MONTANA
BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.720

EFFECTIVE DATE: November 30, 2021

TITLE: Commercial Loan Program

SUPERSEDES: Governance Policy February 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

I. Commercial Loan Program

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

1. The Board does not lend directly to businesses.
2. Only Approved Lenders may submit Loan applications and Loan reservation forms.
3. Approved Lenders must originate all loans.
4. The term "Applicant" means a Lender approved by the Board.
5. The term "Borrower" means the borrower applying for a loan from the Lender.
6. Appropriate representatives of the Lender must sign the application.
7. Borrowers must provide preference to Montana labor when constructing projects.
8. Project construction contractors may be subject to prevailing wages as per policy.
9. "Small Business Loan Incentives" are available for Commercial Coal Tax Trust loans only.
10. "Job Credit Interest Rate Reductions" are available for Commercial Coal Tax Trust loans only.
11. "Link Deposit Loans" are available for Commercial Coal Tax Trust loans only.
12. Commercial Coal Tax Trust loans maximum size is limited to ten percent (10%) of the Trust.
13. Commercial Coal Tax Trust loans exceeding six percent (6%) of the Trust require thirty percent (30%) Lender Participation.
14. The submission of a fee with the Loan Reservation Form locks an interest rate and reserves funding.
15. The last fee paid is refundable as per policy if the loan is funded or the application is rejected.

B. Interest Rates

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

C. Loan Reservations without an Identified Borrower

1. Lenders not identifying the borrower(s) at the time of reservation may reserve funds for one hundred and eighty (180) days with a fee of one-quarter percent (0.25%) of the reserved amount.

2. If posted interest rates decline after a Lender has locked interest rates, a new one hundred and eighty (180) day reservation at the lower rate may be obtained via payment of another one-quarter percent (0.25%) fee.
3. If borrower(s) is not identified during the one hundred and eighty (180) day period, the unallocated portion of the reservation will expire. The unallocated portion of the reservation may be renewed with another fee of one-quarter percent (0.25%) at the then prevailing interest rate for an additional one hundred and eighty (180) day period.
4. If borrower(s) are identified during the one hundred and eighty (180) day period, that portion of the reservation allocated to the borrower(s) will automatically be extended for an additional period equal to one year (365 days) from the original reservation date.
5. Once borrower(s) are identified, Lenders must offer, underwrite, accept, and close the loan during the one-year (365 days) reservation period.
6. All applicable checklist items must be received within ninety (90) days after expiration of the one-year (365 days) period.
7. The reservation allocated to the borrower(s) may be extended as per Section 4.
8. Blended interest rates may be applied for increases in the reserved amount of an existing reservation.

D. Loan Reservations with an Identified Borrower

1. 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.
2. Lenders may lock interest rates at any time during the one-year (365 days) period at the rate last set.
3. If the loan has not been committed and posted 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.
4. If the loan has been committed and posted 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 remains the same.
5. Lenders must offer, underwrite, accept, and close the loan during the one-year (365 days) period.
6. All applicable checklist items must be received within ninety (90) days after expiration of the one-year (365 days) period.
7. The reservation may be extended as per Section 4.
8. Blended interest rates may be applied for increases in the reserved amount of an existing reservation.

E. Reservation Extensions

1. 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 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.
2. Additional one-year (365 days) extensions will not be granted if the project has been completed within the existing reservation/commitment period.
3. Extension fees must be received via ACH within fifteen (15) working days after the expiration date of the current one-year (365 days) period to keep the reservation in force.

F. 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 after the first principal and interest payment date of the project term note or the commitment date expiration, whichever comes first.
3. Fundings should occur on or around the tenth day of the month.
4. At least thirty (30) days' notice must be provided to be eligible for fundings.

G. Financial Institution Incentive for Small Business Loans

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

    a) The amount is posted weekly with the interest rates.

2. Pursuant to Section 17-6-319, MCA, this reduction is available for loans made to small business, which the Board defines as businesses with gross annual payroll of less than $10.0 million.

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

1. The following risk adjustments for loan-to-value on collateral will be made to the posted interest rate:

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

I. Ineligible Loans

1. Loans classified as substandard, doubtful, loss or similar category in Lender's most recent examination report.
2. Loans to businesses with classified loans at the Lender, other than the loan offered to the Board.
3. Loans to trusts.
4. Loans for land development or speculative ventures.
5. Revolving lines of credit, working capital or operating money.
6. Loans to pay delinquent taxes.

J. Collateral Requirements

1. First mortgage/lien position shared proportionately with Lender.
2. Collateral must have sufficient economic life to support the term of the loan.
3. Loan-To-Value is based on lessor of reasonable project costs (including architecture, engineering, and capitalized interest) or market value appraisal.
4. Personal guarantees as required by Lender or the Board.
5. If Lender requires, an attorney opinion on authority of borrower to borrow and all collateral documents.
6. Other collateral as required by Lender or the Board.

K. Appraisals

1. Licensed Montana appraisers are preferred unless a specialized property collateral requires an out of state appraiser.
2. The following appraisal requirements apply to all appraisals irrespective of the Lender's appraisal or loan policy appraisal requirements.
3. Appraisal requirements are based on the total loan amount shown:

Up To $500,000	As required by Lender to provide basis for value
Over 500,000	Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice.

L. Other Commercial Loan 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. The Board participation will not exceed eighty percent (80%) of the total loan.
   a) 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.
   b) The expansion should create new jobs and/or create economic development.
3. Investor properties must independently cash flow with coverage at one and a quarter times (1.25X) on a twenty (20) year amortization or equivalent, or other financial consideration.
   a) The Board may establish a higher coverage ratio depending on economic conditions and/or industry.
4. Balloon payment loans are eligible provided Loan-To-Value at maturity is acceptable to the Board.
5. The Board will proportionately participate in any prepayment penalty required by the Lender.
6. Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.
7. Collateral documents must contain due-on-sale clauses, requiring Lender's consent prior to loan transfer.
8. Loan assumptions permitted upon Board approval with a loan assumption fee of $500.00.
9. Environmental risk assessment as required by Lender.
10. Escrow impounds may be required for taxes & hazard insurance when Loan-To-Value exceeds fifty percent (50%).
11. Maximum loan amount to any borrower is limited to ten percent (10%) of the book value of the Coal Tax Trust as of the month-end prior to a loan commitment.
12. If a borrower:
    a) 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.
    b) The outstanding principal of the value-added and/or infrastructure loan will be applied against the ten percent (10%) maximum loan size. A borrower or business may not incur a debt to the Coal Tax Trust exceeding ten percent (10%) of the Trust's book value.
13. Any loan exceeding six percent (6%) of the Trust requires thirty percent (30%) Lender participation.
14. The Board may apply different criteria to loan requests from non-profit borrowers.
15. Maximum loan terms are:
    a) Federally Guaranteed, thirty (30) years.
    b) Linked Deposit, twenty (20) years.
    c) Participation, twenty-five (25) years.
16. All loans submitted for participation to the Montana Board of Investments from Board members or Board staff shall first be approved by the Board before the loan is committed and funded.

17. 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 (thirty) 30 days of the downgrade.
18. 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.
    a) 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.
19. 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.
20. Thirty percent (30%) cash equity is required for hotel/motel facilities.
    a) The LTV will consider the lower of hard costs or appraised value.

M. Interest Rate Buy Down On Existing Commercial Loans

1. The Board portion of an outstanding loan interest rate may be reduced to the Board's current posted rate at the time the Loan Reservation Form and fee is received.
2. 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.
3. The fee is calculated as shown:
    a) Sixty (60) months or less, one percent (1%) of outstanding Board loan balance.
    b) Sixty-one to one hundred and twenty (61 to 120) months, one and a half percent (1.5%) of outstanding Board loan balance.
    c) One hundred and twenty-one (121) months or more, two percent (2%) of outstanding Board loan balance.
4. Interest rate reductions are effective on the next payment due date after the fee is received and the reduction is approved by the Board.
5. 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.

N. Job Creation Interest Rate Reduction

1. With the exception of Linked Deposit and 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 one-fifth percent (.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. Job credit interest rate reductions are not available for jobs paying less than the minimum wage provided for in Section 39-3-409, MCA.
7. 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.
8. 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.
9. 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.
10. 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.
11. The business seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.
12. The Board shall notify the Lender within fifteen (15) working days what action has been taken on an interest rate reduction request.
13. 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.
14. Interest rate reductions provided in this part will be effective on the next scheduled payment date.
15. The posted Private Annual Wage and State of Montana minimum wage will be used in calculating a job creation interest rate reduction request.

O. 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.
    a) "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.
2. 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.