FINAL RESULTS

Findings from the Survey on the Impact of the
Economic Conditions on Independent Colleges and Universities
January 30, 2009

Introduction

A recent survey conducted by the National Association of Independent Colleges and Universities (NAICU) found that fundraising, endowments, and the demand for student aid have been greatly affected by the economic downturn. To offset the effects of the financial constraints, independent colleges are employing several budget-saving strategies, specifically freezing hiring, slowing construction/renovation projects, and restricting staff travel. In addition, independent colleges and universities note the important role federal government assistance can play during these hard financial times, especially by ensuring adequate student aid funding to help families facing economic uncertainty.

The NAICU survey began on Tuesday, November 18, 2008, and closed on Friday, December 12, 2008. The survey questions, answered by the presidents of the institutions, sought to identify the extent to which various determinants of a private college's financial situation were being affected by the economic downturn. The survey also assessed actions taken by private colleges to cope with their resulting reduced budgets. The final results of the survey, as of January 30, 2009, are presented in the following pages. (Preliminary results were made public December 18, 2008.)

NAICU received 372 completed surveys, a 38 percent response rate. Most of the responding institutions were small, baccalaureate colleges. For additional description of the types of responding institutions, please see the Appendix at the end of this report.

Key findings from the national survey on the effects of the economic downturn on private colleges:

- Ninety-seven percent of respondents reported that their endowments have been affected or significantly affected.
- Eighty-two percent of respondents said the demand for student aid has been affected or significantly affected.
- Slightly more than half of the respondents said that their student enrollments have been affected or significantly affected.
- Seventy-one percent of the respondents reported that they are greatly concerned fund raising levels will decline.
- The top three cost-cutting actions of respondents are: 1) freeze hiring, 2) slow current construction/renovation projects, and 3) restrict staff travel.
- A variety of federal actions were seen as helpful to private colleges. Of those suggested, improvements to student aid – such as a $500 increase in the Pell Grant, easing access to student loans, and raising the federal student loan limits – were seen as the most helpful.

Survey Questions and Responses

The following findings are presented in the order the survey questions were asked. Several questions[1] had an open-comment section for respondents to clarify, support, or expand their responses. Following each of the findings we have included several such responses that were particularly interesting or exemplary of the findings.

I. Institutional Financial Well-being

Chart 1, below, graphs the responses to question 5: "*How have the following areas on your campus been affected by the economic downturn?*" Respondents indicated the extent to which six financial factors on their campuses had been affected - loan availability, demand for financial aid, student enrollment, institutional debt, endowment return and fund raising.

Chart 1: Areas on Campus Affected by the Economic Downturn

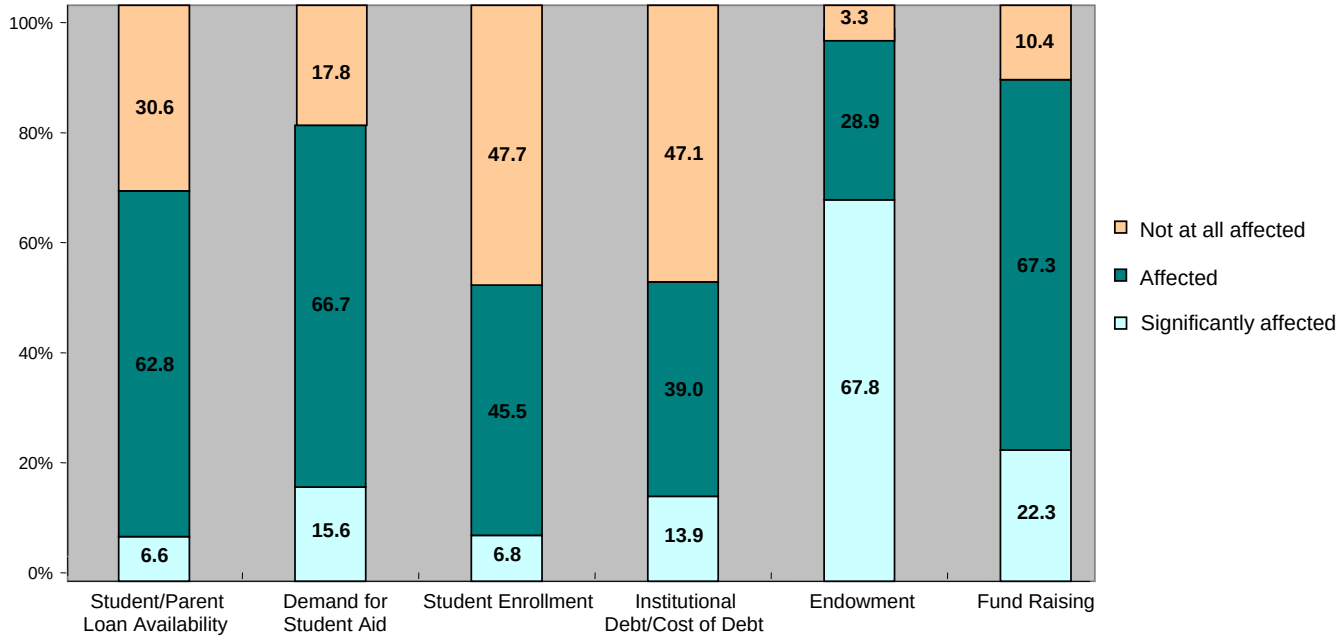


Chart 1 clearly shows that the economic downturn has affected private college finances in a number of ways, and to a large extent in all the ways listed. The reduction in endowment funding was the factor most presidents rated as significantly affecting their campus (nearly 70 percent). An additional 29 percent reported that their endowments have been affected to some degree. In total, 96.7 percent of the respondents pointed to an effect on their endowments. Effects upon fund raising, the demand for student financial aid, and loan availability were also

[1] Open comments available for questions 5-9.

strongly noted. Even the areas least impacted, student enrollment and institutional debt, affected over 50 percent of respondent campuses.

- 97 percent of the respondents reported that endowments have been affected or significantly affected.
- 90 percent of the respondents reported that fund raising has been affected or significantly affected.
- 82 percent of the respondents reported that demand for student aid has been affected or significantly affected.
- 69 percent of the respondents reported that student/parent loan availability has been affected or significantly affected.
- 53 percent of the respondents reported that institutional debt/cost of debt has been affected or significantly affected.
- 52 percent of the respondents reported that student enrollment has been affected or significantly affected.

The following are comments on the effects of the economic downturn on private colleges:

- Endowment:

  "Our endowment, while very small, has decreased in value by 30 percent."

  "Our endowment total was approximately $92 million as of July 1, 2007; approximately $84 million as of July, 2008. At this point [Winter 2008], returns indicate that it is in the low $70 million range."

  "Our endowment value has dropped 30 percent 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."

- 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 percent."

- Demand for Student Aid:

  "There has been a sharp increase in appeals approximately 15 percent."

  "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."

- 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."

- 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."

- 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."

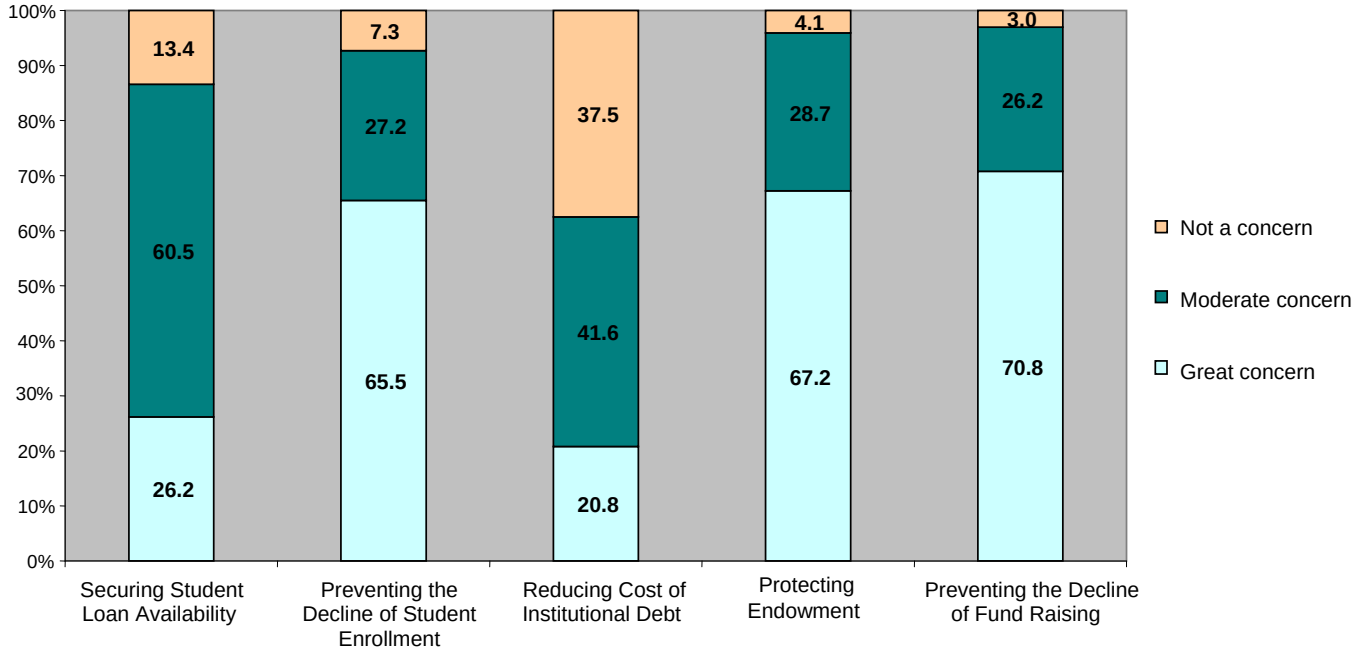
  "Early decision up, regular decision down. We don't yet know."

II. Most Pressing Concerns

Chart 2 graphs the responses to question 6: *"For the following areas affected by the current economic conditions, please rate your level of concern."* Nearly all respondents rated fund raising, endowments, and student enrollment pressing concerns (similar to the responses to question 5 of the survey). Making sure student loans were available and reducing the cost of institutional debt also rated high. More than 60 percent of colleges said they were concerned about the cost of institutional debt.

- 97 percent of respondents were greatly or moderately concerned about preventing fund raising levels from declining.
- 96 percent were greatly or moderately concerned about protecting endowment value.
- 93 percent were greatly or moderately concerned about preventing a decline in student enrollment.
- 87 percent were greatly or moderately concerned about securing student loan availability.
- 62 percent were greatly or moderately concerned about the cost of institutional debt.

Chart 2: Level of Concern for Areas Affected by the Economic Downturn



The following are comments on the concerns of private colleges:

- 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."

- Protecting Endowment:

  "We have seen our endowment decline 39 percent 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."

- 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 percent 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."*

- 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 2009 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 percent tuition driven."

- Reducing the Cost of Institutional Debt:

  "Our debt service cost is 300 percent 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."

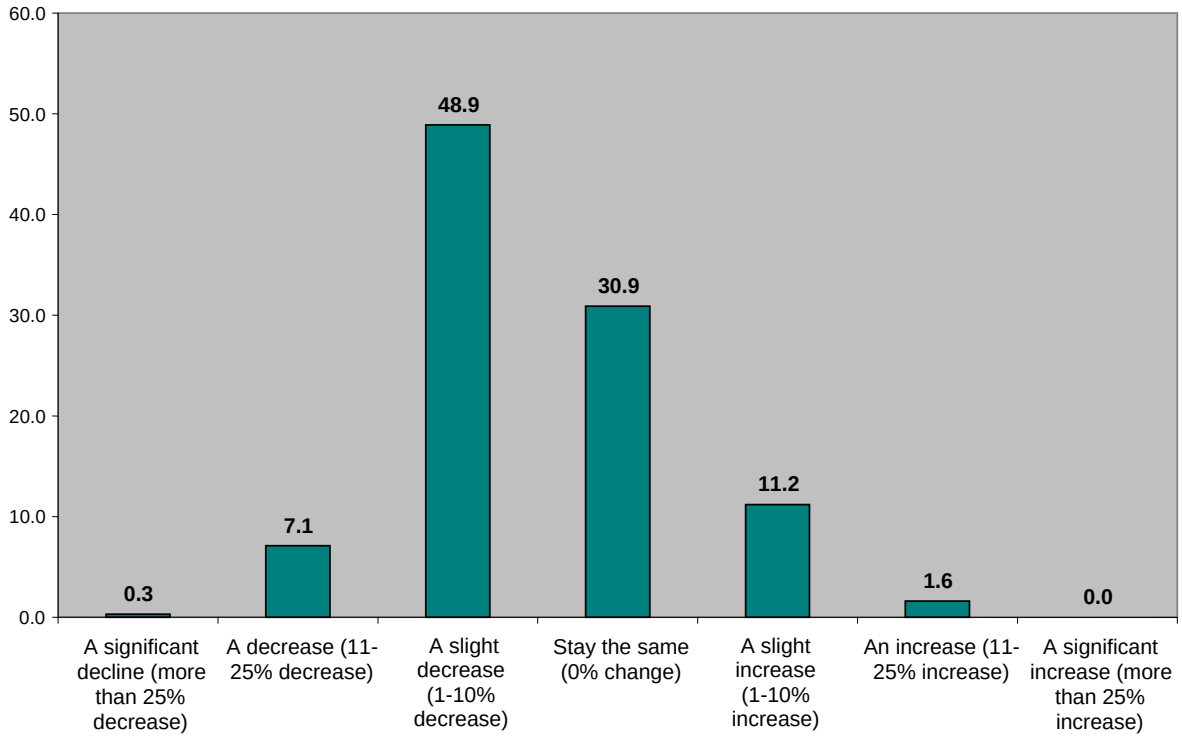
  "Although our exiting debt is fixed, we have plans to build additional facilities. There is great concern about our ability to manage the debt service if the enrollment continues to slide."

III. Student Enrollment for Spring 2009

Chart 3 graphs the responses to question 7: *"Please provide an estimate of your institution's expected enrollment for next term (Spring 2009)."*

- Nearly half (49 percent) of responding presidents anticipated a "slight" decline (1-10 percent) in enrollment for the spring 2009. Seven percent of respondents said they expected a larger decrease (11-25 percent). While many institutions experience a second-semester drop in enrollment during a typical academic year, presidents reported that they anticipated that the drops would be larger than normal.
- Thirty-one percent of respondents projected no change in enrollment.
- Thirteen percent of respondents reported they expected an increase (1-25 percent) in enrollment.

Chart 3: Estimated Expected Enrollment for Spring 2009



The following are comments on expected spring 2009 enrollment:

"[Five] percent is typical, but we expect [a ten] percent 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. [Sixty percent] of our students are adult learners who attend part-time."

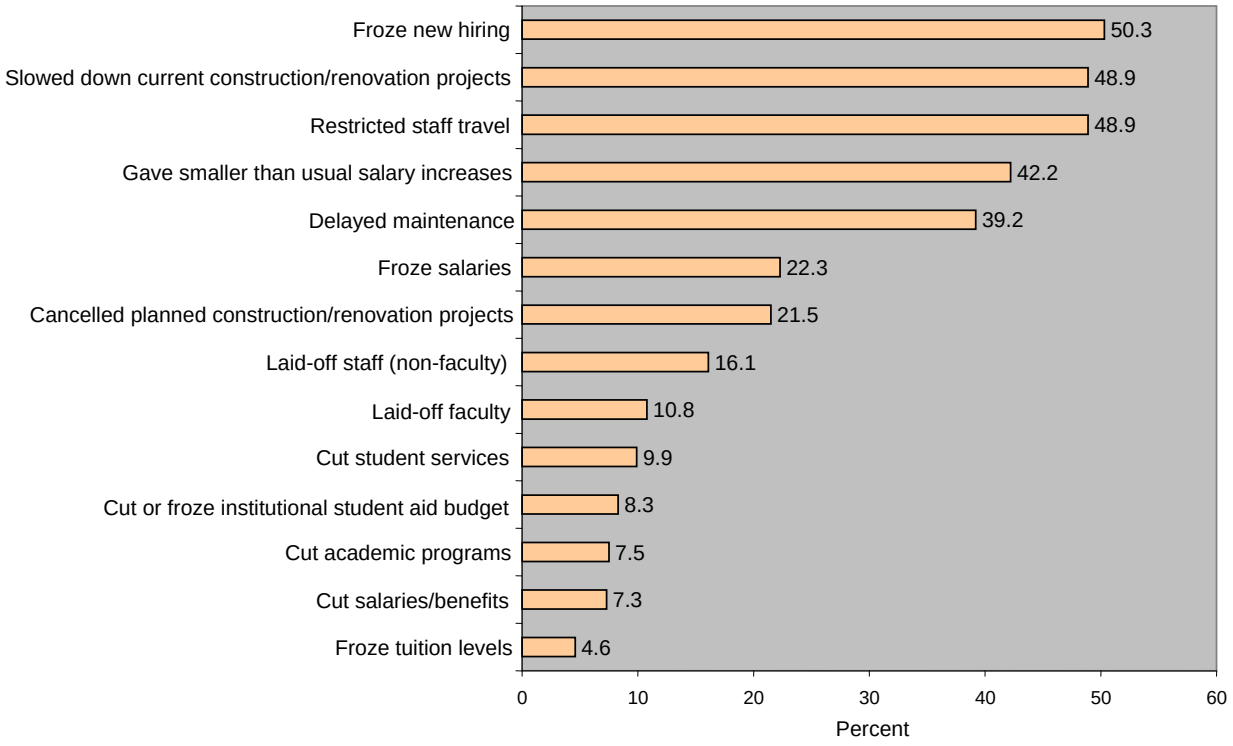
"[Ten percent] decrease has been an historic reality at [our college]. Expect an additional ten percent decline based upon pre-registration figures."

IV. Balancing the Budget

Cost-cutting Steps

Chart 4 presents responses to 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).*

Chart 4: Cost-cutting Steps



From Chart 4, the top five cost-cutting steps that respondents have taken or plan to take are:

1) Froze/freeze hiring (50 percent of respondents).
2) Slowed/slow down current construction/renovation projects (49 percent of respondents) and restricted/restrict staff travel (49 percent of respondents). [tie]
3) Gave/give smaller than usual salary increases (42 percent of respondents).
4) Delayed maintenance (39 percent of respondents).
5) Froze/freeze salaries (22 percent of respondents).

It is clear from these results that presidents most often looked to make cuts that would affect students least.

The following are further 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 [percent] that the college is contributing to retirement – from eight percent to four percent, freeze adjunct hires, reduced operating expenses by six percent. We will give a two-and-a-half percent raise to help offset the loss of benefits."

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

"Modified zero base budgeting-base is set at 80 percent."

"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. five percent). 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."

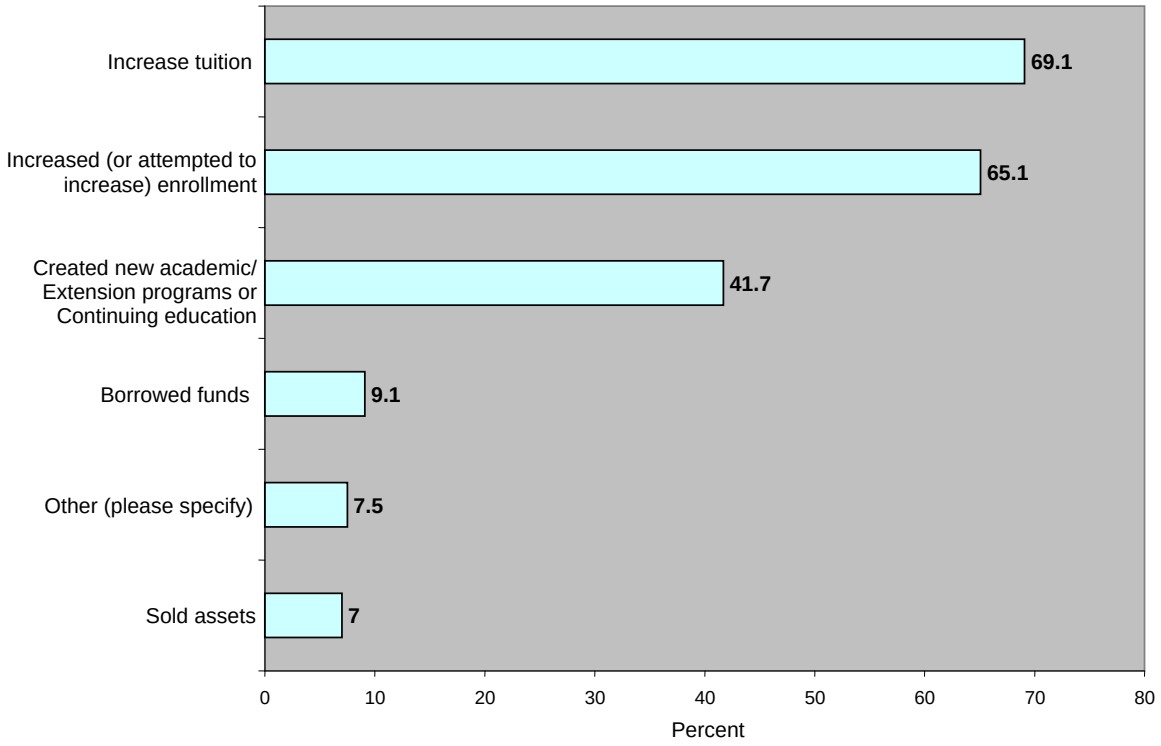
"We are considering having employees take a day off each month without compensation."

Revenue-increasing Steps

Respondents were also asked about what revenue-generating actions they are taking or plan to take to offset the effects of the current economy. Chart 5 presents responses to 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)."*

- Slightly more than two-thirds (69 percent) of respondents said they were planning to increase tuition for 2009-10. (However, in Chart 4 when asked about cost-cutting, five percent of respondents said that they have frozen or will freeze tuition levels for the next academic year.)
- Sixty-five percent of respondents said they are focused on increasing enrollment.
- Forty-one percent of respondents have created or plan to create new academic/extension or continuing education programs.
- Seven percent have borrowed additional funds or sold off assets (or have plans to do so).

Chart 5: Revenue-increasing Steps



The following are 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 percent over what was previously projected. Applications for 2009[are] up 400 percent. 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."*

V. How Can the Federal Government Help?

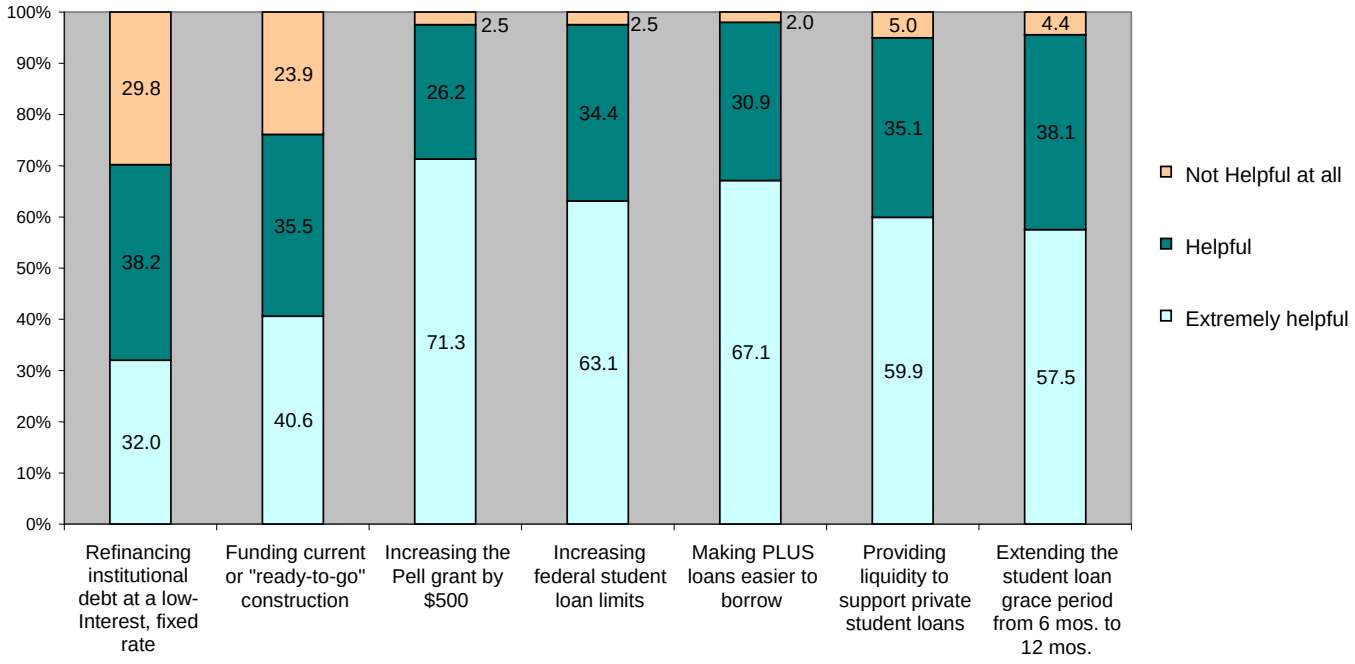
Chart 6 reports the responses to questions 10-16 of the survey: "*Please rate how helpful each of the following proposals would be to your institutions and students.*" Respondents supported a number of proposed steps that the federal government could take which would alleviate the economic burden on the institutions and their students.

- Respondents rated more student aid assistance as the most helpful federal action.
    - Ninety-eight percent said the following would be helpful or extremely helpful 1) increasing the Pell Grant by $500, 2) increasing federal student loan limits, and 3) making PLUS loans easier to borrow.
    - Ninety-six percent of respondents reported that extending the student loan grace period for new graduates from six months to 12 months would be helpful or extremely helpful.
    - Ninety-five percent of respondents requested providing liquidity to support private student loans would also be helpful or extremely helpful.

- In addition to student aid, respondents thought the following would be helpful or extremely helpful:

    - Seventy-six percent of respondents believed that funding current or "ready-to-go" construction or renovation projects would be helpful or extremely helpful.
    - Seventy percent of respondents said refinancing institutional debt at a low-interest, fixed rate would be helpful or extremely helpful.

Chart 6: Proposed Federal Assistance



VI. Additional Ways Federal Government Can Help

Question 17, the final question on the NAICU survey was open-ended and asked respondents: *"Are there any other ways the federal government or NAICU can address any financial difficulties facing your institution?"* Below are selected comments grouped into areas that are reflective of the majority of responses collected.

❖ <u>Student Assistance:</u>

"Pell, Pell, Pell."

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

"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."

"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."

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

"Provide more need based grants."

- Capital Projects:

"Funding energy conservation and renewable energy projects would help H[igher] E[ducation] reduce energy cost, lower energy consumption and create jobs!"

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

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

"Include us as part of any infrastructure initiative."

"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 50's and 60's but then got out of the business)."

- Regulatory Relief:

"Relax/reduce compliance requirements that incur additional staff expense."

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

"Suspend implementation of new federal reporting requirements for 24 months."

"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!"

- Enrollment:

"…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."

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

"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."

- Other:

"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."

"[Questions] #13-16 [increasing federal student loan limits, making PLUS loans easier to borrow, providing liquidity to support private student loans, and extending the student loan grace period from 6 months to 12 months] 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 [percent] 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."

Appendix: Institutional Characteristics

Institutional Characteristics	Survey Respondents (Percent)	NAICU Membership Response Rate (Percent)
Carnegie Classification (2005)		
Doctoral/Research	8.1	31.6
Masters	32.1	42.7
Baccalaureates	45.0	43.4
Associates	3.2	38.7
Special Focus	11.6	22.4
Total	100.0	37.8
Institutional Size Category		
Under 1,000	21.3	26.5
1,000-4,999	67.1	45.4
5,000-9,999	7.0	31.7
10,000-19,999	3.8	34.1
20,000 and above	0.8	23.1
Total	100.0	37.7
Level		
Four-year or above	97.3	37.7
Two-year	2.7	40.0
Total	100.0	37.7
Region		
East	33.6	36.7
Mid-west	26.9	38.2
South	29.6	40.4
West	9.9	34.9
Total	100.0	37.8