

Rating Update: **Southwestern University, TX**

MOODY'S AFFIRMS SOUTHWESTERN UNIVERSITY'S Aa3 LONG-TERM RATING; OUTLOOK REVISED TO NEGATIVE FROM STABLE

UNIVERSITY HAS \$26.8 MILLION OF RATED DEBT OUTSTANDING

Crawford Education Facilities Corporation, TX
Higher Education
TX

Opinion

NEW YORK, Feb 1, 2008 -- Moody's Investors Service has affirmed Southwestern University's Aa3 long-term debt rating. The rating outlook is revised to negative from stable. The primary factors driving the shift to a negative outlook include resource growth at levels below peer institutions and Board investment strategy leading to significant endowment manager and asset concentration.

LEGAL SECURITY: General unsecured obligation of the University.

INTEREST RATE DERIVATIVES: None

STRENGTHS

* Stable market position as a private, undergraduate, liberal arts institution in Georgetown, Texas. Southwestern maintains healthy student demand and full-time equivalent (FTE) enrollment of 1,279 students, with no plans for growth beyond 1,300 FTE. Selectivity and student matriculation remain constant at 67% and 29%, respectively while diversification of the student body continues. Coupled with the institution's comprehensive admissions strategy, Moody's believes Southwestern is well positioned to counter the State's projected decline in the number of high school graduates.

* While operating margin is negative with a Moody's calculated three-year average operating margin of -2.5%, positive operating cash flow margin covers operating expenses 9.9% and 9.5% in 2007 and 2006, respectively. Debt service coverage remains solid at 1.7 times.

* Steady increase in net tuition per student to \$15,790, up 29% over the past five years, evidencing the University's commitment to improvement. Although improvements are being made, comparably rated institutions maintain a higher level of approximately \$19,302.

* Same-day liquidity holdings provide adequate coverage of the \$19 million of variable rate debt being issued and asset liquidation procedures provide for timely repayment in the event of a failed remarketing of tendered bonds. Investments held in Treasuries and US Agencies provide 2.4 times coverage of the variable rate issue.

* At this time, the institution maintains no future plans to issue debt.

CHALLENGES

* Significant manager concentration within the investment portfolio heightens risk as one manager holds approximately 80% of the portfolio. The investments are heavily weighted to equities and not diversified. . The balance of the portfolio is invested with two managers and is spread between fixed income and equity investments, with no exposure to hedge funds or other alternative investments. Moody's believes that the Board's decision to permit high concentration to one manager greatly increases the University's exposure to market performance volatility. However, the University is in the process of evaluating alternative asset allocation strategies and additional investment managers to increase diversity of the portfolio.

* While total financial resources of \$308 million have grown 8% over 2006, and Moody's expects growth to continue due to a current \$125 million capital campaign, resource levels have not yet returned to those of \$349 million and \$329 million in 2000 and 2001, respectively. The erosion of the resource base following fiscal year-end 2001 was driven by investment market volatility and although there has been rebuilding of the

resources, the pace is less than that reported by many private higher education institutions that also experienced investment losses.

* Strong competition with Texas public institutions and other private colleges and universities, as well as changing in-state demographics, necessitate continued strategic enrollment, tuition pricing and financial aid management. Strong competition among private institutions for students, as evidenced by 29% yield rate on admitted freshmen, presents a longer-term challenge and could pressure future demand and market position. This would provide further stress to the University as it relies on tuition dollars as a primary revenue source (52% of FY 2007 total operating revenues, as calculated by Moody's).

Outlook

The negative outlook reflects Moody's belief that while the University's operating cash flow margins are positive and is expected to maintain stable enrollment and market position, its significant single manager exposure coupled with lagging financial resource growth when compared to peers exposes the University to investment volatility and diminishment of resources that could impact future operating performance.

What could change the rating--UP

Substantial growth of the University's financial resource base through successful fundraising; maintenance of strong operating surpluses; diversification of investment portfolio.

What could change the rating--DOWN

Continued concentration of investment portfolio and susceptibility to investment volatility; weakening of student market position or operating performance.

KEY INDICATORS (Fiscal year 2007 financial data, fall 2007 enrollment):

Total Enrollment: 1,279 FTE students

Total Debt: \$31.8 million

Expendable Resources to Direct Debt: 7.56 times

Expendable Resources to Operations: 4.56 times

Three-Year Average Operating Margin: -2.5%

RATED DEBT

Series 2004A: Aa3

Series 2004B: Aa3/VMIG 1

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