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S&P: U.S. Higher Education Is Learning To Manage Its Own Risk

How Event Risk That Creates A Crisis Can Have An Impact

Colleges and universities are grappling with event risk with increasing frequency, whether from nature (think weather) or man-made (such as campus shootings, management and governance controversies, racial tensions, or sexual assault). These crisis incidents create difficult assessments in terms of their impact on credit quality, with some not resulting in an immediate rating action and many not triggering any credit action at all owing to some combination of factors that can substantially mitigate the associated risks. In our opinion, these factors include a sound enterprise risk management (ERM) program that is in place and followed promptly; strong management and governance controls; ample financial resources, which may include insurance coverage for the specific risk; and the ready availability of and access to external support such as disaster aid programs. Additionally, we have seen schools with strong market positions that benefit from national brand recognition and solid demand experience little, if any, impact to enrollment or fundraising.

Recent high-profile events of the man-made variety include the Department of Justice's investigation into higher education admission practices ("Varsity Blues," the codename for this examination) and the Harvard admissions lawsuit, which have received widespread news coverage, attracting significant negative attention to the higher education industry. These proceedings have placed a focus on the adequacy and transparency of management and governance and the importance of sound internal controls, such as the need for a well-developed ERM program that can contribute toward an effective response strategy.

While most crisis events represent a significant operational challenge and potentially an immediate headline risk, testing an institution's tactical responsiveness, the long-term effect on a college or university's creditworthiness often takes several months to manifest. Consequently, it is not the actual event but the institution's ability to respond and adapt in light of it that determines whether there will be any credit implications. In most cases, swift corrective actions and effective outreach have enabled institutions to maintain their ratings. On the other hand, some risk management or governance failures have resulted in negative rating actions.

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