

Rating Action: Moody's affirms New York Law School, NY Baa3; outlook negative

Global Credit Research - 14 Jun 2017

New York, June 14, 2017 -- Summary Rating Rationale

Moody's Investors Service has affirmed the Baa3 rating assigned to the Tax-Exempt Revenue Refunding Bonds (New York Law School Project), Series 2016 of New York Law School, NY (NYLS). The bonds were issued through the Build NYC Resource Corporation. The outlook remains negative. The Baa3 rating incorporates the still strong unrestricted liquidity, real estate asset value and strategic leadership of NYLS. The rating is tempered by the immense law school market pressures and structural operating deficits at the school. Those deficits will require ongoing draws on reserves to fund operations. The school's unrestricted reserves allow some time to move to operating equilibrium but while the deficit operations persist, the school's credit quality will remain reliant on having excess reserves.

Rating Outlook

The negative outlook incorporates significant instability in the school's operating environment that will be an ongoing drag on unrestricted liquidity. The school's significant spendable cash and investments underpin the Baa3 rating, so a material market correction could also result in rating pressures.

Factors that Could Lead to an Upgrade

Strategic partnership that could offer operating equilibrium

Marked and sustainable growth in earned revenue

Factors that Could Lead to a Downgrade

A material loss spendable cash and investments through either investment losses or greater than expected deficit funding

Reduced resolve to move to operating sustainability

Marked decline in market value of real estate

Legal Security

The bonds are secured by a loan agreement between Build NYC Corporation and New York Law School. Payments under the loan agreement are an unconditional obligation of the law school secured by pledged revenues and a mortgage. NYLS has pledged a first lien of gross revenues of the law school, excluding unrestricted and restricted cash and investments as well as investment earnings on the investments. Additional security is provided by a mortgage pledge on 185 W. Broadway, which appraised for \$170 million in October 2015. The entire campus, which consists of two additional adjacent buildings, appraised for \$253 million. There is no debt service reserve fund.

Use of Proceeds

Not applicable.

Obligor Profile

New York Law School, established in 1891, is one of the oldest and largest independent law schools in the country. The law school's campus resides in over 330,000 square foot in the Tribeca neighborhood of New York City. Consistent with law school enrollment nation-wide, enrollment at NYLS has fallen dramatically since its peak enrollment of over 1,900 students in fall 2010 to just over 800 students in fall 2016. Enrollment for first-year students was 314 in fall 2016, up from 245 in fall 2014

Methodology

The principal methodology used in this rating was Global Higher Education published in November 2015. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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