



Article 310

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## **Collateral Support Program Helps New Mexico Businesses Leverage Loans**

*By Finance New Mexico with assistance from the New Mexico Finance Authority*

In 2011, New Mexico was authorized to receive \$13.1 million from the U.S. Treasury Department as part of the State Small Business Credit Initiative — a product of the Small Business Jobs Act of 2010.

The funds are channeled to the Collateral Support Participation program administered by the New Mexico Finance Authority in collaboration with the New Mexico Economic Development Department. The program helps creditworthy small businesses leverage private lending when they can't obtain the capital required to expand and create jobs.

The program is designed to lower the loan's overall interest rate and make the terms easier for the business. Except for collateral, the loan must otherwise meet the bank's lending criteria.

### **Government Backing**

The "participation" aspect of the Collateral Support Participation program allows a bank to transfer some of its risk to the NMFA, which purchases part of the loan. This is similar to how the Small Business Administration and the U.S. Department of Agriculture administer loans.

To be eligible for funding, businesses must be based in New Mexico, use the proceeds for business purposes and have 500 or fewer employees. The business can use the loan for startup costs, working capital, business and commercial real estate acquisitions, franchise financing, equipment loans, inventory financing and construction. There are no fees charged to the borrower to use this program.

While it's used extensively for short-term financing of construction projects, the program is inappropriate for construction projects that don't have committed and reliable sources of permanent financing. It's also not used for housing and apartment projects, which get support through the Mortgage Finance Authority.

The program's loan interest rate is pegged to the U.S. Treasury rate and is adjusted for the specific loan's risk. In all cases, it's lower than the bank could offer alone.

Short-term loans of one year and lines of credit are the most attractive, because NMFA can participate in up to 40 percent of the loan amount. The higher NMFA's participation, the better, as a lower overall interest rate — and lower loan payments — result when NMFA's interest rates blend with those of the bank.

## How It Works

Business owners apply through a bank, which initiates the Collateral Support Participation application if the borrower otherwise qualifies for the loan. The bank submits the application to NMFA, which determines if it qualifies.

The application then goes to the state Economic Development Department, which evaluates it on its economic development merits. The department considers the number of jobs the business will create and favors those that pay more than the state or local median wage and offer health coverage. Location is considered, with priority going to rural and economically distressed areas. Companies that obtain most of their revenue from outside the state have priority, as do businesses that build a new facility or substantially improve an existing facility.

The application then returns to NMFA for board approval. The board meets monthly, and a well-timed application may be approved within 30 days.

Recent collateral support loans went to Bicycle Technologies International of Santa Fe, Habitat for Humanities in Albuquerque and to the \$8 million Hampton Inn construction project in Artesia.

For more information, visit [www.financenewmexico.org/glossary/collateral-support-program/](http://www.financenewmexico.org/glossary/collateral-support-program/).

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