

MONTANA

BOARD OF INVESTMENTS

BOARD ADOPTED POLICY

POLICY NUMBER: 70.740

EFFECTIVE DATE: September 23 2022

TITLE: Value Added Loan Program

SUPERSEDES: November 30, 2021

BOARD ADOPTION: November 30, 2021

REVIEWED: July 20, 2022

I. Value Added Loan Program

A. General Parameters for the Value-Added Loans

1. Value-Added means the mechanical, physical, or chemical transformation of materials, substances, or components into new products.
2. The program is funded by a \$70.0 million allocation from the Permanent Coal Tax Trust.
3. The Board does not lend directly to Businesses and participates only with approved Lenders in making loans to Montana Businesses.
4. Approved Lenders originate all loans and submit loan applications.
5. The Montana Business must be a "Value-Added" Business.
6. The loan amount will not exceed seventy-five percent (75%) of the Loan-To-Value (LTV). The Loan-To-Value is based on the lesser of reasonable project cost or market value appraisal. Reasonable project costs do not include any form of payout to an owner, developer, or shareholder.
7. The Montana Business must create or retain at least ten (10) jobs.
8. The term "jobs" as it relates to program eligibility is defined in the Job Creation/Retention Requirements section of this Policy.
9. The term "Borrower" means the Borrower applying for a loan from the Lender.
10. Borrowers must provide preference to Montana labor when constructing projects.
11. Project construction contractors may be subject to prevailing wages.
12. Board loan participation is seventy-five percent (75%) and Lender participation is twenty-five percent (25%).
13. The Lender service fee is limited to one-half percent (.5%) on the participated portion.
14. Board interest rates and maximum loan term are set by law.
15. Fees to reserve funds or lock interest rates are not required. Reservation is considered effective upon receipt of application.
16. Loan prepayments penalties are not permitted.
17. Minimum loan size is \$250,000, of which the Board may participate up to seventy-five percent (75%).
18. Maximum loan size (the 75% Board's Share) is limited to one percent (1%) of the Permanent Coal Tax Trust.

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19. Interest rate reductions for job credit and small business loans are not available.
20. The Board shares proportionately in all security or guarantees obtained by the Lender.
21. Borrower must operate a Value-Added Business, examples of which are listed in the Value-Added Business Examples section.
22. Loan term is limited to fifteen (15) years from date of note, including any construction financing, if the Board participates in the construction loan.
23. Borrower must provide equity of at least twenty-five percent (25%) of the total loan amount.
24. 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.
25. No bonuses or dividends can be paid to investors, if the loan is outstanding, except as provided by Section 17-6-317(5)(b)(c) MCA.
26. 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.
27. 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.
28. 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.

B. Interest Rates

1. During construction financing or permanent loan funding, and prior to the Borrower's meeting the minimum job requirements, the interest rate will be set at the Commercial Loan Program's posted rate.
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. 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, and
 - d) The Board's posted rate for the third five (5) years, but not to exceed ten percent (10%) per year.
3. If a Business reduces the number of required jobs, the Board may apply a graduated scale to increase the interest rate, not to exceed the Board's posted rate.
4. All rate changes are effective on the payment date following approval.

C. Collateral and Underwriting Requirements

1. Requirements include:

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- a) First mortgage/lien position shared proportionately with Lender,
 - b) Sufficient economic life to support the term of the loan,
 - c) A Loan-To-Value based on the lesser of reasonable project costs (including architecture, engineering, and capitalized interest) or the market value appraisal,
 - d) Personal guarantees as required by Lender to be shared proportionally with the Board,
 - e) Collateral documents must contain due-on-sale clauses, requiring Lender's consent prior to loan transfer,
 - f) Environmental risk assessment as required by Lender,
 - g) An attorney opinion on authority of Borrower to borrow and all collateral documents if required by the Lender, or
 - h) Other collateral as required by Lender or Board.
2. Loans for projects on leased land will be considered if the lease does not expire prior to loan maturity.
 3. Escrow accounts may be required for taxes and hazard insurance when Loan-To-Value exceeds fifty percent (50%).
 4. Commercial Loan Policy underwriting criteria will also be considered.
 5. The Board may require additional due diligence and research on loans at its sole discretion.

D. Appraisal Requirements

1. Licensed Montana commercial appraisers are preferred unless a specialized property collateral requires an out-of-state appraiser.
2. Requirements apply to all appraisals irrespective of the Lender's appraisal or loan policy appraisal requirements and are based on the total loan amount shown below:
 - a) Up To \$500,000 - As required by Board to provide basis for value.
 - b) Over \$500,000 - Appraisal Report, as defined by the Uniform Standards of Professional Appraisal Practice.

E. Job Creation/Retention Requirements

1. One job is equal to the Private Annual Wage shown on the weekly posted Commercial Loan Rate Sheet.
2. 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.
3. 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.
4. Job credits are not available unless one whole job is created.
5. Job credit interest rate reductions are not available for jobs paying less than the state minimum wage.
6. 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.

7. 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.

F. 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

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Businesses meeting the NAICS definition of a heavy medium or light construction enterprise.		NO
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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.
13. Loans must cash flow with coverage at one and a quarter times (1.25X) debt service.
14. The Board may require additional due diligence and research on loans at its sole discretion.

H. 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.

2. Substantially equal qualifications mean the qualifications of two (2) 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.
3. 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 18-2-401, MCA.

Authority: Montana Code Annotated, Art. VIII, Section 13
Section 2-15-1808, MCA
Section 17-6-201, MCA
Title 17, chapter 6, part 3, MCA
Title 18, chapter 2, part 4, MCA
ARM 8.97.1301 and 8.97.1308 through 8.97.1310

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