

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

June 25, 2021

A meeting of the Board of Directors of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. via teleconference. A quorum was established.

Members Present

Mr. Joseph H. Badal, Chair

Mr. Guadalupe Garcia, Vice Chair

Mr. Steven E. Morgan, Secretary/Treasurer

Ms. Heather Benavidez, designee of Hon. Tim Eichenberg, NM State Treasurer

Ms. Roxanna Meyers

Mr. Alan Fowler

Members Excused

None

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair

Guests Present

None.

Mr. Cummins stated that he failed to provide the required 72-hour notice for this meeting, and that Mr. McDonald had suggested proceeding with the meeting and that the board could ratify today's actions in another meeting. Chairman Badal has agreed with that.

Board members agreed to hold a special board meeting at 9 a.m. on Tuesday, June 29, 2021 for this purpose.

Mr. Morgan so moved. Mr. Fowler seconded the motion, which passed unanimously by roll call vote.

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Garcia moved acceptance of the agenda, as published. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

Chairman Badal said he planned to discuss resuming in-person meetings under Chairman's Comments later in the agenda.

BOARD MINUTES FOR APRIL 23, 2021

Mr. Fowler moved acceptance of the minutes of the April 23, 2021, meeting, as submitted. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

FINANCIAL REPORTS AS OF FEBRUARY 28, MARCH 31, APRIL 30 AND MAY 31, 2021

Mr. Cummins said there were no major changes to the loan outstanding balances.

Mr. Cummins noted that the New Mexico Gap Fund was closed. On April 30 two transactions occurred: 1) NMSBIC purchased two convertible notes from New Mexico Gap Fund and 2) NMSBIC purchased, at a discounted price of 25 percent, the minority interests from the other partners. Changes are reflected on the balance sheet as a new category.

Mr. Cummins said available funds reflect \$2.1 million available, but a JPA is still being finalized with New Mexico Economic Development Department. Also a rough calculation shows expected net excess funds of approximately \$539,000 may be returned to the Severance Tax Permanent Fund, leaving \$87,000 in available funds.

Mr. Cummins said DreamSpring has drawn all of the NMSBIC's \$35 million committed for PPP loans. The PPP program was extended from March 31 to May 31, 2021 and lenders have an additional 30 days to close loans in process. He expects DreamSpring will still be pledging closed PPP loans to the Federal Reserve in July. As loans are forgiven, which is expected to take several months, he expects the outstanding loan balance will be reduced.

Mr. Cummins stated that Shelly Brown with the local district office of SBA indicated to him they do not expect any additional rounds of PPP loans.

Mr. Cummins noted that the DreamSpring agreement says that if they don't use those funds for six months, NMSBIC could unilaterally decrease their commitment. At the August meeting, he plans to propose that the NMSBIC do a modification agreement that says the NMSBIC doesn't have to wait six months; and as they return funds to NMSBIC, that will automatically reduce the commitment and free up funds.

Mr. Garcia moved acceptance of the Financial Reports for February 28, 2021; March 31, 2021; April 30, 2021; and May 31, 2021, as presented. Mr. Fowler seconded the motion, which passed unanimously by roll call vote.

NMSBIC PROPOSED BUDGET FOR YEAR ENDING JUNE 30, 2022

Mr. Cummins stated that net growth in traditional loans is forecasted at \$3.4 million with about \$1.5 million each in net growth for Loan Fund, Ventana Fund and HomeWise. As PPP funds are returned from DreamSpring, for budget purposes the funds will be invested in the LGIP account with the State Treasurer's Office. About \$10 million currently invested in SIC Core Plus Bonds is budgeted to remain invested in SIC Core Plus Bonds with a budgeted 1 percent return.

Mr. Cummins noted that operating expenses are budgeted to increase from \$327,000 to \$331,000. The projected net interest on loans this fiscal year is about \$414,000 and budgeted to increase to \$552,000 next year. Loan charge-offs are budgeted at \$45,000 next year. He said it appears this year and next that loan interest income will exceed operating expenses. Next year the expectation is that loan interest income of \$507,000 will exceed operating expenses of \$331,000. We do not budget for realized gains or market valuation changes.

Chairman Badal asked if any equity exits are anticipated during this fiscal year. Mr. Cummins said Verge is anticipating an exit, and as a result it doesn't believe it will need the \$233,000 in additional capital call that was approved by the NMSBIC board for fund expenses. Verge expects to receive about \$500,000 from the exit, to be paid in installments over several months. Verge will retain funds from the exit that are needed to pay for fund expenses.

Mr. Fowler moved, seconded by Mr. Morgan, acceptance of the NMSBIC Proposed Budget ending June 30, 2022, as presented. The motion passed unanimously by roll call vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

-- The U.S. Treasury issued a press release on June 15 announcing a total of \$1.25 billion in COVID-19 relief funds to 863 CDFIs. All of the CDFIs the NMSBIC does business with are on the Treasury's list to receive grants, ranging from \$1.2 million to \$1.8 million. The funds can be used for operational activities, to build capital reserves, and for loan loss reserves. This is very positive news for the NMSBIC's lending partners. Chairman Badal commented that this is very good news for The Loan Fund, and will help to build their working capital and capital base.

-- DreamSpring: Their traditional lending program has been dropping and is down to about \$5 million in traditional loans. For the next few months, their focus will continue to be on PPP and PPP forgiveness loans, but should shift back to the traditional loans afterwards.

-- HomeWise: The current commitment is \$4 million with \$400,000 outstanding, and they expect to close a \$1 million loan at the end of June. They expect to be very active in commercial lending, and anticipate fully deploying the \$4 million committed by NMSBIC in the next 12-18 months.

-- Lift Fund: Based on their projections, LiftFund believes it makes sense to lower the NMSBIC commitment from \$3 million to \$1 million. Mr. Cummins will bring this proposal to the

August meeting. He feels it would also make sense to push the maturity out to five years from the date of that modification.

-- MFA: George Maestas at MFA indicated that the demand for their Primero Loan Program has dropped off, and he suspects that the available funding from traditional banks for the development and construction of apartment complexes is now easier to come by. Mr. Maestas said a shortage of single-family lots has continued, and MFA is considering changing Primero funding guidelines to allow development of single-family lots.

-- RCAC and Ventana Fund each received \$1.8 million in U.S. Treasury RRP funds. This is very good news for Ventana Fund. Ventana Fund is required to provide its own funding for a portion of its loans, and the additional \$1.8 million will allow them to fund more loans. It is optimistic it can fully use the \$10.5 million committed by NMSBIC.

-- Mr. Cummins has followed up with the Governor's Office twice about the possible replacement of board members, and so far has not received any feedback. He will continue to follow up.

-- Mr. Cummins has updated and made changes to the Business Continuity Plan, as approved by the board on April 23, 2021.

The key employee life insurance policy is in process. He has received a quote and is completing the physical examination and other required steps.

First National 1870 doesn't have any safety deposit boxes in Albuquerque, but US Bank will allow a safe deposit box without the NMSBIC having their operating funds there. They will require a copy of the April 23 board minutes reflecting board approval.

Mr. Cummins has worked with an IT consultant to set up access for Dee Brescia and Office 365 as backup. The consultant recommended having two external hard drive backups that can be switched periodically. There will always be one hard drive with the backup that won't be connected to the computer.

-- Mr. Cummins' presentation at the Independent Community Bankers Association lenders conference on June 22 was well received.

Mr. Cummins reviewed the Severance Tax Permanent Fund Activity report on page 49. Based on the April 30 SIC Investment Report, the STPF has grown from a previous high water mark of \$5.5 billion to \$6.1 billion. Based on that, the NMSBIC might receive as much as \$11 million from the STPF in December or January.

Chairman Badal remarked that Mr. Cummins has done a great job over the last year in broadening the NMSBIC's base of lending partners and new CDFIs. He asked if there are other CDFIs in the state that the NMSBIC could be talking to. Mr. Cummins responded that some CDFIs are focused on single-family lending, which doesn't appear to fit in with the NMSBIC's focus. Two CDFIs focus on loans to Native Americans. He previously spoke to Native American Housing, which was focused on single family construction loans on reservations, with permanent financing provided by a HUD lending program for Native Americans. They indicated that they

didn't have any small business lending programs to speak of. NMSBIC has added Lift Fund, which is located in Texas, and RCAC, which is located in California, both of which are doing business in New Mexico. He is not aware of any other CDFIs doing small business loans in New Mexico.

Chair Badal wondered if there are there organizations like HomeWise doing residential lending that also partner with small businesses on lot development. There might be an avenue there for the NMSBIC, given the high demand for housing here. He thought there might be an opportunity for the NMSBIC to lend money to a CDFI that is in the residential lending business for shorter-term acquisition and development loans.

Mr. Cummins shared his screen showing the list of CDFIs in New Mexico. He said he feels NMSBIC has pretty well covered the list of CDFIs in New Mexico as well as CDFIs outside of the state that are doing business here.

Chairman Badal asked Mr. Cummins to talk with the NMSBIC's lending partners and see if they have ever had potential relationships with developers of residential lots that they have turned down, as this might open up another avenue for them.

NMSBIC BUSINESS CONTINUITY PLAN, PROPOSED TESTING PLAN

Mr. Cummins said Jake Dopson at Pulakos feels any review it might perform on business continuity testing should be kept separate from the annual audit. They offered to review and provide informal feedback and suggestions at no additional charge. The other option is that NMSBIC would structure an agreed upon engagement to examine the business continuity plan. NMSBIC would need to provide agreed-upon testing steps for Pulakos to follow. The estimated fee would be around \$3,000 to \$5000.

Mr. Cummins commented that, whether the NMSBIC engages Pulakos or not, a testing program is a good idea to ensure everything is working and updates are made. He has created a checklist of items that would be included in the testing program on page 55. He recommended doing this in house and that Pulakos provide informal feedback at no cost.

Mr. Morgan moved to approve Mr. Cummins' recommendation, as presented. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

PROFESSIONAL SERVICE CONTRACT RENEWALS

- Randall McDonald
- Dee Brescia
- Judith Beatty

Mr. Cummins stated that three contracts are coming up for renewal on July 1 for a one-year period. Ms. Beatty and Ms. Brescia have proposed no change to their pricing or terms. Mr. McDonald has not raised his rate for over ten years, and is billing other clients at \$250 per hour. He has proposed a rate increase from \$198 per hour to \$225 per hour, which is a discounted rate.

Mr. Cummins recommended approval of all three renewals.

Ms. Meyers so moved. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

NMSBIC INVESTMENT POLICY ANNUAL REVIEW

Mr. Cummins stated that there were no changes other than the review date. On page 61, section 2b indicates operating and money market accounts at First National 1870 be collateralized in accordance with the State Treasurer's guidelines.

Mr. Cummins stated that he pulled up the State Treasurer's Investment Committee binder located on their website and First National 1870 does not appear as an approved bank. He confirmed with Sam Collins, Deputy State Treasurer, that First National 1870 is authorized to accept state deposits by STO. They are not in the binder because they don't have any outstanding deposits at this time. However, First National 1870 is approved by the State Treasurer's office, and therefore is in compliance with the NMSBIC's investment policy.

Mr. Cummins recommended approval of the Investment Policy.

Ms. Meyers so moved. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

NMSBIC 2021 BOARD MEETING SCHEDULE

Mr. Cummins said Mr. Eichenberg noted he has a conflict with the December 10 meeting, and the board may want to change the date.

Ms. Meyers moved to accept a change to the NMSBIC 2021 Meeting Schedule from Friday, December 10, to Wednesday, December 8, 2021. Mr. Fowler seconded the motion, which passed unanimously by roll call vote.

BOARD CONTINUING EDUCATION

The New Mexico Economic Data from the Federal Reserve Bank from Kansas City and the current economic snapshot from the Bureau of Business Economic Research was provided for the board's information.

CHAIRMAN'S COMMENTS

Chairman Badal commented that the virtual meetings have gone very well, but he would like the board to consider getting together in person soon. He said he has discussed with Mr. Cummins the idea of having two or three meetings in person and continuing the others via Zoom. He asked the thoughts of the board.

Ms. Meyers said she thought that was a good idea. It would also be nice to schedule a long lunch or happy hour in December if the agenda is light. Chairman Badal stated that he thought that was a great idea.

Chairman Badal suggested Mr. Cummins recommend two or three meetings that would be best held in person, and maybe these meetings could be opened to guest speakers or presenters. The board could review those at the next meeting.

Chairman Badal commented that it has been a while since anyone has talked to the board about the state of the private equity or venture capital markets in New Mexico. He said perhaps one of the equity partners or someone from the State Investment Council would be a good choice for that, either on the Zoom platform or in person.

ADJOURNMENT

The meeting was adjourned at 10:30 a.m.



Joseph Badal, Chairman

8/27/21

Date