More US Colleges Face Stagnating Enrollment and Tuition Revenue, According to Moody’s Survey

Smaller, Highly Tuition-Dependent Colleges Have Greatest Need for New Revenue Strategies

Weakened pricing power and enrollment pressure are impeding top line revenue growth for an increasing number of US colleges and universities, according to our fourth annual tuition survey. The cumulative effects of years of depressed family income and net worth, as well as uncertain job prospects for many recent graduates, are combining to soften student market demand at current tuition prices. In addition to these economic challenges, tougher governmental scrutiny of higher education costs and disclosure practices is adding regulatory and political pressure that hinders tuition and revenue from rising at past rates. Federal budget negotiations may result in further pressure on colleges if student aid and loan programs are curtailed to any degree, as a rising share of students are dependent on these funding sources.

For fiscal year (FY) 2013, 18% of private university and 15% of public university respondents project a decline in net tuition revenue. A much larger share—a third of private and public universities—project that net tuition revenue will grow by less than 2% or decline for FY 2013, a level below the average rate of inflation. Such weak revenue growth often means a college cannot afford salary increases or new program investments unless it cuts spending on staff and existing programs. In FY 2008, before the global financial crisis, only 11% of privates and 9% of publics failed to grow net tuition revenue by at least 2%.

The survey also shows that nearly half of all universities are reporting lower enrollment for fall 2012, which for most universities means FY 2013 net tuition revenue will be lower than the previous year. Enrollment declines are concentrated in colleges with smaller enrollment size, high tuition dependence, weak selectivity/yield rates, and soft regional demographics. The survey indicates that market-leading, diversified colleges and universities rated Aaa or Aa continue to fare better than the majority of the sector and are still seeing healthy student demand.¹

In the face of persistent challenges to the higher education business model, management teams are exploring myriad ways to diversify and grow revenue as they more aggressively manage expenses. Universities are exploiting long standing strategies to grow enrollment and revenue, such as recruitment of higher-paying out-of-state students in the case of public universities or greater investment in student retention, as well as newer strategies, such as launching new online education classes or degrees.

The key findings from the survey results, which are discussed in more detail in the report, include:

» Approximately 18% of private universities and 15% of public universities project net tuition revenue declines for FY 2013, similar to FY 2012 projections in last year’s survey.

» A third of universities expect net tuition revenue growth below inflation for FY 2013. Net tuition revenue growth fails to keep pace with inflation for a growing share of universities in FY 2013, with 33% of privates and 32% publics projecting net tuition revenue to grow less than 2% or decline, up from 11% and 9% of privates and publics in FY 2008.

» Smaller, tuition-dependent, lower-rated universities are most vulnerable to revenue and pricing pressures experienced across the sector. Private universities project a 2.6% increase in net tuition per student from FY 2012 to FY 2013 and public universities project a similar 2.7% increase. This year’s increase for publics is much lower than net tuition per student increases over the past five years, which averaged 6.7%, likely in response to families’ sensitivity to rising higher education costs.

» Rated universities are moderately reliant on federal student loans as a share of operating revenue, reporting a median of 20% of revenue funded by student loans in FY 2011. Some public and lower-rated private universities, as well as for-profit universities, report higher rates of dependence.

» Nearly half of university respondents report enrollment declines for fall 2012, many weighed down by falling graduate enrollment. Despite these declines, overall median full-time equivalent (FTE) enrollment for the entire survey group in fall 2012 remained relatively flat compared to fall 2011. The survey results show there continues to be a flight to quality, with large, higher-rated universities generally experiencing enrollment growth.

» Online course enrollment is beginning to alter the business model of US higher education. While Aaa and Aa-rated private universities are leading the publicized massive open online courses (MOOCs) movement2, public universities and lower-rated private colleges report higher for-credit online class enrollment. Public universities have the highest for-credit online enrollment, with a median 22% of students taking at least one course. For-credit online courses still have low penetration at private universities, with only a median 2% of students taking at least one course online.

Moody’s 2012 Survey Respondents
Moody’s received 165 responses from not-for-profit private universities, 58% of our rated portfolio, and 127 responses from four-year public universities, 55% of our rated portfolio. The rating categories range from Aaa to B2 for the private university respondents, and Aaa to Baa1 for public university respondents. In several cases, borrowers did not supply responses to all of the questions and, in these instances, we excluded them from the analysis for those particular questions.

2 See Moody’s report Shifting Ground: Technology Begins to Alter Centuries Old Business Model for Universities, September 11, 2012
I. Heightened Pressure on Net Tuition Revenue Growth, Particularly for Small, Tuition-Dependent Colleges

Pressure on net tuition revenue continues to mount for both private and public universities as highlighted in Exhibit 1. While a majority of universities expect net tuition revenue growth in FY 2013, 18% of private university survey respondents project net tuition revenue declines in FY 2013, above the 10% of respondents who estimate an actual decline for FY 2012. For public universities, 15% project net tuition revenue declines for FY 2013, up significantly from 4% of survey respondents estimating an actual decline for FY 2012. Respondents in our prior three surveys tended to be pessimistic in their projections compared to actual results, so projections for FY 2013 may also be overly conservative.

EXHIBIT 1
More universities project lower net tuition revenues for FY 2013, with privates approaching FY 2010 peak
% Colleges/universities expecting lower Moody’s calculated net tuition revenues

Lack of growth in family income and depressed household net worth continue to drive price sensitivity and demand for student financial aid, resulting in weaker pricing power for colleges. According to the Federal Reserve Bank, from 2007 to 2010, the median value of real (adjusted for inflation) family income before taxes fell 7.7%. Income growth in FY 2011 and FY 2012 is also estimated to remain below average. Employment prospects for college graduates appear to be improving slightly in recent months as the US unemployment rate continues to fall below 8%, but job growth remains well below the levels prior to the 2008-09 financial crisis.

While a majority of universities continue to project net tuition revenue growth, a growing share is not able to keep pace with inflation, as illustrated in Exhibit 2. Before the 2008-09 financial crisis, approximately 90% of universities saw net tuition growth above the rate of inflation (assumed to be 2%), but in FY 2013, the percentage is projected to be significantly lower at 67% for private and public universities. As a result, net revenue growth cannot keep pace with historical rates of expenditure growth at many universities. This growing revenue challenge is forcing college leaders to pursue more aggressive cost cutting measures and introduce innovative revenue strategies, such as those discussed in section five of this publication.

II. Moderate Net Tuition per Student Growth Projected for FY 2013; Publics Expect Slowest Increase in Net Tuition Per Student for at Least Past Decade

Due to their lower price point than privates, public universities were able to grow net tuition per student at a high average median rate of 6.7% over the past five years (FY 2007 to FY 2012) through sticker price increases, most often imposed to offset state funding cuts. Increased recruitment of out-of-state students also helped to grow net tuition per student since out-of-state students generally pay a rate two to three times in-state tuition. However, as Exhibit 3 shows, public universities project a lower 2.7% net tuition per student increase from FY 2012 to FY 2013, a rate similar to privates. This year’s lower median increase is the result of reduced sticker price increases as publics become increasingly sensitive to families’ ability to pay. Despite past years of strong net tuition per student growth, public universities continue to have more pricing power than privates. Publics remain relatively low cost compared to their private peers, with a median projected net tuition per student of $8,107, especially when considering cost relative to the maximum Pell Grant of $5,550.

EXHIBIT 3
Growth in sticker price and net tuition per student projected to decline sharply in FY 2013 for publics

<table>
<thead>
<tr>
<th>% change in net tuition per student</th>
<th>% change in undergraduate sticker price</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2007</td>
<td>FY 2008</td>
</tr>
<tr>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>FY 2009</td>
<td>FY 2010</td>
</tr>
<tr>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>Est. FY 2012</td>
</tr>
<tr>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Proj. FY 2013</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Moody’s MFRA, Moody’s 2012 Tuition Survey
Private universities, which have a higher sticker price than publics, have experienced slowing net tuition per student growth since the 2008-2009 financial crisis due to lower sticker price increases and financial aid growth in response to declining family incomes. As Exhibit 4 illustrates, increased use of scholarships in FY 2013 means that net tuition per student growth is projected to lag sticker price growth. The projected median increase in net tuition per student from FY 2012 to FY 2013 is 2.6%, with a median projected net tuition per student of $20,996 in FY 2013. The undergraduate sticker price increase from fall 2011 to fall 2012 was 4%, down from median increases of around 6% before the 2008-2009 financial crisis. Seventy percent of private universities project an increase in the tuition discount rate in FY 2013 compared to 58% before the 2008-2009 financial crisis. Even though more privates increased their discount rate for FY 2013, the median increase was nearly flat at 0.55%, reflecting private universities’ struggle to balance the competing interests of remaining affordable with good fiscal stewardship and balanced operating performance.

Tuition-dependent colleges with limited brand recognition (generally rated in the A category or below) are the most vulnerable to market pricing resistance. These universities and colleges typically have smaller enrollments, more regional student draw, thinner endowments supporting financial aid initiatives, and strong competition from lower cost options. Exhibit 5 shows that 22% of private universities rated below Aa project a decline in net tuition per student for FY 2013, up from an estimated 14% in FY 2012. While 31% of private universities rated Aa and above project a decrease in net tuition per student for FY 2013, these highly-rated privates are generally funding much of their discount with endowment earnings so they are generating revenue to cover the costs of their scholarships.
Continued weak pricing power expected for privates rated below Aa
% Private colleges/universities rated A1 or below experiencing decline in net tuition per student

III. Public and Lower-Rated Universities Have Highest Reliance on Federal Loans, and are Most Vulnerable to Potential Program Changes

Federal student loans and Pell Grant revenue are an important source of funding for students to cover tuition and auxiliary expenses. Given the existing pressure on tuition revenue, a disruption to this funding could have a significant impact on enrollment levels and associated revenue from student charges, particularly for public universities, graduate programs, and lower-rated universities that are most reliant on federal financial aid. Public and lower-rated colleges and universities are the most reliant on federal loans and grants as a percentage of tuition and auxiliary revenue since these universities tend to serve a lower income population and, in the case of publics, a larger share of tuition can be covered by federal grants and loans because the sticker price is lower.

There are multiple federal loan programs available to undergraduate and graduate students. In our survey we requested that universities include all Title IV federal loans available to students and their families (including subsidized and unsubsidized Stafford loans, Direct Loans, Perkins Loans and PLUS/Grad PLUS loans). Each federal program has its own requirements for eligible expenses, but students generally spend these funds on tuition, room and board (either paid to the university or a private entity), books and, when feasible, other living expenses. Exhibits 6 and 7 show that private and public universities are fairly dependent on federal loans as a percent of gross tuition and auxiliaries, with the highest reliance at public and lower-rated private universities.
Federal loans represent a smaller share of total operating revenue, with the highest dependence in FY 2011 at publics rated A, with median at 30%, and privates rated Baa and below, at 31%. Alternatively, federal loans as a share of total operating revenue are lowest at Aaa universities, at a median 3% for privates and 9% for publics in FY 2011.

Since private universities generally have a higher tuition cost than public universities, students at private universities graduate with a higher median average federal loan burden, as illustrated in Exhibit 8. According to the tuition survey, the median average undergraduate student loan debt for a graduating student in FY 2012 (July 2011 to June 2012) was $22,689 at a public university and $27,154 at a private university. As a comparison, the national average for undergraduate borrowers who graduated in 2011 published by the Institute for College Access and Success (TICAS) in October 2012 was $26,600. The TICAS figure also includes private loans, which are a small share (7% in FY 2011 according to the College Board) of total student loans outstanding.4

4 Student Debt and the Class of 2011, The Institute on College Access and Success, October 2012.
Graduate students have a significantly higher loan burden at graduation than undergraduates because of the higher cost and low tuition discounting for graduate education. For FY 2012, the median average federal loan burden for a graduate student graduating from a private university was $44,166 and $35,695 at a public university. The high cost of graduate education and associated loan burden combined with the prolonged period of limited employment prospects are important drivers for recent enrollment declines at graduate programs – discussed in more detail in the next section on enrollment trends - as students question whether the payoff for a graduate education justifies the expense.

EXHIBIT 8
Student loan burden highest for students at private universities and graduate programs
Median average federal loan ($) burden for undergraduate and graduate borrowers at graduation

<table>
<thead>
<tr>
<th></th>
<th>Private</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate</td>
<td>$30k</td>
<td>$35k</td>
</tr>
<tr>
<td>Graduate</td>
<td>$40k</td>
<td>$45k</td>
</tr>
</tbody>
</table>

Source: Moody’s 2012 Tuition Survey; includes all Title IV federal student loans for which the student or parent is designated borrower.
Note: FY's represent students that graduated in that fiscal year.

Given their high reliance on student loans as a percentage of gross tuition and auxiliary revenues, some universities are exposed to risks associated with a potential change to these programs. These risks, which are primarily linked to government regulation, are now elevated due to political and public scrutiny of the cost of higher education and value of a degree combined with federal fiscal challenges. A future decline in federal loan funding could have a significant impact on enrollment levels and associated net tuition revenue, particularly for those most reliant on student loan revenue, such as low-rated institutions and universities with significant graduate programs.

Pell Grant revenue is also an important source of revenue for public universities, though less so than loans for the tuition survey participants, representing a projected 15% of gross tuition and auxiliaries for A-rated publics, 7% for Aa-rated publics and 4.6% for Aaa-rated publics in FY 2012. Pell Grant funding is a federal need-based program whereby low income students – typically undergraduates – are eligible to receive up to $5,550 per year that does not have to be repaid.

The recent stagnation of Pell Grant funding exemplifies the impact of a federal policy change on tuition revenue. As Exhibit 9 illustrates, Pell Grant revenue has been flat since FY 2011 primarily due to the elimination of the summer semester grant (first introduced in FY 2010). Despite this change, Pell Grant revenue has not declined over the past two years for our public university survey respondents because more students are applying and qualifying for the grant.
EXHIBIT 9
Pell Grant revenue stagnates after elimination of summer grant
Median Pell Grant revenue (left axis); Median % change in Pell Grant revenue (right axis)

In addition to exposure to federal loan and grant programs, many universities enroll students reliant on state funded grants and loan programs. Any reductions to these programs by state governments would also negatively impact enrollment and tuition revenue.

IV. Highest Enrollment Declines for Fall 2012 at Graduate Programs, Small, Lower-Rated Universities, and Publics in the Northeast and Midwest

Nearly half of universities project full-time equivalent (FTE) enrollment declines for fall 2012, as illustrated in Exhibit 10. The greatest pressure is projected for graduate programs, small, lower-rated universities, and public universities located in the Northeast and Midwest where high school demographics are weakest. Even though a rising share of universities predict a decline in enrollment, the median change is minimal and median fall 2012 enrollment is relatively flat compared to the prior year. Undergraduate enrollment increased a median 0.5% from fall 2011 to fall 2012 and graduate enrollment declined a median 0.4% across all universities.

EXHIBIT 10
Nearly half of universities project enrollment declines for fall 2012, a sharp increase since fall 2010
% of public and private colleges/universities respondents showing a decline in total FTE enrollment

Source: National Center for Education Statistics (FY 2008 - FY 2011) and Moody’s 2012 Tuition Survey (FY 2012 and FY 2013)
Public universities project weaker median undergraduate and graduate enrollment trends than private universities for fall 2012. For undergraduate FTE enrollment, privates project a 0.6% median increase from fall 2011 to fall 2012 as compared to a 0.19% median increase at publics. For graduate FTE enrollment, private universities project flat enrollment from fall 2011 to fall 2012 and publics report a median 0.75% decline.

While lower graduate enrollment accounts for the majority of universities projecting a decline in FTE enrollment for fall 2012, Exhibit 11 shows that an increasing share of public universities expect undergraduate FTE declines as compared to before the 2008-2009 financial crisis. About half of public universities project undergraduate enrollment declines from fall 2011 to fall 2012, up significantly from a third of institutions that experienced declines from fall 2006 to fall 2007. By comparison, private universities project a similar level of undergraduate FTE enrollment declines for fall 2012 (at around 40%) as was projected prior to the financial crisis.

We attribute the undergraduate enrollment declines at public universities to middle and lower income students’ heightened scrutiny of the value of higher education after years of stagnating family income and decline in net worth, as well as the cumulative tuition price increases at public universities over the last decade. During the financial crisis, enrollment increased at many public four-year institutions since students considered higher education to be a means of securing employment, but now students are increasingly attending more affordable community colleges, studying part-time, or electing to enter the workforce without the benefit of a college education.

The survey shows that there remains a flight to quality as students seek the highest value education in the face of declining family income and weak job prospects. As a result, small, lower-rated public and private universities, as well as publics with small enrollment size, experienced the most enrollment pressure in fall 2012.
As Exhibits 12 and 13 show, enrollment growth is correlated with a universities’ rating category. Private university median undergraduate FTE enrollment grew across all rating categories, but A-rated public universities had a median 0.7% decline. Enrollment declines at graduate programs were more pervasive, with only Aaa and Aa rated universities experiencing median enrollment increases, and a median 3% decline for public universities rated Baa and below. During the 2008-2009 financial crisis, graduate enrollment grew as individuals decided to return to school to retrain or augment their skills in the face of high unemployment. After multiple years of high unemployment and underemployment with limited job prospects, demand for graduate degrees is now lower.

**EXHIBIT 12**
**Flight to quality: undergraduate enrollment growth correlated with ratings**
Median percent change in undergraduate FTE, fall 2011 to fall 2012

<table>
<thead>
<tr>
<th>Rating Category</th>
<th>Private universities</th>
<th>Public universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Aa</td>
<td>0.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>A</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Baa &amp; Below</td>
<td>0.5%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Aaa &amp; Aa</td>
<td>-1.0%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>A</td>
<td>-4.0%</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

*Source: Moody’s 2012 Tuition Survey*

**EXHIBIT 13**
**Flight to quality: graduate enrollment declines at lower-rated universities**
Median percent change in graduate FTE, fall 2011 to fall 2012

<table>
<thead>
<tr>
<th>Rating Category</th>
<th>Private universities</th>
<th>Public universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>4.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Aa</td>
<td>3.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>A</td>
<td>2.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Baa &amp; Below</td>
<td>1.0%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Aaa &amp; Aa</td>
<td>-1.0%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>A</td>
<td>-2.0%</td>
<td>-2.0%</td>
</tr>
</tbody>
</table>

*Source: Moody’s 2012 Tuition Survey*

For public universities, there continues to be a correlation between size and enrollment trends, with the highest median enrollment growth experienced at large, programmatically diversified universities, as illustrated in Exhibit 14. We note that size is not as strong of an indicator for private universities.
since many maintain their market position by offering a small, residential experience. All but the smallest (fewer than 10,000 FTE enrollment) public universities saw median undergraduate FTE enrollment increases. For graduate programs, which are experiencing broader enrollment pressure, the only universities able to grow enrollment were the largest public universities.

EXHIBIT 14
Small, less programmatically diversified publics see enrollment declines
Median % change in undergraduate and graduate FTE enrollment at publics, fall 2011 to fall 2012

As applications continue to rise (because students apply to more colleges, not because there are more students), the median yield declined for nearly all rating categories at both public and private universities from fall 2009 to fall 2011, except for Aa universities that remained fairly flat. But as Exhibit 15 shows, in fall 2012 Aaa and Aa rated universities have stable yields while lower-rated universities continue to see declines, with a particularly sharp decline for those rated Baa and below. This continuing decline in yield for lower-rated colleges points to the increased competition for the best students and highlights the ongoing need for universities to differentiate themselves and carefully manage their recruitment and pricing strategies.

EXHIBIT 15
Yield on admitted students continues to decline most sharply for lower-rated universities
Median matriculation rate, by rating category, for public and private colleges and universities

Lastly, the survey showed that location is an important variable affecting enrollment. Those universities located in areas with a declining number of high school graduates – specifically publics in
the Northeast and the Midwest of the US – experienced the most enrollment pressure, as illustrated in Exhibit 16. For publics located in states with funding cuts, enrollment declines may also occur if the university decides to limit or cut enrollment because tuition increases are not able to offset state appropriation losses.

Given the strong high school demographics in the South and West, universities located in these areas experienced the highest median FTE enrollment growth from fall 2011 to fall 2012. In addition, many universities across the country recruit high school students from these areas to increase their applicant pool. Large, programmatically diversified, and higher rated universities located in weak demographic areas are typically not as affected by demographic trends because their student enrollment is geographically diverse. In general, higher-rated public and private universities have a higher percentage of out-of-state students, which helps mitigate potential demographic pressure in any one area, diversify the student body, and bolster net tuition revenue. For fall 2012, Aaa private universities project that nearly 90% of first-year students come from out-of-state, significantly higher than the 35% projection for privates rated Baa and below. The comparison is similar for publics, with Aaa and Aa rated universities projecting 23% of first-year students are from out-of-state for fall 2012 as compared to 11% at publics rated below Aa.

EXHIBIT 16
Enrollment growth highest in regions with growing high school graduates
Median growth in total FTE enrollment (left axis); Projected % change in high school graduates (right axis)

V. Strategies to Mitigate Enrollment and Tuition Pressure Include Increased Retention and Out-of-State Recruitment, as well as Introduction of Online Classes

In the face of enrollment and net tuition revenue pressure, universities are increasingly focused on maximizing use of existing strategies as well as developing new ones to attract and retain students. Universities use many strategies to mitigate pressure on enrollment and student revenues, such as strategic use of financial aid, new partnerships with other colleges, or expense management. This year’s survey highlights three particular initiatives: increasing student retention efforts, recruiting out-of-state students, and introducing online courses.

Median retention (percentage of first-year students returning as second-year students) at public universities has remained stable over the past five years at around 78%, but retention has improved slightly at private universities over the past couple of years, from 87% in fall 2009 to 89% in fall 2012. Improved retention is the easiest method for colleges to stabilize their tuition revenues in the face of
market price pressures as it reduces the cost and need to recruit larger incoming freshmen classes to maintain enrollment. Methods of improving retention include better student services, more scholarships for existing students, and increased academic quality of admitted students, which reduces the number of students who may leave due to poor academic performance.

Another strategy used to maintain enrollment and net tuition revenue is increased recruitment of out-of-state students. Though many universities have long recruited students from diverse geographic regions, they must continually shift their outreach depending on demographic changes in the US and abroad. For public universities facing state appropriation cuts, out-of-state enrollment growth is particularly important as a way to offset revenue losses since these students typically pay two to three times the cost of in-state tuition. Some public universities, however, provide preferential tuition rates to students from nearby states, and so the tuition price can be similar to the in-state rate for these students. Exhibit 17 illustrates that recruitment of out-of-state students has increased over the past few years as median reliance on state appropriations as a percentage of operating revenue has declined.

EXHIBIT 17
Publics enroll more high-paying out-of-state students to offset state appropriation declines
Median % state appropriations as percentage of operating revenue (left axis); Median % of out-of-state students (right axis)

Online technology offers perhaps the most fundamental change in enrollment strategy for higher education. There are a variety of different online course structures – entirely online, hybrid (with some coursework online and some in the classroom) or non-credit courses, such as the recent emergence of massive open online courses (MOOCs). MOOCs are leading the online learning movement, with elite universities offering courses to hundreds of thousands of students across the globe, currently at no cost. While elite universities with a global brand are more likely to offer MOOCs or hybrid courses, regional public universities and lower-rated universities are most likely to offer for-credit courses entirely online. Our survey only requested information about fully online, for-credit courses.

Though the emergence of online technology in higher education is not new, online enrollment increased 10% from 2002 to 2010 (at both for-profit and not-for-profit institutions) according to the


6 For some universities, online education has long been an important part of their course offerings, such as Liberty University (rated A1/stable), University System of Maryland (rated A1/stable) and Nova Southeastern University (rated Baa2/positive).
2011 annual survey conducted by Babson Survey Research Group. Given continued pressure to maintain enrollment levels, offer convenient delivery methods to students, and achieve operating efficiencies, we expect for-credit online offerings will continue to grow. We also expect to see more market-leading universities join MOOC platforms such as Coursera, edX and Udacity to benefit from the global branding and exposure offered by these networks.

Public universities report much higher enrollment in for-credit online courses than their private counterparts because increasing accessibility at a lower cost aligns directly with their mission and they are more likely to serve non-traditional students who would benefit from more flexible class schedules. Lower-rated publics have the highest for-credit online enrollment, likely because they seek to capitalize on operating efficiencies and attract more students by offering a variety of delivery models.

EXHIBIT 18

Higher penetration of for-credit online courses at publics and lower-rated universities
Median % of students (headcount enrollment) taking at least one course online for credit in fall 2012

<table>
<thead>
<tr>
<th></th>
<th>Private universities</th>
<th>Public universities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall 2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aaa &amp; Aa</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>A</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Baa &amp; Below</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Fall 2012</td>
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<td></td>
</tr>
<tr>
<td>Aaa</td>
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<td>20%</td>
</tr>
<tr>
<td>Aa</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>A &amp; Below</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Moody’s 2012 Tuition Survey

Though many elite private universities are leaders in online MOOCs, far fewer private universities offer for-credit online courses. Private universities, particularly the highest rated, have low penetration in for-credit online courses largely in an effort to protect their brand and residential experience that differentiates them from the competition. Exhibit 19 illustrates that for-credit online enrollment is more prevalent at private universities experiencing enrollment declines, perhaps because these universities hope that the flexible online delivery method will help increase enrollment and improve retention.

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7 Going the Distance, Online Education in the United States, 2011, Babson Survey Research Group, November 2011
EXHIBIT 19

Private Universities with enrollment declines more likely to offer online courses
Median % of students (headcount enrollment) taking at least one course online for credit, fall 2012

Source: Moody’s 2012 Tuition Survey
Moody’s Related Research

Industry Outlooks:
» US Higher Education 2012 Mid-Year Outlook Remains Mixed, July 2012 (144084)
» US Higher Education Outlook Mixed in 2012, January 2012 (139177)

Special Comment:
» Shifting Ground: Technology Begins to Alter Centuries-Old Business Model for Universities, September 2012 (144483)

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