

August 14, 2009

Dear Members of the Saint Mary's College Community,

Moody's Investor's Service has updated its credit rating of the College, lowering it from an A3 to a Baa1 with a stable outlook status. A Baa1 rating is the highest rating within the Baa moderate risk category. It indicates the College is facing recession related challenges but maintains investment grade status, has a relatively strong liquidity position and the ability to meet all of its financial obligations. Saint Mary's rating update reflects Moody's overall "negative" outlook for the higher education sector and its more stringent guidelines and criteria for assessing risks during the recession and credit crisis. Other colleges and universities experiencing similar rating adjustments during recent months include Dartmouth, Claremont McKenna College and Loyola University Chicago.

The previous rating of A3 was awarded by Moody's in August 2007 before the collapse of the financial markets. Among the factors Moody's cited in making the recent change were a decline in the value of the College's endowment (from \$165 million in June '07 to \$109 million in June '09), a projected decrease in fall 2009 undergraduate enrollment (approximately 4%), increased financial aid expenditures associated with the current economic downturn, and financial market volatility that has increased fees and risks associated with the College's variable rate demand bonds (VRDBs).

The rating downgrade informs potential buyers of Saint Mary's bonds that the College is financially stable but has some moderate risk as a result of the recession. The credit rating adjustment is not a downgrade of the College's bonds. The bonds continue to carry a high quality Aa3/VMIG1 investment grade rating due to a letter of credit (a form of insurance) provided by Bank of America.

The A3 to Baa1 shift will mean a slight increase, of one tenth of one percent, in the fixed fees the College pays on the cost of its debt. While this change may result in additional expense for this budget year, current credit market conditions project little or no budgetary impact. Interest costs the College pays on its bonds are not expected to increase due to their Aa3/VMIG1 rating and Bank of America letter of credit.

Moody's stable outlook expectation reflects its forecast that Saint Mary's will meet budgeted enrollment targets and remain financially balanced despite expected reductions in net tuition revenues in the short term. Moody's also recognizes the College's solid operating cash flow, planned capital campaign, costs reduction efforts and significant enrollment in graduate and adult education programs.

Although endowment decline was the primary factor in the Saint Mary's lowered credit rating, the current fiscal year reflects an upward trend. Earlier this year, the College took steps to stabilize the endowment, which have proven successful and have resulted in some modest growth. Additionally, Saint Mary's and its financial advisor are actively exploring alternative debt structures to eliminate or minimize increased fees and risks associated with variable rate demand bonds.

If you have questions about this report, please feel free to contact me. I will also be providing an update of the College's finances following the Board of Trustees October 2009 meeting.

Regards,

Pete