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Struggling Midwest College Strikes Deal With Bondholders.

- **Lake Erie College entered forbearance deal with bondholders**
- **Agreement marks the latest sign of stress in higher education**

Lake Erie College, a small private school in Ohio, entered into a forbearance agreement with bondholders after the school didn't meet certain covenants it agreed to as part of a debt sale.

The Painesville, Ohio-based institution, which has just over 700 undergraduate students, is the latest small college to see its financial struggles extend into the muni-bond market. It sold about \$30 million of debt in 2019 in part to finance a barn and other projects at its 86-acre equestrian center.

Lake Erie College didn't meet a required debt service coverage ratio, which is considered an event of default, according to a regulatory filing dated Jan. 15. The school also only had seven days of cash-on-hand in fiscal 2023, while it was required to have 25 days as part of the bond deal.

The school disclosed in the filing that it entered into a forbearance agreement with the trustee for bondholders, U.S. Bank. As part of forbearance agreements, investors agree not to take certain actions against borrowers, such as demanding immediate repayment on debt if they have that right. That gives stressed borrowers more time to shore up their finances, though the terms of this specific agreement haven't yet been disclosed.

A spokesperson for the trustee, U.S. Bank, declined to comment. A spokesperson for the college did not respond to an email and phone call requesting comment.

The college is the latest to encounter stress in higher education as rising costs and competition puts pressure on smaller colleges.

Fitch Ratings said it expects pressure to intensify for smaller, less selective institutions in 2024, given demographic trends and eroding sentiment on college affordability, according to a December note.

Lake Erie College, located about 30 miles from Cleveland, was founded in the mid-19th century as a seminary for women providing a "thorough and complete female education," according to its website. It became co-educational in 1985.

Virtually all of the debt that it issued more than four years ago is still outstanding, according to data compiled by Bloomberg. The bonds were sold through the Public Finance Authority, which issues municipal debt for riskier projects around the US.

Part of the proceeds were used for a barn, arena and other facilities at the school's equestrian center, which hosts the college's equine studies department and has space for more than 90 horses.

A spokesperson for Nuveen — the largest holder of the school's debt, according to data compiled by Bloomberg — didn't reply to a email or phone call requesting comment.

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— *With assistance from Jim Sims*

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