New Issue: Moody’s assigns P-1 rating to Case Western Reserve University’s (OH) $30 million tax-exempt Commercial Paper (CP) Program II and affirms A1 long-term rating, A1/VMIG 1 rating and P-1 rating on the $60 million tax-exempt CP Program I; outlook is stable

Global Credit Research - 12 Feb 2013

University has $547 million of rated debt, including full authorization of $90 million tax-exempt commercial paper program

MOODY'S RATING

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>RATING</th>
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<tr>
<td>Higher Educational Facility Revenue Notes (Commercial Paper Program II)</td>
<td>NA</td>
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<tr>
<td>Sale Amount</td>
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<td>Expected Sale Date</td>
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<td>Rating Description</td>
<td>Revenue: 501c3 Unsecured General Obligation</td>
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Moody's Outlook STA

Opinion

NEW YORK, February 12, 2013 --Moody's Investors Service has assigned a P-1 rating to Case Western’s $30 million authorized tax-exempt commercial paper program. The university has an existing tax-exempt CP program which will remain outstanding. The combined authorized amount of CP outstanding under the two programs will remain $90 million ($60 million for CP Program I and $30 million for CP Program II). We have also affirmed the A1 long-term rating on Case Western Reserve University’s (CWRU or Case Western Reserve) fixed rate bonds, the A1/VMIG 1 ratings on Series 2001 and 2002A variable rate demand bonds (supported by standby bond purchase agreements), the A1 underlying rating on Series 2008A, 2008B-1, and 2008B-2 (supported by letters of credit) and the P-1 rating on the university’s commercial paper program (CP). Payment of principal and interest on maturing CP is supported by the university’s own liquid assets as well as an existing JPMorgan Chase Bank, N.A. (rated Aa3/P-1) credit agreement, expiring on February 25, 2013. The affirmation is in conjunction with a planned revision to the university’s commercial paper program with the addition of a backup bank facility provided by Northern Trust Company (rated Aa3/P-1) not to exceed $30 million and extension of the existing JPMorgan Chase bank facility and reduction of the authorized draw amount not to exceed $60 million. The outlook remains stable.

SUMMARY RATING RATIONALE

The A1 rating is based on Case Western Reserve University’s solid financial resources, national reputation as a research institution with prominent graduate and professional degree programs in the sciences, revenue diversity, and healthy gift revenue.Offsetting credit factors include fairly thin operating performance and past operating deficits, as calculated by Moody’s, and a fiercely competitive undergraduate student market. The A1/VMIG 1 rating on Series 2001 and Series 2002A bonds also reflects the presence of standby bond purchase agreements supporting the tender feature of those bonds.

The short-term P-1 rating on CWRU's commercial paper programs reflects the university’s access to adequate daily liquidity, including two backup bank facilities provided by JPMorgan Chase and Northern Trust, as well as adequate amount of available funds with weekly liquidity which could be shifted to investments with same-day liquidity should the bank liquidity facilities be terminated prior to the expiration date.
STRENGTHS

*Healthy philanthropic support with gift revenue averaging over $65 million annually over the last three years with $62 million of gifts in FY 2012.

*Sizeable balance sheet cushion with total financial resources of $1.6 billion and expendable financial resources of $748 million at end of FY 2012, cushioning pro-forma debt (includes full $90 CP authorization) adequately at 1.3 times.

*National student market and research position with a wide array of undergraduate, graduate and professional programs, including a medical school, law school, and school of engineering.

*Large revenue base of $768 million in FY 2012 with relatively healthy revenue diversity provided by grants and contracts excluding grants at the Cleveland Clinic Lerner School of Medicine (45%), student charges (34%), investment income (9%), other revenue (7%), and gifts (5%). The sponsored research enterprise adds to the diversity as indicated by research expenses of $270 million (net CCLCM research) in FY 2012.

*Two consecutive years of improved operating performance driven by careful expense monitoring and steady growth in net tuition revenue. In FY 2012, the university's operating margin as calculated by Moody's was 0.8% compared to negative 3.7% in FY 2010. FY 2013 second quarter operating results are tracking higher than budget.

CHALLENGES

*Highly competitive undergraduate student market, evidenced by a relatively low matriculation rate that has risen to 17% in fall 2012 from a very weak 13% in fall 2011.

*Risks associated with variable rate demand debt, carrying potential acceleration of repayment and rollover risk associated with remarketing or extending liquidity facility expiration dates. The university also has an extensive swap portfolio and is currently posting collateral to the swap counterparty. However, the university's unrestricted monthly liquidity provides 130% coverage of a high $295 million of demand debt, while thin, is sufficient.

*Decline in monthly liquidity of 10% to $384 million in FY 2012 from $429 million in FY 2011. Monthly liquidity provides a satisfactory 201 monthly days coverage of the university's large expense base (excluding CCLCM expenses) of $761 million.

*Negative unrestricted financial resources in FY 2012 of $23.9 million, driven by a large increase in the university's accrued pension expense ($63.3 million in FY 2012 from $22.6 million in FY 2011) and a swap liability of $34.0 million, and an endowment loss of 2% in FY 2012 (due to broader investment market volatility).

*High reliance 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). CWRU may face challenges in growing its research endeavors given the increasingly competitive environment for federal research funding, as well as impact from potential sequestration.

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: General obligation of the university; the bonds and CP are also 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: In FY 2012, total debt was approximately $577.2 million, including the full CP program authorized at $90 million ($63 million is currently outstanding), of which 51% is in the variable rate mode. Approximately $294.6 million of this total is a combination of variable rate demand bonds and the fully authorized CP amount. In FY 2012 monthly liquidity to pro-forma demand debt, inclusive of fully authorized CP, provided sufficient coverage of 130.4%.

DEBT-RELATED DERIVATIVES: CWRU has entered into five floating-to-fixed interest rate swap agreements for a total notional amount of approximately $177.2 million. All but one are non-amortizing and Morgan Stanley (rated Baa1/P-2) is the counterparty. Under the agreements, CWRU may be and has been required to post collateral at its current rating level if the liability to the university exceeds $20 million with a minimum transfer of $1 million. The swaps had a market valuation of $32.3 million against CWRU as of February 8, 2013. As of that date, the university was posting $12.5 million of collateral. If the rating were to deteriorate, the collateral posting thresholds would also decline.
SHORT-TERM RATINGS: The Series 2001A and 2002A bonds are supported by standby bond purchase agreements (SBPA) from Wells Fargo Bank, NA (rated Aa3/P-1) with a scheduled expiration date of June 19, 2015. For more information on the SBPA terms, please refer to Moody's report dated May 25, 2012.

The Series 2008A bonds are supported by a letter of credit (LOC) agreement with PNC Bank (rated A2/P-1). The Series 2008B-1 and 2008B-2 bonds are supported by an LOC with US Bank, NA (Aa3/P-1). For more information on the LOC terms for the Series 2008A bonds and 2008B bonds, please refer to Moody's reports dated January 3, 2011 and April 27, 2011, respectively.

RECENT DEVELOPMENT/RESULTS ADDITION OF A NEW DEDICATED BANK FACILITY TO CP PROGRAM IN ADDITION TO THE EXISTING FACILITY TO SUPPLEMENT SELF LIQUIDITY PROGRAM; FULL AUTHORIZED AMOUNT OF CP PROGRAMS REMAINS $90 MILLION

The short-term P-1 commercial paper rating is based on the university’s large portfolio of diversified investments, healthy daily liquidity, availability of dedicated backup bank facilities and other factors that suggest manageable liquidity needs.

Case Western Reserve has a self-liquidity program of $90 million, which is the full amount of commercial paper it is authorized to issue. The obligation to pay CP at maturity is a general obligation of CWRU, and the university expects to pay for any CP which is not rolled over from its internal liquidity, including two Credit Agreements (liquidity facilities) provided by JPMorgan not to exceed $60 million and Northern Trust not to exceed $30 million. The university currently has $63 million in commercial paper issued with the expectation of having the full $90 million outstanding over the next six months.

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 facilities commitment is for the respective banks to make loans up to their full authorized amount as well as up to 90 days interest at a 10% maximum interest rate. The liquidity facilities are dedicated to the purchase of CP and cannot be used for other operating purposes. The termination date for both facilities is anticipated to be February 25, 2015. Given no later than 90 days prior to the termination date, CWRU may request the bank to extend the facility to a business day occurring at least one year after the then effective termination date.

The trustee is responsible for making the request for funding and delivering the borrowing notice to the liquidity facility provider, per the Indenture. 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 allows adequate time for the trustee to draw on the liquidity facility and have funds deposited with the trustee to pay timely payments to CP holders.

Upon the occurrence of certain events that are directly related to the credit quality of Case Western Reserve, the banks can immediately terminate the liquidity facilities without advance notice. These events are 1) CWRU’s default in payment of principal or interest on notes made under the liquidity facility or on the CP; 2) CWRU’s admitting insolvency or bankruptcy or its inability to pay its debt or application for a receiver; 3) bankruptcy, insolvency, or liquidation proceedings instituted by or against Case, not dismissed within 60 days; 4) a final, non-appealable judgment for payment in excess of $10 million which shall remain undischarged and unpaid for 60 days; 5) default in payment of principal or interest on any obligation equal to or exceeding $10 million, constituting bonds, notes, or other obligations on parity with the CP; or 6) breach of certain covenants within the Guaranty Agreement related to the university’s full and prompt payment of the principal and interest on the CP when due. In addition to these immediate termination events, other less severe events of default could enable the bank to terminate the facility with 30 days notice, including a downgrade of the university’s underlying rating below BBB- by S&P or Baa3 by Moody’s.

The university has the right to permanently reduce the loan commitment amounts in whole upon 20 business days’ notice to the banks (or in part upon at least one day’s prior notice to either bank), so long as the remaining bank commitment amount will not be less than the sum of the aggregated principal amount of notes outstanding and 90 days’ interest on such notes at a maximum interest rate of 10%.

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. Thus, the P-1 rating on CWRU’s CP also reflects the university’s adequate levels of available funds with same-day and
As of December 31, 2012, the university had approximately $124.2 million in discounted daily liquid assets, with approximately $58.9 million across multiple 2a-7 compliant money market funds meeting Moody's criteria for a Aaa-mf rating [State Street Global Advisors (SSgA), JP Morgan, Federated Bank, Dreyfus, Blackrock and Western Asset Management]. The remaining $65.3 million is across three checking accounts of P-1 rated banks and US Treasuries. The coverage of the fully authorized amount of the CP program at $90 million is 2.74 times with the JP Morgan backup bank facility (currently sized at $90 million) and 1.58 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, $20.9 million with SSgA, CWRU's daily liquidity with the backup bank facility is 2.47 times coverage of debt. Without the backup bank facility coverage falls to 1.32 times.

For more information on the university, please refer to our report dated October 26, 2012.

OUTLOOK

The stable outlook reflects our expectation of at least balanced operating performance, 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; weakening liquidity; significant and sustained deterioration of operating performance, student market position, or research activity; reduction in available lines of credit

KEY INDICATORS (FY 2012 financial data, fall 2012 enrollment data)

Full-Time Equivalent Enrollment: 9,259 students
Primary Selectivity: 54.3%
Primary Matriculation: 17.1%
Net Tuition per Student: $22,658
Educational Expenses per Student: $49,079
Average Gifts per Student: $7,008
Total Cash and Investments: $1.45 billion
Total Pro-forma Direct Debt: $577.2 million (includes full $90 million authorization of CP)
Total Pro-forma Comprehensive Debt*: $640.5 million (includes full $90 million authorization of CP)
Expendable Financial Resources to Pro-forma Direct Debt: 1.30 times (includes full $90 authorization of CP)
Expendable Financial Resources to Operations: 0.98 times
Monthly Days Cash on Hand: 200.8 days (excluding CCLCM expenses)
Monthly Liquidity to Pro-forma Demand Debt: 130.4%
Operating Revenue: $767.8 million (excluding CCLCM revenue)
Operating Cash Flow Margin: 11.8%
Three-Year Average Debt Service Coverage: 2.46 times
Reliance on Tuition and Auxiliaries Revenue (% of Moody's Adjusted Operating Revenue): 34.2% (excluding CCLCM revenue)

Reliance on Grants and Contracts Revenue (% of Moody's Adjusted Operating Revenue): 45.0% (excluding CCLCM revenue)

* Comprehensive Debt includes direct debt and pension obligation.

RATED DEBT


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 1/01/2014)

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 (self liquidity, including two back up bank facilities)

CONTACTS:

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Underwriter: TJ Sheehy, Vice President, Morgan Stanley, 212-761-9083

PRINCIPAL RATING METHODOLOGIES

The principal methodology used for the underlying rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. The principal methodology used for the commercial paper rating was Rating Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. The principal methodology used for the variable rate demand rating was Variable Rate Instruments Supported by Third-Party Liquidity Providers published in November 2006. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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