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LOYOLA UNIVERSITY OF CHICAGO, IL
Private Colleges & Universities
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NEW YORK, May 01, 2014 --Moody's has affirmed Loyola University of Chicago's (Loyola or "LUC"), IL A2 rating on its outstanding debt (see RATED DEBT). The outlook is stable. Moody's also maintains a P-1 rating on Loyola's Series 2008 Commercial Paper program issued through the Illinois Finance Authority based on a direct pay irrevocable letter of credit provided by PNC Bank, N.A. (rated A2/P-1, stable).

SUMMARY RATINGS RATIONALE:

LUC's A2 rating reflects its strong leadership with best practices for budgeting and operations; its established student demand as an urban comprehensive university as well as the only Jesuit Catholic university in the Chicago region; consistent net tuition revenue growth, favorable liquidity and very strong operating performance, all expected to continue. Offsetting challenges are high balance sheet and operational leverage funding extensive campus capital projects and expectations of further operating cash drawdown and some reserves to fund two large upcoming capital projects, including a large research facility. The stable outlook reflects expectations of continued sound student demand and with strong operating cash flow enabling the university to fund its capital program with only modest reduction in financial reserves.

STRENGTHS

*Loyola is expected to continue to generate consistently favorable cash flow through strong management oversight of operations, evidenced by a 13.3% average operating margin for FY 2011-2013 and a 21.9% operating cash flow margin for FY 2013.

*The university enjoys well-established demand as an urban comprehensive university and its franchise position as the Chicago area's only Jesuit Catholic university, with enrollment of over 14,600 full-time equivalent (FTE) students for fall 2013.

*Net tuition revenues have shown good growth, with net tuition per student rising of $22,772 for FY 2013 up over 4% from FY 2011 and expectations of moderate continued growth.

*Liquidity is strong, with $534 million of unrestricted monthly liquidity in FY 2013, translating to 451 monthly days cash and 722% monthly liquidity to demand debt.

*Debt amortization is aggressive, with $173 million of debt repayment in FY 2014-2018, and no additional debt plans for the next few years. The university's moderately high leverage profile will improve as a result.

*Fundraising is favorable, with three year average gift revenues of $33 million for FY 2011-2013.

CHALLENGES

*LUC is moving forward on plans to spend over $200 million on a new research and new business school buildings with $120 million of cash funding from operating cash flow and reserves.

*The university draws from a fiercely competitive region, with regional private and Illinois public universities as well as those outside the state considering the Chicago-land area as a prime recruiting target.

*Operational leverage is high, with debt-to-revenues of 1.1 times compared to 0.68 times preliminary FY 2013 median for A-rated private institutions, requiring continued strong cash flow generation.

DETAILED CREDIT DISCUSSION

RECENT DEVELOPMENTS/UPDATE

Loyola is in the midst of executing its $750 million master facilities plan, with over $550 million of projects completed or underway. Much of the funding came from the Series 2012 issuances. The two largest remaining projects are the Center for Translational Research and Education and the business school, with total project costs of about $200 million. The research facility, with a cost of $137 million and anticipated to open in spring 2016, is a 227,000 square foot facility located on the health sciences campus. It is funded in part from a $75 million contribution from Trinity Health (Trinity Health Credit Group rated Aa2, negative) as part of its acquisition of Loyola University Health Services from LUC in 2011. The business school, with a cost of $67 million, is anticipated to open in fall 2015.

The university has earmarked $120 million of its own cash and investments for the projects, which will result in a reduction in liquidity from a drawdown that will largely occur in FY 2015. We expect LUC will be able to replace the funds from retained operating cash flow as well as gifts and investment returns. Combined with expected debt reduction, the university's balance sheet profile is expected to improve over a three to five year time frame.

LEGAL SECURITY: All of the 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.

DEBT-RELATED INTEREST RATE DERIVATIVES: None

DEBT STRUCTURE: All of LUC's long-term debt is fixed rate. The university has a $74 million commercial paper program, with payments of the maturing commercial paper supported by a LOC from PNC Bank, N.A. 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 the LOC termination. This mitigates any liquidity pressure from a draw of $74 million, although the 722% monthly liquidity coverage provides good support of the demand debt.

OUTLOOK

The stable outlook reflects expectations of continued strong operating cash flow sufficient to grow balance sheet resources to compensate for liquidity spend-down, coupled with sound student demand and growth in tuition revenues.

WHAT COULD MAKE THE RATING GO UP

A rating upgrade could result from growth in balance sheet resources sufficient to offset planned capital spending with continued strong operating performance and cash flow generation anchored by steadily increasing net tuition per student revenues. This would be in conjunction with Loyola's successful completion of its capital projects.

WHAT COULD MAKE THE RATING GO DOWN

A rating downgrade could result from deteriorating operating performance and cash flow, or weakening of student demand resulting in declining enrollment or tuition revenue. Also driving a negative rating action could be a significant weakening of the balance sheet from ongoing spending of reserves or from additional borrowing.

KEY INDICATORS (FY 2013 financial data, fall 2013 enrollment data)

Full-Time Equivalent Enrollment: 14,650 students

Primary Selectivity: 91.4%

Primary Matriculation: 19.1%

Net Tuition per Student: $22,772

Educational Expenses per Student: $26,898

Average Gifts per Student $2,245

Total Cash and Investments: $781.2 million

Total Direct Debt: $559.1 million

Expendable Financial Resources to Direct Debt: 1.16 times

Expendable Financial Resources to Operations: 1.35 times

Monthly Days Cash on Hand: 451.2 days

Monthly Liquidity to Demand Debt: 721.7%

Operating Revenue: $532.4 million

Operating Cash Flow Margin: 21.9%

Three-Year Average Debt Service Coverage: 5.49 times

Reliance on Tuition and Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 70.6%

RATED DEBT:

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

Educational Revenue Bonds, Series 2003B (Taxable) and 2003C: rated A2

Revenue Bonds, Series 2004A: rated A2; insured by Syncora Guarantee (advance refunded and to be redeemed on 7/1/2014)

Commercial Paper Revenue Notes: rated P-1 (based on a LOC from PNC Bank, N.A. that expires on 8/15/2014)

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional

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