

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

December 8, 2021

A meeting 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. Steven E. Morgan, Secretary/Treasurer
Ms. Heather Benavidez, designee of Hon. Tim Eichenberg, NM State Treasurer
Mr. Alan Fowler

Members Excused

Mr. Guadalupe Garcia, Vice Chair
Ms. Roxanna Meyers

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair

Guests Present

Ms. Anne Beckett
Mr. Robert Valdiviez
Mr. Joshua Smith
Mr. Robert De Pasquale, Tax Partner, Pulakos CPAs

REVIEW AND ACCEPTANCE OF AGENDA

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

BOARD MINUTES FOR OCTOBER 29, 2021

Mr. Morgan moved acceptance of the minutes of the October 29, 2021, meeting, as presented. Mr. Fowler seconded the motion, which passed unanimously by roll call vote.

NMSBIC IRS FORM 990 TAX RETURN: ROBERT DE PASQUALE, PARTNER, PULAKOS CPAS

Mr. De Pasquale reviewed the tax return.

Mr. Fowler moved to accept the CPA report and Form 990, as presented. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

FINANCIAL REPORTS AS OF OCTOBER 31, 2021

Mr. Cummins reported there is now \$22.7 million in funds available for investment and operations, and another \$6.5 million is expected from DreamSpring from PPP loans over the next few months. The NMSBIC also expects another \$16 million from the Severance Tax Permanent Fund. In early 2022, available funds might go up to around \$45 million.

Ms. Benavidez moved to accept the Financial Reports as of October 31, 2021. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Committed, Outstanding & Remaining Funds

Mr. Cummins reported that total committed funds, which include the equity investments, are at \$77.7 million out of about \$95 million in total assets. Traditional loans are at \$33.9 million, COVID-19 loans are just over \$10 million, and PPP loans with DreamSpring are at about \$6.5 million

Mr. Cummins noted that nearly all of the COVID-19 loans are from The Loan Fund. The NMSBIC extended the origination of new COVID-19 loans to February 2022 for The Loan Fund. Once the program has ended for new loan originations, the NMSBIC's funding at zero percent interest rate to The Loan Fund for the COVID-19 loans will continue for three years for each loan. The NMSBIC has set up a tracking system so it can track when the zero percent interest rate ends for each loan originated under the COVID-19 program.

DreamSpring

Mr. Cummins said between \$2 million and \$4 million has been coming back each month from DreamSpring from PPP loans. He expects the remaining balance to be repaid in the next few months. He had a Zoom meeting with Anne Haines and their new CFO, Suzette Longfellow, to discuss origination of small loans (balances of \$5,000 or less) in New Mexico. In July 2020, DreamSpring stopped originating small loans based on NMSA 58-15 of New Mexico law, which does not allow lenders (with the exception of banks and credit unions) to charge origination fees on small loans, defined as loans of \$5,000 or less. Mr. Cummins said DreamSpring will continue to research this issue and try to find a way to re-implement their origination of small loans in New Mexico.

Homewise

Homewise has hired a commercial loan officer, David Sayers, whose previous job was with the City of Albuquerque's Economic Development Department as their small business manager; and prior to that, he was a commercial loan officer with DreamSpring.

LiftFund

LiftFund's outstanding balance is \$45,013, which is 1 percent of the NMSBIC's \$3 million commitment. The NMSBIC board approved a reduction in their line of credit from \$3 million to \$1 million, and modification documents are in process. LiftFund has made it clear that they plan to expand in New Mexico, although those expansion plans have not progressed as rapidly as they had originally hoped.

The Loan Fund

The Loan Fund's outstanding balance is \$26.3 million, which is 75 percent of the NMSBIC's \$35 million commitment. Their COVID program ends in February of next year.

NM Mortgage Finance Authority

Mr. Cummins and Chairman Badal met with MFA executive director/CEO Izzy Hernandez and MFA chief lending officer Jeff Payne on November 29. They discussed ways of possibly expanding the relationship, and had some different ideas on how they might accomplish that. One they noted was that HUD once had a program where MFA could buy boarded-up homes, refurbish them and sell them. The HUD program was discontinued. MFA felt they might consider making a proposal to use NMSBIC funds to reimplement this program. The NMSBIC would only be involved in financing the rehab period.

New Mexico Economic Development Department

Mr. Cummins spoke with Johanna Nelson, NMEDD finance development specialist. She indicated:

- It was recently announced that New Mexico is scheduled to receive \$56 million in new State Small Business Credit Initiative (SSBCI) federal funding. The funding will be received over 10 years, with the first installment expected next year. Part of these funds will provide additional funding for NMEDD's Collateral Assistance Program (CAP).
- Requests from banks for CAP funding has slowed, with CAP funding being provided for about one loan per month.
- Part of NMEDD's original CAP funding was transferred to NMEDD's Business Loan Guarantee (BLG) program. BLG funds are now being repaid, resulting in growth in available CAP funds.

Mr. Cummins and Ms. Nelson discussed how NMSBIC funding to NMEDD was intended to serve as backup funding until CAP might be replenished with additional SSBCI funds or other funding. With low demand for CAP, funds flowing back to CAP, and additional SSBCI funding expected, Ms. Nelson doesn't believe the NMSBIC backup funding is needed. She asked that the NMSBIC's approval for funding be tabled and expressed her appreciation to the NMSBIC board for approving this backup funding at a time when funding for CAP was uncertain.

RCAC

Mr. Cummins recently spoke with Juanita Hallstrom, RCAC's director of lending. She plans to use NMSBIC funding but has not been able to get to it yet primarily due to staff turnover. She said she

appreciates NMSBIC's patience with the changes RCAC has been experiencing, and she continues to plan on expanding the lending program in New Mexico.

Ventana Fund

Ventana Fund's outstanding balance is \$8.1 million, which is 77 percent of the NMSBIC's \$10.5 million commitment. They are expecting four loans to pay off in the next couple of months, and are continuing to work on expanding their loan portfolio outside of the Albuquerque area.

New Mexico Community Capital (NMCC)

Managing director Michael Schafer noted that the winding-up period is frustratingly slow but still in process.

Appointment of New NMSBIC Board Members

Mr. Cummins followed up yesterday with Melissa Salazar, director of boards and commissions, who had indicated on November 10 that she expected to have appointments of three new NMSBIC board members completed before the NMSBIC December board meeting. She may not have been aware that the NMSBIC's December meeting was moved up to avoid the holiday time period. He responded to Ms. Salazar and let her know the next NMSBIC board meeting is scheduled for December 8, 2021.

Deployment of NMSBIC Funds

Ideas being investigated are as follows:

- Mr. Cummins and Chairman Badal met with MFA recently to explore ways that MFA and NMSBIC might expand the current relationship.
- Clearinghouse CDFI. At Joshua Smith's suggestion, Mr. Cummins has contacted Clearinghouse CDFI. He had a conversation with their chief investment officer, Jay Harrison. This CDFI is based in Southern California but is doing some business in New Mexico, and have \$600 million in assets and over \$90 million in equity. They are a for-profit company that has been approved by the Treasury as a CDFI, and their focus is on low income and underserved communities. They are active in receiving allocations of New Market tax credits. They are able to sell the tax credits to investors, and the proceeds become equity for projects in low income and underserved areas. Mr. Harrison is checking to see how much volume they currently have in New Mexico and seemed very interested in a partnership with NMSBIC.
- Lift NM is managed by RBC Global Asset Management (RBC), which has developed a fixed-income New Mexico impact fund, LIFT NM, which invests in fixed-income securities backed by New Mexico single-family residential loans, multifamily loans, and SBA guaranteed loans. The investment focus is on Black, Indigenous, and People of Color (BIPOC) communities, and LIFT NM currently has \$11 million in assets. Mr. Cummins has a Zoom meeting scheduled tomorrow with RBC managing director Brian Fairhurst. They have indicated that if the NMSBIC wanted to invest in just New Mexico SBA loans, they could split out a portion of the fund to do that.

LOAN ACQUIRED FROM NEW MEXICO GAP FUND, MATURITY DATE EXTENSION

Mr. Cummins stated that, on April 30, 2021, the NMSBIC acquired two convertible notes from the New Mexico Gap Fund I, LP. The NMSBIC owned 92.4 percent of the partnership, and effectively the NMSBIC acquired 7.6 percent in interests of minority limited partners at a deep discount of 25 percent of the value to facilitate closure of the partnership. As part of the acquisition, the NMSBIC agreed to extend the note maturity to February 1, 2022. The company indicates it plans to achieve a sale/exit in about 24 months. He recommended the NMSBIC board approve a two-year extension of the note to February 1, 2024.

Ms. Benavidez moved that the NMSBIC board of directors approve a two-year extension to February 1, 2024, for the convertible note referenced in the December 8, 2021, board package and that Joseph Badal be authorized to execute any and all documents related to the extension. Mr. Fowler seconded the motion, which passed unanimously by roll call vote. [Mr. Morgan was not present during the vote.]

HOMEWISE PROPOSED MODIFICATION, UNIFORM AFFIRMATIVE COVENANT RIDER

Mr. Cummins said Homewise is working on a project to monitor loan covenants for all their various loan agreements. To simplify their compliance efforts, they would like lenders, including the NMSBIC, to consider agreeing to a set of uniform loan covenants in a proposed agreement titled: Homewise Uniform Affirmative Covenants Rider. The NMSBIC's Affirmative Covenants would remain unchanged and there are three NMSBIC Negative Covenants that would remain unchanged.

Mr. Cummins said there are really only two covenants that are being impacted by this:

Liabilities to Total Assets Ratio

Mr. Cummins said current NMSBIC loan covenant requires equity to total assets of about 5 percent. Homewise is proposing that they will maintain net assets to total assets of 35 percent, which provides significantly more protection for the NMSBIC.

Limitation on Delinquencies

Mr. Cummins stated that the NMSBIC currently has a covenant that limits loans 60 days or more delinquent to no e more than 7.5 percent delinquent, and 90 days or more delinquent limited to no more than 5 percent delinquent. Homewise's proposal is not apples-to-apples:

- In general, the proposed Homewise covenants appear to be less restrictive than the existing NMSBIC covenant. Homewise proposes that the 60-day delinquency limit be removed, and the 90-day delinquency limit be increased from 5 percent to 8 percent. Homewise includes loans placed on non-accrual and other real estate owned in the proposed 8 percent limit, which are not part of the NMSBIC limit.
- Homewise also proposed to add a limit where the ratio of all non-performing loans divided by total loans must be less than or equal to 10 percent. While not the exact same calculation, it appears the 8 percent limit above would likely be triggered before this 10 percent limit.

Mr. Cummins recommended approval of the proposed changes given (1) Homewise is proposing a net asset ratio that is significantly higher than the current net asset ratio and (2) the other proposed changes appear reasonable.

Mr. Fowler moved that the NMSBIC board of directors approve the proposed Homewise Affirmative Covenants Rider (The Rider), subject to the approval of NMSBIC's legal counsel and Executive Director/Investment Advisor, and that Joseph Badal be authorized to execute any and all documents related to the Rider. Ms. Benavidez seconded the motion, which passed unanimously by roll call vote.

DIRECT INVESTMENTS, EXPANDED SERVICES REPORT

Mr. Cummins stated that the NMSBIC's Professional Service Contract with RDC Advisors LLC, as of July 2020, included a provision for Expanded Services that related to management of the NMSBIC's direct investments in assets acquired from limited partnerships. Mr. Cummins said the contract indicates that he will provide a report to the board twice a year regarding the number of hours spent on direct investments along with an assessment of results achieved. He will provide the next report on or before June 2022. Pages 84-85 in the board package provides a detailed listing of what he has done related to the direct investments and hours spent since his April 23, 2021, report.

NMSBIC BOARD MEETING SCHEDULE FOR 2022

Chairman Badal asked Mr. Fowler to chair the June 24, 2022, meeting in his absence.

POVERTY ALLEVIATION ECOSYSTEM, UPDATE

Mr. Cummins stated that, at the previous NMSBIC board meeting, Deborah Burns and Sarah Crichlow made a presentation regarding a plan for CELab, a New Mexico non-profit corporation, to receive \$60 million in loans from a Philanthropic Organization (PO) to fund a poverty alleviation project in New Mexico. The PO required an up-front guarantee of \$5 million, and they were asking the NMSBIC to provide \$5 million in funding to serve as the guarantee. The PO funding would be \$20 million over three years for a total of \$60 million in funding.

Mr. Cummins said he had several Zoom meetings and phone calls with Ms. Burns and Ms. Crichlow going back to August. He commented that the overall transaction was very complex. A number of key issues caused the NMSBIC to indicate it could not proceed with this transaction, with details on some of the key issues on pages 87-88. Mr. McDonald briefly reviewed the documents and determined that, in his opinion, the fact that the NMSBIC's funds would be provided to and used for the purposes of a non-New Mexico business caused the proposed transaction to be outside of those permitted under the Small Business Investment Act.

BUSINESS CONTINUITY PLAN, TESTING UPDATE

Chairman Badal stressed the importance of reviewing this plan and seeing what kinds of tests are in place to ensure not only the business continuity of this organization, but also that there are safeguards in place and reporting is done on a timely basis.

Mr. Cummins said he planned to conduct this update every six months rather than once a year. He noted that this report was generated after six months, and there were a number of items that have changed and needed updating.

BOARD CONTINUING EDUCATION, POLICIES RELATE TO IRS 990 TAX RETURN

Mr. Cummins said he has highlighted policies related to the IRS 990 tax return for review.

APPOINTMENT OF NEW NMSBIC BOARD MEMBERS, UPDATE

Chairman Badal thanked the appointees for continuing to attend the NMSBIC meetings.

CHAIRMAN'S COMMENTS

Chairman Badal urged members to continue to think about ways to deploy NMSBIC funds.

NEXT REGULAR BOARD MEETING: FRIDAY, FEBRUARY 25, 2022

ADJOURNMENT: 10:30 a.m.



Joseph Badal, Chairman



Date