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Announcement: Moody's: 2013 outlook for entire US Higher Education sector changed to negative

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New York, January 16, 2013 -- The 2013 outlook for the entire US higher education sector is negative, including the market-leading, research-driven colleges and universities, says Moody's Investors Service in its annual industry outlook. Previously Moody's had a stable outlook for these leading institutions and a negative outlook for the rest of the sector since 2009. Moody's perceives mounting fiscal pressure on all key university revenue sources.

"The US higher education sector has hit a critical juncture in the evolution of its business model," says Eva Bogaty, the Moody's Assistant Vice President -- Analyst who is the lead author on the report "US Higher Education Outlook Negative in 2013." "Even market-leading universities with diversified revenue streams are facing diminished prospects for revenue growth."

The rating agency says that most universities will have to lower their cost structures to achieve long-term financial sustainability and fund future initiatives. Universities have been restraining costs in response to the weak economic conditions since the 2008-2009 financial crisis, but they have only recently begun examining the cost structure of their traditional business model.

"The sector will need to adjust to the prospect of prolonged muted revenue growth," says Bogaty. "Strong governance and management will be needed by most universities as they navigate through this period of intensified change and challenge."

One critical factor behind the negative outlook is that price sensitivity continues to suppress the growth in revenue from net tuition. Moody's says all but the most elite universities face diminished student demand and increased price sensitivity. Reasons include the prolonged period of depressed family income and household net worth, as well as the dip in the number of domestic high school graduates since the peak of 3.34 million for school year 2007-2008.

Another factor behind the negative outlook is all non-tuition revenue sources are also strained. Public universities can expect the share of their operating revenues from state appropriations to continue to stagnate or even decline. Research funding, already flat, is vulnerable to cuts in federal budget negations.

In addition, universities that count on endowments must contend with weak returns in fiscal 2012 and what is likely to be a volatile investment environment in 2013. For universities that own and operate hospitals, patient care revenues continue to face downward pressure.

The rising burden of loans on students and increase in student loan defaults is also negatively impacting universities, leading more people to question the value of a college degree. Most universities remain well below the threshold for being cut off from federal aid because of the rate of students default, says Moody's. However, some for-profit universities as well as universities that serve low income populations have very high default rates. Additional risks to the sector include negative accreditation actions, which increased by almost 50% from 2009 through 2011.

The outlook expresses Moody's expectations for the fundamental credit conditions in the sector over the next 12 to 18 months. It does not speak to expectations for individual rating changes and is not a prediction of the expected balance of rating changes during this time frame.

For more information, Moody's research subscribers can access this report at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_PBM148880.

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