Maine Educational Loan Authority

Procedures Pursuant to 10 MRSA Sec. 363

For the Year Ended December 31, 2014

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES

The Members 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 10, 2015

Maine Educational Loan Authority

Procedures Pursuant to 10 MRSA Sec. 363

We obtained the Annual Review of Private Activity Bonds (Appendix B) prepared by the Maine Educational Loan Authority (MELA) which details the bonds issued in 2014 and the use of such proceeds and performed the following:

1. Compared the Total Sources and Uses for the 2014A-1 Student Loan Revenue Bonds as set forth on page 4 of Appendix B to the information set forth in the Series 2014A-1 Official Statement.

2. Agreed the fixed interest rates of 7.50%, 6.50% and 5.50% and origination fee of 4% for MELA loans originated with proceeds from the 2014A-1 bonds as set forth on page 3 of Appendix B to the rates reflected in the Private Education Loan Application and Solicitation Disclosure and to a promissory note for a loan disbursed from the 2014A-1 Bond Series for each respective interest rate and to the loan details in the loan servicing system.

3. Agreed the ACH benefit of 0.25% on page 3 of Appendix B to the Series 2014A-1 Official Statement.

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

5. Agreed the total finance charges and total payments for a $10,000 loan under both the MELA loan program (Immediate Repayment, Interest Only, and Full Deferment) and the William D. Ford Federal Direct PLUS Loan program (Immediate Repayment and Full Deferment) to schedules provided by MELA and compared the assumptions used in MELA's calculations to the assumptions included in Appendix B.

6. Tested the mathematical accuracy of the calculations in the schedules provided by the Authority and recalculated the savings of over $1,300 between the total payments required for a $10,000 loan disbursement under the MELA loan program at 5.50% for 120 months (Immediate Repayment), compared to the total payments required for a $10,000 loan disbursement under the William D. Ford Federal Direct PLUS Loan program (Immediate Repayment).

APPENDIX B

MAINE EDUCATIONAL LOAN AUTHORITY

MAINE EDUCATIONAL LOAN AUTHORITY
(MELA)

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

March 10, 2015

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 current loan program include: three fixed interest rates offered depending on the repayment option selected; all approved borrowers receive the same fixed interest rate for the repayment option selected, regardless of credit history or if there are co-borrowers; no annual or aggregate borrowing limits; a range of repayment options including immediate repayment, interest only payments, and full deferment; a financial literacy program to address specific borrower needs, including an online smart borrowing tutorial as part of the pre-application process; 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. 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 higher 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 $10,466,098 of tax-exempt bonds utilizing Private Activity Bond Cap in 2014 (including original issue premium). The net proceeds of the Series 2014A bonds were used to fund required debt service reserves, pay expenses related to the issuance of the bonds, pay a one-time surety bond premium, and to fund anticipated alternative student loan originations. The Series 2014A bonds provided $10,135,493 in lendable proceeds for MELA alternative loans originated between July 15, 2014 and September 30, 2015.

In 2014, MELA approved 699 alternative student loans and made 962 disbursements including both first and second semester disbursements, with an average disbursement amount of $7,434, totaling approximately $7.2 million. The 2014 loan disbursements were funded in part from recycling student loan payments under the Series 2009A, Series 2010A, and Series 2012A bond issues. As of December 31, 2014, MELA had approximately $6 million remaining from the original Series 2014A bond proceeds available for future loan disbursements. All loans originated using proceeds from the Series 2014A bonds include fixed interest rates of 5.5%, 6.5% or 7.5% (depending on the repayment option selected by the borrower), an origination fee of 4%, and a repayment term of 10 or 15 years (depending on the repayment option selected by the borrower). Beginning in July 2014, MELA borrowers had the option to select from three different repayment options: immediate payments of principal and interest; interest only payments during the in-school period; or full deferment with no payments during the in-school period. The interest only and full deferment options require principal and interest payments over 15 years commencing after the conclusion of a six month grace period following the end of the in-school status, while the immediate repayment option requires payments over 10 years. In addition, MELA also offers a 0.25% interest rate reduction for any new borrower enrolling in an automatic payment plan. 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 are eligible to 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 ranging anywhere from 6% to 12% in 2014, 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 after July 1, 2014 was 7.21%, with an origination fee of approximately 4.3%, 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 effective July 1, 2014:

	MELA			PLUS	
	Immediate Repayment	**Interest Only**	**Full Deferment**	**Immediate Repayment**	**Full Deferment**
Loan Disbursement Amount	$10,000	$10,000	$10,000	$10,000	$10,000
Interest Rate	5.50%	6.50%	7.50%	7.21%	7.21%
Origination Fee	4.00%	4.00%	4.00%	4.288%	4.288%
ACH Benefit	-0.25%	-0.25%	-0.25%	N/A	N/A
Repayment Term	120 months	180 months	180 months	120 months	120 months
Monthly Payment (Deferment Period)	N/A	$54.17	$0.00	N/A	$0.00
Monthly Payment (Repayment Period)	$111.58	$89.17	$126.98	$122.44	$162.17
Total Finance Charges	$3,390.11	$8,976.42	$12,856.16	$4,693.54	$9,461.12
Total Payments	$13,390.11	$18,976.42	$22,856.16	$14,693.54	$19,461.12
APR	6.112%	6.704%	7.295%	8.211%	7.225%

Assumptions: The above examples were calculated assuming a $10,000 requested loan disbursement amount, one loan disbursement, in-school period of 48 months, and grace period of 6 months and for MELA loans use of the ACH Benefit. 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 $10,428.80 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.

As indicated in the above table, a $10,000 MELA loan is estimated to save borrowers over $1,300 in finance charges compared to a comparable PLUS Loan offered by the U.S. Department of Education, based upon the standard 10 year Immediate Repayment term. Although the MELA Full Deferment option results in a higher total payment amount than the comparable PLUS loan, this is mainly attributable to the 15 year repayment term compared to a 10 year repayment term, as is further evidenced by the comparable APR for the MELA option and the PLUS loan.

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 over borrowing:

- A true-life story from a student loan borrower
- Potential problems caused by over borrowing
- 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 – 2014

	Amount
Private Activity Bond Cap carried forward from previous years	$ 80,000,000
Allocation of Private Activity Bond Cap during 2014	25,000,000
Private Activity Bond Cap available during 2014	105,000,000
Private Activity Bond Cap utilized during 2014	(10,466,098)
Private Activity Bond Cap abandoned during 2014	(19,533,902)
Private Activity Bond Cap carried forward to 2015	$ 75,000,000

Private Activity Bonds Issued – 2014

Sources:	
Series 2014A-1 Student Loan Revenue Bonds	$ 10,466,098
Less Underwriter's Discount	97,338
Total Sources/Net Proceeds	$ 10,368,760
Uses:	
Student Loan Fund (to fund loan originations)	$ 10,135,493
Capital Reserve Fund	100,000
Cost of Issuance Expenses/Surety Bond Premium	133,267
Total Uses	$ 10,368,760

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 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 2014A bonds funded loans with fixed interest rates of 5.5%, 6.5% and 7.5%. These interest rates compare favorably with the Federal PLUS Loan with a fixed rate of 7.21%. It is estimated that MELA borrowers with a $10,000 loan would save over $1,300 in finance charges compared to a Federal PLUS Loan using the standard 10 year immediate repayment term.

The State's allocation of Private Activity Bond Cap to MELA in 2014 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 high cost of attendance at colleges and universities requires increased borrowing by students and their families to cover the gap between the full cost of a higher education and traditional financial aid resources.