



NEW MEXICO
FINANCE AUTHORITY

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Presentation to NMFA Oversight Committee

New Mexico Growth Fund Strategy Overview

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State Small Business Credit Initiative (SSBCI 1.0)



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- ◆ Established by the Small Business Jobs Act of 2010, the State Small Business Credit Initiative (SSBCI) is a federally-funded program operated by the U.S. Department of Treasury seeking to increase access to capital to small businesses
- ◆ SSBCI gives states significant flexibility to design programs that meet local market conditions and small business needs
- ◆ SSBCI 1.0 deployed ~\$1.5 billion to state small business financing programs throughout the country
 - The New Mexico Economic Development Department (NMEDD) implemented the ~\$13 million awarded by SSBCI 1.0 to the state of New Mexico in partnership with NMFA
 - NMFA administered a loan participation program that facilitated ~\$10 million in lending to sixteen (16) economic development projects throughout the state
 - SIC redeployed \$5 million of SSBCI funds in a subordinated tranche to catalyze \$15 million of investment (\$10 public and \$5 million private) into eight venture capital funds investing in local start-ups

For further information please see the [State Small Business Credit Initiative](#)

- ◆ Reauthorized and expanded by the American Rescue Plan in 2022, SSBCI 2.0 is providing ~\$10 billion to state small business financing programs to support small businesses and entrepreneurship, with a focus on socially and economically disadvantaged individuals (SEDI) and Very Small Businesses (VSBs)
 - SEDI is defined as businesses locating into a distressed community (as defined by the Dept. of Treasury)
 - Very Small Businesses are defined as businesses with fewer than 10 employees
- ◆ In the fall of 2022 New Mexico Economic Development Department received an award of up to \$74,488,805 of SSBCI funds to be disbursed in three equal tranches of ~\$22 million over ten years. The initial award provides for two uses:
 - \$ 9 million to CAP (collateral support)
 - \$ 65 million to New Mexico Growth Fund (equity/venture capital funds)
 - The total award amount includes ~\$6 million of SEDI incentive which is granted if New Mexico deploys at least 57% to SEDI-owned small businesses

SSBCI 2.0 – Capital Programs



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- ◆ SSBCI eligible programs support a variety of credit and/or equity venture capital programs. Regardless of program, each federal dollar must leverage ten private dollars
 - Capital Access Programs provide portfolio insurance in the form of a loan loss reserve fund into which the lender and borrower contribute
 - Collateral Support Programs provide cash collateral to improve small business' ability to borrow funds to grow a business
 - Loan Guarantee Programs support private loans that may otherwise have been inaccessible or prohibitively expensive by agreeing to reduce lender exposure on a loan
 - Loan Participation Programs provide credit support through the purchase of a portion of a loan made by a lender or through a direct loan alongside a private lender
 - Equity/Venture Capital Programs (Funds) invest in venture capital funds making equity investments in small businesses
 - Equity/Venture Capital Programs (Direct) provide capital in the form of direct equity investments to small businesses alongside co-investment

For further information please see the [State Small Business Credit Initiative](#)

SSBCI 2.0 – Deployment Update



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◆ Collateral Support Program:

- NMEDD has administered \$2.3 million to 14 small businesses within ten months
- 9 of the 14 are certified SEDI-owned businesses, representing 65% of total deployed and exceeding the state's SEDI allocation target

◆ Equity/Venture Capital Fund Program:

- NMEDD explored implementation of a venture capital fund program with the support of an investment advisor
- Due to execution challenges related to state procurement and synergies with the NMFA Venture Capital Program, in June 2023 NMEDD entered into a memorandum of agreement with NMFA whereby NMFA will become a contracted entity and administer the New Mexico Growth Fund
- NMFA anticipates deploying SSBCI venture capital funding in fall of 2023

SSBCI 2.0 – Strategy Developments



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- ◆ A key objective for SSBCI 2.0 is to ***stimulate local community and regional banking activity and community development financial institution (CDFI) support of very small businesses and SEDI business owners throughout the state***
- ◆ NMEDD and NMFA are exploring additional strategies to enhance the impact of SSBCI 2.0:
 - Capital Access Program – Results from SSBCI 1.0 indicate capital access programs best support higher volumes of smaller loans in low-income communities
 - Loan Participations – SSBCI 1.0 programs utilizing loan participations supported larger loan sizes and achieved 5.75 times leverage on capital deployed

SSBCI 2.0 - Capital Access Programs

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Overview:

- ◆ Reduces risk for financial institutions making loans to small businesses for eligible business purposes
- ◆ A separate loan loss reserve fund is established for each participating lender
- ◆ The participating lender and borrower each pay a premium calculated on a loan-by-loan basis into the loan loss reserve fund
- ◆ Federal funds make a matching contribution to the loan loss reserve fund in an amount equal to the aggregate premium paid by the borrower and participating lender
- ◆ The loan loss reserve fund increases with each loan enrolled; the balance in the loan loss reserve fund can be applied to reimburse losses on any enrolled loan that defaults

Example: Utah Small Business Credit Initiative Capital Access Program

- Insured depository institutions, federally-insured credit unions, and CDFIs can apply to become participating lenders
- Best suited for loans under \$250k; loans may be up to \$5 million
- Utah-based small businesses and non-profits are eligible borrowers
- Eligible use of loan proceeds include start-up and working capital, acquisition of equipment, inventory or services, and purchase, renovation or tenant improvements on place of business
- Passive real estate is not an eligible use

SSBCI 2.0 - Loan Participation Programs



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Overview

- ◆ Enables small businesses to obtain medium to long-term financing, usually in the form of term loans, to help them grow and expand their businesses
- ◆ Two forms:
 - Purchase participation - state purchases a portion of a loan originated by a lender
 - Companion or direct participation – state originates a parallel (usually subordinate) loan to borrower originated by lender

Example: NMFA Loan Participation (SSBCI 1.0)

- NMFA purchased participations in loans originated by local banks
- Eligible uses of loan proceeds included land, building and infrastructure costs, machinery and equipment costs and working capital
- Economic development priority criterion included high wage job creation, export base companies and businesses located in rural or economically distressed areas
- Fixed and variable interest rates based on risk rating

Next Steps

- ◆ NMFA and NMEDD will finalize proposal on additional strategies in advance of an application to the Department of Treasury in early fall
- ◆ Request the NMFA Oversight Committee's approval on two set rules amendments needed to administer the federal funds for participations and direct lending through the Economic Development Revolving Fund:
 - Loan Participation Rules adopted in 2006 need to be updated to conform to existing underwriting and monitoring practices
 - Direct Loan Rules (for federal funds only) adopted in 2011 need to be updated to allow NMFA to administer other federally funded loan programs and to conform to existing underwriting and monitoring practices
- ◆ Request the NMFA Oversight Committee's approval on a new set of Rules governing a capital access program utilizing guarantee mechanism under the Economic Development Revolving Fund.