SECTOR IN-DEPTH
30 June 2025

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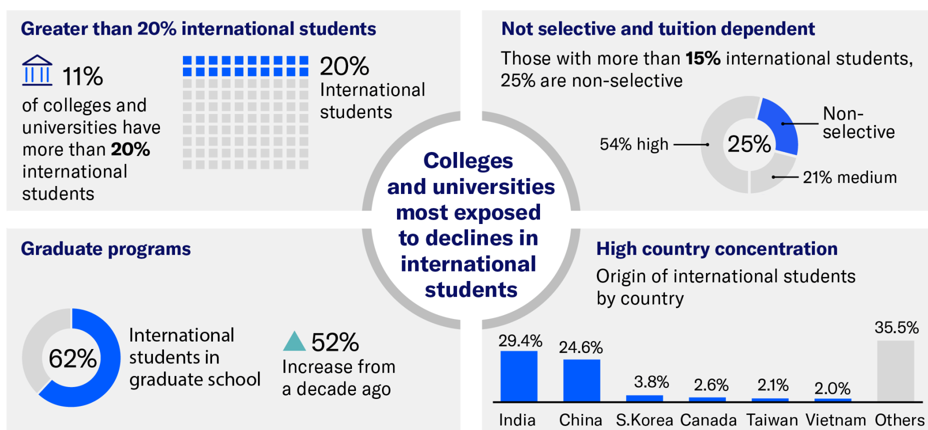
Higher Education – US

Decline in international students poses credit risk from loss in revenue

The US federal government's more restrictive policy stance on international students will have a varied impact on colleges and universities. While the full extent of the new regulations and restrictions remains unclear for fall 2025 and fall 2026, evolving visa policies and deportations are diminishing the perception of the US as a prime destination for higher education. These policies will have the most effect on universities with a higher reliance on international students overall, including those with graduate and specialty programs, while most rated universities may experience lesser effects because of their lower dependence on these students (see Exhibit 1).

Exhibit 1
Policies will have the most effect on universities with a higher reliance on international students overall



Bars reflect number of rated colleges impacted. Data is as of 2024. Selectivity categories are 30% or less: selective, 31-59%: medium, 60% and more: non-selective
Source: Moody's Ratings, iie Open Doors

The reduction in international students presents a credit risk for universities heavily reliant on this demographic because of potential declines in tuition income, as international students typically pay full tuition fees. Additionally, with declining numbers of high school students over the next several years in the US leading to fewer domestic students, universities intending to fill the gap with more international students may fall short. The proposal to exclude international students from the endowment tax calculation could further exacerbate financial strain for wealthy institutions, subjecting them to higher tax rates. As research intensive institutions, often with a heavy international presence, also lose federal funding it will hinder their ability to carry out research as fewer of these students come to the US.

The rapidly shifting policy landscape, including travel bans, visa appointment disruptions, increased scrutiny of social media accounts and changes to deportation rules, creates uncertainty that could deter international students. This comes as competitor countries like the UK, Canada and Australia implement their own restrictive measures. While the impact of these policies in the UK and Canada is becoming apparent, it's unclear how US policy changes will affect student flows, potentially driving students to reconsider the UK, Canada and Australia, stay in their home countries or go to other destinations.

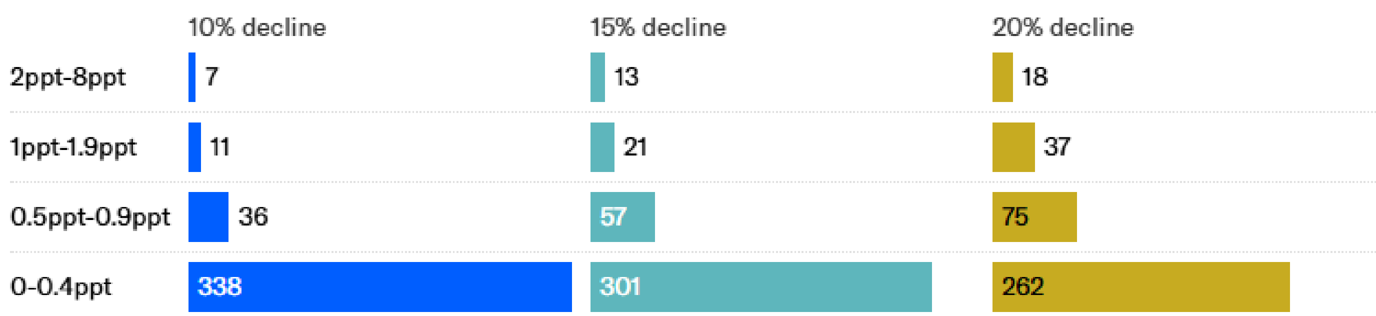
US colleges' and universities' relatively lower reliance on international students, with a median reliance of 6%, compared with over 25% in the UK, Canada and Australia suggests moderate impacts on the higher education overall from international enrollment declines. Over 40% of rated US institutions host fewer than 5% international students, and 70% have fewer than 10%. The largest revenue impact will be among the 15% of our rated universities with over 15% international students, some of which have over 30%. However, the credit impact will be most pronounced among entities even with lower exposures that are already in fiscal stress with weak liquidity.

Moody's stress test shows large impact for some institutions

We analyzed three potential scenarios of international student declines (10%, 15%, and 20%) and their effects on the EBIDA margins of colleges and universities[1] Our analysis indicates that a 15% reduction in tuition revenues related to international students would minimally impact the EBIDA margins of 77% of rated institutions with a less than 0.5 percentage point decline in EBIDA from fiscal 2024 levels, and another 20% would see declines between 0.5 and 2 percentage points (see Exhibit 2).

Exhibit 2

Moody's stress test shows impact on EBIDA margins of differing declines in international students



Bars reflect number of rated colleges impacted. .
Source: Moody's Ratings

However, for entities that already are under fiscal stress and have low EBIDA margins (the median EBIDA for private non profit colleges and universities was 11.7% in fiscal 2024 and 10.7% for publics), a change of one or two percentage points could push them into negative territory, especially if they are heavily discounting domestic tuition or losing enrollment because of demographic shifts. Also, many small private schools may need to contend with federal changes to student loan and aid programs, further depressing domestic enrollment prospects and stressing budgets, especially for those with low liquidity.

A small group of 15 universities, or 4% of our rated universe, could experience declines of between two and eight percentage points in EBIDA margins with a 20% fall in international students. These universities, particularly those with initially low margins, would face significant financial stress.

The stress test does not consider actions these universities would take to offset the loss of international students, however. Institutions that are highly selective, or those with considerable reserves, may better absorb the impacts by adjusting operations or increasing domestic enrollment. Some elite institutions are less reliant on tuition, deriving income from endowments, fundraising or research, thereby mitigating the financial impact.

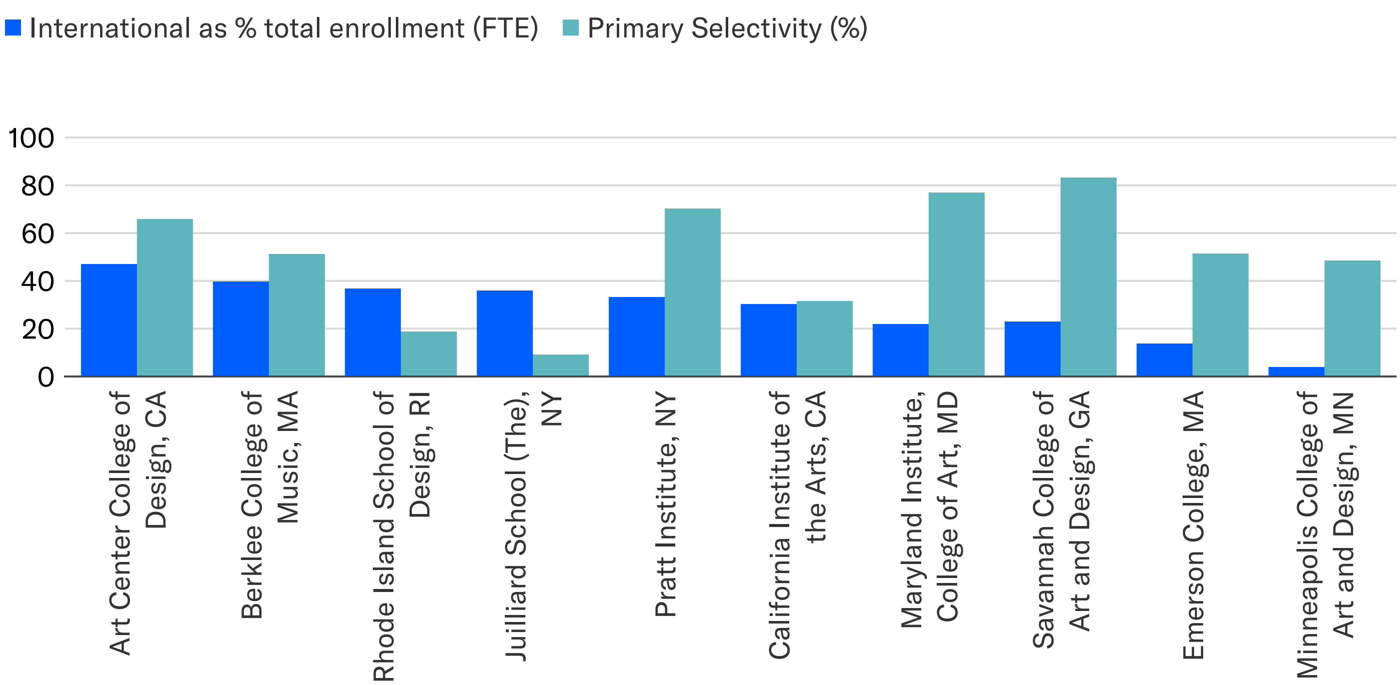
Many students come to the US for graduate school, driving the rise in international students over the past decade. They now account for 62%[2] of international students enrolled in study and have risen more than 50% over the past decade while international undergraduates fell by 8%. Graduate students often pay higher tuition fees for certain programs, so the loss of these students could have a particularly severe revenue impact. These students are also highly concentrated in business and STEM studies (59% of students at all levels study some form of STEM) so reduced numbers could affect certain programs' viability. Those entities that are highly selective and with large endowments will be better able to pivot if there are enrollment declines.

The longer-term impact of reduced international researchers and entrepreneurs in STEM and other fields could impair the US economy and its scientific eminence. For example, 55% of people with doctorates working as engineers and 58% working in computer or math fields are foreign born.

Specialty schools, such as art and design or performing arts institutions also face difficulties because of their very high reliance on international students, sometimes well over 30% (see Exhibit 3). Typically specialty schools are smaller and discount less than other similarly sized private universities and therefore may have difficulty drawing more full paying domestic students unless they are highly selective.

Exhibit 3

Art/Design and specialty schools are better able to manage high exposure to international students if they are highly selective



FTE stands for Full-time equivalents
Source: Moody's Ratings

The reliance on students from China and India, who together make up 54% of international students, poses risks to US universities because any change in student preferences in those countries could have a significant impact in the US. Additionally, many of these students are pursuing STEM fields, with 50% of Chinese and 73% of Indian students enrolled in such programs. A decline in the number of students from these countries could therefore have a larger impact on STEM programs.

India has overtaken China for the first time as the primary source of international students, currently accounting for 29% of the student population. However, China remains highly significant, contributing 25% of these students. Ongoing trade tensions with China, as well as the US' more restrictive stance on students from China, threaten to reduce student flows. Since 2019, the number of Chinese students has already dropped by around 25%, and further declines would further depress international enrollment.

Endnotes

1 We applied cuts of 10%, 15%, and 20% to each rated institution's percent of students that are international, and multiplied the number of student reductions by that institution's net tuition revenue. That was applied to the institution's most recent year's EBIDA and operating revenue to calculate impact to EBIDA margin in the three scenarios.

2 This does not include students that participate in The Optional Practical Training (OPT) program. This program draws students to STEM as it allows them to remain in the U.S. for additional years post-graduation.

REPORT NUMBER 1448824

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