

MAINE STATE LEGISLATURE

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**MAINE EDUCATIONAL LOAN AUTHORITY
(MELA)**

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

March 12, 2009

MAINE EDUCATIONAL LOAN AUTHORITY

Introduction

This report is being furnished pursuant to 10 MRSA §363 subsection 11. The Maine Educational Loan Authority (MELA) issued \$20,000,000 in tax-exempt debt in 2008. MELA carried forward a \$50,000,000 allocation of Private Activity Bond Cap from 2007 and received an allocation of Private Activity Bond Cap in the amount of \$40,000,000 for 2008, resulting in \$70,000,000 of Private Activity Bond Cap being available for 2009. The unprecedented turbulence in the capital markets has reduced the availability of credit to the vast majority of student loan providers since late 2007. As a result, numerous lenders have exited the alternative student loan market, and the ones that remain have significantly tightened their credit underwriting criteria. Although MELA has been unable to access the capital markets since February 2007, MELA was successful in obtaining a \$20 million tax-exempt line of credit from TD Bank in August of 2008. This tax-exempt financing allowed MELA to continue to offer one of the lowest cost alternative loans in the country to Maine students without any disruption in the program. MELA is currently working on a 2009 tax-exempt financing transaction that will enable the Authority to refinance and restructure its existing Auction Rate Securities debt and to provide funds for new alternative education loans for the 2009-2010 academic year and beyond.

In 2008, MELA approved 2,756 alternative education loans, and made 5,312 disbursements including both first and second semester disbursements, with an average disbursement amount of \$6,120, totaling approximately \$32,500,000. These disbursements were funded primarily from the remaining proceeds from the MELA 2007 tax-exempt bond issue and the 2008 tax-exempt line of credit. As of December 31, 2008, MELA had over \$130,000,000 of alternative education loans outstanding to 7,801 borrowers.

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 2008 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 2008 versus the cost of comparable alternative loan programs. It should be noted, that the majority of MELA's tax-exempt bonds are one-year Auction Rate Securities.

Due to the disruption in the capital markets, investors have been unwilling to bid on Auction Rate Securities for some time, causing widespread failed auctions across all asset classes since early 2008. In the case of a failed auction, the interest rate is set based on the formula specified in the related bond documents and is meant to be a punitive rate to the issuer. For comparative purposes, the weighted average rates on MELA's outstanding tax-exempt Auction Rate Securities have been compared to the weighted average rate on taxable Auction Rate Securities backed by alternative student loans during 2008. In addition, since MELA was able to secure a tax-exempt line of credit to fund alternative student loans for the 2008-2009 academic year, the rate on the tax-exempt line of credit has been compared to the rate on the line of credit under a taxable basis.

MELA historically has passed on more savings to its borrowers than has been achieved through the use of tax-exempt financing. For 2008, the average Annual Percentage Rate (APR) on MELA's alternative loans, which reset each June 1st, was 2.27% lower than the average APR on comparable alternative loans prevalent in the market. Using the terms available in 2008, a borrower with a \$10,000 loan would save \$9,253 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 anticipated that the capital markets will improve and 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 interest rate on its loan programs, thereby reducing the overall cost of educational financing for Maine students and their families. MELA anticipates meeting the educational financing needs of a growing number of Maine students and families due to the limited number of lenders offering alternative education loans and the impact of the current economic conditions on state funding for higher education, college and university endowments, home values and home equity, unemployment, and individual wealth.

Tax-exempt bond activity – 2008

	<u>Amount</u>
Bond cap carried forward from previous years	\$ 50,000,000
Allocation of bond cap during 2008	<u>\$ 40,000,000</u>
Bond cap available during 2008	\$ 90,000,000
Tax exempt bonds issued during 2008	<u>\$ 20,000,000</u>
Carryforward to 2009	<u>\$ 70,000,000</u>

MELA

Analysis of savings from and benefits of tax exempt financing

Note: 2008 tax-exempt line of credit issued in August 2008, totaling \$20,000,000

Issue	2008
Date	08/08/2008
Tax-exempt line of credit	\$20,000,000

<u>Analysis of tax exempt savings</u>	<u>Auction Rate Securities</u>	<u>Line of Credit</u>
Weighted average rate on MELA tax-exempt financing (a)	3.63%	3.69%
Comparative taxable debt yield (b)	<u>4.41%</u>	<u>4.69%</u>
Savings of tax-exempt financing over comparative taxable debt yield	<u>0.78%</u>	<u>1.00%</u>

Use of tax exempt debt

Comparative average Annual Percentage Rate (APR) available to borrowers from other lenders during 2008 (c)	8.94%
Average APR on MELA loans during 2008 (d)	<u>6.67%</u>
Savings of APR on MELA loans over comparative loans available to borrowers	<u>2.27%</u>

- (a) Based upon the weighted average coupon rates incurred in 2008 (Auction Rate Securities reset annually in May) and the weighted average interest rate on the TD Bank line of credit that resets monthly
- (b) Based upon average coupon rates obtained for eleven Alternative Loan taxable ARS issues during 2008 (reset every 28 days) and the taxable formula for the line of credit with TD Bank
- (c) Based on average rates/fees for calendar year 2008 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 2008 (See Page 5)

Summary of Non-MELA Alternative Loans in Maine:

	<u>Interest Rate Formula/Fees</u>	<u>Average 2008 APR</u>
Alternative Loan #1	WSJ Prime plus 2.5% to 9.5%, No Fees	10.13%
Alternative Loan #2	WSJ Prime minus 0.50% to plus 4.75%, No Fees	6.77%
Alternative Loan #3	1 month LIBOR plus 4.5% to 11.25%, Fees ranging from 0% to 6%	9.93%
Alternative Loan #4	WSJ Prime plus 1.0% to 7.5% Fees ranging from 0% to 6%	<u>8.93%</u>
Average Annual Percentage Rate (APR)		<u>8.94%</u>
MELA – The Maine Loan®	6.35% from 1/1/08 to 5/31/08, 6.75% thereafter on loans approved prior to 7/28/08, 6.99% on loans approved on or after 7/28/08 4% Fees at Disbursement	<u>6.67%</u>

Assumptions:

- WSJ Prime Rate - rate set periodically for an average rate in 2008 of 5.09%
- 1 month LIBOR Rate -- rate set daily for an average monthly rate in 2008 of 2.621%
- 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 2008, 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, 2008

**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 12, 2009

**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 debt issued in 2008 and the use of tax exempt debt in 2008 and performed the following:

Analysis of Tax-Exempt Savings

1. We compared the amount of tax-exempt debt issued in 2008 to the amount contained in the TD Bank line of credit agreement and found the amounts to be in agreement.
2. We compared the average rate on MELA bonds and the line of credit of 3.63% and 3.69%, respectively, to a schedule prepared by MELA. With respect to this schedule, we compared the variable rates in effect on tax-exempt debt outstanding during 2008 to information provided by a third party and recalculated the overall average coupon on bonds and rate on the line of credit.
3. We recalculated the comparative taxable debt yield of 4.41% and 4.69% by comparison to the weighted average rates on eleven Taxable Auction Rate Securities (ARS) Alternative Loan bonds during 2008, which was provided to MELA by a third party, and the taxable formula for the line of credit with TD Bank.
4. We recalculated the savings of tax-exempt bond cost and the line of credit cost over comparative taxable debt yield of 0.78% and 1.00%.

Use of Tax-Exempt Debt

1. We compared the comparative market interest rate available to borrowers of 8.94%, 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 2008 line of credit, as described in the above mentioned schedule to the information set forth in the TD Bank line of credit agreement, to ascertain the use of the line of credit proceeds. We recalculated the interest rate of 6.67% charged to borrowers on loans disbursed in 2008 from the line of credit by comparing to interest rates in the loan subsidiary ledger maintained by a third-party servicer.
3. We recalculated the savings of APR on MELA loans over comparative market interest rates available to borrowers of 2.27%.

Analysis of Savings From Benefits of Tax-Exempt Financing

Note: Loan disbursements in 2008 were funded from the 2008 tax-exempt line of credit proceeds.

Issue	2008
Date	08/08/2008
Tax-exempt line of credit	\$20,000,000

Analysis of Tax-Exempt Savings

	<u>Auction Rate Securities</u>	<u>Line of Credit</u>
Weighted average rate on MELA tax exempt financing (a)	3.63%	3.69%
Comparative taxable debt yield (b)	<u>4.41</u>	<u>4.69</u>
Savings of tax-exempt financing over comparative taxable debt yield	<u>0.78%</u>	<u>1.00%</u>

Use of Tax-Exempt Debt

Comparative average Annual Percentage Rate (APR) available to borrowers from other lenders during 2008 (c)	8.94%
Average APR on MELA loans during 2008 (d)	<u>6.67</u>
Savings of APR on MELA loans over comparative loans available to borrowers	<u>2.27%</u>

- (a) Based upon the weighted average coupon rates incurred in 2008 (Auction Rate Securities (ARS) reset annually in May) and the weighted average interest rate on the TD Bank line of credit that resets monthly.
- (b) Based upon average coupon rates obtained for eleven Alternative Loan taxable ARS issues during 2008 (reset every 28 days) and the taxable formula for the line of credit with TD Bank.
- (c) Based on average rates/fees for calendar year 2008 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 2008.