



NEW MEXICO
FINANCE AUTHORITY

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NMFA Update and Small Business Recovery Act of 2020

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Presentation to
Investments and Pension
Oversight Committee

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- ◆ In January, the organization chart was modified to align our staff by function and responsibilities rather than by program
 - Blended compliance and legal functions
 - Created communications and outreach position
 - Created a Client Services Department who are the primary points of contact following board approval (closing, funding requisitions, pay-offs, etc.)
 - Grouped communications and outreach, program administration, client services, loan monitoring and collections under the Chief of Program Operations
- ◆ Prior to Public Health Order, filled five vacancies. Currently have one vacant position
- ◆ NMFA has been working from home since mid-March

- ◆ Established Essential Services Working Capital Program
- ◆ Received \$35 million New Markets Tax Credit award, bringing total to \$321 million
 - Created NMTC Small Loan Pool for projects less than \$4 million
- ◆ Small Business Recovery Act of 2020
 - Created \$400 million Small Business Recovery Loan Fund
 - Created \$50 million Emergency Economic Relief Fund
- ◆ Small Business Recovery Loan Fund applications opened August 5th, 29 days from the date SB3 was signed into law by Governor Michelle Lujan Grisham. First loan closed August 7th.
- ◆ NMFA application process utilized new technologies that will benefit entire organization

- ◆ NMFA's largest and most active program is the Public Project Revolving Fund ("PPRF") which makes low-cost loans for public infrastructure and capital equipment projects.
- ◆ PPRF Bonds are enhanced by a 75% share of the Governmental Gross Receipts Tax ("GGRT") which is held by the Bond Trustee for the benefit of bondholders until all bonds are paid in mid-June.
- ◆ PPRF loans made from cash in the Fund which is replenished through the regular issuance of tax-exempt and taxable reimbursement bonds through the municipal capital markets.
- ◆ PPRF loans also made from \$100 million Wells Fargo LOC which is secured by the loans made and repaid by bond proceeds.

- ◆ In January 2020, NMFA eliminated fees for the PPRF program, making it more valuable to a broader group of local governments.
- ◆ In March 2020, bond investor flight to quality severely limited access to the capital markets for most issuers, with only top-rated issuers having access.
- ◆ The PPRF is a top-rated issuer:
 - Senior Lien: Standard & Poor's AAA (April 2011) and Moody's Aa1
 - Subordinate Lien: S & P AAA (July 2017) and Moody's Aa2
- ◆ Delegation law enacted in 2017 ensured that NMFA could issue bonds when market timing was advantageous which allowed NMFA and underwriters to monitor markets and enter the market with little effort

- ◆ Massive disruptions to the municipal bond market in mid-March:
 - Week of March 16, record-setting \$12.2 billion in bond outflows
 - Week of March 23, bond fund outflows reached \$13.7 billion
 - Contrast first ten weeks of 2020: bond fund inflows totaled \$10 billion (\$1 billion per week). Bond fund outflows moderated to \$750 million during the week of March 30 as the market steadied.

- ◆ PPRF 2020A bonds: originally scheduled to be sold on March 24, 2020; ultimately sold April 6, 2020 with exceptional results
 - \$32.3 million received \$80 million in orders validating strong national investor perception as a safe and worthwhile investment.
 - PPRF 2020B bonds sold on June 17th in the amount of \$81 million with \$218.5 million in orders received.

- ◆ Contrast with sale of the pre-pandemic PPRF 2019D bonds (sold on 9/19/19) in the amount of \$53.3 million with the sale \$15.9 million under subscribed.
 - Restrained investor response to the PPRF 2019A bonds - investors love the credit but hate the tight pricing.
 - During the pandemic period, investors continued to love the credit and in terms of pricing, investors love the credit.
- ◆ \$100 million PPRF 2020C bond sale slated for September 16th
- ◆ 2019D, 2020A, 2020B, 2020C bonds were (or will be) sold with delegated authority.
- ◆ As a result of competitive interest rates and low fees, NMFA anticipated increased demand for the foreseeable future.

Public Project Revolving Fund

Original Amount of Loans

Loans Closed After 02/01/20
Loans Closed Before 10/31/20

	Grand Total Number of Loans	Grand Total Amount of Loans
New Mexico Counties	114	216,446,980
Bernalillo County	1	9,430,377
Catron County	-	-
Chaves County	3	1,150,378
Cibola County	5	6,600,000
Colfax County	14	12,050,578
Curry County	6	13,031,400
De Baca County	3	3,984,212
Dona Ana County	13	50,989,735
Eddy County	1	3,000,000
Grant County	1	892,231
Guadalupe County	4	632,431
Harding County	-	-
Hidalgo County	3	2,064,680

PPRF has been very active in making new infrastructure loans during the February - September 2020 pandemic economy.



Original Amount of Loans

Loans Closed After 02/01/20
Loans Closed Before 10/31/20

New Mexico Counties (continued)

	Grand Total Number of Loans	Grand Total Amount of Loans
	114	216,446,980
Hidalgo County	3	2,064,680
Lea County	2	6,300,266
Lincoln County	3	1,900,000
Los Alamos County	-	-
Luna County	2	5,321,962
McKinley County	4	16,650,000
Mora County	-	-
Otero County	5	3,171,285
Quay County	11	5,345,000
Rio Arriba County	4	6,271,503
Roosevelt County	3	5,000,000
San Juan County	3	25,552,471
San Miguel County	2	3,250,000
Sandoval County	5	18,796,539
Santa Fe County	-	-
Sierra County	1	1,072,161
Socorro County	4	1,250,000
Taos County	-	-
Torrance County	4	4,101,534
Union County	4	803,237
Valencia County	3	7,835,000

- ◆ PPRF will close 114 loans during this period in the total amount of \$216.4 million distributed around the State and utilizing revenue pledges as follows:

Original Amount of Loans

Loans Closed After 02/01/20
Loans Closed Before 10/31/20

Revenue Pledge Categories

Appropriation Loan
Fire Protection Fund
General Obligation
Governmental Gross Receipts Tax
Gross Receipts Tax
Law Enforcement Protection Fund
Local Special Tax
Mill Levy
System Revenue
Special Assessment
State Gross Receipts Tax

Grand Total Number of Loans	Grand Total Amount of Loans
114	216,446,980
3	12,135,266
15	1,875,156
60	79,290,000
-	-
21	68,103,672
3	168,011
1	746,463
-	-
10	44,698,035
1	9,430,377
-	-

- ◆ Existing portfolio continues to perform well.
- ◆ To date, all borrowers are current on their payments and bond coverages have not been impacted.
- ◆ Two borrowers proactively requested the ability to use debt service reserve accounts to temporarily make loan payments; ultimately not needed.
- ◆ Bottom line: It's still too early to determine the economic impacts of COVID on New Mexico's municipal debt
- ◆ Projecting slight decline in GGRT for purposes of coverage; however NMFA well positioned to weather storm.

- ◆ With the addition of the Essential Services Working Capital Program, NMFA now operates four programs under the Statewide Economic Development Finance Act (“SWEDFA”)
 - Hospitality loans in these portfolios have experienced cash flow issues. All other projects stable.
- ◆ NMFA is also operates two small direct loan programs that fund capital improvement projects at non-profit and government owned primary care and behavioral health care clinics.
 - NMFA is watching these portfolios very closely and has not seen any major decline in borrower’s ability to make loan payments

- ◆ The Economic Development Revolving Fund (“EDRF”) is the Fund created under SWEDFA from which NMFA makes loans. EDRF is segregated into three sub-accounts that account separately for State and Federal funds
 - **Smart Money** is a State funded loan participation program
 - **Collateral Support Participation** is a Federally funded loan participation program
 - **Essential Services Working Capital Program**
 - In December 2019, NMFA reported to the NMFA Oversight Committee the development of a business loan participation program funded from unobligated operating reserves
 - The business loan program was put on hold and the money re-directed to the Essential Services Working Capital Program

- ◆ **Smart Money** provides long-term, low cost financing to businesses located predominantly in rural New Mexico. Typically, NMFA shares equally in the collateral available to a bank which mitigates bank risk, but does not allow more loan dollars to be advanced to a business
 - This program has very limited funds
- ◆ **Collateral Support Participation** provides short term financing, such as construction or working capital lines of credit. Typically, NMFA purchases subordinated collateral interest which allows more money to be loaned to businesses
 - This program is no longer active; repaid principal is sent to New Mexico Economic Development Program for its loan program

- ◆ 16 loans made to date totaling \$ 8,336,120; seven loans are active
- ◆ Total portfolio balance is approximately \$2.5 million
- ◆ At the request of the originating lenders, two hospitality loans were provided one year of forbearance to accommodate cash flow shortages resulting from the Public Health Order

Description	Closing Date	Maturity Date	Maximum Loan Amount	Draws to Date	Principal Payments Received	Interest Payments Received	Outstanding Loan Balance	Status as of 07/31/2020
<i>Active Portfolio</i>								
Greater Albuquerque Habitat for Humanity	6/30/2013	5/28/2023	\$ 241,000	(241,000.00)	\$ 49,187	\$ 46,297	\$ 191,813	Current
Los Alamos Cooperative Market	12/4/2013	12/15/2023	\$ 119,000	(119,000.00)	\$ 26,526	\$ 36,317	\$ 92,474	Current
MW Holdings, LLC (Permanent - BOK)	3/24/2014	3/24/2024	\$ 1,145,000	(1,145,000.00)	\$ 347,336	\$ 240,739	\$ 797,664	Current
Permian I, LLC (Permanent)	5/9/2014	7/15/2026	\$ 1,593,081	(1,593,080.95)	\$ 594,210	\$ 79,280	\$ 998,871	Current
Mesa Quemado dba Don Juan Auto Body	12/22/2014	12/22/2034	\$ 89,500	(89,500.00)	\$ 17,771	\$ 18,987	\$ 71,729	Current
Ambience Hospitality	5/15/2015	5/27/2025	\$ 450,000	(450,000.00)	\$ 113,715	\$ 87,361	\$ 336,285	Current
Gallup Pipeline & Compliance Services, LLC	10/30/2016	3/20/2025	\$ 25,668	(25,668.00)	\$ 10,063	\$ 4,276	\$ 15,605	Current
Active Portfolio Totals			\$ 3,663,249	(3,663,249)	\$ 1,158,808	\$ 513,258	\$ 2,504,441	

- ◆ To date, NMFA has made six loans
- ◆ Two loans are active; one loan approved at the June 2020 Board Meeting is scheduled to close shortly
- ◆ Total portfolio balance is approximately \$2.95 million
- ◆ Total loans made (including pending loan) is \$7,620,593
- ◆ No requests for COVID-related forbearance in this portfolio

Description	Loan Date	Maturity Date	Maximum Loan Amount	Draws to Date	Principal Payments Received	Interest Payments Received	Outstanding Loan Balance	Status as of 07/31/2020
<i>Active Portfolio</i>								
Resources for Children & Youth Inc.	11/20/2012	11/20/2022	\$ 1,319,570	(\$ 1,319,570)	\$ 316,592	\$ 214,380	\$ 1,002,978	Current
Younger Enterprise, LLC	9/4/2019	9/4/2029	\$ 751,431	(\$751,431)	\$ 4,140	\$ 12,805	\$ 747,291	Current
Memorial Ventures, LLC	pending	pending	\$ 1,200,000	n/a	n/a	n/a	n/a	approved 6/2020
Active Portfolio Totals			\$3,271,001	(\$2,071,001)	\$320,732	\$227,185	\$1,750,269	

- ◆ Small Business Recovery Act created during the 2020 Special Session; signed into law by on July 7th.
- ◆ The Act creates two programs in the NMFA and funds them with investments of the Severance Tax Permanent Fund:
 - **Emergency Economic Relief Program** -- \$50 million program that provides revenue replacement loans to cities and counties that experienced decline of at least 10% in GRT in the 4th quarter
 - Given lag between GRT collections and distributions, not clear yet of actual need for program.
 - **Small Business Recovery Loan Fund** (“SBRLF”), a \$400 million program that provides loans to small businesses that experienced financial hardship due to the public health
- ◆ NMFA entered into MOU with State Investment Council regarding SBRLF; \$100 million deposited into the fund to date.

- ◆ The Act defines “Qualifying Small Business” as a business or nonprofit corporation that:
 - ❑ closed or reduced operations due to the public health order, and
 - ❑ had annual gross revenue of less than \$5 million as determined by its 2019 federal income tax return, and
 - ❑ experienced a 30% decline in monthly gross receipts or monthly revenue in each of April and May of 2020 (as compared to the same months in 2019).
 - ❑ Is determined by NMFA to be creditworthy, e.g., that the business
 - Must have a checking account at a federally insured financial institution
 - Must be able to certify that prior to the Public Health Order the business was current on all obligations to the State
 - Must not have been subject to a collection effort or charge-off **in 2019** by any telecommunications, utility or rent/mortgage creditor

- ◆ For-profit businesses (sole proprietor, partnership, corporation, limited liability company, etc.) must be at least 80% owned and controlled by one or more NM residents;
- ◆ Nonprofits must be organized as either 501(c)(3) or 501(c)(6)
- ◆ The Act requires an officer of the Applicant to certify that:
 - it understands it is receiving a loan that must be repaid with interest under the terms of the loan agreement;
 - all documents submitted with the application are true and correct;
 - it has a reasonable basis to believe that the business does not expect to permanently cease operations or file for bankruptcy;
 - prior to the Public Health Order, the applicant was current on all tax obligations to the State; and
 - the proceeds will be used pursuant to the Act

- Loan Amount: Two times the monthly average expenses, not to exceed \$75,000.
- Interest Rate: $\frac{1}{2}$ of *WSJ Prime*, fixed (currently 1.625%).
- Collateral: None. Personal guarantees not required.
- Terms: 3-year loans.
- Repayment: Interest only, paid annually. Principal due at maturity. At borrower's request, loan may be extended for an additional three years with monthly principal and interest payments.
- Reporting: Clients will be required to report annually to NMFA current employment data and any bankruptcy action filed.

Funding: Loan funded at closing via ACH to the account identified and verified in the application.

Use of

Proceeds: At least 80% of the loan must be used for ordinary business expenses, including any PPE/covid-safe practice costs, equipment, working capital and non-owner salaries.

Salaries to equity owners limited to no more than 20% of the loan.

Please note that this is a loan program, not a grant program

- ◆ Given clear statutory guidance on terms and eligibility, NMFA focused its efforts on efficiency, ease of use and fraud mitigation.
- ◆ Applications are accepted through an online application at www.nmfinance.com. Applications accepted until December 31, 2020 or until funds are gone, whichever comes first.
- ◆ Applications are processed on a first-come, first-served basis.
- ◆ Submitted applications are reviewed by enrolled Loan Servicers who determine whether the application is complete and accurate; their findings are reported to NMFA.

- ◆ The application is being hosted on Formstack, a 3rd-party application system that:
 - ❑ Offers secured, encrypted platform for applicants and reviewers
 - ❑ creates and distributes loan documents and provides for secured electronic signatures
- ◆ The Formstack system has built-in logic to determine eligibility based upon answers provided by applicant. Businesses that are ineligible are alerted that the information supplied does not meet eligibility criteria.
- ◆ NMFA is urging all applicants, regardless of whether they're qualified, to submit an application so that NMFA may gather and report data to policymakers about needs not served by program.

- ◆ NMFA requires applicants to have checking accounts at federally insured financial institutions which NMFA will verify through Plaid, a secure consumer-permissioned connection to the applicant's account.
- ◆ Applicants without a valid checking account will be prevented from continuing in the application process.
- ◆ Plaid is a software used to connect bank accounts to apps, such as Venmo and and is utilized by Fannie Mae and American Express among others.
- ◆ NMFA will also use this technology after the ACH is made to ensure that the deposit was made as expected.



What We Verify

- ◆ SBRA intentionally reduces the barriers to entry for impacted small businesses. NMFA has put in place checks that will ensure that the funds get into the intended pockets.
- ◆ Filed returns are required: New Mexico residency, gross revenue and monthly gross receipts are all verified using documents that the applicant has filed with the State and/or Federal government
- ◆ Credit is validated: The Authority uses Experian to ensure that applicants did not experience collections for charge-offs in 2019 for utilities, telecommunication, or rent/mortgage



What We Collect

- ◆ NMFA is collecting additional information to provide policymakers with a comprehensive view of the investment:
 - ❑ Gross annual revenue of the small business
 - ❑ Number of employees prior to the New Mexico COVID 19 health order, at the time of application and predicted in one year. Borrowers will report on this during the life of the loan
 - ❑ Industry
 - ❑ Region
 - ❑ Distribution of funds (e.g. salaries, mortgage payments etc.)
 - ❑ Demographic information of business owner(s)

- ◆ Pursuant to SBRA, NMFA may only release the name of the borrower. All other information will be reported in broad demographic terms.



Questions?

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The application and Frequently Asked Questions
are available in English and Spanish

www.nmfinance.com

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