MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S DOWNGRADES YESHIVA UNIVERSITY'S (NY) RATING TO A2 FROM Aa3 AND ASSIGNS A2 RATING TO $90 MILLION OF SERIES 2011 BONDS; OUTLOOK REMAINS NEGATIVE

Global Credit Research - 21 Jun 2011

RATING ACTION AFFECTS $326 MILLION OF PRO-FORMA RATED DEBT, INCLUDING THE CURRENT OFFERING

Dormitory Authority of the State of New York
Higher Education
NY

Moody's Rating

ISSUE	RATING
Series 2011 Revenue Bonds	A2
Sale Amount $90,000,000	
Expected Sale Date 07/11/11	
Rating Description Private University Revenue Bonds	

Moody's Outlook Negative

Opinion

NEW YORK, Jun 21, 2011 -- Moody's has downgraded Yeshiva University's (NY) rating to A2 from Aa3 and assigned an A2 rating to the University's $90 million of fixed-rate Series 2011 bonds which will be issued by the Dormitory Authority of the State of New York. The downgrade affects $326 million of pro-forma rated debt including the current offering (see Rated Debt section below). The outlook remains negative reflecting the likelihood of continued sizeable operating deficits through 2012 at least, as well as a weakened ability to generate growth in tuition and gift revenues. We recognize that management is being proactive in tackling the budget imbalance, but the challenges are substantial. An inability to improve operating cash flow, grow undergraduate enrollment and net tuition revenue, and improve fundraising could further weaken the university's rating over the next two years.

SUMMARY RATING RATIONALE

The A2 rating reflects Yeshiva's role as a comprehensive research university with an undergraduate dual educational program of Jewish studies and liberal arts. The University's balance sheet strength has deteriorated significantly in recent years as a result of past investment losses, large operating deficits and reduced philanthropic support.

CHALLENGES

*Large operating deficits and extremely thin operating cash flow in FY 2009 and 2010, an expectation of another large operating deficit in FY 2011, and longer-term challenges for bringing the budget back into balance;

*Pressure on undergraduate student market, with multi-year declines in application volume, weaker selectivity, and declines in undergraduate enrollment;

*Net tuition revenue is essentially stagnant, growing by only 2% between FY 2007 and 2010.

*Balance sheet weakening as a result of past investment losses (including Madoff exposure), large operating deficits, and lower fundraising in FY 2009 and 2010; total financial resources of $1.14 billion in FY 2010 represent a 38% decline over FY 2007.

*Significant exposure to hedge funds and other alternative investment strategies, which could potentially limit liquidity.

STRENGTHS

*Clear market niche and distinctive role as a comprehensive research university in New York with an undergraduate dual educational program of Jewish studies and liberal arts or pre-professional programs and a wide array of graduate and professional programs, including medical, law, and business schools;

*Large research operations ($225.9 million of research expenses in FY 2010 per audited financial statements), with expectations of growth of grants and contracts;

*All fixed-rate debt structure with no interest-rate swap agreements.

DETAILED CREDIT DISCUSSION:

LEGAL SECURITY: Payments under the Loan Agreement for the Series 2009 and 2011A bonds are an unsecured general obligation of the University. Payment of the University's outstanding Series 2001 (expected to be refunded with Series 2011A bond proceeds) and 2004 bonds is a general obligation of Yeshiva, secured by a portion of the University's unrestricted revenue equal to the amount of principal and interest due in any year.

USE OF BOND PROCEEDS: The Series 2011A bond proceeds will be used to refund the Series 2001 bonds and pay down a J.P. Morgan operating line of credit. Approximately $20 million of new money will finance various campus capital projects and pay the costs of the bond issuance. The Series 2011 bonds will not have a debt service reserve fund.

DEBT STRUCTURE AND DEBT-RELATED DERIVATIVES: All of the University's rated debt is fixed rate, and the University has not entered into any debt-related interest rate swap agreements.

MARKET POSITION/COMPETITIVE STRATEGY: DISTINCTIVE STUDENT MARKET POSITION AND DIVERSE ACADEMIC PROGRAM OFFERINGS; PRESSURE ON UNDERGRADUATE STUDENT MARKET

Moody's believes that Yeshiva has a distinctive student market position as a comprehensive research university, with campuses in Manhattan and the Bronx. Yeshiva offers an undergraduate dual educational program of Jewish studies as well as liberal arts and pre-professional studies. Graduate and professional programs are diverse and well respected, including schools of law, medicine, business, and social work. The University enrolled 6,173 full-time equivalent (FTE) students in fall 2010, approximately 45% of whom were undergraduates.

In recent years, the University's undergraduate program has experienced increased pressure, with a nearly 7% decline in undergraduate FTE between fall 2008 and 2010. Yeshiva offers a niche undergraduate program which draws largely from a pool of modern Orthodox Jewish day schools, largely concentrated in the greater New York-New Jersey metropolitan area. Unlike the vast majority of U.S. colleges and universities which have seen significant growth in applications, Yeshiva's freshmen applications have steadily declined over the past five years, resulting in weaker freshmen selectivity (71.5% in fall 2010 compared to 59.1% in fall 2006). Yield on admitted undergraduate students remains quite high (71% in fall 2010), indicating the self-selecting nature of the applicant pool. Management reports that freshmen application volume for fall 2011 is up compared to the same point last year, although deposits were down slightly compared to fall 2010 (through May 11, 2011).

On-going and longer-term weakening of the student market could pressure the rating. The University is taking several steps to strengthen the undergraduate program, including hiring more full-time faculty, creating the new position of Vice Provost for Undergraduate Studies, and continuing to invest in its honors program. As has occurred in prior years, the University has provided Moody's with revised historical FTE data and freshmen application, acceptance, and matriculation data. Thus, FTE figures cited in this report are not comparable to past reports published by Moody's. Consistency and quality of student data provided by the university and decision-making regarding tuition setting and financial aid are serious concerns in light of pressure on the student market.

Research activity is an important part of the University's credit profile, largely concentrated at the Albert Einstein College of Medicine. In FY 2010, the University had close to $225 million of research expenses (per the audited financial statements), and grants and contracts represented 45.2% of Moody's-adjusted operating revenue. The University opened a $200 million biomedical research building on Einstein's campus in the Bronx in 2007, and the medical school's budget has expanded in recent years including start up costs for the building and recruitment of new faculty. Yeshiva has a high amount of exposure to government grants, particularly federal grants and exposure to the National Institutes of Health. Ongoing growth of these revenue streams could be challenged as a result of longer-term negative pressure on federally sponsored research.

Yeshiva does not operate a hospital and does not have a faculty practice plan captured within its financial statements. The University has entered into affiliation agreements with many local hospitals, including Montefiore Medical Center which was granted exclusive occupation, management, and control of Einstein's hospital per a long-term lease agreement which expires in 2045.

OPERATING PERFORMANCE: STRUCTURAL BUDGET IMBALANCE AND LARGE OPERATING DEFICITS; SLOWED GROWTH OF NET TUITION

Yeshiva is reporting the largest operating cash flow deficits of any research university rated by Moody's. Significant operating deficits and very thin operating cash flow are key contributors to the rating downgrade and maintenance of the negative outlook. Management and the board are focused on addressing these substantial challenges by reducing operating expenses and growing revenue, including philanthropy and net tuition revenue. Failure to improve operating performance over the next few years would place additional pressure on Yeshiva's credit profile and debt rating. A related concern is the University's inability to fully breakdown the components of its net assets released from restriction which indicates that management needs to improve its financial data management processes. The University intends to use a portion of bond proceeds to invest in financial reporting software.

In FY 2009 and 2010, the University generated 14.8% and 17.8% operating deficits by Moody's calculation, respectively. Despite a reported 10.1% positive endowment return in FY 2010, unrestricted net assets declined $92.2 million and total net assets declined nearly $95 million, which is highly unusual given that FY 2010 was a year of strong positive endowment performance for most universities. Operating cash flow (adding back in depreciation and interest) was negative in both years, which is also highly unusual. Based on management's projections for FY 2011, we anticipate another large operating deficit in FY 2011. Although the University is very focused on expense containment, including the elimination of positions and offering of an early retirement program, expenses of $648 million in FY 2010 represent a nearly 29% increase compared to FY 2006, while operating revenue increased only 7% over the same period.

Slowed growth of net tuition revenue and net tuition per student has also contributed to the weak operating performance. Tuition discounting has steadily increased, with a 40.4% tuition discount in FY 2010 up from 34.6% in FY 2007. Total net tuition revenue has only grown a very modest 2% between 2007 and 2010. Student charges, including net tuition, fee, and auxiliary revenue streams, represented 27% of Yeshiva's operating revenue in FY 2010. The University chose to not increase undergraduate tuition in fall 2009, an unusual strategy for a private university, but implemented 3% and 8% undergraduate tuition increases for fall 2010 and 2011.

BALANCE SHEET POSITION: BALANCE SHEET WEAKENING AS A RESULT OF PAST INVESTMENT LOSSES, SLOWED FUNDRAISING, AND LARGE OPERATING DEFICITS

Although Yeshiva's total financial resource base remains large in FY 2010 ($1.1 billion), the balance sheet has weakened significantly in recent years. In FY 2007, expendable financial resources covered debt 3.7 times, and FY 2010 expendable financial resources cover pro-forma debt ($425 million) a much thinner 1.1 times. Operating deficits, depressed fundraising, and past investment losses have contributed to balance sheet weakening.

The University's pro-forma direct debt includes $43 million of debt issued by the Housing Company (a related entity of the University) which was used to purchase 635 residential units to house medical school students. The Housing Company is consolidated within the University's audit, and thus the $43 million is captured on its balance sheet and as direct debt. Although the debt is legally non-recourse to the University, we believe the housing is strategically very important to the medical school and the university has a strong incentive to support the project. The University's conservative debt structure, with all fixed-rate rated debt and no interest rate swap agreements, is an offsetting credit strength.

In FY 2010, the University had $480.9 million of expendable financial resources which cover pro-forma debt 1.1 times and operating expenses 0.7 times. Management reports that in FY 2010 the University had approximately $250 million of unrestricted cash and investments which could be liquidated in a one month timeframe. This unrestricted monthly liquidity would provide 151 days cash on hand. However, we expect this coverage will decline dramatically in FY 2011. With the adoption of UPMIFA in the state of New York during the University's 2011 fiscal year, we expect that approximately $200 million of accumulated investment gains currently captured as unrestricted will be reclassified to temporarily restricted net assets, thus reducing unrestricted liquidity. However, the adoption of UPMIFA also provides new flexibility by allowing the University to draw from underwater restricted endowment funds.

Endowment performance has been positive during FY 2010 (10.1%) and 2011 YTD (11% through March 2011), but the University recognized large investment losses in FY 2008 and 2009, including the write off of $95 million due to Madoff-related exposure. In Moody's opinion, the University has an unusually high allocation of its endowment in hedge funds and other alternatives in view of its other risks. We had expected this high allocation would decline following the Madoff-related losses and subsequent liquidation and reinvestment of a large portion of the portfolio. The University established its own in-house investment office, but the position of Chief Investment Officer is currently vacant after its first occupant left after approximately a year and half.

The 2010 audit reports that 67% of long-term investments are classified as Level 3 per the fair value hierarchy, with unobservable inputs for the asset valuations. This high concentration of alternative investments, which are less liquid and have less frequent redemption periods than more traditional asset classes, is particularly notable given the University's recent track record of very weak operating performance and potential need for liquidity. As of March 31, 2011, the University's investment pool totaled $1.1 billion with an asset allocation including approximately 11% in domestic equities, 9% international equities, 55% hedge funds, 7% private equity, 4% venture capital and real estate, and 13% fixed income. The level of unfunded capital commitments remains manageable with $41.9 million of commitments as of June 30, 2010. Investments are diversified across managers with 7% representing the largest allocation of the investment pool within any fund (a hedge fund).

Since the Madoff-related loss, the University implemented a much stricter conflict of interest policy in 2009, including the restriction of any University trustee or any other member of the investment committee from managing any portion of the University's consolidated investment pool. The University hired a law firm to review its internal policies related to corporate governance and oversight, and management reports that no improprieties in the governance system were discovered. The University has a large board with a maximum of 50 members (currently 40). Board members do not have term limits. Further, each school of the university has an advisory board, with several non-fiduciary sub-boards.

Fundraising has declined, with $53.9 million of total gift revenue in FY 2010, compared to $81.2 million in FY 2009 and $137.4 million in FY 2008. Yeshiva receives strong philanthropic support, particularly from the board members as well as the broader Jewish community. In FY 2010, the University wrote off approximately $21.7 million in gifts, primarily donor advised funds which are still expected to support the University but which the auditors have determined should not be recognized on the University's financial statements. A return to more robust fundraising demonstrated by growth of total gift revenue could also contribute to stabilization of the rating. The University has established several new development centers across the country to help improve fundraising more nationally and reach alumni.

Outlook

The negative outlook reflects the challenges the University faces to stabilize the undergraduate student market, bring operations back into balance and maintain strong philanthropic support. An ability to improve operating cash flow, grow undergraduate enrollment, and improve fundraising could help stabilize the rating in the next year or two.

WHAT COULD MAKE THE RATING GO UP

Improved liquidity coupled with significant improvement in operating cash flow and fundraising and stabilization of undergraduate student market

WHAT COULD MAKE THE RATING GO DOWN

Inability to bring operations into balance coupled with sustained deterioration of financial resources; ongoing pressure on student market (including declines in enrollment and/or net tuition revenue); additional borrowing absent compensating growth of resources or net revenue available to pay debt service

KEY INDICATORS (Fall 2010 enrollment data and FY 2010 audited financial data):

Total Full-Time Equivalent (FTE) Students: 6,173 FTE

Freshmen Selectivity: 72%

Freshmen Matriculation: 71%

Total Financial Resources: $1.14 billion

Operating Revenue (Moody's adjusted): $550 million

Pro-forma Direct Debt: $425 million

Pro-forma Comprehensive Debt: $449 million

Expendable Financial Resources-to-Pro Forma Direct Debt: 1.1 times

Expendable Financial Resources-to-Operations: 0.7 times

Unrestricted cash and investments with monthly liquidity: $249.9 million

Monthly Days Cash on Hand (unrestricted funds available within 1 month divided by operating expenses excluding depreciation, divided by 365 days): 151 days

Three-Year Average Operating Margin: -13%

Operating Cash Flow in FY 2010: -7.1%

Reliance on Student Charges: 27%

Reliance on Grants and Contracts: 45%

RATED DEBT

Series 2009, 2011A: A2 rating

Series 2001 and 2004: A2 rating, insured by Ambac (Series 2001 expected to be refunded by Series 2011)

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PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was Moody's Rating Approach for Private Colleges and Universities published in September 2002.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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