# MAINE EDUCATIONAL LOAN AUTHORITY
# (MELA)

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

March 13, 2013

# MAINE EDUCATIONAL LOAN AUTHORITY

## Introduction and Background Information

As an issuer of private activity bonds, the Maine Educational Loan Authority (MELA) is required to furnish this annual report pursuant to 10 MRSA §363 subsection 11. 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 Loan℠. 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 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.

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, new businesses may be more inclined to relocate to the State and existing businesses may decide to expand their operations.

## Analysis of Savings from and Benefits of Private Activity Cap Bond Issuance

MELA issued $12,685,000 of tax-exempt bonds utilizing Private Activity Bond Cap in 2012. MELA carried forward $46,790,000 of Private Activity Bond Cap from 2011 and received a 2012 allocation of $25,000,000, leaving $59,105,000 of Private Activity Bond Cap carried forward to 2013. The net proceeds of the Series 2012A bonds were used to fund required debt service reserves, pay expenses related to the issuance of the bonds, pay the one-time Surety Bond premium, and to fund anticipated alternative student loan originations. The Series 2012A bonds provided $12,307,985 in lendable proceeds for MELA alternative loans originated between June 14, 2012 and September 1, 2013.

In 2012, MELA approved 662 alternative student loans and made 1,308 disbursements including both first and second semester disbursements, with an average disbursement amount of $6,150, totaling approximately $8 million. The 2012 loan disbursements were funded in part from recycling student loan payments under the Series 2009A and Series 2010A bond issues. As of December 31, 2012, MELA had approximately $8.5 million remaining from the Series 2012A bonds available for future loan disbursements. All loans originated using proceeds from the Series 2012A bonds include a fixed interest rate of 7.25%, an origination fee of 4%, and a repayment term of 5, 10 or 15 years, depending on the amount borrowed. MELA borrowers are required to make interest only payments during the in-school period, with principal and interest payments commencing after the conclusion of a six month grace period following the end of in-school status. Although the student is listed as the primary borrower, due to the credit underwriting criteria for a MELA loan, the vast majority of all approved MELA loans include at least one cosigner.

One of the primary differences between MELA loans and alternative student loans offered by other lenders, is that all approved MELA borrowers receive the same loan terms, which are clearly described in all loan program materials and on MELA's website. All other providers of alternative student loans in Maine offer a wide range of loan terms, including varying interest rates and fees, depending on the credit worthiness of the borrower, the presence of cosigners, and the repayment options selected. The actual terms that a borrower is ultimately eligible for are only known after the borrower has completed the entire application process and those terms could vary significantly from the lowest advertised terms, which are typically reserved for borrowers with stellar credit. In addition, most alternative loan providers offer variable rate products compared to MELA's fixed rate loans. The lenders that offer a fixed rate product continued to offer a wide range of interest rates from 5.75% to 13.74% in 2012, depending again on credit worthiness, presence of cosigners, and repayment options.

Since no other lender in Maine discloses the actual credit qualifications necessary to receive the advertised loan terms it is difficult to compare and contrast the terms offered to approved MELA borrowers to that of other lenders. One comparable benchmark is the William D. Ford Federal Direct PLUS Loan, a supplemental educational financing loan program, offered through the U.S. Department of Education. In order to be eligible for a PLUS Loan the borrower must be (1) a parent of an undergraduate student, or (2) a graduate or professional student. The fixed interest rate for all PLUS Loans originated in 2012 was 7.90%, with a 4% origination fee, and a 10 year repayment term. It should also be noted that borrowers may request to defer both principal and interest payments during the in-school and grace periods for a PLUS Loan. Although deferring both principal and interest payments while the student is in school may be attractive to some borrowers, the accrued interest is capitalized and added to the original principal balance when the student enters repayment resulting in a higher monthly payment during the repayment period and higher interest costs over the life of the loan. The following table compares the payments on a $10,000 loan under the MELA and PLUS Loan programs for 2012:

| | MELA (Int. Only) | PLUS (Int. Only) | PLUS (Deferred) |
|---|---|---|---|
| Loan Disbursement Amount | $10,000 | $10,000 | $10,000 |
| Interest Rate | 7.25% | 7.90% | 7.90% |
| Origination Fee | 4.0%/$400.00 | 4.0%/$416.67 | 4.0%/$416.67 |
| Monthly Interest Payment (Deferment Period) | $62.83 | $68.58 | $0.00 |
| Monthly Principal & Interest Payment (Repayment Period) | $122.10 | $125.83 | $167.26 |
| Total Payments | $17,793.16 | $18,528.97 | $20,070.63 |
| Total Finance Charges | $7,793.16 | $8,528.97 | $10,070.63 |

**Assumptions**: The above examples were calculated assuming a $10,000 requested loan disbursement amount, one loan disbursement, in-school period of 44 months, grace period of 6 months, and a 10 year principal and interest repayment term. For MELA loans the origination fee is added to the principal balance at the time of disbursement, while the origination fee is deducted from the loan proceeds for a PLUS Loan. For comparison purposes, the example above assumes a $10,416.67 PLUS Loan amount resulting in a net disbursement amount of $10,000 for both the MELA loan and the PLUS Loans. It should also be noted that the default repayment option for a PLUS Loan is immediate repayment of principal and interest, with the ability to request a full deferment of principal and interest. Since the MELA loan requires at least interest only payments during the in-school and grace periods, for comparison purposes, a calculation has been made for payment amounts for a PLUS Loan if the borrower voluntarily made interest only payments during the in-school and grace periods.

As indicated in the above table, a $10,000 MELA loan is estimated to save borrowers over $700 in finance charges compared to a comparable PLUS Loan offered by the U.S. Department of Education, and the savings increase to over $2,200 if the borrower elects to defer both principal and interest payments on a PLUS Loan during the in-school and grace periods.

Beginning in 2012, MELA also requires borrowers to complete an online smart borrowing tutorial prior to completing a loan application. The Student Loan Game Plan[SM] is an interactive tool to help reduce student indebtedness by educating applicants and cosigners about responsible borrowing decisions. The Student Loan Game Plan uses several methods to help borrowers understand the consequences of overborrowing:

- A true-life story from a student loan borrower
- Potential problems caused by overborrowing
- Customized estimated salary information based on the borrower's intended major
- Estimated student loan debt-to-income ratio based on the borrower's information, compared to recommended ratios from the U.S. Department of Education
- A warning that student loans are a serious financial obligation that must be repaid
- A sample monthly budget based on the borrower's anticipated starting salary and national average expenses, including student loan payments
- A variety of strategies to reduce the need for student loans
- A customizable and printable action plan to reduce overall borrowing
- The ability to lower the requested loan amount in online alternative student loan applications

**Tax-Exempt Private Activity Bond Cap Activity – 2012**

| | Amount |
|---|---|
| Private Activity Bond Cap carried forward from previous years | $ 46,790,000 |
| Allocation of Private Activity Bond Cap during 2012 | 25,000,000 |
| Private Activity Bond Cap available during 2012 | $ 71,790,000 |
| Private Activity Bond Cap utilized during 2012 | (12,685,000) |
| Private Activity Bond Cap carried forward to 2013 | $ 59,105,000 |

**Private Activity Bonds Issued – 2012**

| | |
|---|---|
| Sources: | |
| Series 2012A-1 Student Loan Revenue Bonds | $ 12,685,000 |
| Less Underwriter's Discount | 114,165 |
| Total Sources/Net Proceeds | $ 12,570,835 |
| Uses: | |
| Student Loan Fund (to fund loan originations) | $ 12,307,985 |
| Capital Reserve Fund | 126,850 |
| Cost of Issuance Expenses/Surety Bond Premium | 136,000 |
| Total Uses | $ 12,570,835 |

## 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 25 years 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. The Series 2012A bonds funded loans with a fixed interest rate of 7.25%. This interest rate compares favorably with the Federal PLUS Loan with a fixed rate of 7.90%. It is estimated that MELA borrowers with a $10,000 loan would save over $2,200 in finance charges compared to a Federal PLUS Loan which allows borrowers to defer both principal and interest payments while in-school and during the grace period.

The State's allocation of Private Activity Bond Cap to MELA in 2012 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.

# Maine Educational Loan Authority

Procedures Pursuant to 10 MRSA Sec. 363

*For the Year Ended December 31, 2012*

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

The Board of Directors of the
Maine Educational Loan Authority
Governor of the State of Maine
The Joint Standing Committee on Labor, Commerce,
Research and Economic Development

We have performed the procedures in Appendix A, which were agreed to by the Maine Educational Loan Authority, and the Joint Standing Committee on 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 Annual Review of Private Activity Bonds, as presented in Appendix B. This agreed-upon procedures engagement was performed 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 described below 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 the Annual Review of Private Activity Bonds. 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 Committee and the Governor of the State of Maine, 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 13, 2013

APPENDIX A

**Maine Educational Loan Authority**

Procedures Pursuant to 10 MRSA Sec. 363

We obtained the Annual Review of Private Activity Bonds (the Analysis) prepared by the Maine Educational Loan Authority (MELA) which details the bonds issued in 2012 and the use of such proceeds in 2012 and performed the following:

1. Compared the Total Sources and Uses for the 2012A-1 Student Loan Revenue Bonds as set forth on page 4 of the Analysis to the information set forth in the Series 2012A-1 Official Statement.

2. Agreed the fixed interest rate of 7.25% and origination fee of 4% for MELA loans originated with proceeds from the 2012A-1 bonds as set forth on page 3 of the Analysis to the rates reflected in the Private Education Loan Application and Solicitation Disclosure and to a promissory note for a loan disbursed from the 2012 A-1 Bond Series provided by MELA and to the loan details in the loan servicing system.

3. Agreed the loan interest rate and origination fee percentage for the William D. Ford Direct Plus Loan to information contained on the Department of Education's website studentaid.ed.gov.

4. Agreed the fees, interest payments, and total payments for a $10,000 loan under both the MELA loan program and the William D. Ford Direct Plus Loan program (Int. Only) and (Deferred) to schedules provided by MELA and compared the assumptions used in MELA's calculations to the assumptions included in the Analysis.

5. Tested the mathematical accuracy of the calculations in the schedules provided by the Authority and recalculated the savings between the total payments required for a $10,000 loan disbursement under the MELA loan program, compared to the total payments required for a $10,000 loan disbursement under the William D. Ford Direct Plus Loan program as $735.81 for the Plus (Int. Only) and $2,277.47 for the Plus (Deferred).