Moody's Investors Service

New Issue: MOODY'S UPGRADES LONG-TERM RATING OF VILLANOVA UNIVERSITY TO A1 FROM A2 AND ASSIGNS AN A1 RATING TO UNIVERSITY'S $80.0 MILLION OF SERIES 2009 BONDS; OUTLOOK IS STABLE

Global Credit Research - 09 Oct 2009

UNIVERSITY HAS $201.4 MILLION OF PRO-FORMA RATED DEBT, INCLUDING CURRENT OFFERING

Delaware County Authority, PA
Higher Education
PA

Moody's Rating

ISSUE	RATING
University Revenue Bonds, Series of 2009	A1

Sale Amount $80,000,000
Expected Sale Date 10/22/09
Rating Description Private University Revenue Bonds

Moody's Outlook Stable

Opinion

NEW YORK, Oct 9, 2009 -- Moody's Investors Service has upgraded Villanova University's long-term rating to A1 from A2 (see RATED DEBT at the end of this report). At the same time we have assigned an A1 rating to Villanova University's (the "University's") $80.0 million of Series 2009 Bonds to be issued through the Delaware County Authority. Moody's also maintains a Aa3/VMIG1 rating on the University's Series 2001and 2002 Bonds which will be refunded along with a portion of the Series 1998A and 1998B Bonds at the time of issuance of the 2009 Bonds. The upgrade is based on a strong market position coupled with highly conservative fiscal management which has resulted in consistently strong operating margins, robust cash reserves, the ability to invest significantly in capital without additional debt issuance and a 100% pro-forma fixed rate debt profile with rapid amortization of principal. The outlook is stable at the new rating level.

USE OF PROCEEDS: Refunding of a portion of Series 1998A and 1998B fixed rate Bonds and all of Series 2001 and 2002 variable rate bonds.

LEGAL SECURITY: Unsecured general obligation pledge of the University

INTEREST RATE DERIVATIVES: None

STRENGTHS

* Favorable market niche as a large, private Catholic University in the greater Philadelphia area with healthy market demand ratios of 46% selectivity and 27% yield.

* Prudent fiscal management demonstrated by conservative out-year budgeting and resulting in a robust average operating margin of 10%and average debt service coverage of 3.4 times (as calculated by Moody's).

* Robust liquidity position with $117 million in unrestricted cash reserves as of May 31, 2009 (separate from endowment assets) generated from consistently strong operating margins; providing 0.57 times coverage of outstanding debt.

* Conservative debt profile consisting of 100% fixed rate debt with rapid amortization of principle at 85% in

sixteen years, coupled with no additional debt plans.

* Strong philanthropic support compared to other A-rated institutions with a three year average of $25.6 million in gift revenue.

CHALLENGES

* Strong competition for a declining applicant pool leading to potential for weakening demand ratios and pressure on revenues which are 83% reliant on tuition and fees.

* Weakened balance sheet due to negative investment returns. The University experienced investment losses of -23.5% for the year ending June 30, 2009. Moody's notes a high allocation to alternatives within the investment portfolio, but with healthy diversification. At the same time, financial resources are somewhat insulated by a high operating cash balance of $117 million (as of 5/31/09).

*Limited additional debt capacity at the current rating level given weakened cushion of financial resources supporting debt and operations of 1.0 times and 0.6 times, respectively.

MARKET/COMPETITIVE STRATEGY: STRONG REPUTATION AS RESIDENTIAL CATHOLIC UNIVERSITY DEMONSTRATING HEALTHY MARKET DEMAND

Moody's believes that Villanova University will continue to demonstrate good student demand based on a favorable market niche as a large, Catholic University in the greater Philadelphia area, admitting a historically high-performing entering class. The University has maintained stable enrollment in recent years and reports 8,974 full-time equivalent (FTE) students for the current 2009 fall semester. While selectivity improved annually from 51.4% in FY 2005 to 39.5% in FY 2008 with growth in applications, the College experienced a moderate 13% decline in applications for the 2009 fall semester; dropping selectivity to a still favorable 46.4% and maintaining a yield rate of 27% of accepted students. Management attributes the decline in applications to a declining high school population in the area coupled with the economic downturn and expects to maintain the current level of demand going forward. Villanova's main competitors include Boston College, Bucknell, Lehigh, College of The Holy Cross and The University of Richmond. While net tuition per student has grown significantly in recent years to a current $26,720, the University remains competitively priced in comparison to peers and anticipates slower tuition growth in the near term due to the economic environment.

Strong competition remains for a declining applicant pool. While the University continues to diversify in terms of demographics, the majority (60%) of students are drawn from New York, New Jersey, and Pennsylvania. Given the very strong competition in the area, projected declines in high school graduates and several lower cost public options available to students, concern exists regarding maintenance of healthy student yield going forward.

OPERATING PERFORMANCE: STRONG FISCAL MANAGEMENT PRACTICES EVIDENCED BY ROBUST OPERATING MARGINS AND SIZABLE CASH RESERVES

Moody's expects that Villanova will continue to produce strong operating margins going forward as a result of prudent and conservative budgeting practices. Villanova has consistently produced strong operating margins (three year average of 10%) resulting in robust cash flow (18.7% in FY 2009) and healthy debt service coverage (three year average of 3.4 times). Management anticipates a slight narrowing of robust operating margins due to an increased demand of approximately $2.0 million for financial aid during the current 2010 fiscal year. Moody's views the University's management practices as strong, which include: detailed out-year budgeting, annual budgeting for non-cash expenses and endowment contributions, the allocation of net tuition above budget to a university reserve fund, and conservative overall budgeting. This has resulted in consistent operating surpluses utilized for considerably sized pay-as-you-go capital projects and growth of cash reserves ($117 million at May 31, 2009).

As a result of at least ten years of operating surpluses, the University has been able to grow unrestricted cash reserves to a robust $117 million as of May 31, 2009. Management drew down approximately $35 million of cash reserves during 2009 for completion of a new law school and dorm renovation and expects to continually utilize these funds for capital improvements, although at a lower rate over the near term. Given expectations for continued robust net income, management expects to maintain this high level of cash reserves going forward.

BALANCE SHEET POSITION: WEAKENED FINANCIAL RESOURCE BASE STILL PROVIDES HEALTHY COVERAGE OF DEBT AND OPERATIONS

Superior total financial resource growth of 65% from FY 2005 through FY 2008 grew expendable financial resources 78% from $196 million in 2005 to $349 million in FY 2008. This substantial growth was the result of strong investment returns, healthy gift revenue and robust annual operating surpluses. During the 2009 fiscal year, the University experienced investment losses of -23.5% for one year ending June 30, 2009. At the same time, the high level of operating cash reserves provides a conservative balance to investments and works to insulate financial resources from an outsized decline as well as favorably position the University to absorb liquidity pressures. Given the 2009 drawdown on reserves for capital investment coupled with investment losses, expendable financial resources of $200.2 million (at 5/31/09) provide significantly reduced coverage of debt and operations in 2009 at 1.0 times coverage of debt and 0.6 times coverage of operations; down from 1.6 and 1.1 times coverage in 2008, respectively. Despite reduction, coverage remains adequate for the current rating level.

Endowment investment allocation consists of equity (32.5%), hedge funds (21.1%), US Bonds (12.9%), inflation hedging (11.9%), credit managers (8.6%), alternative assets (5.9%), emerging markets (5.2%), and cash (1.8%). Investments are sufficiently diversified with not more than 10% of investments with any individual manager or fund.

We note that Villanova University has generated considerable philanthropic support; with the three-year average for gift revenue is $25.5 million. While this is a decline from a $31.8 million peak average in FY 2008, it still shows considerable growth from $12.3 million in FY 2002 and is considerably above the 2008 median of $16.1 million for A- rated private institutions. Management attributes this success to an expanded and senior development staff and a widening pool of alum.

Regarding debt structure, the University has a conservative debt profile with 100% fixed rate bonds following the issue of the current series and the refunding of the $20.8 million of outstanding variable rate debt. We note that the University has a rapid debt amortization schedule, with 85% of principal repaid in 16 years and 100% in 23 years. Management has adopted a move toward pay-as-you-go capital projects which has allowed the University to address capital needs without taking on significant additional debt. Management reports no additional debt plans in the near to medium term with a limited appetite for risk in potential future debt structures.

Outlook

The stable outlook reflects Moody's expectation that the University will continue to operate conservatively; reflected in strong operating margins and a highly conservative debt profile while maintaining a healthy level of financial resources supporting debt and operations.

What could change the rating-UP

Significant growth of financial resources supporting debt and operations coupled with growing student demand and continued strong operating margins

What could change the rating-DOWN

Weakening of demand ratios; deterioration of strong operating margins or financial resources; material increase in debt without commensurate financial resource growth

KEY INDICATORS (FY 2009 financial data and fall 2009 enrollment data)

Total Enrollment: 8,974 students Full-Time Equivalent Students

Freshman Acceptance Rate: 46.4%

Freshman Matriculation Rate: 27%

Total Pro-Forma Direct Debt: $201.4 million

Expendable Resources to Pro-Forma Direct Debt: 0.99 times

Expendable Resources to Operations: 0.63 times

Three-year Average Operating Margin: 10.0%

Operating Cash Flow Margin: 18.7%

Reliance on Student Charges: 83.3%

RATED DEBT

Series 1998 A - A1underlying; Insured by National Public Finance Guarantee Corp ((Formerly MBIA) Currently rated Baa1 with a developing outlook)

Series 1998B: A1 underlying - Insured by National Public Finance Guarantee Corp ((Formerly MBIA) Currently rated Baa1 with a developing outlook) - to be refunded with Series 2009 bonds

Series 2005: A1 underlying - Insured by National Public Finance Guarantee Corp ((Formerly MBIA) Currently rated Baa1 with a developing outlook)

Series 2003: A1 underlying - Insured by FGIC (Not rated by Moody's)

Series 2001 and 2002: Aa3/VMIG1 based on letter of credit from Bank of America N.A. - to be refunded with Series 2009

Series 2006: A1 underlying - Insured by AMBAC (Currently rated Ba3 with a developing outlook)

Series 2009: A1

CONTACTS

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METHODOLOGY:

The principal methodology used in rating Villanova University was Moody's Rating Approach for Private College and Universities, published in September 2002 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to Villanova University was on April 20, 2009 when the A2 rating was affirmed and the positive outlook was assigned.

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