



Presentation to the
Investments & Pensions
Oversight Committee

September 6, 2022

New Mexico Small Business Investment Corporation (NMSBIC)

- The Small Business Investment Corporation, doing business as the New Mexico Small Business Investment Corporation (NMSBIC), was formed in 2001 by the Small Business Investment Act.
- The NMSBIC is a non-profit corporation. Its purpose is to make investments, through cooperative partner agreements, to create new job opportunities and support new or expanding businesses in New Mexico.

New Mexico Small Business Investment Corporation (NMSBIC), continued

- The NMSBIC is funded by an allocation from the Severance Tax Permanent Fund.
- Senate Bill 10, passed in the 2019 New Mexico Legislative Session, increased the NMSBIC's allocation from 1% to 2% of the Severance Tax Permanent Fund.
- The NMSBIC currently has \$107 million in assets.

NMSBIC Board of Directors

Joseph Badal (since 2011)
NMSBIC Board Chair and President
Retired Banking and Finance Executive
Sandia Park, New Mexico

Steven Morgan (since 2013)
NMSBIC Secretary/Treasurer
President, Bosque Consulting Group
Corrales, New Mexico

Robert Valdiviez (since 2022)
Retired Banking Executive
Albuquerque, New Mexico

Joshua Smith (since 2022)
Senior Vice President, Commercial Lending Manager
WaFd Bank
Cedar Crest, New Mexico

Alan Fowler, CMB (since 2011)
NMSBIC Vice Chair and Vice President
Senior Vice President/Mortgage Services
Nusenda Credit Union
Albuquerque, New Mexico

The Honorable Tim Eichenberg (since 2015)
State Treasurer
Santa Fe, New Mexico

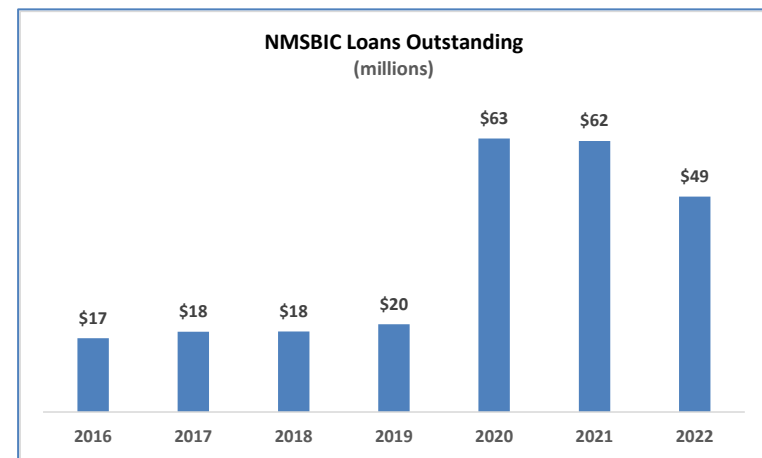
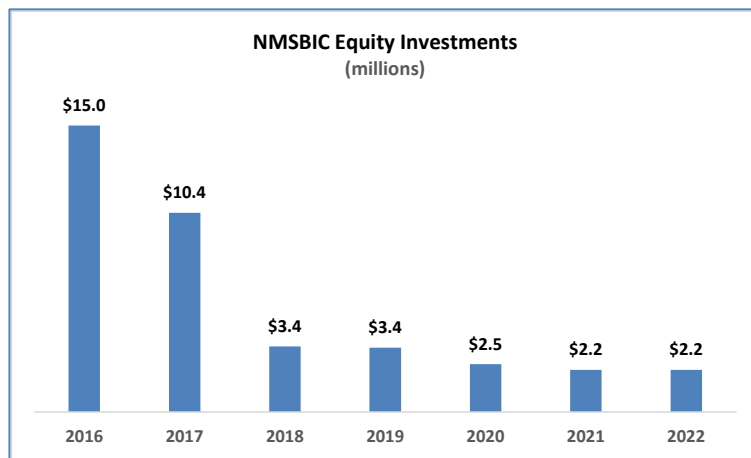
Anne Beckett (since 2022)
Retired Financial Services Executive
Youngsville, New Mexico

NMSBIC Executive Director/Investment Advisor

Russell Cummins (since 2012)
Owner, RDC Advisors, LLC
Tijeras, New Mexico

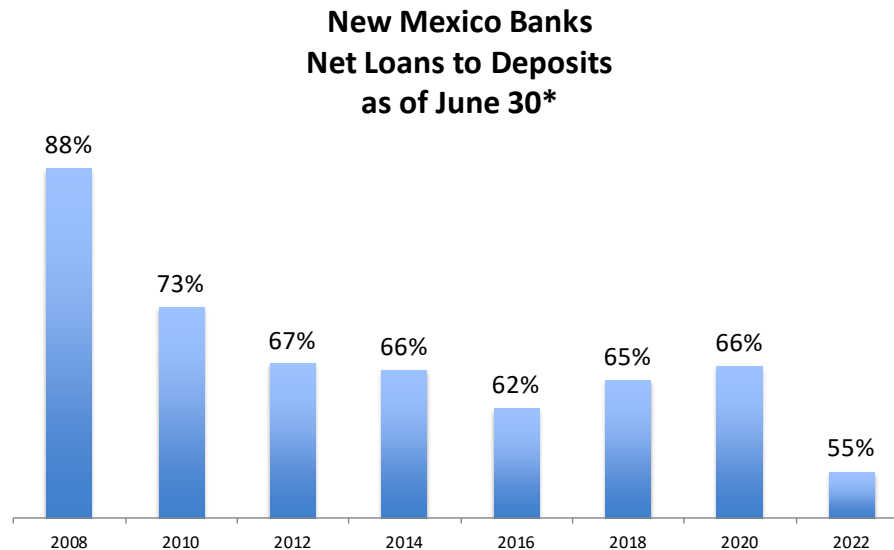
NMSBIC Investment Focus

- Over the years the NMSBIC has developed, and refined, a lending program for small businesses that do not have access to loans from traditional banks.
- The SBIC has made venture capital equity investments in the past. However, the focus now, and going forward, is on expanding the small business lending program. We know there is a continuing need for small business loans, and that expansion of the lending program provides the biggest impact on jobs, and the New Mexico economy.
- Turnover or “recycling” of loans multiplies and enhances our ability create and sustain jobs, thereby impacting New Mexico citizens, New Mexico small businesses, and the New Mexico economy.
- Outstanding loans increased to \$63 million during in the first year of the COVID-19 pandemic, which included \$35 million in SBA PPP loans, most of which were repaid in 2022.



Lending Gap in New Mexico

Since the recession that began in 2008, the loan-to-deposit ratio for New Mexico banks has declined and has not recovered. This appears to have increased a lending gap for small business loans in New Mexico.



Source: www.fdic.gov, Statistics on Depository Institutions

* 2022 data is as of March 31, 2022, the most recent data available.

NMSBIC Lending Partners

- The NMSBIC is not a direct lender – it works with Lending Partners to originate and service loans to small businesses. These Lending Partners are primarily Community Development Financial Institutions, or CDFIs, and include the New Mexico Community Development Loan Fund (also known as The Loan Fund), DreamSpring, Ventana Fund, Clearinghouse CDFI, Homewise, LiftFund, RCAC and WESST.
- CDFIs are mostly non-profit corporations, and they receive their CDFI designation from the US Treasury. They receive some loans, grants, and charitable contributions – however, the funding they receive is substantially inadequate as compared to the demand for small business loans. In New Mexico, the NMSBIC and CDFIs have partnered to partially fill the small business lending gap.
- It's important to note that CDFIs are not competing with banks, but rather are partnering with banks. Banks are often the number one source of loan referrals to CDFIs.

NMSBIC Lending Partners

Committed and Outstanding Loans

June 30, 2022

Lending Partner	Amount Committed	Amount Outstanding
The Loan Fund	\$35,000,000	\$28,742,784
RBC GAM *	25,000,000	0
Ventana Fund	15,000,000	9,640,074
DreamSpring	8,238,655	3,928,452
Homewise	7,000,000	1,905,673
Clearinghouse CDFI *	5,000,000	5,000,000
MFA	2,500,000	0
LiftFund	1,000,000	21,426
RCAC	1,000,000	0
WESST	<u>375,000</u>	<u>111,059</u>
Totals	<u>\$100,113,655</u>	<u>\$49,349,468</u>

* New NMSBIC Lending Partners added in 2022

NMSBIC Lending Partners

Loan Types and Average Loan Balances

Lending Partner	Types of Lending	Average Loan Size
The Loan Fund	Small business loans	\$71,850
RBC GAM	Impact investing in targeted SBA guaranteed loans	\$250,000 (estimated)
Ventana Fund	Low-income multifamily rehabilitation loans	\$357,000
DreamSpring	Small business loans	\$14,500
Homewise	Downtown Albuquerque commercial renovation & charter school construction	\$381,000
Clearinghouse CDFI	Real estate & construction loans	\$1,786,000
MFA	Multifamily construction with Low Income Housing Tax Credits (LIHTC)	\$667,000
LiftFund	Small business loans & Colonias lending	\$21,426
RCAC	Rural community USDA water & wastewater, and small business loans	\$433,000
WESST	Small business loans	\$18,510

COVID-19 Pandemic

Small Business Lending Programs

To assist small businesses impacted by the COVID-19 pandemic, in 2020 the NMSBIC developed two new lending programs.

1. NMSBIC COVID-19 Lending Program

- NMSBIC loans to Lending Partners at 0% rate for up to 3 years
- Lending Partner loans to borrowers at 3.75% rate or less
- NMSBIC reduced rate on traditional loans to offset lost revenue from the NMSBIC COVID-19 Lending Program
- 145 NMSBIC COVID-19 loans made totaling \$13.6 million and supporting 776 jobs in New Mexico.

COVID-19 Pandemic

Small Business Lending Programs (continued)

“In 2020, the NMSBIC provided \$15 Million in additional lending capital and lowered The Loan Fund’s cost of funds. The Loan Fund has been able to make new NMSBIC COVID-19 Lending Program loans, and restructure existing loans at 3.75%, matching the SBA Disaster Loan Rate! The partnership has provided needed working capital, restructured high interest debt and lowered the cost of funds to hundreds of New Mexico small businesses. The Loan Fund has been able to create or preserve over 1,000 jobs during the COVID-19 pandemic. Thanks to the NMSBIC we have been able to lend out over \$112 million and support over 11,800 jobs in New Mexico since 1990!”

- Leroy Pacheco, President & CEO
New Mexico Community Development Loan Fund (The Loan Fund)

COVID-19 Pandemic

Small Business Lending Programs (continued)

2. NMSBIC PPP Lending Program

- NMSBIC provided \$35 million in funds for DreamSpring to make Small Business Administration (SBA) Paycheck Protection Program (PPP) loans.
- Many of these PPP loans were to small businesses having difficulty accessing PPP loans, and/or needing technical assistance to apply for PPP loans.
- Through DreamSpring, the NMSBIC provided funding for 1,524 PPP loans to small businesses, totaling \$49.2 million, and supporting 7,594 jobs in New Mexico.

COVID-19 Pandemic

Small Business Lending Programs (continued)

“I cannot imagine DreamSpring had a more catalytic and heroic partner during the pandemic than the New Mexico Small Business Investment Corporation. In the early days of the pandemic, at a time when thousands of New Mexico’s micro and small businesses were in dire need of access to capital to prevent permanent business closures and layoffs, underserved businesses found themselves shut out of the initial wave of federal Paycheck Protection Program (PPP) loans. An economic first responder and authorized PPP lender, DreamSpring immediately turned to the New Mexico Small Business Investment Corporation (NMSBIC) for the capital needed to fund PPP loans in New Mexico. In a matter of days, the NMSBIC made an additional \$30 million of liquidity available to DreamSpring to channel into PPP loans. As a result of the partnership, the NMSBIC and DreamSpring saved thousands of New Mexico small businesses, jobs and livelihoods. ”

- Anne Haines, President/CEO
DreamSpring

COVID-19 Pandemic

Small Business Lending Programs (continued)

In the first part of 2021, DreamSpring, with funding from the NMSBIC, was the top SBA lender in New Mexico based on the number of PPP loans originated.

SBA New Mexico District Office
Activity Report
2nd Quarter FY 2021



U.S. Small Business
Administration

New Mexico District Office

Lender Activity Report

7a and PPP Loan

2nd Quarter FY 2021

	Lender	Number of Loans	Dollar Amount
	DreamSpring	907	\$25,404,454
	U.S. Bank, National Association	529	\$35,908,737
	Wells Fargo Bank, National Association	512	\$23,014,427
	First American Bank	501	\$68,487,550
	Enterprise Bank & Trust	458	\$38,051,495
	Bank of America, National Association	420	\$22,456,614
	New Mexico Bank & Trust	400	\$44,313,096
	Western Commerce Bank	385	\$42,491,220
	Nusenda FCU	383	\$23,308,124

NMSBIC Lending Focus on New and Growing Small Businesses

- For the most part, loans made with NMSBIC funds are secured by real estate, equipment, or accounts receivable, which is similar to traditional bank loans. The borrowers are usually required to provide a personal guarantee. A key element of the loans we fund is that they are designed to help “start” a business, or “grow” a business.
- For example, if a small business owner, or entrepreneur, goes to a traditional bank, the bank might want to see tax returns that show the business has been profitable for at least the past two years. CDFIs have more flexibility and can consider things such as a well documented business plan, or a history of revenue growth.
- If the small business doesn't have a business plan, the CDFI's often refer the borrower to a Small Business Development Center, or SBDC office, which is a valuable resource available to small businesses in New Mexico. An SBDC certified business planner can assist the entrepreneur to develop a business plan.

NMSBIC

Lending Partner Technical Assistance

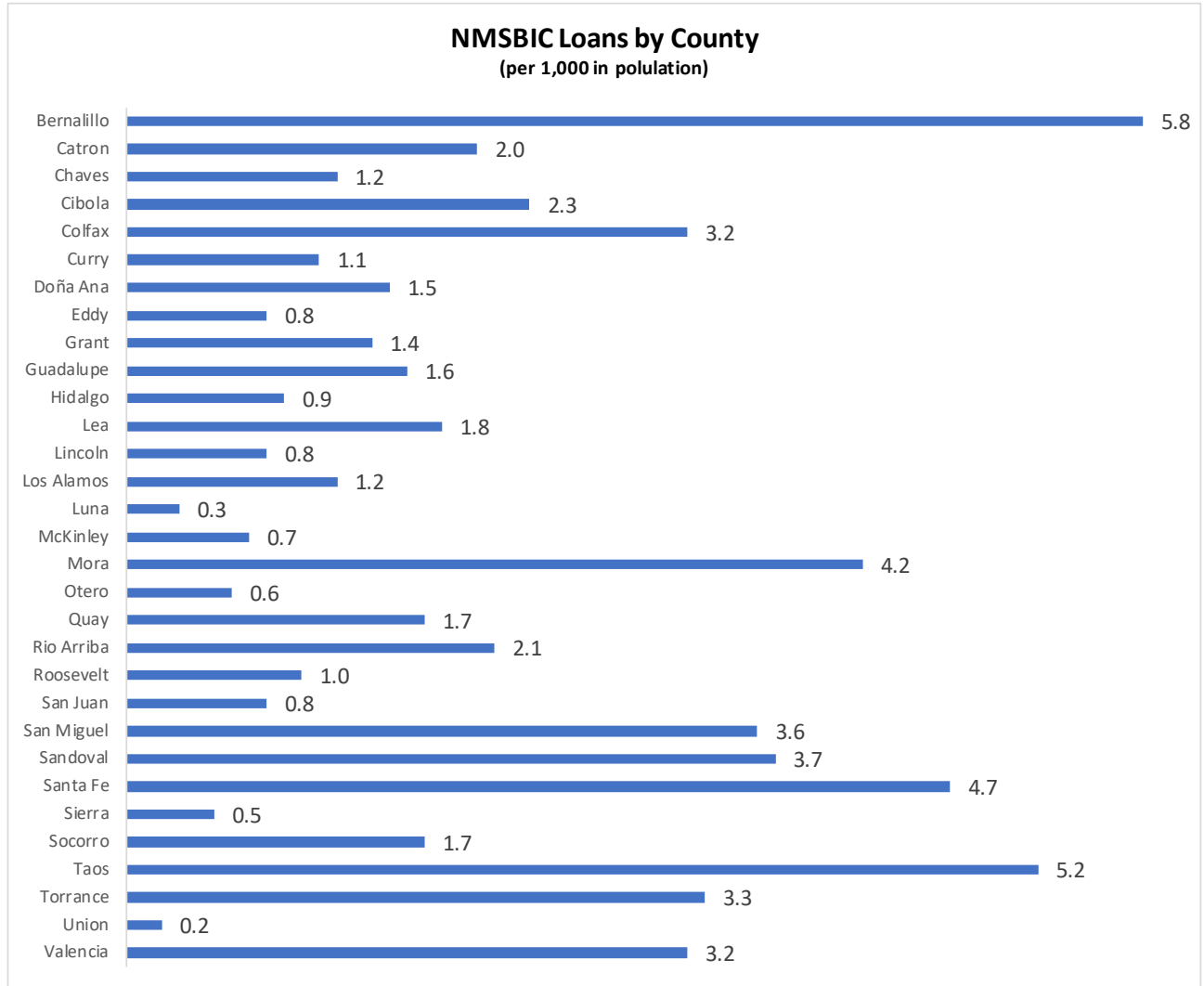
- The CDFIs also provide technical assistance, and help borrowers with marketing plans, budgets, setting up websites, and installing computerized accounting systems. This is all part of the “high touch” lending that CDFIs provide.
- In recent months, CDFI technical assistance has included help with setting prices for products and services, given increases in costs of supplies and labor.

NMSBIC Impact is Throughout New Mexico

	<u>Life- to-Date</u>
Number of Loans Originated	6,937
Total Amount of Loans	\$187,715,543
Jobs Supported	23,337

The NMSBIC's lending program provides funding for New Mexico small businesses throughout our state.

	Loans	Population (000)	Loans per Capita (1)
Bernalillo	3,934	679.0	5.8
Catron	7	3.5	2.0
Chaves	75	64.9	1.2
Cibola	61	26.8	2.3
Colfax	39	12.1	3.2
Curry	54	49.5	1.1
Doña Ana	332	217.7	1.5
Eddy	46	57.9	0.8
Grant	38	27.4	1.4
Guadalupe	7	4.3	1.6
Hidalgo	4	4.2	0.9
Lea	125	70.4	1.8
Lincoln	16	19.6	0.8
Los Alamos	23	19.0	1.2
Luna	8	24.0	0.3
McKinley	49	72.0	0.7
Mora	19	4.5	4.2
Otero	39	66.8	0.6
Quay	14	8.3	1.7
Rio Arriba	83	39.0	2.1
Roosevelt	18	18.7	1.0
San Juan	105	125.6	0.8
San Miguel	98	27.5	3.6
Sandoval	538	145.0	3.7
Santa Fe	704	150.3	4.7
Sierra	6	11.0	0.5
Socorro	29	16.7	1.7
Taos	171	32.8	5.2
Torrance	51	15.5	3.3
Union	1	4.1	0.2
Valencia	243	76.5	3.2
Totals	6,937	2,095	



(1) https://www.newmexico-demographics.com/counties_by_population, 2020 American Community Survey

Loans to Minority- and Women-Owned Small Businesses

For the 12 months ending June 30, 2022, NMSBIC funds were used for loans made to minority- and women-owned businesses as follows:

Minority-owned businesses	65%
Women-owned businesses	37%

NMSBIC Self-Sufficiency and Recycling of Funds

- The NMSBIC is self-sustaining. Interest received from small business loans more than offsets our operating costs.
- As loans are repaid by small businesses, the NMSBIC “recycles” the funds, which then, over time, creates additional new jobs.

BBER Impact Study

- In 2017, the NMSBIC engaged the Bureau of Business and Economic Research, or BBER, to conduct an Impact Study. The study covered NMSBIC loans made from 2011 through 2015 and calculated an “opportunity cost” for our lending program.
- BBER looked at the interest the NMSBIC earns from its lending partners, which on average is roughly 2% ... and compared that to the Severance Tax Permanent Fund target return of 6.75%. BBER calculated the difference of 4.75% as an “opportunity cost” of about \$4,700 per new job created.
- BBER noted the NMSBIC’s cost of \$4,700 per new job was comparable to the JTIP cost, which was about \$5,900 per new job during the same time period from 2011 through 2015, and also the LEDA cost, which during the same time period was about \$4,200 per job.

NMSBIC Recap

The NMSBIC Lending Program:

- Fills a critical gap in lending to new and growing New Mexico small businesses.
- Provided significant assistance to New Mexico small businesses during the COVID-19 pandemic.
- Is a self-sufficient program that supports job growth and economic development throughout the state.

EXHIBIT A

NMSBIC, Equity and Lending Program Cost per Job Supported

Equity Program Costs and Benefits, Life-to-Date, June 30, 2022 (1):

	Net Investment	Fair Market Value	Gain (Loss)	Jobs Supported (2)	Profit (Cost) per Job Supported
1 Santa Fe Windows and Doors (3)	(\$25,000)	\$0	\$25,000	n/a	n/a
2 Flywheel Ventures, 2 funds	\$2,956,754	\$0	(\$2,956,754)	50	(\$59,135)
3 NM Community Capital	\$1,604,078	\$1,172,579	(\$431,499)	204	(\$2,115)
4 Mesa NM Growth Funds, 2 funds	\$10,257,750	\$0	(\$10,257,750)	18	(\$569,875)
5 NM Mezzanine Ptrs	\$1,688,976	\$885,890	(\$803,086)	10	(\$80,309)
6 Verge Fund (4)	\$2,977,891	\$3,717,479	\$739,588	92	\$8,039
7 Adjustment for multiple funds invested in the same company (4 companies)				-70	
8 Total Equity Program	<u>\$19,460,449</u>	<u>\$5,775,948</u>	<u>(\$13,684,501)</u>	<u>304</u>	<u>(\$45,015)</u>

(1) Equity fund investments are long-term investments. Life-to-date results are considered more meaningful than year-to-date information.

(2) Jobs reported at June 30, 2022, or jobs reported as of the date when a company was sold.

(3) Sante Fe Windows and Doors was originated in 2003 and repaid in full in 2007. This was the only direct investment made by the NMSBIC.

(4) Investments in Verge I, Verge I.5, Verge II and Verge II.5 were combined into Verge I II Combined on January 1, 2021.

Lending Program Costs and Benefits:

	Interest Income	Loan Charge Offs	Net Interest Income (Loss)	Jobs Supported (7)	Profit (Cost) per Job Supported
19 <u>Since Inception</u>	<u>Income</u>	<u>Offs</u>	<u>Income (Loss)</u>	<u>Supported (7)</u>	<u>Supported</u>
20 Clearinghouse CDFI	\$0	\$0	\$0	52	-
21 DreamSpring 2003 Prior Agreement (5)	\$1,013,665	(\$1,258,310)	(\$244,645)	4,516	(\$54)
22 DreamSpring 2013 Participation Agreement	\$1,308,938	(\$337,353)	\$971,585	4,543	\$214
23 DreamSpring 2020 PPP Participation Agreement	\$0	\$0	\$0	7,594	-
24 Homewise	\$32,510	\$0	\$32,510	132	\$246
25 LiftFund PPP and COVID-19 Lending Program	\$0	\$0	\$0	36	-
26 New Mexico Mortgage Finance Authority	\$110,769	\$0	\$110,769	380	\$291
27 The Loan Fund Participation Agreement (6)	\$77,631	(\$11,518)	\$66,113	-	-
28 The Loan Fund	\$2,518,834	\$0	\$2,518,834	5,016	\$502
29 The Loan Fund COVID-19 Lending Program	\$0	\$0	\$0	512	-
30 Rio Vista Growth Capital Line of Credit (8)	\$155,217	\$0	\$155,217	16	\$9,701
31 Ventana Fund	\$261,069	\$0	\$261,069	141	\$1,852
32 WESST Participation Agreement	\$36,932	(\$17,695)	\$19,237	399	\$48
33 Total Lending Program	<u>\$5,515,565</u>	<u>(\$1,624,876)</u>	<u>\$3,890,689</u>	<u>23,337</u>	<u>\$167</u>

12 months ended June 30, 2022

36 Clearinghouse CDFI	\$0	\$0	\$0	52	-
37 DreamSpring 2003 Prior Agreement (5)	\$6	\$0	\$6	-	-
38 DreamSpring 2013 Participation Agreement	\$118,341	(\$39,447)	\$78,894	225	\$351
39 Homewise	\$28,301	\$0	\$28,301	52	\$544
40 New Mexico Mortgage Finance Authority	\$15,222	\$0	\$15,222	-	-
41 The Loan Fund	\$162,433	\$0	\$162,433	14	\$11,602
42 The Loan Fund COVID-19 Lending Program	\$0	\$0	\$0	208	-
43 Ventana Fund	\$166,849	\$0	\$166,849	21	\$7,945
44 WESST Participation Agreement	\$1,909	\$0	\$1,909	14	-
45 Total Lending Program	<u>\$493,061</u>	<u>(\$39,447)</u>	<u>\$453,614</u>	<u>586</u>	<u>\$774</u>

(5) The DreamSpring 2003 prior participation agreement was terminated as of November 2013. Loans outstanding as of the termination date were repaid in the normal course of business. All loans were repaid as of January 2022.

(6) The Loan Fund 2004 participation agreement was terminated as of July 13, 2007.

(7) Jobs reported at the time the loan was originated.

(8) The Rio Vista Growth Capital line of credit was terminated as of September 30, 2018.

EXHIBIT A
(continued)

NMSBIC's investment history has provided valuable experience and revealed significant challenges regarding venture capital investing as follows:

- NMSBIC's total asset size relative to the historical amount invested in each company resulted in limited diversification.
- NMSBIC can only invest in New Mexico companies, which further limited diversification.
- High risk and limited diversification appear to have contributed to significant venture capital investment losses during the economic downturn of 2008.
- Management fees paid to equity fund managers over long investment periods reduced investment returns.
- Equity investments are typically long-term, which reduced the ability to turn-over capital in additional new small businesses.
- Equity investments do not provide current income to offset the NMSBIC's operating expenses.
- Equity investments have been geographically concentrated, with limited funding outside the Rio Grande Corridor.
- Equity investments do not generate significant job creation during their initial phases of development.
- Successful equity investments often require later-stage investments from out-of-state investors that can require the enterprise to relocate outside New Mexico.

NMSBIC approves \$ 25M for low-cost loans

State-funded nonprofit will waive interest for lenders

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BY KEVIN ROBINSON-AVILA

JOURNAL STAFF WRITER

The New Mexico Small Business Investment Corp. is making \$25 million immediately available to local lenders at zero percent interest to help channel low-cost credit to small businesses struggling under the coronavirus.

It's unclear what interest rate lenders will ultimately charge borrowers, but by providing no-cost loans to them, the NMSBIC hopes to make urgently needed cash available at below-normal rates for businesses during the crisis, said NMSBIC President and board chair Joseph Badal.

"Ultimately, our mission is economic development to help small businesses throughout New Mexico," Badal told the Journal. "Our board unanimously approved this new \$25 million loan facility last Monday. We're excited about being able to do something immediately to help small businesses in this unprecedented situation."

NMSBIC, a nonprofit founded in 2001 under the Small Business Investment Act, currently manages some money from the state's Severance Tax Permanent Fund to create jobs through small local businesses. It invests the money in small business lending organizations like DreamSpring (formerly Accion) and the New Mexico Community Development Loan Fund, which in turn pump those dollars into new startups and existing businesses that generally can't get credit from traditional lending institutions.

Last year, the State Legislature raised the amount of money allocated to the NMSBIC from 1% to 2% of the total value of the roughly \$5 billion Severance Tax Permanent Fund, providing an extra \$57.8 million, which the NMSBIC received in January, said Executive Director and investment adviser Russell Cummins. That permitted the NMSBIC to create its new \$25 million lending vehicle.

The new "COVID-19 Loan Assistance Fund" will make zero-percent loans available to different lending partners for up to three years. The NMSBIC will also lower the 2% interest rate it currently charges on existing loans to 1% for one year to help lend-

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ing organizations manage expenses and shore up their available capital during the crisis.

NMSBIC lending programs have produced positive returns. But the board is now allowing the new COVID-19 fund to operate on a break-even basis to help lending partners offer loans at discounted rates, Badal said.

The lending organizations will determine appropriate interest rates for borrowers based on their own overhead costs, institutional expenses, and the specific circumstances and conditions of businesses applying for assistance.

In some cases, it could be as low as 3.75%, which is equal to the U.S. Small Business Administration's disaster relief loan rates, said DreamSpring President and CEO Anne Haines. But that depends on available funds and the type of aid needed by particular businesses.

Apart from low-cost credit, Dream-Spring is also helping existing borrowers by delaying loan repayments or allowing interest-only payments.

"Small businesses across the state, in nearly every sector of the economy, are suffering devastating losses," said Gov. Michelle Lujan Grisham in a statement. "We are tapping every resource we have, such as the NMSBIC, to provide relief to businesses during this unprecedented public health emergency."

[LENDERS ON PAGE A09](#)



Russell Cummins



Joseph Badal



Anne Haines