MINUTES OF MEETING HELD JUNE 25, 2012

THE MEMBERS OF THE BOARD OF DIRECTORS OF THE WARREN COUNTY LOCAL DEVELOPMENT CORPORATION

A meeting of the Members of the Board of Directors of the above-captioned Corporation was held on June 25, 2012, pursuant to the Notice of Meeting dated June 19, 2012, at 1:00 p.m., in the Committee Room.

The meeting was called to order by Harold G. Taylor, Chairman of the Warren County Local Development Corporation, at 1:00 p.m.

The following Directors were present:

Harold Taylor	Evelyn Wood
Peter McDevitt	Eugene Merlino
William Mason	Dennis Dickinson

The following Director was absent:

Frederick Monroe

Others Present:

Victoria Pratt-Gerbino, CEO, Warren County Local Development Corporation
Jennifer Switzer, CFO, Warren County Local Development Corporation
Martin D. Auffredou, Warren County Attorney
Patricia Tatich, Planning & Community Development
Wanda Smith, Confidential Secretary to the County Administrator
Patrick MacKrell, President and CEO, NY Business Development Corp.
Blake Jones, *The Post Star*

Chairman Taylor called the meeting to order. Chairman Taylor asked for a motion to approve the minutes of the May 31, 2012 meeting. Motion made by Director Wood and seconded by Director Mason. Motion carried unanimously.

Chairman Taylor continued with the agenda regarding the presentation by the New York Business Development Corporation (NYBDC). Mr. Taylor introduced Pat Mackrell from the NYBDC and stated he was here to discuss the potential of administering the loan fund program. Ms. Gerbino stated that last year, they put in an application to create a bi-county loan fund to supplement the funds currently existing in both Warren and Washington Counties. As a result of this process and in discussions with local banks, the banks recommended speaking with NYBDC regarding managing the loan fund.

Mr. Mackrell distributed the NYBDC's annual report. He stated that the NYBDC was formed in 1955 by act of the State Legislature, but are a for-profit shareholder-owned (privately-owned) company. In 1955, NY was economically struggling, the Legislature realized then and any number of intervening periods since then, that small businesses are an important component of the economic vitality of NYS and the country, and that there needed to be some vehicle created where small businesses could get access to leverage cap loans. Individual banks were not interested because they were labor intensive. Nothing about small business lending has changed since 1955. It's still labor intensive and it's still risky. It requires a fair amount of work from the strictly credit underwriting side, a fair amount of work from the loan servicing side, and a fair amount of mixing economic development heart with a banker brain. They started off with $150,000 worth of capital in 1955 and a lot of lines of credit, and now have a portfolio of approximately $1.2 billion with nine offices in NYS. Every single bank that does commercial business in New York is a member of NYBDC and support them with lines of credit. They have 138 lines of credit that produce availability north of $280 million dollars at any given time. They are the largest SBA lender in NYS by dollar amount, with a lot of experience in SBA lending.

He further stated that in recent years the owners have taken their financial success and have reinvested it into their programs and processes. One of the things that is core to their mission is promoting economic development in the entirety of New York. Their offices are geographically located throughout the state. They do continue to make loans, and they will fund approximately $200 million dollars in loans this year, but they also can use their core competency to facilitate other economic development activity. Within the last few years, they have taken that core competency and used it to assist local loan funds or banks in some cases, or some larger loan funds to deploy their capital in a prudent way. They are not in the grant business. They are not in the inducement business. They are strictly in the loan business. They manage their money and other people's money, when it's deployed for small business lending. They found that there is a fair amount of demand to have loan funds managed by third parties, particularly when you can combine the assets of a trained and experienced small business shop essentially at a variable cost. If you want to run a small business loan program and if you want to do it properly, the loan fund should generate a modest profit so that it can grow. Without professional credit management, a loan fund will not grow.

He stated that if you look at your own loan fund, more than a third of the loans are past due more than 90 days by dollar amount, and approximately a third of the loans are past due by 90 days by number of loans. He stated he did not know the reason, whether it was because of the credit policy, servicing, approval policy or that it may be indicative of a philosophy of the lending boards taking a much broader appetite for risk than would be consistent with growing the fund and maintaining the fund at that dollar amount. What they have done with many funds is that they have provided their services as part of their mission at basically at or below their costs. As you can see from their income statement, with the gross loan fund at $1M or $1.2M, to the extent that it is 100% deployed, it's not worth the tank of gas to drive up here 3 times, so they would review a way to deploy their success, a way to redeploy that success in economic development. They have entered into these relationships, the largest of which is the Buffalo Urban Renewal Agency, which had a loan fund that had dire problems and was gaining a fair amount of media attention and ultimately HUD attention. They took over the administration of that loan fund. Once again, they are not making decisions or deciding who is getting money. They are not deciding what the loan policy is. They are submitting suggestions. Loan policies are being adopted. Credit windows and parameters and appetites for risk are being analyzed and discussed and established and then they underwrite to that standard and the decision makers make a decision based on the data that they develop. Once the loan closes, they service the loan. They carry it on through intensive servicing if that is required. It is too hard to do one piece of the puzzle. In order to get a value, they have to do it through the entire piece. They also do this for various banks. They are also in discussion with a number of entities outside of New York State.

They have 55+ years of variable cost loan servicing in a portfolio with a staff that has a diversity of experience in managing loans to add value to your loan fund. You retain the decision making authority. In an ideal scenario, as you develop the credit worthiness of the loan fund, it produces, it covers its cost of operation plus a small profit. That small profit would be sufficient to grow the loan fund incrementally, not at a great pace. When you have a successful loan fund, you have a loan fund that has demonstrated the ability to get a percentage in payment. You will also attract capital from other sources, like banks, foundations and other entities that see successfully operated loan funds are more willing to make loans or grants to those loan funds knowing that it is going to be deployed in a prudent fashion or its going to be recovered. The underpittings of a professionally managed loan fund is key to growing the loan fund from other sources. Once you decide you want to do that, you can go one of two ways. You can hire that help making it a fixed cost, paying benefits, vacation, etc. whether or not loans are being done. Or you can hire at a variable cost basis, paying someone to work on a specific loan at a specific time while that loan is being processed or while that loan is being serviced. The variable cost loan servicing aspect is their area of expertise. They have done for other entities soup to nuts quite frankly, in terms of sitting down with the loan committee, talking about their philosophy and writing the loan policy. This policy talks about whether the loan gets classified as non-accrual, how often you do site visits with the borrowers, what kind of financial information you receive from the borrower at the time of application, what are the policies with respect to risk, etc., including direction to people as to how to administer it. The credit and underwriting policies addresses how you want to deal with that, how you want to see the loan reports, and what information do you want to see. They can build it up from creating the loan policy on through the implementation of that policy in a way that takes a relatively very modest amount of money and gives it the opportunity to be something more, both through 1) repayment; and 2) attracting other funds to your fund. Discussion ensued. Capitalized Loan Company, which is their statewide zone capital company, has produced consistent returns to the investors. They actually redeemed some of the stock because they had so much cash coming in and now they have a loan portfolio of approximately $28M that they have only developed in a relatively short period of time. Mr. Mackrell asked if anyone had any questions.

Pat Tatich entered the meeting at 1:24 p.m.

Discussion ensued. They make the right calls most of the time, more than 99% of the time. There loss rate over the last 20 years is 18 basis points.

Chairman Taylor asked regarding cost to the LDC if they were to become involved with the NYBDC and also would the policy and underwriting guidelines be included in the cost. Mr. MacKrell stated that writing the loan policy is included in that cost. Having a well written, well organized loan policy makes their jobs easier when they administer it. They like to write it in a way they can understand it and consistent with the best standards and practices for economic development loan funds. Their pricing is relatively simply, and has been provided to Ms. Gerbino. There is a $150 processing fee, which is charged to the borrower, but can be absorbed by the LDC if so desired. This fee is essentially to keep the tire kickers at bay from wasting the LDC's time. This fee is refunded to the borrower if the loan funds. Mr. MacKrell further stated that they charge the actual cost of credit reports. They also charge for taking over the servicing of a loan portfolio. They charge $100 for a one-time initial site visit for each of the borrowers in the existing portfolio. This is important as they open the servicing file to get a base line, talk to the owners, find out how many employees they have, what their prospect for future successes are, etc. Ongoing basis, the fee is 1% of the principal balance of the loans. When they look at the number of loans that are 90+ days past due or in non-accrual status, under generally accepted accounting principals, those loans are severely impaired. The likelihood of their collection is remote. They may suggest writing off these loans. This would reduce the outstanding loans. Getting the loan portfolio into what they consider to be in shape, to service it in a prudent fashion is the first step and this is what the site visits are about. Included in the 1%, they are collecting financial information on an annual basis, doing an annual site visit in addition to the initial site, preparing annual reviews of those credits to determine their prospects for repayment of the loan and involve any servicing requests. Discussion ensured.

Their experience is that you need to be pro-active. You need to be talking to the borrowers. You need to understand their business and cash cycle. You need to be reactive and pro-active on terms of how they do business and how they can repay. You want to make sure that you take all the steps to sustain the business, but failing that, that you act promptly to liquidate.

Ms. Gerbino asked if he could discuss the roll at the local level if the Board decided to engage NYBDC and what that relationship would look like and what would we still do to support it. Mr. MacKrell stated that their roll would be simply to support the application process forward. They would not be marketing the loan program, except for a link on their website. They would not generate the applications. They would expect the LDC to develop the loan volume. The smaller the business loan, the harder it is too make it, because you rely on the borrowers immensely. They do not determine if someone gets the loan by credit score.

Chairman Taylor thanked Mr. MacKrell for the presentation and stated if there were any additional questions, they would work through Ms. Gerbino. Mr. MacKrell left the meeting at 1:31 p.m.

Director Dickinson questioned what NYBDC would actually do. Ms. Gerbino stated the information would be sent to them and they would help with the underwriting part to determine if the loan made sense. Discussion ensued.

Director Mason inquired regarding members of the Board becoming loan officers. Ms. Gerbino stated that the Board ultimately makes the decisions whether or not the loan is made. That will not change if the Board chooses to go with NYBDC. Director Mason asked if NYBDC would give a recommendation to the Board. Ms. Gerbino confirmed. Discussion ensued. Ms. Gerbino stated if you have a loan fund, you must have servicing.

Director Dickinson asked if NYBDC would increase Ms. Gerbino's and Ms. Switzer's work loads or decrease it. Ms. Gerbino stated they would change it significantly. She further stated that they have been giving weekly hours well above what has been budgeted for.

Chairman Taylor mentioned that it seems that there may not be a need for a Business Review Committee (BRC) if they use NYBDC. Ms. Gerbino stated that the BRC is in favor of getting NYBDC involved. There are many opportunities where there is not enough bank comfort, but the NYBDC, because it has relationships with these other banks and because it has access to so many different funding streams, can really make a lot of projects work that would otherwise be unworkable. If there is a way to get a project funded and it looks like the borrower is going to pay the money back, the NYBDC will figure it out.

Director Dickinson asked if the LDC has $12,000 to pay NYBDC's fee. Discussion ensued. Mr. Auffredou mentioned that NYBDC's incentive is to come up with more creative ideas, to use more dollars to get more projects funded that maybe wouldn't otherwise be funded, because if they increase the portfolio, they increase their fees. Ms. Gerbino stated this is all they do for a living. Mr. Auffredou mentioned that it is purely for a selfish perspective. He further stated that for the $12,000, some of these cases are still going to come to his office, because NYBDC will not file collective lawsuits. Ms. Gerbino confirmed. He further mentioned that his workload is not going to change because NYBDC is involved. Ms. Gerbino confirmed because there are loans that are already in trouble that need legal assistance. She further stated that long term, there should be a difference because with their help, there should be better loans.

Director Dickinson stated that his impression from Mr. MacKrell was to walk on some of the bad loans. Mr. Auffredou agreed. Director Merlino stated that as a business person, they are not going to do anything to help LDC with the problems today, but if you want to grow the fund, then you may want to get involved with them. He believed the LDC needed to solve these problems now. They do not have the type of money to put out to loans.

Director Dickinson questioned how much money was involved. Ms. Gerbino referred everyone to the Summary of the Loan Portfolio. She stated that there is cash available of $605,605. Director McDevitt stated that it didn't sound like from the presentation that it would take the NYBDC very long to eliminate the loans that are past due by 90+ days. Ms. Gerbino mentioned that is an accounting stroke to remove it, but it's the Board's decision regarding what they would like Mr. Auffredou to do in terms of collecting on those loans.

Chairman Taylor mentioned that no decision was going to be made on this today. He further mentioned there were numerous actual costs in addition to the 1% fee. Ms. Gerbino reiterated the $150 processing fee to the borrower, which is refunded if the loan is made. She further stated that this was included in the lending guidelines. She also reiterated the $100 one-time fee per site visit and the actual cost of running the credit reports on all the applicants. Chairman Taylor asked if Ms. Gerbino has put together what it costs her to do the administration right now. She responded no. She stated that besides the $100 one-time site visit fee, the other costs are already part of the lending guidelines.

Mr. Auffredou asked how much time NYBDC actually put into the loans. He asked if they will simply review what has already been done, or will they give strategies or will they say no its over. Ms. Gerbino said they would put in some time reviewing the loans and meeting with the borrowers and giving strategies. Mr. Auffredou asked if this service would be part of the 1% plus the $100 per site visit. Ms. Gerbino confirmed. Director Merlino stated he didn't believe LDC should be paying 1% on the past due loans that they were not going to go after. Chairman Taylor stated that LDC should clean house first if they were going to do this. Director McDevitt suggested asking NYBDC if they would agree not to collect a fee on the debt they couldn't collect on.

Director Merlino believes in not writing off the past due loans. He believes if they can even pay $25 per month for the rest of their lives, it would be better.

Director Mason questioned the amount of hours in the agreement with Keena and asked if there will be a credit back if NYBDC was hired. Ms. Gerbino stated that the Board would have to decide that and negotiate with Keena. She further stated she believed this was an executive session discussion. Mr. Auffredou stated if it were an employee performance issue then it would be for executive session, but discussion regarding dollars would be for open session. He suggested doing some preparation and to discuss this further at a future meeting. Director Mason stated he was attempting to get the cost benefit. Ms. Gerbino stated that NYBDC would not be a local face for the loan fund.

Chairman Taylor agreed with Mr. Auffredou regarding putting more data together to make a decision on this.

Chairman Taylor continued with the agenda regarding the financials and asked Jennifer Switzer to discuss. Ms. Switzer summarized, stating there was very little activity in the month of May. Motion was made by Director Mason to approve the Financial Reports for May 31, 2012, and seconded by Director Dickinson. The following motion was unanimously carried:

. RESOLVED, that the Warren County Local Development Corporation ("LDC") hereby approves the Financial Reports for May 31, 2012.

Chairman Taylor asked for a motion to go into executive session. Mr. Auffredou stated that the motion to go into executive session was for the purpose of discussing outstanding loans and potential litigation and pending actions. Motion was made by Director McDevitt, seconded by Director Merlino and carried unanimously that executive session be declared.

Executive session was declared at 1:56 p.m. to 3:09 p.m.

Following executive session, Mr. Auffredou stated no action was taken. Chairman Taylor asked for a motion for denial of an application for a loan. Motion made by Director Dickinson and seconded by Director Mason. The following motion carried unanimously:

RESOLVED, that the Warren County Local Development Corporation ("LDC") hereby approves the denial of an application for a loan.

Chairman Taylor asked for a motion to authorize the County Attorney to enter into a collection process against The Barking Spider. Motion made by Director Dickinson and seconded by Director Mason. The following motion carried unanimously:

RESOLVED, that the Warren County Local Development Corporation ("LDC") hereby authorizes the County Attorney to enter into a collection process against The Barking Spider.

Chairman Taylor asked for a motion to authorize the County Attorney to send a collection letter to Tubby Tubes, and in the event there is not a satisfactory response to that letter within fourteen (14) days, the County Attorney is authorized to commence appropriate collection proceedings. Motion made by Director Wood and seconded by Director Merlino. The following motion carried unanimously:

RESOLVED, that the Warren County Local Development Corporation ("LDC") hereby authorizes the County Attorney to send a collection letter to Tubby Tubes, and in the event there is not a satisfactory response to the letter within fourteen (14) days, the LDC further authorizes the County Attorney to commence appropriate collection proceedings.

As there was no further business to come before the LDC Board, motion was made by Director

Merlino to adjourn the meeting, seconded by Director Wood, and carried unanimously.

Chairman Taylor adjourned the meeting at 3:11 p.m.

Dated: 9/18, 2012

Peter McDevitt, Secretary