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NYC Drama School Faces 14.5% Interest Rate on Muni-Bond Breach.

- **American Musical and Dramatic Academy borrowed money in 2023**
- **School faces penalty for covenant default related to cash pile**

A drama and arts school with campuses in New York City and Los Angeles is facing an interest rate as high as 14.5% as a penalty for breaching an agreement with its municipal bondholders.

The American Musical and Dramatic Academy didn't maintain a cash pile that would last three months, breaking an agreement with holders led by Preston Hollow Community Capital. The school had 67 days of cash on hand as of June 30, while it was supposed to maintain 90 days, a regulatory filing shows. Such a breach is known as a covenant default.

Now, the academy will have to pay jacked-up interest rates between 12.25% and 14.5% on two series of debt, according to letters sent to the school this month by Preston Hollow. The correspondence was included in a securities filing posted Thursday. The two series of bonds priced with already-high coupons of 7.25% and 9.5%, according to data compiled by Bloomberg.

Such a move by bondholders is rare in the municipal market. It's more common for investors to enter into forbearance agreements with struggling borrowers — meaning holders pledge not to take actions such as demanding immediate repayment on debt even if they have that right. For colleges, these agreements provide a runway to fix their finances while often requiring them to disclose more regular information or hire a consultant to offer suggestions.

The right to charge higher interest rates if a borrower defaults is a common protection that corporate and real estate lenders write into their credit documents. In practice, the ability to charge default interest often becomes a key element of negotiations between the parties on how to resolve the borrower's financial challenges.

Such penalties risk worsening distressed borrowers' financial situation, said Eric Kazatsky, senior US municipals strategist for Bloomberg Intelligence.

A spokesperson for Preston Hollow declined to comment. John Galgano, AMDA's chief operating officer, didn't reply to phone calls or email messages seeking comment. David Silverman, the school's chief financial officer, didn't respond to an emailed request for comment.

Campus Real Estate

The American Musical and Dramatic Academy opened in 1964 and is a prominent performing arts institute with about 3,000 students stretched across two campuses, on Manhattan's Upper West Side and in Hollywood. Its alumni includes Modern Family star Jesse Tyler Ferguson and pop star Jason Derulo.

This isn't the college's first brush with distress. The financings last year were meant to provide relief

to the academy after it went into covenant default on prior obligations.

In 2023, the school sold $91.6 million of bonds in two separate deals. The borrowing, which refinanced old debt and also included funds for campus projects, was originated by Preston Hollow and the firm purchased $51.65 million of the securities, according to a November statement from the company. The deal “gives AMDA the flexibility to build out exciting new initiatives as they continue to pursue their important mission,” Ron Van Den Handel, a former managing director at Preston Hollow, said in the statement at the time.

Like other small US colleges, the school has struggled in recent years. Its performing-arts focus has also brought unique challenges, especially after Broadway performances closed during the pandemic. Total enrollment has been falling, dropping from 4,098 in 2018-19 to a projected 3,219 in 2023-24, according to the 2023 bond documents.

The letters from Preston Hollow say the school also needs to begin “real estate monetization procedures” as a result of the covenant breach. The 2023 bond documents noted that if the borrower couldn’t satisfy certain financial covenants, it could be required to sell real estate.

The academy has several buildings in New York City and its main facility is located at 211 West 61st Street, close to Lincoln Center. It has an Art-Deco tower in Los Angeles blocks from the Hollywood Walk of Fame, along with other campus buildings.

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