Rating Update: **Villanova University, PA**

MOODY'S AFFIRMS VILLANOVA UNIVERSITY'S A2 DEBT RATING; OUTLOOK REVISED TO POSITIVE FROM STABLE

UNIVERSITY HAS $212.2 MILLION OF RATED DEBT OUTSTANDING

Delaware County Authority, PA
Higher Education
PA

Opinion

NEW YORK, Apr 20, 2009 -- Moody's Investors Service has affirmed Villanova University's (the University) A2 rating, which applies to the University's $212.2 million of Series 1998 A & B, 2003, 2005 and 2006 Bonds issued through the Delaware County Authority. The rating outlook has been revised to positive from stable reflecting the University's strong fiscal management which has resulted in strong operating margins and financial resource growth from operations, and has made the University somewhat less vulnerable to market volatility compared to peers.

LEGAL SECURITY: General obligation pledge of the University.

INTEREST RATE DERIVATIVES: None

STRENGTHS

* Favorable market niche as private Catholic university in the greater Philadelphia area. The University has maintained stable enrollment in recent years at 8,928 in the fall of 2008 while selectivity has improved from 51.4% in fall 2005 to 39.5% in fall 2008. Villanova's main competitors include Boston College (rated Aa3), Bucknell University (Aa2), Lehigh University (Aa2), College of the Holy Cross (Aa3) and the University of Richmond (Aa1). While net tuition per student has grown significantly in recent years to a current $24,820 as compared to $19,416 five years ago, the University remains competitively priced in comparison to peers. Net tuition growth is a key credit strength as the University derives 83.5% of Moody's adjusted operating revenue from student charges.

* Consistently strong operating margins as a result of prudent budgeting practices and fiscal conservatism. The University's operating margins have averaged 8.7% over the past three years, while its operating cash flow margin was 16.3% in FY 2008. Notably, Villanova achieves positive operating margins (5.1% in FY 2008) excluding gifts. This financial performance has resulted in three-year average debt service coverage of 3.1 times. Budgeting practices include budgeting for depreciation and for operating reserves to contribute back to the endowment each year. Management reports implementation of cost-cutting measures in FY 2010 in an effort to maintain strong operations.

*Robust financial resource growth particularly from operations, leading to total financial resource growth of 65% from FY 2005 to FY 2008. Expendable financial resources grew 78% over this time period from $196 million in FY 2005 to $349 million in FY 2008. This substantial growth was the result of a combination of annual operating surpluses, positive investment returns, and gifts averaging $31.8 million per year. Villanova has uniquely positioned itself with approximately $150 million of its reserves in cash (not including endowed investments), making its balance sheet less vulnerable to the recent market downturn than many peers, as well as favorably positioned to absorb any liquidity pressures in the near-term. Expendable financial resources, after a Moody's estimated 30% decline, still provide sufficient coverage of debt and operations at 1.2 times and 0.8 times, respectively.

* Considerable growth in philanthropic support. Three-year average gift revenue has grown to $31.8 million in FY 2008 from $12.3 million in FY 2002. This is more than twice the FY 2008 preliminary A-rated private college and university median of $14.4 million. Management attributes this success to an expanded development staff and a widening pool of alum.

* Conservative debt profile with 90% in fixed rate bonds and no exposure to swaps limits the University's unexpected demands on liquidity. Management reports a move toward pay-as-you-go capital projects in the coming years, coupled with a limited appetite for risk in future debt structure. The University has no upcoming

debt plans.

CHALLENGES

*Very high competition for a declining applicant pool. While the University continues to diversify in terms of its geographic student draw, the majority (60%) of students come from New York, New Jersey, and Pennsylvania. Given the projected declines in high school graduates in the Northeast and several lower cost public university options, Moody's has some concern about the University's ability to maintain a stable matriculation rate going forward.

* Weakened balance sheet resulting from declining investment markets. The University has seen a negative return consistent with peers at -32.3% as of March 31 for the 2009 fiscal year. After a recent reallocation, the long-term investment pool consists of the following: equity (27.2%), fixed income (27.7%), hedge funds (23.7%), inflation hedging (11.1%), non-marketable alternatives (7.1%) and emerging markets (3.2%). Aside from 14.9% in a US Government Bond Fund, investments are well diversified with the highest allocation to a single manager at 7.6% in a fund of funds. In addition the investments listed above, Villanova has $150 million of operating cash as of 3/31/09.

Outlook

The positive outlook reflects Moody's belief that the University is somewhat less vulnerable to the current economic downturn given its conservative budgeting practices and high levels of liquidity. The outlook incorporates our expectation that Villanova will continue to maintain prudent budget practices resulting in strong operating margins and debt service coverage and will continue to grow financial resources through operating surpluses without additional debt issuance.

What could change the rating-UP

Continuation of robust operating margins and growth of financial resources to provide a stronger cushion for debt and operations; stability or improvement in student market

What could change the rating-DOWN

Considerable weakening of operating margins or financial resource base; material increase in debt; significant weakening of student market position

KEY INDICATORS (FY 2008 financial data and fall 2008 enrollment data)

* Numbers included in parentheses represent Moody's projection of a 30% decline in finance resource levels resulting from investment declines combined with endowment spending

Total Full-Time Equivalent Students (FTE): 8,928 students

Freshman Acceptance Rate: 39.5%

Freshman Matriculation Rate: 26.9%

Total Pro-Forma Direct Debt: $212.9 million

Expendable Resources to Direct Debt: 1.6 times (1.2 times)

Expendable Resources to Operations: 1.1 times (0.8 times)

Three-year Average Operating Margin: 8.7%

Operating Cash Flow Margin: 16.3%

Reliance on Student Charges: 83.5%

RATED DEBT

Series 1998 A & B and 2005: A2 underlying - Insured by National Public Finance Guarantee Corp (Formerly MBIA) Baa1 on review for upgrade

Series 2003: A2 underlying - Insured by FGIC

Series 2001 and 2002: Aa1/VMIG1 based on letter of credit from Bank of America N.A.

Series 2006: A2 underlying - Insured by AMBAC Ba3 with a developing outlook

CONTACTS

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The principal methodology used in rating Villanova University was Moody's Rating Approach for Private College and Universities, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to Villanova University was on March 14, 2006 when the A2 rating was affirmed.

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