Moody's Investors Service
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Delaware County Authority, PA

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Moody's Rating

Issue	Underlying Rating	Rating
University Revenue Refunding Bonds, Series 2003	A2	Aaa
Sale Amount $42,600,000		
Expected Sale Date 06/30/03		
Rating Description Private University Revenue		

MOODY'S ASSIGNS A2 UNDERLYING RATING TO VILLANOVA UNIVERSITY'S $42.6 MILLION SERIES OF 2003 REVENUE REFUNDING BONDS; OUTLOOK IS STABLE

UNIVERSITY HAS A TOTAL OF $192 MILLION MOODY'S RATED DEBT

Opinion

Moody's Investors Service has assigned an A2 underlying rating, with a stable outlook, to Villanova University's $42.6 million Revenue Refunding Bonds, Series of 2003 to be issued through the Delaware County Authority. The rating outlook is stable. Bond repayment is a general obligation of the University, secured by a lien and security interest in Unrestricted University Revenues. Bond proceeds will be used to refund the provide for the refunding of the University's Revenue Bonds, Series of 1993, also issued by the Delaware County Authority.

FGIC is expected to insure the Series of 2003 bonds. Subject to Moody's review of the insurance policy and other relevant documentation, the bonds are expected to carry FGIC's current financial strength rating of Aaa. Moody's will nonetheless maintain the A2 underlying rating on these bonds.

The A2 underlying rating and stable outlook are based on the University's:

-- Strong and improving market position;

-- Relatively modest balance sheet cushion when compared to peer institutions; and

-- Favorable operating margins driven by prudent budgeting practices and growing net tuition revenue.

At this time, Moody's has also affirmed the underlying A2 rating on the University's outstanding bonds, Series 1995,1998A, 1998B, 2001 and 2002. 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. The Series 2001 and 2002 bonds carry Aa3/VMIG1 ratings based upon bank letters of credit.

STRONG FOCUS ON BUILDING NICHE IDENTITY CONTRIBUTES TO IMPROVING MARKET POSITION

Moody's believes that Villanova's strategy to firmly establish its reputation as a leading Catholic university with a primarily undergraduate focus should contribute to stable enrollment and steady growth in tuition revenue.

Villanova enrolls approximately 9,000 FTE students, of which more than three-quarters are undergraduates. The remaining students are enrolled in the University's graduate and professional programs in law, business, engineering, nursing, and the arts and sciences.

Since the early 1990s, Villanova has successfully pursued a strategy of significant investment in campus facilities to help improve its market draw, thereby becoming much more selective and expanding its geographic diversity. In the early 1990s, Villanova accepted more than 70% of freshman applicants. Today, the University typically accepts under 50% of students and of these accepted students approximately one-third ultimately enroll. Although Pennsylvania and New Jersey remain the University's core market, about 50% of students are drawn from these two states, as compared with more than 60% in the early 1990s.

Moreover, Villanova is increasingly competitive with leading Catholic institutions, including Boston College (debt rated Aa3), Georgetown (A2), and Holy Cross (Aa3). The University is also improving its market position relative to other private institutions in the region, such as Bucknell (Aa3) and Lehigh (Aa3), as measured by the percent of students accepted to both institutions, but choosing to enroll at Villanova.

FINANCIAL RESOURCES LAG PEER INSTITUTIONS:

Given the University's comparatively low resource base, we expect that Villanova will remain fairly leveraged within its rating category. Financial resources have grown considerably by about 31% over the past five years to $197 million in FY02, but this level of financial cushion still lags many peer institutions.

The University has relied heavily on debt to finance its capital plans, with more than $170 million in new money debt issued over the past ten years. These bond issues financed construction of new student apartment buildings and renovations to the science and business school facilities, among other projects. Near-term projects, primarily the $50 million construction of a new facility to house the law school, are expected to be funded through a combination of fundraising and a moderate amount of new debt (approximately $30 million). Currently, expendable financial resources of $135 million cushion total debt outstanding of $208 million by 0.65 times.

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. Indeed, Villanova is in the midst of the quiet phase of a major capital campaign, the second such significant campaign in its history.

Although not formally included in our calculation of financial resources, the University holds a number of off-campus properties (replacement value of $45 million) in the attractive suburban community of Villanova, which we believe could be liquidated in a relatively short-time frame. The largest of these properties are a conference center (replacement value of $16 million) and two office buildings ($18 million). The remaining properties consist primarily of single-family residences on the campus periphery, which are currently used to house visiting faculty.

CONSISTENT ABILITY TO GENERATE SOLID OPERATING SURPLUS:

Villanova's solid market position and conservative budgeting provide comfort that it will not experience any serious budget stress over the next several years, and is a key underpinning of the A2 rating. Over the past three years, the University has posted a healthy average operating margin of 3.8%. The University's commitment to budgeting for contributions to quasi-endowment and capital reserves ensures a significant cushion for the operating budget, and provides a source of balance sheet growth in the absence of strong fundraising.

Villanova is fairly dependent on student charges, with tuition, fees and auxiliary revenue contributing about 85% of total operating revenue. However, net tuition per student is quite robust at about $16,700, and we expect that this key revenue source will continue to grow as the University implements price increases and continues to strengthen its market draw.

Outlook

The stable outlook is based on ongoing enrollment stability, market strength, and positive operating performance. In addition, we expect that the University will gradually add to its resource base through retained operating surpluses and future fundraising activity. We also expect that debt may increase moderately as the University proceeds with its capital plans.

KEY DATA AND RATIOS (Fiscal 2002 financial; Fall 2002 enrollment):

2002 Total Enrollment: 9,026 full-time equivalent students

Selectivity Rate: 47.1%

Matriculation Rate: 30.8%

Total Pro Forma Debt: $208 million

Expendable Resources to Pro Forma Debt: 0.65 times

Expendable Resources to Operations: 0.60 times

Total Resources per Student: $21,773

Net Tuition per Student: $16,688

Three-year Average Operating Margin: 3.8%

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