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Structural Disruption in U.S. Higher Education—Key Developments and Implications

Purpose

This memorandum summarizes recent reporting and analysis concerning the ongoing transformation of the U.S. higher education sector. These developments are relevant to clients with exposure to higher education institutions through lending arrangements, tax-exempt bond issuances, structured finance transactions, or other credit facilities. The picture that emerges across these sources is one of a sector facing concurrent structural pressures and concatenations—federal funding retrenchment, demographic decline, eroding public confidence, and the disruptive potential of artificial intelligence—that together represent a meaningful shift in the risk profile of university-related credits.

I. The Breakdown of the Federal-University Compact

Nicholas Lemann's March 2026 essay in *The New Yorker*, "The Unmaking of the American University," documents the rupture of what he characterizes as a decades-old compact between the federal government and research universities. The Trump Administration has deployed an unprecedented technique for leveraging institutional compliance and obedience: the suspension of funds—including those appropriated by Congress and legally committed to in contracts—as a mechanism for imposing political conditions on, and retaliation against, universities. The essay reports that Johns Hopkins University saw the federal government terminate \$800 million in grants from the U.S. Agency for International Development, leading to the layoff of more than 2,000 employees, while the slowdown and termination of scientific research grants resulted in an additional financial hit of \$500 million. At Brown University, administrators learned that their grant funding was ending from an article in the *Daily Caller*. Also, in late 2025 the Trump Administration announced intentions to dissolve the National Center for Atmospheric Research and the University Corporation for Atmospheric Research (UCAR is a consortium of over 100 colleges and universities).

This federal posture is not an isolated episode of partisan conflict. As Lemann argues, the hostility from the political right toward American colleges and universities is likely to outlast any single administration, as long as it remains a useful political tool. Gallup polling data cited in the essay shows that between 2015 and 2024, Republicans' trust in universities fell from 56% to 20%, while among Democrats it dropped from 68% to 56%. This bipartisan erosion of public confidence has left universities in a significantly weakened position to defend their autonomy or their funding. The broader implication, as Lemann frames it, is that the age of institutional autonomy for universities is likely to be over.

II. The Enrollment Cliff and Institutional Consolidation

The underlying dynamic is demographic: declining U.S. births since 2007 could trigger up to 80 institutional closures, and roughly 80 nonprofit colleges have already shuttered or merged in the past five years. A winner-take-all consolidation wave is expected to liquidate or absorb small private and regional public schools while elite and flagship institutions capture displaced enrollment.

Key covenant and restructuring triggers:

- **Successor-obligor failure.** A distressed institution that delays a strategic transaction past the point of viability may leave outstanding debt without a successor obligor, potentially rendering recovery-dependent provisions unenforceable.
- **Change-of-control acceleration.** Forced mergers or state-ordered consolidations may trigger change-of-control clauses, accelerating outstanding indebtedness.
- **Involuntary dissolution gap.** Standard merger consent requirements may not adequately protect against involuntary dissolution or state-ordered closure—an increasingly plausible scenario as the consolidation wave intensifies.

III. Financial Pressures: Revenue Model Erosion

Historically stable revenue pillars are contracting simultaneously: Graduate PLUS loan elimination (effective July 1, 2026) will compress graduate-program pricing power; new international graduate enrollments fell 17% in fall 2024, with the most exposed universities drawing over 30% of students from abroad; and new endowment tax provisions have forced hiring freezes at a dozen campuses.

Key covenant and restructuring triggers:

- **DSCR breach.** Debt service coverage ratio covenants face heightened breach risk where borrowers have concentrated exposure to contracting graduate-program or international-student revenue.
- **Trailing-metric lag.** Twelve-month compliance metrics may mask deterioration already visible in current-period data, warranting interim compliance certificates or accelerated reporting triggers.
- **Revenue-floor and minimum-enrollment tests.** Simultaneous declines across multiple revenue streams may trip minimum thresholds that were set based on historical enrollment stability.

IV. Federal Research Funding: A Systemic Risk

National Institutes of Health grants to universities are down over 90% this fiscal year; \$2.3 billion across 2,500 medical research grants have been frozen or terminated, and \$700 million in science grants have been cut. Private philanthropy (\$5 billion annually) cannot replace federal support (\$50 billion).

Key covenant and restructuring triggers:

- **Revenue-covenant default.** Mid-grant terminations convert contractually committed research revenue into acute cash-flow volatility, potentially breaching revenue-based financial covenants.
- **Collateral impairment.** Where security structures include pledges of grant receivables or indirect-cost recoveries, the underlying collateral may have been unilaterally extinguished by federal action.
- **Forced covenant relief.** Institutions facing sudden research-revenue loss may seek waivers or amendments, shifting negotiating leverage and potentially requiring lenders to accept weakened covenant packages.

V. Artificial Intelligence and Declining Perceived Value

The share of 18-to-34-year-olds calling college “very important” has dropped from 74% (2013) to 35% (2025), a decline artificial intelligence is accelerating. For tuition-dependent borrowers, the compounding effect—a shrinking student pool coupled with declining enrollment propensity—means that covenant stress may materialize well within the remaining tenor of existing facilities.

Key covenant and restructuring triggers:

- **Accelerated covenant timeline.** Demand-side erosion compounds the demographic cliff, bringing forward breach of minimum-enrollment thresholds, revenue floors, and debt service coverage ratio tests that underwriting assumptions projected were years away.
- **Underwriting-model obsolescence.** Credit models calibrated to historical enrollment propensity may systematically overstate projected tuition revenue, understating default probability.

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- **Shrinking Alumni Base.** Smaller alumni cohorts may adversely impact fundraising, endowments, and financial resilience in the long run.

VI. Academic Program Rationalization

Program cuts are already proceeding at scale: Ohio State eliminated eight majors and merged 20; Oklahoma's regents cut 41 programs statewide. Lenders should confirm whether eliminations at this magnitude require notice or consent under their existing documentation.

Key covenant and restructuring triggers:

- **MAC clause activation.** Large-scale program eliminations may constitute a material adverse change, triggering notice, consent, or waiver obligations.
- **Negative pledge breach.** Disposition of accreditation-dependent revenue streams and associated institutional assets may implicate negative pledge provisions.
- **Pledged revenue erosion.** Where eliminated programs generated tuition or fee revenue pledged as security, the collateral base contracts without lender consent.

VII. Implications

The convergence of these pressures creates a materially altered risk landscape for entities with financial exposure to the higher education sector. We highlight the following considerations:

Tax-Exempt Bond Portfolios. Investors and fund managers should reassess credit quality assumptions for higher education issuers, particularly those with significant dependence on federal research funding, international student tuition revenue, or enrollment from demographic segments expected to decline. The traditional assumption that top-tier research universities can weather any fiscal storm has been challenged.

Lending Arrangements. Lenders with credit facilities extended to colleges and universities should evaluate borrowers' vulnerability to enrollment decline, federal funding disruption, and the potential loss of international students. Financial covenants tied to enrollment levels, revenue, or debt-service coverage ratios may require more frequent monitoring and potentially renegotiation.

Merger and Acquisition Activity. The anticipated wave of institutional mergers and closures may create both risks and opportunities for clients involved in financing or advising on higher education transactions. Deloitte observes that public universities have been steadily consolidating, often with campuses in areas of declining populations merging with other campuses in the system.

We are available to discuss the implications of these developments for specific transactions or portfolio exposures. Please do not hesitate to reach out to [Kutak Rock's public finance group](#) with questions.

Endnotes:

1. Lemann, "Unmaking of the American University," *The New Yorker*, 2026.
2. Kang, "Eight Predictions for Higher Education," *The New Yorker*, 2026.
3. "2026 Higher Education Trends," *Deloitte*, 2026.
4. Kang, "The Enrollment Cliff Is Here," *The New Yorker*, 2026.
5. Kang, "Will A.I. Make College Obsolete?," *The New Yorker*, 2026.
6. Kang, "Future of College Could Look Like OnlyFans," *The New Yorker*, 2026.
7. Kang, "Despair of the Professor in the Age of A.I.," *The New Yorker*, 2026.
8. "Significant Risks Facing Higher Education in 2026," *Deloitte*, 2026.
9. "Enrollment and Institutional Closures," *Federal Reserve Bank of Philadelphia*, 2024.
10. "Non-Degree Credential Earnings," *Burning Glass Institute*, 2026.