NAICU

PRELIMINARY RESULTS

Survey on the Impact of the Economic Conditions
on Independent Colleges and Universities

December 18, 2008

Introduction

NAICU conducted a survey on the financial situation facing private colleges and their students. Questions were designed to be answered by the president of the independent institution. The survey began collecting data on Tuesday, November 18, 2008, and closed on Friday, December 12, 2008. The following findings are preliminary results, as of December 18, 2008.

I. General Survey Information

NAICU received 371 completed surveys, which is a 39% response rate. The following tables provide a general description of the institutions that responded to this survey.

Carnegie Classification	Number	Percent
Doctoral/Research	30	8.1
Masters	118	31.9
Baccalaureate	166	44.9
Associates	12	3.2
Special Focus	44	11.9
Total	370	100.0

Institution Size	Number	Percent
Under 1,000	79	21.4
1,000 - 4,999	248	67.0
5,000 - 9,999	26	7.0
10,000 - 19,999	14	3.8
20,000 and above	3	.8
Total	370	100.0

II. Institution Financial Health

***Question 5*: How have the following 6 areas on your campus been affected by the economic downturn?**

Area 1: Student/Parent Loan Availability	Number	Percent
Not at all affected	112	30.8
Affected	228	62.6
Significantly affected	24	6.6
Total	364	100.0

Comments on the Student/Parent Loan Availability:

> *"Alternative loan availability is limited. Several key lenders in our geographic vicinity have ceased writing this business."*

> *"First generation students from families with less impressive financial histories are struggling to find affordable loans."*

> *"We have evidence of parents' access to credit being constrained, particularly access to home equity or reductions in the value of market investments that were earmarked for a child's education."*

Area 2: Demand for Student Aid	Number	Percent
Not at all affected	65	17.9
Affected	242	66.5
Significantly Affected	57	15.7
Total	364	100.0

Comments on the Demand for Student Aid:

> *"There has been a sharp increase in appeals approximately 15%."*

> *"We are seeing higher balances in accounts receivable which means that students probably need larger grants."*

> *"We are budgeting a ten percent increase in undergraduate financial aid for next year on top of the already budgeted increase which was about 8 percent."*

Area 3: Student Enrollment	Number	Percent
Not at all affected	167	47.7
Affected	159	45.4
Significantly Affected	24	6.9
Total	350	100.0

Comments on Student Enrollment:

> *"Normally, some 15-20 students each fall are unable to make sufficient financial arrangements and are unable to complete registration. This fall, the number was closer to 50."*
>
> *"While head count has increased, per-student credit hour loads have decreased."*
>
> *"Early decision up, regular decision down. We don't yet know."*
>
> *"Too early to tell; next fall is critical."*

Area 4: Institutional Debt/Cost of Debt	Number	Percent
Not at all affected	171	46.8
Affected	143	39.2
Significantly Affected	51	14.0
Total	365	100.0

Comments on Institution Debt or the Cost of Debt:

> *"Borrowing money is much more difficult - almost impossible."*
>
> *"We have variable rate bond that has doubled in cost."*
>
> *"We have had several major bonds called by the lenders, as well as having bond guarantors decline to renew the guarantee or charge 2x the previous rate. Those are significant impacts on the institution."*
>
> *"We had $2.7 million of variable rate bonds recalled and they were held against our letters of credit for 26 days before they re-sold. We had to pay more interest on the letters of credit from the bonds."*

Area 5: Endowment	Number	Percent
Not at all affected	12	3.3
Affected	105	28.8
Significantly Affected	248	67.9
Total	365	100.0

Comments on Endowment:

> *"Our endowment, while very small, has decreased in value by 30%."*
>
> *"Our endowment total was approximately $92 million as of July 1, 2007; approximately $84 million as of July, 2008. At this point,…, returns indicate that it is in the low $70 million range."*
>
> *"Our endowment value has dropped 30% at this point and has a significantly negative effect on the FY2010 budget. We will make significant and long-lasting cuts in the organization as a result of this downturn. There will be layoffs and program closures."*

Area 6: Fund Raising	Number	Percent
Not at all affected	37	10.2
Affected	244	67.4
Significantly affected	81	22.4
Total	362	100.0

Comments on Fund Raising:

> *"We're in a capital campaign and are seeing donors less willing to make firm commitments in the short-term."*
>
> *"So far, we are a little ahead of last year at this time in our Annual Fund. However, we are projecting that the usual bump at end of year (Dec. 31) will be smaller this year."*
>
> *"We are seeing anecdotal evidence of reluctance or inability to commit among significant donors. Too early to tell about the annual fund, though we anticipate a downturn of some amount, perhaps 5-10%."*

III. Most Pressing Concerns

<u>Question 6</u>: For the following 6 areas affected by the current economic conditions, please rate your level of concern.

Area 1: Securing Student Loan Availability	Number	Percent
Great concern	95	26.0
Moderate concern	222	60.8
Not a concern	48	13.2
Total	365	100.0

Comments on Securing Student Loan Availability:

> *"We are about at the limit of discounting we can viably support. Our endowment offers almost no relief to our financial aid costs. We think that availability of affordable loans will be an important component of college affordability."*

> *"We are moving to direct lending entirely in Spring 09 just to be sure our federal loans are safe."*

> *"This is the single most important issue that I worry about as we are over 90% tuition driven."*

Area 2: Preventing the Decline of Student Enrollment	Number	Percent
Great concern	239	65.3
Moderate concern	100	27.3
Not a concern	27	7.4
Total	366	100.0

Comments on Preventing Enrollment Declines:

> *"Early indications of low spring semester enrollment may loom as most significant impact of economic downturn. For tuition-driven institution with 86% of its revenue tied to enrollment-based measures, a decline in enrollment is our greatest financial concern."*

> *"We all know that during short recessions, college enrollment tends to pick up if funds are available, but this does not look short term to me and that concerns me."*

> *"This is a 'phantom' concern at the moment, but it looks large because everything feels unpredictable at the moment. Job loss, I believe, will be a primary factor."*

Area 3: Reducing Cost of Institutional Debt	Number	Percent
Great concern	75	20.7
Moderate concern	151	41.6
Not a concern	137	37.7
Total	363	100.0

Comments on Reducing the Cost of Institutional Debt:

"Our debt service cost is 300% above budget for the year due to bank and bond market problems."

"We are monitoring this but have minimal outstanding debt. It is more significant when evaluating new capital projects that require debt financing."

"We do not plan on taking on more debt. The only concern we have is the variable rate bond market."

"Although our exiting debt is fixed, we have plans to build additional facilities. There is great concern about our ability to manage the debt service if the enrollment continues to slide."

Area 4: Protecting Endowment	Number	Percent
Great concern	245	67.3
Moderate concern	105	28.8
Not a concern	14	3.8
Total	364	100.0

Comments on Protecting Endowment:

"We have seen our endowment decline 39% since June 2007."

"Our endowment is not competitive with our peers, and already puts us at a disadvantage in trying to narrow the gap between student need and costs. We have taken years to build it with gifts and careful investment; to see it decline so quickly and put us back five years is a hazard which puts significant pressure on raising tuition when families can afford it least – this trend will make education available to the affluent."

"Have a diversified portfolio, but will not be able to make an endowment draw this year."

Area 5: Preventing the Decline of Fund Raising	Number	Percent
Great concern	258	70.7
Moderate concern	96	26.3
Not a concern	11	3.0
Total	365	100.0

Comments on Preventing the Decline of Fund Raising:

> *"Private institutions rely heavily on endowment for capital construction and financial aid. This decline, coupled with catastrophic losses in endowment, and limited access to credit for families, is as bad a scenario for private institutions as one could ever imagine. This situation is unprecedented."*

> *"We are VERY tuition dependent and it is important that we lower that dependency."*

> *"As pressure grows to hold down tuition increases, other revenues including gifts become more important."*

> *"MAJOR source of revenue to supplement operating and grant [student financial aid] expenditures."*

IV. Student Enrollment for Spring 2009

<u>Question 7</u>: Please provide an estimate of your institution's expected enrollment for next term (Spring 2009).

Estimated expected enrollment for next term (Spring 2009)	Number	Percent
A significant decline (more than 25% decrease)	1	.3
A decrease (11-25% decrease)	26	7.1
A slight decrease (1-10% decrease)	179	49.2
Stay the same (0% change)	111	30.5
A slight increase (1-10% increase)	41	11.3
An increase (11-25% increase)	6	1.6
Total	364	100.0

Comments on Expected Spring 2009 Enrollment:

> *"5% is typical, but we expect 10% decrease."*
>
> *"We are more concerned about Fall 2009 than Spring 2009."*
>
> *"Spring is always smaller than fall. We do not expect a decrease greater than that which is usual."*
>
> *"Consistent with our normal pattern, we expect spring enrollment to decline slightly from the fall."*
>
> *"Based on our demographics, we expected fewer adult students to attend. 60% of our students are adult learners who attend part-time."*
>
> *"10% decrease has been an historic reality at [our college]. Expect an additional 10% decline based upon pre-registration figures."*

V. Balancing the Budget

***Question 8**: For this academic year or next, which of the following cost-cutting steps has your institution taken or planning to take? (Check all that apply).*

Cost-cutting Steps	Number	Percent
Froze tuition levels	17	4.6
Cut or froze institutional student aid budget	31	8.4
Cut student services	36	9.7
Cut academic programs	27	7.3
Laid-off staff (non-faculty)	58	15.6
Laid-off faculty	39	10.5
Restricted staff travel	179	48.2
Froze new hiring	185	49.9
Froze salaries	82	22.1
Cut salaries/benefits	27	7.3
Gave smaller than usual salary increases	154	41.5
Slowed down current construction/renovation projects	180	48.5
Cancelled planned construction/renovation projects	79	21.3
Delayed maintenance	145	39.1
Other (please specify)	50	13.5

Comments on Cost-Cutting Steps:

> *"Freeze some equipment purchases. Reviewed staffing tables to assess mission-critical positions."*

> *"Among many things we are doing are: freeze on replacement hires, reducing the % that the college is contributing to retirement – from 8% to 4%, freeze adjunct hires, reduced operating expenses by 6%. We will give a 2.5% raise to help offset the loss of benefits."*

> *"We are considering having employees take a day off each month without compensation."*

> *"Decreased amount of 'draw down' on endowment."*

"Modified zero base budgeting-base is set at 80%"

"Each position is being evaluated before filling it. Departments are being asked to save where possible. Out contingency in the budget this year & next is and will be large (approx 5%). We belong to…a consortia of 6 colleges for IT administrative software sharing. We are beginning to look at sharing of back office operations for cost savings."
"Soft hiring freeze, i.e., every open position gets reviewed."

"We are making very modest changes around the edges that, when they are added up, make a significant difference. A big help is the decrease in utilities costs we are experiencing—likely a $600,000 reduction in this fiscal year. We are, for example, adjusting to make more efficient the way we replace faculty on sabbatical, we are undertaking an even more aggressive energy conservation campaign, we will entertain less, travel little less, fill administrative positions more slowly (to create more savings from unfilled positions), reviewing and making more efficient our overseas study programs, and planning ahead to adjust student housing upward in case we choose to take a larger than planned first-year class."

"All (cost-cutting steps are) on the table. No decisions yet."

***Question 9**: For this academic year or next, which of the following revenue-increasing steps has your institution taken or planning to take? (Check all that apply).*

Revenue-increasing Steps	Number	Percent
Increased (or attempted to increase) enrollment	241	65.0
Increase tuition	254	68.5
Created new academic/extension programs or continuing education	152	41.0
Borrowed funds	34	9.2
Sold assets	25	6.7
Other (please specify)	27	7.3

Comments on Revenue-Increasing Steps:

"We're adding online offerings to reach new markets and to retain current students who want to cut down on travel costs."

"Continue fund raising with a single focus on student scholarships."

"Hire new admissions leadership and team and totally changed the recruiting system in April 2008. Fall 2008 enrollment up 11% over what was previously projected. Applications for 2009 up 400%. It's what we do, not what we fear, that makes the difference."

"Increase tuition is lowest in 40 years. New on-line programs in law and pharmacy, and MBA programs."

"Increase usage of facility during the summer."

"Summer programs."

"Removed tuition guarantee program, beginning with freshman of 2009."

"We may also decide to borrow funds through a bond arrangement but this is uncertain as well. We have also secured a line of credit through our bank."

VI. How Can the Federal Government Help?

<u>Question 10-16</u>: Please rate how helpful each of the following proposals would be to your institutions and students.

Q10: Refinancing institutional debt at a low-interest, fixed rate	Number	Percent
Extremely helpful	114	32.2
Helpful	134	37.9
Not helpful at all	106	29.9
Total	354	100.0

Q11: Funding current or "ready-to-go" construction or renovation projects	Number	Percent
Extremely helpful	143	40.5
Helpful	125	35.4
Not helpful at all	85	24.1
Total	353	100.0

Q12: Increasing the Pell grant by $500	Number	Percent
Extremely helpful	257	71.4
Helpful	94	26.1
Not helpful at all	9	2.5
Total	360	100.0

Q13: Increasing federal student loan limits	Number	Percent
Extremely helpful	223	63.2
Helpful	121	34.3
Not helpful at all	9	2.5
Total	353	100.0

Q14: Making PLUS loans easier to borrow	Number	Percent
Extremely helpful	238	67.2
Helpful	109	30.8
Not helpful at all	7	2.0
Total	354	100.0

Q15: Providing liquidity (i.e., financing, guarantees) or other mechanisms to support private student loans	Number	Percent
Extremely helpful	215	60.2
Helpful	124	34.7
Not helpful at all	18	5.0
Total	357	100.0

Q16: Extending the student loan grace period for new graduates from 6 months to 12 months, allowing students more time to find jobs before repaying their loans.	Number	Percent
Extremely helpful	205	57.3
Helpful	137	38.3
Not helpful at all	16	4.5
Total	358	100.0

Question 17: Are there any other ways the federal government or NAICU can address any financial difficulties facing your institution?

"Pell, Pell, Pell."

"[Questions] #13-16 would be extremely helpful to us! Parents are increasingly nervous about borrowing. Making it easier would help. Avoiding costly regulations. Avoiding price controls that would penalize frugal institutions that find they need to "catch up" in a given year. Easing visa restrictions on foreign students. Making sure the credit markets are operating. Avoiding regulations mandating a minimum spending rule for endowments take-out. As markets begin to recover, assuming they do, prudent institutions may lower spending % to hedge against future downturns. We certainly will explore that strategy if we can. A minimum spending requirement would make it impossible to pursue such a strategy."

“Match increases in student aid.”

“Parents and students are afraid - wanting to "drop out" or "stop out" after 1st semester. Retention as a major issue. Need $$. Guarantee tax by academic year. Increased loan availability - loan flexibility. Emulate USDA loan policy: to colleges 40 years at 4.3% no prepayment penalty. As economic driver for community - maximizer leverages $$.”

“Funding energy conservation and renewable energy projects would help HE reduce energy cost, lower energy consumption and create jobs!”

“Create incentives for students in critical areas to pay off college loans (e.g. nursing education, sciences).”

“Relax/reduce compliance requirements that incur additional staff expense.”

“Remove the obstacles for foreign students who have the means and desire to study in the U.S.”

“While keeping us accountable, minimize our reporting (government) costs. Help get the government to loosen the national credit squeeze.”

“Continue ability of donors to provide retirement funds without interest payments. Institute ‘jobs’ programs for graduates to reduce loans by community service employment (including jobs in education, health care, etc.).”

“Provide incentives for employers to provide and/or increase employer provided tuition assistance to its employees.”

“I have heard several comments to the effect that we should also be clear in asking how we can help move the nation forward. I agree with this sentiment.”

“For us the financing for "ready to go projects" would be extraordinarily helpful.”

“As far as possible, keep appropriations for the major grant programs, Title III, Title V, TRIO programs, CAMP, at least at current levels -- increase if possible.”

“Recognize the unique nature of our college designed exclusively for students with LD and/or ADHD and provide some level of additional funding as they have done with Gallaudet College for so many years.”

“Suspend implementation of new federal reporting requirements for 24 months.”

“Increase federal contribution to the Perkins Loan program. Increase federal allocations by 25-50% in the Pell Grant and SEOG programs.”

“Make a public statement that it is cheaper to America to support students in school, than to support them in unemployment or jail.”

“For the longer term, increasing the amount that families can deduct of tuition expenses would be very helpful. For middle income families to fund all or most of college tuitions (especially if they have several children) is very difficult when it coming from after tax dollars.”

“Stop imposing more and more new expensive-to-implement rules e.g. all the new mandates of the Higher Ed Reauthorization Act. Imposing these kinds of things on institutions that are already strapped makes no sense. The government should be imposing stronger rules on how financial institutions function - instead, especially since Sarbanes/Oxley, the educational institutions are suffering and the attorneys and auditors are making out like bandits. Our auditing costs have doubled! What a windfall for the auditing firms! What ever happened to ethics and when did we conclude that our government could legislate them? Stop! It’s too much!”

“We are already re-financing institutional debt at a low-interest, fixed rate (Question 10).”

“Delay implementation of the costly regulations attendant to the HEA 101.”

“I do believe that there are regional differences in costs that are never considered. This would be reflected in the need for student loans to be differentiated, possibly by region. I think the federal government could encourage states to partner with privates. We save the states millions of dollars in public higher education costs. If states had to fund public education for all students that we educate, it could be a tremendous burden to the taxpayers. Perhaps states could be encouraged to give student aid to privates. The cost of the new HEA, the NEW 990s, the new etc., etc. are tremendous, especially since they want to keep costs down! so their increases in student aid aren't going necessarily to the student experience.”

“Again, to speak positively and to avoid panic. At my institution, we have privately identified what we would do if we had "to think the unthinkable" and to "do what no one wants to do", but publicly we are advocating moving ahead.”

“Increased military deployments have significantly affected our student enrollment. We are optimistic that the new GI Bill will assist a significant percentage of our current and future students. Both the federal government and NAICU should focus attention on ensuring that the new program be both effective and seamless.”

“Review requirements of Title IV in view of financial crisis.”

“If the stimulus package includes "public works" projects, include a portion for higher education.”

“Include us as part of any infrastructure initiative.”

"We certainly do not need anymore required reports."

"Not add more regulatory reporting burdens"

"I would strongly favor NAICU's efforts focusing on our students and the provision of resources to help them to have college choice and the funds to enroll and persist in their institution of choice."

"Provide more need based grants."

"Restoring federal grants and loans for infrastructure investment (dormitories, technology, laboratories) would help to keep renewal moving forward, providing needed capital without relying on the private credit markets (feds did a lot with dorms and labs in the 50s and 60s but then got out of the business)."

"Ensuring the availability of student loans should be the highest priority. Nothing would jeopardize higher education more than if families cannot afford to pay their tuition bills."

"Easier access to student loans."

"Understanding the strategic investment in our economic future that is represented by quality education, an ambitious funding package to enable families to finance higher education at whatever kind of institution they would like."

"ACG & SMART grants have renewal GPA's too high to be reasonable. The federal TEACH Grant has the same problem."

"What ever is done needs to be done quickly!"

"As always, thanks for your good work. I think it's most important to be mindful of the fact that a fairly modest decline in enrollment can have a major impact on tuition driven institutions. In other words, it won't take much to cause severe problems in the short term."

"Increase student aid."