

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Lafayette College's (PA) Aa3 ratings; outlook stable

17 Dec 2024

New York, December 17, 2024 -- Moody's Ratings (Moody's) has affirmed Lafayette College's (PA) Aa3 issuer rating as well as the Aa3 and Aa3/VMIG 1 revenue bond ratings. The revenue bonds were issued by the Northampton County General Purpose Authority, PA. At fiscal year-end 2024, the university recorded \$301 million of outstanding debt. The outlook is stable.

RATINGS RATIONALE

The affirmation of the Aa3 issuer rating incorporates Lafayette's excellent brand as a selective undergraduate institution, substantial financial reserves, robust liquidity and strong operating performance. The college's financial reserves totaled over \$1.2 billion in fiscal 2024, providing good coverage over expenses and debt. A favorable student draw supported continued growth in net tuition revenue per student and measured growth in enrollment through fall 2024. An active management team and ongoing investments in programs and facilities will continue to support the college's competitive profile over the longer term. Credit challenges include elevated financial leverage, moderately high reliance on student charges and a highly competitive student market.

The affirmation of the Aa3 revenue bond ratings reflect the university's credit fundamentals and the general unsecured obligation characteristics of the bonds.

Short-term VMIG 1 ratings on the bonds are derived from (i) the credit quality of TD Bank, N.A. (the Bank) as provider of liquidity support for the Series 2006 and Series 2010A bonds in the form of a Standby Bond Purchase Agreement (SBPA) for each Series, (ii) the long-term rating of the bonds and (iii) Moody's assessment of the likelihood of an early termination or suspension of the SBPAs without a mandatory tender. Events that would cause termination or suspension of the SBPAs without a mandatory purchase of the bonds by the Bank are directly related to the credit quality of Lafayette College. Accordingly, the likelihood of any such event occurring is reflected in the long-term rating, Aa3, assigned to the bonds. Our current short-term

Counterparty Risk (CR) Assessment of the Bank is P-1(cr).

RATING OUTLOOK

The stable outlook is predicated on sound operating performance and maintenance of very good wealth and liquidity. It also incorporates the absence of new debt over the outlook period.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Substantial growth in total cash and investments and strengthening revenue diversity providing for significantly stronger coverage of operating expenses and adjusted debt, currently at 5.9x and 3.8x
- Material strengthening in brand and strategic position reflected by sustained improvements in student demand and philanthropy
- Short-term debt: not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Substantial deterioration of cash and investment cushion to debt and operations
- Sustained softening of EBIDA margins below 15%
- Material increase in debt that is not accompanied by commensurate growth in reserves
- Short-term debt: downgrade of the college's long-term bond ratings or the counterparty risk assessment of the liquidity facility providers

LEGAL SECURITY

Rated debt is an unsecured general obligation of the college.

PROFILE

Lafayette College, PA is a private undergraduate college offering liberal arts and engineering programs located in Easton, Pennsylvania, within 80 miles of both Philadelphia and New York City. The college enrolled 2,753 full-time equivalent students in fall 2024 and posted operating revenues of \$223 million in fiscal 2024.

METHODOLOGY

The principal methodology used in the issuer and long-term ratings was Higher Education published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425580>. The principal methodology used in the short-term ratings was US Municipal Short-term Debt published in October 2024 and available at

<https://ratings.moodys.com/rmc-documents/430699>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Sanjay Motwani
Lead Analyst

Emily Raimes
Additional Contact

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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