

# MAINE STATE LEGISLATURE

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**MAINE EDUCATIONAL LOAN AUTHORITY  
(MELA)**

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

**March 11, 2011**

# MAINE EDUCATIONAL LOAN AUTHORITY

## Introduction

This report is being furnished pursuant to 10 MRSA §363 subsection 11. The Maine Educational Loan Authority (MELA) issued \$15,460,000 in tax-exempt bonds in 2010 utilizing Private Activity Bond Cap. MELA carried forward \$12,250,000 of Private Activity Bond Cap from 2008 and received a 2010 allocation of \$20,000,000, leaving \$16,790,000 of Private Activity Bond Cap being available for 2011. Due to the on-going volatility in the capital markets since 2008, the vast majority of student loan providers have had difficulties accessing capital to provide continuity of funding for their alternative education loan programs. In addition to enabling MELA to continue its student loan program offering, the 2010 financing provided for a fixed rate student loan product compared to variable rate products offered by the remaining national student loan providers. A fixed rate loan offers borrowers more stability regarding the interest rate and payment amount during uncertain economic conditions.

In 2010, MELA approved 1,118 alternative education loans, and made 2,150 disbursements including both first and second semester disbursements, with an average disbursement amount of \$6,039, totaling approximately \$12,983,000. As of December 31, 2010, MELA had over \$145,900,000 of alternative education loans outstanding to approximately 7,500 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 in recent years 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 2010 costs of MELA's tax-exempt financing versus the estimated costs of comparable taxable financing. It should be noted that since the capital market disruption beginning in 2008, the only alternative education loan bonds issued have all been tax-exempt fixed rate bonds. Since there was no other viable student loan debt structure available in the market in 2010, 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 2010 tax-exempt fixed rate transaction is compared to what a comparable issue would have priced at on a taxable basis on the same date.

Since the interest rates on MELA's alternative education loans are determined based on the lowest interest rate that will pass the required stressed cash flow scenarios provided by rating agencies and/or bond insurers 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.

## **Tax-Exempt Private Activity Bond Cap Activity – 2010**

	<u>Amount</u>
Private Activity Bond Cap carried forward from previous years	\$ 12,250,000
Allocation of Private Activity Bond Cap during 2010	<u>\$ 20,000,000</u>
Private Activity Bond Cap available during 2010	\$ 32,250,000
Private Activity Bond Cap utilized during 2010	<u>\$ 15,460,000</u>
Private Activity Bond Cap carryforward to 2011	<u>\$ 16,790,000</u>

# Analysis of Savings from and Benefits of Tax-Exempt Financing

Issue	2010 A-1
Date	July 27, 2010
Issue Size	\$15,460,000
Private Activity Bond Cap Used	\$15,460,000

## Analysis of tax-exempt savings

### 2010 Fixed Rate Bonds

Weighted average rate on MELA tax-exempt financing (a)	3.30%
Comparative taxable debt yield (b)	<u>5.34%</u>
Savings of tax-exempt financing over comparative taxable debt yield	<u>2.04%</u>

## Use of tax-exempt debt

### 2010 Fixed Rate Bonds

Interest rate available to MELA borrowers during 2010 (c)	7.75%
Comparable interest rate adjusted for taxable financing (d)	<u>9.79%</u>
Interest rate savings	<u>2.04%</u>

- (a) Calculated based upon the weighted average coupon rates of the MELA Series 2010 A-1 Bonds issued on July 27, 2010.
- (b) Calculated based upon the estimated weighted average coupon rates on July 27, 2010, provided by RBC Capital Markets for a taxable fixed rate bond issue of comparable credit and structure.
- (c) Calculated based upon the fixed interest rate available to all MELA borrowers from the proceeds of the 2010 A-1 Bonds.
- (d) Calculated based upon the estimated weighted average taxable financing rate plus the minimum spread of 4.45% used to set the student loan rate from the proceeds of the Series 2010 A-1 Bonds.

## Summary

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.

The ability to use tax-exempt financing allowed MELA to offer a fixed rate alternative education loan at approximately 2.04% lower than the rate MELA could have offered using taxable financing, assuming that taxable financing products were available. For a borrower with a \$10,000 loan the interest rate savings achieved from using tax-exempt financing would result in \$2,325 less in payments over an assumed 10 year life of the loan. Although there were no comparable fixed rate alternative loans available in Maine, MELA's fixed interest rate of 7.75% and tiered repayment term up to 15 years compares favorably with the Federal PLUS loan which includes a 7.90% fixed interest rate and a 10 year repayment term for all borrowers.

In summary, since there were no comparable taxable fixed rate financing alternatives, the primary benefit to the State of an allocation of Private Activity Bond Cap to MELA in 2010 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 difficult 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, while at the same time the cost of college attendance continues to increase, 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, 2010*



**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  
Labor, Commerce, Research and Economic Development

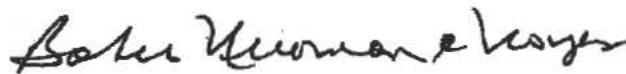
We have performed the procedures listed in Appendix A, which were agreed to by the Maine Educational Loan Authority, and the Joint Standing Committee for Labor, Commerce, Research and Economic Development (the Committee), solely to assist you with respect to the requirements of the State of Maine 10 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.

Portland, Maine  
March 11, 2011



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**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 2010 and the use of tax exempt debt in 2010 and performed the following:

**Analysis of Tax-Exempt Savings**

1. We compared the amount of tax-exempt debt issued in 2010 to the amount contained in the Official Statement for the Maine Educational Loan Authority Student Loan Revenue Bonds Series 2010 A-1 and found the amounts to be in agreement.
2. We compared the weighted average rate on MELA bonds of 3.30% to the effective rate in a schedule prepared by MELA. With respect to this schedule, we compared the fixed rates in effect on tax-exempt debt outstanding during 2010 to information provided in the Official Statement and recalculated the overall weighted average rates on bonds.
3. We compared the comparative taxable debt yield of 5.34% to the effective rate in a schedule prepared by MELA using information provided by a third party that presents the effective rate on a hypothetical taxable issue as of July 27, 2010 and found the yields to be in agreement. We have been informed by management of MELA that no comparable taxable fixed rate alternative education loan bonds were issued in 2010.
4. We recalculated the savings of tax-exempt financing over comparative taxable debt yield of 2.04%.

**Use of Tax-Exempt Debt**

1. We compared the interest rate available to MELA borrowers during 2010 of 7.75% as stated in Appendix B, to interest rates in the loan subsidiary ledger and loan documents maintained by a third-party servicer and found the amounts to be in agreement.
2. We recalculated the comparable interest rate adjusted for taxable financing of 9.79% by comparison to the sum of the interest rate available to MELA borrowers during 2010 of 7.75% plus the savings of tax exempt financing of 2.04%. Management of MELA has informed us that there are no comparable fixed interest rates on alternative student loans funded by taxable bonds available.
3. We recalculated the interest rate savings on MELA loans over estimated comparative interest rates that would have been available to borrowers using taxable financing of 2.04%.

**Analysis of Savings from and Benefits of Tax-Exempt Financing**

Issue	2010 A-1
Date	July 27, 2010
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Private Activity Bond Cap Used	\$15,460,000

**Analysis of Tax-Exempt Savings**

	<u>2010 Fixed Rate Bonds</u>
Weighted average rate on MELA tax-exempt financing (a)	3.30%
Comparative taxable debt yield (b)	<u>5.34</u>
Savings of tax-exempt financing over comparative taxable debt yield	<u>2.04%</u>

**Use of Tax-Exempt Debt**

	<u>2010 Fixed Rate Bonds</u>
Interest rate available to MELA borrowers during 2010 (c)	7.75%
Comparable interest rate adjusted for taxable financing (d)	<u>9.79</u>
Interest rate savings	<u>2.04%</u>

- (a) Based upon the weighted average coupon rates of the MELA Series 2010 A-1 Bonds issued on July 27, 2010
- (b) Based upon the estimated weighted average coupon rates on July 27, 2010, provided by RBC Capital Markets for a taxable fixed rate bond issue of comparable credit and structure
- (c) Based upon the fixed interest rate available to all MELA borrowers from the proceeds of the 2010 A-1 Bonds
- (d) Based upon the estimated weighted average taxable financing rate plus the minimum spread of 4.45% used to set the student loan rate from the proceeds of the Series 2010 A-1 Bonds