MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

REGULAR MEETING

August 23, 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 Council Room of the Santa Claran Hotel, Española, New Mexico.

A quorum was present:

Members Present
Mr. Joseph H. Badal, Chair
Mr. Alan Fowler, Secretary/Treasurer
Mr. Lupe Garcia
Mr. Steven E. Morgan
Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer]
Ms. Launa Waller

Members Excused
Ms. Roxanna Meyers, Vice Chair

Financial Adviser to Board
Mr. Russell Cummins

Guests Present
Mr. Mike Doolittle, NM Mezzanine Partners
Mr. Joe Justice, NMCDLF (The Loan Fund)
Ms. Norma Valdez, NMCDLF (The Loan Fund)

OPENING REMARKS – CHAIRMAN JOSEPH BADAL

Chairman Badal commented that last night's community meeting was well attended and that the presentations were informative and helpful. He thanked Mr. Garcia for his efforts in arranging for the space, and Mr. Cummins for his assistance.

Chairman Badal and members of the Board welcomed Steve Morgan to the Board.

REVIEW AND ACCEPTANCE OF AGENDA

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

REVIEW AND ACCEPTANCE OF BOARD MINUTES

Mr. Fowler moved for approval of the May 24, 2013, minutes, as submitted. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

MAY THROUGH JULY, 2013 FINANCIAL REPORTS

Mr. Cummins reviewed the highlights of the July 31 preliminary monthly financial report.

-- As of May, there had been an approximate $800,000 drop in the SBIC's balance with The Loan Fund, which was related to loans that paid off. In some instances, The Loan Fund experienced several payoffs where borrowers were able to obtain financing from traditional banks.

-- The equity numbers and net assets are still preliminary in the July 31 financials because SBIC does not yet have financial statements from the equity partners. Once these numbers come in (by the end of August), SBIC will be able to complete its audited financials.

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

NMCDLF (THE LOAN FUND) PROPOSED MODIFICATION TO LOAN AGREEMENT: NORMA VALDEZ, DIRECTOR OF LENDING; JOE JUSTICE, COMMUNITY DEVELOPMENT OFFICER

Mr. Cummins recommended that the Board approve a change to the SBIC's agreement with The Loan Fund to eliminate the 5 percent over-collateralization, and to reduce the cash reserve account from 5 percent to $1,000. He recommended that the 10 percent cash requirement be left in place.

Mr. Fowler so moved. Mr. Smith seconded the motion.

Mr. Smith asked for information about the impact of the change. Mr. Cummins reviewed The Loan Fund's pro forma financial statement provided. He indicated there would be an extra $700k in estimated loan funds available to The Loan Fund, and had this been in place for the full year last year, instead of $65,000 in earnings, The Loan Fund would have probably had $119,000 earnings because of the extra interest margin.

Mr. Badal asked if the 10% cash requirement is 10% of The Loan Fund's total balance sheet.

Mr. Cummins responded it is a requirement that The Loan Fund maintain unrestricted cash equal to 10% or more of their outstanding SBIC loans, and there was no change being recommended to this covenant.

Mr. Badal asked why The Loan Fund's cash balance so much larger than the 10%, and why The Loan Fund is holding $4 million plus in cash.

Ms. Valdez responded that the cash balances are in part from monies held for SBIC, and part is held for other reasons. She said The Loan Fund has funding from USDA, SBA and other investors. Ms. Valdez said the cash has gone up, but The Loan Fund has about $1.5 million in the pipeline, and they expect to close $1 million September and October.

Mr. Badal said his question is apropos this discussion about the loan covenants, but it's also from a planning standpoint. The SBIC Board has talked about raising the facility with The Loan Fund, but it appears they have an over-abundance of cash, and maybe that discussion about raising the facility should be put off. We're getting to the point where we don't have a lot of cash to deploy, and one of our other lending partners is asking for more money, and we've got some of the counterparties on the venture side that have come up with loan facility suggestions. So we've got to be very careful about what we commit.

Mr. Badal asked Ms. Valdez how far into the future she thought The Loan Fund would have enough cash to be able to handle loan demand based on their cash position and loan payoff projections going forward.

Ms. Valdez responded that she thought there might be funds available for 18 months to 2 years, but added they are always looking for loan dollars, not just from SBIC, but also from others.

Mr. Badal said he understood, and asked if the 10% unrestricted cash requirement as a percentage of SBIC loans that we have placed in our agreement is a problem for The Loan Fund.

Ms. Valdez responded it is not.

Mr. Cummins said he had discussed that provision with Mr. Pacheco some time ago, and the 10% unrestricted cash requirement is not part of the proposal today. He said when SBIC put that requirement in place, the SBIC was changing its covenants to focus on organizational risk, and making sure it had covenants in place to monitor and manage organizational risk. That's where that came from. In talking about it with Mr. Pacheco, Mr. Pacheco indicated he was not concerned with the 10% unrestricted cash requirement because it fit with The Loan Fund's internal operating guidelines. The Loan Fund's operating expenses, which are running about $1.3 million a year, have an informal policy that they like to have at least 12 months of their operating expenses in cash. The SBIC's requirement of 10% of the outstanding balance of SBIC loans, which is about $700,000, was already consistent with The Loan Funds internal requirement for cash and was not considered a hardship.

Mr. Badal said at one point he had asked Mr. Pacheco what dollar amount of their loans had been restructured. He said he was not talking about the loans where The Loan Fund was waiting on financial statements in order to renew the loan. Mr. Badal said he was referring to situations where customers could no longer make their payments, and The Loan Fund had restructured the loans, so those loans went from being delinquent to current. He said that's a statistic he thought the board ought to have on a regular basis, because those kinds of loans represent a risk. He said that just because a loan is restructured doesn't mean the borrower will to be able to continue to pay.

Mr. Badal said he would personally be supportive of the motion to drop the covenants as recommended, but he would like to get some feeling for the dollar amount of loans that were delinquent because the borrower couldn't make the payments, and that were restructured, and maybe the SBIC could act on this motion but then come back at the next board meeting with that information. Mr. Badal said he would suggest that the SBIC structure the 5% additional cash requirement to kick back in if some number of loans restructured because they were really delinquent, rose to a certain level.

Mr. Cummins said he thought is was a good point to differentiate between loans modified in the normal course of business, and those restructured because they are delinquent. He said accounting rules refer to restructured delinquent loans as troubled debt restructuring. He asked Ms. Valdez if she was familiar with the term.

Ms. Valdez responded she was familiar with the term.

Mr. Cummins said a troubled debt restructuring would be anything that has been modified that's different from the original contractual terms to help the customer catch up, and noted it would not refer to loan that's simply renewed or that's performing.

Mr. Badal added that it would not refer to increasing a loan amount.

Mr. Cummins asked Ms. Valdez if there would be a problem with providing information on restructured loans.

Ms. Valdez said not at all. She said the current covenants require that there's only one modification per year allowed. She said if there were two modifications in one year, that loan would come out of the SBIC's portfolio.

Mr. Justice said he believes information on modifications is provided to SBIC monthly.

Mr. Cummins said he did not recall seeing that information.

Mr. Justice said perhaps that information is not provided.

Mr. Fowler said he thought the critical figure would be the re-default rate. He said he would be interested in knowing not how much they did, but how many modified loans had re-defaulted.

Ms. Valdez said she agreed with this.

Mr. Fowler asked Ms. Valdez if restructured loans had delinquent payments capitalized and added to the back-end of the loan.

Ms. Valdez responded that they don't do that.

Mr. Badal asked Ms. Valdez what she thought the total dollar amount of modifications would be in a year.

Mr. Justice responded it was hard to say.

Ms. Valdez asked if Mr. Badal was only asking about troubled loans.

Mr. Badal responded he was only asking about troubled loans.

Mr. Justice asked Ms. Valdez if she thought the number might be $300,000.

Ms. Valdez said she estimated the amount might be $300,000 to $500,000.

Mr. Badal asked Ms. Valdez if she would coordinate with Mr. Cummins about providing that information between now and the next board meeting.

Ms. Valdez agreed to do that.

Mr. Badal said the SBIC might want to modify the request, or put something in there about modified loans. He said from the discussion it sounded like it would not be a problem. He said from the standpoint of prudence, it would be a good thing for us to have some kind of metric about modified loans.

Mr. Cummins said this would be the time if we're going to make changes to the agreement. He added we would want to word a new provision in the agreement to refer to loans modified as a result of a troubled debt restructuring, and not loans modifications of performing loans. Mr. Cummins asked to clarify if, in exchange for dropping the two covenants, we would add a covenant that loans that have gone through a troubled debt restructuring would not exceed some level, such as 5 or 10 percent of the total SBIC loans.

Mr. Badal said another solution would be to have restructured loans taken out of our portfolio.

Mr. Cummins asked if that would mean no troubled debt restructurings would be allowed.

Mr. Badal said that would probably be easier, and then they wouldn't have to do that calculation every month. He asked if that made sense.

Ms. Valdez responded it did.

Mr. Justice said you could put that on this, and that's what we're going to do because we are working on the two amendments.

Mr. Cummins said the board can approve that, but then it's still subject to approval by The Loan Fund. He said to Ms. Valdez and Mr. Justice that it might need to go to their board, and it would be subject to approval by The Loan Fund.

Mr. Badal asked Mr. Fowler if he would amend his motion to that effect.

Mr. Fowler moved to so amend. Mr. Smith seconded the amendment.

Mr. Cummins asked to clarify that this would add a covenant that requires troubled debt restructurings to be removed from our portfolio.

Mr. Morgan asked if that meant that a loan with only one restructuring would now need to be removed.

Ms. Valdez said she had the same question about restructurings done once.

Mr. Cummins said we would need to remove the covenant about loans being modified once per year, because that covenant would no longer apply.

Mr. Badal said he thought it would have to state positively that any loan that's in our portfolio, that would be a troubled loan restructuring, would be removed from our portfolio, even when it's less than 120 days. If it's over 120 days, it's not an issue; it comes out of the portfolio.

Mr. Cummins said the SBIC would still need to remove the covenant that says loans can be modified once a year.

Mr. Badal agreed.

Mr. Morgan asked about a positive restructuring, if there is such a thing. If we are removing their ability to restructure a loan once, then how would The Loan Fund do a positive restructuring?

Mr. Badal said they can still do it, but they just have to fund it with other funds.

Mr. Cummins disagreed, and said he believed they could do a positive restructuring. He said the accounting rules define a troubled debt restructuring, and he thought we were only talking about troubled debt restructuring. For example, take the loan where The Loan Fund is waiting on financial statements. Once they get financial statements and review them, they will renew that loan. That's not a troubled debt restructuring. He said he did not believe that is what is being discussed.

Mr. Morgan asked if that example would not cross the line with no longer allowing modifications once a year.

Mr. Cummins responded it would not cross the line.

Mr. Badal said the Board needs to make sure the language refers to troubled debt restructuring.

Mr. Morgan asked about the original purpose behind the 5% cash reserve. Mr. Cummins responded it was put in place to provide additional collateral for the SBIC's loan, and to provide added security in the event of a default.

The changes were accepted as a friendly amendment.

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

Mr. Badal congratulated Ms. Valdez and Mr. Justice, and thanked them for coming.

Ms. Valdez and Mr. Justice said thank you to the board members, and left the meeting.

[Agenda reprioritized.]

NEW MEXICO MEZZANINE PARTNERS (NMMP), PROPOSED MODIFICATIONS: MIKE DOOLITTLE, NMMP MANAGING PARTNER

Mr. Doolittle discussed NMMP's proposed changes to its agreement.

1) To extend the fund's new investment period through March 31, 2014. This would allow the fund to deploy the remaining committed capital. There is sufficient committed capital to make one additional investment within the requested timeline.

Mr. Doolittle noted that the SBIC approved an amendment approximately a year ago extending the investment period of the fund, which had expired, to February 28, 2013. In the six months since then, NMMP made two investments and had one successful exit. The fund has now had two successful exits, and $210,000 was distributed to SBIC in November 2012.

Mr. Doolittle stated that the fund currently has three active investments with a total of $3.75 million committed. The fund has made a total of five investments with combined capital commitments of $6.2 million, with remaining investable capital of $500,000.

2) To raise the ceiling of the maximum investment the fund's Investment Committee could approve for any portfolio company from the current level of 20 percent up to 25 percent of the Partnership's aggregate commitments.

Mr. Cummins noted that the SBIC's invested capital in NMMP, net of return, is $2,048,000 and estimated market value is $1,833,000, for an estimated loss of $215,000. While NMMP has had no loan losses, management fees have caused the investment to go negative. He stated that the value of warrants is not included in the partnership valuation, however, and as exits come up over the next two years, Mr. Doolittle anticipates that gains will be realized from the value of the warrants. Under that scenario, the warrants are expected to result in a profitable investment for SBIC.

Mr. Cummins noted that the partnership originally allowed two one-year extensions, which have been exercised, and so the end date of the fund is now September 2015. He said Board legal counsel Randy McDonald provided his comments, and inquired whether (should the Board approve extending the investment period) NMMP will be able to make new investments that will pay off before the end of the fund date, or would this mean the Board could be receiving more extension requests later on. With respect to the second proposed change to the agreement, he said Mr. McDonald commented that currently the LP agreement allows investments up to 25 percent with the approval of the Limited Partnership Advisory Committee, and so the request really is that the authority for the additional 5 percent be shifted to the General Partner from the Limited Partnership Advisory Committee.

Mr. Doolittle corrected the last comment, and explained that authority regarding the additional 5 percent would shift to the Limited Partnership Investment Committee rather than the General Partner. He stated that the five-member Limited Partnership Advisory Committee reviews potential conflicts of interest and meets very infrequently.

Mr. Cummins added that the SBIC has experienced some issues with the Limited Partnership Advisory Committee over the past year because of his seat on that committee. When he became Executive Director of the SBIC, one of the things the SBIC Board reviewed and approved was that if there are routine things happening on advisory committees such as reviewing a conflict of interest or approving auditors, he had authority to act on those. If there was anything other than a routine type of action, he was directed to bring that to the Board for approval before he had the authority to vote as an advisory committee member. Because of the timing of Board meetings, delays can potentially interfere with NMMP's ability to get a deal done in a timely fashion. Shifting that authority from the Advisory Committee to the Investment Committee therefore gives the partnership more flexibility to be able to operate.

Chairman Badal asked Mr. Doolittle if NMMP has thought about what it will do at the end of the fund life. Mr. Doolittle responded that, based on previous discussion, he understands that requesting an extension would not be preferable and it would be more appropriate to create a fund with a longer fund life.

Mr. Doolittle stated that, at the end of the fund life, the General Partner has a fiduciary obligation to the limited partners to continue to manage the outstanding notes without compensation. He said all of the loans have maturity dates prior to September 2015, but in some cases the maturity dates of the warrants would extend past that period.

Chairman Badal commented that the Mezzanine Fund has taken a very responsible attitude about additional investments. Rather than try and "cram" the available funds into marginal deals in order to get fully invested within the investment period, instead they have come back to the SBIC for extensions of the termination date. He said he realizes this is a very difficult environment in finding deals, and changing the structure could make it easier for NMMP to find the right deals.

Mr. Cummins said he and Mr. Doolittle have discussed the idea that, if NMMP were to structure a new fund going forward, it would be helpful to have a fund where current interest income is passed through to the SBIC on a regular basis and can be used to offset SBIC's operating expenses.

Mr. Doolittle noted that NMMP will be making more distributions in 2014 and 2015 to SBIC. He said $225,000 will be distributed to SBIC in 2014 and $168,000 will be distributed in 2015.

Mr. Doolittle stated that he plans to appear before the Board in approximately March 2014 with a new fund proposal.

Mr. Garcia moved approval of the two requested amendments to the agreement. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

Mr. Doolittle thanked the board members and left the meeting.

MESA NEW MEXICO GROWTH FUND II (NMGF II) PROPOSED MODIFICATIONS

Mr. Cummins prefaced the discussion with an update on Mesa Capital Partners from his advisor's report:

-- NMGF II reported an $861,496 loss in the second quarter. SBIC's 46 percent share was approximately $395,000. This was related to a debt and equity restructuring by its one remaining active company investment.

-- The buyer of the chile processing equipment from NMGF II was not able to obtain bank financing for the remaining balance of $300,000 after making two $25,000 payments in December 2012 and April 2013. NMGF II entered into a payment plan in which the buyer will pay $10,500 per month through August 30, 2015. The payment plan includes the balance of the $300,000 equipment sale plus $3,876 for the buyer to also acquire NMGF II's ownership interest in Hatch Valley Farms. The payment plan will cause the fund to extend beyond the end-date of November 30, 2014, therefore NMGF II is requesting an extension of the end-date.

-- NMGF II notified SBIC of a scheduled distribution related to the sale of the chile processing equipment. The SBIC's share, which has been received, was $13,419.42.

-- **Extend NMGF II Fund end date through September 30, 2015**

Mr. Cummins stated that the original fund end-date for NMGF II was November 30, 2012. The partnership agreement allowed the GP to extend that for up to two years to November 30, 2014, which has been done. The GP is requesting that the fund end-date be further extended to September 30, 2015, to allow for scheduled payments related to the sale of the chile processing equipment. An extension beyond November 14, 2014, requires the consent of the GP and 66-2/3 percent of the limited partners. Given that SBIC owns 46 percent of the partnership, SBIC consent is required in order to approve the request.

Mr. Cummins recommended approval of this request based on the following:

-- NMGF II has suspended capital calls for management fees and plans to only make capital calls for approximately $6,000 per year for out-of-pocket accounting expenses.

-- The alternative to approving an extension would be for NMGF to create a limited liability company and distribute shares to partners. Extending the partnership end-date would appear to be preferable to receiving a distribution of ownership shares in an LLC.

-- An extension will also provide additional time to achieve a sale or other resolution for NMGF II's one remaining active company investment.

-- **Waive NMGF II annual audits through September 30, 2015**

Mr. Cummins stated that NMGF II is requesting that limited partners approve a waiver of the requirement to provide audited financial statements through the fund end-date of September 30, 2015. He noted that NMGF II previously received approval of requested waiver of this requirement as of, and for the year ended, November 30, 2012, because the assets were minimal and the partnership was working to liquidate all remaining assets and reduce operating expenses.

Mr. Cummins recommended approval of this request.

Mr. Garcia moved for approval of both requests. Mr. Smith seconded the motion, which passed unanimously by voice vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT Mr. Cummins reviewed Loan Reports, Equity Partner Detail Report, the Take-Away Report, and the email that was sent to the Governor and legislators.

Lending Partner New Loans by City

Beginning with today's meeting, Mr. Cummins's report will include a detailed list of Lending Partner New Loans by City, showing rolling 12-month new loan activity originated in communities around the state. This information will be used to provide loan information via email each quarter to the Governor and legislators. Mr. Cummins will meet with Holly Eakes next week to discuss how to turn this information into an organized marketing program.

Financial statement comparison

Mr. Cummins reviewed financial statement comparisons based on audited financial statements received from Accion, The Loan Fund and WESST, reflecting trends over the past four years in their balance sheets and income statements.

Equity partner reports

Mr. Cummins noted that the equity partner reports show all of the equity investments and the amount that the SBIC has invested in each of the portfolio companies.

Verge Fund

Mr. Cummins reported that he, Chairman Badal, Ms. Meyers, and Mr. Fowler met with Tom Stephenson at Verge Fund. Verge Fund would like to come out with their own mezzanine fund, at around $6 million, its primary purpose being to provide mezzanine financing to Verge Fund portfolio companies. Verge GPs want to grow these companies to the next level and then sell them once sales revenues increase to $5-$10 million and profits increase to $1-$2 million. The companies will need additional cash to achieve this growth.

Mr. Cummins said the Verge GPs do not want to go out and raise equity financing, which would dilute invested capital, and feel it would be most cost effective to raise the needed cash with mezzanine debt for these five or six companies.

Mr. Cummins said SBIC Board members offered feedback to Mr. Stephenson. While making no commitment, they pointed out that the people who are approving the decisions will be a key factor as will having sound investment underwriting standards that are documented. He said a concern that needs to be addressed is that Verge is creating a fund that will invest in its own companies, and raises a question regarding whether such a conflict of interest is appropriate.

Chairman Badal commented that he was not comfortable with this proposal, and was also concerned about Verge's lack of lending experience.

Enchantment Land Community Development Corp.

Mr. Cummins stated that Ron Brown, Executive Director of Enchantment Land Community Development Corp (ELCDC), has indicated that ELCDC is still looking at a funding package of about $10 million for a company to replace a current $3.5 million bank loan and to fund a business expansion. Under the proposed structure, SBIC would participate with a local bank in a $5 million first lien secured by real estate and equipment, to be underwritten by the bank. The bank would be interested in participating up to $4 million of this loan. Additionally, ELCDC would provide a $3.5 million SBA 504 second lien, which reduces risk of the first lien position, and this would be underwritten by SBA.

Mr. Cummins said SBIC would also have the ability to hire a contract commercial loan underwriter to underwrite the loan on behalf of the SBIC. He added that, were SBIC to participate in this loan, SBIC's particiation would allow the local bank to provide additional financing to the company for inventory and receivables.

Chairman Badal's presentation to the LFC

Mr. Cummins reported that Chairman Badal made a presentation to the Legislative Finance Committee on July 19 regarding economically targeted investments. Also present from the SBIC were Mr. Morgan and Mr. Cummins.

Mr. Morgan commented that Chairman Badal made an excellent presentation that was well received by the committee.

Chairman Badal said the constant message from SBIC is what a positive difference its lending program can make in small communities around the state, which is why additional funding for the SBIC is crucial.

2013 Rural Forum

Mr. Cummins reported that he and Mr. Morgan attended the 2013 Rural Forum, held at the UNM Valencia Campus in Los Lunas on August 7. The conference included economic development personnel from around the state, and the luncheon keynote speaker was Cabinet Secretary Jon Barela of the NM Economic Development Department.

Presentation to IPOC

Mr. Cummins reported that he and Chairman Badal made a presentation to the New Mexico Investments and Pension Oversight Committee. The presentation focused on SBIC's focus on expanding its lending program; SBIC's proven track record of success with the lending program; the lending program is filling a lending gap for small businesses not available from traditional banks; SBIC's lending program has been successful in providing capital to small businesses around the state; and the SBIC will likely need additional funds in the next 18-24 months to allow continued expansion of the lending program.

ACCION: PROPOSED MODIFICATION TO PARTICIPATION AGREEMENT

As background, Mr. Cummins said the SBIC initially began conversations with Accion about switching from a participation agreement to a revolving line of credit with terms similar to those with The Loan Fund. Accion has indicated that these terms do not work for them largely because they have loans with banks in Colorado and Arizona that they use to fund their operations, and having a secured line of credit would create a conflict with covenants in the agreements they have with those lenders. Accion's preference is to stay with a participation agreement.

Mr. Cummins noted that, at the previous SBIC Board meeting, the Board recommended leaving the modification agreement in place but to stop all losses from being passed through, and to lower the interest rate to 1 percent for six months, and then 2 percent thereafter with no losses being passed through. Accion's response to him was that they believed the agreement would in effect be a secured line of credit rather than a participation agreement, and it would be considered a violation of covenants with their other lenders if they didn't have the ability to pass through any losses.

Mr. Cummins said Accion has since proposed that the SBIC leave the participation agreement in place and leave the interest rate at the current 3 percent, and that Accion would have the ability to continue to pass through losses but the amount of losses would be capped at 1-1/2 percent. Under this proposal, the SBIC would have a net interest rate of about 1-1/2 percent, or higher if their losses were less than that.

Mr. Cummins also stated that, in response to the Board's recommendation at the last meeting to increase the funding limit from $3.5 million to $4.0 million, Accion proposes increasing that back up to $5 million. He added that Accion hit their $3.5 million limit on their line of credit in July.

Chairman Badal noted Accion's great success in getting money out around the state, which is obviously very important to SBIC. He suggested going back to the $5 million and keeping the interest rate at 3 percent, but suggested that Mr. Cummins work with Mr. McDonald to craft language in the agreement reflecting that in no case would the SBIC's net interest return be less than 2 percent on any loans made out of the $5 million.

Board members agreed that this was reasonable.

Mr. Garcia so moved. Ms. Waller seconded the motion, which passed unanimously by voice vote.

NATIVE COMMUNITY FINANCE, PROPOSED LOAN

Mr. Cummins stated that, in response to a request from Native Community Finance (NCF) for a $100,000 line of credit with SBIC, he has developed a chart detailing how NCF's proposal compares to each of SBIC's investment criteria. He said he feels the request meets all of the SBIC's required investment criteria. He reviewed NCF's financial statement comparison for the years 2010, 2011 and 2012.

Mr. Cummins noted that NCF is located in Laguna, New Mexico, and makes loans to Native Americans throughout the state. Most of their lending activity has been occurring in Laguna and San Miguel, and they would like to expand their small business lending program through a $100,000 line of credit.

Mr. Cummins pointed out that the line of credit is relatively small and would take a fair amount of overhead to administer. One idea for consideration would be to see if The Loan Fund would be interested in servicing the loan.

Mr. Fowler commented that this could set a desirable precedent for SBIC and The Loan Fund, with other entities coming forward with similar requests that could be serviced by The Loan Fund.

Board members agreed that Mr. Cummins should meet with The Loan Fund and report back to the Board.

CONTRACT RENEWALS

1. Finance New Mexico

2. Accounting Consulting Services

Mr. Cummins recommended approval of both of these contract renewals.

-- FNM contract expires on September 30. Holly Bradshaw Eakes proposes that the contract be renewed to September 30, 2014, with no change in terms.

-- Dee Brescia has proposed that the SBIC renew her contract for one year with an increase from $128 per hour to $131, plus GRT.

Ms. Waller moved approval of both contract renewals. Mr. Smith seconded the motion, which passed unanimously by voice vote.

SHORT TERM INVESTMENTS, REINVEST $1 MILLION CD MATURING 9/8/13 FOR 1 YEAR

Mr. Cummins stated that SBIC has a CD ladder at First National Bank of Santa Fe. He stated that $1 million will mature on September 8, 2013. Given current cash balances, he recommended that the SBIC begin to increase the "ladder rungs" to $1.5 million (from $1 million) per quarter. First National Bank of Santa Fe has quoted 0.65 percent for a one-year CD. He noted that the rates are subject to change, and the rate might be different on September 8, 2013.

Mr. Garcia moved that Joseph Badal and Alan Fowler, with two signatures required, be authorized to renew the $1 million CD maturing on September 8, 2013, withdraw $500,000 from money market funds, and invest a total of $1.5 million in a one-year certificate of deposit at First National Bank of Santa Fe, and to execute any and all documents related to the investment. Mr. Smith seconded the motion, which passed unanimously by voice vote.

CHANGES TO US BANK ACH PROCESSING, DUAL APPROVAL AUTHORIZATION

Mr. Cummins stated that he prepared an SBIC Risk Analysis in December 2012, and one of the things he noted in the analysis was that the SBIC has a procedural control in which Board members approve cash disbursements twice monthly. Once that is approved, however, only one person (the accounting contractor, Dee Brescia) has authority to go into the system and disburse cash out of the US Bank account, which he feels is a control weakness.

Mr. Cummins said US Bank recently converted ACH processing to a new computer system and recommended the SBIC change to dual control over ACH disbursements, which he and Mr. Fowler agreed would be appropriate. Given that Mr. Fowler was already an authorized signor on the account, for the past month he has been serving as the second person authorizing ACH disbursements.

Mr. Cummins said he discussed this change with Jake Dopson at Pulakos CPAs, who thought requiring a second person to approve ACH transactions would outweigh any potential conflict that might arise given that he (Mr. Cummins) and Ms. Brescia are also both involved in the cash reconciliation process.

Mr. Cummins recommended that his name be added as the person authorized to approve US Bank ACH disbursements along with Ms. Brescia, with Mr. Fowler serving as backup.

Mr. Garcia moved that Russell Cummins, Dee Brescia, and Alan Fowler be authorized to approve ACH disbursements for SBIC funds at US Bank, with two approvals required for all transactions, and that Alan Fowler and Joseph Badal be authorized to execute any and all documents necessary to effect this change. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

OPEN SAFE DEPOSIT BOX

Mr. Cummins stated that US Bank has delivered Federal Home Loan Bank letters of credit totaling $3,250,000, and Mr. McDonald has noted that the original documents are negotiable instruments and should be secured in a fireproof safe.

Mr. Cummins stated that US Bank has safe deposit boxes at a cost of $25 per year.

Ms. Waller moved that SBIC open a safe deposit box at US Bank, and that Joseph Badal, Alan Fowler and Russell Cummins be authorized to access the safe deposit box and execute any and all documents related to opening and maintaining the safe deposit box account. Mr. Smith seconded the motion, which passed unanimously by voice vote.

CENTER FOR APPLIED ENTREPRENEURIAL STUDIES, ENDORSEMENT REQUEST

Mr. Cummins stated that Lee Trussell, founder and president of the Center for Applied Entrepreneurial Studies (CAES), is requesting that SBIC endorse the CAES program. Mr. Trussell formerly provided the CCET program through Technology Ventures Corp, which funded the program with a federal grant. The federal grant has ended and TVC has discontinued the program.

Mr. Fowler disclosed that Mr. Trussell is his father-in-law.

Board members agreed that Mr. Trussell should make a presentation to the Board at its October meeting.

PROPOSED 2014 SBIC BOARD MEETING SCHEDULE

The Board agreed on the following schedule, all regular meetings to take place at 9:00 a.m.:

Friday, January 24, 2014: WESST Enterprise Center

Monday, February 17, 2014: WESST Enterprise Center

Friday, May 23, 2014: WESST Enterprise Center

Friday, July 18, 2014: WESST Enterprise Center

Thursday and Friday, September 25 & 26: Clovis Community Meeting and Board Meeting

Friday, October 24, 2014: WESST Enterprise Center

Monday, December 8, 2014: WESST Enterprise Center

INSURANCE RENEWAL, D&O POLICY WAS RENEWED

Mr. Cummins reported that the Directors & Officers Policy was renewed effective June 13 with the same terms as the previous year.

CHAIRMAN'S COMMENTS

Chairman Badal discussed ideas for educating legislators on the SBIC's need for additional funding so it can expand and continue its lending program. He asked three members of the Board to work as a subcommittee with Mr. Cummins to devise a strategy for moving forward.

Mr. Smith, Mr. Fowler and Mr. Morgan volunteered to serve on the subcommittee.

ADJOURNMENT

Its business completed, the SBIC Board adjourned the meeting at 12:00 p.m.

Joseph Badal, Chairman and President

10/ 14 /2013

Date