

## Underwriting Approach: Higher Education

**Introduction** Radian reviews many factors during its evaluation of higher education credits. No single factor is examined in isolation. Although a college or university may fall short in certain criteria, strengths in other areas may mitigate a concern. The following should be used as a general guideline.

**Target Market** Radian’s target market is primarily within the “Baa/BBB” rating category. Colleges and universities with a rating of “A3/A–,” and higher, are also naturally of interest. Among our target niches are: (a) liberal arts colleges with enrollments generally in the 1,000 to 5,000 student range; (b) universities with a multiplicity of programs at the undergraduate, graduate school, professional school, and continuing education levels; (c) specialty colleges with a strong market niche; and (d) institutions in “turnaround situations” with upward potential and investment grade qualities.

**Transaction Size** Issues of approximately \$10MM and higher are seriously considered. Preference is for transactions in the \$20MM to \$100MM range.

### Key Credit Factors

#### • Market Niche

- Solid franchise, characterized by clarity regarding mission and market niche.
- Differentiation from competition.
- There is no inflection point in number of enrollments; however, colleges with fewer than 1,500 FTE students must have rather distinctive strengths. Radian has insured schools with less than 1000 FTEs.
- Favorable demand trends characterized by healthy and increasing application and enrollment base; a selectivity ratio preferably not exceeding 85%; and a yield preferably not falling below 25%.
- Distinctiveness, strength, and diversity of programs.

#### • Financial Condition and Operations

- Debt service coverage capability is paramount. Pro forma coverage of MADS in excess of 1.40x is preferred.
- “Critical Mass” in student enrollments is assessed, that is, “what is the college’s safety cushion in terms of the level of enrollment losses which would lower its debt service coverage to a level of around 1.10x?”
- Tuition discounting and Net Tuition Per FTE is carefully analyzed. With respect to discounting, the assessment is particularly detailed when operating margins are low or strained. Discounting above 35% dictates careful appraisal. Net Tuition Per FTE should show a healthy, even if gradual, upward trend.
- Revenue diversity and expense flexibility are evaluated.
- Solid liquidity is of major importance. The rating agency medians for unrestricted resources to operations are a useful indicator for purposes of comparison. The ratio of unrestricted resources and unrestricted cash and investments are also a key liquidity measure; a figure in excess of 5.0x is preferred.
- Debt position and capital plans are assessed. Manageable debt service as a percentage of revenues is scrutinized and anything above 10% is assessed with particular care. Rating Agency median leverage ratios for “Baa/BBB” colleges and universities are consulted.

- **Management Assessment**

- Strong leadership at the highest levels is vital.
- Management depth and continuity is important within various key departments.
- Management must have a strong understanding of the challenges that the college or university faces. It must be capable in the areas of strategic and tactical planning.
- Infrastructure management is vital. The campus and facilities must be properly developed and maintained in order to safeguard market position.
- Board of Trustees involvement and oversight is assessed.
- A site visit is an important component of the Radian review process.

**Security Structure and  
Financial Covenants**

- A general obligation pledge, backed by a security interest in unrestricted revenues or tuition and fees.
- A DSRF requirement set at MADS.
- A mortgage for “Baa/BBB” category credits; a negative pledge will often suffice for schools rated “Baa1/BBB+” or higher.
- A rate covenant, preferably at 1.10x.
- An additional bonds test at 1.25x coverage of MADS for the prior two fiscal years. At times, a combination balance sheet-leverage test can be considered.
- A liquidity covenant is sometimes required.

**Documentation  
Requirements**

- Five years of audited financial statements.
- Five years of demand data including FTE student enrollment data, applications, admissions, and matriculations.
- Draft POS, including Appendix A is strongly preferred.
- Most recent Official Statement.

**Key Contacts**

Peter Van Oort Keers, SVP, Director of Education • 212 984.9208 • [peter.keers@radian.biz](mailto:peter.keers@radian.biz)  
John DeLuca, SVP, Director of Marketing • 212 984.9222 • [john.deluca@radian.biz](mailto:john.deluca@radian.biz)