

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.720

EFFECTIVE DATE: May 22, 2024

TITLE: Commercial Loan Program

SUPERSEDES: September 23, 2022

BOARD ADOPTION: November 30, 2021

REVIEWED: May 22, 2024

I. Commercial Loan Program

A. General Parameters for Commercial and Multi-Tenant Housing Loans:

1. The Board does not lend directly to businesses and participates only with Approved Lenders in making loans to Montana businesses.
2. Approved Lenders originate all loans and submit loan applications and loan reservation forms.
3. The term Borrower means the Borrower applying for a loan from the Lender.
4. Borrowers must give preference to Montana labor when constructing projects.
5. Project construction contractors are subject to prevailing wages.
6. Small Business Loan Incentives are only available for Commercial Coal Tax Trust loans.
7. Job Credit Interest Rate Reductions are only available for Commercial Coal Tax Trust loans.
8. Commercial Coal Tax Trust loans maximum size is limited to ten percent (10%) of the Trust.
9. Commercial Coal Tax Trust loans exceeding six percent (6%) of the Trust require thirty percent (30%) Lender Participation.
10. The submission of a fee with the Loan Reservation Form locks an interest rate and reserves funding.

B. Interest Rates

1. Interest rates are effective for a one (1) week period and are posted on the Commercial Loan Rate Sheet.
2. The Commercial Loan Rate Sheet is posted on the Board's website each Thursday.
3. The interest rates reflect net yield to the Board and are exclusive of any Lender fees.
4. Initial interest rate is determined by the interest rate posted on the Commercial Loan Rate Sheet on the date the loan reservation form is received.

C. Loan Reservations

1. Reservations with an Identifiable Borrower
 - a) Lenders with an identifiable Borrower(s) at the time of the reservation may reserve funds for one year (365 days) with a fee of one-quarter percent (0.25%) of the reserved amount.
 - b) Lenders may lock interest rates at any time during the one-year (365 days) period at the rate last set.
 - c) If the loan has **not** been committed and the Board's interest rates decline after a Lender has locked interest rates during the one-year (365 days) period, a reservation at the lower rate for an additional one-year (365 days) may be obtained via payment of another one-quarter percent (0.25%) fee.

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- d) If the loan has been committed and the Board's interest rates decline after a Lender has locked interest rates during the one-year (365 days) period, the lower rate may be obtained via payment of another one-quarter percent (0.25%) fee, but the original commitment letter expiration date will remain the same.
- e) Lenders must offer, underwrite, accept, and close the loan during the one-year (365 days) period.
- f) All applicable checklist items must be received within ninety (90) days after expiration of the one-year (365 days) period.
- g) The reservation may be extended as outlined in Section C.2. of this Policy.
- h) Blended interest rates may be applied for increases in the reserved amount of an existing reservation.
- i) The last fee paid is refundable if the loan is funded or the application is rejected.

2. Reservation Extensions

- a) If the project for which the loan proceeds will be utilized is not completed within the initial one-year (365 days) reservation period, up to two (2) additional one-year (365 days) increments may be granted upon written request and payment of an additional one-quarter percent (0.25%) fee for each extension.
- b) Additional one-year (365 days) extensions will not be granted if the project has been completed within the existing reservation/commitment period.
- c) Extension fees must be received via ACH within fifteen (15) working days after the expiration date of the current one-year (365 days) period in order to keep the reservation in force.

D. Financial Institution Incentive for Small Business Loans

- 1. The Board's interest rates may be reduced by one-half percent (0.50%) for loans of less than five-hundredths percent (0.05%) of the Montana Permanent Coal Tax Trust balance at the most recent fiscal year-end.

E. Job Creation Interest Rate Reduction

- 1. With the exception of Link Deposit and Value-Added loans, Borrowers who create jobs as a result of a Commercial Coal Tax Trust Loan are entitled to an interest rate reduction of five-hundredths percent (0.05%) for each qualifying job created up to a maximum of two and a half percent (2.50%).
- 2. One job is equal to the Private Annual Wage shown on the weekly posted Commercial Loan Rate Sheet.
- 3. For jobs paying more than the Private Annual Wage, job credits will be increased proportionately for each twenty-five percent (25%) increment above the Private Annual Wage to a maximum of two jobs.
- 4. For jobs paying less than the Private Annual wage, job credits will be reduced proportionately for each twenty-five percent (25%) increment below the Private Annual Wage.
- 5. Job credits are not available unless one whole job is created.
- 6. Nonprofit corporations may qualify for the job credit interest rate reductions if the interest rate reduction passes through to a for-profit business creating the jobs.
- 7. The Board may increase the interest rate commensurate with the number of jobs eliminated if the Borrower eliminates qualifying jobs. Lenders must notify the Board if the Borrower eliminates qualifying jobs.
- 8. The beginning date for counting jobs created is the date of the first written contact from the

Lender or the Borrower pertaining to the project.

9. Applications for interest rate reductions may be delivered with the loan funding documents or at least ten (10) working days before the end of each calendar quarter.
10. The Borrower seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.
11. The Board shall notify the Lender within fifteen (15) business days of the action has been taken on an interest rate reduction request.
12. Investors owning business properties may receive an interest rate reduction if the lease passes the reduction to the lessee for the full term of the loan.
13. Interest rate reductions provided in this part will be effective on the next scheduled payment date.
14. The posted Private Annual Wage and State of Montana minimum wage will be used in calculating a job creation interest rate reduction request. Job credit interest rate reductions are not available for jobs paying less than the state minimum wage.

F. Interest Rate Buy Down on Existing Commercial Loans

1. The Board's portion of an outstanding loan interest rate may be reduced to the Board's current rate at the time the Loan Reservation Form and fee are received.
2. The interest rate will be calculated by rounding the remaining term up to the nearest year and applying the buy down interest rate for that specific year. The fee is:
 - a) One percent (1%) of outstanding Board loan balance, for sixty (60) months or less,
 - b) One and a half percent (1.5%) of outstanding Board loan balance for sixty-one to one hundred and twenty (61 to 120) months, or
 - c) Two percent (2%) of outstanding Board loan balance for one hundred and twenty-one (121) months or more.
3. Interest rate reductions are effective on the next payment due date after the fee is received and the reduction is approved by the Board.
4. Job creation interest rate reduction can be applied to the buy down interest rate for all new jobs created after the date of the rate buy down.
 - a) If a rate reduction resulting from the creation of jobs was applied to the loan prior to the interest rate buy down the previously applied rate reduction and any new job-related rate reduction after the interest rate buy down cannot exceed a total of two and a half percent (2.50%).
 - b) The previously used job credit rate reduction cannot be applied to the buy down interest rate.

G. Collateral Requirements

1. Collateral requirements include:
 - a) A first mortgage/lien position shared proportionately with Lender,
 - b) Sufficient economic life to support the term of the loan,
 - c) Personal guarantees as required by Lender or the Board,

- d) An attorney opinion on authority of Borrower to borrow and all collateral documents if required by Lender, and
- e) Other collateral as required by Lender or the Board.

H. Appraisals Requirements

1. Licensed Montana commercial appraisers are preferred unless a specialized property collateral requires an out-of-state appraiser.
2. Requirements apply to all appraisals irrespective of the Lender's appraisal or loan policy appraisal requirements and are based on the total loan amount shown below:
 - a) Up To \$500,000 - As required by Lender to provide basis for value.
 - b) Over \$500,000 - Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice.
3. Appraisal requirements are based on the total loan amount.

I. Pricing Adjustment for Participation Loans Based on Loan-To-Value

1. Loan-To-Value (LTV) is based on the lesser of reasonable project costs or market value appraisal. Reasonable project costs do not include any form of payout to an owner, developer, or shareholder.
2. The following risk adjustments for Loan-To-Value on collateral will be made to the posted interest rate:

<u>Loan-To-Collateral Value</u>	<u>Board Participation</u>	<u>Net Yield To Board</u>
1-75% LTV	80%	Posted Rate
76% - 80% LTV	70%	Posted Rate
81% - 85% LTV	60%	Posted Rate
86% - 90% LTV	50%	Posted Rate
<u>OR:</u>		
76% - 80% LTV	75%	Posted Rate + .25%
81% - 85% LTV	70%	Posted Rate + .50%
86% - 90% LTV	65%	Posted Rate + .75%

J. Fundings

1. The loan in which the Board is to participate must be closed prior to the commitment letter expiration date.
2. Funding documents required in the commitment letter must be received within ninety (90) days following the first principal and interest payment due date of the project term note or the commitment date expiration, whichever comes first.
3. Fundings should occur on or around the tenth (10) day of the month.
4. At least thirty (30) days' notice must be provided to be eligible for fundings.

K. Ineligible Loans

1. Ineligible loans are:
 - a) Loans classified as substandard, doubtful, loss or similar category in Lender's most recent examination report,
 - b) Loans to businesses with classified loans at the Lender, other than the loan offered to the Board,
 - c) Loans to trusts,
 - d) Loans for land development or speculative ventures,

- e) Loans to individuals convicted of or with pending felony charges,
- f) Loans to individuals who have filed for bankruptcy,
- g) Revolving lines of credit, working capital or operating money, or
- h) Loans to pay delinquent taxes.

L. Project Specific Requirements

1. Any contract to construct a project financed by loan proceeds must require all contractors to give preference to the employment of bona fide Montana residents, as defined in Section 18-2-401, MCA, in the performance of the work on the projects, if their qualifications are substantially equal to those of non-residents.
2. Substantially equal qualifications mean the qualifications of two (2) or more persons among whom the employer cannot make a reasonable determination that the qualifications held by one person are significantly better suited for the position than the qualifications held by the other persons.
3. If the Board participates in construction financing and its share of the loan equals or exceeds \$1.5 million, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in Section 18-2-4, MCA.

M. Other Commercial Loan Policy Considerations

1. A loan that includes refinancing of existing debt, other than construction financing, will be considered if, at a minimum, the refinanced amount is retained by the Lender.
2. The Board participation will not exceed eighty percent (80%) of the total loan.
3. If the Borrower already has a loan participated with the Board and the Borrower wants to acquire additional debt, which would consolidate the existing participated loan and a new construction/equipment loan, using the same or a different Lender, the Board will not consider its portion of the existing participated loan as a refinance. The additional debt should create new jobs and/or create economic development.
4. Investor properties must cash flow with coverage at one and a quarter times (1.25X) on a twenty (20) year amortization or other financial consideration. The Board may establish a higher coverage ratio depending on economic conditions and/or industry.
5. Balloon payment loans are eligible provided Loan-To-Value at maturity is acceptable to the Board.
6. The Board will proportionately participate in any prepayment penalty required by the Lender.
7. Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.
8. Loan assumptions are permitted upon Board approval with a loan assumption fee of \$500.00.
9. Escrow impounds may be required for taxes and hazard insurance when Loan-To-Value exceeds fifty percent (50%).
10. Maximum loan amount to any Borrower is limited to ten percent (10%) of the book value of the Permanent Coal Tax Trust as of the month-end prior to a loan commitment.
11. If a Borrower has received or will receive a Value-Added Loan from the Board or is a business for which a local government has provided infrastructure funded by an infrastructure loan made by the Board, the outstanding principal of the value-added and/or infrastructure loan will be applied against the ten percent (10%) maximum loan size.
12. Any loan exceeding six percent (6%) of the Trust requires thirty percent (30%) Lender participation.

13. The Board may apply different criteria to loan requests from nonprofit Borrowers.
14. Maximum loan terms are:
 - a) Participation with Federal Guarantee, thirty (30) years,
 - b) Participation, twenty-five (25) years, or
 - c) Link Deposit, twenty (20) years.
15. All loans submitted for participation to the Board from Board members or Board staff shall first be approved by the Board before the loan is committed and funded.
16. Any time an approved Lender downgrades a commercial loan participated with the Board; the approved Lender must notify the Board of the downgrade within thirty (30) days. Notification must include the most recent Lender credit review and an explanation of why the credit was downgraded.
17. If the approved Lender applies a default interest rate to a participated loan, the Board interest rate will also be increased to that default interest rate and remain effective for the same period of time as for the approved Lender.
18. Thirty percent (30%) cash equity is required for hotel/motel facilities. The Loan-To-Value will consider the lower of hard costs or appraised value.
19. The Board may require additional due diligence and research on loans at its sole discretion.
20. Loans must cash flow with coverage at a one and a quarter times (1.25X) debt service.

Authority: Montana Code Annotated, Art. VIII, Section 13
Section 2-15-1808, MCA
Section 17-6-201, MCA
Title 17, chapter 6, part 3, MCA
ARM 8.97.1301, and 8.97.1308 through 8.97.1310