



NEW MEXICO
FINANCE AUTHORITY

*Presentation to the
New Mexico Finance Authority
Legislative Oversight Committee*

*Update on the
Economic Development
Revolving Fund*

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July 12, 2011



Finance New Mexico, LLC



Statewide Economic Development Finance Act

The Statewide Economic Development Finance Act (“SWEDFA”) was created in 2003 to help stimulate the economy, particularly in rural and underserved areas of the state, by creating a number of financing tools that New Mexico lacked but many neighboring its neighboring states offered

The Economic Development Revolving Fund (“EDRF”) is the fund created under SWEDFA





Economic Development Revolving Fund Uses

The EDRF is connected to four of the five SWEDFA authorized “programs”:

- ❖ Loan Participations (loan participations purchased with funds held in the EDRF)
- ❖ Direct Loans (loans made with funds in the EDRF)
- ❖ Conduit Bonds (potentially, bonds could be purchased using funds in the EDRF)
- ❖ Loan/Bond Guarantees (guarantees would be made from the EDRF)
- ❖ New Markets Tax Credit participation (no use of the EDRF in New Markets Tax Credit program)





EDRF Capitalization

To date, the EDRF has received two appropriations:

Initially seeded with \$10 million General Fund appropriation in 2005

- ◆ \$5 million was reverted to the state's General Fund in 2010

\$2 million appropriation in 2007

- ◆ \$1.9 million was reverted to the state's General Fund in 2011

Currently, the portfolio stands at \$5.1 million, approximately \$1.9 million is available for projects





EDRF Uses

To date, the EDRF has been used solely for the Smart Money Loan Participation Program

Since Smart Money's inception in 2006, the NMFA Board has approved:

- ◆ 12 loans totaling approximately \$16.9 million
- ◆ which would have leveraged another \$43 million in bank funds
- ◆ for a total of \$59.9 million in expansion capital

Most importantly, created and retained nearly 1,100 jobs





Overview of Smart Money Loan Approvals

TOTAL BOARD APPROVED & CLOSED SMART MONEY LOANS						
	Total Financing	Bank Funds	Smart Money	Jobs Created	Jobs Retained	
Rural Borrowers Closed	\$ 14,386,694	\$ 10,608,007	\$ 3,778,688	159	46	
Rural Borrowers Approved	\$ 10,195,423	\$ 7,331,699	\$ 2,863,724	84	15	
Urban Borrowers Closed	\$ -	\$ -	\$ -	0	0	
Urban Borrowers Approved	<u>\$ 35,277,000</u>	<u>\$ 25,097,700</u>	<u>\$ 10,179,300</u>	<u>756</u>	<u>31</u>	
Total	<u>\$ 59,859,117</u>	<u>\$ 43,037,406</u>	<u>\$ 16,821,712</u>	<u>999</u>	<u>92</u>	
Average Loan Closed & Approved	\$ 3,741,195	\$ 2,689,838	\$ 1,201,551			
Average Smart lent per Job Created/Retained				\$ 16,838.55	\$ 182,844.69	





Smart Money Loans Closed to Date

For various reasons, nine of the 12 approved loans did not move forward as expected and NMFA has funded three projects, all in rural New Mexico, creating and retaining more than 200 jobs:

CLOSED SMART MONEY LOANS					
	Total Financing	Bank Funds	Smart Money	Jobs Created	Jobs Retained
PreCheck, Inc. (Alamogordo)					
				100	0
Building	\$ 2,418,750	\$ 1,814,063	\$ 604,688		
Equipment	\$ 300,000	\$ 50,000	\$ 250,000		
Working Capital	\$ 1,000,000	\$ 1,000,000	\$ -		
Plaza Hotel (Las Vegas)					
				33	17
Building	\$ 5,517,944	\$ 3,867,944	\$ 1,650,000		
Western Wood Products, Inc. (Raton)					
				<u>26</u>	<u>29</u>
Building	\$ 4,650,000	\$ 3,441,000	\$ 1,209,000		
Equipment	\$ 250,000	\$ 185,000	\$ 65,000		
Working Capital	\$ 250,000	\$ 250,000	\$ -		
TOTAL	\$ 14,386,694	\$ 10,608,007	\$ 3,778,688	159	46





Approved Projects That Did Not Close

BOARD APPROVED SMART MONEY LOANS THAT DID NOT CLOSE					
	Total Financing	Bank Funds	Smart Money	Jobs Created	Jobs Retained
Advent Solar (Albuquerque)					
				450	0
Equipment	\$ 3,000,000	\$ 1,530,000	\$ 1,470,000		
Line of Credit	\$ 2,000,000	\$ 1,020,000	\$ 980,000		
Coral Cactus (Santa Fe)					
				6	6
Building	\$ 677,000	\$ 397,700	\$ 279,300		
Schweers (Alamogordo)					
				20	15
Building	\$ 2,300,000	\$ 1,173,000	\$ 1,127,000		
Santa Fe Studios (Santa Fe)					
				250	0
Building	\$ 24,600,000	\$ 19,600,000	\$ 5,000,000		
Aspen Avionics (Albuquerque)					
				20	20
Line of Credit	\$ 2,000,000	\$ 1,020,000	\$ 980,000		
Hotel Deming (Deming)					
				17	0
Building	\$ 5,000,000	\$ 4,150,000	\$ 850,000		
Qnuru (Albuquerque)					
				30	5
Line of Credit	\$ 3,000,000	\$ 1,530,000	\$ 1,470,000		
Murray Hotel (Silver City)					
				47	0
Building	\$ 2,895,423	\$ 2,008,699	\$ 886,724		
TOTAL	\$ 45,472,423	\$ 32,429,399	\$ 13,043,024	840	46





Other Sources of EDRF Capitalization

State Small Business Credit Initiative (“SSBCI”) Funding

In June, the NMFA signed an MOU with the NM Economic Development Department to administer the \$13.2 million in SSBCI Funding that the state is expected to receive over the next two years.

NMFA and NMEDD worked to complete the voluminous application which was due June 27, 2011.

We are currently expecting to hear on the status of the application filed.



SSBCI Overview



The SSBCI money comes from the federal Small Business Jobs Act of 2010.

It was created to help provide direct support to states for use in programs designed increase credit availability for small businesses.

The program is overseen by the US Department of Treasury and allows funds to be used for “Capital Access Programs” (or “CAPs”) and “Other Collateral Support Programs” (or “OCSPs”), such as loan participations, state-sponsored venture capital programs and loan guarantees.

The program requires that by 2016 each state leverage \$10 of private capital for each dollar of federal funds provided.





Capital Access Programs (“CAPs”)

CAPs provide participating banks with separate loan loss reserves which act as portfolio insurance for “enrolled” business loans. To enroll a loan, the participating bank, the borrower and the state each pay an insurance premium into the participating bank’s CAP reserve. The reserve is used to fund losses incurred by the participating bank for each enrolled loan.

The Dept. of Treasury strongly encouraged each state to use some of the SSBCI funds for a CAP program because this program provides the greatest leverage of the SSBCI funds.





Capital Access Programs (cont.)

Based upon feedback from smaller rural banks in New Mexico, a target of the SWEDFA initiative, NMFA & NMEDD decided not to target the SSBCI funds to CAPs because we believed that most small New Mexico banks will not have sufficient volume of loans to make the CAP successful.

Additionally, because New Mexico has a limited time in which to obligate the SSBCI funds (two years), NMFA believed it did not have time to develop the rules and policies necessary to operate a CAP.





New Mexico's SSBCI Program

100% of the SSBCI funding will be directed to a new loan participation program which will help mitigate bank risk and allow banks to fund a greater number of projects.

Called the “Collateral Support Loan Participation Program,” the new program will be directed exclusively to businesses that create quality, full-time jobs and will offer the funding through a short-term, subordinated loan participation program.

NMFA will continue to emphasize lending to rural and underserved businesses by providing greater participation percentages to rural businesses and by providing revolving lines of credit, a product which is needed in all areas of the state, but particularly in metropolitan areas of the state



Collateral Support Loan Participation Program

The program was chosen because it will:

- ◆ be easily and quickly implemented, using existing rules and protocols in place for another of the State's program
- ◆ fill a significant gap that exists in New Mexico's commercial lending landscape
- ◆ enhance and complement New Mexico's efforts to encourage new private sector investment
- ◆ ensure that the \$13,168,350 in SSBCI funding will leverage at least \$132 million, thereby achieving the 10:1 private capital leverage required by December 31, 2016.





Collateral Support Loan Participation

The Collateral Support Loan Participation has been designed to ensure that the state can achieve the required 10:1 private capital leverage while ensuring that the funds have the effect intended by Congress.

The Collateral Support Loan Participation will be offered along side the Smart Money Loan Participation Program which provides long term, *pari passu* loan participation financing.

NMFA will offer both the Collateral Support Loan Participation (with federal SSBCI funds) and the Smart Money Loan Participation Programs (with State funds)



NMFA's Loan Participation Programs

Program	SSBCI				Smart Money
	Rural		Urban		Statewide
Location					
Terms	<i>pari-passu</i>	<i>subordinate</i>	<i>pari-passu</i>	<i>subordinate</i>	<i>pari-passu</i>
Application and Closing Fees	\$ -	\$ -	\$ -	\$ -	\$ -
Max Term for Eligible Proceeds					
Building	25 years	25 years	25 years	20 years	25 years
Equipment	10 years	10 years	10 years	10 years	15 years
Working Capital Term Note	4 years	4 years	4 years	4 years	3 years
Working Capital RLOC (1 year)	5 years	5 years	5 years	5 years	5 years
Max Borrower Size	<500	<500	<500	<500	none
Max Total Bank/NMFA Loan Size	\$7.5 million	\$7.5 million	\$5 million	\$5 million	none
Max SSBCI Participation	\$3 million	\$2.5 million	\$ 2 million	\$2 million	\$5 million
1 year Revolving Line of Credit	40%	30%	40%	30%	49%
3-5 year term note	30%	25%	25%	20%	49%
6-15 year term	25%	20%	20%	15%	49%
More than 15 years	20%	15%	15%	10%	49%
Average NMFA Portion of Loan	\$850,000	\$850,000	\$1.45 million	\$1.2 million	\$1.2 million
Average Total Bank/NMFA Loan Size	\$2.75 million	\$2.75 million	\$4.75 million	\$3.75 million	\$3.75 million



Implement Co-Lending Program

The Dept. of Treasury has urged New Mexico to diversify its ability to deliver the SSBCI funding because of the tight timelines associated with the SSBCI funding.

As a result, in addition to buying participations with the SSBCI funds, the NMFA will be seeking to broaden its SSBCI flexibility to include direct “co-lending” which will require NMFA to implement its direct lending authority provided under SWEDFA.

“Co-lending” is another form of loan participations where NMFA makes a direct loan for a portion of the project rather than buy an interest in a loan made by the bank.





Implement Co-Lending Program

Implementing the direct lending authority requires the NMFA Legislative Oversight Committee and the NMFA Board of Directors to approve the Direct Loan rules which NMFA expects to present in early fall.

NMFA will supplement the rules with credit and lending policies to provide applicants with a clear understanding of NMFA's risk appetite and structuring enhancements available.

Goal is to have direct co-lending authority implemented before November.





Legislative Authorization

Amendments made to SWEDFA in 2005 required that projects funded from the EDRF first receive legislative authorization.

This authorization occurred through an annual legislative authorization bill which provided a general description of the potential applicant and the county in which the project is located.

Senate Bill 454 (Sen. Muñoz) provided a two-year suspension of the legislative authorization requirement which allows NMFA to meet the rigorous time demands of the SSBCI funding. During that time, the NMFA will report to the Legislature on projects approved and closed.





Application & Notification Process

For projects requesting EDRF funding, regardless of the funding source or program, the following process will be used:

1. Participating bank submits the application on behalf of the borrower, including the bank's analysis and all information needed to reach a credit decision
2. NMEDD determines the project eligibility
3. NMFA analyzes the project to determine credit-worthiness and structures the loan participation

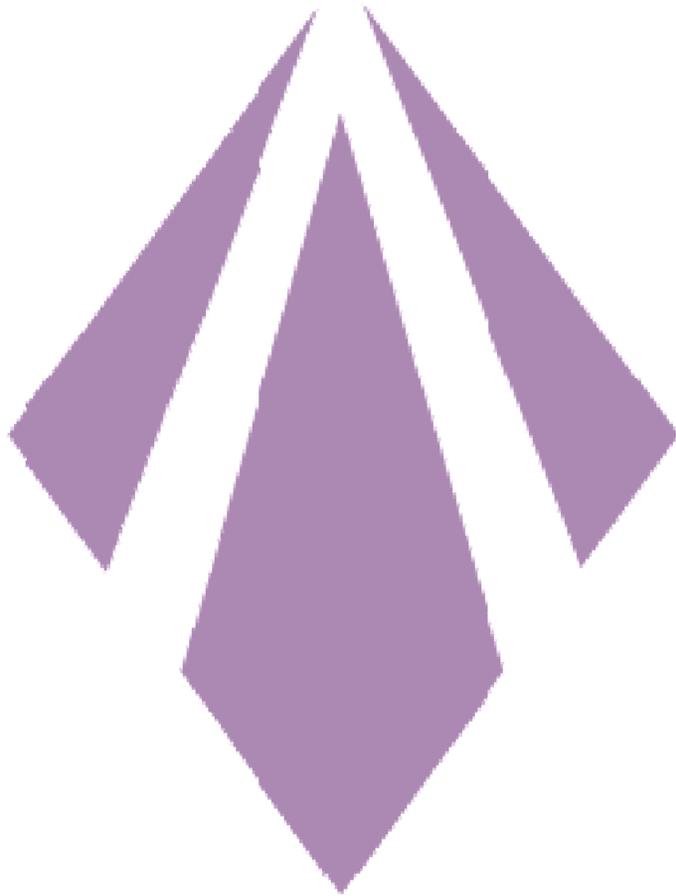




Application & Notification Process

4. NMEDD completes an Economic Impact Analysis on the project and, based upon the impact of the proposed financing, provides a recommendation to the NMFA
5. The applicant provides a detailed “Economic Disclosure Statement” which accompanies the NMFA staff’s loan summary and recommendation (which has specifically been authorized for release by the applicant)
6. Upon approval by the NMFA Board, the information on the applicant and project will be reported to the Legislative Oversight Committee and will be available to the public on the NMFA website





We are dedicated to improving the lives of New Mexicans by planning and financing infrastructure, strengthening the economy through public/private partnerships and setting the standard for superior, diverse, innovative and solution-driven financing.

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