



# **When and Why to Forgive and Not Forget: Loan Portfolios in 3D**



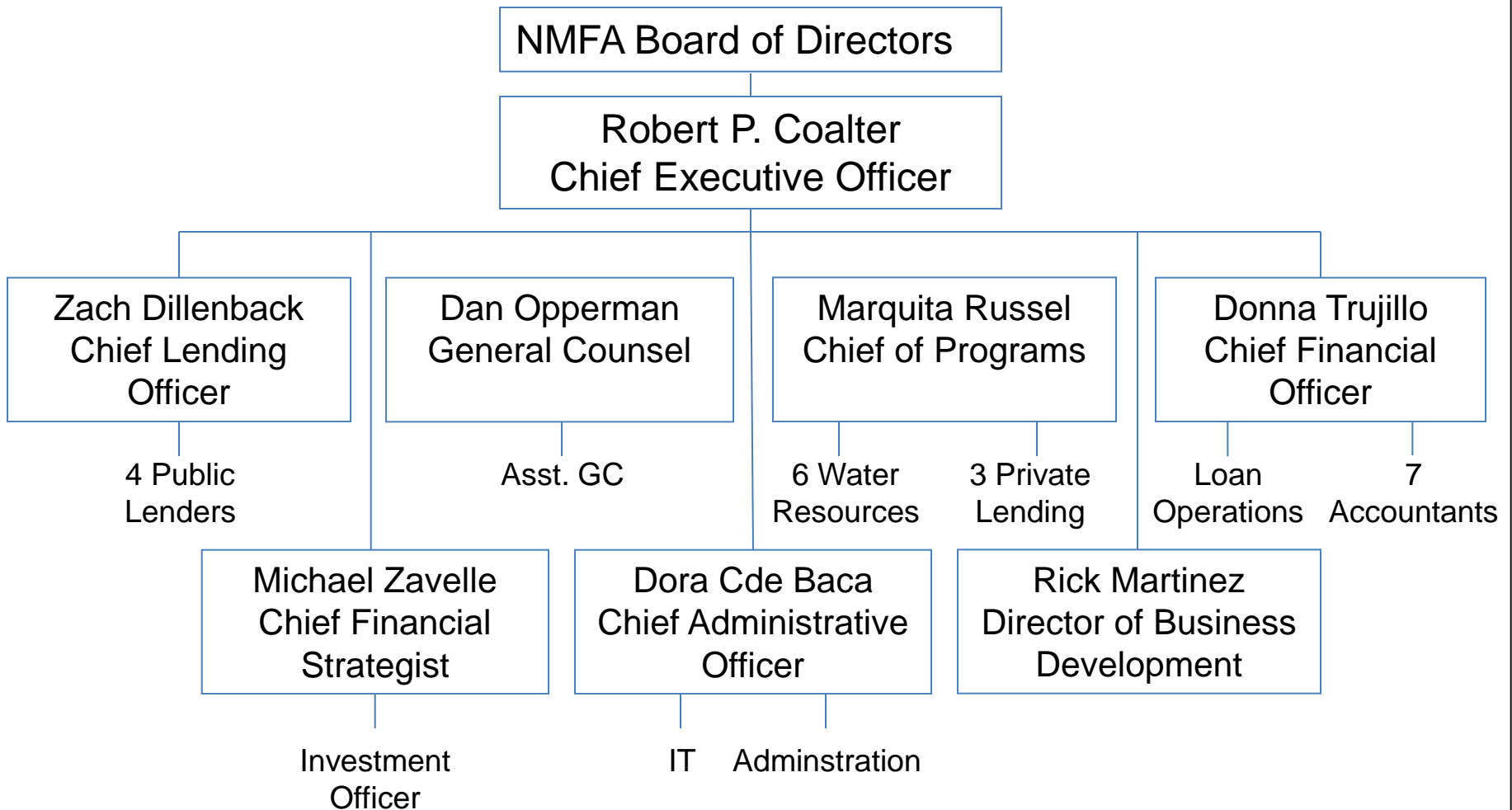
**PRESENTATION TO THE  
NEW MEXICO FINANCE AUTHORITY  
LEGISLATIVE OVERSIGHT COMMITTEE**

**MARQUITA D. RUSSEL, CHIEF OF PROGRAMS  
ZACH DILLENBACK, CHIEF LENDING OFFICER**

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# NMFA Staff Structure

2



# Mission Based Financing

3

NMFA meets its mission of helping New Mexico's communities providing access to capital through mission-based funding in three primary areas:

## **Infrastructure and Capital Equipment Projects:**

- ◆ Public Project Revolving Fund (loan only);
- ◆ Local Government Planning Fund (grant); and
- ◆ Colonias Infrastructure Project Fund (grant + loan)

## **Water Projects:**

- ◆ Drinking Water State Revolving Loan Fund (loan + limited principal forgiveness);
- ◆ Water Project Fund (grant + loan); and
- ◆ Acequia Project Fund (grant only)

# Mission Based Financing

4

NMFA also provides access to valuable gap financing for businesses and not-for-profit corporations

## **Community Facilities and Economic:**

- ◆ Primary Care Capital Fund;
- ◆ Behavioral Health Capital Fund;
- ◆ Childcare Facilities Revolving Loan Fund;
- ◆ New Markets Tax Credit Program;
- ◆ Smart Money Loan Participation Program; and
- ◆ Collateral Support Participation Program (SSBCI)

- ◆ NMFA’s “flagship” program. Created in 1992. Provides low-cost loans for infrastructure and capital projects for a variety of local governments.
- ◆ **No defaults.** Two loans on Credit Watch:

### **Greentree Solid Waste Authority, Ruidoso Downs**

In December 2005, the NMFA made a \$2.7 million PPRF loan to Greentree, an entity formed through a Joint Powers Agreement between Lincoln County, the City of Ruidoso Downs, the Town of Carrizozo, the Village of Corona, and the Village of Capitan.

The loan funded the construction of a solid waste facility/transfer station and is secured by the net system revenues of the solid waste facility as well as the Environmental Gross Receipts Tax of Greentree’s participants.

Greentree is in litigation with Lincoln County regarding the County's withdrawal from the Joint Powers Agreement. The County represents a significant portion of the Greentree's service area and its withdrawal will impact the operations of the Authority moving forward.

Greentree has continued to make its scheduled semi-annual payments on the loan, however Greentree is no longer paying debt service on a monthly basis as the loan agreement originally contemplates. With litigation still ongoing, future operations and debt service obligations of the Greentree remain on watch.

## **City of Rio Rancho Special Assessment District Loans**

The City of Rio Rancho has various Special Assessment District loans outstanding with the PPRF. The loans funded infrastructure, primarily road, drainage, paving, and dry/wet utilities, within with the SAD boundaries. The SAD loans are secured and repaid by an assessment on the property owner's lot(s) within the defined district based on the estimated benefit of the improvements for the respective lot.

The City of Rio Rancho was negatively affected by the recent recession which affected the special assessment collections resulting in an increase of delinquent property owners.

In June 2013, NMFA restructured the loan to provide an additional five years to repay the loan providing cash flow relief and allowed the City to execute a Forbearance Agreement with the owners to provide the City with greater flexibility to work with the delinquent property owner on a modified assessment payment plan to become current. The Forbearance Agreement also allows the City to be in better control of the timing of the property foreclosures so that local market was not saturated with property foreclosures.

Since executing the SAD 6 restructure and the Forbearance Agreement, special assessment collections have improved. The City continues to report to NMFA on its delinquent property owners and the SAD loans, in particular the SAD 6 loan, remains on watch.



# Water Project Fund

9

- ◆ Established in 2002. NMFA makes grant/loan awards to projects recommended by the WTB and authorized by the Legislature. Applicants backed by a rate-paying constituency will have a loan of between 10% - 40%, based upon revenue base. Borrowers may petition to waive the annual payment due to unforeseen/unbudgeted events.

<b>WTB Hardship Waivers Requested</b>	<b>Date</b>	<b>Approved</b>	<b>Denied</b>
Ute Creek SWCD	3/6/2007		√
Hollywood Ranch DWUA	4/30/2010	√	
El Prado Water & Sanitation District	5/3/2010	√	
El Prado Water & Sanitation District	5/3/2010	√	
Cuidad Soil & Water Conservation District	3/29/2011	√	
Cuidad Soil & Water Conservation District	3/29/2012	√	
Cuidad Soil & Water Conservation District	3/12/2013	√	
La Asociacion de Agua de Los Brazos MDWCA	4/1/2014		√
La Asociacion de Agua de Los Brazos MDWCA	4/1/2014		√
Canoncito at Apache Canyon MDWA	5/19/2014	√	
Cuidad Soil & Water Conservation District	9/4/2014	<i>review</i>	

# Drinking Water State Revolving Loan Fund

10

- ◆ Created in 1998. Below-marketing loans for construction and improvements to drinking water facilities. Funded through Federal Capitalization Grants. Beginning in 2009 with American Reinvestment and Recovery Act funds and continuing with the regular program in 2010, Congress required that a certain portion of the Capitalization Grants be used to provide “additional subsidy” to water systems. Under the Drinking Water State Revolving Fund Act, “additional subsidy” means principal forgiveness, which is the equivalent of a grant. The amount of forgiveness is based on the water system’s relative wealth.
- ◆ To date, NMFA has made 84 DWSRLF loans totaling \$156.8 million. Roughly 55% of which has received some form of subsidy, totaling approximately \$31.8 million or 21% of the total assistance delivered.

**No defaults; no projects on Credit Watch.**

# Colonias Infrastructure Program

11

- ◆ Created in 2010 with its first loan made in 2012. Provide capital to infrastructure projects in designated Colonia communities as recommended by the Colonias Infrastructure Board (“CIB”). Based on CIB policy, NMFA typically delivers the awards as 90% grant / 10% loan.

**No defaults; no projects on Credit Watch**

- ◆ In 2006, NMFA created Finance New Mexico, LLC (“FNM”), owned 99% by NMFA and 1% by NM Community Capital. FNM has received a total of \$156 million in federal tax credits; virtually all has been invested.
- ◆ 100% of the money loaned in an NMTC transaction is private. ***No state for NMFA dollars are at risk.*** NMFA earns a 3% fee on each transaction at closing, is reimbursed for all staff and consultant time dedicated to the program, and has the potential to earn a fee at the close of the deal.
- ◆ One default to date: **Fuels 4 Less (dba Savoy Travel Center), Deming**  
In 2009, FNM made a \$16.005 million loan to refinance and renovate the truck stop. In 2012, the company was forced into bankruptcy by the primary lender. The facility was sold in liquidation and is operated by a new owner. FNM wrote off approximately \$13 million in FY 2013.

- ◆ Created in 1994 to provide low cost funds to non-profit primary care clinics. Jointly administered with the Department of Health. Up to 20% of annual principal and interest is forgiven in exchange for services rendered to indigent patients as determined by Department of Health.
- ◆ **No defaults.**
- ◆ One project on Credit Watch: **Mesilla Valley Hospice, Las Cruces**  
In March 2008, the NMFA made a \$2 million PCCF loan to the non-profit hospice. The funding, combined with \$4.3 million of financing from a consortium of six local banks, funded the expansion and renovation of its facility. In 2012, the hospice faced challenges due to a change in regulations and cuts in Medicare and Medicaid funding. In June 2014, the NMFA Board and the banks approved a temporary interest only period for up to one year while the hospice diversifies its revenues.

- ◆ Loan Participation Program established in 2006. Allows NMFA to purchase interests in loans made by regulated financial institutions to borrowers authorized by the Legislature (temporary law eliminates this provision until July 2016). NMFA may purchase up to 49% interest in any one loan as long as the borrower agrees to create at least one job per \$50,000 of Smart Money borrowed.
- ◆ One default to date: **Plaza Hotel, Las Vegas**  
In 2009, the NMFA funded 30% of a loan made by Valley National Bank. The hotel experienced cash flow difficulties in 2011 and NMFA placed the loan on non-accrual. The Bank subsequently foreclosed the loan and liquidated the assets. The Hotel was sold on June 30th to a hotelier that also purchased and is renovating the nearby historic Castaneda Hotel. The Bank has continued its collection efforts on the guarantors.

◆ Two loans on Credit Watch:

**Western Wood Products, Inc., Raton**

In 2008, NMFA purchased 26% of a loan made by International Bank. In the spring of 2011, the company began facing business difficulties and became delinquent in its loan payments in the NMFA placed the loan on non-accrual in June 2011. In January 2012, Western Woods filed for Chapter 11 Bankruptcy Protection. In June 2014, the Bankruptcy Court approved a Reorganization Plan and payments have resumed timely under the Plan. Loan will remain on non-accrual for at least six months.

Credit Watch:

## **Resources for Children and Youth, Inc., Las Cruces**

In November 2012, NMFA purchased a 49% interest in a loan made by Century Bank. The \$1,319,570 loan was used to fund the acquisition and renovation of an old furniture store on Las Cruces' Main Street. The refurbished building is being leased to New America Schools, an English-immersion charter school providing day and evening classes to 365 teen and adult students. Families and Youth, Inc., an affiliated non-profit and a corporate guarantor on the loan, was impacted by the Behavioral Health Audit and its income was negatively impacted. For only this reason, the loan is on Credit Watch. However, the loan is being paid by the lease revenues and has been handled as agreed.



# Collateral Support Participation Program

17

- ◆ Loan participation program with its first loan made in 2012. The federally funded program was designed to help mitigate bank risk and increase the flow of capital to small business.
- ◆ NMFA may only partner with regulated financial institutions.

**No defaults; no projects on Credit Watch.**

## Other Community Services Loan Programs

18

- ◆ **Behavioral Health Capital Fund:** Created in 2004 to provide low-cost funding to small non-profit behavioral health clinics, similar to Primary Care Capital Fund. Jointly operated with Human Services Department. Up to 20% of annual principal and interest is forgiven in exchange for services rendered to indigent patients as determined by Department of Human Services. Made its first loan in 2009. **No defaults. No projects on Credit Watch.**
- ◆ **Childcare Facilities Revolving Loan Fund:** Created in 2003 to provide low-cost funding to licensed child care facilities. Jointly operated with the Children, Youth and Families Department. Made only one loan to date, in 2008. **No defaults. No projects on Credit Watch.**

## Special Appropriation Loan

19

- ◆ In 2003, the Legislature appropriated \$500,000 to the NMFA to make a loan to a behavioral health care provider. In June 2003, the NMFA Legislative Oversight Committee endorsed a loan to Pathways, Inc., a non-profit provider located in Albuquerque. Using its general powers to lend, the NMFA made the \$500,000 loan to refinance the behavioral health provider's mortgage and fund renovations to its clinic. In August 2013, Pathways' patients and employees were transferred to another provider following an audit commissioned by the Human Services Department. The amount currently owed is approximately \$174,000. NMFA began its judicial foreclosure proceedings. It is expected that NMFA will be able to sell the collateral for a full recovery.

# Portfolio Overview

<b>As of June 30, 2014</b>		
<b>New Mexico Finance Authority</b>	<b># of Loans</b>	
	<b>Outstanding</b>	<b>Principal Balance</b>
1992 Public Project Revolving Fund	656	\$ 1,077,766,197
2001 Water Projects Fund	192	\$ 21,089,681
1997 Drinking Water State Revolving Fund	68	\$ 65,948,042
2010 Colonias	65	\$ 10,251,325
1994 Primary Care Capital Fund	10	\$ 4,685,109
2011 Collateral Support	8	\$ 3,312,527
2003 Smart Money	5	\$ 4,681,764
2003 Behavioral Health Capital Fund	4	\$ 1,026,468
2003 Special Appropriation Loan	1	\$ 174,605
2003 Child Care Revolving Loan Fund	1	\$ 18,288
<b>Total NMFA Portfolios</b>		<b>\$ 1,188,954,006</b>
<b>Finance New Mexico</b>		
2006 New Markets Tax Credit	13	\$ 132,979,335

Total defaults as a percentage of overall portfolios is less than 1%