

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.

THURSDAY, JUNE 13, 2013

DRAFT SPECIAL MEETING MINUTES

A special meeting of the Providence Economic Development Partnership, Inc. (PEDP) Loan Committee was held at the office of the Department of Planning and Development, 444 Westminster Street, Providence, Rhode Island, in the 1st Floor Conference Room on June 13, 2013. The Loan Committee meeting was called to order at 12:32 P.M, with Manny Barrows, Acting Chairman presiding. Roll call was conducted.

MEMBERS IN ATTENDANCE

Members of the Loan Committee in attendance included Manny Barrows, Frank Benell, Gonzalo Cuervo, Alberto Guzman and Peter Scotti.

MEMBERS ABSENT

Members not in attendance were Renee Bailey and Doris Blanchard.

STAFF MEMBERS IN ATTENDANCE

Staff members in attendance included: Stuart MacDonald, Director of Fiscal Operations, Department of Planning and Development (DPD) and Assistant Director, PEDP; Kathy Cosentino; Gail McGowan; and Arthur Speaks.

OTHERS IN ATTENDANCE

Others in attendance were Thomas Hoagland, PEDP contract underwriter.

MEETING MINUTES

The minutes of the March 14, 2013 PEDP Loan Committee meeting were submitted for review and approval. Upon a motion made by Peter Scotti and seconded by Frank Benell, it was voted to approve the minutes of the March 14, 2013 meeting. Motion passed by unanimous vote.

REPORT OF THE ASSISTANT DIRECTOR

Mr. MacDonald reviewed what we have done since we last met. We have completed part of the HUD review, which is two-fold. HUD looked at the expenses from 2005 forward and it was determined that there was \$528,000.00 in ineligible expenses. The expenses were reported by the media as inappropriate, which is not true. The expenses are legitimate expenses but they did not meet HUD's regulations for eligibility. The city has two (2) options relative to the ineligible expenses: 1) have to give the money back or reduce its CDBG grant going forward for two (2) to three (3) years; or 2) if projects are HUD eligible that are paid for by city general funds, the city can use those to offset the ineligible expenses. The perfect example of this type of a project is the city buying a fire truck. The second option is where we are at. The question was raised as to what was the biggest ineligible category to which Mr. MacDonald responded that it was consultants. Mr. MacDonald added that that the product was not delivered or it was delivered and not used.

The second part of the review is the review of the loan portfolio. All of the open loans, CDBG-funded only, will be reviewed. The information in the files has been put into a consistent format in three (3) separate files – origination, legal and current files. The information was consistent before but did not meet what HUD wants to see. HUD is coming in two weeks. Mr. MacDonald stated that there are going to be some issues but that he does not know the magnitude of the problem that we will have but a couple of loans will be a problem. HUD will not be reviewing the paid off loans, but will then review the write-off loans that were written off last year. The restriction on our lending will be lifted after the open loan review.

NEW BUSINESS

The first agenda item entertained by the Loan Committee under New Business was the review of loans for approval. The first loan request was the request of Thomas J. Lopatosky, Jr., Lopco, 67 Seymour Street, Providence, Rhode Island, 02905. Mr. MacDonald stated that this agenda item was to be removed from the agenda since information is still pending from the Borrower.

The next agenda item entertained by the Loan Committee was the loan request of Contract Specialties, Michael and Evelyn Guarino, Donna Fantozzi, and Kathleen Gambuto, 234 Hartford Avenue, Providence, Rhode Island, 02909. This agenda item was moved to the end of the agenda for an additional committee member to arrive due to Manny Barrows stating that he would need to recuse from the discussion and vote on this matter.

The next agenda item entertained by the Loan Committee was the loan request of Granny Squibb Company, LLC, Sally (Robin) Robinson Squibb, 259 Benefit Street, Providence, Rhode Island, 02903. The loan request, in the amount of \$50,000.00, will be used for working capital expenses. Mr. MacDonald presented this request. The application was originally an IIP application but the board would not approve it as an IIP as it did not meet the program criteria, however the board highly suggested that this applicant apply for a RLF loan. PEDP cannot fund the loan until the portfolio review by HUD is complete. There is an e-mail from HUD giving the go ahead to entertain loans at this time. Mr. MacDonald stated that our loan review presented in today's meeting package is focused on the National Objective compliance but is short on underwriting. The project meets HUD eligibility. The mitigating factor with regard to the underwriting is that a \$1.1 million house is being pledged as collateral. We are very safe with this loan. At 12:47 P.M., due to the discussion of financial information, a motion to enter into executive session was made by Gonzalo Cuervo and seconded by Peter Scotti and it was voted to enter into executive session in accordance with the R.I.G.L. 42-46-5. Motion passed unanimously by roll call vote. Open meeting resumed at 1:06 P.M. Mr. Garrahy advised that the vote that was taken in executive session would need to be restated in public session. Peter Scotti restated that he made a motion to approve the loan request of Granny Squibb Company, LLC as presented, to be secured by a first position security interest in the assets of the business, by the personal guaranty of the principal, secured by a first position mortgage on the personal residence of the principal located 200 Waterway, Saunterstown, Rhode Island. Should the real estate be owned by a co-owner(s), any additional owner(s) would have to pledge their interest in the property as well as a limited guaranty. Approval is recommended based upon the value of the collateral being pledged. The motion was seconded by Frank Benell and passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the Report of Actions Approved by the PEDP Board of Directors. Mr. MacDonald presented this agenda item. Due to a timing issue and/or the Loan Committee not being scheduled to meet, two (2) matters were presented to the board and approved. The first approval was of the request of Dr. Dennis Karambelas and Associates for PEDP approval to subordinate its mortgage interest to the refinance of the existing first mortgage. There were timing issues here and legal counsel added that he and Stu also thought that this request was perfunctory. A discussion followed upon the question being raised by Peter Scotti as to why this loan was approved if it was presented and denied twice for both locations by the Loan Committee due to the business financials and lack of collateral. Mr. MacDonald stated that this was a \$75,000.00 loan made by staff. Mr. MacDonald responded that it cannot happen again as staff does not have any approval function and everything has to go to the board now, which is one of the reasons for the recent by-law change. This agenda item was for reporting purposes only and no action was required in connection with this matter.

The second approval granted by the Board of Directors was the request from Cecilia Britto n/k/a Cecilia Okubanjo d/b/a Italian World Boutique for PEDP approval of the partial release of collateral of the Borrower's personal residence located at 30 Fenner Street, Pawtucket, Rhode Island, to allow the short sale of the real estate pledged. Mr. MacDonald requested that Kathy Cosentino present this request. Ms. Cosentino indicated that time was of the essence for the consideration of this request as the transaction had to take place by April 30, 2013. For consideration, a loan reduction payment in the amount of \$3,000.00 was made out of the closing proceeds. In addition, staff requested that the loan account be brought current as a condition of the approval, in addition to the above consideration payment, which has also occurred. This agenda item was for reporting purposes only and no action was required in connection with this matter.

OLD BUSINESS / EXISTING LOAN REQUESTS

The next agenda item entertained by the Loan Committee was the request of The Healing Touch Corporation d/b/a Salon Bianco, 423 Atwells Avenue, Providence, Rhode Island, 02909, for PEDP approval to subordinate to the refinancing of the outstanding balance of the existing first mortgage. Mr. MacDonald presented this request. Mr. MacDonald indicated that the commitment expiration for this request has since passed and that legal counsel and the board did not allow an exception to entertain this request without it being presented at a meeting first. As a result, the Lender cancelled its commitment.

The Borrower's request was strictly for a refinance of the existing first mortgage balance on her personal residence for a better rate. The refinance is a HARP (Home Affordable Refinance Program) loan that would have reduced the loan interest rate from 5.375% to 3.5% saving the principal approximately \$300.00 per month. Borrower's first mortgage balance has since been significantly paid down and its PEDP loan has also been significantly paid down by approximately half from \$60,000.00 to \$32,000.00. Borrower has had a good payment history. The re-financing commitment expired on June 10, 2013 and was cancelled on June 3, 2013 due to PEDP's inability to take action by that date. The request is being submitted anyway by staff due to Borrower's indication that another HARP re-financing offer may be made in the future. Upon a motion made by Peter Scotti and seconded by Gonzalo Cuervo, approval is recommended of the request submitted as well as any future request that is submitted that is substantially in accordance with the refinancing terms currently submitted. Staff has been in discussion with legal counsel with regard to the possibility of amending the current PEDP By-Laws to allow staff approvals for refinancing requests that are strictly for a better rate and that are non-cash-out transactions. In addition, a second motion was made to also recommend that legal counsel recommend to the Board of Directors a change in the by-laws that would allow for this type of approvals to be granted by staff and reported to the board so that this situation does not occur again in the future.

The next agenda item entertained by the Loan Committee was a request relative to the PEDP loan to The Cuban Revolution, 50 Aborn Street, Providence, Rhode Island, 02903, for the partial release of collateral of PEDP's security interest in the business assets only. Attorney John Garrahy presented this request. The business has gone out of business. Washington Trust has a first position security interest in the business assets securing \$30,000.00. The bank was going to do a public sale of the assets, which was cancelled and the landlord purchased the assets for \$15,000.00 at a private sale. We have an opinion value of \$12,000.00 to \$14,000.00 and there is no equity left in the assets. Counsel's recommendation was questioned to which Mr. Garrahy responded that it was to grant the approval. If we are taken to court, we would spend more in fees that we will gain. The remedies against the Borrower are not being removed.

At 1:24 P.M. Alberto Guzman arrived at the meeting.

Upon a motion made by Peter Scotti and seconded by Frank Benell, it was voted to recommend that PEDP legal counsel try to secure additional collateral to secure this obligation and in any event approve the release of the assets of the business only as requested. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the request of DJM Wholesale, LLC d/b/a Proofed Artisan Breads, 25 Eagle Street, Providence, Rhode Island, 02908, for the approval of the reallocation of the approved use of the PEDP funds. Mr. MacDonald presented the request. This loan was approved by the committee and by HUD. It is a \$10,000.00 loan to increase business. The loan was approved for the acquisition of equipment, in the amount of \$3,500.00, and working capital. The Borrower has asked that the use of funds be changed to all working capital. Mr. MacDonald stated that HUD is okay with this change and does not have to opine on a change to the use of the loan funds. Upon a motion made by Peter Scotti and seconded by Gonzalo Cuervo, it was voted to approve the request for the reallocation of the PEDP loan funds of DJM Wholesale, LLC d/b/a Proofed Artisan Breads, as presented. Loan will now be disbursed for working capital (\$9,000.00) and for inventory (\$1,000.00). Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the request of Anne Huntington and Stephen Palumbo (deceased) d/b/a PO Gallery, 10 Dorrance Street, Providence, Rhode Island, 02903, for PEDP approval to forgive of the remaining balance of the loan due to the business ceasing operations and due to personal hardship. Mr. MacDonald requested that Ms. Cosentino present this request. The Borrower is requesting that the outstanding loan balance, in the amount of \$11,595.00, be forgiven due to the business ceasing operations at the end of June 2013. The Borrower's request is also due to hardship as her husband passed away from cancer linked to Agent Orange from his military service in Vietnam. The Borrower has also made the assets of the business and the remaining artwork available to PEDP. The gallery is ceasing operations due to being given notice that its lease was being terminated after seventeen (17) years at the end of the month and the principal does not have the capital to relocate the gallery. In exchange for an affordable rent, the landlord reserved the right to terminate its lease at any time with a 30-day notice.

The gallery was opened in 1986. The loan was made in 1993, in the original amount of \$30,330.00, by the city in its efforts to create an arts and entertainment district. The principal states that the gallery never made a profit and has demonstrated on several occasions, including with the present request, that there is insufficient income from the operation of the gallery and of the principals to make loan payments. The principal is of meager means as survivor's benefits are her only income. As a result, various concessions in reducing payments were made since the city's only alternative would have been to foreclose on its security rights which probably would have resulted in a very minimal sale of the assets and put the gallery out of business. Given the city's efforts to establish an arts and entertainment district, it was decided to allow the business to continue in the hopes that at some point they would begin to make a profit. The principal has made every effort to repay her loan debt over the past twenty (20) years.

Mr. Garrahy stated that this is certainly a hardship case. The issue is a policy question of what do you do when someone cannot afford to repay its loan. Mr. Scotti stated that from a policy perspective, every case has to be looked at individually. Upon a motion made by Peter Scotti and seconded by Alberto Guzman, it was voted to recommend approval of the Borrower's request as

presented, subject to PEDP taking possession of the business assets and remaining artwork as offered by the Borrower and as pledged as security for this loan. Motion passed by unanimous vote.

NEW BUSINESS – CONTINUED

The next agenda item entertained by the Loan Committee was the remaining item under New Business, which was the loan request of Contract Specialties, Michael and Evelyn Guarino, Donna Fantozzi, and Kathleen Gambuto, 234 Hartford Avenue, Providence, Rhode Island, 02909. Manny Barrows recused from the discussion and vote in connection with this request and Peter Scotti conducted the meeting for this agenda item. Mr. MacDonald presented the loan request. This loan request has been approved by HUD. Mr. MacDonald provided a brief history of the business. The company is changing the way it does business. It previously had sales representatives, which is a model that no longer works and they are therefore changing to internet-based sales. The loan request, in the amount of \$300,000.00, will be used for computer system upgrades, website development, manufacturing systems upgrades, inventory and working capital. The project meets HUD requirements for eligibility. Mr. MacDonald briefly reviewed the proposed PEDP collateral positions on the assets of the business and on the commercial real estate. The loan will be secured by a first position mortgage on the commercial property and by a second position security interest in the assets of the business, junior to BankRI.

Mr. MacDonald stated that we apply the RLF rules to the Section 108 loans even though we do not have to – i.e. establishing the use of funds and disbursing the loan funds based on invoices. In addition, the with the RLF, we cannot pay for prior expenses. For the new Section 108 funds, it does not matter when the expenses were incurred. A member noted that it looks like we got sufficient collateral and that there will be nine (9) jobs created as a result of the financing. Upon a motion made by Gonzalo Cuervo and seconded by Alberto Guzman, it was voted to recommend approval of the loan request of Contract Specialties, Inc. as presented based upon the applicant's history in the business and the collateral being pledged to secure the loan. The PEDP loan will assist the company to update its operations and transition to internet based sales from sales through sales representatives. Collateral being pledged is a first position mortgage on the commercial real estate located at 220-234 Hartford Avenue, Providence, Rhode Island, a second position security interest in the assets of the business, junior to senior debt from BankRI in the amount of \$100,000.00 (line of credit), and by the personal guarantees of the four (4) shareholders. Motion passed by unanimous vote.

OTHER BUSINESS

Ms. Cosentino questioned whether attorney Garrahy wanted to discuss an issue that has arisen relative to the recent approval of the second loan to Pisaturo Real Estate, LLC d/b/a Irving. An additional vote will need to be taken relative to this loan approval at the next meeting due to a typographical error in the loan write-up stating that PEDP's collateral position in the assets of the business would be a first position security interest. PEDP's collateral position is in fact a third position security interest behind the senior lender and the original PEDP financing. Ms. Cosentino indicated that PEDP was aware of the senior financing however the write-up did not reflect that in the collateral section. This matter will be placed on the next agenda due to not having come to light in time to post on today's meeting agenda for voting purposes.

Upon a motion was made by Frank Benell and seconded by Peter Scotti, the meeting was adjourned at 1:47 P.M.