University of Notre Dame du Lac, IN

Notre Dame’s Assistance To Holy Cross College Deepens Historic Ties

On May 12, University of Notre Dame (Aaa stable) announced plans to partner with Holy Cross College (not rated) in a long-term financial sustainability plan, which includes the purchase of the Holy Cross campus. Although the full details of the plan are not publicly available, Notre Dame’s robust financial reserves and healthy operating performance provide a strong base to easily absorb the assistance it might provide, which we expect to be less than $25 million (see Exhibit 1). Notre Dame’s action is mildly credit positive for the university, demonstrably highlighting the university’s mission-related commitments to its donors and other core constituents. It also provides Notre Dame the potential longer-term ability to use a portion of acquired land that is non-core to the Holy Cross campus for other Notre Dame purposes.

Exhibit 1

Notre Dame’s Robust Liquidity Enables it to Provide Support

The plan aims to address the financial concerns raised by the Higher Learning Commission (HLC), Holy Cross’ accreditation agency, during the college’s fall 2016 accreditation review. Although its accreditation was reaffirmed, Holy Cross is under interim monitoring. It must submit for review an interim report to the commission by June 12, 2017 on budget and audit information.

Holy Cross College’s financial challenges are in part driven by a highly competitive environment in the Midwest, with declining numbers of high school graduates, strong public universities and a plethora of private college options.

Under the agreement, Notre Dame will purchase 75 acres of land owned by Holy Cross and the Brothers of Holy Cross Midwest Province on land near Notre Dame’s northwest Indiana campus. Notre Dame would then lease the property back to the college to support its ongoing operations. The college stated Notre Dame’s purchase of the land will provide Holy
Cross liquidity for operations and allow it to reduce long-term and short-term debt. Approval of the agreement is still required by the members of the Corporation, the Congregation of Holy Cross Superior General and the Vatican.

A strong affinity already exists between the two institutions, including their affiliation with the Congregation of Holy Cross. The college’s current interim president is a director in Notre Dame’s business school. In 2013, Notre Dame launched its Gateway program through which each year up to 60 Notre Dame students attend their first year at Holy Cross and transfer to Notre Dame after achieving certain academic goals. Holy Cross students can enroll in Notre Dame courses and participate in a number of student activities at Notre Dame’s campus.

Notre Dame has a similar relationship with nearby Saint Mary’s College (A3 stable). In addition to providing cross enrollment opportunities and various services to Saint Mary’s, Notre Dame serves as an outsourced endowment manager for Saint Mary’s.

Notre Dame is located in South Bend, IN (city rated Aa3 no outlook). The university is a large, highly selective Catholic comprehensive university including a residential undergraduate program. For fall 2016, Notre Dame reported over 12,000 students. Holy Cross is a small Catholic co-ed residential college located in Notre Dame, IN near Notre Dame’s campus. It reported 530 students for fall 2015. The college grants both two-year and four-year degrees.

In another example of the effects of the competitive environment in Indiana, HLC placed Saint Joseph’s College, another Indiana college, on probation in November 2016 due to lack of compliance for a number of criteria. On February 3, the board of the college voted to suspend all academic activities effective after the May 2017 graduation. The college reported enrollment of approximately 1,100 students.

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