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Fitch Ratings: No Immediate Impact Likely on US Colleges in DoJ Investigation

Fitch Ratings-Chicago/New York-14 March 2019: This week's charges of fraudulent admissions brought on by the U.S. Department of Justice (DoJ) are not likely to lead to near-term negative rating actions for U.S. colleges and universities, according to Fitch Ratings. Over the longer term, credit risks may arise from related legal costs, as well as from reputational damage contributing to any weakened demand and/or philanthropic efforts.

The DoJ has charged multiple individuals with federal crimes tied to seeking fraudulent admissions into various institutions of higher education. Eleven employees at eight universities were named in the filings, along with dozens of other individuals. No universities were named as defendants in the released criminal complaint.

These prominent institutions maintain sufficient expense flexibility, liquidity and student demand to mitigate minimal near-term effects. However, longer term, less definite fallout could include litigation, reputational damage, erosion of philanthropic support and other challenges arising from legislative or regulatory reactions. Highly rated universities have historically shown considerable resiliency through near-term legal and reputational risks. Additionally, the institutions involved generally exhibit strong demand profiles and robust financial positions.

Effective governance and leadership is necessary for long-term viability. As such, we view this as an important rating factor in assessing the creditworthiness and potential performance of a rated institution. As an asymmetric (downside risk only) credit factor, Fitch generally highlights instances where governance and management are weak in ways that constrain or pressure the rating. Our baseline expectation for rated entities is that governance practices and organizational structure are adequate and neutral to ratings with notably strong management to be reflected in operating and financial performance over time.

Notably, the sector as a whole continues to face scrutiny over the value of higher education. Any tempering of the broad public and private financial support the sector has benefitted from over time would pose longer term risks.

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