

Bond Case Briefs

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After the Collapse of Sweet Briar, Investors are Nervous about Other Small Colleges.

Both sides are claiming victory after an unexpected twist in the fight to save an imploding college. The announcement that Sweet Briar College, a 114-year-old all-women's liberal arts college in Virginia, will close after the current semester sent shock waves through the world of academia this spring. And it caused extreme heartache to a deeply loyal community of students and alumni.

But the small college's closing isn't just hurting the world of higher education, it's also worrisome for investors in the municipal bond market who buy the debt of colleges and universities.

Sweet Briar College, with an enrollment of 530 students, had its revenue bonds downgraded from a BBB to a B- by Standard and Poor's credit rating agency following the announcement of its closure. The news and subsequent rating downgrade led to its bonds trading at a discount, at 83 cents on the dollar compared to 102 cents the day before.

And other small colleges - at least 22 institutions with under 4,500 students - have experienced an uptick in trading since Sweet Briar's announcement, according to an article in Bloomberg on Sunday.

"The market definitely should be concerned," said Michael Johnson, managing partner at Gurtin Fixed Income Management, told Bloomberg. "I could see some investors deciding they'll sell anything that looks like this."

The increased trading in these college bonds reflects anxiety in the municipal market and the larger question looming over the future of higher education.

The debate over the future of small colleges has been ramping up over the past few years, with Mark Cuban as a vocal participant in the conversation warning of a "student loan bubble." After Sweet Briar's announcement, Cuban tweeted: "This is just the beginning of the college implosion."

Cuban points to the rising cost of college tuition, and the ability of students to take out loans in excess of what they can reasonably be expected to repay.

"There's a growing education bubble, with rising tuition and students taking out loans they might not be able to pay back," Cuban told Business Insider in March.

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