MOODY'S
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CREDIT OPINION
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Update

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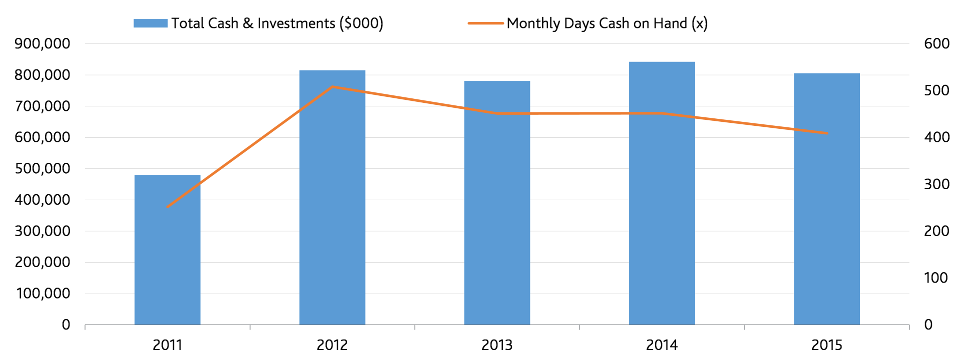
Loyola University of Chicago, IL

Rating Update - Moody's affirms A2 on Loyola University of Chicago. IL Rev. Bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service has affirmed Loyola University of Chicago's (Loyola or "LUC") A2 rating on its outstanding debt. Moody's maintains a P-1 on LUC's Series 2008 Commercial Paper program based on a letter of credit by PNC Bank, N.A. LUC's A2 rating reflects strong liquidity and robust operating cash flow from good fiscal oversight and budgeting. The university has a well-established reputation as a Jesuit urban comprehensive university in Chicago with consistent net tuition revenue growth, although with some enrollment volatility given a highly competitive environment. Offsetting challenges are high leverage, expected slowing of growth of cash and investments from large principal debt payments through 2023, and upcoming leadership changes following the current presidential search.

Exhibit 1
Strong unrestricted liquidity enhances credit stability



Source: Moody's Investors Service

Credit Strengths

- » Strong operating cash flow through strong budgeting and fiscal oversight
- » Ample unrestricted liquidity of $523 million or 409 monthly days cash
- » Rapid debt amortization with 28% of principal repaid by FY 2020 and no near-term debt plans
- » Well-established demand as a large Jesuit urban comprehensive university with over 14,800 full-time equivalent students
- » Good year-over-year growth of net tuition revenue

Credit Challenges

- » Slower cash and investment growth through 2023 due to aggressive debt pay-down
- » Fierce competition resulting in some enrollment volatility
- » High leverage, with debt-to-revenues of 0.9 times and spendable cash and investment cushion lower than A2-rated peers
- » Changes in leadership team with presidential search underway

Rating Outlook

The stable outlook reflects expectations of continued strong operating cash flow sufficient to maintain good liquidity after substantial debt pay-down, with generally stable student demand and tuition revenue growth.

What Could Make the Rating Go Up

- » Substantial growth in cash and investments
- » Strong operating performance and cash flow generation anchored by growing net tuition revenues

What Could Make the Rating Go Down

- » Weakened operating cash flow particularly with large upcoming principal repayments
- » Sustained deterioration of student demand
- » Material increase in leverage

Key Indicators

Exhibit 2

	2011	2012	2013	2014	2015
Total FTE Enrollment	14,522	14,333	14,650	14,614	14,845
Operating Revenue ($000)	500,989	514,220	532,401	561,001	583,457
Annual Change in Operating Revenue (%)	-68.1	2.6	3.5	5.4	4.0
Total Cash & Investments ($000)	480,658	814,853	781,208	842,548	805,619
Total Debt ($000)	284,478	580,735	572,644	546,432	510,523
Spendable Cash & Investments to Total Debt (x)	1.3	1.2	1.1	1.3	1.3
Spendable Cash & Investments to Operating Expenses (x)	0.9	1.5	1.4	1.4	1.3
Monthly Days Cash on Hand (x)	252	508	451	452	409
Operating Cash Flow Margin (%)	25.8	23.0	21.9	22.4	23.0
Total Debt to Cash Flow (x)	2.2	4.9	4.9	4.4	3.8

Source: Moody's Investors Service

Recent Developments

Recent developments are included in Detailed Rating Rationale.

Detailed Rating Rationale

Market Profile: Franchise position as large Jesuit urban university in highly competitive Chicago market

Loyola University of Chicago will continue to enjoy generally stable student demand and tuition revenue growth from its well-established position as a large Chicago-based Jesuit comprehensive university. The university reported Fall 2015 enrollment of over 14,800 full-time equivalent (FTE) students, up from prior years and with about 22% graduate and professional students. Loyola has diversified program offerings, including medicine, nursing and law. It launched in fall 2015 an engineering program, expecting 70-100 in fall 2016.

A key strategic initiative is expand its existing global footprint, increasing study abroad and international students, leveraging the Jesuit global educational network. It also launched in fall 2015 Arrupe College, a two year associate degree-granting college located in its downtown Water Tower campus. Planned for a maximum 400 students, Arrupe is for the under-served urban Chicago high school students requiring substantial financial aid and assistance to academically succeed. The purpose is for students to graduate in two years and transfer to LUC or another institution to complete their bachelor's degree.

The university shows continued growth in net tuition revenues, with net tuition per student rising 3.4% in FY 2015 to $24,168. However, LUC projects a $10 million tuition revenue shortfall compared to budget, but this is offset by $5 million in expense reductions. Still, the university projects net tuition per student to rise from 5% and 2.5% tuition increases for entering and returning undergraduate students, respectively. For the upcoming fall 2016 class, it is preliminarily assuming another year of enrollment growth and a stronger freshman class, although with higher tuition discounting.

LUC is expected to continue to benefit from its relationship with Trinity (Trinity Health Credit Group, Aa3 stable). In 2011 Trinity acquired Loyola University Health System (LUHS) from the university, located on the Maywood Health Sciences campus. LUC retained its medical and nursing schools, both located on the Maywood campus. As a condition of sale, Trinity agreed to pay half the cost (up to $75 million) toward construction of LUC's Center for Translational Research and Education (CTRE) on the Health Sciences Campus and annual academic support payments adjusted annually for inflation and amounting to $23.6 million in FY 2015. LUC and Trinity are collaborating on academic programs and the campus facilities planning.

Operating Performance: Strong cash flow amply cushioning debt service

Loyola is expected to continue to demonstrate strong cash flow generation that will provide a good cushion to fund debt service. The FY 2015 cash flow margin of 23% was slightly better than the prior year, resulting in good debt service coverage of 2.6 times. This coverage is significantly lower than prior years reflecting a large scheduled principal payment. LUC expects FY 2016 operations and cash flow to be strong but lower than FY 2015 reflecting the revenue shortfall from lower-than-budgeted graduate enrollments and higher financial aid expenses.

Wealth and Liquidity: Good balance sheet reserves with slowing growth expected

Loyola University of Chicago's cash and investments will remain ample relative to its debt and operations, but growth will slow due to the last phase of its capital spending plans, debt repayment and a slowing of gift revenues as the university is currently not in a major campaign.

Total cash and investments of $806 million are almost stagnant compared to FY 2012 but down from the high of $843 million in FY 2014. Spendable cash and investments also decreased to $656 million in FY 2015 from $700 million in FY 2014. Favorably, spendable cash and investments, including temporarily restricted funds, represent a substantial 81% of the total, providing good flexibility.

Fundraising will remain good but below peer institutions. FY 2015 annual gift revenues was $20.7 million down from FY 2013 and 2014. Three-year average gifts per student of $1,674 in FY 2015 is also down, with the prior years' reflecting a large $40 million naming gift for business school. The university is not in a major campaign at this time but is contemplating the launch of a fundraising campaign.

The university is in the final phase of its total $800 million capital program that was funded by debt, gifts and internal sources. Its material capital investment over the last several years should result in improved competitiveness and strategic positioning. LUC is completing its CTRE in Maywood and the School of Business building at the Water Tower Campus located in Chicago's "Gold Coast". Loyola has no significant capital plans at this time but is conducting campus master planning at its campuses, including its Health Sciences campus.

LIQUIDITY

LUC's unrestricted liquidity will remain strong as seen in Exhibit 1, amply cushioning its debt and other commitments. For FY 2015, LUC reported $523 million of unrestricted monthly liquidity, translating to 409 monthly days cash. This is down from $562 million or 452 days for the prior year, mirroring the decrease in total and cash and investments to $806 million. The decline reflects the spending for its two large capital projects and for the debt service payment. Growth in cash and investments will continue but slow from somewhat lower cash flow generation, completion of its capital spending, and the large principal payments over the next few years.

Leverage: High leverage moderating with balance sheet growth and rapid debt amortization

While leverage is currently high, it will improve as LUC pays down a significant portion of its debt through 2023. Spendable cash and investments to debt of 1.3 times is steady from FY 2014 due to liquidity usage in the year, including to pay the first of large principal repayments for its debt. LUC will repay $112 million of principal in FY 2016 through 2018 from its cash and from cash flow, improving its leverage position particularly as it has no debt plans.

DEBT STRUCTURE

All of LUC's long-term debt is fixed rate. It has a $74 million commercial paper program, with payments of the maturing commercial paper supported by a LOC from PNC Bank, N.A. terminating in August 2017. There is a debt service coverage covenant of 1.2 times in the agreement, with LUC reporting 2.1 times. If there is a draw under the LOC, no repayment is required until one year following the draw, when LUC can choose to repay a draw in quarterly payments over a three-year period. This and the 707% monthly liquidity coverage provide good support of the demand debt.

DEBT-RELATED DERIVATIVES

None

PENSIONS AND OPEB

Loyola has a moderate expense burden and exposure to retiree benefits, with FY 2015 expenses about 4.7% of operating expenses. Effective March 31, 2004 LUC froze its defined benefits plan (DBP) for all but a group of "grandfathered" employees that accrued additional benefits for up to five years. The plan has a $31 million unfunded liability (65% funding) for FY 2015. Its primary retirement plan is a defined contribution plan, with $20.6 million contributed for the year. It also provides retiree healthcare benefits, with a $38 million liability for FY 2015. It changed the plan effective July 1, 2004 that provided new retirees after 2006 to receive an account-based retiree medical subsidy.

Governance and Management: University leadership provides strong fiscal oversight

Loyola University of Chicago's platform of good management practices will lead to continued strong operations and good balance sheet reserves. Management and the board employ favorable practices for budgeting and oversight for operations, including funding depreciation, budgeting for a surplus and transferring funds to its internal bank for debt service. LUC was a national leader in generating profit and loss analyses for its individual schools and auxiliaries and for using faculty teaching productivity measures and responsibility center accounting.

The university is conducting a presidential search following the retirement of its prior president who led Loyola in its significant turnaround in operations, growth in balance sheet reserves and liquidity, and reestablishing its market standing in the region. The new president will assume leadership of a well-functioning organization but could bring strategic or cultural changes to the university.

LUC's Board of Trustees is comprised of 40 sitting 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.

Legal Security

All of LUC's debt is a general obligation and on parity. The Series 2012 bonds are not issued under the university's Master Indenture for the other bonds. However, Series 2012 bondholders have the benefit of the additional bonds test for as long as the Master Indenture exists.

Use of Proceeds

Not applicable

Obligor Profile

Loyola University of Chicago is a private Jesuit, Catholic comprehensive multi-campus university. With headcount of over 16,000, it has a broad program offering for undergraduate, graduate and professional degrees, including medicine, law, nursing and engineering. In fall 2015 it launched Arrupe College, a two-year associates degree program for Chicago high school graduates.

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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