Maine Educational Loan Authority (MELA)

2007
Annual Report

MELA[SM]
MAINE EDUCATIONAL LOAN AUTHORITY

MELA[SM]

MAINE EDUCATIONAL LOAN AUTHORITY

April 25, 2008

Governor John E. Baldacci
State of Maine
Office of the Governor
1 State House Station
Augusta, ME 04333-0001

Dear Governor Baldacci:

Pursuant to 20-A M.R.S.A., Chapter 417-A, Section 11427, enclosed is a copy of the Maine Educational Loan Authority's (MELA) annual report for the fiscal year January 1, 2007 through December 31, 2007. MELA's annual report includes the following sections: introduction and background information; program administration (loan origination and servicing); application volume and distribution; loan volume; borrower distribution; summary; charts and graphs to illustrate the narrative contained within the report; and basic financial statements with management discussion and analysis.

MELA was established in 1988 to assist Maine students and their families in achieving their higher education goals by providing a supplemental or alternative student loan program. There are three student loan products offered by MELA: The Maine Loan®, The Maine Medical Loan[sm], and MELA Private Consolidation Loan[sm]. The Maine Loan, MELA's primary student loan product, exists to bridge the gap between the full cost of undergraduate and graduate higher education and other traditional financial aid resources such as scholarships, grants, and the Federal Family Education Loan Programs. The Maine Medical Loan was created in 1998 to assist Maine students pursuing a Doctor of Medicine (MD) or Doctor of Osteopathic Medicine (DO) degree. MELA expanded the scope of its medical loan in 2002 to include other degrees such as dentistry, chiropractic, and veterinary medicine. This loan program is available to eligible medical students to borrow funds up to the full cost of a medical degree less other financial aid. The MELA Private Consolidation Loan, implemented in 2006, allows borrowers with qualifying alternative or private education loans to consolidate these loans at a lower interest rate than they are already paying.

Maine's public and private institutions of higher education continue to be the greatest beneficiaries of MELA loans. MELA's loan volume in 2007 was approximately $29,600,000 in originations for The Maine Loan and The Maine Medical Loan, which is a significant increase when compared with the approximate $22,835,000 originated in fiscal year 2006. Given the escalating costs of higher education coupled with the declining purchasing power of federal and state grants, students have increasingly relied on supplemental or alternative loans in order to finance their college education. With this in mind, MELA anticipates serving a growing number of Maine students and families with their educational financing needs in the years ahead.

In February of 2007, MELA issued $50,000,000 in tax-exempt student loan revenue bonds. The new money provided MELA with the opportunity to continue offering its alternative student loan program as an important safety net for many Maine students and their families in meeting the full cost of higher education.

Historically, MELA has funded the originations of its student loans through debt issuances in the form of auction rate securities in the capital markets. Given the current turmoil in the capital markets and recent failed auctions for student loan auction rate securities, it is unlikely that the auction rate market will recover in the near future. With this in mind, MELA is actively seeking alternative funding structures and options for its next bond issue. In these unprecedented times in the capital markets, MELA is committed to securing an alternative economical funding source to ensure the continuity of its alternative student loan programs.

Baker Newman and Noyes LLC, an independent certified public accounting firm, recently completed MELA's financial audit for the 2007 fiscal year. In reviewing the financial statements, it is clear that MELA is in a sound financial position and that the funds MELA has acquired with proceeds from tax-exempt bonds are being solely utilized for its alternative student loan program.

To summarize, MELA looks forward to continuing to provide financial assistance to Maine students and their families as they work hard to achieve their higher education goals. By providing the overall lowest cost alternative educational loan programs available in Maine, MELA is a key partner with the State of Maine in making a college education more accessible and affordable for its residents.

Your continued interest in and support of MELA is greatly appreciated.

Sincerely,

Shirley M. Erickson, Ph.D.
Executive Director

pc: President of the Senate
Speaker of the House
Members of the Joint Standing Committee on Education and Cultural Affairs
Members of the Maine Educational Loan Authority

Table of Contents

Maine Educational Loan Authority (MELA) Authority Members

Christopher Bell, Chair
Director of Financial Aid
University of Maine at Presque Isle

Anne Connors, Vice Chair
Director of Financial Aid
Kennebec Valley Community College

David Mahoney, Secretary/Treasurer
Associate Director of Student Financial Services
Bates College

Bruce N. Schatz, CPA
Consultant

Elizabeth Doane
Guidance Counselor
Yarmouth High School

David Lemoine
Treasurer
State of Maine
Ex-Officio

STAFF

Shirley M. Erickson, Ph.D.
Executive Director, MELA

MELA 2007 Program Highlights

I. INTRODUCTION AND BACKGROUND INFORMATION

The Maine Educational Loan Authority (MELA) is a quasi-governmental agency that was created and established by Maine legislation in April of 1988 (20-A M.R.S.A., Section 11414). MELA functions as an administratively independent authority within the current organizational structure of State government, and receives no appropriation from the Legislature for its operation. MELA is governed by a seven-member board appointed by the Governor and confirmed by the Legislature, except for the State Treasurer who serves as an ex-officio member.

MELA was established to assist students and their families in achieving their higher education goals by providing a supplemental or alternative student loan program. Alternative student loans exist to bridge the gap between the full cost of a higher education and traditional financial aid resources. MELA's alternative student loan program consists of The Maine Loan®, The Maine Medical Loan℠, and MELA Private Consolidation Loan℠. The Maine Loan allows borrowers to borrow up to the full cost of an undergraduate or graduate education less other financial aid. This loan is available to Maine residents attending approved schools in the United States and Canada, and out-of-state students attending approved schools in Maine. In 1998 MELA introduced The Maine Medical Loan, designed to assist Maine students pursuing a Doctor of Medicine or Doctor of Osteopathic Medicine Degree. On June 1, 2002 MELA expanded its medical loan program to include these additional degrees: Doctor of Chiropractic (DC), Doctor of Dental Medicine (DMD), Doctor of Optometry (OD), Doctor of Podiatric Medicine (DPM), Doctor of Veterinary Medicine (DVM) and Doctor of Dental Surgery or Doctor of Dental Science (DDS). The Maine Medical Loan allows borrowers to borrow up to the full cost of a medical program of study less other financial aid. This loan is available to Maine residents attending approved medical schools in the United States and Canada, and out-of-state students attending the University of New England's College of Osteopathic Medicine, Maine's only medical school. The MELA Private Consolidation Loan allows borrowers with qualifying alternative education loans to consolidate these loans. This loan is available to Maine residents, existing MELA borrowers, and students who attended approved Maine higher educational institutions.

The Maine Loan, The Maine Medical Loan, and MELA Private Consolidation Loan are available to students and their parents based on the credit-worthiness of the applicant(s). MELA's loan programs have many attractive features including a low variable interest rate that is adjusted annually (currently 6.35% for The Maine Loan and 6.92% while in school or deferment and 7.17% while in repayment for The Maine Medical Loan and 7.35% for the MELA Private Consolidation Loan), the option to defer both principal and interest while in school, a low guarantee fee, no aggregate borrowing limit, a wide range of flexible repayment terms up to thirty years, and the ability to apply online.

All MELA loans are funded with the proceeds of tax-exempt bonds, and no State monies are allocated to fund the program. MELA secured its initial funds through a $35 million tax-exempt bond issue in July of 1988. In May of 1992, MELA refunded its initial offering and issued $60 million worth of tax-exempt bonds. An additional $12.5 million, $10 million, $14 million, and $10 million of tax-exempt bonds were issued in June of 1996, July of 1997, January of 1999, and September 2000, respectively. In November of 2002 MELA issued $26.9 million worth of tax-exempt bonds, including $16.9 million in refunding debt and $10 million in new money. MELA issued an additional $30 million worth of tax-exempt bonds in 2005 and an additional $50 million was issued in 2007. Since its creation, MELA has disbursed alternative student loans totaling over $193.8 million (Table 1).

II. PROGRAM ADMINISTRATION: LOAN ORIGINATION AND SERVICING

The Maine Educational Loan Authority (MELA) currently has four primary contractual relationships for the administration of its programs and services. MELA contracts with Maine Education Services (MES) for personnel, administrative and marketing services. MES, an independent, private non-profit corporation located in Portland, Maine, provides opportunities and resources for people to achieve higher education. MELA also contracts with the Pennsylvania Higher Education Assistance Agency (PHEAA) for the servicing of loans derived prior to 1996. PHEAA, an agency of the Commonwealth of Pennsylvania, located in Harrisburg, manages state grant, guaranty, servicing, and financial aid processing systems. In addition, MELA contracts with Nelnet Loan Services, Inc., a wholly-owned subsidiary of Nelnet, Inc. (Nelnet) for servicing of all MELA loans since 1996. Nelnet, a publicly traded corporation based in Lincoln, Nebraska with an office in Portland, Maine, is an integrated educational finance organization offering services in student loan generation and servicing, secondary market services, and guarantor servicing support. Firstmark Services, LLC, assumed loan servicing responsibilities from Nelnet under a subcontract arrangement in 2005. Firstmark, a wholly-owned subsidiary of Nelnet, is located in Woodbury, Minnesota and specializes in the servicing of alternative loans.

MES performs customer service and all responsibilities associated with the loan origination process including inquiry, application, approval or denial, and disbursement stages. In addition, MES manages all aspects of the existing loan servicing contracts including compliance with due diligence strategies, fulfillment of monetary contractual obligations, and monitoring the quality of customer service. MES provides administrative oversight to or directly performs the duties required of MELA in connection with the existing tax-exempt bonds and the issuance of new bonds. General financial advisory and support services are also provided to MELA by MES.

MELA recognizes that its borrowers are its most valuable asset. MELA's goal is to provide the best supplemental loan program in the country, and quality customer service is one of the most important components of any loan program. Monitoring the level of customer service provided to its borrowers has been of the utmost importance to MELA.

MELA proudly boasts a very low cumulative default rate of 1.84%. The MELA default rate has been historically low.

Customers continue to have access to their loan information by calling the toll free number 1-800-922-6352 or via MELA's web site at www.mela.net.

III. APPLICATION VOLUME AND DISTRIBUTION

MELA processed 4,890 loan applications for the 2007 calendar year (Table 2). The application materials are mailed to current and prospective borrowers each spring. It is important that students and their families are provided with application materials as early as possible so that they can have maximum latitude in determining their funding resources. Since 1996, borrowers have been able to apply for loans directly online via the Internet. An increasing number of borrowers are utilizing the online application process. MELA's loan approval rate has ranged between 60%-68% for applications received (Table 2), with an average approval rate of 62% for the most recent five year period. For 2007 the approval rate was 63%.

IV. LOAN VOLUME

MELA redesigned its loan programs in 2004 to offer a faster online application process and generous borrower benefits. These enhancements along with MELA's low variable interest rates, other attractive program attributes, and the general growth in utilization of supplemental education loans, contributed to a significant increase in MELA's 2007 loan volume from the previous year. Disbursements were $31.9 million and $23.7 million for 2007 and 2006, respectively (Table 3). During 2007 MELA made 5,224 loan disbursements resulting in an average disbursement size of $6,117.41.

Maine schools continue to be the biggest beneficiary of MELA loans with sixty-four percent (64%) of all MELA funds disbursed in 2007 (Table 3).

Sixty-four percent (64%) of MELA funds disbursed for this calendar year went to private schools (Table 4). This trend has shifted from the 70% range to the mid 60% range over the past five years.

Table 5 reflects the cumulative percentage of funds disbursed between all public and private schools from 1988 to 2007. This breakdown, showing 38% of funds being used for public schools and 62% of funds for private schools is largely a reflection of the cost of attendance being higher for private institutions as compared to public institutions.

The Maine Medical Loan disbursements were $840,633, $1,435,038, $1,457,797 and $849,136 for 2007, 2006, 2005 and 2004 respectively. The University of New England is the primary school beneficiary of this program.

The MELA Private Consolidation Loan disbursements were $928,047 for 2006, the first year for this program, and have increased to $2,356,830 for 2007.

V. BORROWER DISTRIBUTION

In the 2007 calendar year, as in the past, the majority of MELA disbursements (64%) have been made to Maine schools (Table 6). This calendar year shows that disbursements to private schools both inside Maine (Table 7) and outside Maine (Table 8) remained relatively consistent from the prior year.

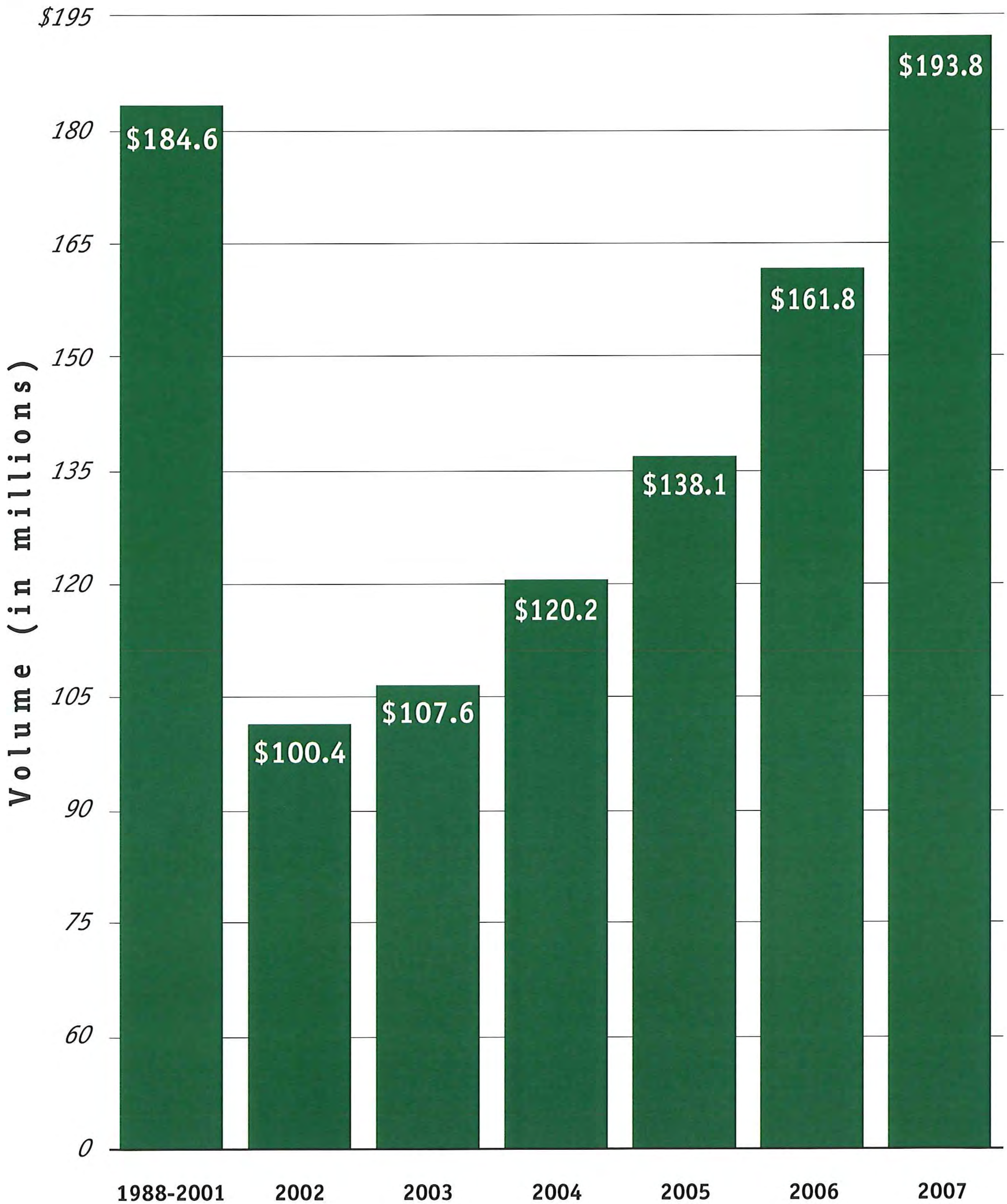
VI. SUMMARY

For the past nineteen years, the Maine Educational Loan Authority (MELA) has provided over $193.8 million dollars in student loan disbursements through The Maine Loan, The Maine Medical Loan, and more recently, the MELA Private Consolidation Loan programs. By offering the overall lowest cost alternative educational loan program available, MELA has assisted thousands of Maine students to achieve their goal of a higher education. As the State of Maine continues to work to increase the percentage of its residents possessing college degrees, MELA's student loan program will remain an important financial aid resource for Maine students and their families. MELA looks forward to continuing to partner with the State of Maine and the higher education community to ensure that a college education is both accessible and affordable for Maine residents.

MELA Charts and Graphs

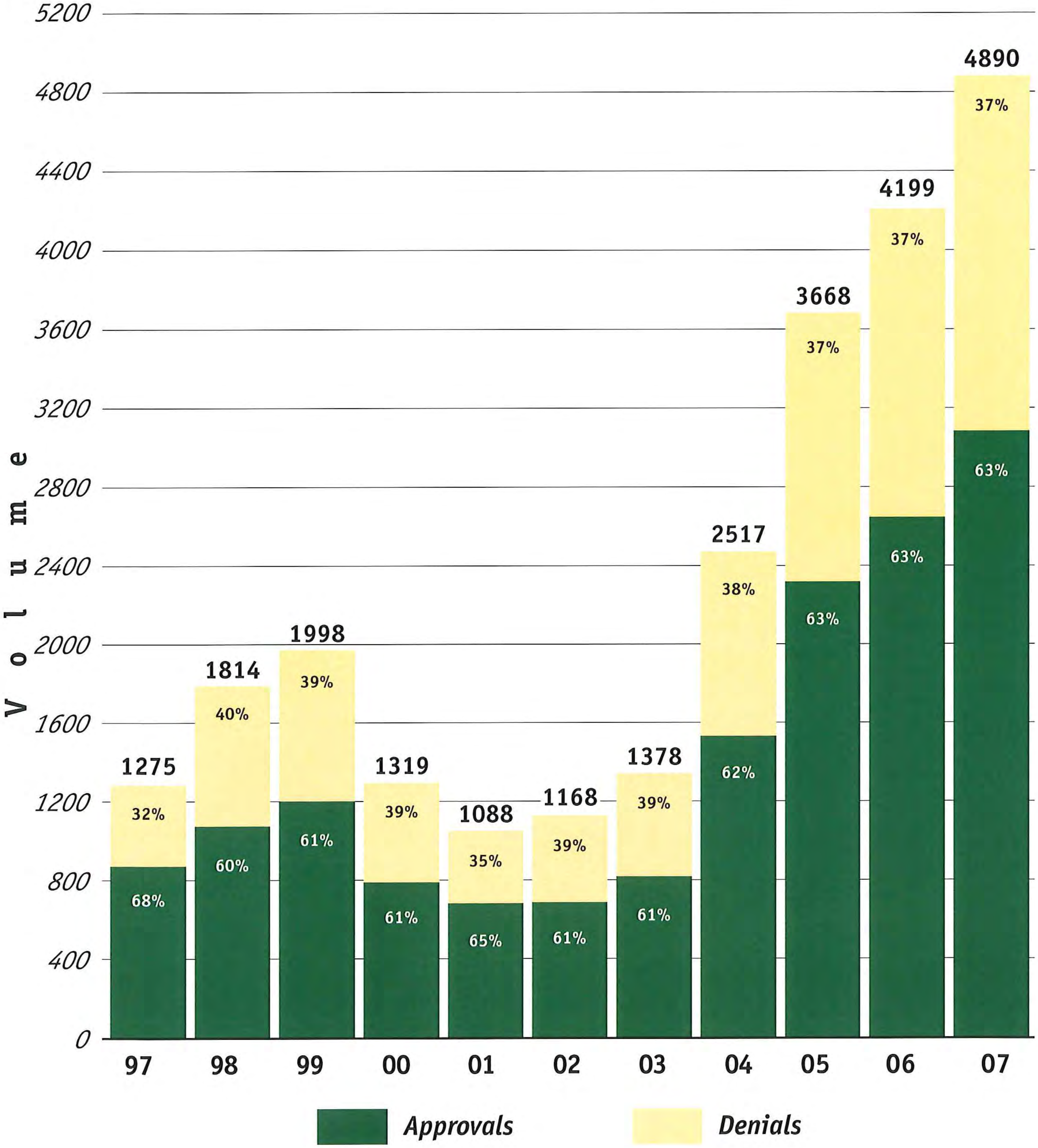
MELA Total Loan Volume (1988-2007)

Table 1



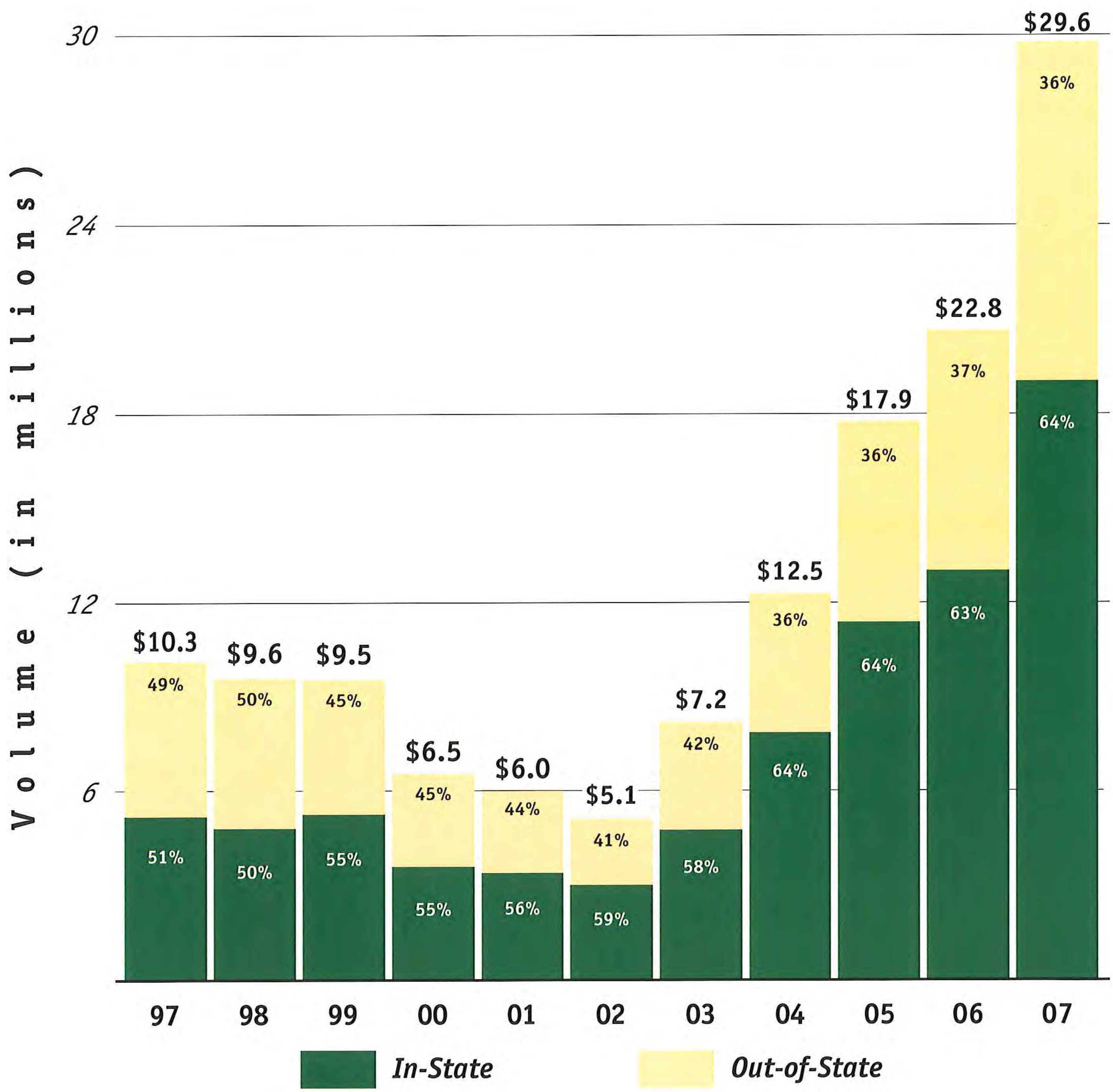
MELA Application Volume By Loan Period (1997-2007)

Table 2



Percentage of MELA Funds Disbursed To In-State/Out-of-State Schools (1997-2007)

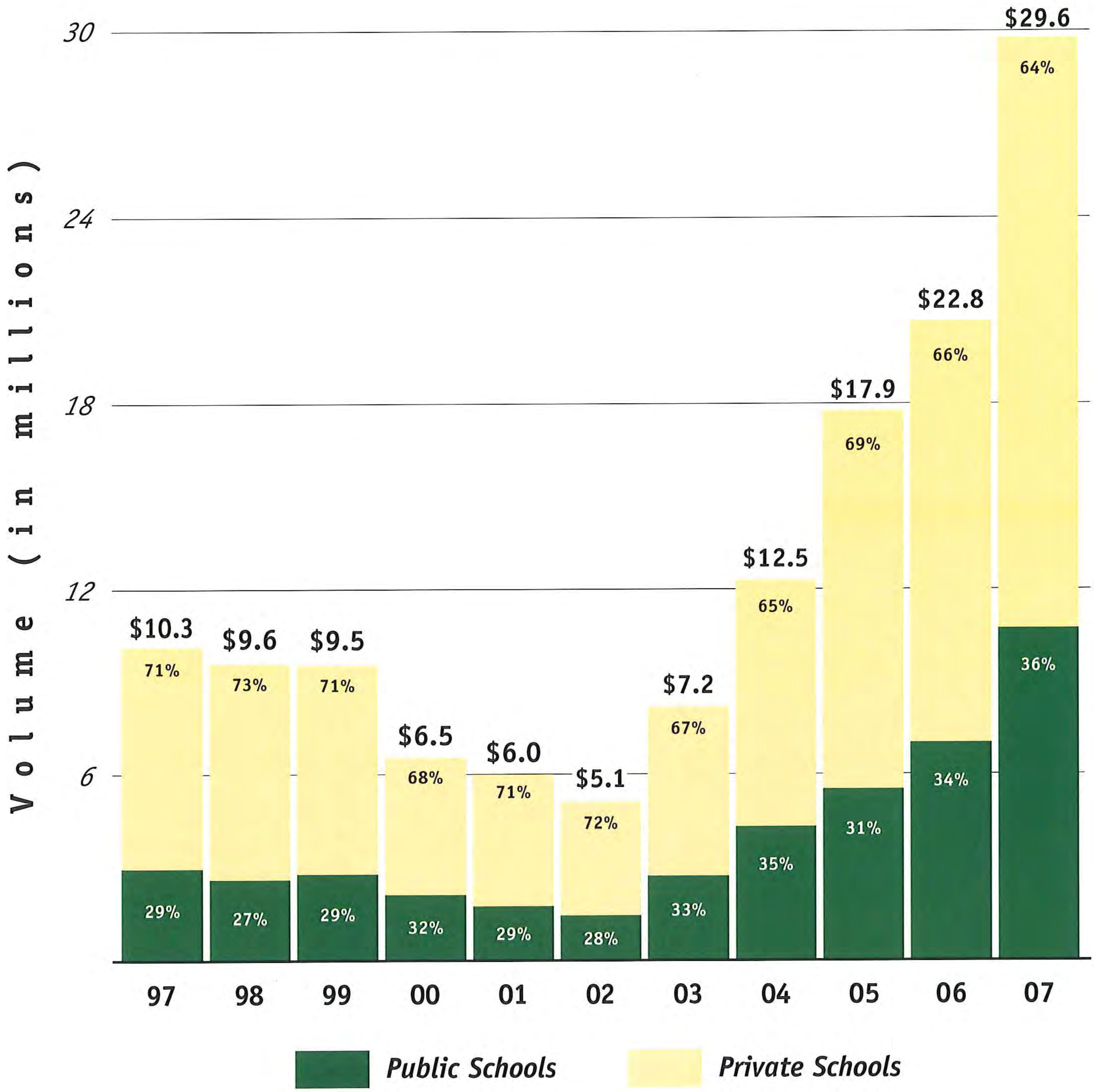
Table 3



Note: The decreased volume in 2002 is attributed to The Maine Loan being disbursed in two disbursements beginning June 1, 2002, with many second disbursements occurring in January 2003. Total loan origination volume for 2002 was $7.0 million. MELA Private Consolidation volume of $928,047 in 2006 and $2,356,830 in 2007 is excluded.

Percentage of MELA Funds Disbursed To Public/Private Schools (1997-2007)

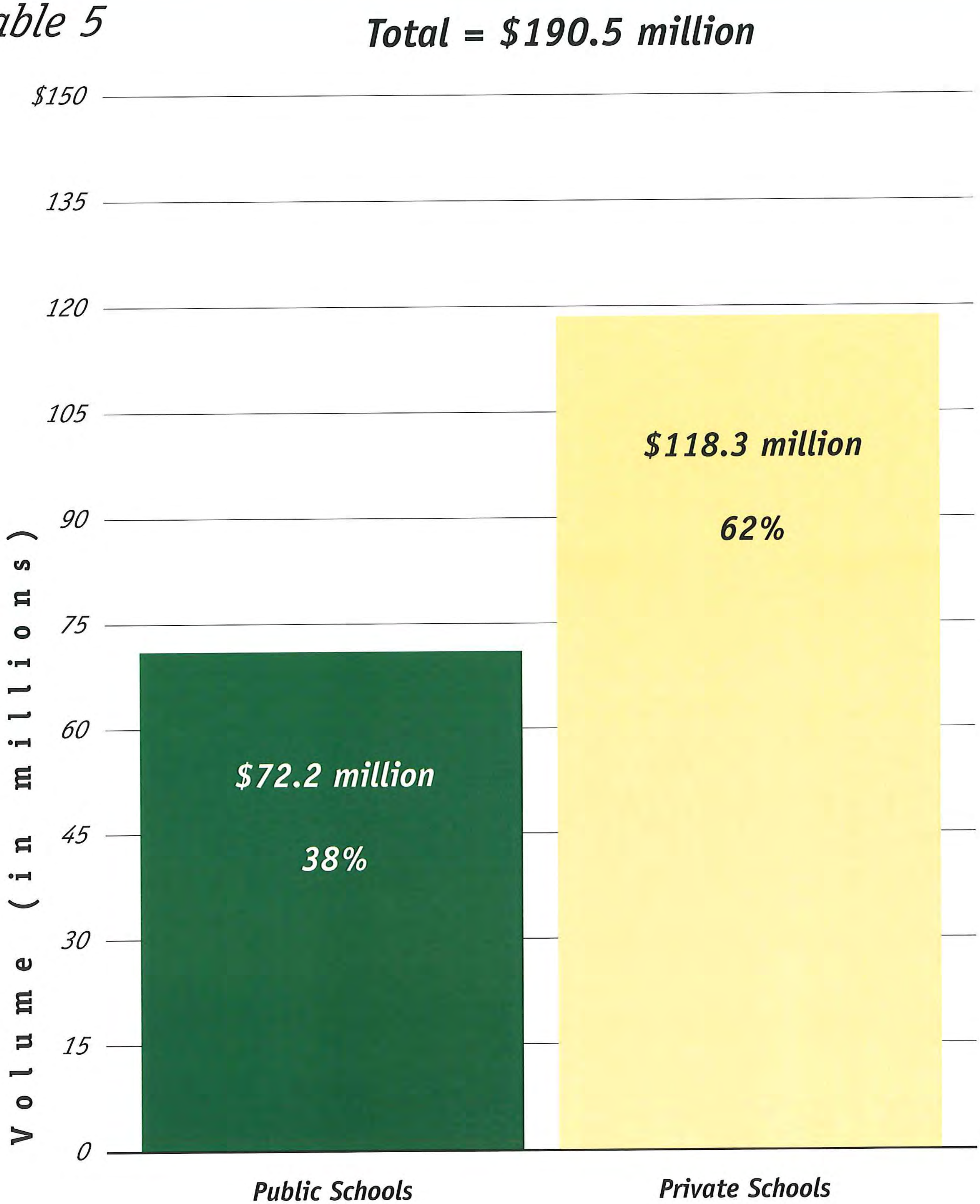
Table 4



Note: The decreased volume in 2002 is attributed to The Maine Loan being disbursed in two disbursements beginning June 1,2002, with many second disbursements occurring in January 2003. Total loan origination volume for 2002 was $7.0 million. MELA Private Consolidation volume of $928,047 in 2006 and $2,356,830 in 2007 is excluded.

Cumulative Percentage of MELA Funds Public/Private Schools (1988-2007)

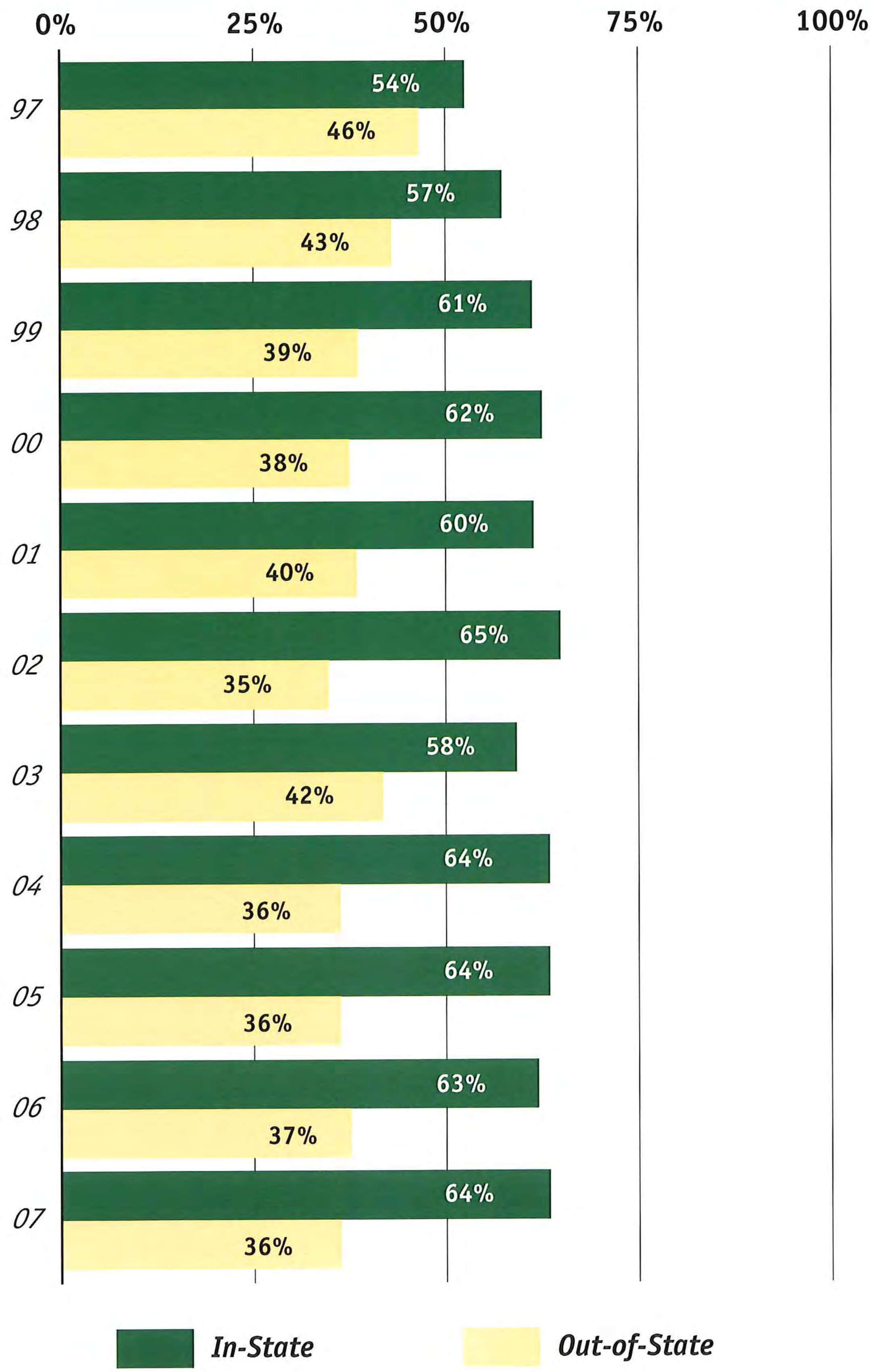
Table 5



Note: MELA Private Consolidation Loan volume of $928,047 in 2006 and $2,356,830 in 2007 is excluded.

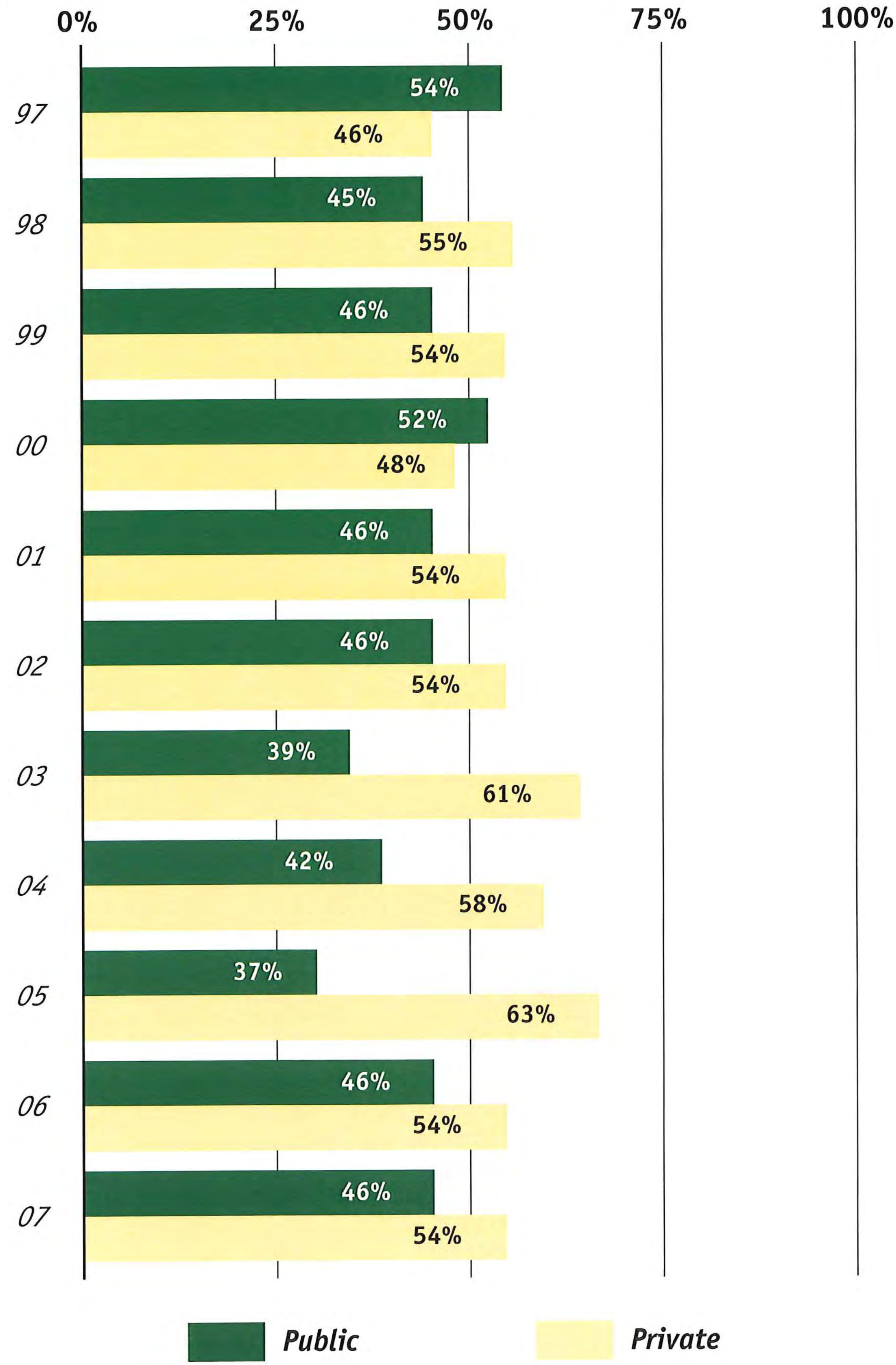
Percentage of MELA Disbursements to In-State/Out-of-State Schools (1997-2007)

Table 6



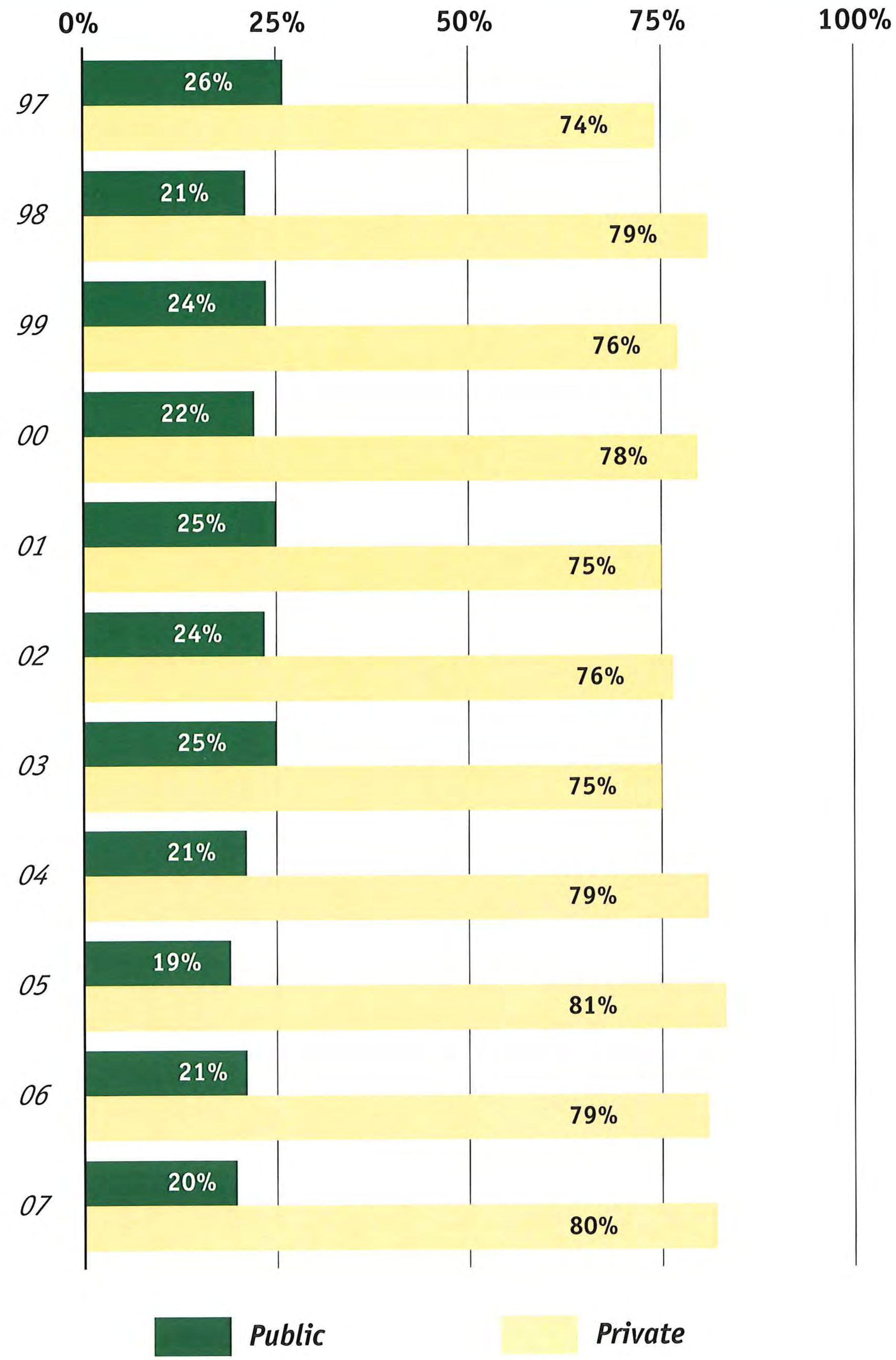
Percentage of MELA Disbursements to Public/Private Maine Schools (1997-2007)

Table 7



Percentage of MELA Disbursements to Public/Private Out-of-State Schools (1997-2007)

Table 8



BAKER | NEWMAN | NOYES LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Members of the Authority
Maine Educational Loan Authority

We have audited the accompanying basic financial statements of the Maine Educational Loan Authority, a component unit of the State of Maine, as of and for the years ended December 31, 2007 and 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Maine Educational Loan Authority as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman Noyes
Limited Liability Company

Portland, Maine
April 15, 2008

MAINE EDUCATIONAL LOAN AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007 and 2006

As financial management of the Maine Educational Loan Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2007 and 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Authority

The Authority was created in 1988 by an Act of the Maine Legislature and is a public body corporate and politic constituting a public instrumentality of the State of Maine. The Authority was established to grant educational loans primarily using funds acquired through the issuance of long-term bonds payable. For financial reporting purposes the Authority is considered a component unit of the State of Maine, however, the Authority receives no appropriations from the State legislature. The Authority periodically receives allocations of the State's tax-exempt bond cap.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. Since the Authority is comprised of a single enterprise fund, no fund level financial statements are shown.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statements of net assets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to net assets without a corresponding increase to liabilities, result in increased net assets, which indicates an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. This statement reports all revenues and expenses, and reconciles beginning and end of year net asset balances.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Highlights – 2007

- Operating income for the Authority was $474,587 for fiscal year 2007, an increase of $272,376 from the prior year, due mainly to the increased spread between interest income and financing expense.
- Net assets increased in 2007 solely as a result of operating income. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2007, the Authority had net assets of $3,695,608, an increase of 14.7% from the prior year.
- The Authority's debt outstanding of $148,115,000 increased as a result of the issuance of the Series 2007 bond issue totaling $50,000,000.
- Loans originated during the year totaled approximately $31,904,000 up 33% from the $23,967,000 originated in fiscal year 2006.

Financial Analysis – 2007

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $3,695,608 at the close of the most recent fiscal year. This represents an increase of $474,587 (14.7%) from the previous year. The unrestricted net assets were $626,841 compared to restricted net assets of $3,068,767. By far, the largest portion of the Authority's net assets reflects its investment in educational loans plus bond proceeds remaining in trust investments less any related debt used to acquire those assets.

The Authority's financial position and operations for the past two years are summarized below based on information included in the financial statements.

Net Assets	2007	2006	Percentage Change
Cash and investments	$ 45,334,376	$ 20,020,215	126.4%
Educational loans, net	102,962,452	79,351,066	29.8
Other assets	7,006,668	4,823,818	45.3
Total assets	$ 155,303,496	$ 104,195,099	49.1%
Deferred revenue	$ 1,767,237	$ 1,355,260	30.4%
Arbitrage earnings rebatable	1,789,055	1,676,501	6.7
Bonds payable, net	147,366,619	97,456,479	51.2
Other liabilities	684,977	485,838	41.0
Total liabilities	$ 151,607,888	$ 100,974,078	50.1%
Restricted net assets	$ 3,068,767	$ 2,332,127	31.6%
Unrestricted net assets	626,841	888,894	(29.5)
Total net assets	$ 3,695,608	$ 3,221,021	14.7%

The increase in the Authority's cash and investments at December 31, 2007 from the balance at December 31, 2006 was mainly attributed to the net proceeds from the Series 2007 bond issue less disbursements for the origination of educational loans in excess of loan repayments. The Authority's investment portfolio at December 31, 2007 and 2006 is comprised of repurchase agreements. The Authority's investments are carried at fair value and unrealized gains and losses due to fluctuations in market values, if any, are recognized in the statements of revenues, expenses and changes in net assets.

The Authority's educational loans, net, increased $23,611,386 in 2007. The Authority's total loans originated and disbursed in 2007, including origination fees, was $31,904,739 compared to the $23,967,109 originated in 2006. The receipt of educational loan principal payments totaling $9,556,161 increased from the 2006 level of $8,111,646 due to an increase in loans in repayment status. The Authority's allowance for loan losses of $1,697,000 at December 31, 2007, decreased from 2.2% to 1.6% of total loans outstanding, due primarily to the increase in total loans outstanding and an increase in loans charged off. Beginning in 2007, once a loan reaches 180 days past due it is automatically charged off to coincide with the definition of a defaulted loan under the terms of the Authority's bond indentures. During 2007, the Authority provided $677,790 to the allowance for loan losses compared to $420,596 in 2006.

Bonds payable, net, increased $49,910,140 during 2007 as a result of the issuance of the Series 2007 bond issue. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

The Authority's financial position continued to improve as net assets increased 14.7% in 2007. The Authority continued to maintain a positive spread of income from investments and educational loans over bond interest and operating expenses.

Changes in Net Assets	2007	2006	Percentage Change
Interest on educational loans	$6,020,649	$4,587,612	31.2%
Interest on investments	2,475,211	1,332,741	85.7
Other revenue	585,489	491,111	19.2
Total operating revenue	9,081,349	6,411,464	41.6
Financing expenses	5,657,606	3,719,679	52.1
Servicing expense	1,144,188	967,150	18.3
Bond administration expense	514,518	393,176	30.9
Excess arbitrage	292,285	423,482	(31.0)
Provision for loan losses	677,790	420,596	61.1
Contributions and scholarships	10,000	5,000	100.0
Other operating expenses	310,375	280,170	10.8
Total operating expense	8,606,762	6,209,253	38.6
Change in net assets	474,587	202,211	134.7
Net assets at beginning of year	3,221,021	3,018,810	6.7
Net assets at end of year	$3,695,608	$3,221,021	14.7%

Operating revenues are generated principally from interest earned on educational loans and interest generated from the investment of bond proceeds. In 2007, the Authority's operating revenue totaled $9,081,349. Of this amount, 66.3% was from interest on educational loans and 27.3% was from interest on investments, compared to 71.6% and 20.8%, respectively, in 2006. Interest on educational loans and interest on investments increased during 2007, mainly due to higher balances of loans and investments outstanding during the year.

Operating expenses of the Authority consist primarily of interest expense on debt incurred to fund the origination of educational loans. The total operating expense for 2007 and 2006 was $8,606,762 and $6,209,253, respectively, of which $5,657,606 (65.7%) and $3,719,679 (59.9%) was attributable to debt related financing costs. Total operating expenses increased $2,397,509 (38.6%) from 2006 to 2007 mainly as a result of higher balances on MELA's bonds outstanding due to the issuance of the Series 2007 bond issue. Additionally, operating expenses were further increased by an increase in the provision for loan losses.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2007, the Authority had $147,366,619 in bonds payable, an increase of 51.2%. The Authority issued $50,000,000 in tax-exempt student loan revenue bonds on February 13, 2007 and no long-term debt was retired in 2007.

Financial Highlights – 2006

- Operating income for the Authority was $202,211 for fiscal year 2006, a decrease of $115,968 from the prior year, due mainly to the increased excess arbitrage expense and the provision for loan losses.
- Net assets increased in 2006 solely as a result of operating income. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2006, the Authority had net assets of $3,221,021, an increase of 6.7% from the prior year.
- The Authority's debt outstanding of $98,115,000 was unchanged from the prior year.
- Loans originated during the year totaled approximately $23,967,000 up 34% from the $17,933,000 originated in fiscal year 2005.

Financial Analysis – 2006

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $3,221,021 at the close of the most recent fiscal year. This represents an increase of $202,211 (6.7%) from the previous year. The unrestricted net assets were $888,894 compared to restricted net assets of $2,332,127. By far, the largest portion of the Authority's net assets reflects its investment in educational loans plus bond proceeds remaining in trust investments less any related debt used to acquire those assets.

The Authority's financial position and operations for the past two years are summarized below based on information included in the financial statements.

Net Assets	2006	2005	Percentage Change
Cash and investments	$ 20,020,215	$ 37,159,758	(46.1)%
Educational loans, net	79,351,066	62,817,321	26.3
Other assets	4,823,818	3,168,900	52.2
Total assets	$ 104,195,099	$ 103,145,979	1.0%
Deferred revenue	$ 1,355,260	$ 1,056,178	28.3%
Arbitrage earnings rebatable	1,676,501	1,253,019	33.8
Bonds payable, net	97,456,479	97,361,176	0.1
Other liabilities	485,838	456,796	6.4
Total liabilities	$ 100,974,078	$ 100,127,169	0.8%
Restricted net assets	$ 2,332,127	$ 2,210,794	5.5%
Unrestricted net assets	888,894	808,016	10.0
Total net assets	$ 3,221,021	$ 3,018,810	6.7%

The decrease in the Authority's cash and investments at December 31, 2006 from the balance at December 31, 2005 was mainly attributed to the disbursements for the origination of educational loans in excess of loan repayments. The Authority's investment portfolio at December 31, 2006 and 2005 is comprised of repurchase agreements. The Authority's investments are carried at fair value and unrealized gains and losses due to fluctuations in market values, if any, are recognized in the statements of revenues, expenses and changes in net assets.

The Authority's educational loans, net, increased $16,533,745 in 2006. The Authority's total loans originated and disbursed in 2006, including origination fees, was $23,967,109 compared to the $17,932,668 originated in 2005. The receipt of educational loan principal payments totaling $8,111,646 increased from the 2005 level of $6,139,932, due to an increase in loans in repayment status. The Authority's allowance for loan losses of $1,782,500 at December 31, 2006, increased from 2.0% to 2.2% of total loans outstanding, due primarily to the increase in the provision for loan losses. During 2006, the Authority provided $420,596 to the allowance for loan losses compared to $149,950 in 2005.

Bonds payable, net, increased $95,303 during 2006 as a result of accreting the bond discount and the deferred loss on refunding. For additional information refer to the Long-Term Debt Activity section of the Management's Discussion and Analysis.

The Authority's financial position continued to improve as net assets increased 6.7% in 2006. The Authority continued to maintain a positive spread of income from investments and educational loans over bond interest and operating expenses.

Changes in Net Assets	2006	2005	Percentage Change
Interest on educational loans	$4,587,612	$3,170,536	44.7%
Interest on investments	1,332,741	1,214,158	9.8
Other revenue	491,111	352,591	39.3
Total operating revenue	6,411,464	4,737,285	35.3
Financing expenses	3,719,679	2,681,262	38.7
Servicing expense	967,150	862,218	12.2
Bond administration expense	393,176	338,648	16.1
Excess arbitrage	423,482	74,419	469.1
Provision for loan losses	420,596	149,950	180.5
Contributions and scholarships	5,000	6,100	(18.0)
Other operating expenses	280,170	306,509	(8.6)
Total operating expense	6,209,253	4,419,106	40.5
Change in net assets	202,211	318,179	(36.4)
Net assets at beginning of year	3,018,810	2,700,631	11.8
Net assets at end of year	$3,221,021	$3,018,810	6.7%

Operating revenues are generated principally from interest earned on educational loans and interest generated from the investment of bond proceeds. In 2006, the Authority's operating revenue totaled $6,411,464. Of this amount, 71.6% was from interest on educational loans and 20.8% was from interest on investments, compared to 66.9% and 25.6%, respectively, in 2005. Interest on educational loans and interest on investments increased during 2006, mainly due to higher market interest rates prevalent during 2006 on both educational loans outstanding and investments coupled with higher balances of loans outstanding during the year.

Operating expenses of the Authority consist primarily of interest expense on debt incurred to fund the origination of educational loans. The total operating expense for 2006 and 2005 was $6,209,253 and $4,419,106, respectively, of which $3,719,679 (59.9%) and $2,681,262 (60.7%) was attributable to debt related financing costs. Total operating expenses increased $1,790,147 (40.5%) from 2005 to 2006 mainly as a result of higher interest rates on MELA's bonds outstanding due to annual repricing in May. Additionally, operating expenses were further increased by increases in excess arbitrage expense and the provision for loan losses.

Long-Term Debt Activity

The Authority is authorized to issue student loan revenue bonds to originate alternative educational loans. As of December 31, 2006, the Authority had $97,456,479 in bonds payable, an increase of 0.1%. No new long-term debt was issued in 2006 nor was any long-term debt retired. The Authority issued $50,000,000 in tax-exempt student loan revenue bonds on February 13, 2007.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Educational Loan Authority, 131 Presumpscot Street, Portland, Maine 04103.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF NET ASSETS

December 31, 2007 and 2006

ASSETS

	2007	2006
Current assets:		
Cash and cash equivalents (notes 2, 4 and 6)	$ 13,019,213	$ 9,076,383
Educational loans, net (notes 3, 4, 6 and 7)	11,815,252	9,674,143
Interest receivable	4,273,292	2,858,280
Prepaid expenses	216,433	184,974
Accounts receivable	6,213	51,935
Total current assets	29,330,403	21,845,715
Noncurrent assets:		
Investments (notes 2, 4 and 6)	32,315,163	10,943,832
Educational loans, net (notes 3, 4, 6 and 7)	91,147,200	69,676,923
Guarantee fee receivable	1,400,946	863,014
Unamortized bond issuance costs	869,611	616,058
Prepaid expenses	237,640	247,752
Fixed assets, less accumulated depreciation of $517 and $114 in 2007 and 2006, respectively	2,533	1,805
Total noncurrent assets	125,973,093	82,349,384
Total assets	$ 155,303,496	$ 104,195,099

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities:		
Accounts payable (note 5)	$ 196,845	$ 159,364
Accrued interest payable	488,132	326,474
Arbitrage earnings rebatable (note 6)	–	182,743
Deferred revenue	541,598	338,146
Total current liabilities	1,226,575	1,006,727
Noncurrent liabilities:		
Deferred revenue	1,225,639	1,017,114
Arbitrage earnings rebatable (note 6)	1,789,055	1,493,758
Bonds payable, net (notes 4 and 6)	147,366,619	97,456,479
Total noncurrent liabilities	150,381,313	99,967,351
Total liabilities	151,607,888	100,974,078
Commitments and contingencies (notes 5 and 7)		
Net assets:		
Restricted net assets	3,068,767	2,332,127
Unrestricted net assets	626,841	888,894
Total net assets	3,695,608	3,221,021
Total liabilities and net assets	$ 155,303,496	$ 104,195,099

See accompanying notes, as they are an integral part of the financial statements.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended December 31, 2007 and 2006

	2007	2006
Operating revenues:		
Interest on educational loans	$6,020,649	$4,587,612
Interest on investments	2,475,211	1,332,741
Guarantee fee income	517,169	418,991
Other revenue	68,320	72,120
Total operating revenues	9,081,349	6,411,464
Operating expenses:		
Financing expenses – interest	5,657,606	3,719,679
Servicing expenses (note 5)	1,144,188	967,150
Bond administration expenses	514,518	393,176
Provision for losses on educational loans (note 3)	677,790	420,596
Professional fees	100,486	85,042
Excess arbitrage to be remitted to the Federal government (note 6)	292,285	423,482
Salaries and related benefits	96,316	93,182
Contributions and scholarships	10,000	5,000
Other operating expenses (note 5)	113,573	101,946
Total operating expenses	8,606,762	6,209,253
Operating income	474,587	202,211
Net assets, beginning of year	3,221,021	3,018,810
Net assets, end of year	$3,695,608	$3,221,021

See accompanying notes, as they are an integral part of the financial statements.

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Interest received on educational loans	$ 3,110,113	$ 2,541,620
Principal payments received on educational loans	9,556,161	8,185,313
Educational loans originated	(31,904,739)	(23,967,109)
Fees received from borrowers	49,620	(51,592)
Payments for operating expenses	(2,028,233)	(1,677,360)
Net cash used by operating activities	(21,217,078)	(14,969,128)
Cash flows from non-capital financing activities:		
Interest payments on bonds	(5,364,378)	(3,544,341)
Proceeds from sale of bonds	49,810,000	–
Bond issue costs	(284,983)	–
Net cash provided (used) by non-capital financing activities	44,160,639	(3,544,341)
Cash flows from capital and related financing activities:		
Purchase of fixed assets	(1,131)	(1,919)
Net cash used by capital and related financing activities	(1,131)	(1,919)
Cash flows from investing activities:		
Sale of investments	39,760,669	27,258,410
Purchase of investments	(61,132,000)	(8,917,400)
Interest received on investments	2,371,731	1,375,845
Net cash (used) provided by investing activities	(18,999,600)	19,716,855
Net increase in cash and cash equivalents	3,942,830	1,201,467
Cash and cash equivalents at beginning of year	9,076,383	7,874,916
Cash and cash equivalents at end of year	$ 13,019,213	$ 9,076,383

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENTS OF CASH FLOWS
(CONTINUED)

Years Ended December 31, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 474,587	$ 202,211
Adjustments to reconcile operating income to net cash used by operating activities:		
Provision for losses on educational loans	677,790	420,596
Interest income on investments	(2,475,211)	(1,332,741)
Interest on bonds payable	5,657,606	3,719,679
Depreciation expense	403	114
Changes in assets and liabilities:		
Educational loans, net	(24,289,176)	(16,954,341)
Interest receivable on educational loans	(1,311,532)	(1,123,268)
Prepaid expenses	(21,347)	(25,329)
Accounts receivable	45,722	(51,935)
Accounts payable and accrued expenses	37,481	(26,834)
Deferred revenue	(125,955)	(220,762)
Arbitrage earnings rebatable	112,554	423,482
	$(21,217,078)	$(14,969,128)

See accompanying notes, as they are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Organization

The Maine Educational Loan Authority (MELA or the "Authority") was created by the Maine Educational Loan Authority Act, Title 20-A, Chapter 417-A, of the Maine Revised Statutes, as amended, as a public body corporate and politic constituting a public instrumentality of the State of Maine. The Authority was established to grant educational loans primarily using funds acquired through the issuance of long-term bonds payable.

For financial reporting purposes under Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, the Authority is considered a component unit of the State of Maine. As such, the financial position, results of operations and cash flows of the Authority are included in the State of Maine's basic financial statements.

Basis of Accounting

The accounts of the Authority are maintained in accordance with the principles of "fund accounting." These principles require that resources for various purposes be classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. The Authority only has one fund. The financial statements are prepared on the accrual method of accounting and accordingly recognize revenues as earned and expenses as incurred.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected not to comply with the Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Restriction on Net Assets

The restricted net assets of the Authority are restricted by the bond indentures. Financial activities and resulting account balances that fall outside of the bond indentures are presented in the statements of net assets as unrestricted net assets. The Authority's restricted net assets are restricted for the acquisition and origination of educational loans, payment of debt service and payment of program operating expenses. During 2007, the Authority transferred $303,189 from unrestricted net assets to restricted net assets to offset a liquidity shortfall within the bond indentures resulting from an increase in student loans in deferment status.

Educational Loans

Educational loans are stated at their unpaid principal balance plus net deferred origination costs. Educational loans consist primarily of student loans, which are made to postsecondary students attending eligible educational institutions, and parental loans made to parents of dependent undergraduate students, graduate and professional students and independent undergraduate students attending eligible educational institutions.

1. Summary of Significant Accounting Policies (Continued)

Educational loans granted with the funds acquired from the educational loan revenue bonds issued prior to the 1996 series are guaranteed by The Education Resources Institute, Inc. (TERI). The loans granted with the proceeds of the 1996 and subsequent series bonds are not guaranteed, but MELA retained 5% of the principal amount as a guarantee fee for loans issued prior to June 1, 2002, and 3% of the principal amount from June 1, 2002 through May 31, 2004. From June 1, 2004 through May 31, 2005, MELA retained 0%, 3% or 7% of the principal amount based on the borrower's credit risk as determined by the borrower's credit score and debt to income ratio. Beginning June 1, 2005 the guarantee fees assessed were 0%, 3% or 6% of the principal amount based on the borrower's credit risk as determined by the borrower's credit score and debt to income ratio and will be added to the loan principal once the loan enters repayment. The guarantee fees outstanding for loans that have not entered repayment at December 31, 2007 and 2006 totaled $1,400,946 and $863,014, respectively.

Fees and costs related to the origination of student loans, including the guarantee fees, are deferred. The amounts deferred are amortized and recognized into income over the average life of the loans using a method which approximates the level yield. The average life of the loans is estimated to be ten years.

Interest on educational loans is recognized as revenue in the period earned and servicing costs are charged directly to expense as incurred.

Allowance for Loan Losses

Substantially all educational loans are not subject to a guarantee from a third party. Approximately 1% (2% in 2006) of the Authority's educational loans are guaranteed by TERI. Therefore, management of MELA has established an allowance for loan losses to provide for probable losses. The amount of the allowance, which is established through a provision for losses on educational loans charged to expense, is based on management's estimation of the probable losses within the portfolio. In estimating the adequacy of the allowance for loan losses, management considers such factors as the nature and volume of the portfolio, delinquency trends, specific problem loans and current economic conditions that may affect the borrowers' ability to repay. Actual results could differ from those estimates. Past due loans greater than 180 days are automatically charged off.

Discount and Issuance Costs on Bonds

Bond discount is amortized by the effective interest method over the life of the bonds. Bond issuance costs are being amortized by the straight-line method over the life of the bonds. Amortization of bond discount and bond issuance costs are accelerated for early repayment of bonds. Unamortized bond discount and issuance costs related to refunded bonds are deferred and amortized over the life of the original or refunded bonds, whichever is shorter.

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include funds held in an institutional money market fund account.

1. Summary of Significant Accounting Policies (Continued)

Investments

Investment securities consist of repurchase agreements. Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The cost of the repurchase agreements approximates their fair value as MELA can withdraw funds at par over the life of the repurchase agreements according to the related bond indentures.

Depreciation

Capital assets of MELA consist of equipment and related software. Capital assets are defined by MELA as assets with an initial individual cost of one thousand dollars or more and are depreciated under the straight-line method over the respective estimated useful lives of the assets.

Income Taxes

As a public entity and body politic of the State of Maine, MELA is a tax-exempt organization and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

2. Cash, Cash Equivalents and Investments

In accordance with the terms of its bond indentures, MELA may invest in, subject to various restrictions, direct obligations of the United States; high grade obligations of any state, public agency, political subdivision, political agencies or authorities; deposit accounts; repurchase agreements; guaranteed investment contracts; or any other investment approved by the bond indentures. The majority of investments and cash and cash equivalents are restricted for the repayment of bond obligations, and to satisfy certain reserve requirements specified by the bond indentures.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates of investments in debt instruments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority invests primarily in repurchase agreements whose maturity and interest rate adjustment dates are closely matched with future bond maturities and loan disbursements. Further, the repurchase agreements contain provisions that allow the Authority to withdraw funds at par over the life of the agreements.

2. Cash, Cash Equivalents and Investments (Continued)

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The Authority limits its credit risk by investing in investment securities with high credit quality and repurchase agreements backed by high credit quality banks. The Authority's investments and investment agreements purchased with proceeds from the various bond indentures are approved by MELA's bond insurer. In addition, the repurchase agreements can be terminated, without penalty, if the counterparty falls below a Moody's credit rating of A3 or below an S&P credit rating of A-.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's repurchase agreements require a collateral account to be established in the name of the Authority with a third-party custodian. The Authority limits the custodial credit risk by regularly monitoring the credit quality ratings of the counterparties and the adequacy of the collateral accounts.

Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	2007	2006
Cash	$ 255,306	$ 319,541
Money market accounts	12,763,907	8,756,842
	$ 13,019,213	$ 9,076,383

At December 31, 2007 and 2006, the money market accounts are invested in Dreyfus Treasury Cash Management Fund. The fund invests only in securities issued or guaranteed as to principal and interest by the U.S. government. As of December 31, 2007 and 2006, the fund was rated Aaa by Moody's Investors Service and AAAm by Standard & Poor's. The underlying assets are not held in the name of the Authority.

At December 31, 2007, cash accounts with bank balances of $391,468 were deposited at financial institutions and insured by the FDIC for $114,500, $229,735 was collateralized by an overnight repurchase agreement and the remaining $47,233 was uninsured. The overnight repurchase agreement is collateralized by securities issued by the U.S. Government. The underlying assets are not held in the name of the Authority. At December 31, 2006, cash accounts with bank balances of $487,776 were deposited at financial institutions and insured by the FDIC for $152,800, $262,993 was collateralized by an overnight repurchase agreement and the remaining $71,983 was uninsured. The overnight repurchase agreement is collateralized by securities issued by the U.S. Government. The underlying assets are not held in the name of the Authority.

2. Cash, Cash Equivalents and Investments (Continued)

Investments

Repurchase agreements are invested as follows:

	2007	2006
Bayerische Landesbank Girozentrale (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 1996 bond issue. The repurchase agreement is further secured by U.S. Treasury notes, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated June 27, 1996. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 1996 series bond issue plus 140 basis points. The final repurchase date is scheduled for June 1, 2026. As of December 31, 2007, Bayerische was rated Aa2 by Moody's Investors Service and A by Standard & Poor's.	$ 1,263,372	$ 3,494,406
Bayerische Landesbank Girozentrale (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 1997 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated July 17, 1997. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 1997 series bond issue plus 100 basis points. The final repurchase date is scheduled for June 1, 2027. As of December 31, 2007, Bayerische was rated Aa2 by Moody's Investors Service and A by Standard & Poor's.	955,093	1,396,516
Westdeutsche Landesbank Girozentrale (Westdeutsche) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 1999 bond issue. The repurchase agreement is further secured by U.S. Treasury notes, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated January 26, 1999. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 1999 series bond issue plus 118 basis points. The final repurchase date is scheduled for June 1, 2029. As of December 31, 2007, Westdeutsche was rated A2 by Moody's Investors Service and A- by Standard & Poor's.	1,320,458	1,455,197

2. Cash, Cash Equivalents and Investments (Continued)

	2007	2006
Bayerische Landesbank Girozentrale (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2000 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated September 19, 2000. The investment agreement carries a variable interest rate equal to the per annum interest rate borne by the 2000 series bond issue plus 126 basis points. The final repurchase date is scheduled for June 1, 2030. As of December 31, 2007, Bayerische was rated Aa2 by Moody's Investors Service and A by Standard & Poor's.	$ 919,295	$ 1,319,795
Bayerische Hypo-Und Vereinsbank AG (Bayerische) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2002 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated November 15, 2002. The investment agreement carries a variable interest rate equal to the one year LIBOR rate, less 0.32% per annum, reset yearly two business days prior to each May 15 to be effective as of May 15. The final repurchase date is scheduled for May 15, 2032. As of December 31, 2007, Bayerische was rated A1 by Moody's Investors Service and A by Standard & Poor's.	9,718,945	2,077,918
Societe Generale (Societe) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2005 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated May 20, 2005. The investment agreement carries a variable interest rate equal to the one year LIBOR rate, less 0.30% per annum, reset yearly each May 15, the final repurchase date is scheduled June 1, 2035. As of December 31, 2007, Societe was rated Aa1 by Moody's Investors Service and AA by Standard & Poor's.	1,200,000	1,200,000

2. Cash, Cash Equivalents and Investments (Continued)

	2007	2006
AIG Matched Funding Corp. (AIG) in the name of the corporate trustee for MELA under the indenture of trust relative to the series 2007 bond issue. The repurchase agreement is further secured by U.S. Treasury and U.S. Government-sponsored entities' obligations, which are held in the name of MELA, by a third-party custodian under the terms of the Investment Repurchase Agreement dated February 21, 2007. The investment agreement carries a variable interest rate equal to the one year LIBOR rate, less 0.44% per annum, reset yearly each May 1, the final repurchase date is scheduled June 1, 2041. As of December 31, 2007, AIG was rated Aa2 by Moody's Investors Service and AA by Standard & Poor's.	$ 16,938,000	$ –
	$ 32,315,163	$ 10,943,832

3. Educational Loans

Educational loans earn interest at variable and set rates. Most of MELA's borrowers are located in the New England states, primarily the State of Maine. Educational loans are unsecured.

Educational loans are classified as being in "interim" status during the period from the date the loan is made until a student ceases to be enrolled at least on a half-time basis plus a grace period of six months. Subsequent to this period, student loans are classified as being in "repayment" status. "Forbearance" status is a period during the life of the loan when repayment is suspended for authorized purposes.

Educational loans at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Status:		
Interim status	$ 56,246,037	$ 43,226,430
Repayment status	46,736,088	36,544,155
Forbearance status	1,034,723	880,153
Deferred costs, net	642,604	482,828
Less: Allowance for loan losses	(1,697,000)	(1,782,500)
Total educational loans, net	102,962,452	79,351,066
Current Portion	11,815,252	9,674,143
Noncurrent Portion	$ 91,147,200	$ 69,676,923

MAINE EDUCATIONAL LOAN AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

3. Educational Loans (Continued)

	2007	2006
Guarantee type:		
Loans subject to guarantee	$ 1,157,713	$ 1,739,522
Nonguaranteed loans	102,859,135	78,911,216
Deferred costs, net	642,604	482,828
Less: Allowance for loan losses	(1,697,000)	(1,782,500)
Total educational loans, net	102,962,452	79,351,066
Current Portion	11,815,252	9,674,143
Noncurrent Portion	$ 91,147,200	$ 69,676,923

The educational loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Balance at January 1	$1,782,500	$1,307,000
Loans charged off	(864,282)	(18,763)
Recoveries on loans	100,992	73,667
Net loans (charged-off) recovered	(763,290)	54,904
Provision for losses on educational loans	677,790	420,596
Balance at December 31	$1,697,000	$1,782,500

At December 31, 2007 and 2006, respectively, loans greater than 90 days delinquent or in claims or forbearance status approximated $1,374,000 and $1,788,000.

4. Bonds Payable

MELA has issued the following bonds to finance the purchase and origination of educational loans:

Educational Loan Revenue Bonds	Amount Outstanding 2007	2006
1996 series due in 2026; auction rate securities having variable interest rates, 3.83% at December 31, 2007	$ 12,500,000	$ 12,500,000
1997 series due in 2027; auction rate securities having variable interest rates, 3.84% at December 31, 2007	10,000,000	10,000,000
1999 series due in 2029; auction rate securities having variable interest rates, 3.82% at December 31, 2007	14,000,000	14,000,000
2000 series due in 2030; auction rate securities having variable interest rates, 3.85% at December 31, 2007	10,000,000	10,000,000
2002 series, fixed rates due on May 1, 2009 of 3.65%; auction rate securities having variable interest rates, 3.82% at December 31, 2007, due June 2032	21,615,000	21,615,000
2005 series due in 2039; auction rate securities having variable interest rates, 3.82% at December 31, 2007	30,000,000	30,000,000
2007 series due in 2041; auction rate securities having variable interest rates, 3.85% at December 31, 2007	50,000,000	–
	148,115,000	98,115,000
Less:		
Unaccreted bond discount	647,876	487,071
Unaccreted deferred loss on advance refunding	100,505	171,450
Bonds payable, net – non-current	$ 147,366,619	$ 97,456,479

To date, the bonds issued by MELA have been exempt from federal income taxes. MELA has been allocated $50 million of tax-exempt bond cap from the State of Maine for the year 2007, which has been carried forward to 2008. MELA was allocated $30 million of tax-exempt bond cap from the State of Maine for the year 2006, which was used, along with the $20 million carry forward from 2005, for the 2007 Series bond issue, which closed on February 13, 2007. MELA expects to continue to receive allocations of tax-exempt bond cap in the future.

The bonds are not a debt or liability of the State of Maine but are payable solely as provided in the bond indentures. The bonds are secured by cash, cash equivalents, investments and a first lien on the educational loans originated and acquired with the proceeds.

The bonds are subject to early redemption at par, in whole or in part, from unused bond proceeds and investment income thereon, to the extent that the funds will not be used to originate eligible loans. The bonds are subject to mandatory redemption under provisions outlined in the bond indentures.

4. Bonds Payable (Continued)

Investments made and educational loans originated with the proceeds of the bonds, and the net revenues thereon are held in trust. As additional security for the bonds, MELA has established reserve funds totaling approximately $5,924,600 and $3,924,600 at December 31, 2007 and 2006, respectively, to be used to replenish any deficiency in funds required to pay principal or interest due on the bonds. The reserve funds are invested in repurchase agreements in 2007 and 2006.

The debt service requirements, which are based on the interest rates at December 31, 2007, through 2012 and in five-year increments thereafter to maturity for the Authority are as follows:

Year(s)	Principal	Interest	Total
2008	$ –	$ 5,672,970	$ 5,672,970
2009	11,615,000	5,454,260	17,069,260
2010	–	5,235,550	5,235,550
2011	–	5,235,550	5,235,550
2012	–	5,235,550	5,235,550
2013 – 2017	–	26,177,750	26,177,750
2018 – 2022	–	26,177,750	26,177,750
2023 – 2027	22,500,000	25,267,625	47,767,625
2028 – 2032	34,000,000	18,838,700	52,838,700
2033 – 2037	–	15,355,000	15,355,000
2038 – 2041	80,000,000	8,456,500	88,456,500
	$ 148,115,000	$ 147,107,205	$ 295,222,205

The actual maturities and interest may differ due to changes in interest rates or other factors.

The following summarizes the debt activity for the Authority for the years ended December 31, 2007 and 2006:

	2007	2006
Balance at beginning of year	$ 97,456,479	$ 97,361,176
Issuance	49,810,000	–
Accretion	100,140	95,303
Balance at end of year	$ 147,366,619	$ 97,456,479

5. Commitments

The Authority is party to an agreement whereby Maine Education Services (MES), provides administrative services for the Authority. The current contract extends through September 30, 2009. The fee for these services was equal to 0.74% per annum of the aggregate principal amount of loans outstanding through September 30, 2007 and 0.70% per annum effective October 1, 2007. The Authority recorded expense of $688,597 and $552,440 in 2007 and 2006, respectively, under this arrangement, which is recorded as servicing expenses.

MELA also pays MES a 1% origination fee on all supplemental loan disbursements (1.5% for supplemental consolidation loans), which fee amounted to $341,594 and $249,821 in 2007 and 2006, respectively. These origination fees are deferred and amortized over the approximate life of the loans, which is estimated to be 10 years. The Authority is also subject to an agreement whereby MES provides marketing and outreach services. The Authority recorded expense of $30,000 and $29,271 in 2007 and 2006, respectively, for marketing and outreach services, which is recorded in other operating expenses. In addition, MELA pays to MES a management and financial advisory fee of 0.25% times the par value of each new bond issue for services required to facilitate each bond offering, and to establish the initial loan and investment portfolios and bond level financial statements, which fee amounted to $125,000 in 2007. These fees are included with bond issuance costs and amortized over the life of each respective bond issue. There were no management and financial advisory fees paid in 2006.

As a result of the various transactions described above, at December 31, 2007 and 2006, the Authority owed MES $131,747 and $52,608, respectively, which is included in accounts payable.

6. Arbitrage

The bonds issued by MELA are subject to Internal Revenue Service regulations which limit the amount of income which may be earned on certain cash equivalents, investments and educational loans acquired with bond proceeds. Any excess earnings are to be refunded to the Federal government. MELA has estimated that there is an arbitrage liability at December 31, 2007 and 2006 as follows:

	2007	2006
Series 1996	$ 26,009	$ 5,853
Series 1997	–	–
Series 1999	243,574	333,826
Series 2000	492,189	561,149
Series 2002	766,717	759,003
Series 2005	–	16,670
Series 2007	260,566	–
	1,789,055	1,676,501
Less current portion	–	182,743
Noncurrent portion	$1,789,055	$1,493,758

6. Arbitrage (Continued)

In June 2005, MELA submitted to the Internal Revenue Service (IRS), a request for ruling to permit MELA to calculate a joint yield on its existing bond issues and future additional bonds issued under the existing master indenture for arbitrage purposes. Consequently, MELA filed an extension for the arbitrage rebate payments that would have been due in November 2005 on the Series 2000 bond issue and July 31, 2006 on the Series 1996 bond issue. The IRS responded on September 24, 2007 indicating that they would no longer entertain private letter ruling requests for permission to calculate a single yield for more than one issue of bonds. In November 2007, MELA remitted $174,756 and $4,974 representing excess earnings and interest to the Federal government relating to the Series 2000 bond issue and the Series 1996 bond issue, respectively. The remaining amounts are payable in accordance with the bonds' tax regulatory agreements.

7. Loan Commitments

At December 31, 2007 and 2006, MELA had commitments to extend credit for educational loans of approximately $11,500,000 and $9,355,000, respectively. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. MELA uses the same credit policies in making commitments as it does for educational loans receivable.

8. Subsequent Event

On April 7, 2008 The Education Resources Institute, Inc. (TERI) commenced a case under chapter 11 of Title 11 of United States Code (the Bankruptcy Code) in the United States Bankruptcy Court. The chapter 11 filing effectively terminates, on a prospective basis, the Guaranty Agreement between TERI and the Authority dated July 14, 1988. The termination of the Guaranty Agreement does not in itself relieve TERI from its obligation to honor any claims on existing guaranteed loans. As of December 31, 2007, the Authority has TERI guaranteed student loans outstanding totaling $1,157,713 (approximately 1% of the total loan portfolio). The Authority has not issued any new student loans carrying a TERI guaranty since 1996. Management of the Authority does not believe there is a material risk of loss due to the TERI bankruptcy filing due to the small balance of loans remaining with the guaranty, coupled with the fact that these are relatively seasoned loans with a very low default rate.

ADDITIONAL INFORMATION

SCHEDULE 1

MAINE EDUCATIONAL LOAN AUTHORITY

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

		Program Revenues				Net Revenue (Expenses) and Changes in Net Assets
Functions/ Programs	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Student loan programs	$ (8,606,762)	$ 6,606,138	$ 2,475,211	$ –	$ –	$ 474,587
		Change in net assets				$ 474,587
		Net assets, beginning of the year				3,221,021
		Net assets, end of the year				$ 3,695,608