Rating Update: Rollins College

MOODY'S AFFIRMS A1 RATING ON ROLLINS COLLEGE'S $25 MILLION REVENUE BONDS, SERIES 2007; OUTLOOK IS STABLE

COLLEGE HAS $57.6 MILLION OF MOODY'S RATED DEBT

Orange County Educational Facilities Auth.
Higher Education
FL

Opinion

NEW YORK, Apr 9, 2009 -- Moody's Investors Service has affirmed its A1 rating on Rollins College's Series 2007 Revenue Bonds issued by the Orange County Educational Facilities Authority. The outlook for the rating is stable.

LEGAL SECURITY: The College's obligations to make payments under the Loan Agreement are secured by the Revenues of the College. Additional bond tests include provision that Maximum Annual Debt Service should not exceed 15% of Revenues.

INTEREST RATE DERIVATIVES: The College has entered into a floating to fixed rate swap associated with its Taxable Series 1998 Revenue Bonds with an initial notional amount of $19 million. The College does not have a collateral posting requirement under the agreement. At the end of FY 2008, the value of the swap was a liability to the College of approximately $2 million. The counterparty is SunTrust Bank (rated Aa3 on watch for potential downgrade/P-1). Our A1 rating incorporates the risks related to the swap.

STRENGTHS

* Strong and improving student demand, particularly at the undergraduate level, in a demographically vibrant state. Rollins is a private college located in Winter Park, Florida that combines a residential liberal arts college, a program serving non-traditional age students, and a graduate business school, with a combined total of 3,035 full time equivalent students in fall 2008. The College admitted 53% of its freshmen applicants for the fall of 2008 and has seen steady growth in net tuition per student which was up 8% to $18,101 in FY 2008.

* Healthy financial resource base ($421 million in total financial resources at FYE 2008) aided by solid donor support with average gift revenue of $37.6 million per year. Given recent investment losses combined with endowment spending we have modeled a 35% decline in expendable financial resources. Reduced expendable financial resources cushion debt by 1.6 times and 125% of annual operating expenses.

* Prudent management with a track record of producing consistently strong operating performance. Operating margins averaged 5.4% over the past three years, as calculated by Moody's, supporting average debt service coverage of 3.0 times. The College's endowment spending policy is relatively conservative at 4.5% of a trailing, inflation-adjusted average.

* Attractive campus with relatively low deferred maintenance needs (FY 2008 age of plant 6.8 years) leading to manageable capital and related future borrowing plans. Future borrowing plans remain manageable and are likely to include a $10 million bank facility for a real estate acquisition in the near term.

*Successful commercial real estate venture adjoining the campus in Winter Park valued at approximately $45 million is a strategic asset not fully reflected in the organization's financial statements.

CHALLENGES

*Growing portion of letter of credit backed and bank facility-backed debt that was used in part to retire auction rate securities in 2008. Letter of credit debt now totals $29 million and the college has an additional $14 million variable rate loan (capped at 5.75%) with City National Bank that replaced prior Series 1998 taxable auction rate bonds. We believe the bank facility renewal risk as well as default and covenant provisions in the University's letter of credit adds some degree of risk to the credit profile which could result in a more rapid

rating decline should the debt be accelerated than would otherwise be the case.

* Competitive student market with key competitors including both wealthier private institutions and lower cost public universities in Florida, reflected in yield on admitted freshmen of 25% in fall 2008. Competition likely to fuel demand for future investments in student housing and science classroom facilities.

* Relatively high degree of reliance on student charges which comprised 73% of Moody's adjusted operating revenues in fiscal year 2008.

Recent developments/results:

The College's pooled endowment returned 2.9% in the twelve month period ending June 30, 2008 and through the first seven months of FY 2009 lost an estimated 31.2%. As of January 31, 2009 the endowment was allocated among domestic equity (16%), international equity (23%), hedge funds (10%), private equity (8%), real estate (15%), and fixed income (20%.)

Last fall Rollins experienced a reduction in liquidity when its assets in the Commonfund Short Term Fund and Intermediate Fund were frozen. Approximately $2.8 million remains in the Short Term Fund. Management reports the College had adequate alternative sources of liquidity to meet its obligations.

Rollins will be writing down a $12-million pledge in support of international programs made by Thomas J. Petters, a businessman and former College trustee who has been charged with financial fraud.

Outlook

The College's rating outlook is stable based on strong student demand and tuition revenue trends, positive operating performance and a healthy financial resource base combined with manageable borrowing plans.

What Could Change the Rating - UP

Continued growth in financial resources combined with solid operating performance and further strengthening of student market position.

What Could Change the Rating - DOWN

Declines in tuition revenue; material decline in financial resource levels; acceleration of letter of credit backed debt or failure to renew or rollover bank loan without adequate sources of liquidity to meet obligations as they come due.

KEY INDICATORS (Fall 2008 Enrollment, FY 2008 Financial Information):

* Numbers included in parentheses represent the Moody's estimation of a 35% decline in expendable financial resource levels

Total direct debt: $86.6 million

Expendable financial resources: $217 million ($141 million)

Total financial resources: $421 million ($274 million)

Expendable financial resources-to-direct debt: 2.5 times (1.6 times)

Expendable financial resources-to-operations: 2.4 times (1.3 times)

3-Year Average Operating Margin: 5.4%

Freshmen selectivity: 53%

Freshmen yield: 25%

Net tuition per student: $18,101

RATED DEBT

Series 2007: A1, insured by Ambac with current financial strength rating of Baa1 on review for possible downgrade

Series 2002: insured by Ambac with current financial strength rating of Baa1 on review for possible downgrade

CONTACTS

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The principal methodology used in rating Rollins College was Moody's Rating Approach for Private College and Universities, which can be found at www.moodys.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 Rollins College was on August 28, 2007 when the rating was affirmed.

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