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CREDIT OPINION
4 April 2023

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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 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 of 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.

REPORT NUMBER 1363526

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