

SECTOR COMMENT

Continued Growth in Online Learning Is Credit Positive for the Higher Education Sector, but Challenges Emerge

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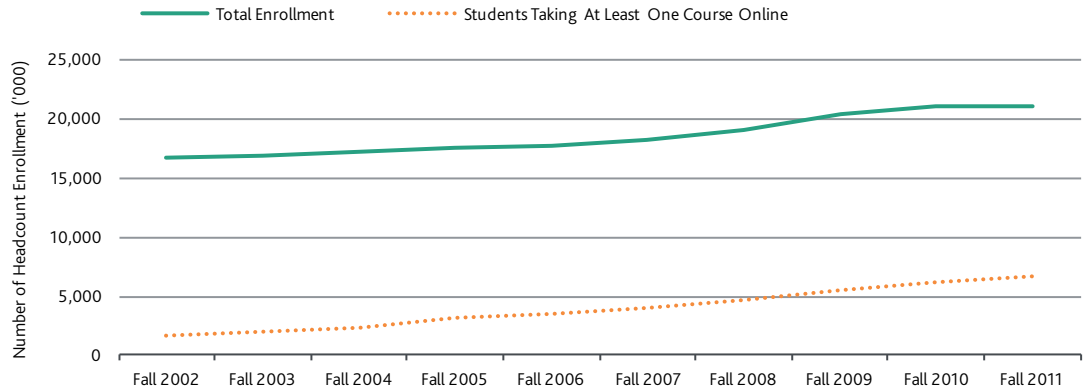
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One-third of post-secondary students took at least one for-credit course online in fall 2011 according to the 2012 Survey of Online Learning released on January 8 by the Sloan Consortium, a healthy 9.3% rise over fall 2010. The increase is credit positive for the higher education sector since online education is cost effective, breaks down geographic barriers to attract a diverse student body, and holds potential for new revenue opportunities. We expect continued growth of online enrollment for our rated non-profit universities since it is a key enrollment strategy for many universities and can help reduce educational costs. Nearly 70% of academic officers who responded to the Sloan Consortium Survey cited online learning as a key long-term strategy for their university.

Though the survey noted that fall 2011 saw the lowest annual percentage increase in online enrollment over the past decade (see Exhibit 1), we attribute this change to enrollment declines at for-profit universities, which dominated the online market for years. More importantly, Massive Open Online Courses (MOOCs), which serve thousands of students per course and made a splash in 2012, are not included in the online enrollment numbers since these courses overwhelmingly are not offered for credit. While only 2.6% of university respondents offer MOOCs, 9.4% plan to do so. Given the demonstrated demand for these platforms and the exploration of credit granting offerings, we expect MOOCs will fuel online enrollment growth in the future.

EXHIBIT 1

For-Credit Online Enrollment Continues To Grow Despite Flat Enrollment



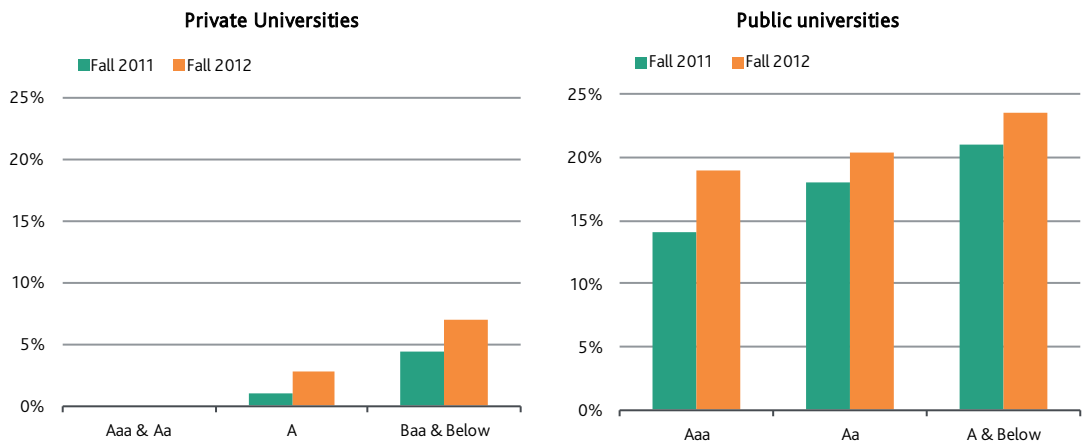
Source: Sloan Survey of Online Learning, The Sloan Consortium, 2012

In a recent survey of 292 universities conducted by Moody's, we found that four-year public and not-for-profit private universities across all rating categories estimated enrollment increases in for-credit online education from fall 2011 to fall 2012. Our survey results show a lower percentage of students taking at least one for-credit course online as compared to the Sloan Survey since our survey does not include for-profit hospitals. Public universities and lower-rated not-for-profit private universities have the highest participation rate in for-credit online courses, while highly-rated universities with strong market reputations are most likely to offer either courses that blend a component of online and traditional learning or non-credit online courses.

EXHIBIT 2

Higher penetration of for-credit online courses at publics and lower-rated not-for-profit private universities

Median % of students (headcount enrollment) taking at least one course online for credit in fall 2012



Source: Moody's 2012 Tuition Survey

The rapid expansion of online courses and the increasingly prominent role of technology create opportunities and challenges for colleges and universities. Exhibit 3 illustrates how online learning can contribute to a university's enrollment, brand, and bottom line. Emerging challenges include increased competition, potential for brand dilution or heightened pricing pressure.

EXHIBIT 3

Emerging Strengths and Challenges of Online Learning for Higher Education Sector

Opportunities	Risks
Grow and diversify enrollment by removing geographic barriers and providing an alternative delivery method	Increased competition, particularly for those universities that compete on price and location
Broader name recognition, thereby enhancing reputation domestically and abroad	Brand dilution if quality is not maintained
Typically lower cost of delivery on a per student basis	Race to the bottom on pricing, particularly for less well-known universities
New revenue opportunities, e.g. licensing, certificates	Confusion regarding value of online degree or certification; need to establish legitimacy of online courses
Increased data on learning methods could improve teaching, particularly online pedagogy	Lower retention rates if students lack discipline

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