

MINUTES OF MEETING
STATE BOARD OF FINANCE

November 17, 2008

A meeting of the State Board of Finance of the State of Arkansas was held in the Conference Room, Office of the Treasurer of State, Suite 275, Victory Building, Little Rock, Arkansas, at 10:00 a.m., Monday, November 17, 2008, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

Richard Weiss, Director, Department of Finance
And Administration
Martha Shoffner, Treasurer of State
Candace Franks, Arkansas State Bank Commissioner
Jim Wood, Auditor of State
James Miller, representing Governor Mike Beebe

Others present were Michael Wickline, reporter for the Arkansas Democrat-Gazette; C. Sam Walls and Jay Wisener, of Arkansas Capital Corporation Group; Virgil L. Miller, Jr., representing Metropolitan National Bank; Lisa White, of the Auditor's Staff; and Karla Shepard, Wes Goodner, Autumn Sanson, Melissa Corrigan, and Patti Lah of the Treasurer's staff.

Richard Weiss served as acting Chairman in the absence of Governor Beebe and called the meeting to order with recognition of a quorum.

Minutes of the meeting of July 29, 2008, were approved as distributed.

The Chairman called upon Commissioner Franks for a summary of her findings in regard to current interest rates being paid by banks and lending institutions and for her recommendations concerning the reinvestment of the \$110,000,000.00 maturing on December 31, 2008. It was Ms. Franks' recommendation that the certificates of deposit be offered for

investment to Arkansas banks and savings and loan associations at the rate of 1.56% for a 182-day term. The motion was seconded by State Auditor Jim Wood and the motion was passed unanimously by the Board.

Chairman Weiss recognized Mr. Walls, of Arkansas Capital Corporation Group, to discuss the next item on the agenda, the consideration of Arkansas Capital Corporation Group's request to restructure their state line of credit. On November 12, 2008, Mr. Walls distributed a Memorandum to the Board members, in words and figures as follows:

To: State Board of Finance
From: Sam Walls, CEO
Date: July 24, 2008 (UPDATED 11/12/08)
RE: Refinance of State Notes

Arkansas Capital Corporation respectfully requests the following:

1. Refinance the following three state notes (Currently priced at the 2-year treasury):

	<u>Current Rate</u>	<u>New Rate</u>
• #157 - \$8,928,000	3.723%	1.25% (Primary Credit), adjust qtrly
• #158 - \$6,550,000	2.820%	1.25% (Primary Credit), adjust qtrly
• #159 - \$11,400,000	4.765%	1.25% (Primary Credit), adjust qtrly

2. Change the borrowing formula and rate associated with new state notes:

- Current – 10 year note tied to 6 month CD rate, adjusted every six months.
- Proposed – 10 year note tied to primary credit rate, adjusted quarterly.

3. Approve access to additional \$6,422,000 under state line of credit to be drawn as needed to facilitate increasing loan demand.

Historically, the State invested in ACC notes at the federal discount rate fixed for ten years. In 2003, the formula was changed to the 2-year treasury note, adjusted every two years. In 2005, the formula was again changed to the "Average six month CD rate as determined by the State Bank Commissioner", adjusted every six months. As a SBA lender, ACC prices its loans in relation to prime with lending rates adjusted quarterly. Due to the unprecedented drop in interest rates, a mismatch in the timing of the repricing of our loans and the state's invested dollars has occurred. The situation has resulted in ACC incurring an operational loss.

A recent examination by the Arkansas State Bank Department resulted in a favorable outcome. The exam concluded that ACC's earnings performance is hampered by an increasing cost of funds. In addition, it was noted that the mismatching of re-pricing assets (loans) and liabilities (state notes) coupled with SBA lending cost (which lowers risk to the state) has negatively impacted ACC's earnings and constrained our ability to manage the interest rate risk during the most recent falling rate environment. Our goal is to be equally matched with state borrowings and our clients' loans both repricing on a quarterly basis, thus minimizing interest rate risk exposure.

Thank you in advance for your consideration.

Prior to discussion, Chairman Weiss informed the Board that Arkansas Capital Corporation had removed from consideration item (3) of the distributed memorandum, the request for an additional \$6,422,000.00 line of credit, and that the Board would only be considering the refinancing of the three 10-year state loans and the change in the borrowing formula.

Treasurer Shoffner moved to accept refinancing as proposed, Commissioner Franks seconded the motion, and the motion was unanimously passed by the Board. The terms specifically are:

1. State Note #157: \$8,928,000 at the rate of 1.25% (Primary Credit), adjusted quarterly.
2. State Note #158: \$6,550,000 at the rate of 1.25% (Primary Credit), adjusted quarterly.
3. State Note #159: \$11,400,000 at the rate of 1.25% (Primary Credit), adjusted quarterly.

There being no further business, the Acting Chairman declared the meeting adjourned.

ATTEST:

Secretary of the State Board
of Finance of the State of Arkansas

Acting Chairman of the State Board
of Finance of the State of Arkansas

Secretary's Note: All documents pertaining to the issues considered are filed in the permanent records of the State Board of Finance.