

**MINUTES OF THE**  
**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**  
**SPECIAL ONLINE/CALL-IN MEETING**

**July 31, 2020**

A special meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. via teleconference. A quorum was established.

**Members Present**

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

**Members Excused**

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. Tom Stephenson, Managing Partner, Verge Management  
Mr. Mike Loftin, Chief Executive Officer, Homewise  
Ms. Johanna Gilligan, Director of Community Development, Homewise

**REVIEW AND ACCEPTANCE OF AGENDA**

**Mr. Fowler moved acceptance of the agenda, as published. Mr. Garcia seconded the motion, which passed unanimously.**

**PROPOSED CHANGES TO HOMEWISE LINE OF CREDIT:**

**MIKE LOFTIN, CHIEF EXECUTIVE OFFICER**

**JOHANNA GILLIGAN, DIRECTOR OF COMMUNITY DEVELOPMENT**

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Mr. Cummins stated that there are two proposed modifications to NMSBIC's agreement with Homewise.

1. To allow Homewise to originate loans up to \$1 million. The current agreement maximum is \$375,000, and Homewise inquiries and applications for loans are larger than originally anticipated.
2. NMSBIC is requesting Borrower to accept a modification to the Note to require a pro rata amount of any principal payments received by Borrower from its clients be paid to NMSBIC.

Mr. Cummins stated that the NMSBIC has agreements with Ventana Fund and Homewise that allows for a new type of loan for either construction or mini perm for multifamily and commercial real estate. For those types of loans, where there is no take-out, the NMSBIC's financing is limited to 50 percent of the value of the property. He pointed out that the wording in the NMSBIC's standard loan agreement states that if the balance of the lending partner's loan to the borrower drops below the NMSBIC's loan balance, then they need to remit principal payments to NMSBIC. What is different about the agreements with Ventana Fund and Homewise is that if, for example, Homewise lent \$800,000 to a borrower for a property valued at \$1 million, the NMSBIC's loan to Homewise would be \$500,000, or half the value of the property. Technically, Homewise wouldn't be required to remit any principal payments to NMSBIC until their loan balance to its borrower dropped below \$500,000.

Mr. Cummins stated that he has discussed options with Ventana Fund and Homewise. One option is to leave this alone, which would be an interest-only note with no principal payments required to the NMSBIC unless the lending partner's loan balance to its client drops below the NMSBIC loan balance. Another option is to modify the loan agreements to require a pro rata amount of principal payments to be passed through to the NMSBIC. Both Homewise and Ventana Fund have pointed out that doing a pro rata calculation with every report would present an administrative burden in maintaining their loan portfolio.

Mr. Cummins said there is minimal loan level risk with the Homewise and Ventana Fund agreements, but there is organizational risk. A lending partner could theoretically go out of business, in which case the NMSBIC might take back the loans and possibly the properties securing the loans. To further reduce risk, the NMSBIC is starting out with a loan balance that is only half the value of the property.

Mr. Cummins said that Homewise suggested as a compromise that they not pass through any regular principal payments, which would be relatively small in the early years, but if they received any extra principal payments, they would pass a pro rata amount of that to the NMSBIC.

Chairman Badal pointed out that an interest-only note would be difficult to justify given that the NMSBIC's other lending partners are making principal payments. He also expressed

concern about setting a precedent. He said he would like to see some kind of pro rata sharing of the principal payments, which wouldn't have to be made necessarily on a monthly or even quarterly basis, but would keep the NMSBIC pari passu with its lending partner's loan balance.

Mr. Cummins suggested an annual truing-up of the principal reductions instead of at every reporting cycle. Mr. Loftin said that would be better than monthly, since it would involve less administrative work.

**Mr. Fowler moved to approve a change to the loan policy for Homewise to pay annually the pro rata share of principal received from any one borrower, unless there is a curtailment of 10% or more of the unpaid principal balance at the time of the curtailment, in which case the NMSBIC would receive their pro rata share of principal within 30 days of the additional curtailment. Mr. Garcia seconded the motion.**

Mr. Cummins noted that the NMSBIC is currently on a quarterly reporting and remittance cycle with Homewise, and asked if it would make more sense to keep principal curtailments as part of the quarterly reporting rather than monthly.

**Mr. Fowler and Mr. Garcia accepted this as an amendment to the motion.**

**The motion, as amended, passed by roll call vote, with Mr. Morgan, Mr. Garcia, Mr. Fowler and Chairman Badal voting in favor and Mr. Eichenberg voting against the motion.**

**Mr. Fowler moved to allow Homewise increasing their loans that use NMSBIC funds from \$375,000 to \$1 million to individual borrowers. Mr. Garcia seconded the motion, which passed unanimously by roll call vote, with Mr. Garcia, Mr. Morgan, Mr. Fowler, Mr. Eichenberg and Chairman Badal voting in favor.**

**VERGE FUNDS, PROPOSED PURCHASE OF OTHER LIMITED PARTNERS' OWNERSHIP INTERESTS AT A DISCOUNTED PRICE: TOM STEPHENSON, MEMBER, VERGE MGMT**

Mr. Cummins stated that, at the last meeting, the board approved the consolidation of the five Verge funds into one fund; that the new fund be extended to 12/31/25; and that capital calls to pay expenses be payable in three installments spaced approximately 18 months apart.

Mr. Cummins said Mr. Stephenson also proposed that the NMSBIC offer to purchase interests of smaller Verge limited partners at a deep discount. While this isn't required for the consolidation of the five funds, Mr. Stephenson feels it would help to facilitate the consolidation to provide liquidity for smaller investors interested in selling part or all of their interests. The amount of investments held by smaller investors might amount to a total of \$4+ million of Net Asset Value (NAV). At a deep discount of, for example, 25 cents on the dollar, it would be a commitment of roughly \$1 million to buy out all of the small investors.

Mr. Cummins also stated that, if the NMSBIC were to purchase a full \$1 million of additional interests as part of the consolidation, there would be an additional capital call of up to \$223,616 in three 18-month installments. The \$1 million would be paid in 2020 along with the first of the three installments for the additional capital commitment, and two more installments for the additional capital commitments paid after that in 18 month increments.

Mr. Cummins said the board's strategy is to focus on its lending program, and he wanted to highlight the fact that this would be an exception to that strategy.

Mr. Cummins reviewed NMSBIC investment policy requirements on pages 10-15 of the board book.

Mr. Cummins stated that Mr. McDonald indicated the NMSBIC needs to make sure any additional investment from the NMSBIC would not result in the NMSBIC owning more than 49 percent of any one company. Mr. Cummins said he discussed this with Mr. Stephenson, and Mr. Stephenson indicated the NMSBIC would not own more than 49 percent of any one company, even if the NMSBIC were to purchase all of the smaller LP interests. Mr. Cummins said he recommends the NMSBIC require the General Partner of the combined fund to certify to that effect, and that this be part of a side letter. Mr. McDonald agreed that the use of a side letter for this issue would be appropriate.

Mr. Cummins stated that, while none of the large investors are interested in selling, one or more of them could change their mind. If a larger investor decided to sell their interests, it might crowd out funding available for smaller investors. He reviewed this with Mr. Stephenson, and after reviewing the Verge investor reports, there appeared to be a logical break between larger and smaller investors at about \$150,000 in NAV. Mr. Stephenson agreed a cap on purchase from any one investor of \$150,000 makes sense. He also agreed that it makes sense to exclude the General Partner as seller, but recommended that members of Verge Management with personal investments in Verge funds not be excluded.

Mr. Cummins said Mr. Stephenson feels it is important to open up the ability to purchase to all Limited Partners. Mr. Cummins commented that, if an LP expresses an interest in purchasing a substantial amount, he would like the NMSBIC to have the ability to scale back its commitment to not less than \$500,000 to make room for one or more investors.

Mr. Cummins proposed that the NMSBIC, as purchaser, pay up to \$7,500 in legal fees to Verge's counsel for document preparation, but any amount in excess of that be paid by the sellers.

Mr. Cummins stated that the fair market value as of March 31 does not reflect the COVID-19 environment, and recommended that a proposed purchase be based on the June 30, 2020 NAV. Mr. Stephenson previously obtained a price indication of 35 percent (40% less a commission of 5%) of NAV for the sale of all of the Verge portfolio companies in the secondary market. Mr. Cummins said that given the proposed purchase would be for smaller interests, it

appears a lower purchase price would be appropriate, and that 25 percent of the NAV as of June 30, 2020, would appear to be a reasonable price for smaller Verge LP interests.

Mr. Morgan asked if there would be an impact on jobs if the NMSBIC were to do nothing in this case. Mr. Cummins said this is an important consideration. He said the consolidation of the Verge funds that was already approved by the NMSBIC board would provide additional time for the companies to grow, and hopefully add jobs. Mr. Stephenson has indicated that Verge plans to move forward with the consolidation and extension of time period regardless of a decision about purchasing smaller investor interests. While the purchase of smaller investor interest may not necessarily affect jobs, Mr. Stephenson feels that it would be a good thing to provide an opportunity for smaller investors to get out as part of this consolidation, and would provide support for a successful consolidation of the funds.

Mr. Eichenberg questioned whether the NMSBIC would be creating a bidding war for the smaller investors. Chairman Badal said Mr. Eichenberg has raised a good point. He said he would like Mr. Cummins to make it very clear to Mr. Stephenson that the NMSBIC may very well step back if there is a bidding war.

Mr. Cummins recommended the following motion, and that approval would be an exception to the NMSBIC's strategy.

**The NMSBIC board of directors approve: (1) an offer to purchase up to \$1 million in ownership interests from Verge Limited Partners (LPs) at an offer price of 25% of the Net Asset Values (NAVs) of the Verge Funds as of June 30, 2020 (i.e., \$4 million in NAV times 25% offer price would equal \$1 million in the maximum amount committed to purchase), and (2) to pay up to \$223,616 in additional capital commitment for purchased interests related to the consolidation of the Verge funds, subject to the following:**

- **Verge Management to provide certification stating that additional interests purchased by the NMSBIC will not result in the NMSBIC's investment being greater than 49% of the equity in any one portfolio company.**
- **The maximum amount to be purchased from any one Verge LP shall not be greater than \$150,000 in NAV (i.e., \$150,000 in NAV times 25% purchase price equals a \$37,500 maximum purchase price for any one Verge LP).**
- **The General Partner in each Verge fund is excluded as a seller to the NMSBIC, provided that individual investments in the Verge funds made by members of Verge Management are not excluded as sellers to the NMSBIC.**
- **Joseph Badal and Russell Cummins are authorized to reduce the amount of the NMSBIC's \$1 million purchase commitment, in the event there are other LPs interested in participating as purchasers, provided the NMSBIC's commitment will not be reduced to less than \$500,000.**
- **The NMSBIC agrees to pay up to \$7,500 plus New Mexico Gross Receipts tax (NMGRT) to Verge Management's legal counsel for preparation of a purchase and sale agreement, provided that (1) any amount greater than \$7,500 plus NMGRT**

will be paid by sellers, (2) if there are additional purchasers, the \$7,500 plus NMGRT will be allocated pro rata among the purchasers, and (3) purchasers and sellers will each pay their own legal costs.

Mr. Fowler so moved. Mr. Garcia seconded the motion, which passed unanimously on the following roll call vote: Mr. Garcia; Mr. Morgan; Mr. Eichenberg; Mr. Fowler; Chairman Badal.

**ADJOURNMENT**

The meeting adjourned at 10:25 a.m.

  
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Joseph Badal, Chairman

August 26, 2020

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Date