

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

Vice Chair Walker called the September 19, 2013 meeting of the members of the Finance Authority of Maine to order at 9:31 a.m. at the Finance Authority of Maine, 5 Community Drive, Augusta, Maine.

Vice Chair Walker 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 Walker 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:

Cheri Walker, Vice Chair
Kristi Carlow for Neria Douglass
George Gervais
Reis Hagerman
Patrick Keliher
Larry Mitchell
Raymond Nowak
Rosaire Pelletier
Christopher Pierce
Evelyn Silver

Those members absent:

Anthony Armstrong
Glenn Lamarr
Michael Mahoney
Patrick Murphy, Treasurer
Susan Snowden, Chair

Staff present:

Elizabeth Bordowitz, Chief Executive Officer
Christopher Roney, General Counsel
Bill Norbert, Governmental Affairs & Communications Manager
Katrjn 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
Angela Dostie, Program and Policy Manager
Sally Garrand, Commercial Loan Officer
Scott Bursey, Commercial Loan Officer
Scott Weber, Credit Analyst
Rita Fournier, Customer Service Manager
Adele Bickford, Executive/Legal Assistant

Guests Present:

David Markovchick, Consultant to FAME
Fletcher Kittredge, GWI
Patrick Sweeney, GWI
Ron Roope, Bangor Savings Bank
Norm Hunt, N.C. Hunt, Inc.
Kregg Jarvais, Peoples United Bank
Justin Jamison, Peoples United Bank

A2: Approval of August 15, 2013 Board Meeting Minutes

A motion was made by Dr. Silver and seconded by Mr. Pelletier to approve the minutes of the August 15, 2013 board meeting. The motion was approved by a vote of 9 in favor, 0 opposed and 1 abstention (Larry Mitchell).

R-09-19-13-01

B. CHAIR'S REPORT

B1: Approval of the Report of the Finance & Audit Committee Meeting of August 13, 2013

The report of the Finance and Audit Committee Meeting of August 13, 2013 is contained in the board packet for members' review. Items addressed at the meeting were the Five Year Financial Plan, the Business Funds Core Capital Ratio Policy relating to business and the NextGen audit. These items will be discussed later in the agenda. Vice Chair Walker called for a motion to approve the Report.

A motion was made by Commissioner Keliher and seconded by Mr. Hagerman to approve the report of the Finance & Audit Committee meeting of August 13, 2013. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-09-19-13-02

B2: Appointment of the Nominating Committee

According to FAME by-laws, a Nominating Committee must be appointed at least 30 days prior to the annual meeting. The October meeting falls within the 30 day requirement of the November annual meeting, necessitating the appointment to be made at this meeting. Chair Snowden has

asked Vice Chair Walker, Treasurer Murphy and Mr. Lamarr to join her on the committee to present a slate of officers at the November board meeting.

B3: Calling of Special Board Meeting on September 30, 2013

FAME by-laws stipulate that special meetings may be called by the Chair or any three members. In the absence of Chair Snowden, Vice Chair Walker asked for a show of hands in support of calling a special board meeting on September 30, 2013 in response to a timing issue discussed during the Thermogen update at the August board meeting. At least four members responded affirmatively and, as a result, a special board meeting will be scheduled for September 30th at 9:30 a.m. at FAME. The Governor is expected to attend. Ms. Bordowitz explained the format for the agenda. After remarks by the Governor, a Public Hearing will be held for the application for the issuance of Major Business Expansion Bond request for Thermogen I, LLC followed by the credit review of the Thermogen I project. It is anticipated that the press and residents from Millinocket will attend and the Public Hearing will afford people from Millinocket and others from the public the opportunity to be heard. Mr. Roney outlined the core findings staff is required to make when considering the issuance of Revenue Obligation Securities bonds: that the project will contribute to the economic growth and the betterment of the State, will not be a detriment to existing businesses; will not put an increased demand on public facilities, and will cooperate with the Department of Labor regarding employment opportunities. In addition to those core findings, the Major Business Expansion projects must demonstrate credit worthiness and a “strong” likelihood of repayment of the securities through the revenues of the project and any other sources of revenues and collateral pledged to the repayment of those securities. The public will be invited to comment.

Ms. Bordowitz asked for a show of hands for those expecting to attend the Special Board Meeting. She advised that the materials for board consideration will be mailed on Tuesday, September 24th, with other updates being forwarded by mail or electronically, as time allows.

C: CEO'S AND STAFF REPORT

C1: CEO's Report

The Student Loan Insurance program did not meet its target of being ready for the fall semester. However, FAME has executed documents from Seaboard Federal Credit Union and expects the University Credit Union and a bank to have completed the process shortly. The program will be ready for the spring semester.

The FY 2011 Cohort Default rate for the FFELP Program has been released. FAME's cohort default rate is 5.6%, which compares favorably to FAME's colleagues nationwide. Next year's rates will be computed on a three year basis instead of the current two year basis, which will mean a higher number. Ms. Bordowitz feels that FAME's debt management services help to keep those numbers down.

FAME received a letter from the federal government last week notifying them that they will not be receiving College Access Challenge Grant funds for 2014 because the State did not meet its Maintenance of Effort requirement regarding financial aid to private schools. FAME has received funding three of the first five years of the grant, and will seek funding again in 2015. Funds from the prior grants have been managed to allow FAME to continue to provide its college access and financial education services notwithstanding the failure to obtain the 2014 grant funds. In addition,

in negotiations with Merrill Lynch, provisions have been made for funding financial education that will help to sustain services for several years.

In-house, Ms. Bordowitz announced the hiring of Jennifer Cummings to the position of Work-Out Officer. Ms. Cummings has worked for the Bank of Maine as both a Commercial Loan Officer and in their Special Assets Group. She will begin September 30th and overlap her time with that of Mr. Corey, FAME's Senior Credit Officer, who will retire at the first of the year.

The highly travelled areas of the carpeting at FAME are in the process of being replaced. Ms. Bordowitz noted that the carpet installation was well staged and went smoothly and was included in the budget.

FAME staff is commemorating its 30th anniversary on September 23rd and staff has been given some opportunities to volunteer at several community events on Friday ahead of the celebration of the official anniversary of FAME on Monday.

The October board meeting will be held regardless of the scheduling of the Special Board meeting to accommodate the presentation of the FAME and NextGen audits and possibly another business deal. Pricewaterhouse Coopers (PwC) raised an audit control matter last year and discussion with them and Merrill Lynch continue. The expectation is to have the matter resolved for the October meeting. Vice Chair Walker has been fully involved and informed during the process to bring the matter to resolution.

Ms. Bordowitz asked Kristi Carlow to introduce herself. Ms. Carlow, Deputy State Treasurer, has been with the State Treasurer's office for 15 years and is familiar with FAME in that capacity. The Deputy State Treasurer takes the place of the State Treasurer on the board in her absence.

C2: Thermogen Update

Mr. Nowak exited the meeting at 10:00 a.m. for a Conflict of Interest.

Mr. Emmons introduced David Markovchick who is FAME's consultant hired to assist in reviewing Thermogen I, LLC's application for a Major Business Expansion bond. Mr. Markovchick has a background with FAME and GE Capital.

Mr. Emmons advised members that staff has been meeting weekly for the last few months and with Erik Olsen of Farm Credit to discuss the Thermogen I project. Staff expects to begin a rough draft of the credit analysis and recommendation tomorrow for presentation at the Special Board meeting on September 30th.

In the last two weeks, FAME has hired two companies, Hilco and Stantec. Hilco will be responsible for the appraisals and representatives from Stantec will look at the project from a chemical engineering perspective and will also evaluate the contract between Cate Street and Conti, the company engaged to build the equipment used in the torrefaction process and will be guaranteeing the machine's performance. The Cate Street torrefaction equipment will be 1000 times larger than its English prototype. Mr. Markovchick pointed out that this project goes beyond commercial underwriting, and it is important to understand it technologically.

An Executive Session was called in order to discuss the project in more detail.

Dr. Silver moved to enter into Executive Session to discuss an application: for which confidentiality has been requested, and FAME has determined that significant detriment would be suffered by the applicant if the material was made public; including financial statements and an assessment of credit worthiness of the applicant by a third party. The motion was seconded by Commissioner Gervais and approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #1 at 10:05 a.m.

Members exited Executive Session #1 at 10:27 a.m.

C3: Strategic Plan Update

Mr. Nowak re-entered the meeting at 10:28 a.m.

Commissioner Keliher exited the meeting at 10:28 a.m.

Commissioner Keliher re-entered the meeting at 10:32 a.m.

Ms. Bordowitz referred members to their board packets for the update on the strategic plan, including FAME's Mission, Vision and three major goals. Also provided were the objectives and the proposed measurements for 2014, where possible. Ms. Bordowitz asked for feedback from the board on the measurement standard for Objective A – Increase FAME's market share of economic development loans. Historically, the measurement has been in dollars. Under consideration is whether to continue that measurement, measure the objective in numbers of loans, or do both. Mr. Corey indicated that his preference would be to measure the market share of loans in numbers. The board was in agreement. The Objective will be revised to reflect a projection based on the number of loans. Ms. Bordowitz continued to review the Objectives of the Strategic Plan, noting that staff is proposing to add the Objective related to risk profile for the ERLP and CLI portfolios to the Scorecard. She also sought board support for changing the measurement for increasing inquiries for higher education programs and services. Currently, included in the measurement are the numbers for total attendance at college fair events while in actuality only a small number of those in attendance at such events seek FAME information. Staff is recommending removing those events from the measurement and will take another look at what numbers should be used to determine the proper goal. Ms. Bordowitz identified the dynamics for the Objective to increase the percentage of Maine NextGen accounts making contributions. The goal previously took into account contributions made by account owners with the Harold Alfond College Challenge grant, which are generally fewer than those of other NextGen account holders. The number of NextGen Alfond accounts will be reduced significantly as a result of changes to be made effective January, 2014. The new higher goal also takes into account the Matching Grant program that became effective in July this year. The customer satisfaction survey goal proposed, although higher than that set at 4.0 previously, is lower than the 4.55 actual score attained in 2013. Board discussion ensued regarding the proposed goal, noting that the goal on the Scorecard affects staff's incentive pay. Mr. Pelletier indicated his preference for using the five year average score of 4.35 as the goal and made a motion to that effect.

A motion was made by Mr. Pelletier and seconded by Dr. Silver to change the score goal for the customer satisfaction survey to the five year average of 4.35. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

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The projected goals for the two remaining items, employee satisfaction survey score and increases for customer base awareness and opinion of the agency, were supported by the board members.

C4: 2014 Scorecard

Mr. Mello reviewed the goals set on the FY 2014 Scorecard provided in the board packet. Staff is recommending the removal of Goal 3, Alfond - % of births, and replacing it with the goal for risk profile for Commercial Loan Insurance (CLI) and Economic Recovery Loan Program (ERLP), keeping an appropriate level of risk. Staff is also recommending increasing the number of closed loans from 280, which has been exceeded in the last two years, to 340, the actual number for FY 2013. Mr. Mello continued to review the remaining proposed measures and asked the board to approve the Scorecard with the changes to the numbers of closed loans from 280 to 340 and the customer survey score from 4.2 to 4.35.

Vice Chair Walker reiterated that the Scorecard provides the goals upon which staff incentive pay is based and noted that provision for the incentive pay is in the budget.

A motion was made by Dr. Silver and seconded by Mr. Nowak to approve the FY 2014 Scorecard with the changes noted for the number of closed loans and the customer satisfaction survey score. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-09-19-13-04

C5: Executive Summary – FFELP, Operations & NextGen

Mr. Pierce exited the meeting at 11:03 a.m.

Ms. Fournier referred members to their packets containing the Executive Summaries for FFELP, Operations and NextGen. She reported that the guaranteed student loan balance declined by 10% as it has each year since 2010 when FFELP became a government direct loan program. The numbers of defaulted student loans is becoming less and less as the portfolio ages and Sallie Mae does an excellent job in collecting on them. FAME ranks third out of 31 guarantors in the collection of its defaulted loans. State education loan programs have \$14 million outstanding with \$2.5 million owed by individuals seeking forgiveness. Delinquency has remained relatively stable with a 5.6% portfolio delinquency rate. The NextGen assets were at \$6.9 billion as of June 30th.

C6: Commercial Loan Portfolio Review

Mr. Pierce re-entered the meeting at 11:10 a.m.

Mr. Corey reviewed the Quarterly Report with members, noting that as of June 30, 2013, insurance exposure was at \$96.3 million, an increase of 114 loans or 14.3% over the previous 12 month

period. Most loans fall into the 5, 6, 7 risk rating category. The insurance delinquency over 30 days has been trending down, and Mr. Corey indicated that there are four relationships that account for \$3.1 million, or 61% of total loans over 30 days. Mr. Corey advised that currently pay-outs are at \$1.5 million, which includes some carry-over. There has been one pay-out this FY year of \$36,000. The remaining material in the board packet shows insurance exposure by lender and by industry.

C6a: Quarterly Watchdesk Report

The Commercial Loan Committee met at 8:30 a.m. and reviewed all accounts with \$250,000 or greater loan exposure. The entire Watchdesk Report is included in the board packet for member's review and for members to bring forward any questions they may have.

C6b: Top Ten Relationships Report

Mr. Corey pointed out that 11 total relationships are over \$1 million; the average loan amount being \$108,000. He reminded members that the entire list will be reviewed with them when the report is given in December.

C6c: Loan Closed Report

The number of closed loans in FY 14 as of July 31, 2013 is at 32. That number at the end of August was 70 and as of the close of business yesterday, the number of closed loans was at 99.

C6d: Applications YTD Report

The graphs provide a summary of new loan applications and the number approved and denied. Mr. Corey pointed out that very few loans are denied in relation to the number received.

C7: Five-Year Financial Projection

Mr. Mello presented FAME's Five-Year Financial Plan FY 14–FY 18. He reported key trends within the Plan: NextGen revenues represent the majority of FAME's total revenue and although they are expected to grow, the fees charged have been under continued scrutiny (FAME's admin fees were reduced from 15 basis points to 11 basis points last year); substantial growth in the insured commercial loan portfolio and potential for adverse loan allowances impacts the business fund balance. There must be new or improved sources of capital. FAME returned \$5 million to the state in the last two years from funds received as part of the cascade and will ask the state to increase the \$1 million cascade historically received to \$2 million. The Five Year Plan assumes revenue from \$2.2 million growth in NextGen fees, decline in net FFELP revenue, modest growth in commercial business and other educational programs, e.g. Student Loan Insurance Program. This demonstrates a fairly stable revenue side with a similarly stable operating expense side. Non-operating revenue and expense flatten out over the five year period, as expiring grants are replaced by new ones, the NextGen benefits that have been put back into the program begin to reach a constant level and the provision for loan losses become stabilized. The Plan projects the Fund Balance to remain the same with a shift in business and education. Mr. Mello stated that the Capital Policy restricts the size of the business insurance portfolio and does not allow dramatic growth in capital revenue.

C8: Business Funds Capitalization Policy: Core Capital Ratio

At the direction of the board, staff was asked to review the core capital ratio and bring its recommendation back to the board for consideration. Staff is recommending the reduction in the core capital ratio from its current 20% to 10% based on the ratios used by federal and state lenders. FAME's external auditors indicated that FAME is very conservative and should look at its experience historically to determine the ratio. Mr. Corey referred members back to pages 12 and 13 of Section C7. FAME takes its total loss reserve at the time the loan is booked. Last year it began to adjust its loss reserves based on factors such as strong management, good cash flow and debt service. Staff recommended changes to the Capitalization Policy as follows: 1) the Insurance Fund Balance should never be less than the previous five years actual default payments; or 2) the unallocated cash and the cash for reserves divided by the insured portfolio balance should not be less than 20%. Mr. Nowak corrected the above statement to remove the "or" and replace it with "and" as both statements are to be true to meet the ratio. Mr. Corey acknowledged the correction.

A motion was made by Mr. Nowak and seconded by Mr. Hagerman to approve the changes to the Capitalization Policy as indicated above with the correction as presented. The motion was approved by a vote of 10 in favor, 0 opposed and 0 abstentions.

R-09-19-13-05

C9: Monthly Update for Board on Lumber, Wood and Paper Industry

Mr. Corey presented the monthly update for insurance exposure to the lumber, wood and paper industry. He reported that it has changed little from last month, being at 87.2%. Exposure had been as high as 90%, and staff will continue to monitor the exposure.

Mr. Hagerman exited the meeting at 11:43 a.m.

BREAK: 11:43 a.m. – 11:48 a.m.

D1: N.C. Hunt, Inc. – Request for Commercial Loan Insurance

Deputy Treasurer Kristi Carlow re-entered the meeting after the Break at 11:50 a.m.

Mr. Emmons introduced Norman Hunt of N.C. Hunt, Inc. and Kregg Jarvis and Justin Jamison, both of Peoples United Bank. The company operates a specialty sawmill filling a niche product in northern New England and Canada and also operates two retail stores in Jefferson and Damariscotta. The request before the board is for 50% pro-rata insurance on an existing \$300,000 working capital line of credit (LOC) that will be reduced to \$275,000 over time. The bank's overall exposure is \$2.7 million and FAME's exposure to this and other existing loans to N.C. Hunt is \$1.9 million. FAME is recommending approval of the renewal of the LOC. Mr. Jamison explained that the company failed to clear its line of credit for 30 days during a period ending December 31, 2012. The bank has waived that requirement and has put in place monitoring and restrictions. Mr. Hunt provided some detail to the niche market of finger jointed wood that it supplies to Canada and the additional sales of hemlock timbers and by-products of sawdust and chips. The company employs 80 people.

A motion was made by Mr. Nowak and seconded by Commissioner Keliher to authorize renewal of loan insurance for a \$300,000 loan. The motion was approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

R-09-19-13-06

D2: Biddeford Internet d/b/a GWI – Request for Commercial Loan Insurance

Mr. Nowak exited the meeting at 12:10 p.m.

Mr. Emmons introduced Ron Roope of Bangor Savings Bank, Fletcher Kittredge-CEO and Patrick Sweeney-CFO, of Biddeford Internet d/b/a GWI. GWI provides voice and data communication services to Maine and New Hampshire. The request before the board is for the renewal of FAME's 90% pro-rata insurance on a \$750,000 line of credit from Bangor Savings Bank (BSB). This item, which was slated to come before the board in August, was delayed to allow staff time to review the impact of an additional \$500,000 term loan to the company from Coastal Enterprises, Inc. Staff is recommending approval. Mr. Roope advised that the LOC has the same conditions as previously required with the addition of two new covenants that the company is on track to meet. According to the bank, based on company projections, GWI can easily service their debt. Negative trends in 2013, , the bank has determined were due in large part to line costs. BSB has looked at GWI's updated budget for FY 14 that reflects today's realities and a plan to increase revenue. The company has acted on the plan and the negative trend has been reversed and the company is again cash flow positive. The budget is realistic and the company is able to fund growth. The bank will continue to monitor the account going forward and is recommending approval. Mr. Kittredge added the company recognized the need to get costs in line with revenue, and the company instituted cost reduction measures. To continue growth, the company has switched to a new technology, cloud computing that is less capital intensive. He expects the company to return to historical profitability next year. The company has 61 employees.

A motion was made by Dr. Silver and seconded by Mr. Pelletier to authorize the renewal of loan insurance for a \$750,000 line of credit loan for Biddeford Internet Corporation. The motion was approved by a vote of 8 in favor, 0 opposed and 0 abstentions.

R-09-19-13-07

D3: NextGen College Investing Plan®: Authorization to Enter into Program Management Agreement for Client Direct Series

Mr. Nowak re-entered the meeting at 12:15 p.m.

Ms. Gabrielson referred members to their board packets and to Exhibit A and B provided as handouts. This is a follow-up to the discussions at the August board meeting held jointly with the Advisory Committee regarding Merrill Lynch's response to the RFR for Program Management services for the NextGen College Investing Plan® Client Direct Series.

Mr. Pelletier moved to enter into Executive Session to consult with counsel concerning matters where counsel's duties to the Authority as client clearly conflict with "open meeting" and to discuss information contained in records of the Authority which are declared confidential by statute. Such records pertain to information submitted to or developed by the

Authority in connection with records for which confidentiality has been requested and disclosure of which the Authority has determined would have a harmful business effect. The motion was seconded by Mr. Mitchell and approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

Members entered Executive Session #2 at 12:16 p.m.

Members exited Executive Session #2 at 12:24 p.m.

The motion was made to authorize the selection of Merrill Lynch as Program Manager of the Direct Series effective July 1, 2014 and to negotiate a Program Management Agreement with terms proposed by Merrill Lynch, as amended. Staff would continue to seek the advice and input of the Advisory Committee and the independent investment consultant.

A motion was made by Mr. Mitchell and seconded by Dr. Silver as presented. The motion was approved by a vote of 9 in favor, 0 opposed and 0 abstentions.

R-09-19-13-08

Ms. Bordowitz provided an update of the Morningstar meeting held in early September in Chicago. Although difficult to predict the outcome, she felt that they understood Merrill Lynch's position explained by Rich Polimeni regarding some items of concern. The ratings are due out in mid-October.

Ms. Bordowitz will remind board members whose terms are ending in September that they serve until a successor is named at the suggestion of a board member concerned for attendance at the September 30th Special Board Meeting.

COMMISSIONERS' & TREASURER'S UPDATES:

None.

The meeting adjourned at 12:29 p.m.

Respectfully submitted,

Cheri Walker, Vice Chair