

Montana State Small Business Credit Initiative (MT SSBCI) Loan Policy

1. INTEREST RATES

- (a) The Montana State Small Business Credit Initiative (MT SSBCI) loan interest rate will be indexed to the Montana Board of Investments (MBOI) posted interest rates and applies to the CDFI/RLF participated portion of the Lender loan.
- (b) For loans with amortizations of 15 years or less, the interest rate will be the MBOI posted interest rate minus 300 basis points (3.00%) plus lender service fee.
- (c) For loans with amortizations over 15 years, the interest rate will be the MBOI posted interest rate minus 200 basis points (2.00%) plus the lender service fee.
- (d) Lender service fee cannot exceed 50 basis points (0.50%).
- (e) The interest rate applicable to the loan will be the interest rate, as defined in (b), (c) and (d) above in effect on the day the loan application is received by the Governor's Office of Economic Development (GOED).
- (f) MBOI interest rates change every Thursday.
- (g) The servicing CDFI/RLF will be assessed a 50 basis point (0.50%) service fee by the Montana Department of Commerce (DOC), to be assessed on the calendar quarter, on all outstanding loans.

2. APPLICATIONS AND COMMITMENT LETTERS

- (a) Completed applications submitted to the CDFI/RLF requesting the CDFI/RLF participation in a new loan with a lender, must be signed and include all required financial information.
- (b) Completed applications will be processed in the order in which they are received by the GOED.
- (c) All completed applications will be reviewed by the MT SSBCI Loan Committee.
- (d) Upon approval by the MT SSBCI Loan Committee, a commitment letter will be issued to the CDFI/RLF listing the terms and conditions that must be complied with, by the lender and CDFI/RLF, before the loan can be funded.

3. FUNDINGS

- (a) Funding documents required in the commitment letter must be received by the CDFI/RLF prior to funding.
- (b) The CDFI/RLF must submit a letter to the DOC requesting distribution of MT SSBCI funds, certifying the conditions of the Commitment Letter have been complied with and attach a copy of all documents required in Schedule A of the Commitment Letter.
- (c) After the CDFI/RLF funds the participation with the lender, the CDFI/RLF must send a copy of the completed and signed participation certificate to the DOC.
- (d) Fundings will occur on or around the 10th day of the month.
- (e) At least thirty (30)-days notice must be provided to be eligible for fundings.

4. INELIGIBLE LOANS

- (a) Loans classified as substandard, doubtful, loss or similar category in Lender's most recent examination report, or classified as watch, substandard, doubtful, loss or similar category on the Lender's internal watch list.
- (b) Loans to businesses with classified loans at the Lender, other than the loan offered to the CDFI/RLF.
- (c) Loans for land development or speculative ventures.
- (d) Loans to pay delinquent taxes.
- (e) Loans to companies or individuals with a negative net worth.
- (f) Refinancing existing debt where the lender is in a position to sustain a loss and the government (state and/or federal) would take over that loss through refinancing. (Regulation)
- (g) Effecting a partial change of business ownership or a change that will not benefit the business. (Regulation)

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- (h) Permitting the reimbursement of funds owed to any owner, including any equity injection or injection of capital for the business continuance. (Regulation)
- (i) Repaying delinquent state or federal withholding taxes or other funds that should be held in trust or escrow. (Regulation)
- (j) Financing a non-business purpose. (Regulation)
- (k) Real estate investment firms, when the real property will be held for investment purposes as opposed to loans to otherwise eligible small business concerns for the purpose of occupying the real estate being acquired. (Regulation)
- (l) Firms involved in lending activities, such as banks, finance companies, factors, leasing companies, insurance companies (but excluding agents of insurance companies), and any other firm whose stock in trade is money. (Regulation)
- (m) Pyramid sales plans, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants. (Regulation)
- (n) Firms engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted. Included in these activities is the production, servicing, or distribution of otherwise legal products that are to be used in connection with an illegal activity, such as selling drug paraphernalia or operating a motel that knowingly permits illegal prostitution. (Regulation)
- (o) Gambling activities, including any business whose principal activity is gambling. While this precludes loans to racetracks, casinos, and similar enterprises, the rule does not restrict loans to otherwise eligible businesses, which obtain less than one-third (33.33%) of their annual gross income from either the sale of official state lottery tickets under a state license, or legal gambling activities licensed and supervised by a state authority. (Regulation)
- (p) Charitable, religious, or non-profit or eleemosynary institutions, government-owned corporations, consumer and marketing cooperatives, and churches and organizations promoting religious objectives are not eligible, unless the project is for business purposes. (Regulation)
- (q) Loans made to executive officer, director, or principal shareholder, or any member of the immediate family of an executive officer, director, or principal shareholder or a related business of any such executive officer, director or principal shareholder of any financial institution lender. (Regulation)
- (r) Borrowers that have more than 750 employees. (Regulation)

5. COLLATERAL REQUIREMENTS:

- (a) The collateral must have sufficient equity to support the debt and will be shared proportionately with Lender by the CDFI/RLF.
- (b) Loan-to-Value is based on lesser of reasonable project costs (including architecture, engineering and capitalized interest) or market value appraisal, whichever is less. The loan must not be greater than the value of the collateral.
- (c) Personal guaranty's as required by Lender or the CDFI/RLF.
- (d) If Lender requires, an attorney opinion on authority of borrower to borrow and all collateral documents.
- (e) Other collateral as required by Lender, CDFI/RLF or MT SSBCI Loan Committee.

6. APPRAISALS

- (a) Licensed Montana appraisers are preferred unless specialized property collateral requires an out of state appraiser.
- (b) Appraisal requirements are shown below:
Real Property Primary Collateral:

Up To \$250,000

As required by Lender to provide basis for value

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\$250,001 to \$500,000	USPAP*– rule 2-2(b) Summary appraisal by lender-approved appraiser
Over \$500,000	USPAP*– rule 2-2(a) Complete self-contained appraisal by lender-approved appraiser

*Uniform Standards of Professional Appraisal Practice

7. OTHER COMMERCIAL LOAN POLICY CONSIDERATIONS

- (a) Investor properties must independently cash flow with a debt coverage ratio of at least 1 to 1 on a 20-year amortization. For loans with amortizations greater than 20 years, the 1 to 1 debt coverage ratio will be calculated using the proposed amortization. The CDFI/RLF may establish a higher coverage ratio depending on economic conditions and/or industry.
- (b) Lenders submitting an application to the CDFI/RLF, requesting the CDFI/RLF participation in a new loan under this loan program and who are already Approved Lenders with the MBOI, will be required to adhere to the terms and conditions contained in their existing Montana Board of Investment's Approved Lender Commercial Servicing Agreement, executed and in effect between the MBOI and the Approved Lender, when servicing any loans submitted to the CDFI/RLF under the MT SSBCI loan program.
- (c) Lenders, who are not MBOI Approved Lenders, must complete the Approved Lender Commercial Servicing Agreement prior to the submission of a MT SSBCI application.
- (d) Lenders will be required to submit various data as required by the state and/or federal government under the MT SSBCI loan program. (Regulation)
- (e) The CDFI/RLF will proportionately participate in any prepayment penalty required by the Lender.
- (f) Environmental risk assessment as required by Lender.
- (g) Escrow impounds may be required for taxes & hazard insurance when Loan-To-Value exceeds 50%.
- (h) Any time a Lender downgrades a MT SSBCI loan participated with the CDFI/RLF, the Lender must notify the CDFI/RLF of the downgrade and submit to the CDFI/RLF the most recent lender credit review and an explanation why the credit was downgraded, within 30 days of the downgrade.
- (i) The Treasury Department requires by the end of December 2016, for every dollar used under the MT SSBCI loan program by the CDFI/RLF, at least ten dollars of new small business financing (including borrower's cash contribution) is generated by the Lender directly associated with the MT SSBCI participated loan. The Treasury calls this the "leverage ratio". Initially the CDFI/RLF will be limited to a 50% participation in each Lender loan however, the MT SSBCI Loan Committee reserves the right to increase the participation percentage, on a case-by-case basis, depending on the current leverage ratio of all outstanding CDFI/RLF loans using MT SSBCI funds.
- (j) Agricultural loans for machinery and equipment and/or real estate are eligible.
- (k) Loans considered for MT SSBCI funding must comply with Lender and CDFI/RLF loan policies.
- (l) Loan applications must include signed proof (i.e. loan committee minutes, lender certification of approval, etc.) of official approval by the Lender and/or the CDFI/RLF.

8. JOB CREATION INTEREST RATE REDUCTION

- (a) Borrowers who create jobs as a result of the participation in a Lender commercial loan, by a CDFI/RLF, using MT SSBCI funds are entitled to an interest rate reduction of .05% for each qualifying job created up to a maximum of 2.50%.
- (b) The interest rate reduction only applies to the base interest rate on the participated portion of the loan and does not apply to the lender service fee.

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- (c) One job is equal to the Private Annual Wage shown on the weekly Posted Rate Summary Sheet.
- (d) For jobs paying more than the Private Annual Wage, job credits will be increased proportionately for each 25% increment above the Private Annual Wage to a maximum of two jobs.
- (e) For jobs paying less than the Private Annual wage, job credits will be reduced proportionately for each 25% increment below the Private Annual Wage.
- (f) Job credits are not available unless one whole job is created.
- (g) Job credit interest rate reductions are not available for jobs paying less than the minimum wage provided for in 39-3-409, MCA.
- (h) 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.
- (i) The CDFI/RLF may increase the interest rate commensurate with the number of jobs eliminated if the borrower eliminates 10 or more qualifying jobs. Lenders must notify the CDFI/RLF if the borrower eliminates qualifying jobs.
- (j) The beginning date for counting jobs created is the date of the formal written interim or permanent loan application submitted to the Lender.
- (k) Applications for interest rate reductions may be delivered to the CDFI/RLF with the loan funding documents or at least 10 working days before the end of each calendar quarter.
- (l) The business seeking an interest rate reduction must provide payroll records as evidence of the creation of jobs.
- (m) The CDFI/RLF shall notify the Lender within fifteen (15) working days what action has been taken on an interest rate reduction request.
- (n) 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.
- (o) Interest rate reductions provided in this part will be effective on the next scheduled payment date.
- (p) The posted Private Annual Wage and State of Montana minimum wage will be used in calculating a job creation interest rate reduction request.

9. PROJECT SPECIFIC REQUIREMENTS

- (a) 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 MCA, in the performance of the work on the projects if their qualifications are substantially equal to those of nonresidents. "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.
- (b) Funds from this specific loan program will not be used for construction financing. The CDFI/RLF will participate in the term loan, the proceeds of which would be used to pay off the construction loan.
- (c) **The following statement must appear in either the Lender's Note or the Loan Agreement: "The Borrower agrees as a result of using MT SSBCI funds that it will provide the Lender and/or the Montana Department of Commerce with tracking data as required by the U.S. Treasury Department. This reporting requirement expires June 30, 2017."**

END OF POLICY