

Editorials

Editorial: State-backed small biz loans boost NM economy

By Albuquerque Journal Editorial Board

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A common refrain when it comes to New Mexico's economy is the need to diversify from government and grow the private sector. The New Mexico Small Business Investment Corp. is helping a lot of New Mexicans do just that.

According to a Monday Business Outlook story by Journal reporter Kevin Robinson-Avila, the nonprofit has been churning out loans with government money to small businesses via various microlending organizations for 18 years.

By way of recycling loans repaid with interest for nearly two decades, the SBIC has used \$47 million from the Severance Tax Permanent Fund to finance about \$82 million worth of loans through microlenders, much of that money making its way to recipients who might have otherwise been unable to get credit from traditional lenders. This year, lawmakers gave the go-ahead to infuse an additional \$52 million into the SBIC to further pump up the small-business pipeline.

Based on 18 years' worth of data, this is both a good idea and a sound investment. The SBIC's history is a classic microlending success story, with a government-backed twist.

Some metrics of SBIC's success: Borrowers availing themselves of SBIC funds through microlenders have made good on their loans at astonishing rates given the newness of their endeavors – 95% in the case of loan agency Accion, and 98.5% in the case of The Loan Fund.

And that means successful businesses, which in turn means jobs. Last year, the nonprofit tallied its funds and found it has supported 12,323 jobs in 31 of the state's 33 counties since its founding in 2001.

Barbershops. Private security firms. Restaurants. Unique funeral service providers. All sorts of small businesses that make up New Mexico's colorful private-sector landscape have taken the loans and run with them. One case study is Cervantes Food Products Inc., the Albuquerque chile sauce and salsa producing company that got a \$12,000 loan from Accion back in 2011 to expand operations. It followed up with two other loans. Now, owners Arian and Richard Gonzales have leveled up to a traditional lender to buy a building in Los Lunas triple the size of their existing facility.

That's real growth that translates to private wealth and a healthy economy. N.M. taxpayers should take heart the state is devoting more dollars to a program that not only works, but diversifies the economy while putting New Mexicans to work.

This editorial first appeared in the Albuquerque Journal. It was written by members of the editorial board and is unsigned as it represents the opinion of the newspaper rather than the writers.

Pumping up small businesses with state funds

By Kevin Robinson-Avila / Journal Staff Writer

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Thousands of small New Mexico businesses have received about \$82 million in loans since 2001 from some of the state's most-prominent microlending organizations, but few recipients know the money they got came from state funds.

The New Mexico Small Business Investment Corp., a nonprofit founded in 2001 under the Small Business Investment Act, has managed about \$47 million from the state's Severance Tax Permanent Fund to create jobs through small local businesses. It invests the money in microlending organizations like Accion and the New Mexico Community Development Loan Fund, which in turn pump those dollars into new startups and existing businesses that generally can't get credit from traditional lending institutions.

Recycling repaid loans



Russell Cummings

The SBIC has provided about \$23 million since 2004 to microlenders, allowing them to approve some 4,500 loans to small businesses in 31 of New Mexico's 33 counties. By recycling repaid loans back into

the program, the microlenders have channeled nearly \$82 million in credit over the years, creating and supporting about 12,300 jobs across the state, according to the SBIC's annual report for fiscal year 2018.

That's more than three times the bang for each buck loaned to microlenders, said SBIC Executive Director and Investment Advisor Russell Cummings.

"The money keeps revolving," Cummings said. "When small businesses receive a loan, they repay it with interest and it flows back into the program to lend out again. All that turning and churning has had a huge impact on small-business growth and job creation."

Now, the SBIC is poised to deploy another \$52 million in additional severance tax capital, thanks to a new law approved this year that doubles the amount of permanent fund money earmarked for the SBIC. Gov. Michelle Lujan Grisham spearheaded the bill (SB 10), which was sponsored by Sen. Carlos Cisneros, D-Questa. It passed with broad, bipartisan support, taking effect this past Monday.

Governor pushed change



John Bingaman

The increase in SBIC funding is part of the governor's economic development agenda, said Chief of Staff John Bingaman.

It's one of the few bills aimed at taking more money from the state's permanent funds for local programs that have earned legislative approval. Repeated efforts to increase the state appropriation from the Land Grant Permanent Fund for childhood education have failed, including a governor-backed push in the last legislative session.

But SB 10 garnered bipartisan backing because it directly injects money into grassroots job growth while potentially earning returns for the Severance Tax Permanent Fund.

“Small businesses are the lifeblood of New Mexico’s economy, and they’re responsible for a lot of job growth around the state,” Bingaman said. “The permanent funds are being invested in stocks and bonds, so why not take some of it to also invest in New Mexico. Policy makers want good stewardship of those funds, and this allows us to do both — invest in New Mexico while safeguarding the permanent funds, because we get a positive return on that money while deploying it in small businesses across the state.”

Cost-effective

A 2017 impact study by the University of New Mexico’s Bureau of Business and Economic Research found that the SBIC lending program helped create employment at a five-year average cost of \$4,717 per new job. That’s less than the \$5,941 per new job spent under the state’s Job Training Incentive Program, and only slightly more than the \$4,255 per job through Local Economic Development Act spending.

“The cost per job is very compelling,” Bingaman said. “It compares favorably to any other state program.”

As for returns, the SBIC did struggle in its first decade of operations. That’s because, apart from pumping money into microlending organizations, it also invested in local venture capital funds until about 2008, when the recession wiped out many fledgling, venture-backed startups.

The SBIC lost about \$13 million from those investments at the height of the recession as cash-strapped startups crashed and burned.

A new direction

In 2011, however, former Gov. Susana Martinez appointed all new members to the SBIC board, which then pulled the SBIC out of all new venture investments to focus exclusively on lending programs.



Joseph Badal

“The previous board had a strong focus on venture capital, but this board essentially reversed that,” said current SBIC President and Board Chair Joseph Badal. “We changed the policy, because venture capital is extremely risky and it’s taxpayer funds that we’re playing with.”

The SBIC still has about \$9.7 million in outstanding, pre-2011 investments in venture funds. Recent “exits,” or sales, of venture-backed companies by some venture funds have earned returns for the SBIC, reducing its recession-era losses to about \$9 million now. And the losses could continue dropping over time as the SBIC earns more returns from future exits.

Meanwhile, SBIC holdings in venture funds have declined from 49 percent of total assets in 2012 to just 24 percent last year. In contrast, loans to microlenders have increased from \$12.4 million to \$23.4 million in the same period, or from 34 percent of total assets to 59 percent.

Great repayment rates



Anne Haines

The microlending program is earning positive returns. Accion and The Loan Fund report 95 percent and 98.5 percent repayment rates, respectively. And the microlenders say SBIC funding allows them to steadily increase loan activity, putting more money into businesses throughout the state.

Accion, which recently rebranded as DreamSpring, has loaned SBIC money to 2,866 businesses in 179 New Mexico communities since 2004, said Accion President and CEO Anne Haines.

“SBIC has been a vital source of capital to put into entrepreneurs’ hands,” Haines said. “It’s helped us reach out extensively to communities throughout New Mexico to empower local families.”

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Small businesses flourish with SBIC-backed loans

By Kevin Robinson-Avila / Journal Staff Writer

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Cervantes Food Products Inc. co-owners Richard and Arian Gonzales are expanding their chile sauce and salsa manufacturing operation from this Albuquerque facility into a larger, custom-built facility in Los Lunas with help from SBIC-backed Accion. (Adolphe Pierre-Louis/Albuquerque Journal)

ALBUQUERQUE, N.M. — Cervantes Food Products Inc. will move its chile sauce and salsa business next year from a 2,000-square-foot manufacturing space in Albuquerque to a custom-built, 6,000-plus square foot facility in Los Lunas.

A \$280,000 loan from local microlending organization Accion allowed Cervantes' owners, Arian and Richard Gonzales, to buy property this year in Los Lunas. The couple is now working with Accion and Nusenda Credit Union to obtain \$750,000 to build the facility, which they hope to open early next year.



Cervantes Food Products are sold nationwide and even globally through internet marketing. (Adolphe Pierre-Louis/Albuquerque Journal)

The latest Accion loan marks the third time the Cervantes owners have turned to the microlender to help expand their business. They received two smaller loans of \$12,000 in 2011 and \$50,000 in 2013, both of which are repaid.

But the business couple was surprised to learn that the Accion loans were actually financed with state capital from the Severance Tax Permanent Fund managed by the Small Business Investment Corp., which provides lines of credit to Accion and two other local microlenders to support small businesses throughout New Mexico.

"I'm thrilled to hear it," Arian Gonzales told the Journal. "They're investing in our communities. That credit is fundamentally important for small businesses like ours."

The money source

Thousands of other new and existing small businesses around the state have received loans since 2001 to launch or grow their operations from Accion, the New Mexico Community Development Loan Fund, WESST Corp. and others. But like the Cervantes owners, few are aware that the money they received came from state funds managed by the SBIC.

SBIC funding has leveraged about \$82 million in small-business loans through a \$23.4 million line of credit to the local lending institutions, which continuously recycle repaid loans back into new credit for more businesses, allowing them to lend out more than three times the original capital provided by SBIC.

All the microlenders have independently raised capital from other institutions and charitable foundations. But the SBIC accounts for the lion's share of microloans to businesses in New Mexico.

Accion has amassed \$46 million in capital from many institutions and foundations to lend to small businesses in five states. But in New Mexico, it draws principally on a \$7.5 million SBIC line of credit to assist local businesses.

About 88 percent of locally-loaned money came from the SBIC last year, said Accion President and CEO Anne Haines.

Recycling the dollars

"Through the life of the SBIC line of credit, we've continually recycled those dollars, allowing us to loan out almost \$39 million in SBIC money," Haines said.

The Loan Fund has a \$14 million outstanding line of credit from the SBIC. That will grow to \$20 million this summer. And it's now negotiating another \$14 million increase, which the SBIC can afford, thanks to a new law that took effect July 1 to double the amount of Severance Tax Permanent Fund capital the SBIC manages.

From 2007 to mid-2019, the microlender has continuously recycled that state money to leverage \$50 million of the \$60 million in loans its made over the last dozen years to New Mexico businesses, said Loan Fund President and CEO F. Leroy Pacheco.

"The SBIC is our largest funder," Pacheco said. "They're a great partner."

WESST Corp. only has a \$375,000 line of credit with the SBIC, since it focuses primarily on training, mentoring and other assistance to startups and existing businesses. It uses its microlending fund to selectively support small businesses as needed.

As of 2018, it's leveraged SBIC credit to lend \$618,000 to 52 businesses, said WESST Vice President of Lending Kim Blueher.

Critical support

The microlenders provide critical support to businesses that, in most cases, can't access traditional lines of credit because they have yet to build the business history and revenue stream needed to gain approval from commercial lenders. That's especially true in the aftermath of the last recession, which forced banks to place much higher restrictions on lending capital, greatly reducing the amount of funding available for small-business loans in the banking system, said SBIC Executive Director and Investment Advisor Russell Cummings.

Small loan recipients say the microlending programs are a life saver.

Adrian Chavez Sr., CEO and chief financial officer of Lobo Protective Services LLC, said his startup has experienced hyper growth since launching two years ago to provide security for the local film industry. After receiving a contract with Netflix local productions, its workforce ballooned to 78 people.

But with the company growing so fast, the firm recently hit a cash-flow bottleneck that forced it to seek credit to meet payroll one month. It sought commercial credit, but was turned down by various banks until The Loan Fund provided \$20,000, which the company paid back two months later.

Life savers



Thanks to a recent loan from SBIC-backed lender Accion, Cristopher Torres now owns the Village Barbershop in Bosque Farms, where Torres serves local clients like Anthony Jiron, seated. (Greg Sorber/Albuquerque Journal)

“Without them, we wouldn't be where we're at today,” Chavez said.

SBIC-backed microlenders provide tiny loans of less than \$1,000, and up to \$1 million or more at times. That makes credit available to even the smallest of businesses.

Christopher Torres, for example, became the sole owner this year of the Village Barbershop in Bosque Farms after receiving a \$100,000 Accion loan to buy the family business from his parents, who had previously acquired it from Torres's great uncle.

Torres sought commercial credit but was turned down, until he went to Accion.

"My parents bought it as an investment for me," Torres said. "I ran it but they owned it, and I wanted to pay them back. I don't know what I would have done without Accion."

The microlending goal is to help small, credit-strapped businesses launch and grow to the point where they can access traditional lending institutions.

That's the case with Cervantes Food Products, which grew rapidly since 2009, raising its annual sauce and salsa production from about 2,400 jars 10 years ago to 240,000 in 2018. And since 2012, the company has moved into custom label making for clients who want to put their personal stamp on Cervantes products.

That part of the business has grown to about eight percent of annual revenue, and now the company is building its new facility in Los Lunas to expand customized labeling to above 20 percent of revenue over the next three years, Arian Gonzales said. It's turning to Nusenda for a construction loan, which Accion doesn't provide.

"Accion gives small-business owners confidence to grow and expand by believing in and supporting their dreams," Arian said. "They're a huge champion for us and other small businesses."

More from ABQJournal.com

SBIC to expand its lending partners

By Kevin Robinson-Avila / Journal Staff Writer

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Small Business Investment Corp. executives say a doubling of its lending capacity will allow the SBIC to offer funds to more microlending organizations, while also increasing lines of credit for current SBIC lending partners.

A new law, which took effect July 1, raises the amount of money the SBIC can manage from the state's Severance Tax Permanent Fund, from 1 percent of the fund's total value previously to 2 percent now. There was \$5.2 billion in the fund as of March 31, meaning the SBIC will now receive at least \$50.2 million more in severance tax capital to manage on top of the \$47 million it already administers.

To date, the SBIC has committed \$23.4 million in credit to five different lending institutions, including DreamSpring (formerly Accion), New Mexico Community Development Loan Fund, the New Mexico Mortgage Finance Authority, Rio Vista Growth Capital, and WESST Corp. It's now discussing new lines of credit with more local lenders, and with some out-of-state Community Development Financial Institutions that lend to small businesses in New Mexico.

To date, through recycling of repaid loans, SBIC's current lending partners have extended nearly \$82 million in credit to businesses around the state.