



NEW MEXICO  
**FINANCE AUTHORITY**

# Report on the Economic Development Revolving Fund



**PRESENTATION TO THE  
NEW MEXICO FINANCE AUTHORITY  
LEGISLATIVE OVERSIGHT COMMITTEE**

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# Statewide Economic Development Finance Act

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- ◆ Statewide Economic Development Finance Act (“SWEDFA”) was established in 2003 to help stimulate the economy, particularly in rural and underserved areas of the state by creating financing tools that put New Mexico on par with neighboring states
- ◆ SWEDFA partners the NMFA with New Mexico Economic Development Department (“NMEDD”) in operating several programs, including loan participation programs and New Markets Tax Credits
- ◆ The Economic Development Revolving Fund (“EDRF”) is the Fund created under SWEDFA from which NMFA makes loans. EDRF is segregated into two sub-accounts that account separately for State and Federal funds:
  - ◆ the *State-funded* Smart Money Loan Participation Program
  - ◆ the *Federally funded* Collateral Support Participation program

# Loan Participation Programs

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- ◆ Under amendments made to SWEDFA in 2005, NMFA may only make loans to projects determined eligible by the New Mexico Economic Development Department (“NMEDD”) and authorized by the Legislature
- ◆ Legislation passed in 2011, 2013 and 2015 temporarily halted (until June 30, 2019) the authorization requirement and required instead reporting to the NMFA Oversight Committee.
- ◆ SWEDFA requires NMFA to report twice to the NMFA Oversight Committee.
- ◆ This is the NMFA’s first interim report for 2018

# Loan Participation Programs

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- ◆ A loan participation allows NMFA to participate in a business loan by buying a portion of a loan made by a local bank
- ◆ The bank applies to the NMFA on behalf of a business by submitting the information the bank used to reach its lending decision. The bank originates and services the loan as it otherwise would, and NMFA pays a small servicing fee to the bank for the additional work
- ◆ NMFA offers a low interest rate – typically lower than the bank’s – which fills financing gaps and lowers the borrowing costs for New Mexico businesses. In short, participations allow NMFA to partner with, not compete against, local banks to fund New Mexico businesses

# Loan Participation Programs

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- ◆ **Smart Money – \$5.1 million in net State General Fund Appropriations**
  - ◆ Provides long-term, low cost financing to businesses located predominantly in rural New Mexico
  - ◆ NMFA shares equally in the collateral available to a bank. This product is less attractive in today’s business environment because banks are motivated to book as much in loans as the collateral and cash flows can support. Smart Money does not help increase collateral coverage.
- ◆ **Collateral Support Participations: \$8,168,350 in Federal funds received through the State Small Business Credit Initiative (“SSBCI”)**
  - ◆ Provides short term, low cost financing, such as construction lines of credit
  - ◆ Because NMFA can use the Federal funds to purchase loans in a “subordinated” collateral position, more capital can be advanced to a business making it more attractive to local banks

# Update on Portfolios

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## ◆ **Smart Money:**

- ◆ Smart Money has participated in five loans for projects located in Alamogordo, Raton, Las Vegas, Las Cruces and Hobbs.
- ◆ Since the last report last year, Landmark at Desert Gardens was paid off early because the business had stabilized and the bank wanted to hold all of the debt on its books
- ◆ Western Wood Products has been slow to repay its loan since the court approved its Reorganization Plan. NMFA is addressing its concerns with the originating bank's oversight of this credit

## ◆ **Collateral Support Participations:**

- ◆ NMFA has participated in 16 loans, these include loans to expanding businesses as well as start-ups
- ◆ Since the first loan was made in May 2012, all loans have paid as agreed. Seven loans have been paid in full

# Smart Money Loan Participation Projects

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- ◆ Given its limited flexibility in terms of collateral, Smart Money is less attractive to banks and NMFA sees limited interest by banks

Description	Business Location	Originating Bank	Loan Amount	Principal Payments Received	Interest Payments Received	Outstanding Loan Balance	Status as of 6-30-2018
PreCheck, Inc.	Alamogordo	Bank 54	\$ 849,592	\$ 849,592	\$ 282,844	\$ -	Paid in Full (early)
Western Wood Products, Inc.	Raton	International Bank	\$ 1,274,000	\$ 139,603	\$ 364,133	\$ 1,134,397	2 Months Past due
Plaza Hotel	Las Vegas	Valley National Bank	\$ 1,650,000	\$ 790,478	\$ 175,055	\$ 859,522	Liquidated; Collections on-going
Resources for Children & Youth Inc.	Las Cruces	Century Bank	\$ 1,319,570	\$ 224,152	\$ 161,920	\$ 1,095,418	Current
Landmark at Desert Gardens	Hobbs	Western Commerce Bank	\$ 576,000	\$ 576,000	\$ 104,007	\$ -	Paid in Full (early)

# Collateral Support Participation Program

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- ◆ In June 2011, the NMFA signed an MOU with the NM Economic Development Department to administer the federal funds
- ◆ The State was allocated \$13,168,350 in Federal SSBCI funds for this loan participation program. The State met all of its federal commitments in June 2015
- ◆ In SFY 2016, the NMEDD received approval from the Dept. of Treasury to redirect \$5 million of the Federal funds to establish The New Mexico Catalyst Fund, a fund of funds venture program operated by Sun Mountain Capital
- ◆ The State completed its SSBCI reporting requirements on March 31, 2017 and NMEDD requested that NMFA return the funds as they are repaid for use in other Economic Development programs
- ◆ To date, NMFA has returned \$4,621,639.86 in repaid principal to NMEDD
- ◆ NMFA is no longer accepting applications under this program



# Collateral Support Participation Projects

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Borrower and Purpose	Business Location	Originating Bank	Loan Amount	Interest Payments Received	Principal Payments Received	Loan Balance	Status as of 6-30-2018
Haciendas at Grace Village, LLC (Mortgage)	Las Cruces	Western Bank of Alamogordo	\$ 357,318	\$ 53,644	\$ 357,318	\$0	Paid in Full (early)
NEAR, LLC (Rio Grande Medical Clinic, Mortgage)	Las Cruces	Wells Fargo	\$ 1,000,000	\$140,631	\$ 1,000,000	\$0	Paid in Full (early)
MW Holdings, LLC (BTI Construction Loan)	Santa Fe	Wells Fargo	\$ 1,256,000	\$ 27,524	\$ 1,144,869	\$0	Paid in Full
Cantor Properties (StarCryo Construction Loan)	Santa Fe	Los Alamos National Bank	\$ 120,000	\$ 178	\$ 7,209	\$0	Paid in Full
Star Cryoelectronics (P.O. LOC)	Santa Fe	Los Alamos National Bank	\$ 80,000	\$ 646	\$ 39,264	\$0	Paid in Full
Haciendas at Grace Village, LLC (Working Capital LOC)	Las Cruces	Western Bank of Alamogordo	\$ 200,000	\$ 10,098	\$ 338,983	\$0	Paid in Full
ELRC Properties, LLC (Children's Garden, Mortgage)	Las Cruces	Wells Fargo	\$ 331,678	\$ 43,060	\$ 83,039	\$248,639	Current
Greater Albuquerque Habitat for Humanity (Mortgage)	Albuquerque	Wells Fargo	\$ 241,000	\$ 33,779	\$ 33,529	\$207,471	Current
Permian I, LLC (Hampton Inn)	Artesia	First National Bank of Alamogordo	\$ 1,593,081	\$ 49,901	\$ 506,473	\$1,086,608	Current
Los Alamos Cooperative Market (Mortgage)	Los Alamos	Washington Federal	\$ 119,000	\$ 24,152	\$ 17,576	\$101,424	Current
MW Holdings, LLC (BTI Mortgage)	Santa Fe	Bank of Albuquerque	\$ 1,145,000	\$170,383	\$ 261,206	\$883,794	Current
Bugman, Inc. (Mortgage)	Santa Fe	Century Bank	\$ 31,875	\$ 4,386	\$ 9,300	\$22,575	Current
Ambience Hospitality (Holiday Inn Express, Mortgage)	Albuquerque	Wells Fargo	\$ 450,000	\$ 55,550	\$ 68,089	\$381,911	Current
Mesa Quemado (Don Juan Auto Body Shop, Mortgage)	Santa Fe	Bank of Albuquerque	\$ 89,500	\$ 12,278	\$ 10,691	\$78,809	Current
Gallup Pipeline & Compliance Services, LLC (Equipment)	Gallup	Pinnacle Bank	\$ 25,668	\$ 2,397	\$ 4,897	\$20,771	Current
NME Enterprises (Marriott Townplace Suites, Construction LOC)	Gallup	First American	\$ 1,296,000	\$ 18,891	\$ 1,296,000	\$0	Paid in Full

# Future Project Financing is Very Limited

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## ◆ **Smart Money Loan Participation Program**

- ◆ Bankers have expressed limited interest because State funds have limited flexibility in terms of collateral position

## ◆ **Collateral Support Participation Program**

- ◆ This program experienced greater interest by banks because the Federal funds could be used to fill gaps in financing. Amendments made to the MOU between NMEDD and NMFA have, in effect, discontinued the program. No new projects will be funded in this program

## ◆ **Legislative Authorization will be required after June 30, 2019.**

- ◆ The program saw dramatic increase of interest following the temporary removal of prior legislative authorization
- ◆ Six authorization bills were presented to the Legislature; five of which passed both chambers. Those bills authorized 185 projects; only three of which resulted in closed participations

# Legislative Authorization History

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Year	Bill (Sponsor)	Projects Requesting Authorization	Projects Authorized	Projects Funded
2006	HB 275 (Silva)	44	44	3*
2007	SB 221 (Papen)	129	0	0
2008	HB 245 (Silva)	48	48	0
2009	SB 90 (Papen)	42	42	0
2010	SB 66 (Papen)	38	38	0
2011	SB 20 (Papen)	<u>13</u>	<u>13</u>	<u>0</u>
<b>Total</b>		<b>314</b>	<b>185</b>	<b>0</b>

## \*Projects:

- ◆ PreCheck, Alamogordo (2006). Status: paid in full
- ◆ Western Wood Products, Raton (2007). Status: past due
- ◆ Plaza Hotel, Las Vegas (2009). Status: foreclosed

## Impact of Failed Legislative Authorization in 2007

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- ◆ The program suffered a significant loss in momentum following the failure of the 2007 Smart Money authorization bill
- ◆ NMFA's outreach to communities in 2006 fruitless as a result of non-passage of the Smart Money authorization bill. Several banks lost clients who had been waiting for authorization to proceed. Banks shied away from the program because of the uncertainty of authorization outcome
- ◆ NMFA became known as "difficult" as a result of the legislative authorization
- ◆ It is unclear how many of the project found alternative financing, left the state for better incentives offered by other states or lost their business opportunities

# Program Success Without Legislative Authorization

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- ◆ Since the passage of the temporary provision in 2011 that substitutes reporting for legislative authorization, NMFA has successfully closed 18 projects totaling \$10,231,690
- ◆ 13 of these 18 projects would have had to wait nine months or more for the next legislative session for an authorization bill to be approved. These projects total \$7,076,620
- ◆ The momentum in the program increased dramatically with the passage of the temporary provision and the perception that “NMFA is difficult” was reduced significantly
- ◆ To date, NMFA has participated with 13 banks in New Mexico
- ◆ The loans made without legislative authorization are, on average, higher quality loans. Eight loans have already been paid in full (three early)

# Projects Financed Since 2011 Temporary Provision Passed

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Description	Business Location	Originating Bank	Loan Amount	Application Date	Board Approval Date	Timing Issues
Resources for Children & Youth Inc.	Las Cruces	Century Bank	\$ 1,319,570	September 2011	January 2012	
Haciendas at Grace Village, LLC (Mortgage)	Las Cruces	Western Bank of Alamogordo	\$ 357,318	October 2011	December 2011	X
NEAR, LLC (Rio Grande Medical Clinic)	Las Cruces	Wells Fargo	\$ 1,000,000	February 2012	March 2012	X
MW Holdings, LLC (BTI Construction Loan)	Santa Fe	Wells Fargo	\$ 1,256,000	March 2012	April 2012	X
Cantor Properties (StarCryo Construction Loan)	Santa Fe	Los Alamos National Bank	\$ 120,000	May 2012	June 2012	X
Star Cryoelectronics (P.O. LOC)	Santa Fe	Los Alamos National Bank	\$ 80,000	May 2012	June 2012	X
Haciendas at Grace Village, LLC (Working Capita	Las Cruces	Western Bank of Alamogordo	\$ 200,000	November 2012	December 2012	
Landmark at Desert Gardens	Hobbs	Western Commerce Bank	\$ 576,000	February 2013	March 2013	X
ELRC Properties, LLC (Children's Garden Develc	Las Cruces	Wells Fargo	\$ 331,678	March 2013	May 2013	X
Greater Albuquerque Habitat for Humanity (Mortg	Albuquerque	Wells Fargo	\$ 241,000	April 2013	June 2013	X
Permian I, LLC (Hampton Inn)	Artesia	First National Bank of Alamogordo	\$ 1,593,081	April 2013	June 2013	X
Los Alamos Cooperative Market (Mortgage)	Los Alamos	Washington Federal	\$ 119,000	September 2013	October 2013	X
MW Holdings, LLC (BTI Mortgage)	Santa Fe	Bank of Albuquerque	\$ 1,145,000	February 2014	February 2014	X
Bugman, Inc. (Mortgage)	Santa Fe	Century Bank	\$ 31,875	July 2014	August 2014	X
Ambience Hospitality (Holiday Inn Express)	Albuquerque	Wells Fargo	\$ 450,000	October 2014	December 2014	
Mesa Quemado (Don Juan Auto Body Shop)	Santa Fe	Bank of Albuquerque	\$ 89,500	November 2014	December 2014	
Gallup Pipeline & Compliance Services, LLC (Eqi	Gallup	Pinnacle Bank	\$ 25,668	April 2015	June 2015	X
NME Enterprises (Marriott Townplace Suites)	Gallup	First American	\$ 1,296,000	October 2015	December 2015	

# Business & Bank Concerns With Legislative Authorization

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- ◆ Concern by the business that its proprietary information will not stay confidential during a legislative process. Many businesses require a Non-Disclosure Authorization be signed before they share any information. NMFA cannot sign Non-Disclosure Agreements
- ◆ Concern that competitors can gain access to information (for instance, the expected start or end of construction) that will give them a competitive advantage over the business that is in a legislative process
- ◆ Businesses in a legislative process could be perceived as weak by their clients or potential business partners because it is known they are seeking “help” from the state
- ◆ Concern by bankers that other banks will compete for businesses with information gained through the legislative authorization process. Banks are constantly looking for ways to compete for new customers and the legislative authorization could provide a marketing disadvantage to community banks

# What are the Business Implications of Authorization?

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- ◆ Time is money
- ◆ Business-friendly timing is key. Businesses do not work on the same calendar as the Legislature
- ◆ If businesses have to wait for legislative authorization:
  - ◆ Their opportunities may be gone before their financing is complete
  - ◆ Cost of financing may increase. Pricing for the financing is based on the movement of various indicators such as the Libor, Prime and Constant Maturity Treasury Rates
  - ◆ Cost of construction may rise
- ◆ Not extending the temporary provision would jeopardize NMFA's ability to operate a successful loan participation program
- ◆ State's recruitment and retention rates could suffer as companies make decisions about locating or staying in New Mexico. Surrounding states do not have similar legislative authorization requirements and may be seen therefore as more business friendly