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Fitch: U.S. Higher Education Navigating Numerous Changes in 2025

Fitch Ratings-Chicago/New York-15 January 2025: While the universe of Fitch-rated U.S. colleges remain fundamentally stable in performance, cracks will continue to surface this year, as discussed in a webinar hosted by Fitch Ratings yesterday.

Fitch maintains a deteriorating sector outlook for higher education in 2025, driven in part by a softer operating environment, reduced financial flexibility, a fragile international enrollment pipeline, and an expectation for increased consolidation and college closures. Though much of the sector's unrest comes from unrated colleges, even rated institutions at both ends of the rating spectrum are now also facing reduced an increasingly challenging fundraising environment, shrinking class sizes and more intense cost control pressures.

The perceived value of higher education versus its cost is a long-term behavioral shift that colleges will have to navigate, with the incoming administration being an important barometer for how the sector may fare, according to Fitch Senior Director Emily Wadhwani.

"With tuition growth still moderating, flattening enrollment prospects, and a great deal of policy uncertainty at both state and federal levels, margins will likely remain very modest at best in fiscal 2025," said Wadhwani. "Further, endowments have benefitted from recent market gains, but access to ready liquidity will continue to be critical as colleges navigate operating and environmental uncertainty."

State funding should help keep financial risk at bay in the near term, a bright spot of sorts tempered by more intangible risks the sector faces. Key person risk is a particular area of concern, with Wadhwani pointing to more 'turnover at the top' as average tenure of university presidents continues to decline. "There is also an elevated percentage of university staff that are very likely looking for new employment over the next 12 months," said Wadhwani.

A replay of the webinar is available at www.fitchratings.com along with Fitch's 2025 outlook report.

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