

INDEX OF MINUTES

NM SMALL BUSINESS INVESTMENT CORP

August 23, 2010

<u>Item</u>	<u>Action</u>	<u>Page</u>
<u>APPROVAL OF AGENDA</u>	Approved	2
<u>APPROVAL OF MINUTES</u> June 21, 2010	Approved	2
TREASURER'S REPORT AND COMMENTS FROM CONSULTING CFO DEE BRESCIA	Informational	2
ELECTION OF NMSBIC BD SECRETARY	Mary A. Garza	3
VOTE ON MATURING CD'S DISCUSSION RE: OPERATING ACCOUNT	Approved	3
ADVISOR'S REPORT	Informational	5
REVIEW OF SIC PRESENTATION	Informational	7
ADDITIONAL COMMITMENT TO THE LOAN FUND	Approved in principal w/ certain conditions	8
DISCUSSION RE: ADDITIONAL NMSBIC FUNDING	Wait until after elections	10
VENTURE CAPITAL IN THE ROCKIES EVENT SEPT. 15-17	Approved expenditure	11

MINUTES OF THE

REGULAR MEETING

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

August 23, 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 New Mexico Mortgage Finance Authority, 344 S. Fourth Street, S.W., 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, Secretary

Mr. Billy Knight

Mr. Greg Kulka [State Investment Council designee]

Ms. Marie Longserre, Treasurer

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

Members Excused:

None.

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Consulting CFO:

Ms. Dee Brescia

Recording Secretary:

Ms. Judith S. Beatty

Guests Present:

None.

APPROVAL OF AGENDA

Upon motion by Mr. Smith and seconded by Mr. Knight, the Agenda was approved by voice vote, as published.

APPROVAL OF MINUTES: June 21, 2010

Mr. Cobb moved for approval of the June 21 Minutes, as submitted. Mr. Caldwell seconded the motion, which passed by voice vote.

TREASURER'S REPORT AND COMMENTS FROM CONSULTING CFO DEE BRESCIA

Ms. Brescia presented the preliminary June and July financials.

Ms. Brescia explained that the June financials are preliminary because not all of the 2010 Q2 reports have been received from the equity partners, although those reports are expected within the next two weeks. She said the July financials cannot be finalized until the June investment entries are in.

Ms. Brescia said the audit is scheduled for the week of September 13.

IRS Report

Mr. Goblet stated that the IRS has advised that, due to a backlog, it will be another 45 days before any meaningful communications should be expected.

IPRA Request

Mr. Goblet referred to a Certified letter from Matthew D. Lowe, requesting copies of various NMSBIC documents dating back to 2003, including all communications (written, electronic, telephonic or other) from or to Lt. Governor Denish or her representatives sent to or from SBIC, its board or SBIC financial partners regarding any application for funding, grants or loans for SBIC funds or SBIC-related funds.

Mr. Lowe authorized an expenditure of up to \$250 and asked that he be contacted for approval if the cost was to exceed that amount.

Mr. McDonald said he would make arrangements to have the named documents made available to Mr. Lowe.

ELECTION OF NMSBIC BOARD SECRETARY

Mr. Goblet noted that the State Investment Officer has recommended that the SIC representative on the NMSBIC Board (currently Greg Kulka) not also be an officer of the Board.

Ms. Longserre nominated Mary Garza as Board Secretary. Mr. Cobb seconded the motion.

There were no more nominations.

The motion passed by voice vote.

Ms. Longserre noted that her term and Ms. Garza's term will officially end in 45 days.

Reading from statute, Mr. McDonald noted, "Each director shall hold office for the length of his term in office or until a successor is appointed or elected and begins service on the board."

DISCUSSION AND VOTE ON MATURING CD'S **DISCUSSION REGARDING OPERATING ACCOUNT**

Mr. Goblet noted that First Community Bank was de-listed three weeks ago from NASDAQ, and there is a possibility that they will be seized by the regulators in the coming months. He stated that, while he was confident of the status of the pledged collateral supporting the NMSBIC's deposits, the process of making a claim to the Federal Home Loan Bank would be costly both in time and expense should the bank fail. He therefore recommended that the NMSBIC remove the \$6,148,860 CD, which matures on August 25, and the remaining \$1,503,000 CD when it matures on September 22.

Mr. Goblet said the NMSBIC's operating accounts are with First Community Bank, and in order to satisfy whatever capital call might occur over the next three months, the NMSBIC would need to keep about \$1,000,000 in the wealth management account. He said that, based on his experience, First Community Bank or its surviving entity would keep its existing people and services in place in the event of a merger or FDIC takeover.

Ms. Longserre said she would recommend establishing a backup operating/ACH account with another bank just to be sure the money is readily accessible. She said if there is a problem with First Community, the monies could be locked up for a certain period of time.

Ms. Brescia agreed with Ms. Longserre.

Mr. Goblet said he has resisted utilizing the CDARS program in an attempt to keep NMSBIC's deposits exclusively in New Mexico banks. He said the program, managed by several local banks including First Community, deposits \$250,000 in multiple state and local banks, hence keeping deposits down to the FDIC insured level.

Mr. Goblet reviewed bids he had received from local banks for 3, 6, 12 and 18 month CDs and for CDARS.

Mr. Goblet noted that the NMSBIC has approximately \$10,250,000 in maturing CDs. He stated that, given that New Mexico Bank & Trust participates in a two-way CDARS program, and that their rates are higher than comparables, he would recommend the following:

- Deposit \$1,750,000 in First Community interest bearing NOW money market account at .20% which is 100% guaranteed by the FDIC.
- Deposit \$8,500,000 in NM Bank & Trust for participation in their CDARS program as follows:
 - 1) \$3,000,000 in a 91-day set of CDARS at .34%.
 - 2) \$2,500,000 in a 6-month set of CDARS at .30%.
 - 3) \$3,000,000 in a 1-year set of CDARS at .48%.

Ms. Longserre so moved, with the following amendment:

- Establish a regular checking and operations account at another bank.

Mr. Cobb seconded the motion.

Mr. Goblet reminded the Board that the NMSBIC will have \$1.5 million in CDs remaining at First Community Bank, scheduled to mature on September 22.

Mr. Kulka recommended that the \$2.5 million in the 6-month CDARS be put into a 91-day CDARS instead, since it would bring in 4 additional basis points.

The motion was further amended as follows:

- 1) \$5,500,000 in a 91-day set of CDARS at .34%.
- 2) \$3,000,000 in a 1-year set of CDARS at .48%.

Mr. Caldwell asked if it would make more sense to put the entire \$8.5 million into a 1-year CDARS, given the higher return.

Mr. Kulka expressed concern about locking the money up for that length of time given the prospect that rates might begin to creep up in the interim.

On the matter of the \$1.5 million CD maturing at First Community on September 22, Mr. Caldwell said he was personally uneasy over the idea of waiting another 5 weeks.

Mr. Cobb agreed.

Mr. Goblet said there would be no penalty for early withdrawal, based on his discussions with First Community.

Ms. Longserre and Mr. Cobb agreed to an amendment that the \$1.5 million CD currently at First Community be added to the \$5.5 million 91-day set of CDARS at .34% at New Mexico Bank & Trust.

The motion passed by voice vote.

ADVISOR'S REPORT

LGIP Update

Mr. Goblet reported that the State Treasurer held an excellent meeting in early August at Mesa del Sol, which was attended by Rosie Rios, Treasurer of the United States. He said there was discussion about the status of the Reserve Primary Fund lawsuit. He stated that, once the distributions are finalized, the NMSBIC may have to write off the remainder of its restricted account, which may result in an investment loss of about \$7,500.

ACCION

Mr. Goblet stated that, as the Board is aware, ACCION's portfolio has been running off for the past approximately 18 months and is now below \$3 million. He said their losses for the fiscal year slightly exceeded \$150,000; and according to their agreement with NMSBIC, any amount exceeding that is reduced from the facility. He said the facility now stands at \$4,929,000.

Mr. Goblet said he had a 2.5 hour meeting with Leslie Hoffman, ACCION's head of lending, and her collection team, to discuss collection practices and protocols, loan losses exceeding \$10,000 (19 to date), actions taken by ACCION to date on those loans, and follow-up quarterly collection reporting on the status of the loans.

Mr. Goblet stated that, while ACCION is seeing a continued decrease in quality of loan applicants and has turned down far more loan requests than historically, he specifically did not encourage ACCION to loosen up its credit approval process. He

said he met with ACCION recently about the possibility of reducing the current facility to \$4,000,000 in order to free up capacity elsewhere. He said the portfolio now stands at \$2.8 million.

The Loan Fund

Mr. Goblet stated that The Loan Fund had several loans repay this quarter, which caused a repayment of \$111,000 in principal to the NMSBIC. As of June 30, he said the loan balance stood at \$7,180,305, leaving \$320,000 in capacity.

Mr. Goblet said only four loans are more than 90 days past due in The Loan Fund portfolio, totaling \$224,358.

WESST Corp

Mr. Goblet reported that WESST Corp's portfolio totals \$134,507 in 14 active loans, with one problem loan more than 90 days past due.

New Lending Relationship

Mr. Goblet stated that Enchantment Land CDC, the largest 504 loan processor and lender in the state, has formally requested that the NMSBIC consider a \$1.5 million commitment and the establishment of a new loan fund. He said ELCDC would put up \$500,000 of capital, in a similar structure to the NMSBIC's relationship with ACCION, calling for a loan participation at 75%/25%.

Mr. Goblet stated that he feels ELCDC would be a viable new partner for the NMSBIC, but with a different structure. Given that they are a subordinated lender, he said he has suggested that the NMSBIC start with a \$1,000,000 commitment, and that this be a loan facility rather than a loan participation arrangement, levered 2 to 1 rather than 3 to 1. He said ELCDC would be in a first loss position, continuing as a subordinated lender.

Mr. Goblet said ELCDC has an 18 year track record of lending in New Mexico with extremely good (less than 2%) loan losses.

Mr. Goblet stated that ELCDC would have clientele similar to that of The Loan Fund and would use the same delivery sources. He said a typical loan would be \$30,000 to \$40,000 for working capital, which would be support by bricks and mortar assets or other collateral.

Mr. Goblet said this was an informational item for the Board at this point, as he was not sure ELCDC would pursue his proposed arrangement.

Mesa Ventures

Mr. Goblet stated that Agavue's funding partner has agreed to put up \$25,000 to the Fort Worth, Texas bankruptcy court to acquire all of the remaining assets of One Connect IP. He said the agreement with their funding source was that the assets they purchased would be offered to the existing shareholders of One Connect IP on a subscription basis. He stated that this was a way of trying to give the existing shareholders an economic stake in the going-forward company, Agavue, should it be successful. He said Mesa has agreed to purchase all unsubscribed shares once the process is concluded; as a result, NM Growth Fund I will have an opportunity to subscribe for its portion at a cost of about \$13,000.

Regarding NM Growth Fund II, Mr. Goblet said Mesa was threatened in a lawsuit by GemCap as it related to High Desert Chile (now Hatch Valley Farms), and he has told Mesa Ventures very emphatically that he does not want the Deming facility encumbered. He said it appears as if the majority of the proposed settlement will come from their D&O carrier and that the potential suit will be resolved.

Other Equity Partners

Mr. Goblet stated that information on the other equity partners was in his Advisor's Report for review.

REVIEW AND DISCUSSION ON SIC PRESENTATION

Mr. Kulka said the Investment Oversight Committee had asked the State Investment Office to make a presentation concentrating on Economically Targeted Investments. Mr. Kulka stated that he felt it would be more appropriate for Mr. Goblet to make such a presentation, which occurred in early July.

Mr. Goblet reviewed his updated report, which noted that, since February 2004, over \$28 million has been lent to 1,900+ small businesses, generating an estimated \$200 million in annualized revenues.

Mr. Goblet spoke to the success of the IOC presentation, with 14 committee members present. He said there were no questions at its conclusion.

Mr. Goblet said he thought the document was a valuable tool that should be regularly updated as the NMSBIC moves forward.

DISCUSSION AND POSSIBLE VOTE REGARDING ADDITIONAL COMMITMENT TO THE LOAN FUND

Mr. Goblet reviewed an increased commitment proposal that would increase The Loan Fund capacity to \$8,500,000. He said their current credit facility is at \$7,500,000, the portfolio has now grown to almost \$7,200,000, and The Loan Fund recently requested \$1,000,000 in added capacity.

Mr. Goblet said The Loan Fund has put forth a business plan that suggests that their portfolio would increase to \$16,000,000 in three years. In meetings with The Loan Fund, he said he has stressed the need for them to expand their funding sources and reduce the NMSBIC's percentage of the total loan portfolio, which is now at 77%.

Mr. Goblet presented the following proposed terms. He said this is a dual proposal, so the Board can consider each piece separately:

1. Increase the credit facility by \$1,000,000 to \$8,500,000, subject to the following restrictions:

- That the NMSBIC's portfolio represent no more than 65% of The Loan Fund's total loan portfolio.
- That the debt to equity ratio is no greater than 9 to 1.
- That the NMSBIC portfolio remain 100% collateralized with specifically identified loans, none of which are greater than 180 days past due.
- That the increased capital be used for new loan origination, not loans that have been part of the total portfolio longer than 90 days.
- That none of the NMSBIC's loans are amended or restructured more than once in any calendar year beginning 6/30/2010.

2. Release the current 5% over-collateralization subject to:

- Continued low loan loss experience as an organization, which means less than 3% annually.
- Continued low nonperforming assets, which means less than 7% of the NMSBIC's portfolio is greater than 90 days past due during any quarterly reporting period. Should either of the two above loan covenants be broken, the 5% over-collateralization would have to be restored.

- That the current pool of loans being pledged as over-collateralization be used as loans funded by other partners.
- No breach of the prior conditions mentioned as part of the increase in the facility to \$8,500,000.

Mr. Goblet stated that The Loan Fund has recently received a \$1,000,000 lending commitment from Calvert Foundation and \$500,000 from the SBA.

Mr. Goblet also clarified that The Loan Fund has another \$300,000 to draw on from the NMSBIC; however, if the Board agrees to this proposal, The Loan Fund would no longer have access to those monies because a new agreement would be in place and the related new constraints would be in effect.

Mr. Goblet said both parts of the proposal are essentially linked—by having the 5% (approximately \$380,000) freed up, which is currently frozen on their balance sheet, The Loan Fund then would have a better ability to get into compliance with the 65% requirement.

Mr. Goblet commented that he would not consider proposing the release of the 5% if the NMSBIC had incurred losses or if the portfolio showed a large percentage of nonperforming past due loans; however, given the excellent performance since 2007, when the over-collateralization was established, he thought it had served its purpose. He pointed out that, if the loan portfolio quality were to deteriorate, the requirement would be reestablished.

Mr. Cobb expressed concern about releasing the 5% over-collateralization. He stated that, if The Loan Fund gets into any kind of issue in the future relative to loan quality, the NMSBIC will have lost any opportunity to re-impose the collateralization requirement. He stated that he did not see this as a punitive thing, but rather as good business practice.

Mr. Kulka agreed with Mr. Cobb, and suggested putting #2 on hold and moving ahead with #1 and focusing on getting the percentage down to 65%.

Mr. Cobb said the New Mexico economy is potentially on uncertain ground at the current time, but if/when things improve, the NMSBIC can then consider releasing the 5% requirement.

Mr. Caldwell added that he would like to see their audited financials for the fiscal year along with interim financial statements.

Mr. Knight said he could personally attest to the effect that The Loan Fund has had on businesses in the northern part of the state—they are picking up the slack that banks are unable to deal with—and he would not want to see the NMSBIC hamstringing them in any way. He said he thought the 65% ratio was a fair goal for The

Loan Fund to achieve, at which point the NMSBIC could then consider removing the 5% collateral restriction.

Mr. Cobb moved that the Board agree in principal to move forward with the \$1 million additional funding plus the remaining \$300,000 subject to the conditions in paragraph 1 in Mr. Goblet's proposal, and that when they reach the ratios described in paragraph 1, the Board will consider releasing the 5% over-collateralization requirement; and that the final vote be taken next month; and that Mr. Goblet will provide the documents required by Board members.

Mr. Knight seconded the motion, which passed by voice vote.

DISCUSSION REGARDING ADDITIONAL NMSBIC FUNDING

Mr. Goblet asked the Board to consider strategizing at this point about the feasibility of seeking additional funding during the 2011 Legislative Session. He noted that the STPF is currently valued at about \$3.1 billion; and while requesting an increase of 1-1/2% now would not result in an immediate infusion of capital, it would ensure that the NMSBIC could receive an annual increase of some amount in the coming years.

Mr. Goblet said he felt the NMSBIC merited an increase, given that it is the most successful small business lending program in any of the Southwestern states.

Mr. Kulka reported that some members of State Investment council Board would not be supportive of an increase in the percentage of the STPF for the NMSBIC.

Mr. Cobb suggested waiting until after the November elections before discussing strategy, and Board members agreed.

On another matter, Mr. Goblet said he and other groups received a broadcast call from Sen. Bingaman's office regarding a proposed Senate bill in Congress that is an economic development incentive for small businesses. If passed, he said New Mexico could receive as much as \$14 million. He said the question raised was whether this was something that the Senator should support. He said he forwarded this to Lt. Governor Denish's office, because this is something that the State has to address. He said it was in the packet as an informational item based on the possibility that the NMSBIC could act as a conduit for this capital.

Mr. Kulka suggested that Mr. McDonald investigate whether the NMSBIC could accept money from this funding source, should it materialize.

Finance New Mexico Year End Review

Mr. Goblet said he had forwarded a report to Board members prior to this meeting. He noted that this is the third full year of producing articles and packaging key economic activities into a weekly printed and electronic broadcast by Finance New Mexico, and commented that he was not sure there was a better vehicle to communicate business-related activities in the state of New Mexico.

Ms. Longserre commended The Holly Company for this very understandable and comprehensive report and for their continued excellent work on behalf of the NMSBIC.

Website

Mr. Goblet reported on progress with the website.

Venture Capital in the Rockies

Mr. Goblet stated that the New Mexico Venture Capital Association will be bringing its regional event to Santa Fe in 2010, scheduled for September 15-17. He said the cost would be about \$500, which is a 50% discount, and asked if the Board feels he should attend on behalf of the NMSBIC.

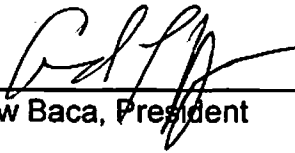
Mr. Knight moved to approve this expenditure. Mr. Cobb seconded the motion, which passed by voice vote.

NEXT MEETING: Monday, September 20, 2010

Mr. Goblet said the next meeting will be held at WESST Corp's Enterprise Center.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 12:30 p.m.



Andrew Baca, President

September 20, 2010



Mary A. Garza, Secretary

September 20, 2010