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Higher Education Alert

August 27, 2026

Higher education under financial pressure: Key risks indicators for institutions

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As financial pressures build across the higher education sector, institutional leadership should understand the early indicators of distress and the legal, operational, and governance risks that may follow.



What's the impact?

- The higher education sector is navigating significant financial pressures, including changes in enrollment, tuition, and the federal immigration framework.
- Boards and senior leadership should monitor financial, operational, and regulatory indicators for early warning signs that may signal emerging pressure well before circumstances become acute.
- Financial pressure in higher education also raises distinct legal and governance considerations, including fiduciary duties, debt triggers, accreditation exposure, and employment law considerations.

A structural shift

As financial pressures across higher education intensify, the pace of US college and university closures has increased over the last two years, reaching a recent high and underscoring how broadly these pressures are being felt across the sector. Closures are not concentrated in one region or institutional type but have been more common among smaller private universities in the Northeast and Midwest that have fewer financial resources, less market differentiation, or more limited geographic reach, leaving them less able to absorb sustained structural pressures.

Looking ahead, after peaking in 2025, high school graduation rates are projected to steadily decline through 2041.¹ Meanwhile, private nonprofit four-year tuition is now nearly double the inflation-adjusted price of 30 years ago, rising to an average of \$45,000 in the 2025–2026 academic year.² The gap, coupled with growing questions about the affordability and returns on investment, prompts some families toward lower-cost alternatives and creates additional enrollment challenges for tuition-dependent private institutions.

Bond analysts, institutional investors, and other financing parties and creditors are increasingly treating these pressures as indicators of long-term institutional viability (rather than a cyclical correction), with particular attention to whether an institution has the enrollment base, liquidity, and operating model to support its obligations over the full term of its debt.

These well-documented pressures, which have been growing for decades, are now further accelerated by recent changes to federal student financing, international student visa rules, federal grant restrictions, and growing state financial oversight. Notably, beginning July 1, 2026, changes to federal student borrowing have materially altered the financing available to domestic undergraduate, graduate, and professional students. [As we previously outlined](#), Parent PLUS borrowing is now capped at \$20,000 annually and \$65,000 in the aggregate per dependent undergraduate student. New graduate borrowers are generally limited to \$20,500 annually and \$100,000 in the aggregate, while the Grad PLUS program is eliminated in its entirety for new borrowers. Similarly, institutional programs that fail the [new accountability regulations](#) will be required to close down, or must be financed entirely on institutional funds (an option that would likely not be feasible for most funding-dependent institutions).

At the same time, the international student pipeline, to which institutions may turn to relieve enrollment pressures caused by domestic students' low enrollment due to financing constraints, is similarly being constricted by new federal regulations. Effective September 15, 2026, the Department of Homeland Security's (DHS) [new fixed-period admission rule](#) will replace the prior

¹ See Isabela Fleischmann & Hoa P. Nguyen, *Small Colleges Face Mounting Credit Stress as Enrollment Further Deteriorates*, Octus (May 6, 2026) (citing Patrick Lane, Colleen Falkenstein & Peace Bransberger, *Knocking at the College Door: Projections of High School Graduates*, W. Interstate Comm'n for Higher Educ. (Dec. 2024)).

² See Isabela Fleischmann & Hoa P. Nguyen, "Small Colleges Face Mounting Credit Stress as Enrollment Further Deteriorates," Octus (May 6, 2026) (citing College Board, *Trends in College Pricing and Student Aid 2025* (Nov. 2025)).

duration of status framework for F-1 students and J-1 scholars. Among other changes, the rule limits a student's authorized stay to the period necessary to complete the program, generally not to exceed four years, and prevents a student who has completed a program at one educational level from pursuing another program at the same or a lower educational level (e.g., the completion of a second master's program). The result is a materially smaller international enrollment pipeline at precisely the moment many institutions can least afford it.

The pressures on institutional revenue, however, are not limited to tuition and enrollment. Changes in federal grant policy and funding priorities have also had significant impact on institutional finances, particularly for research-intensive universities. The financial effects of grant reduction or termination extend beyond the direct award amount: indirect cost revenue, faculty and staff positions, laboratory and research infrastructure, and institutional commitments can further compound an enrollment-driven operating deficit.

The cumulative effect of these challenges (enrollment, tuition, grants, and immigration policy) varies by institutional profile, but few are insulated. Institutions most exposed typically share several characteristics: substantial tuition dependence, modest endowments, regional reach, limited programmatic differentiation, and declining enrollment. At the same time, even institutions meeting enrollment targets may experience margin compression from discounts and financial aid needed to fill seats, which can make underlying economics more difficult to assess. Reductions in force, program eliminations, and other workforce restructuring measures are already occurring across the sector and are often among the first significant steps institutions take in response to sustained financial pressure. When these issues persist or worsen, leaders have a fiduciary duty to begin evaluating strategic options.

Mergers and acquisitions may be among those alternatives, but they remain complex, as donor relationships, endowment restrictions, and institutional identity can weigh heavily even when the financial rationale is strong. Results have been mixed, with some acquisitions increasing costs rather than producing anticipated efficiencies. For some institutions under significant financial pressure, restructuring or an orderly wind-down may also warrant consideration.

Recognizing key indicators: What boards and senior leadership can monitor

Financial pressure in higher education often develops over time. Indicators may become visible well in advance, but identifying them requires consistent attention to retention, graduation, tuition-discount rates, and days cash on hand. Tracking these trends can help institutional leadership assess conditions early and preserve flexibility as they evaluate next steps, especially as changes to federal financial policies go into effect. The following merit particular attention:

- / **Net tuition revenue and enrollment trends.** Changes in net tuition revenue and headcount can signal the earliest and most consequential indicators. Sustained enrollment declines can

quickly reduce revenue and widen operating deficits, particularly when rising tuition discounts and financial aid make underlying demand trends more difficult to assess. Even more modest changes merit review for early warning signs.

- / **Federal loan reliance.** A high proportion of students (and parents) relying on federal loans to finance attendance is a new area of vulnerability, particularly where tuition revenue depends on continued access to federal borrowing.
- / **Debt service and covenant monitoring.** Debt service coverage ratio (DSCR) breaches, missed payments, and bondholder calls are contractual events that can indicate pressure on an institution's ability to service its obligations. They may prompt additional creditor engagement, tighter reporting requirements, and, in some cases, cross-defaults. Multiple institutions disclosed DSCR or days-cash-on-hand breaches during FY 2025, and at least one reported a missed debt service payment.
- / **Excessive deferred maintenance.** Significant and growing deferred maintenance, especially when paired with incongruous investment in new facilities meant to jump start growth, can indicate financial distress, and should prompt closer review of long-term capital plan goals and financial capacity to meet those goals.
- / **Endowment sustainability and liquidity.** Endowment draw rates that significantly exceed investment returns and decreases in daily cash on hand can place pressure on an institution's long-term financial foundation. High draw rates, limited investment assets, and failed asset-sale or refinancing efforts can compound liquidity pressure and, in some cases, lead an institution to consider an orderly wind-down. Outside the higher education industry, liquidity shortfalls and debt maturity/refinancing pressure were cited in 26% and 28%, respectively, of chapter 11 filings in the first half of 2026.³ Institutions that have difficulty accessing capital markets may face a shorter timetable for evaluating alternatives.
- / **Credit rating actions.** Downgrades and negative outlook revisions are lagging indicators, but can raise borrowing costs, reduce market access, and affect confidence among donors, prospective students, and peer institutions.
- / **Accreditation considerations.** Adverse accreditation actions can have significant downstream effects. Loss of accreditation will certainly affect Title IV federal financial aid eligibility.
- / **Non-tuition revenue trends.** Changes in government grants, ancillary revenue, and philanthropic support can narrow the revenue base and increase reliance on net tuition. Sharp declines in grant or other non-tuition revenue, even over a single fiscal year, can materially affect financial sustainability and underscore how quickly revenue mix can change.

³ Jessica Steinhagen, *Octus First Day Midyear Review: Record-Setting 2026 H1 for Smaller Filings; Midrange Freefalls Surge, Tariffs Hit Largest Companies Hardest, Court Districts in Flux*, Octus First Day Intelligence (July 21, 2026).

Changes in federal visa policies are also expected to affect international enrollment pipelines, particularly for graduate programs serving international students.

Taken together, these indicators underscore the value of early assessment and thoughtful action. What's more, institutions should not assess these pressures independently. A decline in enrollment can reduce tuition revenue while a grant-funded program becomes more expensive to operate, or international enrollment softens. The combined effect may be materially greater than one factor standing alone, especially as the industry faces substantial pressure across all areas. Cost reductions alone may not restore sustainability, while continued spending without a viable plan can reduce financial flexibility. Addressing challenges early can help preserve the range of options available to an institution.

Legal and governance considerations

Financial pressure in higher education raises legal and governance considerations that differ from those in the corporate context. Accreditation, Title IV compliance, and state attorney general oversight intersect with the interests of boards, faculty, students, donors, and communities, requiring coordinated and specialized analysis.

The speed at which these pressures can develop also matters. A board that initially views declining enrollment as a budget issue may soon face additional questions about debt covenants, grant-funded personnel, immigration-related enrollment assumptions, and the institution's ability to maintain programs that fail new accountability regulations. Boards should understand not only the institution's current financial position, but which assumptions underlying the budget are most vulnerable to federal and state policy changes.

- / **Fiduciary duties during financial pressure.** As financial pressure intensifies, board duties of care and loyalty to the institutional mission require heightened scrutiny with respect to decisions affecting the institution's financial stability, mission, and stakeholders. Major actions, including asset sales, program eliminations, executive compensation, and debt transactions warrant careful review and should be supported by sound process, documentation, and independent legal and financial advice.
- / **Debt instrument triggers and creditor rights.** Covenant breaches, missed payments, and rating downgrades can trigger acceleration, cross-defaults, enhanced reporting, and other creditor remedies that may affect decision-making. Proactive, transparent engagement with bondholders, lenders, and creditors can help preserve flexibility.
- / **Regulatory and accreditation considerations.** Financial pressure can lead to Department of Education heightened cash monitoring oversight and accreditation scrutiny, adding compliance obligations and potentially affecting enrollment. Institutions should consider

how developments involving accreditation and Title IV eligibility may affect enrollment, debt service capacity, and lender/bondholder remedies, and develop contingency plans before a financial problem becomes a regulatory event.

- / **Employment and tenure considerations.** Formal financial exigency declarations may be used to eliminate academic programs or terminate tenured or unionized faculty, but carry significant legal, governance, and reputational considerations. Actions should comply with bylaws, faculty handbooks, collective bargaining agreements, accreditation standards, and federal and state employment laws. Careful attention to process can help reduce the risk of litigation, regulatory action, and reputational harm.
- / **Chapter 11 as a strategic tool (but not without significant consequences).** Where out-of-court solutions are insufficient, chapter 11 can seem to offer a structured framework, providing an automatic stay, allowing rejection of contracts that no longer fit operational needs, and facilitating orderly asset sales or reorganization. Though education-sector filings were elevated in the first half of 2026, institutional leadership should keep in mind that any institution that files for relief in bankruptcy is disqualified by the Department of Education from participating in federal financial aid programs established by the Higher Education Act.

Strategic considerations for institutions facing financial pressure

Institutional leaders who begin to see these warning signs will benefit from a wider range of options. The following considerations can inform institutional planning:

- / **Stress-test the next two to three academic years, not just the long-term forecast.** Model enrollment and net tuition revenue under realistic downturn scenarios, including reduced Parent PLUS availability for undergraduate students, the elimination of Grad PLUS and new borrowing limits for graduate students, changes in international enrollment, and reductions or restrictions in grant funding. The most useful of these analyses will model these pressures in combination, rather than as isolated sensitivities. With Parent PLUS and Grad PLUS changes already effective as of July 1, 2026, and the DHS fixed-period admission rule taking effect September 15, 2026, institutions that have not yet modeled these impacts should treat this as immediate.
- / **Identify programs with concentrated exposure,** which may be subject to failing new accountability provisions, and evaluate the impact that losing those programs (or financially floating those programs) would have on overall institutional financial health.
- / **Stress-test debt covenants under downside scenarios** and, in advance of potential breaches, understand cure periods, notice obligations, and the consequences of default for each instrument.

- / **Review endowment spending policies** and ensure draw rates are sustainable relative to long-term returns. Spending policies should balance current needs with preservation of long-term financial capacity.
- / **Keep a close eye on state financial-risk requirements** that may dictate financial monitoring obligations, student protection, reporting, and closure requirements.
- / **Evaluate partnerships, mergers, program realignment, and asset monetization** while the institution retains flexibility; these processes take time.
- / **Engage counsel experienced in higher education regulation and restructuring** as financial pressure emerges and before defaults, accreditation concerns, or more constrained creditor relationships reduce available options.
- / **Be prepared to develop transparent communications** for key stakeholders, including lenders and bondholders, accreditors, faculty, students, and donors, some of which may be required at key trigger points by federal and state law.

When warning signs begin to surface, fiduciary obligations require board members and institutional leaders to assess conditions realistically. The challenge today is not whether financial pressure exists, but how quickly multiple pressures can converge. Financing gaps, low cash on hand, reduced graduate borrowing access, shifts in international student pathways, pressure on sponsored research revenue, and program accountability failures may each be manageable in isolation, but together, they can accelerate deterioration in enrollment, net tuition revenue, liquidity, and institutional flexibility. Early identification of these factors and their potential intersections give boards and leadership more time and more options to act.

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