

NEW MEXICO
FINANCE AUTHORITY

1

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

Update on the Small Business Recovery Loan Fund

**Marquita D. Russel, NMFA Chief Executive Officer
Adam K. Johnson, NMFA Chief of Program Operations**

October 9, 2020

- ◆ Small Business Recovery Act created during the 2020 Special Session; signed into law by on July 7th.
- ◆ The Act creates in NMFA two programs to be funded with investments from the Severance Tax Permanent Fund.
 - **Emergency Economic Relief Program** -- \$50 million program that provides revenue replacement loans to cities and counties that experienced decline of at least 10% in GRT in the 4th quarter.
 - GRT collections higher than anticipated; no apparent need for program.
 - **Small Business Recovery Loan Fund** (“SBRLF”), a \$400 million program that provides loans to small businesses that experienced financial hardship due to the public health.
- ◆ NMFA entered into MOU with State Investment Council regarding SBRLF; \$100 million deposited into the fund to date.

- ◆ The Act defines “Qualifying Small Business” as a business or nonprofit corporation that:
 - ❑ closed or reduced operations due to the public health order, and
 - ❑ had annual gross revenue of less than \$5 million as determined by its 2019 federal income tax return, and
 - ❑ experienced a 30% decline in monthly gross receipts or monthly revenue in each of April and May of 2020 (as compared to the same months in 2019).
 - ❑ Is determined by NMFA to be creditworthy
- ◆ For-profit businesses (sole proprietor, partnership, corporation, limited liability company, etc.) must be at least 80% owned and controlled by one or more NM residents;
- ◆ Nonprofits must be organized as either 501(c)(3) or 501(c)(6)

- Loan Amount: Two times the monthly average expenses, not to exceed \$75,000.
- Interest Rate: $\frac{1}{2}$ of *WSJ Prime*, fixed (currently 1.625%).
- Collateral: None. Personal guarantees not required.
- Terms: 3-year loans, interest only, paid annually. Principal due at maturity. At borrower's request, loan may be extended for an additional three years with monthly principal and interest payments.
- Reporting: Clients will be required to report annually to NMFA current employment data and any bankruptcy action filed.
- Funding: Loan funded at closing via ACH to the account identified and verified in the application.
- Use of Funds: At least 80% of the loan must be used for ordinary business expenses, including any PPE/covid-safe practice costs, equipment, working capital and non-owner salaries. Salaries to equity owners limited to no more than 20% of the loan.

- ◆ Legislative intent of Small Business Recovery Act was very clear, which allowed NMFA to focus its efforts on efficiency, ease of use and fraud mitigation.
- ◆ Loan demand was key to our program development decisions. Peer data was not helpful due to diversity in programs offered.
 - More citywide loan programs than statewide loans programs. More statewide grant or loan/grant programs.
 - From statewide peer programs, highest demand from states that offered programs in March, prior to the SBA's PPP
 - Most emergency loan programs required very little documentation
 - No other states of comparable population allocated more than 50M of funding for emergency loan programs, distributed that funding quickly, but made a comparable number of total loans
 - New Mexico's eligibility criteria was more focused as others provided flexibility in what was required in order to qualify

Statewide Peer Loan Programs

6

	Utah Small Business Bridge Loan	New Jersey Small Business EAL	Connecticut Recovery Bridge Loan	North Carolina Rapid Recovery Loans	New Mexico Small Business Recovery Loan Fund
Offered	March 31 st (now depleted)	April 13 th (until depleted)	March 31 st until depleted	May until October 15th	July 7th – December 31st
Allocated Funding	\$8.5 Million	\$10 Million	\$50 Million	\$90 Million	\$400 Million
Max. Amount	\$20,000	\$100,000	\$37,500 or 3x monthly expenses	\$50,000 (now \$250,000) or 2x monthly expenses	\$75,000 or 2x monthly expense
Ave. loan Amount	\$24,000	unknown	\$19,705	\$34,839	\$46,894
Number of Loans	500	Not Reported	2,123	1,062	456
Interest Rate	0%	0%	0%	4% (now 0.25%)	1.625%
Eligibility	<ul style="list-style-type: none"> Revenue loss Have employees Open before 1/1/2020 	<ul style="list-style-type: none"> 20% revenue decline at least 1 year old 	<ul style="list-style-type: none"> Profitable before 3/1/2020 No “sin” businesses 	<ul style="list-style-type: none"> Located in NC Negatively impacted by COVID-19 	<ul style="list-style-type: none"> for-profit & 501c3/6 30% decline April & May 80% residency
Forgiveness	50% forgiveness	No forgiveness	No forgiveness	No forgiveness	No forgiveness

Other State Programs

Kentucky:
\$557,000

Florida:
\$5 million

Michigan:
\$20 million

Colorado:
\$25 million

Pennsylvania:
\$96 million

New York:
\$100 million

- ◆ For operating purposes, we assumed 5,000 – 7,500 loans would be processed by the end of October.
- ◆ Applications are available in both English and Spanish and are accepted online application at www.nmfinance.com.
- ◆ Applications are processed on a first-come, first-served basis until December 31, 2020 or until funds are gone, whichever comes first.
- ◆ Eligible applicants are required to have a checking account in at a federally insured financial institution.
- ◆ Submitted applications are reviewed by enrolled Loan Servicers who determine whether the application is complete and accurate; their findings are reported to NMFA.

- ◆ The application is being hosted on Formstack, a 3rd-party application system that:
 - ❑ Offers secured, encrypted platform for applicants and reviewers
 - ❑ creates and distributes loan documents and provides for secured electronic signatures
- ◆ The Formstack system has built-in logic to determine eligibility based upon answers provided by applicant. Businesses that are ineligible are alerted that the information supplied does not meet eligibility criteria.
- ◆ NMFA is urging all applicants, regardless of whether they're qualified, to submit an application so that NMFA may gather and report data to policymakers about needs not served by program.

What We Collect

- ◆ NMFA is collecting additional information to provide policymakers with a comprehensive view of the investment:
 - ❑ Gross annual revenue of the small business
 - ❑ Number of employees prior to the New Mexico COVID 19 health order, at the time of application and predicted in one year. Borrowers will report on this during the life of the loan
 - ❑ Industry
 - ❑ Region
 - ❑ Distribution of funds (e.g. salaries, mortgage payments etc.)
 - ❑ Demographic information of business owner(s)

- ◆ Pursuant to SBRA, NMFA may only release the name of the “loan recipient”. All other information will be reported in broad demographic terms.

SBRLF Loans Approved

10

Total loans approved:	481	\$22,488,627
Average loan amount:		\$46,754
Smallest loan:		\$582
Largest loan:		\$75,000
Number of NM counties represented:		25
Number of NM cities and towns represented:		55
Top Industries:		
Accommodation & Food Services:		22%
Retail:		19%
Arts, Entertainment & Recreation:		10%

SBRLF Loan Data

Annual Revenue	Count		Low	Average	High
< \$500,000	282	59%	\$0	\$200,138	\$495,822
\$500,000 – \$999,999	87	18%	\$504,351	\$705,625	\$979,757
\$1 - \$2.499 million	79	16%	\$1,005,819	\$1,505,102	\$2,355,694
\$2.5 – \$3.999 million	28	6%	\$2,563,596	\$3,083,949	\$3,988,441
\$4 – \$5 million	5	1%	\$4,225,107	\$4,493,151	\$4,874,287

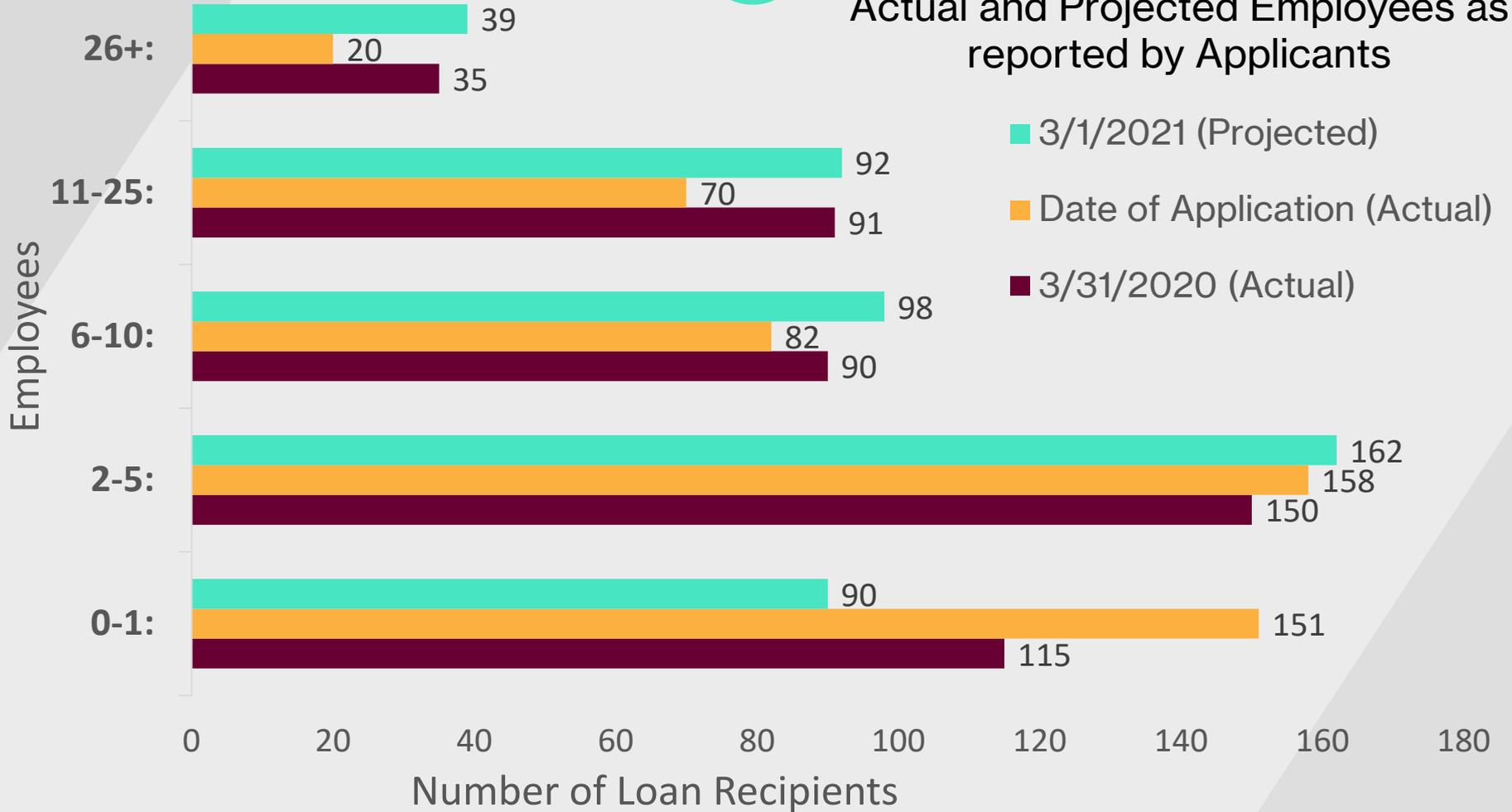
Loan Amount	Count		Low	Average	High
\$0 to \$29,999:	168	35%	\$582	\$12,491	\$29,653
\$30,000 to \$44,999:	50	10%	\$30,323	\$37,517	\$44,844
\$45,000 to \$59,999:	41	9%	\$45,277	\$52,939	\$59,963
\$60,000 to \$74,999:	37	8%	\$60,007	\$66,724	\$74,887
\$75,000	185	38%	\$75,000	\$75,000	\$75,000

Recipients w/ CARES Act Loans	357	74%	\$1,000	\$83,086	\$670,234
Recipients w/ Bank Loans	380	79%	\$500	\$369,676	\$6,329,000

Loan Recipient Employment

12

Actual and Projected Employees as reported by Applicants



Loan Recipients

13

Diverse Business Classifications

Women-owned business:	33%	159
Minority-owned business:	27%	130
Veteran-owned business:	5%	26
Service-disabled veteran-owned business:	<u>2%</u>	<u>10</u>
Totals (self-reported)	53%	253

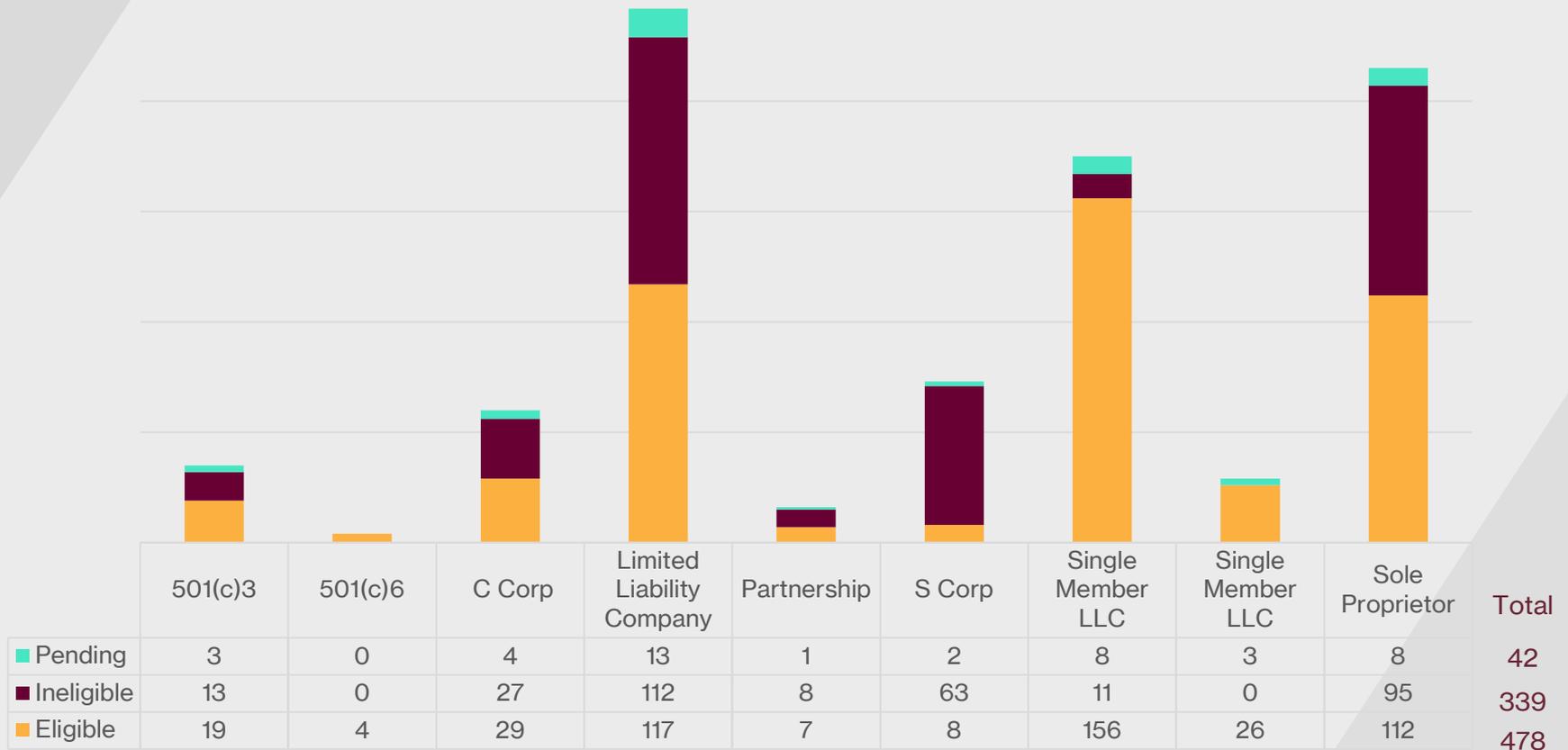
Use of Funds

% for employee wages:	76%	365
% for owner salaries:	61%	293
% for rent/lease/ mortgage:	88%	422
% for marketing :	57%	273
% COVID related expenses:	69%	332
% other expenses:	80%	384
% of funds to be spent in New Mexico:	99%	478



Legal Form of Businesses

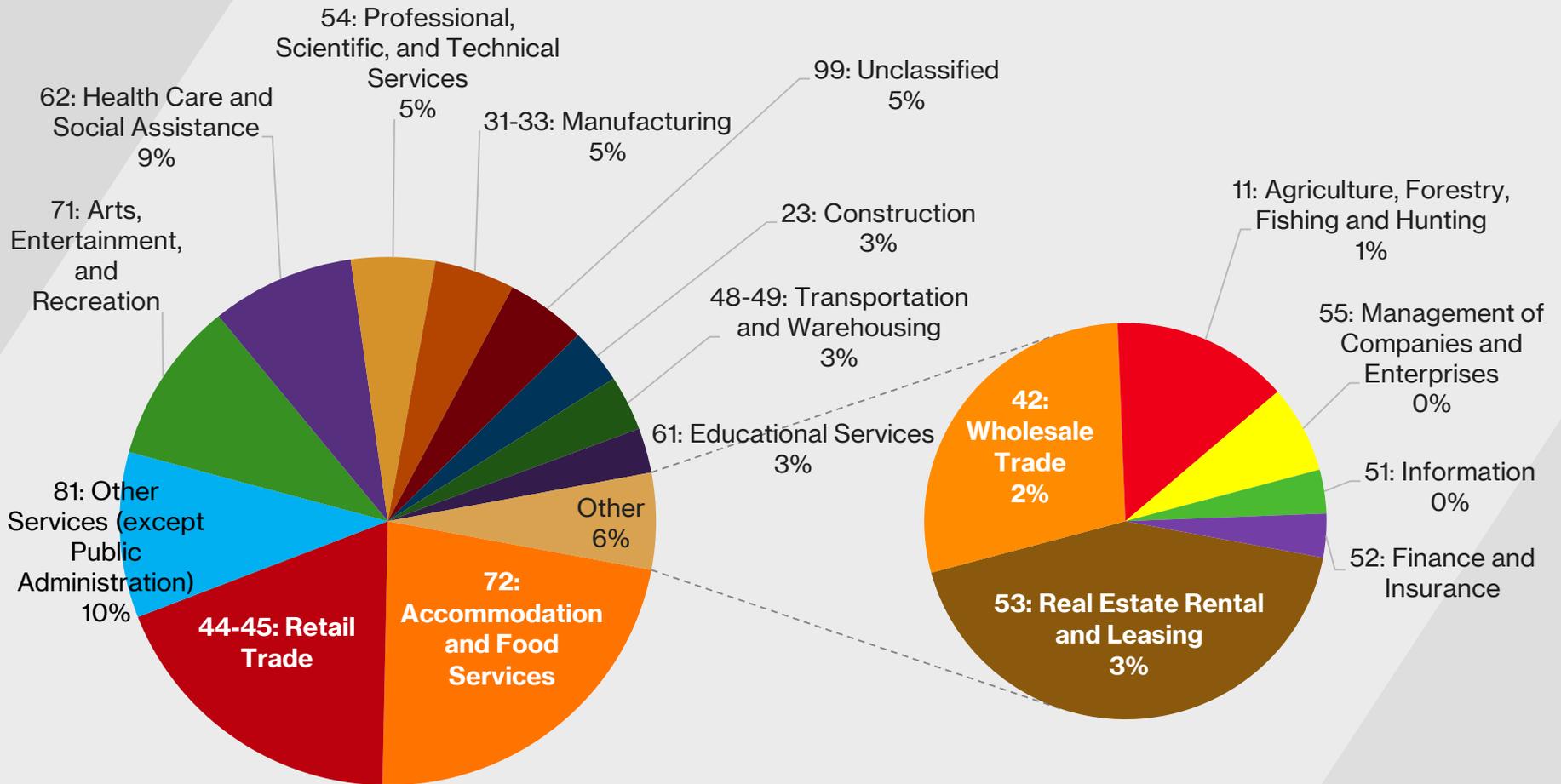
14





Approved Applications by Industry

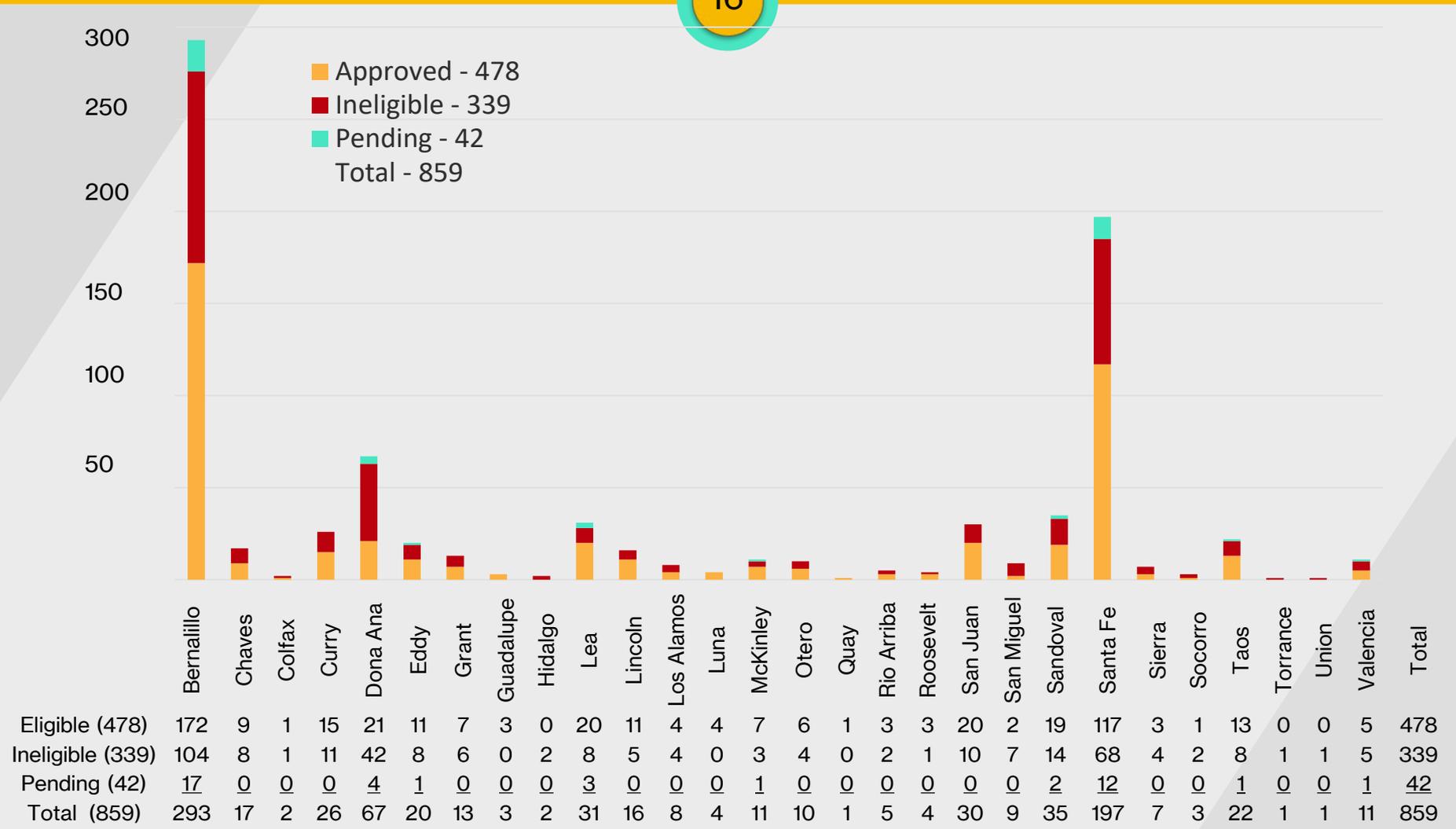
15





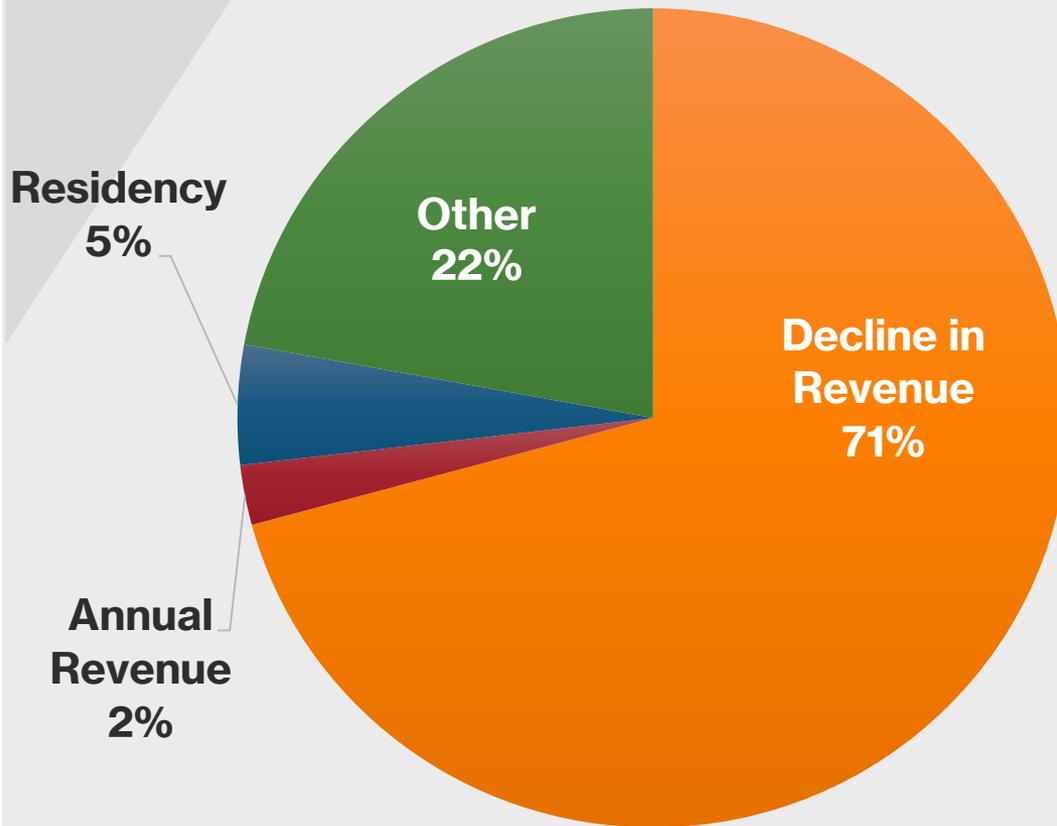
Total Applications Eligibility by County

16



Small Business Recovery Loan Fund

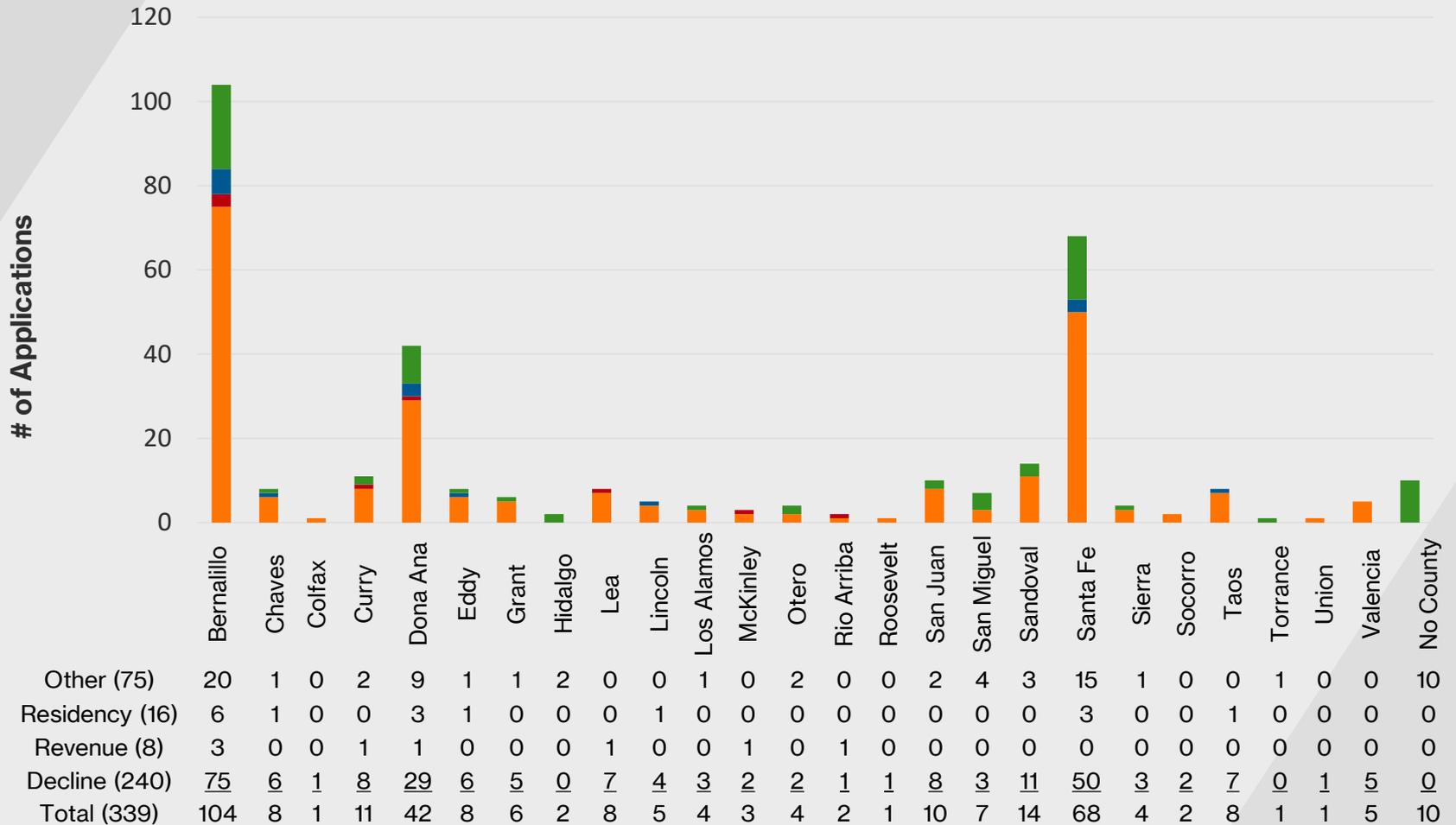
17



Ineligibility by Category

- 30% per month decline in April and May of 2019 and 2020 evidenced by the business's CRS forms;
- Gross annual revenue exceeded \$5 million
- 80% ownership by NM resident(s)
- Other: incomplete applications, or outstanding tax liens/creditworthiness;

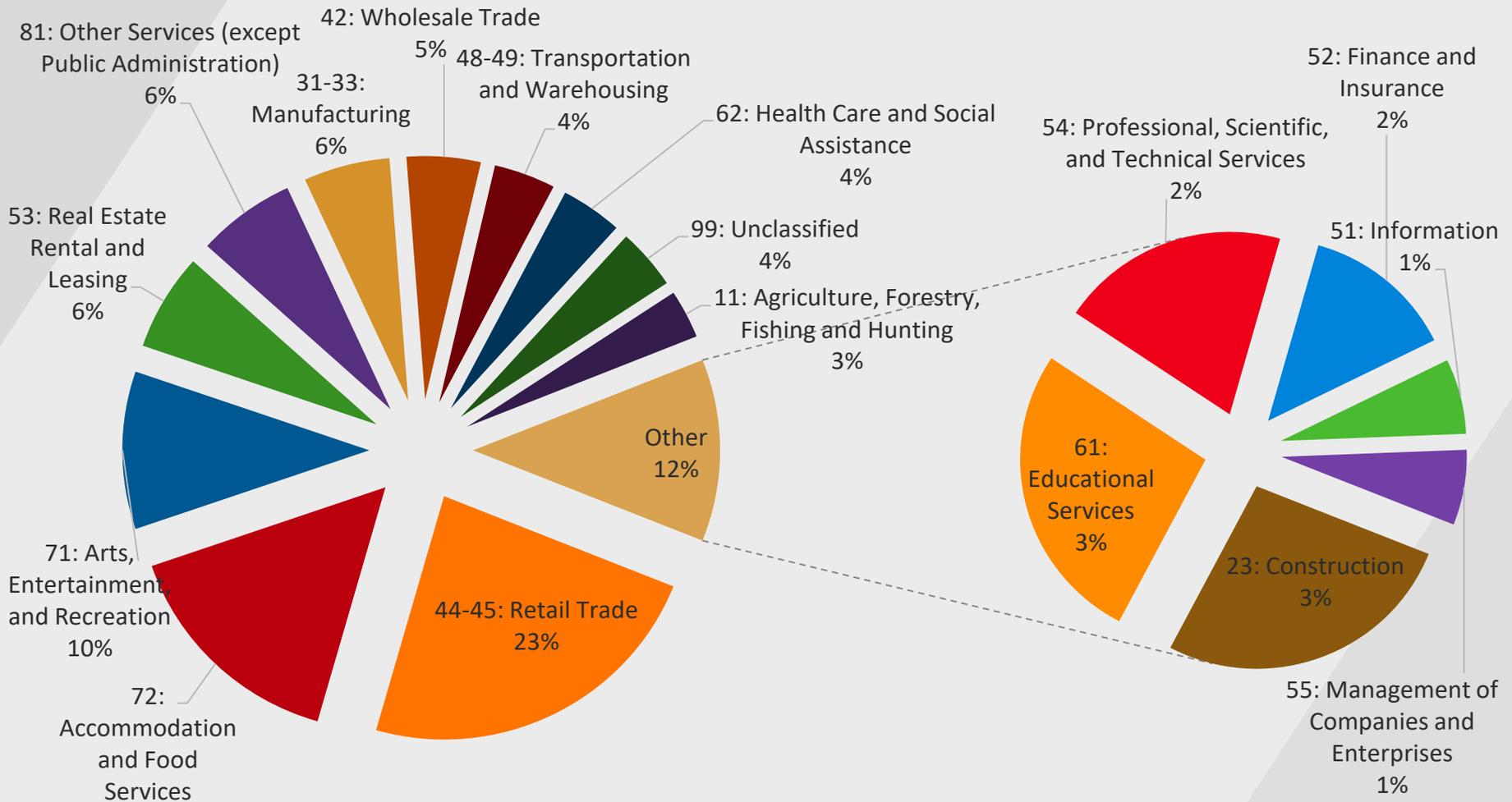
Ineligible Applications





Ineligible Applications by Industry

19



Small Business Recovery Loan Fund

20

Industry Sector	April 2020 Receipts	% Change over April 2019	May 2020 Receipts	% Change over May 2019
Retail Trade	2,688,367,581	-11.5%	2,616,423,385	1.5%
Wholesale Trade	1,747,175,293	-17.7%	1,428,614,996	-16.5%
Construction	1,462,141,087	14.7%	1,145,877,210	-11.3%
Other Services (except Public Admin)	924,368,534	-51.0%	965,774,503	-8.7%
Professional, Scientific & Technical Services	985,671,787	-25.1%	956,008,433	-0.6%
Health Care & Social Assistance	781,173,261	-9.4%	769,025,609	21.4%
Manufacturing	773,091,460	-23.3%	616,224,878	-19.2%
Admin & Support Services	514,768,602	-15.3%	556,614,274	-14.7%
Utilities	371,225,868	10.3%	454,083,457	23.3%
Mining and Oil & Gas Extraction	458,508,594	-41.7%	409,194,872	-48.4%
Accommodations and Food Services	406,833,791	-24.3%	374,683,675	-23.9%
Real Estate & Rental and Leasing	331,911,952	-10.9%	222,209,847	-17.0%
Information & Cultural Industries	319,962,831	20.1%	212,773,242	-27.9%
Transportation & Warehousing	206,749,662	-25.3%	168,850,023	-27.0%
Unclassified Establishments	99,084,053	106.5%	101,069,609	16.3%
Public Administration	77,715,302	2.9%	75,743,229	-5.0%
Finance & Insurance	57,924,435	12.1%	56,274,155	7.9%
Agriculture, Forestry, Fishing & Hunting	43,279,425	-26.2%	41,329,749	-21.6%
Management of Companies & Enterprises	22,387,165	-25.7%	31,968,345	51.0%
Educational Services	38,413,167	-3.8%	29,664,778	-2.4%
Arts, Entertainment & Recreation	32,789,016	-50.0%	26,177,706	-52.2%
Total	12,343,542,866	-18.0%	11,258,585,975	-9.8%

Gross receipts declines for April and May 2020 over 2019 were less than anticipated.

On average, the only industries that show at least a 30% decline are Mining and Oil & Gas Extraction and Arts, Entertainment, and Recreation

NMFA is using county and industry data to increase education and outreach to ensure applicants know of program.

- ◆ Should the Legislature decide to extend the program and broaden the criteria, we recommend you consider:
 - Increase the eligibility by allowing flexibility for determining revenue decline
 - Substitute the residency requirements with the requirement that the business employ New Mexicans and pay New Mexico income taxes
 - Provide for larger loan amounts and tier the requirements
 - Provide NMFA with the ability to change the repayment terms so it may restructure loans to help increase the likelihood of eventual repayment