# Montana Wood Products Revolving Loan Fund

## Program Guidelines

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# Montana Wood Products Revolving Loan Fund Program Guidelines

The State of Montana created the Montana Distressed Wood Products Industry Revolving Loan Fund Program in 2009 to respond to the sudden and severe economic downturn of the national economy and the lowered demand for wood products. Due to the revolving nature of the program, the Montana Distressed Wood Products Revolving Loan Fund Program continues to be available for Montana's wood products industries with funds available for lending. The Montana Department of Commerce ("Commerce") administers the WP RLF Program.

The WP RLF Program is authorized by Sections 90-1-501, Montana Code Annotated, et seq.

## Purpose

The WP RLF Program is designed to assist the Montana wood products industry as a whole through a revolving loan program. The loan must be used to sustain and grow the wood products industry in Montana.

The program is designed to assist distressed wood product businesses by making fixed-rate financing available to them at reasonable interest rates. Commerce intends WP RLF funds to be used when a funding gap exists, and alternative sources of public and private financing are not adequate or available to the business on reasonable terms. WP RLF may complement conventional business financing, public financing sources and other financing programs or options.

## Definitions

**Commitment Letter:** The written document, originated by Commerce, specifies the terms and conditions under which Commerce will participate in a specific loan.

**Cost Estimate:** A document or spreadsheet that specifies all sources and uses of funds for the entire project. Expenses and an explanation of how costs are derived should be included. For example, quotes from contractors, purchase orders, project cost breakdown, as applicable.

**Economic Development Organization:** A private, nonprofit corporation, as provided in Title 35, chapter 2, of the MCA, that is exempt from taxation under section 501(c)(3) or 501(c)(6) of the Internal Revenue Code, 26 U.S.C 501(c)(3) or 501(c)(6) or an entity actively engaged in economic development and business assistance work in a region of the state of Montana.

**Eligible Business:** May be (i) individuals, including private contractors related to the wood products industry; or (ii) businesses defined as small businesses pursuant to the regulations promulgated by the United States Small Business Administration pursuant to 13 CFR 121, et seq. and that are part of the critical, primary wood-processing infrastructure and have suffered economic hardships.

**Jobs Created:** Full-time equivalent positions that are newly established as a direct result of the loan or program. These positions must represent new employment opportunities and cannot include positions relocated from another Montana community.

**Jobs Retained:** Full-time equivalent positions that currently exist within the Eligible Business but are at risk of being lost without the support of the loan or program.

**Loan Review Committee:** An internal committee comprised of Commerce employees that review loan applications and ranking factors.

**Loan Participation:** Commerce and an approved Participating Lender collaborate to fund a loan to an Eligible Business.

**Participating Lender:** Is (i) a financial institution, (ii) an economic development organization that manages revolving loan funds or (iii) a Community Development Financial Institution that jointly funds a WP RLF supported loan with Commerce. A Participating Lender must execute a lender loan servicing agreement with Commerce.

## Program Overview

The WP RLF Program was established to provide financial assistance to support and stabilize Montana's wood products industry. Created to address economic hardships and challenges within the sector. The WP RLF aims to promote job retention and creation, encourage the sustainable use of forest resources and strengthen local economies affected by fluctuations in the timber market. The WP RLF operates as a revolving loan program, reinvesting loan repayments to provide ongoing support for Eligible Businesses engaged in wood processing, manufacturing and related activities. Commerce administers the program to ensure it aligns with the state's economic development goals and serves the long-term needs of the industry and Montana communities.

Section 90-1-503, MCA, provides that Commerce shall develop reasonable outcome measures by which the success of the distressed WP RLF Program provided for in this part must be measured on an annual basis. Minimal outcome that must be measured includes:

a) The uses of loan funds that provided the best overall results; and
b) A determination of the overall success of the WP RLF Program, including but not limited to the number of jobs created or retained, pay levels, financial status, reports on project activities, the growth of a local economy and the taxable value of property or equipment.

Commerce may require information from entities receiving loans in order to measure the outcome.

## Eligibility

The WP RLF Program is available to Eligible Businesses, including both existing Montana businesses and businesses seeking to expand into the state. Loans must be made to individuals or small businesses that are part of the critical, primary wood processing infrastructure and have suffered economic hardships. Loans must be used to sustain and grow the wood products industry in Montana.

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.

## Loan Requirements

Loans may be used for the following:

- Working Capital;
- Debt Service;
- Purchase or lease of land or equipment;
- Updating infrastructure, including but limited to, retrofitting of infrastructure or facilitate new uses;
- Matching funds for grants or other loans that comply with the intent of the WP RLF Program funding; or
- Any other use Commerce determines would sustain and grow the wood products industry.

The WP RLF is designed to place the highest priority on projects that will have the greatest potential for retaining and creating long-term employment opportunities for

Montanans and that provide long-term economic benefits to Montana communities. **The WP RLF Program operates as both a Loan Participation and direct lending program, with a primary emphasis on Loan Participation.**

## Ineligible Activities

No part of the WP RLF funding request may include the financing of blue skies or good-will, costs for grant application preparation, project administration and administrative expenses or in-kind costs. Loan recipients are prohibited from using WP RLF funds for those purposes.

## Match for WP RLF

Applicants are encouraged to provide a 50% match to participate in the WP RLF Program. Matching funds may include private concurrent financing, a cash injection from the business or any private investment used to secure the loan. To qualify, matching funds must have been expended within 12 months prior to the application date. Matching funds that have been formally pledged and are scheduled to be injected into the project, such as a downpayment, may also be considered if sufficient documentation is provided to demonstrate the commitment, timing and intended use of funds. Commerce reserves the right to waive or reduce the 50% match threshold based on the needs of the timber industry or the specific circumstances of the recipient.

## Loan Amount

The WP RLF Program primarily operates as a Loan Participation program with approved Participating Lenders. Commerce will only provide direct loans to Eligible Businesses for working capital or equipment purchases up to $1 million; all other loan requests require a Participating Lender. Commerce reserves the right to exceed the direct loan maximum on a case-by-case basis when the proposed project demonstrates significant impact to Montana’s wood products industry or is otherwise determined to be

in the best interest of the program. There is no minimum loan amount, and applicants should determine the minimum WP RLF financial assistance necessary to stimulate their proposed project or private investment. The maximum loan amount as a Participation Loan is $2 million, with no more than $2 million in funding requests permitted for an assisted Eligible Business within a single calendar year. Loan recipients may apply for additional WP RLF funding two years or more after their previous loan approval date.

## Collateral Requirements

All WP RLF Program supported loans should be secured with fixed assets, personal guarantees or any other reasonable source of available collateral. The collateral must have sufficient value to support the debt and, if applicable, can be shared proportionately with a Participating Lender and Commerce.

## Guarantees

Personal or Corporate guarantees as required by the Participating Lender or Commerce.

## Term and Amortization

The terms of the loan should be consistent with the projected use of funds and individual project needs. Maximum allowable terms for each loan type are as follows:

- **Working Capital Loans:** Maximum loan term of five years.
- **Equipment Loans:** Loan term must be consistent with the useful life of the equipment and individual project needs with a maximum loan term of 10 years.
- **Lines of Credit:** Commerce may fund 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 10 years.

- **Real Estate:** Maximum allowable term of 15 years with no option to extend. The program may fund construction loans that convert to permanent financing through a Participating Lender. Real Estate-secured loans may be amortized up to 25 years so long as Commerce portion of the Participation Loan is paid off within 15 years.
- **EPC\OC:** A business may receive loans for both an eligible passive company and an operating company provided that the following conditions are met:

    1) The loans serve different eligible business purposes related to the same overall project and,
    2) both loan requests submitted clearly identify how the projects are interrelated.

- EPC\OC applicant requests may apply for additional loans for related projects at a later date provided both conditions are met.

**All WP RLF loans must be repaid within 15 years regardless of loan type with no option to extend.**

## Interest Rate

The interest rate on Commerce's Participation Loan portion is based on the amortization period of the loan. Such interest rate will be fixed for the term of the loan as follows:

- Up to 10-year term with monthly payments — 350 basis points (3.50%)
- 10-year up to 15-year term with monthly payments — 400 basis points (4.00%)

To comply with Section 90-1-502, MCA, all loans must be provided at a low interest rate, with a minimum rate of 1.00% annually. Participation Loans must be structured as bifurcated loans, blending WP RLF funds with Participating Lender financing to keep the overall interest rate as low as possible, ensuring affordable borrowing for the recipient.

### Deferral of Payments

Loan payments may be deferred for up to one year at any given time during the life of the loan at the discretion of the Participating Lender and Commerce. The deferral request must include a reasonable explanation for the deferral. Commerce may require interest payments be made during the period of deferral.

## Application Process

### Application Submission

Eligible Businesses may work with either an Economic Development Organization, Participating Lender or program staff to discuss their prospective projects and feasibility with program requirements and guidelines. The application will include a project cost estimate that must specify all sources and uses of funds for the entire project. Expenses and an explanation of how costs are derived should be included in the application. For example, quotes from contractors, purchase orders, project cost breakdown, as applicable.

Once the Eligible Business decides to proceed, the application must be completed and submitted online through the State of Montana Grants and Loans Portal — ServiceNow. The ServiceNow application platform is located at: montana.servicenowservices.com/mtgl

Applicants will be required to create an Okta profile, which requires a valid email account. Okta is located at: okta.loginmt.com.

The application portal will close when the loan pipeline awaiting approval is equivalent to the available funding. Completed applications will be reviewed by the Commerce Loan Review Committee in the order in which they are submitted.

An applicant's submission of an application to the loan portal does not confer upon the applicant a right to receive the requested loan, and Commerce's receipt or acceptance of an application does not convey to the applicant a right to an award of a loan.

Application materials submitted to Commerce may be subject to the public's right to know (Article II, Section 9 of the Montana Constitution) as well as Montana's Public Records Act (Sections 2-6-1001, et seq.). Any documents the business submits with the application that it considers confidential must be marked as such. Additionally, the business must enter into a Nondisclosure Agreement with Commerce to clearly identify all confidential documents. Commerce encourages businesses to execute a confidentiality agreement with Commerce and submit a subsequent affidavit outlining parts of the WP RLF application it prefers to be held confidential. Assisted businesses are encouraged to work with WP RLF program staff when executing this agreement. The agreement can be found here.

## Application Final Review

The Loan Review Committee will review all complete and submitted applications. After review, the Loan Review Committee makes recommendations to the Commerce director, who makes the final funding decision.

Following the detailed loan application review, the Commerce director may:

- Request additional information or action from the applicant 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 applicant.
- Reject the application and provide detailed reasons for the decision and, if applicable, guidance for future applications.

## Compliance With Laws

All projects funded by the WP RLF Program must comply with section 49-3-207, MCA, which requires that all hiring for the project must be on the basis of merit and qualifications. There may not be discrimination on the basis of race, color, religion, creed, political ideas, sex, age, marital status, physical or mental disability or national origin by anyone associated with the project, including loan recipients, contractors and subcontractors. The applicant must guarantee that neither it nor its principals, contractors, subcontractors or sub-recipient entities are debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in federally or state funded projects by any governmental agency. If the applicant cannot certify this statement, they must provide a written explanation for review by Commerce.

# Approved Financing

**Direct Lend Proceed Disbursement:** Applicants should be aware that the disbursement of funds may take approximately two months or longer after a loan has been approved. This timeframe is necessary to complete the required due diligence before funding can occur. Several critical steps must take place during this period to ensure compliance and the proper management of the project. These steps include the execution of a loan agreement between the business and Commerce, and the finalization of all project details to ensure the appropriate use and oversight of loan funds. Applicants should plan accordingly and must consider this timeline when developing their project schedules and financial strategies. Commerce is committed to providing guidance and support throughout the process to facilitate a smooth transition from approval to disbursement.

Loan proceeds will be disbursed directly into the applicant's business checking or savings account as specified in the executed loan agreement. The funds must be used strictly for the purposes outlined in the approved application materials and loan documentation package. Any deviation from the approved use of funds may result in Commerce initiating compliance actions, including requiring the loan recipient to repay

loan funds. The loan recipient is responsible for ensuring that all expenditures align with the terms and conditions of the loan agreement. The loan recipient must maintain appropriate records to demonstrate compliance with the WP RLF Program requirements.

**Participation Loan Proceed Disbursement:** Commerce will disburse its portion of the loan proceeds directly to the Participating Lender upon receipt of a fully executed Commitment Letter, unless otherwise specified or requested by the Participating Lender. The Participating Lender is responsible for managing all aspects of the loan closing, including documentation, and funding. The Participating Lender will also oversee the disbursement of proceeds to the loan recipient in accordance with the approved loan terms and any agreed-upon draw schedule. Commerce's role in disbursement is limited to providing its portion of funding to the Participating Lender, who will ensure proper administration and compliance with the Commitment Letter, respective loan documents and Lender Loan Servicing Agreement.

**Loan Payments:** All loan payments will be collected through Automatic Clear House transactions on generally the first, fifth or 20th day of each month. Commerce will provide assisted businesses with a bank authorization form for ACH payments.

## Recipient Reporting Requirements

The recipient of WP RLF funding must report information as required by applicable state law for itself and the project, all contractors, subcontractors and sub-recipient entities. Types of reports and the schedule for submittal are described below.

**Quarterly Reports:** Project Progress Report, Financial Status Report and the Hiring Retention Report are due for calendar quarters ending March, June, September and December for two years following the date of closing. The reports are due to Commerce no later than 15 days after the close of each calendar quarter.

- **Project Progress Reports:** During the two-year period of activity tracking, the assisted business must submit quarterly project progress reports to Commerce. These reports should describe the status of the project activities, including, at a minimum, the percentage complete, costs incurred and funds remaining. The report must also describe any significant problems encountered in carrying out the project.
- **Financial Reports:** During the two-year period of activity tracking, the assisted business must submit quarterly financial reports that at a minimum include current balance sheet and current profit and loss statement.
- **Hiring Retention:** During the two-year period of activity reporting, assisted business must submit quarterly hiring retention reports that at a minimum include the employees that are currently working for the company and the wage they are paid.

**Annual Report:** After the two-year period of activity reporting, the assisted business must submit annual financial reports until the date of final loan payoff. The following reports are due to Commerce no later than 15 days after the close of the calendar year.

- Year End Financial Report of Profit and Loss Statement in conjunction with a Balance Sheet
- Liability Insurance and Workers' Compensation Insurance
- Year End Hiring Retention Report

If the business fails to report as required, the business may be subject to non-reporting fees.

## Monitoring

Commerce or any of its or the State of Montana's authorized agents may monitor and inspect all phases and aspects of the assisted businesses' performance to determine compliance with the project as described in the loan recipients WP RLF application, the proper use of funds and other technical and administrative requirements of the project,

including the adequacy of the loan recipients' records and accounts. Commerce will advise the loan recipient of any specific areas of concern and provide the loan recipient with the opportunity to propose corrective actions acceptable to Commerce.

## Due Diligence

### Workers Compensation Insurance Coverage

Entities receiving assistance from Commerce are required to comply with the provisions of the Montana Workers' Compensation Act while performing work in the State of Montana in accordance with sections 39-71-401, 39-71-405 and 39-71-417, MCA.

Proof of compliance must be in the form of the workers' compensation insurance, an independent contractor's exemption or documentation of corporate officer status. Neither the business nor its employees can be employees of the State of Montana. This insurance/exemption must be valid for the entire term of the two-year period for activities.

A renewal document must be sent to the Wood Products Revolving Loan Fund Program, Montana Department of Commerce, P.O. Box 200505, Helena, MT 59620-0505 upon expiration. All notices required under the provisions of the guidance must be in writing and delivered to program staff either by first class mail, electronic mail or personal service.

Proof of coverage must be uploaded to Commerce with the business application for WP RLF assistance. Loans will not be closed without proof of coverage.

Coverage may be provided through a private carrier or through the State Compensation Insurance Fund, 406-444-6500. An exemption can be requested through the Department of Labor and Industry, Employment Relations Division, 406-444-1446. Corporate officers must provide documentation of their exempt status.

## Civil Rights Requirements

Each applicant must agree to fully comply with all applicable federal, state and local laws and regulations, including the Montana Human Rights Act, the Civil Rights Act of 1964, the Age Discrimination Act of 1975, the Americans with Disabilities Act of 1990 and Section 504 of the Rehabilitation Act of 1973.

## Environmental Requirements

WP RLF projects may be subject to the Montana Environmental Policy Act. MEPA seeks to avoid adverse impacts on the environment by mandating careful consideration of the potential impacts on any development assisted with state funds or approved by a state agency. Applicants are encouraged to contact Commerce in order to determine MEPA applicability and further guidance.

## Fraud

The applicant shall promptly refer to Commerce any credible evidence that a principal, employee, agent, contractor, subcontractor, sub-grantee or other person has submitted any false claim or has committed any criminal or civil violation of laws pertaining to fraud, conflict of interest, bribery, gratuity or similar misconduct involving WP RLF funds.

Businesses are strongly encouraged to maintain regular communication with Commerce throughout the duration of the loan, from the initial application through final payoff. Consistent engagement with Commerce helps ensure compliance with program requirements, facilitates timely resolution of any issues that may arise and supports the successful implementation of the funded project. Maintaining an open line of communication allows businesses to stay informed of any updates or additional resources that may be available to assist in achieving project goals. Commerce is dedicated to working alongside businesses to promote mutual success and is available to provide guidance and support at every stage of the loan process.