at tribal colleges but not to those at nearby public colleges.⁷³ These findings underscore the need for immediate and substantial scrutiny of Stride Funding's conduct.

⁷¹ Stride Funding, *Our Partners Are Here To Help!*, [<https://perma.cc/92MN-C3PB>] (In testing Stride Funding's model, we applied for a \$10,000 Stride Funding ISA for a student studying economics at Spelman graduating in June 2022 with a funding date in June 2021. We were directed to this page declining to offer us a loan.) (accessed Jan. 12, 2021).

⁷² *Id.*

⁷³ In one example, Stride Funding marketed its expensive ISA product as being available for undergraduates pursuing degrees in "Teaching and Teacher Education" at Diné College and Haskell Indian Nations University, two tribal colleges, but not at University of New Mexico-Main Campus or at the University of Kansas-Lawrence, two non-tribal colleges that may respectively serve as "comparison schools" as defined in Appendix A for these two tribal colleges. See Stride Funding, *Funding Terms*, [<https://perma.cc/ND6K-58JW>] (Teaching and Teacher Education, Haskell Indian Nations University) (accessed Jan. 13, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/W87P-LAX9>] (Teaching and Teacher Education, Diné College) (accessed Jan. 13, 2021); Stride Funding, *Our Partners Are Here To Help!*, [<https://perma.cc/X7GB-YFFA>] (In testing Stride Funding's model, we applied for a \$10,000 Stride Funding ISA for a student studying Teaching and Teacher Education at the University of Kansas-Lawrence graduating in June 2022 with a funding date in June 2021. We were directed to this page declining to offer us a loan.) (accessed Jan. 13, 2021); Stride Funding, *Our Partners Are Here To Help!*, [<https://perma.cc/6RQM-J2VT>] (In testing Stride Funding's model, we applied for a \$10,000 Stride Funding ISA for a student studying Teaching and Teacher Education at the University of New Mexico-Main Campus graduating in June 2022 with a funding date in June 2021. We were directed to this

Table 4: Comparing Stride Funding’s price quotes for a \$10,000 ISA for an undergraduate computer science major graduating in June 2022 with funding disbursed in June 2021 using Stride Funding’s estimated starting incomes⁷⁴

HSI	STRIDE’S QUOTED COST FOR THE ISA	NEARBY COMPARISON SCHOOL	STRIDE’S QUOTED COST FOR THE ISA	ADDED COST FOR THE HSI ATTENDEE	DIFFERENCE IN COST OF CREDIT FOR THE HSI ATTENDEE
University of Houston	\$17,602	Rice University	\$16,689	+\$913	+14%
University of Central Florida	\$17,318	Rollins College	\$17,065	+\$253	+4%
California State –Long Beach	\$17,253	Occidental College	\$17,018	+\$235	+3%
UC Santa Barbara	\$17,270	Westmont College	\$17,066	+\$204	+3%
Florida International	\$17,367	University of Miami	\$17,247	+\$120	+2%

- **Apparent pricing disparities for students at MSIs hold even when the MSI is the higher ranked school, undercutting Stride Funding’s likely defense that cost differences reflect school quality.**

Responding to the findings above, Stride Funding may argue that there is a business necessity for the

page declining to offer us a loan.) (accessed Jan. 13, 2021). While not dispositive, these findings raise concerns that Stride Funding could be deploying so-called “reverse redlining” tactics, wherein companies target members of vulnerable communities with inferior financial products. These tactics are unfortunately common in the higher education finance space. See, e.g., Genevieve Bonadies, Joshua Rovenger, Eileen Connor, Brenda Shum & Toby Merrill, *For-Profit Schools’ Predatory Practices and Students of Color: A Mission to Enroll Rather than Educate*, Harv. L. Rev. Blog (July 30, 2018), <https://blog.harvardlawreview.org/for-profit-schoolspredatorypractices-and-students-of-color-a-mission-to-enroll-rather-than-educate/>.

⁷⁴ Stride Funding, *Funding Terms*, [<https://perma.cc/CG8K-GHTG>] (Computer Science, University of Houston) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/6NP7-7E7A>] (Computer Science, Rice University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/5L32-HLSQ>] (Computer Science, University of Central Florida) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/F59L-UTJE>] (Computer Science, Rollins College) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/SH33-6TFV>] (Computer Science, California State University-Long Beach) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/6YAL-4BXG>] (Computer Science, Occidental College) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/UN9B-SF2J>] (Computer Science, University of California-Santa Barbara) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/3SY5-VEMV>] (Computer Science, Westmont College) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/23GR-FC58>] (Computer Science, Florida International University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/LS7L-NSWK>] (Computer Science, University of Miami) (accessed Jan. 11, 2021).

price disparities illustrated here. In particular, as is common in the ISA space,⁷⁵ Stride Funding may contend that its pricing differentials simply reflect disparities in the quality of certain schools and programs. Available evidence suggests that is not the case. Instead, there are several instances where Stride Funding quotes a student at an MSI a higher price for the same ISA than it does for an identical student at a non-MSI that has a lower U.S. News and World Report ranking. U.S. News and World Report rankings are flawed as a proxy for true school quality and have been described by critics as amounting only to “a popularity or beauty contest.”⁷⁶ However, they are used here to underscore that Stride Funding’s data reveals that the company may penalize students simply for attending an MSI.

Returning to the example of an undergraduate computer science major seeking a \$10,000 ISA for graduation in June 2022 with a funding date in June 2021, the phenomenon of Stride Funding quoting students at higher-ranked MSIs worse ISA terms than those advertised to students at lower-ranked non-MSIs is evident. In one example, a student at Spelman, an HBCU, could expect to pay a 5 percent higher finance charge than a student at a school that Spelman is ranked 59 places above but that is almost 60 percent white.⁷⁷

⁷⁵ Jen Mishory, *Private ISA Student Loans Highlight Consumer Protection Challenges*, The Century Found. (Aug. 22, 2019), <https://tcf.org/content/commentary/private-isa-student-loans-highlight-consumer-protection-challenges/> (“To solve for this adverse selection issue, some ISA loans charge projected higher-income earners a smaller percentage of their income to participate than they do for those they project will earn lower incomes.”).

⁷⁶ John Tierney, *Your Annual Reminder to Ignore the U.S. News & World Rep.; College Rankings*, Atlantic (Sept. 10, 2013), <https://www.theatlantic.com/education/archive/2013/09/your-annual-reminder-to-ignore-the-em-us-news-world-report-em-college-rankings/279103/>.

⁷⁷ *Westmont Diversity & Demographics*, College Factual, <https://www.collegefactual.com/colleges/westmont-college/student-life/diversity/> (last accessed Feb. 26, 2021).

Table 5: Comparing Stride Funding’s price quotes for a \$10,000 ISA for an undergraduate computer science major graduating in June 2022 with funding disbursed in June 2021 using Stride Funding’s estimated starting incomes⁷⁸

SCHOOL	STRIDE’S QUOTED COST FOR THE ISA	U.S. NEWS AND WORLD REPORT RANKING	PERCENT OF SCHOOL THAT IS BLACK	PERCENT OF SCHOOL THAT IS WHITE
Howard (HBCU)	\$17,952	80 (National Universities)	88%	2%
Auburn (non-HBCU)	\$17,198	97 (National Universities)	5%	79%
HBCU penalty: +\$754				
Difference in cost of credit: +10%				
The HBCU is ranked 17 places above the non-HBCU				
SCHOOL	STRIDE’S QUOTED COST FOR THE ISA	U.S. NEWS AND WORLD REPORT RANKING	PERCENT OF SCHOOL THAT IS BLACK	PERCENT OF SCHOOL THAT IS WHITE
Spelman (HBCU)	\$17,404	54 (Liberal Arts Colleges)	97%	<1%
Westmont (non-HBCU)	\$17,066	113 (Liberal Arts Colleges)	2%	58%
HBCU penalty: +\$338				
Difference in cost of credit: +5%				
The HBCU is ranked 59 places above the non-HBCU				
SCHOOL	STRIDE’S QUOTED COST FOR THE ISA	U.S. NEWS AND WORLD REPORT RANKING	PERCENT OF SCHOOL THAT IS HISPANIC/LATINO	PERCENT OF SCHOOL THAT IS WHITE
UCSB (HSI)	\$17,270	30 (National Universities)	26%	31%
William & Mary (non-HSI)	\$16,889	39 (National Universities)	9%	59%
HSI penalty: +\$381				
Difference in cost of credit: +6%				
The HSI is ranked 9 places above the non-HSI				

⁷⁸ *Id*; Howard University Undergraduate Ethnic Diversity Breakdown, College Factual, <https://www.collegefactual.com/colleges/howard-university/student-life/diversity/chart-ethnic-diversity.html> (last accessed Feb. 26, 2021); Auburn University Undergraduate Ethnic Diversity Breakdown, College Factual, <https://www.collegefactual.com/colleges/auburn-university/student-life/diversity/chart-ethnic-diversity.html> (last accessed Feb. 26, 2021); Spelman College Undergraduate Ethnic Diversity Breakdown, College Factual, <https://www.collegefactual.com/colleges/spelman-college/student-life/diversity/chart-ethnic-diversity.html> (last accessed Feb. 26, 2021); University of California - Santa Barbara Undergraduate Ethnic Diversity Breakdown, College Factual, <https://www.collegefactual.com/colleges/university-of-california-santa-barbara/student-life/diversity/chart-ethnic-diversity.html> (last accessed Feb. 26, 2021); College of William and Mary Undergraduate Ethnic Diversity Breakdown, College Factual, <https://www.collegefactual.com/colleges/college-of-william-and-mary/student-life/diversity/chart-ethnic-diversity.html> (last accessed Feb. 26, 2021); College of William and Mary Undergraduate Ethnic Diversity Breakdown, College Factual, <https://www.collegefactual.com/colleges/college-of-william-and-mary/student-life/diversity/chart-ethnic-diversity.html> (last accessed Feb. 26, 2021); Howard University, U.S. News and World Rep., <https://www.usnews.com/best-colleges/howard-university-1448> (last accessed Feb. 26, 2021); Auburn University, U.S. News and World Rep., <https://www.usnews.com/best->

Conclusion

The CFPB has noted that the use of alternative data in underwriting “could dampen social mobility, result in discriminatory outcomes, or otherwise disadvantage certain groups, characteristics, or behaviors.”⁷⁹ The findings outlined here underscore the prescience of the CFPB’s observation. There is ample evidence that Stride Funding’s pricing model may generate disparate impacts on members of protected classes, furthering the cycle of discriminatory credit access and educational redlining that has impeded wealth-building opportunities for communities of color.

Should these practices continue, the chorus of scholars, practitioners, and other experts who warned that ISAs may serve only to provide new packaging for age-old discrimination will be proven unfortunately right.⁸⁰ In the process, a generation of borrowers aiming only to pursue higher education will be left with unaffordable, unmanageable, and unfairly originated debt.

[colleges/auburn-university-1009](https://www.usnews.com/best-colleges/colleges/auburn-university-1009) (last accessed Feb. 26, 2021); *Spelman College*, U.S. News and World Rep., <https://www.usnews.com/best-colleges/spelman-college-1594> (last accessed Feb. 26, 2021); *Westmont College*, U.S. News and World Rep., <https://www.usnews.com/best-colleges/westmont-college-1341> (last accessed Feb. 26, 2021); *University of California—Santa Barbara*, U.S. News and World Rep., <https://www.usnews.com/best-colleges/university-of-california-santa-barbara-1320> (last accessed Feb. 26, 2021); *William & Mary*, U.S. News and World Rep., <https://www.usnews.com/best-colleges/william-and-mary-3705> (last accessed Feb. 26, 2021); *supra* notes 65, 74.

⁷⁹ Bureau of Consumer Fin. Prot., CFPB-2017-0005, Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process (2017), https://files.consumerfinance.gov/f/documents/20170214_cfpb_Alt-Data-RFI.pdf.

⁸⁰ *Supra* note 32.

Appendix A: Methodology

In preparing this report, the SBPC utilized Stride Funding's online rate quote feature, a tool that provides prospective borrowers with price estimates for ISAs based on the applicant's degree level, school attended, course of study, funding date, and graduation date.⁸¹

To investigate disparities in the terms Stride Funding offers for its ISAs, we modeled credit applicants with degrees from a random sample of schools across various institutional sectors, including four-year colleges with HBCU, HSI, and non-MSI designations. Relevant inputs for prospective applicants were identical in every respect, except for the institution attended by the applicant. For our modeling to remain consistent, we selected a bachelor's degree in Nursing as a baseline major with a "funding date" of June 2021 and "an expected graduation date" of June 2022. Nursing was selected because it is the default option for course of study suggested by Stride Funding upon navigating to its online rate quote feature. The funding amount requested always remained \$10,000.

We then duplicated this model at the same list of schools, this time changing the majors to include "Teaching and Teacher Education," "Computer Science," "Economics," and "History." We also ran the same model holding constant the baseline Nursing major but changed the degree type from bachelor's to master's. We continued pulling price quotes until technical limitations made us no longer able to reasonably do so.

Our sample of schools was constructed using the Department of Education's College Scorecard based on a random selection of Title IV schools that offer at least a BA in the programs in the areas of study mentioned above. Schools that fell outside of those criteria were replaced with other randomly selected schools until the resulting sample consisted only of schools relevant for our research. We also confirmed with each institution's website that the relevant programs are, in fact, offered at those schools. In general, we excluded theological seminaries, yeshivas, and art conservatories.

As a supplement to this randomly selected sample, we identified various MSIs across the country based on factors including but not limited to acceptance rates, graduation rates, retention rates, and student loan

⁸¹ *Tell Us About Your Program*, Stride Funding, <https://apply.stridefunding.com/quote/> (last accessed Feb. 26, 2021).

repayment rates, and then noted non-MSIs that might serve as reasonable comparison points. Comparison schools were selected based on proximity and relative similarity in various metrics for student outcomes, including graduation rates, retention rates, and student loan repayment rates. We then repeated the methodology described above for these schools to the extent possible, holding all inputs but the institution the applicant attended constant and noting disparities in the resultant price quote for an ISA.

The preceding analysis looked only at Stride Funding's estimates of the cost of an ISA, which are in turn based on data Stride Funding supplied regarding the expected starting income of a student in various courses of study at various schools. An important additional avenue to consider with regard to discriminatory pricing is the difference in cost that students who had the same major at different schools but who then earn the same income after graduation can expect to face for the same quantity of ISA funding. To test this, we built a proprietary ISA cost calculator that takes in data that Stride Funding generates on the income share, minimum income threshold, repayment cap, and repayment period length of a \$10,000 ISA for students graduating from a given program in June 2022 with funding in June 2021 but which allows us to plug in our own assumed starting income for that student. In this model, we assume that income grows at a constant 4 percent per year and that there are no gaps in a graduate's repayment sequence. We used this calculator to compare the amount a graduate at a given starting income level would expect to pay for an ISA using Stride Funding's pricing structure if they had happened to attend different schools, including whether they had attended an MSI. Finally, we compared the results of these cost estimations across the MSIs and comparison schools identified in the process discussed above.

Appendix B: Additional pricing disparities for HBCU students using Stride Funding's starting incomes

The following are additional ISA price quotes reported by Stride Funding. In every case, the quote is for a \$10,000 ISA for an undergraduate graduating in June 2022 with funding disbursed in June 2021. This table excludes instances in which a school or its comparison school does not offer the relevant program and instances where both schools' programs were rejected by Stride Funding in its ISA price quote tool. Note that Stride Funding declined to offer credit to applicants attending certain schools.

Table 6: Comparing Stride Funding's price quotes for a \$10,000 ISA for an undergraduate graduating in June 2022 with funding disbursed in June 2021 using Stride Funding's estimated starting incomes⁸²

MAJOR	HBCU	STRIDE'S QUOTED COST FOR THE ISA	NEARBY COMPARISON SCHOOL	STRIDE'S QUOTED COST FOR THE ISA	ADDED COST FOR THE HBCU ATTENDEE	DIFFERENCE IN COST OF CREDIT FOR THE HBCU ATTENDEE
Nursing	Tuskegee	\$19,549	Auburn	\$17,109	+\$2,440	+34%
Nursing	Howard	\$17,848	Georgetown	\$16,540	+\$1,308	+20%
Nursing	Florida A&M University	\$17,597	Florida State University	\$16,580	+\$1,017	+15%
Nursing	North Carolina A&T	\$18,027	UNC Greensboro	\$17,442	+\$585	+8%
Economics	Morehouse	\$18,915	Emory	\$17,438	+\$1,477	+20%
Economics	Spelman	Rejected	Emory	\$17,438	N/A	N/A
Economics	Howard	Rejected	Georgetown	\$16,711	N/A	N/A

⁸² Stride Funding, *Funding Terms*, [<https://perma.cc/C4TL-4L5G>] (Nursing, Tuskegee University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/G66X-4CG3>] (Nursing, Auburn University) (accessed Jan. 11, 2021); Stride Funding,

Appendix C: Additional disparities for HBCU students using the same starting income

The following are estimates calculated by the SBPC of the cost of a \$10,000 Stride Funding ISA based on product pricing and structure quoted by Stride Funding and applying one starting income to each ISA product. It is assumed that income grows at a constant rate of 4 percent per year and that there are no gaps in the graduate's repayment sequence. To retain consistency with the example in Table 3, starting income is held at \$59,774.⁸³

Funding Terms, [<https://perma.cc/MPH9-JWXK>] (Nursing, Howard University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/Z9L3-RPY4>] (Nursing, Georgetown University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/88KF-8N8U>] (Nursing, Florida Agricultural and Mechanical University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/YM5C-Y6DP>] (Nursing, Florida State University) (accessed Jan. 11, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/2KBW-N8GW>] (Nursing, North Carolina A & T University) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/AK8P-UYE4>] (Nursing, University of North Carolina at Greensboro) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/EW35-6ALF>] (Economics, Morehouse College) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/SG5B-2HBK>] (Economics, Emory University) (accessed Jan. 12, 2021); Stride Funding, *Our Partners Are Here To Help!*, [<https://perma.cc/92MN-C3PB>] (In testing Stride Funding's model, we applied for a \$10,000 Stride Funding ISA for a student studying economics at Spelman graduating in June 2022 with a funding date in June 2021. We were directed to this page declining to offer us a loan.) (accessed Jan. 12, 2021); Stride Funding, *Our Partners Are Here To Help!*, [<https://perma.cc/7YAT-WYCG>] (In testing Stride Funding's model, we applied for a \$10,000 Stride Funding ISA for a student studying economics at Howard graduating in June 2022 with a funding date in June 2021. We were directed to this page declining to offer us a loan.) (accessed Jan. 12, 2021); Stride Funding, *Funding Terms*, [<https://perma.cc/LV48-AUE2>] (Economics, Georgetown University) (accessed Jan. 12, 2021).

⁸³ See *supra* note 66.

Table 7: Comparing the expected cost of a \$10,000 Stride Funding ISA for an undergraduate graduating in June 2022 with funding disbursed in June 2021 using a \$59,774 starting income⁸⁴

MAJOR	HBCU	COST FOR THE ISA	NEARBY COMPARISON SCHOOL	COST FOR THE ISA	ADDED COST FOR THE HBCU ATTENDEE	DIFFERENCE IN COST OF CREDIT FOR THE HBCU ATTENDEE
Nursing	Tuskegee	\$20,000	Auburn	\$11,170	+\$8,830	+755%
Nursing	North Carolina A&T	\$18,616	UNC Greensboro	\$18,292	+\$324	+4%
Computer science	Morehouse	\$19,749	Emory	\$12,626	+\$7,123	+271%
Computer science	Howard	\$16,026	Georgetown	\$11,979	+\$4,047	+205%
Computer science	Xavier (Louisiana)	\$19,425	Tulane	\$13,436	+\$5,989	+174%
Computer science	Hampton	\$19,425	William & Mary	\$14,083	+\$5,342	+131%
Computer science	Spelman	\$15,540	Emory	\$12,626	+\$2,914	+111%
Computer science	Tuskegee	\$20,000	Auburn	\$16,512	+\$3,488	+54%
Computer science	North Carolina A&T	\$17,807	UNC Greensboro	\$16,188	+\$1,619	+26%

⁸⁴ SBPC calculations. For detail on the ISA terms that Stride Funding offers graduates of each program, see *supra* notes 65, 82.