

**MINUTES OF THE**

**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**February 26, 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  
The Hon. Tim Eichenberg, New Mexico State Treasurer  
Mr. Steven E. Morgan, Secretary/Treasurer  
Mr. Alan Fowler  
Mr. Guadalupe Garcia, Vice Chair

**Members Excused**

Ms. Roxanna Meyers

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel**

Mr. Randy McDonald

**Recording Secretary**

Ms. Charmaine Clair

**Guests Present**

Mr. Tom Stephenson, Verge Management  
Ms. Holly Bradshaw Eakes, Finance New Mexico

**REVIEW AND ACCEPTANCE OF AGENDA**

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

**BOARD MINUTES FOR DECEMBER 7, 2020 AND JANUARY 6, 2021**

**Mr. Fowler moved acceptance of the minutes of the December 7 and January 6 meetings, as presented. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote.**

**VERGE I II COMBINED, PROPOSED ADDITIONAL CAPITAL CALL:  
TOM STEPHENSON, MEMBER OF VERGE MANAGEMENT**

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Mr. Cummins said this proposal was brought to the board at the December 7, 2020, meeting and tabled to this meeting. The proposal is that the NMSBIC purchase up to \$233,000 in an additional capital call in Verge I II Combined Limited Partnership. A detailed analysis is provided in the board package.

Mr. Stephenson made a slide presentation summarizing the background of the proposal and what progress has been made:

-- Secondary purchase transaction closed on December 1, 2020 when the NMSBIC purchased \$482,604 in Prior Fund interests for \$120,651.

-- Combination completed on December 31, 2020. Five Prior Verge funds were dissolved on that date, with all interests transferred to Verge I II Combined, L.P. At least 94 percent of the LP interests expressed affirmative support of this transaction. The NMSBIC now owns 20.32 percent of the Combined Fund.

-- The original capital call of \$791,000 was based on expected expenses through the end of 2025. Verge didn't feel it was appropriate to require all of the LPs to put more cash in, and actual commitments were in the amount of \$558,000, or \$233,000 less than expected.

-- The NMSBIC board deferred action on a motion at the December 7 meeting regarding participation in the purchase of the additional capital call obligation. Verge proposes to make the rest of the capital call available to LPs who wish to participate, with the same 3x preference, and the same preference where repayment will be made prior to distribution of funds to LPs in general, but without the 10% capital account increase. Mr. Stephenson is asking the NMSBIC to participate up to the full \$233,000 needed by Verge.

Mr. Cummins commented that, while the NMSBIC's focus is on expanding its lending program, its investment in Verge goes back many years and he feels we want to see Verge continue to be successful and create jobs in New Mexico. Also, these are later-stage investments, and the NMSBIC would have a senior liquidation preference, which also helps to reduce risk.

Chairman Badal asked how much of the \$558,000 has been committed by NMSBIC. Mr. Cummins responded that, based on the NMSBIC's original investment in four Verge funds, its capital call obligation is \$184,800, to be paid in three installments. To date, the NMSBIC has paid \$61,600 of that. Also, it purchased interest of other LPs at a deep discount. The NMSBIC's purchased price for those interests was \$120,651, and the NMSBIC elected to pay the capital call obligation on those purchased interests of \$40,355. It has paid one-third of that capital call, or \$13,452.

Chairman Badal commented that this was very helpful. He said the NMSBIC currently has about \$150,000 in remaining capital calls that are committed and unpaid. If the board approves up to any additional \$233,000, it would bring the total to \$383,000 in capital calls remaining. The total amount committed by the NMSBIC, including the additional \$233,000, would be substantially less than the \$1.4 million originally proposed.

**Mr. Fowler moved that the NMSBIC board of directors approve:**

- **The purchase of up to \$233,000 in Additional Capital Call in Verge I II Combined, for which the NMSBIC will be entitled to a 3x repayment on the Additional Capital Call prior to the distribution of funds to Verge II Combined limited partners in general; and**
- **That Joseph Badal be authorized to sign any and all documents related to this transaction, subject to review and approval by Randall McDonald and Russell Cummins.**

**Mr. Morgan seconded the motion, which passed unanimously by roll call vote.**

#### **FINANCIAL REPORTS AS OF NOVEMBER 30, 2020, DECEMBER 31, 2020, AND JANUARY 31, 2021**

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Mr. Cummins reviewed these reports.

**Mr. Morgan moved for approval of the Finance Reports as of November 30, 2020, December 31, 2020, and January 31, 2021. Mr. Fowler seconded the motion, which passed unanimously by roll call vote.**

#### **EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT**

##### **Lending Partners**

-- Out of \$96 million in total assets, \$91.8 million has been committed, including commitments for the equity funds. There is a total of \$29.7 million in traditional outstanding loans, \$7.3 million in COVID-19 loans, and \$28.5 million in PPP loans (all PPP loans are with DreamSpring), for a total of \$68.2 million outstanding. Since the date of this report, the NMSBIC has funded an additional \$5 million to DreamSpring, for a total of about \$73 million outstanding with the lending partners.

-- Given that PPP loans are “sold” to the NMSBIC and not pledged as collateral, there does not appear to be any conflict between the NMSBIC and Federal Reserve Bank (FRB) regarding DreamSpring’s PPP loans being pledged as collateral to the FRB. In order to make sure all loan participation documentation was in order, Mr. Cummins asked Mr. McDonald to review the loan participation certificate used to document the NMSBIC’s ownership in DreamSpring’s loans, and a couple of minor modifications were made. Also, DreamSpring will now be required

to provide a “wet-signed hard copy” of the participation certificate instead of an electronic participation certificate.

### HomeWise

-- HomeWise is in the process of originating another loan for a social enterprise center in the South Valley of Albuquerque.

### LiftFund

-- LiftFund was also using NMSBIC funds to fund their PPP loans in New Mexico. The agreement with LiftFund is different from that with DreamSpring, in that DreamSpring sells its loans to the NMSBIC whereas LiftFund has a revolving line of credit with NMSBIC where the loans are pledged to the NMSBIC as collateral. The vast majority of LiftFund’s loans are in Texas with a small number in New Mexico. The FRB contacted LiftFund, requesting that the NMSBIC sign a subordination agreement or amend its UCC filing, as the FRB wanted to be in first position on LiftFund’s PPP loans, rather than the NMSBIC. The NMSBIC responded to LiftFund that the request would not be appropriate for the NMSBIC. Mr. Cummins discussed the issue with Mr. McDonald and Chairman Badal. They agreed with LiftFund that, if it would repay the amount outstanding on the NMSBIC line of credit secured by PPP loans and agree not to make any new draws secured by PPP loans, the NMSBIC would amend its UCC filing to remove PPP loans as security. LiftFund subsequently repaid \$133,935 of its outstanding balance that was secured by PPP loans, and Mr. McDonald then filed an amended UCC financing statement. LiftFund now has just one COVID-19 loan outstanding with the NMSBIC with a balance of \$44,936. The board will be asked later in this agenda to approve a proposed modification to the NMSBIC’s loan agreement with LiftFund to exclude PPP loans as collateral from the line of credit. LiftFund CFO Tom Clausen stated that he had no problem with a modification, but is not sure it is necessary to go through the legal expense of doing a modification because LiftFund has agreed not to submit any PPP loans for funding, and he knows the NMSBIC would reject funding of any PPP loans.

### Mortgage Finance Authority

-- The NMSBIC received updated financial statements and Mr. Cummins has no concerns.

### Economic Development Department (EDD)

-- A joint powers agreement (JPA) has been sent to the EDD, which their legal counsel is reviewing . The next step will be for the Department of Finance and Administration to approve the JPA.

### Nusenda

-- Nusenda has withdrawn from the NMSBIC's approved \$1 million line of credit. Sara Keller, Vice President of Community Engagement, said Nusenda plans to provide \$3 million in debt funding for the Co-Op Capital program, and is no longer pursuing funding from other partners, including NMSBIC.

### RCAC

-- No new loan activity. RCAC has been working with existing customers impacted by the COVID-19 crisis, and is not currently focused on expanding their small business lending program in New Mexico.

### Ventana Fund

-- Ventana Fund is currently up to \$7.1 million out of their \$10.5 million commitment. Within the next few months it may hit the cap in their growth. Given the NMSBIC limits its funding to no more than 50 percent of the property value, Ventana Fund will likely exhaust the available cash it provides for the difference between the loan amount and the 50 percent of value funded by the NMSBIC. Ventana Fund plans to pursue grants, contributions, and unsecured/subordinated lines of credit from other lenders in order to keep growing.

### WESST Corp.

-- Kim Blueher has retired as their lending director, and WESST Corp has promoted Sandro Tonini as her replacement. Mr. Cummins plans to schedule a Zoom meeting with Mr. Tonini in the next week or two to see if there is an opportunity to expand the NMSBIC's relationship with WESST.

### New Mexico Community Capital (NMCC)

-- Michael Schafer has indicated there is a proposed deal in the works for a sale of the remaining active NMCC portfolio company, which he expects to be completed by June. Regarding the large receivable outstanding, NMCC has engaged legal counsel and is awaiting a legal analysis of the collectability. Once completed, NMCC will make a decision to pursue or not pursue legal action.

### LGIP iPAS Online System

-- The State Treasurer's Office has implemented their new online Internet Participant Access System (iPAS). Russ Cummins and Dee Brescia have the ability to "initiate" transactions, and Joseph Badal, Roxanna Meyers, and Alan Fowler are authorized to "approve" transactions, with two board member approvals required.

### First National 1870 ACH Limit

-- First National has an internal daily limit on NMSBIC ACH transactions, currently at \$4.3 million. The NMSBIC has had large transactions over the past year, including \$57.8 million from the severance tax permanent fund, and transfers of PPP funds to DreamSpring, which have exceeded the \$4.3 million daily limit. When it exceeds the daily limit, Mr. Cummins is required to get special approval from First National. First National staff has notified him that they will be requesting an increase of the daily limit to \$15 million.

### Meeting with Governor's Chief of Staff

-- On January 11, Mr. Cummins and Chairman Badal held a Zoom meeting with the Governor's new chief of staff, Matthew Garcia. Also attending was the Governor's small business advisor, Daniel Schlegel. They provided Mr. Garcia with an overview of the NMSBIC and asked that the Governor consider appointing new NMSBIC board members on a staggered basis to replace existing board members who have served for several years, and also stressed the importance of having members with banking/small business lending experience.

### City of Albuquerque

Mr. Cummins said discussions have ceased regarding the City of Albuquerque transaction on Gibson and Girard. After the COVID-19 crisis hit, funds that the airport planned to use as collateral are no longer available. Mr. Cummins will follow up to see if there might be another way for the NMSBIC to partner with City regarding the airport business park.

### **NMSBIC 2021 BUDGET UPDATE AND FORECAST**

Chairman Badal said he had asked Mr. Cummins to provide an update regarding the NMSBIC's budgeted income and expense for the fiscal year ending June 30, 2021, as compared to a forecast for how the NMSBIC might end the year.

Mr. Cummins reviewed highlights of a comparison of the 2021 budget versus forecasted income and expense (page 65 of the board package). He noted that projected interest income is expected to be ahead of budget, projected operating expenses are expected to be in-line with budget, and projected lending program interest income is expected to exceed projected annual operating costs.

### **NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND (THE LOAN FUND), PROPOSED MODIFICATION TO LINE OF CREDIT**

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Mr. Cummins stated that he had originally projected that The Loan Fund might do \$1 million in COVID-19 loans. They are up to \$7.3 million, of which \$6.5 million is closed and \$845,000 is in the pipeline. He pointed out that, when The Loan Fund originates COVID-19 loans, it is reducing

its interest rate from about 8 percent down to 3.75 percent or less, and reducing interest income on the loan by more than 4 percent. The NMSBIC is providing the funds at 0 percent instead of 2 percent, so it is covering about half of that reduction. Even with the NMSBIC's reduction in interest rate, The Loan Fund is still taking a substantial drop in their interest income. In addition, The Loan Fund is doing the underwriting and taking all of the credit risk on the COVID-19 loans.

Mr. Cummins commented that The Loan Fund has really embraced the NMSBIC's COVID-19 Lending Program. He is proposing modifications to the NMSBIC's line of credit with The Loan Fund, as follows:

- **Extend the date for The Loan Fund to continue originating the NMSBIC COVID-19 Lending Program for one year, through February 28, 2022, with 0 percent interest from the NMSBIC for up to three years, provided the loan is to a New Mexico business impacted by the COVID-19 crisis, and the interest rate charged to the borrower by The Loan Fund is at 3.75 percent or less.**
- **Extend the NMSBIC's interest rate reduction from 2 percent to 1 percent for two additional years, to support the Loan Fund's loan losses, reduced interest spread, and operational cost related to delivery of NMSBIC COVID-19 Lending Program loans.**
- **To provide additional lending capacity and to allow The Loan Fund to continue to address demand related to the COVID-19 crisis, change the leverage requirement so that liabilities to total net assets shall not be greater than 24 to 1.**
- **Increase the maximum loan amount by \$2.5 million, from \$25 million to \$27.5 million.**
- **Joseph Badal is authorized to execute any and all documents related to the modification, upon review and approval by the Executive Director/Investment Advisor and NMSBIC legal counsel.**

Mr. Cummins noted that The Loan Fund is the only CDFI in New Mexico to be awarded standalone SBA technical assistance grants, and they are able to use the grants for SBA and non-SBA loans.

Mr. Cummins said the materials provided to the board include a financial statement comparison for The Loan Fund through December 31, 2020, and small business success stories shared by The Loan Fund. The Loan Fund also provided general information about underwriting and payment modifications during the COVID-19 crisis, as follows:

- Payments on some loans were deferred 3-6 months. Some have continued with a deferment with maybe a smaller monthly payment.
- Many loans had deferred payments for 6 months and then interest-only for a year.
- \$3-4 million of Covid-affected loans restructured with lower rates.
- Prudent lending continues with understanding of the value of collateral and the conditions affecting the economy. We are providing more and more technical advice, working with the NMSBDC and sponsoring SBA workshops throughout 2021.

Chairman Badal asked Mr. Cummins if he discussed with Mr. Pacheco what prospects these loans have of becoming current down the road. Mr. Cummins responded that The Loan Fund has a board-level committee with bankers who are reviewing these loans for loss allowances. He referred to a detail indicating that of the \$6.4 million in closed COVID-19 Lending Program loans, \$3.2 million are pre-pandemic loans that they have been modified. It has made 52 post-pandemic loans totaling \$3.2 million. The Loan Fund continues to use common-sense underwriting. The hope is that if companies can survive to the third quarter of 2021, there is expected to be a significant amount of pent-up demand for service-related businesses.

Mr. Garcia suggested extending the interest rate from 2 percent to 1 percent for one year at a time and then revisiting it. He commented that there is a great deal of volatility right now.

Chairman Badal commented that this was a good question. He clarified that, in the proposed motion, the COVID-19 loans have a 0 percent interest rate, while the non-COVID loans have a 1 percent interest rate. He said Mr. Garcia was suggesting that the NMSBIC continue the 1 percent but only for another year and then revisit it again on or before February 2022. The NMSBIC could then decide whether or not to extend it for another year. If businesses are hopefully open by July 1, there may not be a need to drop the rate for an extra year.

**Mr. Fowler moved Mr. Cummins' proposed motion, as presented. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.**

#### **NEW MEXICO GAP FUND I, PROPOSED CHANGES TO CONSENT AGREEMENT**

Mr. Cummins said the board has previously approved moving forward with the purchase of two convertible notes that would be transferred to the NMSBIC at a price of 25 percent of the net asset value. One company has agreed to the transfer of its convertible note to the NMSBIC, and the second company (the "Borrower") has requested changes to its convertible note as part of their agreement to transfer the note to the NMSBIC. At the December 7, 2020, board meeting, the NMSBIC approved changes to the Borrower's note as part of a proposed Consent Agreement. The Borrower has responded with some requested changes, which Mr. Cummins has reviewed with Randall McDonald and Trevor Loy, Managing Partner of Flywheel Ventures that manages New Mexico Gap Fund I.

Mr. Cummins said he is recommending that (i) general language in the Consent Agreement, including Borrower representations and warranties, be approved by Randall McDonald and (ii) the NMSBIC approve proposed changes to the Borrower's convertible note as summarized in a table he has provided in the board package that shows the NMSBIC's original proposal, the Borrower's requested changes, and recommended NMSBIC response.

Proposed board motion:



I move that, regarding terms of the New Mexico Gap Fund Consent Agreement (the “Consent Agreement”) originally approved by the NMSBIC board of directors on December 7, 2020, the NMSBIC board of directors approve changes to the proposed Consent Agreement as follows:

- General language in the Consent Agreement, including Borrower representations and warranties, shall be approved by NMSBIC legal counsel;
- On-site inspections shall be waived for two years, provided the Borrower provides audited financial statements for 2021 within 210 days after its year-end, and within 180 days after its year-end for subsequent years;
- Qualified Debt shall not be less than \$500,000 or greater than \$2.5 million;
- Additional Debt that is subordinate to the NMSBIC shall not exceed \$4 million;
- The limit of 1.5x trailing revenues for the combined amount of Qualified Debt and Additional Debt shall be removed;
- Joseph Badal be authorized to sign any and all documents related to the transaction, subject to review and approval by the Executive Director/Investment Advisor and NMSBIC legal counsel.

Mr. Fowler moved to adopt the proposed motion. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.

#### **LIFT FUND, PROPOSED MODIFICATION TO LINE OF CREDIT**

Following up with his report on this proposal made earlier in this meeting as part of his Executive Director/Investment Advisor Report, Mr. Cummins recommended the following board motion:

I move that the NMSBIC board of directors agree to:

- Modify the NMSBIC’s loan agreement with LiftFund to exclude Small Business Administration (SBA) Paycheck Protection Program (PPP) loans as eligible collateral for the NMSBIC loan portfolio; and
- Authorize Joseph Badal to sign any and all documents related to the transaction, subject to review and approval by the Executive Director/Investment Advisor and the NMSBIC’s legal counsel.

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

## **FINANCE NEW MEXICO UPDATE**

### **FINANCE NEW MEXICO PROPOSED CHANGE TO AGREEMENT FOR SERVICES**

Ms. Bradshaw Eakes presented an update on the changes asked of her at the August meeting:

- A new hire has been on board since January.
- She is posting to Facebook on a daily basis as well as sharing content, and working on getting accounts with Twitter and Linked In.
- Partners are being featured in the newsletters far more frequently and are getting a lot more traction. Subscriptions increased by 41 per month from March through July 2020, and 57 per month from August 2020 through January 2021.
  - The website has been streamlined. The Biz Calendar, which never got funding, has been temporarily removed.
  - LiftFund and Homewise have dedicated pages.
  - An announcements tab was added, and she is posting about four announcements per week, which has increased the number of hits.
  - The COVID page is frequently changed. This resulted in an increase in Q4 2020 by 25 percent versus the same period in 2019. January 2021 was 5 percent higher than the previous month.
  - She has purchased editing and video conferencing software and is doing Zoom interviews. Because people are generally unprepared to be recorded, the videos are not very good and do not look professional. She is working on this but progress is slow.
- FNM is publishing fewer articles. Three were published in Q3 and two in Q4, with one planned for the current quarter.
- Inquiries have risen to 26 a month from 14 per month in 2020. There were 40 inquiries from August through October 2020, and rose to 84 a month from November 2020 through January 2021. In December alone there were more than 100.
- More than 50 percent of their responses to questions are referrals to DreamSpring for PPP loans.
- In December, 22 percent of the 100 inquiries were from people asking about startup funding, which were referred to WESST and The Loan Fund.

-- In January, 47 percent of the referrals were sent to DreamSpring for PPP loans, 26 percent to LiftFund for PPP loans in southern New Mexico, 15 percent to The Loan Fund and 15 percent to WESST.

**Mr. Morgan moved that the NMSBIC board of directors approve the Finance New Mexico Agreement for Services to be modified so that Nusenda is replaced by RCAC as an NMSBIC lending partner, and that \$1,250 in fees paid by NMSBIC for Nusenda as of October 1, 2020 be credited to the amount due from NMSBIC for RCAC as of January 1, 2020. Mr. Garcia seconded the motion, which passed unanimously by roll call vote.**

### **BUSINESS CONTINUITY PLANNING**

Chairman Badal noted that Mr. McDonald and Ms. Brescia provided some very helpful input to Mr. Cummins on additional steps the NMSBIC might take regarding business continuity planning. He suggested that the board discuss those details after Mr. Cummins brings forward a recommendation at the next meeting.

### **LEGISLATIVE UPDATE**

Mr. Cummins said he has been monitoring proposed legislation in the 2021 New Mexico Legislature Regular Session. He has not seen any proposals directly affecting the NMSBIC, but two bills are worth noting:

- Senate Bill 3, Small Business Recovery Act. This is a program where \$400 million was allocated to the New Mexico Finance Authority from the severance tax permanent fund to make loans to small business impacted by the COVID-19 crisis. This bill extends and makes some modifications to the program to have it more broadly accepted among New Mexico businesses.
- House Bill 236, Senate Bill 313, Public Banking Act. This would create a public bank in New Mexico, and is modeled after a public bank in North Dakota. The bill has been circulating for several years and is currently stalled in a House committee.

### **BOARD CONTINUING EDUCATION**

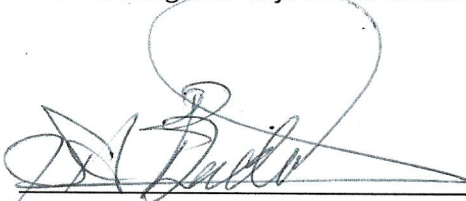
Mr. Cummins said the UNM BBER Economic Snapshot for the first quarter of 2021 was included in the board package.

### **CHAIRMAN'S COMMENTS**

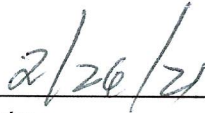
Chairman Badal commented that he was reflecting on what the board has accomplished in the last 12 months in particular. He said he hopes board members will look back on the difference they have made individually and as a group. He said he was very proud of being part of this board, and thanked the members for their commitment and dedication.

**ADJOURNMENT**

The meeting was adjourned at 11:35 a.m.

A handwritten signature in black ink, appearing to read "J. Badal", written over a horizontal line.

Joseph Badal, Chairman

A handwritten date "2/26/21" written in black ink above a horizontal line.

Date