

Rating Update: St. Mary's College of Maryland, MD

MOODY'S AFFIRMS A2 BOND RATING FOR ST. MARY'S COLLEGE OF MARYLAND; OUTLOOK IS STABLE

COLLEGE HAS \$41.4 MILLION OF RATED DEBT OUTSTANDING

Higher Education
MD

Opinion

NEW YORK, Jun 26, 2009 -- Moody's Investors Service has affirmed the A2 rating on St. Mary's College of Maryland's Series 2000A Senior Lien and Series 2002A, 2003A, and 2006A Subordinate Lien Academic Fees and Auxiliary Facilities Fees Revenue Bonds. The rating outlook is stable. In addition to the debt rated A2 by Moody's, the College has \$18.8 million of Series 2005A bonds that are insured by Ambac (whose current financial strength rating is Ba3 with a developing outlook) and \$4 million of unrated Bond Anticipation Notes (BANs) outstanding.

LEGAL SECURITY: Pledge of Academic and Auxiliary Facility Fees, including tuition and mandatory student fees. Payment of the Series 2002A, 2003A, 2005A, and 2006A Subordinate Lien bonds is subordinate to payment of the Series 2000A Senior Lien Bonds (\$480,000 currently outstanding, with last principal payment due on September 1, 2009). The College has agreed not to issue additional senior bonds unless a) such additional bonds are for purposes of refunding senior bonds (as of 9/1/2009 this clause does not apply since all existing senior bonds will be retired) or financing one or more projects, payment of which additional bonds are limited to the revenues of such projects or (b) the 2006 Series A bonds are certified as parity obligations as defined in and for the purposes of the senior trust agreement. Management reports that it does not intend to issue additional senior lien debt. There is no debt service reserve fund and the College has agreed to a rate covenant that stipulates it will fix the fees in each fiscal year in an amount sufficient to pay debt service on the bonds.

DEBT STRUCTURE AND DEBT RELATED DERIVATIVES: All of the College's debt was issued as fixed rate and the College has not entered into any debt related derivatives. The College has \$4 million of BANs outstanding (not rated) as part of a private placement with a bank. The notes mature in 2012 and the College intends to either redeem the debt with gifts or refinance the notes upon maturity.

STRENGTHS

*Stable student market position as a small public residential, liberal arts college, designated as the State of Maryland's public honors college (median entering class SAT score of 1250 in fall 2008). The College has experienced relatively stable enrollment, with 2,095 full-time equivalent students enrolled in fall 2008. Management reports that deposits for fall 2009 are tracking ahead of fall 2008 at this time last year and it expects to enroll a somewhat larger freshman class as a result.

*Relatively balanced operating performance, as calculated by Moody's, with operating margin averaging -0.4% over the past three years and leading to debt service coverage of 1.6 times over the same time period. Moody's operating margin calculation includes a 4.5% standardized spend off of the prior year's cash and investments and treats depreciation as an operating expense. The College typically receives funding from the State of Maryland to cover routine capital investments in plant, which is treated as a below the line revenue along with other capital grants and appropriations by Moody's.

*Relatively stable state funding from Aaa-rated State of Maryland. The College's operating appropriation was increased 3.8% in FY 2009 and it expects an increase of 1.8% in FY 2010. Nevertheless, the College has budgeted for a \$400,000 contingency in FY 2010. The State's Aaa rating is based on its strong economy with high personal income levels, history of strong financial management, and adequate reserve levels despite recent draws. These strengths are offset by continuing budget pressure in the upcoming fiscal year and out-years, low retirement system funded levels, and above average debt burden. For more information on the State of Maryland, please see our report published on February 19, 2009.

*No upcoming borrowing plans.

CHALLENGES

*Recent declines in unrestricted financial resources due to capital spending and investment losses. Unrestricted financial resources declined to \$7.7 million in FY 2008 from \$12.8 million the prior year. Approximately \$2 million of the \$5 million decline was reimbursed by the Foundation during FY 2009 to finance a capital project on campus. The majority of the remainder of the decline was related to capital spending (\$1.6 million), investment losses (\$500,000), and carrying over a smaller surplus than in the prior year. Moody's believes it is an important credit factor for the College to build up its financial resources to provide a better cushion for debt and operations going forward. In FY 2008, expendable financial resources provided a cushion of 0.3 times for debt and 0.3 times for annual operations. Incorporating an assumed 30% decline in financial resources resulting from investment losses and endowment spending, expendable financial resources would cover debt 0.2 times and annual operations 0.1 time, representing very thin coverage. This compares unfavorably to Moody's median for A2-rated public colleges and universities (FY 2007) of expendable financial resources to debt of 0.7 times and expendable financial resources to operations of 0.4 times.

*Relatively small size (\$58.7 million of expenses in FY 2008) and competitive student market environment, as the College competes with both public institutions in the State and private institutions in Maryland and the Mid-Atlantic region.

*High dependence on student charges (62.3% of operating revenue) and relatively high in-state tuition compared to other Maryland public universities (net tuition per student of \$9,938 in FY 2008 as compared to Moody's median for A2-rated public universities of \$5,332 in FY 2007). However, the College has succeeded in growing net tuition per student by over 40% during the past five years, which is a credit strength given its reliance on student charges.

RECENT DEVELOPMENTS

The College's foundation has an approximately \$21 million endowment, as of March 31, 2009, that is invested as follows: 7% cash, 18% equities, 36% fixed income, 37% hedge funds, and 2% private equity and other. The hedge fund allocation is invested with one manager and Moody's is concerned about this concentrated investment allocation. During FY 2008, the Foundation's investment portfolio experienced an 8% decline and it has declined approximately another 11% for the first nine months of FY 2009. The Foundation has decided to stop all payments to the College for scholarships (approximately \$700,000 in FY 2010), which the College has agreed to fund during the year.

The College's endowment (approximately \$4 million as of FY 2008) experienced a very high 19% loss during FY 2008 due to investment in an underperforming externally managed fund. The College has since withdrawn its investment from the fund and currently has approximately \$4 million invested in bonds, treasuries and treasury money market funds. These investments are in addition to approximately \$12 million of cash held with the State Treasurer projected for the end of FY 2009.

Outlook

What could change the rating-UP

Revenue and financial resource growth with limited additional borrowing coupled with strengthening of operating performance.

What could change the rating-DOWN

Additional borrowing coupled with further deterioration in financial resources; prolonged pressure on student market or operating performance; multi-notch downgrade of State of

Maryland's credit rating

KEY INDICATORS (FY 2008 financial data and fall 2008 enrollment data)

* Numbers included in parentheses represent the Moody's projection of a 30% decline in resource levels to reflect investment declines coupled with endowment spending

Total Full-Time Equivalent Students (FTE): 2,095 students

Freshman Acceptance Rate: 51.8%

Freshman Matriculation Rate: 32.3%

Total Direct Debt: \$48.2 million

Expendable Resources to Direct Debt: 0.3 times (0.2 times)

Expendable Resources to Operations: 0.3 times (0.1 times)

Three-year Average Operating Margin: -0.4%

Reliance on Student Charges: 62.3%

Reliance on State Appropriations: 29.3%

State of Maryland G.O. rating: Aaa/stable outlook

RATED DEBT

Series 2000A Senior Lien Bonds: A2, insured by Ambac whose current financial strength rating is Ba3 with a developing outlook

Series 2002A, 2003A, and 2006A Subordinate Lien Bonds: A2, insured by Ambac whose current financial strength rating is Ba3 with a developing outlook

Series 2005A: Insured by Ambac, whose current financial strength rating is Ba3 with a developing outlook

CONTACTS

College: Thomas Botzman, Vice President for Business and Finance, 240-895-4413 or Christopher True, Assistant Vice President for Finance, 240-895-4317

The principal methodology used in rating St. Mary's College of Maryland was Moody's Rating Approach for Public Colleges and Universities, which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to St. Mary's College of Maryland was on June 2, 2006, when the A2 rating and stable outlook were affirmed.

Analysts

Margot Kleinman
Analyst
Public Finance Group
Moody's Investors Service

Kimberly S. Tuby
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S (MIS) CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."