

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.752

EFFECTIVE DATE: June 22, 2023

TITLE: Montana Housing Infrastructure
Revolving Loan Program

SUPERSEDES: New

BOARD ADOPTION: June 22, 2023

REVIEWED: June 22, 2023

I. Montana Housing Infrastructure Revolving Loan Program (Program)

A. General Parameters

1. Participating loans under the Program are made on a first come, first served basis and held as a Separately Managed Account (SMA).
2. The Board does not lend directly to Borrowers and participates only with Approved Lenders.
3. Approved Lenders originate all loans and submit loan applications and loan reservation forms.
4. The term Borrower means the Borrower applying for a loan from the Lender.
5. Borrowers must give preference to Montana labor when constructing projects.
6. Project construction contractors are subject to prevailing wages.
7. The submission of a fee with the Loan Reservation Form locks an interest rate and reserves funding.
8. Loans may be for residential development to cover the costs of demolition or expanding or extending water, wastewater, storm water, street, road, curb, gutter, and sidewalk infrastructure to serve new or rehabilitated residential development.
9. The total amount of loans made to an entity may not exceed one-million dollars, or fifty percent (50%) of the projected project cost.
10. Maximum loan term is twenty (20) years.
11. Borrower must pay all impact fees due to the local government or the amount of impact fees up to the amount of impact fees up to the amount of the loan, whichever is less.
12. The Borrower and Lender must demonstrate that:
 - a) The infrastructure project will provide for residential development at a minimum gross density of 10 units for each acre; and
 - b) They have made findings that the infrastructure funded in part by a security provides for provisions to preserve long-term affordability of the housing that runs with the property for the term of the security.

B. Interest Rates

1. Interest rates are effective for a one (1) week period and are posted on the Montana Housing Infrastructure Revolving Loan Program Rate Sheet.
2. The Montana Housing Infrastructure Revolving Loan Program 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.

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4. The initial interest rate is determined by the interest rate posted on the Montana Housing Infrastructure Revolving Loan Program Rate Sheet on the date the loan reservation form is received.

C. Loan Reservations

1. Reservations with an Identifiable Borrower(s)

- 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.
- 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. 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) Due-on-sale clauses, requiring Lender's consent prior to loan transfer;
- e) An attorney opinion on authority of Borrower to borrow and all collateral documents if required by Lender; and
- f) Other collateral as required by Lender or the Board.

E. 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; or
 - 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.

F. Loan-To-Value Requirements

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 LTV must be seventy-five percent (75%) or less.

G. 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.

H. 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 a borrower with classified loans at the Lender, other than the loan offered to the Board;
 - c) Loans to trusts;
 - d) Revolving lines of credit, working capital or operating money;
 - e) Loans to pay delinquent taxes; or
 - f) Loans that do not meet the criteria of Sections 10, 11, 12, 13, and 14, Chapter 774, Laws of 2023 (House Bill No. 819).

I. 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 nonresidents.
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

\$25,000, the general contractor and all subcontractors shall be subject to Montana's prevailing wage law specified in Section 18-2-401, MCA.

J. Other Montana Housing Infrastructure Revolving Loan Program Policy Considerations

1. A loan that includes refinance of existing debt, other than construction financing, will be considered if, at a minimum, the refinanced amount is retained by the Lender.
2. Balloon payment loans are eligible provided Loan-To-Value at maturity is acceptable to the Board.
3. The Board will proportionately participate in any prepayment penalty required by the Lender.
4. Loan assumptions are permitted upon Board approval with a loan assumption fee of \$500.00.
5. Escrow impounds may be required for taxes and hazard insurance when Loan-To-Value exceeds fifty percent (50%).
6. The Board may apply different criteria to loan requests from nonprofit Borrowers.
7. 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.
8. Any time an approved Lender downgrades a 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.
9. 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.
10. The Board may require additional due diligence and research on loans at its sole discretion.

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
Chapter 774, Laws of 2023 (House Bill No. 819)