

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

January 24, 2014

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. in the conference room of WESST Enterprise Center, 609 Broadway Boulevard, N.E., Albuquerque, New Mexico.

A quorum was present:

Members Present

Ms. Roxanna Meyers, Chair

Mr. Joseph H. Badal, Past Board Chair

Mr. Lupe Garcia

Mr. Steven E. Morgan, Secretary/Treasurer

Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer] [left at 11:00]

Ms. Launa Waller

Members Excused

Mr. Alan Fowler, Vice Chair

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

None.

Recording Secretary:

Ms. Judith Beatty

Guests Present:

None.

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Badal moved to accept the agenda, as presented. Ms. Waller seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF DECEMBER 9, 2013 BOARD MINUTES

Ms. Waller moved approval of the December 9 minutes, as submitted. Mr. Smith seconded the motion, which passed unanimously by voice vote.

NOVEMBER AND DECEMBER 2013 FINANCIAL REPORTS

Mr. Cummins reviewed highlights from the December financial statements. November financial statements were provided via email.

Responding to a request from Mr. Badal, Mr. Cummins said he will shop around to look for the best CD rates, keeping in mind that NMSBIC will need to find a bank that either has a CDARS program or will collateralize. He said he would also check the loan to deposit ratio of banks around the state.

Mr. Smith moved approval of the November and December financial reports, as presented. Mr. Badal seconded the motion, which passed unanimously by voice vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

- **Loan Reports**
- **Equity Partner Detail**
- **Take Away Report**
- **One-time report request, Accion maturities and lines of credit**

Accion

Mr. Cummins said Chair Meyers asked him at the last meeting to have Accion provide a list of contractual maturities out of the "prior agreement" loan balances totaling \$3,382,491. Mr. Cummins referred to a report showing contractual maturities. The weighted average maturity is 46.4 months.

In response to a request from the Chair at the last meeting, Mr. Cummins noted that Accion has lines of credit under the old agreement that could result in Accion drawing additional funds from NMSBIC under the prior agreement. He clarified that these are not revolving lines of credit. Accion's borrowers can draw one time, and an amortizing payment starts from the first draw.

The Loan Fund

Mr. Cummins reported that amended and restated loan documents with The Loan Fund have been executed. At the last meeting, the Board increased their maximum loan amount to \$10 million; removed the 70 percent limit on NMSBIC borrowing; allowing monthly capital calls; and changing staggered maturities to a single 10-year maturity, with a provision that either party can terminate the agreement with 90 days' written notice, with the outstanding balance repaid based on balances of collateralized loans.

WESST Corp

Mr. Cummins stated that, in follow up to last month's discussion, he spoke with Kim Blueher, who reported that WESST's loan demand was down significantly in 2013. Ms. Blueher indicated she plans to increase her marketing efforts, and plans to increase calling on banks throughout the state.

Flywheel Ventures

Mr. Cummins stated that Trevor Loy, Flywheel's managing partner, and Chris Traylor are scheduled to make a presentation at the February 17 Board meeting about Flywheel-1 NMSBIC and the New Mexico Gap Fund. He said they are interested in modifying the NM Gap Fund agreement with NMSBIC to allow them to start collecting management fees again, which would allow them to provide additional support, and add value, to NM Gap Fund companies.

Verge Funds

Mr. Cummins reported that he conveyed to Tom Stephenson the Board's request that the Verge II partnership agreement be modified to remove the ability to re-call capital. He said Verge considered the Board's request; and while they said they don't intend to re-call capital, they do not want to give up their right to do that.

Chair Meyers noted that, per the agreement, the NMSBIC will be required to hold the Verge II re-call capital in reserve through September 2022.

Mr. Morgan expressed concern that the NMSBIC might not have the \$300,000 in Verge II re-call capital should it in fact be called at some point. Mr. Cummins responded that this is a concern. If the NMSBIC has gains in excess of operating expenses ("net excess funds"), those gains have to be returned to the Severance Tax Permanent Fund, and the NMSBIC could find itself in a difficult position if it has little cash for operating expenses. However, so long as NMSBIC holds the committed funds in reserve, funds will be available to meet capital commitments.

MFA \$1.5 million Primero Fund line of credit

Mr. Cummins reported that MFA has agreed to the terms of the agreement and is in the process of having the loan documents signed and a corporate resolution approving the agreement adopted by its board.

Mr. Cummins said he asked Joseph Montoya how long it might take MFA to deploy the funds, and Mr. Montoya responded that they will be allocating their next round of tax credits in about three months, after which funding from NMSBIC could be deployed very quickly.

Meetings with SIC Staff

Mr. Cummins reported that he and Chair Meyers have had meetings with State Investment Officer Steve Moise and Director of Communications Charlie Wollmann. He and Chair Meyers also followed up in a phone call with Deputy Investment Officer Vince Smith. He commented that these discussions, regarding the possibility of having the SIC purchase all or part of the NMSBIC's existing equity investments, have been very helpful in understanding the SIC's perspective. Mr. Smith said acquiring those investments would simply be a journal entry on the SIC's books; however, it would also result in the SIC providing the NMSBIC with new funding. The SIC's return threshold is 7.5 percent for any new monies that are deployed. The NMSBIC's current return under its lending program is 2 percent. Mr. Cummins said he asked Mr. Smith if the SIC might consider a lower return with lower associated risk, given that the NMSBIC Board has taken steps to mitigate risks under its lending program. Mr. Smith indicated that he would be willing to assign an analyst to review the NMSBIC's investments in February.

Mr. Cummins stated that he and Chair Meyers are scheduled to make a presentation to the SIC on January 28.

**NEW MEXICO MEZZANINE PARTNERS (NMMP), PROPOSED MODIFICATIONS
INFORMATION ON POSSIBLE NEW NMMP FUND:
MIKE DOOLITTLE, NMMP MANAGEMENT PARTNER**

Mr. Cummins stated that the Board approved modifications to the NMMP limited partnership agreement to (i) extend the date for new investments to March 2014, and (ii) raise the ceiling of the maximum investment in any one portfolio company from the current level of 20 percent to 25 percent. These changes were not approved by one of the other NMMP limited partners, however, so the change did not take effect. It now appears the other limited partner is likely to approve the change, and NMMP is proposing that the NMSBIC Board approve the modification again, except to now extend the date for new investments to June 30, 2014.

Mr. Doolittle added that these amendments do not need to be approved in conjunction with one another. The first is about making an additional investment, and the second is to provide flexibility for the investment committee to potentially put additional capital into the portfolio.

Mr. Badal moved to extend the date for new investments to June 30, 2014. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

Addressing the second proposal, Mr. Doolittle said the General Partner proposes an amendment to the partnership agreement that would raise the ceiling of the maximum investment the Fund's Investment Committee could approve for any one portfolio company from the current level of 20 percent up to 25 percent of the partnership's aggregate commitments.

Mr. Doolittle said it has becoming increasingly difficult for small businesses to obtain the additional liquidity required to grow their businesses from more traditional sources such as commercial banks. While there are signs this is beginning to change, it will take a few more years for banks to provide the level of support that was available before 2008.

Mr. Doolittle said that, by increasing the ceiling for the maximum investment in any one portfolio company from 20 percent (\$1.25 million) up to 25 percent (\$1.5625 million) of the partnership's aggregate commitments, the Fund's Investment Committee will have the flexibility to provide additional support to companies already in the portfolio. Any investment in excess of 25 percent of the partnership's aggregate commitments would still require approval from the fund's limited partners representing 66.67 percent or more of the Fund's aggregate committed capital.

Mr. Badal said he would prefer that Mr. Cummins do some due diligence before the Board acts on the second proposal. Specifically, he would like to know what the additional incremental money would be used for.

Mr. Badal moved to table the second proposal to the February 17 Board meeting. Mr. Smith seconded the motion, which passed unanimously by voice vote.

Mr. Doolittle distributed a 2013 Year End Review summarizing the status of NMMP's portfolio companies. He said the current portfolio consists of three companies that NMMP Fund has made loans to in exchange for secured promissory notes. There have been successful exits with two companies. In the first company, \$800,000 was invested out of a \$1.2 million commitment before a successful exit; and in the second company, \$1.25 million was committed with money invested in the first tranche, but the company did not meet milestones for the second and third tranches. Principal and interest were paid in full at note maturity.

Mr. Doolittle discussed NMMP's proposal for a new entity similar in structure to the NMSBIC's other lending partners. He said one idea is for a group of partners to create an LLC that would borrow capital from the NMSBIC to deploy into small businesses in New Mexico, with a loan loss reserve as a safety net. There would be no management fees; rather, any amounts used to pay the partners would come out of an investment's positive cash flow on the back end.

Mr. Cummins commented that the NMSBIC's equity investment in NMMP is a hybrid investment, as NMMP is making loans rather than equity investments. Under the proposed LLC, the NMSBIC wouldn't be an equity partners, but would rather make a loan to the partnership and would earn an interest rate on the loan and potentially some back-end value as well.

Mr. Doolittle added that the equity partners of the proposed LLC would most likely be the existing NMMP investment committee members, and would not contribute significant capital. Mr. Cummins commented that if there was not significant equity invested or a significant loan loss reserve, the NMSBIC would be looking at potentially higher risk, but also a potentially higher return.

Mr. Doolittle said he was proposing to start the pilot program with \$500,000.

[Mr. Smith excused himself from the meeting.]

[Break.]

SHORT-TERM INVESTMENTS, CASH FLOW FORECAST

Mr. Cummins reviewed the cash flow forecast. Based on current projections, it appears to make sense to continue increasing the quarterly CD investments from \$1 million to \$1.5 million in March 2014 and June 2014. This would increase the CD ladder to a total of \$6 million by June 2014. He said he would make a recommendation at the February Board meeting regarding the CD investment for March.

ACCION REQUEST TO INCREASE PER LOAN LIMIT

Mr. Cummins stated that Accion has requested an increase in the NMSBIC per-loan limit from \$200,000 to \$225,000, which would be 75 percent of Accion's \$300,000 loan limit. This would allow Accion to participate loans to NMSBIC in accordance with the participation agreement, under which 75% of Accion's loan balances are participated to NMSBIC.

Mr. Cummins stated that he reviewed a sampling this week of Accion's larger loans made within the past year. He discussed these loans with the Board.

Mr. Garcia moved for approval. Mr. Badal seconded the motion, which passed unanimously by voice vote.

THE LOAN FUND (NMCDLF) REQUEST TO INCREASE PER LOAN LIMIT

Mr. Cummins stated that The Loan Fund has requested an increase in the NMSBIC per-loan limit from \$350,000 to \$500,000.

Mr. Cummins stated that he reviewed a sampling of loans in The Loan Fund portfolio, which he discussed with the Board.

Chair Meyers commented that the NMSBIC will be providing Accion and The Loan Fund with the ability to make loans that are larger than what they have traditionally made in the past. She expressed concern that the NMSBIC be able to reduce The Loan Fund and Accion per-loan limits if problems develop with larger loans.

Mr. Cummins responded that The Loan Fund does have a fair amount of experience with larger loans, whereas originating larger loans is relatively new for Accion. Mr. Badal added that Accion is requesting a much smaller increase to their per-loan limit. Mr. Cummins said he believes there are provisions in both agreements that would allow NMSBIC to renegotiate the per-loan limits if problems were to develop.

Mr. Badal moved for approval. Ms. Waller seconded the motion, which passed unanimously by voice vote.

**NMSBIC BOARD CONTINUING EDUCATION:
SMALL BUSINESS INVESTMENT ACT, NMSA 58-29-1 ET. SEQ.**

[Deferred to February meeting.]

CHAIRMAN'S COMMENTS

None.

DISCUSSION

Board members discussed the need for diversifying its lending portfolio with additional lending partners while continuing to help The Loan Fund and Accion grow.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 11:55 a.m.



Roxanna Meyers, Chairman and President

By Alan R. Foster, Vice Chairman

2/17/14

Date