FINANCE FINESSE: TURNAROUND PROS FOCUS ON EDUCATION

By Allison Collins

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"Many schools borrowed to expand and now lack the funds to pay their debts,." Explains Carl Marks partner Joe D'Angelo

Many colleges and universities that took on debt to expand in previous years are struggling, opening an opportunity for turnaround professionals and lenders to get creative with workouts in the education space. Many schools borrowed to expand before demographic shifts forced a decline in enrollment rates. As the loans come due, many schools lack the funds to pay their debts.

"I don't think [schools] are going to be able to do nothing," says Joe D'Angelo, a partner at New York restructuring firm Carl Marks. "They took on debt to build facilities, thinking their endowments would cover it," says D'Angelo. "Schools are not supposed to have debt."

Turnaround executives hired to take on these projects will want to do a SWOT (strengths, weaknesses, opportunities and threats) analysis, and advise clients to consider changes such as partnering, attracting new types of students, altering the institution's name, and reducing faculty salaries and renegotiating leases, D'Angelo says.

School leaders may be reluctant to restructure leases, since the move may alert landlords to financial troubles, but renegotiating is an important step. "Real estate is the third-largest cost of running a college," D'Angelo says. Unfortunately, so is cutting faculty, which can be hard given the familial nature of some academic institutions.

PE-owned education groups may have a difficult time getting their sponsor to invest more money, because in many cases the school's valuation doesn't support increased investment. Lenders who don't want to end up owning the schools may want to consider selling the debt to a strategic buyer, who could foreclose or potentially turn a for-profit school into a non-profit school.

There have already been several schools to experience trouble. A private, all-women's school in Virginia, Sweet Briar College, announced in August that it would close down because of "insurmountable financial challenges," according to a statement. Moody's Investors Service predicted distress in the sector as early as 2013, because of "mounting fiscal pressure on all key university revenue sources."

Bankruptcy is not a viable option for these schools because it causes them to lose Title IV funding, which grants federal financial aid.