

MAINE STATE LEGISLATURE

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MAINE EDUCATIONAL LOAN AUTHORITY
(MELA)

Annual Review of Private Activity
Bonds per 10 MRSA §363 (11)

March 15, 2005



March 11, 2005

Senator Lynn Bromley, Chairperson
Joint Standing Committee on Business,
Research and Economic Development
100 State House Station
Augusta, ME 04330-0100

Representative Nancy E. Smith, Chairperson
Joint Standing Committee on Business,
Research and Economic Development
100 State House Station
Augusta, ME 04330-0100

Dear Senator Bromley and Representative Smith:

Pursuant to 10 MRSA §363, subsection 11, as amended by L.D. 2684, I am enclosing the Independent Accountant's Report on Applying Agreed Upon Procedures and the Annual Review of Private Activity Bonds for the Maine Educational Loan Authority (MELA) for the year ended December 31, 2004.

In accordance with Title 20-A, Chapter 417-A, §11427, MELA will be submitting its December 31, 2004 Annual Report, including the December 31, 2004 audited financial statements, to the Governor, Speaker of the House, the President of the Senate, and the Joint Standing Committee on Education and Cultural Affairs prior to April 30, 2005.

If you need further information or have any questions regarding the enclosed, please feel free to contact me at (207) 791-3621 or (207) 255-4063.

Sincerely,

Shirley M. Erickson, Ph.D.
Executive Director

/dmj

Enclosures

pc: Governor John E. Baldacci
Members of the Joint Standing Committee on Business, Research and Economic
Development
Members of the Maine Educational Loan Authority
Members of the Bond Cap Issuers' Group

MAINE EDUCATIONAL LOAN AUTHORITY

Introduction

This report is being furnished pursuant to 10 MRSA §363 subsection 11. The Maine Educational Loan Authority (MELA) received no allocation of the state private activity bond cap ceiling in 2004 and issued no new bonds during 2004. The 2002 allocation of \$10,000,000 has been carried forward and will be used, together with a \$20,000,000 allocation for 2005, in a \$30,000,000 issue anticipated to close in May of 2005. In 2004 MELA made 2,338 alternative education loan disbursements, including both first and second semester disbursements, with an average disbursement amount of \$5,349, totaling approximately \$12,500,000. These disbursements were funded primarily from proceeds from the MELA 2002 tax-exempt bond issue.

MELA's student loans help make a college education more accessible and affordable for Maine citizens. These alternative loans are an integral component of the financial aid mix, as costs of attendance continue to increase while the caps on federal awards have remained relatively flat. Through the issuance of tax-exempt bonds, MELA is able to offer one of the lowest cost alternative loans in the country, helping students and parents to bridge the increasing gap in unmet need. Although it is difficult to delineate all the measurable benefits of a college degree to the individual recipient of the education as well as to the state in which the individual resides, it is well documented that the attainment of a college degree provides private economic benefits in higher personal income and lower unemployment; public economic benefits in decreased reliance on public assistance; private social benefits in better health; and public social benefits in increased volunteerism and increased voting participation. In addition, with a more educated workforce, businesses may be more inclined to relocate to the State. MELA loans are available to Maine residents attending eligible institutions in the United States or Canada and to out-of-state residents attending eligible institutions in Maine.

The following analyses compare the difference between the 2004 cost of MELA's tax-exempt financing versus the costs of comparable taxable financing, and the difference between the costs of MELA's alternative loans during 2004 versus the cost of comparable alternative loan programs. It should be noted, that the interest rates on both the MELA tax-exempt bonds and the MELA alternative loans reset only once each year, while the interest rates on comparable taxable bond issues and non-MELA alternative loans generally reset more frequently. It is therefore difficult to compare the interest rates on MELA's bonds and loans to comparables due to the difference between the short-term indices and MELA's one-year indices. Due to the lack of comparable taxable one-year auction rate securities (ARS), MELA's ARS rates have also been compared to the One-Year LIBOR, as most taxable AAA rated student loan auction rate securities price relatively consistent with LIBOR. These comparisons indicate that MELA's ARS rates would price favorably in comparison to a one-year taxable ARS and have priced consistent with shorter-term taxable ARS issues. MELA historically has passed on more savings to its borrowers than has been achieved through the use of tax-exempt financing. For 2004, the average rate on MELA's alternative loans, which reset each June 1st, was

1.22% lower than the average rates on comparable alternative loans prevalent in the market. As interest rates continue to climb in 2005, it is expected that the benefits from issuing tax-exempt bonds, as well as the benefits realized by MELA borrowers, will continue to increase. MELA continues to work hard to offer a low variable interest rate on its loan programs, thereby reducing the overall cost of educational financing for Maine students and their families.

Tax-exempt bond activity – 2004

	<u>Amount</u>
Bond cap carried forward from previous years	\$ 10,000,000
Initial Allocation of bond cap during 2004	<u>\$ 0</u>
Bond cap available during 2004	\$ 10,000,000
Tax exempt bonds issued during 2004	<u>\$ 0</u>
Total	<u>\$ 10,000,000</u>
Carry forward to 2005	<u>\$ 10,000,000</u>

MELA

Analysis of savings from and benefits of tax exempt financing

Note: Series 2002A bonds were issued in November of 2002, totaling \$26,925,000, including \$16,925,000 of student loan refunding bonds and \$10,000,000 of student loan revenue bonds (utilizing tax exempt private activity bond cap). The \$16,925,000 in student loan refunding bonds was divided into \$9,000,000 in fixed rate bonds and \$7,925,000 in variable rate bonds (auction rate securities).

Issue	2002A
Date	11/15/02
Tax-exempt bonds – (auction rate securities)	\$17,925,000
Tax-exempt bonds – fixed rate	\$9,000,000

Purpose – \$10,000,000 of these bond proceeds will be utilized to originate Alternative Student Loans, \$16,925,000 in refunding bonds was utilized to refund the outstanding Series 1992 bonds.

<u>Analysis of tax exempt savings</u>	<u>Compared to Taxable Issue</u>	<u>Compared to 1-Year LIBOR</u>
Average coupon on MELA bonds (a)	1.57%	1.57%
Comparative taxable debt yield (b)	<u>1.55%</u>	<u>1.76%</u>
(Excess) Savings of tax-exempt bond cost over comparative taxable debt yield	<u>(0.02)%</u>	<u>0.19%</u>

Use of tax exempt debt

Comparative market interest rate available to borrowers (c)	5.71%
Interest rate on MELA loans (d)	<u>4.49%</u>
Savings of interest rate on loans over comparative market interest rate loans available to borrowers	<u>1.22%</u>

(a) Based upon the weighted average coupon rates incurred in 2004 (Auction Rate Securities reset annually on third Wednesday in May)

(b) Based upon average coupon rates obtained from Citigroup for Alternative Loan taxable ARS during 2004 (reset every 28 days), and the One-Year LIBOR rate as of each MELA ARS auction date

(c) Based on average rates for calendar year 2004 on similar loans offered by 4 independent lenders in the State of Maine

(d) Variable rates adjusted annually on June 1st based upon MELA bond rate plus 3.0% as of most recent auction

Summary of Non-MELA Alternative Loans in Maine:

	<u>Formula for Repayment</u>	<u>Average 2004 Rate</u>
Bank of America "The Education Maximizer"	1 month LIBOR plus 3.0% to 3.9%	4.89%
CitiBank "CitiAssist"	WSJ Prime plus 0.25% to 4.0% (U Maine rate - varies by school)	6.46%
Sallie Mae "Signature"	WSJ Prime plus 0.0% to 4%	6.34%
Key Bank "Key Alternative"	3 month LIBOR plus 3.30% to 3.85%	<u>5.14%</u>
Average Rate		<u>5.71%</u>
MELA – The Maine Loan®	MELA 2002 Bond Rate plus 3.0%	<u>4.49%</u>

Assumptions:

- WSJ Prime Rate - rate set periodically for an average rate in 2004 of 4.34%
- 1 month LIBOR Rate – rate set daily for an average monthly rate in 2004 of 1.44%
- 3-Month LIBOR Rate - rate set daily for an average monthly rate in 2004 of 1.56%
- MELA 2002 Bond Rate – Auction Rate Securities re-price annually on third Wednesday in May for an average rate in 2004 of 1.57%

Maine Educational Loan Authority

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2004

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

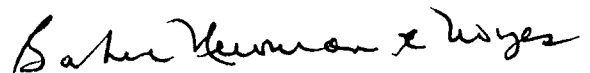
Members of the Maine
Educational Loan Authority
Governor of the State of Maine
The Joint Standing Committee for
Business, Research and Economic Development

We have performed the procedures listed in Appendix A, which were agreed to by the Maine Educational Loan Authority, and the Joint Standing Committee for Business, Research and Economic Development (the Committee), solely to assist you with respect to the requirements of the State of Maine 10 MRSA Sec. 363, subsection 11. The Maine Educational Loan Authority is responsible for the preparation of the Analysis of Savings From Benefits of Tax-Exempt Financing Schedule (Appendix B). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are summarized in Appendix A.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on Appendix B. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Maine Educational Loan Authority, the Governor of the State of Maine and the Committee, and is not intended to be and should not be used by anyone other than these specified parties.



Limited Liability Company

Portland, Maine
March 2, 2005

**Maine Educational Loan Authority
Procedures Pursuant to 10 MRSA Sec. 363**

We obtained the Analysis of Savings From Benefits of Tax-exempt Financing schedule (Appendix B) prepared by the Maine Educational Loan Authority (MELA) which details the tax-exempt bonds issued in 2002 and the use of tax exempt debt in 2004 and performed the following:

Analysis of Tax-Exempt Savings

1. We compared the amount of tax-exempt bonds issued in 2002 to the amount contained in the Official Statement for the Maine Educational Loan Authority Student Loan Revenue Bonds Series 2002A and found the amounts to be in agreement.

We compared the average coupon on bonds of 1.57% to a schedule prepared by MELA. With respect to this schedule, we compared the variable rates in effect on tax-exempt debt outstanding during 2004 to information provided by a third party and recalculated the overall average coupon on bonds.

2. We recalculated the comparative taxable debt yield of 1.55% by comparison to the weighted average rates on Taxable Auction Rate Securities (ARS) Alternative Loan bonds during 2004, which was provided by a third party. We recalculated the comparative One-Year LIBOR yield of 1.76% by comparison to the weighted average rates on the One-Year LIBOR during 2004, which we agreed to third party information.
3. We recalculated the excess of tax-exempt bond cost over comparative taxable debt yield of (0.02)%. We recalculated the savings of tax-exempt bond cost over comparative taxable debt yield of 0.19%.

Use of Tax-Exempt Debt

1. We compared the comparative market interest rate available to borrowers, as stated in Appendix B to information obtained by MELA from four area lenders which indicates the conventional interest rates available to borrowers for loans of similar nature, during the year. We performed recalculations on the information obtained by MELA and traced market rates to third party documentation that was supplied by MELA.
2. We compared the use of proceeds on the 2002A issue, as described in the above mentioned schedule to the information set forth in the Official Statement, to ascertain the use of the bond proceeds. We traced the interest rates charged to borrowers on loans disbursed in 2004 from the Series 2002A issue by comparing to interest rates in the loan subsidiary ledger maintained by a third-party servicer.
3. We recalculated the savings of interest rate on MELA loans over comparative market interest rates available to borrowers of 1.22%.

Analysis of Savings From Benefits of Tax-Exempt Financing

Note: Loan disbursements in 2004 were funded from the Series 2002A bond proceeds.

Issue	2002A
Date	11/15/2002
Tax-exempt bonds – variable rate	\$17,925,000
Tax-exempt bonds – fixed rate	\$ 9,000,000

Purpose --\$10,000,000 of these bond proceeds are being utilized to originate Alternative Student Loans and \$16,925,000 in refunding bonds was utilized to refund the outstanding Series 1992 bonds.

Analysis of Tax-Exempt Savings

	<u>Compared to Taxable Issue</u>	<u>Compared to One-Year LIBOR</u>
Average coupon on MELA bonds (a)	1.57%	1.57%
Comparative taxable debt yield (b)	<u>1.55%</u>	<u>1.76%</u>
(Excess) savings of tax-exempt bond cost over comparative taxable debt yield	<u>(0.02)%</u>	<u>0.19%</u>

Use of Tax-Exempt Debt

Comparative market interest rate available to borrowers (c)	5.71%
Interest rate on MELA loans (d)	<u>4.49%</u>
Savings of interest rate on MELA loans over comparative market interest rates available to borrowers	<u>1.22%</u>

- (a) Based upon the weighted average coupon rates incurred in 2004 (Auction Rate Securities (ARS) reset annually on third Wednesday in May).
- (b) Based upon average coupon rates obtained from Citigroup for Alternative Loan taxable ARS during 2004 (reset every 28 days), and the One-Year LIBOR rate as of each MELA ARS auction date.
- (c) Based on average rates for calendar year 2004 on similar loans offered by 4 independent lenders in the State of Maine.
- (d) Variable rates adjusted annually on June 1st based upon MELA bond rate plus 3.0% as of the most recent auction.

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