Rating Update: Moody's affirms Case Western Reserve University's (OH) A1, A1/VMIG 1, and P-1 ratings in conjunction with planned substitution of the Standby Bond Purchase Agreements supporting the Series 2001A and 2002A Bonds; Outlook remains stable

Global Credit Research - 25 May 2012

University has $553.1 million of rated debt, including full authorization of Tax-Exempt Commercial Paper program

OHIO HIGHER EDUCATIONAL FACILITY COMMISSION
Private Colleges & Universities
OH

Opinion

NEW YORK, May 25, 2012 --Moody's Investors Service has affirmed Case Western Reserve University's (CWRU or Case Western) long-term A1 rating, short-term P-1 rating on the university's commercial paper (CP) program supported by its self-liquidity (including an existing JP Morgan Chase Bank, N.A. credit agreement (rated Aa1/P-1; Aa1 on review for downgrade) and A1/VMIG 1 ratings on the Series 2001A and Series 2002A bonds in connection with the planned substitution of the current standby bond purchase agreements provided by Landesbank Hessen Thuringen (Helaba) (A1/P-1) to Wells Fargo Bank, NA (Aa3/P-1). The substitutions are expected to be effective June 19, 2012. Please refer to the RATED DEBT section for a complete list of Moody's rated debt. The long-term rating outlook remains stable.

SUMMARY RATING RATIONALE

The long-term A1 rating is based upon Case Western Reserve University's solid financial resource base, national reputation as a research institution with prominent graduate and professional degree programs in the sciences, its revenue diversity, and healthy gift revenue. Offsetting credit factors include modest but adequate liquidity to support demands related to variable rate debt and swaps and a fiercely competitive undergraduate student market with enrollment challenges.

The short-term P-1 rating on CWRU's commercial paper program reflects the university's adequate amount of available funds which could be shifted from longer-term investments to investments with same-day liquidity should the bank liquidity facility be terminated prior to the expiration date.

The short-term VMIG 1 rating on the Series 2001A and Series 2002A bonds reflects a standby bond purchase agreement structured to provide adequate liquidity to support the tender feature of the bonds.

STRENGTHS

*Solid financial resources with FY 2011 expendable financial resources of $898.1 million covering $586.6 million of debt (including full authorization of $90 million CP program) comfortably at 1.53 times and operations at 1.19 times. The university has a large total financial resource base of $1.8 billion.

*Gradual improvement in operating performance and management commitment to continue efforts. The university's adjusted three-year average operating margin, as calculated by Moody's, was negative 2.3% from FY 2009-2011, improved from a negative 5.6% for FY 2005-2007. Operating cash flow is adequate, with an operating cash flow margin of 9.3% providing average debt service coverage of 2.72 times from FY 2009-FY 2011. FY 2012 operating performance is expected to be on par to slightly better than FY 2011, based on CWRU's projections.

*Strong reputation as a leading research university with grants and contracts representing 47.2% (including Cleveland Clinic Lerner College of Medicine (“CCLCM”) grant revenue) of the university's operating revenue. Grants and contracts represent approximately 38.9% of the university's operating revenue when excluding CCLCM grant revenue.
Wide array of undergraduate, graduate and professional programs, including a medical school, law school, and school of engineering. The university is principally affiliated with University Hospitals of Cleveland (rated A2), but also has collaborative relationships with a number of Cleveland health care providers, such as the Cleveland Clinic (rated Aa2) and county hospitals. The university also has been expanding its more profitable graduate programs growing its share of graduate enrollment to 55% in fall 2011.

CHALLENGES

Modest but improved monthly liquidity of $428 million for a large operating base of $753 million, which translates into 227.5 days of monthly days cash on hand, which is relatively thin for the rating category (includes CCLCM research and training expenses) as of June 30, 2011. Monthly days cash on hand improves to 266.3 days when excluding CCLCM research and training expenses.

Debt structure adds risk with 47.9% of the university's debt in variable rate mode (before swaps), carrying potential acceleration of repayment and rollover risk associated with remarketing or extending liquidity facility expiration dates, coupled with monthly liquidity to demand debt of 160.0%, which is an improvement from prior years but remains modest compared to peers. Monthly liquidity to demand debt inclusive of fully authorized CP program was 136.8% in FY 2011.

Competitive undergraduate student market position, evidenced by a low matriculation rate that has weakened to 13% over the past five years with a modest enrollment decline in fall 2011.

Reliant on grants and contracts, as research activity represents a large portion of CWRU's expense base (including certain CCLCM research activity which flows through CWRU's audit). Although grants and contracts are received from relatively diverse revenue sources, CWRU may face challenges in growing its research endeavors given the increasingly competitive environment for as federal research funding.

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: General obligation of the university; the bonds and CP are further secured by a guaranty agreement, under which the university unconditionally guarantees full and prompt payment of principal and interest on the bonds and CP.

DEBT STRUCTURE: The university currently has approximately $586.6 million of debt outstanding, including the full CP program authorized at $90 million ($63 million is drawn). The university currently has $295.0 million of variable rate debt (before swaps) with a put feature and the CP program. This amount represents 48% of the overall debt portfolio, a reduction from approximately 60% at FYE 2006. The university does not currently have plans to materially reduce its variable rate exposure (before swaps). In FY 2011 monthly liquidity to demand debt provided sufficient coverage at 160.0%, an improvement from prior years, but remains modest compared to peers. Monthly liquidity to demand debt inclusive of fully authorized CP program was 136.8% in FY 2011.

DEBT-RELATED DERIVATIVES: CWRU has entered into five floating-to-fixed interest rate swap agreements, of which all but one of the swaps are non-amortizing with Morgan Stanley (rated A2/P-1) as counterparty, for a notional amount of approximately $185 million. Under the Agreements, CWRU may be and has been required to post collateral at its current rating level if the liability exceeds $20 million with a minimum transfer of $1 million. The swaps had a market valuation of negative $36.7 million against CWRU as of May 23, 2012. The university is posting approximately $16.7 million. If the rating were to deteriorate, the collateral posting thresholds would also decline.

RECENT DEVELOPMENTS:

SHORT-TERM RATING WITH STANDBY BOND PURCHASE AGREEMENT SUBSTITUTIONS: Moody's affirms the VMIG 1 short-term rating assigned to State of Ohio ("Issuer") Higher Educational Facility Revenue Refunding Bonds (Case Western Reserve University) 2001 Series A and 2002 Series A (collectively, the "Bonds") in conjunction with the substitution of the current liquidity facilities issued by Landesbank Hessen-Thuringen Girozentrale with new standby bond purchase agreements ("SBPA") to be provided by Wells Fargo Bank, National Association (the "Bank") to support each series of Bonds. Upon the effective date of the substitutions, currently scheduled for June 19, 2012, the short term rating on the Bonds will reflect the credit quality of the Bank and the likelihood of termination of each SBPA without a final mandatory tender. Events that would cause the SBPAs to terminate without mandatory tender of the Bonds are directly related to the credit quality of the Case Western Reserve University (the "University"). Accordingly, the likelihood of any such events occurring is reflected in the long-term rating assigned to the Bonds. The Bank is rated Aa3/P-1 for long- and short-term other senior.
obligations ("OSO").

The Bank may automatically terminate its obligations under applicable SBPA to purchase the Bonds as a result of the occurrence of any of the following events: (i) failure by the University to pay when due principal of or interest on the Bonds or any general obligation of the University for borrowed money evidenced by bonds, notes or similar instruments senior to or on parity with the Bonds; (ii) a voluntary or an involuntary (if remain undismissed and unstayed for a period of sixty (60) days) bankruptcy of the University or the insolvency of the University; (iii) the provisions under the SBPA, the Bonds, the 1992 Lease or the Indenture related to the obligations of the University to make payments of principal or interest on the Bonds shall cease to be valid upon the University, or a legal proceeding is commenced by the University or the Issuer seeking to establish such validity or unenforceability of the SBPA, the Bonds, the 1992 Lease or the Indenture; (iv) the University or any government authority having jurisdiction over the University, shall impose a debt moratorium or debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment of principal of or interest on the Bonds or on the general obligation debt of the University ranking on parity with the Bonds (v) the long-term rating on the Bonds or any debt of the University on parity with the Bonds shall be withdrawn or suspended for credit-related reasons, or reduced below investment grade, by each rating agency then rating the Bonds; (vi) a final, nonappealable judgment against the University for the payment of money in excess of $5,000,000 shall remain unpaid, uninsured or unstayed for a period of sixty (60) days.

The Bonds will continue to bear interest at a daily interest rate and pay interest on the first business day of each month. The Bonds may be converted, in whole or in part, to a weekly, commercial paper, term or auction rate mode and will be subject to mandatory tender at a price of par plus accrued interest on each conversion date (except conversions from daily to weekly or from weekly to daily interest rate). In the weekly mode, interest is paid on the first business day of each month. The SBPA will terminate only upon conversion of all of the Bonds of a series to an interest rate mode other than daily or weekly. Our short-term rating applies to the Bonds in the daily and weekly mode.

During the daily rate mode, holders may optionally tender their Bonds on any business day with notice to the paying agent delivered by 10:00 a.m., New York time, on the purchase date. While the Bonds are in the weekly interest rate mode holders may optionally tender their Bonds on any business day with at least seven days prior notice to the paying agent. Purchase price payments for the Bonds tendered will be paid from the remarketing proceeds and, to the extent that remarketing proceeds are not available, from a draw under the SBPA.

Each SBPA covers full principal plus 35 days of interest at 10% for the Bonds and will be available to pay purchase price to the extent remarketing proceeds are insufficient.

The substitutions of the liquidity facilities are permitted pursuant to the indentures and the applicable Bonds will be subject to mandatory tender on the business day prior to the effective day of the alternate liquidity facility. The applicable SBPA will terminate on the business day following the effective date of the alternate liquidity facility.

The Bonds will be subject to mandatory tender on (i) each interest rate mode conversion date (except conversions from daily to weekly or from weekly to daily interest rate); (ii) on the last interest payment date which is at least one business day prior to the expiration or termination of the SBPA; (iii) the business day preceding the effective date of the alternate liquidity facility; (iv) the fifth (5th) business day prior to the termination of the SBPA; (v) the fifth (5th) business day preceding the date on which the liquidity facility then in effect will terminate following the University's voluntary termination of the SBPA.

The notice of purchase received by the Bank by 11:00 a.m., New York time, will be honored by the Bank by 2:00 p.m., New York time, on the same business day.

Each SBPA will expire upon the earliest of: (i) the scheduled expiration date, June 19, 2015; (ii) the business day following the effective date of the alternate credit facility; (iii) the close of business on the 30th day following the paying agent's receipt of notice of termination from the Bank due to the occurrence of an event of default under the applicable SBPA; (iv) the date on which no Bonds are outstanding; (v) the business day following conversion of all of the Bonds to an interest rate mode other than daily or weekly; or (vi) the occurrence of an immediate termination event.

MARKET POSITION/COMPETITIVE STRATEGY: The main strategy for the university's undergraduate enrollment remains to improve the quality of the incoming class evidenced by improvement of high school grade point averages and standardized test scores, as well as the continuation of improving the university first-year freshmen selectivity rate. Since fall 2007 the selectivity rate has improved almost 24 percentage point from 74.7% to a
selectivity rate of 51.3% for fall 2011 and expects it to increase to approximately 54% based on preliminary fall 2012 deposits.

However, while the selectivity rate has improved, due to drastic increases in applications, which soared to 13,547 for the fall 2011 incoming class from 7,292 in fall 2007, the matriculation rate of students has deteriorated and is low at 13% in fall 2011, when it enrolled a lower than targeted freshmen class of 902 students compared to an average incoming enrollment of 1,037 students from fall 2007 to fall 2010. Management attributes the decline to a modification of its financial aid policy, which it did not duplicate for the fall 2012 incoming class. While overall enrollment declined 1.4% to 8,814 full-time equivalent (FTE) students enrolled in fall 2011 due to the smaller incoming freshmen class size, management reports that the decline did not cause a negative financial impact on the university's FY 2012 operating performance. For fall 2012, deposits are exceeding management's expectations and based on these numbers, management estimates an incoming class size between 1,360 to 1,380 FTEs compared to a budgeted goal of 1,000 to 1,200 FTEs.

Research expenses reached its peak with $267.8 million in research expenditures, representing 35.5% of operating expenses in FY 2011. CWRU receives the majority of its grants from federal agencies with the largest share from the National Institutes of Health (86%) followed by the National Science Foundation and then the Department of Education.

OPERATING PERFORMANCE: Management expects similar to slightly improved operating performance in FY 2012 from FY 2011, when it generated a Moody's calculated operating margin of negative 1.9% and cash flow margin of 9.0%. Based on third quarter results, the university generated cash flow of $52 million for FY 2012 compared to $28 million at the same point in time for FY 2011. For FY 2013, management has budgeted for a $4 million surplus compared to the budgeted $2 million surplus for FY 2012. Continued improvement of operating performance to consistently produce at least breakeven results and healthier cash flow margin, as calculated by Moody's, would be credit positive.

BALANCE SHEET POSITION: CRWU has experienced increased gift revenue for three consecutive years, averaging $61.7 million in gifts per annum from FY 2009-FY 2011. The university went public with its $1 billion comprehensive campaign in October 2011. However, unrestricted gift revenue remains modest, with gift revenue (including unrestricted giving and net assets released from restriction) representing only 3% of FY 2011 operating revenue.

As of March 31, 2012, the university's investment return was a negative 0.75% year-to-date with the $1.3 billion portfolio allocated as follows: 18.6% hedge funds, 19.2% international equity, 17.8% private equity, 12.9% commodities, 12.2% domestic equity, 6.6% real estate, 7.0% fixed income, and 5.7% cash. The investment portfolio is highly diversified among funds and managers, with one manager with the largest exposure allocated a reasonable 7% in different asset classes across the portfolio.

Although the university does not have additional borrowing plans expected in the next two to three years, the university plans to draw as necessary on its unused tax exempt CP capacity ($27m) to advance gift-funded capital projects as interim financing for projects being paid for from philanthropic sources. No borrowing plans anticipated in the next three years. The university has modest additional debt capacity at the current rating level.

SELF LIQUIDITY SUPPORTING THE COMMERCIAL PAPER PROGRAM: The obligation to pay commercial paper at maturity is a general obligation of CWRU, and the university expects to pay for any CP which is not rolled over from self-liquidity that includes a $90 million Credit Agreement (liquidity facility) provided by JPMorgan Chase Bank, N.A. (rated Aa1/P-1). The commercial paper documents do not have any limitations on maturities and the full $90 million of CP could mature on one day. The liquidity facility commitment is for the bank to make loans up to $90 million as well as up to 90 days interest at a 10% maximum interest rate. The liquidity facility is dedicated to the purchase of CP and cannot be used for other operating purposes. The liquidity facility's expiration date is February 25, 2013.

The bond trustee is responsible for making the request for funding and delivering the borrowing notice to the liquidity facility provider, per the Indenture. JPMorgan, the facility provider, is required to wire funds directly to the Trustee. Moody's has reviewed the commercial paper documents and believes that the coordination of timing between the liquidity facility and the CP documents allows adequate time for the Trustee to draw on the liquidity facility and have funds deposited with the Trustee to pay make timely payments to CP holders.

The University has the right to permanently reduce the loan commitment amount in whole upon 20 business days' notice to the bank (or in part upon at least one day's prior notice to the bank), so long as the remaining bank commitment amount will not be less than the sum of principal of notes outstanding at that point in time and 90
days’ interest on such notes. Per the Indenture, the CP must have a maturity date not later than 270 days after its date of delivery and not later than the fifth business day prior to the expiration of any liquidity facility then in effect. However, as described above, breach of certain events of default would allow the bank to immediately terminate the liquidity facility or terminate it with 30 days notice, in which case there could still be CP outstanding without a supporting liquidity facility.

As of March 31, 2012, the university had approximately $273.1 million in discounted daily liquid assets, with approximately $249.6 million are across three 2a-7 compliant money market funds (State Street Global Advisors (SSgA), JP Morgan, and Federated Bank) meeting Moody’s criteria for a Aaa-mf rating. The remaining $23.5 million are in a checking account of a P-1 rated bank and US Treasuries. The coverage of the fully authorized amount of the CP program at $90 million is 5.76 times with the JP Morgan backup bank facility and 4.33 times without the facility. When excluding the largest SEC 2a-7 compliant money market fund that meets Moody’s criteria for a Aaa-mf rating, $231.5 million with SSgA, CWRU’s daily liquidity with the backup bank facility is adequate, providing 2.09 times coverage of debt but without the backup bank facility coverage falls to 0.66 times. We believe the high concentration in the one money market fund poses additional risk and will continue to monitor the university’s coverage of its CP program. We note the university is reviewing its allocation to the money market funds.

OUTLOOK

The stable outlook reflects our expectation of at least balanced operating performance from FY 2011 and growth in total FTE enrollment for fall 2013 with continued growth in net tuition revenue and net tuition revenue per student, as well as continued growth of liquidity to support a large expense base and large amount of demand debt.

WHAT COULD CHANGE THE RATING UP

Material improvement of operating performance and growth in net tuition per student, stabilization and strengthening of undergraduate student market position, as well as growth of liquid unrestricted and expendable financial resources to provide a better cushion for outstanding debt and large expense base.

WHAT COULD CHANGE THE RATING DOWN

Additional significant borrowing without commensurate growth of liquid resources and revenue to cover debt service; significant and sustained deterioration of operating performance, monthly liquidity, student market position, or research activity; reduction in available lines of credit.

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

Full-Time Equivalent Enrollment: 8,814 students
Primary Selectivity: 51.3%
Primary Matriculation: 13.0%
Net Tuition per Student: $22,040
Educational Expenses per Student: $47,335
Average Gifts per Student $6,996
Total Cash and Investments: $1.50 billion
Total Direct Debt: $559.6 million; $586.6 million (includes full $90 million authorization of CP)
Total Comprehensive Debt*: $582.2 million; $609.2 million (includes full $90 million authorization of CP)
Expendable Financial Resources to Direct Debt: 1.60 times; 1.53 times (includes full authorization of CP)
Expendable Financial Resources to Operations: 1.19 times
Monthly Days Cash on Hand: 227.5 days; 266.3 days (excluding CCLCM research and training expenses)
Monthly Liquidity to Demand Debt: 160.0%
Operating Revenue: $739.4 million
Operating Cash Flow Margin: -2.3%

Three-Year Average Debt Service Coverage: 2.72 times

Reliance on Tuition and Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 33.7%

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

RATED DEBT:


Series 2001A and Series 2002A: A1/VMIG1 (tender feature of the bonds supported by Landesbank Hessen-Thüringen GZ (rated A1/P-1) standby bond purchase agreement expires on 8/31/2012; expected to be substituted with a SBPA with Wells Fargo expiring 6/19/2015)

Series 2004A: A1 rating, certain maturities of the Series 2004 bonds are insured by Ambac

Series 2006: A1 rating, insured by National Public Finance Guarantee Corp, formerly MBIA

Series 2008A: A1 underlying rating, Aa2/VMIG1 rating (based on letter of credit provided by PNC Bank, N.A. (rated A2/P-1) and Moody's joint support analysis; LOC expires on 12/01/2013)

Series 2008 B-1 and B-2 bonds: A1 underlying rating, Aa1/VMIG1 rating (based on letter of credit provided by U.S. Bank (rated Aa2/P-1) and Moody's joint support analysis; LOC expires on 04/01/2014)

Commercial Paper Program: P-1 (supported by university's self-liquidity, including CWRU's ability to draw on a JPMorgan Chase Bank, N.A. (rated Aa1/P-1 ) credit agreement expires on 2/25/2013)

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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, August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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