

MONTANA BOARD OF INVESTMENTS
SPECIAL BOARD MEETING ZOOM/CONFERENCE CALL – CARES Act
2401 Colonial Drive, 3rd Floor
Helena, Montana
Friday, June 19, 2020
10:30 AM

PRESENT *all via Zoom/Conference Call:*

BOARD

- Karl Englund, Board Chair
- Mark Noennig, Board Vice Chair
- Jack Prothero, Board Member
- Terry Cohea, Board Member
- Bruce Nelson, Board Member
- Jim Edwards, Board Member
- Diane Fladmo, Board Member
- Maggie Peterson, Board Member
- Jeff Greenfield, Board Member
- Senator Fred Thomas, Legislative Liaison

STAFF

- Dan Villa, Executive Director
- Peggy MacEwen, Deputy Director
- Jon Putnam, CFA, FRM, CAIA, Chief Investment Officer
- Doug Hill, Director of In-State Loan Programs
- Rande Muffick, CFA, Deputy CIO/Director of Public Market Investments
- Julie Feldman, CPA, Financial Manager
- Polly Boutin, Associate Financial Manager
- Frank Cornwell, CPA, Associate Financial Manager
- Roberta Diaz, Investment Accountant
- April Madden, Investment Accountant
- Kelsey Gauthier, CPA, Investment Accountant
- Ethan Hurley, CAIA, Director of Real Estate/Natural Resources
- John Romasko, CFA, Director of Fixed Income
- Tim House, Investment Analyst
- Kirsten Haswell, Investment Analyst
- Steve Strong, Investment Analyst
- Teri Kolnik, CFA, Investment Analyst
- Savannah Morgan, Bond Program Officer
- Dana Chapman, Office Manager/Board Secretary
- Sheli Jacoby, Administrative Assistant
- Lindsay Ford, Administrative Assistant
- Rob Samson, Investment Intern
- Sam Holman, Accounting Intern

GUESTS

- Garrett Norcott, Chief Legal Counsel, Department of Commerce
- Herb Kulow

CALL TO ORDER

Board Chairman Karl Englund called the Special Meeting of the Board of Investments (Board) to order at 10:33 a.m. As noted above a quorum of Board Members was present. Chairman Englund advised audio/video recording of the meeting was underway and asked for public comment on issues within Board jurisdiction. There was none.

Executive Director Dan Villa provided an update on the CARES Act. Staff have been working for 6-8 weeks on aspects of the CARES Act relevant to MBOI. The first program is the Montana Loan Deferment Program. There is \$125 million allocated from the federal government to the Program under the CARES Act. The funds will flow from MBOI through banks and credit unions. Borrowers will be able to defer interest over a period of 6 – 12 months.

The Coronavirus Relief Fund Inter-agency Service Agreement is our agreement with the budget office to receive the funds and administer the program. MBOI will provide the most transparency in the state. We will display rolling totals of the funds requested and funds awarded daily on the website; distributions will be happening on a date certain. The first distributions are expected to be July 7th – further distributions will be based on subscription rates.

Staff will be providing continuing guidance and will have calls with banks and credit unions on a daily basis initially, as well as posting information on our website. Staff will also have meetings with banks, credit unions and banker associations. Herb Kulow has been brought back on board to help administer the program which starts on Monday. Staff have requested a federal funds account from the Department of Administration.

The Department of Revenue will help facilitate the Program on the front end. Lenders will fill in information on the application which the Department of Revenue will review. Then the Montana Department of Transportation (MDT) will perform an internal audit function through random sample audits. Then MBOI will receive the documents for processing.

The goal is a 72-hour turn around for applications, and we are hoping there is not an initial rush. Staff will talk with bankers to see how quickly they are able to process the applications. The application is still in development. MBOI may play a larger role than originally thought. Staff are approaching fiscal year end and that is our priority. We have not been granted any more FTEs to handle the extra workload. Mr. Kulow will be paid out of our operations budget providing extra hours to accommodate this process.

Senator Fred Thomas asked Director Villa to walk through the process of how someone gets a loan.

Director Villa explained the borrower goes to the lender and asks to be put in deferment status through the Program. The lender inputs the application information online using the Submittable format.

The borrower provides certain information to the lender including information showing they have had at least a 25% reduction of business revenue due to the coronavirus. Although the bank is not certifying the information for accuracy, the borrower will certify and attest to it. The Department of Revenue will then do their review of the information and if Revenue believes it is reasonable, it then goes to MDT and they will pull documents randomly to audit (at about 5% testing). The application then flows through to MBOI, the last stop. The Department of Revenue will look at every single application; however, MDT will be pulling applications on a random basis. Revenue will look at the actual numbers provided by the borrower indicating their actual losses which will be compared to prior years for reasonableness.

Member Terry Cohea noted Governor Bullock held a press conference, but are there other ways people will find out about the Program?

Director Villa stated the state's COVID website will have the information, and BOI will post about the Program on our website. Both of those will provide pathways to the application process. Also, in our work with the banks we are using them to communicate with their borrowers.

Director Villa added although it's unlikely that 100% of the allocation will get utilized, staff will track to see how close to 100% we can get, and we may get close to being fully allocated.

Member Jim Edwards asked if the Program will apply to hotels/motels.

The Governor has stated \$25 million is allocated just to hotels/motels, although they can also draw from the other \$100 million in the bucket. Therefore, hotels and restaurants could receive more than \$25 million, but not less.

Director Villa noted the Program is based on Montana businesses, they must derive the majority of their income from Montana to be eligible, although not necessarily Montana owned.

The loans for the individual borrowers will be put into deferred status and the funds will cover the borrower's interest up to 6.0% and up to a total amount of \$150,000. The funds provide the borrowers time; the loan principal will be added to the end of the loan notes; we will cover the interest for them. The \$125 million will be used to pay interest for up to 12 months.

Director Villa stated some advantages of the Program include the banks will have fewer assets fall into a trouble status. Their balance sheets stay clear and they do not have to show troubled assets on the books to regulators. The businesses have those funds to help stabilize their business – whether it is decreased capacity, supply chain disruption, etc. – with no principal payments for 12 months. The \$125 million is expected to have an impact greater than \$500 million.

Vice Chairman Mark Noennig asked with the process being neither ideal nor simple, how could it have been better?

Director Villa stated the most significant item is the system will not automatically boot ineligible applicants. Most forms with a yes or no answer, where no is a disqualifier, the system would not let you proceed. Here, the ineligible applications will also need to be processed which will take time and is not ideal.

Chairman Englund asked how the release of the funds occurs.

Director Villa replied BOI distributes the money to banks and credit unions. Before that step, BOI produces an ACH batch to each bank. We will aggregate all the loans to the individual banks, which will be done in batches. Once we provide an award letter to the bank after the reviews by Revenue and MDT, the deferment goes into effect immediately. The funding for all 6 – 12 months is paid up front. The banks will make the distributions to the borrowers for the term of the deferment.

Member Bruce Nelson asked if since the lump sum payments will be paid in advance whether it would benefit the bank's balance sheet by receiving the funds? Is there a possibility this will help enhance their financial position and their ability to leverage additional loans?

Director Villa stated the Program will help prevent negative impacts and defaults, although with the money up front, they'll make marginal income until it's distributed. The stronger our banks are, the less we'll pay on interest. With distressed assets they will have to raise interest rates and deal with regulators. The real benefit is fewer distressed assets on their balance sheet.

Mr. Doug Hill added many loans are already in deferred status. Lenders are able to go back and pay accrued interest on those loans when they receive the money. They will pay the interest current and can also apply it to the loan, so a loan has a negative interest balance, which reduces over time. At end of deferment, there will be zero interest owed on that loan, although it depends on how the bank applies it to the loans; it is up to the bank.

Member Nelson asked if there are any tax consequences?

Mr. Hill stated he has had that question in calls from borrowers. They will need to check it out with their accountant and the Department of Revenue.

Director Villa added staff will get clarification from the Department of Revenue and post the information.

Chairman Englund asked how we protect from abuse of the Program?

Director Villa stated by looping in the Department of Revenue, we'll be able to compare to those records to double check verification and any discrepancies should be caught at that point. And although not all applications will be audited, they are at risk of being audited. The borrower would have to convince the lender of any uncertain information, then the Revenue review and possible audit by MDT. There are multiple layers of checks. Additionally, there is an acknowledgement on false statements on the form which was requested by a banking partner.

Mr. Hill stated a list of the borrowers will be sent to the banks showing what will be funded, and we will require banks to review the list and verify those borrowers are legitimate. The banks must affirm these are borrowers of the bank.

Director Villa noted the funds will only flow to banks, who distribute them to the borrowers and the banks must be a partnered bank with BOI.

Mr. Hill added staff are going through the process of approving banks to be able to participate in BOI loans. We will hopefully get all banks and credit unions as approved lenders so they can apply to other programs at BOI.

Chairman Englund asked if we have any recourse through the banks if they certify bad loans?

Vice Chairman Noennig noted the bank doesn't guarantee there will be no default, although if you have evidence that they misrepresented information, there may be recourse.

Director Villa stated we need a motion from the Board to approve the Coronavirus Relief Fund Inter-agency Service Agreement.

Member Diane Fladmo made a motion to approve the Coronavirus Relief Fund Inter-agency Service Agreement. Vice Chairman Noennig seconded. The motion carried.

In other items, Director Villa stated Mike Pettit, Director of Operations had his last day yesterday, June 18th. Staff will be posting the position soon and expect to have a recommendation to fill at the October meeting. Additionally, Network Administrator Linda Sharkey's last day was also yesterday.

With no further business before the Board, the meeting adjourned 11:27 a.m.

MONTANA BOARD OF INVESTMENTS

APPROVE: Karl J Englund
Karl J. Englund, Chairman

ATTEST: Dan Villa
Dan Villa, Executive Director

DATE: December 4, 2020