

NEW MEXICO  
**FINANCE AUTHORITY**

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Presentation to Economic and  
Rural Development and Policy Committee

## **Report from the NMFA**

Marquita Russel, CEO

September 21, 2023

- **Kathy Keith, Chair**
  - **Martin Suazo, Vice Chair**
  - **AJ Forte, Secretary**  
New Mexico Municipal League
  - **Andrew Burke**
  - **James Kenney**  
NM Environment Dept
  - **Jon Clark**  
NM Economic Development Dept
  - **Joy Esparsen**  
New Mexico Counties
  - **Ronald Lovato**
  - **Sarah Cottrell Propst**  
Energy, Minerals and Natural Resources
  - **Wayne Propst**  
NM Dept of Finance & Administration
  
  - One vacancy
- ◆ Broad-based finance agency created in 1992 as a government instrumentality
  - ◆ Governed by an 11-member independent Board
    - Approves rules, policies, and projects
    - Oversees operations and approves budget
    - Active Committee process provides high level of oversight of NMFA's diverse and complex operations
  - ◆ Staffed with 63 diverse financial professionals (71 budgeted FTEs)
  - ◆ Expansive programming and service to New Mexico
    - Authorized to operate 24 programs through 13 Acts
    - New Mexico Finance Authority Act (Section 6-21-2):
      - Purpose: "...to coordinate the planning and financing of state and local public projects..."
    - Statewide Economic Development Finance Act (Section 6-25-6):
      - Purpose: "assist eligible entities in financing projects" and to promote "achievement of economic development goals..."
  - ◆ Overseen by 32-Member NMFA Oversight Committee

# Program Authority

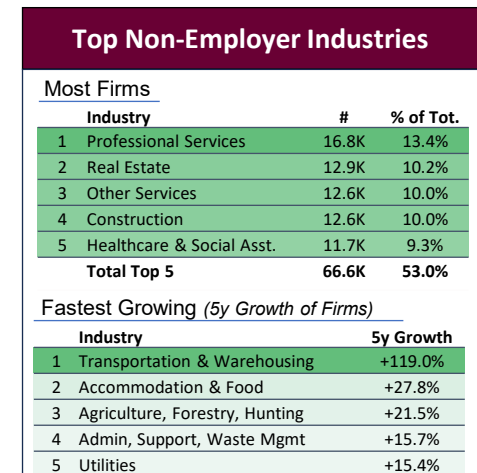
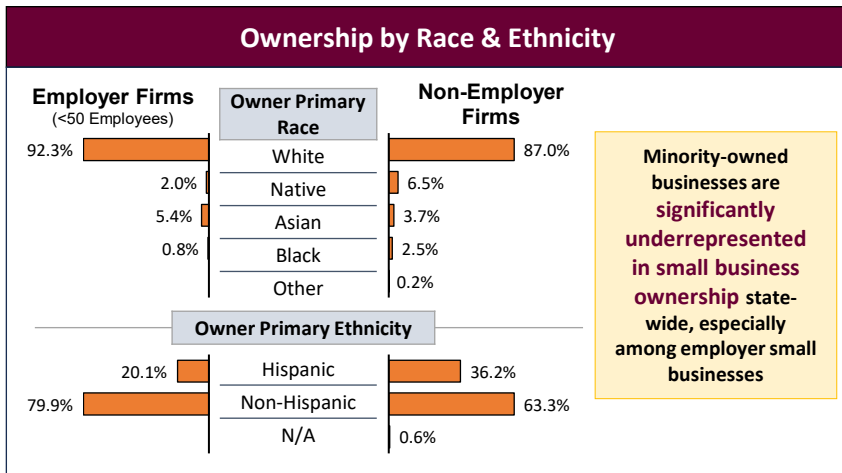
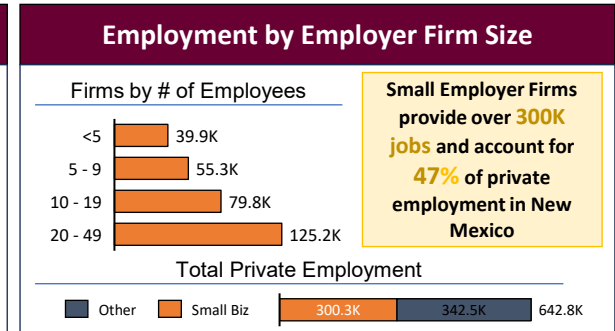
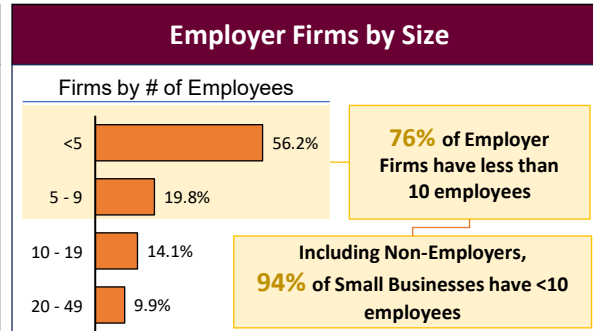
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Active	Funded	FY	Program Name	Enabling Act	Statute	Partner
✓	✓	1992	Public Project Revolving Fund	New Mexico Finance Authority Act	6-21-6.0	Legislature
✓		1994	Primary Care Capital Fund	Primary Care Capital Funding Act	24-1C-4	DoH
✓	✓	1997	Drinking Water State Revolving Loan Fund	Drinking Water State Revolving Loan Fund Act	6-21A-4	NMED
		1999	Water and Wastewater Grant Fund	New Mexico Finance Authority Act	6-21-6.3	Legislature
✓	annually	2001	Water Project Fund	Water Project Finance Act	72-4A-9	WTB/LEG
✓	✓	2002	Local Government Planning Fund	New Mexico Finance Authority Act	6-21-6.4	Various
✓		2003	Economic Development Revolving Fund (Smart Money)	Statewide Economic Development Finance Act	6-25-6.1	NMEDD
		2003	Child Care Revolving Loan Fund	Child Care Facility Loan Act	24-24-4.0	ECECD
		2004	Acequia Project Fund	Water Project Finance Act	72-4A-9.1	WTB/ISC/Leg
✓		2004	Behavioral Health Capital Fund	Behavioral Health Capital Funding Act	6-26-4	HSD
		2005	Energy Efficiency & Renewable Energy Bonding Act	New Mexico Finance Authority Act	6-21D-5	EMNRD
		2005	Local Transportation Infrastructure Fund	New Mexico Finance Authority Act	6-21-6.8	DOT
✓		2006	New Markets Tax Credit	Statewide Economic Development Finance Act	6-25-6.1	FNM/NMEDD
		2007	Local Government Transportation Fund	New Mexico Finance Authority Act	6-21-6.12	DOT
✓	annually	2010	Colonias Infrastructure Project Fund	Colonias Infrastructure Finance Act	6-30-8	CIB
✓	✓	2011	Collateral Support Participation Program	Statewide Economic Development Finance Act	6-25-13	NMEDD
✓		2021	Essential Services Working Capital Program	Statewide Economic Development Finance Act	6-25-13	NMEDD
✓		2021	New Markets Tax Credit Small Loan Pool	Statewide Economic Development Finance Act	6-21-6.12	FNM/NMEDD
✓		2021	Small Business Recovery Loan Fund	Small Business Recovery and Stimulus Act	6-32-3	Leg/SIC
✓		2021	New Mexico LEDA Recovery Grants	Local Economic Development Act	5-10-16	NMEDD/Leg
✓	✗	2022	Cannabis Microbusiness Program	Statewide Economic Development Finance Act	6-25-13	RLD/NMEDD
✓	✓	2022	Venture Capital Fund	Venture Capital Program Act	6-33-3	(NMEDD)
✓	✓	2022	Charter School Facility Revolving Fund	Charter School Facility Improvements Act	6-21-6.16	(PSCOC)
✓	✓	2022	Opportunity Enterprise Fund	Opportunity Enterprise Act	6-34-12	OERB

*Authorized to operate 24 programs through 13 Acts*

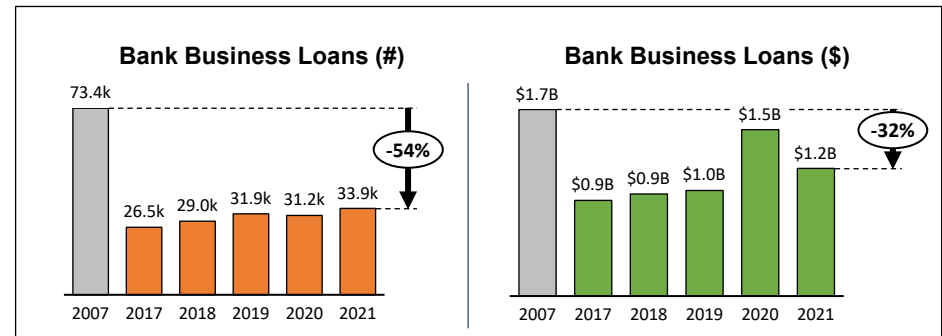
- ◆ The Statewide Economic Development Finance Act (“SWEDFA”) assigns powers and duties to the New Mexico Economic Development Department and the New Mexico Finance Authority to jointly administer several programs seeking to increase business activity in rural and underserved areas, attract new and retain 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 has been 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
- ◆ **Federal State Small Business Credit Initiative (“SSBCI”) provides great opportunity and capital for impact.**
- ◆ NMFA commissioned Next Street to research New Mexico small businesses and their funding needs to help inform how the State Venture Capital Program and SSBCI funding would be best utilized in New Mexico.

## Key Takeaways from Next Street Research

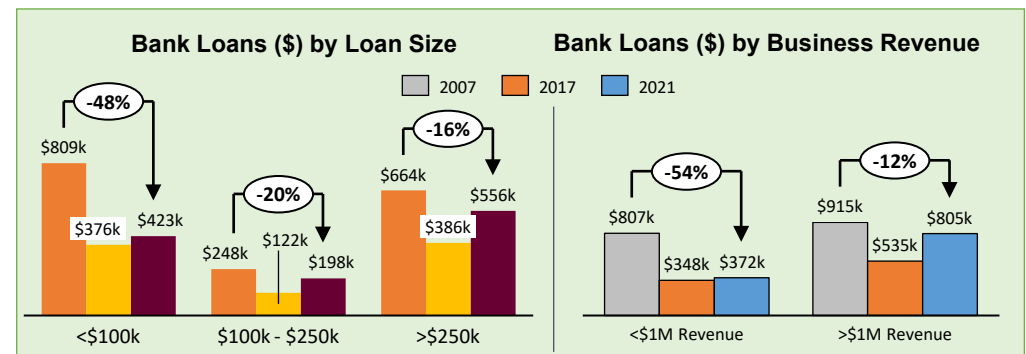


## Key Takeaways from Next Street Research

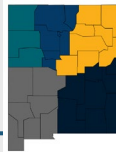
**1** Bank and SBA lending make up most capital provided to small businesses in New Mexico yet in the past decade banks have severely decreased risk tolerance, leading to less lending statewide. Business lending rates by FDIC insured banks in New Mexico in 2021 were less than half what they were in 2007 when banking activity across the country peaked prior to the financial crisis, before drastically falling off in the following year and never fully recovering. That decline resulted 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**.



**2** 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 dollars; by 2021 banks in New Mexico were deploying more capital via loans of more than \$250K dollars 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 revenue only saw a 12% decrease.



# Key Findings: Small Business Funding Needs

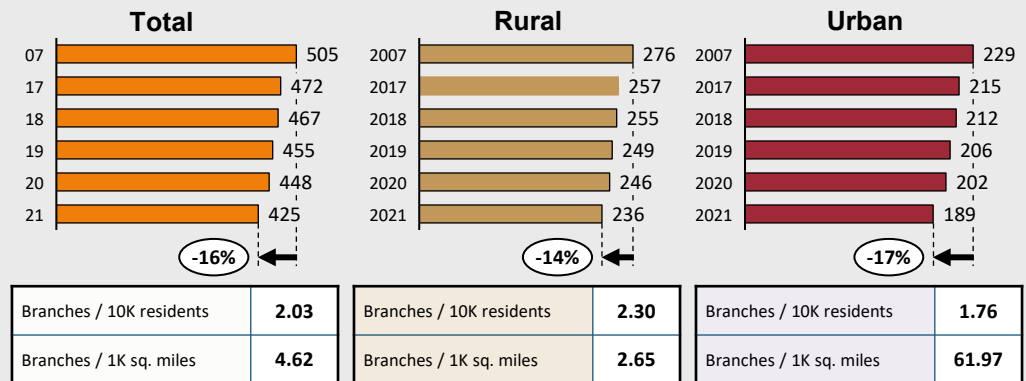


## Key Takeaways from Next Street Research

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While some of this decrease in lending can be credited to bank closures and consolidation, the number of bank branches in New Mexico has shrunk at a rate much lower than small business lending decreases. The number of bank branches has decreased steadily in the past 5 years (with a slight increase due to the COVID-19 pandemic) and shrunk more in this period than in the decade after the recession. In those same periods, bank lending to businesses has grown since 2017, and massively decreased post-recession. Branch closures have been proportionally higher and there are fewer banks per capita in urban areas, but due to the massive rural portion of the state, branches per square mile values show the basic barriers rural businesses face in accessing bank funding

Number of Bank Branches (2007, 2017-2021)



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New Mexico benefits from slightly higher Credit Union presence than national averages, and a higher-than-average small business CDFI presence, but due to much smaller average transaction sizes and focus on microlending, total CDFI capital deployed per capita is much lower. Compared to national rates, Credit Unions in New Mexico add an additional \$2.9B in holdings, while CDFIs lose out on an additional \$24M in lending.

Credit Unions

	NM	U.S.	Δ
# of Credit Unions	40	4,686	
Per 100k Capita	1.89	1.47	+29%
Credit Union Assets	\$17.6B	\$2.2T	
Per Capita	\$8.3K	\$7.0K	+20%
Credit Union Members	1.1M	137.7M	
% of Pop	50.5%	43.2%	+17%

CDFIs

	NM	U.S.	Δ
# of CDFIs	17	1,264	
Per 1M Capita	8.03	3.78	+113%
2021 Business Loans (#)	1.2K	126.8K	
Per 10K Capita	5.72	3.79	+51%
2021 Business Lending (\$)	\$29.6M	\$8.4B	
Per Capita	\$14.0K	\$25.2K	-45%

# Key Findings:

## *Voice of Small Businesses*



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42 entrepreneurs across New Mexico participated in 5 focus groups held by NextStreet targeting: Main Street Consumer Businesses, B-to-B Service Providers, Contractors, Rural Area Businesses, and Native-Spanish Speakers

### Funding Products

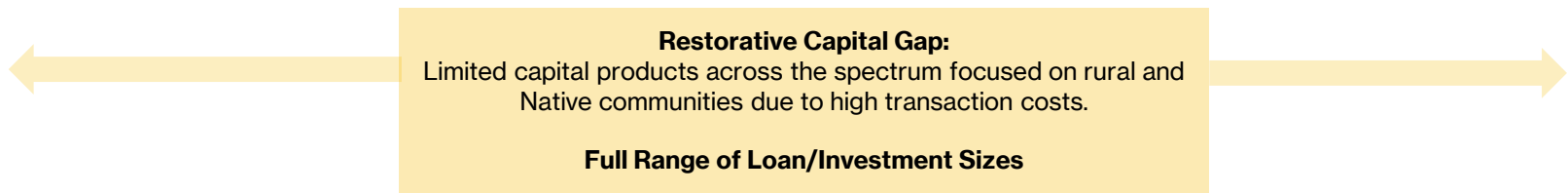
- 1. Qualification Criteria** - Entrepreneurs highlighted how traditional underwriting criteria like credit score and track record can exclude promising business, especially those that can have significant environmental or social impact
- 2. Performance Metrics** – Programs that require job creation for eligibility bias towards growing businesses, but sometimes sustaining a business is the biggest challenge. Job sustainability and wage growth could be additional metrics to consider in measuring successful in small businesses.
- 3. Contract Financing**– The revenue flow of contract-based small businesses can be heavily determined by consistency of payment from larger corporations and government institutions; when payments are delayed, contractors can be financially burdened by gaps in financing, which can require bridge funding programs to maintain a steady cash flow.
- 4. Solutions for Native Communities** – Reservation-based businesses cannot use property as collateral, preventing them from accessing traditional financing resources like SBA loans; certain alternative capital providers like CDFIs have attempted to solve for this but still struggle to provide capital at scale.
- 5. Right-sized Financing** – Businesses struggle with finding financing at the breakpoints between various financial institutions; for example, loans that are too small for CDFIs are often hard to come by, and businesses do not know where to look for funding in between CDFI and micro financing, and larger scale bank funding; As a result, business owners resort to personal savings, personal debt, or predatory lenders.

### Funding Providers

- 1. Trust in Alternative Capital Providers** – Entrepreneurs, especially those in rural regions, hesitate to engage with lenders that do not have a local brand, given the abundance of predatory lenders and difficulty differentiating between good and bad lenders.
- 2. Trust in Banks** – Conversely, banks are viewed as discriminatory and intimidating due to structural rigidity (“like a heavy blade over the neck”) and historical norms, discouraging many businesses from even attempting to access bank funding; especially true for native-Spanish speakers for whom the process is particularly long and arduous, only to frequently be rejected anyway or be given high-interest personal loans



Business Stage	Idea + Seed Stage Revenue \$0	Early Stage Revenue <\$250k	Growth Stage Revenue >\$250k	Maturity Stage Revenue >\$5M
Characteristics	INITIAL IDEA AND TEAM BUILDING	INITIAL DELIVERY AND MARKET TESTING	INITIAL MARKET TRACTION & BUSINESS MODEL REFINEMENT	PRODUCT MARKET FIT / SCALE
NM Capital Options for High Growth Industries			<p><b>Impact VC Gap:</b> Limited number of high capacity VC funds intentionally focused on SEDI-owned businesses</p>	<p><b>Late Stage Venture Gap:</b> Limited local options for later rounds of funding for innovation-fueled industries</p>
NM Capital Options for Other Industries	<p><b>Startup Cash:</b> Cash assistance needed for early-stage Main Street businesses without friends &amp; family wealth.</p> <p><b>\$500 - \$5,000 per loan/investment</b></p>		<p><b>No Man's Land:</b> Need for alternative growth capital products that bridge between micro and commercial capital options.</p> <p><b>\$100,000 - \$250,000 per loan/investment</b></p>	



Source: Research commissioned by NMFA conducted by Next Street

To project potential demand in the identified capital gaps, Next Street performed a sizing analysis using US Census data, self-reported small business survey data, and informed estimations of likely funding needed. These estimations are not based on bottom-up demand assessments, but rather projections based on publicly available data and should be considered direction and intentionally conservative.

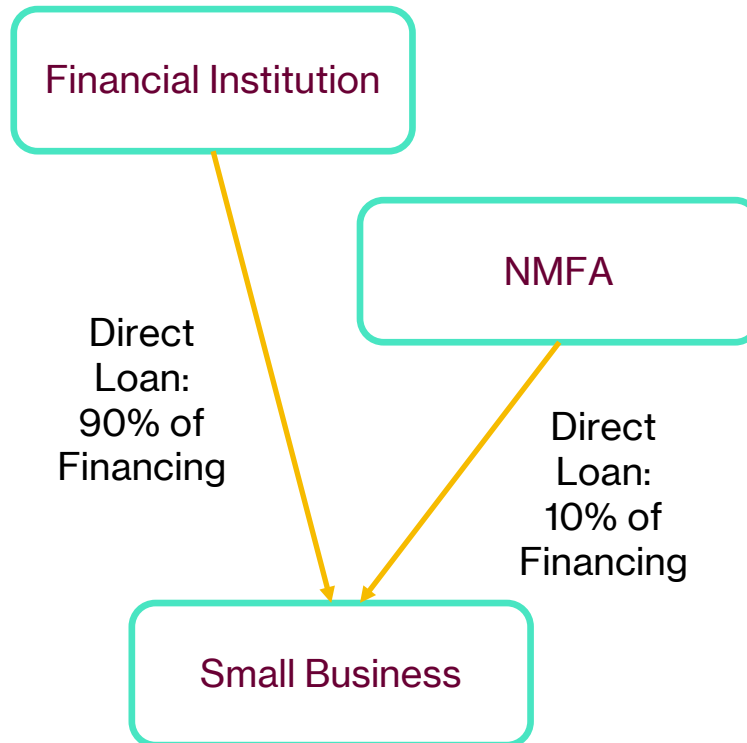
Restorative Capital				
Startup Cash	No Man's Land	PoC Businesses	Hispanic Businesses	Rural Businesses
<p><b>Target Businesses</b> Startup pre-employment businesses, given startup employers will have larger and more substantiated capital needs, and established non-employers will have more success seeking funding</p>	<p><b>Target Businesses</b> Employer businesses with between \$100K and \$500K in annual revenue</p>	<p><b>Target Businesses</b> Businesses with non-white ownership whose capital needs are not met through existing mainstream financial institutions</p>	<p><b>Target Businesses</b> Businesses with Hispanic ownership whose capital needs are not met through existing mainstream financial institutions</p>	<p><b>Target Businesses</b> Businesses in rural communities whose capital needs are not met through existing mainstream financial institutions</p>
<p><b># of Target Businesses</b> 19,678 Non-employer businesses seeking capital</p>	<p><b># of Target Businesses</b> 3,577 Middle-sized businesses seeking capital</p>	<p><b># of Target Businesses</b> 24,080 businesses owned by people of color</p>	<p><b># of Target Businesses</b> 26,196 businesses owned by people of color</p>	<p><b># of Target Businesses</b> 14,076 businesses owned by people of color</p>
<p><b>Total Capital Need</b> \$196.8M</p>	<p><b>Total Capital Need</b> \$715.5M</p>	<p><b>Total Capital Need</b> \$757.7M</p>	<p><b>Total Capital Need</b> \$726.7M</p>	<p><b>Total Capital Need</b> \$281.6M</p>

Restorative Capital sizes are not mutually exclusive given overlap in racial/ethnic/rural communities; demand numbers should be considered independently and not additively; overall demand is less than the sum of given gaps

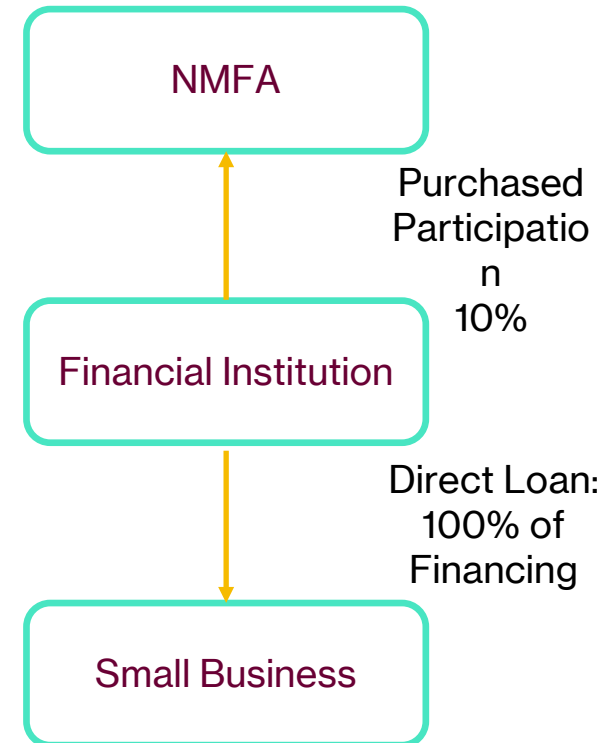
- ◆ Congress recently reauthorized and expanded the Federal State Small Business Credit Initiative (“SSBCI 2.0”) and provided ~\$10 billion to state small business financing programs to support small businesses and entrepreneurship, with a focus on socially and economically disadvantaged individuals (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 help inform how the State Venture Capital Program and 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
- ◆ 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

- ◆ The Small Business Capital Landscape Research Report commissioned by NMFA 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.
  - 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 most CDFI-made microloans and smaller than most commercial bank loans
- ◆ 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
- ◆ NMEDD and NMFA are exploring additional strategies for New Mexico Growth Fund to enhance the impact of SSBCI 2.0:
  - 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

## Co-Lending Participation



## Purchased Participation

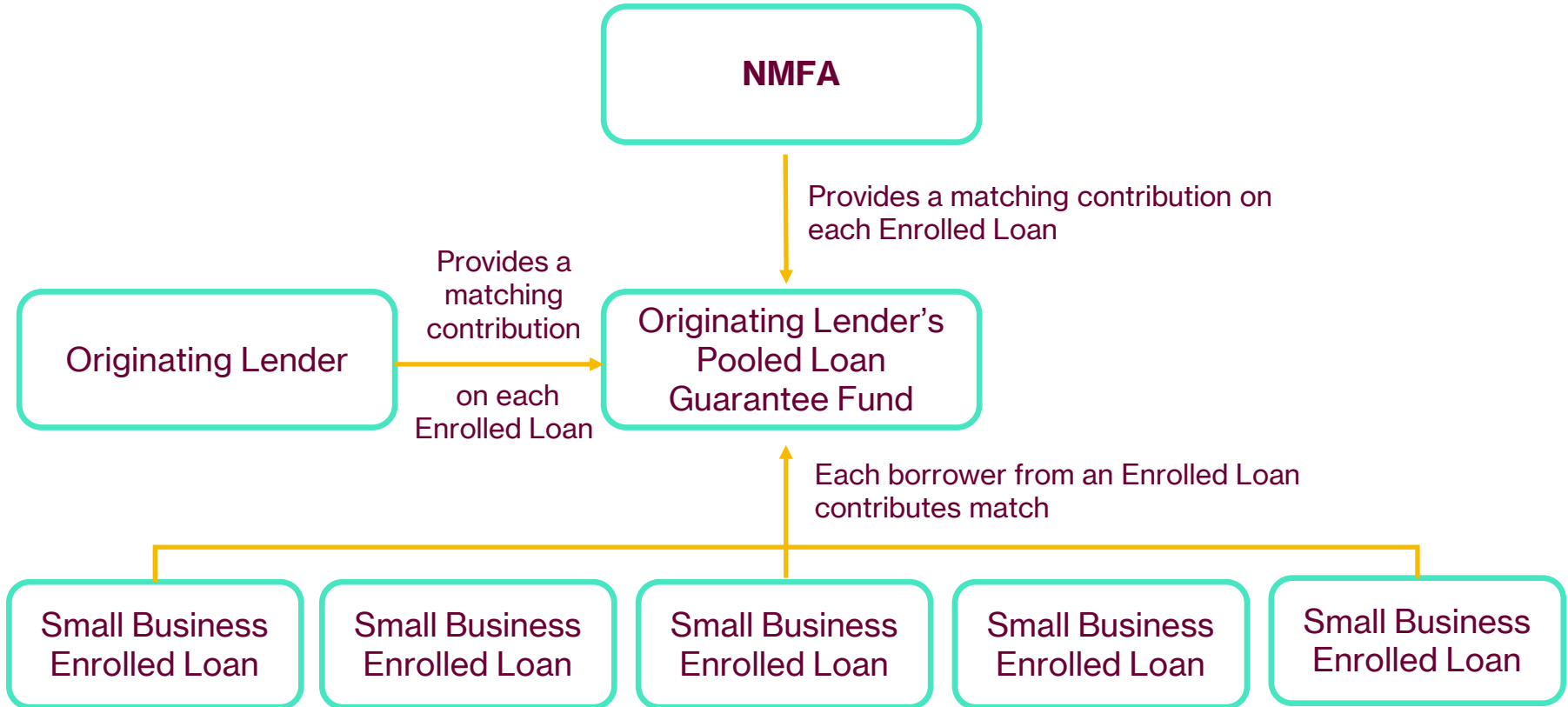


NMFA participation can occur at either shared collateral lien (“pari passu”) with the financial institution (thereby sharing in the risk) or be subordinate to the financial institution (thereby increasing the amount that can be loaned to the client)

# SSBCI 2.0 – Loan Participation Preliminary Parameters



Location		Rural		Urban	
Terms		pari-passu	subordinate	pari-passu	subordinate
<b>Max Term for Eligible Proceeds</b>					
	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
<b>Max Total Loan Size</b>		\$7,500,000	\$7,500,000	\$5,000,000	\$5,000,000
<b>Max NMFA/SSBCI Participation</b>		\$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%



**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.

	<b>Loan Participations</b>	<b>Capital Access (Pooled Loan Guarantee)</b>
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	