

NEW MEXICO
FINANCE AUTHORITY

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Presentation to NMFA Oversight Committee

Update on the Administration of the Small Business Recovery Loan Fund

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August 13, 2024

History of Legislation



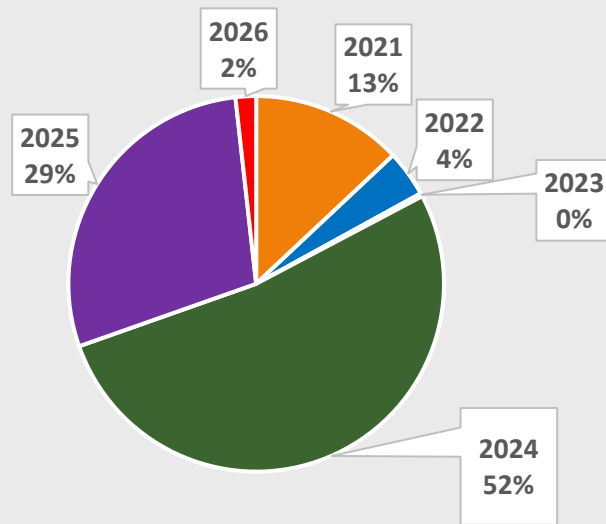
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- ◆ The Small Business Recovery Act was enacted during the 2020 first Special Legislative Session. The Act directed NMFA to make very low-interest loans to businesses that experienced significant drops in sales early in the pandemic. The program was funded from an investments of the state's Severance Tax Permanent Fund.
- ◆ NMFA was tasked with setting up the program and processing applications to provide funds quickly to businesses at risk of closing or laying off employees as a result of the pandemic. The eligibility requirements in the statute were intentionally broad to help save New Mexico businesses, therefore traditional loan underwriting was not applicable to the program.
- ◆ The 2021 Legislature broadened and extended the Small Business Recovery Loan Fund through the Small Business Recovery and Stimulus Act to increase access to the loan fund and offer enhanced loan terms to NM businesses.
- ◆ The Small Business Recovery Loan Fund was created with flexible, generous terms to help New Mexico's small businesses survive the COVID-19 pandemic.
- ◆ NMFA is currently surveying loan recipients to determine how many are open. To date, we've received responses from 866 borrowers (approximately one-third of the borrowers), 90% of those responding report still being in business with a total of 7,795 jobs

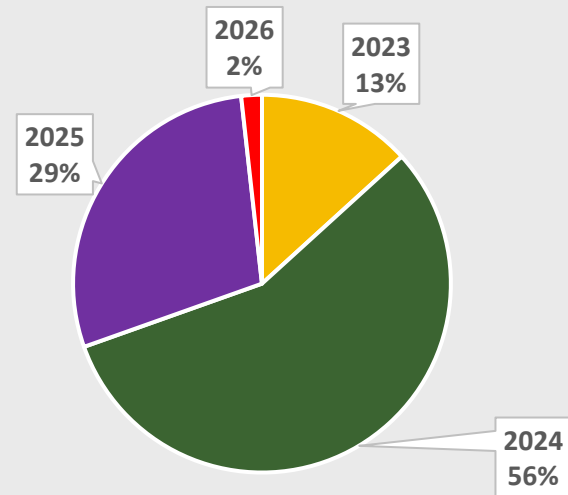
- ◆ Between 2020 and 2022, the Small Business Recovery Loan Fund provided low-interest loans totaling \$178 million to 2,552 businesses across 21 sectors and 32 counties. The average loan size was approximately \$67,000.
 - 880 loans totaling \$40,137,854 were made during first application period (“SBRL 1.0”)
 - 464 loans totaling \$21,856,295 were refinanced as part of the broadened program
 - 1,672 new loans totaling \$137,909,699 were made using the broadened program (“SBRL 2.0”)
- ◆ Monitoring the SBRL portfolio is difficult because the flexible, business-friendly terms and structures don’t require monthly payments until the beginning of the fourth year:
 - Under the 1.0 program, interest was due annually for three years followed by three years of monthly principal and interest payments
 - Under the 2.0 program, the first year was interest free, followed by two interest only payments due annually, with monthly principal and interest payments due for seven years thereafter
 - The infrequency of payments makes it difficult to stay up to date with changes in business status and contact information of the borrower.
 - A full picture of the portfolio is emerging, however more leg-work needs to be done to determine the real health of the businesses in the portfolio.

Timing of Principal and Interest Payments

First Interest Payments 2021-2026



First Principal Payments 2023-2026



2021 2022 2023 2024 2025 2026

2023 2024 2025 2026

The first interest and/or principal payments for most borrowers became due/will be due in calendar year 2024 or 2025. As a result, it is still too early to project loan default rates.

208 loans have been paid in full totaling \$14.9 million

- ◆ SBRL borrowers are required to provide annual reporting of current employees and to notify NMFA of pending and filed bankruptcies. NMFA has additionally registered with the bankruptcy court to be notified as a creditor through its automated notification services
- ◆ To date, only four businesses have notified NMFA of business closures (loans totaling ~\$100,000. However, respondents to the survey in progress report that 80 have closed
 - 63 permanently closed
 - 7 temporarily closed
 - 10 unknown how long they will be closed
- ◆ NMFA's legal department monitors each bankruptcy proceeding and ensures NMFA's claim filed and its rights to any available assets as a creditor are protected.
 - NMFA is required to cease all collections efforts during the pendency of a bankruptcy action
 - NMFA is aware of 26 bankruptcies to date – a seven-fold increase in the past year:
 - 16 closed bankruptcies for a total of \$980,000 have been reported to date.
 - 10 active bankruptcies for a total of \$784,078 have been reported to date
- ◆ Additionally, NMFA is aware of the death of two borrowers (loans totaling \$72,533)

Outsourcing Customer Support, Loan Servicing and Collections



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- ◆ NMFA has determined that more resources are needed to support businesses, investigate and monitor business closures and bankruptcies, and collect on past due loans.
- ◆ At its May meeting, the NMFA Board awarded a loan servicing and customer support contract to BSD Capital Inc. dba Lendistry, a nationally recognized, technology-driven CDFI that provides businesses that historically lacked financing on reasonable and responsible terms with access to capital
 - In addition to making its own loans, Lendistry administers small business funding programs for federal, state and local governments. Typically, Lendistry is responsible for loan origination, servicing and asset management. Since its inception in 2015, Lendistry has deployed more than \$9.9 billion in capital to approximately 636,000 businesses across the county.
 - Lendistry is partnered with The Center by Lendistry, a nonprofit organization that provides education, technical assistance and one-on-one counseling to small businesses. Businesses in the SBRL portfolio will have access to broad library of on-line learning tools, direct technical assistance, and individual attention.
- ◆ Pending successful contract negotiations, transfer is expected to begin in September. Each borrower will receive written notice from NMFA as well as an email, letter and phone call from Lendistry
- ◆ Borrowers with monthly principal and interest payments will be required to set up an automatic payment. Lendistry personnel will work directly with borrowers to set up payments