

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, 2012

MAINE EDUCATIONAL LOAN AUTHORITY

Introduction and Background Information

The Maine Educational Loan Authority (MELA) is a quasi-governmental agency that was created and established by Maine legislation in 1988 to assist Maine students and their families in achieving their higher education goals by providing a supplemental or alternative student loan program. A supplemental or alternative student loan is designed primarily to help students and families pay for educational expenses that exceed other available financial aid resources such as scholarships, grants, and the Federal education loan programs. Based on credit-worthiness versus financial need, MELA's loan program exists to bridge the gap between the full cost of a higher education and traditional financial aid resources.

MELA's supplemental student loan program currently consists of The Maine Loan[®] and The Maine Medical Loansm. Both loan programs are available to students and their families based on the credit-worthiness of the applicant(s). Borrowers must be Maine residents attending eligible higher education institutions in the United States or Canada or out-of-state residents attending eligible Maine colleges and universities. Key features of MELA's loan program include: a fixed interest rate offered to all approved borrowers, regardless of credit history or if there are co-borrowers; no annual or aggregate borrowing limits; a range of repayment terms up to fifteen (15) years, depending on the amount borrowed; and high quality customer service located in Maine. All MELA loans are funded with the proceeds from tax-exempt bonds or obligations, and no State monies are allocated to fund the program.

As an issuer of private activity bonds, MELA is required to furnish this annual report pursuant to 10 MRSA §363 subsection 11. MELA did not issue any tax-exempt bonds in 2011 utilizing Private Activity Bond Cap. MELA issued \$15,460,000 of tax-exempt bonds utilizing Private Activity Bond Cap in 2010. MELA's previously submitted report for the year ended December 31, 2010 included an analysis of the savings attributable to the use of tax-exempt financing for the 2010 bond issue and how that savings was passed onto MELA borrowers as well as an Agreed Upon Procedures report issued by MELA's independent accountants regarding their review of the analysis. MELA carried forward \$16,790,000 of Private Activity Bond Cap from 2010 and received a 2011 allocation of \$30,000,000, leaving \$46,790,000 of Private Activity Bond Cap being available for 2011 and carried forward to 2012.

Given the on-going difficulties with the capital markets, approval was secured from Assured Guaranty Corporation, MELA's bond insurer, to amend the Authority's existing Indenture of Trust to allow the use of recycling payments received on loans funded with the 2009 and 2010 bond proceeds to fund new loans for the 2011-2012 academic year. MELA found that the pricing for a new bond issue would have been significantly higher than in 2010 due primarily to weaker bond markets and the expiration of the Alternative Minimum Tax holiday for tax-exempt Private Activity Bonds. The increased financing costs would have translated into a higher interest rate on MELA's loans for Maine students and families. The use of recycling funds enabled MELA to continue its student loan program with the same fixed interest rate and program terms offered in 2010. A fixed rate loan offers borrowers more stability regarding the interest rate and payment amount during uncertain economic conditions.

In 2011, MELA approved 906 alternative student loans and made 1,735 disbursements including both first and second semester disbursements, with an average disbursement amount of \$6,041, totaling approximately \$10,481,000. As of December 31, 2011, MELA had over \$141,588,000 of alternative student loans outstanding to approximately 7,200 borrowers.

MELA's alternative student 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 student 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 student loans in the country, helping Maine students and families to bridge the 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.

Tax-Exempt Private Activity Bond Cap Activity – 2011

| | <u>Amount</u> |
|---|----------------------|
| Private Activity Bond Cap carried forward from previous years | \$ 16,790,000 |
| Allocation of Private Activity Bond Cap during 2011 | <u>\$ 30,000,000</u> |
| Private Activity Bond Cap available during 2011 | \$ 46,790,000 |
| Private Activity Bond Cap utilized during 2011 | <u>\$ 0</u> |
| Private Activity Bond Cap carried forward to 2012 | <u>\$ 46,790,000</u> |

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.

MELA has worked diligently for over two decades to offer the lowest interest rates possible to borrowers. Due to the issuance of tax-exempt bonds or obligations, MELA has historically been able to offer interest rates below the average in the marketplace. MELA began offering fixed rate loans at 7.75% in August of 2010. This interest rate compares favorably with the Federal PLUS loan with a fixed rate of 7.90%. For MELA loans disbursed prior to August of 2010, the interest rate was variable. The average variable interest rate for The Maine Loan from 2000 to 2010 was 6.40% which was lower than the average interest rates on most other alternative student loans and Federal PLUS loans during this time period.

In summary, the primary benefit to the State of an allocation of Private Activity Bond Cap to MELA in 2011 was that the Authority is in a position to issue future bonds when market conditions are more favorable. This ensures that MELA has continued access to tax-exempt funding to meet the supplemental education financing needs of Maine students and families. 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 supplemental or gap higher education financing resources.