

U.S. Not-For-Profit Higher Education 2026 Outlook: Lower Expectations For Higher Education

December 2, 2025

This report does not constitute a rating action.

Sector View: Negative

- Intense competition for students and elevated operating expenses are exacerbating budget pressures for many issuers, particularly at the lower end of the ratings scale.
- At the same time, some federal policies disproportionately affect higher rated and more selective institutions, and credit risks for colleges and universities with significant federally funded research are growing.
- Our sector view is negative, as we expect colleges and universities will struggle to navigate through mounting operating pressures and uncertainty that will require budgetary and programmatic adjustments.

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What we're watching | U.S. not-for-profit higher education



Federal policies

New policies limiting federal research grants and funding, increases to the endowment tax, and scrutiny on the handling of various social issues threaten the higher education sector.



Enrollment amid changing demographics

Projected decreases in the number of U.S. high school graduates, coupled with new immigration and federal student loan policies, will continue to pressure enrollment.



Rising costs and operating pressures

Operating costs continue to rise, while enrollment and revenue are less certain, and state funding for higher education could be pressured.



Liquidity and financial flexibility

Balance sheets, fundraising ability, and access to liquidity remain crucial for all schools, given industry operating pressures.



Management actions

Nimbleness will be crucial to address revenue and expense pressures at a time of increasing management turnover.



Increasing event risks

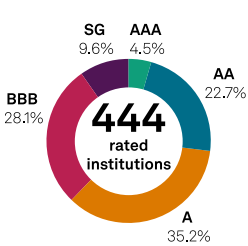
Cyber, physical, and other headline risks continue to test risk-management strategies, while more schools proactively seek partnerships and M&A opportunities.

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Chart 1

By the numbers | U.S. not-for-profit higher education

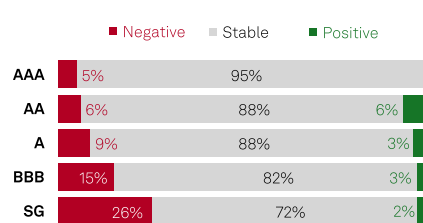
Rating category distribution



Private universities median metrics over time



Outlook distribution



Rating and outlook actions

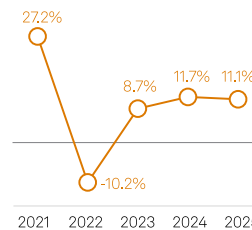
Downgrades to upgrades

2.8 : 1

Unfavorable to favorable outlook revisions

4 : 1

Average investment returns



Data as of Oct. 31, 2025. Fiscal years cited above. SG--Speculative-grade, FTE--Full-time equivalent. Source: S&P Global Ratings, Wilshire Trust. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

What's Behind Our Sector View

Federal policy changes are negatively affecting higher education. Policy changes, including immigration practices, caps on federal financial aid for graduate students, and reduced federal research funding, are forcing higher education management teams to plan around uncertainty and make budgetary and programmatic adjustments as needed. Although these changes will not affect all colleges and universities, many will need to make changes to limit negative credit impacts.

Enrollment declines persist across the sector. Many colleges and universities continue to report falling enrollment amid heightened competition for students, greater focus on the value proposition of a four-year degree, and demographic changes shrinking the applicant pool. While domestic enrollment is pressured, international student enrollment is also falling, as changes to immigration policies and visa delays dampen demand from outside the U.S. We expect schools with a significant international population that face material enrollment decreases could experience additional budget pressures. In addition, federal student aid caps could curb demand for graduate and professional programs, especially at specialty schools with large graduate enrollment, or at regional, private institutions where the cost of attendance exceeds that of public counterparts and where other demand pressures might already exist.

Operating expenses continue to outpace revenue growth. Although inflationary expense growth has eased, faculty salary and benefit increases, and rising financial aid and scholarships remain a strain for higher education providers, which translates into material operating pressures for some, especially those with shrinking enrollment or constrained financial flexibility. Revenue recovery, even with tuition hikes, has been limited, especially for less selective private colleges and universities, and hasn't been enough to fully offset expense growth for most. Schools with sustained diminishing net tuition revenues have been especially pressured, and a small number of colleges and universities rated by S&P Global Ratings have been experiencing meaningful financial stress, including significant operating deficits, covenant violations, weak liquidity, and extraordinary endowment draws or borrowings. We have also seen a growing number of school closures, primarily at smaller, regional, less selective colleges and universities. So far, most of these closures have affected schools that are not rated; however, some of the distress we have been seeing across the sector has migrated into the rated cohort.

In fiscal 2024, 56% of rated private universities generated operating deficits, an increase from the prior year. For fiscal 2025, audited financials are starting to finalize, and operating margins generally look weaker, given net tuition revenue pressure, and higher costs. Based on our preliminary conversations with management teams, we expect fiscal 2026 operating margins will also struggle to exceed those of previous years.

Closures--and consolidations--are becoming more frequent in higher education. School closures have increased during the past few years, and we expect to see more in the next year, as operational struggles escalate for small, regional private institutions. Colleges and universities with valuable real estate, brand, or institutional core competencies have had an easier time securing a partner or merger, but these are still very difficult agreements to close and take considerable time. Effective and proactive management will be critical for struggling schools as they assess their long-term viability and strategy. Although not all mergers and partnerships generate stronger credit quality, many have been successful and led to maintenance of, or improvement in, credit quality over time.

Outlooks and rating actions point to more pronounced credit pressure in 2026. As of Oct. 31, 2025, 50 schools we rate (about 11% of all ratings, and primarily private colleges) have a negative

outlook, most at the lower end of the ratings scale. As of the same date, 15 schools have a positive outlook. Year to date in 2025, we have lowered six ratings to non-investment-grade from investment-grade; this compares with four similar rating actions in 2024 and only one in 2023. Year to date in 2025, there have been four multinotch rating actions, compared with three in 2024 and none in 2023. We believe these rating actions metrics exemplify the level of operating stress facing colleges and universities.

S&P Global Ratings expects continued credit quality divergence, with weaker-positioned institutions--often smaller, more regional private colleges and universities--being disproportionately hampered by operating pressures, including increased financial covenant violations. We expect there will be more downgrades than upgrades in 2026. Although the majority will be at the lower end of the ratings scale, we believe higher-rated institutions could also experience rating pressure, as they navigate changes such as higher endowment taxes, cuts to research funding, potential decreases in international and graduate enrollment, and caps on indirect cost recovery. Although many of these schools have room to adjust their operations, budgetary amendments could require difficult decisions. While the risks are ongoing for rated not-for-profit colleges and universities due to underlying sector trends as well as federal policy factors, we also recognize the benefit of lead time and the resiliency of many institutions as they adapt to the anticipated changes.

Five Sector Trends

1. Federal policy changes leading to research funding cuts, with more to come

During 2025, U.S. higher education institutions have found themselves at the center of rapidly changing federal policy, most notably funding for university-led research. Although schools receive some funding from states and local sources, philanthropy, and other organizations, federal money is the primary source. Cuts to federal research funds could be coupled with caps on federal reimbursement for indirect costs, which in our view, would create material operating pressures for higher rated research universities. Due to shifts in federal budgetary priorities, many institutions--particularly those with R1 or R2 designation under the Carnegie Classification--have reported the suspension and termination of existing grants and a decrease in new grant awards. Furthermore, proposals from various government agencies to cap indirect cost recovery--funds that help cover essential operating expenses like facilities, compliance, and administration--have threatened many research-intensive universities. These recent changes have disrupted ongoing projects and have created uncertainty about the stability of future research support.

Many college and university administrators worry that broader cuts to the federal budget in 2026 could further threaten research funding. In the first half of 2025, the National Institutes of Health (NIH), the Department of Energy (DOE), and other agencies released proposals that would impose a 15% indirect cost rate on all awards to higher education institutions. Coalitions of universities and higher education associations have filed lawsuits against each of these policies, with a permanent injunction placed on the NIH rate cap and temporary injunctions placed on the DOE and other agency rate caps. In October 2025, the administration proposed a compact for higher education institutions, which could tie federal support to a wide range of ideological and administrative conditions. Seven of the nine universities initially engaged about the plan have refused to endorse it. The compact invitation was then extended to all colleges and universities nationwide. We believe that a continued contraction in funding could not only threaten the

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financial health of institutions across the country, but could also jeopardize graduate and postdoctoral programs, and overall research capabilities.

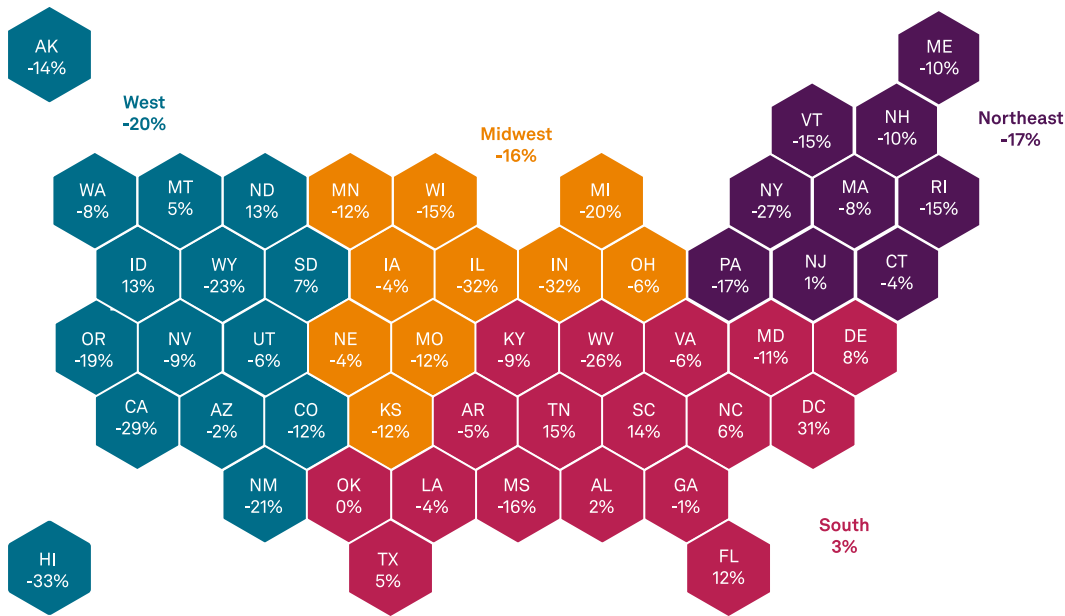
In response, colleges and universities are taking steps to offset the losses already realized and better position themselves for future funding reductions. Some administrators are reallocating funds to sustain research in the short term; reducing operating costs; and seeking new sources of private, philanthropic, and corporate funding. Some schools are also pursuing legal avenues and policy advocacy efforts to push back against federal cuts. In our view, most of the research universities navigating possible decreases or delays in research grants benefit from sound financial positions with robust liquidity and flexibility, as well as management expertise to face short-term fluctuations or disruptions in funding.

2. Enrollment remains a key pressure point for many colleges and universities

Enrollment continues to vary widely across the sector and across rated institutions, depending on the type of school, location, and overall credit quality. Many smaller and lesser-known schools are finding it tough to compete for students in the current market and persistent enrollment decreases are causing deepening deficits for some. Across much of the U.S., the population of graduating high school students is shrinking, resulting in lower demand from traditional student populations for colleges and universities. In addition, students and families continue to weigh the benefits of higher education against the rising price tag, driving some away entirely and pushing colleges and universities to further raise discount rates to attract students. Many institutions have responded to demographic shifts by expanding efforts to attract more graduate students and adult learners, increasing their geographic reach to more out-of-state and international students, or by ramping up online and certificate offerings.

Chart 2

Projected percentage change in U.S. high school graduates 2023-2041



Source: Western Interstate Commission for Higher Education
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We anticipate that enrollment will remain strained, as the value proposition, the “demographic cliff,” and decreased international and graduate enrollments shrink the applicant pool. Schools with a highly regional draw will likely face continued diminishing enrollment, unless they can attract students through expanded programmatic diversity--from master’s and doctorate programs to certificate programs. For some struggling institutions, these changes might provide a reprieve from lower undergraduate enrollment and revenue, but the success of these strategies typically takes several years to materialize.

3. Operating pressures continue for many schools across the sector

Institutional financial aid continues to increase while enrollment figures are dropping for many, causing sustained weakening in net tuition revenues, which make up the majority of many schools' budgets. Rising expenses--especially faculty salaries--will still stress school budgets in 2026, creating ongoing operating difficulties for those with less financial flexibility. Contributing to margin compression are growing costs for insurance, including property and environmental risk insurance; cyber security; and health care. In addition, a buildup of deferred maintenance at some schools has created ongoing operating pressure, as they must address aging campuses and ongoing facilities needs to keep offering students a good campus experience. This work often requires costs that typically cannot be covered fully by fundraising.

Entities rated by S&P Global Ratings include some universities and colleges with associated academic medical centers and health care exposure. These institutions are generally highly rated and benefit from the revenue diversity provided by health care delivery and research. However, in the near term, we expect ongoing federal and state regulatory scrutiny, complicated payer relationships, and expense pressures--such as elevated labor costs, tariffs, supplies, and inflation--will continue to affect operations. Demand for the services provided at these institutions, however, remains generally solid and their healthy balance sheets should provide flexibility as organizations prepare for additional revenue pressures and reduced insured lives spurred by recent federal regulatory changes. Potential impacts from reduced research funding, Medicaid reimbursement changes, and insurance coverage could be more material in fiscal 2027 and beyond although we expect fiscal 2026 will be relatively stable. The robust fundraising capacity at these organizations, coupled with their existing balance-sheet strength, could in part offset significant capital investments and health care and higher education headwinds.

4. Athletics and revenue sharing: who wins and what does it cost?

College and university athletics programs are going through the most profound changes ever to reshape athletic department budgets. And, in a number of cases, this is also affecting academic budgets at a time of considerable stress in higher education. The *House v. NCAA* antitrust settlement in June 2025 that created an optional revenue-sharing model for Division I colleges and universities to pay their student athletes, coupled with ongoing recent changes such as conference re-alignment, the evolution of the transfer portal, the role and methods of collectives, and major entertainment networks contract negotiations with conferences, are causing considerable head scratching for administrators, athletics department personnel, as well as student-athletes and their families.

The settlement enables the defendant “Power Five” conferences, the University of Notre Dame (which is independent), and any of the other 355 Division I schools that choose to participate to share with student athletes as much as 22%, or about \$20.5 million annually, of their revenue from areas such as media rights, ticket sales, and sponsorships. The revenue-sharing cap is set to increase annually, surpassing \$30 million by the 2034-2035 academic year. Most of the money

paid out will likely go to football and basketball athletes, as these sports are the largest revenue producers. Following the settlement, subject to review and approval from the College Sports Commission (established in 2025), athletes will be eligible to receive compensation from both third parties and directly from a college or university for their name, image, and likeness (NIL). Capital spending for colleges and universities is affected as well, with many schools updating athletic facilities and stadiums to add more suites and draw recruits while others pull back on spending to support revenue sharing.

5. Cash and liquidity are paramount for financial stability

As budgetary pressures have persisted, more and more schools are taking extraordinary endowment draws or loans to bridge operating gaps. This trend, when sustained for several years, can significantly reduce a school's available liquidity. About a dozen schools that we rate reported a covenant default in calendar 2025 and we expect we will see more of this in the year ahead. Significant operating pressures at smaller schools with less management oversight can lead to technical covenant violations, such as a breach of a debt service coverage covenant, constituting events of default.

Despite many headwinds affecting the sector, solid investment market returns in fiscal 2025 and a slower ramp-up of capital spending for many institutions have led to balance sheets remaining strong. Fundraising, especially at higher levels of giving, held steady or climbed in 2025 and we expect this will be sustained in 2026. We anticipate management will remain focused on preserving or augmenting reserves to improve balance-sheet flexibility due to concerns about likely weaker cash flow and higher capital spending. Over the next year, the strength of the balance sheet will continue to play a key role in credit stability, given the pressured operating performance that we expect. Despite solid cash and investment positions overall, some struggling institutions are increasingly depleting their unrestricted resources, which could create problems. Available liquidity and unrestricted funds will remain paramount to address debt service and other operating needs.

Facing ongoing pressures on operating budgets, colleges and universities are prioritizing strategies that enhance financial flexibility. Institutions have been establishing or expanding commercial paper programs to improve short-term liquidity and manage cash flow fluctuations. In 2025, we also saw an increase in new public-private partnerships (P3s) for student housing, enabling institutions to offload capital-intensive projects and redirect resources toward academic priorities or other strategic initiatives. We anticipate that these strategies will continue as schools seek to preserve balance sheet strength.

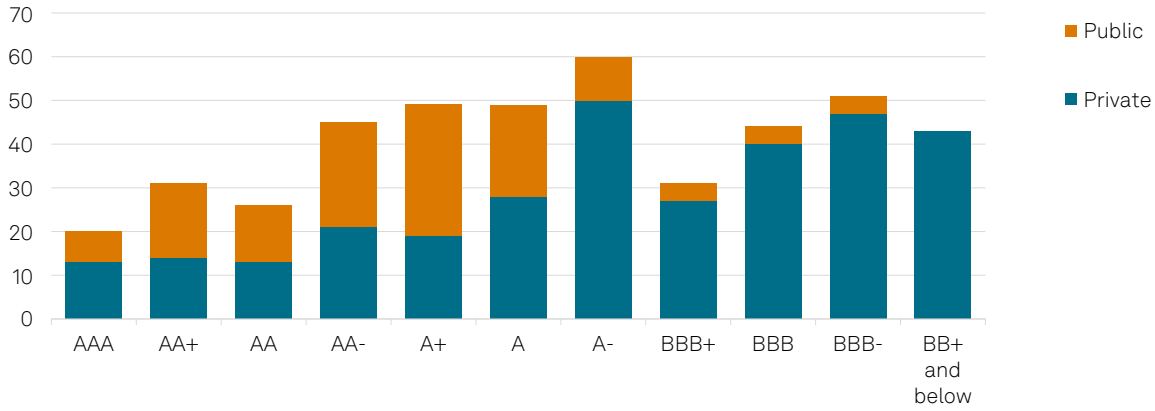
Ratings Performance

As of Nov. 30, 2025, S&P Global Ratings maintains ratings on more than 450 U.S. not-for-profit higher education institutions. Year to date in 2025, we have lowered 25 ratings, raised nine, and assigned 11.

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Chart 3

U.S higher education rating distribution

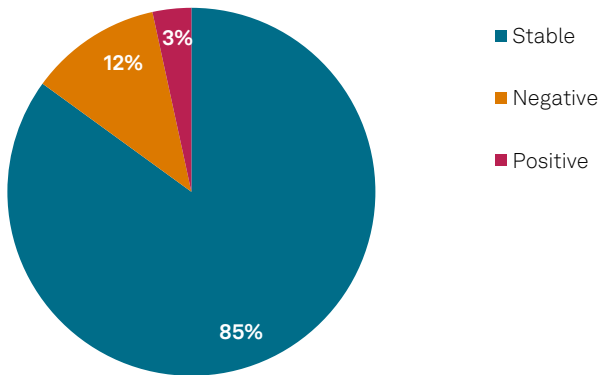


Source: S&P Global Ratings.

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Chart 4

U.S. higher education outlook distribution



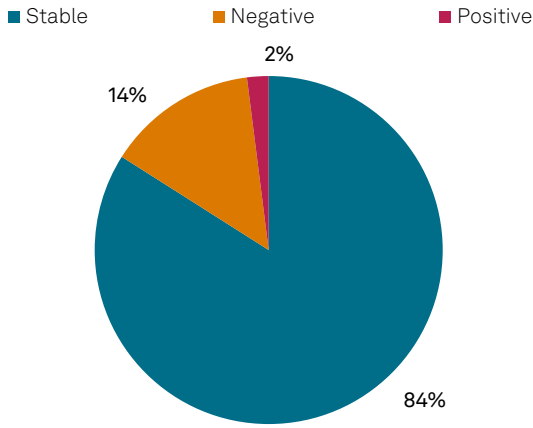
Source: S&P Global Ratings.

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U.S. Not-For-Profit Higher Education 2026 Outlook: Lower Expectations For Higher Education

Chart 5a

U.S. private universities outlook distribution

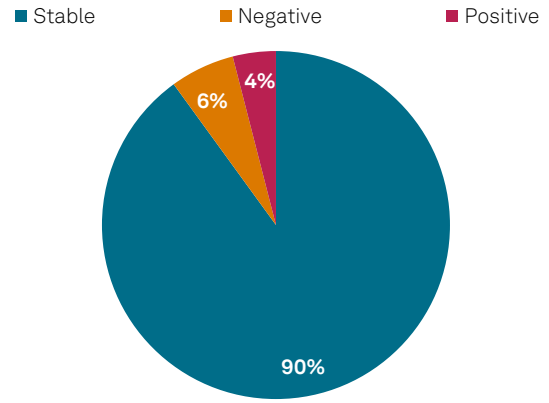


Source: S&P Global Ratings.

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Chart 5b

U.S. public universities outlook distribution

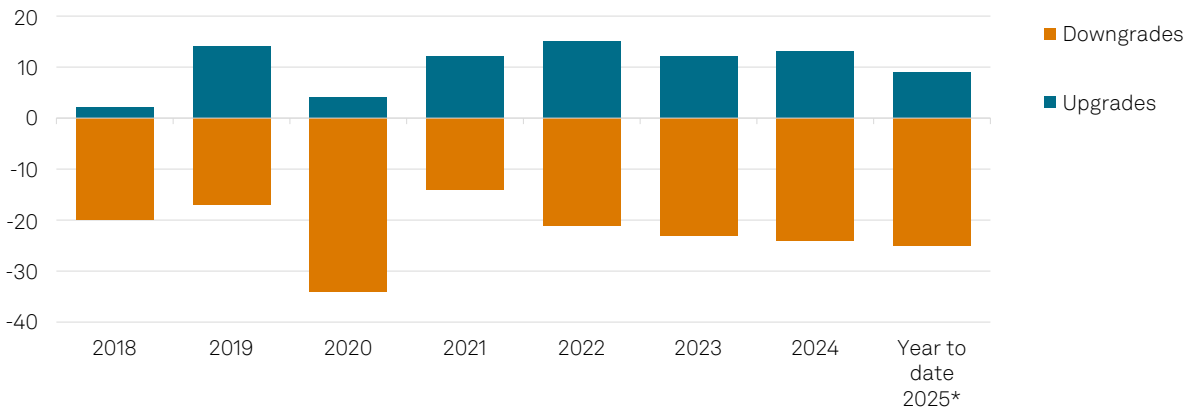


Source: S&P Global Ratings.

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Chart 6

U.S. higher education rating actions



*As of Oct. 31, 2025. Source: S&P Global Ratings.

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Sid Kolli contributed research to this report.

Related Research

- [U.S. Not-For-Profit Acute Health Care 2026 Outlook: Resilient For Now, With Increased Credit Risks On The Horizon](#), Dec. 1, 2025
- [U.S. Brief: Federal Student Aid Caps Could Curb Demand For Graduate And Professional Programs](#), Nov. 4, 2025

U.S. Not-For-Profit Higher Education 2026 Outlook: Lower Expectations For Higher Education

- [U.S. College And University Athletics: Who Wins And Who Loses In Revenue Sharing?](#), Oct. 22, 2025
- [U.S Higher Education Rating Actions, Third-Quarter 2025](#), Oct. 15, 2025
- [U.S Higher Education Rating Actions, Second-Quarter 2025](#), July 24, 2025
- [U.S. Not-For-Profit Private College And University Fiscal 2024 Medians: Growth In Financial Resources Buys Time Amid Increasing Competition And Weaker Margins](#), July 14, 2025
- [U.S. Not-For-Profit Public College And University Fiscal 2024 Medians: Enrollment And Operations Continue To Recover But Federal Policy Changes Cast Uncertainty](#), July 14, 2025
- [U.S Higher Education Rating Actions, First-Quarter 2025](#), April 24, 2025
- [Academic Medical Centers And The Intersection Of U.S. Not-For-Profit Higher Education And Acute Health Care](#), March 25, 2025

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