

NEW MEXICO  
**FINANCE AUTHORITY**

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Presentation to the  
New Mexico Finance Authority Oversight Committee

# **NMFA Rules to Administer SSBCI Programs**

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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*

# Statewide Economic Development Finance Act



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- ◆ Statewide Economic Development Finance Act (“SWEDFA”) was established in 2003 to help stimulate the economy, particularly in rural and underserved areas of the state by creating financing tools that put New Mexico on par with neighboring states
- ◆ SWEDFA authorizes NMFA to make loans, enter into loan participations, guarantee loans, and create a limited liability company for purposes of operating a New Markets Tax Credit program
- ◆ The Economic Development Revolving Fund (“EDRF”) is the Fund created under SWEDFA from which NMFA operates programs. EDRF is currently segregated into four sub-accounts, three of which are no longer operational:
  - ✓ **Smart Money** State funded loan participation program; active but unfunded
  - **SSBCI Loan Participation Program** (operated as the Collateral Support Participation program)
  - **Essential Services Working Capital Program** NMFA-funded loan program to provide working capital to essential service providers during the first year of the pandemic
  - **Cannabis Microbusiness Loan Program** NMFA-funded pilot program to fund the start up of newly established licensed microbusiness enterprises
- ◆ SWEDFA program success has been limited by availability of capital. **Federal SSBCI provides great opportunity and capital for economic development impact.**

# State Small Business Credit Initiative



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- ◆ Established by the Small Business Jobs Act of 2010, the State Small Business Credit Initiative (SSBCI) is a federal program that seeks to increase the flow of capital to small business. ~\$1.5 billion to small business financing programs throughout the country in 2011
- ◆ New Mexico Economic Development Department (NMEDD) is the State's recipient of the SSBCI funding. In May 2011, NMEDD and NMFA entered into a Memorandum of Agreement to operate the ~\$13 million award overseen by the Department of Treasury
  - NMFA administered a Loan Participation Program that facilitated ~\$10 million in lending to 16 economic development projects throughout the state
    - Three projects were in rural communities with average total project sizes of \$3.2 million.
    - NMFA purchased subordinated interests in loans with an average ~16% of project costs.
    - All loans made under that program have performed as expected; several have prepaid
  - SIC re-deployed \$5 million in a subordinated tranche to catalyze \$15 million of investment (\$10 public and \$5 million private) into eight venture capital funds investing in local start-ups
- ◆ SSBCI gives states significant flexibility to design programs that meet local market conditions and small business needs seeking to increase access to capital to small businesses so long as \$1 federal dollar leverage \$10 private dollars

# Authorized SSBCI Programs



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- ◆ Jurisdictions design SSBCI Capital Programs to support a combination of the following credit and/or equity venture capital programs:
  - ☑ Capital Access Programs provide portfolio insurance in the form of a loan loss reserve fund into which the lender and borrower contribute
  - ☑ Collateral Support Programs provide cash collateral to improve small business' ability to borrow funds to grow a business
  - ☐ Loan Guarantee Programs support private loans that may otherwise have been inaccessible or prohibitively expensive by agreeing to reduce lender exposure on a loan
  - ☑ Loan Participation Programs provide credit support through the purchase of a portion of a loan made by a lender or through a direct loan alongside a private lender
  - ☑ Equity/Venture Capital Programs (Funds) invest in venture capital funds making equity investments in small businesses
  - ☐ Equity/Venture Capital Programs (Direct) provide capital in the form of direct equity investments to small businesses alongside co-investment

For further information please see the [State Small Business Credit Initiative](#)

# State Small Business Credit Initiative 2.0

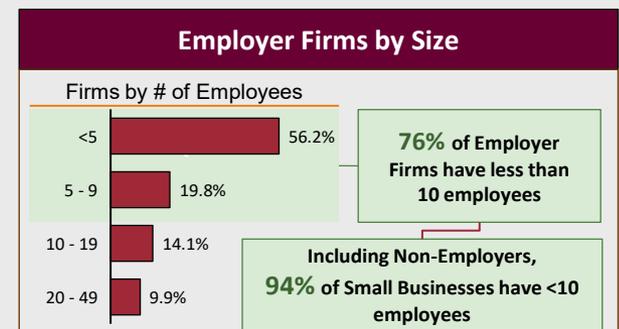
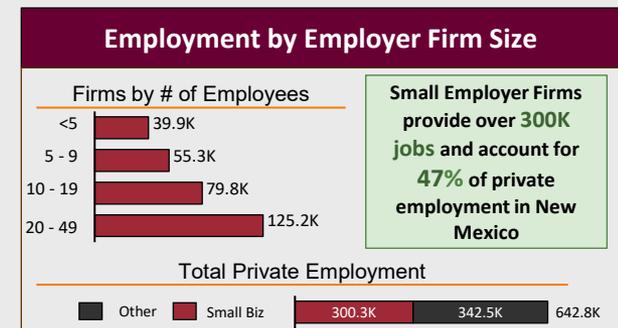


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- ◆ Reauthorized and expanded by the American Rescue Plan, SSBCI 2.0 is providing ~\$10 billion to states to support small businesses financing programs and entrepreneurship, with a focus on Socially and Economically Disadvantaged Individuals (SEDI) and Very Small Businesses (VSB):
  - SEDI businesses are located in distressed communities (as defined by Department 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 received an award of up to \$74.5 million, to be disbursed in three tranches of ~\$22 million. 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
- ◆ NMEDD's application to Treasury outlined two programs:
  - \$ 9 million for a collateral support (operated under the name Collateral Assistance Program)
    - Over 10 months, NMEDD provided \$2.3 million in credit support to 14 small businesses
    - 9 of the 14 are certified SEDI-owned businesses, representing 65% of total deployed and exceeding the state's SEDI allocation target
  - \$ 65 million to New Mexico Growth Fund (equity/venture capital funds)
    - NMFA/NMEDD will be requesting to reallocate as much as \$50 million in VC to debt programs

# Key Findings: New Mexico Small Business Snapshot

- ◆ 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 the Next Street Research
  - New Mexico small employer firms provide more than 300,000 jobs and account for 47% of private employment in New Mexico
    - 39.9 thousand jobs by businesses with fewer than 5 employees
    - 55.3 thousand jobs by businesses with 5 – 9 employees
    - 79.8 thousand jobs by businesses with 10 – 19 employees
    - 125.2 thousand jobs by businesses with between 20 – 49 employees
  - 167,784 businesses with fewer than 50 employees
    - 125,804 (75%) of New Mexico small businesses do not have employees
    - 41,980 (25%) are employer businesses
      - 56% have fewer than 5 employees
      - 19.8% have between 5 – 9 employees
      - 14.1% have between 10 – 19 employees
      - 9.9% have between 20 – 49 employees



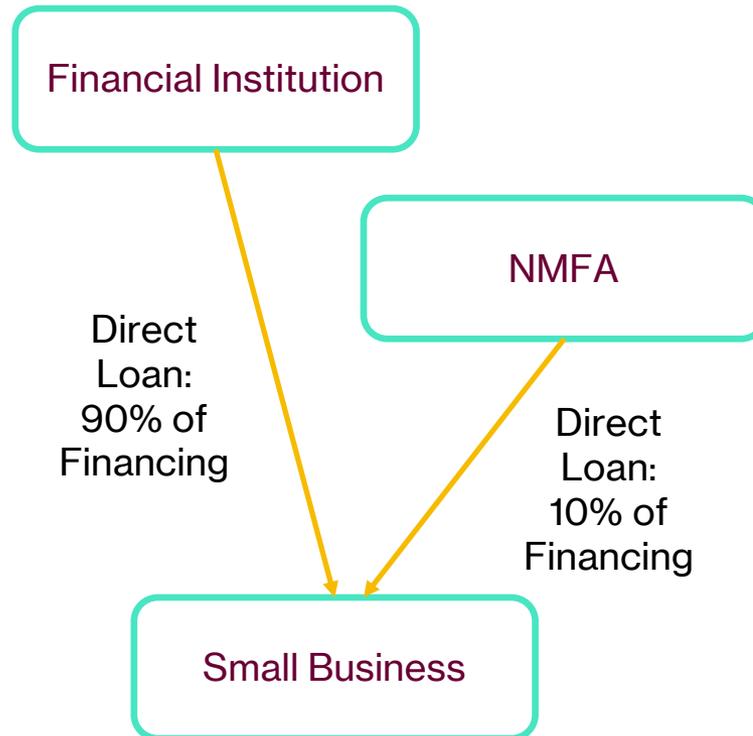
- ◆ The Small Business Capital Landscape Research Report commissioned by NMFA found several gaps that NMFA can help banks, credit unions and CDFIs fill with the SSBCI 2.0 funding.
  - The found report found that Credit tightening since the great recession has been disproportionately felt by smaller businesses, 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

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>	

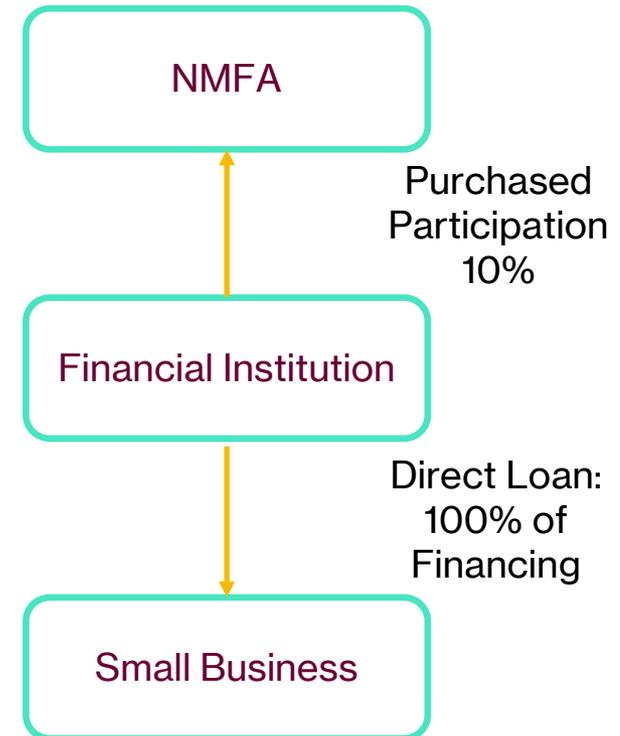


Source: Research commissioned by NMFA conducted by Next Street

## Co-Lending Participation



## Purchased Participation

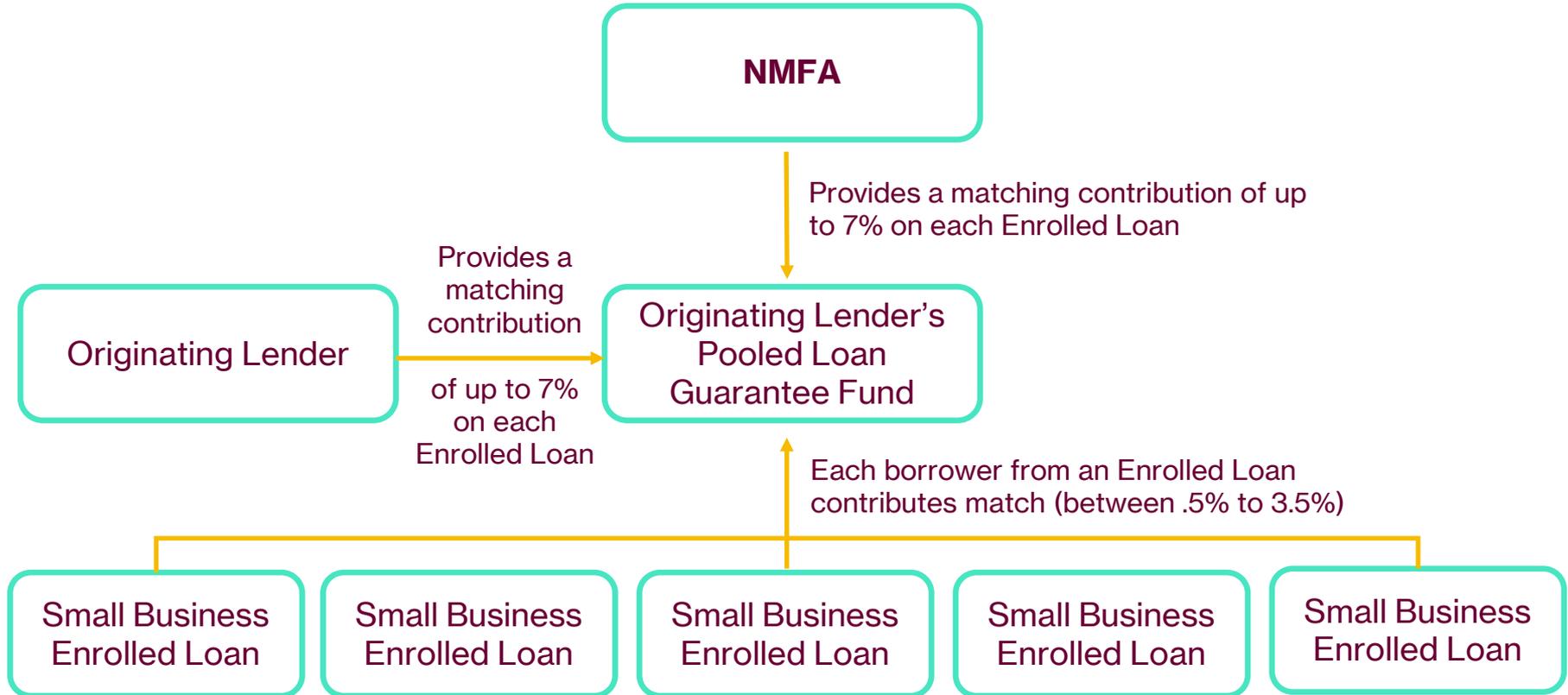


NMFA participation can occur at either shared collateral lien (“pari passu”) with the financial institution (thereby sharing in the risk) or be subordinate to the financial institution (thereby increasing the amount that can be loaned to the client)

# 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>SSBCI Capital Access Program</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	\$1,500,000
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	

- ◆ Rules must be approved for NMFA and NMEDD to amend the SSBCI Allocation Agreement
  - New SSBCI Capital Access Program Rules
  - Amended and Restated Loan Participation Rules
  - Amended and Restated Direct Lending Rules
  - Pursuant to SWEDFA, NMFA Board of Directors and NMFA Oversight Committee must approve the same set of Rules
- ◆ NMFA and NMEDD must provide Treasury with verification that New Mexico will efficiently utilize the funds to support SEDIs and VSBs while meeting the overall 10:1 leverage requirement
  - Leverage Model will be developed that show that New Mexico is better served using the approved funds for debt instead of equity
- ◆ Once approved by Treasury, NMFA will develop application systems and outreach materials to ensure lenders, businesses and other stakeholders understand the program prior to opening the applications
- ◆ If Rules approved today, NMFA anticipates new funding programs to available in Spring 2024

# Proposed Rules Governing SSBCI Capital Access Programs



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## Program Overview

- ◆ Decrease lender risk on loans to small businesses
  - Federally insured lenders (banks and credit unions) and CDFIs can apply to become participating lenders
  - Best suited for loans between \$100k and \$500k; loans may be up to \$1.5 million
- ◆ NMFA underwrites the and accepts Participating Financial Institutions who originate loans as they otherwise would. Federal guidelines cap the interest rate charged on the enrolled loan and limit the fees the lender can charge.
- ◆ Eligible use of loan proceeds include start-up and working capital, acquisition of equipment, inventory or services, and purchase, renovation or tenant improvements on place of business
- ◆ A separate loan loss reserve fund is established for each participating lender. The participating lender and borrower each pay a premium calculated on a loan-by-loan basis into the loan loss reserve fund. Federal funds make a matching contribution to the loan loss reserve fund in an amount equal to the aggregate premium paid by the borrower and participating lender. The loan loss reserve fund increases with each loan enrolled; the balance in the loan loss reserve fund can be applied to reimburse losses on any enrolled loan that defaults

## Content of New Rules

- ◆ Incorporates SSBCI guidelines and restrictions
- ◆ Delineates program application procedures
- ◆ Two accounts are created by NMFA; assets are owned and controlled by NMFA and stay on NMFA's books
  - Deposit Account – holds initial deposits in advance of loans be enrolled
  - Loan Loss Reserve Account – account that holds the borrower contribution and matching contributions from lender and NMFA.
- ◆ Procedures for enrolling Qualified Loans
  - Loans may range from \$10,000 to \$1.5 million
  - Borrower may not have more than \$1.5 million in total enrolled loans
- ◆ Procedure for making a claim for reimbursement of a charged off enrolled loans
- ◆ Procedures for payment of claims by NMFA and recovery on loans post-NMFA claim payment
- ◆ Voluntary and involuntary withdrawals from the Program

# Amended SWEDFA Rules Governing Loan Participations



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## Content of Rules

- ◆ Rules have not been revisited since their adoption in December 2005
- ◆ Conforms the Rules to current statutory provisions, updated legal guidance, and existing practices
  - Provides for Loan Management Policies to be used in managing program
  - Eliminates portions of Rules dealing with Legislative Authorization (2023 Session SB 327 defers legislative authorization until July 1, 2027)
  - Eliminates outdated practices to document legal consideration
  - Provides for a staff credit committee review prior to Board Economic Development Committee
  - Provides that only recommended projects move from credit committee, to Economic Development Committee, to Board
  - Eliminates structuring options that were not practical for the lender or difficult for NMFA to monitor
    - Variable interest rates
    - Differing loan amortizations
    - .25% servicing fee paid by NMFA to lender
    - Eliminates unnecessary fees

## Content of Rules

- ◆ Rules put in place to accommodate Treasury's request for options on delivering SSBCI 1.0 funding; have not been revisited since their adoption in December 2011
  - Program was not used in SSBCI 1.0
- ◆ Eliminates requirement that a co-lender participate in the financing to the business
- ◆ Amended Rules broaden NMFA's ability to utilize SWEDFA to make direct loans with federal dollars
- ◆ Conforms the Rules to current statutory provisions, updated legal guidance, and existing practices
  - Provides for Loan Management Policies to be used in managing program
  - Provides for a staff credit committee review prior to Board Economic Development Committee
  - Provides that only recommended projects move from credit committee, to Economic Development Committee, to Board
  - Eliminates unnecessary fees