COMMERCE

Montana State Small Business Credit Initiative 2.0

Loan Participation Program (MT SSBCI 2.0 LPP) Policy

Updated January 31, 2025

The Montana State Small Business Credit Initiative 2.0 Loan Participation Program Policy was developed by the Montana Department of Commerce ("MDOC" or "Department") as a result of Montana's application and approval as a participating jurisdiction in the federal State Small Business Credit Initiative ("SSBCI") program ("Program") administered by the U.S. Department of the Treasury ("Treasury").

Purpose:

The MT SSBCI 2.0 LPP will be used to assist existing Montana businesses that need additional borrowings to stabilize, pivot, expand, or re-start their business and to assist new Montana businesses' entering the market. The MT SSBCI 2.0 LPP will partner with a network of stakeholders throughout the state to identify small business in their regions that could benefit from the program.

Definitions:

CDFI\RLF: An economic development organization that is a certified Community Development Financial Institution and/or manages revolving loan funds.

CDFI Investment Area: A geographic unit or contiguous geographic units, such as a census tract, located within the United States, that meets criteria established in 12 C.F.R. § 1805.201(b)(3)(ii). Treasury has provided a mapping tool for the borrower or investee to use to identify whether the relevant address is in a CDFI Investment Area at https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci/2021-ssbci/cdfi-fund-investment-areas.

Participating Lender: Participating Lenders serve as the implementing agency for the MT SSBCI 2.0 Loan Participation Program. These organizations are Community Development Financial Institutions or local economic development organizations with a revolving loan fund (CDFI/RLFs). They act as the middleman between the MT SSBCI 2.0 LPP and the Primary Lender throughout the loan lifecycle, including application, servicing, and reporting. Participating Lenders must be approved to participate in the MT SSBCI 2.0 LPP by executing an MT SSBCI 2.0 LPP CDFI/RLF Loan Servicing Agreement and complying with its terms and conditions contained therein. Furthermore, the Participating Lender must comply with the U.S. Department of the Treasury's SSBCI Guidance, Frequently Asked Questions (FAQs), and any changes or amendments that may follow.

Primary Lender: Primary Lenders are approved financial institutions, such as banks or credit unions, that provide the primary portion of loan capital in the MT SSBCI 2.0 LPP. They operate as the principal lender in the transaction and play the primary role in financing the loan. Primary Lenders must be approved to participate in the MT SSBCI 2.0 LPP by executing an MT SSBCI 2.0 LPP Lender Loan Servicing Agreement and complying with its terms and conditions contained therein. Furthermore, the Primary Lender must comply with the U.S. Department of the Treasury's SSBCI Guidance, Frequently Asked Questions (FAQs), and any changes or amendments that may follow.

Eligible Business: A for-profit or nonprofit business, cooperative or tribally owned business that is engaged in business activities in the state of Montana and must have fewer than 750 employees.

SEDI-Owned Business: Businesses owned and controlled by socially and economically disadvantaged individuals. Socially and economically disadvantaged individuals is defined in accordance with the criteria outlined for such individuals, as specified in the four groups of businesses set forth in Section IV.(a) of the SSBCI Capital Program Policy Guidelines [Treasury Guidelines pg. 9-10].

Very Small Business (VSB): A business with fewer than 10 employees at the time of the loan and may include independent contractors and sole proprietors. [Treasury Guidelines pg. 12-13]

Matured Loan: A matured loan or line of credit only includes such that have matured according to their terms and does not include a loan or line of credit that has been accelerated to maturity. Transferring an accelerated loan into an SSBCI program does not promote the purpose of expanding small business access to capital and would primarily benefit lenders rather than small businesses.

Program Overview:

The American Rescue Plan Act of 2021 (ARPA) reauthorized and amended the Small Business Jobs Act of 2010 (SBJA) to provide $10 billion to fund the SSBCI as a response to the economic effects of the COVID-19 pandemic. SSBCI is a federal program administered by the Department of the Treasury (Treasury) that was created to strengthen state programs that support private financing to small businesses. SSBCI is expected to, in conjunction with new small business financing, create billions of dollars in lending and investments to small businesses that are not getting the support they need to expand and create jobs.

The state of Montana is a participating jurisdiction in the SSBCI program and is responsible for managing Montana's allocation of ARPA funding. Montana has structured its program as a loan participation program in collaboration with Primary and Participating Lenders throughout the state. These guidelines outline the specifics of Montana's Loan Participation Program, which provides detailed direction on policies and practices allowable within the state. Montana's policy framework aligns with the U.S. Department of the Treasury State Small Business Credit

Initiative Capital Program Policy Guidelines but includes state-specific provisions tailored to address Montana's unique economic and business needs. The MT SSBCI 2.0 LPP must demonstrate a reasonable expectation that its program has the ability to use federal contributions to generate small business lending and investing of at least 10 times the federal contribution amount. [Treasury Guidelines pg. 26]

The guidelines first address eligibility criteria and loan requirements for accessing SSBCI funds. Subsequent sections provide details on the recycling of funds, which occurs as principal payments are received on active loans, ensuring ongoing support for small business growth in Montana.

Eligibility:

The MT SSBCI 2.0 LP program is available to existing Montana businesses and must have fewer than 750 employees. The funding and project term will be based upon application materials and application ranking criteria.

The MT SSBCI 2.0 LPP must expend a portion of its allocation on loans to assist VSBs and SEDI-Owned Businesses [Treasury Guidelines pg. 8-13]. The needs of SEDI-owned business are being addressed through the allocation of MT SSBCI 2.0 funds for loans to:

1. Business enterprises which certify that they are owned and controlled by individuals who have had their access to credit on reasonable terms diminished as compared to others in comparable economic circumstances, due to their:

    - Membership of a group that has been subjected to racial or ethnic prejudice or cultural bias within American society,
    - Gender,
    - Veteran status,
    - Limited English proficiency,
    - Disability,
    - Long-term residence in an environment isolated from the mainstream of American society,
    - Membership of a federally or state-recognized Indian Tribe,
    - Long-term residence in a rural community,
    - Residence in a U.S. territory
    - Residence in a community undergoing economic transitions (including communities impacted by the shift towards a net-zero economy or deindustrialization);
    - Membership of another "underserved community" as defined in Treasury guidance; OR

2. Business enterprises which certify that they are owned and controlled by individuals whose residences are in CDFI Investment Areas;

- Business enterprises which certify that they will operate a location in a CDFI Investment Area; and/or
- Business enterprises that are located in a CDFI Investment Area.

Eligible businesses must comply with all applicable state, federal, and local laws and are excluded from receiving funds if they are on the federal or state debarment list. Eligible businesses must be registered and in good standing with the Montana Secretary of State. All MT SSBCI 2.0 LPP applications must comply with the U.S. Department of the Treasury's SSBCI 2.0 guidelines, Frequently Asked Questions (FAQs), and any changes or amendments that may follow.

Ineligible Borrowers: The following are not eligible for SSBCI funding [Treasury pg. 21-23]:

- An executive officer, director, or principal shareholder of the financial institution lender;
- A member of the immediate family of an executive officer, director, or principal shareholder of the financial institution lender;
- A related interest of immediate family member of such an executive officer, director, or principal shareholder of the financial institution lender;
- State-regulated charitable, religious, or other non-profit or philanthropic institutions; government-owned corporation; consumer and marketing cooperatives; and faith-based organizations, unless the project is for a "business purpose;"
- A business engaged in speculative activities that profit from fluctuations in price, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business or through the normal course of trade;
- A business that earns more than half of its annual net revenue from lending activities, unless the business is (i) a CDFI that is not a depository institution or a bank holding company, or (ii) a Tribal enterprise lender that is not a depository institution or a bank holding company;
- A business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants;
- A business engaged in activities that are prohibited by federal law or, if permitted by federal law, applicable law in where the business is located or conducted (this includes businesses that make, sell, service, or distribute products or services used in connection with illegal activity, unless such use can be shown to be completely outside of the business's intended market); this category of businesses includes direct and indirect marijuana businesses, as defined in SBA Standard Operating Procedure 50 10 6; or
- A business deriving more than one-third of gross annual revenue from legal gambling activities, unless the business is a Tribal SSBCI participant, in which case the Tribal SSBCI participant is prohibited from using SSBCI funds for *gaming activities but is not

restricted from using SSBCI funds for non-gaming activities merely due to an organizational tie to a gaming business.

*"Gaming activities" for purposes of Tribal SSBCI programs is defined as Class II and Class III gaming under the Indian Gaming Regulatory Act (IGRA), 25 U.S.C. § 2703.

Eligible Participation Loan:

MT SSBCI 2.0 LPP loan funds may be used for any purpose allowed by U.S. Department of the Treasury State Small Business Credit Initiative Capital Program Policy Guidelines, including but not limited to: start-up costs; working capital; franchise fees; and acquisition of equipment, inventory, or services used in the production, manufacturing, or delivery of a business's goods or services, or in the purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes.

All loans supported by the Program must be originated by a Participating Lender with Commerce supplying a portion of the loan in collaboration with a Primary Lender.

Match for SSBCI: MT SSBCI 2.0 LPP requires, at a minimum, that each $1 of public investment by the program results in at least $1 of new private financing. Private financing includes funds provided by private sources to eligible borrowers, such as term loans, lines of credit, and new infusions of cash by the small business owner. Financing supported by tax-credit vehicles, such as those capitalized through the sale of state tax credits, is not considered private financing.

With this private investment financing requirement, a CDFI\RLF may act as both the Primary Lender and the Participating Lender in an MT SSBCI 2.0 LPP loan. However, the Primary Lender portion of the funds must be certified as not being sourced from or commingled with federal, state, or local public funds. This assurance must be provided to MT SSBCI 2.0 LPP prior to the loan transaction.

Under SSBCI Guidance, lenders must provide a meaningful match of their own capital resources to complement public funds. The program's **preferred loan participation rate** is 30% MT SSBCI 2.0 LPP funds matched with 70% Private Capital at Risk (PCAR). The **maximum loan participation rate** is 50% MT SSBCI 2.0 LPP funds matched with 50% PCAR.

To ensure lenders maintain a significant level of private financial risk, they must match at least 50% of the risk of loss in each transaction. A borrower's personal funds, including equity contributions, do not count toward this match or the PCAR threshold.

Primary Lenders participating in the MT SSBCI 2.0 LPP must adhere to risk retention requirements to ensure alignment with Treasury Guidance. If a lender transfers loans to debt investors, the lender must retain at least 5% of the risk of loss for the transaction. Additionally, if a lender wishes to sell any portion of their retained participation in an MT SSBCI 2.0 LPP-supported loan, prior written approval from the MT SSBCI 2.0 LPP is required. After the sale, the lender must continue to retain no less than 5% of the risk of loss.

Loan Amount: There is no minimum loan amount for participation. The maximum loan amount for Commerce's portion of the loan is $1,000,000.00 (One Million Dollars) per eligible borrower. The MT SSBCI 2.0 LPP will not provide credit if a given transaction exceeds $20,000,000.00 ($20 Million).

Participation Loan Requirements

Collateral Requirements: The collateral must demonstrate sufficient value to support the debt and may be shared proportionately between the lender and the CDFI or Revolving Loan Fund (RLF). The collateral may be held in a subordinated position with the lender or the CDFI/RLF.

The loan-to-value ratio is determined by the lesser of the reasonable project costs, which may include expenses such as architecture, engineering, and capitalized interest, or the market value as established by an appraisal. The total loan amount must not exceed the value of the collateral.

Loan participation documents under MT SSBCI 2.0 must include a "Due on Sale" clause and must not include "Future Advance" or "Cross Collateral" clauses associated with other lender loans.

Any loan with an outstanding MT SSBCI 2.0 funded participation that is refinanced must have the participation portion paid off in full. Additional collateral may be required by the Primary Lender, the Participating Lender, or the MT SSBCI 2.0 LPP as appropriate.

Guarantees: Personal or Corporate guarantees as required by the Primary Lender, the Participating Lender, or the MT SSBCI 2.0 LPP. For a Qualified Passive Company (Holding Company):

- Operating company must be a guarantor or a co-borrower; and
- Each natural person with a 20% or more ownership interest in the operating company or passive company must guarantee the loan [Treasury Guidelines pg. 18-19].

Appraisal/Valuation: Appraisal\Valuation as required by the Primary Lender. Licensed Montana appraisers are preferred unless specialized property collateral requires an out of state appraiser.

Lending Protection Safeguards: The MT SSBCI 2.0 LPP and their participants must conform to the below minimum national customer protection standards:

- **Rate Cap:** The interest rate for each individual loan, at the time of obligation, may not exceed the National Credit Union Administration's (NCUA) interest rate ceiling for loans made by federal credit unions as described in 12 U.S.C. § 1757(5)(A)(vi)(I) and set by the NCUA board. The NCUA's permissible interest rate ceiling supports its mission to protect credit unions and its consumers. In choosing to adopt the NCUA interest rate ceiling, Treasury aims to ensure that small businesses that participate in SSBCI receive loans that are economically beneficial to them. [Treasury Guidelines pg. 44]
- **Disclosure of Terms:** SSBCI-supported transactions must include disclosure by the lender of all key terms in an easy-to understand manner including, but not limited to, loan/investment amount; payment obligation/schedule; terms providing control over cash balances, cash flows, or ownership; conversion rights; future rights to purchase equity; and any fees or extra costs. [Treasury Guidelines pg. 45]

Term and Amortization: The amortization period of a loan in which MT SSBCI participates must not exceed 20 years (240 months). If a loan in which SSBCI participates has a maturity date other than the amortization period maturity date, SSBCI will expect to be paid off at the first maturity date, UNLESS the first maturity date is used to change the interest rate (variable interest rate), create a new maturity date, and payment. The lender must ONLY make a "Change in Terms" document and NOT change any other loan documents submitted to SSBCI as required in the SSBCI commitment letter.

The SSBCI and lender participation percentage, as stated in the commitment letter, must remain the same for the duration of the loan.

Maximum allowable terms for each loan type are as follows:

- **Working Capital Loans:** Maximum loan term of 7 years.
- **Equipment Loans:** Consistent with the useful life of the equipment and individual project needs, with a maximum loan term of 10 years.
- **Lines of Credit (LOC):** The MT SSBCI 2.0 Program may participate in a LOC so long as the LOC is not revolving and must be a draw down LOC. The term should align with project needs but cannot exceed 7 years.
- **Real Estate:** Maximum allowable term of 10 years. The Program may participate in construction loans that convert to permanent financing. R/E secured loans may be amortized up to 20 years so long as the participated portion of the funds is paid off within the maximum loan term.

  EPC\OC: A business may receive loans for both an Eligible Passive Company and an Operating Company provided that all conditions of Business Purpose: Passive Real

Estate Investment Guidance – 12 U.S.C. § 5704(e)(7)(A)(i)(I) are met [Treasury pg. 19-20]. Primary Lenders are encouraged to reach out to Program Staff or Participating Lenders during their underwriting process to ensure alignment with Program requirements for EPC\OC Real Estate transactions.

MT SSBCI 2.0 LPP ultimately determines the participation balance of the loan and reserves the right to recommend a reduced amount or term.

Interest Rate: The interest rate on the MT SSBCI participated portion of the loan is based on the amortization period of the loan. The interest rate on MT SSBCI portion of funds will be fixed for the term of the loan as follows:

- Up to 3-year term with monthly payments – 50 basis points (0.50%)
- 3-year up to 5-year term with monthly payments – 100 basis points (1.00%)
- 5-year up to 7-year term with monthly payments – 150 basis points (1.50%)
- 7-year up to 10-year term with monthly payments – 200 basis points (2.00%)
- 10-year up to 15-year term with monthly payments – 250 basis points (2.50%)
- 15-year to 20-year amortization with monthly payments – 300 basis points (3.00%)
- Any intermediate term amortization will be at the next tier higher interest rate.

If the loan is amortization other than monthly, the MT SSBCI 2.0 interest rate will be increased by 50 basis points (0.50%). Participating and\or Primary Lenders may charge a service fee, which cannot exceed 50 basis points (0.50%) per Lender.

Fees: SSBCI-supported transactions may not include (i) confessions of judgment; (ii) pre-payment or double-dipping fees; or (iii) upfront fees or charges paid by the small business, excluding fees to the state program, that exceed 3 percent for loans greater than $25,000 or $750 for loans under $25,000. Upfront fees or charges that count toward this cap include, but are not limited to, application fees, origination fees, and document preparation fees. The 3 percent cap on upfront fees or charges for loans greater than $25,000 is based on SBA's treatment of fees pursuant to 13 C.F.R. § 107.860.

Upfront fees or charges that count toward this cap include, but are not limited to, application fees, origination fees, and document preparation fees. Primary Lenders may also charge small business borrowers for out-of-pocket expenses the lenders incur that are common to commercial loan transactions. Payment of these expenses is not subject to the cap, provided the out-of-pocket expenses are reasonable and customary. Out-of-pocket expenses may include, but are not limited to, out-of-pocket expenses for title insurance, title examination, property surveys, appraisals, environmental site assessments, notarizations, and credit reports. Note that out-of-pocket expenses do not include salaries and wages paid to employees of the lender. [Treasury Guidelines pg. 44-45]

Loans for Refinancing [Treasury Guidelines pg. 24]**:**

1. New Lenders

A Primary Lender is not prohibited from enrolling or refinancing loans previously made by another, non-affiliated financial institution. However, the purpose of SSBCI is to support small businesses by providing new capital. Accordingly, a Primary Lender may refinance a borrower's existing loan, line of credit, extension of credit, or other debt originally made by an unaffiliated so long as the proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

When MT SSBCI 2.0 LPP uses SSBCI funds to support the purchase of a loan from another, non-affiliated financial institution, the state must make a determination that the transaction is beneficial to the small business borrower. For purposes of the eligible business purpose and certification requirements, the eligible business purpose of the new loan is generally determined by the purpose of the underlying funding being refinanced.

2. Existing Lenders

A financial institution lender may use SSBCI funds to support a new extension of credit that repays the amount due on a matured loan or other debt that was previously used for an eligible business purpose when all the following conditions are met:

- The amount of the new loan or other debt is at least 150 percent of the outstanding amount of the matured loan or other debt;
- The new credit supported with SSBCI funding is based on a new underwriting of the small business's ability to repay the loan and a new approval by the lender;
- The prior loan or other debt has been paid as agreed and the borrower was not in default of any financial covenants under the loan or debt for at least the previous 36 months (or since origination, if shorter); and
- Proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

Primary Lenders should consult with program staff or participating lenders when considering a refinance application to ensure the proposed transaction aligns with program requirements.

Ineligible Loan Types: The MT SSBCI 2.0 LPP prohibits funding for the following loan purposes:

- Reimburse funds owed to any owner, including any equity investment or investment of capital for the business's continuance;

- Loans to businesses with 750 or more employees, businesses or individuals with a negative net worth;
- Loans used for non-business purposes, passive real estate investments (non-owner-occupied), land development or speculative ventures, goodwill or blue-sky financing;
- Loans to delinquent federal or jurisdiction income taxes unless the borrower has a payment plan in place with the relevant taxing authority, or taxes held in trust or escrow (e.g., payroll or sales taxes); and\or
- Loan for the purchase any portion of the ownership interest of any owner of the business, except for the purchase of an interest in an employee stock ownership plan qualifying under section 401 of Internal Revenue Code, worker cooperative, employee ownership trust, or related vehicle, provided that the transaction results in broad-based employee ownership for employees in the business and the employee stock ownership plan or other employee-owned entity holds a majority interest (on a fully diluted basis) in the business.

Program Specific Requirements: The following requirements must be adhered to when participating in the MT SSBCI 2.0 LPP.

Loan documentation must include the statement: *"The borrower agrees that as a result of using MT SSBCI 2.0 LPP funds it will provide the lender and/or the MT SSBCI 2.0 LPP with tracking data as required by the US Department of the Treasury. This reporting requirement expires December 31, 2030."* Additionally, Primary and Participating Lenders must submit data as required by state and federal authorities.

Borrowers are subject to an environmental risk assessment as determined by the Primary Lender, and all loans must comply with the loan policies of both the Primary and Participating Lender.

The participated portion of a loan funded through the MT SSBCI 2.0 LPP cannot be assigned to another entity. If a Primary Lender downgrades a loan supported by the program, they must notify the associated Participating Lender within 30 days, including a detailed explanation of the reasons for the downgrade.

The MT SSBCI 2.0 LPP supported loan must close within 180 days of application date unless extended by MT SSBCI 2.0 LPP for a period not to exceed an additional 180 days from the date of request.

Application Process:

Eligible businesses may work with either a Primary Lender or Participating Lender or Program Staff to discuss their prospective project and feasibility with SSBCI requirements and guidelines.

Once the eligible business decides to proceed, the business and Primary Lender must collaborate with an enrolled Participating Lender to navigate the MT SSBCI application process. The Participating Lender will submit the application and all required documentation. The application includes but is not limited to the following information: Primary and Participating Lender Credit Presentation in conjunction with the Primary and Participating Lender Credit Approval, comprehensive business information, proposed project impact on Montana, and the loan purpose.

The Participating Lender is responsible for collecting and managing the following certifications and forms, which must be submitted at the time of application: (i) Borrower Certification Related to SEDI-Owned Businesses, (ii) Use of Proceeds and Conflict of Interest Certification, (iii) Sex Offender Certification, (iv) Lender Certification, (v) Borrower Certification, (vi) Articles of Organization, (vii) Application Lender Certification, and if applicable the Military Identity Verification Form and\or relevant Tribal Documentation.

The application process is collaborative and requires close engagement between the eligible business, Primary Lender and the servicing Participating Lender. The structure is designed to integrate program funds with private financing, to achieve the Treasury's required 10:1 leverage ratio ($10 private dollars for every $1 MT SSBCI dollar) for MT SSBCI 2.0 LPP [Treasury pg. 26].

Application Submission: Applications must be completed online through the ServiceNow application platform located at https://montana.servicenowservices.com/mtgl.

Application materials submitted to MDOC may be subject to the public's right to know (Article II, § 9 of the Montana Constitution) as well as Montana's Public Records Act (§§ 2-6-1001, et seq.). The review and acceptance of all loan documents or documents required does not constitute the concurrence by the MT SSBCI 2.0 LPP of the accuracy, validity or legality of the documents presented.

Prospective applicants are encouraged to work closely with their approved local Participating Lender to present a complete and competitive application. At any point during the application process, enrolled Primary and Participating Lenders are encouraged to contract Program Staff with questions or to ensure the application aligns with Program guidance.

Application Final Review: The Loan Review Committee will review all complete and submitted applications. Following the loan application review, MT SSBCI 2.0 LPP may:

- Request additional information or action from the Participating or Primary Lender to obtain the necessary information to approve or reject the application.
- Approve the application and provide a Commitment Letter outlining the terms and conditions of the funding to the Participating Lender, applicant, and Primary Lender; or
- Reject the application and provide detailed reasons for the decision and, if applicable, guidance for future applications.

The Loan Review Committee provides funding recommendations to Montana Department of Commerce's Director, who will make the final funding decision. Receipt of an application does not imply a commitment for funding from MDOC.

Loan Servicing: Once an application is approved and funded, the servicing of the loan is managed between the Primary Lender and the Participating Lender. The Primary Lender is responsible for collecting all loan payments directly from the borrower and performing routine loan servicing tasks.

The Participating Lender acts as an implementing agency for the State of Montana in administering the program. As part of this role, the Participating Lender will collect payments from the Primary Lender as they are received and hold these funds. Principal payments collected by the Participating Lender will be retained and recycled into the program to support future recycled fund lending opportunities, ensuring the program's sustainability and continued impact.

Loan Reporting: The Participating Lender serves as the key point of contact in managing all reporting requirements between the Program and all affiliated parties to the loan, acting as the intermediary to ensure accurate and timely communication. The **Loan Participation Report** is the primary program required report, aside from internal reporting necessary to collect metrics and evaluate program effectiveness.

The Primary Lender is responsible for submitting the required monthly Loan Participation Report to the Participating Lender. This report must include detailed information such as principal and interest allocations of the borrowers' payments, regular payment activity, the updated outstanding balance on the loan and relevant loan servicing comments. The report must break out the respective shares of the MT SSBCI 2.0 LPP and the Primary Lender's funds.

The Participating Lender will collect these reports from the Primary Lender, review such for accuracy, and remit the servicing report to the Program on a monthly basis. In addition, the Participating Lender is responsible for providing the program with quarterly updates, as required by the U.S. Department of Treasury. These updates include, but are not limited to, Participating Lender bank account statements, administrative expense reporting, and loan fund management reporting.

Deferral, Default and\or Delinquency: In the event of default or delinquency, the Primary Lender serves as the lead in managing the loan and determining an appropriate course of action based on their standard operating procedures. The Program's role is to support the Primary Lender's efforts in facilitating borrower success and ensuring compliance with program objectives.

The Program must be notified in writing at least 10 business days prior to any proposed changes to loan terms or structures related to default, delinquency, or payment deferrals. This notice must include a detailed plan outlining the Primary Lender's strategy for assisting the borrower and facilitating a resolution. Approval from the Program is required before any changes are implemented. While approval will not be arbitrarily withheld, the notification and approval process are necessary to ensure alignment with program guidance. The Program will provide the Participating and Primary Lender with a formal response of approval or disapproval within 5 business days of receipt. If the request is denied, the Program will provide detailed reasons for the decision and guidance for re-structuring.

Monthly Loan Participation Reports must continue to be submitted without interruption during periods of default, delinquency, payment deferral, or other modifications. These reports are essential for tracking progress, ensuring compliance, and working collaboratively to support the borrower and safeguard the Program's objectives.

Recycled MT SSBCI 2.0 LPP Funds:

Principal payments collected by Participating Lenders will be retained and reinvested into the Montana SSBCI 2.0 Loan Participation Program. Recycling MT SSBCI 2.0 funds plays a vital role in sustaining and amplifying the impact of the Montana SSBCI program. The recycling of funds generated from SSBCI loan repayments, as well as returns on SSBCI investments, is crucial to achieving the 10:1 leverage requirement.

To encourage transactions with higher Private Capital at Risk and support broader utilization of recycled MT SSBCI 2.0 funds, the MT SSBCI will provide rate reductions for transactions meeting enhanced match and PCAR thresholds.

Recycled SSBCI funds are subject to the additional following limitations and incentives:

- **Private Capital at Risk (PCAR) Requirement:** All transactions utilizing recycled MT SSBCI 2.0 funds must have Private Capital at Risk 70% or more [30% SSBCI dollars: 70% private capital].

- **SEDI Incentive:** For Socially and Economically Disadvantaged Individuals (SEDI) certified loans, a 60%:40% public-private risk ratio is permissible.

- **Interest Rate Reduction Incentive:** Projects with a minimum 3-to-1 private capital match (i.e., $3 of private capital for every $1 of recycled MT SSBCI 2.0 funds) will qualify for a 50-basis point (0.50%) rate reduction on the recycled MT SSBCI portion of the transaction.
  To qualify for the rate reduction: (i) The match requirement must be documented in the loan application, clearly outlining the total private capital contributed relative to the prospective public funds deployed; (ii) Private capital must be independently sourced, at risk, and not guaranteed by public funds or other SSBCI-supported mechanisms; and (iii) to qualify as matching funds, the cost may not have occurred more than twelve (12) months prior to the application date.
  The rate reduction will apply only to transactions that are fully compliant with all other provisions of the SSBCI policy. Borrowers and lenders must provide evidence of the private capital contribution, including a breakdown of funding sources, prior to approval of the rate reduction. The MT SSBCI 2.0 LPP will review and confirm eligibility during the application review process.

Recycled Application Submission: Participating Lenders may supply an application to MT SSBCI 2.0 LPP for consideration of funding. The Department will review the application for eligibility and suitability with the SSBCI objectives set by the U.S. Department of Treasury and the Departments policies/procedures. Upon receipt of an application, MT SSBCI 2.0 LPP will follow the standard operating procedures which includes, but is not limited to, the issuance of a Commitment Letter and collection of loan documentation.

The MT SSBCI 2.0 LPP reserves the right to establish additional policies or procedures to optimize the deployment of recycled funds based on MT SSBCI 2.0 LPP performance, economic conditions or sector-specific needs.

All applicants identified as eligible under these guidelines may apply for recycled MT SSBCI funds. Applicants who have previously received funding are permitted to apply for recycled funds so long as the application is for a new eligible business purpose. The purpose must be clearly documented and receive explicit written approval from MT SSBCI 2.0 LPP prior to application submission.

All loan transactions supported by MT SSBCI 2.0 LPP must comply with all U.S. Department of the Treasury requirements, guidance, FAQs as amended and comply with the objectives and criteria described within the state of Montana’s Program application to the U.S. Department of the Treasury.