MAINE EDUCATIONAL LOAN AUTHORITY
(MELA)

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

March 11, 2010

Introduction

This report is being furnished pursuant to 10 MRSA §363 subsection 11. The Maine Educational Loan Authority (MELA) issued $210,000,000 in tax-exempt bonds in 2009. Of the total issuance, $136,500,000 was used to refund outstanding tax-exempt one-year Auction Rate Securities (ARS) and $15,750,000 was used to pay off the remaining balance on a short-term tax-exempt line of credit. The total refunding amount of $152,250,000 did not require the use of Private Activity Bond Cap, resulting in $57,750,000 of available Private Activity Bond Cap being used in 2009. MELA carried forward $70,000,000 of Private Activity Bond Cap from 2008 and did not receive a 2009 allocation, leaving $12,250,000 of Private Activity Bond Cap being available for 2010. Due to the unprecedented turbulence in the capital markets, the vast majority of student loan providers have had difficulties accessing capital to provide continuity of funding for their education loan programs. MELA's May 2009 bond issue was the first successful tax-exempt transaction comprised solely of alternative education loans since the fall of 2008. MELA's 2009 transaction enabled the Authority to refinance and restructure its existing ARS debt and to provide funds for new alternative education loans for the 2009-2010 academic year and beyond. Without the 2009 transaction, MELA would have been forced to suspend new loan originations in the summer of 2009.

In 2009, MELA approved 1,703 alternative education loans, and made 3,770 disbursements including both first and second semester disbursements, with an average disbursement amount of $5,946, totaling approximately $22,415,000. The spring 2009 disbursements were funded from the 2008 tax-exempt line of credit, and the fall 2009 disbursements from the proceeds from MELA's 2009 tax-exempt bond issue. As of December 31, 2009, MELA had over $144,650,000 of alternative education loans outstanding to 7,714 borrowers.

MELA's alternative education loans help make a college education more accessible and affordable for Maine citizens. While Federal education loan borrowing limits have been raised and there has been increased utilization of these programs, alternative education loans continue to be an integral component of the financial aid mix due to the rising cost of attendance at higher education institutions. Through the issuance of tax-exempt bonds, MELA has historically been able to offer one of the lowest cost alternative education loans in the country, helping Maine students and families 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 2009 cost of MELA's tax-exempt financing versus the costs of comparable taxable financing. It should be noted that prior to 2009, the majority of MELA's tax-exempt bonds were one-year ARS. Due to the disruption in the capital markets, investors have been unwilling to bid on ARS 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 intended to be a punitive rate to the issuer. For comparison purposes, the weighted average rates on MELA's previously outstanding tax-exempt ARS have been compared to the weighted average rate using the taxable failed rate for ARS. In addition, since a portion of the 2009 loan originations were funded under a 2008 tax-exempt line of credit, the rate on the tax-exempt line of credit has been compared to the rate on the line of credit under a taxable basis. The line of credit was intended to be a short-term bridge vehicle to provide MELA with the continuity of funding for new loan originations for the 2008-2009 academic year, and to allow the Authority additional time to access the capital markets. The $4,250,000 remaining under the line of credit, which was due to terminate in January 2010, would not have been sufficient to cover the 2009-2010 loan origination volume. MELA was also required to execute an interest rate cap agreement in order to offset the interest rate risk resulting from a monthly variable interest rate on the line of credit compared to an annual reset on the interest rate for MELA loans funded from the line of credit. The approved interest rate for education loans funded through the line of credit was therefore based on the maximum interest rate under the interest rate cap agreement. The analyses assume that the education loan rate for a taxable line of credit would have been based on a comparable interest rate cap agreement using the differential between the initial starting tax-exempt and taxable rates.

MELA's 2009 transaction refunded the ARS and restructured the outstanding debt to tax-exempt fixed rate bonds, the only structure available to tax-exempt student loan issuers since late 2007. Since there was no other viable student loan debt structure available in the market in 2009, without the ability to issue tax-exempt fixed rate bonds through the use of Private Activity Bond Cap, MELA would not have had the necessary capital to continue offering its alternative education loan program. For pricing purposes, MELA's average coupon rate on the 2009 tax-exempt fixed rate transaction is compared to a taxable fixed rate municipal bond issued under the Build America Bonds program that priced during the same time period.

Since the interest rates on MELA's alternative education loans are determined based on the applicable financing agreement through which the education loan was funded, any savings achieved by using Private Activity Bond Cap would result in a direct correlation to the interest rate savings to borrowers utilizing MELA's alternative education loan program. In accordance with MELA's current bond indenture documents, as well as the previous indenture documents for the ARS, MELA is required to reset the alternative education loan interest rate annually based upon the average bond rate outstanding at that time plus a minimum administrative spread. The minimum administrative spread is determined based on the lowest spread that will pass the cash flow assumptions provided by the rating agencies and the bond insurer, if applicable.

Tax-Exempt Private Activity Bond Cap Activity – 2009

	Amount
Private Activity Bond Cap carried forward from previous years	$ 70,000,000
Allocation of Private Activity Bond Cap during 2009	$ 0
Private Activity Bond Cap available during 2009	$ 70,000,000
Private Activity Bond Cap utilized during 2009	$ 57,750,000
Private Activity Bond Cap carryforward to 2010	$ 12,250,000

Analysis of Savings from and Benefits of Tax-Exempt Financing

Note: 2009 tax-exempt fixed rate bonds issued in May 2009, totaling $210,000,000. Of the total, $136,500,000 used to refund previously outstanding tax-exempt ARS and $15,750,000 used to refinance a short-term tax-exempt line of credit.

Issue	2009 A1, A2, A3
Date	May 27, 2009
Issue Size	$210,000,000
Private Activity Bond Cap Used	$57,750,000

Analysis of tax-exempt savings	Auction Rate Securities (a)	Line of Credit (b)	2009 Fixed Rate Bonds (e)
Weighted average rate on MELA tax-exempt financing	3.35%	2.15%	5.23%
Comparative taxable debt yield	4.52%	2.46%	7.61%
Savings of tax-exempt financing over comparative taxable debt yield	1.17%	0.31%	2.38%

Use of tax-exempt debt	Auction Rate Securities (c)	Line of Credit (d)	2009 Fixed Rate Bonds (e)
Interest rate available to MELA borrowers during 2009	6.75%	6.99%	8.43%
Comparable interest rate adjusted for taxable financing	7.72%	7.89%	10.81%
Interest rate savings	0.97%	0.90%	2.38%

(a) Based upon the weighted average of MELA failed auction rates incurred in 2009 (ARS reset annually in May) and the weighted average failed taxable rates on the same dates

(b) Based upon the weighted average interest rate on the TD Bank line of credit, adjusted monthly, compared to the taxable formula for the line of credit with TD Bank

(c) Based upon the June 1, 2008 to May 31, 2009 interest rate on MELA loans financed by ARS, compared to the interest rates using the same spread based upon the failed taxable auction rates from the same auction dates

(d) Based upon the August 11, 2008 to May 31, 2009 interest rate on MELA loans financed by TD Bank line of credit, compared to the interest rates using the same spread based upon an adjusted interest rate cap agreement using the adjusted initial taxable interest rate

(e) Based upon the June 1, 2009 to December 31, 2009 interest rate on MELA loans compared to the interest rates using the same spread based upon comparable taxable fixed rate bonds issued by Eastern Michigan University in May 2009

Summary

MELA and many other student loan providers across the country have historically utilized ARS for their financings. The ARS market closed down due to the volatility in the capital markets as a result of spiraling defaults from sub-prime mortgages. This disruption in the capital markets resulted in investors moving away from ARS to safer investments. Lack of investor interest in ARS, resulted in the need for MELA and other student loan providers to refinance their ARS into a different structure and issue new bonds in an alternate form more attractive to investors. Given the unprecedented turbulence in the capital markets and continuing global liquidity crisis, few alternate options are available to student loan issuers to provide them with a stable and economical form of financing. For all of these reasons, many student loan lenders have suspended their alternative education loan programs or exited the marketplace due to the inability to access capital. Many of the remaining student loan providers have significantly tightened their credit underwriting criteria and increased their interest rates due to the current economic conditions.

Although MELA was directly impacted by these difficult economic times, the Authority was able to sustain its alternative education loan program and provide the continuity of funding to meet the supplemental education financing needs of Maine students and families. MELA positioned itself for the future by replacing its auction rate bond financing for its alternative education loan program with a more stable financial structure secured by a capital reserve fund. The restructuring to fixed rate bonds will also provide a more stable interest rate for MELA borrowers when short-term interest rates rise from their current historic lows. The expansion of the State of Maine's moral obligation backing of MELA's debt played a pivotal role in the Authority's success in accessing the capital markets in May of 2009.

The State's public policy decision to provide MELA with an allocation of the state ceiling on private activity bonds enables the Authority to perform an essential public function by and on behalf of the State by providing a supplemental or alternative student loan program. All MELA loans are funded with the proceeds from tax-exempt bonds or obligations, and no State monies are allocated to fund the program.

In summary, the primary benefit to the State of an allocation of Private Activity Bond Cap to MELA in 2009 was that the Authority was able to provide the continuity of funding necessary to meet the supplemental education financing needs of Maine students and families under severe economic conditions. This is a particularly important overarching benefit given the adverse impact that the state of the economy has had on state revenues, endowments for colleges and universities, home values and home equity, and individual wealth, all adding to the need for additional supplemental or gap higher education financing resources.

Maine Educational Loan Authority

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2009

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 and 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.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
March 11, 2010

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

We obtained the Analysis of Savings from and Benefits of Tax-Exempt Financing schedule (Appendix B) prepared by the Maine Educational Loan Authority (MELA) which details the tax-exempt debt issued in 2009 and the use of tax exempt debt in 2009 and performed the following:

Analysis of Tax-Exempt Savings

1. We compared the amount of tax-exempt debt issued in 2009 to the amount contained in the Official Statement for the Maine Educational Loan Authority Student Loan Revenue Bonds Series 2009 A1, A2 and A3 and found the amounts to be in agreement.

2. We compared the weighted average rate on MELA auction rate securities, line of credit and the 2009 bonds of 3.35%, 2.15% and 5.23%, 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 2009 to information provided by a third party and recalculated the overall weighted average rates on auction rate securities and the line of credit and coupon on the 2009 bonds.

3. We recalculated the comparative taxable debt yield of 4.52%, 2.46% and 7.61% by comparison to the weighted average rates based on the taxable formula for MELA's failed auction rate securities, the taxable formula for the line of credit with TD Bank, and comparable taxable fixed rate bonds which was provided to MELA by a third party.

4. We recalculated the savings of tax-exempt financing cost over comparative taxable debt yield of 1.17%, 0.31% and 2.38%.

Use of Tax-Exempt Debt

1. We compared the interest rate available to MELA borrowers during 2009 of 6.75%, 6.99% and 8.43%, as stated in Appendix B, to information prepared by MELA illustrating the interest rates available to borrowers in 2009 on loans disbursed under the failed auction rate securities, line of credit and the 2009 bonds. We recalculated the interest rates charged to borrowers on loans disbursed in 2009 from auction rate securities, line of credit and bonds by comparing to interest rates in the loan subsidiary ledger maintained by a third-party servicer.

2. We recalculated the comparable interest rate adjusted for taxable financing of 7.72%, 7.89% and 10.81% by comparison to the weighted average rates based on the taxable formula for MELA's failed rate auction securities, the taxable formula for the line of credit with TD Bank and comparable taxable fixed rate bonds issued in 2009, which was provided to MELA by a third party.

3. We recalculated the interest rate savings on MELA loans over comparative market interest rates available to borrowers of 0.97%, 0.90% and 2.38%.

Analysis of Savings from and Benefits of Tax-Exempt Financing

Note: 2009 tax-exempt fixed rate bonds were issued in May 2009, totaling $210,000,000. Of the total, $136,500,000 was used to refund previously outstanding tax-exempt Auction Rate Securities (ARS) and $15,750,000 was used to refinance a short-term tax-exempt line of credit.

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Interest rate savings	0.97%	0.90%	2.38%

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(d) Based upon the August 11, 2008 to May 31, 2009 interest rate on MELA loans financed by TD Bank line of credit, compared to the interest rates using the same spread based upon an adjusted interest rate cap agreement using the adjusted initial taxable interest rate
(e) Based upon the June 1, 2009 to December 31, 2009 interest rate on MELA loans compared to the interest rates using the same spread based upon comparable taxable fixed rate bonds issued by Eastern Michigan University in May 2009