



NEW MEXICO
FINANCE AUTHORITY



Presentation to NMFA Oversight Committee

Status of the Economic Development Revolving Fund

Marquita Russel, *CEO*, NMFA
John Brooks, *Chief of Programs*, NMFA

September 7, 2023

Statewide Economic Development Finance Act



2

- ◆ The Statewide Economic Development Finance Act (“SWEDFA”) was established in 2003 to stimulate economic development with needed programs in the public interest particularly in rural and underserved areas of the state. SWEDFA assigns powers and duties to the New Mexico Economic Development Department and the New Mexico Finance Authority which jointly administer several programs seeking to increase business activity in rural and underserved areas, attract new and retain and expand existing businesses, and promote an environment suitable for start-up and emerging businesses throughout the state.
- ◆ The Economic Development Revolving Fund (“EDRF”) is the Fund created under SWEDFA from which NMFA makes loans. EDRF is one several funds NMFA is authorized to operate for community and economic development purposes.
- ◆ Program Success is limited by availability of capital
 - NMFA has relied on departmental partners and its own balance sheet to fund 50% of economic development program activity
 - Most programs have historically lacked available capital to lend; borrowers cannot rely on stable source of funding for economic development projects
 - New programs created in 2022-23 account for currently available capital; based on pipeline NMFA anticipates two-thirds deployed by end of FY2024
- ◆ **Federal State Small Business Credit Initiative (“SSBCI”) provides great opportunity for impact.**

SSBCI 2.0



3

- ◆ 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 businesses are located in distressed communities (as defined by the Dept. 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 Economic Development Department received an award of up to \$74,488,805 of SSBCI funding 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

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

SSBCI 2.0 - Update



4

- ◆ In August the Dept. of Treasury approved the addition of NMFA as a contracted entity to support NMEDD on administration of the New Mexico Growth Fund
- ◆ 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 for New Mexico Growth Fund 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
- ◆ Strategic direction largely informed by research commissioned by NMFA to better understand capital gaps facing underserved entrepreneurs throughout the state

Small Business Capital Landscape Research Findings



5

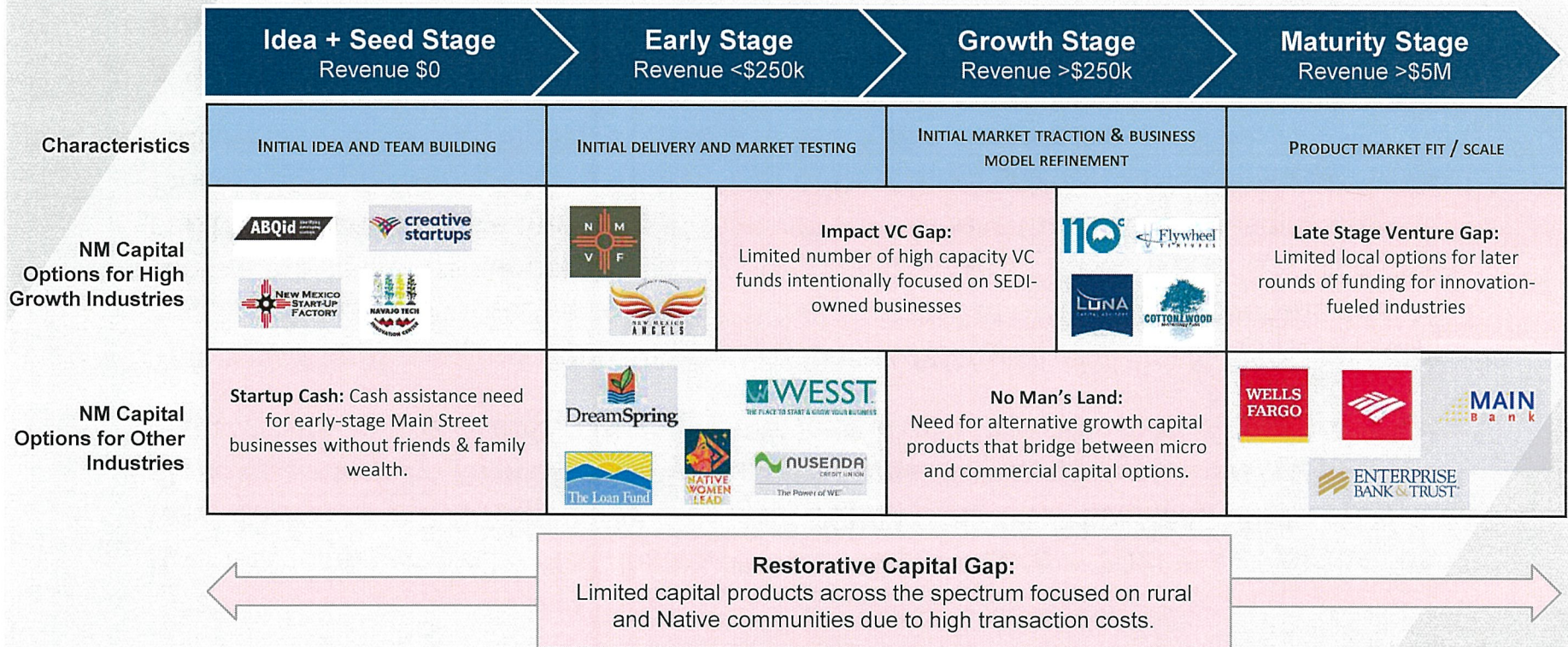
- ◆ Business lending rates by FDIC insured banks in New Mexico in 2021 were less than half what they were in 2007, **resulting in at least \$500M less small business funding provided statewide annually. To avoid risk, banks have focused on larger, safer business investments, nearly doubling their average loan size in the same period.**
- ◆ **This credit tightening has been disproportionately felt by smaller businesses, and those in less wealthy areas.** More than one-half of the decrease in bank lending over the past 15 years came in loans of under \$100K; by 2021 banks in New Mexico were deploying more capital via loans of more than \$250K than via loans of less than \$100K. Businesses with <\$1M in annual revenue saw more than half of their funding from banks disappear, while those with over \$1M in annual revenue only saw a 12% decrease.
- ◆ **A critical gap identified is a ‘no man’s land’ for companies in early and growth stages (revenues of \$0 to \$5 million) with capital needs larger than supply from CDFIs: “Need for alternative growth capital products that bridge between micro and commercial capital options”**
- ◆ **Across the spectrum there are limited capital products focused on rural and Native communities due to relatively high transaction costs**

Source: Research commissioned by NMFA conducted by Next Street Financial, LLC

NM Small Business Capital Landscape



6



Source: Research commissioned by NMFA conducted by Next Street Financial, LLC

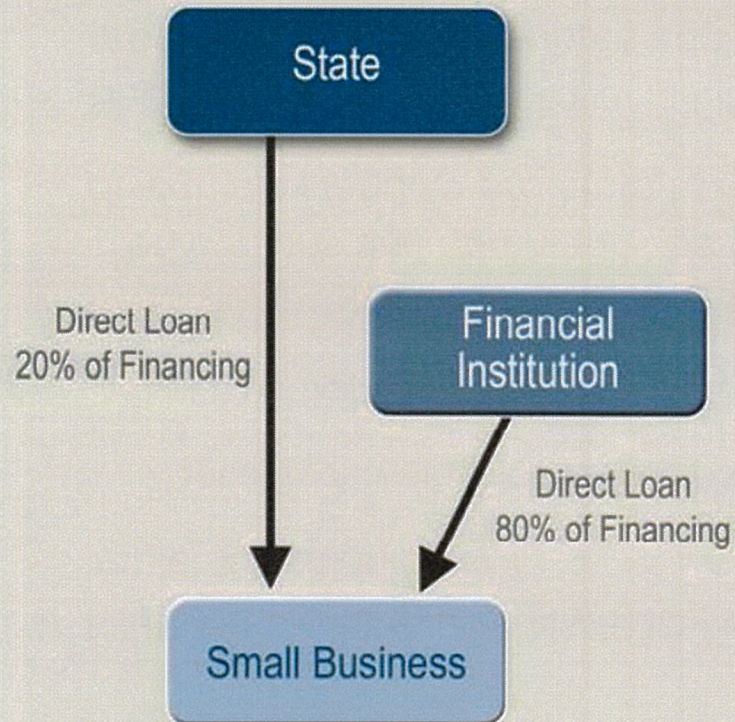
SSBCI 2.0 – Next Steps



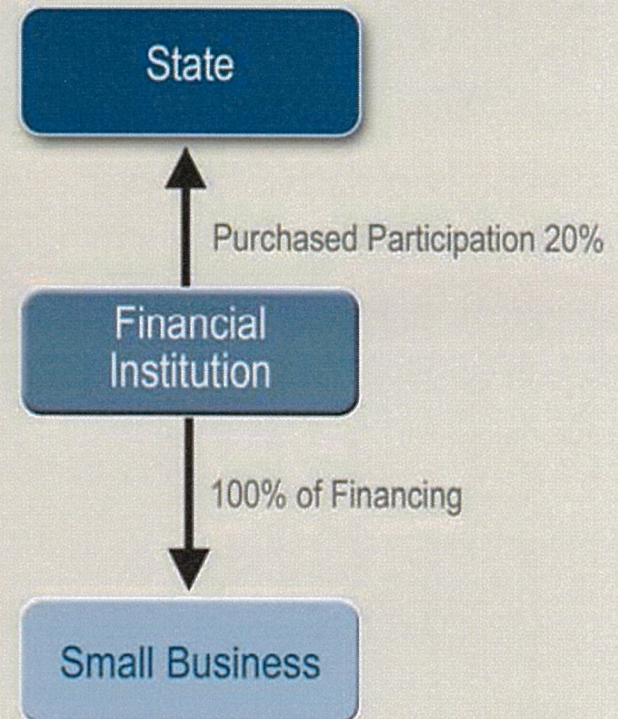
7

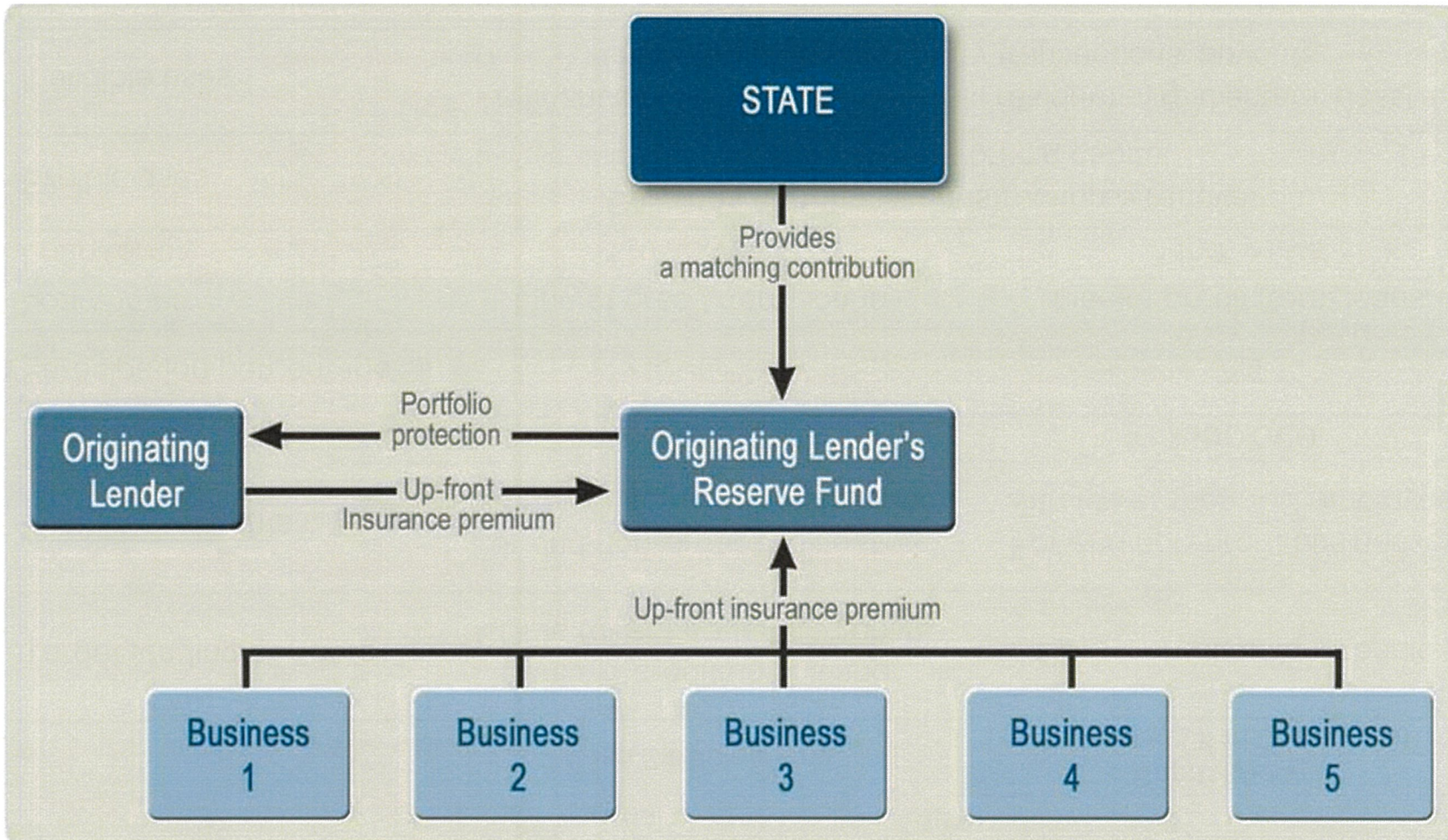
- ◆ NMFA is working with NMEDD to add two program types to SSBCI 2.0 implementation:
 - Capital access (loan guarantee pool)
 - Loan participation (purchasing participations and direct co-lending)
- ◆ NMEDD and NMFA are working with local lending institutions including banks, credit unions and community development financial institutions (CDFIs) to design new lending products to meet capital needs of SEDI-owned businesses
- ◆ Seeking NMFAOC approval in October on proposed rules governing new programs in order to submit application to Dept. of Treasury soon thereafter

Co-Lending Participation



Purchased Participation





| | Loan Participations | Capital Access (Pooled Loan Guarantee) |
|--------------------------|--|---|
| Target lending partners | Banks & credit unions and CDFIs (direct co-lending only) | CDFIs, credit unions, banks |
| Eligible applicants | For and non-profit businesses with fewer than 500 employees | For and non-profit businesses with fewer than 100 employees |
| Max loan size | \$7,500,000 | \$500,000 |
| Participation percentage | 10-40% | 7% |
| Loan types | Line of credit, term loans | Line of credit, term loans |
| Loan terms | 1 to 25 years | 1 to 7 years |
| Eligible uses | Buildings (purchase, construction & renovation), equipment, working capital | |
| Ineligible uses | Refinancing debt with same bank, residential real estate, passive real estate, related party transactions, buyouts | |

SSBCI 2.0 – Loan Participation Preliminary Parameters



| Location | Rural | | Urban | |
|---------------------------------------|-------------|-------------|-------------|-------------|
| Terms | pari-passu | subordinate | pari-passu | subordinate |
| Max Term for Eligible Proceeds | | | | |
| Building | 25 years | 25 years | 25 years | 25 years |
| Equipment | 10 years | 10 years | 10 years | 10 years |
| Working Capital Term Note | 4 years | 4 years | 4 years | 4 years |
| Working Capital Revolving LOC | 5 years | 5 years | 5 years | 5 years |
| Max Total Loan Size | \$7,500,000 | \$7,500,000 | \$5,000,000 | \$5,000,000 |
| Max NMFA/SSBCI Participation | \$3,000,000 | \$2,500,000 | \$2,000,000 | \$2,000,000 |
| 1-year Revolving LOC | 40% | 30% | 40% | 30% |
| 3-5 year term note | 30% | 25% | 25% | 20% |
| 6-15 year term note | 25% | 20% | 20% | 15% |
| >15 years | 20% | 15% | 15% | 10% |

