# MELA℠
MAINE EDUCATIONAL LOAN AUTHORITY

March 31, 2010

Senator Justin L. Alfond, Chair
Committee on Education and Cultural Affairs
100 State House Station
Augusta, ME 04333-0100

Representative Patricia B. Sutherland, Chair
Committee on Education and Cultural Affairs
100 State House Station
Augusta, ME 04333-0100

Dear Senator Alfond and Representative Sutherland:

On behalf of the Maine Educational Loan Authority (MELA), I am pleased to submit the Authority's Report of Bond and Loan Activity for April 17, 2009-March 15, 2010. MELA is required by L.D. 856 "An Act to Ensure the Availability of Supplemental Educational Loans," enacted by the Maine Legislature on April 16, 2009 and signed by Governor John E. Baldacci on April 17, 2009, to submit this report to the Joint Standing Committee on Education and Cultural Affairs by April 2, 2010.

MELA is thankful for the Committee's support of L.D. 856. The expansion of the State of Maine's moral obligation backing of MELA's debt was instrumental in the Authority's ability to access the capital markets in May of 2009. Your support of MELA played a vital role in ensuring the continuity of an essential source of supplemental educational financing for Maine students and families.

If the Committee needs further information or has any questions regarding MELA's Report, please feel free to contact me at (207) 400-3011 or via e-mail at serickson@mela.net.

Sincerely,

Shirley M. Erickson, Ph.D.
Executive Director

Enclosure

cc: Members of the Maine Educational Loan Authority

**MAINE EDUCATIONAL LOAN AUTHORITY**

**Report of Bond and Loan Activity**
**April 17, 2009-March 15, 2010**

Submitted to:

The Joint Standing Committee on Education and Cultural Affairs
Maine Legislature

March 31, 2010

MELA[SM]
MAINE EDUCATIONAL LOAN AUTHORITY

Prepared by:

Shirley M. Erickson, Ph.D.
Executive Director
Maine Educational Loan Authority

## MAINE EDUCATIONAL LOAN AUTHORITY

### Report of Bond and Loan Activity
### April 17, 2009-March 15, 2010

**Introduction and Overview**

The Maine Educational Loan Authority (MELA) is a quasi-governmental agency established by Maine legislation in 1988 (20-A M.R.S.A., Section 11414) to assist Maine students and families achieve their higher education goals by providing a supplemental or alternative student loan program. MELA's student loan program is designed to assist Maine students and families pay for educational expenses that exceed other available financial aid resources such as scholarships, grants, and Federal student loan programs. Borrowers must be Maine residents attending eligible higher education institutions in the United States and Canada or out-of-state residents attending eligible Maine colleges and universities.

Since 1988, MELA has disbursed student loans totaling approximately $250 million. The supplemental education financing provided by MELA plays an important role in making higher education more accessible and affordable for Maine students and families. MELA loans are funded with the proceeds from tax-exempt bonds or obligations, and no State monies are allocated to fund the program.

MELA and most student loan providers in the country have historically funded the origination of their student loans through debt issuances in the capital markets in the form of Asset Back Securities (ABS). The volatility in the capital markets and continuing credit crisis due in large part to the high rate of defaults from sub-prime mortgages, closed down the ABS markets in late 2007. This disruption in the capital markets resulted in investors moving away from ABS to safer investments such as treasuries or money markets. Like many student loan providers, the interest rates on MELA's ABS reset based on auction results where investors bid on the securities based upon the interest rate they are willing to accept. These securities are commonly referred to as Auction Rate Securities (ARS). A failed auction occurs when there are not enough investor bids to sell all of the securities. In the event of a failed auction, the interest rate is reset to the maximum rate calculated using the formula in the related bond document. All but a few auctions involving student loan ARS have resulted in failed auctions since the beginning of 2008. Lack of investor interest in ARS, resulted in the need for MELA and other student loan issuers to refinance their ARS into a different structure and issue new bonds in an alternate form more attractive to investors.

The capital markets were further disrupted by negative downgrades of the two primary bond insurers, Ambac Assurance Corporation and MBIA Inc. The ratings for these bond insurers were downgraded or in some cases withdrawn, due to their exposure from guaranteeing ABS secured by sub-prime mortgages. The ratings on the securities that were covered by bond insurance were primarily based on the ratings of the bond insurers themselves, resulting in downgrades or withdrawn ratings on many student loan securities. Once these ratings actions occurred, the credit enhancement provided by bond insurance was significantly reduced or removed. In the past, bond insurance enabled student loan issuers to secure interest rate savings when accessing capital and was viewed as an attractive attribute by investors. In addition, part of the failed auction formula noted above is tied to the ratings on ARS resulting in higher failed auction rates when the ARS are downgraded. Given the situation with bond insurers, student loan issuers found that for future transactions they would need additional forms of credit enhancement including increased state support for their student loan programs.

MELA had planned to do a bond issue in the Spring of 2008, but was unable to do so due to the turbulence in the capital markets. In order to fund 2008-2009 academic year student loan disbursements, MELA secured interim financing in the form of a $20,000,000 million tax-exempt line of credit through TD Bank, N.A. The line, with a January 2010 maturity date, was intended to be a short-term bridge until MELA could access the capital markets. The transaction took approximately five months to complete and was the first student loan financing transaction for TD Bank.

In late 2008, MELA was faced with significant challenges including the need to stabilize its capital structure and to secure funds for new education loans for 2009-2010 and beyond. It was imperative for MELA to refinance $136,500,000 in ARS debt into a new structure as a more favorable mode of debt to investors in order to alleviate a potentially indefinite failed auction rate scenario. Also, it was necessary to refinance $15,750,000 outstanding from the $20,000,000 million revenue note with TD Bank prior to the due date in January 2010. Finally, MELA needed to issue new student loan revenue bonds to ensure the continuity of funding for new student loans.

MELA recognized that in order to have a successful bond issue in the Spring of 2009, the Authority would need additional credit enhancement in view of the prolonged difficult economic environment and capital market conditions. With this mind, MELA pursued and secured an increase from $50 million to $300 million in the State of Maine's moral obligation backing of the Authority's debt through legislation submitted during the 124$^{th}$ First Regular Session of the Maine Legislature, L.D. 856 "An Act to Ensure the Availability of Supplemental Educational Loans."

MELA is required by L.D. 856, enacted by the Maine Legislature on April 16, 2009 and signed by Governor John E. Baldacci on April 17, 2009, to submit a report as follows:

*"**Sec.4. Report of bond and loan activity.** The Maine Educational Loan Authority shall submit a report to the Joint Standing Committee on Education and Cultural Affairs no later than April 2, 2010 summarizing the authority's bond and loan activity from the effective date of this Act through March 15, 2010. The report must include an account of tax exempt bonds issued during this period with amounts and rates for each issue. The report must include an account of bonds issued prior to the effective date of this Act that*

*have been refinanced, the change in interest rates for these bonds and the bond cap available as of March 15, 2010.*

*The Maine Educational Loan Authority shall also report the rates on alternative loans originating after the effective date of this Act and changes in rates for loans outstanding on the effective date of this Act. The report must also include an account of any fees in excess of $50,000 paid to entities outside the authority."*

It is within this context that the following bond and loan activity information is being provided.

**Bond and Loan Activity for April 17, 2009-March 15, 2010**

*An account of tax-exempt bonds issued from April 17, 2009 through March 15, 2010 with amounts and rates for each issue.*

The Maine Educational Loan Authority (MELA) issued $210,000,000 of tax-exempt bonds during the period from April 17, 2009 through March 15, 2010. On May 27, 2009, MELA issued its $210,000,000 Series 2009A student loan revenue and refunding bonds. The Series 2009A bond issue was structured as follows:

| *Designation* | *Par Amount* | *Tax Status* | *Weighted Avg. Rate* |
|---|---|---|---|
| 2009 A-1 | $56,500,000 | Exempt (AMT) | 5.109% |
| 2009 A-2 | $73,500,000 | Exempt (Non-AMT) | 4.618% |
| 2009 A-3 | $80,000,000 | Exempt (Non-AMT) | 5.875% |

Further detail of the interest rates by maturity date is included in the Pricing Report for $210,000,000 Series 2009A Bond Issue prepared for MELA on July 13, 2009 by Student Loan Capital Strategies LLC in Appendix A.

The American Recovery and Reinvestment Act of 2009 modified the treatment of interest on certain municipal bonds which exempted that interest from taxation under the Alternative Minimum Tax (AMT). Bonds refunding obligations with an original issue date prior to 2003 do not benefit from this favorable AMT treatment under the Act. The portion of the refunded bonds in MELA's transaction that were issued prior to 2003 and are subject to AMT is $56,500,000.

MELA's May 2009 bond issue represented the first successful tax-exempt financing comprised solely of alternative education loans since the fall of 2008. New Jersey's Higher Education Student Assistance Authority (HESAA), Massachusetts Educational Financing Authority (MEFA), and Rhode Island Student Loan Authority (RISLA) issued tax-exempt student loan revenue bonds, also comprised of alternative education loans, within several weeks following MELA's transaction. For comparison purposes, a summary of the pertinent details of the HESAA, MEFA, and RISLA transactions is included in the Pricing Report for $210,000,000 Series 2009A Bond Issue in Appendix A.

*An account of bonds issued prior to April 17, 2009 that have been refinanced and the change in interest rates for these bonds.*

Prior to April 17, 2009, MELA had the following tax-exempt bonds outstanding which were refinanced as part of the Series 2009A bond issue.

| *Designation* | *Par Amount* | *Type* | *Tax Status* | *Rate* |
|---|---|---|---|---|
| 1996 A | $12,500,000 | Revenue | Exempt | 1.16% |
| 1997 A-1 | $10,000,000 | Revenue | Exempt | 1.16% |
| 1999 A-1 | $14,000,000 | Revenue | Exempt | 1.16% |
| 2000 A-1 | $10,000,000 | Revenue | Exempt | 1.16% |
| 2002 A-2 | $10,000,000 | Revenue & Refunding | Exempt | 1.16% |
| 2005 A-1 | $30,000,000 | Revenue | Exempt | 1.16% |
| 2007 A-1 | $50,000,000 | Revenue | Exempt | 1.25% |

MELA had $136,500,000 in student loan revenue and refunding bonds outstanding prior to April 17, 2009 that were refinanced with the Series 2009A bond issue. All of the bonds were tax-exempt one-year Auction Rate Securities (ARS). Although the short-term interest rates on the ARS were lower than the long-term rates on the refunding bonds at the time of issue, MELA was able to convert a highly volatile variable rate debt into a more stable fixed rate debt on a long-term basis. Due to the rating actions noted above, the maximum interest rate on MELA's tax-exempt ARS in the event of a failed auction was equal to 265% of the higher of (a) a comparable index (determined by the market agent) or (b) the after-tax equivalent of the 30-day financial commercial paper rate, with a cap of 14%. Absent any comparable securities, the market agent determined that the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index was the most appropriate index to use for the maximum rate calculation. Although the SIFMA rate was at a relatively low rate in May of 2009 when the last failed auctions occurred, the rate has been quite volatile over the years with an average rate since 2000 of 2.21% and a high rate of 7.96% as recent as October of 2008. It was anticipated that the SIFMA rate would rise significantly over the remaining term of MELA's ARS.

In addition, MELA had a 2008 tax-exempt student loan revenue note in the amount of $15,750,000 outstanding from a $20,000,000 line of credit. This student loan revenue note was also refunded as part of the Series 2009A bond issue. The 2008 note had a monthly variable interest rate tied to the one-month LIBOR plus 1.83% (the actual rate on May 27, 2009 was 2.119%) and was due to mature in January 2010.

*An account of bond cap available as of March 15, 2010.*

MELA has $32,250,000 in bond cap available as of March 15, 2010. This total amount includes a $12,250,000 carry forward from 2009 plus a $20,000,000 allocation for 2010.

*The rates on alternative loans originating after April 17, 2009 and changes in rates for loans outstanding on April 17, 2009.*

The rates on MELA's loans originating after April 17, 2009 were 6.99% from April 17, 2009 to May 31, 2009 and 8.43% from June 1, 2009 to the present. Please see Appendix B for further detail on the changes in rates for loans outstanding on April 17, 2009.

The variable interest rate on MELA's loans is based on the tax-exempt bond rates outstanding plus an administrative spread determined in accordance with each bond issue. MELA has consistently offered the lowest interest rate to borrowers that will pass the cash flow requirements of the rating agencies and bond insurer. MELA's interest rate is set annually on June 1st and is effective through May 31st, and is not impacted by changes in shorter term rates such as Prime or LIBOR.

Due to the issuance of tax-exempt bonds or obligations, MELA has historically been able to offer interest rates on its alternative education loans well below the average in the marketplace. There will be times when interest rates on MELA loans are not the lowest rates available due mainly to volatile interest rate markets or when indices like Prime or LIBOR are very low. These situations are short-term and over the life of the loan, average interest rates on MELA loans will be some of the lowest rates available in the marketplace.

Prior to 1996, MELA offered a fixed rate loan product with an interest rate of 8.90%. MELA began offering a one-year variable rate loan in June of 1996 after MELA's first issuance of ARS. Since MELA began offering The Maine Loan® in 1996, the Authority's primary loan product, the average annual interest rate has been 6.49%. The current higher annual interest rate of 8.43% for The Maine Loan is reflective of the higher cost of funds and overall capital market conditions due to the state of the economy. Although the rate on The Maine Loan adjusts annually, as a result of converting to fixed rate bonds, the maximum interest rate can never exceed 10.625%. It is important to note that MELA's current interest rate on unsecured, non-guaranteed alternative student loans is comparable to the guaranteed Federal PLUS loan program fixed rates of 7.90% for the William D. Ford Federal Direct Loan Program and 8.50% for the Federal Family Education Loan Program.

Several lenders of alternative education loans offer tiered interest rates (adjusted monthly or quarterly), tiered fees or a combination of both based on credit scores and/or the presence of co-borrowers, making it difficult to fully compare and contrast various loan programs. Although borrowers with the highest credit scores may be able to find lower rates in today's marketplace, the average interest rate currently available for alternative loans is approximately 10%. MELA offers the same interest rate and fees to all approved borrowers regardless of credit history or presence of co-borrowers. While Prime and LIBOR are currently very low, these rates fluctuate with market conditions. In a declining interest rate environment, alternative education loans tied to one of these shorter term indices may seem favorable to borrowers but the reverse is true in an increasing interest rate environment.

*An account of any fees in excess of $50,000 paid to entities outside the authority.*

Listed below is an account of any fees in excess of a cumulative total of $50,000 for the period of April 17, 2009 through March 15, 2010 paid to entities outside of MELA.

| *Entity* | *Purpose of Fees* | *Amount* | *RFP Date* |
|---|---|---|---|
| **RBC Capital Markets** | Underwriter's Fees* | $1,708,160 | 11/21/2008 |
| **Maine Education Services** | Program Administration* | $ 952,533 | 01/08/2009 |
| **Assured Guaranty Corp.** | Bond Insurance Premiums* | $ 874,299 | N/A |
| **Nelnet Loan Services** | Alternative Loan Servicing | $ 344,648 | 03/10/2003 |
| **United States Treasury** | Arbitrage Rebate | $ 312,643 | N/A |
| **Kutak Rock LLP** | Bond Counsel* | $ 217,567 | 11/17/2006 |
| **Student Loan Capital Strategies LLC** | Financial Advisor* | $ 100,000 | 02/15/2008 |
| **Strook & Strook & Lavan LLP** | Bond Insurer Counsel Fees* | $ 90,000 | N/A |
| **Standard & Poor's** | Rating Agency Fees* | $ 73,500 | N/A |

* Includes fees related to the issuance of the Series 2009A bonds. Of the above amount paid to Maine Education Services, $105,000 related to the 2009A bond issuance.

In addition to the above fees, MELA paid interest to various bondholders totaling $8,056,673 in May and December 2009. MELA also paid interest on the TD Bank line of credit totaling $52,724 in May 2009.

**Summary**

The continued unprecedented economic conditions and on-going instability in the capital markets has had a significant impact on the student lending industry, causing many lenders to suspend their alternative student loan programs or exit the marketplace due to their inability to access capital. Along with the difficulties in accessing capital, there have been numerous recent changes impacting the student lending industry due to expanded Federal regulations involving disclosure requirements and pending legislation to replace the Federal Family Education Loan Program with the William D. Ford Federal Direct Loan Program for Federal student loans.

Although the Maine Educational Loan Authority (MELA) was directly impacted by these difficult economic times, the Authority was able to sustain its alternative education loan program and provide the continuity of funding to meet the supplemental education financing needs of Maine students and families. MELA positioned itself for the future by replacing its auction rate bond financing for its alternative education loan program with a more stable financial structure secured by a capital reserve fund. The restructuring to fixed rate bonds also provides a more stable interest rate for MELA borrowers when short-term interest rates rise from their current historic lows. The expansion of the State of Maine's moral obligation backing of MELA's debt played a pivotal role in the Authority's success in accessing the capital markets in May of 2009. Without this increased State support for MELA, the Authority would not have had a successful bond issue, resulting in no funding for new education loans for 2009-2010 and beyond, increased liquidity constraints, and continued failed auctions for its Auction Rate Securities.

MELA is deeply grateful for the support of the Education and Cultural Affairs Committee, the full Legislature, and Governor John E. Baldacci for the increase in the State's moral obligation backing of the Authority's debt. Since 1988, MELA has been responsible in its use of moral obligation and is committed to continuing to exercise care and caution with this important pledge from the State.

In closing, the successful enactment of MELA's recent legislation has enabled the Authority to continue to fulfill its mission of providing affordable supplemental education financing to assist Maine students and families in achieving their higher education goals. MELA considers it to be a privilege to continue to partner with the State in reaching the important goal of increasing the percentage of Maine citizens with a college education, which is critical to improving Maine's quality of life and economic prosperity.

# APPENDIX A

Presentation to:

MELA
MAINE EDUCATIONAL LOAN AUTHORITY

Pricing Report for $210,000,000 Series 2009A Bond Issue

July 13, 2009

STUDENT LOAN CAPITAL STRATEGIES
LLC
*Financial Advisory to the Student Loan Industry*

# Transaction Overview

On May 27, 2009, Maine Educational Loan Authority ("MELA" or the "Authority") closed its $210,000,000 Series 2009A bond issue structured as follows:

| Designation | Par Amount | Tax Status | Rate Type | First Interest Date | Interest Frequency | Ratings (Enhanced) | Ratings (Underlying) | Maturity | Lien |
|---|---|---|---|---|---|---|---|---|---|
| 2009 A-1 | $56,500,000 | Exempt (AMT) | Fixed | 12/1/09 | Semi-annual | Aa2/AAA | A3/A | 12/1/2022 | Senior |
| 2009 A-2 | $73,500,000 | Exempt (Non-AMT) | Fixed | 12/1/09 | Semi-annual | Aa2/AAA | A3/A | 12/1/2027 | Senior |
| 2009 A-3 | $80,000,000 | Exempt (Non-AMT) | Fixed | 12/1/09 | Semi-annual | Aa2/AAA | A3/A | 12/1/2039 | Senior |

The transaction was structured with a financial guaranty insurance policy and a reserve fund financial guaranty insurance policy issued by Assured Guaranty Corp. Further, the issue benefited from the moral obligation of the State of Maine. The Bonds were issued pursuant to a new Master Indenture of Trust as supplemented by a First Supplemental Indenture of Trust dated May 1, 2009. Ratings were issued by Standard and Poors, and Moody's Investor's Service. The transaction was priced by RBC Capital Markets on May 20, 2009.

**Key Transaction Parties**

| Issuer | Underwriter | Bond Counsel | Underwriter's Counsel | Insurer | Insurer Counsel | Trustee | Financial Advisor |
|---|---|---|---|---|---|---|---|
| MELA | RBC Capital Markets | Kutak Rock | Squire, Sanders & Dempsey | Assured Guaranty Corp. | Stroock & Stroock & Lavan | Zions Bank | Student Loan Capital Strategies |

# Transaction Objectives

The Authority set out to accomplish a number of objectives with the 2009A bond issue both to stabilize its capital structure and to secure funds for continuing originations. Each objective was successfully met as outlined below:

1. Refinance TD Bank Credit Line – Market and economic conditions prevented the Authority from accessing the bond market to raise proceeds for new loan originations in 2008. In place of a new bond issue, the Authority secured a line of credit from TD Bank secured by student loan assets. This facility allowed the Authority to continue its loan program in 2008, but had a maturity date of January 2010. Proceeds of the 2009A bond issue retired all the TD Bank obligations, meeting the maturity and transferring all the secured assets to the Authority's new indenture.

2. Refinance Existing Master Trust – The Authority had been monitoring the tenuous liquidity position of its existing master trust since the fourth quarter of 2007. This trust supported the Authority's bond issuance since 1996, but due to increasing loan volume and borrower deferral of interest in school was experiencing liquidity shortfalls. In 2008, the Authority had to draw on the debt service reserve fund to meet liquidity needs. Beyond reserve funds there was no other source of liquidity other than a draw on the existing bond insurance policy. The 2009A bond issue refinanced all the outstanding debt issued under the previous master trust and put in place a structure with secure liquidity.

3. Raise Proceeds for New Originations – With liquidity scarce in the capital markets, it was imperative that the Authority secure a source of funds for on going originations. The 2009A issue will supply liquidity in two ways. First, it is providing bond proceeds to be used to make new originations through August 2010. Second, the transaction provides the authority to recycle student loan receipts into new loans until August 2010 with the recycling termination date subject to extension in the future. The recycling and new issue proceeds were sized to meet 100% of the Authority's projected volume for approximately 15 months. When new money is needed, recycling can be extended and the new indenture will provide a strong and well structured platform from which to issue new debt.

4. Replace Rating Downgraded Auction Rate Notes with Stable, Higher Rated Fixed Rate Notes – The Authority's previously outstanding borrowings were Auction Rate Securities insured by Ambac Assurance Corp. These bonds, like all other auction rate securities, had failed meaning investor demand to purchase the bonds on each remarketing date had evaporated. This failure resulted in penalty interest rates on the bonds. Further Ambac experienced ratings downgrades and continued negative outlook. This resulted in a MELA trust that was downgraded and composed of "broken" bonds. The new issue refinanced all of these obligations with stable fixed rate notes and utilized a stable insurer, Assured Guaranty, to enhance ratings. The new structure is stable and highly rated.

# Transaction Objectives

5. Achieve Competitive Funding Cost to Give Borrower Competitive Interest Rate – The borrower coupon calculation for the Authority's loan program is tied to the bond rate (equivalent to the bond rate plus an administrative spread). Both the bond rate and the administrative spread are dependent on market conditions and transaction structuring. The Authority set out a goal to achieve a borrower interest rate less than 8.50% which was a very aggressive level given extraordinarily difficult bond market conditions coupled with stringent rating agency structuring requirements. The Authority and its team ultimately surpassed this goal by 7 basis points at closing.

# Ground Breaking Bond Issue

Prior to the MELA bond issue, no not-for-profit student lender had been able to come to market in 2009. All variable rate bond markets were closed to the student loan sector and the fixed rate market which while open had uneconomic execution levels. Further, rating agency assumptions for student loan defaults had reached unprecedented levels which led to a substantial equity requirement for lenders to have a transaction rated.

Despite the challenges, the Authority had to come to market with a bond issue in the spring to continue its loan program, and set out to do just that in January by assembling a working group. The Authority hired a team of attorneys and a trustee with a deep familiarity with student loan finance in general and the MELA program in particular. RBC Capital Markets was hired after a request for proposal process to act as sole manager. RBC has a demonstrated specialty in the not-for-profit segment of the student lending space and committed a team of bankers, sales people, and traders with deep experience, broad reach and a commitment to see a MELA financing through to a successful closing.

The Authority and its working group began a five month process to bring the 2009A issue to market (a process that would have taken six weeks in better times). To achieve the necessary ratings and create investor interest sufficient to sell the bonds and surpass the goal of a loan rate less than 8.50% the Authority and its team laid some key structural groundwork:

1. In the summer of 2008, the Authority tightened its underwriting criteria, increasing credit standards and decreasing deferment entitlements. This made the program more "financeable" and appealing to rating agencies and investors alike.

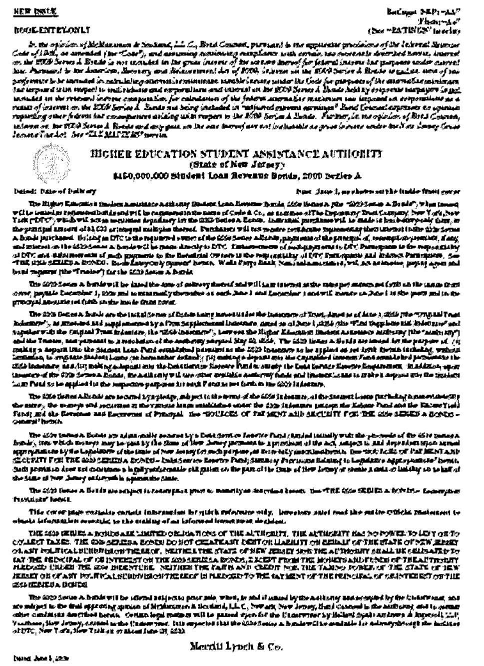
2. The Authority hired Assured Guaranty to provide a financial guaranty insurance policy for the new issue. Assured was and remains the only bond insurer in the student loan space that has maintained its high credit ratings. The guaranty would allow for the bonds to achieve high, investment grade ratings, critical to attracting investors. The Authority worked hard to achieve attractive pricing from Assured Guaranty.

3. The Authority worked with the State of Maine to expand its moral obligation legislation to encompass the entire amount of the 2009A issue. This was another critical leg to enhance ratings and build investor confidence and ratings. Further, the transaction received its rating from Moody's Investor's Service based solely on the moral obligation, another innovation in student loan finance.

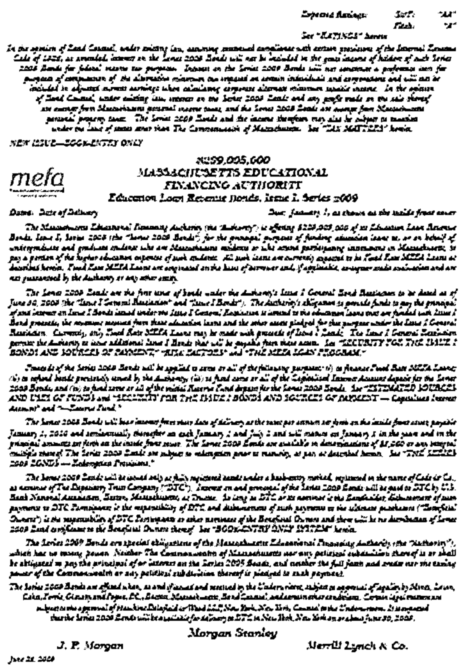
This extensive effort culminated in a successful bond issue that achieved all of the Authority's goals and led the way for the student loan sector in 2009.

# Comparable Transactions

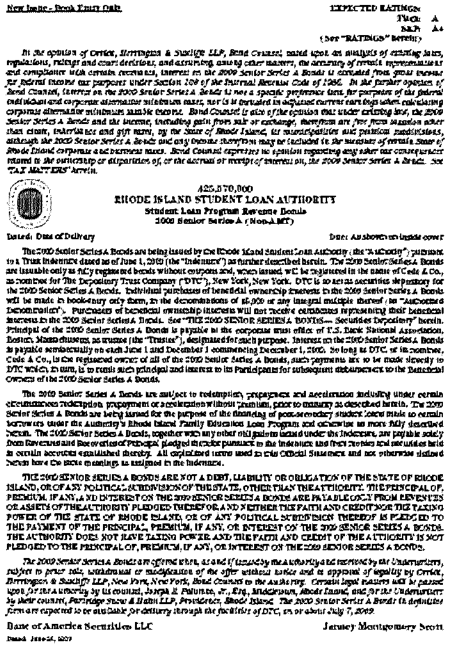
Three transactions in the not-for-profit student loan space are directly comparable to the Authority's bond issue. All offering documents are publically available at www.munios.com.



HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
(State of New Jersey)



MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY



RHODE ISLAND STUDENT LOAN AUTHORITY
Student Loan Program Revenue Bonds

Each of the transactions above was a fixed rate issue by a non-profit student lender. MELA led the way at the end of May with an insured structure which achieved the highest ratings of this peer group. The other transactions are not insured and lower rated.

# Comparable Transactions: Issue Costs

The table below details the underwriting fees, ratings and equity contributions for each transaction in the peer group.

| Issuer | Maine Educational Loan Authority | Higher Education Student Assistance Authority (NJ) | Masachusetts Educational Financing Authority | Rhode Island Student Loan Authority |
|---|---|---|---|---|
| Closing Date | May 27, 2009 | June 23, 2009 | June 30, 2009 | July 7, 2009 |
| Issue Size | $210,000,000 | $450,000,000 | $289,005,000 | $25,570,000 |
| Underwriting Fees | $1,708,160 | $3,627,500 | $2,019,911 | $243,555 |
| Fees as a % of Issue | 0.813% | 0.806% | 0.699% | 0.953% |
| Other Issue Costs | $1,162,049 | NA | NA | NA |
| Equity Contribution | $0 | $13,372,172 | $13,203,765 | $3,981,961 |
| Ratings | Aa2/AAA (Moodys/S&P) | A+/AA (Fitch/S&P) | A/AA (Fitch/S&P) | A/A+ (Fitch/S&P) |

The MELA transaction achieved underwriting fees that were 0.5 bps lower than the average for the group. MELA was able to finance its other issuance costs which included rating, legal, insurance and advisory fees while the other issuers paid these fees out of pocket. In addition each of the other issuers had to contribute an average of over 7% equity from outside the financing to their transactions to achieve necessary ratings, while MELA had no equity contribution utilizing bond insurance and the State's moral obligation to enhance ratings.

All in, MELA was able to execute its bond issue with significantly less expense than other comparable transactions. Underwriting fees were below average, but the most significant savings was avoiding the need for an equity contribution. Further MELA achieved this while getting the highest ratings of this group and the only rating from Moody's Investor's Service.

# Comparable Transactions: Bond Pricing

MELA achieved quite favorable pricing for both AMT and non-AMT tranches as shown below:

**Maine Educational Loan Authority**
**Student Loan Revenue Bonds, Series 2009**
**Final Rates and Amounts**

| | | A-1 | | | | | A-2 | | | | | A-3 | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Yrs | Date | Serial Maturity | Mandatory Redemption | Total Maturity | Rate/ Yield | CUSIP | Serial Maturity | Mandatory Redemption | Total Maturity | Rate/ Yield | CUSIP | Mandatory Redemption | Total Maturity | Rate | CUSIP | Serial/Mand Red'n |
| | 5/27/2009 | | | | | | | | | | | | | | | |
| 1.51 | 12/1/2010 | 1,000,000 | | 1,000,000 | 3.400% | | 900,000 | | 900,000 | 1.850% | | | | | | 1,900,000 |
| 2.51 | 12/1/2011 | 3,800,000 | | 3,800,000 | 4.000% | | 3,200,000 | | 3,200,000 | 2.400% | | | | | | 7,000,000 |
| 3.51 | 12/1/2012 | 5,100,000 | | 5,100,000 | 4.300% | | 4,300,000 | | 4,300,000 | 2.750% | | | | | | 9,400,000 |
| 4.51 | 12/1/2013 | 5,200,000 | | 5,200,000 | 4.625% | | 4,300,000 | | 4,300,000 | 3.125% | | | | | | 9,500,000 |
| 5.51 | 12/1/2014 | 5,200,000 | | 5,200,000 | 4.950% | | 4,000,000 | | 4,000,000 | 3.500% | | | | | | 9,200,000 |
| 6.51 | 12/1/2015 | 5,200,000 | | 5,200,000 | 5.150% | | 4,500,000 | | 4,500,000 | 3.875% | | | | | | 9,700,000 |
| 7.51 | 12/1/2016 | 5,600,000 | | 5,600,000 | 5.250% | | 4,000,000 | | 4,000,000 | 4.100% | | | | | | 9,600,000 |
| 8.51 | 12/1/2017 | 5,600,000 | | 5,600,000 | 5.375% | | 4,200,000 | | 4,200,000 | 4.250% | | | | | | 9,800,000 |
| 9.51 | 12/1/2018 | 4,800,000 | | 4,800,000 | 5.500% | | 4,200,000 | | 4,200,000 | 4.500% | | | | | | 9,000,000 |
| 10.51 | 12/1/2019 | 4,600,000 | | 4,600,000 | 5.625% | | 4,200,000 | | 4,200,000 | 4.625% | | | | | | 8,800,000 |
| 11.51 | 12/1/2020 | | 4,500,000 | | | | | 4,200,000 | | | | | | | | 8,700,000 |
| 12.51 | 12/1/2021 | | 4,700,000 | | | | | 4,200,000 | | | | | | | | 8,900,000 |
| 13.51 | 12/1/2022 | | 1,200,000 | 10,400,000 | 5.750% | | | 6,300,000 | | | | | | | | 7,500,000 |
| 14.51 | 12/1/2023 | | | | | | | 6,000,000 | | | | | | | | 6,000,000 |
| 15.51 | 12/1/2024 | | | | | | | 5,000,000 | | | | | | | | 5,000,000 |
| 16.51 | 12/1/2025 | | | | | | | 4,300,000 | | | | | | | | 4,300,000 |
| 17.51 | 12/1/2026 | | | | | | | 4,000,000 | | | | | | | | 4,000,000 |
| 18.51 | 12/1/2027 | | | | | | | 1,700,000 | 35,700,000 | 5.625% | | | | | | 1,700,000 |
| 19.51 | 12/1/2028 | | | | | | | | | | | | | | | - |
| 20.51 | 12/1/2029 | | | | | | | | | | | | | | | - |
| 21.51 | 12/1/2030 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 22.51 | 12/1/2031 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 23.51 | 12/1/2032 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 24.51 | 12/1/2033 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 25.51 | 12/1/2034 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 26.51 | 12/1/2035 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 27.51 | 12/1/2036 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 28.51 | 12/1/2037 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 29.51 | 12/1/2038 | | | | | | | | | | | 8,000,000 | | | | 8,000,000 |
| 30.51 | 12/1/2039 | | | | | | | | | | | 8,000,000 | 80,000,000 | 5.875% | | 8,000,000 |
| | | 46,100,000 | 10,400,000 | 56,500,000 | | | 37,800,000 | 35,700,000 | 73,500,000 | | | 80,000,000 | 80,000,000 | | | 210,000,000 |

# Comparable Transactions: Bond Pricing

When the MELA transaction priced on May 20, 2009, it achieved a weighted average funding cost of 5.229%. This compares favorably to the transactions in the peer group as summarized below:

| Issuer | Maine Educational Loan Authority | Higher Education Student Assistance Authority (NJ) | Masachusetts Educational Financing Authority | Rhode Island Student Loan Authority |
|---|---|---|---|---|
| Closing Date | May 27, 2009 | June 23, 2009 | June 30, 2009 | July 7, 2009 |
| Issue Size | $210,000,000 | $450,000,000 | $289,005,000 | $25,570,000 |
| % Subject to AMT | 26.90% | 0.00% | 0.00% | 0.00% |
| % Non AMT | 73.10% | 100.00% | 100.00% | 100.00% |
| Total Weighted Funding Cost | 5.23% | 5.13% | 5.43% | 5.67% |
| Ratings | Aa2/AAA (Moodys/S&P) | A+/AA (Fitch/S&P) | A/AA (Fitch/S&P) | A/A+ (Fitch/S&P) |
| Longest Bond | 30 Years | 21 Years | 19 Years | 21 Years |

The American Recovery and Reinvestment Act of 2009 modifies the treatment of interest on certain municipal bonds essentially exempting that interest from taxation under the Alternative Minimum Tax. Bonds that refund obligations originally issued prior to 2003 do not get this favorable AMT treatment under the Act. Since a portion of the refunded bonds in the MELA transaction were issued prior to 2003, those refunding bonds (26.9% of the transaction) are subject to AMT.

Despite the fact that a portion of the MELA bonds was subject to AMT, and the cash flows are generally longer, the transaction received very favorable pricing relative to its peers. Much of this is due to the higher ratings on the MELA bonds due to the more enhanced structure. All in, MELA achieved best in class execution at the lowest cost of its peer group and closed a transaction that was a milestone in 2009 and allowed the Authority to continue its loan program unabated.

# APPENDIX B

**Changes in Interest Rates for Loans Outstanding on April 17, 2009**

| *Loan Type* | *Origination Date* | *Rate on April 17, 2009* | *June 1, 2009 Rate Change* |
|---|---|---|---|
| MELA Fixed Rate Loan (1) | May 1992 – June 1996 | 8.90% | 8.90% |
| The Maine Medical Loan (2) | June 1998 – July 2008 | 3.91% | 2.18% |
| The Maine Medical Loan (3) | June 1998 – July 2008 | 4.16% | 2.43% |
| The Maine Medical Loan (4) | July 2008 – current | 6.99% | 8.43% |
| The Maine Loan (5) | June 1996 – current | 6.00% | 6.00% |
| The Maine Loan (6) | June 1996 – July 2008 | 6.50% | 8.18% |
| The Maine Loan (7) | June 1996 – July 2008 | 6.75% | 8.43% |
| The Maine Loan (8) | July 2008 – current | 6.99% | 8.43% |
| MELA Private Consolidation Loan (9) | June 2006 – November 2008 | 7.33% | 8.48% |
| MELA Private Consolidation Loan (10) | June 2006 – November 2008 | 7.58% | 8.73% |

(1) Includes MELA fixed rate supplemental loans originated between May 29, 1992 and June 1, 1996.

(2) Includes The Maine Medical Loans in school, grace or deferment status originated prior to July 28, 2008. Variable interest rate reset annually on June 1, based on 91-day T-Bill rate plus 2.0%.

(3) Includes The Maine Medical Loans in repayment status originated prior to July 28, 2008. Variable interest rate reset annually on June 1, based on 91-day T-Bill rate plus 2.25%.

(4) Includes all of The Maine Medical Loans originated after July 28, 2008. Variable interest rate reset annually on June 1, based on MELA cost of financing plus an administrative spread.

(5) Includes The Maine Loans where borrower has received an active duty interest rate cap of 6.0%.

(6) Includes The Maine Loans originated prior to July 28, 2008, where the borrower is also receiving a 0.25% interest rate reduction for making ACH payments. Variable interest rate reset annually on June 1, based on MELA cost of financing plus an administrative spread.

(7) Includes The Maine Loans originated prior to July 28, 2008. Variable interest rate reset annually on June 1, based on MELA cost of financing plus an administrative spread.

(8) Includes The Maine Loans originated after July 28, 2008 using proceeds from the TD Bank line of credit. Variable interest rate reset annually on June 1, based on MELA cost of financing plus an administrative spread.

(9) Includes MELA Private Consolidation Loans originated between June 1, 2006 and November 1, 2008, where the borrower is also receiving a 0.25% interest rate reduction for making ACH payments. Variable interest rate reset annually on June 1, based on MELA cost of financing plus an administrative spread.

(10) Includes MELA Private Consolidation Loans originated between June 1, 2006 and November 1, 2008. Variable interest rate reset annually on June 1, based on MELA cost of financing plus administrative spread.