

**MINUTES OF THE DECEMBER 19, 2013 MEETING OF THE MEMBERS
OF THE FINANCE AUTHORITY OF MAINE**

Vice Chair Murphy called the December 19, 2013 meeting of the members of the Finance Authority of Maine to order at 9:08 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Vice Chair Murphy noted for the record that the members had received an Agenda and Notice of Meeting (*see Certificate of Mailing attached as Appendix 1*), and that notices of the meeting had been published in certain newspapers throughout the state (*see Affidavits of Publication attached as Appendix 2*).

A. CALL TO ORDER

A1: Ascertainment of Quorum

Vice Chair Murphy called the roll of the members and noted that there were sufficient members present for the purpose of beginning the meeting.

Those members present were as follows:

Patrick Murphy, Vice Chair
Cheri Walker, Treasurer
Neria Douglass
George Gervais (*entered the meeting at 9:09 am*)
Glenn Lamarr
Michael Mahoney
Larry Mitchell
Rosaire Pelletier
Christopher Pierce
Susan Snowden

Those members absent:

Anthony Armstrong
Reis Hagerman
Patrick Keliher
Raymond Nowak, Chair
Evelyn Silver

Staff present:

Elizabeth Bordowitz, Chief Executive Officer
Christopher Roney, General Counsel
Katryn Gabrielson, Deputy General Counsel
William Norbert, Governmental Affairs & Communications Manager
Robert Corey, Senior Credit Officer
Charles Emmons, Senior Commercial Loan Officer

Elizabeth Vanderweide, Director of Business Development & Customer Relations
Carlos Mello, Director of Finance and Lending
Angela Dostie, Program and Policy Manager
Sally Garand, Commercial Loan Officer
Scott Weber, Credit Analyst
Jennifer Cummings, Senior Workout Officer
Shelley Desiderio, Accounting and Finance Manager
Rita Fournier, Customer Service Manager
Adele Bickford, Executive/Legal Assistant

Guests Present:

Bert Martin, Woodland Pulp
Thomas Hioe, Woodland Pulp
Jim Oliver, Woodland Pulp
Chris Howard, Pierce Atwood
Santa Sasena, PricewaterhouseCoopers
Rich Polimeni, Merrill Lynch

A2: Approval of November 12, 2013 Board Meeting Minutes

A motion was made by Treasurer Douglass and seconded by Mr. Pelletier to approve the minutes of the November 12, 2013 board meeting. The motion was approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

R-12-19-13-01

B: CHAIR'S REPORT

B1: Board Committees/Member Assignments

Normally committee assignments would be made at this time of year. However, Vice Chair Murphy suggested that the item be deferred for a couple of months due to anticipated changes in board membership. Ms. Bordowitz encouraged members to take this opportunity to think about any changes to the committee structure itself or about committees that they may be interested in and refer any suggestions to the Executive Committee.

Ms. Snowden moved to enter into Executive Session for a personnel matter. The motion was seconded by Mr. Mitchell and approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #1 at 9:11 a.m.

Members exited Executive Session #1 at 9:20 a.m.

C: ST. CROIX TISSUE, INC. PRESENTATION

Mr. Emmons introduced Chris Howard of Pierce Atwood who will make a presentation to members on a project for which the Authority has not yet received an application, but that could come to the board in February. Mr. Howard will present an overview of a project involving paper machines at

Woodland Pulp to be owned by a separate corporate entity, St. Croix Tissue, Inc. Mr. Howard introduced Bert Martin, President and CEO of Woodland Pulp, James Oliver, head of Finance at Woodland Pulp, and Thomas Hioe, representative and head of U.S. investments for International Grand Investment Company (IGIC), which is the parent company for Woodland Pulp and Cascade Pacific Pulp on the west coast. The St. Croix project is a \$120 million project and financing includes soon to close New Markets Tax Credits that will provide \$40 million in capital, \$50 million in senior debt, \$22 million in equity from IGIC and \$7.5 million, which is a piece of the capital structure utilizing the Major Business Expansion Program and pledges from the Business Equipment Tax Reimbursement (BETR) and Employment Tax Increment Financing (ETIF).

Mr. Martin provided a handout and overview of the project. He stressed that a stand-alone pulp mill cannot survive, and the tissue project with the purchase of two machines will provide an alternate source of revenue. The \$7.5 million will help to meet its owner's expectations and improve the capital return on the project. The production of the two tissue machines will create 70 – 80 direct jobs and as important, retain 300 jobs. Mr. Martin expects that the first machine will be in operation during the first quarter of 2015.

Responding to a question regarding the timeline for the project and the submission of their application to the board, Mr. Howard stated that the New Markets Tax Credit portion will close before the end of the year, IGIC will be putting up initial equity capital and self-funding the leveraged loan for the New Markets Tax Credit structure, and senior debt negotiations are underway. Lenders have been contacted to participate and have shown substantial interest. Mr. Howard would like to have a commitment from a lender ahead of the application for the Major Business Expansion Project.

D: CEO'S AND STAFF REPORT

D1: CEO's Report

Ms. Bordowitz requested an executive session to discuss an application that has not been received as yet and to update members on an existing credit.

Treasurer Walker moved to enter into Executive Session for a matter for which confidentiality has been requested and disclosure of which the Authority has determined would have a harmful effect. The motion was seconded by Treasurer Douglass and approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 9:56 a.m.

Members exited Executive Session #2 at 10:05 a.m.

Ms. Bordowitz advised the board that Thermogen would not be closing by the end of the year. The documents are in circulation and being negotiated with an agreed upon possible February closing.

FAME is continuing with its agreement with its consultant for the Student Loan Insurance program to allow for enhancements to the product. There are two loans in the program with two different lenders, and FAME will continue to recruit new lenders and endeavor to enhance the product by offering a fixed rate, consolidation and rehabilitation of loans and an interest cap on its variable interest rate loans.

Ms. Bordowitz reported that the Senate passed the Budget Bill, which has cash flow implications for FAME. FAME's FFELP revenues will be reduced by approximately \$1 million starting in July, 2014. FAME is looking at its budget projections and reassessing its role in FFELP. Ms. Bordowitz added that FFELP requires a lot of work for a diminishing amount of revenue.

The auditor from PricewaterhouseCoopers (PwC) will be attending the meeting, which will require an executive session to provide more detail.

Ms. Bordowitz announced that this is Mr. Corey's last board meeting before retiring. She expressed how much he has meant to the organization and how much he will be missed. She invited board members to join staff at a luncheon for Mr. Corey on January 13th.

D2: Conflict of Interest

Prior to reviewing the Conflict of Interest policy, an annual requirement, Mr. Roney asked if members wished to waive a verbatim reading.

A motion was made by Mr. Lamarr and seconded by Treasurer Walker to waive the reading of the Conflict of Interest policy. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-12-19-13-02

Mr. Roney briefly summarized the Conflict of Interest as it relates to board members and provided in their board packet. He reminded members that if they have any uncertainty regarding a conflict to contact the General Counsel or CEO to make a determination.

D3: Executive Summary, FFELP, Operations & NextGen

Ms. Fournier reviewed the statistics provided for the Education programs provided in the board materials, noting FFELP continues to decline at 10% per month year to year and defaults have remained steady, decreasing by less than 1%. The state Education loans had \$13.4 million in loans outstanding. NextGen net assets are at \$7.2 billion, a slight increase over 3rd quarter figures. Responding to a question regarding the sustainability of the Education program in light of the amounts given for forgiveness, Ms. Fournier stated that the programs are sustained by repayments and some state appropriation and the Medical program has moved from offering forgiveness to lower interest rates.

D4: NextGen Maximum Contribution for 2014

Ms. Dostie referred members to the memo in their board packet. She advised that the maximum contribution limit will increase from \$380,000 in 2013 to \$400,000 effective January 1, 2014 based on analysis of the cost of five years of undergraduate education in New England by FAME and Merrill Lynch. Although a higher maximum could have been designated using the analysis (\$480,468), FAME staff exercised its authority to implement the lower maximum of \$400,000. As point of clarification, Ms. Gabrielson explained that the maximum contribution imposed is on the aggregate balance for any one beneficiary rather than on the contributions as the reference to "maximum contribution" infers. In order to be qualified under the 529 program, there must be a

formula for determining maximum contribution so that the program cannot be used as a vehicle to avoid taxes.

D5: Quarterly Watchdesk

Mr. Corey turned over the Watchdesk report to Jennifer Cummings and Scott Weber who are replacing Mr. Corey as he retires. Ms. Cummings will review the report after members enter executive session.

Treasurer Douglass moved to enter into Executive Session for a matter for which confidentiality has been requested and disclosure of which the Authority has determined would have a harmful effect. The motion was seconded by Ms. Snowden and approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #3 at 10:25 a.m.

Members exited Executive Session #3 at 10:28 a.m.

Ms. Bordowitz informed the board that a recent Letter to the Editor from the owner of the Gulf of Maine was critical of FAME for not providing funding. The article did not mention previous funding that the Gulf of Maine received from FAME and she wanted the board to be aware should they be questioned in that regard. Ms. Cummings noted that FAME has worked with the company as it has been in transition. Also included is a listing of all FAME loans, their risk ratings and loss reserves.

D6: Quarterly CLI Portfolio

Mr. Weber referred members to the chart in their board packet that indicates insurance portfolio exposure. Exposure was at \$96.3 million at the end of FY 2013; in the first quarter of FY 2014 it rose to \$101.3 million and since September it grew to \$105.8 million. The number of loans increased by 16.4% over the last 12 months. Mr. Weber continued his review by referring to the chart showing the break out of the insurance portfolio risk ratings.

Ms. Cummings referred to the chart outlining insurance delinquency greater than 30 days, noting that delinquency has decreased from 5.4% to 3.1% in the first quarter, in part due to two large accounts becoming current. Mr. Mello added that delinquencies are returning to the 2007 level, and FAME's performance is trending with the general economy and general national trends. Ms. Cummings provided statistics for actual pay-outs: As of September 30th, \$32,000 has been paid out on two loans; as of today \$152,775 has been paid out on six loans and \$1.25 million total is projected for the FY 2014.

Mr. Weber concluded the portfolio review by referring members to the charts indicating the amount of insurance exposure by lender and by industry concentration.

D7: Top Ten Relationships

Ms. Snowden exited the meeting for a conflict of interest at 10:35 a.m.

Treasurer Walker exited the meeting for a conflict of interest at 10:40 a.m.

Ms. Snowden re-entered the meeting at 10:41 a.m.

Treasurer Walker re-entered the meeting at 10:41 a.m.

Mr. Lamarr exited the meeting at 10:41 a.m.

Staff provided an update on the accounts appearing on the Top Relationship Report.

Treasurer Walker moved to enter into Executive Session for a matter for which confidentiality has been requested and disclosure of which the Authority has determined would have a harmful effect. The motion was seconded by Mr. Lamarr and approved by a vote of 9 in favor, 0 opposed and 1 abstentions (Susan Snowden).

Members entered Executive Session #4 at 10:35 a.m.

Members exited Executive Session #4 at 10:40 a.m.

D8: Loans Closed

Mr. Lamarr re-entered the meeting at 10:46 a.m.

Mr. Weber reviewed the listing of CLI and ERLP closed loans. As of the first quarter this fiscal year, there have been 116 loans closed, an increase of 47, which can be attributed to the OLA product. As of December 17, 2013, there has been 194 loans closed as compared to 136 closed during the same time period last year.

D9: Applications YTD

Mr. Weber reviewed with members the summaries of new loans, loans approved and denied. Mr. Weber noted that the few numbers of denied loans indicates how FAME tries to work with its applicants to achieve loan approval. Ms. Bordowitz added that the board will probably hear an appeal of an ERLP loan denial next month. If new information becomes available from the applicant, staff can reconsider the application.

D10: Monthly Update on Lumber, Wood and Paper Industry

Mr. Weber reported on the lumber, wood and paper industry insurance exposure, which is currently at 89% and has not changed significantly from last month. Mr. Weber did caution, however, that it can change quickly since loans to this industry are generally large.

E: ACTION ITEMS

E1: Annual Review and Approval of Changes to Commercial Loan Policy

A handout outlining the changes to the Loan Policy reviewed at the Commercial Loan Committee (CLC) Meeting was provided to members. Mr. Weber noted that many of the changes to the Loan Policy involved the separation of Mr. Corey's duties and definitions. The CLC recommended that additional wording be added to the loan authority of the Senior Workout Officer for those loans on

Watchdesk or in bankruptcy at closing to include sign off by either the Director of Finance and Lending or the CEO. A change was also recommended in the aggregate exposure to any one borrower/relationship after looking at the budgeted to actual pay-outs. It is being recommended that the \$4 million maximum limit be increased to \$4.2 million. Additionally, the listing on the Concentration Policy will go from a SIC index to NAICS index to be more consistent with the lender community. The Underwriting Guidelines for OLA scoring added a scoring criterion, the loan to value ratio (LTV). Caveats were put in place to provide override authority for OLA applications as presented in the Loan Policy. Mr. Mello stated that an effort has been made to make the OLA process more consistent with the written application.

A motion was made by Mr. Mahoney and seconded by Mr. Lamarr to approve the changes to the Commercial Loan Policy as presented. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-12-19-13-03

E2: NextGen College Investing Plan®: Approval of Matching Grants for 2014

Ms. Dostie pointed to the listing of matching grant amounts currently in place, and stated that staff is recommending that Matching Grants remain at the same level. However, staff is proposing a change to the Initial Matching Grant (IMG). Currently, a NextGen account owner must wait 24 months before withdrawing the IMG funds, and the recommendation is to change the holding period to 12 months. A participant in the Maine LiLA Program, which enables employers to make contributions for employees, is currently able to make a withdrawal after 12 months, and the change to a 12 month holding period would provide consistency and eliminate confusion. Ms. Dostie added that staff has done some research into the historical pattern of withdrawals, and although she could not make any guaranties, she did not anticipate any abuse resulting from the change.

A motion was made by Ms. Snowden and seconded by Treasurer Walker to approve the Matching Grants for 2014 as follows: Initial Matching Grant-A one-time \$200 grant for eligible accounts opened with \$25 in the Client Direct Series or \$50 in the Client Select Series. (Accounts receiving the Alford Grant are not eligible.); NextStep Matching Grant-Eligible accounts will receive a 50% match on contributions, up to \$100 per year, with a lifetime maximum of \$1000; and Automated Funding Grant-A one-time \$50 grant for eligible accounts that make at least six consecutive contributions through an automated funding option. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-12-19-13-04

E3: Adoption of Rule Ch. 610, Amendment 4 – Rules for the Conduct of the Educators for Maine Program

Ms. Gabrielson stated that no comments were received during the public comment period. The rule was amended to conform it to legislation passed last year, which enables Jobs for Maine's Graduates specialists to obtain loan forgiveness. Jobs for Maine's Graduates specialists work in public schools with select groups of students whose focus is career development, job attainment and survival, leadership and team building, communication and time management, and community service learning.

A motion was made by Mr. Pelletier and seconded by Mr. Mitchell to adopt Rule Ch. 610, Amendment 4-Rules for the Conduct of the Educators for Maine Program. The motion was approved by a vote of 9 in favor, 0 opposed and 1 abstention (Michael Mahoney).

R-12-19-13-05

Extension of Sallie Mae Contract

Ms. Bordowitz presented this as an additional Action Item. Sallie Mae is the service provider for our FFELP portfolio. The original proposal was for a one year extension of the contract but the Budget Bill referred to previously regarding FFELP has caused staff to prefer a six month extension with the option for another six month renewal, which will allow staff time to assess the effect on FAME's budget.

A motion was made by Treasurer Walker and seconded by Ms. Snowden to extend the Sallie Mae contract under the same terms for six months. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-12-19-13-06

BREAK: 11:11 a.m. – 11:21 a.m.

E4: Approval of 2013 Financial Statements

Treasurer Douglass re-entered the meeting at 11:25 a.m.

Treasurer Walker moved to enter into Executive Session to consider information for which confidentiality has been requested. The motion was seconded by Mr. Lamarr and approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #5 at 11:23 a.m.

Members exited Executive Session #5 at 12:14 p.m.

Vice Chair Murphy asked Treasurer Douglass to reiterate her opinion regarding the importance of taking action now for the good of the state. Treasurer Walker also indicated that as a board, it is in the best interest of FAME to move forward and accept the financial statements but as FAME Treasurer she wished to go on the record as not supporting them. Treasurer Douglass added that delaying acceptance of the financial statements to further address the matter underlying the qualified opinion could exceed the negative impact, if any, of the qualified opinion.

Ms. Snowden offered the motion based on the needs of the state.

A motion was made by Ms. Snowden to approve the 2013 Financial Statements. The motion was seconded by Treasurer Douglass and approved by a vote of 9 in favor, 1 opposed (Treasurer Walker) and 0 abstentions.

R-12-19-13-07

COMMISSIONERS' & TREASURER'S UPDATES:

None.

The meeting adjourned at 12:23 p.m.

Respectfully submitted,

Patrick Murphy, Vice Chair