

**MINUTES OF THE**  
**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**December 4, 2017**

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. Alan Fowler, Chair  
Mr. Joseph H. Badal, Vice Chair  
The Hon. Tim Eichenberg, New Mexico State Treasurer  
Mr. Guadalupe Garcia  
Ms. Roxanna Meyers, Secretary/Treasurer  
Mr. Steven E. Morgan [by telephone]

**Members Excused**

None.

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel:**

Mr. Randy McDonald [by telephone]

**Recording Secretary**

Ms. Charmaine Clair, for Judith Beatty

**Guests Present:**

Mr. Leroy Pacheco, The Loan Fund  
Mr. Matt Loehman, The Loan Fund  
Ms. Marisa Barrera, Accion

**REVIEW AND ACCEPTANCE OF AGENDA**

Mr. Cummins requested that the 10:30 item be amended to reflect that Accion's executive vice president, Marisa Barrera, would be presenting for Anne Haines Yatskowitz.

**Mr. Badal moved acceptance of the agenda, as amended. Mr. Eichenberg seconded the motion, which passed unanimously.**

**REVIEW AND ACCEPTANCE OF OCTOBER 27, 2017 BOARD MINUTES**

Mr. Garcia asked the minutes to reflect that he made the motion for approval of the New Mexico Mortgage Finance Authority proposed term extension (page 4).

**Mr. Eichenberg moved approval of the minutes of October 27, as amended. Mr. Garcia seconded the motion, which passed unanimously.**

**FINANCIAL REPORTS AS OF OCTOBER 31, 2017**

Mr. Cummins reviewed the financial reports.

Mr. Cummins stated that funds available for investment and operations are at \$3.9 million, which takes into account the \$700,000 cash reserve approved by the board.

**Mr. Garcia moved to accept the financial reports, as presented. Mr. Badal seconded the motion and it passed unanimously.**

**NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND (THE LOAN FUND):  
PROPOSED CHANGES TO LOAN AGREEMENT WITH NMSBIC**

**-- LEROY PACHECO, PRESIDENT AND CEO;**

**-- MATT LOEHMAN, DEVELOPMENT AND SPECIAL PROJECTS DIRECTOR**

Chair Fowler thanked Messrs. Pacheco and Loehman for what they do for New Mexico as a partner for NMSBIC. He said the board deeply appreciates the unique role The Loan Fund fills.

Mr. Cummins said two items are up for consideration:

-- The interest rate on the line of credit for The Loan Fund is scheduled to increase from 2 percent to 2.5 percent. The Loan Fund is asking to keep the interest rate at 2 percent from February 2018, when it is set to increase, until the end of the term, which is in 2024.

-- To modify the agreement to allow the maximum per loan of \$500,000 to increase to \$750,000 provided that loans between \$500,000 and \$750,000 would be secured by owner-occupied real estate.

Mr. Loehman stated that, about five years ago, the NMSBIC lowered The Loan Fund's interest rate by 0.5 percent, which was intended to lower their operating expenses and increase their lending capacity. At the time, they planned to add a loan officer to staff, but ended up adding support staff, and this increased the lending team's efficiency. He stated that The Loan Fund has made \$26 million in loans over the past five years to New Mexico businesses, and the UNM BBER (Bureau of Business and Economic Research) commissioned by the NMSBIC demonstrated that roughly 33 jobs were either created or preserved for every million dollars in loans made. The Loan Fund has created more than 100 jobs to date in 2017. He added that increasing the interest rate by 0.5 percent would increase their operating expenses by about \$65,000 and cause them to potentially decrease lending activity.

Mr. Pacheco commented that, thanks to NMSBIC support over the years, The Loan Fund has made \$74.2 million in loans since inception and has made loans to businesses in 23 of New Mexico's 33 counties.



Mr. Loehman stated that The Loan Fund currently has five customers with lending commitments over \$500,000, with another one pending. He discussed details. He noted that all of the businesses involved have been timely payers and have had a positive impact on their community.

Mr. Garcia asked how The Loan Fund's interest in doing bigger loans fits into their mission in terms of helping small businesses to grow.

Mr. Pacheco responded that, since 2012, their average loan has increased from \$46,000 to \$67,000 and their lines of credit have gone from \$43,000 to \$75,000. Their mission includes increasing the capacity of smaller businesses, but these loans are really an effort to adjust to the growing capital needs of some of their clients.

Mr. Badal asked if The Loan Fund has figured out what their breakeven is from a loan amount standpoint. He noted that it costs just as much to lend \$10,000 as it does \$100,000 from an operations standpoint.

Mr. Pacheco responded that The Loan Fund received SBA and USDA funding in 2010 that included technical assistance. They are not looking at making a profit, but if they can help businesses collect their receivables better, then they are building financial capacity.

Mr. Loehman said he would guess that the breakeven point is between \$60,000 and \$100,000, but it is hard to say, as some loans take longer and are more involved.

Mr. Badal noted comments by Mr. Pacheco about putting \$250,000 of a \$750,000 loan with the NMSBIC. He said he wanted to be sure that this did not exceed the \$500,000 cap based on language in the agreement, and asked that this be clarified.

Responding to Mr. Badal, Mr. Pacheco said all of The Loan Fund's real estate loans are owner occupied.

Responding to Mr. Badal, Mr. Cummins said The Loan Fund has roughly \$9 million outstanding, and a commitment line of \$13 million.

Chairman Fowler noted that a couple of experienced loan officers would be retiring from The Loan Fund. Mr. Pacheco responded that they may hire someone midyear, depending on demand, but have sufficient staff to handle the existing demand. Mr. Loehman added that their five-member loan committee, whose members include three bankers, reviews all loans over \$100,000.

Responding to Mr. McDonald about a proposed real estate loan, Mr. Pacheco said they have an SBA 504 guarantee on the building and will have a first mortgage on the equipment, and first mortgages on two rental houses in the area. Mr. McDonald asked if the "secured by real estate" referred to the first mortgage. Mr. Pacheco responded yes, they are in a first mortgage position.

Mr. McDonald reminded the board that The Loan Fund's loan with the NMSBIC matures in about five years, and while it will likely be renewed, there are no guarantees. He said The Loan Fund is taking some risk given The Loan Fund is originating loans with maturity dates that are beyond the maturity date of The Loan Fund's loan with the NMSBIC.

Mr. Badal suggested that The Loan Fund's demographics regarding loans to minorities be included in the NMSBIC's annual report.

[Messrs. Pacheco and Loehman left the meeting.]

Chairman Fowler suggested doing a ten-year agreement with The Loan Fund (to 2028), keeping the rate at 2 percent for the first five years. At the end of that period, they would have to renegotiate the rate.

Mr. Badal said he had expressed concern at the last meeting that any new board that comes in not be faced with a steep learning curve. The transition should be as smooth as possible, as this would also benefit the lending partners and their customers. Whatever the term of the agreement, the most important thing is to give stability to the new board.

Mr. Eichenberg noted that the possibility that the Fed could raise the interest rate this year and potentially three times next year. He asked if a caveat should be added to the agreement tying The Loan Fund to their 8 percent target.

Chairman Fowler said he did not think they should be hamstrung to 8 percent because that was their target rate. Any caveat should say that if there is a benefit to this because of rising interest, the benefit should be passed on to the borrower.

Mr. Badal commented that competition is forcing them to keep their rates realistic; but at the same time, there are some loans with higher rates in The Loan Fund's portfolio.

Mr. Cummins noted that there is a provision in the agreement that either party can terminate with 90 days' notice, and the loans then run off in the normal course of business.

Mr. Cummins agreed to ask The Loan Fund to provide their succession plan.

**Ms. Meyers moved that the NMSBIC increase The Loan Fund's ability to borrow up to \$750,000, provided that the increased per loan maximum would only apply to loans secured by real estate. Loan terms to small business would comply with The Loan Fund's loan policy, which indicates that the real estate loan requirements would be: owner occupied only; LTV up to 85% based on appraisal; 1.10 cash flow coverage ratio; FICO >=600; and amortization up to 20 years. Mr. Eichenberg seconded.**

Mr. Badal recommended that The Loan Fund appear before the board, as an information item, to report on the next two loans they make over \$500,000 and up to \$750,000, without disclosing the name of the borrower, to discuss how they put the loan together, what the lending process was, and other relevant details.

**The motion passed unanimously.**

**Ms. Meyers moved to revise the current loan agreement with The Loan Fund to extend the agreement for five years, and to keep the current rate of 2% for the first five years, thereafter reverting to 2.5% until maturity. Mr. Badal seconded the motion, which passed unanimously.**



[Break.]

**ACCION – PROPOSED INCREASE IN MAXIMUM FUNDING AMOUNT:  
MARISA BARRERA, CHIEF STRATEGY OFFICER, EXECUTIVE VICE PRESIDENT**

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Mr. Cummins stated that Accion is requesting a \$2 million increase in their maximum funding amount, from \$7.75 million to \$9.75 million.

Ms. Barrera stated that, between October 2016 and October 2017, Accion experienced a 43 percent increase in the number of loans to New Mexico entrepreneurs, from 290 loans in the previous year to 416 loans over the last 12 months. This is reflective of growing demand around the state.

Ms. Barrera also stated that dollars lent in the last 12 months declined 8 percent from the previous year, which represents a decrease in average loan size from roughly \$15,000 last year to \$9,500 this year. This is important in terms of spreading the dollars Accion has to lend across more small businesses, and is also in line with Accion's more traditional practice of issuing microloans. She said this has largely been by design. She said the active portfolio in New Mexico has grown 21 percent in the last year, to \$13.4 million, which is partly why they are requesting an increase from the NMSBIC.

Ms. Barrera said the lending team looked at the growth issue and how to nurture clients. One idea has been to create a "client ambassador" pilot program. The team of ambassadors consists of four employees in Albuquerque, or 3.5 FTEs.

Ms. Meyers asked what the skillset of these loan ambassadors is. She wondered if they could help clients with their profit and loss statements or balance sheets, for instance. Ms. Barrera responded that, in such cases, the client ambassadors would refer the client to a loan officer or individual with the necessary expertise.

Ms. Meyers suggested it might be helpful to see quantifiable results of the ambassador program, through Survey Monkey, for instance.

Ms. Barrera stated that Accion is focusing on two new organizational goals this year. They have implemented a net promoter score (NPS) survey that they issue electronically to each client after a loan closing. The average score has been 85, which is a very strong score for a financial institution, as 30-40 is the norm.

Ms. Meyers asked how much the NPS costs. Ms. Barrera responded that she did not know, but would report back.

Ms. Barrera discussed efforts made by Accion to offer support to clients, such as "speed coaching" events. In October, they held an event for Native American women entrepreneurs, with more than 75 attendees.

Responding to Chair Fowler, Ms. Barrera said she has been with Accion for 21 years; and as the need grows and Accion stretches its existing resources to get the word out to potential clients, it is always an uphill battle. This is also true with their efforts to inform people about other available resources, including alternative lenders, mission-based lenders, and micro-enterprise development organizations.

She commented that there is always more to be done. Every few years, Accion tries paid advertising to see if it will move the needle, but they are never able to sustain the necessary frequency and duration of those campaigns.

Mr. Garcia asked how Accion treats contributed funds versus borrowed money. Ms. Barrera responded that Accion relies significantly on fundraising to “keep the doors open” in some years, depending on the economy. For several years, their self-sufficiency (percentage of operating expenses covered from earned income) has been about 63-65 percent, so they have to fund-raise the difference. Fortunately, they have a vibrant base of donors in New Mexico and in other states, and they are able to restrict a donation by purpose, geography and timing, depending on a donor’s request. She noted that a multiyear gift from the Kellogg Foundation required that the monies be used in New Mexico and to hire more staff focused on Native American outreach and engagement.

Mr. Badal asked if Accion has calculated how much they would need in total loans to reach 100 percent self-sufficiency. Ms. Barrera responded that they are doing financial modeling right now to determine what steps need to be taken to reach that point. She said they will make a presentation to their board in February and would share that information with the NMSBIC.

Mr. Badal observed that, for the first nine months of 2017, both the percentage of loans charged off to total loans and the allowance for loan losses was up. He asked for information on that. Ms. Barrera responded that they attribute some of that to internal factors; in the first quarter, they transitioned to a new loan software system with unexpected bugs that took longer than expected to fix. In addition to this, Accion is also sensing something in the macro economy that is not yet defined, but they are seeing a delinquency trend similar to one that took place in 2006-2007 preceding the Great Recession. They are also looking at staff training and communication.

Ms. Barrera also stated that, for the first time in her recollection, Accion saw some of its larger loans “in hot water” this year. Some of the loans are in other states. They also became a community advantage lender through the SBA two years ago, and they are seeing “repayment challenges” with a couple of their larger SBA loans, as well. She said they also had a couple of write-offs this year for large loans in Colorado.

Ms. Barrera agreed to provide information on the total number of loans per Accion employee in New Mexico. Mr. Badal said it would be helpful to know if the number has changed in the last few years and if that number has increased and could therefore be a reason behind slippage in loan performance.

[Ms. Barrera left the meeting.]

Mr. Cummins stated that the NMSBIC’s current loan agreement with Accion has the following terms:

- \$7.75 million maximum funding amount
- 3.0 percent interest rate, with losses to NMSBIC capped at 1 percent per year
- 75/25 participation, 75 percent of loans funded with NMSBIC funds, 25 percent with Accion funds
- No maturity date, can be terminated by either party with 90 day’s notice, and outstanding loans will run off in the normal course of business.



Mr. Cummins said NMSBIC increased Accion's limit by \$1.25 million in December 2016, which they used in about six months. Accion has indicated that they feel they can deploy the \$2 million increase being requested over the next 12 months.

Mr. Badal said he found it troubling that Accion lost a senior loan officer, and decided not to replace that person in spite of aggressive growth. He wondered if this was contributing to their charge-offs and a need to increase their loan loss reserves. He also expressed concern about a focus on marketing and areas not related to lending.

Mr. Eichenberg expressed concern over a 20 percent increase in write-offs since the NMSBIC increased their credit limit just 12 months ago.

Mr. Badal agreed, and said he wants to be sure there is no further increase in loan losses.

Ms. Meyers noted Ms. Barrera's statement that Accion experienced a 43 percent increase in loans for the 12-month period between October 2016 and October 2017, but yet decided not to replace a senior loan officer. She said she doesn't believe it's our place to micro-manage what Accion does with staffing or marketing, but it is our place to decide if we increase our lending limit. Ms. Meyer's said she believes key concerns are the increase in loans combined with an increase in loan losses.

Chairman Fowler added that Accion appears to have shifted their focus back on smaller loans, which can be less efficient in terms of self-sufficiency.

Mr. Eichenberg suggested the item be tabled, and that Mr. Cummins communicate these concerns with Accion.

Mr. Cummins said he would convey the board's concerns to Accion.

#### **EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT**

Mr. Cummins reported that he attended the New Mexico IDEA meeting last week with Mr. Morgan and Mr. Eichenberg. He thanked them for being terrific ambassadors and supporters of NMSBIC. He said he made a presentation about the NMSBIC's programs, including number of jobs created based on BBER's numbers, and felt it was very well received. He said one of the participants at the meeting asked how much demand there is for Community Development Financial Institution (CDFI) lending, and would there be an opportunity to double or triple the program.

Mr. Morgan commented that Mr. Cummins did an excellent job, and it was obvious that the audience was very tuned in to his comments.

Mr. Cummins said he would consult with Jeff Mitchell at BBER regarding the question about how much demand exists for CDFI lending.

#### **2018 NMSBIC BOARD MEETING DATES INFORMATION**

[Informational.]

**DIRECTOR FINANCIAL DISCLOSURE FORM TO SECRETARY OF STATE**

Mr. Cummins stated that he would be forwarding the disclosure forms to board members as soon as he received them. They are to be filled out and returned to the Secretary of State, and are due at the end of January.

**BOARD CONTINUING EDUCATION**

Mr. Cummins stated that the board would be reviewing IRS Form 990 at its next meeting. NMSBIC policies related to questions on IRS Form 990 are detailed in today's board package on page 61.

**CHAIRMAN'S COMMENTS**

Chairman Fowler thanked board members individually for their support, humor and leadership throughout this past year, and Mr. Cummins for his dedication and hard work.

**ADJOURNMENT**

Its business completed, the board adjourned the meeting at 12:05 p.m.

Accepted by:

A handwritten signature in black ink, appearing to read "Alan Fowler", written over a horizontal line.

Alan Fowler, Chair