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Fitch: Post-Coronavirus Pressures to Worsen Credit Gap for U.S. Colleges

Fitch Ratings-Chicago/New York-07 July 2021: Elevated revenue pressure and slowing tuition growth will exacerbate an already widening credit gap for U.S. colleges and universities, according to Fitch Ratings in its annual medians report for the sector.

The annual change in net tuition revenue was the lowest in recent history at 1.9% for private institutions, and the median student fee percentage of total revenue fell to 34.5% for public institutions, its lowest since fiscal 2011. Colleges rated 'BBB' and below are the most vulnerable to rating pressure in the coming months. According to Fitch Senior Director Emily Wadhvani, 'These colleges are often smaller in enrollment size, have limited endowments and tend to attract more local and regional students.'

Conversely, median ratings were steadier at 'AA' for public institutions and 'A-' for private institutions. Notably, the 'A' rating category had some of the strongest operating and cash flow margins in fiscal 2020, as this group has very little healthcare-oriented services, which were significantly pressured by the pandemic at the end of fiscal 2020.

Liquidity has improved while leverage is holding steady for colleges, both of which have helped the sector in recent months. The Biden administration's American Rescue Plan (ARP), American Jobs Plan (AJP) and American Families Plan (AFP) has also helped to blunt the pandemic's impact for colleges, but this temporary aid will run off beyond 2022. Most revenue from of the three federal stimulus rounds to higher education will be recognized in fiscal years 2021 and 2022.

'While federal stimulus provided a significant boost to the sector, the likelihood of additional direct aid authorizations in the event of a resurgence in the pandemic is unlikely,' said Wadhvani.

Fitch's 'Fiscal 2020 Median Ratios for U.S. Colleges and Universities' is available at 'www.fitchratings.com'.

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