

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.

THURSDAY, JUNE 12, 2014

DRAFT LOAN COMMITTEE MEETING MINUTES

A 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 12, 2014. The Loan Committee meeting was called to order at 12:15 P.M, with Gonzalo Cuervo presiding. Roll call of the members was conducted.

MEMBERS IN ATTENDANCE

Members of the Loan Committee in attendance included Gonzalo Cuervo, Frank Benell, Doris Blanchard, and Donald Gralnek.

MEMBERS ABSENT

Members not in attendance were Manny Barrows, Renee Bailey and Carmen Diaz-Jusino.

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 John J. Garrahy, Esq., Moses Afonso Ryan, PEDP legal counsel; and Thomas Hoagland, PEDP contract underwriter.

MEETING MINUTES

The minutes of the April 17, 2014 PEDP Loan Committee special meeting were submitted for review and approval. Upon a motion made by Frank Benell and seconded by Doris Blanchard, it was voted to approve the minutes of the April 17, 2014 special meeting. Motion passed by unanimous vote.

REPORT OF THE ASSISTANT DIRECTOR

Stuart MacDonald stated that two (2) loans were closed yesterday to Nikki's Liquors and Plainfield Auto Sales. Three (3) more loans are closing; two (2) probably next week. These loans are revolving loans and not 108. We are sitting on \$1.5 million right now, so we are putting it to good use.

NEW BUSINESS

The first agenda item entertained by the Loan Committee under New Business was the loan request of Garrison Café, Andrew Shotts, 648 West Fountain Street, Providence, Rhode Island, 02903, in the amount of \$500,000.00. Mr. MacDonald presented the request.

Prior to proceeding with the loan request of Garrison Café, Mr. MacDonald indicated that the loan request of Harry's Bar and Burger on the Hill, Burger Domination, LLC, Laura Elkhay, 201 Atwells Avenue, Providence, Rhode Island, 02903, in the amount of \$165,000.00 is being removed from today's agenda. We received the loan package yesterday and did not feel that we had enough time to prepare the loan request for presentation. Gonzalo Cuervo stated that we are removing item #ii. from the agenda until they provide all of the necessary documentation.

Mr. MacDonald continued to present the request of Garrison Café. Mr. MacDonald questioned if we should go into executive session to discuss this matter. Attorney Garrahy that executive session should be entered into if we are going to discuss confidential personal financial information or confidential financial information with respect to the business. Attorney Garrahy also noted that we are going into executive session for another matter and it may be appropriate to discuss financials for this matter then. Mr. MacDonald stated that the business is a café and not a coffee shop. This is

a project that we would like to support, however the reason that we did not support the request is due to the loan amount being requested of \$500,000.00. He thinks it is a lot of money for what the applicant is trying to do. In addition, the loan would not meet the HUD requirements for collateral. There is a counter-proposal that we can make that is very different. We are being asked to finance eighty-three percent (83%) of the project; the counter-proposal would be financing significantly less than that and the Borrower would have to seek additional investors. This matter is on the agenda to entertain questions. We are proposing a loan of eighty percent (80%) of the purchase price of the real estate and a sixty percent (60%) advance on any equipment that he buys to equipment this location. The alternate loan proposal may not work for him; we will make the proposal and work from there. The Borrower did not include real estate in the deal and for our purposes, he will have to have real estate involved. We also could consider providing a construction loan up to \$245,000.00 and the Borrower is not concerned with meeting the Davis-Bacon requirement.

Attorney Garrahy noted that the business is to create fourteen (14) to eighteen (18) jobs and questioned whether the business is retail or manufacturing. Mr. MacDonald stated that the manufacturing facility is in Central Falls, which we cannot finance. Attorney Garrahy stated that we could not have people from Central Falls come to work in Providence. Mr. MacDonald responded that if he chooses to do that, he could. Attorney Garrahy questioned there not being any HUD restrictions on that type of employee transfer and noted that those restrictions do exist at the state. Mr. MacDonald responded in the negative and that there are HUD restrictions on that but they would not apply here. Thomas Hoagland, PEDP contract underwriter, noted that the Borrower will be an entity of the manufacturing company in Central Falls, Garrison Confections. He is not sure if it will be a problem to fund this loan since the parent business is not located in Providence. Mr. MacDonald stated that we would only be lending on the assets in Providence and Mr. Hoagland affirmed that statement.

The level of funding was questioned as well as whether PEDP has ever funded eighty-three percent (83%) of a project. Mr. MacDonald responded in the affirmative and noted that real estate is different; we can go to eighty percent (80%) funding. It was further questioned whether that high of a percentage has been financed for restaurants in recent years, noting that in earlier years, restaurants were a growth sector in the city, which was a reason to do so. Mr. MacDonald stated that he was not sure. He is not familiar with all of the restaurants but that the funding of restaurants may be seventy-five percent (75%). Mr. MacDonald stated that the proposal that the applicant gave us would not work for us for our purposes. It was suggested that we have the applicant come back with alternate plans and proposals. It was questioned how long the applicant has owned the facility in Central Falls, to which it was responded six (6) years. Upon a motion made by Frank Benell and seconded by Doris Blanchard, it was voted to table the loan request of Garrison Café. Motion passed by unanimous vote. Staff is to work with the Borrower on an alternate loan proposal.

The next agenda item entertained by the Loan Committee was the report of loans/grants/programs/actions approved or taken by the PEDP Board of Directors. The board approved a modified loan restructure relative to the loan to Broad Street Revitalization, LP (Community Works RI f/k/a Elmwood Foundation), at its meeting held on May 21, 2014. Mr. MacDonald presented the approval and provided a brief review of the collateral. The Loan Committee approved a restructure term of thirty (30) years at an annual rate of zero percent (0%). When we took the approval to the board, it approved the restructure with an annual review. We are just reporting out the board's action.

Mr. MacDonald returned to the loan request of Harry's Bar and Burger, noting that it is a very strong project and will get on the next agenda and he is sure the loan will go through. The principal of the business was questioned. Mr. MacDonald responded that Laura Elkhay is the daughter of John Elkhay, who will be a guarantor of the loan. Mr. Elkhay is doing this business with his daughter separately from his other restaurants.

Attorney Garrahy questioned whether the board took some action at some point with regard to the funding of restaurants. Mr. MacDonald responded that it did relative to start-ups, which have to have real estate collateral. Attorney Garrahy stated that the board can change its policy, he just had in his mind that the board was moving away from funding restaurants.

The next agenda item was the review of pending loans, which there are none.

The next agenda item entertained by the Loan Committee was existing loan requests. The first item considered was the request for subordination of M.H. Stallman Company. Mr. MacDonald presented the request. They are replacing debt, which we had an indication this would be happening when we granted the loan. The loan is almost fully disbursed; they have received \$400,000.00 plus. The loan is a 108 commitment. The loan was for the relocation of a part of the business back into Providence from East Providence. Mr. MacDonald deferred to Attorney Garrahy for the history of this request. Mr. Garrahy stated that they reached out to us at the time of the closing regarding having a new lender but we did not present the request to the board at that time. We gave them the opportunity to put off the closing or come back to the board at this time for approval, when they were ready. This was disclosed to us. Mr. MacDonald noted that does not necessarily commit us to it. Mr. Garrahy continued to present the request. They are replacing a \$2 million line of credit, with an outstanding balance of \$1,450,000.00 with a new line of credit in the amount of \$2.25 million. Mr. MacDonald added that we did not freeze the balance. Mr. MacDonald also added that this is affecting only the piece that we have our UCC, which we are subordinate to anyway. They are just increasing the amount. Mr. MacDonald provided a brief review of the real estate collateral also pledged as collateral for the loan, consisting of three (3) properties. We are also in first position on any new equipment that he buys and he just bought a \$150,000 piece of equipment.

The last two (2) paragraphs of the Gibraltar credit approval letter (term sheet) were questioned. We thought we are only subordinating on the inventory and the Intercreditor section of the credit letter seems to indicate otherwise. The request letter from the Borrower's attorney states the PEDP subordination will be on Accounts Receivable and inventory only. The Gibraltar line of credit approval letter states that the security for the financing will be the business assets except for machinery and equipment. Attorney Garrahy stated that he will check with Borrower's legal counsel on this matter and suggested that the committee's approval be of the request that was submitted by the Borrower and not the line of credit approval letter. Upon a motion made by Don Gralnek and seconded by Doris Blanchard, it was voted to approve the request of M.H. Stallman Company for PEDP approval to subordinate to the refinancing of the existing \$2 million line of credit with a new line of credit in the amount of \$2.25 million. Legal counsel to obtain clarification of the collateral that will be subordinated. The committee's recommendation for approval is conditioned upon PEDP's existing collateral not being affected, except to increase the facility from \$2 million to \$2.25 million. Recommendation for approval is also conditioned upon PEDP only subordinating to specific inventory financing and A/R. Approval of the above conditions is to be acceptable to staff. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was relative to the loan to IP.21 Studio,

LLC for consideration in executive session pursuant to Rhode Island General Law 42-46-5(a)(2) of whether the loan should be called because of a covenant default. Attorney Garrahy indicated that a motion was necessary to go into Executive Session pursuant to RIGL 42-46-5(a)(2) to discuss potential litigation involving PEDP. At 12:45 P.M. a motion was made by Donald Gralnek and seconded by Frank Benell and it was voted to enter into Executive Session.

At 12:59 P.M., the meeting returned to open session. A motion was made by Frank Benell and seconded by Donald Gralnek and it was voted to seal the minutes of Executive Session. Motion passed by unanimous vote.

A motion was then made to recommend the acceleration the loan and to allow the Borrower to repay the loan within ninety (90) days of the declaration of the default. Motion passed by unanimous vote.

A motion to adjourn was then made by Frank Benell and seconded by Donald Gralnek, and the meeting was adjourned at 1:00 P.M.