

NEW MEXICO
FINANCE AUTHORITY

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Presentation to the
New Mexico Finance Authority Oversight Committee

Approval of NMFA Rules

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November 1, 2023

State Small Business Credit Initiative 1.0



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- ◆ Established by the Small Business Jobs Act of 2010, the State Small Business Credit Initiative (SSBCI) is a federal program that seeks to increase the flow of capital to small business. ~\$1.5 billion to small business financing programs throughout the country in 2011
- ◆ New Mexico Economic Development Department (NMEDD) is the State's recipient of the SSBCI funding. In May 2011, NMEDD and NMFA entered into a Memorandum of Agreement to operate the ~\$13 million award overseen by the Department of Treasury
 - NMFA administered a Loan Participation Program that facilitated ~\$10 million in lending to 16 economic development projects throughout the state
 - Three projects were in rural communities with average total project sizes of \$3.2 million.
 - NMFA purchased subordinated interests in loans with an average ~16% of project costs.
 - All loans made under that program have performed as expected; several have prepaid
 - SIC re-deployed \$5 million 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
- ◆ SSBCI gives states significant flexibility to design programs that meet local market conditions and small business needs seeking to increase access to capital to small businesses so long as \$1 federal dollar leverage \$10 private dollars

State Small Business Credit Initiative 2.0



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- ◆ Reauthorized and expanded by the American Rescue Plan, SSBCI 2.0 is providing ~\$10 billion to states to support small businesses financing programs and entrepreneurship, with a focus on Socially and Economically Disadvantaged Individuals (SEDI) and Very Small Businesses (VSB):
 - SEDI businesses are located in distressed communities (as defined by Department of Treasury) or owned by individuals with historically diminished access to credit
 - Very Small Businesses are defined as businesses with fewer than 10 employees
- ◆ In the fall of 2022 New Mexico received an award of up to \$74.5 million to be disbursed in three tranches of ~\$22 million. 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
- ◆ NMEDD's application to Treasury outlined two programs:
 - \$ 9 million for a collateral support (operated under the name Collateral Assistance Program)
 - Over 10 months, NMEDD provided \$2.3 million in credit support to 14 small businesses
 - 9 of the 14 are certified SEDI-owned businesses, representing 65% of total deployed and exceeding the state's SEDI allocation target
 - \$ 65 million to New Mexico Growth Fund (equity/venture capital funds)
 - NMFA/NMEDD will be requesting to reallocate as much as \$50 million in VC to debt programs

- ◆ Jurisdictions design SSBCI Capital Programs to support a combination of the following credit and/or equity venture capital programs:
 - ☑ 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

Reallocating SSBCI Funding: Why these programs?

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- ◆ NMFA commissioned Next Street to perform a Small Business Capital Landscape Research Report to help inform how the NMFA Venture Capital Program and SSBCI funding could be best utilized in New Mexico.
- ◆ New Mexico Small Business Landscape findings:
 - There are ~ 168,000 small businesses with less than 50 employees in New Mexico
 - 75% New Mexico small businesses do not have paid employees
 - Small businesses account for 47% of private employment (~300k jobs) in the state
 - 94% of small businesses in New Mexico have < 10 employees and meet the federal definition of 'very small businesses'
 - 42% of employer small businesses are in rural communities
 - 'Main Street' make up more than 90% of New Mexico small businesses
 - Minority-owned businesses are significantly underrepresented in small business ownership statewide

Reallocating SSBCI Funding: Why these funds?

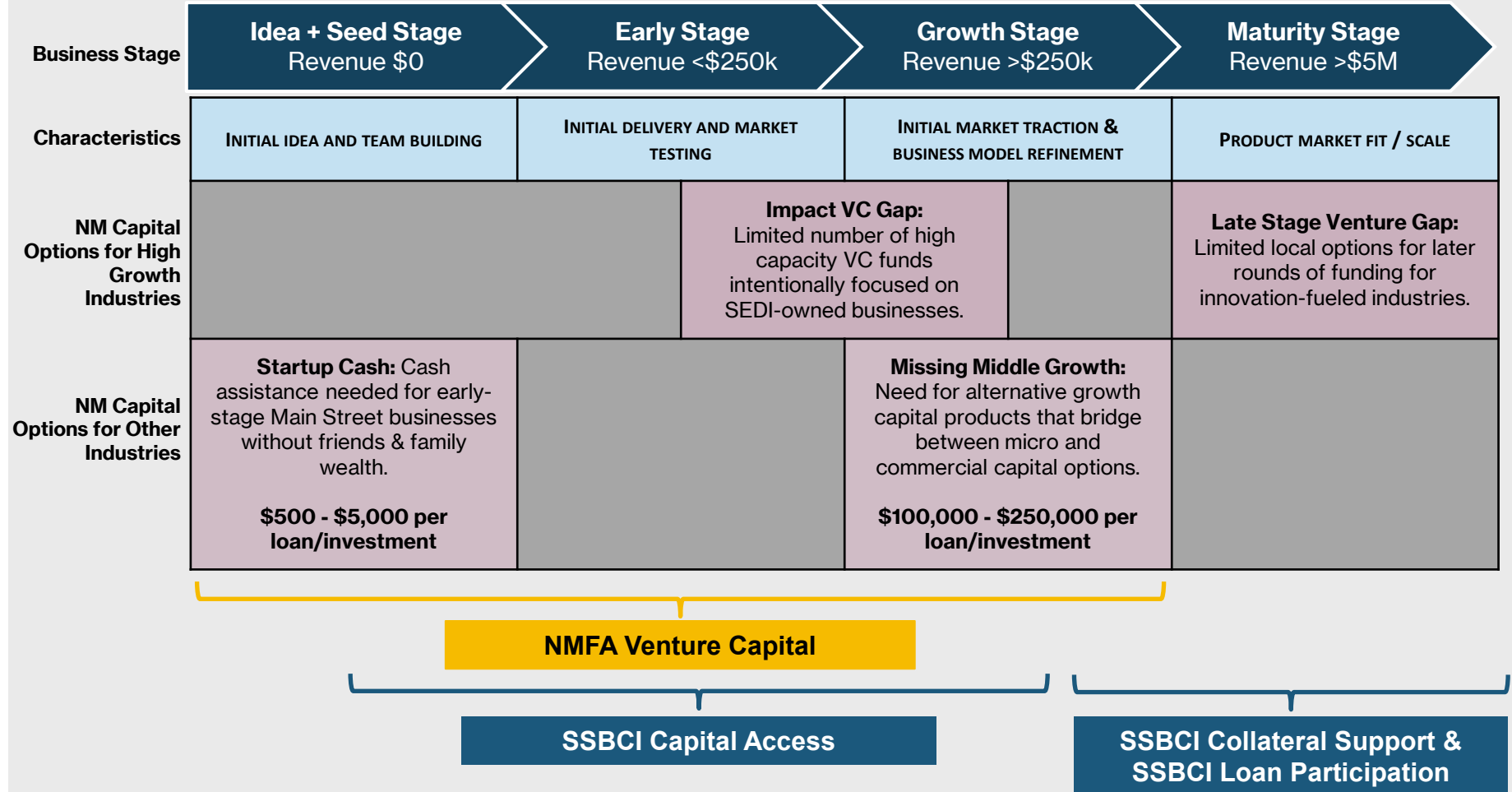


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- ◆ The Small Business Capital Landscape Research Report found several gaps that NMFA can help banks, credit unions and CDFIs fill with the SSBCI 2.0 funding.
 - The found report found that Credit tightening since the great recession has been disproportionately felt by smaller businesses, and those in less wealthy areas.
 - Next Street focus groups found businesses struggle with finding Right Size Financing -- loans larger than CDFIs typically provide and smaller than banks typically make. As a result, business owners resort to personal savings, personal debt, or predatory lenders.
- ◆ NMEDD and NMFA are working with local lending institutions including banks, credit unions and community development financial institutions (CDFIs) to design new lending products that had high success rates with SSBCI 1.0 in meeting capital needs of SEDI-owned businesses
 - Loan Participations – SSBCI 1.0 programs utilizing loan participations supported larger loan sizes and achieved 5.75 times leverage on capital deployed
 - Capital Access Program – Results nationwide from SSBCI 1.0 indicate capital access programs best support higher volumes of smaller loans in low-income communities

New Program Opportunities

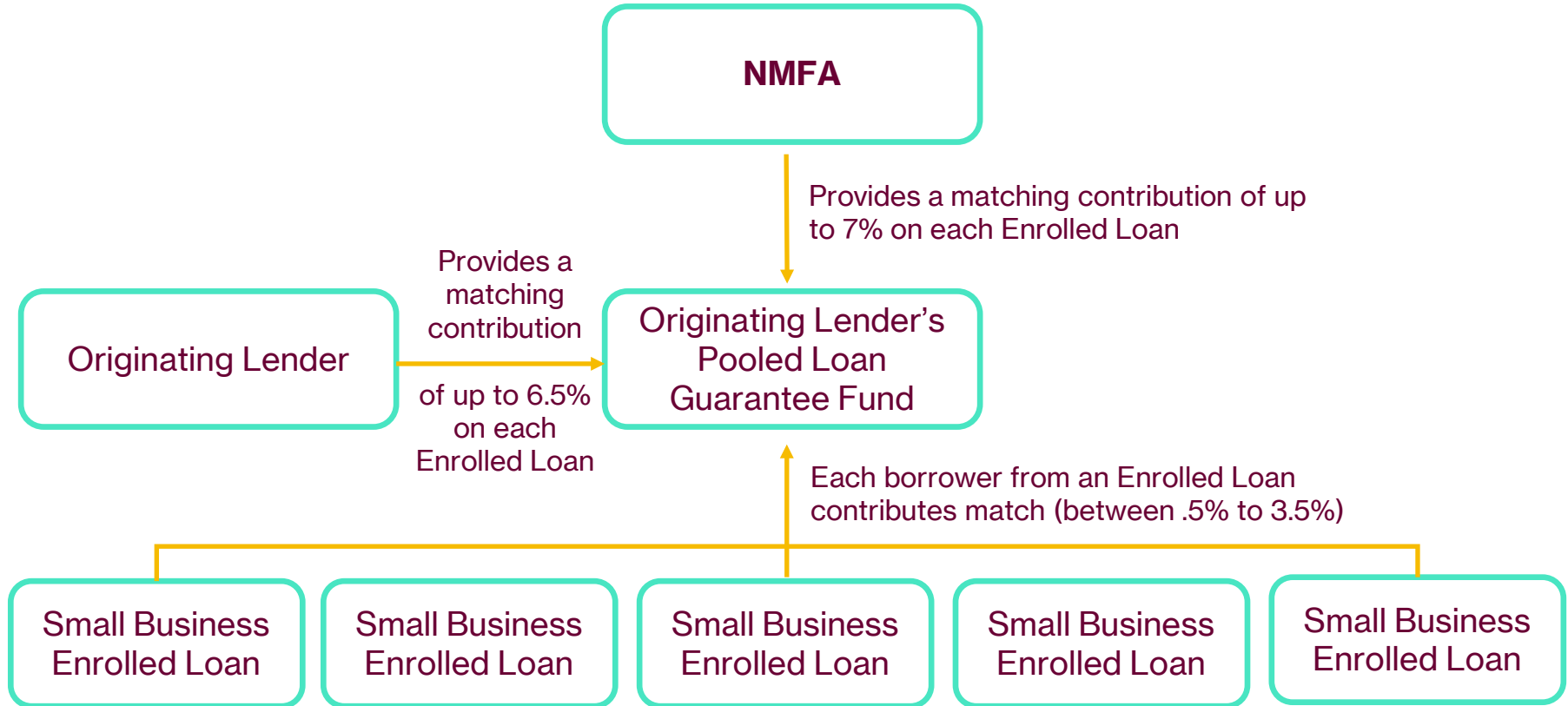
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New Program Parameters

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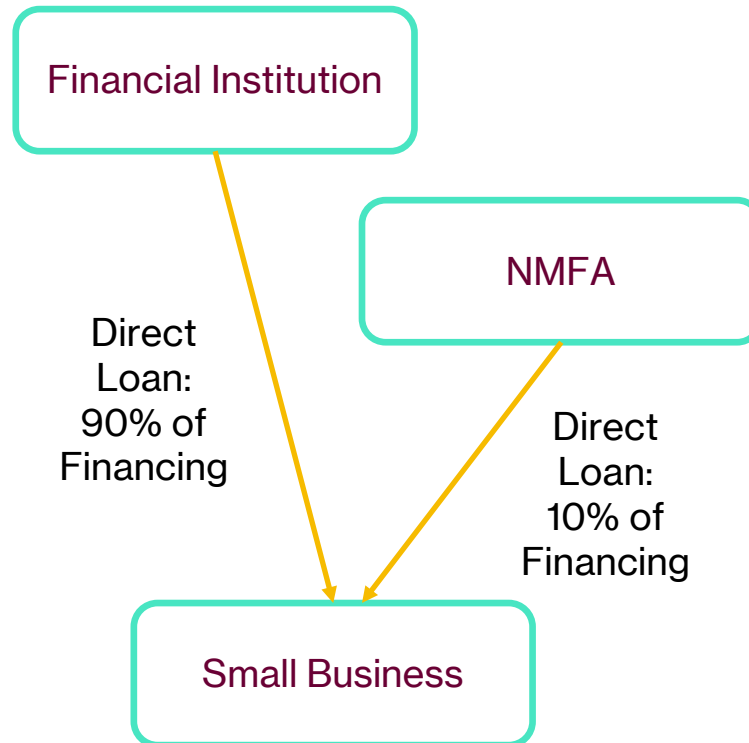
	NMFA Venture Capital	NMFA SSBCI Capital Access	EDD SSBCI Collateral Support	NMFA SSBCI Loan Participation
Target Capital Providers	Venture funds	CDFIs, credit unions, banks	CDFIs, credit unions, banks	CDFIs (direct co-lending), credit unions, banks
Target Enterprises	Early-stage businesses 1 to 10 employees	For-profit & non-profit with <100 employees	For-profit & non-profit with <500 employees	
Transaction Sizes	\$50,000 to \$2,000,000	\$10,000 to \$1,500,000	Up to \$5 million	7500000
Participation Percentage	Up to 60%	Up to 7%	Up to 50% - not to exceed \$350,000	10% - 40%
Product Types	Equity or debt investment	Line of credit, term loans	Line of credit, bridge and term loans	Line of credit, term loans
Typical Terms	4 to 12 years	1 to 7 years	1 to 3 years	1 to 25 years
Use of Proceeds	Working capital, expansion, business development	Working capital, expansion, buildings (purchase, construction & renovation)		



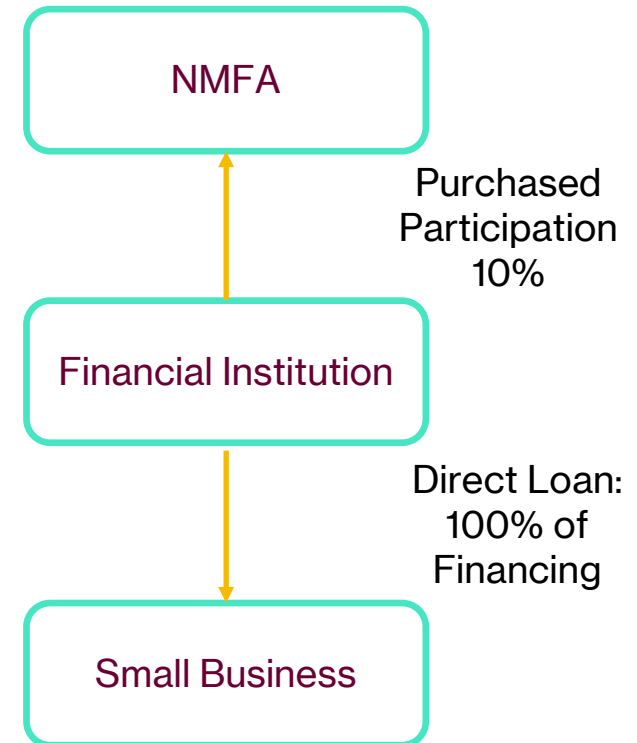
Structure Provides Additional Incentives to Make Certain Loans: Each approved Originating Lender will hold and grow its own Pooled Loan Guarantee Fund that will be available to cover losses from any Enrolled Loan.

Business Friendly Process: NMFA approves each Originating Lender (Bank, Credit Union or CDFI) and then ensures each enrolled loan meets the program guidelines.

Co-Lending Participation



Purchased Participation



NMFA participation can occur at either shared collateral lien (“pari passu”) with the financial institution (thereby sharing in the risk) or be subordinate to the financial institution (thereby increasing the amount that can be loaned to the client)

- ◆ Rules must be approved for NMFA and NMEDD to amend the SSBCI Allocation Agreement. At its October 26, 2023 meeting, the NMFA Board approved the following Rules:
 - New SSBCI Capital Access Program Rules
 - Amended and Restated Loan Participation Rules
 - Amended and Restated Direct Lending Rules
- ◆ Pursuant to SWEDFA, NMFA Board of Directors and NMFA Oversight Committee must approve the same set of Rules in order for them to take effect
- ◆ If approved, NMFA and NMEDD may apply to the Department of Treasury to amend the SSBCI Allocation Agreement. The application must provide Treasury with verification that New Mexico will efficiently utilize the funds to support SEDIs and VSBs while meeting the overall 10:1 leverage requirement
 - Leverage Model will be developed that show that New Mexico is better served using the approved funds for debt instead of equity
- ◆ Once approved by Treasury, NMFA will develop application systems and outreach materials to ensure lenders, businesses and other stakeholders understand the program prior to opening the applications. NMFA anticipates new funding programs to available in Spring 2024

Program Overview

- ◆ Decrease lender risk on loans to small businesses
 - Federally insured lenders (banks and credit unions) and CDFIs can apply to become participating lenders
 - Best suited for loans between \$100k and \$500k; loans may be up to \$1.5 million
- ◆ NMFA underwrites the and accepts Participating Financial Institutions who originate loans as they otherwise would. Federal guidelines cap the interest rate charged on the enrolled loan and limit the fees the lender can charge.
- ◆ 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
- ◆ 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

Content of New Rules

- ◆ Incorporates SSBCI guidelines and restrictions
- ◆ Delineates program application procedures
- ◆ Two accounts are created by NMFA; assets are owned and controlled by NMFA and stay on NMFA's books
 - Deposit Account – holds initial deposits in advance of loans be enrolled
 - Loan Loss Reserve Account – account that holds the borrower contribution and matching contributions from lender and NMFA.
- ◆ Procedures for enrolling Qualified Loans
 - Loans may range from \$10,000 to \$1.5 million
 - Borrower may not have more than \$1.5 million in total enrolled loans
- ◆ Procedure for making a claim for reimbursement of a charged off enrolled loans
- ◆ Procedures for payment of claims by NMFA and recovery on loans post-NMFA claim payment
- ◆ Voluntary and involuntary withdrawals from the Program

Amended SWEDFA Rules Governing Loan Participations



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Content of Rules

- ◆ Rules have not been revisited since their adoption in December 2005
- ◆ Conforms the Rules to current statutory provisions, updated legal guidance, and existing practices
 - Provides for Loan Management Policies to be used in managing program
 - Eliminates portions of Rules dealing with Legislative Authorization (2023 Session SB 327 defers legislative authorization until July 1, 2027)
 - Eliminates outdated practices to document legal consideration
 - Provides for a staff credit committee review prior to Board Economic Development Committee
 - Provides that only recommended projects move from credit committee, to Economic Development Committee, to Board
 - Eliminates structuring options that were not practical for the lender or difficult for NMFA to monitor
 - Variable interest rates
 - Differing loan amortizations
 - .25% servicing fee paid by NMFA to lender
 - Eliminates unnecessary fees

Content of Rules

- ◆ Rules put in place to accommodate Treasury's request for options on delivering SSBCI 1.0 funding; have not been revisited since their adoption in December 2011
 - Program was not used in SSBCI 1.0
- ◆ Eliminates requirement that a co-lender participate in the financing to the business
- ◆ Amended Rules broaden NMFA's ability to utilize SWEDFA to make direct loans with federal dollars
- ◆ Conforms the Rules to current statutory provisions, updated legal guidance, and existing practices
 - Provides for Loan Management Policies to be used in managing program
 - Provides for a staff credit committee review prior to Board Economic Development Committee
 - Provides that only recommended projects move from credit committee, to Economic Development Committee, to Board
 - Eliminates unnecessary fees