

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

August 28, 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

Guest Present

Ms. Holly Bradshaw Eakes, Holly Company Strategies/Finance New Mexico

REVIEW AND ACCEPTANCE OF AGENDA

The agenda was accepted by consensus of the board, as presented.

BOARD MINUTES FOR JUNE 26, 2020 AND JULY 31, 2020

Mr. Morgan moved acceptance of the minutes of June 26 and July 31, 2020, as submitted. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote.

FINANCE NEW MEXICO ANNUAL REPORT: HOLLY BRADSHAW EAKES, OWNER, HOLLY COMPANY STRATEGIES

Ms. Bradshaw Eakes presented highlights from her annual report.

- The personalized assistance intake form on the website has been used extensively during the COVID-19 public health emergency. The number of inquiries has also increased. In 2019, FNM averaged 14 inquiries per month, which jumped to 51 in March. The monthly average is now at 26.
- The project continues to adapt to changes occurring during the pandemic. At the onset of COVID-19 restrictions in March, April and May, article release ceased. Although the article release resumed in June, few are being picked up and published in newspapers because of less publication space (fewer pages) and staff layoffs.
- In 2019, the project compensated for decreased article publication by increasing social media marketing and reducing the number of articles. This has been a good change because FNM is able to feature the partners more often.
- FNM changed the name of the newsletter in 2020 after discovering that the name, “Funding Flash,” was triggering spam filters and the newsletter was ending up in spam folders.
- The website is updated twice weekly because of quickly changing resources.

Looking forward, Ms. Bradshaw Eakes said she believes FNM should continue the articles, but at a reduced rate and on a monthly basis. She commented that the partners really love the articles and like to share them on social media. In terms of the articles, she feels there is room for growth. Right now, the NM Municipal League is publishing the articles on a monthly basis, and perhaps FNM can do outreach to associations; for instance, FNM could do an article for The Loan Fund about a restaurant they assisted, that could be sent to the Restaurant Association.

Ms. Bradshaw Eakes suggested that FNM experiment by producing a very short video for social media distribution. Another idea is to add a news section to the website with information about partners’ new products or milestones reached. This could be added to the website in a blog-style format where the newsletter and social media could link.

Ms. Bradshaw Eakes commented that metrics are changing, and she sees FNM doubling down on many things it has been doing, including increasing the number of subscribers from 2,500 and being more active on social media.

Mr. Cummins stated that he and Ms. Bradshaw Eakes discussed transitioning away from the newspaper articles and doing some of the interviews of business success stories via short videos. These would be regular short blasts on social media platforms such as Facebook as part of an effort to increase exposure on social media to offset declining exposure through newspapers. He suggested that these videos could be done on a trial basis this year to see how successful they are.

Chairman Badal suggested that FNM join social media groups that have a network of members, as this would provide an additional forum for spreading the word. Ms. Bradshaw Eakes said she would look into that, although some groups limit membership to individuals.

Ms. Bradshaw Eakes said the NMSBIC has recently entered into agreements with new lending partners (LiftFund, Nusenda and Homewise) that would fit the FNM project, and asked if there is any interest in including them in the project. Mr. Cummins responded that he thought it would be a good fit to add those three lending partners to the Finance New Mexico scope of work. He said revisited the idea of having lending partners pay part of the sponsorship cost. He discussed this with Mr. McDonald recently, and they feel if done under the FNM name, the NMSBIC should not be asking its lending partners to participate in the cost. He cited a 2007 letter from the Attorney General indicating that such an arrangement could be perceived as “pay to play.”

Mr. Cummins recommended adding three partners – LiftFund, Nusenda and Homewise -- to the scope of work at an increase of \$15,000 per year. The current contract with FNM is \$17,500, plus gross receipts tax, and an increase of \$15,000 would be a total contract of \$32,500 plus gross receipts tax. He said he would not recommend adding Ventana Fund to the scope of work at this time, given they have a different target audience.

Mr. Eichenberg said he likes the fact that NMSBIC is adding three additional partners, as this is important. He expressed concern about the idea of scaling anything back given what is happening with the pandemic, unemployment in New Mexico, and the effect on small businesses. He said there should be a “full court press” approach by taking advantage of every opportunity to talk about what the NMSBIC can do for small business, and thought Ms. Bradshaw Eakes should be doing even more, if possible.

Mr. Garcia asked if the \$5,000 sponsorship fee per partner is equitable to the cost for the current partners, and if they will receive the same amount of treatment and support for the same cost.

Mr. Cummins responded that his proposal is that the NMSBIC treat its new lending partners the same as its older lending partners. He pointed out that the New Mexico Mortgage Finance Authority, however, do specialized lending and are not a w not be a good fit for Finance New Mexico. He said he would like to have a discussion with Ventana Fund about a possible suitable scope of work, but it would have to be somewhat different because their target market is different from the NMSBIC’s small business lending partners.

Responding to Chairman Badal, Ms. Bradshaw Eakes said she could get information on the website about the three new partners within 30 days.

FINANCE NEW MEXICO CONTRACT RENEWAL

Mr. Eichenberg moved to approve the contract renewal from \$17,500, plus gross receipts tax, with an increase to \$32,500, plus gross receipts tax. Mr. Fowler seconded the motion.

Chairman Badal suggested that Ms. Bradshaw Eakes report back to the board in six months. He said the board might want to consider additional support at that time based on results.

Mr. Morgan said he would abstain from the vote because he and Ms. Bradshaw Eakes had worked on a project that he had some involvement in.

The motion passed by roll call vote, with Mr. Morgan abstaining.

FINANCIAL REPORTS (PRELIMINARY) AS OF JUNE 30 AND JULY 31, 2020

Mr. Cummins presented highlights:

- The Loan Fund: loan demand is good, and they continue to increase their loan portfolio. In the past two months, they have had a net increase of \$1.3 million, with \$647,000 in COVID-19 loans.
- Ventana Fund: Over the past two months, they have drawn nearly \$500,000 and have reached their maximum funding amount of \$5.5 million.
- Income statements: NMSBIC is ahead of budget on interest income by \$3,000 in the first month of the fiscal year.
- Operating expenses are higher than budgeted because of a difference in timing of payments for the external audit.
- A calculation of available funds, including agreements that are in process, shows \$12 million in available funds. With the anticipated \$30 million coming from DreamSpring in the next few months, available funding could rise to about \$40 million.

Mr. Fowler moved approval of the financial reports of June 30 and July 31, 2020, as presented. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Mr. Cummins presented highlights from this report:

- The NMSIC has a total of \$81 million committed to its lending partners, which includes \$3.2 million for the equity partners. About \$66 million has been disbursed. Including agreements in process, \$12 million is available.
- The financial statement comparisons are now updated for all of NMSBIC's lending partners. Mr. Cummins does not anticipate any issues coming up in the first several

months for any business that has experienced a problem related to the COVID-19 crisis because the lending partners have deferred payments on loans for several months for those businesses. As a result, NMSBIC might not see delinquencies in the portfolios for at least that long.

Responding to Chairman Badal on whether there has been any recent indication from WESST Executive Director Kim Blueher that she wants to expand their program, Mr. Cummins stated that Ms. Blueher expressed interest earlier this year, but in March said she asked to defer any further discussion due to the COVID-19 crisis. He added that WESST has about \$1 million in SBA microloans separate from the NMSBIC portfolio, and Ms. Blueher has been very busy working with their borrowers. He added that the NMSBIC's participation agreement with WESST is under the old program, where there is no limit on losses that are passed through to NMSBIC. While WESST's loan losses have been very small, if NMSBIC were to expand the program, it would probably want to modify the agreement and put a cap on loan losses, to match terms with other NMSBIC lending partners.

- As of July 31, DreamSpring had closed and funded \$29.95 million in PPP loans, with SBA PPP ETran approvals in process for the remaining \$51,500. DreamSpring CFO Ray Ziler informed Mr. Cummins that the SBA's plans to pre-purchase PPP loans never materialized. While current plans for PPP loan forgiveness are included in discussions about the net stimulus package, those discussions are currently stalled in the U.S. Congress. One of the things being discussed is that any PPP loan with a balance of \$150,000 or less would be automatically forgiven. Assuming that the discussion moves forward and is approved, that would be favorable for DreamSpring, which has an average loan balance of \$30,000. For budget purposes, Mr. Cummins assumed the NMSBIC would be repaid most of the \$30 million in PPP funding by October 2020.
- Mr. Ziler told Mr. Cummins that DreamSpring recently had an audit by the New Mexico Financial Institutions Division, and based on a finding in the audit, DreamSpring learned that there is a New Mexico statute that states any loans of \$5,000 or less may not be charged any kind of loan fee, and DreamSpring has stopped making \$5,000 loans for the time being.

Mr. Fowler asked if the statute includes any consumer loans overseen by financial institutions. Mr. Cummins said he would look into this, and inform other lending partners in the event they are not aware of the statute.

- DreamSpring is actively originating loans for the New Mexico Small Business Recovery Fund administered by the New Mexico Finance Authority. Their NMSBIC new loan volume has slowed, with most of their new loan activity going into the Recovery Fund.
- LiftFund closed seven loans totaling \$147,600 in the second quarter, and have utilized 5 percent of the \$3 million commitment from the NMSBIC.

- Following the NMSBIC board's approval of Verge Management's plan to consolidate the five Verge funds into one fund, and the July 31 approval by the board to purchase up to \$1 million of interests from smaller Verge investors, Verge is finalizing calculations of the NAVs this week. Once that is completed, they will move forward with the consolidation and possible purchase/sale of smaller investor interests.

In reviewing the status of assets held by New Mexico Community Capital (NMCC), which is in a winding-up period, Mr. Cummins agreed to set up a conference call with Mr. McDonald and Michael Schafer of NMCC to discuss a legal question regarding an outstanding account receivable for which the NMSBIC's share is about \$474,000.

NEW MEXICO GAP FUND I, UPDATE ON PURCHASE OF CONVERTIBLE NOTES

Mr. Cummins stated that the board approved a purchase in April 2020 of the other partners' interests for a total price of \$37,902.21, so that the NMSBIC would own and have control over 100 percent of the convertible notes. There is no change to that, but New Mexico Gap Fund's legal counsel has recommended the NMSBIC purchase the entire amount of the notes at 25 percent of the net asset value at a price of \$498,713.25, and then for New Mexico Gap Fund to make a distribution to all partners, with the NMSBIC's distribution being \$460,811.04. The net price between those two transactions would be the \$37,902.21 as approved by the NMSBIC board.

Mr. Cummins commented that, while the substance of the transaction is the same as what the board approved, in discussing this with Mr. McDonald, they felt the details were important and wanted to bring these to the board's attention.

Mr. McDonald said he was fine with the structure proposed by New Mexico Gap Fund's legal counsel. He said it makes sense because the NMSBIC is essentially a third party buying the entire note at a discount, including its share of the note.

Mr. Fowler moved to accept the new structure for the NMSBIC to purchase the convertible notes in their entirety at 25% of the net asset value and then for NM Gap Fund I to make a distribution to the limited partners, including the NMSBIC. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

BOARD CONTINUING EDUCATION

Mr. Cummins said the board package includes the BBER (Bureau of Business Economic Research) report and the Federal Reserve Report on New Mexico. He commented that the economic snapshot from the BBER report captures the first quarter's worth of COVID-19 and both reports contain interesting information.

CHAIRMAN'S COMMENTS

Chairman Badal commented that it is always a pleasure and an honor working with everyone.

ADJOURNMENT

The meeting adjourned at 10:20 a.m.



Joseph Badal, Chairman

10/26/20

Date