MAINE EDUCATIONAL LOAN AUTHORITY
(MELA)

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

March 12, 2014

MELA℠
MAINE EDUCATIONAL LOAN AUTHORITY

March 12, 2014

Senator John L. Patrick, Chairperson
Joint Standing Committee on Labor, Commerce,
Research and Economic Development
100 State House Station
Augusta, ME 04333

Representative Erin D. Herbig, Chairperson
Joint Standing Committee on Labor, Commerce,
Research and Economic Development
100 State House Station
Augusta, ME 04333

Dear Senator Patrick and Representative Herbig:

Pursuant to 10 MRSA §363, subsection 11, I am enclosing the Annual Review of Private Activity Bonds for the Maine Educational Loan Authority (MELA) for the year ended December 31, 2013.

In accordance with Title 20-A, Chapter 417-A, §11427, MELA will be submitting its December 31, 2013 Annual Report, including the December 31, 2013 audited financial statements, to the Governor, Speaker of the House, President of the Senate, and Joint Standing Committee on Education and Cultural Affairs prior to April 30, 2014.

If you need further information or have any questions regarding the enclosed report, please feel free to contact me at 400-3011 or via e-mail at serickson@mela.net.

Sincerely,

Shirley M. Erickson, Ph.D.
Executive Director

Enclosure

cc: Governor Paul R. LePage
Members of the Joint Standing Committee on Labor, Commerce, Research and Economic Development
Members of the Maine Educational Loan Authority
Members of the Bond Cap Issuers Group

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.

In 2013, MELA's supplemental student loan programs consisted 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 programs 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 2013 utilizing Private Activity Bond Cap. MELA issued $12,685,000 of tax-exempt bonds utilizing Private Activity Bond Cap in June 2012. MELA's previously submitted report for the year ended December 31, 2012 included an analysis of the savings attributable to the use of tax-exempt financing for the 2012 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. In 2013, MELA received a Private Activity Bond Cap allocation of $25,000,000, and has $80,000,000 of Private Activity Bond Cap available through December 31, 2016 for future transactions.

The continued challenges with the capital markets, increased financing costs, and projected loan volume resulted in MELA pursuing an alternative to issuing bonds in 2013 to fund new loans. MELA secured approval 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, 2010 and 2012 bond proceeds to fund new loans for the 2013-2014 academic year. The use of recycling funds enabled MELA to continue its student loan program with the same fixed interest rate and program terms offered for the 2012-2013 academic year. A fixed rate loan offers borrowers more stability regarding the interest rate and payment amount during uncertain economic conditions.

In 2013, MELA originated 515 alternative student loans with an average loan amount of $11,766, totaling approximately $6,059,000. As of December 31, 2013, MELA had over $122,000,000 of alternative student loans outstanding to approximately 6,300 borrowers. All MELA loans originated in 2013 have a fixed interest rate of 7.25%, a guarantee fee of 4%, and a repayment term of 5, 10 or 15 years, depending on the amount borrowed. For The Maine Loan, MELA's primary student loan product, 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.

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 from July 1, 2006 to June 30, 2013 was 7.90%, with a 4% loan fee, and a 10 year repayment term. In August 2013, Congress passed the Bipartisan Student Loan Certainty Act of 2013. This legislation adjusted Federal student loan interest rates, including those for the PLUS Loan, to a new fixed rate based upon current U.S. Treasury rates. As a result, the fixed rate for PLUS Loans originated between July 1, 2013 and June 30, 2014 was retroactively adjusted to 6.41% with loan fees ranging from 4.204% to 4.288% during this period. 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.

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 – 2013

	Amount
Private Activity Bond Cap carried forward from previous years	$59,105,000
Allocation of Private Activity Bond Cap during 2013	$25,000,000
Private Activity Bond Cap available during 2013	$84,105,000
Private Activity Bond Cap abandoned during 2013	$ (4,105,000)
Private Activity Bond Cap utilized during 2013	$ 0
Private Activity Bond Cap carried forward to 2014	$80,000,000

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 twenty-five 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. MELA began offering fixed rate loans at 7.75% in August of 2010 and lowered the rate to 7.25% in June of 2012. These interest rates have historically compared favorably with the Federal PLUS Loan with a fixed rate of 7.90% during most of that time period (the Federal PLUS Loan interest rate was reduced to 6.41% in August of 2013). 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 2013 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 that there will be a continuing demand for supplemental student loans for a number of reasons, including the impact of the prolonged difficult economy on state funding for higher education, employment opportunities, and individual wealth. In addition, the rising cost of attendance at higher education institutions requires increased borrowing by students and their families to cover the gap between the full cost of a college education and traditional financial aid resources.

Finance Authority of Maine

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2013

BAKER | NEWMAN | NOYES

Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES

The Board of Directors of the
Finance Authority of Maine
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 Finance Authority of Maine, 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 Finance Authority of Maine is responsible for the preparation of the Analysis of Savings From and the Benefits of Tax Exempt Financing (the Schedule), 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 Schedule. 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 Finance Authority of Maine, 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 those specified parties.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
February 27, 2014

APPENDIX A

FINANCE AUTHORITY OF MAINE
PROCEDURES PURSUANT TO 10 MRSA Sec. 363

We obtained the Analysis of Savings From and the Benefits of Tax-Exempt Financing Schedule for Commercial Financing prepared by the Finance Authority of Maine (the Authority) which details the bonds issued in 2013 and the use of such proceeds and performed the following:

1. Compared the tax exempt bond yield and amount of bonds issued to documents supplied to the Authority by appropriate third parties and found them to be in agreement.

2. Compared the percentages of the cost of issuance including fees, insurance and professional services, to an analysis prepared by the Authority illustrating the various costs of the issue and found them to be in agreement. We did not compare the various costs to third-party documentation.

3. Recalculated the total tax-exempt bond yield.

4. Compared the purpose and use of proceeds to the information set forth in documents supplied to the Authority by third parties and found them to be in agreement.

5. Compared the comparative market interest rate available to borrowers, which indicates the conventional interest rate available to the borrowers for loans of a similar nature for the respective time period, and found them to be in agreement. We verified the rate stated in Appendix B to the published Prime rate on the date of issuance of the loan. We did not compare the market interest rates as provided by the Authority to third-party documentation.

6. Recalculated the interest saved by utilizing the bond cap.

APPENDIX B

Finance Authority of Maine
Analysis of Savings From and the Benefits of Tax-Exempt Financing – Commercial
2013

	FAME Issue Company A
Purpose and use of proceeds	Purchase property and renovation
Amount of bonds	$2,500,000
Term (years) of issuance	8.59
Variable or fixed interest rate	Variable
Tax-exempt bond yield (1)	1.29%
Cost of issuance including fees, insurance and professional services	0.25
Total tax-exempt bond yield	1.54
Comparative market interest rate available to borrowers	3.25 (2)
Interest rate saved by utilizing bond cap	1.71%

(1) Based on initial interest rate for variable interest rate bonds.
(2) Comparative market rates estimated by the Authority based on Prime rate at the date of issuance.