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Privatized Student Housing: A Guide for Municipal Bond Investors.

Municipal bonds are a key source of financing for on-campus or university-affiliated residences at many colleges.

Colleges and universities fund student housing and related facilities with operating surpluses, reserve draws, philanthropic receipts, appropriations, and, in many cases, proceeds from municipal bond offerings. Public and private colleges are not strangers to the municipal market. In fact, over the last five years, four-year universities accounted for 6% of total municipal issuance.¹

A substantial portion of that issuance can be traced to financing auxiliary operations—namely housing, dining, and recreational facilities.

In a traditional, higher-education debt transaction, a university will borrow for construction, and bonds will be backed by either the full faith and credit of the university, or some pledge of university revenues. In some cases, a university will create a narrow auxiliary pledge to accommodate these housing borrowings separate from its broader, primary lien. These narrower pledges come with varying degrees of incremental credit risk and are typically rated one or more notches below the university's primary rating. Regardless of structure, however, in all these cases, the university is the ultimate borrower, and bondholder security is explicitly derived from university revenues.

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July 26, 2022

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