

BUREAU OF BANKING

Department of Professional and Financial Regulation

State of Maine

August 14, 1986

BULLETIN #38 MAINE MUNICIPAL BOND BANK AND MAINE HEALTH AND HIGHER EDUCATIONAL FACILITIES AUTHORITY

To the Chief Executive Officer Addressed:

It is the belief of the Bureau of Banking that securities of the Maine Municipal Bond Bank should be treated differently than other bonds when applying the 10% concentration rule, Comptroller of the Currency Regulation 12 CFR 9.18(B)(9)(ii). Currently, the Maine Municipal Bond Bank is treated as the obligor when applying this rule. In fact, however, the Bond Bank facilitates the formation and marketing of bond issues for the benefit of communities which could issue bonds on their own. The Bond Bank has substantial debt service reserves and supplemental reserves to provide strength to these securities. Each municipal unit, however, is ultimately responsible for repayment of their portion of the bond issue. Therefore, it is the position of the Bureau of Banking that the individual communities for which bonds are issued be considered the obligor for purposes of applying the 10% rule.

On July 28, 1986, an opinion was rendered by Deputy Comptroller for Trust and Securities of the Comptroller of the Currency that, "the obligor is the underlying governmental unit and not the Bond Bank for purposes of 12 CFR 9.18(b)(9)(ii). This opinion applies to those Bond Bank issues where the underlying governmental units have been identified and the interest and principal payments made by the local units are considered security for bondholders pursuant to a written loan agreement between the local units and the Bond Bank."

It is also the belief of the Bureau of Banking that Maine Health and Higher Educational Facilities Authority bonds should be treated as separate obligations for purposes of applying the Regulation 12 CFR 9.18(b)(9)(ii) 10% concentration rule for common trust funds. Each bond issued by the Authority finances a separate project, usually the construction of a new hospital, a new college building, etc. The institution which benefits from issuance of the bond is responsible for debt service. Frequently these bonds are also collateralized by mortgages on the project being financed.

The Maine Health and Higher Educational Facilities Authority provides a tax exempt conduit for marketing the bonds. Neither it nor does the State of Maine guaranty repayment. Therefore, it is the position of the Bureau of Banking that the health care unit or educational facility responsible for debt service on these issues should be considered the obligor for purposes of applying the 10% rule.

/s/ H. Donald DeMatteis
Superintendent