MONTANA
BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.740

EFFECTIVE DATE: November 30, 2021

TITLE: Value Added Loan Program

SUPERSEDES: Governance Manual February 2021

BOARD ADOPTION: November 30, 2021

REVIEWED:

I. Value Added Loan Program General Parameters for the Value-Added Loan Program

1. The Board participates only with approved lenders in making loans to Montana businesses.
2. Approved Lenders originate all loans and submit loan applications.
3. Appropriate representatives of the Lender must sign the application.
4. The Montana business must be a "value-added' business as defined in the attached policy.
5. The Montana business must create or retain at least ten (10) jobs.
6. The term "jobs" as it relates to program eligibility is defined in the attached policy.
7. The term "Applicant" means a Lender approved by the Board.
8. The term "Borrower" means the business applying for a loan through the Approved Lender.
9. The Board may participate in construction financing at the request of the Lender.
10. Borrowers must provide preference to Montana labor when constructing projects.
11. Project construction contractors may be subject to prevailing wages as per policy.
12. Board loan participation is seventy-five percent (75%) - Lender participation is twenty-five percent (25%).
13. Lender service fee limited to one-half percent (.5%) on the participated portion.
14. Board interest rates and maximum loan term are set by law.
15. Reservation fees or interest rate "lock" fees are not required.
16. Loan prepayments penalties are not permitted.
17. Minimum loan size is $250,000, of which the Board would purchase seventy-five percent (75%).
18. Maximum loan size (the 75% Board's Share) limited to one percent (1%) of the Coal Tax Trust.
19. Maximum outstanding loan amount for all loans limited to $70.0 million.
20. Interest rate reductions for job credit and small business loans are not available.
21. Board shares proportionately in all security or guarantees obtained by the Lender.
22. No bonuses or dividends can be paid to investors if the loan is outstanding, except as provided by Section 17-6-317(5)(b) MCA.

B. General Loan Provisions

1. Fees to reserve funds or lock interest rates are not required. Reservation considered effective upon receipt of application.
2. Borrower must operate a value-added business, examples of which are listed in Section E.
3. Loan term limited to fifteen (15) years from date of note, including any construction financing, if the Board participates in the construction loan.
4. Board's share of the total loan is seventy-five percent (75%) - Lender's share is twenty-five percent (25%).
5. Minimum loan size is $250,000, of which the Board purchases seventy-five percent (75%).
6. Maximum loan size (Board's 75.0% Share) is one percent (1%) of the Permanent Coal Tax Trust.
7. Borrower must provide equity of at least twenty-five percent (25%) of the total loan amount.
8. Borrower's creating or retaining ten (10) to fourteen (14) full-time jobs are entitled to a four percent (4%) initial interest rate on participated loan amount.
9. Borrower's creating or retaining fifteen (15) full-time jobs are entitled to a two percent (2%) initial interest rate on participated loan amount.
10. 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 repurchase the participated loan amount.
11. Except as provided in section 13, a business receiving a value-added loan may not pay bonuses or dividends to investors until the loan has been repaid. Incentives may be paid to employees for achieving performance standard or goals.
12. A public utility regulated by the Public Service Commission in accordance with Title 69 of the MCA, or a business enterprise for the production of alcohol to be used as provided in Section 15-70-5, MCA, may pay dividends to investors and bonuses to employees if the business enterprise is current on its loan payments and has available funds equal to at least fifteen percent (15%) of the outstanding principal balance of the loan.
    a) For purposes of this policy, available funds are considered to be cash and cash equivalents plus trade receivables minus total current liabilities, and such funds shall be calculated using Generally Accepted Accounting Principles.
    b) The borrower shall furnish annual audited financial statements satisfactory to the Approved Lender and the Board within one hundred and twenty (120) days after the end of the period covered.

C. Job Creation/Retention Requirements

1. A "Job" equates to a dollar value equal to the state's Private Annual Wage (base).
2. The state's Private Annual Wage is posted on the Board's web page on the Commercial Loan Rate Sheet.
3. If jobs pay less than the base, more jobs must be created or retained to meet the jobs eligibility threshold.
4. If jobs pay more than the base, fewer jobs may be created or retained to meet the jobs eligibility threshold.
5. A job paying less than the State of Montana minimum wage does not count towards the jobs' eligibility threshold.
6. The table below illustrates jobs eligibility calculations using the fiscal year 2013 "Private Annual Wage" as a base.

This table is for illustration purposes only as the base salary is revised annually on July 1.

Jobs Created/Retained	Average SalaryPaid *	Aggregate SalariesPaid		Interest Rate First 5 Years
15	36,289	544,335	Aggregate Salaries Required For=>	2.00%
13	41,872	544,335	Aggregate Salaries Required For=>	2.00%
10	54,434	544,335	Aggregate Salaries Required For=>	2.00%
8	65,498	523,980	Aggregate Salaries Required For=>	2.00%
10	34,932	349,320	Aggregate Salaries Required For=>	4.00%
8	43,665	349,320	Aggregate Salaries Required For=>	4.00%
7	49,903	349,320	Aggregate Salaries Required For=>	4.00%

7. During the terms of reduced interest rates, the borrower must annually submit appropriate payroll documents to the Board to certify the number of jobs maintained or retained.
8. Borrowers applying for a loan under the "retention" provision must submit all financial statements and business plans required by the Board to assist the Board in determining if a Value-added loan will prevent the elimination of jobs.

D. Interest Rate Setting Procedures

1. During construction financing or permanent loan funding, prior to the borrower's meeting the minimum job_requirements, the interest rate will be set at the Commercial Loan Program's posted rate (The Commercial Loan Rate Sheet posted on the Board's Web Page).
2. Once the ten (10) or fifteen (15) jobs eligibility requirement is met and certified to the Board, the interest rate will be reduced to the level appropriate to the number of jobs created/retained.
3. Rates for the program are:
   a) Two percent (2%) for the first five (5) years if fifteen (15) or more jobs are created or retained.
   b) Four percent (4%) for the first five (5) years if ten to fourteen (10 -14) jobs are created or retained.
   c) Six percent (6%) for the second five (5) years.

d) The Board's posted rate for the third five (5) years, but not to exceed ten percent (10%) per year.

4. The table below illustrates how the interest rates would be set for the fifteen (15) year term of a loan when the jobs are created/retained at some point in time after the loan is funded. ***This table is for illustration purposes only.* The posted rate changes weekly. The timing of the job creation is estimated to be one-year (12 months).**

Key Dates	**Start Date**	**End Date**	**10-14 Jobs**	**15 Jobs**	**Terms**
Loan Funded *	07/01/01	06/30/02	7.25%	7.25%	12 Months
Jobs Created	07/01/02	06/30/07	4.00%	2.00%	60 Months
2nd Graduation	07/01/07	06/30/11	6.00%	6.00%	60 Months
Final Graduation	07/01/12	06/30/16	7.25%	7.25%	48 Months
Maximum Term					**180 Months**
*The Board's posted rate when a complete value-added loan application is received by Board staff for consideration.					

5. During the sixty (60) month period the interest rate is set at two percent (2%) or four percent (4%), the Board may:

   a) Increase the interest rate if five (5) of the required ten (10) to fifteen (15) jobs are eliminated.

   b) Increase the interest rate to the Board's posted commercial loan interest rate if more than five (5) of the required jobs are eliminated.

6. All rate changes are effective on the payment date following approval.

E. Value-Added Business Examples

1. Although businesses may be reviewed on a case-by-cases basis, the following are examples of specific businesses that would or would not qualify for the Value-Added Loan Program.

Wood Products	**Loan Eligibility**	
Logging		NO
Timber Tracts		NO
Christmas Tree Farm		NO
Tree Nurseries		NO
Log Home Crafters	YES	
Modular Home Manufacturers	YES	
Sawmills	YES	
Wood Components (Trusses, Beams, Wall Panels)	YES	
Chip Mill	YES	
Pulp Mills	YES	
Manufacturing	**Loan Eligibility**	
Businesses engaged in the mechanical, physical, or chemical transformation of materials, substances or components into new products that meets the North American Industry Classification System (NAICS) classification of manufacturing	YES	
Agriculture	**Loan Eligibility**	
Farming		NO

Ranching		NO
Orchards		NO
Crop Harvesting		NO
Landscaping		NO
Retail Plant Nurseries		NO
Wholesale Plant Nurseries	YES	
Retail Bakeries		NO
Wholesale Bakeries	YES	
Sugar Refinery	YES	
Cattle Feed Lots	YES	
Dairies	YES	
Winery	YES	
Meat Processing Plants	YES	
Grain Milling and Processing	YES	
Information Technology	**Loan Eligibility**	
Printing/Publishing		NO
Internet Service Provider (ISP)		NO
Call Centers		NO
Data Transmission Lines		NO
Computer Consultant Services		NO
Software Production & Licensing	YES	
Computer Hardware Manufacturing	YES	
Construction	**Loan Eligibility**	
Businesses meeting the NAICS definition of a heavy medium or light construction enterprise.		NO

F. Collateral and Other Underwriting 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 guaranties as required by Lender to be shared proportionally with the Board.
5. Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.
6. Collateral documents must contain due-on-sale clauses, requiring lender's consent prior to loan transfer.
7. Environmental risk assessment as required by Lender.
8. If Lender requires, an attorney opinion on authority of borrower to borrow and all collateral documents.
9. Other collateral as required by Lender or Board.
10. Escrow impounds may be required for taxes & hazard insurance when Loan-To-Value exceeds fifty percent (50%).
11. Commercial Loan Policy underwriting criteria will also be considered.
12. The Board may require additional due diligence and research on loans at its sole discretion.

G. Lender Requirements

1. A participating private financial institution may charge interest in an amount equal to the national prime interest rate, adjusted on January 1 of each year, but the interest rate may not be less than six percent (6%) or greater than twelve percent (12%).
2. At the borrower's discretion, the borrower may request the lead lender to change this prime rate to an adjustable or fixed rate on terms acceptable to the borrower and lender. However, the interest rate may not be less than six percent (6%) and no greater than twelve percent (12%).
3. Lenders may require Borrower to provide guarantees.
4. Any federal guarantees provided are shared seventy-five percent (75%) to the Board and twenty-five percent (25%) to the Lender.
5. A participating private financial institution or lead private financial institution if more than one is participating, may charge a one-half percent (0.5%) annual service fee on the participated loan amount.
6. The loan agreement must contain provisions providing for pro rata lien priority and pro rata liquidation provisions based upon the loan percentage of the board and each participating private lender.
7. If a portion of a loan made pursuant to this section is for construction, disbursement of that portion of the loan must be made based upon the percentage of completion to ensure that the construction portion of the loan is advanced prior to completion of the project.
8. A private financial institution shall participate in a loan made pursuant to this section to the extent of eighty-five percent (85%) of its lending limit or twenty-five percent (25%) of the loan,

whichever is less. However, the board's participation in the loan must be seventy-five percent (75%) of the loan amount.

9. Lender will have an initial one-year (365 days) from the date the application is received by the Board to close, fund, and participate the value-added loan with the Board.
10. If the project for which the loan proceeds will be utilized is not completed within the initial one-year (365 days) period, up to two additional one-year (365 days) increments may be granted upon written request from the lender for each requested extension.
11. The loan must be closed prior to the expiration of the commitment letter.
12. 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.

H. 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. Real Property appraisal requirements are shown below:

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.

4. Appraisal requirements are based on the total loan amount.

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 18-2-401, 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.

Adopted: November 30, 2021
Revised
Reviewed