

**MINUTES OF THE FEBRUARY 16, 2017 MEETING OF THE MEMBERS
OF THE FINANCE AUTHORITY OF MAINE**

Chair Nowak called the February 16, 2017 meeting of the members of the Finance Authority of Maine to order at 10:05 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Chair Nowak 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

Before calling the roll, Chair Nowak advised that the Chair's Report would be tabled and heard at the March board meeting to allow time for the Action Items.

Chair Nowak 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:

Raymond Nowak, Chair
James Violette, Jr., Vice Chair (*entered the meeting at 10:08 am*)
Richard Roderick, Treasurer
George Gervais
Terry Hayes
Patrick Keliher
Larry Mitchell
Rosaire Pelletier
Cheri Walker

Those members absent:

Jonathan Block
Reis Hagerman
James Howard
Gregory Miller
Christopher Pierce
Susan Snowden

Staff present:

Bruce Wagner, Chief Executive Officer
Christopher Roney, General Counsel
William Norbert, Governmental Affairs and Communication Manager
Elizabeth Vanderweide, Business Development and Marketing
Martha Johnston, Director of Education
Carlos Mello, Chief Risk Officer

Charles Emmons, Senior Commercial Loan Officer
Scott Weber, Senior Credit Officer
Ellen Curtiss, Credit Analyst
Katryn Gabrielson, Deputy General Counsel
Eva Giles, College Savings Plan Manager
Lisa Brown, Human Resource Manager
Matthew Lindquist, Commercial Loan Officer
Roxanne Broughton, Commercial Loan Office
Sally Garand, Commercial Loan Officer
Shelly Desiderio, Chief Accounting Office
Joshua Dixon, Senior Accountant
Adele Bickford, Executive/Legal Assistant

Guests Present:

Sarah McNally, Smart Vision
James Brewer, Smart Vision
Paul Wheeler, Smart Vision
Jessilin Quint, Smart Vison
Brent Hall, Kennebec Savings Bank

A2: Approval of January 19, 2017 Board Meeting Minutes

A motion was made by Mr. Mitchell and seconded by Mr. Pelletier to approve the minutes of the January 19, 2017 Board meeting. The motion was approved by a vote of 7 in favor, 0 opposed and 1 abstention (George Gervais).

R-02-16-17-01

B: CHAIR'S REPORT

B1. Acceptance of the Report of the Executive Committee Meeting of January 19, 2017

B2: Acceptance of the Report of the Risk Management and Audit Committee of January 26, 2017

B3: Acceptance of the Report of the Business Committee Meeting of February 1, 2017

B4: Acceptance of the Report of the Education Committee Meeting of February 3, 2017

B5: Committee Appointments

B6: Board Assessment Update

{ALL ITEMS MOVED TO MARCH MEETING}

C: CEO's and STAFF REPORT

C1: CEO Report

Mr. Wagner advised that two new areas have been added to the CEO's Report in response to feedback from the board: Strategic and Risk Issues. Revenue growth is of concern. FAME has a process in place to generate new product volume, in particular, for the Loan Consolidation program, the revenues from which have been lagging. This refi program will be marketed more aggressively, and Mr. Wagner indicated that he believes the market is there for this product. A third party cybersecurity assessment has been conducted and one area for improvement was noted. That system so noted will be replaced with a system already in operation, although Mr. Wagner indicated that will not be an immediate fix. No other vulnerabilities were identified. Mr. Roney reported that a new conduit bond will be coming to the board next month from Fiberight LLC, which has been in the news recently. The Penobscot Energy Recovery Company (PERC) is objecting to Fiberight's attempt to enter the Maine market. Mr. Roney provided members with a brief description of the different types of bonds and the process by which they are processed through FAME.

Vice Chair Violette exited the meeting at 10:16 a.m.

Vice Chair Violette re-entered the meeting at 10:18 a.m.

Vice Chair Violette exited the meeting at 10:22 a.m.

Commissioner Keliher exited the meeting at 10:29 a.m.

C1a: Articles of Interest

Included in board packet.

C2: Education Update

Ms. Johnston referred members to the memo in their packets regarding the recommendations of the Maine College Savings Program Work Group presented at the January board meeting. The recommendations were broken down into three categories: near term recommendations occurring before the end of FY 17; recommendations to be explored, which align with the FY 2015-2018 Strategic Plan; and lastly, recommendations to be explored as part of the FY 2019 Strategic Plan.

C2a: NextGen

Commissioner Keliher re-entered the meeting at 10:33 a.m.

Treasurer Roderick moved to enter into Executive Session to discuss records for which confidentiality has been requested by the owner or the person to whom it pertains, and as to which the Authority determines the information in which gives the owner/user an opportunity to obtain business or competitive advantage over another person who does not have access to the information other than through the Authority, or that access to the information by others would result in a business or competitive disadvantage, loss of business, or other significant detriment (10 MRSA §975-A(2)(B)). The motion was seconded by Mr. Mitchell and approved by a vote of 6 in favor, 1 opposed (Terry Hayes) and 0 abstentions. Chair Nowak did not vote.

Members entered Executive Session #1 at 10:35 a.m.

Members exited Executive Session #1 at 10:43 a.m.

C2b: Refinance Student Loan Insurance Marketing Plan

Ms. Vanderweide provided a marketing update for student consolidation loans and referred members to the memo in their board materials. After a slow start, refinance/consolidation loans are being marketed more aggressively based on tactics resulting from research conducted by FAME. Approximately 166 people started an application; 92 were completed; 58 were declined; 31 applications were completed, approved and disbursed. Earlier research showed that most respondents heard about the loan through their lender, and FAME will target lenders to market to their existing customers. FAME will also market directly to Maine Loan customers. Ms. Vanderweide provided a handout outlining the Loan for Me Lender Conversion Activity. The website, theLoanforME.com, was identified based on research as a good tactic to be deployed to encourage awareness and applications for student consolidation loans.

C3: Financial Quarterly Update

Treasurer Hayes exited the meeting at 11:03 a.m.

Treasurer Hayes re-entered the meeting at 11:05 a.m.

Ms. Desiderio reviewed the financial materials provided to members in their packets, which summarize the 2nd quarter financial performance going forward, budget to actual and actual to forecast. More detail of deficit items are included in the memo to members. Treasurer Hayes inquired about confidentiality, what is and what is not, in the materials given to members, and Mr. Wagner will put it on a future board agenda.

C3a: Scorecard

Ms. Desiderio referred members to the Scorecard, which currently gives the measurements, pay-outs and where we are currently. It is too early to determine if a specific goal will be met.

B7: Acceptance of the 2017 Incentive Plan

Chair Nowak asked the board to approve the 2017 Incentive Plan that was previously reviewed by the Executive Committee. The Scorecard provides the matrix for the Incentive Plan.

A motion was made by Treasurer Hayes and seconded by Treasurer Roderick to accept the 2017 Incentive Plan as presented. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-16-17-02

C3b: Quarterly Contributions, Sponsorships & Donations Report

The report includes FAME's quarterly contributions, sponsorships and donations. Ms. Desiderio noted that there have been two additional items added from the previous report: \$283 to join the Maine Health Management Coalition and \$2500 membership fee to Invest in the USA.

C4: Business Update

Vice Chair Violette re-entered the meeting at 11:15 a.m.

Mr. Weber reported that the Business Committee reviewed the Commercial Loan Insurance and FAME Direct Loan (formerly ERLP) portfolio snapshots and asked if members had questions. Discussion ensued regarding the higher percentage of leveraged (first loss) loans. Mr. Mello stated that there has been no market shift in pro rata loans.

C4a: Commercial Loan Improvement – New OLA Product

Vice Chair Violette exited the meeting at 11:22 a.m.

Mr. Emmons informed the board that FAME is changing its OLA maximum exposure limits in accordance with the chart provided in the board packet. The maximum OLA exposure limit will be increased to \$750,000, 75% insurance for exposure up to \$500,000 and 60% insurance from \$500,001 to \$750,000. The changes were made in response to the suggestions made by the Voice of the Customer (VOC) and Advisory Group. The Risk and Audit Committee also looked at the proposed changes. No board action is required at this time.

C5: Legislative Update

Mr. Norbert and Mr. Wagner have concluded their meeting with leadership and both attended a conference in Washington, DC last week where they met with Maine's legislative delegation, who were supportive and helpful. Mr. Norbert testified at the Appropriations Committee on Monday regarding FAME's student financial assistance lines of the budget, which will go to a work session later. Mr. Mello testified in opposition to a state bank. Mr. Norbert will be attending board confirmation hearings later today. Treasurer Hayes handed out a copy of the bill that would remove the Treasurer of the State from membership on the Advisory Committee on College Savings. That bill is on the calendar today in the House.

D: ACTION ITEMS:

D1: Smart Vision – Request for Commercial Loan Insurance

Vice Chair Violette re-entered the meeting at 11:28 a.m.

Vice Chair Violette exited the meeting at 11:40 a.m.

Mr. Lindquist introduced Paul Wheeler, COO, Drs. James Brewer, Sarah McNally, and Jessilin Quint of Smart Vision and Brent Hall of Kennebec Savings Bank. Kennebec Savings Bank (KSB) is seeking 80% pro rata insurance for a \$2.4 million loan to purchase the business assets of Smart Vision. The purchase price is \$3 million, with the seller, Dr. Richard Smart, holding a \$550,000 note and \$50,000 being brought to the transaction by the purchasers. There is a 15 year amortization, 6 year call, and interest free the first year. There is a provision for debt service coverage over 1.0 to go to pay down the debt, which based on historical cash flow, would bring the amortization down to 9.5 years. Although collateral is "thin", it is mitigated by a consistent, historical cash flow. Dr. Smart had an opportunity to sell his optometry practice to a chain but he

preferred to keep control within the local community. FAME staff is in support of the transaction. Mr. Hall related that the bank has had a long time relationship with the existing owner, and the bank is comfortable with the owner and the business cash flow. Also, the sale of the business to employees will keep jobs in Maine.

A motion was made by Treasurer Hayes and seconded by Mr. Pelletier to authorize loan insurance for a \$2,400,000 term loan for Smart Vison or other entity to be formed. The motion was approved by a vote of 7 in favor, 1 opposed (Raymond Nowak) and 0 abstentions.

R-02-16-17-03

D2: Approval of Bond Resolution – Maine Education Loan Program

Vice Chair Violette re-entered the meeting at 11:43 a.m.

Commissioner Gervais exited the meeting at 11:52 a.m.

Mr. Roney advised that the \$15 million Maine Student Loan Revenue bond request to fund the Maine/Maine Medical Loan Programs is subject to its own capital reserve fund and pledges the moral obligation of the state, similarly to that of a Major Business Expansion Loan (MBE). Bonds previously issued under the Maine Educational Loan Authority (MELA), which merged with FAME, funded academic years 2015-2016 and 2016-2017 and used recycled funds, the extension of which will expire June 30, 2017. The funds are for in-school students only at a fixed rate and at a lower rate than that offered last year. It is the only fixed rate product available.

A motion was made by Treasurer Hayes and seconded by Treasurer Roderick to approve the Bond Resolution provided, to authorize and approve not to exceed \$15,000,000 aggregate principal amount of Finance Authority of Maine Student Loan Revenue bonds (Supplemental Education Loan Program), Class A series 2017A-1; and documentation in connection therewith. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-02-16-17-04

D3: Approval of Process for Determining Loan Loss Reserve

Commissioner Gervais re-entered the meeting at 11:56 a.m.

Mr. Mello reported that the Risk Management and Audit Committee reviewed the three revisions to the insured and direct Commercial Loan Policy at their January 26, 2017 meeting and are recommending approval by the board, the last of which is based on the recommendations of First Infrastructure. Mr. Mello noted that the external auditors indicated that FAME's allowance for loan loss is extremely conservative and would support a continued reduction as a percentage of the insured portfolio. Following that recommendation, FAME would reduce its percentage from a 15% to 13.5% reserve. He added that this approach is conservative as he prefers to move forward at a measured pace and will come back to the board periodically. He will be more comfortable when he has the ability to look at loss experience by year of origination, by industry and risk rating in an automated manner, making the review process more precise.

A motion was made by Mr. Pelletier and seconded by Treasurer Hayes to approve policy changes as presented. The motion was approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

R-02-16-17-05

D4: Ratification of Investment Purchases

Ms. Desiderio referred members to the material in their board packets listing Investment Allocations and Rates and a Listing of Purchases and Maturities/Sales/Calls in the quarter ending December 31, 2016, which are in compliance with FAME's Investment Policy.

A motion was made by Ms. Walker and seconded by Mr. Mitchell to ratify investment purchases as presented. The motion was approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

R-02-16-17-06

COMMISSIONERS' & TREASURER'S UPDATES

Commissioner Keliher advised that lobster landings, if not at an all-time high, is very close to it again, which is good news for the industry.

E: BOARD EXECUTIVE SESSION

No executive session held.

Mr. Wagner updated members on FAME's succession plan as some key people will retire in the foreseeable future. The NextGen position vacated by Brian Murphy has been filled within the organization.

The meeting adjourned at 12:06 p.m.

Respectfully submitted,

James Violette, Jr., Vice Chair