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NM SMALL BUSINESS INVESTMENT CORP

March 22, 2010

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MINUTES OF THE
REGULAR MEETING
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

March 22, 2010

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at approximately 9:00 a.m. in the conference room of the WESST Enterprise Center, 609 Broadway Boulevard, N.E., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair

Mr. Kit Caldwell

Mr. Sam Cobb, Vice Chair

Ms. Mary A. Garza

Mr. Billy Knight

Mr. Greg Kulka [designee of Adam Levine, Board Secretary]

Ms. Marie Longserre, Treasurer

Mr. Clarence L. Smith [designee of State Treasurer James Lewis]

Members Excused:

None.

Legal Counsel to Board:

None.

Financial Advisor to Board:

Mr. Paul Goblet

Guests Present:

None.

APPROVAL OF AGENDA

"Financial Report" was added to the Agenda.

Upon motion by Ms. Garza and seconded by Ms. Longserre, the Agenda was approved by voice vote, as amended.

APPROVAL OF MINUTES: February 22, 2010

Mr. Knight moved for approval of the February 22 Minutes, as submitted. Ms. Garza seconded the motion, which passed by voice vote.

FINANCIAL REPORT

Mr. Goblet distributed spreadsheets for FY 2009/10 and FY 2010/11. He said he would be providing these to the accountants and thought this new and clearer format would be a valuable tool for the Board in the future.

Mr. Goblet stated that he has projected total operating revenues of \$589,000 and operating expenses of \$264,000, for a gross income total of \$325,000 for the current fiscal year.

In reviewing management fees/expenses and fund losses/gains, Mr. Goblet stated that he was projecting a \$2.7 million loss this fiscal year based on what he expected to be about \$2 million in losses from the funding partners (based on mark-to-market valuations) and \$700,000 of projected expenses.

Mr. Goblet stated that the NMSBIC has to come up with about \$1 million a year to pay management fees and fund expenses. He added that the NMSBIC was able to cover that expense in the past thanks to higher interest rates on CDs and fewer management fees, but now that money will come from the fund corpus.

Mr. Goblet noted that the NMSBIC will have \$2.9 million in uncommitted capital going forward, and that number will not change unless/until the Board decides to invest it in an existing or new relationship.

Mr. Cobb commented that the NMSBIC is going to have to decide how much cash it needs in order to continue to have meetings, pay its expenses and to stay solvent in the future.

Mr. Goblet pointed out that the NMSBIC will still have \$12 million of cash in the bank as of December 2011 (after capital calls of \$8+ million); and if interest rates go up to 2%, for instance, the NMSBIC will generate \$200,000 of interest income plus additional income from ACCION, The Loan Fund, etc. Based on these numbers, he said the NMSBIC is not even remotely close to being unable to cover its operating expenses, which are essentially fixed, for the next three years.

Mr. Cobb questioned why the entire \$12 million wasn't going to be spent in capital calls, and Mr. Goblet responded that, based on his own experience and observations over the years, he felt that would not happen.

Mr. Kulka said his experience over the past couple of years is that everybody is calling all of their capital because their companies are struggling, they are unable to exit investments, and they need to put more equity back in to maintain their value. He predicted that, given the early stage venture funds the NMSBIC is invested in, "99.9%" of the capital would be called by these funds.

DISCUSSION AND POSSIBLE VOTE ON MATURING CDS

Mr. Goblet stated that NMSBIC has two CDs maturing in late February at LANB totaling \$8,000,000. He said he has asked several banks to provide bids with 102% collateralization.

Mr. Goblet said the NMSBIC received the following bids:

Wells Fargo

12 months	.42BP
18 months	.42BP
24 months	.95BP

Bank of ABQ

12 months	.25BP
18 months	.51BP
24 months	.88BP

Bank of the West

12 months	.36BP
18 months	.67BP
24 months	.93BP

LANB

12 months	.50BP
18 months	.60BP
24 months	.75BP

First Community

12 months	1.05BP
18 months	1.40BP
24 months	1.70BP

Mr. Goblet said he asked for 3-month and 6-month rates from LANB and First Community:

LANB

3 months:	.25BP
6 months:	.60BP

First Community

3 months:	.55BP
6 months:	.75BP

Given that the NMSBIC is at least 100% collateralized at both LANB and First Community, and given that both institutions have quoted higher rates, Mr. Goblet recommended that the NMSBIC roll \$5,000,000 of the maturing CDs into a new 6-month CD at LANB at a rate of .60%, assuming 102% collateralization.

Mr. Goblet recommended that the NMSBIC not diversify into a 12-month CD at any of the new institutions listed given that the highest rate proposed was .67 basis points. He said it would result in \$8,500 in higher return, but would lock the money up for 12 months at a time when rates are expected to trend higher over the next 6 months.

Mr. Goblet recommended that the Board approve the transfer of the remaining balance at LANB (principal and interest) to First Community Bank, with \$3,000,000 placed in a 6-month CD at .75 basis points and the remaining balance in the High Net Worth Money Market Account, which currently pays .75%, both collateralized at 102%.

Mr. Goblet said this would give the NMSBIC approximately \$10 million at First Community Bank.

Mr. Knight moved these recommendations. Mr. Cobb seconded the motion, which passed by voice vote.

PRIMARY DISCUSSION AND POSSIBLE VOTE

- **What should the NMSBIC do as it relates to its uncommitted funds from a short term perspective?**
- **Should the NMSBIC contemplate seeking additional capital?**

Mr. Goblet reviewed his memorandum entitled, "Thought Process for the Board."

Mr. Goblet stated that his last Advisor's Report laid out four options for the Board to consider, and he has added two more since then. He said he had no recommendations at the current time, but would comment on each:

1. **Expand our current lending relationships.** He believes each of the current lending partners has sufficient access to enough capital from NMSBIC to carry them until September 2010, and no further action is necessary at this time. The Board might opt to consider partnering with Enchantment Land Development, an SBAC 504 processor that wants to create a new loan fund.

2. **Explore some method of investing in affordable worker housing.** He personally does not believe it is the central purpose or mission of the NMSBIC to

promote or secure housing; however, under its current investment guidelines and parameters, the Board might want to consider forging a relationship with the New Mexico Finance Authority. It could put \$1 million into a fund, matched by MFA, that would be focused on rural affordable housing and managed by MFA. The NMSBIC's call is to make loans to small businesses and make equity investments in small businesses, and there is enough latitude to structure such a relationship.

3. Look at micro-equity opportunities. There are currently two opportunities to invest very small amounts of capital in micro-equity funds: a) The NMSBIC is the only LP in the Gap Fund, and could amend the documents and extend the investment life of the Fund by another year by allocating another \$500,000 to it. b) KickStart is a \$5 million fund in Salt Lake City, but a representative resides in Albuquerque and they have made one investment in a New Mexico company. They typically invest \$250,000 to \$500,000. The NMSBIC would require that they invest in New Mexico only.

4. Participate in newly formed funds. Verge Fund 2 will come before the NMSBIC in the fall, when they will try to do a second close—the NMSBIC previously committed \$3 million to them predicated on a \$6 million close, which they were unable to achieve. Flywheel had a first close of \$6 million and will have another \$4 million close in April. They have invested in four New Mexico companies. Cottonwood Technology, a new fund, has had a first close. Given the NMSBIC's existing capital, he does not see how it could commit much more than \$500,000 to \$1,000,00 in any of these entities.

5. Hold \$2.9 million in reserve through June 30 and perhaps longer.

6. Think about securing additional funding in 2011.

Mr. Smith commented that this is election year and legislators are going to be asking where the jobs are being created.

Mr. Goblet agreed. He said the biggest bang for the buck comes from the NMSBIC's lending activity through The Loan Fund and ACCION. He added that ACCION and The Loan Fund would not have been as prolific as they have been over the past four years were it not for NMSBIC.

Mr. Goblet said he personally thought the NMSBIC should ask the Legislature for another 1.5% from the Severance Tax Permanent Fund. He said the fact that there is only \$2.9 million in uncommitted capital left impairs the Board's ability to make any additional commitments (other than very minor ones) for probably the next two years, yet now this kind of capital is needed more than ever.

Board members discussed strategies for laying the groundwork for a future commitment request.

Ms. Longserre said a very important point to make to legislators is that the venture funds are here because the NMSBIC made that possible for them years ago—and if there is no more capital to keep them going, then these delivery systems will shrink and eventually disappear and the funds will leave the state in search of support.

Mr. Kulka pointed out, though, that legislators are now focusing on financial returns, and the fact that the NMSBIC has essentially experienced \$7 million in losses is not going to go over very well in the current environment.

Chairman Baca agreed with a point raised by Ms. Longserre that the economy will eventually come back, and by sustaining itself through this difficult period, the NMSBIC will be poised and ready to commit funding where it is needed.

Mr. Kulka clarified that the Severance Tax Permanent Fund would have to go up by 35-40% for the NMSBIC to get another dollar from it.

Mr. Cobb said he wasn't averse to asking for more money from the STPF, but would prefer not to do it in the next Legislative Session.

Ms. Longserre suggested that, before the Board discusses what to do with the \$2.9 million, it come to a conclusion about what it wants to do in terms of requesting additional capital from the Legislature. She said she personally would prefer to see the NMSBIC begin laying the groundwork now for a "hard ask" two or three years down the road, because it will take that long to do the homework—which includes talking to key legislators about what the NMSBIC's vision is in the next few years.

Board members agreed with Ms. Longserre.

In discussing the \$2.9 million left in uncommitted cash, Mr. Cobb pointed out that the NMSBIC still has a lot of reserve with its existing equity partners if some deals come along—it can still have positive impacts on the state of the economy in New Mexico.

Mr. Goblet said the NMSBIC's lending commitments are at \$12,816,000, with \$4.9 million to ACCION and \$7.5 million to The Loan Fund, but the NMSBIC has lent out \$24.5 million because the money has been recycled. He said this amounts to 1,800 loans in every community in New Mexico—so the biggest bang for the buck is through its lending partners rather than its private equity partners.

Mr. Goblet asked the Board to consider how much it wants to set aside out of the \$2.9 million for lending activity.

Ms. Longserre suggested, for discussion, allocating the \$2.9 million as follows:

- Set aside \$500,000 in reserve with no special purpose in mind right now. Reevaluate it in December 2010: is it enough, etc.
- Consider about \$1,000,000 for the lending partners.
- Consider about \$1,000,000 for micro-equity.
- Hold the remaining \$400,000 and see how things are this summer. Maybe something new will come up.

In support of Ms. Longserre's suggestion about micro-equity investments, Mr. Goblet noted that the Gap Fund has invested in ten companies for a total of 35 employees and the Verge Fund has invested in 13 companies for a total of 81 employees.

Board members expressed support for Ms. Longserre's suggestion.

Mr. Kulka asked Ms. Longserre if she had a timeline in mind for the lending and micro-equity commitments.

Ms. Longserre responded that she was just expecting the NMSBIC to be available for good deals and was not thinking of any particular window. She said she envisions the NMSBIC looking at deals as they come forward on a case-by-case basis.

Responding to suggestions from Mr. Kulka and Ms. Longserre, Board members agreed that NMSBIC should consider exploring relationships with micro-equity investors such as the Gap Fund and KickStart (vSpring).

Mr. Goblet said The Loan Fund has another capital call to make, so has sufficient funding until fall. He stated that ACCION is not expected to request any additional funding.

Mr. Goblet reviewed ACCION New Mexico's Quality Control Report for the 4th Quarter 2009, prepared by Scott Edwards of Edwards & Associates, an independent third party that has been performing quarterly reports for ACCION for two years. He called attention to a finding that ACCION should seriously consider significantly curtailing its Task Force lending due to the uncertainty of the near term economic outlook, because "unless a loan request is just AAA, the size of these loans pose unnecessary risk to ACCION and its future ability to accomplish its mission."

Mr. Goblet commented that this finding speaks to the nature of ACCION's lending activity and the clientele they have; however this is a healthy process and a best practice because it brings discipline to an organization, and is what Mr. Cobb has been recommending as an important process for The Loan Fund to follow.

Mr. Cobb said he has several concerns about The Loan Fund. He said one is whether loans in the portfolio are being carried at a reasonable valuation. He said another is that they are restructuring nonperforming loans to make them performing loans, which he did not think was part of the original deal. He said it is one thing for a lending partner to ask to restructure a loan to avoid having to charge it off; however, in his opinion, this has been going on without the Board being informed of it. He expressed concern that The Loan Fund continues to come forward asking for more money without enough fiscal restraint.

Mr. Goblet said he had noted Mr. Cobb's concerns, and would add that the \$7.5 million lent to The Loan Fund represents about 20% of the NMSBIC's capital. He also stated that the NMSBIC represents about 50% of The Loan Fund's capital base.

In terms of what Edwards could do to address Mr. Cobb's concerns, Mr. Goblet said it is mechanically impossible to go inside The Loan Fund's portfolio and look at the underlying loans to determine how they are valued or what the underlying collateral is.

Mr. Kulka said somebody from the outside should look at the procedures The Loan Fund is following, which includes valuation of individual loans, and whether or not the procedures are reasonable.

Mr. Goblet explained that, regardless of what the Board may or may not want to do, it is impossible to gather any kind of assessment as far as the value of The Loan Fund's loans are—they are booked at whatever the loan is, and if it is a performing loan, it stays in the portfolio; otherwise, it is written off.

Mr. Goblet stated that would provide the Board with portfolio at-risk information for The Loan Fund in future monthly packets.

Mr. Goblet stated that he would meet with The Loan Fund on April 1 and Mr. Pacheco would be making a presentation at the April Board meeting.

NEW BUSINESS

It was noted that Ms. Longserre's and Ms. Garza's appointments would be up in September.

EXECUTIVE SESSION [If Necessary]

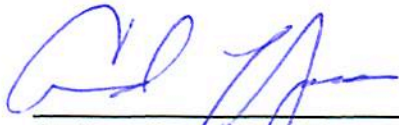
None.

NEXT MEETING

Monday, Monday, April 19, 2010: MFA

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 12:10 p.m.



Andrew Baca, President

5/24/10

Date



Adam Levine, Secretary

6/1/10

Date