

**MINUTES OF THE FEBRUARY 21, 2013 MEETING OF THE MEMBERS  
OF THE FINANCE AUTHORITY OF MAINE**

Chair Snowden called the February 21, 2013 meeting of the members of the Finance Authority of Maine to order at 9:05 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Chair Snowden 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*).

Chair Snowden 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:

Susan Snowden, Chair  
Cheri Walker, Vice Chair  
Patrick Murphy, Treasurer  
Anthony Armstrong  
Neria Douglass (*entered meeting at 9:10 a.m.*)  
George Gervais (*entered meeting at 9:30 a.m.*)  
Reis Hagerman  
Larry Mitchell  
Rosaire Pelletier  
Christopher Pierce  
Evelyn Silver

Those members absent:

Patrick Keliher  
Glenn Lamarr  
Michael Mahoney  
Raymond Nowak

Staff present:

Elizabeth Bordowitz, Chief Executive Officer  
Christopher Roney, General Counsel  
William Norbert, Governmental Affairs and Communications Manager  
Katryn Gabrielson, Deputy General Counsel  
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  
Linda Cunningham, Accounting and Finance Manager  
Ron Farris, Financial Analyst

Claude Roy, Education Services Officer  
Jonathan Harvell, Chief Information Officer  
Adele Bickford, Executive/Legal Assistant

Guests Present:

None

## **A. CALL TO ORDER**

### **A1: Ascertainment of Quorum**

### **A2: Approval of January 17, 2013 Board Meeting Minutes**

**A motion was made by Mr. Mitchell and seconded by Dr. Silver to approve the minutes of the January 17, 2013 board meeting. The motion was approved by a vote of 8 in favor, 0 opposed and 1 abstention (Patrick Murphy).**

**R-02-21-13-01**

## **B. CHAIR'S REPORT**

Chair Snowden advised the board that she will be going to her Confirmation Hearing next week.

## **C: CEO'S AND STAFF REPORT**

### **C1: CEO's Report**

Ms. Bordowitz provided members with a legislative update. Of the five bills that FAME is bringing forward, two have been through both public hearings and work sessions and received a unanimous "ought to pass". Those bills involved small technical changes to the Educators for Maine Program and NextGen. Two other bills are slated for public hearings next week are the allocation of bond cap bill and the Student Loan Insurance (SLI) bill. The SLI bill is being sponsored by Senator Emily Cain, with bipartisan co-sponsors and members of the Education Committee and leadership lending support. There has been no indication of opposition to the bill. The Credit Union League and some legislative members, specifically Joyce Maker, will testify in support of the bill. She noted that they expect to have the support of a community bank, as well. Ms. Bordowitz expects to provide a more thorough update on the status of this initiative in March and an additional action item at this meeting will afford members the opportunity to discuss the SLI bill further.

Confirmation hearings for several advisory committee members as well as that of Chair Snowden are coming up. The one remaining FAME bill involves the management of the Fund Insurance Review Board (FIRB). The management of FIRB is not core to FAME and the bill will change management to the Department of Environmental Protection (DEP). Both the DEP and the FIRB Board are supportive of the change. That hearing is today and there is no apparent opposition to the proposal.

Mr. Norbert added that the supplemental budget cut approximately \$142,000 from the Maine State Grant Program. The Governor has recommended flat funding for student financial assistance as part of his biennial budget proposal that proposes \$6 billion dollars of cuts from the state's current budget. Mr. Norbert pointed out that it has a long way to go in the budget process.

Ms. Bordowitz informed the board that the Gates Foundation has commissioned several reports regarding re-inventing student financial assistance. The most recent White Papers have a consistent theme: the elimination of all higher education tax credits with the resulting lost revenue being used for aid to need-based programs. Staff will continue to monitor this situation with its obvious ramifications to 529 plans.

## **C2: Strategic Planning**

Ms. Bordowitz updated the board on the goals and objectives of the Strategic Plan. A meeting was held a couple of weeks ago with team leaders to prioritize strategies, which were identified to be overlapping, recognizing that in some areas such as marketing and IT, resources need to be prioritized since the same people cannot do everything at once. She referred members to their board packet, which briefly provided a reminder of FAME's Vision, Mission, core goals and some strategies to meet the goals. One such strategy is a Preferred Lender Program. The Lender Advisory Committee will meet to discuss the program and provide their feedback on the topic. Other strategies are: on-line account viewing and payment, which is being rolled out, and on-line account servicing, which is in process as compliance and privacy issues are resolved; the staff marketing team is in place and developing an organization-wide communications plan that will include the FAME 30<sup>th</sup> anniversary messaging; the firm conducting the Immersion exercise will be looking for feedback from those board members who, along with staff, attended the meeting, to develop a plan; NextGen Matching Grant changes will be implemented July 1, 2013 with its easier messaging expected to encourage contributions; the Customer Service team has recommendations to improve efficiency but must rely on prioritization of such resources as IT; SLI is ready to be launched with the deadline this week for responses to a RFR for a provider of the financial literacy component; and the functionality of the website is always being monitored for enhancements to make its navigation easier. These improvements are all driven by the Strategic Plan.

## **C3: Quarterly Financial Report and Scorecard**

*Mr. Pelletier exited the meeting at 9:31 a.m.*

Mr. Mello referred members to the materials in their packets, specifically to the Statement of Revenues and Expenses. Excess Revenue/Deficit recorded a loss of \$700,000, which is an improvement of \$1.8 million over an anticipated deficit of \$2.5 million. Revenue exceeding budget resulted from fees associated with commercial business, where Commercial Loan Insurance saw growth from \$84 million in FY 2012-2013 to over \$90 million currently. Another contributing factor was a reduction in operating expenses, due to staff openings, control over expenses and timing issues. Also contributing to the improvement of actual to budget was the fact that FAME received the \$1 million state transfer in 2012 but had not included it in its budget. Mr. Mello reported that the \$3.2 million reduction in results from the prior year was primarily planned for, pointing to the NextGen generated fees. In June, NextGen administrative fees went from 15 basis points (bp) to 11 bp. The Provision for Loan Loss is up \$950,000, due to growth in the numbers in the Commercial Loan Insurance program and some large transactions that occurred in September. Additionally, the NextGen Program benefits are at \$2.4 million. Those benefits were determined by

the board and staff and rose to \$4 million. In summarizing, Mr. Mello noted that although the results are down \$3.2 million from the prior year, it can be viewed positively in context of the current budget based on the items he outlined. In responding to Chair Snowden, Mr. Mello indicated that professional fees will most likely come closer to budget, although some reductions are permanent and some are due to timing. As far as the variance in investment income is concerned, he indicated that it is likely to continue in light of current economic conditions in the marketplace. Mr. Pierce suggested that an additional column indicating what might occur, thereby looking forward rather than backward, would be helpful. The re-forecast could be done quarterly or semi-annually, and Mr. Mello felt that the discipline it would impose could be beneficial. Mr. Mello reviewed the Balance Sheet, making note of Line Item #2 that is consistent with a legislative change in which NextGen investments were moved from the State's Balance Sheet to FAME's Balance Sheet. Mr. Mello referred the board to the Ratios section of the Balance Sheet where he made a correction to the "No exposure may be greater than \$2,613,464". The correct figure should be \$4.1 million after applying the formula. He also noted that the aggregate exposure to any one borrower/relationship, which is \$4 million, was set by the board in December.

Mr. Mello reviewed the Scorecard results as of December 31, 2012. The Scorecard indicates that most goals are expected to be met or exceeded when compared to annualized actuals. The data for two goals are not yet available due to timing: the deadline for FAFSA filings is May 1 and the Customer Survey is due out in April.

#### **C4: Monthly Update for Board on Lumber, Wood and Paper Products**

*Mr. Pelletier re-entered the meeting at 9:37 a.m.*

Mr. Corey referred members to the memo in their board packets related to the current exposure for the lumber, wood and paper industry, where he noted that the total exposure is at 90% of the suggested maximum and below the guideline. In response to Mr. Armstrong's question regarding what the effect of the up-tick in the housing industry nationwide has had on Maine's lumber industry, Mr. Emmons provided a status on the Twin Rivers Paper Company. Twin Rivers is the largest of FAME's CLI loans. The mill has facilities on both sides of the Canadian border and its saw mill, located on the Canadian side, has reported doing much better than in previous years. This can be attributed to recent housing starts and in part, to a blight in the western woodlands.

#### **D: ACTION ITEMS**

##### **D1: Bond Resolution – Trustees of Berwick Academy Revenue Obligation Securities Program**

Mr. Roney advised members that the bond resolution before them for Berwick Academy is for a conduit bond with no recourse to FAME. It is a refinance of bonds issued for Berwick Academy in 2011, and the board is being asked to approve authorization for staff to sign documents to refund and refinance those bonds.

**A motion was made by Mr. Pelletier and seconded by Dr. Silver to approve a resolution authorizing the issuance of sale of up to \$7,300,000 of revenue obligation securities of the Finance Authority of Maine for the benefit of the Trustees of Berwick Academy and the execution and delivery of a loan and security agreement and other matters in connection therewith. The motion was approved by a vote of 10 in favor, 0 opposed and 1 abstention (Cheri Walker).**

R-02-21-13-02

**D2: Reallocation of Qualified Energy Conservation Bond Authority to Portland Housing Authority**

Several years ago, \$13,657,000 was allocated in federal tax-favored bond issuing authority to Maine for Quality Energy Conservation Bonds (QECBs) for energy conservation projects. Maine enacted legislation that allocated 30%, or \$4,097,100, of those funds to FAME and the remaining 70% to the Municipal Bond Bank. There has been little interest shown in the allocation previously and the Portland Housing Authority is asking FAME now to allocate its capacity to issue the tax credit bonds to them for a substantial energy conservation project. Mr. Roney explained that staff is coming to the board for authorization to reallocate the full \$4,097,100 in QECBs since there is no clarity in the rules for this type of situation. Mr. Roney indicated further that he is not aware that the Bond Bank had used any of its allocation. The allocations do not expire, according to Mr. Roney.

**A motion was made by Vice Chair Walker and seconded by Mr. Hagerman to authorize the Authority to reallocate \$4,097,100 of Qualified Energy Conservation Bond authority to the Portland Housing Authority, on conditions recommended by staff as presented, and to authorize the Chief Executive Officer to execute any and all documents required to effectuate such reallocation, such documents to be in form and content acceptable to the Chief Executive Officer. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.**

R-02-21-13-03

**D3: Approval of Preliminary Expected Family Contribution (EFC) – Academic Year 2013-2014**

Ms. Bordowitz introduced Mr. Roy who will be providing information on the determination of the preliminary Expected Family Contribution (EFC) in the absence of Ms. Dostie. Members were given a handout outlining how the EFC is determined. Ms. Bordowitz explained that it is important to get that figure to schools now as they begin to package their financial aid to students. EFC is predicted on past usage and current knowledge and a conservative number is considered as FAME is not certain of its level of funding through the Maine State Grant at this time.

Mr. Roy referred members to the handout in which a timeline is provided for the process of determining the EFC. In January the amount of available funds is determined; in February, the projections are finalized and brought to the board for approval before going out to the schools; in May, after the FAFSA filing deadline, the projections are compared to actual applicant data and any adjustment is made at that time. In December, the actuals are compared to the projections and any necessary adjustments are also made at that time. Mr. Roy explained that there is normal attrition that takes place in the second semester. If a significant amount of funds are available as a result of the lowered take rate, the EFC may be recalculated and increased to distribute the funds. In response to a question, Mr. Roy responded that if an increased EFC is warranted, it is applied to the fall and spring semesters. Mr. Roy noted that the take rate is important to determining the EFC and is based on historical information related to the number of eligible students who previously have taken advantage of the Maine State Grant award. Mr. Harvell referred members to the chart and the highlighted band that provides the recommended level of EFC that can be funded given the amount

available from the appropriation for Maine State Grant and funds contributed from the NextGen Program. Ms. Bordowitz pointed out that there are over 11,000 families in Maine with an EFC of 0 and that an EFC of 2000 correlates approximately to an average income of \$35,000. She also reminded the board that they had approved NextGen funds of \$3.5 million to be added to the \$9.7 million, which is the portion of the Maine State Grant funded through the state appropriation for student financial assistance. To respond to Chair Snowden, Mr. Roy gave the EFCs from previous years: 4600 (2009-2010); 4000 (2010-2011); 4300 (2011-2012) and 5000 (2012-2013). The lower EFC for academic year 2013-2014 is due to the lower NextGen funding approved by the board in December and the appropriation cuts.

**A motion was made by Mr. Pelletier and seconded by Mr. Mitchell to approve setting the preliminary Expected Family Contribution (EFC) at \$2000 for academic year 2013-2014. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.**

#### **R-02-21-13-04**

#### **D4: Adoption of Rule Ch. 202, Amendment 18 – Revenue Obligation Securities Program**

Mr. Roney advised the board that rule Ch. 202, Amendment 18, Revenue Obligation Securities Program, is before them for adoption. The amendment clarifies the application process and fees that apply. It has proceeded through the rule process without comment.

**A motion was made by Vice Chair Walker and seconded by Mr. Murphy to adopt rule Ch. 202, Amendment 18, Revenue Obligation Securities Program. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.**

#### **R-02-21-13-05**

#### **D5: NextGen College Investing Plan®**

Staff is requesting approval of a modification to the NextGen Program, which would remove AllianzGI Opportunity Fund and re-allocate the exposure to two other small cap growth funds in the Allianz portfolios. The fund being removed has been on the red-flag report for more than one year and was being monitored by FAME's independent consultant who is recommending its removal from the program. The Advisory Committee on College Savings, as a result of its meeting yesterday, is also recommending removal. The Allianz proposal is in the board packet. Ms. Gabrielson advised that total asset based expenses resulting from the change will increase 1 basis point in three of the affected portfolios and decrease expenses in three others by 1 to 2 basis points. She noted that underlying fund expenses fluctuate monthly. Responding to a question, she indicated that eight or nine funds are normally on the red-flag report but now attention is more closely being paid to those that have been on the report for more than a year. Ms. Bordowitz added that the Advisory Committee has been working on an Investment and Monitoring Policy for some time and has come to some consensus that it expects to bring to the board next month. They have established a range around what is a reasonable variance from convention. Members were given a resolution to consider for approval as a handout.

**A motion was made by Mr. Mitchell and seconded by Mr. Hagerman to approve the modifications to certain Allianz portfolios in the NextGen College Investing Plan® and authorize the Chief Executive Officer to take such actions necessary to implement such**

**modifications. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.**

**R-02-21-13-06**

**Additional Action Item: Authorization to Enter into Letter of Intent**

Mr. Roney reminded the board that staff is in the process of exploring and developing a Student Loan Insurance Program. As a part of the process, FAME issued a Request for Proposal (RFP) for a servicing provider for the private student loans that will be originated through banks or credit unions and insured by FAME. Staff has selected Campus Door of Carlisle, Pennsylvania. Although in the early stage of negotiations, Campus Door has requested a Letter of Intent and a non-refundable fee of \$10,000 to begin the up-front work to make possible a June, 2013 launch. Staff is asking the board for the authority for the Letter of Intent and the non-refundable \$10,000 fee before beginning the more formal contract negotiations. As part of the due diligence process, Campus Door provided a demonstration of their services through a web demonstration; FAME staff travelled to Carlisle, Pennsylvania to tour their facility and talked to customers who highly recommended their services. Their facility is state of the art in terms of security. The management team has an extensive background in compliance and student lending and are experienced and professional. Ms. Bordowitz added that the organization has undergone and passed an audit by the Consumer Financial Protection Bureau (CFPB). Although some board members were uncomfortable with the payment of the \$10,000 deposit on a non-refundable basis from a negotiation standpoint, Mr. Roney expressed his intent to negotiate the terms of the deposit, and his belief that it was not inappropriate to protect the vendor that before contracts are entered into will need to modify its software and must meet FAME's tight timeframe while negotiations continue with lenders and consultants to develop a model. Legislative approval is still pending. Mr. Roney also added that he expects that the private lenders will eventually pay a set-up fee that will earn back some of this up-front money. Campus Door will provide the automated on-line credit process utilizing a uniformly applied matrix with a financial literacy component added and provide all documentation and disclosures as well. Mr. Armstrong was concerned for the personal contact for students, for example, whose applications may have been declined. He asked if the students would have the chance to contact FAME or the bank in such situations. Mr. Roney responded that that would be the intention. Chair Snowden added that without the \$10,000 deposit, it was unlikely that the program would be ready for a June, 2013 roll out.

**A motion was made by Treasurer Douglass and seconded by Dr. Silver to authorize the Chief Executive Officer to enter into a Letter of Intent and payment of up to \$10,000 non-refundable fee with Campus Door for programming and other work to launch the Student Loan Insurance Program. The motion was approved by a vote of 11 in favor, 0 opposed and 0 abstentions.**

**R-02-21-13-07**

Ms. Bordowitz encouraged members to come forward with any questions. The consultant will be at the next board meeting to answer their questions.

**E: Discussion – NextGen Program Management**

*Chair Snowden exited the meeting at 10:43 a.m.*

*Mr. Pelletier exited the meeting at 10:45 a.m.*

*Chair Snowden re-entered the meeting at 10:46 a.m.*

*Vice Chair Walker exited the meeting at 10:49 a.m.*

*Vice Chair Walker re-entered the meeting at 10:50 a.m.*

*Mr. Pelletier re-entered the meeting at 11:11 a.m.*

FAME is in the process of moving forward in the selection of a Program Manager for NextGen. The current agreement with Merrill Lynch will expire on June 30, 2014. Ms. Gabrielson will discuss the background of the contract negotiations and the process. Staff is basically looking for direction and thoughts from the board at this time.

Vice Chair Walker called for an Executive Session to discuss the NextGen Program Management contract.

**Dr. Silver moved to enter into Executive Session to consult with counsel on the preparation of contract negotiations. The motion was seconded by Mr. Armstrong and approved by a vote of 10 in favor, 0 opposed and 0 abstentions.**

*Members entered Executive Session at 10:44 a.m.*

*Members exited Executive Session at 11:55 a.m.*

Chair Snowden announced that at the request of members and staff, the board will begin cycling in various staff experts to present particular programs. Today's presentation will be by two of FAME's staff who will describe the Kim Wallace Adaptive Equipment Loan Program.

**BREAK: 11:55 A.M. – 12:06 P.M**

*Mr. Pelletier exited the meeting at 11:55 a.m.*

*Commissioner Gervais exited the meeting at 11:55 a.m.*

### **F: Presentation – Kim Wallace Adaptive Equipment Loan Program**

*Mr. Armstrong exited the meeting at 12:07 p.m.*

Ms. Bordowitz introduced Michelle McKenzie and Laurie Garrison, long time employees of FAME who work directly with the Kim Wallace Adaptive Equipment Loan Program (AELP). Ms. McKenzie provided a handout and a post card that will be used to broaden the awareness of the program. The handout details the types of loans offered and statistics regarding the numbers and amounts of loans from program inception. The program was designed to help provide equipment to individuals with disabilities that are not able to qualify for loans from more conventional means. Ms. Bordowitz pointed to the fact that the original bond issue of \$7.5 million has serviced \$23 million in loans, which illustrates the success of the program.



## **COMMISSIONERS' & TREASURER'S UPDATES:**

Treasurer Douglass reported that the supplemental budget is complete; there are a lot of issues remaining as many bills have been referred; Barbara Raths, her deputy, has resigned; and her office is working with the Governor, Attorney General and the Municipal Bond Bank about related bond issues.

Mr. Corey reminded members that there will be a Commercial Loan Committee meeting starting at 8:30 am prior to the March Board meeting and everyone is invited to participate. As a reminder, board meetings begin at 9:30 a.m. on those days.

Chair Snowden asked that if anyone expects to be absent from the April meeting, please let either Ms. Bordowitz or Ms. Bickford know.

Ms. Bordowitz told members that staff is currently working on the annual meeting that will celebrate FAME's 30<sup>th</sup> anniversary. She asked them to share any suggestions for a speaker. Ms. Vanderweide also asked that they share any success stories they may have so that they may be incorporated into the celebration.

The meeting adjourned at 12:28 p.m.

Respectfully submitted,

Cheri Walker, Vice Chair