

**MINUTES OF THE**  
**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**February 22, 2019**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. in the Grand Conference Room of Innovate ABQ, 101 Broadway Blvd. NE, Albuquerque, New Mexico. A quorum was present.

**Members Present**

Mr. Joseph H. Badal, Chair  
The Hon. Tim Eichenberg, New Mexico State Treasurer  
Mr. Guadalupe Garcia  
Mr. Steven E. Morgan

**Members Excused**

Mr. Alan Fowler, Secretary/Treasurer  
Ms. Roxanna Meyers, Vice Chair

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel:**

Mr. Randy McDonald

**Recording Secretary**

Ms. Charmaine Clair, for Judith Beatty

**Guests Present:**

Mr. Robert De Pasquale, Pulakos CPAs  
Ms. Johanna Nelson, The New Mexico Credit Enhancement Program

**REVIEW AND ACCEPTANCE OF AGENDA**

**Mr. Morgan moved acceptance of the agenda as presented. The motion was seconded by Mr. Garcia and passed unanimously.**

## **REVIEW AND ACCEPTANCE OF DECEMBER 10, 2018 BOARD MINUTES**

**Mr. Morgan moved acceptance of the December 10, 2018 minutes as presented. The motion was seconded by Mr. Garcia and passed unanimously.**

## **IRS FORM 990: ROBERT DE PASQUALE, TAX PARTNER, PULAKOS CPAS**

Mr. De Pasquale reviewed the Form 990, noting that there were no changes to the form.

Board members made recommendations for changes to the document, which Mr. De Pasquale agreed to incorporate.

Mr. De Pasquale agreed to add language on page 8 providing additional clarification that, as Mr. Cummins is an independent contractor, the organization does not provide health insurance, pay gross receipts tax, provide a retirement plan, or pay employment taxes on his behalf, nor does it match any amounts.

**Mr. Garcia moved to approve Form 990 with the changes on page 8 from \$152,160 to \$150,720; adding language on Schedule J regarding Mr. Cummins' compensation and checking the box on Schedule J, page 1, question #3. The motion was seconded by Mr. Eichenberg and passed unanimously.**

## **NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT, COLLATERAL ENHANCEMENT PROGRAM: JOHANNA NELSON, FINANCE DEVELOPMENT SPECIALIST**

Mr. Cummins introduced Ms. Nelson to the board. He said Ms. Nelson was present to discuss a relatively new program through the New Mexico Economic Development Department (NMEDD) and possible areas where the NMSBIC and NMEDD might work together through the Collateral Enhancement Program (CEP).

Ms. Nelson stated that the CEP came from the New Mexico Finance Authority's Collateral Support Program, which used money from the SSBCI fund, a federal program that existed for five years under the Obama Administration. New Mexico received \$13.1 million from that program, which was to get capital out to underserved markets. The NMEDD gave the \$13.1 million to NMFA, which created the Collateral Support Program, which was a loan participation program. It was moderately successful, although most of the loans were made in urban areas in traditional industries. Once the program ended, NMEDD turned it into a new collateral support program with the intention of targeting particular industries, certain demographics, etc.

Ms. Nelson said NMEDD will purchase a CD in a lending institution to collateralize a commercial loan where the borrower has insufficient collateral to support the loan. They will participate up to \$250,000, or 50 percent of the loan principal. In 2018, they did six deals and



purchased about \$400,000 in CDs paired with \$1.5 million in private investment, predominantly in rural areas. They have partnered with The Loan Fund, WESST, and some smaller independent community banks.

Ms. Nelson commented that they are rather short-staffed, so their challenge is in marketing the program and getting the word out to lenders and getting them excited about the program. Fourteen lenders are currently enrolled in the program. She said this could be a good tool for the CDFIs, including The Loan Fund and WESST, to help securitize those deals they are making, particularly in rural areas. She noted that the program is not limited by industry.

Mr. Cummins commented that he was extremely pleased to hear that the program was available to CDFIs, as this is helpful for the NMSBIC.

Responding to Chairman Badal, Ms. Nelson stated that CEP still has access to \$8 million. There is about \$3 million in cash, with \$5 million coming back over the next few years. She said the CEP does not lend money to borrowers; rather, it acquires a CD at the bank and pledges the CD as collateral for the borrower which the bank can access if the borrower defaults. She said the agreement with the lender states that the lender will make their best effort to recover loan losses from collateral first. Although the agreement allows the CEP to charge a fee, it has not taken any fees at this point. NMEDD receives interest on the CD.

Ms. Nelson stated that NMEDD will decide after evaluating the impact of the CEP this year whether to request additional funding from the state.

Responding to Mr. Garcia, Ms. Nelson said CEP reviews the credit and financials the lending partner provides and then does an analysis and makes recommendations. They have no set parameters, however, in order to maintain flexibility. The state looks at this as high-risk capital.

Mr. Morgan noted that USDA will do loan guarantees up to 80 percent many times. He asked if CEP would pick up the remainder in the \$250,000 range. Ms. Nelson responded that they haven't done that, but would consider it.

Mr. Cummins asked Ms. Nelson if there are criteria they use when approached for support in terms of collateral, type of borrower, and so forth. Ms. Nelson responded yes, and that they try to stay true to the original mission with more deals in rural and low-income minority demographics and Section 8a socially disadvantaged groups. Those qualifiers could see maximum participation at \$250,000 or a 50 percent match. She said there was one deal in Albuquerque in 2018.

Ms. Nelson said NMEDD has also considered collateral support for New Mexico loans in connection with RCAC, a CDFI based outside of New Mexico.

[Ms. Nelson left the meeting.]

Regarding Ms. Nelson's comment about working with a CDFI based outside of New Mexico, Mr. McDonald stated that, although the NMSBIC makes loans to New Mexico businesses through cooperative agreements with entities that have experience in providing those types of services, he would consult statute to see if cooperative agreement partners have to be based in New Mexico.

### **FINANCIAL REPORTS AS OF NOVEMBER 30, 2018, DECEMBER 31, 2018, AND JANUARY 31, 2019**

Mr. Cummins reviewed the financial reports.

-- In January, the NMSBIC received \$3.4 million from the Severance Tax Permanent Fund.

-- Total funds available for investment are \$9.9 million as of January 31.

Chairman Badal stated that, in talking with legislators during the current session, he stressed the importance of looking ahead two years in order to anticipate the NMSBIC's future funding needs. Given that it has been funding Accion and The Loan Fund for several years, we should consider having funds available for their future funding needs. Looking ahead, there are not a lot of excess funds the NMSBIC can use, beyond funding growth for The Loan Fund and Accion. Because of the NMSBIC's limited funds, it has not been able to encourage other relationships beyond existing relationships with CDFIs, and the Mortgage Finance Authority. Additional funding for the NMSBIC would allow us to lend to other counterparties, or expand the lending program more aggressively.

**Mr. Eichenberg moved to approve the November 30, December 31, and January 31 financial reports, as presented. Mr. Morgan seconded the motion, which passed unanimously.**

### **EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT**

#### **Accion**

-- A request from Accion for a proposed \$2 million increase in their maximum funding amount was tabled at previous board meetings, based on questions about fast growth in their loan balances combined with an increase in company charge-offs. Based on a detailed review of the loan portfolio with Accion, it is recommended that the NMSBIC continue to monitor the charge-off rate before considering any increase. Accion has indicated they have tightened their underwriting criteria, but it will take time before results of that are seen in the charge-off rate.

Mr. Cummins said he met with Accion's Chief Financial Officer Ray Ziler this month, and also discussed Accion's ability to deploy NMSBIC funds. Mr. Ziler indicated that most of Accion's loan



growth will be outside of New Mexico, but they expect continued demand for New Mexico loans. Accion's average loan size in New Mexico is about \$13,000.

Mr. Cummins said Accion would like NMSBIC to consider making an equity investment through an LLC investment. Mr. Cummins responded that making equity investments was not the NMSBIC's current focus, and not having specific loans tied to the NMSBIC funding could be an issue in documenting the NMSBIC's funds are used only for New Mexico businesses.

Mr. Garcia noted the limited number of lending partners the NMSBIC has, with The Loan Fund and Accion being the most active, and said it was important that the NMSBIC be as flexible as legally permissible in order to keep these two organizations active and productive in the interest of the state.

Mr. Cummins said Accion expects to deploy about \$2 million in New Mexico the next 12 months. He noted that the NMSBIC currently has \$7.75 million committed to Accion, which is in the form of 75 percent participation in loans, with Accion owning the other 25 percent. If those loans are performing well and Accion's institutional risk is acceptable, the NMSBIC might consider increasing the 75 percent participation, to a higher loan participation rate.

#### Severance Tax Permanent Fund Activity

-- The severance tax permanent fund (STPF) ending balance as of 6/30/18 was \$5.2 billion, which was up from the previous fiscal year end balance of \$4.9 billion, a positive change of \$349 million. The NMSBIC's one percent share of the increase was \$3,495,000, which the NMSBIC received in January. Regarding future funding from the STPF, the State Investment Council's monthly investment holdings report reflects deterioration in the STPF market value so far in the current fiscal year. If the deterioration continues through the end of the current fiscal year, , the NMSBIC would not see a contribution from the STPF in the fiscal year ending 6/30/19.

#### Take Away Report

Regarding Chairman Badal's request that he follow up with the New Mexico Bankers Association to see if there has been any loosening up by the federal government in lending standards on the part of banks, Mr. Cummins said he has connected with Jerry Walker and will be meeting with him.

Mr. Cummins stated that he has discussed with Mr. Walker whether there are opportunities with the New Mexico Bankers Association to increase awareness of CDFIs and loan referrals from the banks to the CDFIs. Mr. Cummins recommended that the NMSBIC become an associate member of the Independent Community Bankers. Membership is \$500 a year and would allow him to attend meetings throughout the year while increasing awareness of loan referral options.

Chairman Badal said he would provide written approval for Mr. Cummins to join the organization and pay the membership fee, an action that would be ratified at a future meeting of the board.

### **LEGISLATIVE UPDATE, SENATE BILL 10**

Mr. Cummins reported on progress with Senate Bill 10, which proposes an increase in the NMSBIC's funding from 1 percent to 2 percent of the Severance Tax Permanent Fund, which would result in about \$50 million in additional funding for the NMSBIC.

Mr. Cummins stated that the bill received a unanimous Do Pass recommendation from the Senate Corporations and Transportation Committee on February 15, where he made a brief presentation. Representatives from The Loan Fund were present, along with two borrowers, who provided additional support.

Mr. Cummins said he attended yesterday's Senate Finance Committee meeting. Also present were George Kenefic from The Loan Fund and Holly Bradshaw Eakes, who both spoke. The committee unanimously recommended a Do Pass.

Mr. Cummins said the next step is a Senate vote. If the bill passes, it would go through one or more House committee meetings that would lead up to a House vote.

Chairman Badal commented that the NMSBIC has "tweaked" a program that may be the only economic development program in New Mexico that is actually making money, is self sufficient, and has created a responsible constructive approach to making loans to businesses that would otherwise never be able to get financing. He said he was impressed by Governor Lujan Grisham's strong support and desire to make it an even more robust program.

### **NMSBIC BRIEFING PAPER**


Chairman Badal said he had asked Mr. Cummins to create a briefing paper for any incoming board members.

### **CHAIRMAN'S COMMENTS**

None.

**ADJOURNMENT**

Its business completed, the NMSBIC Board adjourned the meeting at 11:45 a.m.

  
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Joe Badal, Chairman

  
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Date