

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

August 18, 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, New Mexico. A quorum was established.

Members Present

Mr. Joseph H. Badal, Chair

Mr. Alan Fowler, Vice President

Mr. Steven E. Morgan, Secretary/Treasurer

Ms. Anne Beckett [via Zoom]

Mr. John Kreienkamp, designee of Hon. Laura M. Montoya, New Mexico State Treasurer

Mr. Robert Valdiviez

Members Excused

Mr. Joshua Smith

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randall McDonald

Recording Secretary

Ms. Charmaine Clair

Guests Present

Mr. Marshall Shore, Nusenda Credit Union, board candidate

Mr. George Maestas, Director of Financing, MFA

Ms. Sharlynn Rosales, Program Specialist, MFA

Mr. Daniel Slavin, CFO/Chief Real Estate Development Officer, Homewise [via Zoom]

Ms. Johanna Gilligan, Chief External Affairs Officer, Homewise

Ms. Kristina Alley, Santa Fe Advisors, LLC, board candidate [via Zoom]

Mr. Joshua Grassham, Lea County State Bank, board candidate [via Zoom]

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Kreienkamp moved acceptance of the agenda, as published. Mr. Morgan seconded the motion, which passed unanimously.

BOARD MINUTES FOR JUNE 23, 2023

Mr. Cummins said Treasurer Montoya's assistant has asked that the Treasurer's name on the first page read: The Honorable Laura M. Montoya.

Mr. Valdiviez moved acceptance of the June 23, 2023, minutes, as amended. Mr. Morgan seconded the motion, which passed unanimously.

FINANCIAL REPORTS AS OF JULY 31, 2023

Mr. Cummins reported on the preliminary financials for July 31, 2023, as equity partners have until the end of August to submit their reports.

Mr. Kreienkamp moved to accept the Financial Reports as of July 31, 2023, as presented. Mr. Morgan seconded the motion, which passed unanimously.

NEW MEXICO MORTGAGE FINANCE AUTHORITY, RENEWAL OF AND CHANGES TO NMSBIC REVOLVING LINE OF CREDIT: GEORGE MAESTAS, DIRECTOR OF HOUSING DEVELOPMENT; SHARLYNN ROSALES, PROGRAM SPECIALIST II

Mr. Cummins noted that the NMSBIC has worked with MFA for several years in funding their Primero Loan Fund for LIHTC (Low Income Housing Tax Credit) projects. The NMSBIC and MFA have been talking about ways of expanding the relationship.

Mr. Cummins said Chairman Badal requested a list of all of MFA's programs. Pages 21-24 of the board package lists all the programs that MFA offers. The NMSBIC has talked with MFA's chief lending officer, Jeff Payne, on whether there are opportunities for the NMSBIC to provide funding for some of these other programs; however, the majority of programs work directly with consumers, which precludes the NMSBIC's involvement, as the NMSBIC's funding has to be used for small businesses.

Ms. Rosales said Primero is a flexible funding source to assist multiple and single-family developments in New Mexico, including tribal trust lands and colonias communities. Funding is used for a variety of things, along with infrastructure, predevelopment costs, construction, rehabilitation, and acquisition and rehabilitation projects. These funds usually go to projects that are considered high risk by traditional lenders. This would include projects on tribal trust lands.

Ms. Rosales said MFA wants to push Primero's Investment Fund Loan Program in all areas of the state, as the program has experienced a decline in usage over the last five years. In an effort to incentivize developers, MFA has made the following modifications to allow for more flexibility for both multi- and single-family development:

- Maximum loan amount increased from \$1 million to \$3.5 million;
- Removal of 115% of Area Median Income and replacement with “either very low, low, or moderate incomes (adjusted for household size) as defined by the most recently amended MFA Rules and Regulations;
- Added MFA Design Standards as threshold criteria for proposed projects;
- Removal of program limitation that only allows single principal projects to be awarded no-more-than ten percent of the balance of MFA’s Housing Opportunity Fund;
- Changed the Program Initiatives to Selection Preferences, and added modular housing and workforce housing as types of preferred housing development projects; and
- Added Line-of-Credit as a loan structure that can be obtained with the program.

Ms. Rosales said MFA is requesting to renew their 5-year term NMSBIC Revolving Line of Credit (RLOC) and to increase the RLOC from \$2.5 million to \$3.5 million.

Mr. Maestas stated that the revisions to the Primero policy will go to their board in September.

Mr. Maestas said MFA has been approved for a \$1 million acquisition rehab loan for Tierra Encantada in Anthony. This is a prime candidate for NMSBIC funds. He said MFA will be meeting with developers to discuss more incentives and making funding sources more flexible to encourage single-family development. They hope that, by making more funds available, developers will take a second look at Primero.

Mr. Cummins referred to the discussion term sheet on page 16 of the board package and proposed motion.

Mr. Cummins stated that, at a previous board meeting, the NMSBIC board reviewed how MFA is subject to a GASB Statement 31 fair value adjustment. He added that bond rating agencies exclude GASB 31 from their analysis of Housing Finance Agencies, and his recommendation is for the NMSBIC to exclude the GASB Statement 31 fair value adjustment from the NMSBIC’s leverage-to-assets ratio calculation.

Mr. Cummins noted that this is the only NMSBIC loan that is unsecured, and the NMSBIC has no credit risk in the underlying loans. MFA is guaranteeing the loan.

Mr. Fowler moved that the NMSBIC board of directors approve a modification to the revolving line of credit with the New Mexico Mortgage Finance Authority (MFA), as follows:

- **Extend the maturity date to November 30, 2028; and**
- **Increase the Maximum Funding Amount from \$2.5 million to \$3.5 million; and**

- **Modify the liabilities-to-net assets ratio calculation to exclude GASB Statement No. 31 fair value adjustments; and**
- **That Joseph Badal or Alan Fowler be authorized to execute any and all documents related to the modification, subject to review and approval by the NMSBIC's executive director/investment advisor and the NMSBIC's legal counsel; and**
- **That the NMSBIC's executive director/investment advisor report back to the board when the modification is completed.**

Mr. Valdiviez seconded the motion.

Ms. Beckett disclosed she was an employee of the MFA 22 years ago.

Mr. Kreienkamp disclosed that State Treasurer Montoya serves on the MFA board.

The motion passed unanimously.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Mr. Cummins presented highlights from the report:

- The NMSBIC has \$117 million committed out of \$123 million in total assets. A total of \$75 million is outstanding between traditional lending programs, COVID-19 loans, and PPP loans.
- Clearinghouse CDFI's outstanding balance is \$15 million, which is the total committed amount. NMSBIC is having discussions about increasing the commitment in 2024.
- The NMSBIC's \$35 million commitment to the PPP Lending Program continues to drop as DreamSpring repays PPP funds to the NMSBIC. As of June 30, 2023, the NMSBIC's PPP commitment and balance has dropped to 11 loans with a total principal balance of \$81,000.
- Homewise's outstanding balance is \$4.2 million, which is 61 percent of the NMSBIC's \$7 million commitment.
- LiftFund was successful in having a federal grant program expanded from 3 counties in New Mexico to 30. It expects this change will increase loan production volume in the state during the rest of this year. LiftFund notified the NMSBIC that they received notice of a lawsuit against them. Mr. McDonald reviewed it and has no concerns. He will continue to monitor the lawsuit.
- As previously reported, MFA established a Revitalizing Our Community (ROC) program to purchase and rehabilitate boarded-up homes throughout the state and sell them to low-income or first-time homebuyers. It has received \$4 million in grant funding and would like to deploy an additional \$2 million of funding from the NMSBIC to be used to provide lines of credit to contractors that will purchase, remodel, and sell the properties. ROC is not part of the MFA's Primero Fund and MFA cannot comingle

Primero and ROC funding sources. MFA's request will be addressed at an upcoming NMSBIC meeting.

- RBC SBA pools are at \$6 million outstanding of the \$25 million committed. There was an early payoff in an RBC pool, which resulted in the NMSBIC amortizing the premium faster than expected. Normally, the NMSBIC has been earning 5-6% on these loans, and its yield on the first \$1 million dropped to about 1% for the first 6 months due to the early payoff. RBC noted that early payoffs are not common. As of July, the NMSBIC is earning 4.8% on RBC pools with a \$6 million balance.
- Ventana Fund's outstanding balance is \$13.3 million, which is 67 percent of the NMSBIC's \$20 million commitment. At its last meeting, the NMSBIC board approved an increase to Ventana Fund's maximum funding amount from \$15 million to \$20 million and increased the allowable loan-to-value (LTV) from 55 percent to 70 percent.
- There are no major changes with WESST or the Equity Partners.
- Mr. Cummins continues to discuss the use of State Small Business Credit Initiative (SSBCI) grant funds with Sam Collins, Collateral Assistance Program Manager with the New Mexico Economic Development Department (EDD), to "invest" the next tranche of funds in New Mexico CDFIs. Mr. Collins believes the most likely structure would be for EDD to provide long-term, low cost, subordinated debt to CDFIs.
- OHFI Board and Management changes: As previously reported, One Hope Financial Institution (OHFI) terminated Chad Cooper as CEO, and Ken Carson resigned from the board. Mr. Cummins attended an OHFI lunch & learn on June 19, where he met OHFI board members Charles Ashliegh, Alex Horton, and Everette Hill. They indicated that OHFI is planning to take a different direction from the original business plan provided to NMSBIC. He told them that they would be welcome to provide a new presentation to the NMSBIC when they were ready.
- On August 7, Mr. Cummins met with Chad Cooper, former CEO of OHFI, who said he plans to create a new CDFI, Envision Community Capital (ECC), and plans for ECC to engage in traditional CDFI small business lending. Mr. Cooper indicated he would like to attend an upcoming NMSBIC meeting to discuss his plans for ECC.

FINANCE NEW MEXICO ANNUAL REPORT: HOLLY BRADSHAW EAKES

Ms. Bradshaw Eakes provided an update on Finance New Mexico:

- Finance New Mexico in its 17th year. They continue to produce articles that are occasionally published in a newspaper, but there is now much more competition from other groups wanting to be published. Articles are still published in social media, the website, newsletter, and videos.
- The website has announcements and links from the newsletter articles, growing a small amount every year. Last year, it grew by 15 percent.
- The website has a form for questions, and the number of inquiries each month has grown from about 17 in 2019 to 48 inquiries per month this year. Most questions are

about start-ups. All answers from inquiries are referred to at least one resource partner, and sometimes more.

Ms. Bradshaw Eakes informed the NMSBIC board of her intent to end the Finance New Mexico project as of December 31, 2023, after which no articles, newsletters or videos will be produced or distributed; no social media posts will be created or shared; the option for website visitors to make inquiries will be removed; and there will be no referrals to lending partners. The Finance New Mexico website will remain, however. She said she and Mr. Cummins will discuss the best way to keep the website relevant, or terminate it.

Ms. Bradshaw Eakes said she was personally very grateful to the board for allowing her to be part of the NMSBIC's mission.

Mr. Cummins commented that he was sad to see this end, but as Ms. Bradshaw Eakes has indicated, things have evolved with the partners: The Loan Fund has their own marketing contractor and DreamSpring has a staff to do their marketing, and the lending partners no longer rely as much on this type of service.

Mr. Cummins said the Finance New Mexico contract expires on September 30, but she plans to keep the project active through December 30. Ms. Bradshaw Eakes offered to continue through the end of the year, at no charge to the NMSBIC for the final quarter. Mr. Cummins recommended that the NMSBIC extend the contract for one quarter and pay for the final quarter.

In a separate contract, Ms. Bradshaw Eakes has offered to continue to manage the NMSBIC's website going forward. One question is whether it would make more sense to build a more detailed NMSBIC web page or to maintain the Finance New Mexico website, but without articles, social media, etc. Ms. Bradshaw Eakes will continue to monitor activity on the NMSBIC website and Finance New Mexico website to determine which would be the best option.

Mr. Morgan moved that the NMSBIC board of directors renew the Finance New Mexico contract with The Holly Company for three months, from October 1, 2023, through December 31, 2023, with the following changes:

- **The 90-day termination notice provision be removed.**
- **Articles or videos to be reduced from 12 per year to 3 during the final quarter.**
- **E-newsletters to be reduced from 12 per year to 3 during the final quarter.**
- **The website, social media, and referrals will continue through December 31, 2023.**
- **The pricing be pro-rated to \$9,375 for three months, plus New Mexico Gross Receipts Tax.**
- **Joseph Badal or Alan Fowler be authorized to execute any and all documents related to the contract renewal, subject to review and approval by the NMSBIC's executive director/investment advisor and the NMSBIC's legal counsel.**

Mr. Fowler seconded the motion, which passed unanimously.

[Mr. Fowler left the meeting.]

[Break.]

NMSBIC PROPOSED NEW MEMBERS OF BOARD OF DIRECTORS

Mr. Cummins said the board approved a recommendation to the Governor at the last meeting to appoint Kristina Alley, Marshall Shore, and Joshua Grassham as new board members. Chairman Badal wrote to the Governor notifying her of these recommendations and also stating that he, Steve Morgan and Alan Fowler are interested in stepping down but are willing to serve until new members are appointed.

Chair Badal stated that his service on the board, now nearly 13 years, has been an honor, but he feels it is important for organizations to have directors rotate after time and is excited about the potential three who might replace them.

NEW MEXICO SMALL LOAN ACT

Mr. Cummins stated that the New Mexico Small Loan Act requires lenders making loans of \$10,000 or less to register with the Financial Institutions Division. The amount of the origination fee they collect is limited, and the annualized percentage rate on those loans is also limited. Business loans are included in the Small Loan Act. The Act has exemptions for banks and credit unions, but the Act applies to other lenders, including the NMSBIC's CDFI partners.

Mr. Cummins said there were discussions about whether the NMSBIC should try to get the Act changed, but the issue appears to only affect DreamSpring. Anne Haines had indicated to him that as an Internal Revenue Code ("IRC") § 501(c)(3) organization, DreamSpring is prohibited from hiring a lobbyist. He suggested to Ms. Haines that she talk with the Financial Institutions Division, which enforces the Act, about whether they would support a change that would exempt CDFIs. A potential challenge is that banks and credit unions have supervisory authorities, whereas CDFI's do not.

Mr. Cummins said he consulted with Mr. McDonald, who said that although the NMSBIC as an IRC § 501(c)(4) organization could hire a lobbyist to promote a possible change, he wasn't sure how the legislature would view hiring a lobbyist. He also note that § 501(c)(3) organizations like DreamSpring can actually hire lobbyists, but many choose not to. Mr. Cummins added that he didn't think it made sense for the NMSBIC to take the lead in any effort to change the Act given that it appears to impact only one of its lending partners.

Chairman Badal agreed with Mr. McDonald's point about how this might be received by legislators.

Chairman Badal asked if he understood correctly that, if nothing changes, it would be very difficult for DreamSpring to make a loan under \$10,000.

Mr. Cummins responded that, prior to the pandemic, DreamSpring had stopped making loans under \$10,000, and during the pandemic their focus was on PPP loans. In the prior legislature, some changes were made to the Act, one of which was to increase the limit from \$5,000 to \$10,000, which expanded the number of DreamSpring loans impacted. The Act does allow a limited origination fee, and it also requires tracking the annualized percentage rate. DreamSpring's board decided that serving consumers with loans less than \$10,000 is part of their mission. On most of its loans, DreamSpring doesn't earn enough interest to cover their costs, so they are already required to raise grants and charitable contributions to cover the shortfall. The limit on origination fees increases the amount of funds DreamSpring is required to raise for New Mexico loans less than \$10,000. A delay in re-implementing origination of small loans in New Mexico is that DreamSpring is making programming changes to their computer system to track the annualized percentage rate on loans with balances less than \$10,000.

Mr. Cummins recommended that the NMSBIC not pursue the hiring of a lobbyist.

**HOMEWISE LENDING PROGRAM UPDATE AND PROPOSED CHANGES TO NMSBIC
REVOLVING LINE OF CREDIT: DANIEL SLAVIN, CFO/CHIEF REAL ESTATE DEVELOPMENT
OFFICER; JOHANNA GILLIGAN, CHIEF EXTERNAL AFFAIRS OFFICER**

[Mr. Slavin was present on Zoom.]

Ms. Gilligan stated that Homewise has been helping low- and moderate-income residents become homeowners for the last 30 years, and five years ago expanded into commercial development. Through partnership with the NMSBIC, Homewise expanded into commercial lending under the umbrella of their Community Development Department.

Ms. Gilligan reviewed what they accomplished to date: 12 loans, 11 to businesses and nonprofits, and the 12th is in partnership with the NMSBIC on charter school lending. The majority of these entities are minority-owned or minority-led business organizations diverse in business and nonprofit types.

Ms. Gilligan presented details on some of Homewise's recent loans.

Mr. Cummins stated that Homewise has requested two changes to the Uniform Covenants Rider of its loan agreements. In 2021, the NMSBIC approved a uniform set of covenants for all Homewise lending relationships. He said he saw no issue with either request and recommended they be approved, which would:

- Delete the requirement to maintain net assets of 35 percent and leave the separate paragraph requiring them to maintain a 25 percent ratio of net assets to total assets.

- Remove a debt service coverage ratio of not less than 1.20-to-1.00. Paragraph 3.M. would remain unchanged, which requires Homewise to maintain a debt service coverage ratio of not less than 1.10-to-1.00.

Mr. Valdiviez moved that the NMSBIC board of directors approve a modification to the Homewise Uniform Covenants Rider dated December 10, 2021, to:

- **Delete paragraphs 3.B. and 3.L.; and**
- **That Joseph Badal or Alan Fowler be authorized to execute any and all documents related to the modification, subject to review and approval by the NMSBIC's executive director/investment advisor and the NMSBIC's legal counsel; and**
- **That the NMSBIC's executive director/investment advisor report back to the board when the modification is completed.**

Mr. Kreienkamp seconded the motion, which passed unanimously.

VENTANA FUND, NOTICE OF LOAN POLICY CHANGES

Mr. Cummins stated that the NMSBIC's loan agreement with Ventana Fund requires Ventana Fund to provide the NMSBIC with a 90-day written notice of changes to its loan policy. Ventana Fund provided three redline updates done in the past year, for which he summarized the changes made as follows:

- Included a definition of Minority;
- Added the concept of Peak Portfolio to their loan policy to maintain an adequate level of cash reserves.
- Modified Peak Portfolio calculation and modified Borrower and Diversity to include Veterans.

Added a nonrefundable loan application fee and a prepayment penalty.

Mr. Cummins stated that he was provided notice of the changes on August 7, and recommended the board accept the changes to the loan policy and waive the remainder of the 90-day notice period so the loan policy changes would take effect immediately.

Mr. Kreienkamp asked why changes made in August 2022 were submitted late. Mr. Cummins responded that this was an oversight on Ventana's part.

Chairman Badal said he suspected all or most of the NMSBIC's lending partners have probably made changes to their loan agreements without realizing they needed to provide notice to the NMSBIC. Mr. Cummins said he could add a paragraph addressing the 90-day notice requirement to the annual compliance certificate he sends out to the partners.

Mr. Cummins noted that Ventana is developing new lending programs that would not use NMSBIC funds and where there may be frequent ongoing changes to its loan policy. Ventana said it could become cumbersome for them to provide a 90-day notice every time they tweak one of the loan policies for these programs. Mr. Cummins said he has explained why this requirement is in place, and asked Ventana what they would recommend.

Chair Badal commented that the redefinition of “minority borrower” sounds like something the federal government is requiring Ventana to do, in which case all of the NMSBIC’s partners have probably had to make the same change.

Chairman Badal asked Mr. McDonald to look into adding language to the NMSBIC’s loan agreements that incorporates notice requirements for certain classifications of changes or definitions.

Mr. Valdiviez moved the NMSBIC board of directors:

- **Accept Ventana Fund’s loan policy changes provided to the NMSBIC on August 7, 2023; and**
- **Regarding the 90-day notice of loan policy changes that expires on November 5, 2023, accept the loan policy changes effective immediately and waive the remainder of the 90-day notice period from August 18, 2023, to November 5, 2023.**

Ms. Beckett seconded the motion, which passed unanimously.

ENCHANTMENT LAND CERTIFIED DEVELOPMENT COMPANY, PROPOSED NEW NMSBIC REVOLVING LINE OF CREDIT: MAYLING ARMIJO, EXECUTIVE DIRECTOR

Mr. Cummins introduced Ms. Armijo and Marcos Gonzales. Mr. Gonzales is a member of the Enchantment Land Certified Land Development Company (ELCDC) board of directors and head of Bernalillo County’s Economic Development Department.

Mr. Cummins disclosed that Josh Smith and Robert Valdiviez serve on ELCDC’s loan committee. Neither one of them receives any kind of compensation for their roles.

Mr. McDonald said it would be appropriate for Mr. Valdiviez to abstain from any vote on this proposal, although he was not sure there was any conflict. [Mr. Smith was absent.]

Mr. Cummins said ELCDC has been the largest provider of SBA 504 loans in New Mexico, and has also been doing some Community Advantage loans through SBA.

Ms. Armijo noted that the ELCDC board has discussed a strategy to identify an additional revenue stream to ELCDC and provide another financing service to small businesses in New Mexico and El Paso. She recently submitted an application to the SBA for approval as a

Community Advantage lender. The local SBA office accepted the application and ELCDC is now awaiting final approval from SBA headquarters.

Mr. Cummins noted that the NMSBIC purchases SBA pools from RBC comprised of either Community Advantage loans or SBA 7A loans. He added that a possible path this relationship could take would be for ELCDC to package and sell the government-guaranteed portion of their Community Advantage loans into SBA pools the NMSBIC is already purchasing.

Chairman Badal asked how ELCDC determines the loan rates it charges its customers.

Ms. Armijo responded that, for the 504 program, the SBA sends the rates every month to the ELCDC, which does a minor calculation to get the yield. The current SBA loan acquisition expansion rate is 6.8 percent and the bank rate is 7.35 percent. ELCDC can dictate the rate for Community Advantage, however, although the board has agreed to the Prime Plus Rate. As the program as launched, the ELCDC board wants to do the loan approvals and will hold regular meetings to determine that month's rate. They want to be able to compete, as well.

Mr. Grassham asked if the Community Advantage program would be competing with banks. Ms. Armijo responded that she saw the Community Advantage program as a complement to banks, since the purpose of the program is to take the risk that banks typically don't want to take in commercial lending. She added that the ELCDC board includes commercial lenders who are excited about the program. She said she expects the banks to be a major referral source for the program's SBA guaranteed loans.

Mr. Morgan moved, seconded by Mr. Kreienkamp, that the NMSBIC board of directors approve:

- **A new revolving line of credit to Enchantment Land Certified Development Company (ELCDC), with terms stated in the Discussion Term Sheet included in the board package, and**
- **That Joseph Badal or Alan Fowler be authorized to execute any and all documents related to the revolving line of credit, subject to review and approval by the NMSBIC's executive director/investment advisor and the NMSBIC's legal counsel; and**
- **That the NMSBIC's executive director/investment advisor report back to the board when the revolving line of credit documents have been executed.**

The motion passed unanimously, with Mr. Valdiviez in abstention.

BOARD CONTINUING EDUCATION: BBER ECONOMIC SNAPSHOT

Mr. Cummins said this is provided quarterly for the board's information. He noted that the New Mexico Outlook in the BBER report is included in the NMSBIC's Annual Report.

CHAIRMAN'S COMMENTS

None.

NEXT BOARD MEETING: Friday, September 22, 2023, 9:00 to 10:00 a.m.

ADJOURNMENT: 12:00 p.m.



Joseph Badal, Chairman

9/22/23

Date