

Rating Update: [Reed College, OR](#)

**MOODY'S AFFIRMS REED COLLEGE'S Aa2/VMIG1 RATINGS ON REVENUE BONDS, 2008 SERIES A;
OUTLOOK IS STABLE**

COLLEGE HAS \$48 MILLION OF RATED DEBT OUTSTANDING

Oregon Facilities Authority
Higher Education
OR

Opinion

NEW YORK, Jul 16, 2009 -- Moody's Investors Service has affirmed Reed College's (the College or Reed's) Aa2/VMIG1 rating on its Revenue Bonds, 2008 Series A issued through the Oregon Facilities Authority. The rating outlook is stable.

Also rated by Moody's is Reed's Series 1995 Bonds, with \$2 million outstanding, based on municipal bond insurance by MBIA. For more information, please see RATED DEBT.

LEGAL SECURITY: The 2008 Series A Bonds (the Bonds) are variable rate demand obligations currently in weekly mode, with the tender feature supported by a Standby Bond Purchase Agreement (SBPA) from Wells Fargo Bank, N.A. (rated Aa2/P-1). The Bonds are a general obligation of the College.

INTEREST RATE DERIVATIVES: The College is counterparty to one interest rate swap with UBS AG (Aa2 issuer rating on Watchlist for downgrade) to hedge the bonds, paying a fixed rate of 3.86% and receiving 67% of one month LIBOR on the \$16.65 million initial notional. The swap is co-terminus with the bonds' 2025 maturity, matching bond amortizations. The College is not required to post collateral. Reed's swap payments are a general obligation of the College and are on parity with debt service payments for the Series 2008 and outstanding debt. The mark-to-market value of the swap as of June 30, 2009 was a liability of \$2.2 million against the College.

STRENGTHS:

*Substantial financial resource base, with total financial resources at fiscal year-end 2008 of \$479 million, with \$374 million expendable (unrestricted and temporarily restricted) financial resources. Assuming a 30% decrease in financial resources from investment losses that are fully absorbed by expendable resources, the College's expendable and total resources decline to \$230 million and \$335 million, respectively. Despite the decrease, expendable resources cushioning debt and operations remain strong, declining from 5.5 times and 5.4 times, respectively, to 3.4 times and 3.3 times, respectively. Further, the College has significant cash and investments that can be liquidated within one month or less (about \$75 million) in its portfolio. The College currently has no debt plans for the next two to three years.

*National student market position as a small, academically rigorous four-year liberal arts college in Portland, Oregon, with 1,428 full-time equivalent (FTE) students and selectivity of 32% for Fall 2008 and expectations of similar trends for the upcoming Fall 2009. Moody's believes that the College maintains a strong student market position with a national draw for its distinctive academically rigorous programs. The College is noted as one of the nation's leading institutions in the percentage of graduates who continue on to earn doctoral degrees and is one of the highest producing liberal arts colleges of Rhodes Scholars. Enrollment has grown in recent years, with Fall 2008 enrollment of 1,428 FTEs, up from 1,231 in Fall 2003, but the College intends to bring its total enrollment to approximately 1,250 FTEs over the longer-term (can put time frame in).

*Improved operating performance, with a 5.2% three-year average operating margin, as calculated by Moody's assuming a 5.3% endowment spend rate, for FY 2008. Operating cash flow has been good with FY 2008 operating cash flow margin of 21.3%. Moody's believes Reed will continue to produce generally balanced operating performance and solid operating cash flow based on expectations of continued tuition revenue growth, good gift flow and careful expense management to address the expected decreases in endowment draws (increasing up to \$1.4 million in FY 2011).

*Public announcement of a \$200 million comprehensive campaign, with \$130 million raised to date, including \$85 million in cash, \$45 million in pledges and two large gifts totaling \$28 million. Reed intends to use the

campaign largely for endowment targeted for both student financial aid and faculty support. With \$24.9 million of average gift revenues for fiscal years 2006-2008, the College's fundraising lagged that of other Aa-rated institutions (median average gift revenues of \$41.9 million) but has picked up. We expect the College's fundraising will contribute to financial resource growth during the next few years, although fundraising success may be slower than recently experienced due to the current economic environment.

CHALLENGES:

*Competitive higher education landscape as Reed competes with many of the nation's highly selective liberal arts institutions. Reed has a national draw, with only 16% of its student body from the Pacific Northwest and 20% from California. The College competes with other highly selective institutions including Grinnell College, Swarthmore College, Carleton College, Macalester College, University of Chicago, Oberlin College, Davidson College, Pomona College, and Wesleyan University. The yield of accepted students has been generally steady at 30%. Moody's expects the College will continue to maintain its market position as an institution of choice for students interested in its highly structured, rigorous curriculum.

*Aggressive debt structure, with variable rate debt representing 69% of the total. However, the College maintains good liquidity to address tender risk of the bonds and termination of the bank SBPA currently providing liquidity support for the Series 2008 A Bonds. Reed has shifted its investment portfolio allocations to increased cash holdings, with the portfolio allocations currently including: cash (9%); public equities (12%); fixed income (19%); absolute returns/hedged funds (33%) (further diversified into equity long/short, credit/event driven, market neutral and multi-strategy); real assets (14%); private equity (14%). Reed's investments produced a total return of -4.5% for the fiscal year ending 6/30/08 and -20% for the eleven month period ending 05/31/09, somewhat higher than returns reported by higher educational institutions due to the high equity holdings.

SHORT-TERM RATIONALE:

The short-term rating for the Revenue Bonds 2008 Series A is derived from the credit quality of Wells Fargo Bank, National Association (the Bank), provider of the SBPA, and is due to expire on 4/22/2011.

Under the terms of the SBPA, the College must maintain a minimum of 25% of Unrestricted Liquid Assets (all unrestricted and trustee designated cash and marketable securities) to total long-term debt. As of 6/30/2009, the College is well in excess of the covenant at 140%. In the event of a draw due to a failed remarketing, the College has a five-year term out period payable in semi-annual payments. We believe the College maintains ample liquidity to meet repayment provisions.

The SBPA commitment will terminate upon the earliest to occur: Bank's obligations under the SBPA can be automatically terminated or suspended as a result of the occurrence of: (i) April 22, 2011, the stated expiration date of the SBPA; (ii) the date on which no Bonds remain outstanding; (iii) the close of business on the business day following conversion of all the Bonds to a rate mode other than weekly or daily; (iv) the close of business on the thirtieth (30th) day following the trustee's receipt of written notice from the Bank of an event of termination due to an event of default under the SBPA; (v) the business day following the substitution of the SBPA; (vi) upon voluntary termination of the liquidity facility by the College; (vii) upon an automatic termination event.

Outlook

Moody's stable rating outlook reflects expectations that Reed College will maintain a strong student market position and that financial resources will continue to provide a good cushion for debt and operations, with no debt plans for the next 18 to 24 months.

What Could Change the Rating - UP

Substantial growth in financial resources and strengthening of operating performance, as calculated by Moody's, to consistently positive operating margins and stronger cash flow margins.

What Could Change the Rating - DOWN

Significant investment losses or sustained deep operating losses, resulting in diminishment of financial resource cushion; sustained deterioration of enrollment trends; material increase in debt without compensating growth of financial resource base.

KEY FACTS (Fiscal year 2008 financial results; Fall 2008 enrollment data):

*Ratios in parentheses represent a proforma 30% decline in financial resources fully absorbed by expendable resources to reflect the weak investment environment and expected investment returns

Total Enrollment: 1,428 full-time equivalent students

Freshman Selectivity: 32%

Freshman Matriculation: 30%

Total Direct Debt: \$68 million

Total Expendable Financial Resources: \$374 million (\$230 million)

Total Financial Resources: \$479 million (\$335 million)

Expendable Resources to Debt: 5.5 times (3.4 times)

Expendable Resources to Operations: 5.4 times (3.3 times)

Three-Year Average Operating Margin: 5.2%

Operating Cash Flow Margin: 21.3%

Net Tuition and Auxiliary Revenues as a % of Operating Revenue: 55%

RATED DEBT:

Series 2008 A: rated Aa2/VMIG1 (based upon Standby Bond Purchase Agreement with Wells Fargo Bank, National Association; expires on 4/22/2011 or upon earlier termination)

Series 1995: insured by National Public Finance Guarantee Group (formerly MBIA Illinois) with a current financial strength rating of Baa1 and a developing outlook

CONTACT:

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METHODOLOGY

The last rating action was on April 16, 2008 when an initial rating of Aa2/VMIG1 with a stable outlook was assigned to Reed College.

The principal methodology used in rating Reed College was Private 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.

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