

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.
REGULAR MEETING

May 24, 2013

A regular 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 the WESST Enterprise Center, 609 Broadway Blvd., N.E., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Joseph H. Badal, Chair
Mr. Sam Cobb [by telephone]
Mr. Alan Fowler, Secretary/Treasurer
Mr. Lupe Garcia
Ms. Roxanna Meyers, Vice Chair
Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer]
Ms. Launa Waller [by telephone]

Members Excused:

None

Financial Adviser to Board:

Mr. Russell Cummins

Legal Counsel to Board:

Mr. Randall McDonald

Guests Present:

Mr. John Chavez, New Mexico Angels
Mr. J. T. Michelson, New Mexico Angels
Ms. Holly Eakes, Finance New Mexico
Mr. Tom Eakes, Finance New Mexico
Mr. Felipe Rael, Mortgage Finance Authority

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Smith moved approval of the agenda, as presented. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF BOARD MINUTES: February 18, 2013

Mr. Smith stated that the minutes incorrectly reflect that he was not present, but he did join the proceedings at approximately 9:30 a.m.

Mr. Garcia moved for approval of the February 18 Board minutes, as amended. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

FEBRUARY THROUGH APRIL 2013 FINANCIAL REPORTS

Mr. Cummins reviewed the February, March and April financials.

-- In April, interest income from The Loan Fund was \$11,569 versus a budget of \$15,987, which was largely due to the reduction in interest rate from 2.5% to 2% approved by the Board in October. In addition, their loan balance has dropped by about \$41,000 in the current fiscal year. While The Loan Fund has good loan demand and is generating new loans, they have had payoffs that are exceeding the new NMSBIC loans.

-- Interest income from Accion for the month of April was \$7,033 versus budget of \$5,273, which was due to an increase in their outstanding NMSBIC loan balance. Accion is experiencing good loan demand. Their loan balance at April 30 was \$2.85 million (net of reserves for loan losses), an increase of \$645,000 for the fiscal year.

Chairman Badal thanked Ms. Meyers for making a presentation to Accion in March about client service and winning over customers.

Ms. Meyers moved approval of the February, March and April financials. Mr. Smith seconded the motion, which passed unanimously by voice vote.

JOHN CHAVEZ, PRESIDENT, NM ANGELS, SIDECAR INVESTMENT PRESENTATION

Mr. Chavez introduced New Mexico Angels Board Chairman J. T. Michelson, who discussed the role of the New Mexico Angels, which has 70 members and 10 corporate sponsors. He said their goals include finding New Mexico companies in which to invest and providing educational opportunities for investors and entrepreneurs.

Mr. Chavez presented slides and said the New Mexico Angels is proposing that the NMSBIC participate in a sidecar fund investment with the Angels by investing \$200,000. The Angels would commit \$100,000, for a total fund size of \$300,000.

-- There would be no management fee because the fund would not be actively managed, and there would be automatic triggers that would invest money into deals that have been screened and vetted by NM Angel investors.

-- They see about 300 investment opportunities a year, not all of them from New Mexico. Their four-member executive committee (which includes him and Mr. Michelson) reviews about 45 of these opportunities and presents a final 16 to their screening committee. Eight to 10 presentations are made, and three to four ultimately receive funding.

-- Investment period of the sidecar fund would be from July 1, 2013 to September 1, 2014.

-- If four current members of the Angels invest at least \$75,000 into company X, it would trigger a sidecar investment of at least 60 percent of their investment, or up to \$45,000. There would be a one-time fee of 1.5 percent to set up the investment fund.

-- Capital not deployed by September 1, 2014, would be returned to the investors.

Responding to Chairman Badal, Mr. Chavez said there would be six possible investments in this fund, each capped at \$45,000, only in New Mexico companies. He said the sidecar fund, NMSBIC and the NM Angels would be invested in each of the six funds.

Mr. Cobb said he wanted to hear further discussion about the due diligence aspect of these deals in terms of the NMSBIC's responsibilities to the state. He said he found it problematic that the NMSBIC would be obligated to invest in a deal that only 4 out of 70 people see as an investment opportunity.

Mr. Chavez responded that some of the 70 members are only interested in biotech, while others are focused on the Internet and others only want businesses that have cash flow. He said the individual screening process allows the current investors to use their own money as part of the due diligence and screening process.

Mr. Cobb commented that this deal appeared to be similar to the venture capital deals that the NMSBIC got into early on and for which it was criticized. In addition, there may be other angel investor groups around the state with similar proposals that the NMSBIC should consider if the Board decides to get back into this type of equity investing.

Mr. Chavez also presented information about the New Mexico Startup Factory, LLC, which was created in 2012 by the New Mexico Angels to help take university technologies from idea to reality. This holding company is designed to "take options from their technology partners, start companies, wrap some people around them, wrap some financing, and move them into the funding process."

Chairman Badal suggested that the Board discuss this proposal in depth at its October meeting, preferably when all Board members are present.

BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2014

Mr. Cummins reviewed the highlights of the budget.

-- "Interest Income New Loans" has been added as a new line item under Revenues, the assumption being that there would be one or more new cooperative agreement partners during the year.

-- Interest income from Accion is budgeted at \$89,000. Under discussion in this meeting would be to cap Accion interest losses at no more than the annual interest income.

Mr. Fowler moved to accept the budget, as presented. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

- **Loan Reports**
- **Equity Partner Detail**
- **Take Away Report**
- **Review of Equity Fund Management Fees**
- **Review of Loan Delinquency, NMCDLF (The Loan Fund)**

Loan Reports

Mr. Cummins stated that, in follow up to a request made by The Loan Fund that the NMSBIC remove two loan covenants (5% cash reserve and 5% over-collateralization requirement), he reviewed an analysis of The Loan Fund's delinquency rate over time. Although The Loan Fund's level of delinquent loans rose to 13.11% as of September 30, 2012, that has since declined to 8.08% as of May 3, 2013; and without two matured loans that make up over half the delinquency rate, the rate would be 3.53%.

Chairman Badal and Ms. Meyers asked Mr. Cummins to provide additional detail on the matured delinquent loans still remaining in the portfolio that may be renewed based on updated financial statements.

Review of Equity Fund Management Fees

Mr. Cummins reviewed a list of NMSBIC's share of management fees for each fund in 2012, and projected fees in 2013. He stressed that the 2013 fees are estimates only.

Mr. Cummins stated that, in the course of calculating all of the 2012 management fees, he asked several fund managers for additional information. One fund manager subsequently informed him that they had discovered an error in their own calculations. That fund submitted a check to NMSBIC for \$44,000, including 3% interest.

Chairman Badal asked Mr. Cummins to provide estimated projections of management fees for 2014 at the October Board meeting.

Equity Partner Detail

Flywheel Ventures

-- New Mexico Gap Fund had its first liquidity event and distributed \$64,657 in March. The overall fund, including investments, management fees and expenses, had a life-to-date IRR of -3.8% at September 2012.

Mesa NMGF I closed

-- Partnership cash, the only remaining asset, was distributed to the Limited Partners in March. NMSBIC received a distribution of \$2,842.

Mesa NMGF II

-- Mesa NMGF II completed the sale of the Deming building and land on March 29, 2013, for \$215,000. NMGF II will carry a two-year note for \$175,000. NMSBIC's share of the loss on sale was approximately \$139,000. An additional loss for transaction costs related to the building sale was recorded in April, of which NMSBIC's share was \$24,422.

-- NMGF II sold other equipment related to the chile processing operation in Deming for \$350,000. A gain on sale of approximately \$77,000 is anticipated, of which NMSBIC's share is approximately \$33,800. The fund is still working out payment terms with the buyer.

As reported at the last Board meeting, NMGF II has advised NMSBIC that the fund will not make any additional capital calls for investments or management fees. Mr. Cummins said that Mr. McDonald previously suggested that the partnership agreement be modified to reflect this. Mesa Partner Les Matthews feels that the existing partnership agreement gives the GP the ability to make such changes with modifying the partnership agreement. McDonald noted that, although Mesa is past the time for drawing money for new investments, according to the partnership agreement, they can still draw money for follow-on investments and management fees. The General Partner has indicated that they have no intention of doing that, and the advisory committee has approved that. He said that doesn't quite prohibit it; but on the other hand, amending the partnership agreement will cost the NMSBIC more money. He said he would send NMGFII a letter confirming the NMSBIC's understanding that Mesa will not draw any more money for new or follow-in investments or management fees going forward.

New Mexico Community Capital

-- NMCC is still working to obtain equity commitments for their proposed Royalty Fund.

New Mexico Mezzanine Partners

-- NMMP had until March 1, 2013, to make additional loan commitments under the modified agreement. They were able to make loan commitments that exceeded \$1,490,000, and therefore will continue to earn the full management fee of \$250,000 for the year.

-- NMMP has been doing short-term senior secured financing at a slightly lower interest rate, and feels there is a lot of opportunity for this in later-stage venture capital companies. Mike Doolittle plans to make a request at the August NMSBIC meeting for an additional extension of the date for NMMP to make new investments through 2015, and is also proposing that funds received from maturing loans be recycled into new loans. Instead of returning interest income to NMSBIC, the money would be used to cover management fees.

Potential New Partners

Homewise

-- Homewise would like NMSBIC to provide them with a \$2 million, secured, revolving line of credit. Given that the proposed loan proceeds would be used to make loans to individual homeowners, they were advised that the NMSBIC's legislation doesn't allow NMSBIC funds to be used for loans to individuals.

Native Community Finance – preliminary discussions

Mr. Cummins said that, in reviewing New Mexico-based Community Development Finance Institutions that lend to small businesses, he contacted and met with Native Community Finance Director Marvin Ginn, whose office is located on Laguna Pueblo. NCF makes loans to Native Americans throughout New Mexico. NCF has a small business loan program, residential construction loan program, and residential second mortgage program.

Mr. Cummins said Mr. Ginn would like to expand his portfolio of small business loans, and would like to obtain a \$100,000 revolving line of credit from NMSBIC. Mr. Ginn believes that loan terms similar to those in place with The Loan Fund would be acceptable to NCF.

Legislative Update

Mr. Cummins reviewed a legislative activity from the 2013 session.

Chairman Badal stated that House Bill 240, which did not pass, would have created a \$100 million Small Business Development Fund that would participate in New Mexico bank loans. He has asked Mr. Cummins to set up a follow-up meeting with Rep. Egolf and Sen. Wirth, who sponsored the bill, to further educate them on the role the NMSBIC might play in addressing their concerns.

Imprint Capital

Mr. Cummins met with James Ruggiero of Imprint Capital, and Kara Carlisle of the W.K. Kellogg Foundation. The Kellogg Foundation has set aside \$100 million that they plan on investing in New Mexico, Mississippi and Michigan in businesses that will help stimulate economic development. Imprint Capital will be the advisor for the fund. Mr. Cummins said they might be interested in partnering with NMSBIC in future investment opportunities.

NEW MEXICO MORTGAGE FINANCE AUTHORITY PROPOSED LOAN

Mr. Cummins referred to a discussion term sheet and introduced Felipe Rael, MFA Director of Housing Development, who was present to respond to questions.

Mr. Cummins reviewed a list of questions that were posed by the Board at the last meeting, and MFA's responses.

Mr. Cummins stated that Deputy Director Joseph Montoya had initially indicated that they would like the NMSBIC to charge them a 2% interest rate, matching a loan rate they have with Wells Fargo. At the last meeting, Mr. Montoya indicated that Wells Fargo was charging a 4% interest rate, and Board members said they felt the NMSBIC should get the same rate. Mr. Cummins said it was later clarified that Wells is charging MFA 2%.

Mr. Cummins said the intent of this loan proposal would be to provide funding for interim financing through MFA's Primero Loan Fund program. MFA has permanent financing for multifamily projects, but sees a gap with interim sources of funding.

Responding to the Board, Mr. Rael said MFA is requesting a 10-year term so they can redeploy the money numerous times. Mr. Cummins added that Mr. Montoya had indicated a 5-year loan would probably not allow them to turn the loan more than once.

Responding to Mr. Cobb, Mr. Rael said MFA is seeing a demand for multifamily construction period financing, and MFA does not have ample funding sources. In addition, federal and state funds have dramatically decreased. For the last couple of years, they have received \$3 million in their Housing Trust Fund, and this has been decreased to \$200,000. Similarly, their HUD funds have been reduced by 53% over the last 3 years.

Mr. Cobb asked if MFA would be willing to use some of the NMSBIC's commitment as a set-aside for the rural areas of the state.

Mr. Rael responded that MFA would like the most flexibility possible. Under the Primero program, the parameters are to fund transactions that banks won't accept. He said they probably wouldn't be able to compete with a Bank of Albuquerque or a Wells Fargo for construction financing in the Albuquerque area. He said a \$2 million construction loan MFA did this year was in Las Vegas, because MFA had better terms to offer than the local bank was offering.

Mr. Rael said he would hesitate to restrict the NMSBIC loan solely to rural transactions because it could limit opportunity. He said that doesn't mean MFA couldn't have a preference for it, however.

Chairman Badal asked where MFA's loans have been placed in the past, and Mr. Rael responded that the loans have been over the balance of the state for the past 5 years. He said the City of Albuquerque has their own Workforce Housing Trust Fund and other substantial resources to put into projects located in Albuquerque.

Mr. Rael said MFA could exclude Albuquerque from the NMSBIC proposal if that were the preference of the Board. Chairman Badal said perhaps there could be a "strong preference" for "non-Albuquerque" and Mr. Rael said that would be acceptable.

Mr. Cobb noted that part of the NMSBIC's enabling legislation is to try to use these funds in rural communities. He said all areas of the state are struggling with affordable housing needs, and the metropolitan areas have a greater inventory than the other parts of the state.

Chairman Badal said interest rates will inevitably rise over the next 10 years, and locking in a 2% interest rate for that period of time is therefore a concern. He said it would be preferable to tie the 2% interest rate to a 5-year period and then review the loan facility based on performance.

Mr. Cobb agreed with the idea of a 5-year loan, renewable for 5 years, but tied to an investment rate trigger instead of a commercial rate trigger.

Ms. Meyers indicated she would also like to be able to review the overall performance at 5 years.

Chairman Badal suggested that Mr. Cummins and Mr. Rael meet and discuss a fair solution. He stressed that the Board does not want terms that would prevent MFA from lending the NMSBIC funds..

Mr. Smith moved to approve a 5-year \$1.5 million facility, plus a 5 year extension. subject to Mr. Cummins and Mr. Rael being able to successfully negotiate an agreement. Mr. Cobb seconded the motion.

Ms. Meyers said she would abstain based on her role as an Albuquerque City Councilor and potential conflicts of interest.

Mr. Cobb disclosed that, as Mayor of Hobbs, he could be signing off on development agreements where these funds could be part of the overall financial structure.

A friendly amendment was added that the discussion include Mr. Cobb's point about trying to focus on around-the-state projects if at all possible.

The motion passed by voice vote, with Ms. Meyers in abstention.

[Ms. Waller signed off from the proceedings.]

HOLLY BRADSHAW EAKES, FINANCE NEW MEXICO & NM MUNICIPALITIES

Ms. Eakes stated that Finance New Mexico (FNM) feels that businesses in outlying areas are not tapping into resources enough, and don't know about resources in nearby areas. To identify and reach these businesses, FNM has partnered with the Municipal League (105 cities represented). Over the past six months, FNM has put together packets that every municipality can give to its registering and re-registering businesses.

Ms. Eakes distributed a flyer that can be inserted into utility bills or any correspondence that a city has with its established business owners. For new businesses, a "Let's Grow It" packet is compiled with a letter from the mayor, the FNM flyer, information about steps to take in setting up a business and develop a business plan, and a "Here to Help" customized piece with information about business lenders such as WESST and Accion.

Ms. Eakes commented that the goal is to get this information out "door to door across the state."

Board members offered suggestions to Ms. Eakes on ways that FNM could reach other businesses that might be overlooked.

Mr. Cobb said Hobbs uses these packets and finds them extremely helpful. He said he thought they were a great idea.

ACCION, PROPOSED MODIFICATION TO PARTICIPATION AGREEMENT

Mr. Cummins referred to a discussion term sheet based on Accion's proposal that the existing loan participation agreement with NMSBIC be modified as follows: 1) the amount of loan losses that NMSBIC would incur in any fiscal year would be no greater than the amount of interest earned by NMSBIC during the same fiscal year; and 2) maximum available funding from NMSBIC would increase to \$5 million from \$3.5 million.

Mr. Cummins said Accion indicated that these two proposed modifications are separate and stand on their own.

Based on the financials provided, Chairman Badal asked the Board to comment on whether it is responsible for the Board to lend money out to an entity from which it would get no return at all based on 3 out of the 5 past years, and with a return of 1.77% this year. In effect, the NMSBIC would be making a grant.

Mr. Cummins noted that part of the Board discussion at the last meeting was the desire to get away from the risk of loan losses that are bigger than what the NMSBIC is earning in interest each year. He said that was the idea behind the revolving line of credit discussed at the last meeting, where there would be an interest rate of zero for a period of time, was to provide Accion with an incentive to switch over to an agreement that would limit NMSBIC's loan losses.

Mr. Cobb said the Board should decide if microlending is an integral part of a state's economic development, which is part of the enabling legislation creating the NMSBIC; if so, then it is certainly a role that the NMSBIC should be involved in, and that can be quantified in order to minimize losses. He said he believes Accion is an effective micro-lender in New Mexico.

Chairman Badal suggested that the NMSBIC continue to lend money to Accion at 3%. They can offset losses against the 3% but in no case can it go below 2%. Another alternative is to set the interest rate at 2% and that the NMSBIC not take any losses against the 2%.

Responding to a question, Mr. Cummins noted that since 2004, the NMSBIC has earned \$795,000 in interest on Accion participations, and losses have been \$1.19 million, for a net loss of \$394,000.

Mr. Garcia stated that the NMSBIC needs to "tweak itself" into a financial organization that follows good lending and recovery practices and shows responsibility to the taxpayers.

Mr. McDonald said it was important to keep in mind that this money has been recycled into new loans multiple times.

Mr. Cummins said Accion has \$3,097,000 outstanding at April 30.

Mr. Fowler moved that the NMSBIC increase Accion's facility to \$4 million, drop the interest rate to 2% on the \$4 million, with returns no less than 1% for 6 months, and then it would revert to 2% thereafter. Mr. Garcia seconded the motion.

Chairman Badal proposed an amendment to charge 1% for the first six months and then increase it to 2% thereafter, and that there would be no losses.

Ms. Meyers noted that this would increase their line by \$500,000.

The amendment was accepted as friendly.

The motion, as amended, passed unanimously by voice vote.

NMCDLF (THE LOAN FUND) PROPOSED MODIFICATION TO LOAN AGREEMENT

[Deferred to August meeting.]

CONTRACT RENEWALS:

Professional Services Contract: Executive Director/Investment Advisor

[Mr. Cummins stepped out of the room during the discussion and vote on this item.]

Proposed changes:

- Change term from 1 year to 3 years (proposed by Chairman Badal)
- Increase compensation approximately 1.5% per year (proposed by Russ Cummins)
- Increase notice of termination by either party from 60 to 90 days (proposed by Chairman Badal)

Ms. Meyers moved for approval, with the proposed changes. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

Professional Services Contract: Legal

Proposed changes:

- One-year renewal

Professional Services Contract: Board Minutes

Proposed changes:

- One-year renewal
- Increase rate to \$46 from \$45 per hour

Mr. Cobb moved approval of the contracts, with the proposed changes, for legal services and board minutes. Ms. Meyers seconded the motion, which passed unanimously by voice vote.

SHORT TERM INVESTMENTS, US BANK CHANGE TO FHLB LETTER OF CREDIT

Mr. Cummins stated that US Bank has contacted him and indicated that they are planning to phase out pledged collateral and secure deposits in excess of FDIC insurance limits with a Federal Home Loan Bank letter of credit. He said the FHLB letter of credit is AAA rated.

Mr. Cummins said that Linda Montoya Roseborough, chief investment officer at the State Treasurer's Office, indicated to him that she prefers FHLB letters of credit to specific collateral because they are easier to manage.

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

INVESTMENT POLICY, FEDERAL HOME LOAN BANK (FHLB) LETTER OF CREDIT

Mr. Cummins recommended that the NMSBIC Investment Policy be amended to allow letters of credit issued by a federal home loan bank as security for NMSBIC deposits. He referred to the redline changes.

Mr. Cobb moved that the NMSBIC Investment Policy be amended to allow NMSBIC deposits to be 100% secured by a letter of credit from a federal home loan bank. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

SHORT TERM INVESTMENTS, CLOSE MONEY MARKET ACCOUNT AT NMB&T

SHORT TERM INVESTMENTS, ADD 1 YEAR CD INVESTMENT

Mr. Cummins recommended that the NMSBIC close its money market account at New Mexico Bank & Trust, where it is earning 10 basis points, and move it to First National Bank of Santa Fe, where the rate is 26 basis points.

Mr. Cummins asked the Board to authorize withdrawing \$1 million from the NMSBIC money market account at First National Bank of Santa Fe, where it is earning 26 basis points, and add another rung to the CD ladder so there are investments maturing every quarter for the next 12 months. He said the anticipated rate on the \$1 million would be 50 basis points.

Ms. Meyers moved for approval of both recommendations. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

INSURANCE RENEWAL, DIRECTOR & OFFICERS POLICY

Mr. McDonald said the NMSBIC's D&O insurance policy expires on June 23, and he recommended renewing it. He said last year's policy premium was \$2,700.

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

COMMUNITY OUTREACH & BOARD MEETING, ESPANOLA, AUGUST 22-23, 2013

Mr. Cummins said The Loan Fund, Accion and WESST, as well as Northern NM Community College's Small Business Development office, are very interested in participating, and he is in the process of contacting other organizations.

Mr. Cummins said the August 22 community outreach meeting would take place at approximately 5:30 p.m., and the Board would hold its meeting the following morning.

Board members discussed venues and agreed on the Santa Claran Hotel.

Board members discussed what results the community outreach meetings may be producing, what efforts are being made by the NMSBIC's partnering organizations to follow up, and how that might be reported to the NMSBIC.

CHAIRMAN'S COMMENTS

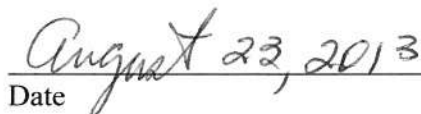
Chairman Badal thanked the Board for its continued efforts on behalf of the NMSBIC and the taxpayers. He said the NMSBIC has made some very positive changes.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 1:15 p.m.



Joseph Badal, Chairman and President



Date