



Update from the Small Business Investment
Corporation (SBIC)

Presented to the
Investments & Pensions
Oversight Committee

August 29, 2024

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 and loans, 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 \$155 million in assets.

NMSBIC Board of Directors



Joshua Smith (since 2022)
Board Chair & President
Cedar Crest, NM



Anne Beckett (since 2022)
Vice Chair & Vice President
Santa Fe, NM



Robert Valdiviez (since 2022)
Secretary/Treasurer
Albuquerque, NM



The Honorable Laura
Montoya (since 2023)
NM State Treasurer



Sayuri Yamada
(since 2023)
Santa Fe, NM



Kristina Alley
(since 2023)
Santa Fe, NM



Joshua Grassham
(since 2024)
Hobbs, NM

NMSBIC Executive Director/Investment Advisor

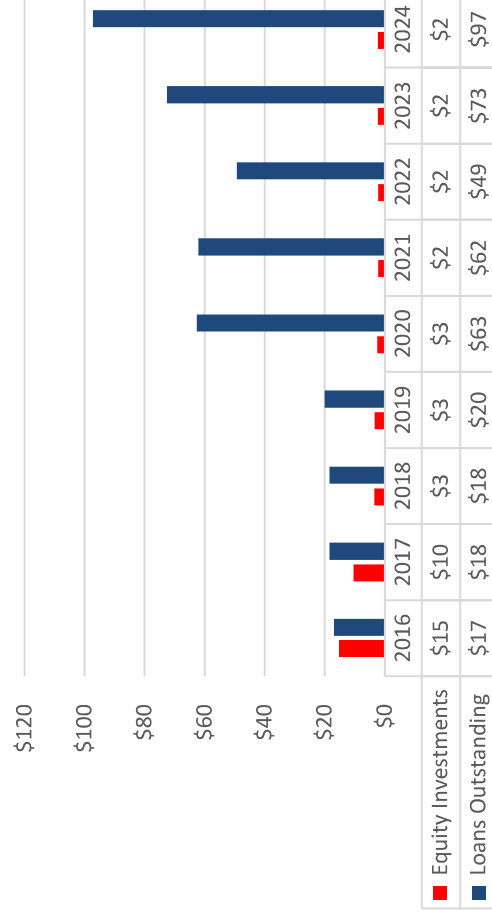


Russ Cummins (since 2012)
Tijeras, NM

NMSBIC Investment Focus

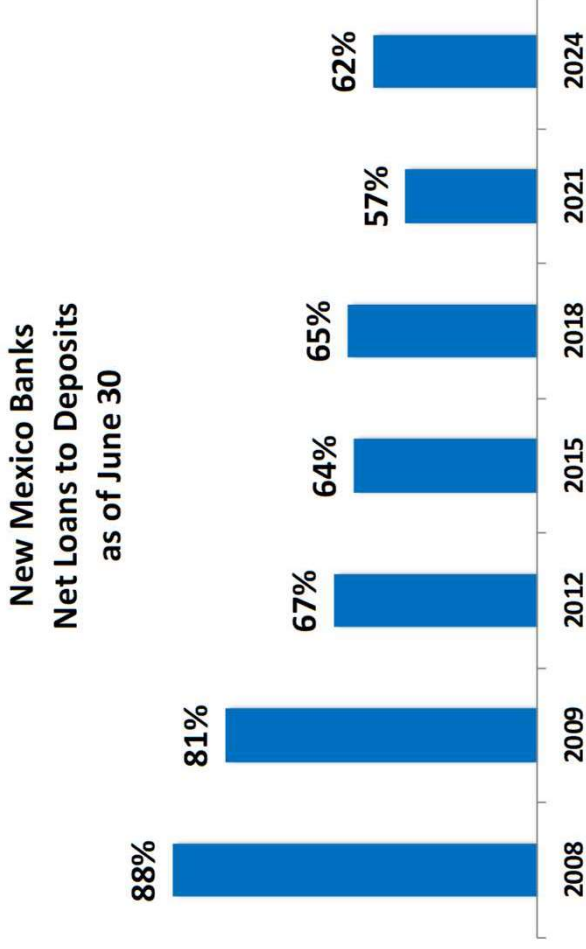
- Over the years the NMSBIC has developed, and refined, a lending program for small businesses that do not have access to loans from traditional banks.
- The SBIC made venture capital equity investments in the past. However, the focus now, and going forward, is on expanding the small business lending program. There is a continuing need for small business loans, and expansion of the lending program appears to provide a meaningful impact on jobs, and the New Mexico economy.
- The chart below shows growth in outstanding loans, and runoff of venture capital equity investments.

Equity Investments and Outstanding Loans
(in millions)



Lending Gap in New Mexico

Since the recession that began in 2008, the loan-to-deposit ratio for New Mexico banks 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 2024 as of March 31, 2024, 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), Ventana Fund, Clearinghouse CDFI, DreamSpring (formerly Accion) Homewise, and WESST.
- CDFIs are mostly non-profit corporations and 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, 2024

Lending Partner	Amount Committed	Amount Outstanding
The Loan Fund	\$37,500,000	\$33,008,600
Ventana Fund	29,000,000	23,902,000
Clearinghouse CDFI	20,000,000	20,000,000
RBC GAM	25,000,000	9,948,054
Homewise	16,000,000	6,427,700
DreamSpring	7,772,522	3,867,463
WESST	375,000	122,378
MFA	3,500,000	0
LiftFund	1,000,000	0
RCAC	1,000,000	0
Totals	<u>\$141,147,522</u>	<u>\$97,276,264</u>

The NMSBIC currently has \$5.4 million in funds available for investments.

NMSBIC Lending Partners

Loan Types and Average Loan Balances

Lending Partner	Types of Lending	Average Loan Size
The Loan Fund	Small business loans	\$130,000
Ventana Fund	Rehabilitation loans on multifamily properties with low- and moderate-income tenants	\$600,000
Clearinghouse CDFI	Real estate, historic hotels, hotel conversions & charter school construction	\$3,000,000
RBC GAM	Impact investing in SBA guaranteed loans focused on Black, Indigenous, and People of Color (BIPOC) borrowers	\$450,000
Homewise	Downtown Albuquerque commercial property renovation & charter school construction	\$450,000
DreamSpring	Small business loans	\$21,000
WESST	Small business loans	\$13,000
MFA	Multifamily construction with Low Income Housing Tax Credits (LIHTC), development lots for single-family homes	\$650,000
LiftFund	Small business loans & Colonias lending	\$20,000
RCAC	Rural community USDA water & wastewater, and small business loans	\$400,000

NMSBIC Lending Partners

Discussions with Potential New Lending Partners

June 30, 2024

- Enchantment Land Certified Development Company (SBA Community Advantage lender)
- B:Side Capital Certified Development Company (SBA Community Advantage lender)
- B:Side Fund (new small business lending CDFI)
- Native Partnership for Housing, a Native CDFI (new home construction and home renovations)
- New Mexico Climate Investment Center (NMCIC), a “Green Bank” (solar and weatherization on low/mod-income properties, expand renewable energy generation for rural and Native utilities)
- New Mexico Black Chamber of Commerce (new small business lending CDFI)
- Hexagon Housing Fund, a new CDFI being created to support New Mexico’s military missions

NMSBIC COVID-19 Pandemic Small Business Lending Programs

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



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

NMSBIC 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 (NMSBIC). 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 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

NMSBIC 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 SBA Paycheck Protection Program (PPP) loans originated.

		SBA New Mexico District Office Activity Report 2nd Quarter FY 2021
U.S. Small Business Administration		New Mexico District Office
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. However, CDFI's have flexibility to help small businesses that can't qualify for a traditional bank loan.
- 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

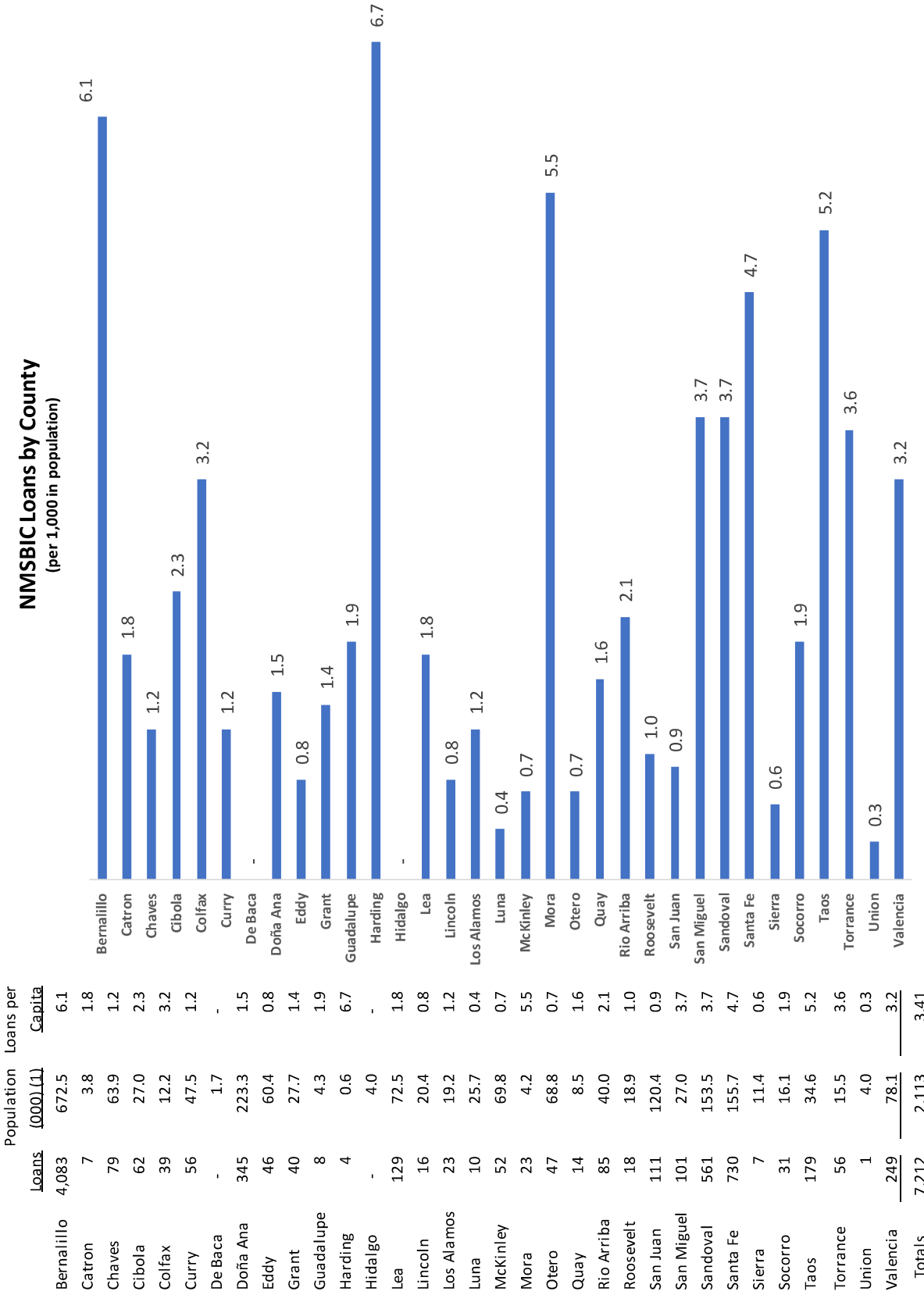
CDFIs also provide technical assistance to small businesses. This is all part of the “high touch” lending that CDFIs provide. Technical assistance might include:

- Marketing plans
- Budgets
- Website setup
- Installing computerized accounting systems
- Referrals to CPA firms for assistance with financial reporting
- Setting prices for products and services

NMSBIC Impact is Throughout New Mexico

	Life-to-Date
Number of Loans Originated	7,212
Total Amount of Loans	\$253,726,150
Jobs Supported	25,018

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



(1) https://www.newmexico-demographics.com/counties_by_population, 2022 Population Estimates Program and 2021 American Community Survey

Loans to Minority- and Women-Owned Small Businesses

For the 12 months ending June 30, 2024, NMSBIC funds were used for loans made to minority- and women-owned businesses as follows:

Minority-owned businesses	57%
Women-owned businesses	45%

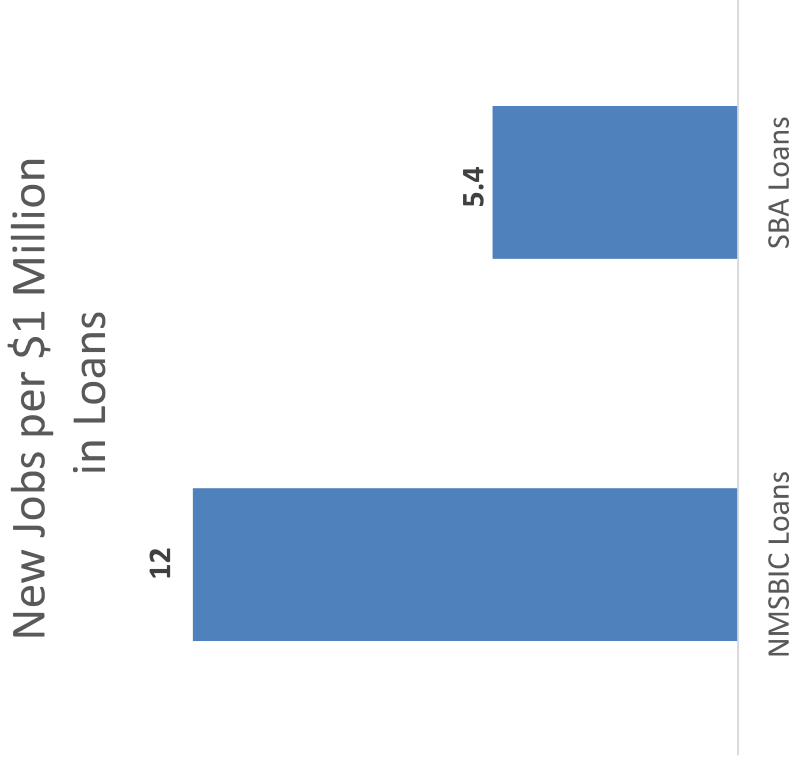
BBER Impact Study

- 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 is typically 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 opportunity 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.

BBER Impact Study

(continued)

- The 2017 BBER analysis also showed that for every \$1 million in loans originated by lending partners with NMSBIC funds, 12 new jobs were created in New Mexico.
- A similar 2013 US Census study of Small Business Administration (SBA) lending showed that for every \$1 million of SBA loans, 5.4 new jobs are created.



NMSBIC Cost per Job

Equity Program Costs and Benefits, Life-to-Date, June 30, 2024 (1):						
	Net Investment	Fair Market Value	Gain (Loss)	Jobs Supported (2)	Profit (Cost) per Job	
					<u>Supported</u>	
3					n/a	
4	(\$25,000)	\$0	\$25,000	n/a	n/a	
5	\$2,956,754	\$0	(\$2,956,754)	50	(\$59,135)	
6	\$1,604,078	\$1,154,907	(\$449,171)	204	(\$2,202)	
7	\$10,257,750	\$0	(\$10,257,750)	18	(\$569,875)	
8	\$1,688,976	\$902,226	(\$786,750)	10	(\$78,675)	
9	\$2,977,861	\$1,960,078	(\$1,017,783)	136	(\$7,484)	
10	Adjustment for multiple funds invested in the same company (4 companies)			-70		
11	<u>\$19,460,419</u>	<u>\$4,017,211</u>	<u>(\$15,443,208)</u>	<u>348</u>	<u>(\$44,377)</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, 2024, 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 Combined on January 1, 2021.

(5) Investments of \$32.4 million, less returns of \$12.9 million, result in net investment of \$19.5 million.

NMSBIC Cost per Job (continued)

	Interest Income	Loan Charge Offs	Net Interest Income (Loss)	Jobs Supported (8)	Profit (Cost) per Job Supported
1 Lending Program Costs and Benefits:					
2					
3 Since Inception					
4 Clearinghouse CDFI	\$453,333	\$0	\$453,333	532	\$852
5 DreamSpring 2003 Prior Agreement (6)	\$1,013,665	(\$1,258,310)	(\$244,645)	4,516	(\$54)
6 DreamSpring 2013 Participation Agreement	\$1,504,681	(\$368,277)	\$1,136,404	4,797	\$237
7 DreamSpring 2020 PPP Participation Agreement	\$0	\$0	\$0	7,711	-
8 Homewise	\$188,589	\$0	\$188,589	237	\$796
9 LiftFund PPP and COVID-19 Lending Program	\$0	\$0	\$0	36	-
10 New Mexico Mortgage Finance Authority	\$110,769	\$0	\$110,769	380	\$291
11 The Loan Fund Participation Agreement (7)	\$77,631	(\$11,518)	\$66,113	-	-
12 The Loan Fund	\$2,765,441	\$0	\$2,765,441	5,427	\$510
13 The Loan Fund COVID-19 Lending Program	\$0	\$0	\$0	608	-
14 RBC Global Asset Management	\$277,917	\$0	\$277,917	158	-
15 Rio Vista Growth Capital Line of Credit (9)	\$155,217	\$0	\$155,217	16	\$9,701
16 Ventana Fund	\$830,034	\$0	\$830,034	193	\$4,301
17 WESST Participation Agreement	\$42,371	(\$17,695)	\$24,676	407	\$61
18 Total Lending Program	\$7,419,648	(\$1,655,800)	\$5,763,848	25,018	\$230
19					
20 12 months ended June 30, 2024					
21 Clearinghouse CDFI	\$310,278	\$0	\$310,278	490	\$633
22 DreamSpring 2013 Participation Agreement	\$101,841	(\$33,947)	\$67,894	588	\$115
23 Homewise	\$105,198	\$0	\$105,198	313	\$336
24 RBC Global Asset Management	\$318,734	\$0	\$318,734	158	\$2,017
25 The Loan Fund	\$99,850	\$0	\$99,850	850	\$117
26 The Loan Fund COVID-19 Lending Program	\$0	\$0	\$0	582	\$0
27 Ventana Fund	\$370,949	\$0	\$370,949	69	\$5,376
28 WESST Participation Agreement	\$2,446	\$0	\$2,446	25	\$98
29 Total Lending Program	\$1,309,296	(\$33,947)	\$1,275,349	3,075	\$415
30					

(6) 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.

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

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

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

NMSBIC Self-Sufficiency and Recycling of Funds

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

NMSBIC's Net Excess Funds to the Severance Tax Permanent Fund

Net Excess Funds include the NMSBICs interest income and realized gains, less operating expenses. Each year the NMSBIC returns Net Excess Funds to the Severance Tax Permanent Fund.

- For the fiscal year ended June 30, 2023, the NMSBIC returned \$1.7 million to the Severance Tax Permanent Fund.
- For the fiscal year ended June 30, 2024, the NMSBIC estimates it will return \$2.9 million to the Severance Tax Permanent Fund.

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.