

CREDIT OPINION

4 April 2023



Send Your Feedback

Contacts

Christopher Yared +1.617.535.7693
 Analyst
 christopher.yared@moodys.com

Michael Wertz +1.212.553.3830
 VP-Senior Analyst
 michael.wertz@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Maine Municipal Bond Bank

Update to credit analysis

Summary

[Maine Municipal Bond Bank](#) (Aa2 stable) benefits from the average credit quality of the underlying pool participants that are enhanced by the Maine State Aid Intercept Program (A1 stable), a large and diverse portfolio of participants, and moderate debt structure with overfunded reserves. The bond bank's rating incorporates the strong management of the bank that includes a five-member board with the State of Maine's (Aa2 stable) Treasurer as an ex-officio commissioner.

Credit strengths

- » Active program management and surveillance of all pool participants
- » Significant state involvement, including the pledge of the state's moral obligation
- » Healthy reserve position
- » Large and diverse pool of participants

Credit challenges

- » Oversight and ongoing credit review of all program participants

Rating outlook

The stable outlook reflects our view that strong management will continue to soundly manage operations and participant monitoring. The outlook also incorporates the strong reserves that are available to cure potential defaults or delayed participant payments, if necessary.

Factors that could lead to an upgrade

- » Significant improvement in credit quality of the participant pool
- » Improvement in the State of Maine's general obligation rating

Factors that could lead to a downgrade

- » Deterioration of the size, diversity, or credit quality of the participant pool
- » Material reduction in discretionary reserves

Key indicators

Exhibit 1

Maine Municipal Bond Bank

Size and Diversity

Size of portfolio (# of borrowers)	257
% of borrowers with less than 1% of the pool	43.3%
% of loans to the top 5 borrowers	31.0%

Amount Outstanding

Total bonds outstanding (\$ millions)	\$1,056
---------------------------------------	---------

List of Top 5 Participants	Percent of Pool
Sanford (City of)	12.5%
School Administrative District 75	5.8%
Regional School Unit 19	4.6%
Regional School Unit 39	4.1%
Regional School Unit 24	4.0%

Source: Moody's Investors Service and issuer's audited financial statements

Profile

The Maine Municipal Bond Bank was created in 1973 and is authorized to issue bonds in order to provide loans to counties, cities, towns, school districts, and quasi-municipal corporations located within the state of Maine.

Detailed credit considerations

Credit Quality and Default Tolerance: Credit quality of large and diverse participant pool is primary rating driver

The size and diversity of the \$1 billion loan portfolio, together with the average credit quality (meaning generally in the A-range) of the 257 individual borrowers and timely repayment history over 50 years, provide strong security to bondholders. The majority of borrowers currently do not have underlying ratings from Moody's given that their sole debt offerings are through the bond bank. However, Moody's has completed an internal credit assessment of the bank's other borrowers that conservatively indicates that 100% of loan principal is of investment grade credit quality. Diversity in the pool is evidenced by the fact that the top five borrowers account for a reasonable 31% of total loan principal. Post issuance, the largest borrower will continue to be the City of Sanford at 12.5%, and the second largest borrower will be School Administrative District 75 representing 6%.

Finances: Reserves provide high degree of additional security

The bond bank's multiple reserve funds provide a high degree of additional security if a borrower makes a late payment or defaults on a loan payment. The Debt Service Reserve Fund, established by the original resolution and funded with bond proceeds, must equal at least maximum annual debt service (MADS) on outstanding bonds issued to fund governmental units' loans. Post-issuance, MADS is projected to be \$135 million with the debt service reserve funded at \$143 million as of December 31, 2022. A provision in the act establishing the bond bank obligates the state morally, though not legally, to make up through annual appropriations any deficiency that may occur in this fund. In addition, as of December 31, 2022, the bank has a Supplemental Reserve Fund of \$26 million pledged to debt service. The bank also has a Special Discretionary Reserve Fund not restricted as to use, which has a balance of \$10.4 million as of December 31, 2022, and is available for repayment of debt as the bank has given its general obligation pledge. Total reserves available for repayment of debt are projected to cover MADS by a minimum of 1.33 times.

Debt Structure: Very strong legal covenants, state moral obligation and intercept provision provide additional credit enhancement

The bond bank's outstanding bonds are secured by, and have historically been paid with, loan repayment revenues received from the participating local governmental units, comprising the bank's long-established and extensive portfolio. The loans contain strong

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

security pledges, with about 90% secured by the local government's general obligation pledge. The remaining loans generally carry net revenue pledges backed by the statutory pledge of property taxes by the underlying units if enterprise revenues are insufficient. In addition, the full faith and credit of the bank, including its substantial reserves, are pledged towards bond repayment. The bond bank has been in operation since 1973 and no borrower has defaulted on its obligations.

Under the Bond Bank act, the state treasurer is empowered to intercept funds due to any local unit that is in default of its bond bank debt and redirect them to the bank. The effectiveness of this provision is tied to the amount of debt held by the city or town and the amount of money the State has for the city or town. However, school systems derive a greater proportion of their operating revenues from state aid (sometimes up to 50%), all of which is subject to the intercept provision. The intercept mechanics provide another method for reserves to be replenished should they be drawn upon. The treasurer has never been called upon to exercise this authority.

The bank has a five-member Board of Directors that includes the Maine State Treasurer as an ex-officio commissioner, and the bank also benefits from a strong and experienced management team. The bank's well-established monitoring and payment collection procedures and professional administration further enhance security. Bond bank officials, pending a review of the borrowers' finances, structure debt service to correspond to the individual borrowers' desired repayment schedules, subject to modification. The bank continues to annually monitor the audited financial statements of all active borrowers to ensure their continued ability to meet their obligations.

As of 2011, new borrowers' loan payments are due 30 days before the debt service payment date, an improvement over the previous five day deadline. Officials report that 68% of loans are currently required to be paid 30 days prior to the debt service payment date.

Legal security

The bonds are general obligations of the MMBB, and the full faith and credit pledge of the bank are pledged for the payment of debt service. The bonds are also secured by the State of Maine's moral obligation pledge to replenish a draw on the debt service reserve fund in the event of a loan repayment deficiency.

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1363526

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454