

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

February 24, 2023

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. at WESST Enterprise Center, 609 Broadway Blvd NE, Albuquerque, NM 87102. A quorum was established.

Members Present

Mr. Alan Fowler, Vice President

Mr. Steven E. Morgan, Secretary/Treasurer

The Hon. Laura Montoya, New Mexico State Treasurer (via Zoom)

Mr. Joshua Smith (via Zoom)

Mr. Robert Valdiviez

Members Excused

Mr. Joseph H. Badal, Chair

Ms. Anne Beckett

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Unable to Attend

Recording Secretary

Ms. Charmaine Clair

Guests Present

Ms. Kristina Alley, Santa Fe Advisors, LLC

Mr. John Kreienkamp, Attorney, State Treasurer's Office (via Zoom)

Mr. Robert De Pasquale, Pulakos CPAs

REVIEW AND ACCEPTANCE OF AGENDA

Ms. Montoya moved acceptance of the agenda, as published. Mr. Valdiviez seconded the motion, which passed unanimously.

BOARD MINUTES FOR December 7, 2022

Mr. Morgan moved acceptance of the December 7, 2022, minutes. Mr. Smith seconded the motion, which passed unanimously.

DIRECTOR JOSHUA SMITH, UPDATE ON TRADITIONAL BANK LENDING ENVIRONMENT

Mr. Smith stated that traditional lending markets are constrained right now, and banks are more cautious on lending and expect higher yields. Many banks are seeing the loan-to-deposit ratio invert, with more loans than deposits, as deposits roll out of traditional banks to alternative places of investment. A large investor in New Mexico told him that approximately half of their lenders have stopped lending on construction projects. A lot of banks are starting to pull back from construction lending, particularly those that were aggressively lending during the pandemic, and balance sheets are getting bigger as loans are not paying off as quickly as they were.

Mr. Smith also stated that average mortgage rates for a traditional conforming single-family home are at 7 percent as opposed to the low 6 percent range two months ago. He also looked at average prices for lumber. A year ago, it was \$1,500 per 1,000 board feet, and it is now \$375 per 1,000 board feet, which is about the median price for the last ten years, so there is evidence that construction will start slowing down. In addition, the Fed is expected to move at least three more times this year, anticipated at 25 basis points per meeting. There is a 30 percent chance that there will be one more 50 basis point hike in June.

Chairman Fowler noted that there were a number of owner-occupied commercial real estate closings toward the end of the year and a significant drop off in December, and new activity is slower than expected. Long-term mortgage rates are lower than the short-term rates, and that creates difficulties because people expect their deposits to receive short-term yields, yet long-term lending is at a lower rate.

Mr. Smith said he understands credit card usage and balances are at an all-time high.

Treasurer Montoya said there was discussion at the National Association of State Treasurers Conference about fighting the high percentages on credit cards as well as late fees, which negatively impact people living below the poverty line as well as the middle class.

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

Mr. De Pasquale reviewed the Form 990 tax return.

Treasurer Montoya noted a typo on page 32.

On page 31, regarding appointments by the Governor, Treasurer Montoya suggested adding a paragraph clarifying the State Treasurer's membership on the NMSBIC. The State Treasurer is an independent fiduciary and not an appointee.

Mr. Smith moved to accept the IRS Form 990, subject to the correction of the word "organization" on page 2, Schedule O, part 12; and the addition of the statement in part 6, Page 1 of Schedule O, regarding the State Treasurer's membership on the board. Treasurer Montoya seconded the motion, which passed unanimously.

FINANCIAL REPORTS: NOVEMBER 30, 2022, DECEMBER 31, 2022, AND JANUARY 31, 2023

Mr. Cummins stated that the items of note are that 1) interest income is significantly ahead of budget, 2) and loan balances are higher than budgeted, which is also generating more interest income.

Mr. Cummins stated that he had adjusted Available Funds as of January 31 from \$6.1 million to \$13.3 million primarily due to the receipt of a \$7.9 million contribution from the Severance Tax Permanent Fund on February 16. In discussion with Charles Wollmann of the State Investment Council, Mr. Wollmann thinks the NMSBIC may receive another \$20 million contribution next year based on the growth in oil & gas revenues going into the Severance Tax Permanent Fund.

Mr. Morgan moved to approve the Financial Reports as of November 30, 2022, December 31, 2022, and January 31, 2023, as presented. Mr. Valdiviez seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Committed, Outstanding & Remaining Funds

- Total assets are \$120 million with \$106 million committed; outstanding traditional loans are just under \$50 million; the Covid 19 Loan Program, which has ended, has loans outstanding of \$13 million.
- Paycheck protection loans with DreamSpring are over 99 percent forgiven through the SBA. DreamSpring is fully insured by the SBA on the remaining balance and is in the process of filling claims for repayment on the small remaining balance. Repayment to the NMSBIC is guaranteed by the SBA and DreamSpring.
- Clearinghouse CDFI: \$10 million committed with the full \$10 million outstanding. An additional \$5 million increase is being proposed later on today's agenda.

DreamSpring

- Mr. Cummins stated that he met with DreamSpring's senior management team recently, who provided information on strategies and staffing. They have a total of 65 employees

with about one-half of those employees in New Mexico. It has four loan officers in New Mexico including a recently added SBA lending specialist. They plan to hire two more loan officers in New Mexico this year. They are continuing with their national expansion and hope to be in all 50 states by 2024.

- Mr. Cummins stated that, based on the New Mexico Small Loan Act, DreamSpring is limited on origination fees it can collect on loans of less than \$10,000. This reduces the profitability of small loans. During the pandemic it focused on origination of PPP loans and other traditional lending programs were suspended. DreamSpring plans to start making small loans again in New Mexico, including a new Credit Builder loan program to help small businesses repair or improve credit history. DreamSpring believes demand for Credit Builder and other small loans (less than \$10,000) will be good, and expects to see the New Mexico portfolio start growing again.

Lift Fund

- Lift Fund has a \$1 million line of credit with one loan outstanding. It shifted focus during the pandemic to PPP loans and is now returning to its traditional lending program. Its strategy is to use grants and contributions to buy down the rate on loans. It was awarded a federal grant for origination of loans in New Mexico. Originally it could only use the grant in three counties in New Mexico, but the grant was recently approved for use in 30 counties in New Mexico. It has not seen an increase in delinquencies and feels this speaks positively to its underwriting risk model and early intervention on collections. It has converted an independent contractor position located in Las Cruces to a full-time employee, and is establishing loan referral relationships in New Mexico.

NMCDLF (The Loan Fund)

- The Loan Fund's outstanding loan balance is \$30.1 million, which is 86 percent of the NMSBIC's \$35 million commitment. The NMSBIC COVID-19 Lending Program ended on September 30, 2022, for new loans. Any loans outstanding as of September 30 can remain part of the COVID-19 program for up to five years from when the loan was originated. Mr. Cummins has established a loan-level tracking system to monitor when the 0 percent rate expires for each of the NMSBIC COVID-19 loans.

NM Mortgage Finance Authority (MFA)

- MFA is required to report a fair market value adjusted on the asset side of the balance sheet, but not liabilities. Long term fixed rate loans and securities have dropped in value given the increase in market interest rates, resulting in a large, negative, fair market value adjustment for MFA in 2022. The loans and securities are hedged with long-term bonds, but the financial statements ignore any fair market value adjustment on the bonds. Given this inconsistency in financial reporting, rating agencies do not include fair market value adjustments in the

analysis of Housing Finance Agencies. Mr. Cummins noted he has made an adjustment to the NMSBIC's financial statement comparison for MFA, to reverse the fair market value adjustment on MFA's assets. Net assets were reduced from \$334 million to \$158 million, but with the fair market value adjustments considered, there does not appear to be cause for concern.

- MFA is rolling out a Neighborhood Revitalization program that will receive funding from the New Mexico Housing Trust Fund. This funding will be used along with Primero loan funds to purchase, rehabilitate, and sell abandoned homes. The homes will then be sold as low-moderate income housing. The NMSBIC loan is one of the funding sources for the Primero loan program.

RBC Global Asset Management (RBC GAM)

- This is a new relationship for the NMSBIC. RBC GAM generates pools of SBA loans in targeted areas in New Mexico, and delivered the first SBA pool in December 2022, comprising six loans in Albuquerque, Roswell, Alamogordo, Rio Rancho, and Santa Fe (2 loans), and totaling \$1.104 million. The plan is to originate up to \$25 million in SBA pools in the next year or two. The coupon rate (small business loan rate minus servicing fees) was 7.875% and the NMSBIC net interest rate after premium amortization was 5.30%.

Overdraft Fees Reimbursed by Wells Fargo

- As previously reported, Wells Fargo made an error that resulted in a large overdraft in the NMSBIC's checking account at First National 1870. Wells Fargo has reimbursed the NMSBIC for overdraft charges incurred less additional interest the NMSBIC earned due to the error.

RCAC

- RCAC's outstanding balance is \$0 versus the NMSBIC's commitment of \$1 million. RCAC was lending in New Mexico during the pandemic but used a different source of funding that allowed COVID-19 loans to small businesses to be forgiven. RCAC only provides loans in rural areas. It hopes to draw the full \$1 million in the next 30-60 days and then identify other existing loans, and loans in the pipeline, with the hope of returning in a few months to request an increase in NMSBIC funding. RCAC is an expert in obtaining approvals for USDA loan guarantees and has a long track record of obtaining USDA funding for water/wastewater projects and community centers in rural areas. The USDA does not provide construction funding for these rural projects. The NMSBIC line of credit is intended to fund small business loans in the state, and to also provide construction funding for community projects in rural areas that have USDA guaranteed "takeouts" that will pay-off the NMSBIC loans.

Ventana Fund

- Ventana Fund is awaiting a response on a CDFI grant, and a separate application for a bank line of credit, that would allow it to increase funding of NMSBIC loans.

WESST Corp

- WESST Corp has written a thank you letter to the NMSBIC board for approving a \$2,000 payment to WESST for use of their conference room for the year.

SIC Core Plus Bonds

- For the seven months ended January 31, 2023, the SIC Core Plus Bond Pool has a net yield of \$144,000 and a positive 2.64% annualized yield.

RBC Short-Term Investments

- RBC short-term investments are comprised of a federal money market fund and a Treasury ladder. The balance of these short-term investments is planned to decrease over time as RBC originates SBA pools for the NMSBIC. The NMSBIC has \$24 million invested in RBC short-term investments and the current yield on both the money market and Treasuries is about 4%.

LGIP

- For the Local Government Investment Pool (LGIP) account with the State Treasurer's office, in January the average balance was \$17 million and an annualized yield of 4.29%.

Other Matters

- NMSBIC joined the New Mexico Impact Investment Collaborative in January.
- One Hope Fund is a new nonprofit lender in New Mexico with focus on small business loans to the BIPOC (Black and indigenous People of Color) community. They have received a \$1 million grant along with \$500,000 working capital from the Kellogg Foundation, and they are raising lending capital and plan to apply for CDFI designation in about a year. They hope to establish a partnership with NMSBIC. Mr. Cummins has met with CEO Chad Cooper and has invited him, with his board, to the April NMSBIC meeting to give a presentation.

Treasurer Montoya said she has forwarded information to Mr. Cummins on HB 414, which would create a new housing department.

Regarding the RCAC, Treasurer Montoya requested a listing of counties where existing RCAC loans are located. She said she would be happy to provide any needed assistance on this.

Treasurer Montoya commented that she was looking forward to the presentation from Chad Cooper at the April meeting. She said he is a rock star in the Black community and financial world and is very involved with the Black Chamber of Commerce, which has some amazing ideas on financial literacy and bridging the inequity gap.

[Break.]

**FINANCE NEW MEXICO, PROPOSED SIX-MONTH CONTRACT RENEWAL:
HOLLY BRADSHAW EAKES, OWNER, HOLLY COMPANY STRATEGIES**

Ms. Bradshaw Eakes stated that, at the August meeting, the board had asked her and Mr. Cummins to meet with three lending partners where there was a need for improvement in communications with Finance New Mexico. She said the meetings were very helpful. She was able to update her contacts and said everyone was very positive and looking forward to working with FNM more closely.

Mr. Cummins noted FNM articles included in the board packet. The lending partners are excited about FNM articles and the quality and distribution of the information. He said Chairman Badal suggested renewing the FNM contract for six months after ensuring the communication issues were ironed out. The problem was that there had been personnel changes that Ms. Bradshaw Eakes was not aware of, and that issue has been fixed.

Mr. Cummins stated that he would like to add Clearinghouse CDFI as a member of FNM, which will result in an increase in FNM fees from \$32,500 to \$37,500 a year. Mr. Cummins recommends the board approve a second six months at \$18,750, which is \$2,500 higher for six months with the addition of Clearinghouse CDFI to the budget.

Treasurer Montoya moved the NMSBIC board of directors approve a renewal of the NMSBIC's Finance New Mexico contract with Holly Company Strategies for six months from April 1, 2023, through September 30, 2023, at a rate of \$18,750 for the six-month period, paid quarterly, plus New Mexico gross receipts tax. The motion was seconded by Mr. Valdiviez.

Treasurer Montoya asked to see information on Finance New Mexico and how the NMSBIC is benefiting from its activities.

The motion passed unanimously.

[Mr. Smith left the meeting.]

**CLEARINGHOUSE CDFI, PROPOSED MODIFICATION OF REVOLVING LINE OF CREDIT:
JAY HARRISON, CHIEF INVESTMENT OFFICER, CLEARINGHOUSE CDFI**

Mr. Cummins said the NMSBIC has had a relationship with Clearinghouse CDFI (CCDFI) for about two years, starting with a \$5 million line of credit that increased to \$10 million after the first amount was deployed. Mr. Harrison believes CCDFI can deploy another \$5 million in the next 12 months. There are currently five loans in the portfolio throughout the state, with balances ranging from \$507,000 to \$3.8 million.

Mr. Cummins recommended increasing the line of credit from \$10 million to \$15 million.

Treasurer Montoya moved the NMSBIC board of directors approve the following modifications to the NMSBIC’s revolving line of credit with Clearinghouse CDFI:

- **Increase the maximum funding amount by \$5 million, from \$10 million to \$15 million, and**
- **Establish a loan to one borrower limit of \$10 million, and**
- **Joseph Badal or Alan Fowler be authorized to sign any and all loan modification documents, subject to review and approval by the NMSBIC’s legal counsel and Executive Director/Investment Advisor and report back to the board.**

Mr. Valdiviez seconded the motion, which passed unanimously.

[Discussion on this item continued after the next item on the agenda.]

[Treasurer Montoya left the meeting.]

**NMSBIC BOARD RESOLUTION RECOGNIZING FORMER STATE TREASURER TIM
EICHENBERG**

Mr. Cummins said he prepared this proposed resolution at Chairman Badal’s request, and would like to invite Mr. Eichenberg to the next board meeting to present him with this resolution.

Resolution of the Board of Directors

“WHEREAS, the Honorable Tim Eichenberg served as New Mexico State Treasurer from 2015 through 2022; and

“WHEREAS, during his tenure as New Mexico State Treasurer, Treasurer Eichenberg served as a member of the board of directors of the New Mexico Small Business Investment Corporation (the “NMSBIC”); and

“WHEREAS, Treasurer Eichenberg actively engaged as a member of the NMSBIC’s board of directors, providing valuable perspectives, insights, opinions, and advice, in support of the citizens and small business community in New Mexico;

“NOW THEREFORE, the NMSBIC board of directors hereby expresses its appreciation for Treasurer Eichenberg’s outstanding and dedicated service to the NMSBIC.”

Mr. Morgan moved for approval. Mr. Valdiviez seconded the motion, which passed unanimously. [Treasurer Montoya and Mr. Smith were not present during the vote.]

Mr. Cummins said he would consult board counsel Randy McDonald to confirm a quorum was present, and whether or not this vote might need to be reconfirmed at the next board meeting.

**CLEARINGHOUSE CDFI, PROPOSED MODIFICATION OF REVOLVING LINE OF CREDIT:
JAY HARRISON, CHIEF INVESTMENT OFFICER, CLEARINGHOUSE CDFI**

Mr. Harrison thanked the board for the increase in the line of credit. He commented that the increasing interest rate environment makes it difficult to make loans at a margin that makes sense for the low-income community. They do construction lending and currently have construction loans on a charter school in Gallup and another in Albuquerque. They see their relationship with banks as a partnership and as their investors, but do not want to overlap or compete with banks. One of his primary responsibilities is as provider of the new market tax credit program. The NMSBIC line of credit enables them to revolve funding for their portfolio and believes there is a lot to do and has budgeted for expansion in New Mexico.

LEGISLATIVE UPDATE

Mr. Cummins stated that no pending legislation has been noted that would impact the NMSBIC.

NEW MEXICO STATE SENATE CONFIRMATION OF NMSBIC DIRECTORS

Mr. Cummins reported that Anne Beckett, Robert Valdiviez, and Joshua Smith were confirmed by the New Mexico State Senate on February 6, 2023. He congratulated the three directors on their confirmations.

NMSBIC BOARD MEETING SCHEDULE FOR 2023

Mr. Cummins said the schedule is in the packet for reference. All meetings are scheduled to be in person with the exception of the September meeting.

BOARD CONTINUING EDUCATION

- **NMSBIC Policies Related to IRS 990 Tax Return**
- **Recent Media Coverage**
- **Bureau of Business and Economic Research, *Economic Snapshot***

Mr. Cummins said he has reviewed policies related to the IRS 990 tax return and has no recommended changes. Also included are Finance New Mexico articles, including one on Pajarito Powder, one of the few remaining venture capital investments. The BBER *Economic Snapshot* report is included for reference.

CHAIRMAN'S COMMENTS

Chairman Fowler welcomed Kristina Alley as a visitor at to the board meeting.

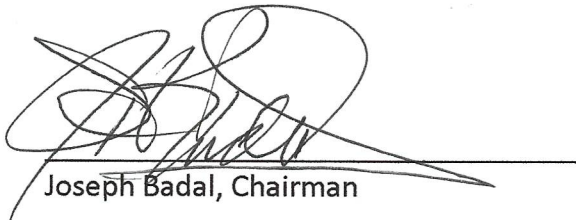
Ms. Alley, a partner in Santa Fe Advisors, LLC, a wealth management and financial planning firm in Santa Fe, discussed her background.

Chairman Fowler stated that Ms. Alley's background is in lending, and her expertise would be nice to have on the board.

Ms. Alley commented that improving economic education in the state is near and dear to her heart.

NEXT BOARD MEETING: Friday, April 28, 2023, 9:00 a.m.

ADJOURNMENT: 11:35 a.m.



Joseph Badal, Chairman

May 8, 2023

Date