

**New Issue:** Villanova University, PA

**MOODY'S ASSIGNS A2 UNDERLYING RATING TO VILLANOVA UNIVERSITY'S \$28.3 MILLION REVENUE REFUNDING BONDS, SERIES OF 2005; OUTLOOK IS STABLE**

**UNIVERSITY HAS A TOTAL OF \$184 MILLION RATED DEBT OUTSTANDING**

Delaware County Authority, PA  
Higher Education  
PA

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
University Revenue Refunding Bonds, Series 2005	A2
<b>Sale Amount</b>	\$28,340,000
<b>Expected Sale Date</b>	03/07/05
<b>Rating Description</b>	Private University Revenue

**Moody's Outlook** Stable

**Opinion**

NEW YORK, Mar 4, 2005 -- Moody's has assigned an A2 underlying rating to Villanova University's Revenue Refunding Bonds, Series of 2005. The outlook is stable. Bond repayment is secured by the University's Unrestricted Revenues. Bond proceeds will be used to refund the University's outstanding Series 1995 bonds.

The bonds are expected to be sold with municipal bond insurance. Subject to Moody's review of the insurance policy and other relevant documents, the bonds are expected to carry the insurer's current financial strength rating of Aaa. Moody's will nonetheless maintain the A2 underlying rating.

At this time, Moody's has also affirmed the A2 underlying rating on the University's outstanding Series 1998A, 1998B, and 2003 bonds. The Series 1998A and 1998B bonds also carry Aaa ratings based on municipal bond insurance provided by MBIA, while the Series 1995 bonds carry a Aaa rating based on municipal bond insurance provided by AMBAC. In addition, the University has approximately \$25 million of Series 2001 and 2002 bonds, which are rated Aa3/VMIG1 ratings based on bank letters of credit.

The A2 rating is based on the University's strengths and challenges, which include:

**STRENGTHS:**

- Strong net tuition per student and good student demand;
- Solid operating performance;
- Ongoing fundraising campaign with focus on endowment, which should help to build financial resources.

**CHALLENGES:**

-- Highly competitive student market, although the University has improved selectivity and yield on students to maintain healthy enrollment;

-- Leveraged balance sheet within the A2 rating category.

#### CURRENT FUNDRAISING EFFORT SHOULD HELP TO BUILD RESOURCES, BUT BALANCE SHEET REMAINS LEVERAGED IN THE A2 RATING CATEGORY

Moody's believes that Villanova will remain relatively highly leveraged within its rating category, although current efforts to build financial resources through endowment fundraising and planned contributions from operating surpluses should help to build resources over time. Financial resources have maintained solid growth, such that the University held \$268 million in cash and investments as of the end of FY2004, up 32% from 2000 levels of \$203 million. This is noteworthy growth, particularly considering the volatility of financial markets over this period. For FY2004, the University reported a 16% investment return.

Also, the University is in the public phase of a \$300 million campaign, \$200 million of which is targeted for endowment. Fundraising has not historically been a strength at Villanova, but we believe that the University will continue to improve in this area. Many of the University's alumni are just reaching the age when they may consider making significant gifts to the institution, and the positive developments at the University over the past 15 years should drive donor support.

Debt, however, is fairly high at \$198 million, which includes a subsidiary (Aldwyn Lane) carrying a \$13 million mortgage note that is non-recourse to the University, supported by a 20 year lease which has covered debt service. Expendable financial resources cover total debt by 0.87 times, which is below the A-category median of 1.5 times. However, given the University's strong cash flow and good market position, this leverage position is manageable. The University's future capital plans include construction of a new law school facility and renovation of the existing law facility to house the school of nursing, but the University has not yet finalized its capital projects or the mix of funding from gifts, equity and potential debt issuance, although current projections indicate a manageable amount of potential new borrowing.

#### STRONG OPERATING PERFORMANCE:

Financial operations remain sound, driven by prudent management practice. Over the past three years, the University has posted a healthy average operating margin of 6.8%. Management again projects good operating results for FY2005, due to growth in tuition revenue and expected savings relative to budgeted benefits expense. The University's commitment to budgeting for contributions to quasi-endowment and capital reserves also ensures a healthy cushion for the operating budget, and provides an additional source of balance sheet growth. For the FY2006 budget, the University plans to increase its planned saving by \$500K to \$7.3 million.

#### GOOD STUDENT DEMAND IN COMPETITIVE MARKET; APPLICATIONS UP FOR FALL 2005

After a 15% decline in application volume last year, the University is again projecting growth in applications such that applications will again top 10,200. In addition, the University's Early Action program shows strong results with a 34% increase in early action candidates. Even with the dip in applications last year, student quality remained strong with a median SAT score of 1260. Also, the dip in applications has not impacted total FTE enrollment, which has actually grown by about 100 FTEs since 2002. Last fall, the University admitted 58% of freshmen applications, which was down from the prior three-year's average admission rate of 50%, due to the lower application volume. Matriculation, however, held steady with the University's average at 31%. With the growth in application volume for fall 2005, the University projects improvement in selectivity and maintenance of yield.

#### Outlook

The stable outlook reflects the expectation of continued growth in net tuition revenue, good student demand, and positive operating performance.

#### WHAT COULD CHANGE THE RATING UP:

Significant growth in financial resources to provide an improved cushion for debt and operations.

#### WHAT COULD CHANGE THE RATING DOWN:

Deterioration of financial resources, a sharp increase in borrowing without offsetting resource growth, or significant weakening of student demand.

**KEY DATA AND RATIOS (Enrollment as of Fall 2004; Fiscal 2004 financial data):**

Total Enrollment: 9,126 full-time equivalent students

Net Tuition per Student: \$19,416

Total Pro Forma Debt: \$198 million

Expendable Resources to Pro Forma Debt: 0.87x

Expendable Resources to Operations: 0.69x

Three-year Average Operating Margin: 6.8%

**CONTACTS:**

Villanova University: Ken Valosky, Vice President for Finance, 610-519-4532

Financial Advisor: Linda Eremita, NatCity Investments, 412-644-7554

Underwriter: Jay Bellwoar, UBS Financial Services, 215-496-2115

**Analysts**

Elizabeth C. Veasey  
Analyst  
Public Finance Group  
Moody's Investors Service

Naomi Richman  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

© Copyright 2005, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR

FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody's.com](http://www.moody's.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."