

Montana Department of Commerce SSBCI 2.0 LPP Administrative Expense Policy Effective 5/01/2026

Purpose

This policy establishes clear and enforceable guidelines for the use of administrative expenses by participating CDFIs and RLFs under Montana's State Small Business Credit Initiative 2.0 (MT SSBCI 2.0).

This policy is intended to ensure that all SSBCI funds, including interest earnings on both deployed and non-deployed funds, are used solely for authorized purposes and are not treated as unrestricted funds.

It is further intended to ensure compliance with federal requirements while applying a higher standard of accountability to protect program integrity, maximize capital deployment to small businesses, and promote responsible stewardship of public funds.

Definitions

For the purposes of this policy, the following definitions apply:

Administrative Costs: Costs incurred for the general operation and oversight of SSBCI programs, as governed by 2 C.F.R. Part 200, Subpart E. These may include compensation of employees, materials, supplies, equipment, and professional services used to support the delivery of SSBCI-approved programs.

Approved Program: For the State of Montana, this refers specifically to the MT SSBCI 2.0 Loan Participation Program authorized under the Allocation Agreement with the U.S. Department of the Treasury.

Commerce: The Montana Department of Commerce, which serves as the Participating Jurisdiction's lead agency for SSBCI administration.

Participating Jurisdiction (PJ): The State of Montana, as authorized under the American Rescue Plan Act of 2021 to implement SSBCI programs with oversight from the U.S. Department of the Treasury.

Program Income: Income generated from SSBCI funds, including but not limited to:

- Interest earned on SSBCI loans;
- Interest earned on SSBCI funds held in interest-bearing accounts;
- Fees or other income generated through the use of SSBCI funds.

Program Income does not include repaid loan principal; however, returned principal remains subject to federal and state reuse requirements and must be redeployed in accordance with SSBCI guidelines.

1. Scope

This policy applies to all CDFI/RLFs enrolled in Montana's SSBCI programs that manage, hold, or generate Program Income as defined by the U.S. Department of the Treasury. CDFI/RLFs act as contractors to the State of Montana as the Participating Jurisdiction and are responsible for administering SSBCI funds in accordance with federal and state requirements.

2. Authority

This policy is issued pursuant to:

- The American Rescue Plan Act of 2021;
- The SSBCI Allocation Agreement;
- SSBCI Capital Program Policy Guidelines;
- SSBCI Reporting Guidance;
- 2 C.F.R. Part 200 (Uniform Guidance); and
- U.S. Department of the Treasury FAQs (Section XI: Administrative Costs).

Commerce reserves the right to implement more restrictive policies than the federal baseline requirements.

3. Program Income and Use of MT SSBCI Funds

Program Income is defined in accordance with the SSBCI Allocation Agreement Section 1.1 and includes but is not limited to:

- Interest earned on SSBCI loans
- Interest on SSBCI funds not invested or lent
- Returns on equity investments made with SSBCI funds
- Fees earned for services funded or supported with SSBCI funds

Program Income does not include repaid loan principal.

All SSBCI funds, including Program Income, must be used solely for the following purposes:

1. Administrative Costs that are reasonable, necessary, and allocable to the SSBCI program; or
2. Reinvestment into an Approved Program in accordance with SSBCI requirements.

Under no circumstances may SSBCI funds or Program Income be treated as unrestricted funds or used for purposes outside of the SSBCI program.

4. General Policy on Use of Program Income for Administrative Costs

CDFI/RLFs may use Program Income for administrative costs without prior written approval from Commerce, provided that all costs:

- Are reasonable and necessary for the administration of the SSBCI program;
- Are directly attributable to SSBCI program activities;
- Comply with 2 C.F.R. Part 200, Subpart E;
- Are adequately documented and supported;
- Are reported to Commerce in accordance with Section 9 of this policy; and
- Be limited to the **least amount necessary** to carry out approved SSBCI Program activities.

CDFIs and RLFs are expected to exercise prudent judgment in incurring administrative costs and to ensure that such costs are proportionate to the level of SSBCI activity conducted.

Commerce will rely on submitted reporting for oversight and will not require prior approval for standard administrative expenses; however, Commerce reserves the right

to review, question, or disallow costs that are not adequately supported or deemed unreasonable.

5. Administrative Expense Requests and Documentation Requirements

CDFI/RLFs must maintain documentation sufficient to support all administrative costs charged to Program Income, including:

- Detailed expense records;
- Allocation methodologies for shared costs;
- Time and effort reporting, where applicable;
- Contracts or invoices for third-party services.

Documentation must clearly demonstrate how each cost is attributable to SSBCI program activities. Commerce will review all reports for compliance with cost principles and may request clarification, supporting documentation, or modifications.

6. Prohibited Uses

Program Income **may not** be used to:

- Pay for litigation against the U.S. Government or Treasury or the State of Montana;
- Fund costs unrelated to the delivery of SSBCI-approved programs;
- Offset losses or cover gaps in unrelated lending activities;
- Provide excessive compensation or overhead unrelated to SSBCI-supported activities;
- Fund political activities or lobbying; and

- Any costs that are not adequately documented, justified, or allocable to the SSBCI program.

7. Pre-Approval Requirements for Default and Enforcement Actions

CDFI/RLFs must obtain prior written approval from Commerce before incurring administrative costs related to default, delinquency, or enforcement actions on SSBCI-supported loans. Such requests must include a summary of the situation, proposed actions, and anticipated costs.

Commerce must maintain visibility into risk management and enforcement decisions involving SSBCI funds.

8. Administrative Expense Limits

Administrative expenses will be evaluated for reasonableness based on the scale, complexity, and performance of the SSBCI program activities conducted by the CDFI/RLF. Commerce will evaluate each administrative request on a case-by-case basis. Commerce recognizes that Program Income levels may vary significantly based on factors such as loan volume, interest rates, and stage of program deployment.

Accordingly, administrative expenses will not be evaluated solely as a percentage of Program Income. Administrative expenses will be evaluated holistically, with consideration given to the level of effort required to originate, underwrite, service, and monitor SSBCI-supported loans, as well as the extent to which SSBCI funds are actively deployed to support small businesses.

In evaluating reasonableness, Commerce may consider factors including, but not limited to:

- Number and size of SSBCI transactions;
- Deployment rate of SSBCI funds;
- Geographic service area;
- Overall program performance;
- Complexity of transactions;
- The relationship between administrative expenses and the level of capital deployed to borrowers.

While administrative expenses may be compared to Program Income as a general indicator, higher percentages may be reasonable in circumstances where Program Income is limited, including smaller portfolios, lower interest rates, or early-stage deployment.

As a general benchmark, administrative expenses exceeding 15% of Program Income may receive additional review; however, such expenses will not be deemed unreasonable solely on that basis. Commerce will also consider whether administrative expenses are proportionate to SSBCI program activity and aligned with the goal of maximizing capital deployment to small businesses. Lower levels of deployment relative to available capital may result in increased scrutiny of administrative expenses. The existence of a pipeline of prospective transactions does not, in itself, justify the retention of SSBCI funds in interest-bearing accounts without corresponding loan originations.

For purposes of this section, servicing fees retained by Commerce shall not be considered administrative expenses of the CDFI or RLF as detailed in Section 7.1 Servicing Fees of the CDFI/RLF Loan Servicing Agreement.

Commerce reserves the right to disallow or require reimbursement of administrative expenses deemed excessive or inconsistent with program objectives.

9. Monitoring and Reporting

CDFIs and RLFs must submit quarterly reports describing the use of SSBCI funds for each approved program on both a quarterly and cumulative basis including the total amount of SSBCI funds used for direct and indirect administrative costs, the total amount of SSBCI funds used, and the amount of program income generated, and the amount of charge-offs against the federal contributions to the reserve funds set aside for any approved capital program.

Commerce intends to minimize additional reporting burden and will rely on existing reporting formats where possible. However, CDFI/RLFs must provide sufficient detail to allow Commerce to evaluate compliance with this policy. Commerce may request additional information or clarification as needed. CDFI/RLFs must retain all supporting documentation and provide such documentation upon request.

10. Compliance and Enforcement

This policy is mandatory and non-negotiable. Failure to adhere to its provisions may be considered a material breach of program participation and may result in enforcement



actions, including removal from Montana's SSBCI program and repayment of SSBCI Program funds.

Commerce will conduct periodic audits of administrative spending.

In the event of noncompliance, Commerce will provide written notice and may require corrective action within a specified timeframe.

Failure to cure identified deficiencies may result in enforcement actions, including but not limited to:

- Reimbursement of disallowed costs;
- Suspension of access to Program Income;
- Ineligibility for continued participation in SSBCI programs.