

PROVIDENCE ECONOMIC DEVELOPMENT PARTNERSHIP, INC.

FRIDAY, AUGUST 15, 2014

DRAFT LOAN COMMITTEE 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 August 15, 2014. The Loan Committee meeting was called to order at 12:22 P.M, with Gonzalo Cuervo presiding. Roll call of the members was conducted as well as of John J. Garrahy, Esq., PEDP legal counsel, Stuart MacDonald, and Thomas Hoagland, PEDP consultant. It was noted that four (4) members are present and three (3) are absent, which constitutes a quorum.

MEMBERS IN ATTENDANCE

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

MEMBERS ABSENT

Members not in attendance were Frank Benell, Carmen Diaz-Jusino and Daniel Murphy.

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 June 12, 2014 PEDP Loan Committee meeting were submitted for review and approval. Upon a motion made by Donald Gralnek and seconded by Doris Blanchard, it was voted to approve the minutes of the June 12, 2014 meeting. Motion passed by unanimous vote.

REPORT OF THE ASSISTANT DIRECTOR

Stuart MacDonald thanked the members for coming on a Friday afternoon after we cancelled Thursday's meeting. There are three (3) loans being presented today. The loan to Garrison Confections is time sensitive, which is why we pushed the meeting. Mr. MacDonald apologized again for the committee getting the information late. Gonzalo Cuervo stated that the last time we discussed the Garrison loan the committee wanted more information and questioned whether we have that information this time. Mr. MacDonald stated that the \$232,000.00 request was acceptable to him, instead of the previously requested \$500,000.00 for a \$616,000.00 project. The Providence Redevelopment Agency (PRA) will be funding \$100,000.00 of the project costs. The owner will be obtaining the rest of the project funds. Mr. MacDonald thinks that we provided more information that the board asked for and noted that we now have a loan that works.

NEW BUSINESS

The first agenda item entertained by the Loan Committee under New Business was the loan request of Garrison Café, Garrison Confections, Inc., Andrew Shotts, 648 West Fountain Street, Providence, Rhode Island, 02903, in the amount of \$232,000.00. The original loan request was tabled at the June 2014 meeting. Mr. MacDonald presented the request. Mr. MacDonald stated that \$323,000.00 is the total investment of PEDP and PRA. PEDP will be in first position and PRA will be in second position. Mr. Cuervo stated that last time they were asking us to fund eighty-three percent (83%) of the project and questioned what percentage we would be funding now. Mr. MacDonald questioned if he was questioning the percentage for PEDP and PRA funding or just PEDP. Mr. Cuervo responded just PEDP. Mr. MacDonald stated that PEDP would be funding seventy percent (70%) of the project. It was stated that \$380,000.00 is the as completed value. Mr. MacDonald stated that we never entertained

those values that the applicant was requesting. The project cost is still \$616,000.00. The Borrower is putting in other funds, which is what we wanted. It was questioned whether the PRA has approved its funding of the project. Donald Gralnek, who is also PRA's Executive Director, responded that there was a meeting yesterday but the agency did not have a quorum. The PRA funding is subject to its board's approval.

Concern was expressed with regard to the Borrower previously stating that he needed \$500,000.00 in PEDP financing and now he is requesting \$232,000.00. Mr. MacDonald responded that the loan amount was a number that we forced to meet the HUD guidelines. Mr. Gralnek noted that before the Seller was getting paid out and now the Seller is providing financing, which reduced the loan request by \$100,000.00. The owner is also providing an infusion of capital in the amount of \$84,000.00. It was questioned how many jobs the business is going to create. Mr. MacDonald responded fourteen to eighteen (14-18) jobs. It was noted that last time the question was raised with regard to the transfer of employees from the Central Falls facility. Mr. MacDonald stated that the transfer of employees will not count as new jobs and that the Borrower is keeping the Central Falls operation. It was questioned if the Borrower is using our funds for construction. Mr. MacDonald responded in the negative stating the he will be using PRA's for that purpose, which was structured that way. The PEDP funds are being used for the building and for equipment. All other investors will be subordinate to PEDP.

It was stated that the Borrower has a successful business model. A brief discussion followed with regard to the proposed location and the current development in the area. From the PRA's standpoint, it will insist on a project manager to protect its funds. It was stated that the location was not an issue and concern was expressed more for the restaurant industry.

It was questioned whether an appraisal was received. Mr. MacDonald responded that it was not back yet and that the Borrower did not want to spend the money until he has the loan. The loan approval will be subject to an appraisal. Mr. MacDonald stated in the interest of full disclosure, there is an environmental issue that is black and white to PEDP. The Borrower will have to fix it or not get the loan. The Borrower has the money to fix it. Attorney John J. Garrahy stated that the loan approval should be subject to a satisfactory environmental review. Attorney Garrahy suggested that a motion to approve the loan request be based upon the Loan Memorandum, which includes the approval being subject to an appraisal, and also be subject to a satisfactory environmental review. A motion was made by Donald Gralnek and seconded by Doris Blanchard as stated by PEDP legal counsel. Mr. Gralnek added that the motion is also subject to approval by staff. Thomas Hoagland, PEDP contract underwriter questioned whether the environmental issue should be added to the Loan Memorandum for presentation to the PEDP Board of Directors. Mr. MacDonald stated that this is a regulation of HUD and questioned legal counsel whether we need to single it out. Attorney Garrahy stated that we have to emphasize when there is a known issue and affirmed that he would want the environmental matter added to the Loan Memorandum for presentation to the board. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the loan request of Harry's Bar and Burger on the Hill, Burger Domination, LLC, Laura Elkhay, 301 Atwells Avenue, Providence, Rhode Island, in the amount of \$165,000.00. The loan request was originally withdrawn from the agenda at the June 2014 meeting. Mr. MacDonald presented the request. Harry's has one (1) operation now. It is part of the Chow Fun Food Group and Rick Bready is a partner on some of these businesses. The food group has been in operation for forty (40) years and it is a very successful operation. They are making money and meeting projections. John Elkhay is doing this business with his daughter and his son is also involved. The collateral will be the assets of the business, the personal guaranty of John Elkhay, which is significant, and the personal guarantees of the other three (3) participants. There will also be a pledge of his interest in the existing Harry's. Mr. MacDonald looked up the value online and it is estimated at \$1 million.

Mr. Cuervo noted that our objective is to be a lender of last resort and since he is a successful guarantor, it was questioned how we can fund this project. Mr. MacDonald responded that he is only a piece of this and was not able to get bank financing. This is a carve-out and not part of the Chow Fun Food Group. The guarantor not being able to obtain bank financing was questioned again. Mr. MacDonald responded that he believed so. It was questioned whether we have the requisite denials on file. Mr. MacDonald questioned staff for verification and it was responded that they would be in the file if we do. Mr. MacDonald added that we are not required to get denials from a bank but that is the best way to document it. Attorney Garrahy questioned if there would be a liquor license here. It was responded in the affirmative. Mr. Garrahy noted that the business will be on Atwells Avenue, but that it is a restaurant and not a bar.

Attorney Garrahy questioned the pledge of stock and whether if he defaults, then we will be a partner with Rick Bready on the North Main Street location. Mr. MacDonald and Mr. Hoagland both responded in the affirmative. Counsel expressed concern regarding the pledge of the restaurant interest/stock in general and whether it is transferrable and/or a first right of refusal exists. It was questioned whether PEDP is in receipt of a copy of the lease to ensure that there is a sufficient lease term for the Atwells Avenue location. Mr. MacDonald questioned staff and Mr. Hoagland responded in the negative. The lease is to be obtained by staff. Legal counsel again expressed concern regarding the pledge and whether PEDP would want to be in the restaurant business in the event of a default. It was questioned why the guarantor was not applying to the SBA for a 504 loan since it is a successful food group. It was clarified that this is not under the group umbrella. It is a standalone and he is starting another business. Mr. MacDonald questioned if the member was suggesting that he try applying to the SBA first and if not we will fund. It was responded in the affirmative. Mr. MacDonald stated that we are trading on his success. Mr. Gralnek noted that he does not plan on being an active participant in this business. He is setting this up for his kids and his key employees. Attorney Garrahy questioned if we have previous loans to this group. Mr. MacDonald questioned Kathy Cosentino who responded in the affirmative. Mr. MacDonald questioned if we know how many. Ms. Cosentino responded that there have been several. The loans to XO Café and a loan assumption by Big Fish n/k/a Rick's Roadhouse are two (2) that come to mind, but there may be additional one(s). It was questioned whether the loans were delinquent. Ms. Cosentino responded in the negative. Upon a motion made by Donald Gralnek and seconded by Renee Bailey, it was voted to recommend approval of the loan request, in the amount of \$165,000.00, as presented in the Loan Memorandum and subject to legal counsel's protections of PEDP's interest. Motion passed by unanimous vote. It was questioned whether we could obtain the guarantor's PFS. Mr. MacDonald and Mr. Hoagland stated that we have it and that it was not included because it becomes public. Mr. Hoagland has it if the members want to see it.

The next agenda item entertained by the Loan Committee was the loan request of Sajo Gourmet, LLC, Rojwan Sajo, 85 Richmond Street, Providence, Rhode Island, 02903, in the amount of \$35,000.00. Mr. MacDonald presented the request. Mr. MacDonald stated that PEDP has a loan to Providence Cookie which is now out of business. The principal is still making payments. The balance is \$12,000.00. Mr. Sajo has been operating a pizzeria that has been successful. The principal approached us to start another business of Middle Eastern Food to sell to Whole Foods. Mr. MacDonald does not believe he has contracts because he has not been able to deliver any product. The applicant has asked for more money. We are not consolidating the loans because we cannot do that. Attorney Garrahy questioned where the previous equipment is. Mr. MacDonald responded that it is now located in 85 Richmond Street. Mr. MacDonald stated that he had an appraisal done that was in the range of \$60,000.00-\$70,000.00. Mr. MacDonald used the mid-way value of \$65,000.00 for the loan underwriting. Mr. MacDonald stated that Mr. Sajo is hard working, has stayed on top of his loan, and that his projections

are a little weak. It was questioned how long the lease is at 85 Richmond Street. Mr. MacDonald responded that he believes it is three (3) years with a two (2) year option. Mr. MacDonald stated that an approval can be subject to the lease and he will get a copy of it. It was noted that we should make the lease term at least concurrent with the loan. It was questioned if the loan will be one (1) payment. Mr. MacDonald responded that the Borrower has requested a one-time payment of \$20,000.00, but he is not sure that he can do that. We can reimburse or pay current invoices. Mr. MacDonald is trying to work out something with HUD to give an upfront payment. We will disburse in accordance with the HUD and department regulations. It was questioned whether we have anything in writing for proof of his pending business. Mr. MacDonald responded that he has seen it, but does not have it on file. Upon a motion made by Renee Bailey and seconded by Donald Gralnek, it was voted to recommend approval of the loan to Sajo Gourmet, LLC, subject to the Loan Memorandum and subject to the lease term being at least five (5) years (term of the loan). A modified loan request, underwritten in the amount of \$35,000.00, was presented to the Loan Committee and was recommended for approval (modified from the \$50,000.00 listed on the meeting agenda). Motion passed by unanimous vote. It was questioned whether the principal will count as one (1) new job created. Mr. MacDonald responded that if he is being paid now, then no, but if he is not and he is not on the new company's payroll, then yes.

EXISTING LOAN REQUESTS

The next agenda item entertained by the Loan Committee was the request of M.H. Stallman for the modification of the subordination approval granted by PEDP at the June 2014 meeting due to a change in lender. Mr. Garrahy presented the request. The request was presented before with a different lender. It is now back with a different lender to replace the existing line of credit from Customers Bank. There will be a \$500,000.00 increase to the existing line of credit. PEDP's collateral position was questioned and discussed as was how much the request increases our exposure. Mr. Garrahy stated that PEDP is in second position but there will be an increase in the line of credit ahead of us. Mr. Garrahy noted that PEDP is not subordinating on its real estate collateral or its purchase money security interest.

The collateral stated in the new Lender's commitment letter was questioned and discussed. Legal counsel is to obtain clarification/confirmation of our understanding of the collateral being subordinated and that it is of our security interest only and not PEDP's purchase money security interest or real estate collateral. Mr. MacDonald stated that there are two (2) classes of assets, real assets and all other assets. We think, and we can clarify, that this commitment talks about all other assets and not real assets or real estate. Attorney Garrahy added it is personal property assets. Confirmation was requested that this line that deals with personal property assets should not effect our priority or our enforceability on our existing lien on their real estate assets and equipment purchased with our loan. Mr. MacDonald affirmed that that was correct. We have an interest in these same assets that they are encumbering here, but they are not part of our collateral stack. It was noted that they are paying a lot of fees here and also questioned why a successful business is going to a high interest rate lender for financing. Mr. Hoagland responded due to the degree of leveraging in the company. Whether this financing structure is usual, the term of the loan, guarantees that are pledged and the size of the company was questioned and answered. Upon a motion made by Donald Gralnek and seconded by Doris Blanchard, it was voted to recommend the modification of the subordination request for approval, subject to the Loan Memorandum and subject to the satisfaction of staff and counsel. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the requests relative to Loan #1 and Loan #2 of Pisaturo Real Estate, LLC d/b/a Irving for 1) a moratorium on both loans due to business interruption as a result of the Magnolia Street Bridge Project and 2) for subordination on both loans to additional financing. Mr. MacDonald presented the requests. The business is in a bad spot, it is in the middle of a construction project on Plainfield Street at Route 10, where the ramp was taken out and rebuilt. The business is off forty percent (40%) and is asking for relief. The Borrower was still making

payments. It was questioned how long is being requested. Mr. Hoagland responded six (6) to nine (9) months. A discussion followed relative to providing sufficient relief to the Borrower without waiving payments or interest. The collateral pledged was also questioned and generally reviewed. The project completion was questioned, which is six (6) months. Attorney Garrahy noted that if the Navigant financing were to happen, the Borrower will be making payments to the bank, but not to us. A discussion followed relative to recommending reducing the payments by a certain percentage. The current monthly payments was questioned and noted. It was suggested that the recommendation would be a fifty percent (50%) reduction. Attorney Garrahy noted that the motion would be that the monthly payments be reduced by fifty percent (50%) on both loans but that interest will continue to accrue on both loans. Mr. Hoagland asked that consideration be given to a period of nine (9) months of reduced payments. It was questioned when the reduced payments would be effective and whether it would be retroactively. Mr. Hoagland responded in the affirmative. It was questioned retroactive to what date. Ms. Cosentino responded that it would be to July 1, 2014 and that the Borrower has made the June 2014 payments. A motion was made by Donald Gralnek and seconded by Renee Bailey to recommend for approval a moratorium on both loans in an amount equal to a reduction in the monthly payments by fifty percent (50%) on both loans but interest will continue to accrue on both loans. The payment moratorium (reduced payments) will be in effect for a period of nine (9) months commencing retroactively to the July 1, 2014 payment. Motion passed by unanimous vote.

The second request of Pisaturo Real Estate, LLC d/b/a Irving for PEDP to subordinate on both of its loans to additional financing was then discussed. The committee expressed that consideration of this request was simple and that recommending approval of the Borrower taking on more debt did not make sense. PEDP just recommended approval of providing the business relief relative to its PEDP payments and it would be taking on more debt service if the request were to be approved. Mr. Cuervo stated that he would entertain a motion to deny the request. A motion was made by Renee Bailey and seconded by Doris Blanchard to recommend denial of the request of Pisaturo Real Estate, LLC d/b/a Irving for PEDP subordination on both loans. Motion passed by unanimous vote.

The next agenda item entertained by the Loan Committee was the request of Citizens Bank relative to the loan to Trinity Repertory Company for PEDP approval of the subordination of its collateral interest in the Washington Street property. Mr. Garrahy presented the request. Mr. Garrahy noted that the request is convoluted and that there is a long history with this organization. A brief history and overview of this loan and all collateral that has been pledged during the loan was provided by legal counsel, as well as an overview of the other financing secured by the property and relevant Intercreditor Agreement between Citizens and PEDP. Legal counsel stated that the language of the Agreement is not clear and it is also not clear whether PEDP is obligated under the Agreement to subordinate to Citizens. Mr. Garrahy struggled with whether we are obligated to do so. Legal counsel discussed what would take place in the event that Citizens Bank were to foreclose on its mortgage. Questions were asked of legal counsel regarding the request and the original transaction/agreement. The committee expressed the need for additional information regarding this matter. A motion was made by Donald Gralnek and seconded by Doris Blanchard to defer this request pending advice from counsel regarding the priorities and validity of the loans on the property. Motion passed by unanimous vote.

A motion to adjourn was then made by Doris Blanchard and seconded by Donald Gralnek, and the meeting was adjourned at 1:36 P.M. Mr. MacDonald thanked everyone for coming on a Friday, especially in summertime.