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U.S. Higher Education Institutions

According to the National Center for Education Statistics (“NCES”), the U.S. higher education system is composed of 4,583 degree granting institutions.

- In 2015-16 there was 1,620 public higher education institutions, 2% fewer than in 2010-11.
- In 2015-16 there was 1,701 private non-profit higher education institutions, 4% more than in 2010-11.
- In 2015-16 there was 1,262 private for-profit higher education institutions, 4% fewer than in 2010-11.

U.S. Higher Education Institutions 2015-16

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<th>Type</th>
<th>4-year</th>
<th>2-year</th>
<th>Total</th>
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<tbody>
<tr>
<td>Public</td>
<td>710</td>
<td>910</td>
<td>1,620</td>
</tr>
<tr>
<td>Private Non-profit</td>
<td>1594</td>
<td>107</td>
<td>1,701</td>
</tr>
<tr>
<td>Private For-profit</td>
<td>700</td>
<td>562</td>
<td>1,262</td>
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Source: National Center for Education Statistics
Overview

**Challenge of Attracting New Students - U.S. High School Graduates**

- From 2000 to 2010 the U.S. experienced a steep increase in the number of students that were graduating from high school.

- The Class of 2010 was 21% larger than the Class 2000, that is, approximately, an additional 606,000 graduates.

- The average annual growth during this period was 2.0%.

- Since then the average annual growth has slowed significantly. From 2011 to 2016 the average annual growth is estimated to be 0.3%.

- Going forward the National Center for Education Statistics estimates that the nation’s average annual growth of high school graduates will be 0.4% from 2016-17 to 2025-26.
Rising Cost of Attending 4-year College

Average (per year) Cost of 4-year College Tuition
- 2015: $14,957
- 1984: $5,450
- Over 31 years, tuition increased 174%

Median Household Income (per year)
- 2015: $56,516
- 2015 average tuition = 26% of median income
- 1984: $48,720
- 1984 average tuition = 11% of median income
- Over 31 years, median household income increased only 16%
Overview

Rising Costs


Source: National Center for Education Statistics
Growing Student Loan Debt

- $1.41 trillion in total U.S. student loan debt, up 192% since 2006
- 44.2 million Americans with student loan debt
- Student loan delinquency rate of 11.2% (90+ days delinquent or in default)
- Average monthly student loan payment (for borrower aged 20 to 30 years): $351
- Median monthly student loan payment (for borrower aged 20 to 30 years): $203
- The average Class of 2016 graduate has $37,172 in student loan debt, up six percent from last year

Source: Federal Reserve Economic Data
Factors that could shift the current landscape

- Weak financial market performance would soften revenues
  - Decrease endowment income to fund school operations
  - Reduce state spending on higher education
  - Discourage donor support, decreasing gift revenue

- Federal Reserve may continue to raise the federal funds rate, resulting in higher borrowing costs for schools looking to access capital markets

- Changes to immigration policy could negatively affect enrollment of international students, which comprise approximately 8-10% tuition revenue\(^1\)

- Defunding of programs that support institutions that have historically severed minority or poorer parts of the US population.
Financial Responsibility Composite Scores

- Composite scores reflect the overall relative financial health of institutions along a scale from -1.0 to 3.0.

- A score greater than or equal to 1.5 indicates the institution is considered financially responsible.

- Schools with scores of less than 1.5 but greater than or equal to 1.0 are considered financially responsible, but require additional oversight.
  - These schools are subject to cash monitoring and other participation requirements.

- A school with a score less than 1.0 is considered not financially responsible.
  - However, a school with a score less than 1.0 may continue to participate in the Title IV programs under provisional certification.
  - This lower score requires that the school be subject to cash monitoring requirements and post a letter of credit (equal to a minimum of 10 percent of the Title IV aid it received in the institution’s most recent fiscal year).

Other Factors

- Sufficient institutional cash reserves to make the required refunds, including the return of Title IV funds.

- School is meeting all of its financial obligations

- School is current on its debt payments
Identifying At-Risk Title IV Schools

Financial Responsibility Composite Score Ratios

- **Primary Reserve Ratio** –
  - The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. Expendable net assets represent those assets that the institution can access quickly and spend to satisfy its debt obligations.
  - This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations.

- **Net Income Ratio** –
  - This ratio indicates whether total unrestricted activities resulted in a surplus or a deficit, answering the question, “Do operating results indicate the institution is living within available resources?"
  - In the for-profit sector, it measures profit or loss.
  - In the nonprofit sector, it provides information useful in assessing an institution's ability to operate within its means.

- **Equity Ratio** –
  - This ratio is defined as net assets (or equity) divided by total assets.
  - This ratio shows the proportion of an institution's assets that the institution owns "free and clear." By measuring expendable and non-expendable resources, this ratio helps to assess an institution's ability to borrow and capital resources. (The permanently restricted principal of an endowment fund exemplifies a non-expendable resources under normal conditions.)
School Closures

- According to Moody's 2015 Investor service report, closures of small colleges and universities will triple in the coming years, and mergers will double.
  - Private schools are most susceptible to closure, while public schools are more likely to merge into a larger system.

- As defined by Moody's, small colleges are private colleges with operating revenue below $100 million and public colleges below $200 million.

- The main struggle for many small colleges is declining enrollment, as these institutions are typically tuition dependent.
  - Revenue softness leads to softer demand as struggling colleges either lose students to competitors or aren’t able to charge enough tuition.
  - Many of the schools most at risk have fewer than 500 students and are affiliated with religious denominations.

- In 2016, 763 higher education institutions closed, including for-profit schools.

- Iron triangle of doom –
  - The are fewer students
  - Of those students, fewer are attending colleges and universities
  - Costs more to get those students, in terms of financial aid

![School's Out Forever](chart.jpg)
## M & A Activity

- From 2001-2013, 369 public and private non-profit institutions were involved in a merger.\(^1\)

- Governing boards cite economies of scale and scope as primary motivations for undertaking mergers
  - Study finds that post-merger educational costs per FTE student decrease by 6%.\(^2\)

- Study finds that mergers increase tuition and fees for undergraduate students by 7% on average.\(^3\)

- Mergers generate market power for colleges and universities

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1. Integrated Postsecondary Education Data System (IPEDS)
2-3. MIT Department of Economics – Market Power Effects of College and University Mergers
School Closures - Endowments

- Bankruptcy courts operate under federal law, but endowments aren’t considered property of colleges because they don’t fully control their use. Instead, state laws govern endowments.
  - State attorney general is the nonprofit’s ultimate arbiter and trustee.
  - State attorney general must sign off on asset distribution.

- In many states, the money must be used for a similar purpose as the original intent (“for good, forever” purposes rather than immediate general support like debt relief), creating a financial feeding frenzy (fight between creditors or between successor institutions).
  - In New York, the Attorney General’s charities bureau must find non-profits with a similar mission to receive endowment funds.

- An intact endowment for a failed institution is rare.
School Closures – Possible adverse effects on students

- Displaced from their educational program before completion
- Credits that cannot transfer to another school
- Significant student loan debt without obtaining a degree or certificate
- Significantly diminished job prospects

Consumer Protection

- Borrower Defense Rule – loan debt discharged for students who are victims of fraud or misrepresentation
  - In October 2016, the U.S. Department of Education released the final version of the ambitious borrower-defense regulations.
  - However, congressional Republicans have said the rule will be among a number of Obama-era regulations targeted for rollback or repeal.
Sources

2. https://www2.ed.gov/about/offices/list/oig/auditreports/fy2017/a09q0001.pdf