

MINUTES
LOAN COMMITTEE RETREAT
of Connecticut Innovations, Incorporated
Friday, December 13, 2013

A special meeting/retreat of the **Loan Committee of Connecticut Innovations, Incorporated** (the “Loan Committee”) was held on December 13, 2013, at the office of Cantor Colburn, 20 Church Street, Hartford, CT.

1. Call to Order: Richard Mulready, Chairperson of the Loan Committee, noting the presence of a quorum, called the meeting to order at 12:00 p.m. Loan Committee Members Present: Michael Cantor, Richard Mulready, John Olsen, David Siegel and Catherine Smith.

Staff Present: Heidi Bieber, Lisa Day, Karin Lawrence, Claire Leonardi, James McGuinness, Shelly Mondo, Ted Murphy, Ralph Neclerio, Megana Patel, Cynthia Petruzzello, Tony Roberto, Deb Santy, Phil Siuta, Tara Sweeney, Gwendowlyn Thames, Doug Twele, and Linda Wieleba.

Overview: Ms. Leonardi reviewed the agenda and goals for the retreat, noting the three main CI business segments for which the Loan Committee has oversight—1) Small Business Innovation; 2) Specialty Financing/Public Financing; and 3) Core Lending Operations.

Ms. Leonardi discussed the mission and objectives of CI, and the Loan Committee members suggested that CI be flexible with its mission depending the changing environment, economy and administration. Ms. Leonardi explained the importance of being self-sustaining and providing consistency in the market.

Specialty Financing Overview:

Ms. Lawrence described the Sales and Use Tax Exemption Program goals. It was noted that for many of the deals that get approved, the Sale and Use Tax Exemption is only one portion of a larger package that has been put together to keep companies in the state or encourage companies to come to Connecticut. Ms. Lawrence reviewed the number of deals completed since 1997, the jobs retained and created as a result of the program and the companies that paid penalties for not meeting job targets. In response to a question, it was noted that this program is not ideal for smaller projects. The complexities with monitoring were discussed. As a result of a change in law, the Loan Committee members asked staff to talk with the Department of Economic and Community Development (“DECD”) to determine whether the program could work for smaller companies. Staff should consider impacts on the State budget if the program is expanded significantly. Ms. Lawrence discussed the program fees for the

approved deals. Some concern was expressed with the fees if smaller companies were involved.

Ms. Lawrence explained the Connecticut Brownfields Redevelopment Authority noting that it is a wholly-owned subsidiary of CI, and some members of the CI Board is the Board of the subsidiary. She reviewed the program goals. After discussing the funding available from DECD for Brownfields, staff was asked to work with DECD on a unified approach and to consider administering the program for DECD through a Memorandum of Understanding or other agreement. Ms. Petruzzello spoke about the completed projects and noted that not many tax incremental financings ("TIFs") have been done because of the economy. Staff was asked to determine whether TIFs are needed and whether the process could be streamlined to make TIFs more appealing.

Small Business Innovations Overview:

Ms. Santy provided an overview of the Small Business Innovation ("SBI") Program. She discussed the due diligence process. Staff will report back on the performance of each of the various programs under SBI. A suggestion was made to become more involved with the BIRD Foundation. It was noted that one of the key objectives of the SBI is to help companies make connections, and the Connecticut SBI is very successful making the connections.

Lending Overview:

Ms. Wieleba introduced the lending team and noted that an additional Vice President Loan Officer will be joining the team on December 23rd. The experience of the team was discussed. Ms. Wieleba explained the purpose of the program. She and Mr. Murphy discussed the due diligence process. In response to a question, Ms. Wieleba stated that staff has started tracking the applications that get rejected and tries to refer the rejected applicants when possible. A discussion ensued on the importance of the loan side of the organization working and supporting CI's portfolio companies. The committee members discussed the importance of looking at unmet needs in the marketplace (i.e. mezzanine debt and structured buybacks). Ms. Wieleba described some of the activities being done and some of the lending focuses. A discussion ensued on the program offered by DECD. Staff was asked to work closely with DECD to ensure that resources are complementary and not duplicated and customers are given options. In response to a suggestion about focusing marketing efforts, Ms. Leonardi explained the importance of having a consistent message.

A discussion ensued on CI's relationships with the banks and the importance of CI maximizing and developing relationships. Suggestions were made to build better relationships with the legislators. It was noted that more marketing and outreach will be possible with the ramp-up of staff. Ms. Wieleba reviewed closing costs, and a suggestion was made to streamline the documents and/or use inter-

creditor agreements to try to reduce costs for direct loans utilizing the banks' documents. There was a discussion about direct loans versus Urbank loans. Staff was asked to think about how CI can do smaller loans (from \$150,000 to \$500,000) given the resources available. Staff was also asked to consider how the underwriting and due diligence process for smaller loans and larger loans already underwritten by other banks can be streamlined.

As part of the due diligence review, the Loan Committee members expressed the desire to have a better understanding of the cash flow projections and estimates when making decisions on deals. The Loan Committee members also expressed an interest in comparing cash flow projections with actual data. Staff will provide information to the Loan Committee from the annual reviews of the portfolio companies.

Mr. Siuta talked about the performance of the current portfolio. He discussed the loan volume over the last 10 years and the net income from the portfolio. Mr. Siuta reviewed the portfolio balance versus write-offs since 2004.

The lending process was discussed. Questions arose about legal fees, and a suggestion was made to try to lower costs and not duplicate efforts. Rather than having applicants pay all of the legal fees, staff was asked to consider having CI pay for its portion. The targeted industries were discussed, and a suggestion was made to add green technologies, healthcare, and the non-profit sector. There was a discussion on the selective opportunities, and staff was asked to focus on the areas where job creation is important and to ensure that the areas are the same as the state's focus. Exceptions can be made when it makes sense.

Ms. Wieleba discussed direct loans. In response to a question, it was noted that the pricing is fairly standard regardless of risk. Staff was asked to consider risk premiums as long as they don't have unintended consequences.

Ms. Wieleba talked about junior participation and Ms. Patel provided an update on Urbank. In response to a question, it was noted that the Urbank loan protections are not being utilized very much by new banks. The Loan Committee members suggested that staff determine whether changes should be made, and if the Urbank loan guarantees are not working, consider not offering them.

Ms. Wieleba reviewed the results of the survey with the banks. She spoke about the things the banks liked and things CI could improve. In response to concerns expressed with Freedom of Information Act requirements, staff was asked to clearly indicate what is protected and exempt from Freedom of Information Act disclosure requirements. The Loan Committee members discussed the potential reduction of interest rates for non-profits. Staff was asked to make a recommendation on guidelines and a rate reduction range for non-profits. In response to one of the reoccurring comments about speeding up the approval

process for loans, Ms. Wieleba requested that Loan Committee meetings will be scheduled twice a month. After discussion, there was general agreement that the meetings when possible should be scheduled immediately preceding Board meetings. If the meetings are not needed, they will be canceled.

The meeting was adjourned at 4:00 p.m.

Respectfully submitted,

Richard Mulready
Chairman of the Loan Committee