

Approved: November 9, 2009

**MONTANA BOARD OF INVESTMENTS  
DEPARTMENT OF COMMERCE**

**2401 Colonial Drive, 3<sup>rd</sup> Floor  
Helena, Montana  
August 11 & 12, 2009**

**MINUTES**

**BOARD MEMBERS PRESENT:**

Terry Moore, Chairman  
Elouise Cobell  
Teresa Cohea  
Maureen Fleming  
Patrick McKittrick  
Jack Prothero  
Jon Satre  
Jim Turcotte  
Representative Brady Wiseman  
Senator Greg Barkus

**BOARD MEMBERS ABSENT:**

Karl Englund

**STAFF PRESENT:**

Jason Brent, Investment Analyst	Nancy Rivera, Credit Analyst
Geri Burton, Deputy Director	John Romasko, Fixed Income Investment Analyst
Richard Cooley, CFA, Portfolio Manager	Nathan Sax, CFA, Portfolio Manager
Kim Dallas, Program Assistant/Board Secretary	Clifford A. Sheets, CFA, Chief Investment Officer
Tim House, Chief of Investment Operations	Jon Shoen, CFA, Portfolio Manager
Ed Kelley, Alternative Investment Analyst	Carroll South, Executive Director
Teri Kolnik, Alternative Investment Analyst	Steve Strong, Investment Analyst
Herb Kulow, Portfolio Manager	Louise Welsh, Bond Program Officer
Rande Muffick, CFA, Portfolio Manager	Dan Zarling, CFA, Director of Research
Jon Putnam, Investment Analyst	

**GUESTS:**

Jim Voytko, R.V. Kuhns and Associates  
Chris Phillips, Montana Board of Investments  
Patricia A. Crane, Director, Client Services, Batterymarch  
John Vietz, CFA, Portfolio Manager, Batterymarch  
Katie Koehler, CFA, Director, Marketing & Client Services, Analytic Investors  
Steve Sapa, PhD. CFA, Portfolio Manager, Analytic Investors  
Dave Senn, Executive Director, Teachers' Retirement System  
Roxanne Minnehan, Executive Director, Public Employees' Retirement System  
Carl Douglas, Stinger Welding  
Paul Rumelhart, Kootenai Business District  
John Konzen, County Commissioner, District 2 Libby

## CALL TO ORDER

Chairman Moore called the regular meeting of the Board of Investments (Board) to order at 1:00 p.m. in the conference room located at 2401 Colonial Drive, 3<sup>rd</sup> Floor, Helena, Montana. As noted above, the meeting convened with eight members of the Board present. Member Karl Englund was absent. Legislative Liaisons Representative Brady Wiseman and Senator Greg Barkus were also in attendance.

Member Terry Cohea motioned for approval of the May 12 & 13, 2009 minutes; Member Jim Turcotte seconded the motion and the motion was passed 8-0.

## ADMINISTRATIVE BUSINESS

Chairman Moore presented the following Administrative Business:

### Audit Committee Report

Member Jim Turcotte, Audit Committee Chair, reported that the Internal Control Review was recently completed by Galusha Higgins & Galusha and the Committee accepted the report as presented.

The report included seventeen recommendations. Many of the recommendations have already been put in place and staff will continue to work on the remaining recommendations. The Internal Controls Policy will be updated to include the recommendations. The Policy will then be presented to the Audit Committee and to the Board for final approval.

Ms. Geri Burton introduced Mr. Ryan Lindsay and Ms. Rissy Bell, Galusha Higgins & Galusha (Galusha). Mr. Lindsay and Ms. Bell conducted the Internal Control Review on behalf of Galusha.

Representative Brady Wiseman asked Mr. Lindsay and Ms. Bell of the seventeen recommendations in terms of emphasis, which would be the top three.

Mr. Ryan responded that the following three recommendations would be considered as the three with the most concern in relation to the Internal Control Review:

### **ACH Transactions**

#### *Recommendations:*

- A. We recommend updating the internal control documentation for ACH transactions to reflect the new system being utilized.
- B. We recommend reviewing all user rights within the SinglePoint system to ensure all employees have only the rights necessary to perform their duties and to ensure that proper segregation of duties in the SinglePoint system exists.

#### *Staff Response to Recommendations:*

- A. Concur – The Internal Controls Policy will be updated to reflect the SinglePoint system being used.
- B. Concur – User rights have been reviewed and new controls have been put in place to ensure proper segregation of duties exist. The Internal Controls Policy will be updated to reflect the revised controls.

### **Wire Transfers**

#### *Recommendations:*

- A. We recommend segregating the duties for the person who controls user rights over wire transfers, the people that initiate and approve wire transfers and the individual that authorizes the users with the depository bank.

#### *Staff Response to Recommendations:*

- A. Concur - User rights have been reviewed and new controls have been put in place to ensure proper segregation of duties exist. The Internal Controls Policy will be updated to reflect the revised controls.

## **State Street Bank**

### *Recommendations:*

- A. We feel that the MBOI should obtain an understanding then develop a control and process for switching depository bank accounts, or changing the destination of wire transfers. It appears that SSB requires a signed letter from the Executive Director; we do not feel this is an adequate control.

### *Staff Response to Recommendations:*

- A. Concur – SSB and U.S. Bank were notified, via electronic mail, that any changes to wiring instructions must be sent by the Board’s Executive Director or Deputy Director. If either party sends instructions to change the wiring instructions, SSB and U.S. Bank must e-mail and call the other party for a confirmation of the change. This policy will be added to the Internal Controls Policy.

At the November Board Meeting, the Audit Committee will review the progress made in completing the report recommendations.

## Public Comment

Chairman Moore called for Public Comment of Board-Related Items.

Mr. Herb Kulow introduced Mr. Carl Douglas, Mr. Paul Rumelhart and Mr. John Konzen. These three individuals expressed their gratitude and appreciation to the staff members with the Board of Investments Montana In-State Loan Program. The In-State Loan Program was instrumental in helping bring Stinger Welding to Montana, specifically the community of Libby, MT. Stinger Welding intends to hire and employ more than 200 people; 500 applications have been received with 80% of those applications coming from residents of Montana, primarily Libby. Mr. Douglas looks forward to building his company in Libby and intends to become a Montana resident, keeping the company in Montana.

## **EXECUTIVE DIRECTOR REPORTS**

### Conservation Reserve Program - Decision

Mr. Carroll South provided a brief history of the Conservation Reserve Program. The Montana CRP (the “Program”) is designed to complement the federal CRP. Through the Program, a person holding a CRP contract can receive a loan ranging from 60 percent to 75 percent of the remaining CRP contract payments. This loan is repaid by the CRP contract owner assigning his or her future CRP payments to the Board.

In January 1990, the Board authorized the purchase and sale of Bond Anticipation Notes (BANs) to fund interim loans to applicants of the Board’s Program. The BANs were purchased by the Permanent Coal Trust Fund (the “Permanent Fund”). When the Trust Fund Bond Pool (TFBP) was created on October 1, 1995, the Notes were transferred from the Permanent Fund in exchange for shares of equal value in the TFBP. Program loans continue to be funded by the Trust Fund Investment Pool (TFIP), formerly known as the TFBP, as investments.

As the single agency vested with the authority to invest and manage the Unified Investment Program, the Board has much discretion in investing the funds it manages. Unless certain types of investments are precluded by constitution/law, covenant, or client preference, the Board has legal authority to make any investment it deems prudent. The legal authority to purchase Program loans through the TFIP is:

**17-6-201(5) MCA, *Unified investment program – general provisions.* The board shall: (c) determine the type of investment to be made.**

While the Board has the authority to purchase Program loans, staff recommends revising the TFIP Investment Policy Statement to make it clear that Program loans are a permitted investment in the pool.

**Recommendation:** Staff recommends approval of the Investment Policy Statement for the Trust Fund Investment Pool to include Conservation Reserve Program loans as a permitted investment.

**Motion:** Member Maureen Fleming motion for approval of the staff recommendation as presented; Member Cobell seconded the motion and the motion was unanimously approved 8-0.

### Pension and Investments

Mr. Carroll South provided to the Board an educational report on the defined benefit retirement systems (Systems), specifically focusing on the Public Employees' and Teachers' Retirement Systems.

Mr. South's report discussed the various "moving parts" that can affect the funding status of defined benefit Systems and highlights several issues that have important implications for the long term viability of the Systems.

1. Negative cash flows, defined as annual benefit payments in excess of annual contributions, will impact the PERS/TRS and may eventually impede the ability to accumulate and retain a sufficient pool of assets. A mature retirement system is expected to have a large pool of assets to be used for benefit payments when the plan eventually has negative cash flow. If historical contributions rates have been too low to adequately fund benefit liabilities, the pool of assets built by the contributions may be insufficient to cover ever-increasing negative cash flow.
2. Because normal cost contribution rates cannot be applied and collected retroactively, the rates may be insufficient to address the timing and size of late-career salary increases and benefit increases that can only be paid for "after the fact." Further, when the normal cost rate is increased by the actuaries based on another year of actual experience, less of the total contribution is available to "pay off" any unfunded liability.
3. The recent investment performance of the Systems' assets will have a major impact on the actuarial funded status of the plans. However, the actuarial return assumptions cannot be met without incurring prudent investment risks and the volatility that comes with the risk. If the actuarial return assumptions are not met, the unfunded liabilities will increase.

Investment returns at or near the actuarial return assumptions of the Systems will only be achieved by maintaining a healthy allocation to international equity, private equity, and private real estate investments. The forward-looking estimated returns for these asset classes are in excess of the Systems' actuarial assumptions. It is important to understand that the return assumptions cannot be met without incurring investment risk and volatility. If the assumptions are not met, the unfunded liabilities will increase.

### **QUARTERLY INVESTMENT PERFORMANCE REPORTS**

*(A complete copy of this report is kept on file with the documents of this meeting)*

The Quarterly Performance Report for the period ending June 30, 2009 was presented.

### **INVESTMENT ACTIVITY/REPORTS**

#### Asset Allocation Report

Mr. Cliff Sheets presented the Retirement Systems Asset Allocation Report for the quarter ending June 30, 2009 and fiscal year ending June 30, 2009. In addition, the changes between these two quarters were also presented. Notable allocation changes made to the Retirement Systems during the quarter ending June 30, 2009 were: MPEP received an allocation of \$14 million; Real Estate received \$17 million and MTIP received \$4.3 million. These additions were largely funded by sales of the RFBP totaling approximately \$31.6 million. Additional comments on the second calendar quarter follows:

1. During the second quarter, the total dollar increase in asset values (\$425 million) was almost equal to the total dollar decline (-\$465 million) experienced in the first quarter. The driving force behind the improvement was public equity prices.
2. The public equity allocation weight changes were increases of 2.4% for domestic and 2.3% for international. Total equity was up by 3.1% to 63.7%.
3. Private equity and pooled real estate both fell in terms of market value and weight. The amount of decline reflected the lag effect of capturing valuation changes: a) Private Equity was down \$40 million; b) Real Estate was down \$55 million. Both pools were down despite the additional funds allocated to the pools.

4. There was a lower magnitude of transactions made during the second quarter as compared to the first quarter:
  - a) cash was raised by selling bonds; b) equity additions were made via MTIP & MPEP, with a reduction in MDEP, for a net equity addition of \$8.4 million; c) Real estate purchases of \$17 million; and d) \$6 million in cash was raised to pay benefits and build liquidity in the plans.
5. The Volunteer Firefighters asset allocation is distorted by the once a year contribution infusion received in late June. The STIP balance is temporarily above the range at 8.4% at quarter end. Staff has begun to invest some of the funds in longer term asset classes, though there is a need to maintain a higher than average balance to pay benefits since this fund receives no additional contributions during the year.

Comments regarding allocation changes during the full fiscal year follows:

1. There was been a decline in the total pension value of \$1.7 billion despite the \$425 million bounce during the second calendar quarter.
2. The public equity weights were down very noticeably, 3% domestic and 2.4% international, despite a net increase in public equity purchases of approximately \$38 million.
3. Private equity was up 1.6% partly due to the \$135 million of infusion into the pool but significantly caused by the denominator effect, even though the total value was down \$73 million.
4. The same can be said for the real estate pool. The value fell \$39 million, even though the allocation increased by 6% with \$73 million in purchases.
5. There were sales of \$181 million of the Retirement Funds Bond Pool to fund equity and real estate purchases.

To summarize, despite constrained liquidity some moderate allocation shifts have been made over the past year in the direction of rebalancing from bonds to alternatives and public equities.

#### Private Equity (MPEP)

Mr. Jon Shoen reviewed the Private Edge reports showing by strategy the total exposure by market value and outstanding commitments, the Attribution Analysis Report and the Portfolio Holdings Performance Report for the period ending March 31, 2009. Mr. Shoen also reviewed the MPEP Holdings Report as of June 30, 2009 and the four new fund commitments made since the May Board Meeting.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
Opus Capital Venture Partners VI, L.P.	2009	Venture – Early	\$7.5M	6/16/2009
Portfolio Advisors Secondary Fund 1	2008	Secondary	\$15.0M	6/18/2009
Centerbridge Special Credit Partners, L.P.	2009	Distressed Debt, Non-control	\$12.5M	7/01/2009
Oaktree Opportunities Fund VIII, L.P.	2009	Distressed Debt, Non-control	\$10.0M	7/09/2009
<b>Total New Commitments</b>			<b>\$45.0M</b>	

#### Real Estate (MTRP)

Mr. Jon Shoen reviewed the Private Edge reports showing the total exposure by market value, the geographic and property type diversification reports, the Detailed Portfolio Performance Report and real estate fund commitments made for the period ending March 31, 2009. Mr. Shoen also reviewed the MTRP Holdings Report as of June 30, 2009 and there was one new fund commitment made since the May Board Meeting.

<u>Fund Name</u>	<u>Vintage</u>	<u>Subclass</u>	<u>Amount</u>	<u>Date</u>
(TA) The Realty Associates Fund IX	2009	Value Added	\$15M	05/07/2009
<b>Total New Commitments</b>			<b>\$15M</b>	

## PRESENTATION

#### **Batterymarch Financial Management, Inc.**

Mr. Rande Muffick introduced Ms. Patricia A. Crane and Mr. John Vietz. Ms. Crane and Mr. Vietz reviewed their firm and management style. Batterymarch manages an international large cap core portfolio in the International Equity Pool.

#### ADJOURNED

The meeting adjourned for the day at 5:05 p.m.

## **CALL TO ORDER**

The meeting was reconvened Wednesday, August 12, 2009 at 8:00 a.m. with eight members of the Board present. Member Karl Englund was absent. Legislative Liaisons Representative Brady Wiseman and Senator Greg Barkus were also in attendance.

## **ADMINISTRATIVE BUSINESS**

Chairman Moore presented the following Administrative Business:

### **Loan Committee Report**

Member Jack Prothero, Loan Committee Chair, reported that the Loan Committee reviewed and approved one INTERCAP loan requests during its committee meeting, and the Loan Committee authorized staff to proceed with processing and closing this loan using the Board's standard Bond Program Office procedures.

Borrower:	Department of Natural Resources and Conservation (DNRC)
Purpose:	Interim loan in anticipation of issuing Coal Severance Tax Bonds for its Renewable Resource Grant & Loan Program.
LC Approval Date:	August 11, 2009
Board Loan Amount:	\$2,035,000
Term:	2 Years

Member Jack Prothero reported that the Loan Committee reviewed and approved one Montana Loan Program loan request by email since the May Board Meeting. The Loan Committee authorized staff to proceed with processing and closing these loans using the Board's standard Bond Program Office procedures.

Borrower:	Kootenai Business Park Industrial District
Type of Loan	Infrastructure Loan
Lender:	Montana Board of Investments
Purpose:	To provide long term fixed rate financing for the construction of a 104,800 sq. ft. Class S manufacturing facility in Libby, MT.
LC Approval Date:	July 16, 2009
Board Loan Amount:	\$3,366,500
Term:	25 Years

## **PRESENTATION**

### **Analytic Investors**

Mr. Rande Muffick introduced Ms. Katie Koehler and Mr. Steve Sapra. Ms. Koehler and Mr. Sapra reviewed their firm and management style. Analytic Investors manages a domestic large cap 130/30 portfolio in the Domestic Equity Pool.

## **INVESTMENT ACTIVITY/REPORTS continued**

### **Domestic Equity (MDEP)**

Mr. Rande Muffick presented the Montana Domestic Equity Pool Report as of June 30, 2009 and a summary of the recent market trends.

### **International Equity (MTIP)**

Mr. Rande Muffick presented the Montana International Equity Pool Report for the period ending June 30, 2009 and discussed market trends during the quarter.

### Public Equity External Managers Watch List

Mr. Rande Muffick presented the External Managers Watch List – Quarterly Update. The Watch List criteria were established in accordance with the Montana Board of Investments Public Equity Manager Evaluation Policy, adopted by the Board on May 14, 2008.

<u>Manager</u>	<u>Style Bucket</u>	<u>Reason</u>	<u>Inclusion Date</u>
Principal Global	International – LC Growth	Performance	March 2008
Western Asset	Domestic - LC Enhanced	Performance, Tracking Error	March 2008
NorthPointe	Domestic- SC Growth	Performance	August 2008
Acadian	International – LC Value	Performance, Process	February 2009
Martin Currie	International – LC Growth	Performance, Risk Controls	February 2009
Goldman Sachs	Domestic - LC Enhanced	Organization/Personnel	May 2009
Batterymarch	International – LC Core	Performance, Process	May 2009

There were no manager terminations during the quarter or additions to the Watch List. Hansberger International Growth has achieved significant improvement in relative performance and the previous benchmark issues that were a concern to staff have been resolved. As a result Hansberger has been removed from the Watch List.

### Fixed Income

Mr. Nathan Sax presented the Fixed Income Overview and Strategy.

Mr. Richard Cooley presented the Short-Term Investment Pool, State Fund Insurance and Treasurer’s Fund Portfolio Reports.

Mr. Cliff Sheets presented the Non-Investment Grade Holdings Report.

### Trust Fund Investment Pool Update

Mr. Cliff Sheets provided an update and status of the Trust Fund Investment Pool after policy changes made in May 2009 allowed for use of High Yield corporate bonds and Core Real Estate funds within the Pool in an effort to diversify income sources.

### Investment Policy Statements

Mr. Cliff Sheets presented changes and revisions made to the Treasurer’s Fund Investment Policy Statements to the Board for approval. This investment policy statement was last revised and approved in May 2008. Since that time, staff has re-reviewed the investment policy statement, made revisions and cleaned up the policy. The permitted investments are more detailed; the objective of the portfolio has been clarified as a buy and hold portfolio and reference to a total return benchmark has been removed.

**Motion:** Member Jack Prothero motioned for approval of the staff recommendations as presented; Member Jim Turcotte seconded the motion and the motion was unanimously approved 8-0.

### **BOND PROGRAM**

### Activity Report

The Board reviewed this report for the period ending June 30, 2009.

### Staff Approved Loans Report

The Board reviewed this report for the period of April 1 – June 30, 2009:

Borrower:	Golden Valley County
Purpose:	Purchase a motor grader

Staff Approval Date	April 7, 2009
Board Loan Amount:	\$39,637
Other Funding Sources:	\$22,500
Total Project Cost:	\$65,137
Term:	2 years

Borrower:	Missoula County
Purpose:	Purchase of motor graders, motor pool vehicles and office equipment
Staff Approval Date	April 7, 2009
Board Loan Amount:	\$1,000,000
Other Funding Sources:	\$0
Total Project Cost:	\$1,000,000
Term:	4 years

Borrower:	Custer County
Purpose:	Purchase 2009 Volvo G940 motor grader
Staff Approval Date	April 9, 2009
Board Loan Amount:	\$110,000
Other Funding Sources:	\$115,000
Total Project Cost:	\$225,000
Term:	5 years

Borrower:	Town of Whitehall
Purpose:	Purchase 2008 fire engine
Staff Approval Date	April 15, 2009
Board Loan Amount:	\$150,000
Other Funding Sources:	\$ 50,000
Total Project Cost:	\$200,000
Term:	10 years

Borrower:	Jefferson County
Purpose:	Purchase building and remodel County offices
Staff Approval Date	April 20, 2009
Board Loan Amount:	\$300,000
Other Funding Sources:	\$ 0
Total Project Cost:	\$300,000
Term:	10 years

Borrower:	Town of West Yellowstone
Purpose:	911 Dispatch Center upgrade
Staff Approval Date	April 22, 2009
Board Loan Amount:	\$490,502
Other Funding Sources:	\$48,737
Total Project Cost:	\$539,239
Term:	10 years

Borrower:	Missoula County
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Purpose:	Purchase historical building for Historical Museum
Staff Approval Date	April 24, 2009
Board Loan Amount:	\$430,000
Other Funding Sources:	\$50,000
Total Project Cost:	\$480,000
Term:	10 years

Borrower:	City of Fort Benton
Purpose:	Purchase a new pumper fire truck
Staff Approval Date	May 5, 2009
Board Loan Amount:	\$180,000
Other Funding Sources:	\$50,000
Total Project Cost:	\$230,000
Term:	15 years

Borrower:	Golden Valley County
Purpose:	Purchase 2008 Ford F350 ambulance
Staff Approval Date	May 13, 2009
Board Loan Amount:	\$44,000
Other Funding Sources:	\$32,000
Total Project Cost:	\$76,000
Term:	10 years

Borrower:	Pondera County Rural Fire District
Purpose:	Purchase 2009 Freightliner Class A pumper truck
Staff Approval Date	June 3, 2009
Board Loan Amount:	\$100,000
Other Funding Sources:	\$140,995
Total Project Cost:	\$240,995
Term:	10 years

Borrower:	City of Great Falls
Purpose:	Design/installation of Water Tower Park Addition roadway lighting
Staff Approval Date	June 12, 2009
Board Loan Amount:	\$20,516
Other Funding Sources:	\$0
Total Project Cost:	\$20,516
Term:	15 years

Borrower:	City of Livingston
Purpose:	Replace water mains
Staff Approval Date	June 22, 2009
Board Loan Amount:	\$152,941
Other Funding Sources:	\$77,088
Total Project Cost:	\$230,029
Term:	10 years

Borrower:	City of Livingston
Purpose:	Replace sewer mains
Staff Approval Date	June 23, 2009
Board Loan Amount:	\$141,743
Other Funding Sources:	\$139,274
Total Project Cost:	\$281,017
Term:	10 years

Borrower:	City of Harlem
Purpose:	Preliminary engineering report
Staff Approval Date	June 25, 2009
Board Loan Amount:	\$30,000
Other Funding Sources:	\$15,000
Total Project Cost:	\$45,000
Term:	3 years

Borrower:	LaMotte School District #43 (Bozeman)
Purpose:	Purchase/installation of a modular building
Staff Approval Date	June 26, 2009
Board Loan Amount:	\$135,000
Other Funding Sources:	\$15,000
Total Project Cost:	\$150,000
Term:	5 years

Gainey Foundation Update

Ms. Geri Burton provided an update on the \$6 million in bonds issued for the Gainey Foundation in 2002. Ms. Burton reported that the bonds were scheduled to mature in October 2014; however a mandatory redemption was required in July. The outstanding bonds were subject to a mandatory redemption because a required letter of credit was not renewed and a supplemental letter of credit was not obtained. The bond holders have been paid off and the bond issue has been closed.

**MONTANA LOAN PROGRAMS**

Commercial and Residential Portfolios Report

Mr. Herb Kulow presented and the Board reviewed this report for June 30, 2009.

Montana Loan Program Policy Revisions

Mr. Herb Kulow presented the following changes to the Montana Loan Program Policies:

**Recommended changes to the Commercial Loan Policy:**

9. COLLATERAL REQUIREMENTS:

- d. Personal guaranty's as required by Lender or the Board.

11. OTHER COMMERCIAL LOAN POLICY CONSIDERATIONS

- (a) 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. The Board participation will not exceed 80% of the total loan. A loan for refinance purposes will be considered if at least 15% of the loan proceeds are used for the purchase of land, plant or equipment and/or improvements to land, plant or equipment.

- (b) Investor properties must independently cash flow with coverage at 1.25X on a 20-year amortization or equivalent, or other financial consideration. The Board may establish a higher coverage ratio depending on economic conditions and/or industry.
- (p) Any time an approved lender downgrades a commercial loan participated with the Board, the approved lender must notify the Board of the downgrade and submit to the Board the most recent lender credit review and an explanation why the credit was downgraded, within 30 days of the downgrade.
- (q) All approved lenders will submit to the Board a copy of their annual credit review for all commercial loans participated with the Board, other than guaranteed loans. If the approved lender does not do an annual review due to the size of the credit, the approved lender will annually submit to the Board, in writing, a certification that there has been no material change in the value of the collateral or the financial condition of the borrower or any of the guarantors.
- (r) 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 the approved lender.

### 13. JOB CREATION INTEREST RATE REDUCTION

- (a) With the exception of Linked Deposit loans, borrowers who create jobs as a result of a Coal Tax Trust commercial loan are entitled to an interest rate reduction of .05% for each qualifying job created up to a maximum of 2.50%.
- (b) The posted Private Annual Wage and State of Montana minimum wage will be used in calculating a job creation interest rate reduction request.

### **Recommended changes to the Value - Added Loan Policy:**

General parameters for the Value-Added Loan Program:

- ◆ Lender service fee limited to one-half percent ~~of the total loan~~ on the participated portion.

### 1. GENERAL LOAN PROVISIONS

- (a) Fees to reserve funds or lock interest rates are not required. Reservation considered effective upon receipt of application.
- (i) Borrower's creating or retaining 10 to 14 full-time jobs are entitled to a 4.0% initial interest rate on participated loan amount.
- (j) Borrower's creating or retaining 15 full-time jobs are entitled to a 2.0% initial interest rate on participated loan amount.
- (k) If at any time during the term of the loan, the business and all the required jobs are moved out of state, the Board may request the lender to ~~call the loan~~ repurchase the participated loan amount.

### 2. JOB CREATION/RETENTION REQUIREMENTS

- (e) A job paying less than the State of Montana minimum wage does not count towards the jobs eligibility threshold.

### 5. COLLATERAL AND OTHER UNDERWRITING REQUIREMENTS:

- (k) Commercial Loan Policy underwriting criteria will also be considered.

### 6. LENDER REQUIREMENTS:

- (e) A participating private financial institution, or lead private financial institution if more than one is participating, may charge a 0.5% annual service fee on the participated loan amount.

### **Recommended changes to the Infrastructure Loan Policy:**

The following provisions apply to the Infrastructure Loan Program:

- Businesses may reduce their Montana state income tax liability by the amount of the fee, 15-31-301, MCA.

### 1. APPLICATION PROCEDURES

- d. Information addressing the following:
  - i. Estimated number of permanent full-time jobs and their estimated wages, to be created by the project within a four-year period;

3. INTEREST RATES

- a. Job credit interest rate reductions are available as per Section 8 of the Infrastructure Loan Policy.
- b. Initial interest rate determined by the interest rate posted on the Commercial Loan Rate Sheet on the date the Infrastructure Loan application is received.

5. COLLATERAL REQUIREMENTS

- h. Personal or corporate guaranty's if deemed prudent as determined by the Board

7. OTHER LOAN POLICY CONSIDERATIONS

- d. Commercial Loan Policy underwriting criteria will be considered.

8. JOB CREATION INTEREST RATE REDUCTION

- f. Job credit interest rate reductions are not available for jobs paying less than the State of Montana minimum wage provided for in 39-3-409, MCA.

**MOTION:** On behalf of the Loan Committee, Member Jack Prothero, Loan Committee Chair, motioned for approval of the changes as recommended by staff; Member Terry Cohea seconded the motion and the motion was unanimously approved 8-0.

**NEXT MEETING**

The next regularly scheduled meeting of the Board will be November 9 & 10, 2009.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 11:30 a.m.

**BOARD OF INVESTMENTS**

APPROVE: \_\_\_\_\_  
Terry Moore, Chairman

ATTEST: \_\_\_\_\_  
Carroll South, Executive Director

DATE: \_\_\_\_\_