

## MONTANA BOARD OF INVESTMENTS COMMERCIAL LOAN PACKAGE

**This file was created in Microsoft Word and contains the following items:**

Page A 1 – A 5..... Coal Tax Trust Commercial Loan Policy  
Page E 1 - E6..... Electronic In-State Loan Application

### **General Parameters for Commercial and Multi-Tenant Housing Loans:**

- ◆ The Montana Board of Investments (MBOI) does not lend directly to businesses.
- ◆ Only approved Lenders may submit loan applications and fee forms.
- ◆ Approved Lenders must originate all loans.
- ◆ The term "Applicant" means the Lender approved by the MBOI.
- ◆ The term "Borrower" means the Borrower applying for a loan from the Lender.
- ◆ Appropriate representatives of the Lender and the Borrower must sign the application.
- ◆ Borrowers must provide preference to Montana labor when constructing projects.
- ◆ Project construction contractors may be subject to prevailing wages as per policy.
- ◆ "Small Business Loan Incentives" are available for Commercial Coal Tax Trust loans only.
- ◆ "Job Credit Interest Rate Reductions" are available for Commercial Coal Tax Trust loans only.
- ◆ "Link Deposit Loans" are available for Commercial Coal Tax Trust loans only.
- ◆ Commercial Coal Tax Trust loans maximum size is limited to 10.0% of the Trust.
- ◆ Commercial Coal Tax Trust loans exceeding 6.0% of the Trust require 30.0% Lender participation.
- ◆ The submission of a fee with the Loan Reservation Fee Form locks an interest rate and reserves funding.
- ◆ The last fee paid is refundable as per policy if the loan is funded or the application is rejected.

### **Loan Application Use:**

The loan applications may be used for all Commercial Participation loans and multi-tenant housing loans. The Coal Tax Trust Loan Policy specifically covers Commercial loans made from the Coal Tax Trust.

### **Utilizing The Electronic Application:**

Application is a Microsoft Word document with field codes where data and checkmarks are entered.

If the field codes are visible on screen strike Alt F9 - **codes should not be visible.**

If field codes print, select "Tool", "Options", "Print" and uncheck "Field Codes"

The F11 key will locate the first entry field in the application form.

The F11 key will locate the next data or check field in the electronic application form.

Shift F11 will locate the preceding data or check field in the electronic forms.

With the cursor on Page E1, the F11 key will locate the first entry field in the fee form.

**For assistance call Doug Hill at (406) 444-1217 or email at [dhill@mt.gov](mailto:dhill@mt.gov)**

**1. INTEREST RATES**

- (a) Interest rates, effective for a one-week period, will be posted each Thursday on the MBOI website.
- (b) The posted rates reflect net yield to the MBOI and are exclusive of any Lender fees.
- (c) A reservation to reserve funds includes rates and terms for Federal Guarantee, Participation, Infrastructure and Link Deposit Loans for the one-week period in which the reservation is received.

**2. LOAN RESERVATIONS WITH AN IDENTIFIED BORROWER**

- (a) Lenders with an identifiable Borrower(s) at the time of the reservation may reserve funds for 365 days with a fee of  $\frac{1}{4}\%$  of the reserved amount.
- (b) Lenders shall email a request to [boi\\_comm@mt.gov](mailto:boi_comm@mt.gov) or fax to (406) 444-4268 with an authorized signature permitting the MBOI to collect the fee via Automated Clearing House (ACH).
- (c) Lenders may lock interest rates at any time during the 365-day period at the rate last set.
- (d) If the loan has not been committed and posted interest rates decline after a Lender has locked interest rates during the 365-day period, a reservation at the lower rate for an additional 365 days may be obtained via payment of another  $\frac{1}{4}\%$  fee.
- (e) If the loan has been committed and posted interest rates decline after a Lender has locked interest rates during the 365-day period, the lower rate may be obtained via payment of another  $\frac{1}{4}\%$  fee but the original commitment letter expiration date remains the same.
- (f) Lenders must offer, underwrite, accept, and close the loan during the 365-day period.
- (g) All applicable checklist items must be received within 90 days after expiration of the 365-day period.
- (h) The reservation may be extended as per Section 3.
- (i) Blended interest rates may be applied for increases in the reserved amount of an existing reservation.
- (j) The last fee paid is refundable if the loan is funded or the application is rejected.

**3. RESERVATION EXTENSIONS**

- (a) If the project for which the loan proceeds will be utilized is not completed within the initial 365-day reservation period up to two additional 365-day increments may be granted upon written request and payment of an additional  $\frac{1}{4}\%$  fee for each extension.
- (b) Additional 365-day 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 15 working days after the expiration date of the current 365-day period to keep the reservation in force.

**4. FUNDINGS**

- (a) The loan in which the MBOI is to participate must be closed prior to the commitment letter expiration date.
- (b) Funding documents required in the commitment letter must be received within ninety (90) days after the first principal and interest payment date of the project term note or the commitment date expiration, whichever comes first.
- (c) Funding should occur on or around the 10<sup>th</sup> day of the month.
- (d) At least thirty (30)-days' notice must be provided to be eligible for funding.

**5. FINANCIAL INSTITUTION INCENTIVE FOR SMALL BUSINESS LOANS**

- (a) Posted interest rates may be reduced by  $\frac{1}{2}\%$  for loans of less than .05% of the Montana Permanent Coal Tax Trust balance at the most recent fiscal year-end. The amount is posted weekly with the interest rates.
- (b) Pursuant to 17-6-319, MCA, this reduction is available for loans made to small business, which the MBOI defines as businesses with gross annual payroll of less than \$10.0 million.

**6. PRICING ADJUSTMENT FOR PARTICIPATION LOANS BASED ON LOAN-TO-VALUE**

Loan-To-Value (LTV) is based on lesser of reasonable project costs (including architecture, engineering and capitalized interest) or market value appraisal.

The following risk adjustments for LTV on collateral will be made to the posted interest rate:

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

**7. INELIGIBLE LOANS**

- (a) Loans classified as substandard, doubtful, loss or similar category in the Lender’s most recent examination report.
- (b) Loans to businesses with classified loans at the Lender, other than the loan offered to the MBOI.
- (c) Loans to trusts.
- (d) Loans for land development or speculative ventures.
- (e) Revolving lines of credit, working capital or operating money.
- (f) Loans to pay delinquent taxes.

**8. COLLATERAL REQUIREMENTS:**

- (a) First mortgage/lien position shared proportionately with the Lender.
- (b) Collateral must have sufficient economic life to support the term of the loan.
- (c) Personal guaranties as required by the Lender or the MBOI.
- (d) If the Lender requires, an attorney opinion on authority of Borrower to borrow and all collateral documents.
- (e) Other collateral as required by the Lender or the MBOI.

**9. APPRAISALS**

- (a) Licensed Montana appraisers are preferred unless a specialized property collateral requires an out-of-state appraiser.
- (b) The following appraisal requirements apply to all appraisals irrespective of the Lender’s appraisal or loan policy appraisal requirements.
- (c) Real Property appraisal requirements are shown below:

**Appraisal requirements are based on the total loan amount:**

Up To \$500,000 As required by the Lender to provide basis for value

Over \$500,000 Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice.

**10. 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 MBOI participation will not exceed 80% of the total loan.
  - i. If the Borrower already has a loan participated with the MBOI 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 MBOI will NOT consider its portion of the existing participated loan as a refinance. The expansion should create new jobs and/or create economic development.
- (b) Investor properties must independently cash flow with coverage at 1.25X on a 20-year amortization or equivalent, or other financial consideration. The MBOI may establish a higher coverage ratio depending on economic conditions and/or industry.

- (c) Balloon payment loans are eligible provided the LTV at maturity is acceptable to the MBOI.
- (d) The MBOI will proportionately participate in any prepayment penalty required by the Lender.
- (e) Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.
- (f) Collateral documents must contain due-on-sale clauses, requiring the Lender's consent prior to loan transfer.
- (g) Loan assumptions permitted upon MBOI approval with a loan assumption fee of \$500.00.
- (h) Environmental risk assessment as required by the Lender.
- (i) Escrow impounds may be required for taxes & hazard insurance when the LTV exceeds 50%.
- (j) Maximum loan amount to any Borrower is limited to 10% of the book value of the Coal Tax Trust as of the month-end prior to a loan commitment.
- (k) If a Borrower has received or will receive a Value-Added Loan from the MBOI or is a business for which a local government has provided infrastructure funded by an Infrastructure Loan made by the MBOI, the outstanding principal of the Value-Added and/or Infrastructure Loan will be applied against the 10% maximum loan size. A Borrower or business may not incur a debt to the Coal Tax Trust exceeding 10% of the Trust's book value.
- (l) Any loan exceeding 6% of the Trust requires 30% Lender participation.
- (m) The MBOI may apply different criteria to loan requests from nonprofit Borrowers.
- (n) Maximum loan terms are:
  - i. Federally Guaranteed 30 years
  - ii. Linked Deposit 20 years
  - iii. Participation 25 years
- (o) All loans submitted for participation to the MBOI from Board members or Board staff shall first be approved by the Board before the loan is committed and funded.
- (p) Any time an approved Lender downgrades a commercial loan participated with the MBOI, the approved Lender must notify the MBOI of the downgrade and submit to the MBOI the most recent Lender credit review and an explanation why the credit was downgraded, within 30 days of the downgrade.
- (q) If the approved Lender applies a default interest rate to a participated loan, the MBOI interest rate will also be increased to that default interest rate and remain effective for the same period of time as the approved Lender.
- (r) Thirty percent (30%) cash equity is required for hotel/motel facilities. The LTV will consider the lower of hard costs or appraised value.
- (s) The MBOI may require additional due diligence and research on loans at its sole discretion.

**11. INTEREST RATE BUY DOWN ON EXISTING COMMERCIAL LOANS**

- (a) The MBOI portion of an outstanding loan interest rate may be reduced to the MBOI's current posted rate at the time the Commercial Loan Reservation Fee Form and fee is received.
- (b) The interest rate will be calculated by rounding the remaining term up to the nearest year and interpolating the buy down interest rate for that specific year.
- (c) The fee is calculated as shown below:
  - i. 60 months or less 1% of outstanding MBOI loan balance
  - ii. 61 to 120 months 1 ½% of outstanding MBOI loan balance
  - iii. 121 months or more 2% of outstanding MBOI loan balance
- (d) Interest rate reductions are effective on the next payment due date after the fee is received and the reduction is approved by the MBOI.
- (e) 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. 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 2.50%. The previously used job credit rate reduction cannot be applied to the buy down interest rate.

**12. JOB CREATION INTEREST RATE REDUCTION**

- (a) With the exception of Linked Deposit & Value-Added 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) One job is equal to the Private Annual Wage shown on the weekly Posted Rate Summary Sheet.

- (c) For jobs paying more than the Private Annual Wage, job credits will be increased proportionately for each 25% increment above the Private Annual Wage to a maximum of two jobs.
- (d) For jobs paying less than the Private Annual wage, job credits will be reduced proportionately for each 25% increment below the Private Annual Wage.
- (e) Job credits are not available unless one whole job is created.
- (f) Job credit interest rate reductions are not available for jobs paying less than the minimum wage provided for in 39-3-409, MCA.
- (g) 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.
- (h) The MBOI may increase the interest rate commensurate with the number of jobs eliminated if the Borrower eliminates qualifying jobs. Lenders must notify the MBOI if the Borrower eliminates qualifying jobs.
- (i) 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.
- (j) Applications for interest rate reductions may be delivered with the loan funding documents or at least 10 working days before the end of each calendar quarter.
- (k) The business seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.
- (l) The MBOI shall notify the Lender within fifteen (15) working days what action has been taken on an interest rate reduction request.
- (m) 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.
- (n) Interest rate reductions provided in this part will be effective on the next scheduled payment date.
- (o) The posted Private Annual Wage and State of Montana minimum wage will be used in calculating a job creation interest rate reduction request.

**13. PROJECT SPECIFIC REQUIREMENTS:**

- (a) 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 18-2-401, in the performance of the work on the projects if their qualifications are substantially equal to those of nonresidents. "Substantially equal qualifications" means the qualifications of two 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.
- (b) If the MBOI 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 Title 18, Chapter Two, Part 4, MCA.