



State of Montana

Montana Department of Commerce
Community Development Division

Economic Development Administration

COMMUNITY DEVELOPMENT REVOLVING LOAN FUND PLAN

January 31, 2020-
January 31, 2025

PART I: REVOLVING LOAN FUND STRATEGY

A. ECONOMIC ADJUSTMENT OVERVIEW

In 1991, through federal Economic Development Administration and Montana Community Development Block Grant funds, the Community Development Revolving Loan Fund (EDA CD RLF) was created. The RLF is designed to stimulate economic activity by assisting the private sector create and retain jobs for low- and moderate-income persons and benefit community and downtown businesses throughout the state.

The EDA CD RLF program issues business loans to provide a variety of services and resources including business expansion, construction, working capital assistance, and equipment purchase. RLF funds are intended to be utilized for projects resulting in a funding gap and when alternative sources of public and private financing are not adequate.

B. BUSINESS DEVELOPMENT STRATEGY

1. Objectives:

Montana's EDA CD RLF, established in 1991, is designed to stimulate community and economic development activity by assisting the private sector to create or retain jobs in Montana's communities.

2. Targeted businesses:

Funding is targeted to businesses expanding business operations with construction, working capital and permanent equipment needs, with emphasis on projects located in areas which create and/or retain the largest number of permanent jobs and which have the greatest financial viability.

3. Business needs:

The EDA CD RLF program is designed to assist businesses by making fixed-rate financing available at reasonable interest rates, given the risk of the project. The program can provide flexible terms on loans primarily for working capital and equipment, or other non-construction related activities.

4. Other programs and activities:

The EDA CD RLF program is intended to complement conventional business financing techniques and those of other local, state, and federal programs such as the Small Business Administration. The program is also designed to complement the Montana Department of Commerce (MDOC) programs for business assistance such as the Community Development Block Grant Economic Development program, Workforce Training Grant program, Big Sky Economic Development Trust Fund (BSEDTF), and other federal or state programs.

C. FINANCING STRATEGY

1. Financing needs:

EDA CD RLF funds are intended to be used in situations where a funding gap exists and alternative sources of public and private financing are not adequate.

2. Local capital market:
The EDA CD RLF program is needed to offset financing challenges in Montana which limit economic development and growth such as:
 - i. Bank lending policies that may preclude loans to start-up firms or firms in early stages of maturity or in high risk ventures; and limited amount of equity financing and venture capital sources;
 - ii. Conservative lending policies by bankers; and
 - iii. High demand for public funding and affordable loan rates
3. RLF financing niche:
The EDA CD RLF generally aims to assist small locally owned and operated businesses in need of start up or expansion funding for construction, working capital, and permanent equipment. Loan and repayment terms are outlined under D. Financing Policies.

D. FINANCING POLICIES

1. Eligible lending area:
The EDA CD RLF program is a statewide loan program designed to help businesses retain and create jobs. The EDA CD RLF program targets small locally owned and operated businesses in communities throughout Montana.
2. Allowable borrowers:
Expanding and startup businesses, for-profit and non-profit organizations creating or retaining jobs in sectors including manufacturing, retail, and commercial service.
3. Allowable lending activities:
Lending activities that fall within the EDA CD RLF program include primarily construction, working capital, and equipment loans.
4. Loan size:
The ceiling for each loan is \$25,000 for each direct permanent full-time equivalent job created and/or retained. The final loan amount will be determined based on the availability of funds and overall programmatic requirements.
5. Interest rates:
The minimum interest rate that can be charged is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the *Wall Street Journal*, or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the *Wall Street Journal*. However, should the prime interest rate listed in the *Wall Street Journal* exceed fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability of the RLF recipient to implement its financing strategy.

6. **Terms:**

The term of the loan should be consistent with the projected use of funds, but can be adjusted based on individual project needs. At no time, shall the loan exceed 15 years. If a deferral of repayment is requested by the borrower and is accepted by MDOC, the term of the loan will include the deferred period. For example, a loan with a ten-year term with a one year deferral period has a total term of ten years, not eleven.
7. **Fees:**

The EDA CD RLF does not charge any fees, such as application, origination, or loan closing. Late fees of five percent (5%) may be assessed for loan payments received 10 days or more past due.
8. **Equity and Collateral:**

All loans must be secured with fixed assets (i.e., capital equipment, buildings, land), personal guarantees, or any other reasonable source of available collateral. EDA CD RLF funds may be placed in a subordinated position to other lenders involved in the project. Applicants must include documentation for the value of collateral offered for security and a description of all security positions held by lenders and any liens which may apply to the collateral (tax liens, mechanic liens, or other liens). The MDOC will negotiate with the applicant for the most secure position which is reasonably available, regardless of the proposed use of the EDA CD RLF funds (for example, fixed assets may be used to secure working capital loans).
9. **Moratoria:**

A loan deferral must be requested by a borrower. The request will be submitted to Community Development Division (CDD) staff for review and recommendation to the Commerce Director for final approval. The projected cash flow of the business and the defined financial gap must support the need for a deferral. Repayments of principal may be deferred up to one (1) year. Interest will accrue during the deferral period. MDOC may require interest payments be made during the period of deferral.
10. **Start-ups:**

Startup new businesses and existing businesses expanding operations are eligible for loan funding.
11. **Working Capital:**

Working capital loans are allowed, and will comprise a portion of the fund depending on market conditions and applicant needs.
12. **Credit not otherwise available:**

The applicant must provide evidence that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. Documentation could include, but may not be limited to, a letter of denial

of credit from a lending institution, personal financial statements supporting the business owner's inability to inject additional equity, etc.

E. PORTFOLIO STANDARDS AND TARGETS

1. Private sector leverage:

The EDA CD RLF program portfolio will, at a minimum, leverage private investment of two (2) dollars for every one (1) dollar of RLF loans.

To be classified as leverage, private investment must be made within twelve (12) months of approval of an RLF loan, as part of the same business development project, and may include:

- i. Capital invested by the borrower or others;
- ii. Financing from private entities; or
- iii. The non-guaranteed portions and ninety (90) percent of the guaranteed portions of the U.S. Small Business Administration's 7(A) loans and 504 debenture loans.

Private investments shall not include accrued equity in a borrower's assets.

2. Public Sector Leverage:

The EDA CD RLF program portfolio will consider public leverage, so long as the project also meets the private sector leverage and job cost ratio.

3. Job cost ratio:

The cost per job to be created and/or retained may not exceed \$25,000. This is determined by dividing the total number of permanent full time or full-time equivalent jobs to be directly created or retained by the borrower into the total amount of the EDA CD RLF loan requested.

F. RLF LOAN SELECTION CRITERIA

Applications will be reviewed and analyzed by CDD program staff on a "first come, first served" basis, as determined by the date the application is found to be complete by the MDOC. Application materials will be made available on the CDD website.

Program staff will work closely with applicants during the review and analysis process to negotiate any changes and resolve issues identified during the review. Program staff will consult the applicant's contacts before an application is deemed complete and a loan write-up is submitted to the Grant/Loan Review Committee. The MDOC may ask applicants to make modifications to their applications to meet programmatic compliance issues, and to clarify or provide additional information for their applications.

The application will be analyzed on the:

- Need for the EDA CD RLF assistance and the appropriateness of the proposed use of EDA CD RLF funds;
- Number of jobs to be created and/or retained due to the EDA CD RLF loan;
- Presented financial strength of the business plan and financial statements;

- Appropriateness of the proposed terms (i.e., security, interest rate, etc.) of the EDA CD RLF loan; and
- Past performance of the business or principals.

G. PERFORMANCE ASSESSMENT PROCESS

The EDA CD RLF will be managed according to its EDA approved RLF Plan. The performance of the fund will be measured with reporting, local visits as deemed necessary, and the overall success of the businesses receiving EDA CD RLF loans. In accordance with regulations, the EDA CD RLF Plan will be updated as necessary in accordance with changing economic conditions and programmatic requirements. At a minimum, an updated RLF Plan will be submitted to EDA every five (5) years. EDA CD RLF plans will be reviewed and approved prior to submission by the Grant/Loan Review Committee, Community Development Division Administrator, and the Department Director.

PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. ORGANIZATIONAL STRUCTURE

1. Critical operational functions:

The majority of the critical operational functions will be conducted by CDD program staff. CDD program staff will rely on other MDOC programs and/or staff when warranted for specific expertise. MDOC support may include various Division, and Agency management; various Communications, Legal, and Fiscal staff; and business technical assistance providers such as Montana's Small Business Development Centers or Certified Regional Development Corporations.

2. Loan administration committee:

The Grant/Loan Review Committee is comprised of Community & Economic Vitality Program staff within the Community Development Division of MDOC, and the Community Development Division Administrator.

These positions will review funding applications, conduct analyses of proposals, conduct financial underwriting, and determine loan recipient recommendations.

The Committee will make a recommendation to the MDOC Director, who will make the final decision on the loan.

3. Conflicts of interest:

The MDOC will take steps to ensure that interested parties comply with conflict of interest provisions. An "Interested Party" is defined in 13 C.F.R. § 300.3 as "any officer, employee or member of the board of directors or other governing board of the MDOC, including any other parties that advise, approve, recommend or otherwise

participate in the business decisions of the MDOC, such as agents, advisors, consultants, attorneys, accountants or shareholders.” An Interested Party also includes the Interest Party’s “Immediate Family” (defined in 13 C.F.R. § 300.3 as a person’s spouse (or domestic partner or significant other), parents, grandparents, siblings, children and grandchildren, but does not include distant relatives, such as cousins, unless the distant relative lives in the same household as the person) and other persons directly connected to the Interested Party by law or through a business arrangement.

The MDOC will establish safeguards to prohibit an Interested Party from using its position for a purpose that constitutes or presents the appearance of personal or organizational conflicts-of-interest or of personal gain. (See 13 C.F.R. § 302.17(a) and (b), 15 C.F.R. §§ 14.42 and 24.36(b)(3), and Forms SF-424B (*Assurances – Non-Construction Projects*) and SF-424D (*Assurances – Construction Projects*), and 7-5-4109, MCA (as applicable) regarding the avoidance of conflict of interest.)

An Interested Party must not receive any direct or indirect financial or personal benefits in connection with this Award or its use for payment or reimbursement of costs by or to the MDOC. A financial interest may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a sub-award. An appearance of impairment of objectivity could result from an organizational conflict where because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field. (See 13 C.F.R. § 302.17(a) and (b).)

In addition to the rules set forth in 13 C.F.R. §302.17(a) and (b), the MDOC will adhere to these special conflicts-of-interest rules set out in 13 C.F.R. §302.17(c):

- i. An Interested Party of MDOC will not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF loans;
- ii. MDOC will not lend RLF funds to an Interested Party; and
- iii. Former committee members of MDOC and members or his or her Immediate Family will not receive a loan from the RLF for a period of two (2) years from the date that the member last served.

B. LOAN PROCESSING PROCEDURES

I. Standard loan application requirements:

To be considered complete, an EDA CD RLF loan application must include:

- i. A narrative project summary that provides sufficient information to explain the primary purpose for the funding request and what the funds will be utilized for;
- ii. A Hiring and Retention Plan indicating the number of full-time equivalent jobs to be created and/or retained due to the funding request;

- iii. A project funding summary (sources and uses forms) indicating what other funds are part of the overall project for which the funding is being requested. If private sector lenders or investors, or any public sector or nonprofit entities have resources involved in the project, documentation, such as commitment letters must be included.
- iv. A Business Plan, that at a minimum, discusses;
 - a. Business Description;
 - b. Business Objectives;
 - c. Products or Services;
 - d. Market Analysis;
 - e. Marketing Strategy; and
 - f. Management Plan
- v. Historical Financial Statements (Balance Sheet, Profit & Loss Statement, Cash Flow, Reconciliation of Net Worth, and Current Aging of Accounts Receivables and Accounts Payables) and, if applicable, Tax Returns for two (2) most recent years of operations;
- vi. Projected Financial Statements (Balance Sheet, Profit & Loss Statement, and Cash Flow) for two (2) years;
- vii. Debt Schedule;
- viii. Financial Statements, and if applicable, Tax Returns for individuals with 20% or more of ownership; and
- ix. Credit Check Release Form.

2. Credit and financial analysis:

The application will be analyzed based on completeness, financial feasibility, and to determine whether the projects meets the purpose of the EDA CD RLF based on the documentation provided.

Credit reports will be reviewed for the business and individuals with more than 20% ownership.

Documentation evidencing that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed will be reviewed.

3. Environmental reviews:

All EDA CD RLF loans are subject to the National Environmental Policy Act and the Montana Environmental Policy Act. Both laws seek to avoid adverse impacts on the environment by mandating careful consideration of the potential impacts on any development assisted with federal funds or approved by a state agency.

4. Loan write-up:

Applications that are received and accepted as complete, will have an analysis completed and a recommendation prepared by the Grant/Loan Review Committee. The recommendation will recap how the application meets EDA CD RLF program

requirements such as funding requested, leveraged funds, job creation/retention, proposed terms for the loan.

5. Procedures for loan approvals:

Upon completion, the EDA CD RLF Grant/Loan Review Committee analysis and recommendation will be submitted to the Community Development Division Administrator, and the Department Director for final review and funding decision. Applications will be reviewed in the order in which they are submitted as complete applications to the MDOC. However, if more than one application is submitted to the MDOC in the same loan review cycle, they will be reviewed and/or funded in the order of the dates on which the applications were determined to be complete.

The Grant/Loan Review Committee will make a recommendation, based on application review and financial underwriting analysis, to the MDOC Director, who will make the final decision on loan applications. If the application is approved, a commitment letter will be sent to the applicant stating the funding amount, interest rate and term, and any conditions that apply. If the application is not approved, a letter will be sent to the applicant stating the reasons for the decision. The date of the funding award, announced by the Director of Commerce, will be the date of funds become available for project use.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

I. Loan closing documents:

Prior to disbursing funds, the MDOC will ensure the standard loan documents include, at a minimum, the following:

- i. Loan application;
- ii. Loan agreement;
- iii. Loan Review Committee meeting minutes approving the RLF loan;
- iv. Promissory note;
- v. Security agreement(s);
- vi. Deed of trust or mortgage (as applicable);
- vii. Agreement of prior lien holder (as applicable);
- viii. Personal or Corporate guarantee (as applicable); and
- ix. Appropriate documentation demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.

2. Loan agreement provisions:

EDA CD RLF loan agreement language includes the following:

- i. Terms requiring the borrower to use the loan proceeds solely for the activities proposed in its application.
- ii. Indemnification language holding the Federal government harmless from and against all liabilities that the Federal government incur as a result of providing an RLF grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site.

- iii. Terms requiring the borrower to comply with all applicable Federal laws, regulations, ordinances, and resolutions.
 - iv. Terms specifying the borrower's failure, inability, or unwillingness to comply with any applicable Federal laws, may be regarded as an event of default.
3. Loan disbursement:
No funds will be disbursed until all start-up conditions are met and EDA CD RLF program staff authorizes a transfer of funds. Funds may be disbursed via check or electronic transaction.

D. LOAN SERVICING PROCEDURES

1. Repayment:
Borrowers will make payments to the MDOC in accordance with the executed loan documentation. Loan payments will be collected via the Automated Clearing House (ACH) system unless loan recipients request to make payments by check. All loan payments will be deposited into the EDA CD RLF account.
2. Monitoring:
Borrowers will be required to submit quarterly financial statements during the first two (2) years after receipt of the loan. Throughout the life of the loan, borrowers may be required to provide annual financial statements. The MDOC will receive copies of all insurance notifications sent to the borrowers. UCC filings will be renewed every five (5) years. The collateral backing a loan may be assessed every three (3) years. The MDOC will visit the borrower at least once for a monitoring visit, and schedule additional visits if determined necessary.
3. Loan files:
Each EDA CD RLF loan will have a file established. Each file will include a copy of the full loan closing documents (see Part II, C. 1. above). In addition to these documents, the file will also include:
- i. UCC filings;
 - ii. Insurance certifications;
 - iii. Financial statements;
 - iv. Employment reports;
 - v. General correspondence and other relevant requirements listed within this document

Loan files may be maintained using hard copies, electronic copies, or some combination thereof.

Official copies of all original loan agreements, promissory notes, security agreements, personal, and corporate guarantees are maintained by the MDOC electronically to meet accepted state legal requirements.

Loan files will be maintained for a five-year (5) period from the date of final disposition of a closed loan. The date of final disposition of a closed loan is the date:

- i. Principal, interest, fees, penalties and all other costs associated with the closed loan have been paid in full; or
- ii. Final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the closed loan have occurred.

4. Job creation/retention:

The primary goal of the EDA CD RLF is to stimulate economic activity by assisting the private sector create and retain jobs for low- and moderate-income persons and benefit community and downtown businesses throughout the state.

As part of the loan application, the borrower must provide a signed Hiring and Retention Plan, which is incorporated into the Loan Agreement at loan closing. A payroll report for the time-period immediately prior to the application date must also be submitted to establish the borrower's base employment level.

Only permanent jobs may be counted. Jobs will be converted into full-time equivalent positions. A full-time equivalent employee is an individual who is employed for 40 hours a week on the average, or a combination of individuals whose combined hours of employment equal 40 hours per week.

The Hiring and Retention Plan, at a minimum, must include the following:

- i. A breakdown of the jobs to be created or retained indicating the percentage which are full-time, part-time, skilled, semi-skilled, or unskilled'
- ii. A breakdown of the jobs to be created indicating the job titles and descriptions and the rates of compensation. For applications proposing positions involving less than full-time employment, an estimate of the number of hours to be worked each week or months to be worked each year for each position must be included;
- iii. A timetable for creating the jobs;
- iv. An assurance that equal opportunity and nondiscrimination laws will be complied with;
- v. Procedures for outreach, recruitment, screening, selection, training and placement of workers which will ensure maximum access for local residents; and
- vi. Written commitment from the borrower to comply with the plan.

During the first two (2) years after receipt of the loan, the borrower must provide regular (quarterly) Hiring and Retention Reports with supporting payroll reports verifying current employees, hire dates, hourly wages, and number of hours worked.

5. Defaulted loans:

Borrowers will be notified immediately if their loan payment is not received by the 10th day after which a payment is due.

Payments received 10 days or more past due dates will be assessed a five percent (5%) late fee.

If a payment is not received within 30 days, program staff will call the business.

If a payment is not received within 45 days, program staff will arrange an onsite meeting with the borrower to assess the situation.

If a loan is over 90 days in arrears, it may be declared in default and appropriate recovery action will be taken if the loan is not brought current.

If the borrower requests a deferral of payment obligation, or other loan modification, the request will be submitted to EDA CD RLF staff.

Any proceeds received on a defaulted loan will be applied in the following order of priority:

- i. First, towards any costs of collection;
- ii. Second, towards outstanding penalties and fees;
- iii. Third, towards any accrued interest to the extent due and payable; and
- iv. Fourth, towards any outstanding principal balance.

6. Write-offs:

In the event all efforts to bring a loan current fail and default is declared by the MDOC, the MDOC will write-off the loan when all possible value from loan collateral has been realized.

E. ADMINISTRATIVE PROCEDURES

1. Accounting:

The EDA CD RLF will operate in accordance with generally accepted accounting principles ("GAAP") and the provisions outlined in OMB Circular A-133 and the Compliance Supplement, as applicable.

2. Administrative costs:

"Program income" is any interest income earned from EDA CD RLF supported activities such as from loans for economic and community development. "Program income" also includes any loan fees and penalties.

Program income will be used for administrative costs for the EDA CD RLF's operations. The program income and administrative costs will be incurred in the same six-month (6) reporting period. It is anticipated that a maximum of fifty percent (50%) would be used during any reporting period to cover administrative costs. Program income not used to cover administrative costs will be made available for lending activities. If applicable, an EDA CD RLF Program Income and Expense Statement will be completed.

Adequate accounting records and source documentation that substantiate the amount and percent of program income expended for eligible EDA CD RLF administrative costs will be maintained. These records will be retained for three (3) years from the submission date of the last semi-annual report that covers the reporting period for which such costs were claimed.

3. Capital Utilization & Sequestration:

While the Capital Base is below \$1 million, at least eighty percent (80%) of the RLF Capital will be loaned or committed.

As required, excess funds will be deposited to an interest-bearing account, and as necessary, the attributable Federal Share portion of interest earned will be remitted to the U.S. Treasury. Written authorization from the EDA is required prior to any withdraw of sequestered funds.

4. EDA Reporting:

The required semi-annual report and loan portfolio data will be submitted to the EDA in the format and timeframe as directed by EDA. This report will include certification that the RLF is operating in accordance with the applicable RLF Plan. If either fifty percent (50%) or more (or more than \$100,000) of RLF Income is used for administrative costs in the six-month Reporting Period, an Income and Expense Statement (form ED-209I) will also be submitted.

5. Audits:

Statewide Biennial Single Audit Reports are completed by Montana's Legislative Audit Division and issued by the end of March of even-numbered years.