

MONTANA

BOARD OF INVESTMENTS

Montana Down Payment Assistance Loan Program Round 3

Summary of Terms and Conditions

Purpose

The **Montana Down Payment Assistance Loan Program** objective is to allow Montana-based businesses to retain valuable working capital during the growth phase vs. depleting cash to fund down payments on necessary equipment or building purchases/expansions. There is approximately \$30 million available for the program.

Approved Lender

To participate in the Montana Down Payment Assistance Loan Program the Lender needs to be an approved lender with the Montana Board of Investments (BOI). Financial Institutions wishing to become an Approved Lender with the Montana Board of Investments should contact Doug Hill, Director of In-State Loans at dhill@mt.gov.

Loan Structure, Amount and Terms

The Lender will underwrite, originate and service both loans (Lender's and BOI's).

Loan must be to a Montana-based business and meet one or more of the criteria below:

- Grow wages of existing employees, or
- Increase the number of employees or net revenues, or
- Increase the Montana tax base.

All loans must lead to direct growth of the Montana economy.

Loan proceeds must be used for the purchase of equipment, real estate/building, real estate/building with improvements, and new construction. Loans to purchase existing businesses must identify how the acquisition will meet the eligibility requirements of wage, job and/or tax base growth.

The loan-to-value (LTV) is based on the lesser of reasonable project costs or market value appraisal. The LTV not to exceed 95%. Lender may submit an application contingent upon appraisal meeting or exceeding the cost of the real estate or equipment. The appraisal must be completed prior to funding.

The Business must provide at least 5% of the LTV.

The Lender will provide a minimum of 65% of the LTV and will be in a senior lien on the collateral. The Lender determines the interest rate and term of the Lenders loan.

The BOI will provide a fixed rate loan equal to the current INTERCAP rate at the time of reservation, currently 5.75% until February 2025, on a maximum of 30% of the LTV and will be in a junior lien on the collateral. Interest will begin accruing on January 1, 2027. The BOI loan is not assumable and will not be transferred to another lender. The BOI will only subordinate to the originating Lender. The Lender cannot subordinate the loan.

The minimum BOI loan is \$100,000 and maximum is \$3,000,000. No person or entity may apply for more than \$3,000,000 aggregate, including Round 1 & 2 funds.

The minimum loan term on the BOI loan is 5 years and the maximum term is 25 years. The maturity date of the BOI loan and lenders loan must be the same. The maximum term for equipment loans is 10 years.

The BOI loan repayments do not begin until January 2027. When repayment starts the loan must be fully amortized monthly payments. Balloon payments are not allowed on the BOI loan.

The BOI loan is serviced by the lender and the lender may charge a servicing fee of no more than .5%. The service fee will begin accruing on January 1, 2027.

The Lender and BOI loans will have the same collateral.

Minimum debt service coverage (DSC) is 1.25-to-1 based on the global average historical cash flow or projected cash flow from businesses based upon an additional or new production line. Global DSC is defined as cashflow coverage provided by the obligor and guarantors.

Borrower must be a Montana-based business in good standing with no current outstanding State of Montana obligations. At least 51% of the owners of the borrowing entities must be permanent residents of Montana.

The business must occupy at least 51% of the subject property, which may include leases for at least 51% of the subject property between the primary operating company and real estate holding company. A real estate holding company and the associated operating company must have substantially the same ownership (at least 50% common ownership) to be eligible.

The following businesses are not eligible:

- Storage facilities (NAICS code 531130),
- Bars (NAICS code 722410),
- Breweries (NAICS code 312120) & Distilleries (NAICS code 312140)
- Casinos (NAICS codes 713210),
- All other amusement and recreation industries (NAICS code 713990),
- Any investor-owned properties (NAICS code 531190),
- Professional services (NAICS codes beginning with 54), and
- Finance and insurance firms (NAICS code beginning with 52),
- Cannabis, Tobacco, Electronic Cigarette, and other smoking supplies retailers.

The following loans are not eligible:

- Loans to purchase a single-family residence with the intent to use for a business purpose.
- Loans classified as substandard, doubtful, loss or similar category in Lender's most recent examination report.
- Loans to businesses with classified loans at the Lender, other than the loan offered to the BOI.
- Loans to non-profits, trusts, land development or speculative ventures.
- Loans for revolving lines of credit, inventory, working capital, operating, or leasehold improvements.
- Loans for the exclusive purpose of purchasing beer, wine, and liquor licenses.
- Loans to individuals that have filed bankruptcy.
- Loans to individuals that have pending felony charges or convicted of a felony.

Businesses who file a Schedule F for tax purposes are not eligible.

The BOI loan will not have a prepayment penalty. The Lender must notify the BOI 15 days prior to the payoff.

The BOI may require additional due diligence and research on loans at its sole discretion. All loans are subject to BOI approval.

Use of Proceeds

BOI may purchase loans for acquisition of equipment, real estate purchase/building, real estate/building with improvements, and new construction after August 5, 2024. Term loans closed prior to August 5, 2024, are not eligible. Land purchases, equipment purchases, and construction advances prior to August 5, 2024, cannot be included in the project cost.

Refinancing of existing debt held by a lender is not eligible, other than permanent construction financing.

The Borrower is not allowed to receive cash back except for cash contributions to the project paid by the Borrower toward eligible project costs after August 5, 2024, in excess of the 5% minimum equity contribution.

How to Apply

Program Documents

The Reservation Form, Application, Terms and Conditions, and Continuing Guidance are on the BOI website at www.investmentmt.com/Loan-Programs/.

Loan Reservation

Lender submits the reservation form and pays a .25% reservation fee. The fee is paid through the Lender's account with the BOI. The BOI will ACH the reservation fee. Reservations will be processed in the order in which they are received.

- The .25% fee applies to the BOI loan amount, not the total loan amount.
- Lender must complete all necessary sections of the reservation form and sign and date the form.
- The Department of Revenue (DOR) will review all submitted reservations. The review process will include:
 1. Verifying the Business is physically located in Montana, and
 2. Verifying the Borrower is current on all other state financial obligations, and
 3. Confirming the Borrower is in good standing with the Montana Secretary of State.
- Following a review by the DOR, the BOI staff will determine if the loan is eligible.
- BOI sends the lender a confirmation of the reservation specifying the funding amount and the expiration date of the reservation.
- The reservation expiration date is December 2, 2024.
- The reservation fee will be refunded if the loan is funded or denied by the BOI, whichever comes first. Withdrawn or expired reservations will not be refunded.

Application

Lender submits the BOI application and Lender's loan review. Applications will be processed in the order in which they are received. Applications must be received by December 2, 2024, or the reservation will be considered withdrawn, and the reservation fee will not be refunded.

Approval Process

Each application will be reviewed to verify the information provided in the application.

Commitment

Upon approval of the application, BOI will issue a commitment letter, Schedule A & B, and loan funding certificate, indicating the terms and conditions that the lender must meet for BOI to fund the loan.

The lender has 10 days in which to accept or reject the terms and condition of the commitment letter. If the Lender accepts it will sign and return the commitment letter. The Borrower must also sign the commitment letter.

The commitment letter has an expiration date. The loan must be closed within the commitment period.

Funding

The Loan must be funded by BOI before December 31, 2024. Any applications which do not fund by December 31, 2024, will be subject to a \$10,000 non-funding fee. Lenders may be required to have controlled account for BOI funds and BOI may require the Lender to pay BOI interest or fees on the controlled account.

The Lender must submit the Schedule A & B with the Loan Funding Certificate via email to downpaymentassistance@mt.gov by December 20, 2024. BOI will ACH the funds to the Lender's account.

Withdrawing Applications

If the Borrower wishes to withdraw their application, they will be required to inform their Lender. The Lender will notify BOI of the decision to withdraw. Upon notification, the application will be deleted and no longer considered for the program. BOI will notify the Lender when the application has been withdrawn.

Servicing

The lender is responsible for servicing the loan in compliance with the Loan Servicing Agreement entered between the Approved Lender and the BOI.

Lender will need to provide a Loan Report to BOI via email to downpaymentassistance@mt.gov within 5 business days of receiving the Borrower's payment.

The Borrower is allowed to make additional principal payments on the Lender or BOI loan.

In the event the Borrower does not make the full payment due on both notes, any payment will be pro-rated (based on the original principal amount of each note) between the notes.

Taxability

Lenders are responsible for issuing any necessary tax reporting documentation as part of their loan servicing.

Rural/Disadvantaged

25% of program funds are reserved for rural and underserved businesses. To qualify, a business must be 51% owned by a socially and economically disadvantaged individual(s). ("Disadvantaged" means a member of a group of persons the State of Montana considers as disadvantaged. The State of Montana presumes certain groups are disadvantaged, including women, Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, Subcontinent Asian-Pacific Americans, or other minorities found to be disadvantaged by the U.S. Small Business Administration (SBA). Persons who are not members of one of the above groups and own and control their business may also be eligible if they establish their "social" and "economic" disadvantage. A determination of whether an individual with a disability meets DBE eligibility criteria is made on a case-by-case basis. More information on how a social and economic disadvantage is determined can be found in Appendix E to 49 CFR Part 26.

As a test, if any of the following criteria are met, the business is eligible for any portion of the program allotment of funds. If none of the criteria are met, the business is only eligible for award from 75% of the program allotment of funds.

- 51% of the business is owned by:
 - Native Americans,
 - Women,
 - Black Americans,
 - Hispanic Americans,
 - Asian-Pacific Americans,
 - Subcontinent Asian-Pacific Americans, or
 - Other minorities found to be disadvantaged by the U.S. Small Business Administration (SBA).
- Located outside Butte, Great Falls, Billings, Missoula, Helena, Bozeman, or Kalispell.
- Has been determined to be socially or economically disadvantaged by BOI staff upon request of the Lender and Borrower.