

MAINE STATE LEGISLATURE

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**MAINE EDUCATIONAL LOAN AUTHORITY
(MELA)**

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

March 13, 2008

MAINE EDUCATIONAL LOAN AUTHORITY

Introduction

This report is being furnished pursuant to 10 MRSA §363 subsection 11. The Maine Educational Loan Authority (MELA) issued \$50,000,000 in tax-exempt bonds in 2007. MELA received an allocation of Private Activity Bond Cap in the amount of \$30,000,000 for 2006, which together with the remaining \$20,000,000 from the 2005 allocation was used in connection with the issuance of a \$50,000,000 Student Loan Revenue Bond dated February 13, 2007. In 2007, MELA made 5,179 alternative education loan disbursements, including both first and second semester disbursements, with an average disbursement amount of \$5,715, totaling approximately \$29,600,000. These disbursements were funded primarily from proceeds from the MELA 2007 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 purchasing power of federal awards has declined. 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 2007 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 2007 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 have historically priced 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 in fact priced favorably 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 2007, the average Annual Percentage Rate (APR) on MELA's alternative loans, which reset each June 1st, was 2.84% lower than the average APR on comparable alternative loans prevalent in the market. Using the terms available in 2007, a borrower with a \$10,000 loan would save \$13,655 in total payments over the life of the loan on a MELA loan compared to the average total payments on the comparable alternative loans. It is expected that the benefits from issuing tax-exempt bonds, as well as the benefits realized by MELA borrowers, will continue into the foreseeable future. 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 – 2007

	<u>Amount</u>
Bond cap carried forward from previous years	\$ 50,000,000
Allocation of bond cap during 2007	<u>\$ 50,000,000</u>
Bond cap available during 2007	\$100,000,000
Tax exempt bonds issued during 2007	<u>\$ 50,000,000</u>
Carryforward to 2008	<u>\$ 50,000,000</u>

MELA

Analysis of savings from and benefits of tax exempt financing

Note: Series 2007A bonds were issued in February of 2007, totaling \$50,000,000

Issue	2007A
Date	02/13/07
Tax-exempt bonds – (one year auction rate securities)	\$50,000,000

Purpose – \$45,627,000 of these bond proceeds will be utilized to originate Alternative Student Loans, and the remaining \$4,373,000 will be utilized to pay the costs associated with issuing the bonds and establishing required reserve funds.

<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)	3.83%	3.83%
Comparative taxable debt yield (b)	<u>5.83%</u>	<u>5.33%</u>
Savings of tax-exempt bond cost over comparative taxable debt yield	<u>2.00%</u>	<u>1.50%</u>

Use of tax exempt debt

Comparative average Annual Percentage Rate (APR) available to borrowers from other lenders during 2007 (c)	9.12%
Average APR on MELA loans during 2007 (d)	<u>6.28%</u>
Savings of APR on MELA loans over comparative loans available to borrowers	<u>2.84%</u>

(a) Based upon the weighted average coupon rates incurred in 2007 (Auction Rate Securities reset annually in May)

(b) Based upon average coupon rates obtained for ten Alternative Loan taxable ARS during 2007 (reset every 28 days), and the one-year LIBOR rate as of each MELA ARS auction date

(c) Based on average rates/fees for calendar year 2007 on similar loans offered by 4 independent lenders in the State of Maine (See Page 5)

(d) Based on MELA's variable rates adjusted annually on June 1st, and average fees during 2007 (See Page 5)

Summary of Non-MELA Alternative Loans in Maine:

	<u>Interest Rate Formula/Fees</u>	<u>Average 2007 APR</u>
Alternative Loan #1	WSJ Prime minus 1.0% to plus 6.0%, 0.0% to 3.0% Fees at Repayment	9.68%
Alternative Loan #2	WSJ Prime minus 0.50% to plus 4.00%, No Fees	9.07%
Alternative Loan #3	1 month LIBOR plus 2.25% to 6.75%, No Fees	9.05%
Alternative Loan #4	3 month LIBOR plus 4.0%, No Fees	<u>8.68%</u>
Average Annual Percentage Rate (APR)		<u>9.12%</u>
MELA – The Maine Loan®	MELA Bond Rate plus 2.80% (disbursed 1/1/07 to 5/31/07), MELA Bond Rate plus 2.50% (disbursed after 5/31/07), 0%, 3% or 6% Fees at Repayment	<u>6.28%</u>

Assumptions:

- WSJ Prime Rate - rate set periodically for an average rate in 2007 of 8.05%
- 1 month LIBOR Rate – rate set daily for an average monthly rate in 2007 of 5.28%
- 3-Month LIBOR Rate - rate set daily for an average monthly rate in 2007 of 5.31%
- MELA Bond Rates – Auction Rate Securities re-price annually in May for an average rate in 2007 of 3.83%
- Annual Percentage Rate (APR) is the effective interest rate when all fees and interest charges are included. This APR is based on the midpoint of the published interest rates and fees for each lender in 2007, a loan amount of \$10,000, and the corresponding repayment term for each lender, excluding any interest rate reductions, and assuming deferment of principal and interest for four and a half years.

Maine Educational Loan Authority

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2007

**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.

Portland, Maine
March 13, 2008

Baker Newman Noyes
Limited Liability Company

**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 2007 and the use of tax exempt debt in 2007 and performed the following:

Analysis of Tax-Exempt Savings

1. We compared the amount of tax-exempt bonds issued in 2007 to the amount contained in the Official Statement for the Maine Educational Loan Authority Student Loan Revenue Bonds Series 2007A and found the amounts to be in agreement.
2. We compared the average coupon on MELA bonds of 3.83% to a schedule prepared by MELA. With respect to this schedule, we compared the variable rates in effect on tax-exempt debt outstanding during 2007 to information provided by a third party and recalculated the overall average coupon on bonds.
3. We recalculated the comparative taxable debt yield of 5.83% by comparison to the weighted average rates on five Taxable Auction Rate Securities (ARS) Alternative Loan bonds during 2007, which was provided to MELA by a third party. We recalculated the comparative One-Year LIBOR yield of 5.33% by comparison to the weighted average rates on the One-Year LIBOR during 2007, which we agreed to third party information.
4. We recalculated the savings of tax-exempt bond cost over comparative taxable debt yield of 2.00% and 1.50%.

Use of Tax-Exempt Debt

1. We compared the comparative market interest rate available to borrowers of 9.12%, 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 recalculated 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 2007A 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 recalculated the interest rate of 6.28% charged to borrowers on loans disbursed in 2007 from the Series 2007A 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 2.84%.

Analysis of Savings From Benefits of Tax-Exempt Financing

Note: Loan disbursements in 2007 were funded from the Series 2007A bond proceeds.

Issue	2007A
Date	02/13/2007
Tax-exempt bonds – variable rate	\$50,000,000

Purpose – \$45,627,000 of these bond proceeds will be utilized to originate Alternative Student Loans and the remaining \$4,373,000 will be utilized to pay the costs associated with issuing the bonds and establishing required reserve funds.

Analysis of Tax-Exempt Savings

	<u>Compared to Taxable Issue</u>	<u>Compared to One-Year LIBOR</u>
Average coupon on MELA bonds (a)	3.83%	3.83%
Comparative taxable debt yield (b)	<u>5.83</u>	<u>5.33</u>
Savings of tax-exempt bond cost over comparative taxable debt yield	<u>2.00%</u>	<u>1.50%</u>

Use of Tax-Exempt Debt

Comparative market interest rate available to borrowers (c)	9.12%
Interest rate on MELA loans (d)	<u>6.28</u>
Savings of interest rate on MELA loans over comparative market interest rates available to borrowers	<u>2.84%</u>

- (a) Based upon the weighted average coupon rates incurred in 2007 (Auction Rate Securities (ARS) reset annually in May).
- (b) Based upon average coupon rates obtained for ten Alternative Loan taxable ARS during 2007 (reset every 28 days), and the One-Year LIBOR rate as of each MELA ARS auction date.
- (c) Based on average rates/fees for calendar year 2007 on similar loans offered by 4 independent lenders in the State of Maine.
- (d) Based on MELA's variable rates adjusted annually on June 1st and average fees during 2007.