CREDIT PERSPECTIVES | 2Q 2025

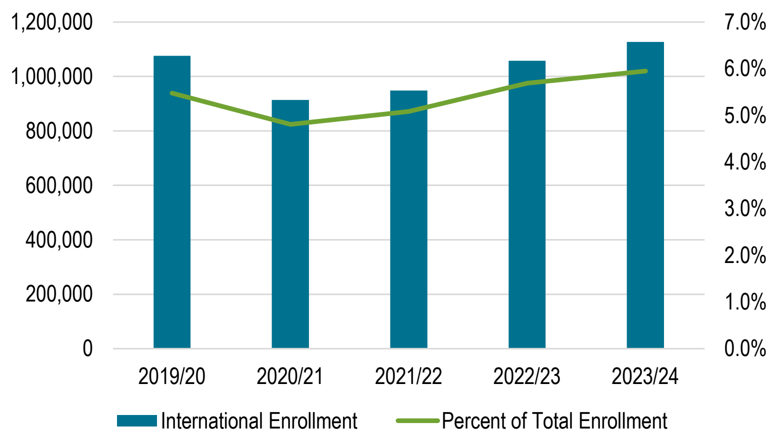
THE EVOLVING CHALLENGES FACING HIGHER EDUCATION

Colleges and universities nationwide face a mix of new and ongoing fiscal headwinds. Federal efforts to curb international enrollment, raise endowment taxes, and cut research funding are all hitting a sector that is already contending with declining enrollment, tuition affordability concerns, and tight budgets. While these developments pose challenges for the higher education sector as a whole, the financial impact will differ considerably among individual institutions.

New visa restrictions and immigration policies have raised concerns about the bottom-line impact from declining international enrollment, as these students often pay full tuition. But they also represent just 6% of total US enrollment, limiting the potential disruption (**Figure 1)**. The share is higher at Ivy League schools—about 26%—but so is the ability to adapt. Given their exceptionally strong demand, the Ivies could offset any pressure through domestic enrollment growth and prudent tuition rate adjustments.

FIGURE 1

International Student Enrollment Trend



Source: Institute of International Education, National Center for Education Statistics

Recent legislation has increased the endowment tax rate for certain private universities, raising the maximum rate from 1.4% to 8.0% and increasing the enrollment threshold from 500 to 3,000 students. The enrollment adjustment exempts smaller institutions while continuing to apply to universities with endowments exceeding $500,000 per student. The highest tax rate would only apply to five schools—Harvard, MIT, Princeton, Stanford, and Yale. The tax targets endowment returns rather than directly impacting operating performance, thereby

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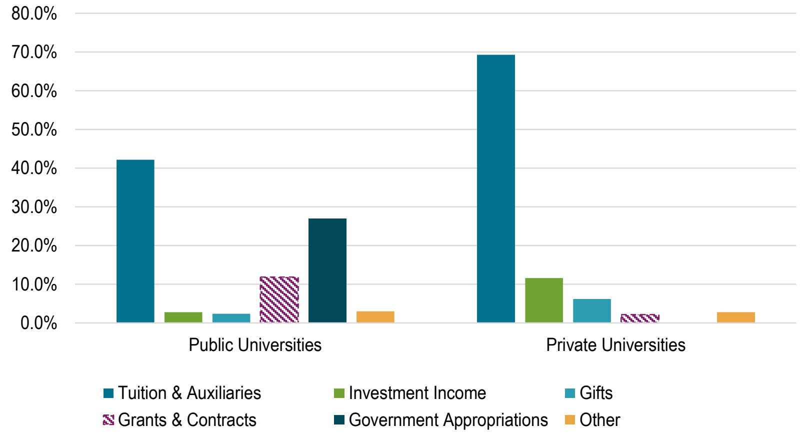
limiting its immediate effect on credit profiles. Over the longer term, these tax obligations are unlikely to materially erode the financial resources of the impacted universities, as many maintain stronger liquidity. Additionally, institutions may adjust their investment strategies to further mitigate any potential credit implications.

Federal initiatives have also targeted research funding through a variety of freezes, disruptions, and cuts at select institutions. Several of these actions continue to be litigated, but grants and contracts usually represent only a small share of university revenue (**Figure 2**). Several research-intensive institutions have recently announced a mix of hiring freezes and other expense curtailments in the face of federal funding uncertainty, demonstrating their willingness to make difficult decisions to maintain financial stability.

FIGURE 2
Higher Education Contribution Ratios



Source: Moody's Ratings Services

In addition to these new policy challenges, the higher education sector faces secular enrollment declines, driven by lower birth rates, fewer high school graduates, and the ripple effects of the pandemic. Since enrollment is the primary driver of tuition and auxiliary revenue, institutions with strong demand are better positioned to maintain this revenue stream. As competition intensifies, the ability to expand recruitment efforts, develop relevant programs, and enhance amenities will be crucial to attract a shrinking candidate pool.

It is more important than ever to be selective and maintain strong due diligence standards as trends and policies across the higher education sector continue to evolve. Fundamental factors like enrollment trends, demand indicators, and financial resources across our composite holdings compare favorably relative to the industry as a whole. As the situation continues to develop, we remain committed to monitoring risks and opportunities within the higher education sector.

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