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Public Funds Back New Mexico Businesses

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There's no doubt that the foresight of current and past legislatures and governors has attracted equity capital to New Mexico businesses, especially in the technology sector.

While more companies could probably benefit from having additional equity capital on their balance sheets, outside equity investments are not for every business. Investors can be difficult to attract, and dealing with them can be time consuming and expensive.

So how does a small company obtain the capital it needs to grow, even at a modest pace?

Where to go for money

The New Mexico Small Business Investment Corporation, funded by the state Legislature from the Severance Tax Permanent Fund, recognized that the best way to make capital available to a wide range of businesses was to strengthen the existing alternative loan funds managed by organizations like ACCION New Mexico, The Loan Fund, and WESST Corp.

These organizations specialize in lending money to businesses. They tend to be more lenient than traditional bank lenders and can often be more creative than banks in determining what collateral can be used to secure the loan.

These organizations were selected by the Small Business Investment Corporation to manage a portion of its money in a fully discretionary way. They decide who will obtain a loan, and they must be making good decisions: Since early 2004, the Small Business Investment Corporation has made more than 1,500 loans through its lending partners in virtually every community in the state. Many of these loans have been made to sole proprietors; in some cases, the loan has been for as little as \$500.

ACCION New Mexico, which manages almost \$5 million in Small Business Investment Corporation capital, has been the most prolific partner, initiating loans that range between \$200 and \$150,000. The Loan Fund usually lends larger sums to more mature businesses; their loans are typically between \$5,000 to \$50,000, although they have loaned as much as \$750,000. The Loan Fund manages \$5.5 million of Small Business Investment Corporation funds. WESST Corp., which manages a small loan fund, makes loans that range from \$200 to \$50,000, and it also provides technical training classes.

Where to go, where not to go

Your local bank is the best place to get a loan, because bank officers know the communities in which they're based, they know most local business owners and they have the best feel for the local economy.

A credit card is the worst way to finance business expansion. Many business owners find using a credit card a quicker and simpler way to buy what they need than waiting for a loan approval, but rates and monthly payments are usually much higher than with a bank loan. If mismanaged, credit card debt can lead to trouble down the road.

When credit markets are tight and other sources of capital don't work, alternative lenders like ACCION New Mexico, The Loan Fund, and WESST Corp. can provide attractive loan packages. Credit officers can make fairly rapid decisions based on their review of company financial statements, business plans and cash-flow statements.

But if a business already has too much debt or monthly payments that the lender considers too high, or if it suffers from negative cash flow, it can be almost impossible to borrow more money.

Nothing is free; each of the Small Business Investment Corporation partners has a responsibility to make good investments and sound loans. The principal must be returned with appropriate interest because, ultimately, this is taxpayer money.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

