845 Brook Street, Rocky Hill, CT 06067
T 860.563.0015
ctgreenbank.com

CONNECTICUT
GREEN BANK

May 22, 2018

Dear Connecticut Green Bank Deployment Committee:

We have a regular meeting of the Deployment Committee scheduled on Tuesday, May 29, 2018 from 2:00 to 3:00 p.m. in the Colonel Albert Pope Board Room of the Connecticut Green Bank at 845 Brook Street, Rocky Hill, CT 06067.

On the agenda we have the following items:

- **Consent Agenda** – approval of the meeting minutes for September 5, 2017, C-PACE transaction time extensions, and provision of memo to update you on transactions under $500,000 and no more in aggregate than $1,000,000.

- **Proposed Loan Loss Decision Framework and Process** – as the Green Bank continues to invest its resources with the expectation of getting its principal and interest back over time, there will inevitably be instances when restructuring transactions and/or loan losses will occur. The staff is proposing a loan loss decision framework and process for your consideration. Both the Deployment Committee and the Audit, Compliance, and Governance Committee will review this process before it is presented to the Board of Directors for consideration.

- **Investment Business Recommendations**

    a. **C-PACE Transaction – Proposed Restructuring** – applying the proposed loan loss decision framework and process, the staff is proposing to restructure a C-PACE transaction. The project, Brookfield YMCA, installed a CHP system in combination with a number of energy conservation measures. For details on the transaction, see the memo which will be provided by the close of business on Friday, May 25th.

If you have any questions, comments or concerns, please feel free to contact me at any time. See you next week.

Sincerely,

Bryan Garcia
President and CEO

AGENDA

Deployment Committee of the
Connecticut Green Bank
845 Brook Street
Rocky Hill, CT 06067

Tuesday, May 29, 2018
2:00-3:00 p.m.

Staff Invited: George Bellas, Mackey Dykes, Brian Farnen, Bryan Garcia, Ben Healey, Dale Hedman, Bert Hunter, Kerry O'Neill, Eric Shrago, and Kim Stevenson

1. Call to order

2. Public Comments – 5 minutes

3. Consent Agenda – 5 minutes

    a. Approval of Meeting Minutes for September 5, 2017
    b. C-PACE Transaction Time Extensions
    c. Transactions – Under $500,000 and No More in Aggregate than $1,000,000

4. Proposed Loan Loss Decision Framework and Process – 30 minutes

5. Investment Business Recommendations – 20 minutes

    a. C-PACE Transaction – Proposed Restructuring

6. Adjourn

Next Regular Meeting: Tuesday, September 18, 2018 from 2:00-3:00 p.m.
Colonel Albert Pope Board Room at the
Connecticut Green Bank, 845 Brook Street, Rocky Hill, CT

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RESOLUTIONS

Deployment Committee of the
Connecticut Green Bank
845 Brook Street
Rocky Hill, CT 06067

Tuesday, May 29, 2018
2:00-3:00 p.m.

Staff Invited: George Bellas, Mackey Dykes, Brian Farnen, Bryan Garcia, Ben Healey, Dale Hedman, Bert Hunter, Kerry O'Neill, Eric Shrago, and Kim Stevenson

1. Call to order

2. Public Comments – 5 minutes

3. Consent Agenda – 5 minutes

    a. Approval of Meeting Minutes for September 5, 2017

Resolution #1

Motion to approve the meeting minutes of the Deployment Committee for September 5, 2017.

    b. C-PACE Transaction Time Extensions

Resolution #2

WHEREAS, pursuant to Conn. Gen. Stat. 16a-40g (the "Act") the Connecticut Green Bank ("Green Bank") is directed to, amongst other things, establish a commercial sustainable energy program for Connecticut, known as Commercial Property Assessed Clean Energy ("C-PACE");

WHEREAS, pursuant to the C-PACE program, the Green Bank Board of Directors (the "Board") had previously approved and authorized the President of the Green Bank to execute financing agreement for the C-PACE projects described in the Memo submitted to the Deployment Committee on May 22, 2018 (the "Finance Agreements");

WHEREAS, the Finance Agreements were authorized to be consistent with the terms, conditions, and memorandums submitted to the Board and executed no later than 120 days from the date of Board approval; and

WHEREAS, due to delays in fulfilling pre-closing requirements the Green Bank will need more time to execute the Finance Agreements.

NOW, therefore be it:

RESOLVED, that the Deployment Committee extends authorization of the Finance Agreements to no later than 120 days from May 29, 2018 and consistent in every other manner with the original Board authorization for the Finance Agreements.

c. Transactions – Under $500,000 and No More in Aggregate than $1,000,000

4. Proposed Loan Loss Decision Framework and Process – 30 minutes

<u>Resolution #3</u>

WHEREAS, pursuant to Section 5.3.1 of the Connecticut Green Bank (Green Bank) Bylaws, the Audit, Compliance & Governance (ACG) Committee is charged with the review and approval of, and in its discretion recommendations to the Board regarding, all governance and administrative matters affecting the Green Bank, including but not limited to matters of corporate governance and corporate governance policies;

WHEREAS, on January 18, 2013, the Board of Directors authorized Green Bank staff to evaluate and approve funding requests less than $300,000 which are pursuant to an established formal approval process requiring the signature of a Green Bank officer, consistent with the Green Bank Comprehensive Plan, approved within Green Bank's fiscal budget and in an aggregate amount not to exceed $500,000 from the date of the last Deployment Committee meeting ("Staff Approval Policy for Projects Under $300,000");

WHEREAS, on July 18, 2014, the Green Bank Board of Directors approved of a recommendation brought forth by the Audit, Compliance, and Governance Committee and Deployment Committee to approve the authorization of Green Bank staff to evaluate and approve program funding requests less than $300,000 which are pursuant to an established formal approval process requiring the signature of a Green Bank officer, consistent with the Green Bank Comprehensive Plan, approved within Green Bank's fiscal budget and in an aggregate amount not to exceed $1,000,000 from the date of the last Deployment Committee meeting;

WHEREAS, on October 20, 2017, the Green Bank Board of Directors approved of a recommendation brought forth by the ACG Committee and Deployment Committee to approve the authorization to amend the Staff Approval Policy to increase program funding requests for Projects Under $300,000 to $500,000 with an aggregate amount limit of $1,000,000 from the date of the last Deployment Committee meeting; and

WHEREAS, the Staff of the Green Bank propose in a memo to the Deployment Committee on May 29, 2018, a Loan Loss Decision Framework and Process for managing assets requiring restructuring or write-off from the Green Bank's balance sheet.

NOW, therefore be it:

RESOLVED, that the Deployment Committee recommends that the Board approve of the Staff proposed Loan Loss Decision Framework and Process for managing assets requiring restructuring or write-off from the Green Bank's balance sheet; and

RESOLVED, that the Deployment Committee recommends to the Audit, Compliance and Governance Committee their review and consideration of the Staff proposed Loan Loss Decision Framework and Process for managing assets requiring restructuring or write-off from the Green Bank's balance sheet, and then the consideration by the Board of Directors of the Green Bank.

5. Investment Business Recommendations – 20 minutes

   a. C-PACE Transaction – Proposed Restructuring

Resolution #4

WHEREAS, pursuant to Section 16a-40g of the Connecticut General Statutes (as amended, the "Act"), the Connecticut Green Bank ("Green Bank") established a commercial sustainable energy program for Connecticut, known as Commercial Property Assessed Clean Energy ("C-PACE");

WHEREAS, pursuant to Conn. General Statute 16a-40g, Green Bank entered into that certain Financing Agreement dated September 30, 2014 (as amended, the "Loan") with the Regional YMCA of Western Connecticut and Eastern Putnam County, Inc., the building owner of the Brookfield YMCA at 2 Huckleberry Hill Road, Brookfield, CT 06804, to finance the construction of certain clean energy measures through C-PACE;

WHEREAS, at today's meeting, the Green Bank Deployment Committee ("Deployment Committee") recommended approval of the Proposed Loan Loss Decision Framework and Process, set forth in that certain memo to the Deployment Committee dated May 29, 2018 (the "Loss Process"), to the Audit, Compliance and Governance Committee of the Green Bank ("ACG Committee") and then the Board of Directors (the "Board") for their approval, respectively; and

WHEREAS, in accordance with Loss Process, Green Bank staff seeks the Deployment Committee's approval to restructure the Loan by (i) reducing the principal of the Loan to $769,428.00, (ii) reducing the term interest rate of the Loan to 3.23% per annum, and (iii) extending the term of the Loan to 18 years (collectively, the "Restructured Loan"), as more particularly described in the memorandum submitted to the Deployment Committee dated May 25, 2018.

NOW, therefore be it:

RESOLVED, that, contingent upon the the Board review and approval of the Loss Process, the President of the Green Bank and any other duly authorized officer of the Green Bank is authorized to execute and deliver the Restructured Loan with terms and conditions consistent with the memorandum submitted to the Deployment Committee dated May 25, 2018, and as he or she shall deem to be in the interests of the Green Bank and the ratepayers no later than 120 days from the date of the Board approval of the Loss Process; and

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and execute and deliver all other documents and instruments as they shall deem necessary and desirable to affect the above-mentioned legal instruments.

6. Adjourn

Next Regular Meeting: Tuesday, September 18, 2018 from 2:00-3:00 p.m.
Colonel Albert Pope Board Room at the
Connecticut Green Bank, 845 Brook Street, Rocky Hill, CT

Deployment Committee Meeting

May 29, 2018

Deployment Committee

Agenda Item #1

Call to Order

Deployment Committee

Agenda Item #2

Public Comments

Deployment Committee

Agenda Item #3

Consent Agenda

Consent Agenda
Resolutions 1 and 2

1. **<u>Meeting Minutes</u>** – approval of meeting minutes of September 5, 2017

2. **<u>Time Extensions</u>** – C-PACE transaction time extensions to close

- **<u>Under $500,000 and No More in Aggregate than $1,000,000</u>** – memo to update Deployment Committee on transactions reviewed and approved by staff and clearing the queue for future transactions consistent with Comp Plan and Budget.

Consent Agenda
No More in Aggregate than $1,000,000

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Project Name	Comprehensive Plan	Amount	Type
15 Executive Drive (Farmington)	C-PACE – PV	$302,142	Benefit Assess.
Mutual Housing (Hartford)	H&S Loan	$50,000	Loan
Housing Authority (Hamden)	H&S Loan	$130,000	Loan
Total		**$486,142**	

Approximately $486,000 in loans

Deployment Committee

Agenda Item #4

Proposed Loan Loss Decision Framework and Process

Connecticut Green Bank
Balance Sheet and Assets

- **Balance Sheet** – CT Green Bank has built a balance sheet of over $70 million in principal and interest producing assets that have seen strong performance with respect to repayment.

- **Restructurings and Write-Offs** – as the CT Green Bank continues to invest its resources with the expectation of getting its principal and interest back over time, there will inevitably be instances when restructuring transactions and/or loan losses will occur.

- **Oversight** – the Deployment Committee, per the Bylaws (i.e., Section 5.3.3(ii, iv, v, vi, viii)) is responsible for managing the assets.

- **Process** – senior staff is proposing a loan loss decision framework and process for consideration by the Deployment Committee, Audit, Compliance, and Governance Committee, and the Board of Directors

Loan Loss Decision Framework

Proposed Structure

- **Best Practice** – follows the structure of the “Under $500,000 and No More than $1,000,000” procedure allowing staff approvals of investments consistent with the Comprehensive Plan and Budget

- **Value of the Modification** – senior staff assessed different asset values, including original principal value, principal outstanding, and value of the modification. **Recommend – principal outstanding** (e.g., $2,000,000 original loan issued in 2012, has current principal outstanding for repayment of $750,000 with staff seeking modification of $250,000)

- **Type of Loss** – senior staff has identified three (3), including:

1. **Provisional Loss** – as determined by the B&O Committee and the ACG Committee through the annual budget and targets process and reported in the annual audited financial statements;
2. **Restructuring** – a unique action or decision to modify the principal, interest, term, and/or other relevant component of a transaction; or
3. **Write-Off** – a policy or procedural determination that an asset is impaired as a result of it being delinquent and subsequently in default where it is deemed that it is unlikely for a material recovery of principal.

Loan Loss Decision Framework

Proposed Structure (cont'd)

Type of Loss Anticipated	Amount of Principal Outstanding		
	<$500,000	$500,000-$2,500,000	>$2,500,000
Provisional	Staff (with review and reporting from the Auditor)		
Restructuring	Staff	Deployment	BOD
Write-Off	Staff	Deployment	BOD

Loan Loss Decision Framework is based on current best practice for the "Under $500,000 and No More in Aggregate than $1,000,000" staff transaction approval process, except with a focus on (1) amount of principal outstanding on a transaction, and (2) type of loss anticipated… **"Under $500,000 and No More in Aggregate than $500,000"** between report outs

Loan Loss Decision Framework
Examples

- **<u>Smart-E Loan</u>** – original principal value of $34,000 with $25,000 of outstanding principal and a full write-off as the transaction is delinquent and determined to be in default.
  - ❑ Approving authority is the staff because principal outstanding value is less than $500,000.
- **<u>C-PACE</u>** – original principal value of $1,250,000 with $1,100,000 of outstanding principal and seeking a restructuring of the transaction.
  - ❑ Approving authority is the Deployment Committee because the principal outstanding value outstanding is greater than $500,000 and less than $2,500,000.
- **<u>On-Site DG Program</u>** – original principal value of $1,000,000 with $300,000 outstanding principal and a restructuring of the transaction.
  - ❑ Approving authority is the staff because the principal outstanding value is less than $500,000.
- **<u>Fuel Cell Project</u>** – original principal value of $5,000,000 with $2,750,000 outstanding principal and a full write-off as the transaction is delinquent and determined to be in default.
  - ❑ Approving authority is the Board of Directors because the principal outstanding value outstanding is greater than or equal to $2,500,000.

Loan Loss Decision Framework

Proposed Process

- **Provisional Transactions** – on an annual basis the accounting team prepares a detailed analysis of portfolio loans by program, including historical analysis of prior year write-offs by program, and repayment delinquencies and inquiries of program and finance staff as to current developments with borrowers that could affect future repayments. Then the accounting team assigns a loan loss reserve percentage to the balance of the loans for each program to arrive at a total loan loss reserve for the loan portfolio. On a quarterly basis, with the assistance of programs and finance staff, the accounting team would make appropriate interim adjustments.
- **Restructuring Transactions** – would undergo the following process:

1. **Restructuring Calculation** – comparing the original investment to the restructured investment in terms of cash flow and net present value;
2. **Documentation** – memo summarizing reason for the proposed modification including a description of the project, restructuring calculation, and preventative measures for avoiding such issues in the future;
3. **Review and Approval** – based on the Loan Loss Decision Framework, the designated approving authority would review and approve the proposed restructuring of the transaction; and
4. **Reporting** – a quarterly memo summarizing staff approvals provided to the Deployment Committee and the Board of Directors.

Loan Loss Decision Framework
Proposed Process (cont'd)

- **Write-Off Transactions** – would undergo the following process:
  1. **Write-Off Calculation** – the amount of outstanding principal and lost interest revenue from the original transaction and other write off needs; or in the case of the Smart-E Loan, if the aggregate value of losses for a partner lender exceeds 1.5% of their loan portfolio, then the 2nd loan loss reserve fund would be available from the Green Bank up to 7.5% beyond the 1.5% of losses;
  2. **Documentation** – memo summarizing reason for the write-off including a description of the project, write-off calculation, and preventative measures for avoiding such issues in the future;
  3. **Review and Approval** – based on the Loan Loss Decision Framework, the designated approving authority would review and approve the proposed write-off of the transaction; and
  4. **Reporting** – a quarterly memo summarizing staff approvals provided to the Deployment Committee and the Board of Directors.

Deployment Committee

Agenda Item #5

Investment Business

C-PACE Transaction – Proposed Restructuring

Executive Session

Deployment Committee

Agenda Item #6

Adjourn

Deployment Committee of the
Connecticut Green Bank
845 Brook Street
Rocky Hill, CT 06067
Tuesday, September 5, 2017
2:00-2:20 p.m.

A special scheduled meeting of the Deployment Committee of the Board of Directors of the Connecticut Green Bank was held on September 5, 2017 at the office of the Green Bank, 845 Brook Street, Rocky Hill, CT.

1. **Call to order**

   Bryan Garcia called the meeting to order at 2:05 p.m. Deployment Committee members participating: Reed Hundt (by phone), Matt Ranelli (by phone), and Bettina Bronisz (by phone) and Betsy Crum (by phone).

   Staff Attending: Bryan Garcia, Cheryl Samuels, Brian Farnen, Eric Shrago, Jane Murphy, Bert Hunter (by phone), Mike Yu (by phone), and Nick Zuba (by phone)

2. **Public Comments**

   There were no public comments.

3. **Consent Agenda**

   Upon a motion made by Reed Hundt, and seconded by Bettina Bronisz, the Consent Agenda passed unanimously.

   a. **Approval of Meeting Minutes for May 30, 2017**

   <u>Resolution #1</u>

   Motion to approve the minutes of the May 30, 2017 Meeting of the Deployment Committee of the Connecticut Green Bank.

   b. **Transactions – Under $300,000 and No More in Aggregate than $1,000,000**

4. **Commercial, Industrial, and Institutional Sector Program Recommendations**

   a. **Bristol – C-PACE Transaction**

   Nick Zuba provided a broad overview of the Bristol C-PACE transaction. He advised that there will be $367,000 in energy saving improvements completed. He stated that they are also benefiting from the Energy on the Line Campaign, by receiving an $18,000 grant. He stated that the leverage ratios are well within range.

Upon a motion made by Reed Hundt, and seconded by Matt Ranelli, the transaction was approved unanimously.

Resolution #2

WHEREAS, pursuant to Section 157 of Public Act No. 12-2 of the June 12, 2012 Special Session of the Connecticut General Assembly and as amended (the "Act"), the Connecticut Green Bank (Green Bank) is directed to, amongst other things, establish a commercial sustainable energy program for Connecticut, known as Commercial Property Assessed Clean Energy ("C-PACE");

WHEREAS, the Green Bank Board of Directors (the "Board") has approved a $40,000,000 C-PACE construction and term loan program;

WHEREAS, the Green Bank seeks to provide a $349,782 construction and (potentially) term loan under the C-PACE program to Titus Holdings, LLC, the building owner of 60 Wooster Court, Bristol Connecticut (the "Loan"), to finance the construction of specified clean energy measures in line with the State's Comprehensive Energy Strategy and the Green Bank's Strategic Plan; and

WHEREAS, the Green Bank may also provide a short-term unsecured loan (the "Feasibility Study Loan") from a portion of the Loan amount, to finance the feasibility study or energy audit required by the C-PACE authorizing statute, and such Feasibility Study Loan would become part of the Loan and be repaid to the Green Bank upon the execution of the Loan documents.

NOW, therefore be it:

RESOLVED, that the President of the Green Bank and any other duly authorized officer of the Green Bank is authorized to execute and deliver the Loan and, if applicable, a Feasibility Study Loan in an amount not to be greater than one hundred ten percent of the Loan amount with terms and conditions consistent with the memorandum submitted to the Deployment Committee dated August 29, 2017, and as he or she shall deem to be in the interests of the Green Bank and the ratepayers no later than 120 days from the date of authorization by the Deployment Committee;

RESOLVED, that before executing the Loan, the President of the Green Bank and any other duly authorized officer of the Green Bank shall receive confirmation that the C-PACE transaction meets the statutory obligations of the Act, including but not limited to the savings to investment ratio and lender consent requirements; and

RESOLVED, that the proper the Green Bank officers are authorized and empowered to do all other acts and execute and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

5. Other Business

No other business discussed.

6. Adjourn

Upon a motion made by Bettina Bronisz, and seconded by Reed Hundt, the meeting was adjourned at 2:09 p.m.

Respectfully Submitted,

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Reed Hundt, Chairperson

845 Brook Street, Rocky Hill, CT 06067
T 860.563.0015
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Memo

To: The Connecticut Green Bank Deployment Committee

From: Mackey Dykes, Vice President, Commercial, Industrial and Institutional Programs; Nicholas Zuba, Senior Manager, Commercial, Industrial and Institutional Programs

CC: Bryan Garcia, President and CEO; Bert Hunter, EVP and CIO; Brian Farnen, General Counsel and CLO; Alex Kovtunenko, Senior Counsel, Commercial, Industrial and Institutional Programs

Date: May 22, 2018

Re: Extending timeline for closing certain C-PACE transactions

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Summary

The Connecticut Green Bank Board of Directors (the "Board" or "BOD") has previously approved and authorized C-PACE financing for the following properties:

Project Address	Approved	Expires
6 Shaws Cove, New London, CT 06320	1/26/18 by Board	5/26/18
99 Powder Hill Road, Middlefield, CT 06455	1/26/18 by Board	5/26/18

The financing agreement was authorized to be consistent with the terms, conditions, and memorandums submitted to the Board and made no later than 120 days from the date of Board approval.

Due to delays in fulfilling pre-closing requirements, including lender consent, for these transactions, the C-PACE program staff requests more time from the Connecticut Green Bank Deployment Committee (the "Deployment Committee") to close this transaction and execute the financing agreement. The staff requests an additional 120 days from the date of this Deployment Committee meeting to execute the financing agreement for the transaction listed above.

Resolutions

WHEREAS, pursuant to Conn. Gen. Stat. 16a-40g (the "Act") the Connecticut Green Bank ("Green Bank") is directed to, amongst other things, establish a commercial sustainable energy program for Connecticut, known as Commercial Property Assessed Clean Energy ("C-PACE");

WHEREAS, pursuant to the C-PACE program, the Green Bank Board of Directors (the "Board") had previously approved and authorized the President of the Green Bank to execute financing agreement for the C-PACE projects described in the Memo submitted to the Deployment Committee on May 22, 2018 (the "Finance Agreements");

WHEREAS, the Finance Agreements were authorized to be consistent with the terms, conditions, and memorandums submitted to the Board and executed no later than 120 days from the date of Board approval; and

WHEREAS, due to delays in fulfilling pre-closing requirements the Green Bank will need more time to execute the Finance Agreements.

NOW, therefore be it:

RESOLVED, that the Deployment Committee extends authorization of the Finance Agreements to no later than 120 days from May 29, 2018 and consistent in every other manner with the original Board authorization for the Finance Agreements.

Submitted by: Bryan Garcia, President and CEO, Bert Hunter, EVP and CIO, Mackey Dykes, Vice President, Commercial, Industrial and Institutional Programs, Brian Farnen, General Counsel and CLO

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CONNECTICUT GREEN BANK

Memo

To: Board of Directors of the Connecticut Green Bank – Deployment Committee of the Connecticut Green Bank

From: Bryan Garcia (President and CEO)

Date: May 29, 2018

Re: Approval of Funding Requests below $500,000 – Update

At the October 20, 2017 Board of Directors (BOD) meeting of the Connecticut Green Bank ("Green Bank") it was resolved that the BOD approves the authorization of Green Bank staff to evaluate and approve funding requests less than $500,000 which are pursuant to an established formal approval process requiring the signature of a Green Bank officer, consistent with the Comprehensive Plan, approved within Green Bank's fiscal budget and in an aggregate amount not to exceed $1,000,000 from the date of the last Deployment Committee meeting. This memo provides an update on funding requests below $500,000 that were evaluated and approved. During this period, 3 projects were evaluated and approved for funding in an aggregate amount of approximately $486,142. If members of the board or committee would be interested in the internal documentation of the review and approval process Green Bank staff and officers go through, then please request it.

Project Name:	**Powerhouse Partners, LLC, 15 Executive Drive, Farmington**
Amount:	**$306,142**
Comprehensive Plan:	**CPACE**

<u>Description</u>
The property at 15 Executive Drive, Farmington, CT is a 25,989-square foot owner-occupied building used primarily as a health club ("15 Executive Drive" or the "Property") built in 2005. 15 Executive Drive sits upon a 3.37 acre site, and, as at October 2017, had six rentable rooms within the footprint of the health club that are used for exercise classes and health, wellness and beauty treatments. The Property is owned by Powerhouse Partners, LLC (the "Company"), doing business as Malibu Fitness.

The proposed investment is a C-PACE transaction under which the Connecticut Green Bank ("Green Bank") would provide construction financing (at a per annum 5.0% interest rate) and a 15-year term loan commitment (5.75% interest rate), in the amount of $306,142 to support the installation of a 131-kW solar PV system. The savings-to-investment ratio is 1.74 over the effective useful life. A C-PACE assessment through the Town of Farmington will provide security. The Green Bank intends to initially hold this asset on its balance sheet until it can be sold to another capital provider. Staff believes HA C-PACE LLC, the special purpose entity set up between Hannon Armstrong and the Green Bank to buy C-PACE assessments, to be a likely purchaser of this asset.

Financial Metrics: Based on a value of $2,798,685 (the $2,650,000 appraised value set in 2016 plus 50% of CPACE hard costs of $297,370) and a current mortgage balance of $1,764,078 (September 2017) the Lien-to-Value ("LiTV") and Loan-to-Value ("LTV") for this investment are 10.9% and 74.0%, respectively, within standard Green Bank and HA CPACE LLC underwriting guidelines.

With respect to other key financial metrics, the projected Debt Service Coverage Ratio ("DSCR") averages 0.85x over the term of the financing. This is driven by the presence of a mortgage on the property for which total annual repayments exceed net operating income ("NOI") of the property. However, because the Property is primarily owner-occupied, rental revenue may not reflect market rents. An underwriting analysis has therefore been performed on the Company in addition to the Property itself. The Company is in strong financial health, with revenue of over $600,000 in the last two fiscal years and EBITDA between $190,000 - $277,000. The average DSCR for the Company over the financing term is 1.75x.

Based on the balance sheet of the Company, as at 12/31/2017, the tangible net worth was $219,083 with a total liabilities to tangible net worth ratio of 8.5 To calculate tangible net worth, a $297,000 long term loan was reclassified as equity on the basis that the loan had no set payment schedule, penalties or liens associated with it. The current ratio was 0.31 due to the high current liabilities balance related to mortgage principal coming due in one year and low current asset balance (cash) which reflects the fact that these financials are for a single purpose holding company for the real estate. As such, there will of necessity be a mismatch as current liabilities reflect what is due in one year vs the current assets which merely reflect cash on hand plus any receivables billed for rental income on a month ahead basis (generally), which in this case is nil. Accordingly, these is no particular concern with the low current ratio as the rental revenue from the owner-occupier is steady.

Taking all of these factors into account, staff recommends the project for approval, pursuant to the Project Approval Form.

Project Name:	**Grove Street Mutual Housing / Mutual Housing of Greater Hartford**
Amount:	**$50,000**

Comprehensive Plan: **MFH - EnergizeCT Health & Safety Revolving Loan Fund**

Description
This project approval authorizes the approval of a contingent commitment letter for grant funding through the EnergizeCT Health & Safety Revolving Loan Fund in the amount of $50,000 for mold and asbestos remediation of Mutual Housing of Greater Hartford's Grove Street Mutual Housing property as part of the property's physical rehabilitation using a grant from the Connecticut Housing Finance Authority's State Housing Tax Credit Contribution Program, energy incentives from United Illuminating and Connecticut Natural Gas, and loan financing by the Leviticus Fund.

Project Name: **Mt. Carmel Congregate / Hamden Housing Authority**

Amount: **$130,000**

Comprehensive Plan: **MFH - EnergizeCT Health & Safety Revolving Loan Fund**

Description
This project approval authorizes the approval of a contingent commitment letter for grant funding through the EnergizeCT Health & Safety Revolving Loan Fund in the amount of $130,000 for vermiculite remediation of the Hamden Housing Authority's Mt. Carmel Congregate property as part of the property's physical rehabilitation using a grant from the Department of Housing's State-Sponsored Housing Program, energy incentives from United Illuminating and Connecticut Natural Gas, and Low Income Multifamily Energy (LIME) Loan financing.

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Memo

To: Deployment Committee

From: George Bellas (Vice President of Finance and Administration), Brian Farnen (General Counsel and CLO), Bryan Garcia (President and CEO), and Eric Shrago (Director of Operations)

CC: Mackey Dykes (Vice President of CI&I Programs and Officer), Ben Healey (Director of Clean Energy Finance), Dale Hedman (MD of Infrastructure Programs), Bert Hunter (Executive Vice President and CIO), and Kerry O'Neill (VP of Residential Programs)

Date: May 29, 2018

Re: Proposed Loan Loss Decision Framework and Process – Assets on the Green Bank Balance Sheet

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Summary

Since its inception on July 1, 2011, the Connecticut Green Bank (Green Bank) has invested its resources in 4,288 loans, leases and benefit assessments totaling $72,387,643 of assets (in addition to $355,149,764 of private capital) in the residential, commercial, industrial, institutional, and infrastructure sectors. These assets reside on the balance sheet of the Green Bank

The following is a breakdown of the assets on the Green Bank balance sheet:

- **Anaerobic Digester and Combined Heat and Power** – invested in 1 AD Loan totaling $1,997,403 of investment (in addition to $8,502,597 of private capital) – this investment is neither delinquent or in default. Invested in 6 CHP Loans totaling $502,860 of investment (in addition to $12,034,860 of private capital) – these investments are neither delinquent or in default;

- **C-PACE** – invested in 115 Benefit Assessments, totaling $36,347,568 of investment (in addition to $91,555,091 of private capital)[1] – of this investment 4[2] are delinquent totaling $14,797 (or less than 0.05% of the value of the portfolio) and 0 are in default;

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[1] Note, in addition to the Green Bank investment, there are 65 benefit assessments, totaling $59,363,333] of investment from third party financiers.

[2] One C-PACE Benefit Assessment is for a commercial lease and is counted in both. Duplicates are removed from the total.

- **LMI Solar PV Lease and Energy Efficiency ESA** – invested in 1,417 leases totaling $12,753,000 of investment (in addition to $25,998,288 of private capital and 945 ESA's totaling $2,268,000 of investment – of this investment 10 are delinquent totaling $1,535 (or 0.01% of the value of the portfolio) and 1 is in default totaling $15,340 (or 0.1% of the value of the portfolio).

- **Multifamily Loans** – invested in 65 Pre-Development and Term Loans totaling $5,458,952 of investment (in addition to $47,594,378 of private capital) – of this investment none are delinquent and none are in default[3];

- **Smart-E Loan** – supported 2,680 loans by third party lenders totaling $48,285,338 of investment credit enhanced through a Green Bank Second Loan Loss Reserve of $2,400,860 – of this investment 12 are delinquent totaling $204,595 (or 0.4% of the value of the portfolio) and 5[4] are in default totaling $83,698 (or 0.2% of the value of the portfolio; and

- **Special Projects** – invested in 4 special project Loans (e.g., Bridgeport Fuel Cell Park, Bridgeport District Heating, Colebrook Wind, and Meriden Hydropower) that are outside of existing programs totaling $12,927,000 of investment (in addition to $118,911,212 of private capital) – of this investment 2 are delinquent totaling $220,893 (or 1.7% of the value of the portfolio) and 0 are in default.

To date, there have been 6 defaults of the 4,288 transactions (0.001%) totaling $99,038 of $72,387,643 of Green Bank capital invested (0.001%) in assets on the Green Bank's balance sheet.

As the Green Bank continues to invest its resources with the expectation of getting its principal and interest back over time, there will inevitably be instances when restructuring transactions and/or loan losses will occur.

This memo focuses on the assets on the Green Bank's balance sheet and not that of its SPV's. A follow-up memo outlining the proposed loan loss decision framework and process for assets on the balance sheets of SPV's will be drafted for later consideration.

Governance

The bylaws of the Green Bank provide guidance in terms of managing transactions, and their potential restructuring or write-off. Specifically, the Deployment Committee of the Board of Directors, as outlined in Section 5.3.3 is responsible for:

- "(ii) with respect to loans, loan guarantees, loan loss reserves, credit enhancements… between three hundred thousand dollars ($300,000) and two million five hundred

[3] Note that this does not include predevelopment loans that are partially forgiven when term loans are closed.
[4] One of these losses was charged against the Green Bank's Loan Loss Reserve for $20,277 or 0.1% of the portfolio.

thousand dollars ($2,500,000), evaluation and approval of such requests on behalf of the Board so long as such approval is within the Green Bank's approved Operations and Program Budget,"

- "(iv) oversight of policies and practices relating to the evaluation and recommendation of initial investments, follow-on investments, *investment modifications and restructurings*, and the sale or other disposition of investments by the Authority's professional investment staff,"

- "(v) oversight of policies and practices relating to investment management by the Authority's professional investment staff, including implementation of investment exit strategies,"

- (vi) except to the extent of any investment powers expressly reserved to the Board itself in any resolution of the Board, to approve on behalf of the Board investments, follow-on investments, investment modifications and restructurings, and the sale or other disposition of investments," and

- (viii) the exercise of such authority as may from time to time be delegated by the Board to the Deployment Committee within its areas of cognizance.[5]

The bylaws of the Green Bank serve as the foundation to establishing a loan loss decision framework and subsequent process. Such a framework and process should be reviewed, revised (as appropriate), and approved by the Board of Directors of the Green Bank.

Accounting

On an annual basis the accounting team prepares a detailed analysis of portfolio loans by program. This analysis includes a historical analysis of prior year loan write-offs, if any, by program, repayment delinquencies and inquiries of program and finance staff as to current developments with borrowers that could affect future repayments.[6] Based upon these inquires the accounting team assigns a loan loss reserve percentage to the balance of loans for each program to arrive at a total loan loss reserve for the loan portfolio. Currently these percentages range from 5-20% based on the project, product, or program.

The annual loan loss reserve calculation is reviewed for reasonableness by the Green Bank's audit firm as part of the annual audit process.

[5] The Board of Directors may also delegate certain responsibilities to the President and the other officers of the Green Bank as they believe are desirable to permit the timely performance of the functions of the Green Bank and to carry out the policies of the Board – See Green Bank Bylaws Sections 2.5 (Delegation of Powers) and 3.2 (President). For example, on October 20, 2017, per the memo dated October 13, 2017, the Board of Directors delegated the power for officers to approve transactions up to $500,000 in value as long as they are consistent with the Comprehensive Plan and Budget.

[6] It should also be noted that the Comprehensive Annual Financial Review (CAFR) also includes a "high level" breakdown of delinquencies and defaults by financing product or program.

Here are a few examples for how loan losses are reserved for specific products and programs on the balance sheet of the Green Bank:

- **C-PACE** – through a benefit assessment on a property in a C-PACE participating community, capital providers finance clean energy projects on commercial, industrial, multifamily, and nonprofit buildings for measures consistent with the Comprehensive Energy Strategy. These assessments average $300,000, with interest rates up to 6.5 percent, and terms up to 25 years.

  Loan losses are reserved for C-PACE transactions by currently allocating 10% of the principal value outstanding of the C-PACE portfolio at the end of the fiscal year.

- **Project Finance** – there are transaction opportunities for clean energy investment in specific projects that the Green Bank provides a loan for, including fuel cells, wind, hydro, and anaerobic digesters to name a few.

  Loan losses are reserved for special projects by allocating a range of 5%-20% of the principal value outstanding of the various project loans at the end of the fiscal year.

- **Smart-E Loan** – through the Energize CT initiative with Eversource Energy and Avangrid, in collaboration with Connecticut's community banks, credit unions, and community development financial institutions, the Green Bank provides a second loan loss reserve of up to 7.5 percent of principal for residential loans in projects that support the Comprehensive Energy Strategy. These loans are up to $40,000 in principal, with interest rates not to exceed 6.99 percent, and terms of up to 20 years.

  Loan losses are reserved for the Smart-E Loan by setting aside 7.5% of the original principal value of the Smart-E Loan portfolio as restricted cash. Also, when 1.5% of losses are exceeded with the program partner lenders, then the Green Bank accesses the restricted cash to pay up to 7.5% of additional losses within their portfolio.

Over the last couple of years, the following is a breakdown of the loan losses reserved on the financial statements of the Green Bank – see Table 1.

Table 1. Overview of Loan Loss Reserves (FY 2015-FY 2017)

Fiscal Year	Loan Loss Reserves	Portfolio Value	%
2015	$3,645,000	$39,685,000	9.2
2016	$4,675,000	$32,321,000	14.5
2017	$5,612,000	$42,705,000	13.1

Other than the legacy Alpha/Op Demo loans, the Green Bank has not written off any portfolio loans to date on its balance sheet.

Loan Loss Decision Framework

In order to develop processes for determining how losses will be determined with regards to transactions on the Green Bank balance sheet, there are two (2) key components – value of the modification and the type of loss anticipated that help formulate the process.

In assessing the threshold of the value of the modification, the Green Bank staff identified the following options:

- **Principal Outstanding** – the type of loss anticipated should apply to only the amount of the principal outstanding of the transaction;
- **Original Principal Value** – the type of loss anticipated should apply to the original principal value of the transaction; or
- **Value of the Modification** – the type of loss anticipated should apply only to the proposed value of the modification of the transaction.

The Green Bank staff recommends that the value of the modification should apply to the principal outstanding of the transaction as opposed to the (i) value of the original principal, or (ii) value of the modification.

The Green Bank staff has identified three different types of losses anticipated, including:

- **Provisional Loss** – as determined by the Budget and Operations Committee and the Audit Compliance and Governance Committee through the annual budget and targets process and reported in the annual audited financial statements;
- **Restructuring** – a unique action or decision to modify the principal, interest, term, and/or other relevant component of a transaction; and/or
- **Write-Off** – a policy or procedural determination that an asset is impaired as a result of it being delinquent and subsequently in default where it is deemed that it is unlikely for a material recovery of the principal.

Each of these types of losses should be handled in a specific manner depending upon the value of the principal outstanding amount of the transaction – see Table 2.

Table 2. Loan Loss Decision Framework based on Principal Amount Outstanding vs. Type of Loss Anticipated

<table>
<tr><th rowspan="2">Type of Loss Anticipated</th><th colspan="3">Amount of Principal Outstanding</th></tr>
<tr><th><$500,000</th><th>$500,000 – $2,500,000</th><th>>$2,500,000</th></tr>
<tr><td>Provisional</td><td colspan="3">Staff (with review and reporting from the Auditor)</td></tr>
<tr><td>Restructuring</td><td rowspan="2">Staff</td><td rowspan="2">Deployment</td><td rowspan="2">Board of Directors</td></tr>
<tr><td>Write-Off</td></tr>
</table>

The proposed amount of principal outstanding value for Staff approval of provisional, restructuring, and write-offs is consistent with the existing Board of Directors delegated approval authority to close such transactions in the first place.

This the Staff proposed loan loss decision framework for consideration by the Deployment Committee and the Board of Directors.

Example Transaction Application to the Loan Loss Decision Framework

To apply the Loan Loss Decision Framework, here are a few example transactions.

Example Transaction #1 – Smart-E Loan

The first example transaction is a residential loan through the Smart-E Loan Program that is in default – see Table 3.

Table 3. Smart-E Loan – Write-Off

Program	Smart-E Loan
Original Principal	$34,000
Outstanding Principal	$25,000
Type of Loss Anticipated	Write-Off
Approving Authority	Staff

Since the amount of the principal outstanding is less than $500,000, then the Staff would be approving this type of loss. In this situation, with regards to the Smart-E Loan, as long as the partner lender has exceeded their 1.5% of losses within their loan portfolio and is seeking to access the 7.5% second loss from the Green Bank per our agreement, then the Staff can write-off the outstanding principal amount of the transaction by paying off the loss through the use of restricted cash in the loan loss reserve account set aside for the Smart-E Loan program.

Example Transaction #2 – C-PACE

The second example transaction is a C-PACE benefit assessment that requires restructuring – see Table 4.

Table 4. C-PACE – Restructure

Program	C-PACE
Original Principal	$1,250,000
Outstanding Principal	$1,100,000
Type of Loss Anticipated	Restructuring
Approving Authority	Deployment Committee

Given that all C-PACE transactions greater than $500,000 have to be reviewed and approved by either the Deployment Committee or the Board of Directors, the restructuring of this transaction would have to go to the Deployment Committee for review and approval.

Example Transaction #3 – Onsite Distributed Generation Grant by the Connecticut Clean Energy Fund

The third example transaction is a grant provided by the Green Bank predecessor, the Connecticut Clean Energy Fund. In this example, a project host has committed to onsite clean energy for a contractual period of time, however, it may seek to modify that preexisting agreement. There are no assets on the balance sheet from this transaction – see Table 5.

Table 5. Onsite Distributed Generation Grant Program – Restructuring

Program	Onsite DG Program
Original Principal	$1,000,000
Outstanding Principal	$300,000
Type of Loss Anticipated	Restructuring
Approving Authority	Staff

Since the project is not an asset on the balance sheet of the Green Bank, nor is the outstanding principal value $500,000 or more, the Staff can approve the restructuring of the contract. Had the principal value of the outstanding principal in the contract exceeded the Staff authority to restructure, the proposed revision would have had to have been approved by the Deployment Committee or the Board of Directors.

Example Transaction #4 – Fuel Cell Project

The fourth example transaction is a loan for a fuel cell project that is a write-off – see Table 6.

Table 6. Fuel Cell Project – Write-Off

Program	Fuel Cell
Original Principal	$5,000,000
Outstanding Principal	$2,750,000
Type of Loss Anticipated	Write-Off
Approving Authority	Board of Directors

Given that all projects greater than $2,500,000 have to be reviewed and approved the Board of Directors, the write-off of this transaction, whose principal balance outstanding is $2,750,000, this would have to go to the Board of Directors for review and approval.

Example Transaction #5 – Multifamily Predevelopment Loans

The fifth example transaction is a predevelopment loan for a multifamily project that is a restructuring or write-off – see Table 7.

Table 7. Multifamily Predevelopment Loan Project – Restructuring or Write-Off

Program	Multifamily
Original Principal	$50,000
Outstanding Principal	$50,000
Type of Loss Anticipated	Restructuring or Write-Off
Approving Authority	Staff

The Multifamily predevelopment programs lend funds to identify and build out project plans. The funds are typically not repaid until a term loan to cover the actual project is in place and the predevelopment loan is repaid with the proceeds of the term loan. On some occasions, the outstanding balance of the predevelopment loan is written off or restructured as the term loan is agreed to ensure that the economics of a project work by staff. Given the size of the loan, the restructuring and loan forgiveness is handled by staff.

Process for Applying Loan Loss Decision Framework

The following is a breakdown of the proposed processes for using the Loan Loss Decision Framework:

Process #1 – Provisional Transactions

On an annual basis the accounting team prepares a detailed analysis of portfolio loans by program. This analysis includes a historical analysis of prior year loan write-offs, if any, by program, repayment delinquencies and inquiries of program and finance staff as to current developments with borrowers that could affect future repayments.[7] Based upon these inquires the accounting team assigns a loan loss reserve percentage to the balance of loans for each program to arrive at a total loan loss reserve for the loan portfolio. Currently these percentages range from 5-20% based on the project, product, or program.

The annual loan loss reserve calculation is reviewed for reasonableness by the Green Bank's audit firm as part of the annual audit process.

Process #2 – Restructuring Transactions

A transaction undergoing a restructuring would undergo the following process:

1. **Restructuring Calculation** – staff requesting a change in a previously approved transaction, must calculate the following:

    a. **Original Investment** – show the cash flow of expected principal and interest payments over the term of the transaction, including the calculation of the net present value of the transaction;

    b. **Proposed Restructured Investment** – show the cash flow of expected principal and interest payments over the term of the transaction, including the calculation of the net present value of the transaction; and

    c. **Comparison** – compare the original to the restructured investment to document any changes in cash flow and net present value.

2. **Documentation** – staff requesting a change must document in a memo the reason for the proposed modification including a description of the project, the calculation showing the original and restructured investment and their comparisons, and preventative measures for avoiding such issues in the future.

3. **Review and Approval** – the documentation must be reviewed and approved by the appropriate authority, including:

    a. **Staff** – for principal balances less than $500,000, senior staff would review and approve and documented through the ARS process;

[7] It should also be noted that the Comprehensive Annual Financial Review (CAFR) also includes a "high level" breakdown of delinquencies and defaults by financing product or program.

   b. **Deployment Committee** – for principal balances greater or equal to $500,000 and less than $2,500,000, Deployment Committee would review and approve the transaction; or

   c. **Board of Directors** – for principal balances greater than $2,500,000, the Board of Directors would review and approve the transaction.

4. **Reporting** – if a transaction receives the approval from the appropriate authority to be restructured, then the details should be reported in a quarterly memo and made available on an ongoing basis to the Deployment Committee and the Board of Directors.

Process #3 – Write-Off Transactions

A transaction undergoing a write-off would undergo the following process:

1. **Write-Off Calculation** – staff requesting a write-off in a previously approved transaction, must calculate the following:[8]

   a. **Project Finance** – the amount of outstanding principal and lost interest revenue from the original transaction; and

   b. **Smart-E Loan** – the amount of first losses (i.e., up to 1.5% of their portfolio) incurred by the participating lender, and the amount of second loan loss reserves (i.e., up to 7.5% of their portfolio) available through the Green Bank.

2. **Documentation** – staff requesting a write-off must document the reason for the write-off including a description of the project, the calculation showing the value of the write-off, and preventative measures for avoiding such issues in the future.

3. **Review and Approval** – the documentation must be reviewed and approved by the appropriate authority, including:

   a. **Staff** – for principal balances less than $500,000, senior staff would review and approve and documented through the ARS process;

   b. **Deployment Committee** – for principal balances greater or equal to $500,000 and less than $2,500,000, Deployment Committee would review and approve the transaction; or

   c. **Board of Directors** – for principal balances greater than $2,500,000, the Board of Directors would review and approve the transaction.

4. **Reporting** – if a transaction receives the approval from the appropriate authority to be written off, then the details should be reported in a quarterly memo and made available on an ongoing basis to the Deployment Committee and the Board of Directors.

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[8] Note – for C-PACE transactions, given that principal and interest payments in arears are senior to the existing mortgage on a property, and future principal and interest payments are subject to the ongoing benefit assessment on a property that survives foreclosure, we didn't include C-PACE transactions as write-offs.

Summary

As the Green Bank continues to invest its resources with the expectation of getting its principal and interest back over time, there will inevitably be instances when restructuring transactions and/or loan losses will occur. The Bylaws of the Green Bank offer guidance, specifically through its Deployment Committee, in terms of managing transactions, and their potential restructuring or write-off. The Loan Loss Decision Framework, in combination with the proposed Process for applying the framework, will serve as the road map for managing assets that are being restructured or written-off on the Green Bank balance sheet.

Note, a follow-up memo outlining a second Loan Loss Decision Framework and Process for managing the restructuring or writing-off of assets on the balance sheets of Special Purpose Vehicles established by the Green Bank, will be proposed for later consideration.

Resolutions

WHEREAS, pursuant to Section 5.3.1 of the Connecticut Green Bank (Green Bank) Bylaws, the Audit, Compliance & Governance (ACG) Committee is charged with the review and approval of, and in its discretion recommendations to the Board regarding, all governance and administrative matters affecting the Green Bank, including but not limited to matters of corporate governance and corporate governance policies;

WHEREAS, on January 18, 2013, the Board of Directors authorized Green Bank staff to evaluate and approve funding requests less than $300,000 which are pursuant to an established formal approval process requiring the signature of a Green Bank officer, consistent with the Green Bank Comprehensive Plan, approved within Green Bank's fiscal budget and in an aggregate amount not to exceed $500,000 from the date of the last Deployment Committee meeting ("Staff Approval Policy for Projects Under $300,000");

WHEREAS, on July 18, 2014, the Green Bank Board of Directors approved of a recommendation brought forth by the Audit, Compliance, and Governance Committee and Deployment Committee to approve the authorization of Green Bank staff to evaluate and approve program funding requests less than $300,000 which are pursuant to an established formal approval process requiring the signature of a Green Bank officer, consistent with the Green Bank Comprehensive Plan, approved within Green Bank's fiscal budget and in an aggregate amount not to exceed $1,000,000 from the date of the last Deployment Committee meeting;

WHEREAS, on October 20, 2017, the Green Bank Board of Directors approved of a recommendation brought forth by the ACG Committee and Deployment Committee to approve the authorization to amend the Staff Approval Policy to increase program funding requests for Projects Under $300,000 to $500,000 with an aggregate amount limit of $1,000,000 from the date of the last Deployment Committee meeting; and

WHEREAS, the Staff of the Green Bank propose in a memorandum to the Deployment Committee on May 29, 2018, a Loan Loss Decision Framework and Process for managing assets requiring restructuring or write-off from the Green Bank's balance sheet.

NOW, therefore be it:

RESOLVED, that the Deployment Committee recommends that the Board approve of the Staff proposed Loan Loss Decision Framework and Process for managing assets requiring restructuring or write-off from the Green Bank's balance sheet; and

RESOLVED, that the Deployment Committee recommends to the Audit, Compliance and Governance Committee their review and consideration of the Staff proposed Loan Loss Decision Framework and Process for managing assets requiring restructuring or write-off from the Green Bank's balance sheet, and then the consideration by the Board of Directors of the Green Bank.