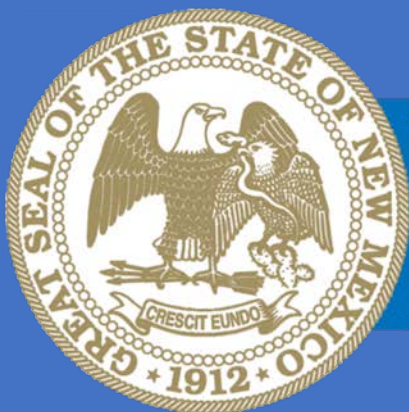


NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT
COLLATERAL ASSISTANCE
PROGRAM (CAP):
PARTICIPATION GUIDEBOOK



EDD

ECONOMIC
DEVELOPMENT
DEPARTMENT

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SUMMARY

New Mexico Economic Development Department (EDD) Collateral Assistance Program (CAP) Overview

1. The CAP supports small business lending by using program funds to fill a collateral gap for otherwise strong projects when they are seeking financing for their start-up or expansion projects.
2. Using funds from the CAP, EDD purchases a certificate of deposit at the financial institution to cover a portion of the collateral gap for the loan. The certificate of deposit may provide collateral assistance up to 50% of the loan principal value, contingent upon meeting qualifying criteria.
3. The lending institution and borrower enroll the loan into the CAP. The EDD's review team processes the applications (with accompanying underwriting material) and vote to approve or deny.
4. Upon approval, the EDD purchases a certificate of deposit in the lending institution for agreed upon term.

Targeted Borrowers and Criteria

The mission of the CAP is to support business growth in New Mexico and to create/retain jobs by providing capital to underserved markets including the following groups:

- *Minority owners
- Women owners
- Veteran owners
- Businesses located in rural geographic locations (<50K in population)
- Low to moderate income (LMI) geographic locations
- Rural areas

**The CAP uses the Small Business Administration's definition of minority and presumes some groups are socially and economically disadvantaged including: African Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, Subcontinent Asian Americans and any "non-white" race not listed.*

As well, the program will target the Governor's industries including the following:

- Aerospace
- Biosciences
- Cybersecurity
- Film & Television
- Global Trade
- Intelligent Manufacturing
- Outdoor Recreation

- Sustainable & Green Energy
- Sustainable & Value-Added Agriculture

Job creation will also be a significant factor when considering a project.

CAP Qualifying Guidelines

Loan applicants may obtain collateral assistance *up to* 50% of the loan principal value. Ultimately, the percentage for a which a business qualifies will be decided by the CAP review team in consultation with the lender and will be based on the following criteria:

Loan Type	Max CAP Participation Amount	Support Rate	Max Term of Support
Targeted Industry	\$250,000	Up to 30% of the loan value +10% if business is located in rural or distressed area +10% if business owners are in a minority group, job creation will also be considered (MAX 50%)	3 years (enhanced priority based on loan term if <1yr, if <2yr)
Non-Targeted Industry	\$150,000	Up to 20% of the loan value +10% if borrower is considered in "minority" group + 10% if located in rural or distressed area, job creation will also be considered (MAX 40%)	3 years (enhanced priority based on loan term if <1yr, if <2yr)

SECTION I: ELIGIBILITY REQUIREMENTS

a.) Eligible Lenders

Any federal or state-chartered bank, savings association, federal certified Community Development Financial Institution (CDFI) or credit union is eligible to participate in the CAP. A lender must certify that it is in good standing with its regulatory body (Federal Reserve, Federal Deposit Insurance Corporation (FDIC), Comptroller of Currency, Thrift Supervision, National Credit Union Administration (NCUA) or state banking authority).

To become a participating lender in the CAP, lenders must submit a Lender Enrollment Application to EDD. The lender will be notified upon their acceptance into the program.

b.) Eligible Small Business Borrowers

In order to qualify for the program, certain eligibility must be met including the following criteria:

- Business must be located in New Mexico and all jobs of the business created and retained must be located in New Mexico
- Be current with all government debt obligations, State and Federal

While the focus of the CAP is on assisting small businesses, businesses which have up to \$20M in sales and less than 750 employees will be considered as per Small Business Administration guidelines.

c.) Eligible Uses of Loan Proceeds

Loan proceeds may be used for:

- Start-up costs
- Working capital
- Franchise fees
- Equipment
- Inventory
- Construction, renovation or improvements of an eligible place of business
- Loan proceeds may be used to purchase any tangible or intangible assets except for goodwill
- Lenders may also enroll bridge loans needed prior to the borrower obtaining permanent financing or support, including but not limited to SBA 504 bridge loans. Bridge loans are loans needed prior to obtaining permanent financing or support where the lender is at increased risk pending future take-out financing or guarantee.
- Refinancing and down payment assistance may be considered under special consideration

d.) Ineligible Uses of Loan Proceeds

Ineligible uses of loan proceeds include financing non-business endeavors, passive real estate, residential real estate, reimbursing funds owed to owner, repayment of delinquent taxes or taxes held in trust or escrow, and business acquisitions where funds are used for goodwill. In addition, the following are ineligible uses of loan proceeds as well:

- Pyramid schemes
- Gambling
- Lobbying
- Tanning salons
- Bars and liquor stores
- Financial businesses primarily engaged in the business of lending
- Life insurance companies
- Businesses engaged in illegal activity
- Private clubs which limit the number of memberships for reasons other than capacity
- Government-owned entities
- Businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting
- Consumer and marketing cooperatives (producer cooperatives are eligible)
- Speculative businesses (such as oil exploration)
- Sale of firearms
- Sale or use of tobacco and tobacco products

SECTION II: OPERATIONAL STEPS AND PROCESSES

1. The lending institution must first be enrolled and registered as a participating lender with the State of New Mexico. Lenders wishing to participate in the program must fill out the Lender Participation Application and a State of New Mexico W9 form and submit to EDD. Upon meeting qualifying criteria, the lender will have notified of their acceptance into the program.
2. Upon identifying an eligible borrower, the participating lender will submit a Loan Enrollment Form including all supplemental information to EDD to provide initial representation that the loan will meet program criteria as outlined in this CAP Guidebook.
3. Eligible Lenders may submit a borrower's Loan Enrollment Form prior to submitting a Lender Participation Application. If EDD receives a borrower's Loan Enrollment Form and Eligibility Questionnaire, it will be reviewed for eligibility. If approved, the lender will have 30 calendar days to execute a Lender Enrollment Application. The executed Lender Enrollment Application must be received by EDD *at least* 30 calendar days prior to the closing of the loan.
4. Upon determining approval of a borrower's Loan Enrollment, EDD reserves funding to provide collateral support for the intended loan. The lender is typically notified within three business days via email in addition to issuance of a formal letter. The reservation of funds for the intended loan will be valid for 90 calendar days.
5. The participating lender underwrites the loan consistent with their normal underwriting criteria, assuming full responsibility for credit and ongoing servicing of the loan. Upon approval/denial of loan, the lender notifies EDD. If approved, the lender submits an invoice to EDD for the amount of the CD.
6. Prior to closing the loan or at the time of the loan closing, EDD will open a pledged collateral deposit account with the lender. At the time of loan closing, the lender will execute the Collateral Deposit Agreement. The lender is required to certify that it has followed prudent industry loan underwriting practices and that the collateral support deposit was instrumental in the lender making the eligible loan. EDD will then fund the account with the approved collateral support deposit.
7. In the event of loan default and subsequent loss of the loan, the collateral support deposit is available to the participating lender.
8. Upon repayment of the loan and/or upon reaching CD maturity, the loan collateral support deposit is returned to EDD and the pledged collateral deposit account is closed. In order to maintain the established ratio of collateral support deposit funding to loan principal, EDD may request incremental return of the collateral support deposit funding commensurate with loan principal balance reduction over time.
9. Participating Lenders are required to provide information to EDD as per reporting requirements during the term of the CD. As well, borrower will be required to submit an Economic Impact Report annually to EDD on the loan anniversary date during the life of the CD.

Section III: PROGRAM PARAMETERS

Ideal Loan Term

Although the Lender may have a longer maturity term and amortization period, the maximum period the EDD will pledge a CD toward the project is (3) years from the date of the loan and the maximum line of credit participation is (2) years from the time of the loan. Lenders may extend lines of credit under the program as long as the maximum term of the lines enrolled under the program does not exceed (3) years and the lines of credit are subject to annual credit review and renewal process.

- Time frame < 3 years

Projects have the option to renew up to 2 times but must fill out a new application to be considered.

Lender Sets Terms

Lenders set all the terms and conditions of the loans. Loans can be short- or long-term, have fixed or variable rates, and bear any type of amortization schedule. The term of the support requested will be at the lender's discretion, not to exceed the original term of the loan or 3 years, whichever is less. Lenders are free to determine the amount of collateral support they wish to request within the terms described, and may also choose to reduce the collateral coverage at any time for any reason.

Closing Fees

EDD may choose to implement up to 3% of the principal in closing fees which will ultimately be decided upon during negotiations and discussions with lender. If a fee is charged, the borrower may qualify to have the fees reimbursed back to them at the end of the loan term based on meeting certain criteria.

Default and Charge-Off

Lender must submit a Collateral Support Default Notification upon loan default within 30 days of default. Within 30 calendar days of collateral liquidation, the lender will submit a Collateral Support Claim Application, history of the account payments, a short narrative of the loan collection history, and information about the sale of proceeds or justification for failed attempts to liquidate.

EDD's collateral shall not be used in lieu of pledged collateral. All collateral must be liquidated consistent with the participating financial institution's usual method for loans that do not have EDD's support. Lenders may be reimbursed for: the amount of loan principal charge-off; reasonable out-of-pocket expenses incurred in pursuing its collection efforts, including the preservation of collateral, and other related costs; and accrued and unpaid interest. Proper documentation of any claimed expenses shall be presented at the time of the claim. The amount paid on a claim will never exceed the available amount in the CD account.

If subsequent to the payment of the claim the lender recovers from the borrower by any source, the lender may fully cover their loss and return any excess to EDD (not to exceed the total amount paid on the claim by EDD).

Payback

On an annual basis, in conjunction with the loan anniversary, a portion of the support may be returned to the administrator according to amount of principal satisfied. The portion to be returned will be based on the original term of the support. However, bridge loans will experience the recapture once the balance of the loan is paid off or the related guarantee goes into effect. Any additional reductions requested by the lender will also be taken at this time.

Reporting and Records Retention

The Lender is required to report to EDD at least annually (based off of the closing of the loan date):

- Outstanding principal balance of the loan
- Current status of the loan (current, delinquent, in default)

Annual reporting to EDD to be accommodated by electronic transmission (email) or fax.

Section IV: PROGRAM FORMS

1. Lender Participation Application (signed by lender)
2. Credit Enhancement Program Loan Enrollment Form (signed by borrower and lender)
3. Collateral Deposit Agreement (signed by lender and EDD)
4. NM State W9 Form