

SMALL BUSINESS LOAN FUND CORPORATION

MINUTES OF THE BOARD OF DIRECTORS

August 23, 2011

PUBLIC SESSION

A monthly meeting of the Board of Directors (the "Board") of the Small Business Loan Fund Corporation (the "Corporation") was held in public session at the offices of the Rhode Island Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, Rhode Island on August 23, 2011 at approximately 9:00 a.m., pursuant to notice of the meeting to all Directors, and public notice of the meeting as required by the By-Laws of the Corporation and by Rhode Island General Law 42-46-6.

The following Directors were present and participated throughout the meeting: Mr. Raymond Fogarty, Mr. Richard DeMerchant, Mr. William Parsons, and Mr. Thomas Stocker.

The following Director(s) were absent: Ms. Leslie Taito

Also present were: Sean W. Esten, Corporation Administrator, Steven Noack, Corporation Administrator, Stacy Farrell, Corporation Staff, Susan Morgan, Corporation Administrator, Earl F. Queenan, interim Managing Director of Financial Services, and Tom Moses, Legal Counsel, Moses & Afonso, Ltd.

Present to discuss the legal matter regarding NAIAD Inflatables were: Jon Garrahy, Legal Counsel, Moses & Afonso, Ltd, Steven Connett Sr., Consultant to NAIAD Inflatables, Steven Connett Jr, President of NAIAD, and Devin Detwiler, C.P.A , of Detwiler & Associates, accountant for NAIAD.

Mr. Fogarty presided over the meeting.

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1. Call to Order.

Mr. Fogarty called the meeting to order at 9:05 a.m.

2. Executive Session

Mr. Fogarty suggested that the Board move into Executive Session as there were guests present to discuss item C. on the Agenda under Executive Session. Upon motion duly made by Mr. DeMerchant and seconded by Mr. Stocker, the motion to move the

meeting into executive session pursuant to Rhode Island Open Meetings Law 42-46-5(a)(6) of the General Laws of the State of Rhode Island, as amended, was duly adopted.

The following Directors voted in favor of the foregoing: Mr. DeMerchant, Mr. Parsons, and Mr. Stocker.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Ms. Taito

Public session concluded and executive session began at 9:06 a.m.

Executive session concluded at 10:33 a.m. and public session resumed.

3. Approval of the Minutes of the Meeting Held on July 18, 2011.

The first item to come before the Board was approval of the Public Session Minutes and the Executive Session Minutes of the Board meeting held on July 18, 2011. Upon motion duly made by Mr. Stocker and seconded by Mr. Parsons, the motion to approve the Public Session Minutes and the Executive Session Minutes of the meeting held on July 18, 2011 was duly adopted.

The following Directors voted in favor of the foregoing: Mr. DeMerchant, Mr. Parsons, and Mr. Stocker.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Ms. Taito.

4. Maintain the Executive Minutes of July 18, 2011 Confidential.

The next item to come before the Board was a vote to maintain the confidentiality of the Executive Session Minutes of the Board meeting held on July 18, 2011. Upon motion duly made by Mr. Parsons and seconded by Mr. Stocker, the motion to maintain the confidentiality of the Executive Session Minutes of the Board meeting held on July 18, 2011 was duly adopted.

The following Directors voted in favor of the foregoing: Mr. DeMerchant, Mr. Parsons, and Mr. Stocker.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Ms. Taito.

5. Report of Cash Position as of July 31, 2011.

Mr. Fogarty asked staff to brief the Board regarding the report of Cash Position as of July 31, 2011. Mr. Esten indicated there was \$2.4 million in funds available for lending.

In regards to the committed funds Mr. Esten anticipated much of these to be closed and funded by early September. Mr. Fogarty asked whether the program would be in compliance at the next reporting cycle to the EDA. Mr. Esten indicated that he believed the program would be in compliance. There were no further questions from the Board regarding this report.

6. Delinquency Loan Report as of August 12, 2011.

Mr. Noack provided an update on delinquent loans. He stated that Concordia was making progress catching up and had recently made a payment. Regarding Creative Circle Advertising, staff was in the process of restructuring the loan. Crisloid remained on the delinquency report as the final piece to this was the realty company filing for bankruptcy. This took place at the end of August. It was not anticipated that there would be any recouping of funds since all entities involved had now filed for bankruptcy. Modulus Furniture seemed to be doing better and business was slowly picking up for them. Mr. Esten stated that he felt it was necessary to set aside a reserve for Nationwide Diesel based on the continued downward trend of the company. This reserve amount would be noted at the next meeting. Mr. Noack continued by indicating that foreclosure proceeding were continuing on the homes of the principals of Red Farm Studios. After numerous attempts to try to help the borrowers through restructure there was lack of cooperation and refusal to pay. Mr. Stocker asked why Mill Creek Marine, which had recently closed, was repeatedly showing up on the report. Mr. Esten stated that he intended to address this with the company. There may have been some adjustment to moving into the new facility, however at this time they should be paying promptly. There were no questions from the Board regarding this report.

7. Policy Regarding Loan Reserve and Charge-Offs

Mr. Esten provided the Board with a draft of the policy which was created in order to rate the credits within the portfolio. He recommended that without further comment or suggestion that the Board approves this policy and staff could implement immediately. Mr. Moses made the suggestion that the Board set aside some time at their next meeting to discuss the possibility of creating a subcommittee which would have the purpose of reviewing delinquent loans, and helping staff implement the suggested policy. Mr. Moses is of the opinion that a subcommittee would provide support for staff decisions in the form of clear documentation in minutes as to what is happening with each delinquent loan and would show Board support for the decisions that are made regarding these bad credits. Mr. Fogarty suggested that the Board meeting at 9:00 a.m. rather than 9:30 a.m. at its next scheduled meeting to discuss this and make a final vote on approving the suggested policy. There were no further comments or questions from the Board.

8. Financial Reporting update and delinquency

Ms. Farrell updated the Board regarding the current status of financial reporting. She indicated that at this time there were three borrowers which had not provided financial statements for their businesses as of this date. Her concern was that there was one company in particular that was unresponsive to the requests, however they have been paying regularly each month, even though the homes of the principles were in the process of being foreclosed on. Additionally, another company was a small operation which obtained funds for flood damage. She felt it was possible that these businesses would suffer should they be subjected to a rate increase. The third company insisted they would provide materials however they had not to date. Ms. Farrell requested guidance from the Board as to how to proceed. She felt that implementing the increase for some and not others was not appropriate; however she feared that two of the companies would quickly become delinquent with this rate increase in effect. Mr. Stocker stated that the refusal to discuss the reason for noncompliance was an unfortunate reason to increase the rate but should be done. He suggested that Ms. Farrell contact the counsel of each of the borrowers and convey the need for them to at least speak to staff regarding the reasons why they have not supplied the information.

There was no further discussion from the Board.

9. Executive Session

Mr. Fogarty suggested that the Board move back into Executive Session. Upon motion duly made by Mr. Parsons and seconded by Mr. Stocker, the motion to move the meeting into executive session pursuant to Rhode Island Open Meetings Law 42-46-5(a)(6) of the General Laws of the State of Rhode Island, as amended, was duly adopted.

The following Directors voted in favor of the foregoing: Mr. DeMerchant, Mr. Parsons, and Mr. Stocker.

The following Directors voted against the foregoing: None.

The following Directors were absent for the vote: Ms. Taito.

Public session concluded and executive session began at 11:08 a.m.

10. Executive Session Vote Ratification

Mr. Fogarty called for ratification of the votes adopted during Executive Session. Upon motion duly made by Mr. DeMerchant and seconded by Mr. Stocker, the following votes were ratified:

- (a) To approve NAIAD Inflatables to move forward with the closing of the \$250,000 loan with SBLFC.
- (b) To approve the request for a \$150,000 loan by North Star Marketing.

(c) To table the request for a \$250,000 loan by Vogue Communications for staff to gather additional information.

The following Directors voted in favor of the foregoing: Mr. DeMerchant, Mr. Parsons, and Mr. Stocker.

The following Directors voted against the foregoing: None.
The following Directors were absent for the vote: Ms. Taito.

There being no further business to come before the Board, Mr. Fogarty called for a vote to adjourn the meeting. Upon motion duly made by Mr. Parsons and seconded by Mr. DeMerchant, the motion to adjourn the meeting was duly adopted.

The following Directors voted in favor of the foregoing: Mr. DeMerchant, Mr. Parsons, and Mr. Stocker.

The following Directors voted against the foregoing: None.
The following Directors were absent for the vote: Ms. Taito.

The meeting was adjourned at 11:37 a.m.

Respectfully submitted,

/s/ Sean W. Esten
Sean W. Esten, Administrator

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