

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings assigns an 'AA' rating to the following Maine Health and Higher Educational Facilities Authority (the authority or MHHEFA) revenue bonds:

--\$43.1 million revenue bonds, series 2014A.

The series 2014A bonds are expected to price via negotiation during the week of July 7. Bond proceeds will be used to refund certain outstanding bonds for debt service savings.

In addition, Fitch affirms the following rating:

--\$972.3 million in outstanding revenue bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The series 2014A bonds and outstanding bonds are secured by loan repayments and reserve funds.

KEY RATING DRIVERS

STABLE FINANCIAL STRUCTURE: Fitch's cash flow modeling demonstrates that MHHEFA's program can continue to pay bond debt service even if there were portfolio loan defaults in excess of Fitch's 'AA' liability default hurdle, as produced using Fitch's portfolio

stress calculator (PSC).

SUITABLE PROGRAM CREDIT ENHANCEMENT: In addition to loan repayments, the pool is secured by a debt service reserve (DSR) funded at maximum annual debt service (MADS) and backed by the state's moral obligation. Bondholders also benefit from additional pledged reserves and certain non-pledged reserves, which would likely be used first in the event of a loan default.

CONCENTRATED POOL: MHHEFA's pool of 64 individual participants has moderate-to-high single-borrower concentration with the largest 10 borrowers accounting for approximately 66% of total loan par. Fitch assesses the largest borrowers to have a weighted average credit quality of low investment grade.

FAVORABLE PROGRAM MANAGEMENT AND UNDERWRITING: MHHEFA maintains sound underwriting and loan monitoring procedures as evidenced by the fact that the program has experienced only one loan delinquency and no defaults since the program was established in 1991.

RATING SENSITIVITIES

WEAKER POOL CREDIT QUALITY: Prolonged new issuance limits and continued amortization of existing borrower loans resulting in an increase in borrower concentration and deterioration of program credit quality could result in negative rating action.

LOWER STRESS PERFORMANCE: Significant deterioration in loan repayment performance and structural enhancement resulting in default tolerance levels below Fitch's 'AA' stress hurdle could put downward pressure on the rating.

CREDIT PROFILE

MHHEFA is an instrumentality of the state created to assist health care and higher education institutions in financing the construction and improvement of related facilities. The bonds are issued pursuant to a bond resolution and separate series supplemental resolutions.

PLEDGED RESOURCES CAN WITHSTAND RATING STRESS HURDLE

Borrower loan repayments are made on a monthly basis, which allows time for the authority to intervene before each bond payment date if there is a problem. The authority's pledged reserves enable the program to continue to pay bond debt service even with hypothetical loan defaults of 100% during the first, middle and last four-year period of the bonds' life. This is in line with Fitch's 'AA' liability default hurdle as produced by the PSC, which is derived from the overall pool credit quality as measured by the rating of underlying borrowers, size, loan term and concentration.

SINGLE BORROWER CONCENTRATION

The authority's loan pool consists of 64 individual borrowers, with moderate-to-high single-borrower concentration; the largest borrower, the Maine Health System, represents 16% of the total outstanding portfolio, and the top 10 borrowers account for approximately 66% of the outstanding loan balance. Approximately 47% of the outstanding loan balances are to hospitals, 23% to residential and long-term care facilities, 14% higher education institutions, and the remaining 16% spread among mental health facilities, community care retirement communities and social service organizations.

Most of the state's eligible health care and higher education institutions use the authority as their primary borrowing vehicle because it offers participants the lowest cost of capital. Borrowers in the pool generally do not have public ratings. Fitch has assigned internal credit opinions to the largest 10 borrowers and estimate that the weighted average credit quality is 'BB+'. Program borrower loan pledges are generally strong with a senior lien pledge on gross revenues and a mortgage on most property and/or financed projects.

PROGRAM CREDIT ENHANCEMENT APPROPRIATE FOR RATING LEVEL

A DSR for all parity debt is funded by bond proceeds at 100% of MADS. The DSR currently totals \$102 million. In addition, the authority has approximately \$25 million that was transferred from its operating fund to a supplemental reserve fund established and pledged to bondholders in 2010. Combined, pledged debt service reserves approximate 13% of bond principal outstanding. The reserves are invested in tax-exempt municipal bonds (rated at least in the 'A' category), money market accounts, and investment agreements with certain counterparties that must post collateral upon downgrade below 'A-'.

While not pledged, bondholders are afforded additional protection from approximately \$20.9 million in operating funds, which MHHEFA expects to use first in the event of a loan repayment shortfall. The operating fund balance has been steady over time. The authority also has the ability to intercept any funds held by the state treasurer that are payable to the borrowers. To date, the intercept mechanism has never been tested.

Furthermore, if there is a shortfall requiring reserves to be used the executive director of MHHEFA is required to certify to the governor whether additional funds are necessary to restore the reserve to its required level. While the moral obligation (MO) is not legally enforceable, Fitch believes that the broad public purpose of the authority creates incentive for the state to honor its moral obligation.

PROGRAM MANAGEMENT AND UNDERWRITING ARE SOUND

MHHEFA maintains strong underwriting and loan monitoring procedures. The authority requires all borrowers to submit detailed credit applications. Borrowers are also required to provide a senior lien on gross revenues and a mortgage on property and/or equipment being financed. Generally, the terms of the financings are prohibited from exceeding the useful life of the financed asset.

Borrowers must identify the sufficiency of the source of revenues available to repay the financings. Among other provisions, borrowers must have demonstrated a history of responsible financial management and willingness to pay their obligations. In the past, the authority has rejected or required modifications to applications it determines to be below its quality standards. Borrowers must submit annual audits, which are reviewed and

monitored by the authority for key financial and debt statistics. To date, there has been only one loan delinquency and no defaults since the program was established in 1991.

PROGRAM QUALITY REMAINS STRONG WITH LIMITED ISSUANCE

The Internal Revenue Service (IRS) requires that the senior elected official in the state of Maine approve the sale of any tax-exempt bonds in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). In June 2011, Fitch was made aware that the governor reportedly will not sign any TEFRA approval letters for proposed tax-exempt bond sales which utilize the Moral Obligation Reserve Fund Program.

This decision by the governor means that Maine HHEFA can only issue refunding bonds for the foreseeable future. While this decision does not materially impact the credit quality of the program bonds in the near term, Fitch will continue to monitor the credit quality of the program if no new money bonds are issued in the future.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated June 3, 2013;

--'State Revolving Fund and Leveraged Municipal Loan Pool Criteria', dated April 28, 2014.

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Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012

State Revolving Fund and Leveraged Municipal Loan Pool Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=746076

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=837616

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