Moody's Investors Service

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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

ISSUE	RATING
University Revenue Refunding Bonds, Series 2005	A2

Sale Amount	$28,340,000
Expected Sale Date	03/07/05
Rating Description	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%

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