

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

October 14, 2013

A 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 WESST Enterprise Center, 609 Broadway Boulevard, N.E., Albuquerque, New Mexico.

A quorum was present:

Members Present

Mr. Joseph H. Badal, Chair
Ms. Roxanna Meyers, Vice 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 [by telephone]

Members Excused

None.

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Mr. Randy McDonald

Recording Secretary:

Ms. Judith Beatty

Guests Present:

Mr. Greg Henderson, Accion
Ms. Carol Cochran, Board Member, Accion

REVIEW AND ACCEPTANCE OF AGENDA

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

REVIEW AND ACCEPTANCE OF MINUTES

August 23, 2013

Mr. Garcia moved approval of the August 23 minutes, as submitted. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

September 20, 2013

Mr. Garcia moved approval of the September 20 minutes, as submitted. Mr. Smith seconded the motion, which passed unanimously by voice vote.

JULY AND AUGUST 2013 FINANCIAL REPORTS

Mr. Cummins reviewed highlights of the July and August financials. He noted that, as of June 30, 2013, the SBIC has had a life-to-date return of 0.8 percent related to its Lending Program, and a life-to-date negative return of -14.4 percent for its Equity Program. New Mexico Gap Fund I and Verge II have both gone from negative returns to positive returns in the past year.

Mr. Morgan moved to accept the July and August financials, as presented. Mr. Smith seconded the motion, which passed unanimously by voice vote.

NMCDLF (THE LOAN FUND) PROPOSED MODIFICATION TO LOAN AGREEMENT

Chairman Badal stated that, at the last meeting, he expressed concern about whether The Loan Fund was making modifications to loans that were delinquent in order to make them current. In the course of the discussion, the Board decided not to accept any modifications, which was not really the intent.

Mr. Cummins reported that he has had several discussions with Leroy Pacheco since the last meeting, and Mr. Pacheco has provided him with additional information about what has been happening with restructurings of loans since the beginning of 2013. Mr. Pacheco provided information indicating 17 loans have been restructured during 2013, of which 13 were normal extensions of performing loans, or interest rate reductions on performing loans to reward borrowers for good payment performance. The remaining four were as follows:

- One was a loan to a business with a contract from the state. Payments under the state contract were delayed, and the borrower's loan payments were modified to match up with the timing of the state remittances.
- Two long-term customers were experiencing difficulty in making payments. The Loan Fund reduced the interest rate and lowered the monthly payments, and the borrowers have continued making the modified payments.

- One loan was restructured for a nonprofit organization that experienced turnover of executive staff. The company was put on a repayment plan of interest-only for a short period and then allowed to catch up principal payments over nine months.

Ms. Meyers commented that a huge plus the SBIC gets with the lenders at The Loan Fund is that they are very close to their borrowers and follow up as soon as a loan payment is late.

Mr. Cummins recommended that the Board approve making a change to the SBIC's agreement with The Loan Fund to (i) eliminate the 5 percent over-collateralization, (ii) remove the 5 percent cash reserve account requirement by allowing the appropriate cash reserve account at US Bank to be closed, and (iii) not require the proposed new covenant approved by the SBIC Board on August 23, 2013, that would require The Loan Fund to remove any troubled debt restructurings from SBIC's collateral portfolio.

With respect to recommendation (ii), Mr. Cummins said he had suggested leaving \$1,000 in the account when this was discussed at the August meeting, but noted The Loan Fund has two cash accounts, one for payments and one for cash reserves. He is recommending the cash reserve account be closed.

Chairman Badal asked how long The Loan Fund's interest rate will remain at 2.0 percent. Mr. Cummins responded that, about a year ago, the Board reduced The Loan Fund's interest rate from 2.5 percent to 2 percent for a period of two years, the idea being to give them some additional funding they could use to expand their loan origination capacity. The Loan Fund has done this by adding a position that assists the existing loan officers with collections and other duties. Mr. Cummins said the rate will remain at 2.0% through October 2014, at which time it will increase to 2.5%. He suggested that the Board could consider extending the 2.0% interest rate. As discussed previously, the Board does not believe it is required for the SBIC to have exact parity with all of its lending partners. However, extending the 2.0% rate would be consistent with loan terms approved or being discussed with other lending partners.

Mr. Cummins stated that Leroy Pacheco has indicated to him in recent discussions that he would prefer the interest rate remain at 2 percent for the term of the loan, as it is scheduled to revert back to 2.5 percent in October 2014.

Responding to Ms. Meyers, Mr. Cummins said The Loan Fund has staggered maturities that he believes range from 2018 to 2022, depending on when the agreement was modified to increase maximum available funding.

Mr. Cummins discussed the proposed terms with Accion, which would be addressed later on today's agenda.

Ms. Meyers suggested extending the 2 percent interest rate at least until 2016. She noted that the new agreement being proposed with Accion would be 3 percent in perpetuity, and would be net interest rate of 2 percent, regardless of the market.

Mr. Cummins noted that the SBIC has approved a five-year term on another loan it has approved.

Ms. Meyers commented that it would be more efficient to have the interest rate go with the term of the loan.

Ms. Meyer moved approval of the motion recommended by Mr. Cummins, amending it to extend the 2 percent interest rate until 2018, to coincide with the 2018 maturity date. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

Mr. Cummins reviewed information that he and Chairman Badal presented at the IPOC Committee in August, detailing the SBIC's loan program performance. He stated that Mr. Pacheco has suggested that the SBIC be more specific by differentiating how much of the loan loss is attributed to Accion versus The Loan Fund. Mr. Cummins said he has discussed the matter with Chairman Badal, and he and Chairman Badal do not see any problem with providing more detailed information in the report.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Loan Reports; Equity Partner Detail; Take Away Report; Risk Analysis Update

Mesa New Mexico Growth Fund II (NMGF II)

Mr. Cummins stated that, with respect to the sale of the Deming building by NMGF II for \$215,000, Ms. Waller had asked why the cash distribution of \$13,419 (SBIC's 43.75 percent ownership share) was not larger. He reviewed a summary of NMGF II's income and cash flow statements for the last two quarters, and noted that the primary reason is because of various closing and other costs incurred with the sale of the Deming property. He said a second distribution was scheduled for last Friday, but had not yet confirmed if the funds were received.

New Mexico Community Capital

Mr. Cummins stated that Leslie Elgood has resigned as CEO, and the NMCC board of directors is engaged in a search for a new CEO.

New Mexico Mezzanine Partners

Mr. Cummins noted that, at the August meeting, the NMSBIC Board approved extending the date for new investments through March 31, 2014, and increasing the allowable percentage investment in a single company from 20 percent to 25 percent. He said the change has not yet been approved by 66-2/3rds of the total partners, and NMMP is not sure it is going to get all of the approvals. NMMP will notify the NMSBIC in writing when and if the change is approved.

Mr. Cummins said Mr. Doolittle is also thinking about coming out with a new fund early next year that would have a base interest rate to where quarterly income would be paid the

NMSBIC to help offset its operating expenses. Interest over the base rate would be split between the NMSBIC and the fund to pay management fees.

Chairman Badal recommended that Mr. Doolittle be asked to make a presentation to the NMSBIC Board when the agenda will accommodate it.

Mr. Cummins commented the NM Mezzanine Fund is a hybrid. The NMSBIC has an equity investment in a limited partnership, whereas the partnership is making loans, and the loans typically have stock warrants. He noted the NMSBIC categorizes NMMP as an equity partner, even though the partnership is making loans. Given the Board is interested in expanding the Lending Program, he suggested the Board might consider whether this should be included in the the NMSBIC's equity program, or if it is a loan program investment.

Chairman Badal commented that, in discussions with New Mexico Community Capital about NMCC, it has been suggested they consider something more like a mezzanine lending facility, such as NMCC's proposed royalty fund. He added that these kinds of facilities potentially might become a more robust part of the NMSBIC portfolio.

MFA \$1.5 million Primero Fund Line of Credit

Mr. Cummins noted that, at the May 2013 Board meeting, the NMSBIC Board approved a \$1.5 million line of credit to MFA. MFA requested a 10-year term but the Board approved a term of up to 5 years, which the MFA Board has agreed to. The documents are in the course of being finalized.

Chairman Badal noted that MFA had initially requested the 10 year line of credit because they felt the longer term would offer more certainty; however, the NMSBIC Board will be reviewing this at least every year, and there will always be an opportunity to extend the term in the interim or else renew it at the end of the 5 years.

Mr. Cummins said this was discussed with MFA. MFA indicated it is their intent to demonstrate their performance under this program, and then request the NMSBIC consider a longer-term loan period.

Native Community Finance

Mr. Cummins stated that he presented a proposal to the NMSBIC Board at the August meeting regarding a requested \$100,000 revolving line of credit to Native Community Finance. The Board suggested that he contact The Loan Fund to see if they would be interested in servicing this loan. He stated that he had a brief discussion with Mr. Pacheco about this, and further discussion has been put on hold while terms of the changes to The Loan Fund's agreement with NMSBIC are being discussed.

Davos Commercial Loan Fund

Mr. Cummins stated that he met in August with Les Matthews, David Blackman and Michael Hartman, three principals of the Davos Commercial Loan Fund. Mr. Matthews was a general partner in Mesa New Mexico Growth Fund I, which is now closed, and is a general partner in New Mexico Groth Fund II; Mr. Blackman has had a private commercial loan fund in the Santa Fe area for many years; and Mr. Hartman has commercial lending experience in the Santa Fe and Albuquerque markets.

Mr. Cummins said he has had discussions with the partners, and noted concerns about why this fund may not be a fit for the NMSBIC.

Chairman Badal commented that it also raises the issue that the NMSBIC is trying to get money into communities outside of the Santa Fe and Albuquerque areas, where The Loan Fund and Accion are already doing a good job.

Risk Analysis Update

Mr. Cummins reviewed the current status of recommendations listed in the “Risk Analysis Recommendations and Current Status” (pages 57-58).

- Of the \$47 million in funding from the Severance Tax Permanent Fund, NMSBIC committed \$32.2 million in venture capital equity investments. The Board may want to consider targets for percentage concentrations of equity and debt investments. Current status: No new equity investment commitments have been made since 2009. At this time, the Board’s focus is to expand the lending program.
- As the current concentration of equity investment is reduced over time, the Board may want to consider the NMSBIC’s strategy regarding future equity investments. Current status: No new equity investment commitments have been made since 2009. At this time, the Board’s focus is to expand the lending program.
- Establish an annual Board review of the NMSBIC’s legislative requirements and AG opinion letters. Current status: proposed continuing education plan for Board.
- Currently, NMSBIC has a “procedural” control in which two Board members approve cash disbursements and then the accounting contractor is authorized to process ACH payments. However, the accounting contractor has authority to individually process ACH transactions. Recommendation is for ED/IA to obtain “inquiry only” access to US Bank online banking and review cash activity daily. Current status: A change was implemented in July 2013. US Bank disbursements now require two approvals.
- Expand Lending Program to increase interest income. Transition participation agreement to reduce loan losses. There is currently about \$9 million in loans outstanding. As a possible lending target, \$15 million in outstanding loans x 2 percent interest would be \$300,000 per year in loan interest income. Current status: This is consistent with the NMSBIC’s current focus on expanding the lending program.

- The Loan Fund (NMCDLF) revolving line of credit does not result in any credit risk to NMSBIC related to individual loans. However, NMSBIC is exposed to “organizational” credit risk. Consider establishing a loan loss reserve related to the NMCDLF organizational risk. Current status: Assuming changes to the Accion participation agreement are approved, NMSBIC might consider revising its loan loss reserve calculations. Mr. Cummins will follow-up and make a recommendation at an upcoming meeting.
- Given reduction in interest income to cover general and administrative expenses, maintain liquidity “cash reserve” for ongoing G&A expenses. Current status: This was discussed by the NMSBIC Board in January 2013. The Board decided it is important to be aware of cash reserve needs for G&A expenses in addition to new investments but decided not to implement a formal policy.

Mr. Cummins stated that the NMSBIC Risk Analysis includes a recommendation for continuing education for NMSBIC Board members. He suggested scheduling a time at each board meeting to review one or more topics from the NMSBIC Board of Directors manual, and said he would work with Mr. McDonald on a schedule.

EDI Finance Summit

Mr. Cummins reported that he attended an Economic Development Initiative Finance Summit, hosted by NM Economic Development Secretary Jon Barela, on October 4 in Santa Fe. At the conference, he had noted that it would require a legislative change to increase the NMSBIC’s 1 percent share of the Severance Tax Permanent Fund. In response, Secretary Barela commented that there is pressure to “crack into” the permanent funds, including a current initiative to fund early childhood development. Secretary Barela said he wanted to provide honest feedback to the business owners, and while he was very interested in finding a source of funding for this business venture, he did not believe funding from any of the permanent funds was likely.

Chairman Badal commented that he has been saying for two years that the NMSBIC can’t be asking for additional funds until it gets its house in order, and it is doing a very good job of it. He said NMSBIC will run out of funds in the near future, and so will be unable to grow. It is crucial that the Legislative Committee continue brainstorming how it can get the word out beyond what it is already doing. He asked the committee to present a report at the next Board meeting, and to meet in the interim.

Other

Mr. Cummins reported that he met last week with David Abbey, Director of the Legislative Finance Committee, and LFC Analyst John Clark, and presented them with cost-per-job information. In reviewing the report, he noted that, based on life-to-date numbers, the cost per job with Accion is \$92, for WESST Corp is \$4, and for The Loan Fund there is a profit per job of \$408, for a net profit of \$76 per job.

NMSBIC OFFICERS ELECTION

Chairman Badal stated that he was appointed to the Board in the spring of 2011 and was elected to be President and Chairman in October of that year. At the time, the Board discussed moving Roxanna Meyers and Alan Fowler through the chairmanship. He proposed that Ms. Meyers step in immediately as President and Chairman, that Mr. Fowler step up as Vice Chairman, and someone volunteer to be elected as Secretary/Treasurer. He suggested that the position of Past Chairman also be created.

Mr. McDonald stated that the officers are Chair and President, Vice Chair and Vice President, Secretary/Treasurer, Past Chairman, and Russell Cummins as Executive Director and Investment Advisor.

Mr. Morgan agreed to serve as Secretary/Treasurer.

Mr. Fowler moved that Ms. Meyers be elected as Chair and President; Mr. Fowler be elected as Vice Chair and Vice President; Mr. Morgan be elected as Secretary/Treasurer; Mr. Badal be elected as Past Chairman; and Mr. Cummins be elected as Executive Director and Investment Advisor.

Mr. Garcia seconded the motion, which passed unanimously by voice vote.

[Note: This motion was amended later in the meeting.]

ADOPTION OF OPEN MEETINGS ACT RESOLUTIONS

Mr. McDonald stated that the Open Meetings Act resolution remains unchanged from the previous year, with the exception that the agenda will be posted on the NMSBIC website at least 72 hours prior to the meeting. This is a change in the law that became effective in June 2013.

Mr. Smith moved to reaffirm the Open Meetings Act Resolution. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

RATIFICATION OF ACTS TAKEN AT AUGUST 23, 2013 AND SEPTEMBER 20, 2013 MEETINGS

Mr. McDonald stated that the NMSBIC did not post the agenda 72 hours in advance in August or September. To avoid any problems with actions taken at those meetings, he requested that the Board ratify and accept all actions taken at the August and September meetings.

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

CONTRACT RENEWAL, WEBSITE MAINTENANCE SERVICES

Mr. Fowler moved to renew the contract of The Holly Company for website maintenance. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

ACCION, PROPOSED MODIFICATION TO PARTICIPATION AGREEMENT: CAROL COCHRAN, BOARD MEMBER; GREG HENDERSON, CFO

Mr. Henderson made a presentation on Accion's lending history. He noted that Accion has lent \$20 million to 177 New Mexico communities.

Ms. Cochran stated that the Accion Board has reviewed the NMSBIC's recommended changes to its participation agreement with Accion, and finds it to be "extraordinarily fair." She thanked the NMSBIC for its continued help over the years.

Mr. Cummins reviewed the terms of the agreement, as reflected on pages 66-67 of his report to the Board. He said these terms were reviewed with Mr. Henderson previously.

Ms. Meyers moved to accept the proposed changes. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

NM ANGELS SIDECAR FUND, FOLLOW-UP DISCUSSION FROM MAY MEETING

Mr. Cummins noted that, when the NMSBIC heard a presentation in May from NM Angels representatives John Chavez and J.T. Michelson, then-member Sam Cobb brought up the point that, if the NMSBIC is going to be considering this proposal, there are also potential investments in Hobbs of a similar nature. In May, Chairman Badal suggested the Board schedule time for discussion regarding whether or not this type of investment was something the NMSBIC wanted to be considering.

Chair Meyers moved that, considering the NMSBIC's concentration of monies invested on the equity and venture capital side right now, the Board is not considering any more venture or equity transactions today. Mr. Fowler seconded the motion.

Mr. Fowler commented that, if and when things change down the road, the Board should consider equity investments that offer more protection than the traditional equity investment. Mr. Badal agreed.

The motion passed unanimously by voice vote.

**SHORT TERM INVESTMENTS, INVEST \$1.5 MILLION IN CD ON
12/8/13 FOR ONE YEAR**

Mr. Cummins stated that the NMSBIC has a \$1 million CD maturing at the First National Bank of Santa Fe (FNBSF) on December 8. He recommended adding \$500,000 to the CD and rolling it over at FNBSF, where the funds are fully collateralized, and that Ms. Meyers and Mr. Morgan be authorized to execute the agreement.

Mr. Cummins stated that the rates may change between now and December, but the rate as of yesterday was 0.50 percent, which is the same rate on the CD that is maturing.

Mr. McDonald stated that Mr. Badal and Mr. Fowler could continue to sign off on these transactions until the signature cards were changed to reflect the newly elected officers.

Mr. Smith moved an amendment to the motion electing the Board Officers that the current authorized signators will continue to be authorized to sign until such time as the changes are made. The existing officers will continue to be authorized to sign financial institution instructions and documents until such time as the signature cards are changed, and that the Board authorizes the changing of the signature cards to reflect the new officers. Mr. Garcia seconded the amendment.

Mr. Badal asked Mr. McDonald if it would be appropriate to simply add two more authorized officers to the existing signature cards, with the provision that any two of the four could sign. He said this would be more efficient for Mr. Cummins, since on occasion one or both signators can be out of town.

Mr. McDonald said that would be acceptable. He noted that the Past Chairman position is now an officer of the Board.

The amendment was amended to reflect that two more officers could be added to the existing signature cards with the provision that any two of the four could sign.

The amendment to the main motion, as amended, passed unanimously by voice vote.

Mr. McDonald confirmed for Mr. Cummins that if the NMSBIC opens a new account, only two of the four signatures would be required.

**2014 NMSBIC BOARD MEETING SCHEDULE,
CLOVIS MTG DATE**

Board members reviewed the following meeting schedule, as reviewed and approved at the August 23 meeting:

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, September 25: Clovis Community Meeting

Friday, September 26, Clovis Board Meeting

Friday, October 24, 2014: WESST Enterprise Center

Monday, December 8, 2014: WESST Enterprise Center

Mr. Cummins stated that there might be time constraints in planning for the Clovis community meeting because he will also be working on the annual financial statements and annual report at the same time.

Mr. Cummins proposed that the Clovis Community Meeting and Board Meeting be moved to some time in October and that a one-hour call-in meeting be scheduled for September 19 to review and accept the annual audited financial statements and annual report.

Chair Meyers asked that the October Board meeting date be held open until she could review her schedule.

Mr. Smith moved for approval of the schedule, as recommended, subject to change. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

CHAIRMAN'S COMMENTS

Mr. Badal stated that he and Mr. Cummins would be meeting with the Governor's Office tomorrow to discuss a possible increase in distribution from the Severance Tax Permanent Fund.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 11:00 a.m.



Roxanna Meyers, Chairman and President



Date