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New Markets Tax Credit – Small Loan Pool Policies

These New Markets Tax Credit – Small Loan Pool Policies (“Policies”) were adopted on the 23rd day of April 2020 by the Board of Directors of the New Mexico Finance Authority (“Finance Authority” or “NMFA”), a public body politic and corporate, separate and apart from the State of New Mexico constituting a governmental instrumentality, created by the New Mexico Finance Authority Act, Section 6-21-1 et. seq., NMSA 1978.

I. PURPOSE

A. Purpose Statement

Pursuant to amendments made to Statewide Economic Development Finance Act (“SWEDFA”) in 2006, the NMFA formed Finance New Mexico, LLC (“Finance New Mexico” or “FNM”), a qualified Community Development Entity (“CDE”) for the purpose of operating a New Markets Tax Credit (“NMTC”) Program. The NMFA, as the governing body for Finance New Mexico, will use this participation in the NMTC Program and the capital derived from a portion of its allocation of tax credits designated for the Small Loan Pool to make below-market rate loans for eligible projects under \$4 million (“NMTC Small Loan Pool”) as authorized under the NMTC guidelines set forth in the Internal Revenue Code of 1986, as amended, and the U.S. Treasury Regulations promulgated thereunder.

The NMTC Small Loan Pool was strategically created in response to market needs for financing eligible projects under \$4 million. The current NMTC Program meets the market segment above \$4 million. The NMFA believes the market for small businesses and small-scale developments can be further enhanced to provide access to affordable, flexible capital through non-traditional lending. The NMFA identified an unmet demand for financing between \$500,000 and \$4 million, and a need for loans that allow for a higher loan-to-value ratios of up to 90% for senior debt and 95% loan-to-value for subordinate debt. The NMTC Small Loan Pool is created in response to these needs.

B. Objectives

The goal of these Policies is to provide guidance to NMFA staff, Finance New Mexico Advisory Board members and potential borrowers regarding acceptable risk parameters, pricing and securitization of qualified investments as permitted under federal and state laws, and structuring

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enhancements available within the NMTC Small Loan Pool Program. Through these Policies, the NMFA Board of Directors (“NMFA Board”) shall:

- ◆ Determine collateral requirements, including acceptable loan-to-value and lien positions;
- ◆ Approve the methods for determining below-market interest rates and fees;
- ◆ Determine acceptable loan and investment structures;
- ◆ Promote consistency and continuity in decision making and monitoring process; and
- ◆ Set borrower credit standards.

C. Implementation

These Policies shall be implemented by the NMFA Board as the manager of Finance New Mexico, who in turn is the manager of each of its subsidiary CDEs. The Policies may, at times, be waived by the NMFA Board if the NMFA Board determines that a deviation from these Policies is necessary. Such a waiver will be reflected in the minutes of the public meeting at which the waiver is considered by the NMFA Board.

D. Eligible Project Types

The following are target projects eligible for consideration for inclusion in the NMTC Small Loan Pool:

- ◆ Real Estate Development Project
- ◆ Building and Infrastructure Project
- ◆ Working Capital Financing
- ◆ Equipment Financing

II. INTEREST RATE SETTING POLICY

A. Overview

Pursuant to its Allocation Agreements with the CDFI Fund, Finance New Mexico will strive to offer interest rates 50% below then-current market rates or other terms advantageous to borrowers in the NMTC Small Loan Pool Program. The terms and interest rates of the Qualified Low-Income Community Investments (“QLICIs”) provided by Finance New Mexico will include one or more of the five flexible features as described in Section III (D), Flexible Features.

B. Interest Rates

Finance New Mexico will provide fixed interest rates which will be set commensurate with its costs of funds lent to borrowers. The interest rate paid on the leveraged loan will be determined at the time of funding, with QLICI loan rates set based on the leverage loan interest rate and the

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fees paid fixed for seven years. The rate for the QLICI loan is expected to be 50% of the then-current market rates.

III. LOAN STRUCTURING POLICY

A. Overview

The goal of the NMTC Small Loan Pool Program is to provide flexible financing offered at advantageous terms for eligible projects between \$500,000 and \$4 million to qualified businesses located in low-income communities that have historically lacked access to credit.

B. Maximum Loan Amortization

The NMTC Small Loan Pool will offer interest-only loans for terms of up to seven years.

C. Debt Coverage Ratio

Finance New Mexico will require debt service coverage ratios (DCRs) of 1.10X or greater for both senior and subordinate debt positions.

D. Flexible Features

Pursuant to its Allocation Agreements, Finance New Mexico will offer loans that meet at least five of the following criteria:

- ◆ Below market interest rates;
- ◆ Lower than standard origination fees;
- ◆ Longer than standard period of interest-only loan payments;
- ◆ Higher than standard loan-to-value ratio;
- ◆ Longer than standard amortization period;
- ◆ More flexible borrower credit standards;
- ◆ Non-traditional forms of collateral;
- ◆ Lower than standard debt service coverage ratio requirements; or
- ◆ Subordinated debt.

IV. LOAN POOL STRUCTURE

NMTC Small Loan Pool loans will be placed into a loan pool based on either (i) a specific purpose, or (ii) a specific industry, as determined by NMFA staff. Projects identified under the criteria of these Policies that meet the requirements of Section III above are eligible to qualify for the NMTC Small Loan Pool. Projects that meet the criteria set forth in these Policies, and whose Community Impacts are approved by the FNM Advisory Board, will be presented to the NMFA Board for final approval.

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V. SECURITY POLICY

A. General Considerations

Finance New Mexico will structure NMTC Small Loan Pool Program loans to achieve the greatest security without impacting the operations, growth and cash-flows of the qualified borrowers. All NMTC Small Loan Pool Program loans will be secured and structured after a comprehensive evaluation of the quality and liquidity value of collateral securing each such loan. Under no circumstances will the liquidation value of collateral be a substitute for a borrower's ability to repay the loans from cash flow. Cash flow will be the primary source of repayment, with collateral and guarantees providing the secondary and tertiary sources of repayment.

B. Collateral

Finance New Mexico will strive to achieve the highest lien level possible in structuring its loans but will not undertake undue economic risk to accomplish the financing.

For senior debt positions, NMTC Small Loan Pool financings will be underwritten with loan-to-value ratios of up to 90% for real estate or equipment. For subordinate debt positions, NMTC Small Loan Pool financings will be underwritten with loan-to-value ratios of up to 95%. In accordance with standard banking procedures, applicants should provide an estimate of an asset's fair market value prepared by an independent, qualified appraiser acceptable to Finance New Mexico. Finance New Mexico will require that security interests in collateral be perfected in order to obtain the desired lien positions agreed upon and will require post-filing lien searches that document the approved lien positions.

C. Equity Requirement

Finance New Mexico will require a minimum 5% equity investment from its borrowers toward the project through minimum owner contributions or down-payments.

D. Personal and Corporate Guaranties

Finance New Mexico will evaluate the need for personal guarantees of all owners with more than 20% ownership of the borrower's business. Exceptions may be considered on a case-by-case basis. A corporate guarantee of the operating company is required if the borrower is a related limited liability company or a limited partnership.

E. Character and Credit History

Finance New Mexico will evaluate the character and credit history of its applicants prior to extending credit and will only extend credit to companies whose principals and guarantors have demonstrated responsible behavior. Credit reports will be required for all guarantors and

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principals with a 20% or greater ownership interest. Bankruptcy or felony convictions of the borrower, any guarantor, or principal will automatically disqualify a company from consideration.

Borrowers proposed for transactions undertaken with leverage lenders that are not publicly traded or federally regulated are subject to background checks performed to the satisfaction and discretion of Finance New Mexico.

F. QALICB REPORTING REQUIREMENTS

Outside of the reporting requirements set forth in the NMTC Rider and Community Benefit Agreement pertaining to Qualified Active Low-Income Community Businesses (“QALICB”), Finance New Mexico, in its sole discretion, shall have the ability to determine reporting requirements.

G. SWEDFA CONFIDENTIALITY PROVISIONS FOR NMTC APPLICANTS

Information obtained from NMTC Small Loan Pool Program applicants or prospective applicants which is considered proprietary business or investor related shall be held in confidence in accordance with the confidentiality provisions of SWEDFA. Any violation of the SWEDFA provisions as it relates to proprietary information and confidentiality can lead to disciplinary procedures including being charged with a misdemeanor.