

SPECIAL COMMENT

Rate this Research



Rising Student Applications Complicate College Enrollment Projections and Budgeting

Table of Contents:

SUMMARY	1
DISAPPEARING YIELD DEMONSTRATES RISING ENROLLMENT UNCERTAINTY	3
APPLICATION GROWTH IS NOT CORRELATED WITH RISING NET TUITION	4
MOODY'S RELATED RESEARCH	5

Analyst Contacts:

NEW YORK	+1.212.553.1653
Michael Osborn	+1.212.553.7108
<i>Assistant Vice President - Analyst</i>	
michael.osborn@moodys.com	
Susan Fitzgerald	+1.212.553.6832
<i>Senior Vice President</i>	
susan.fitzgerald@moodys.com	
Kendra Smith	+1.212.553.4807
<i>Managing Director - Public Finance</i>	
kendra.smith@moodys.com	
Edie Behr	+1.212.553.0566
<i>Vice President - Senior Credit Officer/Manager</i>	
edith.behr@moodys.com	
Karen Kedem	+1.212.553.3614
<i>Vice President - Senior Analyst/Manager</i>	
karen.kedem@moodys.com	

Summary

US colleges and universities face increasing budgeting challenges due to the growing, but misleading, high volume of student applications. College planners and budget officials are receiving more applications, but not more students, as the number of applications per student is rising across the industry. This dynamic, which has been building for years, has reached a point where traditional models overestimate student demand and entering classes are yielding lower than expected numbers of students. Tuition-dependent colleges, especially, are vulnerable to budgeting and enrollment management challenges.

The new norms in enrollment management contribute to the following challenges:

- » **Application growth leads to an artificial and inflated view of increased demand.** Between 2004 and 2013, applications increased nearly 70% for private colleges, compared to a 5% increase in the number of high school graduates over the same timeframe.
- » **Disappearing yield contributes to greater enrollment uncertainty.** The percentage of admitted students who choose to enroll, known as the yield, is dropping. A growing number of colleges enroll less than 20% of their accepted students, making it increasingly challenging to predict and budget enrollment.
- » **Savvier prospective students as well as economic and political conditions will keep tuition constrained despite increasing applications.** To enroll students, colleges are increasingly competing on price, limiting growth in tuition revenue and increasing discounting. In FY 2013, net tuition per student failed to grow by at least 2%, our proxy for inflation, at 35% of private universities and 26% of publics. Our tuition survey projections for FY 2014 highlight even greater price sensitivity.

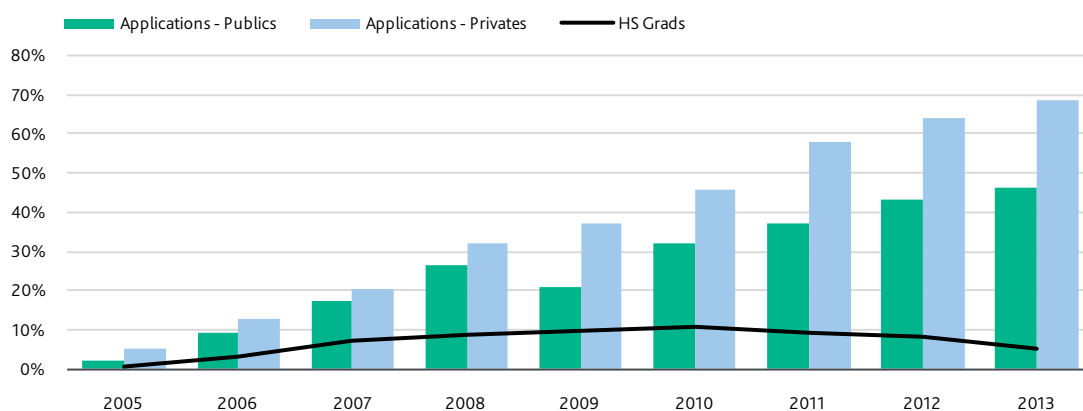
Application growth leads to an artificial and inflated view of increased demand

Application growth will continue to exceed growth in the numbers of domestic high school graduates as colleges broaden recruiting strategies and students apply to more colleges. Most colleges continue to expand applicant pools in hopes of optimizing the academic quality and diversity of their student body while growing top-line revenue. In fall 2013, the ten-year cumulative growth rate in applications at private universities approached 70% compared to only 5% for US high school graduates (see Exhibit 1). Technological advances will continue to facilitate further growth, lowering the costs of traditional recruiting in new markets and enabling colleges to maintain regular contact with prospective students.

EXHIBIT 1

New Applications Far Outpace New Students

Cumulative % Growth in Applications versus Cumulative % Growth in High School Graduates



Source: Moody's Investors Service; Western Interstate Commission for Higher Education, *Knocking at the College Door: Projections of High School Graduates*

Students' quest for the best financial aid package and their concerns about being accepted to selective colleges also spur application growth. In 2013, 55% of students applied to five or more colleges (see Exhibit 2). As a result, nearly half of colleges and universities (60% of privates and 30% of publics) admitted less than 60% of applicants in Fall 2013. In 2004, only a third had such strong selectivity statistics. The trend of increased perceived selectivity is common to both publics and privates. However, with nearly half of all schools having a decline in their Fall 2013 entering class, it is clear that selectivity has become less useful as an indicator of true student demand.

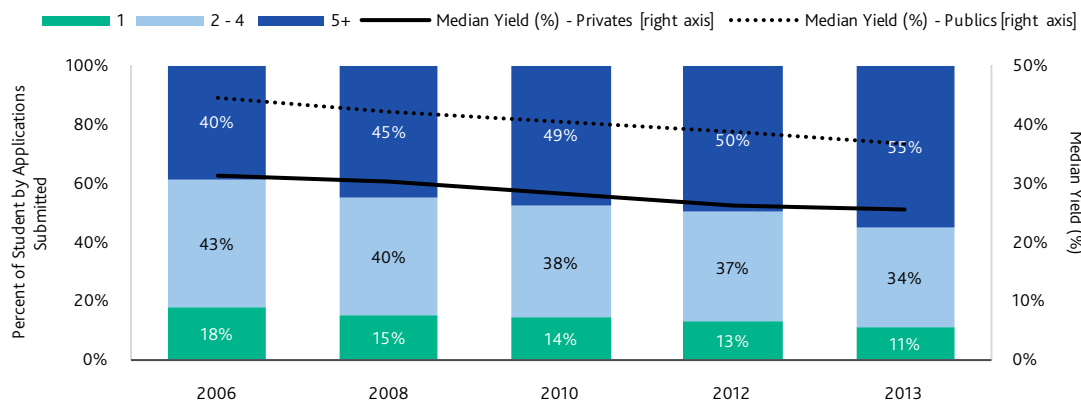
Many schools have simplified the application process for students with the move to a common application, managed by a not-for-profit membership organization called the Common App (not rated). With the Common App's removal of the essay requirement effective with the 2015/2016 recruiting cycle, membership to the organization will likely increase and the number of aggregate applications will likely climb even further.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

EXHIBIT 2

More than Half of Students Submit Five or More Applications

Number of Applications Per Student



Source: Higher Education Research Institute, UCLA, The American Freshman, National Norms; Moody's Investors Service

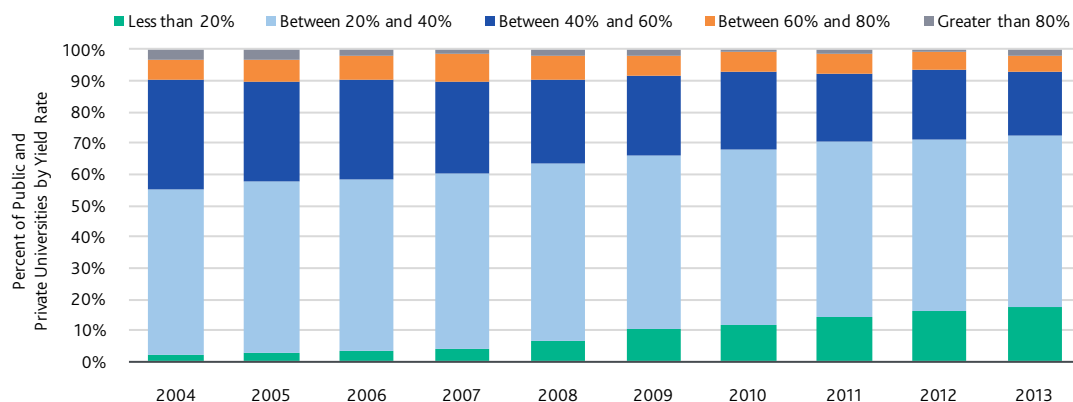
Disappearing yield demonstrates rising enrollment uncertainty

Colleges confront ever greater enrollment uncertainty as the yield rate on accepted students continues a steady downward march. Planners face growing challenges in predicting which students within the growing applicant pools are most likely to enroll. In Fall 2013, nearly 20% of colleges and universities had yield rates of under 20%. This compares to just 2% of institutions with similarly low yield rates a decade earlier (see Exhibit 3). The entering class declined by 5% or more at over 20% of institutions, public and private alike, in fall 2013. For both publics and privates experiencing this magnitude of decline, the median acceptance rate of applicants was in the mid-60 percentile range, with a median yield rate of 20% for privates and 35% for publics.

EXHIBIT 3

Ultra-low Yields below 20% are Spreading Across the Industry

Yield Rate on Accepted Students



Source: Moody's Investors Service

Application growth is not correlated with rising net tuition

While rising applications would traditionally correlate with increased demand, and therefore greater pricing power, this is not currently the case for many colleges and universities. Higher education institutions are pursuing sophisticated pricing strategies in an attempt to meet multiple competing goals, including achieving targeted enrollment, growth of total tuition revenue, and shaping of the class to meet diversity and other goals. As students become more savvy and competition more fierce, discount rates continue to climb. Twelve percent of private universities now have a tuition discount rate (i.e. financial aid or scholarship) of over 50% compared to 5% of private universities in 2004.

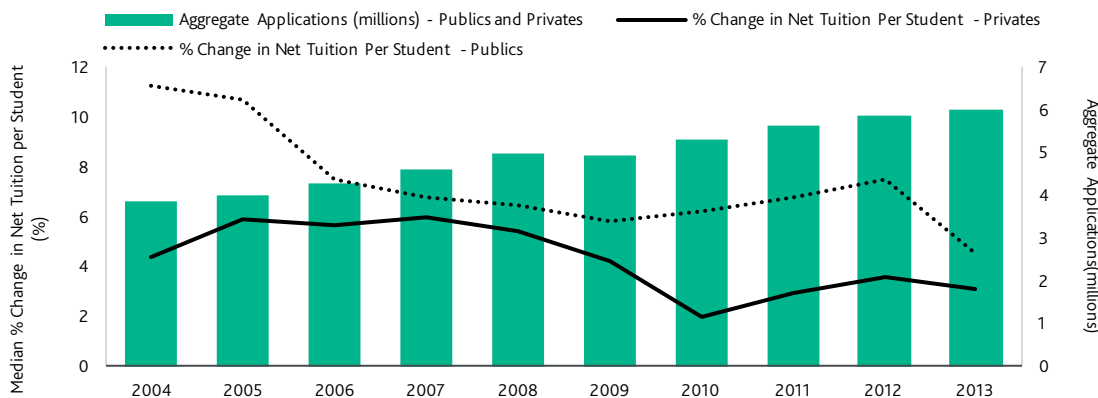
Public universities are increasingly employing similar strategies as the privates as they look to expand their geographic reach in response to demographic and economic pressures in their own states, as well as limitations on increasing in-state undergraduate tuition rates. According to Moody's, forty-four percent of regional public universities and 39% of flagship universities and systems now discount tuition by over a third.

The competitive student market, combined with political and regulatory initiatives attempting to improve college affordability, will keep growth in tuition revenue constrained. Sector wide operating pressure will grow as student charges are the largest revenue contributor for both the public and private university sectors. In FY 2013, the median net tuition revenue per student growth slowed to 3.1% and 4.7% at private and public institutions. Net tuition revenue garnered per student failed to grow at 2%, our proxy for inflation, at 26% of publics and 35% of privates in FY2013. Our FY 2014 tuition survey projected over 40% of publics and privates would fail to grow net tuition revenue by over 2%.

EXHIBIT 4

Net Tuition Per Student Slows Despite Increase in Applications

% Change in New Tuition Revenue Per Student



Source: Moody's Investors Service

Moody's Related Research

Industry Outlook:

- » [2014 Outlook – US Higher Education, Not-for-Profits and Independent Schools, November 2013 \(160659\)](#)
- » [Outlook Update: US Higher Education: Negative Outlook for US Higher Education Continues Even as Green Shoots of Stability Emerge, July 2014 \(172857\)](#)

Median Reports:

- » [Stability of Fiscal 2013 US Private University Medians Masks Underlying Pressure, July 2014 \(172855\)](#)
- » [Growing Pressure Evident in Fiscal 2013 Public University Medians, July 2014 \(172867\)](#)

Special Comment:

- » [Weakened Tuition Revenue Plagues US Higher Education, November 2013 \(160487\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Rate this Research



Report Number: 176027

Author
Michael Osborn

Editor
Susan Fitzgerald

Associate Analyst
Matthew Kuchtyak

Senior Production Associate
Vinod Muniappan

© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.