MOODY'S INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS A2 RATING TO LOYOLA UNIVERSITY OF CHICAGO'S (IL) $250.1 MILLION TAXABLE FIXED RATE BONDS, SERIES 2012A AND REVENUE BONDS, SERIES 2012B, OUTLOOK IS STABLE

Global Credit Research - 01 May 2012

UNIVERSITY TO HAVE $452 MILLION TOTAL RATED DEBT OUTSTANDING WITH NEW SALE (INCLUDING COMMERCIAL PAPER AT FULL ISSUANCE)

ILLINOIS FINANCE AUTHORITY
Private Colleges & Universities
IL

Moody's Rating

ISSUE		RATING
Taxable Fixed-Rate Bonds, Series 2012A		A2
Sale Amount	$155,920,000	
Expected Sale Date	05/09/12	
Rating Description	Revenue: 501c3 Unsecured General Obligation	
Revenue Bonds, Series 2012B		A2
Sale Amount	$94,185,000	
Expected Sale Date	05/16/12	
Rating Description	Revenue: 501c3 Unsecured General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, May 01, 2012 --Moody's Investors Service has assigned an A2 rating to Loyola University of Chicago's (IL) total $250.1 million of Taxable Fixed Rate Bonds, Series 2012A and Revenue Bonds, Series 2012B. The Series 2012B bonds will be issued through the Illinois Finance Authority. The rating outlook is stable.

Moody's has affirmed the A2 rating on Loyola University of Chicago's ("LUC" or "university") outstanding debt (see RATED DEBT). Also rated by Moody's is the Series 2008 Commercial Paper program issued through the Illinois Finance Authority rated P-1 based on a direct pay irrevocable letter of credit provided by PNC Bank, N.A. (rated A2/P-1 with a positive outlook).

SUMMARY RATINGS RATIONALE:

The A2 rating for Loyola University of Chicago reflects its strong leadership with best practices for budgeting and operations as the university undertakes this substantial increase of debt to fund a large number of capital projects. This new debt issue was anticipated in July 2011 when Moody's upgraded the university following the sale of the Loyola University Health System to Trinity Health System. Other positive factors are LUC's stable student market position as an urban comprehensive university in Chicago, as well as the favorable position as the only Jesuit Catholic university in the Chicago region, trends of good tuition revenue growth, good liquidity and extremely strong operating performance and cash flow generation, all expected to continue. These strengths are offset by the substantial debt increase to fund extensive campus projects, resulting in extremely high operating leverage and a thinner balance sheet cushion but still adequate at the rating level. The stable outlook reflects expectations of continued sound student demand and growth in tuition revenues, coupled with good operating cash flow and continued good financial resource and liquidity.

STRENGTHS

*Strong LUC management oversight of operations, with implemented practices and procedures producing the platform for consistently favorable operating surplus and cash flow generation, evidenced by a 16.6% average operating cash flow margin for FY 2009-2011 and a 25.8% cash flow margin.

*Established student market demand as urban comprehensive university and franchise position as Chicago area's only Jesuit Catholic university, with enrollment of nearly 15,000 full-time equivalent (FTE) students for fall 2011.

*Good growth in net tuition revenues, with net tuition per student rising 12.6% to $22,470 in FY 2011 from $19,947 in FY 2009, with expectations of continued growth.

*Good liquidity, with $263 million of monthly liquidity in FY 2011, translating to 252 monthly days cash and 260.5% monthly liquidity to demand debt assuming commercial paper issuance of $80 million at the full program size.

*Aggressive debt amortization schedule, with nearly $200 million of debt to be repaid over the next five years, and nearly $300 million over the next seven years. There are no additional debt plans for the next few years.

*Completion of sale of Loyola University Health Systems (LUHS) to Trinity Health (rated Aa2/stable), resulting in the removal of LUHS from LUC's corporation structure and credit profile as well as the receipt of $204 million of cash or receivable.

*Improved fundraising with three year average gift revenues of $42.0 million for FY 2009-2011, although skewed from a large gift received in FY 2010; the university reported $18.7 million of gift revenues in FY 2011. LUC recently completed its $500 million comprehensive campaign, reaching the goal two years early.

CHALLENGES

*Dramatic increase in debt to $600 million total pro-forma direct debt from $285 million including both the recent $113.5 million term loan and the current Series 2012 bonds. LUC is also committed to the construction of a $150 million research building over the next three to seven years on the LUC Medical School campus (co-site for LUHS), with LUC responsible for $75 million in funding from the proceeds of the sale of the healthcare operations and the reserves of the Medical School.

*Highly competitive student market landscape, with LUC competing not only with regional private and Illinois public universities, but also with those outside the state as the Chicago-land area is a prime recruiting target for many institutions in the Midwest and other areas of the U.S.

*High leverage relative to operating revenues, with pro-forma debt-to-revenues of 1.2 times, twice the current 0.6 times. Balance sheet resources provide a thinner but still adequate support of debt, with expendable financial resources in FY 2011 cushioning pro-forma debt 0.76 times, lower than comparably-rated institutions.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds from the Series 2012 bonds will be used to fund the costs of capital projects on both campuses, advance refund all or a portion of the Series 2003A and 2004A, subject to market condition, reimburse itself for funds expended for capital projects and pay issuance costs.

LEGAL SECURITY: The Series 2012 bonds are a general obligation of the university and are on parity with its other debt and commercial paper obligations. There is no debt service reserve fund. The Series 2012 bonds are not issued under the university's Master Indenture. However, the holders of the Series 2012 bonds will have the benefit of the additional bonds test for as long as the Master Indenture exists.

DEBT-RELATED INTEREST RATE DERIVATIVES: None

DEBT STRUCTURE: All of LUC's long-term debt is fixed rate. The university has an $80 million commercial paper program, with payments of the maturing commercial paper supported by a LOC from PNC Bank, N.A. (rated A2/P-1 with a positive outlook). The reimbursement agreement for the LOC terminates in August 2014. There is a debt service coverage covenant of 1.2 times in the agreement. If there is a draw under the LOC, no repayment is required until one year following the draw; at that time LUC can choose a "term-out" option in which it can repay a draw in quarterly payments over a three-year period that can extend beyond LOC termination. This mitigates any liquidity pressure from a draw of $80 million, although the 260% monthly liquidity coverage of the $80 million commercial paper provides good support of the demand debt.

MARKET/COMPETITIVE POSITION: FRANCHISE POSITION AS LARGE JESUIT URBAN UNIVERSITY IN HIGHLY COMPETITIVE CHICAGO MARKET

Moody's believes that Loyola's franchise position as the Jesuit Catholic university in the greater Chicago market will continue to drive the established student demand in the midst of a highly competitive higher education environment. LUC continues to demonstrate good student demand, with fall 2011 FTE enrollment of 15,028, up 47% since fall 2002. The growth was driven by both undergraduate and graduate student growth over that time of 44% and 52%, respectively, although the university has held undergraduate enrollment generally steady over the past five years. LUC has worked to shape its undergraduate enrollment by increasing minority students and student quality, as well as improving retention (at 87% as of fall 2011). Graduate enrollment growth has been driven by masters' enrollments, with LUC reducing doctoral enrollment in selected programs.

Loyola operates three campuses, with the main Lake Shore Campus located north of the downtown campus on the shores of Lake Michigan. The campus consists primarily of facilities for undergraduate students, including student residence facilities. The Water Tower campus is located in a highly desirable section of Chicago, housing most of the non-medical professional graduate programs including the School of Business and School of Law, as well as offering most of Loyola's evening programs. The School of Medicine is located west of Chicago in Maywood, co-located with the former Loyola Health System campus. Additionally, Loyola owns and operates a campus in Rome, drawing draws students from a number of U.S. universities.

LUC competes in a highly competitive Chicago market, with highest competition from DePaul University (rated A3/positive), another Catholic university in Chicago, as well as University of Illinois' (rated Aa2/stable) Chicago and Urbana-Champaign campuses. As a result, LUC reported a yield of about 20% for Fall 2011, which although relatively low is improved from 15% for Fall 2009. To enhance recruiting and retention, LUC has invested in its campus facilities and has a strategic master capital plan to invest $750 million in its campuses including housing, student facilities and athletics over 5 years that it believes will continue to enhance its student market position.

Despite the high competition, net tuition revenues continue to show good growth, rising nearly 5% in both FY 2010 and FY 2011. Net tuition per student increased to $21,687 in FY 2011, up from $20,862 the previous year. The increase occurred in the face of a higher freshmen discount, up to 44% in 2011 from 38% in 2008, reflecting the tuition revenues from its graduate enrollment representing 35% of total enrollment.

OPERATING PERFORMANCE: CONSISTENTLY STRONG OPERATING PERFORMANCE AND CASH FLOW GENERATION DRIVEN BY UNIVERSITY MANAGEMENT OF OPERATIONS, WITH STRONG DEBT SERVICE COVERAGE

Loyola University of Chicago is expected to continue to demonstrate a key credit strength of favorable operating performance and cash flow generation, resulting in good debt service coverage. For FY 2009-2011, LUC produced a 16.6% average operating margin, as calculated by Moody's assuming a 5% endowment spend annually; for FY 2011, the university produced an operating cash flow margin of 25.8%, As a result, average debt service coverage was very strong at 7.2 times for FY 2009-2011. LUC expects FY 2012 operating results to be strong but lower than FY 2011 with the decrease reflecting increased expenses from rising depreciation, employee benefits, higher financial aid and new faculty positions. With the operating and budgeting practices employed by LUC, the university should continue to produce sustained favorable operating performance and good cash flow.

BALANCE SHEET PROFILE: HIGH DEBT WITH CURRENT ISSUE BUT GROWING BALANCE SHEET PROVIDES ADEQUATE COVERAGE; GOOD LIQUIDITY IN INVESTMENTS AND RAPID DEBT AMORTIZATION

LUC's balance sheet resources grew substantially in FY 2011, both from its own operations and from the sale of LUHS to Trinity Health Care. At the time of the sale, LUC received $80 million with an additional $20 million set in escrow for release over a period of four years. As a result, total financial resources grew to $588.6 million at fiscal year-end (FYE) 2011 from $332.9 million the previous year; expendable financial resources rose to $457.0 million from $207.9 million the previous year. In the current fiscal year (FY 2012), LUC received an additional $49.6 million from Trinity as additional consideration from the sale.

Importantly, the sale of LUHS to Trinity improved the university's credit profile as LUHS' liabilities - including the substantial variable rate debt, swaps, pension and post-retirement obligations - were transferred from LUC to Trinity. As a result, LUC's debt is now entirely comprised of fixed rate debt except for its $80 million commercial paper program, with no swaps and low pension and retirement healthcare obligations.

For FY 2009-2011, LUC paid over $300 million of capital expenditures with no increase in debt, instead funding the capital spending from funded depreciation, operations and gifts. The university finalized Campus Redevelopment Plans for all of its campuses, including its Lake Shore, Water Tower and Health Sciences campuses in Chicago and nearby suburban Maywood. These plans look for approximately $750 million in total capital spending, with $314 million funded from both the term loan and the Series 2012 bonds and the balance from internal funds and future gifts.

This $314 million new sale represents a 111% increase in debt and pushes leverage substantially higher relative to the balance sheet and operations. With the Series 2012 bonds, pro-forma debt-to-revenues rises to 1.2 times, representing high leverage against operations. Although LUC's balance sheet resources grew substantially in FY 2011, expendable financial resources to pro-forma debt drops to 0.76 times from the 1.61 times for fiscal year-end 2011. Nonetheless, expendable resource coverage of debt is comparable to the 0.72 times for FY 2010, benefitting from the resource growth that occurred in FY 2011. Further, the debt service schedule anticipates the term loan of $113.5 million to be fully repaid by FY 2018 from funded depreciation, thereby decreasing leverage quickly. Total principal repayment for the five years of FY 2013-2018 is $180.8 million, or a 30% reduction in debt. Additionally, part of the debt proceeds will be used to fund the acquisition or construction of student residential facilities that will provide new revenues once operational. With its budgeting practices expected to continue to grow revenues and produce operating cash flow sufficient to provide good debt service coverage, LUC can absorb the debt issuance at its current A2 rating.

LUC reports good liquidity within its investments, with $263 million of monthly liquidity at 6/30/2011; this is up from $250 million the prior year for the university. The liquidity translates to 252 monthly days cash and monthly liquidity to demand debt of 260%, including the demand debt of the $80 million of commercial paper, currently outstanding at full program authorization. LUC recently changed its investment consultant to Monticello Associates. Its investment portfolio generated a 21.7% return for FY 2011, compared to 12.4% for FY 2010. The portfolio allocation at 12/31/2011 is domestic equities -23%; international equities - 23%; real assets - 13%; private capital - 11%; fixed income and high yield - 28; and cash - 2%. LUC intends to reallocate some holdings into hedged funds over the next few years, with a probable limit of 20% of the portfolio. The university will continue to hold good liquidity within its portfolio, although it intends to reduce the current levels from the 75% able to be liquidated in 5 days or less as reported for 12/31/2011.

GOVERNANCE AND MANAGEMENT: UNIVERSITY LEADERSHIP IS PRIMARY CREDIT STRENGTH SUPPORTING A2 RATING IN FACE OF SUBSTANTIAL DEBT INCREASE

Loyola University of Chicago's leadership has constructed a platform of good management practices that enables it to undertake significant capital projects on its campuses funded in large part by the significant increase in debt. The net increase of $314 million of new debt will require continued strong operating performance and cash flow generation to provide continued favorable debt service coverage of the increased debt service requirements. Management and the board employ best practices for budgeting and oversight for operations, including: funding depreciation; budgeting for a surplus and transferring funds to its internal capital reserve (internal bank) for debt service; generating profit and loss analyses for its schools and auxiliaries; using faculty teaching productivity measures and responsibility center accounting; and funding debt service from the projects financed by the 2011 term loan and Series 2012 bonds.

The Board of Trustees is comprised of 50 members, each elected to three-year terms. Board membership includes regional and national business management, members of the Society of Jesus and a representative of Trinity Health System. The university's Board established a Governance Task Force in summer of 2011 to review governance practices, with recommendations and subsequent creation of a new Governance and Trusteeship Committee to advise the Board on matters relating to governance, including committee structure, policies and procedures, and selection and evaluation process for Board membership. Other recommendations to be considered will include amendments to LUC's bylaws to include term limits for Board trustees. We view this review and change in the Board practices to attain best practices as a favorable factor.

OUTLOOK

Loyola University of Chicago's stable outlook reflects expectations of continued sound student demand and growth in tuition revenues, coupled with good operating cash flow and continued good financial resource and liquidity, although growing at a slower rate than in recent years due to capital investment.

WHAT COULD MAKE THE RATING GO UP

Significant growth in financial resources to absorb the increase in debt, continuation of strong operating performance and cash flow generation, good student demand reflected in trends of at least stable to rising enrollment coupled with steadily increasing net tuition per student revenues; continuation of good liquidity despite reserve usage for capital investment.

WHAT COULD MAKE THE RATING GO DOWN

Downturn in enrollment and stagnant or declining net tuition per student revenues, deteriorating operating performance and cash flow, weakened balance sheet from lower financial resources and liquidity, additional borrowing without significant principal reduction and growth in balance sheet resources.

KEY INDICATORS (FY 2011 financial data, Fall 2011 enrollment data)

Full-Time Equivalent Enrollment: 14,810 students

Primary Selectivity: 54.9%

Primary Matriculation: 19.7%

Net Tuition per Student: $22,470

Educational Expenses per Student: $23,799

Average Gifts per Student $3,427

Total Cash and Investments: $480.6 million

Total Pro-Forma Direct Debt: $600.0 million

Total Pro-Forma Comprehensive Debt*: $608.3 million

Expendable Financial Resources to Pro-Forma Direct Debt: 0.75 times

Expendable Financial Resources to Operations: 1.09 times

Monthly Days Cash on Hand: 251.8 times

Monthly Liquidity to Demand Debt: 260.5%

Operating Revenue: $501.0 million

Operating Cash Flow Margin: 25.8%

Three-Year Average Debt Service Coverage: 7.22 times

Reliance on Tuition and Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 71.9%

* Comprehensive Debt includes direct debt, operating leases, and pension obligation, if applicable.

RATED DEBT:

Revenue Refunding Bonds, Series 2007, Taxable Fixed Rate Bonds, Series 2012A, Revenue Bonds, Series 2012B: rated A2

Educational Revenue Bonds, Series 2003A, 2003B (Taxable) and 2003C: rated A2 (Series 2003A to be partially refunded by current issue)

Taxable Revenue Bonds, Series 1997C: rated A2; insured by Ambac

Revenue Bonds, Series 2004A: rated A2; insured by Syncora Guarantee (to be partially refunded by current issue)

Commercial Paper Revenue Notes: rated P-1 based on a LOC from PNC Bank, N.A. that expires on 8/xx/2014

CONTACT

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PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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