

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

Chair Snowden called the March 21, 2013 meeting of the members of the Finance Authority of Maine to order at 9:35 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*).

A. CALL TO ORDER

A1: Ascertainment of Quorum

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
Anthony Armstrong
George Gervais
Reis Hagerman
Glenn Lamarr
Larry Mitchell
Raymond Nowak

Those members absent:

Neria Douglass
Patrick Keliher
Michael Mahoney
Patrick Murphy, Treasurer
Rosaire Pelletier
Christopher Pierce
Evelyn Silver

Staff present:

Elizabeth Bordowitz, Chief Executive Officer
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
Ron Farris, Financial Analyst
Lisa Brown, Human Resource Manager
Shelly Desiderio, Senior Accountant
Scott Bursey, Commercial Loan Officer
Scott Weber, Credit Analyst
Sally Garand, Commercial Loan Officer
Rita Fournier, Customer Service Manager
Angela Dostie, Program and Policy Manager
Adele Bickford, Executive/Legal Assistant

Guests Present:

Aaron Cannan, Katahdin Trust Company
Gerard Kiladjian, Portland Harbor Hotel
Nathan Bateman, Bateman Partners
John Volpini, Volpini Consulting

A2: Approval of February 21, 2013 Board Meeting Minutes

A motion was made by Mr. Hagerman and seconded by Mr. Armstrong to approve the minutes of the February 21, 2013 board meeting. The motion was approved by a vote of 6 in favor, 0 opposed and 2 abstentions (Ray Nowak and Glenn Lamarr).

R-03-21-13-01

B. CHAIR'S REPORT

B1: FAME CEO Discussion

Chair Snowden called for an Executive Session regarding FAME's CEO position.

Commissioner Gervais moved to enter into Executive Session for personnel matters. The motion was seconded by Mr. Armstrong and approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #1 at 9:40 a.m.

Staff exited the meeting at 9:40 a.m.

Members exited Executive Session #1 at 10:25 a.m.

Staff re-entered the meeting at 10:25 a.m.

B2: Report of the Finance and Audit Committee for February 21, 2013

Vice Chair Walker reported that the Finance and Audit Committee met after the February 21st meeting of the board and are making three recommendations, which members will be asked to consider as Action Items later in the agenda. The three recommendations are: ratification of

investment purchases made from September through December, 2012; minor revisions to the Investment Policy; and the annual review of the Business and Education Capitalization Funds policies.

A motion was made by Mr. Mitchell and seconded by Mr. Armstrong to approve the report of the Finance and Audit Committee meeting of February 21, 2013. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-03-21-13-02

C: CEO'S AND STAFF REPORT

C1: CEO's Report

Commissioner Gervais exited the meeting at 10:27 a.m.

Commissioner Gervais re-entered the meeting at 10:29 a.m.

Ms. Bordowitz introduced Lisa Brown who is FAME's newly hired Human Resource Manager. Ms. Brown comes to FAME with six years of experience at Cianbro in their HR department.

Ms. Bordowitz reported the ERLP loan to ORPC Maine has been paid in full.

Ms. Bordowitz requested an Executive Session to consult with counsel on contract negotiations.

Mr. Armstrong moved to enter into Executive Session to consult with counsel on contract negotiations. The motion was seconded by Mr. Lamarr and approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 10:27 a.m.

Members exited Executive Session #2 at 10:39 a.m.

Ms. Bordowitz asked how many of the members present plan to attend the April board meeting. Five members indicated that they expect to attend, and Ms. Bordowitz opted to keep the April 18th meeting date, noting that moving it can often present its own challenges for a quorum.

C2: Legislative Update

Mr. Norbert updated the board on the five FAME bills slated for this legislative session. All five have received unanimous support from committee, and two have become law without the signature of the Governor. One bill added financial education to the list of permissible fund uses in the NextGen program and the second, includes teachers in Jobs for Maine Graduates. Public hearings are being conducted by the Appropriations Committee on the biennial budget. FAME is following several bills of interest to FAME, involving such things as seed capital, financial education, merit scholarships and the establishment of a state bank. In response to a question from Mr. Armstrong regarding the New Markets Tax Credits, Mr. Norbert indicated that new legislation would change the \$40 million limit to a per project basis. Ms. Bordowitz added that FAME is seeking to modify a bill introduced by Commissioner Gervais that would allow FAME to receive a check directly in

cases where FAME's collateral is the Employment Tax Increment Financing (ETIF) given by the state for business investment. ETIF reimburses the state income tax withheld to businesses that create at least 5 new jobs and, FAME is the only entity allowed to receive such funds directly. Mr. Norbert invited members to FAME Day to be held April 2, 2013 at the Hall of Flags.

C3: Executive Summary – FFELP, NextGen and Operations

Ms. Fournier referred members to their board packets, which provides statistics for the Education programs and Operations calls. The FFELP balance declined by 13% due to pay-offs and consolidation, and defaults increased by 8%. FAME and Sallie Mae work to curb the default rate through collections and are now considered in the top three guarantors across the country in collections. FAME has \$14.5 million outstanding in educator and medical and dental student loans. A significant factor in these loans is the forgiveness program in which FAME granted \$445,000 to doctors and dentists and \$528,000 to teachers over the last year. Ms. Fournier reported that NextGen assets grew slightly in the last quarter of 2012.

C4: NextGen Program Management Update

FAME staff met with representatives from Merrill Lynch to discuss contract negotiations on Tuesday, and Ms. Bordowitz asked for an Executive Session to discuss those negotiations.

Mr. Armstrong moved to enter into Executive Session to discuss confidential contract negotiations. The motion was seconded by Vice Chair Walker and approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 10:46 a.m.

Members exited Executive Session #2 at 11:01 a.m.

C5: Commercial Loan Portfolio Review

Mr. Corey referred members to the information in their packets regarding FAME's insurance portfolio risk. He noted that at the end of December, 2012, FAME's insurance exposure was \$89.8 million, demonstrating growth in the number of loans of 15% or greater. The insurance portfolio is at \$93 million at the end of February, and in part, growth has been driven by On Line Application (OLA). Continuing on the breakdown of risk rating, Mr. Corey reminded members that FAME went to a seventh risk category at its December board meeting and those numbers will be reflected in the next quarterly report. Currently, 42 accounts, or \$2 million, have been moved to the seventh category indicating the highest risk. Further information reported concerned insurance delinquency, which showed a small increase over the previous quarter; pay-outs, which were estimated to be about \$1.5 million for this fiscal year will probably be \$1 million, although there may be some carryover to the next fiscal year.

C5a: Quarterly Watchdesk Report

On a quarterly basis, FAME staff and the Commercial Loan Committee (CLC) review all commercial loan insurance accounts of \$250,000 or greater. The Commercial Loan Committee met today prior to the board meeting. The entire report is also provided to the board. Mr. Corey asked if there were any questions. None were presented.

C5b: Top Ten Relationship Report

The Top Ten Relationship Report is provided in more detail in September but Mr. Corey is prepared to give an update to any item should there be any questions. He responded to Chair Snowden that he feels that all loans have been assigned the proper grade.

C5c: Loan Closed Report

Results for the Loan Closed Report are through February 28th. The 180 accounts listed on this report have grown to 201 as of today, which is on target to reach the goal of 280 for the year.

C5d: Application YTD Report

Mr. Corey pointed to the summary of new CLI applications, which are at 226 for FY 2013 and when annualized will bring the total to 339. Applications for March are already at 32, which indicate a growing trend. The Economic Recovery Loan Program loan figure for the first eight months of FY 2013 is ahead of those for 2011 and 2012, having received six more in just the month of March.

C6: Monthly Update for Board on Lumber, Wood and Paper Industry

Vice Chair Walker exited the meeting at 11:11 a.m.

Mr. Corey provided the monthly lumber, wood, and paper industry update. FAME's insurance exposure is at \$12.3 million, which is 88.7% of portfolio exposure.

D: ACTION ITEMS

D1: Modification to the Business Division Direct Loan and Loan Insurance Credit Policy

Commissioner Gervais exited the meeting at 11:12 a.m.

Vice Chair Walker re-entered the meeting at 11:13 a.m.

Mr. Corey reported that the Commercial Loan Committee (CLC) discussed the three recommendations for changes to the Loan Policy made by staff and outlined in the memo to the board. After discussion regarding Item A related to loans to One Borrower Aggregation Rules, committee members are recommending tabling that item while staff determines the best location for it within the policy. The CLC is in agreement with the other two staff recommendations (B) authorizing the Director of Finance and Lending loan approval level of \$300,000 plus override authority on two major exceptions and (C) the modification to the definition of Modification Fees and the inclusion of OLA loans in the definition.

A motion was made by Mr. Nowak and seconded by Mr. Armstrong to table item A and to approve items B and C. The motion was approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

R-03-21-13-03

D2: Request for Commercial Loan Insurance – Inn at Diamond Cove

Chair Snowden exited the meeting at 11:16 a.m. for a conflict of interest.

Commissioner Gervais re-entered the meeting at 11:19 a.m.

Mr. Bursey, FAME Commercial Loan Officer, introduced Aaron Cannan of Katahdin Trust Company (KTC), Gerard Kiladjian, General Manager of the Portland Harbor Hotel, and Nathan Bateman, Managing Partner and Vice President of Bateman Partners. KTC is requesting 21.93% leveraged insurance on a \$4.56 million loan to fund 60% of the cost to renovate a historical building into a 44 room, seasonal hotel on Great Diamond Island. The hotel will have a symbiotic relationship with the Portland Harbor Hotel with shared management and leveraged resources. However, it will be a separate entity. KTC is requesting FAME insurance because of the start-up nature of the business and the shortfall of collateral. Mr. Bursey outlined both strengths and weaknesses of the property development. Strengths: renovation of historical property, strong management team (25 years hotel management experience at 11 hotels), Batemans have 30 years development experience, the relationship with Portland Harbor Hotel, niche property, access to all amenities on Great Diamond Island, \$2.8 million in equity from principals, \$2 million in state tax credits to be re-invested in the property and unlimited guaranty of principals, including Bateman Partners. Challenges, in addition to being a start-up and having a collateral shortfall, are: significant amount of lodging is being added to the Portland area, higher room rates than competitors, occupancy is difficult to predict and cash flow picture difficult to ascertain due to the size and diversity of investment and projects. Staff is recommending approval subject to the conditions listed on page 22 of the materials provided in the board packet.

Mr. Cannan told members that this is the end of a very long process. FAME was first contacted last year but the project was delayed for a variety of reasons. The \$4.56 million provides financing for a construction loan. However, FAME insurance will not go into effect until construction is completed, expected to be May, 2014. Mr. Cannan stated that the loan amount represents a conservative 47% of the total cost budget for the construction of the hotel but the project is not economically feasible on its own. There are historical tax credits on both the federal and state levels coming into the project along with substantial equity from the investors and the request for enhancement from the lender to make the project a success. Mr. Cannan stated that KTC views the construction of the Inn at Diamond Cove as an expansion of the Portland Harbor Hotel, which is a market leader in room rates, being the only AAA, four-diamond hotel in Portland. Bateman Partners is experienced and KTC is comfortable with them and has a business relationship with them outside of the project, which they hope to expand. The bank has added a good structure to mitigate risk by requiring a capital reserve to be approved.

Mr. Bateman and Mr. Kiladjian provided background information for the business plan and the public benefit for the project. It has been a five year effort. There are only two remaining buildings not developed, the double barracks and the hospital, and they have options on both. Mr. Bateman provided a site plan as a handout and, Mr. Kiladjian described how the other hotels coming to Portland differ from the Inn at Diamond Cove as it fills a particular niche in the market that the others do not. Mr. Bateman stressed the unique experience for the hotel goer on the island, which is rich in history and also, the number of jobs that will be created in addition to the multiplier effect to local businesses. Discussion ensued related to the FAME's legal position regarding the financing of a hotel structured as condominium. Investors entered into a long term Master Use Agreement that

mandates that it be run as a hotel, which allows investors to take advantage of the available state and federal tax credits. Mr. Bursey stated that in discussions with FAME's legal counsel, the hotel was determined to meet eligibility requirements. The conditions on page 22 were modified and provided to board members. Approval is contingent upon the change to Condition #3 as noted in the updated memo to the board dated March 18, 2013.

A motion was made by Commissioner Gervais and seconded by Mr. Nowak to authorize loan insurance for a \$4,560,000 term loan for Inn at Diamond Cove, LLC in accordance with the conditions presented. The motion was approved by a vote of 7 in favor, 0 opposed and 1 abstention (Susan Snowden).

R-03-21-13-04

Mr. Lamarr exited the meeting at 12:06 p.m.

Commissioner Gervais exited the meeting at 12:06 p.m.

D3: Approval of Modification of Business Funds Capitalization and Education Funds Capitalization Policies

Chair Snowden re-entered the meeting at 12:06 p.m.

Mr. Nowak exited the meeting at 12:07 p.m.

Mr. Lamarr re-entered the meeting at 12:07 p.m.

Commissioner Gervais re-entered the meeting at 12:07 p.m.

The Finance and Audit Committee is recommending approval of Action Items D3, D4, and D5 and, they will be voted on collectively after a brief description by Mr. Mello.

The modification to the Business Funds Capitalization Policy in the section dealing with Exposure to One Borrower is made to conform it to the language presently in the Loan Policy.

D4: Approval of Modification of Investment Policy

Changes to the Investment Policy involve the reference to the title of Director of Finance and Operations to that currently held by Mr. Mello, Director of Finance and Lending. The Federal Family Education Loan Program (FFELP) was removed as an eligible investment because of the contracted market. To ensure sufficient breadth of securities, clarification was made that FAME is able to invest in AA-2 agencies. Lastly, the policy indicates that securities are to be held by the Depository Trust Company (DTC), if available.

D5: Ratification of Bond Purchase

This item calls for the ratification of actual trades as listed in the board packet.

A motion was made by Vice Chair Walker and seconded by Mr. Armstrong to approve all three recommendations of the Finance and Audit Committee. The motion was approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

R-03-21-13-05

D6: Adoption of Rule Ch. 611, Amendment 14 – Maine College Savings Program

This rule was approved for rulemaking by the board in January. There was a 30 day comment period. No comments were received. This rule is being amended to allow for the implementation of new NextGen matching grants that go into effect July 1, 2013, by allowing FAME to establish terms and conditions for grants, from time to time. With the change, FAME also intends to allow current recipients of the Next Step grant to maximize their contributions in order to receive the total of \$400 by June 30, 2013.

A motion was made by Mr. Hagerman and seconded by Vice Chair Walker to approve rule Ch. 611, Amendment 14, Maine College Savings Program. The motion was approved by a vote of 6 in favor, 0 opposed and 1 abstention (Larry Mitchell).

R-03-21-13-06

D7: Adoption of Maine College Savings Plan Investment Policy and Monitoring Guidelines

Ms. Gabrielson informed members that staff and the Advisory Committee on College Savings have been working on an investment policy and monitoring guidelines for a long time. The Program Management Agreement sets forth performance expectations and how to handle underperforming funds. FAME's independent consultant has its own suggestions on ways to monitor fund performance. The Investment Policy and Monitoring Guidelines will memorialize what is in the Program Management Agreement regarding the Red Flag Report and the investment consultant's recommendations regarding its own "Watch List". The Advisory Committee is recommending approval. Ms. Gabrielson added that Table 1 presented in the board packet was not actually seen by the committee although they were aware of the ranges for performance, which will be used by the investment consultant to determine its Watch List.

A motion was made by Mr. Mitchell and seconded by Mr. Lamarr to adopt the Maine College Savings Plan Investment Policy and Monitoring Guidelines. The motion was approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

R-03-21-13-07

D8: Modification to NextGen College Investing Program

Ms. Gabrielson explained that the board approved modifications to several of the Allianz portfolios at last month's meeting. An error was detected in the materials provided by Allianz and upon which the board based their approval. The board is again being asked to approve the modifications to the affected Allianz portfolios to correct the record. For one of the Portfolios subject to modification, the information provided by Allianz showed that the allocation from the removed underlying fund would be divided between two underlying funds in one place and then to only one underlying fund on a chart on the last page of their proposal. Allianz has confirmed that the chart

was correct and the AllianzGI Opportunity Fund exposure in the AllianzGI Age-Based 15-16 Years Portfolio will be allocated entirely to AllianzGI U.S. Emerging Growth Fund.

A motion was made by Vice Chair Walker and seconded by Mr. Armstrong to approve the modifications to the Maine College Savings Program. The motion was approved by a vote of 7 in favor, 0 opposed and 0 abstentions.

R-03-21-13-08

LUNCH BREAK – 12:20 p.m. – 12:28 p.m.

E: STUDENT LOAN INSURANCE UPDATE

Mr. Armstrong exited the meeting at 12:35 p.m.

Commissioner Gervais exited the meeting at 12:45 p.m.

Vice Chair Walker exited the meeting at 12:45 p.m.

Chair Snowden exited the meeting at 12:50 p.m.

Mr. Mello reported that three credit unions (University Credit Union (UCU), Maine State Credit Union and Seaboard Federal Credit Union) and four banks (Camden National Bank, Androscoggin Savings Bank, Skowhegan Savings Bank and Kennebunk Savings Bank) have agreed to enter into discussions pertaining to the Student Loan Insurance program (SLI), giving the program a broad geographical base. Mr. Mello is compiling contract materials, scheduling demonstrations of the origination servicer and meeting of the network held.

Mr. Mello reviewed the presentation material provided to members, which focuses on creating a private student loan network for Maine financial institutions. The Credit Standard of requiring a 680 minimum FICO score for borrower and co-borrower generated board discussion. Chair Snowden was concerned for the high standard set. Mr. Volpini explained that to establish a benchmark, the committee looked at Maine's average FICO score, which is 702 and dropped down slightly from that. Mr. Volpini explained that if the score were to be set below 680, that becomes sub-prime lending, and putting sub-prime lending on the books presents a challenge. Most banks would require the loan to go to a credit committee, starting a review. Mr. Volpini added that the 680 score is a starting point and can be lowered when more data is available.

Ms. Dostie described to members the financial education module, which is an important part of SLI and is meant to teach students responsible borrowing. Staff met with the finalists from an RFR to create a web-based financial education module. The module will be built into the application process. If you have not filed your FAFSA, you will not be able to continue until you do. The financial education module will consist most likely of text, questions, a survey, a video and will last six to ten minutes. Once the education piece is completed, the student is returned to the application. Once the application is submitted, a credit check is conducted. Another component is a module for students after their funds have been disbursed that will remind them to file their FAFSA, explain how to get their FICO score and what it means, all geared to financial education. Built into the module is a measurement piece depending on the initial structure of the module, with a quiz or test that will gauge if the student is learning. Mr. Hagerman asked if there would a process for co-

borrowers as well. Ms. Dostie responded that it is something being considered as part of SLI. Ms. Bordowitz added that the Maine Educational Loan Authority (MELA) has recently included a financial education component to their loan and may have been influenced by FAME's lead in this area.

Ms. Vanderweide updated the board on the marketing side of SLI. FAME is trying to find a balance to the concern that FAME is getting into the private loan industry. There is no marketing or branding needed for what FAME believes is a superior product. The banks will be provided a handout for students and what banks have indicated they will need most is help with the website. For out of state students, information will most likely be attained through the website or their local Maine bank.

Mr. Mello continued with the presentation from the board packet and responded to questions from members. The board adjourned but discussions related to the presentation continued.

COMMISSIONERS' & TREASURER'S UPDATES:

The meeting adjourned at 1:12 p.m.

Respectfully submitted,

Cheri Walker, Vice Chair