

ACCESS TO FINANCE IN MONTANA

**A Study of the Funding Landscape for
Entrepreneurs and Small Businesses**

Part 1: Survey of Funders

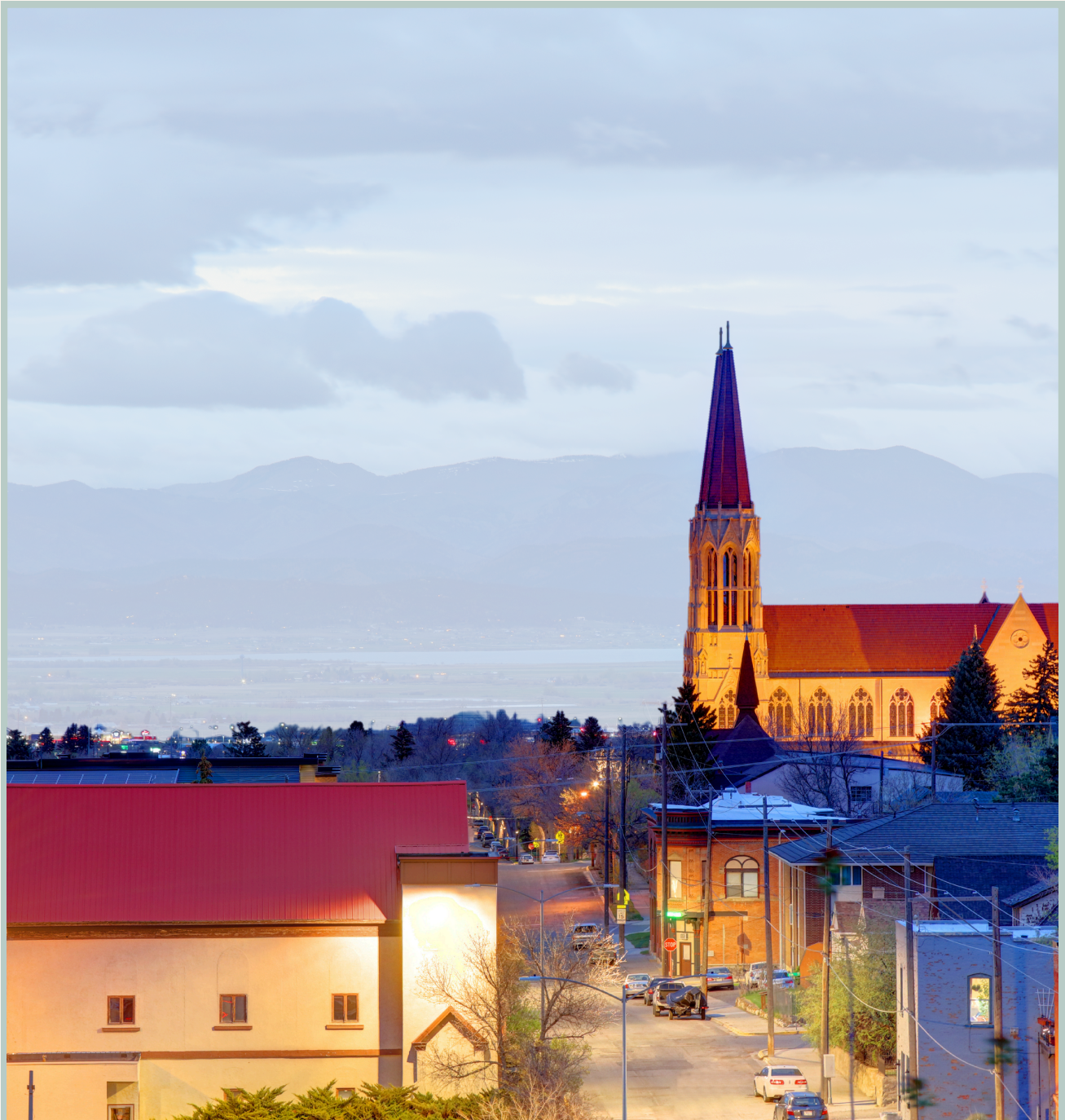
2023



Photo by Erika Spaulding
Missoula Makers Collective

ACCESS TO FINANCE IN MONTANA

Part 1: A Study of Funders



A 2023 Study of the Funding Landscape for Entrepreneurs and Small Businesses

ACCESS TO FINANCE IN MONTANA

Part 2: A Study of Businesses



A 2023 Study of the Funding Landscape for Entrepreneurs and Small Businesses

Contents

List of Tables.....	i
List of Figures.....	ii
List of Acronyms.....	iii
Project Team.....	iv
Financial Sponsors.....	iv
Acknowledgements.....	v
Executive Summary.....	1
Introduction	
• Methods and Data Collection.....	11
• Respondents.....	11
• Structure of Report.....	13
Survey Responses	
• Funding Startups.....	14
• Demographics in Funding: Gender, Veterans, Race, & Location.....	15
• Finance by Industry.....	28
• Lending Characteristics.....	34
• Decision Criteria.....	40
• Types of Small Business Funding.....	43
• Guarantee Programs.....	44
• Use of Credit Scoring.....	48
• Competition and Consolidation Among Funders.....	50
• Constraints and Opportunities for Funders.....	54
• Business Development Services.....	64
• Government Funding Programs.....	66
Recommendations.....	73
Next Steps.....	77
Bibliography.....	78
Appendices	
• Appendix A: People Contacted for the Study.....	81
• Appendix B: People Interviewed for the Study.....	83
• Appendix C: Small Business Funders Based in Montana.....	85
• Appendix D: State of Montana Funding Programs.....	86
• Appendix E: Questionnaire for Quantitative Survey.....	87
• Appendix F: Number of Respondents for Each Question.....	93

List of Tables

Table 1: Survey respondents by type of lending or investing organization.....	13
Table 2: Montana business ownership and employees by gender, 2019.....	15
Table 3: Montana business ownership by race.....	19
Table 4: American Indian population demographics by state.....	19
Table 5: Bank office density on reservations in Montana.....	22
Table 6: Demographics of Native American population on the eight reservations in Montana.....	22
Table 7: Loans by county from total aggregate CRA data for all Montana small business loans, 2021.....	24
Table 8: Distressed and undeserved counties of Montana, 2021.....	25
Table 9: Distressed and undeserved counties of Montana, 2023.....	25
Table 10: Small business lending institutions in Montana using call report data, June 2020.....	27
Table 11: Proportion of loans made by industry of business.....	28
Table 12: Growth opportunity ratings for selected industries.....	32
Table 13: Selected quantitative characteristics of loans and investments in Montana, 2021.....	34
Table 13 Continued: Selected quantitative characteristics of loans and investments in Montana, 2021.....	35
Table 14: Quantitative characteristics of Montana small business loans, 2021.....	37
Table 14 Continued: Selected quantitative characteristics of loans and investments in Montana, 2021.....	38
Table 15: Montana small business loan approval factors.....	40
Table 16: Montana small business investment approval factors.....	41
Table 17: Main approval factor for small business loans or investments in Montana.....	42
Table 18: Reason for willingness or unwillingness to participate in a loan guarantee program.....	46
Table 19: Biggest competitor for small business lending in Montana.....	50
Table 20: All lenders in Montana making business loans of \$1 million or less.....	51
Table 21. Number of reporting institutions in surrounding states by asset size and state and territory....	52
Table 22: Credit union trends in Montana 1991-2021.....	53
Table 23: Reasons organizations see a group as a growth opportunity.....	60
Table 24: Internal organization factors that impede small business lending.....	62
Table 25: Comments from organizations that responded to question 32	72

List of Figures

Figure 1: Proportion of institutions that lend or invest in new or startup small businesses.....14

Figure 2: Proportion of loans or investments made to male or female-owned businesses.....15

Figure 3: Proportion of loans or investments made to veteran or non-veteran-owned businesses.....16

Figure 4: Proportion of loans made by race or ethnicity of the business owner.....17

Figure 5: Proportion of loans made by location of Montana business.....20

Figure 6: Distribution of funding organizations in the state of Montana.....21

Figure 7: Scatter plot distribution of number of loan originations by lender or program type, 2021.....36

Figure 8: Scatter plot distribution of total loan dollar amount originations by lender or program, 2021.....36

Figure 9: Types of lending to Montana small businesses.....43

Figure 10: Willingness to lend without asset-backed collateral if backed by a guarantee program.....44

Figure 11: Organization uses a credit-scoring model for small business loans in Montana.....48

Figure 12: Number of commercial banks vs. bank branches in Montana over time.....52

Figure 13: Small business lending portfolio quality rating54

Figure 14: Position of organization on future small business lending or investing.....57

Figure 15: Groups seen as growth opportunities.....58

Figure 16: Organization offers small business development services.....64

Figure 17: Types of small business development services offered.....65

Figure 18: Participation rate in federal or state grant, loan guarantee or investment programs.....66

Figure 19: Federal or state programs in which the organization participates.....68

Figure 20: Full deployment rate of capital provided by federal or state programs.....69

Figure 21: Challenges experienced using federal or state programs.....71

List of Acronyms

AAPOR - American Association for Public Opinion Research
ACS - American Community Survey
AMT - Accelerate Montana
ARPA - American Rescue Plan Act
BBER - Bureau of Business and Economic Research
CARES - Coronavirus Aid, Relief and Economic Security Act
CDFI - Community Development Financial Institution
CDFIF - Community Development Financial Institutions Fund
CEO - Chief Executive Officer
CFPB - Consumer Financial Protection Bureau
CRA - Community Reinvestment Act
CRDC - Certified Regional Development Corporations
CSKT - Confederated Salish and Kootenai Tribes
EDA - Economic Development Administration
EDD - Economic Development Districts
EDO - Economic Development Organization
FCS - Farm Credit Service
FDIC - Federal Deposit Insurance Corporation
FHA - Federal Housing Administration
FSA - Farm Service Agency
FSB - First Security Bank
IPO - Initial Public Offering
IRP - Intermediary Relending Program
MBAC - Montana Business Assistance Connection
MBOA - Montana Board of Investments
MCDC - Montana Cooperative Development Center
MCF - Montana Community Foundation
NACDC - Native American Community Development Corporation
NCUA - National Credit Union Administration
NCUSIF - National Credit Union Share Insurance Fund
NDOF - North Dakota Opportunity Fund
PPP - Paycheck Protection Program
RC&D - Resource Conservation and Development
SBA - U.S. Small Business Administration
SEC - Securities and Exchange Commission
SSBCI - State Small Business Credit Initiative
USDA - U.S. Department of Agriculture
VC - Venture Capital
WELL - Women's Entrepreneurship and Leadership Lab

Project Team

Dr. Jennifer Isern, *Catalyze Global Impact LLC*

Morgan Slemberger, *Women's Entrepreneurship & Leadership Lab*

Karl Unterschuetz, *Accelerate Montana*

Kassi Strong, *Strong Marketing & Strategy*

Connor Mostek, *Accelerate Montana*

Carolyn Crowder, *Accelerate Montana*

John Baldrige, *Bureau of Business & Economic Research*

Janet Stevens, *Bureau of Business & Economic Research*

Co-Lead and Technical Director

Co-Lead

Co-Lead

Project Manager

Public Data Research

Content Curation and Report Layout

Quantitative Survey Director

Survey Collection Coordinator

Authors

Jennifer Isern, John Baldrige, and Karl Unterschuetz

Suggested Citation

Isern, Jennifer, Baldrige, John, and Unterschuetz, Karl. (2023). Access to Finance in Montana: A Survey of the Funding Landscape for Entrepreneurs and Small Businesses. Part 1: Survey of Funders. Accelerate Montana and Catalyze Global Impact LLC: Missoula, Montana.

Financial Sponsors



clearwater
CREDIT UNION



Acknowledgments

The project team of Accelerate Montana, Catalyze Global Impact LLC, and the Women's Entrepreneurship & Leadership Lab thank all the lenders and investors who shared information for this study. Their willingness to provide their real-world experiences enabled this study to understand and describe the landscape of small business financing in Montana. We hope this report will be useful for lenders, investors, policymakers, and others to identify new opportunities to provide effective financing for Montana's small businesses.

Bureau of Business and Economic Research (BBER):

The project team contracted the Bureau of Business and Economic Research (BBER) to conduct the quantitative survey at the core of this study. The BBER team consisted of John Baldrige as project manager and Janet Stevens as data collection coordinator. Their significant efforts led to successful data collection and analysis, which form the core of the quantitative data and analysis presented in this report.

Advisory Committee:

Starting in September 2022, the advisory committee met for working meetings to support the design, deployment, and review of data and analysis for this study. The advisory committee includes professionals from across the small business finance market in Montana, including regional banks, credit unions, community development financial institutions (CDFIs), economic development organizations, revolving loan funds, and state and federal loan, guarantee, and grant programs. The advisory committee members came from across the state of Montana representing eastern, central, and western regions as well as urban, rural, and Indigenous communities. The committee helped the project team focus on information the industry identified as important. Thank you for your guidance and insights.

Advisory Committee Members:

Marcy Allen, Missoula Community Foundation
Lad Barney, US Department of Agriculture Montana State Office
Kelcie Bates, Loan Officer, Great Northern Development
Rena Carlson, Small Business Administration
Steve Clairmont, Mission West Community Development
Brian Cooley, Stockman Bank
Brent Donnelly, Small Business Administration
Jenn Ewan, SOVA, PLLC
Scott Kesler, AgWest Farm Credit
Jenny Nygren, Wells Fargo Bank
Luke Robinson, Montana Department of Commerce - Indian Country Programs
David Rook, Clearwater Credit Union
Liane Taylor, Montana Department of Commerce
Maria Valandra, Clearwater Credit Union

Others who provided significant input: Jim Thaden, Mission West Community Development Partners; Angie Main, Native American Community Development Corporation Financial Services, Inc.; Sharon Small, Morning Star Credit Union; Jael Kampfe, Indigenous Impact Co. Herb Kulow and Ed Garding served as technical reviewers.



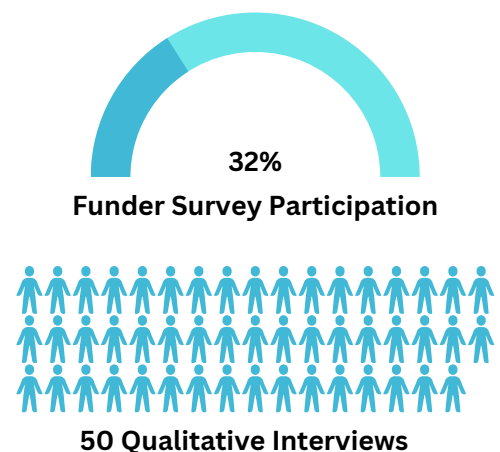
Photo from Big Dipper Missoula

Executive Summary

Genesis of this Initiative: Accelerate Montana, Catalyze Global Impact LLC, and the Women's Entrepreneurship & Leadership Lab launched an initiative on Access to Finance for Small Businesses in Montana in 2022. This initiative aims to better understand who provides small business finance, which businesses receive what type and volume of financing, what the financing needs are expressed by businesses, and how to ease market bottlenecks in the flow of small business finance across Montana. To achieve this goal, the project team, guided by a deeply experienced advisory committee from across Montana, designed and implemented a quantitative survey and qualitative interviews in 2022-23 of lenders, investors, state and federal agencies, and foundations that fund Montana's small businesses.

Based on the survey and interviews, this current report on small business funders shares key features of the landscape for small business finance in Montana. The quantitative survey of funders was co-designed and administered by the University of Montana's Bureau of Business and Economic Research (BBER) between late 2022 and early 2023.

Of the 112 lending and investing organizations invited to respond to this survey, 36 (32%) participated. The respondents included banks and credit unions (39%), CDFIs and loans funds (28%), public funding programs (25%), and investment funds and private foundations (8%). In addition, the project team contacted over 125 people and interviewed over 50 people through qualitative research to explore the initial survey findings and delve deeper into the challenges and opportunities facing small business funders.



This report provides quantitative information, views of specialists across the state of Montana, and recommendations that state and federal policymakers, lenders, investors, and economic development organizations can use to shape small business programs. The study findings are expected to generate discussions to pursue new opportunities that will increase the flow of financing to early-stage and small businesses in Montana. This report will be followed by a second report, Accesses to Finance in Montana, Part 2, A Survey of Small Businesses, that will include information on business demographics, experience with financial services providers, use of financial services to start and grow businesses, and business constraints and opportunities.

Broad spectrum of small business funders active across Montana: Small businesses across Montana are the engine of growth for local communities, creating and retaining the vast majority of jobs while expanding Montana's long-term economic development. Businesses depend on reliable access to finance to manage their operations and drive future growth. Lenders and investors are innovating in a challenging landscape, especially with the current interest rate environment. The number of commercial banks in Montana has decreased significantly from over 113 banks in 1995 to 39 banks in 2022. Over this same time period, the number of bank branches has more than tripled from 100 in 1995 to almost 350 in 2022.

Yet given Montana's vast geography, there are limits to the reach of physical branches and offices of financial services providers, especially in rural and tribal areas. Thankfully, Montana benefits from a broad range of financial services providers including national, regional, and state banks, credit unions, financial cooperatives, revolving loan funds, economic development organizations, CDFIs, foundations, state and federal funding agencies, angel investors, investment crowdsourcing, venture capital funds, and other funders. Many of these funders work well together to co-finance loans and investments for Montana's small businesses, especially when anchored by lenders and investors based in local communities. Expanding and strengthening this broad spectrum of capable and diverse lenders and investors would optimize access to finance for small businesses.

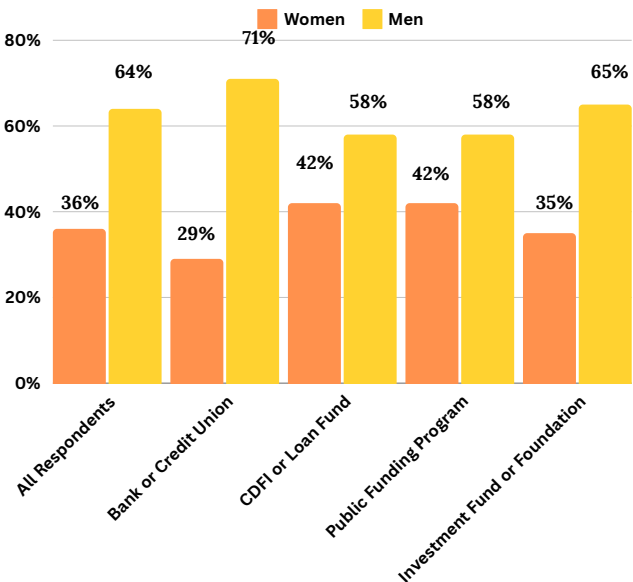
Key findings: Interviews with over 50 funders and specialists and quantitative survey results reveal a dichotomy in the market for small business finance across the state. Larger banks, credit unions, and venture capital funds report available liquidity and are actively seeking new business clients. However, the vast majority of community-based lenders interviewed for this study flagged that they are starved for capital to onlend or relend to small businesses, and some investment funds are struggling to fundraise capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds reported experiencing more demand for their services than in the past. Based on the survey findings, CDFIs and loan funds are able to take more risk while proving their ability to manage risk and make loans sustainably--- especially during the COVID-19 pandemic and economic recovery. Yet liquidity is a significant challenge for these small community-based lenders. Finding ways of encouraging public-private partnerships and new combinations of lenders working together would help bridge this liquidity imbalance.



Key quantitative survey results:

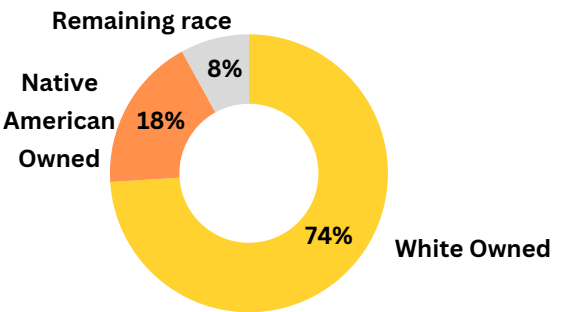
Loans and investments by gender:

Thirty-six percent (36%) of the loans or investments made by the responding organizations were made to women. Sixty-four percent (64%) of these organizations' loans or investments were made to men.



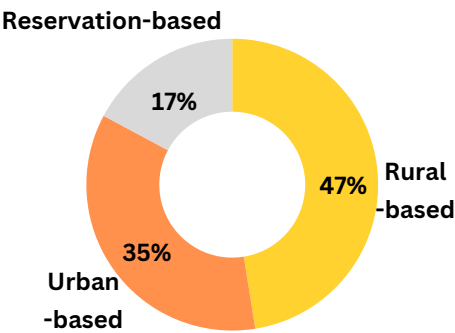
Loans and investments by race or ethnicity:

Seventy-four percent (74%) of the loans or investments made by the responding organizations were to White business owners. Eighteen percent (18%) of loans or investments made by responding organizations were to Native American business owners. Responding organizations made a total of eight percent (8%) of their loans to business owners in the remaining race or ethnicity categories.



Loans and investments by geography:

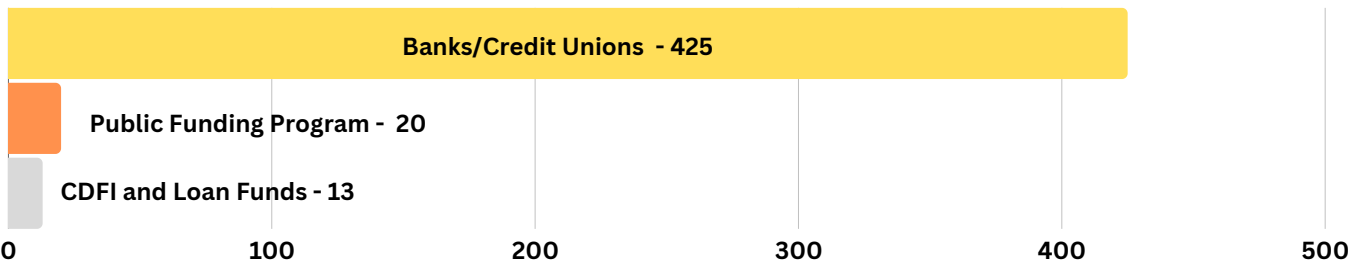
Forty-seven percent (47%) of loans or investments in Montana made by responding organizations were to rural-based businesses not located on a reservation. Just over one-third of loans (35%) made by respondents were to urban-based businesses. The remaining loans (17%) were made to rural businesses located on an American Indian reservation.



Number of loan originations:

In 2021, banks or credit unions reported 21 times more loan originations per organization (425) than did public funding programs per organization (20) and 33 times more than CDFIs and loan funds per organization (13).

2021 Number of loan originations in Montana



Loan size:

The median responding outstanding loan amount in 2021 from a bank or credit union to Montana small businesses was \$160,000, while the median public funding program loan outstanding amount was \$474,000. The average loan outstanding amount lent by CDFIs and loan funds was \$80,000.

Main approval factor for small business loans or investments in Montana:

Banks or credit unions most often reported (42%) the amount of equity invested by an owner or founder as their main loan approval factor, while CDFIs and loan funds most often reported (56%) realism or quality of the business plan as their main determinant. Public funding programs most frequently mentioned (33%) realism or quality of the business plan as their main approval factor.

Main approval factor for small business loans or investments in Montana

Main factor when approving a loan for Montana small businesses	All respondents	Bank or credit union	CDFI or loan fund	Public funding program	Investment fund or private foundation
Realism or quality of business plan	26%	8%	56%	17%	NA
Amount of equity invested by owner or founder in the business	22%	42%	11%	0%	NA
Availability of asset-based collateral	19%	25%	0%	33%	NA
Level of existing debt for the business, including credit card debt for business owner or founder	15%	17%	11%	17%	NA
Quality of management	7%	8%	0%	17%	NA
Availability of audited financial statements for the business	4%	0%	0%	17%	NA
Good prior relationship with borrower	4%	0%	11%	0%	NA
Credit score for business and/or primary owner	4%	0%	11%	0%	NA
Age of business	0%	0%	0%	0%	NA
Amount of equity invested by owner or founder in the business	50%	NA	NA	NA	50%
Realism or quality of business plan	50%	NA	NA	NA	50%

Factors impeding increased small business lending:

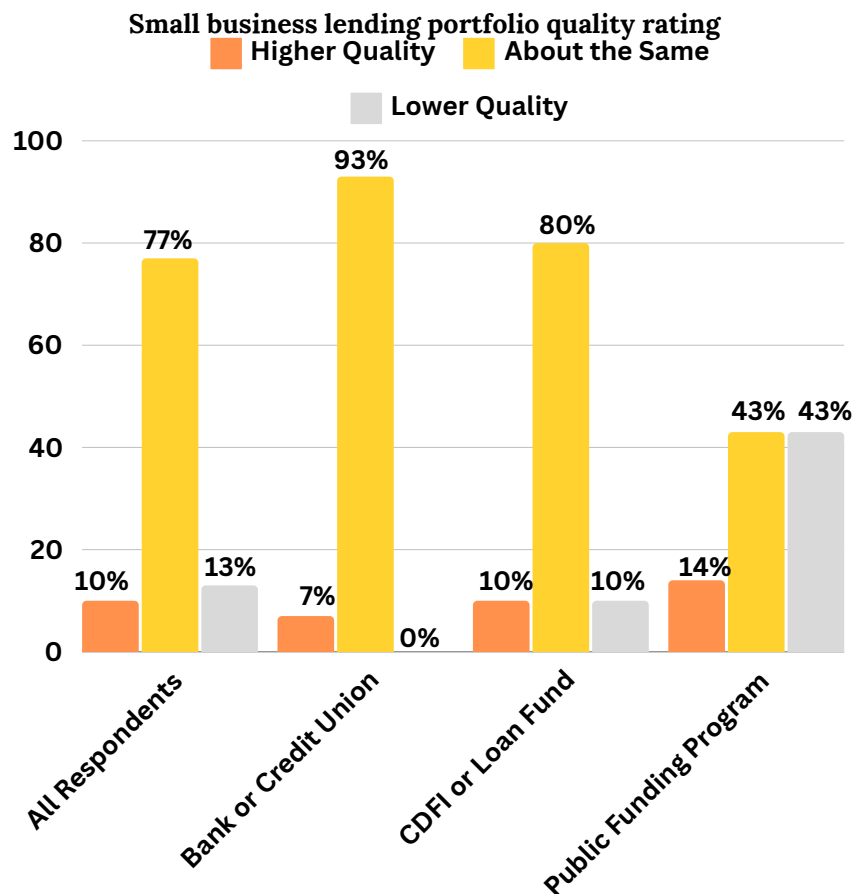
Inability or willingness to lend to, or invest in, marginal borrowers was the factor most often reported (36%) by banks or credit unions as impeding their ability to increase small business lending. Availability of lending or investing capital (60%) and decision speed (60%) most often impedes CDFIs or loan funds. Public funding programs were most often impeded by availability of lending or investing capital (56%).

Small business portfolios:

Banks and credit unions (together 93%) and CDFIs and loan funds (together 80%) rated their small business lending portfolio as being the same quality as their overall lending portfolio. Forty-three percent (43%) of public funding programs rated their small business lending portfolio as the same quality as their overall portfolio.



Photo by Jazzer-Rae, Missoula Makers



Top 4 types of small business lending in Montana:

1. Across all organizations, asset-based lending is the most frequently reported (76%) type of lending to Montana small businesses.
2. Working capital lending is second most frequently cited (67%).
3. Nearly half (48%) of responding organizations provide revolving lines of credit.
4. Twenty-four percent (24%) of respondents offer financing through receivables and/or factoring.

Small business technical assistance:

In addition to financial services, forty-two percent (42%) of responding organizations also directly offer small business development services. An additional forty-nine percent (49%) of respondents refer small businesses to partner organizations for small business development services. Nine percent (9%) of respondents provide no small business development assistance of any kind.

Participation in state and federal programs:

All responding banks, credit unions, CDFIs, and loan funds participate in at least one federal or state loan, grant, loan guarantee, or investment program.

Recommendations: Based on the findings of this study, the following recommendations are offered as possible solutions to reinforce small business funders and expand responsible, effective financing for small businesses in Montana.

Market Gap 1 – Limited Time and Lean Staff in an Environment of Complex Programs and Financing Options: With a range of financial products and financial services providers for many small businesses, both funders and businesses may be unaware of available options, including potential co-funders and state and federal programs. Several lenders and investors expressed interest in co-funding small business deals, while some state and federal programs noted funds are available and not being fully used. This leads to inefficient program utilization and underutilization of available financing, as noted by a wide range of lenders, investors, and state and federal program staff.

Proposed Solutions:

1. Expand information and training for lenders and investors: Larger lenders and investors often have specialized staff to focus on arranging participation loans and syndications and/or state and federal programs for small business finance. Yet most report lean staffing, without the luxury of specialists in each branch office. Further, many funders may make only a few of these loans or investments each year, so it is often necessary to refresh knowledge of relevant programs for each application. Some programs lenders noted as critically helpful include the Montana Department of Commerce's SSBCI funding program and several Montana Board of Investment programs. Others include widely used programs such as the US Department of Agriculture's Rural Development Program and multiple U.S. Small Business Administration programs.

- Where feasible, state and federal agencies and economic development organizations can further streamline application and reporting requirements for lenders. However, these agencies have reporting requirements and are held accountable for the use of public funds and thus face a delicate balancing act to ensure fair, reasonable, and equitable application, contracting, and monitoring of funding.
- To help funders apply for and successfully deploy financing from available programs, easily accessible information is crucial, including business eligibility and decision criteria, geographic coverage, funding conditions, and available financing (loan guarantees, co-funding, credit enhancements, grants, etc.). Some programs also offer business development services, coaching, or other advisory for qualifying businesses and financial institutions.
- Especially for smaller lenders and/or infrequent users of these programs, many lenders noted the complexity of applying for and reporting to state and federal programs as a hurdle, though many programs offer briefing sessions and respond to phone or email queries. However, it may be necessary to expand online trainings, question & answer sessions, and email and/or phone links to experts on how to complete applications for economic development organizations and state and federal programs.

- Expanding online and in-person trainings and briefings at events organized by state associations of lenders, investors, and economic development organizations may be helpful. Building on the capacity, trust, and reach of industry associations, their staff can be trained to respond to relevant questions related to accessing, qualifying for, and complying with programs offered by economic development organizations and state and federal small business programs.

2. Deepen capacity of funders working at the community level: Many community-based lenders and economic development organizations work with limited staff and resources. Building their capacity—through skills-based training, creative use of mentorships, database of specialists, etc.—would reinforce loan portfolio management, risk management, asset-liability management, fundraising, and other operations.

3. Explore shared services: Finance is a volume business with economies of scale, and making small loans or investments often requires similar staff time and costs as for much larger deals. This can lead to unintended consequences of funders shifting to work with larger businesses over time to mitigate costs. To help increase efficiencies, shared services across multiple organizations may be helpful. For example, small community lenders, loan funds, and/or CDFIs could hire and share staff, perhaps working remotely, for grant writing, fundraising, customer acquisition, marketing, regulatory reporting, and other back-office functions.

Photo from Dunrovin Ranch





Market Gap 2 - Limited Liquidity for Onlending: Some lenders and investors noted they are overliquid and seeking more business clients. However, the majority of community-based lenders interviewed reported being starved for capital to onlend or relend to small businesses, and some investment funds are trying to raise additional capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds are experiencing more demand for their services, perhaps as traditional bank lenders are being required to tighten their lending criteria. Many community-based lenders noted they are rationing funds and maintaining waiting lists for qualified business borrowers. Strategic public-private partnerships can leverage the expertise, geographic reach, funding, and skills of institutions in Montana to increase funding for small businesses.

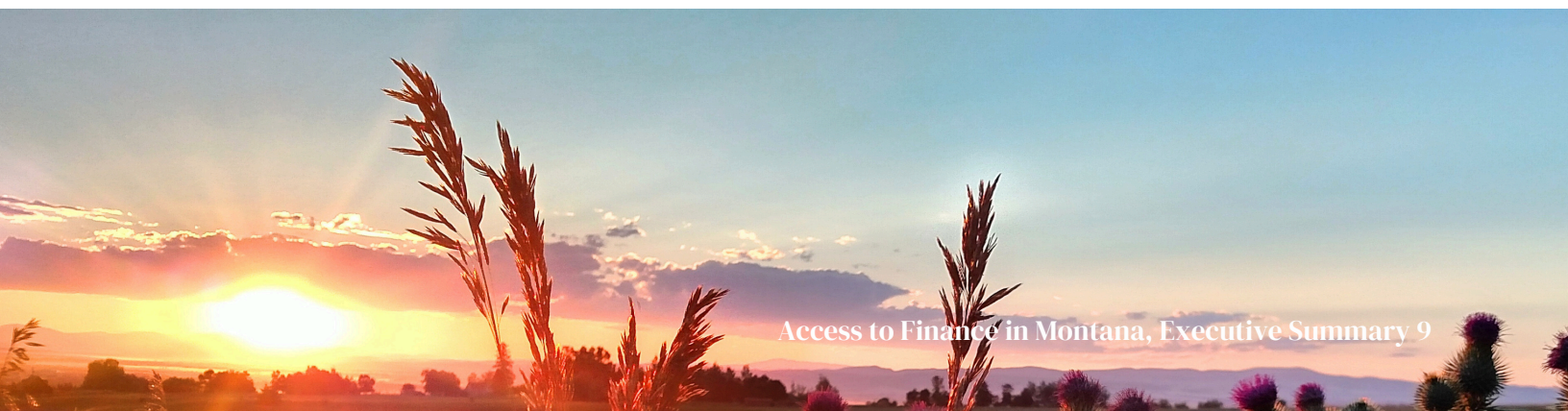
Proposed Solutions:

1. **Scale up existing successful programs:** Several state and federal programs for small businesses have been successfully deployed in response to the COVID-19 pandemic, with many people praising how the Montana Department of Commerce managed the use of ARPA and SSBCI funds over the past three years. Several interviewed for this study also praised the Montana Board of Investment's programs including loan participations and the Intermediary Relending Program (IRP). However, many lenders have used their full allocation of these useful programs. As public and philanthropic funding allows, scaling up these programs may be an efficient way of leveraging the private sector to increase funding for small businesses across Montana. Studying the factors that worked well with these programs would provide a foundation of lessons for future programs on qualifying lenders, risk sharing, criteria for business loans, combinations of loans and grants, funding terms, and other factors.
2. **Explore new linkages between public and private funding:** Each type of funder can play a role across the broad spectrum of financing for business and economic development. As noted above, several state and federal funding programs are effectively deploying funding through community lenders and economic development organizations. In addition, many lenders, investors, and private foundations already work well together by referring clients, co-financing deals, providing onlending funds, providing credit enhancements such as loan guarantees and subordinate capital, and other collaborations. New models of funding are being explored across Montana through community-based lending and investing, private credit funds, cooperative investment funds, investment crowdsourcing, revenue-based lending, and others. This diversity of roles for funders, risk appetite, and funding terms for small businesses are welcome innovations and should be encouraged and supported.

3. Expand smart subsidies and policy incentives to help address real and perceived risks in small business finance: Montana businesses and funders benefit from several state and federal policy incentives, and it is critical to ensure that organizations are aware of the existing programs and how to use them effectively. Successful aspects of these programs and policies could be used to target strategic industries, underserved populations, and/or distressed or lower-income geographic areas of the state.

- The Montana Board of Investment offers incentives for businesses that create or retain quality jobs by reducing their lending interest rate.
- The federal New Markets Tax Credit program offers tax incentives to attract private investment to distressed communities.
- The Community Reinvestment Act (CRA) encourages national banks, savings associations, and state-chartered banks to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Community lenders are proven leaders in reaching small businesses and working across urban, rural, and tribal areas, including populations and geographics that qualify for CRA credits. Some of the larger CDFIs in Montana are able to attract funds from larger regional and national banks that need to increase their exposure to CRA qualified loans. This approach could be expanded to other community lenders.

Next Steps: Exploring these recommendations as well as pursuing others will take the insights of many in Montana's small businesses finance ecosystem. Accelerate Montana will continue to support this effort by gathering and disseminating needed data, convening ecosystem members, and exploring solutions to identified gaps. Accelerate Montana has dedicated resources to lead a multi-year effort that will focus on 1) Increasing financing for rural-based businesses, Native American-owned businesses, and women-owned businesses across Montana, 2) Supporting the growth of technical assistance for entrepreneurs state wide, and 3) Helping develop a skilled workforce prepared to be part of growing businesses. We believe that all three of these efforts will improve the successful deployment of financing and foster inclusive economic prosperity for all Montanans. If you are interested in being part of this effort, [please contact us at Accelerate Montana.](#)





Introduction

Small businesses in Montana have long reported that the lack of access to finance tops their list of impediments that prevent them from starting and growing. At the same time, lenders and investors cite challenges finding businesses in Montana that qualify for their lending and investment criteria. This study attempts to shed light on the current environment of small business financing in Montana with the goal that insights may lead to increased access to finance for small businesses in the state.

Historically, access to finance has been affected by the gender, race, and geographic location of the business owner. Because of these historical differences, this study gathered information from responding lenders and investors about the demographics of their small business clients. This study also focused on the lending and investment criteria that is used across the state to qualify borrowers and investments.

Access to finance is defined as a small business having access to financial products and services that meet their business needs. This includes:

- checking accounts and savings accounts to manage liquidity
- payment services to receive client payments and pay suppliers
- business credit cards
- business loans and lines of credit for working capital, equipment, real estate, and other purposes
- business investments
- other financial products and services

The U.S. Small Business Administration defines a small business as having fewer than 500 full-time employees over the past 12 months.* Other definitions such as average annual receipts over time can also be used, although revenue levels vary across industries, and are often used to qualify for federal programs. Across the United States, more than 32 million small businesses represent 99.9 percent of all firms.

Rural areas are designated in this survey as those not included in the U.S. Office of Management and Budget-defined metropolitan or micropolitan statistical area counties. Defined urban counties are: Carbon County, Stillwater County, Yellowstone County, Gallatin County, Silver Bow County, Cascade County, Jefferson County, Lewis and Clark County, Flathead County, and Missoula County (U.S. Census Bureau, 2020). The remaining counties in Montana are defined as rural areas.

*U.S. Small Business Administration, Office of Advocacy. (2001). Frequently Asked Questions. <https://advocacy.sba.gov/wp-content/uploads/2021/12/Small-Business-FAQ-Revised-December-2021.pdf>

Methodology & Data Collection

Quantitative Data and Analysis

The quantitative survey was conducted in late 2022 and early 2023. Accelerate Montana, Catalyze Global Impact LLC, WELL, and their partner organizations gave BBER a list of 132 potential contacts with Montana organizations that provide loans, investments, grants, or loan guarantees to small businesses. Eligible organizations included banks, credit unions, loan funds, community development finance institutions, investment funds, state and federal government agencies and their partners, and private foundations that fund small businesses in Montana.

Contacts for these organizations were compiled through online research of federal and state databases of registered lenders and investors, publicly available information on lenders and investors, and the Accelerate Montana database. Of these contacts, 17 were found to have inadequate contact information and 3 were found to be ineligible to participate in the survey. Of the 112 eligible entities asked to participate in this survey, 36 (32%) responded. The response rate for this survey is calculated using the American Association for Public Opinion Research's formula RR1 (AAPOR, 2016).

The data for this survey were collected by administering a questionnaire via the internet or telephone. BBER used Qualtrics survey research software to manage this survey (Qualtrics, 2020). Data were collected using industry standard methods (Dillman, Smyth, & Christian, 2014). BBER made a total of 709 attempts to collect data from the list of contacts, averaging 5.3 contacts for each potential respondent. The questionnaire invitation was transmitted by email and mail. In the email contact respondents were asked to click on a hyperlink to access the online questionnaire.

The questionnaire was developed by the project team, and the above listed advisory committee in consultation with BBER.

Readers of this report should keep in mind the fact that several of the survey questions asked for calendar year 2021 information, which was an atypical year because of the COVID-19 pandemic. The survey asked respondents to exclude PPP and other federal COVID related lending programs, which altered lending and investing volumes for many organizations across Montana. However, the impacts of the pandemic may have influenced responses to these questions.

Following receipt of the survey responses, the data were inspected to ensure no duplicate cases were included and to correct any obvious typos made by respondents. Appropriate variable and value labels were added to the data set. Appropriate composite variables and flags, including indicators for industry, were coded and added to the data set to facilitate the analysis process.

Once the preliminary data were tabulated, the project team reviewed the outcomes with the advisory committee. Advisory committee members and other reviewers provided suggestions on possible analyses based on their industry expertise.

BBER conducted a statistical analysis of the survey data using the statistical analysis computer software SPSS (IBM Corporation, 2021). BBER analyzed the data collected using frequencies, cross-tabulations, standard measures of central tendency (mean, median, and mode), sums and ratios (Heeringa, West, & Berglund, 2017).

Qualitative Data and Analysis

The project team contacted over 125 people (see Appendix A) starting with ideas on the study design and implementation plus comments on the final report starting in early 2022 through November 2023. To learn more from lenders and investors and to explore nuances in the quantitative survey results, the project team undertook qualitative research through interviews and focus group discussions organized by video conference between May 2023 and November 2023. To create the list of potential interviews, people were invited to participate using the original list of 112 lending and investing organizations compiled for the quantitative survey. Based on responses to these invitations, the project team interviewed more than 50 lenders, investors, and businesses, and the findings of these discussions are included throughout the report. For a full list of those interviewed, please see Appendix B. Thank you to these experienced professionals who shared their perspectives on the challenges and opportunities related to financing small businesses in Montana.

Photo by Erika Spaulding, Missoula Makers Collective



The Respondents

Table 1 below presents the number of respondents to the quantitative survey by the type of lending or investing organization they represent. The survey collected data from 14 banks or credit unions, 10 CDFIs or loan funds, 9 federal or state government agency funding programs and 3 investment funds or private foundations.

Table 1: Survey respondents by type of lending or investing organization

	Column N %	Count
Bank or credit union	39%	14
CDFI or loan fund	28%	10
Public funding program	25%	9
Investment fund or private foundation	8%	3
Total	100%	36

Structure of this Report

This report includes three sources of data and analysis each presented in different formats:

The report follows the order of the questions as they were presented in the survey. The main section of the report presents the responses to the survey questions in the order they were asked. The full question text is provided for each question at the beginning of the relevant section. The data are presented in tables and graphs. A written narrative of the findings is provided with the figures.

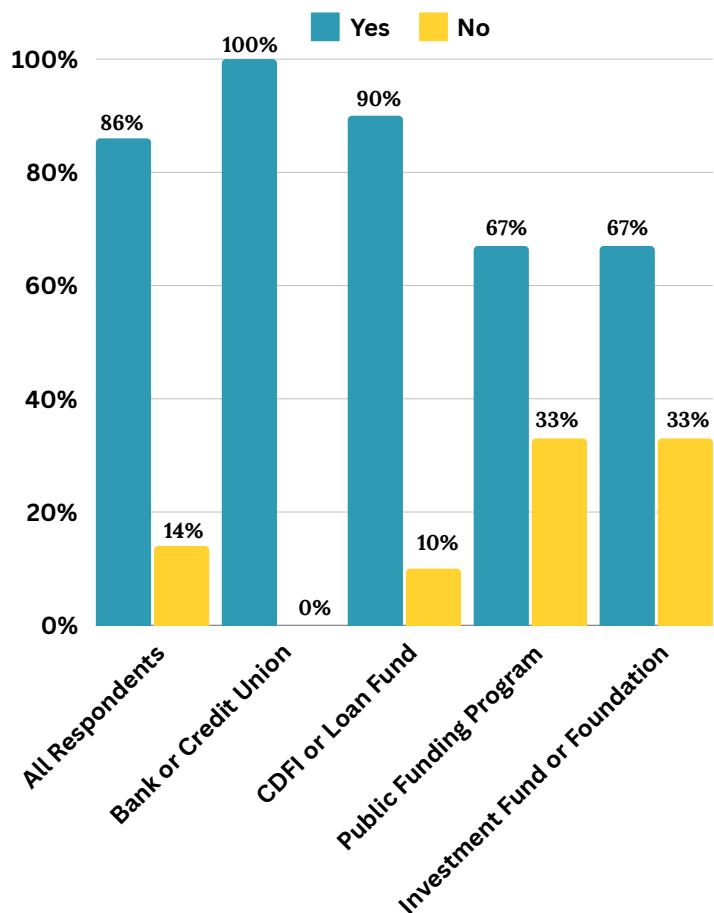
The main section of the report is followed by appendices including people contacted and interviewed for this study, the entire quantitative questionnaire, the number of responses to each question in the quantitative survey, list of funders active in Montana, list of funding programs provided by the state of Montana, and other useful information that supplement the core report.

- Qualitative data text boxes are highlighted throughout the report. Qualitative data were collected through focus group discussions and interviews with individuals between early 2023 and November 2023. The quotes and notes from these interviews are presented in text boxes of green back ground and white text. All the statements provided from the interviews are the opinion of the interviewee and not the project team.
- Publicly available independent data are presented in tables or in narrative form and are highlighted throughout the report. These data are from federal agencies including the U.S. Census Bureau, U.S. Federal Deposit Insurance Corporation, U.S. Small Business Administration, U.S. Federal Reserve Bank System, Credit Union National Association, the CDFI Fund, and others.

Funding Startups

Q2. Does your organization typically make loans or investments to small businesses it considers new or startups?

Figure 1: Proportion of institutions that lend or invest in new or startup small businesses (%)



Eighty-six percent of lending or investing organizations that responded reported that the organization typically makes loans or investments to startup small businesses (see Figure 1). Only 14 percent of responding organizations reported not making such loans or investments.

All the responding banks and credit unions (100%) reported making loans to small businesses that they consider new or startups. Ninety percent of responding Community Development Financial Institutions (CDFIs) or loan funds said they make loans to new or startup small businesses. Sixty-seven percent of responding public funding programs and investment funds or private foundations also reported making loans or investments in new or startup small businesses. Readers should use statistics reported for investment funds or private foundations with care since only three of these institutions responded to the survey.

Creating Startup Culture and Finance in Montana

The availability of seed money for startup businesses is a primary gap in funding opportunities across Montana, according to Mark Ranalli, president and CEO of Biosqueeze, a biomineralization well sealing company in the oil and gas industry based in Butte. Raising relatively small amounts of funding such as \$25,000 to \$250,000 for very early-stage startups is deeply challenging. Ranalli believes that Montana lacks early-stage financing, incubators, and venture competitions in comparison to other states. He added, “Fostering a strong startup culture will add significant value to local economies.” Ranalli has been an angel investor and served as Dean of the Business School at MSU. In addition, Ranalli has been involved in and continues to be extremely supportive of the work being done by Early Stage MT. Today, he leads by example as president and CEO of the new technology company Biosqueeze. With his team, Ranalli successfully raised \$4 million in seed capital from Montana investors, and the company just raised \$9.5 million in Series A funds during the first quarter of 2023. Attracting investors has not been a challenge given their business potential. Instead, his main business challenges are attracting mid-level professional staff and identifying adequate office space. Ranalli noted that “when investors look for businesses, they focus on the founder’s credibility and ability to run with the idea, as no business ever rolls out according to the original plan.” In addition, investors look for disruptive ideas with new technology or an opportunity to leverage a disruption in current business landscape that could be highly differentiated in a large market. <https://biosqueeze.com/>

Demographics & Funding

Gender & Finance

Q3: What percent of your organization's loans or investments in Montana are to female or male-owned businesses? Your best guess is ok.

Figure 2: Proportion of loans or investments made to male or female-owned businesses

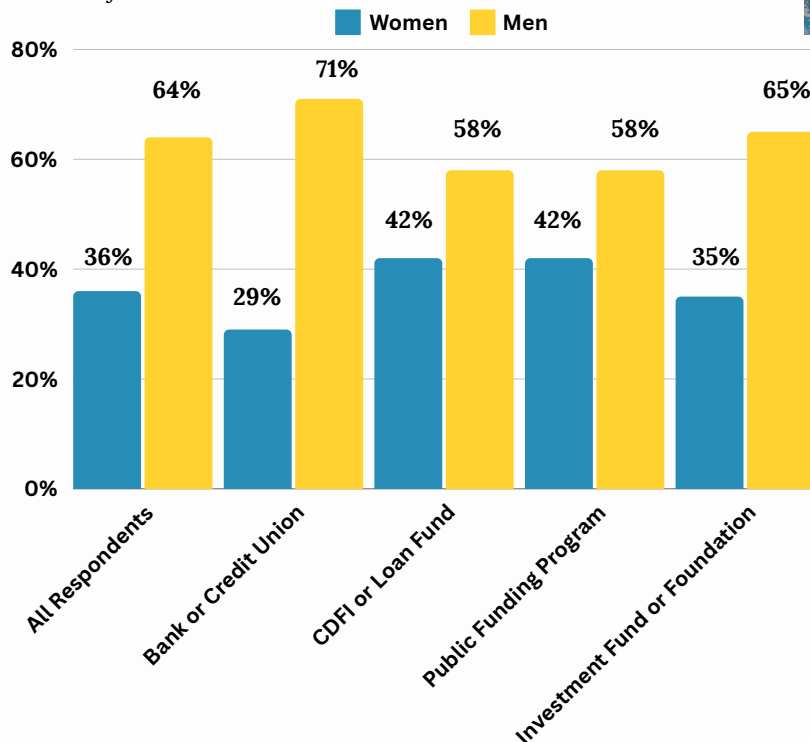


Photo from Parallel Connections

Thirty-six percent of the loans or investments made by the responding organizations were made to women (see Figure 2). As seen in table 2 below women own approximately 34 percent of businesses in Montana.

Sixty-four percent of responding organizations' loans or investments were made to men. Loan funds, CDFIs, and public funding programs reported a slightly higher rate of lending to female-owned businesses (42%) than did investment funds or private foundations (35%) or banks or credit unions (29%).

As noted in Table 2 below, the U.S. Census Bureau (2019) reports 128,800 small businesses in Montana with over 368,000 employees and total annual payroll of over \$15.8 billion. Of these Montana businesses, women own 44,079 (34%). In addition, approximately 13.3 percent of businesses are equally owned by men and women, whether as a family or business relationship. Equal male/female ownership was not provided so was estimated by finding the difference between the total and the sum of female and male-owned firms. Women own over 39 percent of the firms with no employees but only 18.8 percent of businesses with employees.

Table 2: Montana business ownership & employees by gender, 2019

Business Ownership	Total Employer & Non-Employer Firms	Number of Non-Employer Firms	Number of Employer Firms	Number of Employees	Total Annual Payroll (\$1,000)	% of Non-Employer Firms vs Employer Firms
Female	44,079	38,000	6,079	37,389	\$1,055,060	86.21%
Male	67,615	50,500	17,115	131,082	\$5,905,231	74.69%
Equally male/female	17,106	8,000	9,106	199,534	\$8,913,500	NA
Total	128,800	96,500	32,300	368,005	\$15,873,791	

Source: U.S. Census Bureau 2019

Veterans & Finance

Data Comparison

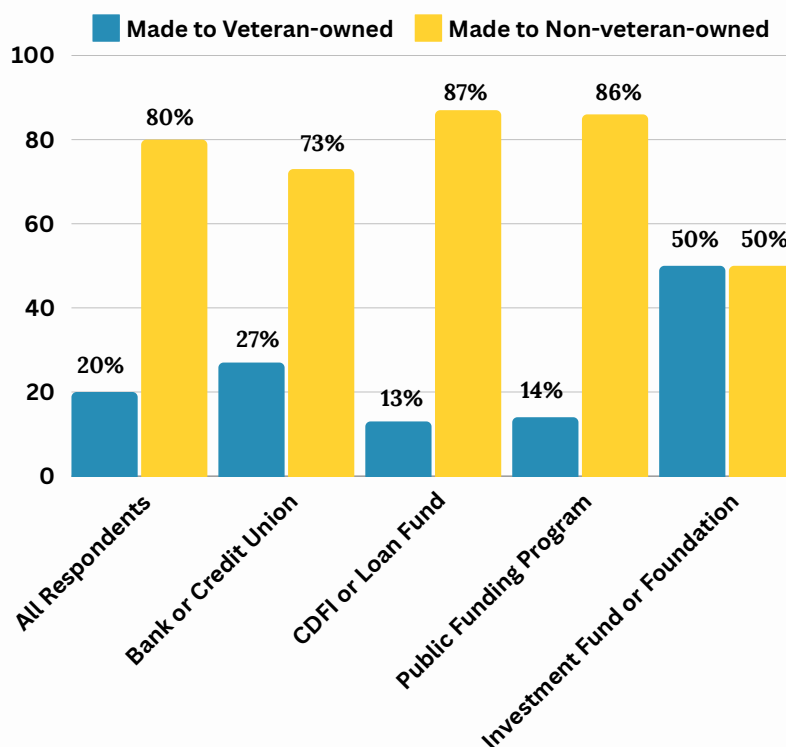
According to the 2019 U.S. Census Bureau, seven percent of businesses in Montana are veteran-owned, while 88 percent are non-veteran-owned. About two percent of businesses are under equally veteran/non-veteran ownership.

The responding organizations reported that 20 percent of their loans or investments were made to veteran-owned businesses (see Figure 3). Responding banks or credit unions reported making a higher proportion of loans (27%) to veteran-owned businesses than did public funding programs (14%) or CDFIs or loan funds (13%).

The proportion of loans to veteran-owned businesses reported by investment funds or private foundations was influenced by the low number of respondents in this category and thus should be used by readers with care.

Q4. What percent of your organization's loans or investments in Montana are to veteran-owned businesses or non-veteran-owned businesses?
Your best guess is ok.

Figure 3: Proportion of loans or investments made to veteran or non-veteran-owned businesses



Reaching Underserved or Underestimated Businesses

“Many populations across Montana are underserved. We need to meet those businesses where they are,” says Dave Glaser, President of MoFi, a regional CDFI providing financing and consulting to entrepreneurs and small business owners and affordable housing solutions across the American West.

Glaser continues, “There is a perception that lending to lower-income business owners is riskier, but this is simply not true.” MoFi rewired its marketing and lending operations to reach more businesses especially in rural areas, on Native American reservations, and with underserved populations. For example, to work with Hispanic business owners, MoFi translated all their materials in Spanish, identified new board members from the Hispanic community, and hired native Spanish speakers as front-line staff engaging with businesses. “CDFI lenders need to get out into the community and talk with business owners,” notes Glaser.

He provides an example of how MoFi is increasing lending in Indian Country by communicating transparently, meeting with leaders of Native American Nations, establishing trust, and making sure that loans work each Native American Nation in accordance to tribal law, and for and the specific business. MoFi is working hard to expand their client base across traditionally underserved groups, and they are making an impact. Glaser notes that in 2023, 60 percent of MoFi’s new loans are to women-owned businesses. <https://mofi.com/>

Race & Finance

Q5: What percent of your organization's loans or investments in Montana are to? (race or ethnicity of business owner) Your best guess is ok.

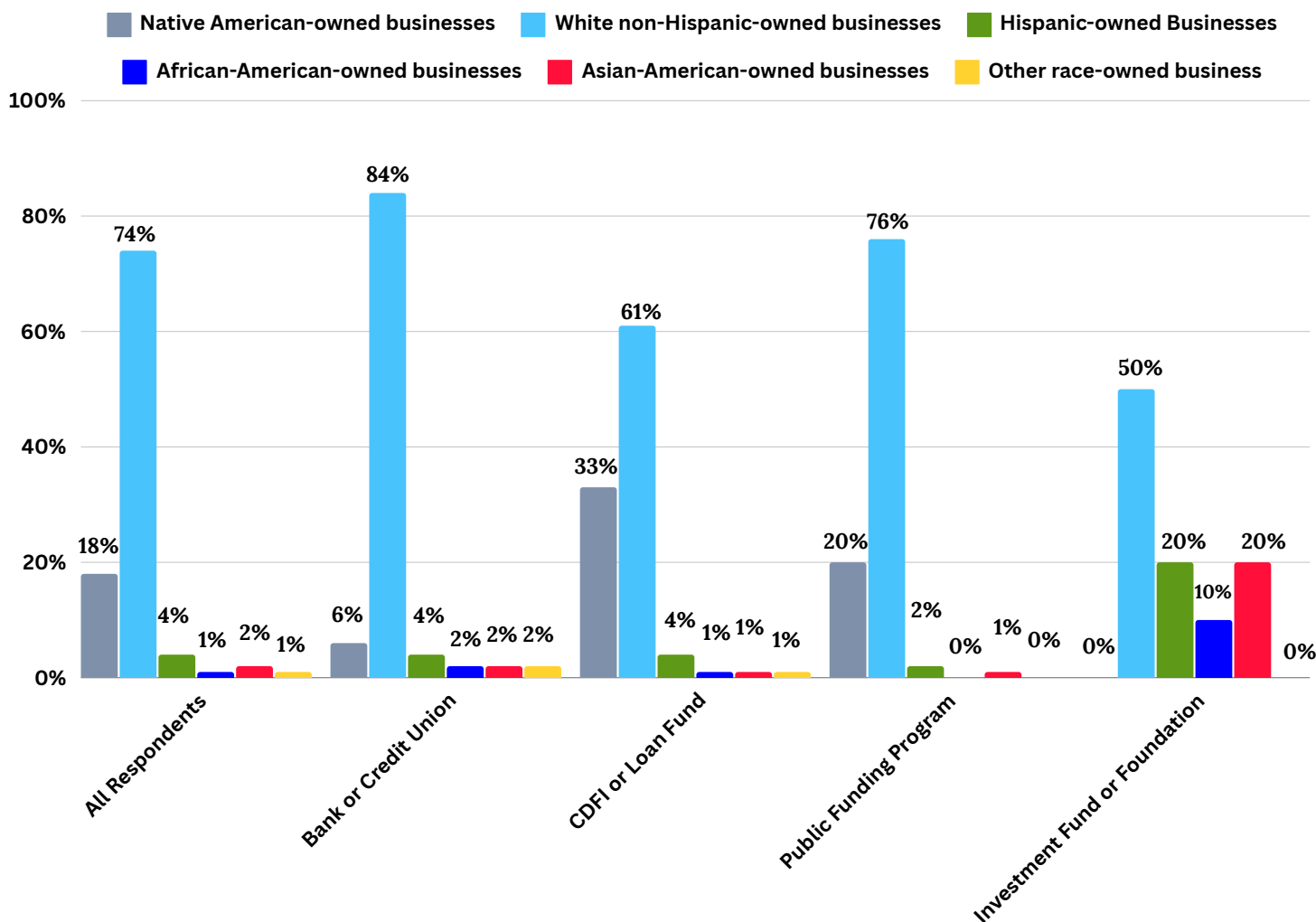
Seventy-four percent of the loans or investments made by the responding organizations were to White business owners (see Figure 4). Eighteen percent of loans or investments made by responding organizations were to Native American business owners. Responding organizations made a total of eight percent of their loans to business owners in the remaining race or ethnicity categories.

Responding banks or credit unions reported making the highest proportion of their loans to White business owners (84%). CDFIs or loan funds (33%) followed by public funding programs (20%) reported making proportionately more of their loans to Native American business owners than did banks or credit unions. The low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

Figure 4: Proportion of loans made by race or ethnicity of the business owner



Orange highlighted area: Flathead Reservation, Confederated Salish and Kootenai Tribes of the Flathead Nation



Institutional Equity a Barrier for New and Small Credit Unions

The National Credit Union Administration (NCUA) limits credit unions to a loan maximum of five percent of their equity. A lack of equity held at the Morning Star Federal Credit Union limits their operations and financing, according to Sharon Small, Executive Director at People's Partners for Community Development, a registered CDFI, and founder of this new credit union.

As a recently launched institution, the Morning Star Federal Credit Union, based on the Northern Cheyenne Reservation, has limited ability to lend. Their available funds will increase over time as new members join the credit union, pay membership fees, and increase their savings held at the institution. However, the credit union serves a majority of lower-income members with limited savings, and the credit union has set membership fees at a modest level.

Small believes the credit union would be able to lend to many qualified households in their geographic area, but these credit needs surpass the credit union's current lending capacity. She hopes to increase the credit union's equity over time through grants and interest income, though the latter will be limited given relatively small loans. <https://www.tmsfcu.com/>

Trust Land Restrictions on Native American Reservations

Reservations are sovereign nations with their own governments and judicial systems of courts and laws and treaties with the US government. In the late 1800s, the US government imposed restrictions on land located on Native American reservations. Maria Valandra, Vice President Community Partnerships at Clearwater Credit Union, explained three main land categories on reservations:

1. Trust land is held in trust by the federal government for the benefit of a tribal nation or individual tribal members
2. Allotted land is held in trust for use by an individual tribal member with right of use passed within families, and
3. Fee land is where the title is held by an individual person or tribe and subject to county, state, and federal taxes.

There are also Restricted Fee lands that are owned by a tribe or tribal member but are subject to a restriction against alienation (sale or transfer) or encumbrance (i.e. liens, leases, rights-of-way).^{*} These restrictions block land from being sold, mortgaged or used as collateral for business or household loans.^{**} This limitation "makes it nearly impossible for on-reservation entrepreneurs to secure startup financing, as they cannot borrow against the equity they have in their homes."^{***} Collateral and mortgage limitations affect wealth accumulation for households over time, which further limits available funding for businesses located on reservations, noted Valandra.

<https://clearwatercreditunion.org/>

^{*}Congressional Research Service. Tribal Lands: An Overview. October 14, 2021. <https://crsreports.congress.gov/product/pdf/IF/IF11944>

^{**}Morgan, Lance. (September 12, 2018). "Ending the Curse of Trust," in Indian Country Today. <https://icnews.org/archive/ending-the-curse-of-trust>

^{***}Clarkson, Gavin and Murphy, Alisha, Tribal Leakage: How the Curse of Trust Land Impedes Tribal Economic Self-Sustainability (May 7, 2014). Journal of Law, Economics and Policy, Vol. 12, No. 2, 2016. <https://ssrn.com/abstract=2447289> or <http://dx.doi.org/10.2139/ssrn.2447289>

According to the U.S. Census Bureau (2021), Montana's resident population is composed of 88.7 percent White, 6.5 percent Native American, 4.5 percent Hispanic or Latino, 1.1 percent Asian American, 0.6 percent Black or African American, and 0.1 percent Pacific Islanders. Turning to business data, the U.S. Census Bureau reports almost 94 percent of businesses in Montana are owned by White business owners, as noted in Table 3 below. Native Americans own 2.51 percent of businesses, while Hispanics own 1.83 percent, Asians own 1.19 percent, and Blacks own 0.37 percent of businesses in the state.

Table 3: Business ownership by race in Montana

White	93.82%
Native American	2.51%
Hispanic	1.83%
Asian	1.19%
Equally Hispanic/NonHispanic	0.36%
Black	0.37%
Pacific Islander/ Hawaiian Native	0.13%

Source: Census Bureau, 2019



Table 4: American Indian population demographics by state

	United States	Montana	Idaho	North Dakota	South Dakota	Wyoming
Total American Indian (AI) Population	2,699,073	67,289	22,790	39,462	75,331	14,053
% of Total Population AI Alone	0.8%	6.5%	1.4%	5.2%	8.7%	2.4%
Median Age of AI Population	32.8	27.3	33.1	26	24.5	28
Median Household Income of AI Population	\$41,879	\$32,072	\$40,898	\$36,710	\$27,045	\$49,352

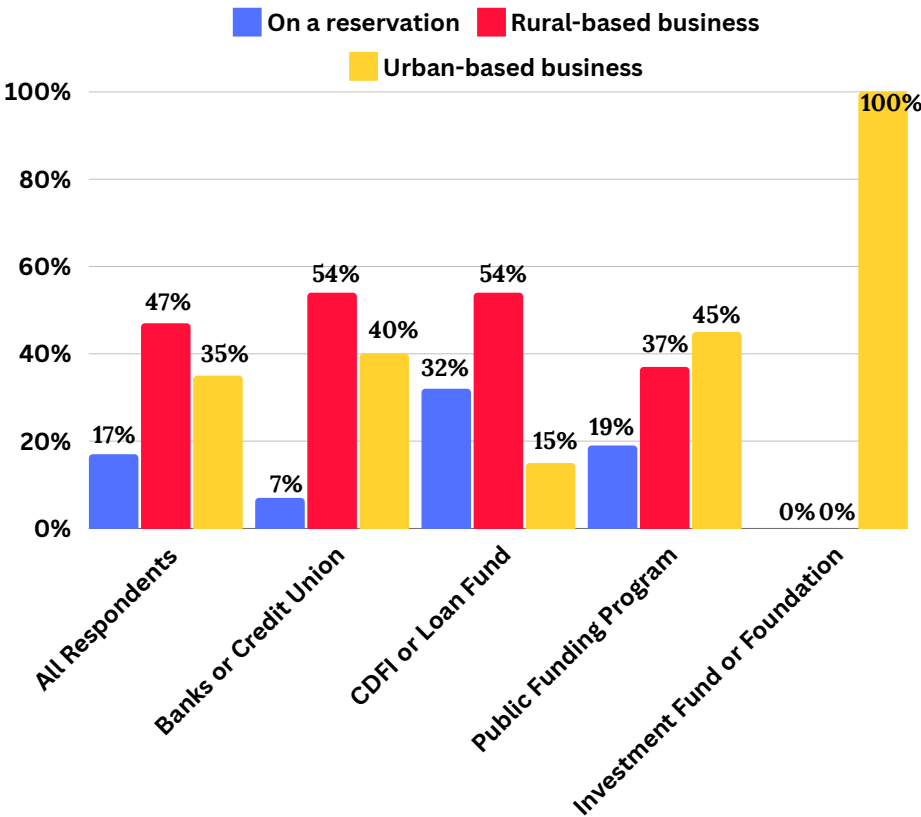
Table Extracted from: Montana’s Reservation Economies, Holom, 2020. Source: American Community Survey (ACS) 5-Year Estimates, US Census, 2014-2018

Location & Finance

Q6: What percent of your organization's loans or investments in Montana are to? (Location of Business)

Forty-seven percent (47%) of loans or investments in Montana made by responding organizations were to rural-based businesses NOT located on a reservation (see Figure 5). Just over one-third of respondents' loans (35%) were to urban-based businesses. The remaining loans (17%) were made to rural businesses located on a Native American reservation.

Figure 5: Proportion of loans made by location of Montana business



Rural-Urban Population in Montana

According to the U.S. Census Bureau, Montana's population is 67.2 percent urban and 32.9 percent rural. (2021)

A majority (54%) of loans made by banks or credit unions and CDFIs or loans funds went to rural-based businesses not located on a reservation. Whereas 45% of loans or investments made by public funding programs went to urban-based businesses.

CDFIs or loan funds made the highest proportion of loans (32%) to rural-based businesses located on a reservation.

Note: the low number of responding investment funds or private foundations requires readers to use the proportion reported here with care.

CDFIs Are Starving for Funds

Community development financial institutions (CDFIs) play a key role in small business funding, according to Herb Kulow, retired bank president and bank turnaround specialist. "CDFIs can take more risk as they are non-profit, have no minimum capital requirements, and receive federal and state funds," he noted.

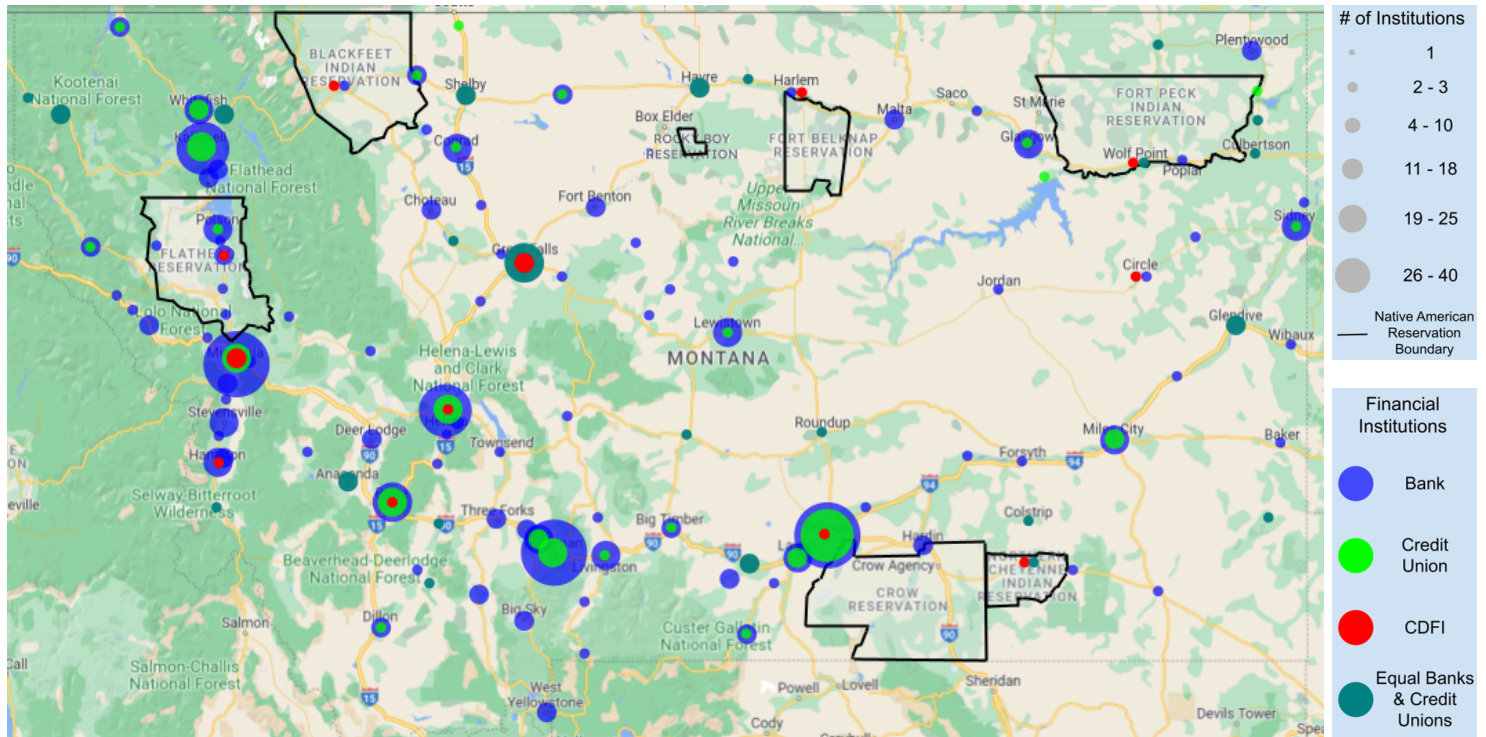
Banks may reject a loan because of the higher amount of risk, whereas CDFIs are often willing to take that risk. Often CDFI loans are also smaller than those made by other lenders. "Finance is a volume business, and smaller loans are more costly to analyze, monitor, and ensure repayment than larger loans," Kulow explained. Several state and federal programs provide grants, loans, and loan guarantees to CDFIs, revolving loan funds, and other community lenders.

For example, U.S. Treasury provides funds through the State Small Business Credit Initiative, working with the Montana Department of Commerce. In addition, CDFIs can access funds from the Montana Board of Investment, FHA, EDA, USDA, and SBA. However many CDFIs have maxed out their allocation from these sources - yet they still face growing demand from small businesses.

Location of Montana Funders

Figure 6 below shows the distribution of funding organizations across Montana including all branches. Not surprisingly, urban areas of Missoula, Helena, Butte, Bozeman, Great Falls, and Billings have the largest number and diversity of funding institutions. Larger rural towns typically have at least one funding institution. However, the map indicates large areas with no lending institution. Among Native American reservations, the Flathead Reservation has significantly more funding institutions compared to other reservations across the state. The map includes all branches of banks and credit unions. Most CDFIs, loan funds, and investors have only one office.

Figure 6: Distribution of funding organizations in the state of Montana



Sources for Montana Financial Institution Map: BankFind Suite: Find Institutions by Name & Location (fdic.gov)
Credit Union Locator & Research a Credit Union | NCUA and CDFI Certification | Community Development Financial Institutions Fund (cdfifund.gov)

Banking Deserts in Montana

In several counties across the state, banks or credit unions may operate branch offices for retail or household finance, but there may be no commercial banking officer, according to Steve Clairmont of Mission West Community Development Partners in Ronan.

Clairmont noted examples of Mineral County, Swan Valley, and areas in Lake County and Missoula County lack a local small business lending officer, so decisions are taken in neighboring counties or at bank headquarters. <https://missionwestcdp.org/>

Ed Garding, retired CEO of First Interstate Bank, agreed and emphasized a tremendous lack of capital on Native American reservations and small farming communities across the state.

Less Bank Outreach on Native American Reservations

The Mountain Plains Regional Market Study noted lower number of bank offices on reservations across Montana and neighboring states. Of the seven reservations included in their state-wide regional analysis, Blackfeet, Fort Peck, Rocky Boy, and Northern Cheyenne had fewer banks per square mile than the Montana average of 0.0030 bank offices per square mile.

Table 5: Bank office density on reservations in Montana

Reservation	Bank Offices per Square Mile	Bank Offices per 1,000 Residents
Blackfeet	0.001	0.22
Flathead	0.0074	0.37
Fort Belknap	0.005	0.3
Fort Peck	0.0014	0.64
Rocky Boy	0.0024	0.43
Northern Cheyenne	0.0006	0.32
Crow	0.0064	0.65
Montana	0.003	0.39
Reservation Average	0.0035	0.42

Excerpted from: Mountain | Plains Native Regional Native CDFI Coalition. (2022). Mountain Plains Regional Market Study, p23-24.

Similarly, four reservations had fewer bank offices per 1,000 residents when compared to the Montana average of 0.39 bank offices per 1,000 residents. These reservations are Blackfeet, Flathead, Fort Belknap, and Northern Cheyenne.

As reservations experience varying degrees of access to capital, the vital role that Native American CDFIs play in expanding capital access for their communities should not be understated. Reservations with established CDFIs have significantly expanded capital access and access to banking services in their communities.

Table 6: Demographics of Native American population on the eight reservations in Montana

	Blackfeet	Crow	CSKT, Flathead	Fort Belknap	Fort Peck	Northern Cheyenne	Rocky Boy	Montana Total
Population	10,772	7,184	29,717	3,187	10,319	4,931	3,634	1,062,305
% Native American	80.5%	79.3%	26.8%	91.8%	64.9%	91.9%	94.3%	6.5%
Median Household Income	\$26,264	\$47,454	\$42,154	\$30,875	\$36,786	\$46,300	\$28,897	\$45,076

Excerpt from: Montana's Reservation Economies, Holom, 2020. Source: ACS 5-Year Estimates U.S. Census 2014-2018

Opportunities for Relationship-Based Lending for “Regular” Businesses

“As a result of decades-long bank consolidation and other factors, businesses in small towns often don't know the bankers and investors who may be located several towns away or in city centers,” said Jeff Batton of HomeStake, a Montana-based investment fund that focuses on the entire universe of small businesses — from true main street businesses to niche technology companies.

Batton believes “there is an opportunity in relationship-based transactions — through lending or investing into other community members in your network, whom you may see at the grocery store, school sports events, or the community park.” Relationship-based investing reduces risk and provides opportunities to fund a huge swath of “regular growth” businesses across Montana that have plenty of potential but not enough to be a fit for venture capital and “angel” investors that focus exclusively on hyper-growth opportunities.

Batton noted, “Montana is full of businesses that earn good revenue, grow at reasonable levels, and provide important goods and services for their communities.” Many of these businesses are led by women and people of color, which makes them more diverse and reflective of the state’s population.

HomeStake focuses on these businesses that drive long-term, diversified, and sustainable economic growth across Montana. HomeStake works with banks, CDFIs, and other private funds or individual investors to provide loans, revenue-based financing, and equity to their client businesses. <https://homestake.com/>

Snapshot of Small Business Loans by County in Montana

The Community Reinvestment Act (CRA) of 1977 is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

National banks, savings associations, and state-chartered banks must report on their small business lending under the CRA. Table 7 below shows the loan amount, number of loan originations, and average loan size for small business lending across all counties in Montana based on the CRA reporting for 2021. Lenders reported 34,715 loans with value of over \$1.4 billion in 2021 across Montana. Data are reported based on size of the small business loan, with 31,728 loans (91.4%) of \$100,000 or less across the state. Only 1,684 loans (4.9%) were reported for loans over \$100,000 and up to \$250,000. For loans over \$250,000, lenders reported 1,303 loans (3.7%) across the state. The overall average loan across the state was \$40,650. Counties with the largest number of loans include Flathead County, Gallatin County, Missoula County, and Yellowstone County, with more than 3,600 loans of \$100,000 or less per county.

CRA applies to FDIC-insured depository institutions, such as national banks, savings associations, and state-chartered commercial and savings banks. CRA does not apply to credit unions insured by the National Credit Union Share Insurance Fund (NCUSIF) or nonbank entities supervised by the Consumer Financial Protection Bureau (CFPB). <https://www.ffiec.gov/cra/default.htm>

Table 7: Loans By County from Total Aggregate CRA Data for All MT 2021 Small Business Loans

COUNTY	Loans <= \$100,000		Loans >\$100,000 but <= \$250,000		Loans> \$250,000		Loans to Businesses with Gross Annual Revenues <= \$1 Million	
	Number	Amount \$	Number	Amount \$	Number	Amount \$	Number	Amount
BEAVERHEAD	383	\$7,310	18	\$2,731	18	\$8,435	311	\$12,120
BIG HORN	149	\$2,199	4	\$690	4	\$1,598	83	\$1,533
BLAINE	102	\$1,822	7	\$1,028	2	\$850	78	\$2,108
BROADWATER	195	\$2,655	7	\$1,191	5	\$2,280	146	\$3,921
CARBON	304	\$3,642	4	\$788	5	\$1,994	195	\$3,386
CARTER	38	\$707	0	0	0	0	26	\$519
CASCADE	1,735	\$28,690	109	\$17,310	89	\$44,856	1,050	\$36,237
CHOUTEAU	173	\$2,549	3	\$439	3	\$1,116	128	\$2,363
CUSTER	348	\$7,484	20	\$2,824	12	\$5,735	246	\$7,257
DANIELS	47	\$513	1	\$200	1	\$533	31	\$333
DAWSON	348	\$5,392	14	\$2,458	15	\$6,205	201	\$5,480
DEER LODGE	158	\$1,991	4	\$660	6	\$3,157	92	\$1,684
FALLON	88	\$1,068	1	\$200	1	\$507	50	\$542
FERGUS	481	\$8,280	35	\$6,032	26	\$12,761	424	\$15,219
FLATHEAD	3,846	\$56,594	163	\$27,053	129	\$63,602	2,194	\$59,901
GALLATIN	5,224	\$84,941	295	\$48,383	261	\$129,334	3,156	\$93,597
GARFIELD	60	\$838	0	0	0	0	45	\$602
GLACIER	234	\$3,726	7	\$1,114	3	\$1,412	182	\$3,645
GOLDEN VALLEY	24	\$347	0	0	0	0	16	\$187
GRANITE	103	\$1,411	6	\$896	5	\$2,091	61	\$1,017
HILL	330	\$4,590	9	\$1,496	10	\$4,310	212	\$5,791
JEFFERSON	360	\$5,030	12	\$1,759	15	\$6,342	255	\$6,473
JUDITH BASIN	99	\$1,867	3	\$571	1	\$400	88	\$2,021
LAKE	678	\$11,074	40	\$6,303	18	\$7,722	444	\$12,132
LEWIS AND CLARK	1,976	\$28,993	119	\$19,004	97	\$44,670	1,370	\$47,896
LIBERTY	81	\$1,078	2	\$326	1	\$300	69	\$1,071
LINCOLN	494	\$7,368	19	\$3,334	14	\$6,858	327	\$8,357
MCCONE	33	\$526	1	\$155	2	\$803	30	\$1,436
MADISON	263	\$3,687	11	\$1,840	10	\$6,031	155	\$4,441
MEAGHER	46	\$551	0	0	0	0	24	\$270
MINERAL	82	\$975	3	\$430	2	\$927	53	\$1,154
MISSOULA	3,692	\$63,057	268	\$44,640	205	\$105,662	2,431	\$84,867
MUSSELSHELL	122	\$1,406	4	\$609	1	\$489	80	\$1,877
PARK	601	\$7,097	8	\$1,061	5	\$1,695	327	\$3,752
PETROLEUM	19	\$365	0	0	0	0	18	\$360
PHILLIPS	48	\$691	3	\$426	0	0	25	\$529
PONDERA	226	\$3,683	8	\$1,285	11	\$4,634	187	\$6,790
POWDER RIVER	68	\$1,077	1	\$151	1	\$706	56	\$987
POWELL	94	\$1,106	4	\$561	3	\$1,517	57	\$1,068
PRAIRIE	47	\$688	0	0	1	\$400	36	\$896
RAVALLI	1,160	\$14,660	39	\$6,589	30	\$13,717	727	\$16,852
RICHLAND	536	\$9,837	30	\$4,944	22	\$9,510	428	\$9,477
ROOSEVELT	122	\$2,166	4	\$568	0	0	89	\$1,721
ROSEBUD	102	\$1,462	2	\$256	0	0	71	\$884
SANDERS	288	\$5,486	32	\$5,199	9	\$3,970	199	\$7,206
SHERIDAN	233	\$4,066	8	\$1,608	1	\$547	178	\$3,469
SILVER BOW	617	\$8,144	25	\$4,146	15	\$7,311	312	\$7,698
STILLWATER	197	\$2,465	7	\$1,239	4	\$1,574	117	\$2,782
SWEET GRASS	91	\$1,046	4	\$708	0	0	56	\$655
TETON	284	\$4,726	19	\$3,299	7	\$4,282	237	\$7,539
TOOLE	123	\$1,510	3	\$491	0	0	88	\$992
TREASURE	41	\$648	2	\$238	0	0	37	\$707
VALLEY	104	\$1,272	3	\$584	1	\$350	50	\$688
WHEATLAND	46	\$705	3	\$499	1	\$300	33	\$1,072
WIBAUX	52	\$835	1	\$164	1	\$270	36	\$992
YELLOWSTONE	4,333	\$70,632	289	\$47,563	230	\$116,581	2,670	\$91,834
TOTAL	31,728	\$496,728	1,684	\$276,043	1,303	\$ 638,344	20,287	598,387

Source: FDIC call report data of 2020, as provided in SBA. (2022). Small Business Lending in the United States, 2020.

Progress for Montana's Distressed and Underserved Counties

Related to the Community Reinvestment Act, the U.S. Federal Reserve and other financial regulators monitor counties in the United States that are rural, distressed, and/or underserved. A rural county is defined based on the U.S. Census bureau definition. A distressed county is defined as having unemployment over 1.5 times national average, poverty rate of 20 percent or higher, and/or population loss of 10 percent over the previous 10 years. An underserved county is defined as having no bank branch or being a small or dispersed population. As of 2023, over half (29) of Montana's counties are categorized as distressed and/or underserved, and this is a significant issue when considering access to finance for small businesses. However, progress is evident between 2021 and 2023, as seen in Tables 8 and 9 below. In 2021, 36 of Montana's 56 counties were categorized as distressed and/or underserved, and this decreased to 29 counties by 2023. The following counties were removed from the distressed and/or underserved list as of 2023: Carter, Fallon, Liberty, Lincoln, Musselshell, Philips, and Roosevelt. Granite County moved from being both distressed and underserved to being only underserved as of 2023.

Table 8: Distressed and Underserved Counties of Montana, 2021

MT County, 2021	Rural	Distressed	Underserved
Beaverhead	X		X
Big Horn	X	X	
Blaine	X	X	X
Broadwater	X		X
Carter	X	X	X
Chouteau	X		X
Custer	X		X
Daniels	X		X
Dawson	X		X
Fallon	X		X
Fergus	X		X
Garfield	X		X
Glacier	X	X	X
Granite	X	X	X
Hill	X		X
Judith Basin	X	X	X
Liberty	X		X
Lincoln	X	X	
McCone	X	X	X
Madison	X		X
Meagher	X		X
Mineral	X		X
Musselshell	X		X
Petroleum	X		X
Phillips	X		X
Pondera	X		X
Powder River	X		X
Prairie	X		X
Roosevelt	X	X	
Rosebud	X		X
Sheridan	X	X	X
Sweet Grass	X		X
Teton	X		X
Toole	X		X
Valley	X		X
Wibaux	X		X

Table 9: Distressed and Underserved Counties of Montana, 2023

MT County, 2023	Rural	Distressed	Underserved
Beaverhead	X		X
Big Horn	X	X	
Blaine	X	X	X
Broadwater	X		X
Chouteau	X		X
Custer	X		X
Daniels	X	X	X
Dawson	X		X
Fergus	X		X
Garfield	X		X
Glacier	X	X	X
Granite	X		X
Hill	X		X
Judith Basin	X	X	X
McCone	X	X	X
Madison	X		X
Meagher	X		X
Mineral	X		X
Petroleum	X		X
Pondera	X		X
Powder River	X		X
Prairie	X		X
Rosebud	X		X
Sheridan	X	X	X
Sweet Grass	X		X
Teton	X		X
Toole	X		X
Valley	X		X
Wibaux	X		X

For more on county classifications, see:

<https://occ.treas.gov/news-issuances/bulletins/2021/bulletin-2021-5.html>

Source Data: Federal Reserve Board. 2021. List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies <https://federalreserve.gov>

Different Regional Economies Across Montana

There is not ‘one’ Montana, given large differences across regions in the state, according to Liz Marchi of Two Bear Capital based in Whitefish. Based on deep experience promoting investment for small businesses and early-stage investors in Montana, Marchi believes that promoting economic development requires an ecosystem of positive role models, successful businesses that may offer spin-off opportunities, sustainable supply chain of goods, and professional services for the business including accounting, legal, and auditing. Effective public-private partnerships leverage public funds to attract private investment, often through matching funds or identifying market gaps to help grow Montana businesses. Marchi noted that small businesses in Montana are often ‘main street’ businesses that create jobs. These businesses have more limited funding opportunities, and banks, credit unions, CDFIs, loan funds, and federal programs such as the USDA or SBA are their main source of borrowing. “Private capital takes a long time to build where we’ve had mainly banks focused on collateral and cashflow,” she notes. <https://twobearcapital.com/>

Demand Increasing for Community Lenders

Loan applications are booming for many certified regional development corporations (CRDC), loan funds, and community development finance institutions (CDFI) across Montana, noted Joel Bertolino, director, and Nan Knight, chief financial officer, of Beartooth Resource Conservation and Development (RC&D) in Joliet. They noted that several financial institutions in their area are tightening lending requirements for small businesses and seeking co-lenders to share risk and participate in loans. Beartooth RC&D is a natural ally for banks in their geographic area, as they already have good relationships with many small businesses through their training and technical assistance programs. Bertolino and Knight confirmed that local bankers serve on their board and investment committee, and this helps with due diligence on potential borrowers and working with partner banks in the area. While Beartooth RC&D has successfully increased their loan portfolio over the past few years, the demand from small businesses is growing rapidly, and they lack sufficient funds to onlend.

<https://www.beartooth.org/>

Snapshot of Small Business Lending in Montana

Table 10 below provides small business lending results for Montana taken as a subset of data from the U.S. Small Business Administration report using FDIC Call Report Data from June 2020. This SBA and FDIC public data is the most relevant to compare with the lending information collected as of December 2021 for the quantitative survey for the Access to Finance in Montana study.

The FDIC requires a broad range of banks to share data on their financial and operational results each quarter. This data does not include credit unions, CDFIs, loan funds, or other non-bank lenders. The table indicates each lender grouped into categories of asset size and total number and dollar amount of small business lending under \$1 million. Glacier Bank and First Interstate Bank both reported over \$2.2 billion in lending to small businesses in Montana. Ten lenders reported making over \$1 million in loans. It is important to note that many lenders make loan renewals and/or increase loan size for existing customers, and this may represent a large volume of their loan activity.

Table 10: Small Business Lending Institutions in Montana Using Call Report Data, June 2020

			Business Lending Under \$1 Million		Business Lending Under \$ 100 K	
Name of Institution	City	Asset Size	Amount (1,000)	Number	Amount (1,000)	Number
First Interstate Bank	Billings	10-50B	\$2,274,438	32,850	\$476,154	24,876
Glacier Bank	Kalispell	10-50B	\$2,472,270	21,971	\$363,490	13,605
Stockman Bank of Montana	Miles City	1B-10B	\$581,229	6,289	\$117,290	4,415
Opportunity Bank of Montana	Helena	1B-10B	\$224,568	2,156	\$34,214	1,417
The Yellowstone Bank	Laurel	500M-1B	\$214,907	2,015	\$33,660	1,208
Trailwest Bank	Lolo	500M-1B	\$136,902	1,768	\$31,035	1,276
Bank of Bridger, N.A.	Bridger	500M-1B	\$117,277	1,340	\$25,035	949
Independence Bank	Havre	500M-1B	\$137,512	1,332	\$22,702	829
First Montana Bank, Inc.	Missoula	100M-500M	\$127,540	1,197	\$21,071	764
Farmers State Bank	Victor	500M-1B	\$103,099	1,182	\$19,016	830
Three Rivers Bank of Montana	Kalispell	100M-500M	\$59,410	917	\$12,599	631
Rocky Mountain Bank	Billings	500M-1B	\$76,324	810	\$11,015	514
Madison Valley Bank	Ennis	100M-500M	\$49,336	617	\$9,810	455
Garfield County Bank	Jordan	100M-500M	\$9,303	168	\$9,303	168
Freedom Bank	Columbia Falls	<100M	\$59,472	414	\$8,326	274
American Bank	Bozeman	100M-500M	\$63,979	505	\$8,281	278
Bank of The Rockies	White Sulph	100M-500M	\$39,678	478	\$8,065	344
First Security Bank of Roundup	Roundup	<100M	\$7,824	90	\$7,824	90
First Community Bank	Glasgow	100M-500M	\$34,987	408	\$7,196	279
Little Horn State Bank	Hardin	100M-500M	\$28,845	344	\$5,736	230
Valley Bank of Kalispell	Kalispell	100M-500M	\$41,997	358	\$5,475	203
Valley Bank of Ronan	Ronan	100M-500M	\$20,966	346	\$5,463	272
Manhattan Bank	Manhattan	100M-500M	\$23,883	400	\$5,031	321
First State Bank of Forsyth	Forsyth	100M-500M	\$16,525	326	\$4,893	259
Bank of Bozeman	Bozeman	<100M	\$28,356	299	\$4,691	184
Granite Mountain Bank Inc.	Philipsburg	<100M	\$22,310	232	\$4,472	147
The First State Bank of Shelby	Shelby	100M-500M	\$11,208	211	\$4,148	169
The Bank of Baker	Baker	100M-500M	\$19,516	250	\$4,087	161
First Security Bank of Helena	Helena	<100M	\$25,131	202	\$4,078	115
Citizens Bank & Trust Company	Big Timber	100M-500M	\$17,011	219	\$3,972	153
First Security Bank of Deer Lodge	Deer Lodge	<100M	\$13,187	215	\$3,954	170
First Citizens Bank of Butte	Butte	<100M	\$22,549	193	\$3,611	114
Beartooth Bank	Billings	<100M	\$20,754	186	\$3,478	105
The First State Bank of Malta	Malta	100M-500M	\$8,925	179	\$3,325	150
1St Bank	Broadus	<100M	\$3,134	76	\$3,134	76
Stockmens Bank	Cascade	<100M	\$4,759	133	\$1,868	117
Eagle Bank	Polson	<100M	\$24,365	144	\$1,866	73
Bank of Montana	Missoula	100M-500M	\$22,329	136	\$1,747	55
Belt Valley Bank	Belt	<100M	\$10,570	94	\$1,356	50
Peoples Bank of Deer Lodge	Deer Lodge	<100M	\$1,969	56	\$1,051	43
Pioneer Federal Savings & Loan Assc.	Deer Lodge	<100M	\$3,591	22	\$363	12
Total			\$7,181,935.00	81,128	\$1,303,885.00	56,381

Source: FDIC call report data of 2020, as provided in SBA. (2022). Small Business Lending in the United States, 2020.

Finance by Industry

Q7. What percent of your organization's loans or investments in Montana are to? (Industry of business)

Twenty-one percent of the loans made by the responding organizations were to agricultural businesses (see Table 11). Banks or credit unions most often made loans to agricultural businesses (41%). CDFIs or loan funds most often made loans to retail trade, wholesale trade, transportation and warehousing businesses (20%) followed closely by loans to businesses in arts, entertainment, recreation, accommodation and food service (18%). Public funding programs most often made loans to educational service, health care or social service entities (27%). The low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

Table 11: Proportion of loans made by industry of business

Industry	All respondents	Bank or credit union	CDFI or loan fund	Public funding program	Investment fund or private foundation
Agriculture, forestry, fishing	21%	41%	11%	5%	0%
Mining, quarrying, oil and gas extraction	2%	3%	0%	4%	0%
Construction and utilities	13%	13%	18%	10%	0%
Manufacturing	11%	5%	14%	9%	50%
Retail trade, wholesale trade, transportation and warehousing	13%	11%	20%	13%	0%
Information, finance and insurance, real estate and rental, professional, technical or scientific, admin and support, other	13%	14%	10%	8%	50%
Educational service, health care or social service	11%	4%	8%	27%	0%
Arts, entertainment, recreation, accommodation and food service	10%	6%	18%	12%	0%
Other service	5%	4%	0%	12%	0%



Farm-focused Organizations Play Key Role in Montana

The Farm Credit System supports rural communities and agricultural producers with credit and other financial services. This nationwide network of independent, privately-owned lending institutions in all 50 states and Puerto Rico are structured as financial cooperatives owned by their clients. The network of Farm Credit cooperatives serves over 640,000 clients across the country, with more than \$373 billion in total loan volume as of December 2022. The Farm Credit Administration, an independent federal financial regulatory agency, regulates the Farm Credit System. Although the U.S. Congress created the Farm Credit System in 1916, the system does not receive any government funding or tax dollars. Farm Credit raises funds by selling AAA-rated debt securities on the nation's money markets through the Federal Farm Credit Banks Funding Corporation.

In Montana, the Farm Credit cooperative that serves Montana (and several other Western states) is AgWest Farm Credit (formerly known as Northwest Farm Credit Services), which has served the state with financial services for over 100 years. AgWest Farm Credit provides loans for production agriculture, agribusiness, rural residential real estate, and rural infrastructure such as energy, water and waste systems, and communications. As of June 2023, AgWest Farm Credit reported their total loan portfolio of almost \$27 billion across several states with more than 22,000 customers located primarily throughout the West. AgWest manages a \$1.1 billion portfolio in Montana that serves customers in all 56 counties from its 11 branch locations. AgWest also provides crop insurance, financial services, and business advisory services.

Excerpted from <https://farmcredit.com/about> and <https://agwestfc.com/> and interview with Scott Kesler, Branch Manager/VP, AgWest Farm Credit

The Farm Service Agency (FSA) is a division of the U.S. Department of Agriculture that makes direct loans to farmers and ranchers to help start, expand, or maintain a family farm. The FSA offers specialized loans to farmers, ranchers, and agribusiness owners that are women, Native American, and/or beginning in the business.

The FSA offers three main types of loan programs:

- **Guaranteed Loan Program:** Guaranteed loans are made and serviced by commercial lenders, such as banks, the Farm Credit System, credit unions and other non-traditional lenders. FSA guarantees the lender's loan against loss, up to 95 percent. FSA has the responsibility of approving all eligible loan guarantees and providing oversight of the lender's activities.
- **Direct Loan Program:** Direct loans are made and serviced by FSA using funds from the Federal Government. FSA has the responsibility of providing credit counseling and supervision to its direct borrowers by helping applicants evaluate the adequacy of their real estate and facilities, machinery and equipment, financial and production management, and goals.
- **Land Contract Guarantee Program:** Land contract guarantees provide certain financial guarantees to the seller of a farm or ranch through a land contract sale to a beginning or socially disadvantaged farmer or rancher.

Excerpted from: <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index> and https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafilis/Farm-Loan-Programs/pdfs/your_guide_to_farm_loans.pdf

Challenges in Agricultural Lending

AgWest Farm Credit serves businesses that are primarily engaged in the agriculture industry. Agriculture is one of Montana's largest and most well-established industries and is largely made up of small family-owned farms and ranches. "It's an industry that contributes significantly to Montana's economy and tax base and is vital to the economic well-being of most of Montana's communities, especially those in rural areas," notes Scott Kesler, Branch Manager and Vice President, AgWest Farm Credit. Despite being one of Montana's oldest industries, it's an industry that continues to grow, change, and progress. Kesler continues, "As a result, AgWest's loan portfolio has experienced healthy and consistent growth and expands its execution of capital to a variety of Agriculture businesses, including small, beginning, and young farmers." Despite the growth and success of agriculture in Montana, the industry has also become increasingly challenging. For small businesses, entrepreneurial start-ups, and established businesses looking to perpetuate and/or expand the business, these challenges have become more difficult to overcome.

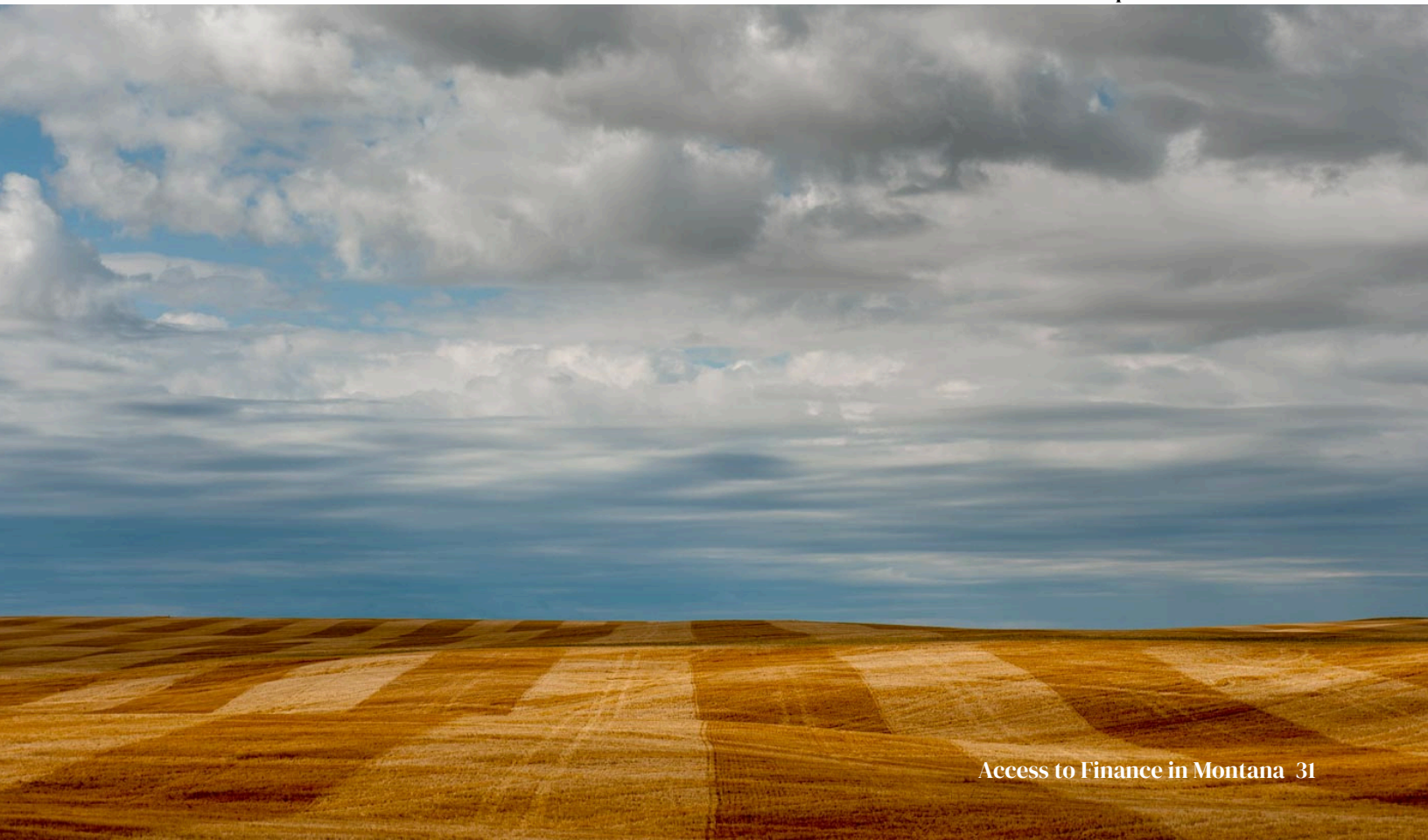
Kesler explains that agriculture businesses are generally capital intensive. The land, equipment, and production capital required to accommodate a successful agriculture operation is typically in the millions of dollars, and that capital requirement is growing. As a result, entering this industry has become increasingly more difficult, with significant increases in costs of the land and equipment assets needed to operate. A multitude of factors have contributed to an increase in land values, which have especially increased since the COVID-19 pandemic. In many areas, urban development pressures and subdivision of agriculture properties has resulted in land being brought out of production, thus reducing the supply of property conducive for full-time agriculture business. In addition, demand has increased for recreational land in Montana, bolstered by more out-of-state investors. Costs of equipment such as tractors, harvesters, and irrigation equipment have increased significantly as manufacturing costs increase. Used equipment suitable for agricultural operations is also becoming less available and more costly. Technological advancements in equipment have allowed for increased capacity and efficiencies for agriculture production, but they can be difficult for small and beginning farms to afford.

"AgWest Farm Credit continues to have an appetite to grow, and we are growing both our loan portfolio by loan volume and customer count," reports Kesler. To ensure they are providing opportunities and resources for small businesses and entrepreneurs, AgWest has a special program that provides assistance to young, beginning, and small agriculture operators. The program allows for flexible lending structures intended to help these businesses as they work to become established. When appropriate, AgWest will partner with USDA Farm Service Agency on their loan guarantee, joint financing, and down-payment programs. There are also occasionally grant or cost-sharing programs that assist with investment in improving equipment and/or infrastructure through various government-appropriated organizations. Combining these resources with the strong banking network that actively lends to agriculture in Montana, Kesler notes "There is an abundance of debt capital available for those that can present a business plan that can prove to be solvent."

From a capital perspective, the most prevalent challenge that persists for these capital-intensive businesses is their ability to contribute the paid-in equity necessary to capitalize the business. Kesler continues, “The capital structure of a start-up agricultural business is often more highly leveraged, but it isn’t acceptable or sustainable for these businesses to be fully or primarily funded by debt. The probability of an over-leveraged agricultural business to be profitable and remain solvent is low, particularly in the current higher interest rate environment.” An appropriate equity capital investment is typically larger than what most people possess, unless they have built those savings from other businesses or family means. Finding private equity investors can also be difficult as agribusiness in Montana yields low margins that aren’t competitive with other investment or asset classes. Further, agribusiness in Montana may not be competitive to agricultural operations in states that have maintained more stable land values and generate better capitalization rates.

Approaches to improve access to capital for the agriculture industry in Montana could include better access to equity capital, expanded grant or cost-share programs, preservation of agriculture land (e.g. conservation easements), improved leasing capacity, and more educational resources. Careful strategic business planning includes focus on financial projections, budgeting, marketing, operations management, and risk management. A well-developed business plan increases the abilities and opportunities for a business to obtain financing. More educational resources and capacity to advise agriculture entrepreneurs on business planning and building an executable financial management and capital plan would benefit agribusiness owners or hopeful future owners. Another approach is to establish longer-term lease arrangements with agricultural landowners who do not wish to operate their own farm/ranch business. <https://agwestfc.com/>

Photo: Montana Department of Commerce



Q8. Do you see the following business sectors as having stronger growth opportunities, the same growth opportunities, or weaker growth opportunities?

Tourism was reported as the industry with the strongest growth opportunity (79%) among the industries examined (see Table 12). Only 26 percent of responding organizations rated forest products as a strong growth opportunity. The low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

Banks or credit unions (79%) and public funding programs (88%) were most likely to rate tourism as an industry sector with stronger growth opportunity. Seventy-eight percent (78%) of CDFIs or loan funds rated both tourism and agriculture as stronger growth opportunities.

Table 12: Growth opportunity ratings for selected industries

		All respondents	Bank or credit union	CDFI or loan fund	Public funding program	Investment fund or private foundation
Agriculture	Stronger	53%	36%	78%	75%	0%
	Same	26%	36%	11%	25%	33%
	Weaker	21%	29%	11%	0%	67%
Forest products	Stronger	26%	21%	44%	25%	0%
	Same	41%	50%	11%	50%	67%
	Weaker	32%	29%	44%	25%	33%
Technology	Stronger	44%	50%	33%	63%	0%
	Same	35%	29%	44%	25%	67%
	Weaker	21%	21%	22%	13%	33%
Small business	Stronger	50%	43%	67%	50%	33%
	Same	41%	57%	33%	25%	33%
	Weaker	9%	0%	0%	25%	33%
Tourism	Stronger	79%	79%	78%	88%	67%
	Same	18%	14%	22%	13%	33%
	Weaker	3%	7%	0%	0%	0%
Healthcare	Stronger	46%	50%	56%	44%	0%
	Same	46%	43%	33%	56%	67%
	Weaker	9%	7%	11%	0%	33%

Funding Generational Transition for Many Montana Businesses

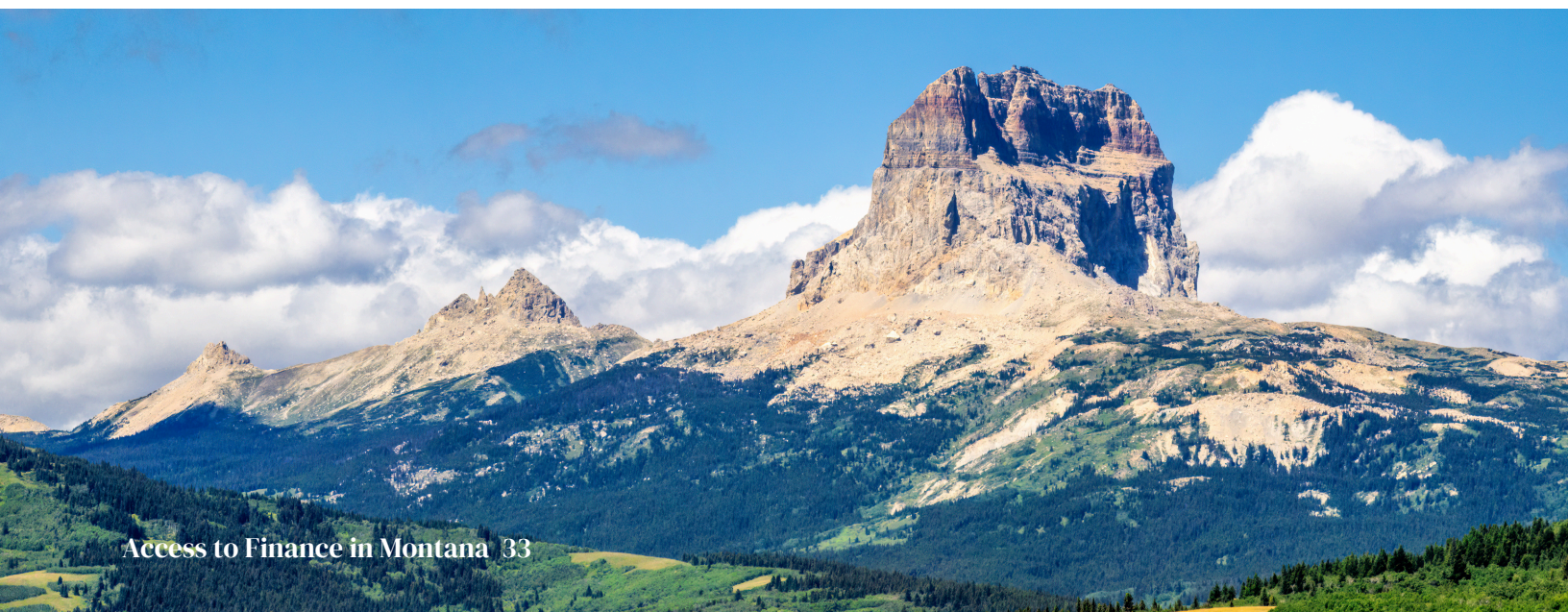
Many Montana business owners will retire over the coming years, and they will try to sell their businesses to new owners, notes Dawn McGee and Kiah Hochstetler of Goodworks Evergreen based in Missoula. Maintaining core businesses, especially in rural communities, is critical to local economic growth, job retention, and continued access to goods and services. The Goodworks companies provide equity investment or loans to new and existing businesses specializing in patient capital and community development. Through Goodworks Evergreen, they acquire existing businesses, bring modern business practices, raise employee salaries and provide benefits, and keep the businesses serving local communities. <https://gwevergreen.com/>

Based on this experience, Hochstetler wrote a helpful guide on acquiring small businesses—found at <https://medium.com/@jkiah/a-practitioners-real-world-guide-to-small-business-acquisition-c8a1bf1d8b0c>. For more, see McGee and Hochstetler’s experience in their “Chapter 12: Private Equity Meets Main Street: A New Approach” in the book *Rural Areas in Transition: Meeting Challenges and Making Opportunities*.

Importance of Growth Capital

“Montana companies are participating in many sectors of an ever-changing global marketplace. Growth capital fuels R&D, talent acquisition, and expansion of capacity needed to capture market share amid intense competition. It is the economic fuel for any company to produce jobs and profits that can be reinvested for even greater benefit to our citizens and state.”

Director Scott Osterman, MT Department of Commerce
<https://commerce.mt.gov/>



Lending Characteristics

Q9-Q11. Quantitative characteristics of loans and investments made by responding organizations in 2021.

Banks or credit unions initiated more loan originations in 2021 (median per organization: 425) than did public funding programs per organization (20) or CDFIs and loan funds per organization (13). Readers should keep in mind that 2021 was mid-pandemic, which significantly affected lender operations. The survey asked respondents to “exclude” PPP and other federal COVID-related lending programs, which altered lending volumes in 2021. This trend was repeated when examining the overall total number of new 2021 loans. Banks or credit unions in 2021 initiated a median of 145 new loans per organization, while public funding programs averaged 22 new loans per organization and CDFIs and loan funds averaged 14 per organization.

Banks or credit unions in 2021 lent much more (median per organization: \$20,000,000) than did public funding programs (\$2,917,173) or CDFIs and loan funds (\$3,060,928). Note: the low number of responding investment funds or private foundations requires readers to use the medians reported here with care.

Table 13: Selected quantitative characteristics of 2021 loans and investments in Montana

	All respondents			Type			CDFI or loan fund		
	Median	Minimum	Maximum	Median	Minimum	Maximum	Median	Minimum	Maximum
Median total loan originations in Montana - 2021	71	1	2000	425	75	2000	13	10	15
Median total investments in Montana - 2021	2	0	8	NA	NA	NA	NA	NA	NA
Median total dollar amount of loan originations in Montana - 2021	\$4,750,000	\$180,000	\$520,935,354	\$20,000,000	\$2,500,000	\$400,000,000	\$3,060,928	\$869,053	\$10,927,961
Median new loans to Montana-based businesses - 2021	50	0	17,300	145	0	17,300	14	4	62
Median new investments to Montana-based businesses - 2021	2	1	2	NA	NA	NA	NA	NA	NA

Character Hasn't Changed

As banks get bigger, credit sometimes gets smaller, according to Herb Kulow, retired bank president and bank turnaround specialist. He coached his loan officers to rely on character, collateral, and capacity to repay when analyzing business loan applications.

“Character hasn’t changed over the years, but many people have lower credit scores than in the past, especially given high medical debt,” noted Kulow. He believes in relationship banking focused on character, and community banks and other lenders such as CDFIs are well placed to serve businesses in their geographic areas.

Table 13 Continued: Selected quantitative characteristics of 2021 loans and investments in Montana

	Public funding program			Investment fund or private foundation		
	Median	Minimum	Maximum	Median	Minimum	Maximum
Median total loan originations in Montana - 2021	20	1	310	NA	NA	NA
Median total investments in Montana - 2021	NA	NA	NA	2	0	8
Median total dollar amount of loan originations in Montana - 2021	\$2,917,173	\$180,000	\$520,935,354	\$500,000	\$500,000	\$500,000
Median new loans to Montana-based businesses - 2021	22	20	45	NA	NA	NA
Median new investments to Montana-based businesses - 2021	NA	NA	NA	2	1	2

No Problem with Deal Flow — Especially Given the “*Silver Tsunami*”

Many baby boomer business owners hope to sell their businesses as they retire, and this is a good opportunity for new people to buy established businesses, according to Grant Ferguson, Chief Executive Officer of Unsecured Funding Source (UFS) with offices in Whitefish and Red Lodge and other locations across the western United States.

Ferguson and his team at UFS specialize in loans to help new business owners buy existing businesses and franchise businesses. UFS serves as an advisor to identify business loan clients and match them with a network of 250 banks across Montana and the United States. In the past year, UFS has also expanded to direct lending through a partnership with their sponsor Little Horn State Bank in Hardin and Billings. UFS offers its “Jumpstart Loan” typically in the range of \$50,000 to \$250,000, where Ferguson sees a market need that other lenders are not addressing. By focusing on sales of existing businesses and franchises, UFS is able to analyze historical business performance.

Ferguson also “bets heavily on the jockey” with a deep focus on the business owner’s income, net worth, liquidity, and credit score. As a non-bank entity, UFS can be more agile, work with a broader range of businesses, and respond quickly. UFS uses a decision framework that factors risk into their pricing and current interest rates range from 13.49% to 18.99%, which are below credit card interest rates but higher than loans available from community lenders.

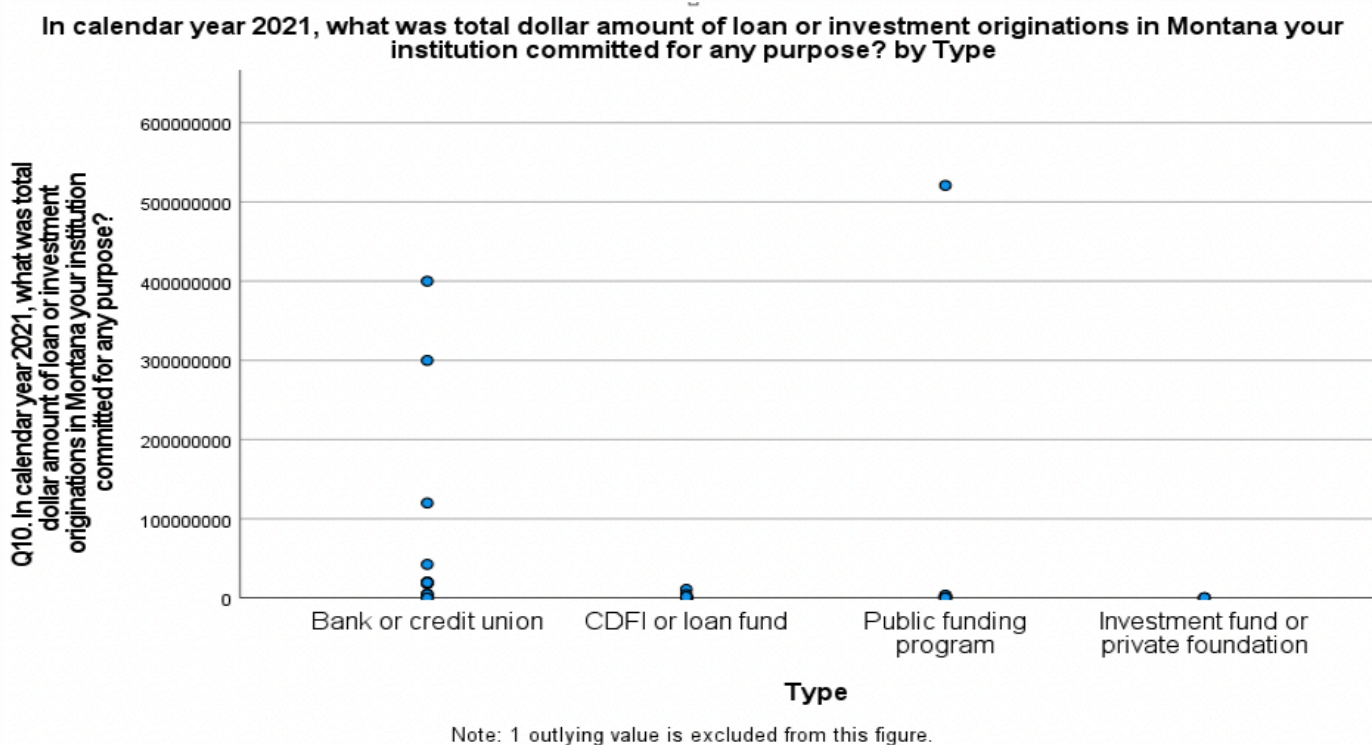
For more, see: www.theufs.com

Figure 7 and Figure 8 below present scatterplots which illustrate the distribution of the number of loan originations and total dollar amounts of loan originations by type of lender.

Figure 7: Scatter plot distribution of 2021 number of loan originations by lender or program type



Figure 8: Scatter plot distribution of 2021 total dollar amount of loan originations by lender or program type



Q12-Q13. Quantitative characteristics of loans and investments made only to Montana small businesses by responding organizations in 2021.

In contrast to Questions 9-11 on all small business lending, Questions 12-13 asked responding institutions to report on funding only for Montana small businesses.

The median loan outstanding in 2021 for responding organizations to Montana small businesses was \$155,500 (see Tables 14 and Table 14 Continued). The median responding bank or credit union loan outstanding in 2021 to Montana small businesses was \$160,000, while the median public funding program loan outstanding was \$474,000 and the median loan outstanding to small businesses by CDFIs and loan funds was \$80,000.

Table 14: Quantitative characteristics of Montana small business loans in 2021

	All respondents			Type			CDFI or loan fund		
	Median	Minimum	Maximum	Median	Minimum	Maximum	Median	Minimum	Maximum
Median small business loan amount in Montana - 2021	\$155,000	\$195	\$8,633,700	\$160,000	\$195	\$8,633,700	\$80,000	\$5,000	\$230,000
Median small business investment in Montana - 2021	\$175,000	\$175,000	\$175,000	NA	NA	NA	NA	NA	NA
Median percent of total loan portfolio in Montana is for small business lending - 2021	75%	2%	100%	65%	10%	100%	45%	2%	100%
Median percent of total investment portfolio in Montana is for small business investment - 2021	100%	100%	100%	NA	NA	NA	NA	NA	NA

For banks or credit unions, loans to Montana small businesses represented a median per organization of 65 percent of their outstanding loan portfolio in 2021. For public funding programs, 100 percent of their organization's outstanding loan portfolio was with Montana small businesses, while for CDFIs and loan funds 45 percent of their organization's outstanding loan portfolio was with Montana small businesses in 2021.

The low number of responding investment funds or private foundations requires readers to use the means or proportions reported here with care.



Photo from Tatsiana Palchanka



Table 14 Continued: Selected quantitative characteristics of 2021 loans and investments in Montana

	Type					
	Public funding program			Investment fund or private foundation		
	Median	Minimum	Maximum	Median	Minimum	Maximum
Median small business loan amount in Montana - 2021	\$474,000	\$90,000	\$581,000	NA	NA	NA
Median small business investment in Montana - 2021	NA	NA	NA	\$175,000	\$175,000	\$175,000
Median percent of total loan portfolio in Montana is for small business lending - 2021	100%	80%	100%	NA	NA	NA
Median percent of total investment portfolio in Montana is for small business investment - 2021	NA	NA	NA	100%	100%	100%

Business Plans are Critical for CDFI Decision Making

“CDFIs often rely heavily on business plans as a decision factor. But it’s not just the piece of paper, but it’s the process of preparing the plan, often with a technical officer affiliated with the CDFI or partner,” notes Steve Clairmont of Mission West Community Development Partners in Ronan.

The process of talking through the business’s operations, target market and clients, challenges, and future opportunities gives more credibility to the business when they talk with lenders. CDFIs and loan funds that work with businesses on their plans believe they also help reduce risk of lending as the institution develops a deeper relationship and knows much more about the business owner and the business’s prospects. <https://missionwestcdp.org/>

Small Business Community Finance: Scaling with Integrity

Calvert Impact, a global nonprofit investment firm that funds community development finance institutions (CDFIs) and other financial intermediaries in the US and internationally, reviewed the performance of state-led Recovery Funds launched during the COVID-19 pandemic. Federal funds made available to financial intermediaries were lent to small businesses across the country to help alleviate the negative economic effects of the pandemic. The federal funding contributed to the development of a quasi-secondary market for small business loans through multiple state-based loan participation funds known collectively as the 'Recovery Funds'.

Small businesses provide roughly half of private sector employment and are responsible for over 65% of the net new job creation in the US since 2000. Despite the prominence of these small businesses, it is difficult to obtain a small business loan in America. In fact, 2021 was the tightest credit environment for small businesses in the last five years, with only 31 percent of loan applicants receiving all the financing for which they applied. Even before the pandemic, the market gap for small business loans was an estimated \$87 billion.

The Recovery Funds have financed more than 5,500 small businesses, nearly 70% of them led by women or people of color, through nearly 40 community lenders across the country. Participating in the Recovery Funds allowed community lenders to exponentially increase their originations without needing to increase the size of their balance sheets at the same rate.

These efforts provide a roadmap for how to scale with integrity and remain true to the mission of the CDFI field. Calvert Impact made five recommendations for policymakers, banks, and investors to foster innovation and further market development in community finance:

1. Address the gap between real and perceived risk with smart subsidy: Philanthropic and public funding sources can help bridge this gap by providing credit enhancement for secondary market pools, including loan guarantees and subordinate capital to leverage private investment and bring down the cost of capital.
2. Invest in market infrastructure: Where possible, support centralized or regional functions for CDFIs - including shared services, marketplace platforms, customer acquisition strategies, etc. - that increase the capacity or efficiency of a broad range of community lenders.
3. Support data collection and analysis: Provide or allow funding for organizations to collect, standardize, and share transaction-level, lender-level, and market level data to encourage a broader and deeper understanding of the CDFI lending market.
4. Prioritize home-grown technology: The community finance industry - like the financial system overall - needs investments in technology across the customer lifecycle (marketplace and customer acquisition, application and decisioning, loan servicing, customer support, etc.) but many financial technology companies are not tailored to the needs of CDFIs or offer solutions at price points that are prohibitive for most lenders.
5. Leave no community behind: Some CDFI markets will need a higher level of subsidy than others due to the long-standing history of asset-stripping in under resourced communities.

Excerpted from: Small Business Finance: Scaling with Integrity.
<https://calvertimpact.org/resources/small-business-community-finance-scaling-with-integrity>
<https://calvertimpact.org/>

Decision Criteria **Small Business Loans**

Q14. Range of factors considered when approving small business loans in Montana.

Three factors top the list of the frequency of considerations used by responding organizations to approve small business loans in Montana: a) level of existing debt for the business; b) quality of management; and c) realism or quality of business plan (see Table 15 below). This question allowed respondents to choose one or more of the options listed below.

Table 15: Montana small business loan approval factors

Factor				
	All respondents	Bank or credit union	CDFI or loan fund	Public funding program
Level of existing debt for the business, including credit card debt for business owner or founder	88%	100%	80%	78%
Quality of management	88%	93%	90%	78%
Realism or quality of business plan	88%	86%	100%	78%
Availability of asset-based collateral	85%	93%	80%	78%
Amount of equity invested by owner or founder in the business	82%	100%	90%	44%
Credit score for business and/or primary owner	79%	86%	100%	44%
Good prior relationship with borrower	76%	93%	90%	33%
Age of business	70%	79%	90%	33%
Number of years of business tax returns	70%	86%	80%	33%
Business's industry or economic sector	64%	71%	70%	44%
Increasing size of the business	61%	57%	60%	67%
Business location outside your institution's primary lending area	48%	57%	50%	33%
Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel)	36%	36%	50%	22%
Lack of, or less developed, infrastructure in the community or area the business is located	33%	14%	60%	33%
Availability of audited financial statements for the business	30%	29%	40%	22%

In addition to the three leading factors noted above, amount of equity invested by owner or founder in the business is a leading consideration for banks and credit unions. For CDFIs and loan funds, both quality of business plan and credit score for the business and/or primary owner are additional factors that are highly considered.

Decision Criteria Small Business Investments

As seen in Table 16 below, three different factors top the list of the frequency of considerations used by responding investment funds or private foundations to approve small business investments in Montana:

- increasing size of the business
- the business's industry or economic sector
- realism or quality of business plan

The low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

Table 16: Montana small business investment approval factors

Factor	Investment fund or private foundation
Increasing size of the business	67%
Business's industry or economic sector	67%
Realism or quality of business plan	67%
Age of business	33%
Lack of, or less developed, infrastructure in the community or area the business is located	33%
Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel)	33%
Availability of audited financial statements for the business	33%
Level of existing debt for the business, including credit card debt for business owner or founder	33%
Business location outside your institution's primary investing area	33%
Credit score for business and/or primary owner	33%
Quality of management or ownership	33%
Number of years of business tax returns	0%
Good prior investment relationship with company or related company	0%

Credit Score as Only One Factor in CDFI Loans

Steve Clairmont of Mission West Community Development Partners in Ronan believes that economic development organizations and community development finance institutions (CDFIs) should use a client's credit scores on a case-by-case basis.

"As economic development agencies," he said, "we should be more flexible and be able to dig into the details of situation instead of rejecting anyone with a credit score under 650. We would likely eliminate 60 percent of people we currently loan to locally, and especially on the reservation, where many of those lower scores are due to health-related issues and slow payment of medical debt."

Instead, he said that a quality prior relationship with the business owner is helpful. For example, Mission West and other CDFIs advise businesses on financial projections, business plans, and other technical assistance. Through these other services, the client develops a relationship of comfort and trust with the institution, so they often return for additional financing and other technical services.

In addition, collateral is an important decision factor as Mission West is often the "last creditor to be paid" due to their policy of not reporting to credit agencies. Many banks refer businesses to Mission West for co-funding a business loan, with Mission West taking a secondary position on liens and collateral. <https://missionwestcdp.org/>

Decision Criteria

Q15. The main factor in approving small business loans and investments in Montana.

In contrast to Question 14, Question 15 asked respondents to choose only one of the options listed below. As seen in Table 17, three factors were most often cited by respondents as the main factor they consider when approving a loan or investment for a small business in Montana:

- realism or quality of business plan
- amount of equity invested by owner or founder in the business
- availability of asset-based collateral



Photo by Jazzer-Rae Photo
Missoula Makers Market

Table 17: Main approval factor for small business loans or investments in Montana

Main factor when approving a loan for Montana small businesses	All respondents	Bank or credit union	CDFI or loan fund	Public funding program	Investment fund or private foundation
Realism or quality of business plan	26%	8%	56%	17%	NA
Amount of equity invested by owner or founder in the business	22%	42%	11%	0%	NA
Availability of asset-based collateral	19%	25%	0%	33%	NA
Level of existing debt for the business, including credit card debt for business owner or founder	15%	17%	11%	17%	NA
Quality of management	7%	8%	0%	17%	NA
Availability of audited financial statements for the business	4%	0%	0%	17%	NA
Good prior relationship with borrower	4%	0%	11%	0%	NA
Credit score for business and/or primary owner	4%	0%	11%	0%	NA
Age of business	0%	0%	0%	0%	NA
Amount of equity invested by owner or founder in the business	50%	NA	NA	NA	50%
Realism or quality of business plan	50%	NA	NA	NA	50%

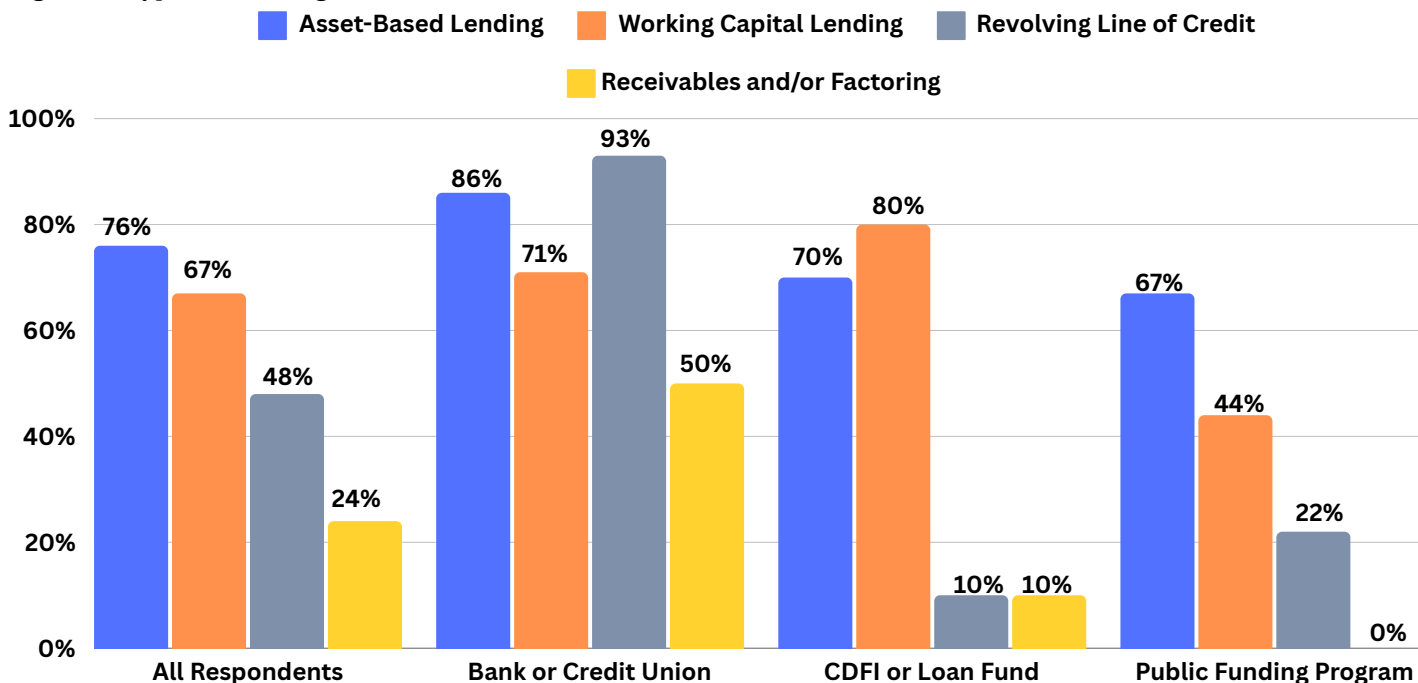
Banks or credit unions most often reported (42%) amount of equity invested by owner or founder as the main approval factor, while CDFIs and loan funds most often reported (56%) realism or quality of business plan, and public funding programs most frequently mentioned (33%) availability of asset-based collateral. The low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

Types of Small Business Lending

Q16. Which types of small business lending does your organization currently have outstanding with clients in Montana?

Across all responding organizations, asset-based lending is the most frequently reported (76%) type of lending to Montana small businesses (see Figure 9 below). Working capital lending is next most frequently cited (67%).

Figure 9: Types of lending to Montana small businesses



Almost half of responding organizations (48%) said they serve clients with a revolving line of credit. Just under one quarter (24%) said they use receivables and or factoring for lending.

Banks and credit unions most often reported (93%) offering revolving line of credit for their small business lending. CDFIs and loan funds most frequently cited (80%) working capital for their small business lending. Public funding programs most often noted (67%) offering asset-based lending for small business lending.

Small Businesses Rely on Credit Cards for Cash Management

Small businesses are a heterogeneous group that operate across many industries. Yet they all need to manage their cash flows, which are often irregular. One way small businesses can manage irregular cash flows is to keep cash reserves. Most small businesses have credit as another source of liquidity, often with credit cards playing a role. In 2019, there was \$368 billion in small business commercial and industrial loans outstanding, and over 46 percent of this amount was for loans less than \$100,000. The majority of loans in this size category were small business credit cards (U.S. Small Business Administration, 2020).

Excerpt from: U.S. Small Business Administration. 2020. "Small Business Lending in the United States, 2019." <https://advocacy.sba.gov/wp-content/uploads/2020/09/Report-2019-Small-Business-Lending-Report.pdf>.

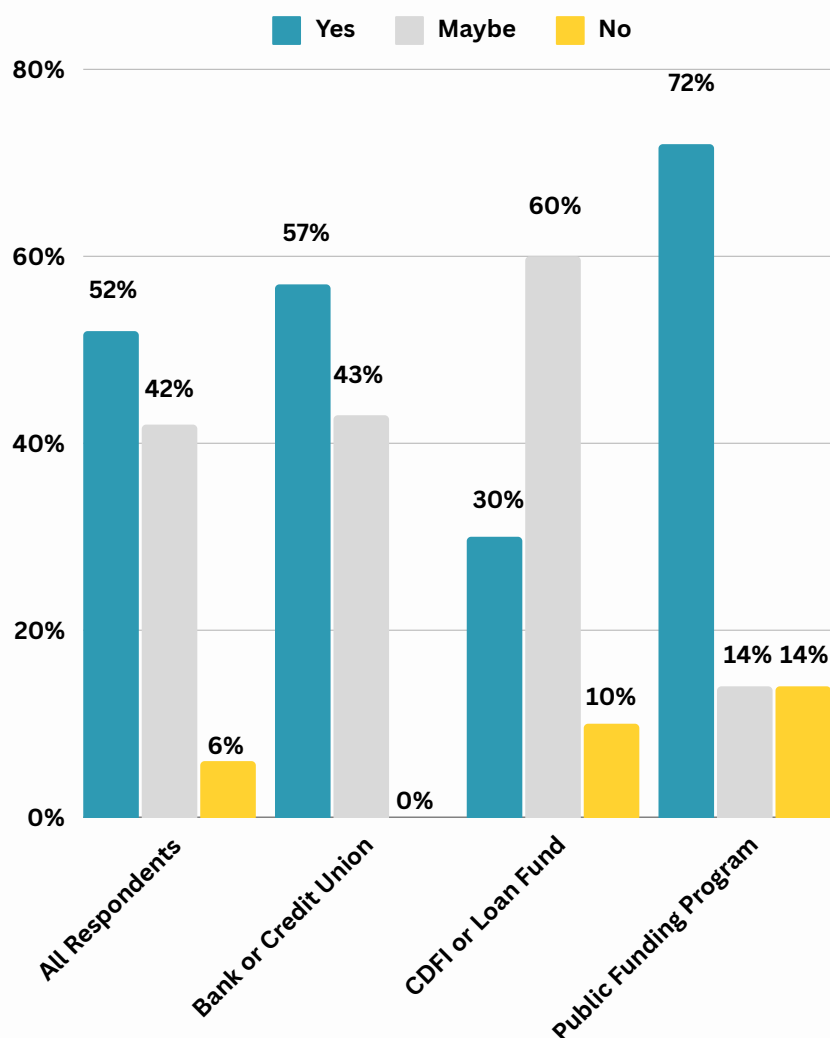
Guarantee Programs

Q17. Would your organization be willing to lend for working capital and/or line of credit (without asset-backed collateral) in Montana if you could avail of an SBA or other guarantee program?

A majority of responding organizations (52%) said they are willing to lend without asset-backed collateral if supported by a guarantee program (see Figure 10). An additional 42 percent said they might be willing to do so. Only 6 percent said they would not be willing to lend without asset-backed collateral even if supported by a guarantee program.

While substantial majorities of responding banks or credit unions (57%) and public funding programs (72%) said they are willing to lend without asset-backed collateral if supported by a guarantee program, CDFIs or loan funds expressed more reluctance, with only 30 percent responding they are willing to lend under these circumstances.

Figure 10: Willingness to lend without asset-backed collateral if backed by a guarantee program



Perspective from Investors

At the recent “*Investing in Montana*” conference in June 2023 organized in Bozeman by the Commissioner of Securities and Insurance and the Office of the Montana State Auditor, five investors spoke on a panel about their views on private equity in Montana.

The panel was moderated by Karl Unterschuetz and Jennifer Isern and included Philip Brittan of Google, Graham Conran of Frontier Angels, Liz Marchi of Two Bear Capital, Mark Ranalli of BioSqueeze Inc., and Les Craig of Next Frontier Capital.

The panel noted that the current economy has stalled private equity from raising new funds and investing in businesses. Many of the investors’ current portfolio businesses need more capital, and they may starve unless they receive follow-on funding. Montana has few pre-seed or seed stage investors and relatively more investors ready to engage in the Series A stage.

In neighboring Wyoming, two seed stage funds just launched leveraging SSBCI funding, and 27 other stages have used the federal SSBCI funds to leverage investment capital. The panelists noted that only 1 to 5 percent of ‘regular’ businesses would be targets for venture capital investment.

This reinforces the need for a full spectrum of lending and investment options to be available, depending on the life cycle of the business.

For more on the Office of the Commissioner of Securities and Insurance, please see: <https://csimt.gov/about/>

The Small Business Administration

Created in 1953, the U.S. Small Business Administration (SBA) continues to help small business owners and entrepreneurs pursue the American dream. SBA is the only cabinet-level federal agency fully dedicated to small business and provides counseling, capital, and contracting expertise as the nation's only go-to resource and voice for small businesses. SBA provides business advisory services, online learning, and access to funding for businesses across the country.

Small Business Development Centers (SBDC) are located across Montana offering business advisory services and advice for small businesses - and can be found at this link: <https://www.sba.gov/local-assistance/resource-partners/small-business-development-centers-sbdc>

The SBA works closely with banks and other lenders to help small businesses get funding by setting guidelines for loans and reducing lender risk. These SBA-backed loans make it easier for small businesses to get the funding they need:

- 7(a) loans, which are the SBA's largest financing program nationally. With a maximum amount of \$5 million, 7(a) loans can be used to buy real estate, equipment or inventory and also for working capital, to refinance business debt or purchase a small business.
- CAPLines are a line of credit that can be used for contract financing, seasonal lines of credit, builders line of credit, or for general working capital lines.
- 7(a) SBA Express loans are delivered by experienced lenders who are authorized to make the credit decision for the SBA. These can be term loans or revolving lines of credit, and the maximum amount is \$500,000.
- 7(a) Community Advantage loans are available for women, veterans, low-income borrowers, and minority entrepreneurs just starting up or in business for a few years. With a maximum loan of \$350,000, funds may be used for working capital, real estate, and/or equipment. Loan clients can also receive free business counseling from a community-based financial institution.
- Microloans providing \$500 to \$50,000 to help businesses start up and expand. Loans can be used for supplies, equipment, furniture and fixtures. Borrowers can access free business counseling from microlenders.
- 504 Certified Development Company loan for businesses seeking to purchase or renovate real estate or buy heavy equipment for a small business. The maximum loan is \$5 million, which can be up to 40 percent of the total project, or \$5.5 million for manufacturing or energy public policy projects. For this loan, banks would co-finance with a certified development company based in the community.

Excerpted from: U.S. Small Business Administration. (Spring 2023). Small Business Resource Guide. Washington, D.C. [https://www.sba.gov/sites/sbagov/files/2023-06/2023%20Small%20Business%20Resource%20Guide 508c Final.pdf](https://www.sba.gov/sites/sbagov/files/2023-06/2023%20Small%20Business%20Resource%20Guide%20508c%20Final.pdf)

Q18: (Only respondents answering “Yes” in Q17) Why would your organization be willing or unwilling to lend for working capital and/or line of credit (without asset-backed collateral) if you could avail of an SBA or other guarantee program?

Table 18 below summarizes the open-ended text responses to question 18.

Of those respondents that provided an answer explaining their willingness to participate, most said that they were reassured by the guarantee that would act like collateral.

Of those respondents that provided an answer explaining their unwillingness to participate, most said that a guarantee was not the same as collateral and that collateral was required by their organization.

Multiple State and Federal Programs Available

State and federal agencies offer multiple programs to support small businesses and lenders that focus on business lending. Examples include funding programs focusing on small businesses offered through the Montana Department of Commerce, Montana Board of Investments, US Department of Agriculture, EDA, SBA, and others.

Yet economic development organizations, CDFIs, and small and/or rural lenders may not have available staff or expertise to complete state and federal applications, monitor the programs, and ensure regular reporting on these state and federal funding programs. The lender is the key for the whole system to work well. If the lender is not aware of state and federal programs, or if they are concerned about program requirements, then businesses will not be able to benefit from these helpful programs.

Table 18: Reason for willingness or unwillingness to participate in a loan guarantee program (number of open-ended text responses)

		All respondents	Bank or credit union	CDFI or loan fund	Public funding program
Organization IS willing to lend without asset-backed capital with a guarantee	Similar to collateral being provided	5	4	1	0
	Risk is less	3	2	0	1
	Allow loans to entities not usually allowed	3	1	0	2
Organization IS NOT willing to lend without asset-backed capital with a guarantee	Organization only does collateral-based lending	2	1	0	1
	Difficult to collect guarantee	2	2	0	0
	Over leveraging of business	1	1	0	0
	Still need collateral	1	1	0	0
	Other risk factors	1	1	0	0
	Past bad experience	1	0	1	0

State Small Business Credit Initiative of the US Treasury—in Partnership with the Montana Department of Commerce

The U.S. Treasury established the State Small Business Credit Initiative (SSBCI) in 2010 which was highly successful in increasing access to capital for traditionally underserved small businesses and entrepreneurs. The U.S. American Rescue Plan Act in 2021 reauthorized and expanded the SSBCI to provide \$10 billion to support small businesses and empower them to access the capital needed to invest in job-creating opportunities as the country emerges from the COVID-19 pandemic. SSBCI provides funds to states, Native American Nation governments, and other jurisdictions to promote American entrepreneurship, support small business ownership, and democratize access to capital across the country, including in underserved communities. SSBCI is expected to catalyze up to \$10 of private investment for every \$1 of SSBCI capital funding.

Through SSBCI, states provide funding to small businesses through equity and/or venture capital programs, loan participation programs, loan guarantee programs, collateral support programs, and capital access programs tailored to local market conditions. In addition, the US Treasury, states, and the Minority Business Development Agency at the U.S. Department of Commerce will support technical assistance to improve access to capital, including for traditionally underserved entrepreneurs.

In Montana, \$60.1 million federal SSBCI funds have been allocated to the state to be administered by the State's Department of Commerce. Economic development organizations, CDFIs, loan funds, banks, and other lenders apply for funds from the Department of Commerce and then onlend the funds to small businesses across the state. Liane Taylor, Administrator, Business MT Division at the Montana Department of Commerce, noted "Our Montana businesses are hopeful, ready to grow, and hungry for capital." In a highly successful approach, almost \$40 million has already been disbursed through Montana's banks, loan funds, CDFIs, and other lenders as of Summer 2023, and the Department of Commerce will soon request the remaining \$20 million in SSBCI funds to be on-lent to Montana's businesses. Several factors led to the efficient use of SSBCI funds in Montana. "The SSBCI program is well designed as a straightforward program with clear criteria and rules. Our team focused on SSBCI is solid, and they are working with good partners all across the state," notes Taylor. Further, the lower interest rates offered by the SSBCI program are welcome given the current inflation and interest rate environment. Many lenders across the state noted how well the SSBCI program has worked in Montana. One lender praised the Department of Commerce for giving local control to lenders to play the lead role in finding qualifying businesses and structure the loans—and for making the program competitive on a first-come, first-served basis to incentivize lenders to apply for the program.

<https://business.mt.gov/Business-Assistance/Montana-State-Small-Business-Credit-Initiative-Program/>

SSBCI background excerpted from: U.S. Treasury. (June 2023). SSBCI Fact Sheet. Washington DC. <https://home.treasury.gov/system/files/256/State-Small-Business-Credit-Initiative-SSBCI-Fact-Sheet.pdf>

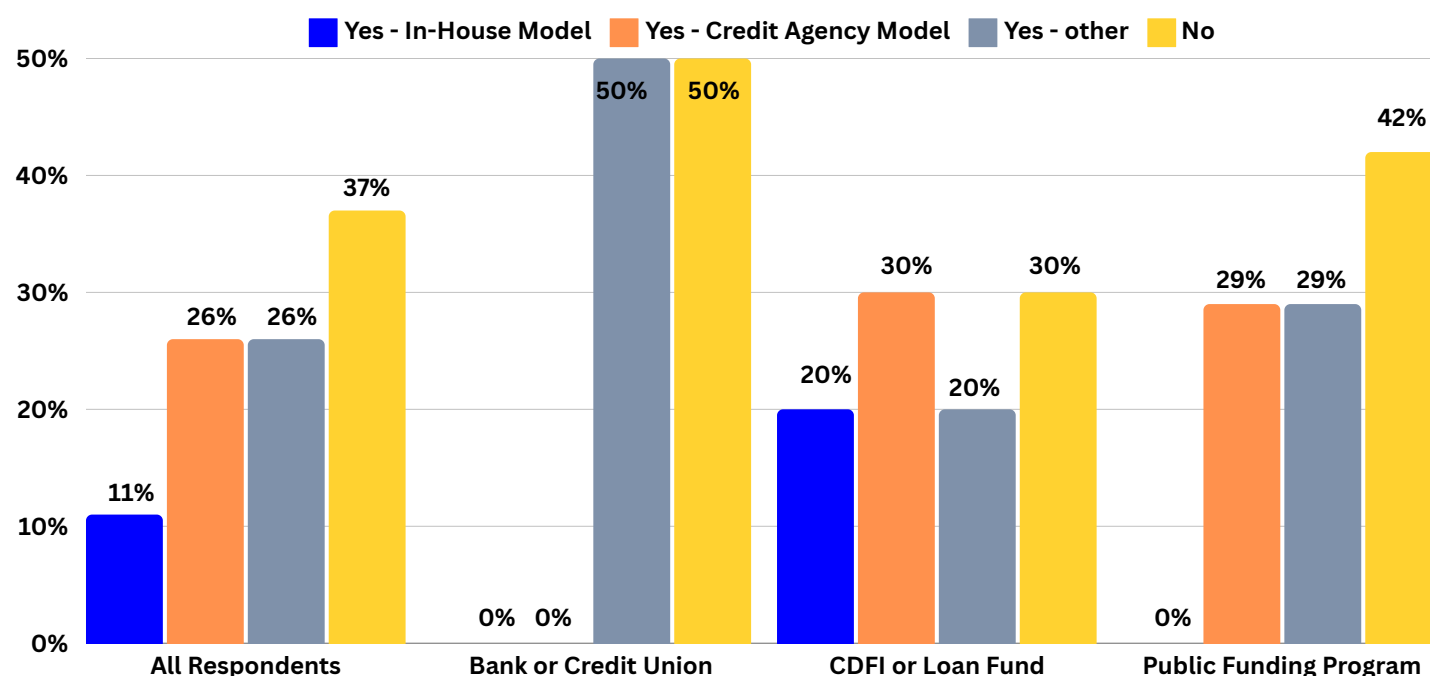
Use of Credit Scoring

Q19. Does your organization use a credit-scoring model to partially or fully automate the underwriting or decision-making process for small business loans in Montana?

Thirty-seven percent of the 19 organizations that responded to this question do not use a credit-scoring model for small business loans in Montana (see Figure 11 below). Relatively few responding organizations (11%) use a credit-scoring model developed in-house. One-quarter of the respondents to this question (26%) reported, in the open-ended text entries provided for the “Other” response option, that their organization uses a credit-scoring model for some but not all small business loans.

In addition, some of these same respondents said that the selection process for using the model is “proprietary.” This is all of the information the survey collected about “Other” models used.

Figure 11: Organization uses a credit-scoring model for small business loans in Montana



Venture Capital: Swing for the Fences

“Venture capital funding today is about swinging for the fences,” notes Mark Ranalli, president and CEO of Biosqueeze based in Butte. One or two successful investments drive the fund’s results. Perhaps 40 percent of the business investments go bankrupt, and the remaining may return 3x to 5x return on investment. So funds need to pursue businesses that could promise 20x or even 50x returns to cover the number of other investee businesses that will likely fail.

“There is more money than good ideas in Montana right now,” he continued, as existing funds in Montana are sitting on significant liquidity and not finding businesses that could offer 20x or 50x. Ranalli noted that family offices of high net worth individuals and angel investors often offer softer financing terms and are satisfied with 3x to 5x returns if they are passionate about the business idea. <https://biosqueeze.com/>

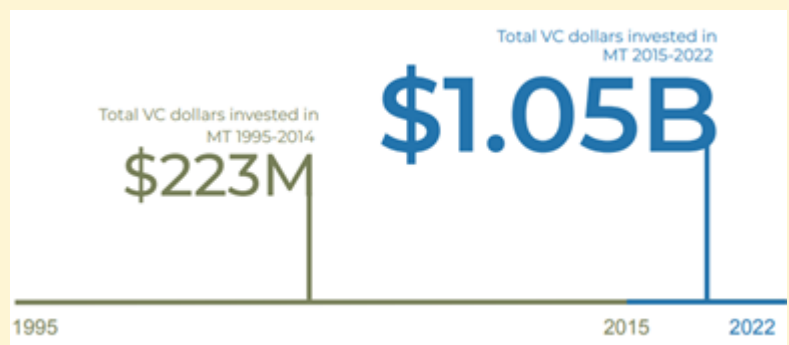
The Changing Landscape

Compared to 20-30 years ago, small businesses have many more options when seeking financing. In the past, a local bank may have been their only option. Today, a broader range of local and national banks, some credit unions, CDFIs, revolving loan funds, online lenders, and many state and federal programs are available, notes Ed Garding, retired CEO of First Interstate Bank and former Dean of the MSU Billings Business School. However, the players have changed over the years. Given changing economies, increased regulations and reporting requirements, and other factors, dozens of smaller banks across Montana (and nationwide) have been bought and absorbed into larger regional and national bank networks over the past 20+ years. This significant bank consolidation shifted decision making on loan applications from local community banks or branches to headquarter offices in larger cities in Montana and nationally. Banks and credit unions earn approximately 80 percent of their total income from lending, so they are incentivized to approve loans. Yet lenders are more cautious and rely more heavily on software, credit reporting, and credit scores than in the past. If a bank's loan losses exceed one percent of their overall loan portfolio, Garding cautions that bank will likely fail. Thus loan officers have a very thin margin of error when analyzing loans.

Online lenders are growing, and many small business owners use them given quick lending decisions in one or two days and loans up to \$250,000. "However, many online lenders will not tell you an interest rate until you are approved, and the annual rates can be as high as 30 percent, even higher than credit card loans." Garding praised public programs such as the SBA, USDA, Department of Commerce, MT Board of Investments, and economic development organizations as reliable partners to work with banks and other lenders to reduce risk of lending to more marginal borrowers. But some lenders may not be familiar with these programs and how to apply. Further, smaller lenders may not have the bandwidth to invest the time and staff to apply for these programs as larger banks that may have an entire department dedicated to SBA loans, for example.

Significantly More Venture Capital in Montana

Next Frontier Capital Fund based in Bozeman estimates \$223 million in total Venture Capital (VC) dollars invested in Montana from 1995 to 2014. Over the period 2015 to 2022, however, total VC dollars invested in Montana rose significantly to \$1.05 billion. <https://www.nextfrontiercapital.com/>



Competition Among Funders

Q20. What type of organization do you consider to be your biggest competitor in terms of small business lending in Montana?

Overall, the 16 responding organizations for this question most frequently cited state or regional banks with less than \$10 billion in assets as their biggest competitor for small business lending in Montana (see Table 19).



Photo from Dunrovin Ranch

Table 19: Biggest competitor for small business lending in Montana

	Bank or credit union	CDFI or loan fund	Public funding program	Total	
State or regional banks with local presence (less than \$10 billion in assets)	50%	40%	50%	44%	7
National banks with local presence (over \$10 billion in assets)	50%	10%	0%	13%	2
Online banks with no local presence	0%	20%	0%	13%	2
Credit card issuer	0%	20%	0%	13%	2
Credit unions	0%	0%	25%	6%	1
CDFI or Loan Funds	0%	0%	25%	6%	1
Fintech or non-bank online lenders	0%	10%	0%	6%	1
Other (please specify)	0%	0%	0%	0%	0

Responding banks or credit unions were equally divided between reporting that small or regional banks were their biggest competitor (50%) and reporting that national banks with a local presence were their biggest competitor (50%). CDFIs or loan funds ranked their top competitors as state or regional banks (40%) followed by online banks (20%) or credit card issuers (20%).

Public funding programs ranked their top competitors as state or regional banks (44%) followed by credit unions (25%) and CDFIs or loan funds (25%). Only CDFIs or loan funds noted fintechs or non-bank online lenders as potential competition, although at low levels (10%).

Top Lenders Active In Montana

A number of lenders based outside Montana are actively lending in the state, and this adds to the competitive landscape. From the 2020 SBA Small Business Lending report, Table 20 below provides data on small business lending in Montana with results grouped for business loans less than \$100,000 and business loans between \$100,000 and \$1 million.

When ranked by total volume of lending for business loans of less than \$100,000, the top six lenders in Montana are: Glacier Bancorp Inc., Wells Fargo & Company, First Interstate Bancsystem Inc., American Express Company, JPMorgan Chase & Co., and Stockman Financial Corporation.

Table 20: All lenders in Montana making business loans of \$1 million or less. CRA Data 2019.

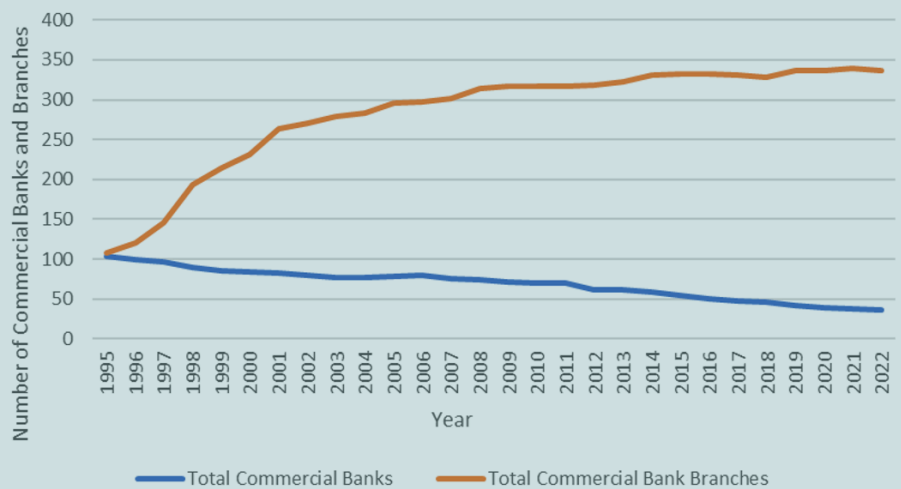
			Small Business Loans < \$1Mil		Business Loans < \$100,000		Business Loans \$100,000-\$1 Mil		
Name of Lending Institution	BHC location	Lender Asset Size	Amount (\$1,000)	Number	Amount (\$1,000)	Number	Amount (\$1,000)	Number	% of Small Business Loans under \$100,000
Glacier Bancorp, Inc.	MT	10-50B	358,463	2,864	78,175	2,007	280,288	857	70.08%
Wells Fargo & Company	CA	>50B	96,314	2,014	61,543	1,883	119,008	366	93.50%
First Interstate Bancsystem, Inc.	MT	10-50B	170,195	1,820	51,187	1,454	107,274	333	79.89%
American Express Company	NY	>50B	57,767	4,943	51,001	4,904	34,771	131	99.21%
JPMorgan Chase & Co.	NY	>50B	48,076	3,417	43,085	3,397	6,766	39	99.41%
Stockman Financial Corporation	MT	1B-10B	137,628	1,221	30,354	888	31,631	79	72.73%
Capital One Financial Corporation	VA	>50B	21,756	2,591	21,756	2,591	4,991	20	100.00%
U.S. Bancorp	MN	>50B	50,066	1,833	18,435	1,754	17,394	67	95.69%
Citigroup Inc.	NY	>50B	18,026	2,904	18,026	2,904	25,056	73	100.00%
Wintrust Financial Corporation	IL	10-50B	34,359	1,495	16,965	1,428	-	-	95.52%
Ally Financial Inc.	MI	>50B	16,753	320	13,807	306	-	-	95.63%
Bank of America Corporation	NC	>50B	15,701	1,111	10,436	1,100	2,946	14	99.01%
Heartland Financial Usa, Inc.	IA	10-50B	29,664	192	4,608	119	5,265	11	61.98%
CIT Group Inc.	NJ	>50B	5,493	106	3,795	99	5,883	17	93.40%
Synchrony Financial	CT	>50B	3,222	794	3,222	794	5,455	18	100.00%
BB&T Corporation	NC	>50B	5,011	215	2,662	209	3,825	14	97.21%
WEX Bank	UT	1B-10B	4,182	243	2,489	236	1,698	7	97.12%
Ameris Bancorp	GA	10-50B	3,023	544	2,284	540	2,349	6	99.26%
Citizens Financial Group, Inc.	RI	>50B	3,856	55	2,125	52	2,546	12	94.55%
The Bank of Commerce	ID	1B-10B	7,965	73	2,082	56	1,693	7	76.71%

Source: CRA Data 2019. As reported in the SBA (2020) Small Business Trends in the United States, 2019

Consolidation Among Funders

As seen in Figure 12, the number of commercial banks in Montana has decreased significantly from over 113 in 1995 to 39 in 2022. Over this same time period, the number of bank branches has more than tripled from 100 in 1995 to almost 350 in 2022. Over the past decades, consolidation through larger banks acquiring smaller banks is a widespread pattern across the United States, and this is clearly the story in Montana as well.

Figure 12: Number of Commercial Banks vs Bank Branches in Montana over Time



Source: BankFind Suite: Find Annual Historical Bank Data (fdic.gov)

Bank consolidation is a national trend, as seen below in Table 21. Between 2016 and 2020 the number of banks in the country decreased from 6,058 to 5,066. Similar trends are also seen across the Rocky Mountain and Northwest regions, as seen below in Table 21, where Colorado and North Dakota lead in number of banks as of 2020, with 74 and 73 banks respectively. Surprisingly Oregon and Idaho rank lower with 16 and 11 banks, respectively, as of 2020. Montana's banks are clustered with 15 below \$100 million in assets and 17 banks with assets of \$100 million to \$500 million. Montana has only two banks with assets between \$1 billion and \$10 billion and two banks with assets between \$10 billion and \$50 billion. Whereas Colorado, North Dakota, South Dakota, Washington, and Utah all have more of these larger banks over \$1 billion in assets. The development of banks over \$50 billion in assets has not occurred in Montana. From Table 21 only Utah and South Dakota have banks with over \$50 billion in assets.

Table 21. Number of Reporting Institutions in Surrounding States by Asset Size and State and Territory Based on Call Report Data, June 2020

State	Number of Institutions		2020 Lending Institution by Asset Size Category					
	2020	2016	<\$100M	\$100M-\$500M	\$500M-\$1B	\$1B-\$10B	\$10B-\$50B	>\$50B
Colorado	74	91	10	50	5	8	1	0
North Dakota	73	78	28	30	5	10	0	0
South Dakota	62	69	20	22	5	11	2	2
Montana	42	55	15	17	6	2	2	0
Washington	41	52	6	10	8	14	3	0
Utah	39	47	3	8	5	14	3	6
Wyoming	30	32	6	18	4	2	0	0
Oregon	16	25	0	8	7	0	1	0
Idaho	11	12	0	4	4	3	0	0
United States	5,066	6,058	1,010	2,447	706	755	102	46

Source: BankFind Suite: Find Annual Historical Bank Data (fdic.gov)

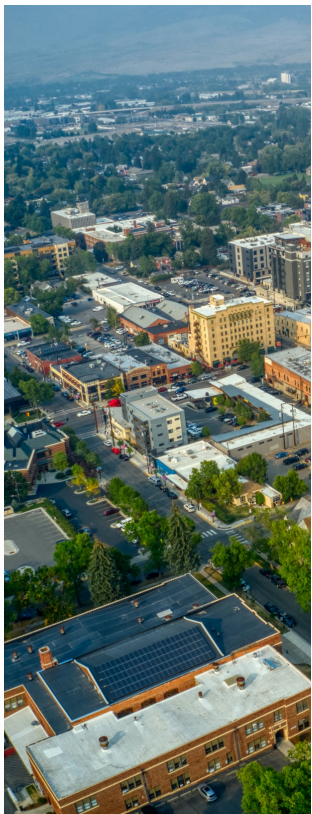
Consolidation Among Credit Unions

The same consolidation story told by the preceeding bank data repeats for credit unions in Montana. Table 22 below provides data for the number of credit unions, number of members, and total credit union assets from 1991 to 2021. The number of credit unions has decreased from 97 in 1991 to 45 in 2022. Meanwhile, membership has increased from 274,000 members to over 422,000 members, and total credit union assets have grown from \$480 million to over \$7.55 billion during the same period.

Table 22: Credit Union Trends in Montana 1991-2021

Year	# of Credit Unions	Members	Total Assets (\$in Mil)
1991	97	274,150	\$480
2001	74	343,391	\$1,840
2011	57	392,018	\$4,049
2021	46	422,740	\$7,425
2022	45	422,043	\$7,555

Source: FDIC: Credit Union Trends



Montana Businesses: Capital Starved

“Montana’s small businesses are capital starved in general,” notes Mark Menke, Director of Lending for Montana Business Assistance Connection (MBAC) in Helena. Menke notes a market gap in the funding landscape for many small businesses across the state. Few businesses in Montana will be big enough and able to grow quickly to attract venture capital investments.

In parallel, Menke continues, “Many banks are operating in a conservative manner and are hesitant to lend based upon unproven sources of repayment, and state and federal lending programs have limited capacity and many stipulations.” Menke has developed a good relationship with bankers in his geographic area, and MBAC works with these banks to co-fund loans, often filling a vital role as mezzanine lender.

As an economic development agency and lender, MBAC has historically been successful utilizing funds derived from the Montana Department of Commerce, US Department of Agriculture, Montana Board of Investments, U.S. Department of Commerce’s Economic Development Administration, US Department of the Treasury, the Small Business Administration, and the various counties, cities, towns and others within its geographic area.

In the past, Menke has borrowed funds from partner banks to then re-lend to MBAC clients, although at current high interest rates, this approach may be too risky for MBAC and their business clients, as few businesses are able to generate sufficient revenue to repay double digit interest rates. Raising lendable funds remains MBAC’s biggest constraint, and Menke is considering new approaches, including raising a private loan fund with investors in his geographic area. <https://www.mbac.biz/>

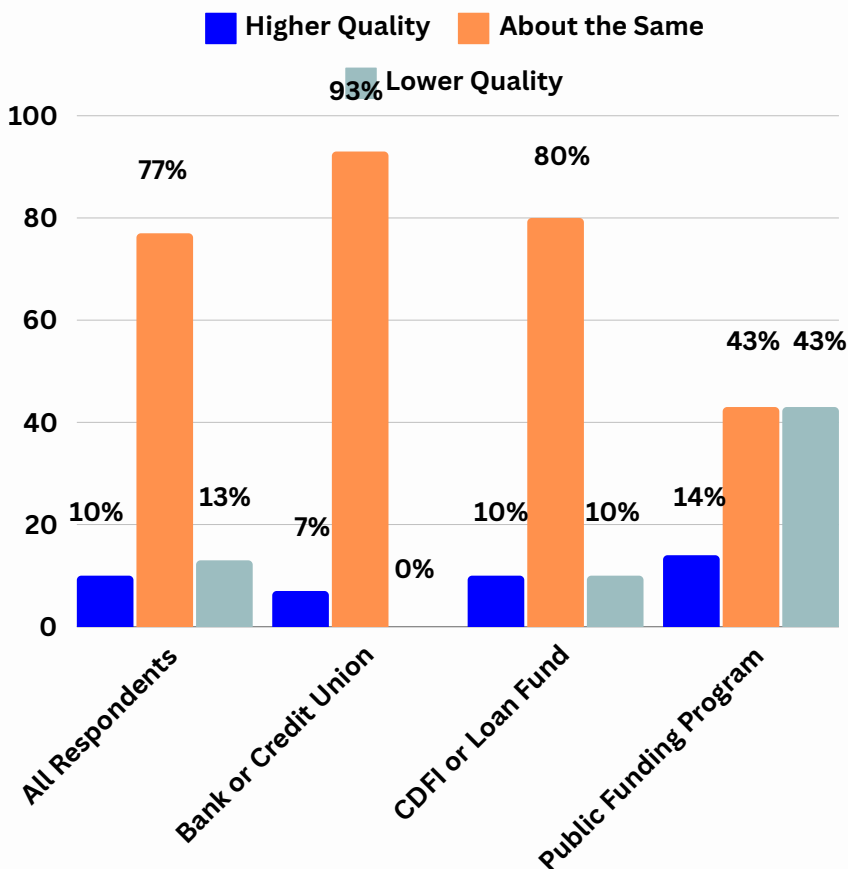
Constraints and Opportunities for Funders

Q21: How do you rate the current quality of your organization's small business lending or investment portfolio when compared to your organization's overall portfolio?

Nearly eight in every ten respondents (77%) rated the quality of their small business portfolio as about the same as their overall portfolio (see Figure 13). The remaining respondents were about evenly divided rating their portfolio as higher quality than their overall portfolio (10%) or lower quality than their overall portfolio.

Very large majorities of banks or credit unions (93%) and CDFIs or loan funds (80%) rated their small business lending portfolio as being the same quality as their overall portfolio. Public funding programs rated the quality of their small business lending portfolio lower. About 43 percent of public funding programs rated their small business lending portfolio as lower quality than their overall portfolio and an additional 43 percent rated their small business lending portfolio as about the same quality as their overall portfolio.

Figure 13: Small business lending portfolio quality rating



Limited Staffing and Capital: CDFI Constraints

In the 2021 national CDFI survey, more than three-quarters of respondent CDFIs indicated they were unable to provide all the products or services they would like to offer on a sustained basis. The majority of these CDFIs cited limited staffing and capital as constraints.

Note: This national survey effort is a partnership of the Federal Reserve, the CDFI Fund, Opportunity Finance Network, the Alliance of African American CDFI CEOs, CDFI Coalition, the Native CDFI Network, the Community Development Bankers Association, and other partners.

Internal Constraints on Community Lenders

Experts interviewed from a broad range of lenders noted their internal constraints:

- **Lean staff:** Credit unions, community banks, CDFIs, and loan funds are often thinly staffed, and this affects their decision speed and ability to scale up lending. Often smaller lenders partner with larger banks to share data and analysis as they conduct due diligence of a potential borrower.
- **Liquidity:** Many CDFIs and loan funds lack sufficient funds to onlend, especially starting in 2022-23 as larger banks have reduced lending for small businesses. Banks continue to refer businesses to CDFIs and loan funds, who report much more demand for their services since 2022. Few CDFIs and loan funds have quick access to additional funds when needed, and this slows their ability to serve more businesses.
- **Awareness:** After being launched as a lending category in 1996, many CDFIs have grown across the country and in Montana, yet they may not be well known to local businesses. Loan funds attached to economic development organizations may also have less name recognition than larger lenders in their area. Community lenders are working to raise awareness of their services among businesses in their area.
- **Technical capacity:** Especially for new lenders and smaller institutions, ensuring smooth operations, developing lending policies, and training staff can be challenging. This is also the case for lenders expanding from retail/household lending to business lending, such as some credit unions and other institutions. “Business lending is completely different from retail lending or mortgage lending,” noted a specialist. Lenders need deep expertise in loan underwriting, how to structure the loan, documentation of the decision process and loan, follow-up with clients, collections, and reporting to state and federal regulators and supervisors. Increasingly, lenders rely on internal software, third-party credit reports and credit scores, and other technology platforms to market, analyze, and manage loan applications.
- **Regulatory compliance:** Depending on their size and services offered, lenders have varying levels of compliance and supervisory oversight from state and federal government agencies that ensure the safety and soundness of the financial sector across the country. Banks of all types, but especially small and/or community banks, as well as economic development organizations, are extremely concerned about problem loans and being placed on a regulator’s watch list given the perception and the reality of additional reporting required.
- **Credit decision process:** A number of lenders reported they are no longer able to use their ‘gut’ when making decisions. Larger banks often have sophisticated decision frameworks, credit scoring, and/or software to rate potential borrowers, and these may be applied nationwide for all loan applicants. Yet even some regional banks noted centralized underwriting and decision making, so loan officers in local communities may have less flexibility or autonomy than they once may have had to tailor loan decisions. Lenders may be required to spend the same time and staff resources analyzing a relatively smaller loan of \$10,000 as they would a loan of up to \$250,000. Since banks would earn more interest on a larger loan, smaller loans may become a secondary priority for some overworked loan officers.

Constraints and Opportunities Facing Community and Regional Banks

Montana is home to many community and regional banks, although national banks are also growing their presence in larger cities across the state. Community and regional banks typically made credit decisions based on character, collateral, credit history, and cashflow of their clients. However regulatory and reporting changes make it harder to lend using a traditional banker's intuition, reports Scott Burke, President and CEO of First Security Bank (FSB) in Missoula, a member of the Glacier Bank Group across eight states.

In addition, smaller banks may lack specialized staffing and/or automated systems for ongoing reporting to bank supervisors. Burke and his team anticipated a slowdown in 2023, but instead, they have experienced strong demand for business loans with about 80 percent of their current loan portfolio with small businesses and 20 percent direct to consumers. FSB trains loan officers to help clients qualify for state and federal business programs such as SBA's many loan programs, Montana Board of Investment funding, New Market Tax Credits, Low Income Housing Tax Credits, and others.

In addition, FSB may agree on financing structure for a business and then work with other lenders such as MOFI to bridge any financing gaps such as working capital or down payment assistance for the business. When assessing a business for a potential loan, the business's financial performance is key, and FSB relies on tax returns and compiled or reviewed financial statements. Rarely are audited financial statements required. In addition, Burke and his team consider the size and diversification of a business's client base, level of existing debt, and prior relationship with the owner. Ideally, owner's equity in the business and asset-based collateral would be useful, but for many Montana businesses, this is limited in value. <https://www.fsbank.com/>

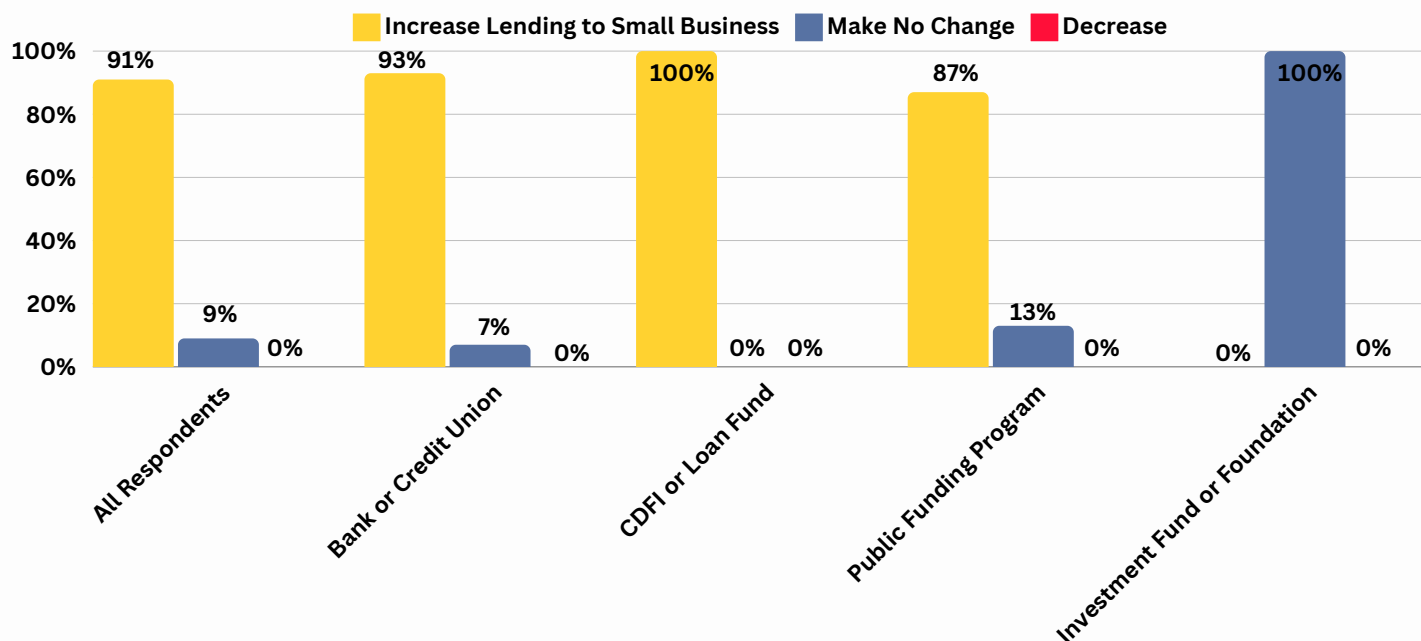
Lending Is More Complex Now

"There was a time when a banker could finalize a loan on a half-sheet of paper using triplicate carbon copy paper, and the entire decision was based on the client's character, since the banker's priority was getting to know the client, their family, and their business," remembers Joel Rosenberg, Senior Vice President of Commercial Portfolio for Three Rivers Bank in Kalispell. "But every year since it seems banks are required to add to the analysis, paperwork, forms for loan documentation, reporting requirements, etc." Given the current higher inflation and higher interest rates, many small businesses are not able to take bank loans at 8-10% interest, especially given other costs small businesses are absorbing with wage increases, higher supply costs, and limited ability to increase the price of their own services and goods with clients. <https://www.threeriversbankmontana.com/>

Q22. Would your organization like to increase or decrease its lending or investing for small businesses in Montana?

Figure 14 demonstrates that a very large majority (91%) of responding organizations would like to increase lending to small businesses in Montana.

Figure 14: Position of organization on future small business lending or investing



Successful Partnerships between Economic Development Organizations and Community Banks

In public funding programs, business owner success can often be measured through their transition from working with economic development organizations, receiving initial loans from community-focused revolving loan funds, growing as the business expands and needs larger loans, to shifting and being able to borrow from local banks, said Paul Tuss, the Executive Director of Bear Paw Development Corporation in Havre. This is the advantage of revolving loan funds, he noted. “Funds remain in perpetuity in the local community as clients pay off loans and become “bankable” over time, allowing the next business owner to receive a loan from the fund.” Public-private partnerships like this are important to economic development, according to Tuss, as local banks often financially support economic development organizations, participate in matching programs, serve on their board, and refer clients who do not meet the bank’s criteria but could benefit from services and funding offered by the economic development organization.

Business technical assistance centers like Bear Paw Development advise early-stage entrepreneurs in business planning, accounting, pricing, taxation, and other critical areas so they can become eligible for bank loans as their business grows. “Our institution and our peer organizations are lenders of last resort for many businesses across Montana, and as non-profits we are positioned to take more risk and work with a wider range of businesses,” notes Tuss. Yet funds to lend are scarce for Bear Paw Development and other state Certified Regional Development Corporations (CRDCs), federal Economic Development Districts (EDDs), Community Development Finance Institutions (CDFIs), and other local development organizations. <https://www.bearpaw.org/>

Q23. Business owners from which, if any, of the following socio-economic groups does your organization see as a growth opportunity? Choose all that apply.

Nearly three quarters of all respondents (72%) reported that their organization sees all types of clients, regardless of socio-economic profile, as growth opportunities (see Figure 15). One third of respondents (33%) said their organizations see rural business owners as a growth opportunity. About 28 percent of respondents reported their organization rates both American Indian and women business owners as growth opportunities. One quarter of respondents (25%) said they see veteran business owners as a growth opportunity.

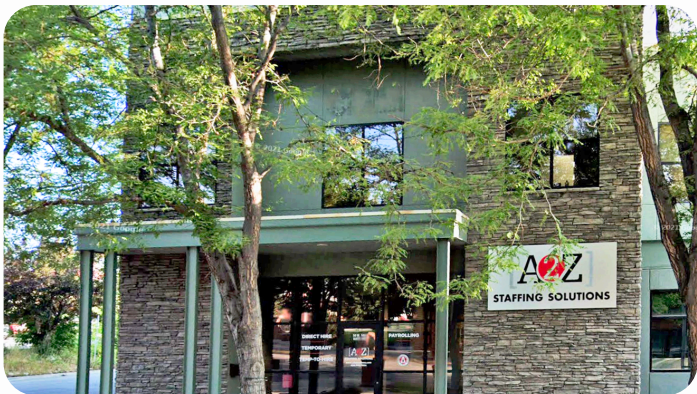
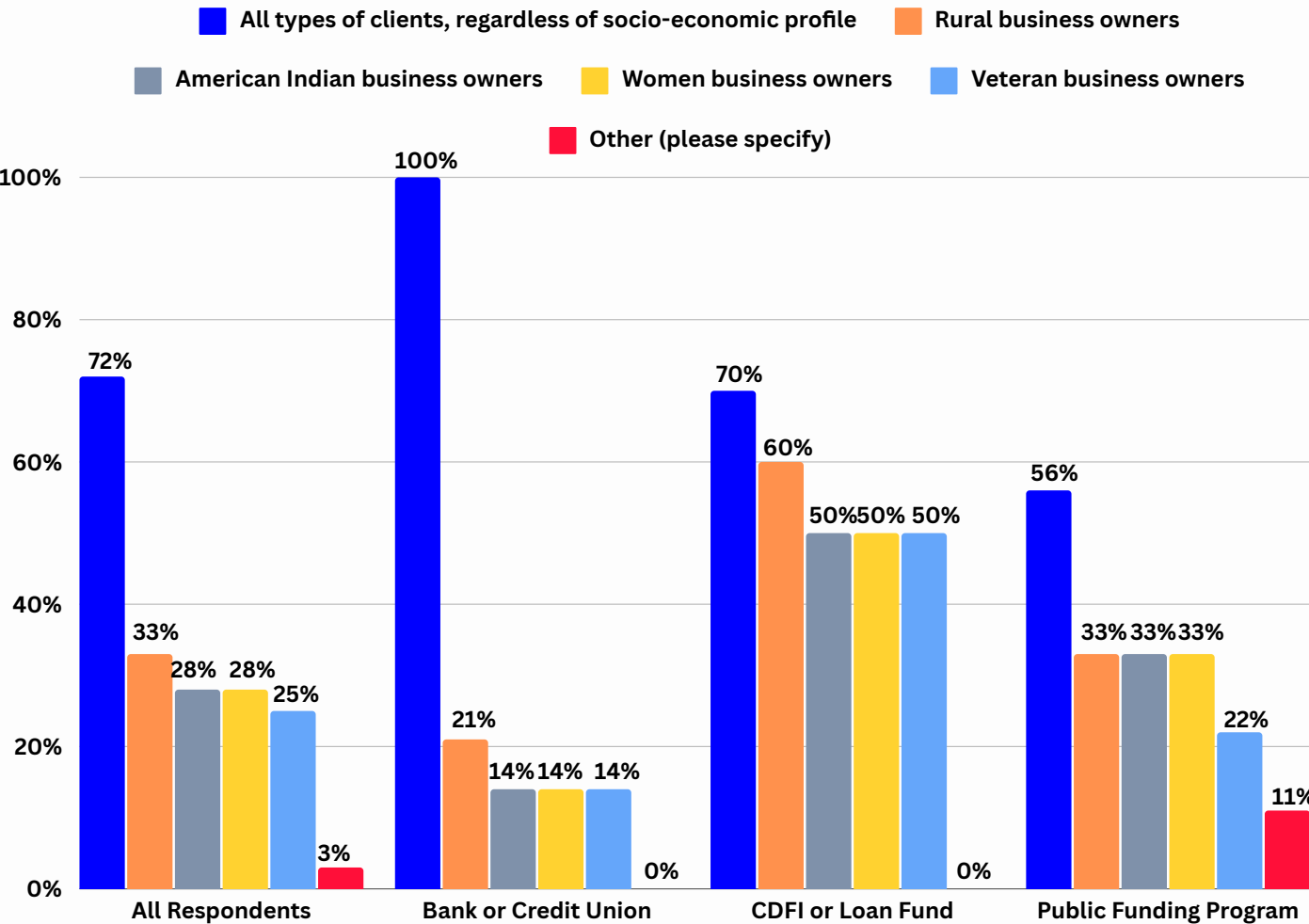


Photo from A2Z Staffing Solutions

Figure 15: Groups seen as growth opportunities



A large majority of banks or credit unions (100%), CDFIs or loan funds (70%) and public funding programs reported that their organizations rate all types of clients, regardless of socio-economic profile, as growth opportunities.

Investing in Montana

The Montana Community Foundation (MCF) has made a commitment to move into impact investing in Montana, according to Mary Rutherford, President & Chief Executive Officer. In partnership with communities, MCF aims to promote food security, health, housing, infrastructure, or other efforts aligned with their organization's mission to "cultivate a culture of giving so Montana communities can flourish."

For funds the MCF holds in endowment, Rutherford noted that over the coming year, the MCF will begin to commit five percent (currently about \$6.5 million) of their investable assets to professional intermediaries such as housing finance companies and community development finance institutions (CDFIs) across the state.

"We want to have the greatest possible impact in our state with a reasonable return," Rutherford said. "MCF hopes to open up a new stream of capital in Montana through encouraging other foundations to do the same." <https://mtcf.org/>



Q24. Why do you think the socio-economic groups you chose are a growth opportunity?

Question 24 provided respondents a chance to explain why the groups they chose in question 23 are growth opportunities. Sixteen organizations offered an explanation. These explanations are summarized in Table 23 below.

Responding organizations most often re-emphasized the assertion that all groups, regardless of socio-economic profile, are growth opportunities. The next most common explanation was that the specific group chosen by the organization is currently undeserved.

Table 23: Reasons organization sees a group as a growth opportunity

Reason Chosen	Count
All groups are growth areas	5
The specific group chosen is currently undeserved	4
Organization does not base lending on socio-economic background	3
Our organizational focus is on this specific group	1
This specific group represents a growing area	1
This group includes harder working individuals	1
Montana has an advantage in this group	1

Systems Change: CDFI Partnering with Montana's Lenders in Indian Country

"We are exploring several models that will shape the future of lending in Indian country," notes Angie Main, CEO of NACDC Financial Services in Browning. Launched by Native American Community Development Corporation (NACDC) in 2010, NACDC Financial Services received the CDFI accreditation in 2012.

"We are discussing partnerships with other institutions with strong capacity in back-office operations and regulatory reporting." Main continues, "This would allow NACDC and our partners to concentrate on managing relationships with our clients and offering needed financial services, as we are specialists in tribal lending. We have the networks, skills, and experience of lending on reservations, managing the complexities of trust land, and ensuring very low loan loss rates."

<https://www.nacdcfinancialservices.com>

CDFIs Proved Their Worth: Successfully Delivering Loans During the Pandemic

“CDFIs successfully delivered loans in local communities across the country during the COVID-19 pandemic. MoFi made 4,700 PPP loans, which was a profound increase over our normal lending volume,” reports Dave Glaser, President of MoFi, a regional CDFI providing financing and consulting to entrepreneurs and small business owners and affordable housing solutions across the American West.

Many lenders dramatically increased their lending during the pandemic to help businesses access federal Paycheck Protection Program (PPP) loans and other federal and state government programs. Banks and credit unions often referred smaller businesses, or businesses that did not have a relationship with the bank previous to the pandemic, to CDFIs especially for smaller PPP loans, according to Glaser. Nationally, CDFIs were authorized as a lending category in 1996, and it has taken time for CDFIs to establish trust with federal and state governments, regulators, bankers, and businesses.

Over the years, CDFIs have demonstrated that they are important community lenders that make good loan decisions, manage loan portfolios successfully, and serve local communities effectively. CDFIs are able to lend to businesses that may not qualify for bank lending and would otherwise be forced to turn to predatory lenders with difficult terms and much higher interest rates. “Banks do not see CDFIs as competition, but as partners that increase the access to capital in the US,” notes Glaser. <https://www.mofi.org/>

Cultivating Community Investment Through Crowdfunding

Andrew Connor, director of the Center for Community Ownership based in Missoula and supporter of CrowdFund Montana, focuses on cultivating community investment in Montana for projects that can't secure traditional finance. He works with communities who identify a “hole” in their local economy such as grocery stores, hotels, or other businesses, or who hope to preserve existing businesses. Connor then works with the business and local community to raise funds for these projects through either equity or debt crowdfunding. Often these business prospects don't ‘tick the boxes’ for traditional investors because while they have potential to succeed and meet a local community market need, they don't fall into targeted industries and/or don't have the potential for large scale, quick growth, and eventual sale through an Initial Public Offering (IPO).

Raising funds through crowdfunding takes commitment and time, especially to qualify through a rigorous process with the Securities and Exchange Commission (SEC) and then talk with people in the community who may be a good fit as an investor in the business. However, Connor believes that the process of crowdfunding benefits entrepreneurs beyond the actual funds raised: they can build strong local networks, raise brand awareness and visibility in their customer area, refine business plans and marketing approaches, and more. The average grant raised through traditional “gift” crowdfunding (like Kickstarter) is around \$9,000, while the average amount of debt or equity raised through investment crowdfunding for businesses is over \$250,000, according to Connor. <https://www.centerforcommunityownership.org/>

Q25. Which of the following internal factors significantly impede your organization's ability to increase small business lending or investing in Montana? Please choose all factors that apply.

For all respondents, the most commonly cited factor (33%) that impedes the organization's ability to increase small business lending in Montana is the availability of lending capital (see Table 24 below). Three factors were tied for the second most reported factor: a) flexibility in collateral or investing requirements (25%); b) ability or willingness to lend to, or invest in, marginal borrowers (25%); and c) decision speed (25%). None of the investment funds or private foundations answered question 25.

The factor that most often impedes banks or credit unions is ability or willingness to lend to, or invest in, marginal borrowers (36%). Availability of lending or investing capital (60%) and decision speed (60%) most often impedes CDFIs or loan funds. Public funding programs were most often impeded by availability of lending or investing capital (56%). In addition, throughout Table 24 it is apparent that more CDFIs, loan funds, and public funding programs reported more impediments to increasing small business lending than did banks or credit unions.



Table 24: Internal organization factors that impede small business lending

	All respondents	Bank or credit union	CDFI or loan fund	Public funding program
Availability of lending or investing capital	33%	7%	60%	56%
Flexibility in collateral or investing requirements	25%	29%	30%	22%
Ability or willingness to lend to, or invest in, marginal borrowers	25%	36%	30%	11%
Decision speed	25%	7%	60%	22%
Credit or investment products offered	19%	7%	40%	22%
Flexibility in pricing or loan or investment structure	17%	29%	0%	22%
Ability to accurately assess lending or investment risk	17%	0%	60%	0%
Established relationships between borrowers or client businesses and staff	14%	7%	20%	22%
Willingness to accept alternative forms of documentation	14%	7%	20%	22%
Funding speed	14%	0%	30%	22%
Other (please specify)	11%	14%	0%	22%
Customer service	8%	0%	20%	11%
Breadth of other services offered besides credit or investment products	6%	0%	20%	0%

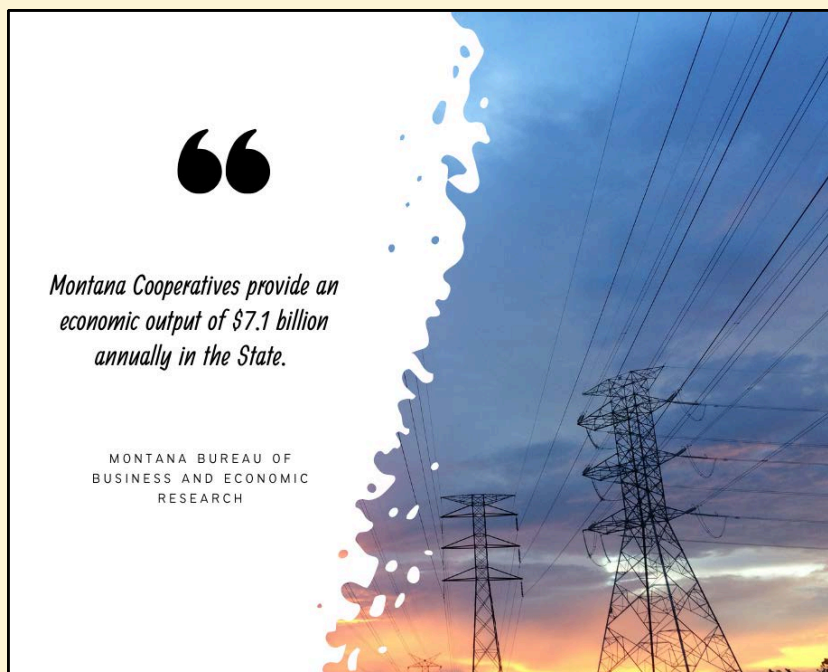
Cooperative Approach to Business and Funding

“Cooperatives are some of the last businesses standing in rural Montana,” says Tracy McIntyre, Executive Director of the Montana Cooperative Development Center (MCDC). A recent BBER study on cooperative businesses noted that cooperatives provide an economic output of \$7.1 billion annually to Montana’s economy, over 24,700 jobs, and direct impact in local communities. The MCDC works with new and existing co-ops and other groups to evaluate co-op business models and strategies. McIntyre also leads their sister organization, the Montana Council of Cooperatives, and members include electric and phone co-ops, credit unions, agricultural producer co-ops, processing co-ops, and others.



Source: The Economic Contributions of Montana Cooperatives, BBER, 2023

The MCDC offers several loan and grant programs with partner institutions, including the CoBank loan program for agricultural producer co-ops. MCDC also partners with credit unions to fund co-op businesses. Through their Women Equity Program, McIntyre and her team work with women-led cooperative businesses to identify needs in local communities such as access to fresh food and grocery distribution. MCDC is starting to explore investment cooperatives and cooperative revolving loan funds that would focus on small businesses rooted in local communities. McIntyre noted that an investment cooperative toolkit will be available in Fall 2023 to guide these efforts.



Source: The Economic Contributions of Montana Cooperatives, BBER, 2023

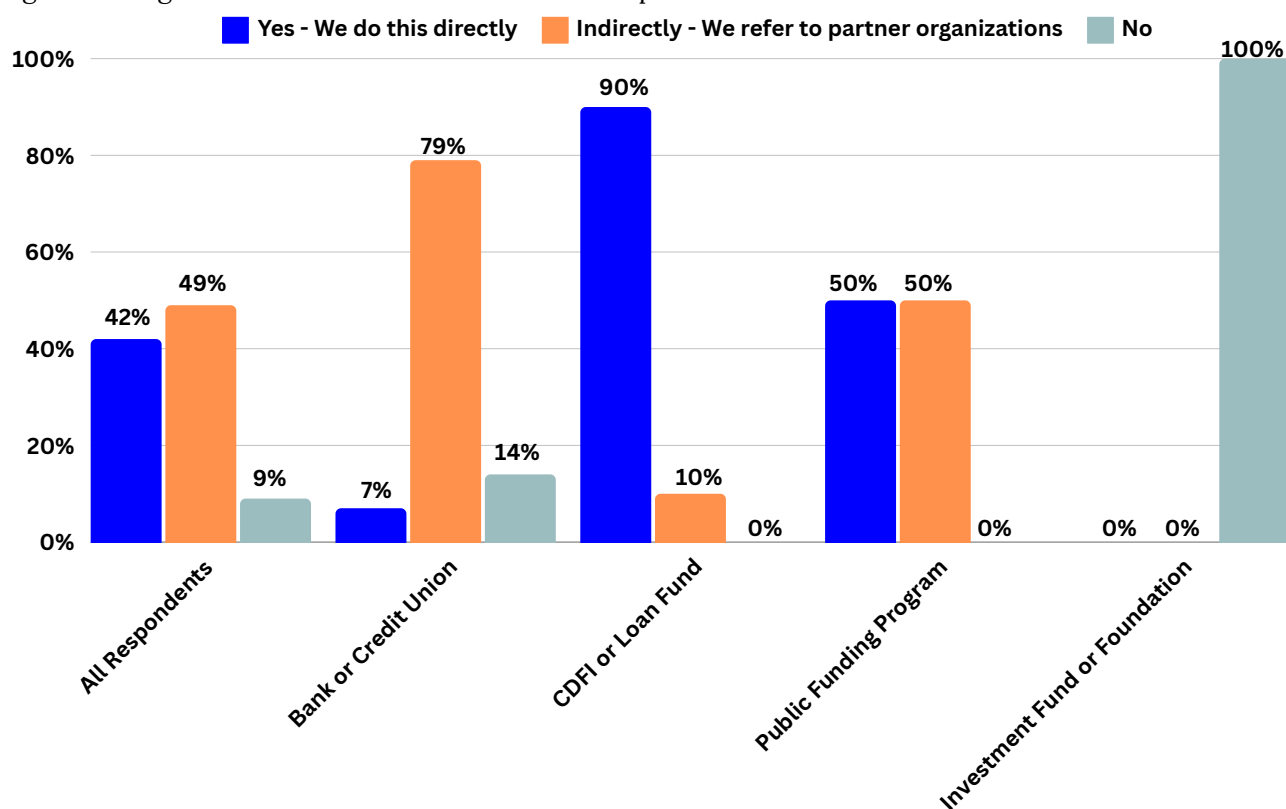
Business Development Services

Q26. Does your institution offer any development services (incubation, accelerator, business growth coaching, technical assistance, etc.) to existing or potential small business borrowers or investees?

Forty two percent (42%) of responding organizations directly offer small business development services (see Figure 16). Another 49 percent refer small businesses to partner organizations for development services. Only 9% of responding organizations provide no small business development assistance of any kind.

A large majority of banks or credit unions (79%) refer small businesses to partner organizations for development services. In contrast, 90 percent of CDFIs or loan funds directly offer small business development services. Public funding programs were evenly split between directly offering services (50%) and referring clients for services (50%). The low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

Figure 16: Organization offers small business development services



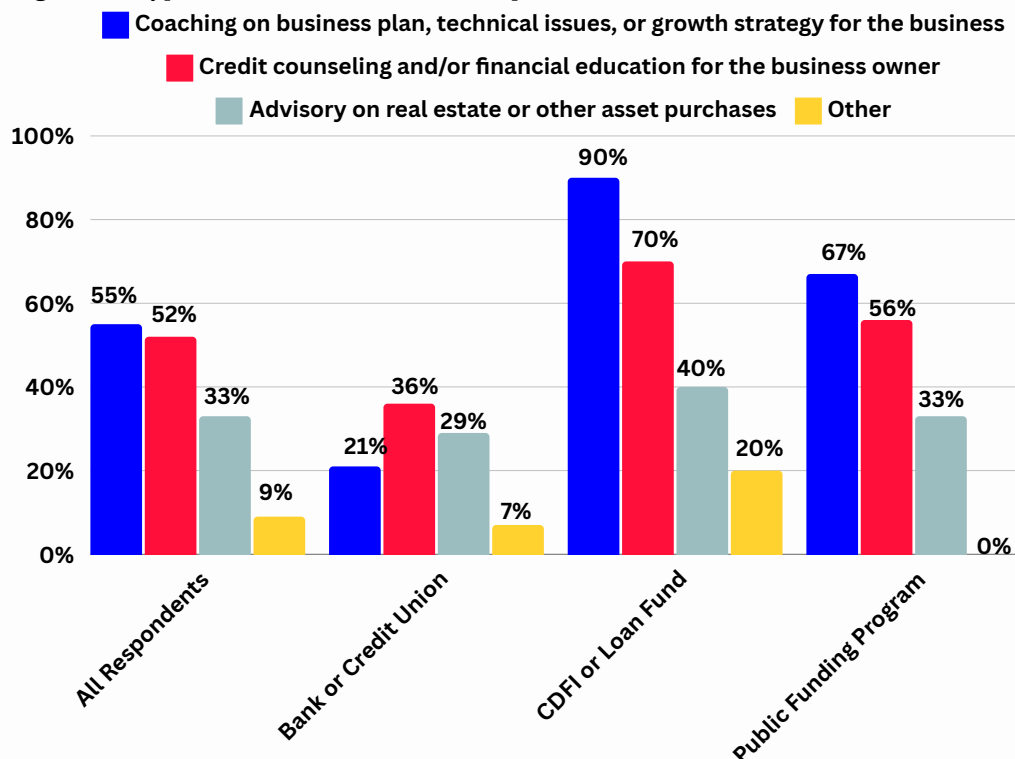
Most Community Lenders Try To Make Things Work

“Most community banks, credit unions, CDFIs, and loan funds are enthusiastic about supporting small businesses in Montana. We are lenders, and we want to get deals done,” reports David Rook, Senior Vice President of Business Banking at Clearwater Credit Union, the state’s largest CDFI. Rook believes that many opportunities are available for business owners who put in the time and effort, with a well vetted business plan for startups. “Montana is fortunate to have a strong community banking environment, full of talented lenders. What we need to see from the small business owner is an understanding of their business, a clear plan about where they want to take it and why, and a compelling case that a loan will help them to get there. We are here to help, but also to protect owners from getting in over their heads with a loan they won’t be able to repay.” <https://clearwatercreditunion.org/>

Q27. (For organizations that offer services directly or refer businesses for services, per their response in question 26) Which of the following development services does your organization (or partner organizations) offer to existing or potential small business borrowers or investees? Please choose all services that apply.

A majority (55%) of all respondents that offer or refer businesses to development services provide coaching on business plans (see Figure 17). A very similar proportion (52%) provide credit counseling or financial education. One third (33%) offer advice on real estate or asset purchases. A small proportion (9%) offer other types of services. Banks or credit unions most often (36%) provide credit counseling.

Figure 17: Types of small business development services offered



A very large proportion of CDFIs or loan funds offer both coaching on a business plan (90%) and credit counseling (70%).

Similarly, a majority of public funding programs provide coaching on a business plan (67%) and credit counseling (56%).

In the “Other” category, organizations mentioned economic development concierge services, succession planning, risk management, and training workshops.

Borrowers May Be Credit Worthy, Even If They Are Not Bankable

“We leaned into character-based lending because many businesses in Montana are credit worthy, even if they may not be ‘bankable’ and meet all the requirements for a loan from a bank or credit union,” reports Dave Glaser, President of MoFi, a regional CDFI providing financing and consulting to entrepreneurs and small business owners and affordable housing solutions across the American West. Glaser continues, “A broader range of businesses are credit worthy. We want to understand how the business will survive hiccups, and if the owner has a good plan B if the business fails.” Since 2015, MoFi has shifted to a more technology driven underwriting while remaining rooted in the communities they serve.

“We are now more efficient for our clients, we have reduced our staff time processing loans, and we can reach more businesses that need us,” notes Glaser. Originally launched in Missoula in 1986, MoFi has expanded to 12 states with offices in Missoula, Bozeman, Salt Lake City, and Boise. Montana remains their core focus of operations and lending volume. To serve more businesses, MoFi is further increasing their partnerships with banks. Partnerships between banks and CDFIs such as MoFi can help banks provide loans to ‘nearly bankable’ businesses by providing gap financing, or by lending to a business that may not qualify on their own with a bank. <https://www.mofi.org/>

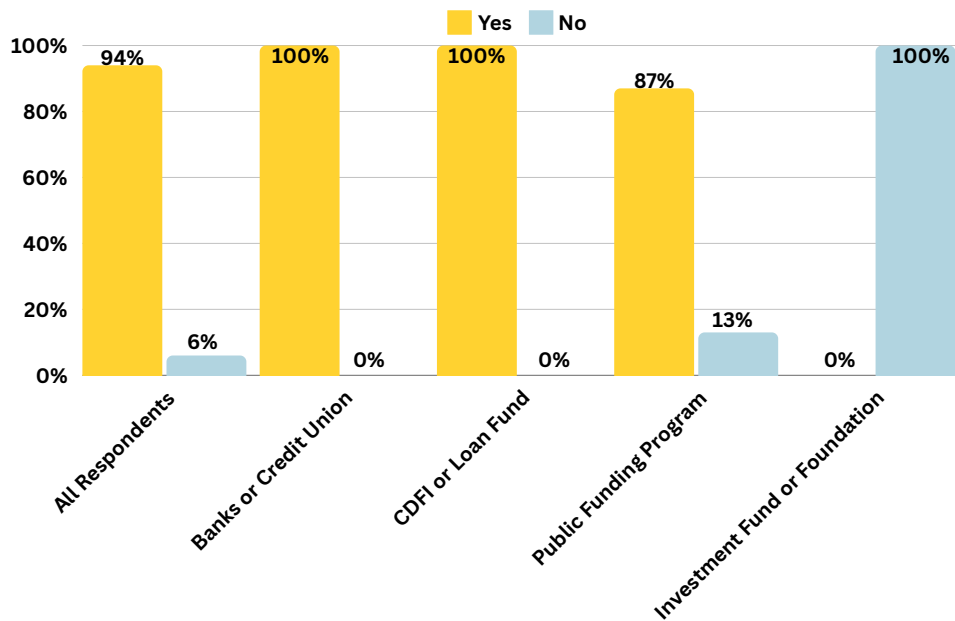
Government Funding Programs

Q28. Does your organization participate in any federal or state loan, grant, loan guarantee, or investment programs?

Nearly all of the 30 responding organizations (94%) participate in at least one federal or state loan, grant, loan guarantee, or investment program (see Figure 18). Note: the low number of responding investment funds or private foundations requires readers to use the proportions reported here with care.

All responding banks and credit unions and all responding CDFIs or loan funds participate in at least one federal or state loan, grant, loan guarantee, or investment program. Slightly fewer (87%) responding public funding programs said that they participate.

Figure 18: Participation rate in federal or state grant, loan guarantee or investment programs



The Role of Public Policy in Montana’s Economic Development

A comprehensive state economic development strategy would serve as a guiding light for the many public agencies, private businesses, lenders, and investors in Montana, according to Pat LaPointe, founder of the investment fund Frontier Angels.

Building on this, he added that the Montana state government should deploy public funds to develop strategically important industries that leverage our state’s comparative advantages. Pat believes the current state policy is fragmented, with many public funding programs available for a wide range of businesses, economic development projects, and community programs. However this approach seems diffused and may not achieve high impact for Montana as would a more focused approach targeting strategic economic opportunities that would fuel growth and create quality jobs.

He noted that states such as Indiana, Ohio, Arizona, Maryland, North Dakota, and Wyoming have developed effective public policy to be pro-business, commercialize technology and intellectual property developed through research with public universities, develop industrial clusters with infrastructure, and leverage public and private resources to drive economic growth. Leveraging public funds to attract private investment could build a critical mass that would foster new businesses, attract other investors, and create jobs. <https://www.frontierangels.com/>

Program Example: North Dakota Opportunity Fund

The North Dakota Opportunity Fund (NDOF) leverages private lending financing to help small businesses and manufacturers attain loans and critical investments needed to expand and create jobs. In addition to providing loans, the NDOF also offers a Collateral Support Program for qualifying businesses. NDOF funds can be used for the following types of loans: construction, equipment, working capital, real estate, and interim SBA 504 loans. The NDOF works with local banks and other funders as a risk partner to structure loans typically at lower interest rates than a business would be able to secure on their own directly from a bank. The NDOF leverages CARES funds provided for COVID pandemic relief by the US federal government.

To be eligible, small businesses must:

- show the ability to service the debt and conduct business
- show a commitment to the project
- provide satisfactory payment history with other lenders/creditors
- have a satisfactory credit history
- offer acceptable collateral

The NDOF is managed by the Lewis & Clark Development Group, a collaboration of three separate non-profit organizations, Lewis & Clark Regional Development Council (LCRDC), the Lewis & Clark Certified Development Company (LCCDC), and Community Works North Dakota (CWND), joined to provide programs and loans to support businesses, local governments, and individuals in expanding affordable housing opportunities and advancing economic and community development across North Dakota.

For more, see the North Dakota Opportunity Fund <https://lcdgroup.org/north-dakota-opportunity-fund/>

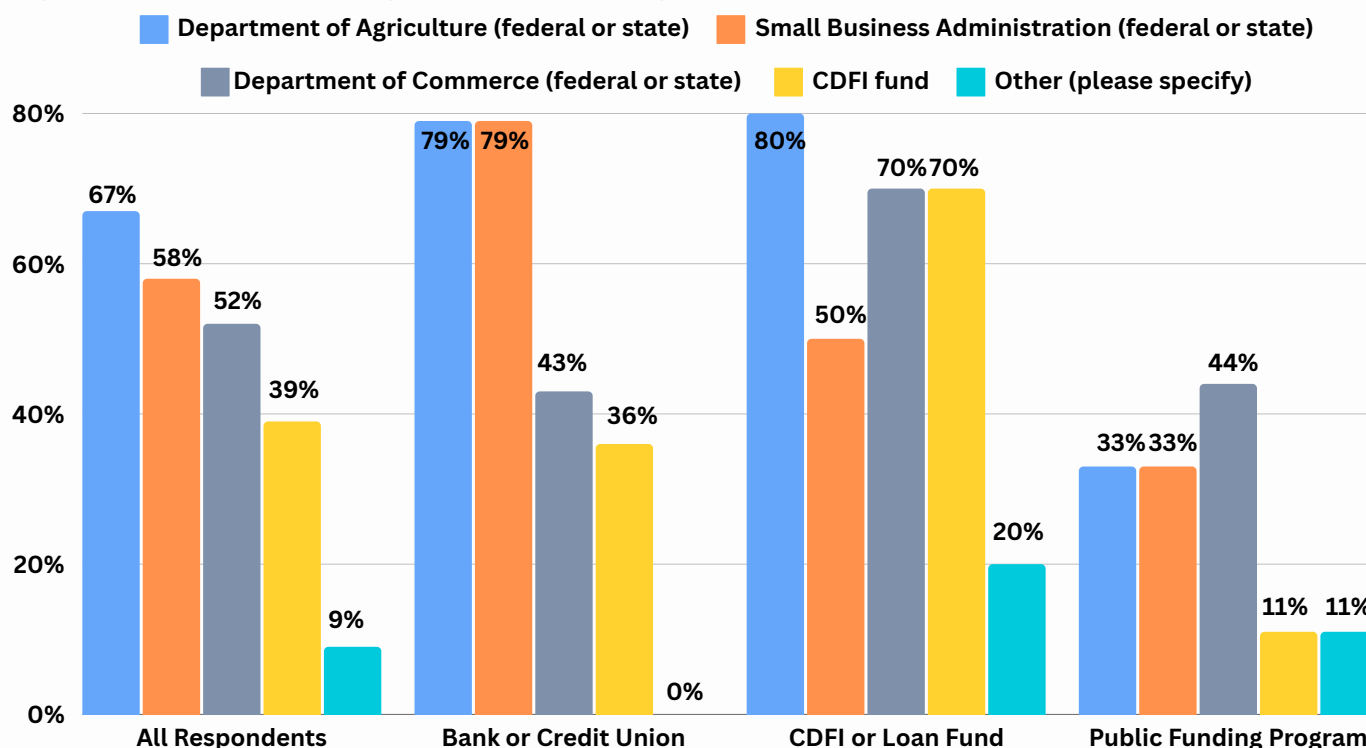


Q29. Which of the following federal or state programs does your organization participate in? Please choose all that apply. (For organizations that participate in federal or state programs, as per their response in question 28).

Two thirds of all responding organizations (67%) participate in a Department of Agriculture (federal or state) program (see Figure 19). A majority of respondents participate in Small Business Administration (58%) or Department of Commerce (52%) programs. About 39% of respondents participate in the CDFI Fund, a national organization.

Nearly four in every five banks or credit unions reported participating in a Department of Agriculture (federal or state) program (79%) and a Small Business Administration program (79%). A majority of CDFIs or loan funds participate in all four categories of program studied. Public funding programs most often reported (44%) participating in a Department of Commerce program.

Figure 19: Federal or state programs in which the organization participates



Banks Want to Loan Money

“Every bank wants to loan money—that’s how we make money. But we loan depositor funds, so our loans need to be safe and secure. We would like to work in alliance with more risk partners,” notes Brian Cooley, President of Stockman Bank’s Eastern Montana Regional President. State and federal bank regulators and internal bank management closely monitor substandard loans, which require more reporting, additional loan loss provisions, and considerations of the bank’s overall capital adequacy ratios. A number of national banks have scaled back their small business lending in Montana, but regional and community banks are keen to expand lending to businesses.

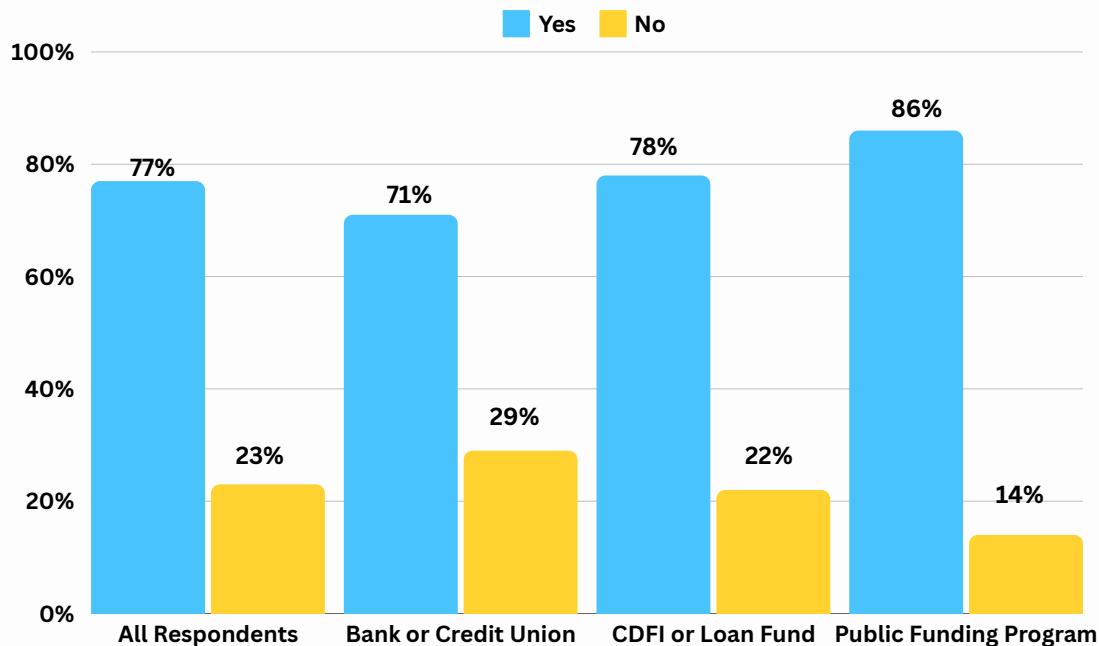
At Stockman Bank, Cooley and his team already work closely with risk partners such as the SBA 504 loan program and/or CDFIs and community loan funds to make tailored loans to small businesses. For example SBA 504 loans are at lower, fixed-term interest rates (than most bank rates) for 20-year terms, which lowers the overall cost of the loan to the small business.

<https://www.stockmanbank.com/>

Q30. (Only organizations that participate in federal or state programs) Is your organization able to fully deploy the capital provided through federal or state loan, grant, or investment programs?

More than three fourths of responding organizations (77%) reported being able to fully deploy capital provided by federal or state programs (see Figure 20). Banks or credit unions reported a 71 percent full deployment rate. CDFIs or loan funds reported a 78 percent full deployment rate. Public funding programs reported the highest full deployment rate at 86 percent.

Figure 20: Full deployment rate of capital provided by federal or state programs



Impact of Montana’s Revolving Loan Fund Program 2017-22

From 2017 to 2022, economic development organizations lent more than \$53 million through revolving loan funds that leveraged another \$101.4 million in other private and public funds. The Montana Economic Developers Association (MEDA) analyzed the economic impacts of the state’s revolving loan funds using data on 30 revolving loan fund programs from 15 major economic development organizations across Montana for the period 2017 to 2022.

During this time, Montana’s revolving loan funds produced a total economic impact of \$230 million, and as the \$154.1 million in loans coursed through the economy, the impacts were increased by an additional \$76 million in induced and multiplier benefits to the state. The 15 participating organizations in this study documented 3,241 jobs retained or created in Montana because of this activity.

Excerpted from “An Economic Impact Study: Montana’s Revolving Loan Fund Program – Years 2017 through 2022” by MEDA. <https://www.medamembers.org/>

USDA: Significant Resources for Rural Businesses and Lenders

The U.S. Department of Agriculture's Rural Development Program offers more than 70 loan, grant, and loan guarantee programs that expand access to high-speed internet, electric and transportation infrastructure, and support business growth, health care, education, housing, essential community facilities, and water and environmental infrastructure.

Between 2012 and 2022, the USDA Rural Development Program provided \$2.8 billion in funding in Montana, with \$2.5 billion in loans and \$341 million in grants across their programs, according to Lad Barney, Montana Director for business and cooperative programs at the US Department of Agriculture Rural Development Program.

In the context of this report, three funding programs are of special note: a) direct loans and grants to businesses including farming and ranching operations, b) the Intermediary Relending Program (IRP) and Rural Microentrepreneur Program (RMAP) for funds to lenders that will relend the money to rural businesses, and c) loan guarantees for commercial lenders making loans to rural businesses.

For more on USDA funding, see: <https://www.rd.usda.gov/rural-data-gateway/rural-investments/by-county>

Montana Board of Investments Intermediary Relending Program: A Good Model

The Montana Board of Investments (BOI) provides prudent investment management of state and local government funds. The BOI works with financial institutions, state agencies, and local governments to enhance and expand Montana's economy, assist new and expanding Montana businesses, and lend low-interest funds to eligible governments for a variety of projects.

Doug Hill, Director In-State Loan Programs at the BOI, described several programs available to approved lenders working with small businesses including the Participation Loan Program, Infrastructure Loan Program, and the Intermediary Relending Program (IRP). Each program lists clear criteria for lenders and businesses. The IRP provides funds to board-approved local economic development organizations (EDO) with revolving loan programs. The EDO will pledge and use the funds as matching funds for the U.S. department of agriculture rural development loan program or other federal revolving loan programs, including but not limited to programs from the Economic Development Administration of the US Department of Commerce and the Community Development Financial Institution (CDFI) fund from the US Department of the Treasury.

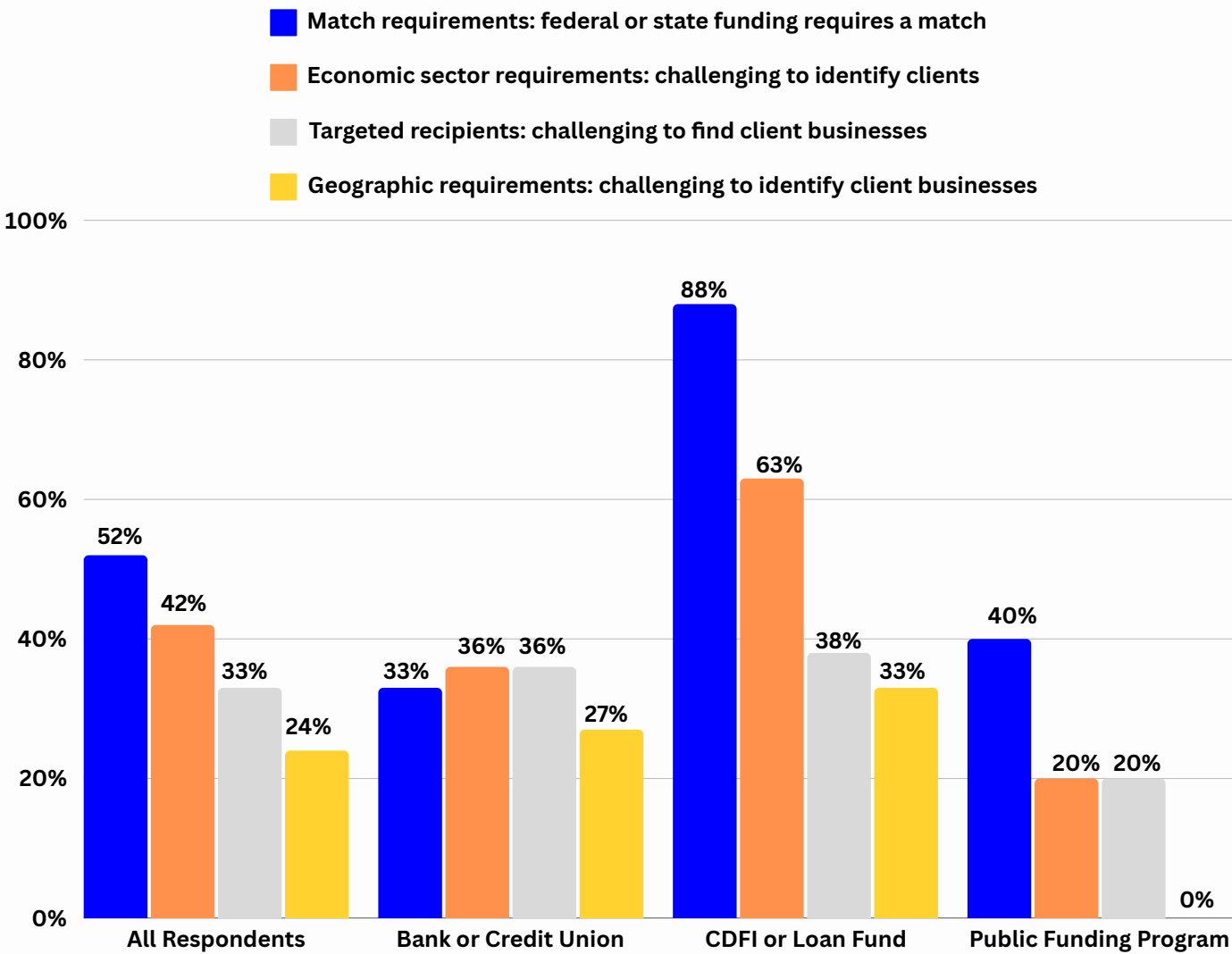
The IRP offers long-term funding over 30 years at a 2 percent interest rate to qualifying lenders. Lenders use the IRP funds to loan equity capital to Montana businesses. Based on the \$10 million in funding currently allocated to the IRP, lenders can apply for a maximum of 15 percent or \$1.5 million in funding through this program.

For more on BOI programs, see: <https://investmentmt.com/>

Q31. (Only organizations that participate in federal or state programs) Has your organization experienced any of the following challenge in federal or state loan, grant, or investment programs?

A majority of responding organizations (52%) experienced challenges with the matching requirements of federal or state programs (see Figure 21). About 42 percent of respondents reported challenges with the economic sector requirements of federal or state programs. One third of respondents (33%) said they had challenges with the target recipient requirements of federal or state programs. Just under one quarter (24%) of respondents mentioned challenges with the geographic requirements of federal or state programs.

Figure 21: Challenges experienced using federal or state programs



Between 27 percent and 36 percent reported at least one of the four challenges examined. A large majority of CDFIs or loan funds reported challenges with both the matching requirements (88%) and the economic sector requirements (63%) of federal or state programs. The most frequently reported challenge by public funding programs (40%) is the matching requirement of federal or state programs.

Additional Comments

Q32. Do you have any further comments or questions for the research team?

Table 25: Presents the comments from the five organizations that responded to question 32.

<p>I did not answer the question in regard to what is our primary underwriting criteria because an appropriate choice was not offered. Our two primary criteria are 1) our assessment of the borrowers future ability to repay the loan and 2) our assessment of the impact of the borrower on our mission objectives.</p>
<p>Previously SBA offered a prequalification program for women and minority owned businesses where the business would apply to SBA directly before going to a lender and if SBA approved the deal, we would issue a prequalification letter that the business could take to potential lenders. Unfortunately, the program no longer exists. This would be a great way to reach our underserved markets throughout Montana. Perhaps the State of Montana could implement something like this with the nearly \$2 billion surplus.</p>
<p>Programs requiring payback of principal to agency, USDA, create a challenge.</p>
<p>The most significant challenge for small businesses is raising equity capital. Any start-up business should expect to raise at least 30% of equity capital in order to secure a loan to start a business and additional for adequate working capital run. For capital intensive industries that is a difficult bar to chin. In Montana, the state has disadvantages in terms of a lack of access to private equity or investment capital to raise equity. There are enough banks that one can obtain a loan if the business idea or expansion is feasible. The equity raise is very much the difficult part of that. The increasing cost of real estate and equipment has made things even more difficult in terms of the amounts of capital that need to be raised. Montana also has some disadvantages in that we tend to have lower inventory of developed commercial real estate and what is available tends to be more expensive than many other rural states.</p>
<p>This information can address ineffective federal programs and regulations. This information can help address the lack of understanding of tribal sovereignty and immunity.</p>

Recommendations

Recommendations: Increasing Access to Finance for Small Businesses in Montana

Small businesses across Montana are the engine of growth for local communities, create and retain the vast majority jobs, and expand our state's long-term economic development. Businesses depend on reliable access to finance to manage their operations and future growth. Lenders and investors are innovating in a challenging landscape, especially with the current interest rate environment. Given Montana's vast geography, there are limits to the reach of physical branches and offices of financial services providers, especially in rural and tribal areas. Montana benefits from a broad range of financial services providers including national, regional, and state banks, credit unions, financial cooperatives, revolving loan funds, economic development organizations, CDFIs, foundations, state and federal funding agencies, angel investors, investment crowdsourcing, venture capital funds, and other funders. Many of these funders work together well to co-finance loans and investments for Montana's small businesses, especially when anchored by lenders and investors based in local communities. Expanding and strengthening this full spectrum of capable and diverse lenders and investors would optimize access to finance for small businesses.

The following recommendations flow from the quantitative and qualitative research conducted for this study, including over 125 meetings over 50 interviews with experts across Montana.

Market Gap 1 – Limited Time and Lean Staff in an Environment of Complex Programs and Financing Options: The range of financial products and financial services providers has expanded across the state for many small businesses. However, both funders and businesses may not be aware of the various options available, including potential co-funders and state and federal programs. Several lenders and investors expressed interest in co-funding small business deals, while some state and federal programs noted that funds are available and not currently being fully used. This leads to inefficient program utilization and underutilization of available financing, as noted by a wide range of lenders, investors, and state and federal program staff.

Proposed Solutions:

1. Expand information and training for lenders and investors: Some larger lenders and investors have specialized staff to focus on arranging participation loans and syndications and/or state and federal programs for small business finance. Yet most lenders and investors report having lean staffing, without the luxury of specialists in each branch office who can focus on the complexities of participation loans, syndications, co-investments, economic development organizations, and state and federal programs. Further, many funders may make only a few of these loans or investments each year, so they need to refresh their knowledge of relevant programs each time they apply. Examples of programs mentioned by lenders as being critically helpful include successful programs such as the Montana Department of Commerce's SSBCI funding program and the Montana Board of Investment. Others include widely used programs such as the US Department of Agriculture's Rural Development Program and multiple U.S. Small Business Administration Programs.

- Where feasible, state and federal agencies and economic development organizations can further streamline application and reporting requirements for lenders. However, these agencies also face their own reporting and need to be accountable for their use of public funds, so they face a delicate balancing act to ensure fair, reasonable, and equitable application, contracting, and monitoring of their funding.

- To help funders apply for and successfully deploy financing from these programs, easily accessible information is crucial. Examples include business eligibility requirements, decision criteria, geographic coverage, funding conditions, and available financing—such as loan guarantees, loan participations, co-lending, grants, co-investments, etc. Some programs also offer business development services, coaching, or other advisory for qualifying businesses and financial institutions.
- Many lenders noted the complexity of applying for and reporting to state and federal programs, especially for smaller lenders and/or infrequent users of these programs. Already many programs offer briefing sessions and respond to phone or email queries. However, it may be necessary to go further and expand online trainings, Question and Answer sessions, and email and/or phone links to experts on how to complete applications for economic development organizations and state and federal programs.
- Leverage industry associations to share information and expertise. Offering online and in-person trainings and briefings at events organized by lending, investing, and economic development industry associations is an efficient approach that could be further expanded. Building on the capacity, trust, and reach of industry associations, their staff could be trained in available funding programs to be able to respond to questions on how to access, qualify for, and comply with programs offered by economic development organizations and state and federal small business programs.

2. Deepen capacity of funders working at the community level: Many community-based lenders and economic development organizations work with limited staff and resources. Building their capacity to serve small businesses would help expand economic development across the state. Skills-based training, creative use of mentorships, and consulting with retired lenders and business development professionals could be helpful to reinforce skills on loan portfolio management, risk management, asset-liability management, fundraising, and other areas.

3. Explore shared services: Finance is a volume business with economies of scale, and making small loans or investments often requires similar staff time and costs as for much larger deals. This can lead to unintended consequences of funders shifting to work with larger businesses over time to mitigate costs. To help increase efficiencies, shared services across multiple organizations may be helpful. For example, small community lenders, loan funds, and/or CDFIs could hire and share staff, perhaps working virtually, for grant writing, fundraising, customer acquisition, marketing, regulatory reporting, and other back-office functions.

Market Gap 2 - Limited Liquidity for Onlending: Some lenders and investors noted they are overliquid and seeking more business clients. However, the vast majority of community-based lenders interviewed flagged that they are starved for capital to onlend to small businesses, and some investment funds are trying to raise additional capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds are experiencing more demand for their services than in the past, perhaps as traditional bank lenders are being required to tighten their lending criteria. Many community-based lenders noted that they are rationing funds and maintaining waiting lists for qualified business borrowers.

Proposed Solutions:

1. Scale up existing successful programs: Several state and federal programs for small businesses have been successfully deployed in response to the COVID-19 pandemic, with many people praising how the Montana Department of Commerce managed the use of ARPA and SSBCI funds over the past three years. Several interviewed for this study also praised the Montana Board of Investment's programs including loan participation and the Intermediary Relending Program (IRP). However many lenders have used their full allocation of these useful programs. As public and philanthropic funding allows, scaling up these programs may be an efficient way of leveraging the private sector to increase funding for small businesses across Montana. Studying the factors that worked well with these programs would provide a foundation of lessons for future programs on qualifying lenders, risk sharing, criteria for business loans, combinations of loans and grants, funding terms, and other factors.

2. Explore new linkages between public and private funding: Each type of funder can play a role across the broad spectrum of financing for business and economic development. As noted above, several state and federal funding programs are effectively deploying funding through community lenders and economic development organizations. In addition, many lenders, investors, and private foundations already work well together by referring clients, co-financing deals, providing onlending funds, providing credit enhancements such as loan guarantees and subordinate capital, and other collaborations. Across Montana, new models of funding are being explored through community-based lending and investing, private credit funds, cooperative investment funds, investment crowdsourcing, revenue-based lending, and others. This diversity of roles for funders, risk appetite, and funding terms for small businesses are welcome innovations and should be encouraged and supported.

3. Expand smart subsidies and policy incentives to help address real and perceived risks in small business finance: Montana businesses and funders benefit from several state and federal policy incentives, and it is critical to ensure that organizations are aware of the existing programs and how to use them effectively. Successful aspects of these programs and policies could be used to target strategic industries, underserved populations, and/or distressed or lower-income geographic areas of the state.

- The Montana Board of Investment offers incentives for businesses that create or retain quality jobs by reducing their lending interest rate.
- The federal New Markets Tax Credit program offers tax incentives to attract private investment to distressed communities.
- The Community Reinvestment Act (CRA) encourages national banks, savings associations, and state-chartered banks to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Community lenders are proven leaders in reaching small businesses and working across urban, rural and tribal areas—including populations and geographics that qualify for CRA credits. Some of the larger CDFIs operating in Montana are able to attract funds from larger regional and national banks that need to increase their exposure to CRA qualified loans. This approach could be expanded to other community lenders.

Market Gap 3 – Business Owners Uncertain About Realistic Financing Options: From the business surveys conducted in parallel for this study, there are clear gaps in business financing especially for smaller businesses, women-owned businesses, and Native American-owned businesses. The probability of being credit constrained decreases as firm size increases. Geographic distance from bank branches and other funders is a reality for many rural and tribal businesses, and this limits the flow of information and understanding of financing options. Yet many lenders noted they are actively accepting new business clients and are ready to make loans, so there is a real or perceived market disconnect.

Proposed Solutions:

1. Expand training and information for Business owners: Many lenders and investors interviewed for this study noted that business owners excel at working with customers and providing their goods and services. However, business owners may face challenges managing the financial side of their business, which impedes their viability and growth.

- A comprehensive database of small business funders across Montana would be useful for business owners to explore which institutions are close in proximity, offer relevant services, and work with similar businesses. Appendix C of this report represents an initial start of this effort.
- A network of SBA business development centers, economic development agencies, and business accelerators works across Montana to provide information, training, and coaching to businesses. Leveraging this network to reach more businesses would help promote economic development. Given time constraints for business owners, online support and trainings are especially helpful. Peer group meetings with successful businesses owners on their approaches and lessons learned are often effective for small business owners.
- Many business owners are not aware of available business development programs or how to enroll, so it would be important to expand marketing and awareness of existing high-quality programs. An equitable approach would include targeted outreach to underserved populations such as women-owned businesses, Native-American owned businesses, and businesses in rural and tribal areas.
- Lenders want to avoid over-indebting businesses that cannot handle a loan responsibly, as this would be a lose-lose situation for the lender and the business owner. Business owners need to be realistic about their business's financial health, understand which financial services would facilitate their growth, and be aware of their range of funding options. Easily accessible information, modular online trainings, and targeted coaching are proven effective approaches to reach business owners and build their capacity. Topics should include: understanding the financial position of their business, working with a trusted bookkeeper or accountant to track the business's financial health, identifying the type of financing that best fits the business's needs, typical lender and/or investment decision criteria, available state and federal funding and business programs, realistic expectations when seeking external funding, the importance of collateral and owner's equity in the business, and the range of lenders and investors operating in Montana.

Next Steps:

Exploring these recommendations as well as pursuing others will take the insights of many in Montana's small businesses finance ecosystem. Accelerate Montana will continue to support this effort by gathering and disseminating needed data, convening ecosystem members, and exploring solutions to identified gaps.

Accelerate Montana has dedicated resources to lead a multi-year effort that will focus on:

1. Increasing financing for rural-based businesses, Native American-owned businesses and women-owned businesses across Montana
2. Supporting the growth of technical assistance for entrepreneurs state wide
3. Helping develop a skilled workforce prepared to be part of growing businesses.

We believe that all three of these efforts will improve the successful deployment of financing and foster inclusive economic prosperity for all Montanans. If you are interested in being part of this effort, please contact us at Accelerate Montana. <https://www.acceleratemt.com/>



Bibliography

References

American Association of Public Opinion Research (AAPOR). (2016). Standard Definitions: Final Dispositions of Case Codes and Outcome Rates for Surveys. 9th edition. The American Association for Public Opinion Research.

AgWest Farm Credit. (2023). Overview and 2022 Annual Report. <https://agwestfc.com/>

Bayless, David. (2001, August 1). Know Your Place. Article published in Inc. Magazine. <https://www.inc.com/magazine/20010801/23213.html>

Board of Governors of the Federal Reserve System. (2021, June 25). [PDF document]. <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20210625a1.pdf>

Board of Governors of the Federal Reserve System. (2023, June 23). Press Release. <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230623a.htm>

Bureau of Business and Economic Research (BBER). (March 2023). The Economic Contribution of Montana's Cooperatives. Missoula, MT

Capital Formation. Troy Downing CSI. <https://csimt.gov/capital-formation/>

Carpenter, S., Nikolov, A., Norris, S., & Shott, A. (2021, August 12). 2021 CDFI Survey Key Finding. Fed Communities. <https://fedcommunities.org/data/2021-cdfi-survey-key-findings/>

Calvert Impact. (June 2023). Small Business Community Finance: Scaling with Integrity. Bethesda MD. <https://calvertimpact.org/resources/small-business-community-finance-scaling-with-integrity>

CDFI Fund. (August 2023). Community Economic Development in Indian Country: Market Research Report. Prepared by The CDFI Fund, Big Water Consulting, and The Urban Institute.

Clarkson, Gavin and Murphy, Alisha. (May 7, 2014) Tribal Leakage: How the Curse of Trust Land Impedes Tribal Economic Self-Sustainability. Also in Journal of Law, Economics and Policy, Vol. 12, No. 2. (2016). <https://ssrn.com/abstract=2447289> or <http://dx.doi.org/10.2139/ssrn.2447289>

Community Development Financial Institutions Fund. (n.d.). CDFI Certification. <https://www.cdfifund.gov/programs-training/certification/cdfi>

Congressional Research Service. (October 14, 2021). Tribal Lands: An Overview. <https://crsreports.congress.gov/product/pdf/IF/IF11944>

Credit Union National Association (CUNA). (2023) Profile of Montana Credit Unions. CUNA: Washington DC Credit Union Locator & Research a Credit Union <https://Cuna.org>

Crowdfund Capital Advisors. (2020). Industry Review: Regulation Crowdfunding Finishes Its Fourth Year With Fiscal Year With Some Impressive Results. Denver, CO.

Dillman, D., Smyth, J., & Christian, L. M. (2014). Internet, Phone, Mail, and Mixed-Mode Surveys: The Tailored Design Method, 4th Edition. Hoboken, New Jersey: John Wiley & Sons, Inc.

Economic Innovation Group. (2023). Advancing Economic Development in Persistent-Poverty Communities. Case Study: Big Horn County, Montana: A tribal community in search of its economic direction.

Farm Credit System. (2023). Overview and Services. <https://farmcredit.com/about>

Farm Service Agency. (2023). Farm Loan Programs. <https://www.fsa.usda.gov/programs-and-services/farm-loan-programs/index>

Farm Service Agency. (2023). Your Guide to Farm Loans. https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/Farm-Loan-Programs/pdfs/your_guide_to_farm_loans.pdf

Federal Deposit Insurance Corporation (FDIC). (2023). FDIC BankFind Suite—Banks by Name and Location. <https://banks.data.fdic.gov/bankfind-suite/bankfind?activeStatus=1&branchOffices=true&pageNumber=1&resultLimit=100&sortField=NAME&sortOrder=ASC&stalp=MT>

Bibliography Continued

- Federal Deposit Insurance Corporation (FDIC). (2023). State Data Tables. <https://state-tables.fdic.gov/>
- Federal Deposit Insurance Corporation (FDIC). (2023). FDIC BankFind Suite - Historical Data. <https://banks.data.fdic.gov/bankfind-suite/historical>
- Federal Financial Institutions Examination Council (FFIEC). (2021). Loans By County from Total Aggregate CRA Data for Small Business Loans. FFIEC CRA Aggregate Report
- Federal Reserve System. (2021, June 25). 2021 List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies. <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20210625a1.pdf>
- Federal Reserve System. (2023, June 23). Agencies Release List of Distressed or Underserved Nonmetropolitan Middle-income Geographies. <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230623a.htm>
- Heeringa, S., West, B., & Berglund, P. (2017). Applied Survey Data Analysis, 2nd Edition. Boca Raton, Florida: CRC Press, Taylor & Francis Group.
- Holom, Nick (2020). Montana's Reservation Economies. Montana Department of Labor and Industries. https://lmi.mt.gov/_docs/Publications/EAG-Articles/0220-MontanasReservationEconomies.pdf
- IBM Corporation. (2021). IBM SPSS Statistics for Windows, Version 28.0. Armonk, New York
- McGee, Dawn and Hochstetler, Kiah. (2023). "Private Equity Meets Main Street: A New Approach" chapter in Walzer, Norman and Merrett, Christopher editors, Rural Areas in Transition: Meeting Challenges & Making Opportunities. Routledge Publishing, UK.
- Montana Economic Developers Association (MEDA). (2023). An Economic Impact Study: Montana's Revolving Loan Fund Program, Years 2017 through 2022. Helena.
- Montana Community Foundation. (2022). Keep Wealth in Montana. <https://mtcf.org/giving/giving-with-mcf/keep-wealth-in-montana>
- Montana Commissioner for Securities and Insurance. Capital Formation. <https://csimt.gov/capital-formation/>
- Montana Community Foundation. (2022). Montana Transfer of Wealth Study. Helena, MT.
- Morgan, Lance. (September 12, 2018). "Ending the Curse of Trust," in Indian Country Today. <https://ictnews.org/archive/ending-the-curse-of-trust>
- Mountain | Plains Native Regional Native CDFI Coalition. (2022). Mountain Plains Regional Market Study.
- National Credit Union Administration (NCUA). (n.d.). NCUA Research a Credit Union. <https://ncua.gov/>
- National Federation of Independent Business. (2012). "Small Business, Credit Access, and a Lingering Recession."
- Qualtrics. (2020). Qualtrics, Version December 2020. Provo, Utah.
- U.S. Census Bureau. (2019). Nonemployer Statistics by Demographics series (NES-D): Statistics for Employer and Nonemployer Firms by Industry, Sex, Ethnicity, Race, and Veteran Status for the U.S., States, and Metro Areas: 2019. [https://data.census.gov/table?q=AB1900NESD01:+Nonemployer+Statistics+by+Demographics+series+\(NES-D\):+Statistics+for+Employer+and+Nonemployer+Firms+by+Industry,+Sex,+Ethnicity,+Race,+and+Veteran+Status+for+the+U.S.,+States,+and+Metro+Areas:+2019&g=040XX00US30&tid=ABSNESD2019.AB1900NESD01](https://data.census.gov/table?q=AB1900NESD01:+Nonemployer+Statistics+by+Demographics+series+(NES-D):+Statistics+for+Employer+and+Nonemployer+Firms+by+Industry,+Sex,+Ethnicity,+Race,+and+Veteran+Status+for+the+U.S.,+States,+and+Metro+Areas:+2019&g=040XX00US30&tid=ABSNESD2019.AB1900NESD01)
- U.S. Census Bureau. (2021). Montana Race Population Data - 2021. <https://data.census.gov/table?q=montana+race+population+2021&g=040XX00US30>
- U.S. Federal Reserve. (2021). CDFI Survey. <https://fedcommunities.org/data/2021-cdfi-survey-key-findings/>

Bibliography Continued

U.S. Small Business Administration. (2020). "Small Business Lending in the United States, 2019."
<https://advocacy.sba.gov/wp-content/uploads/2020/09/Report-2019-Small-Business-Lending-Report.pdf>

U.S. Small Business Administration, Office of Advocacy. (2001). Frequently Asked Questions.
<https://advocacy.sba.gov/wp-content/uploads/2021/12/Small-Business-FAQ-Revised-December-2021.pdf>

U.S. Small Business Administration. (2022). 2022 Small Business Profile. <https://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-MT.pdf>

U.S. Small Business Administration. (2022). "Small Business Lending in the United States, 2020."
<https://advocacy.sba.gov/2022/07/12/small-business-lending-in-the-united-states-2020/>

U.S. Small Business Administration. (Spring 2023). Small Business Resource Guide. Washington DC.
https://www.sba.gov/sites/sbagov/files/2023-06/2023%20Small%20Business%20Resource%20Guide_508c_Final.pdf

U.S. Treasury.(June 2023). SSBCI Fact Sheet.Washington DC.
<https://home.treasury.gov/system/files/256/State-Small-Business-Credit-Initiative-SSBCI-Fact-Sheet.pdf>

Appendix A: People Contacted for this Study

Marcy Allen, Missoula Community Foundation
Patrick Barkey, Bureau of Business and Economic Research
Lad Barney, United States Department of Agriculture Montana, Business and Cooperative Programs
Kelcie Bates, Great Northern Development
Dave Bayless, Human Scale Business
Joel Bertolino, Beartooth Resource Conservation and Development
Diana Bigby, Island Mountain Development Group
Shaya Blaser, Prospera Business Network
Jim Brown, Montana Independent Bankers
Marcell Bruski, Big Sky Economic Development
Hikmet Budak, Montana BioAg
Scott Burke, First Security Bank of Montana
Lorena Carlson, Small Business Administration
Sarah Certel, NeuroField
Steve Clairmont, Mission West Community Development Partners
Laura Clark, Opportunity Bank of Montana
Andrew Connor, Center for Community Ownership
Andrew Conrad, University of Northern Iowa
Graham Conran, Frontier Angels
Brian Cooley, Stockman Bank
Mary Craigle, Montana Department of Commerce Census and Economic Information Center
Tony Crawford, University of Montana Finance Department
Brent Donnelly, U.S. Small Business Administration
Jenn Ewan, Sova PLLC
Grant Ferguson, Unsecured Funding Source - UFS
Ed Garding, Retired CEO of First Interstate Bank and former Dean of the MSU Billings Business School
Paul Gladen, Accelerate Montana
Dave Glaser, MoFi
Manny Goetz, HomeManager
Jenni Graff, Early Stage Montana
Jodi Heard, Reach Higher Montana
Christina Henderson, Montana High Tech Business Alliance
Doug Hill, State Loan Funds at Montana Board of Investments
Kiah Hochstetler, Good Works Ventures
Brett Howl, Opportunity Finance Network
Andrew Huff, Center for Indian Country Development, Federal Reserve Bank of Minneapolis
Shelby Humphreys, Missoula Social Media
Charlene Johnson, Plenty Doors Community Development
Al Jones, Business Development Specialist
Carolyn Jones, Department of Commerce
Jael Kampfe, Indigenous Impact Co.
Scott Kesler, AgWest Farm Credit

Appendix A Continued

Nan Knight, Beartooth Resource Conservation and Development
Herb Kulow, Banking Specialist
Pat LaPointe, Frontier Angels
Nathan Lillegard, Lundquist College of Business, University of Oregon
Shaheen Lokhandwala, Entrepreneurship Initiatives, University of Arkansas
Megan Mackay, Interstate Healing and Recovery
Angie Main, NACDC Financial Services Inc.
Chris Manos, Montana Assistance Business Connection
Liz Marchi, Two Bear Capital
Dawn McGee, Good Works Ventures
Tracy McIntyre, Montana Cooperative Development
Tiffany Melby, Bear Paw Development Corporation
Mark Menke, Montana Business Assistance Connection
Chad Moore, Small Business Development Center State Director
Jeremy Morgret, Stockman Bank
Jennifer Mudd, CDFI Specilist
Rebecca Myers, Montana Economic Developers Association
Ryan Nunn, Assistant Vice President for Applied Research at Federal Reserve Bank of Minneapolis
Jenny Nygren, Wells Fargo
Matthew Olson, Montana Chamber of Commerce
Mark O'Neill, Opportunity Bank of Montana
Scott Osterman - Montana Department of Commerce
Kenneth Poole, The Center for Regional Economic Competitiveness
Mark Ranalli, BioSqueeze Inc.
Luke Robinson, State of Montana Indian Country Programs, Montana Department of Commerce
Katie Rollyson, Wells Fargo
David Rook, Clearwater Credit Union
Joel Rosenberg, Three Rivers Bank
Mary Rutherford, Montana Community Foundation
Jade Shipman, Jade Shipman Economics
Sharon Small, People's Partner for Community Development
Adrienne Smith, Opportunity Finance Network
Candace Strauss, Montana Chamber of Commerce
Tom Swenson, Chairman and CEO of Bank of Montana
Christy Tatsey, Parallel Connections
Liane Taylor, Montana Department of Commerce
Jim Thaden, Mission West Community Development
Brett Theodos, The Urban Institute
Paul Tuss, Bear Paw Development Corporation
Maria Valandra, Clearwater Credit Union
James Wasem, Days at Donrovin
Javon Wing, Inspired Life Coaching
MEDA Revolving Loan Fund Working Group
Women's Entrepreneurship and Leadership Lab, Board Members

Appendix B: People Interviewed for this Study

The following people agreed to be interviewed for the qualitative study, and this formed the basis of many quotes, text boxes, and other materials included in this report:

Lad Barney - USDA Montana, Business and Cooperative Programs
Jeff Batton - Homestake Fund
Dave Bayless - Founder of Human Scale Business
Joel Bertolino - Beartooth Resource Conservation and Development
Shaya Blaser - Prospera Business Network
Hikmit Budak - Montana BioAg
Scott Burke - First Security Bank
Sarah Certel - NeuroField
Steve Clairmont - Mission West Community Development Partners
Laura Clark - Opportunity Bank of Montana
Andrew Connor - Center for Community Ownership
Graham Conran - Frontier Angels
Brian Cooley - Stockman Bank
Les Craig - Next Frontier Capital
Grant Ferguson - Unsecured Funding Source - UFS
Ed Garding - Retired CEO of First Interstate Bank; former Dean of the MSU B Business School
Dave Glaser - MoFi
Manny Goetz - HomeManager
Leslie Graves - Pintler Billing Services
Jodi Heard - Reach Higher Montana
Doug Hill - State Loan Funds at Montana Board of Investments
Lorene Hintz - SBDC Regional Director, Big Sky Economic Development (BSED)
Kia Hochstetler - Good Works Ventures
Shelby Humphreys - Missoula Social Media
Al Jones - Economic Development Specialist
Scott Kesler - AgWest Farm Credit
Nan Knight - Beartooth Resource Conservation and Development
Herb Kulow - Retired Banking Specialist
Pat LaPointe - Frontier Angels
Megan MacKay - Innerstate Healing and Recovery
Angie Main - Native American Community Development Corporation (NACDC)
Chris Manos - Montana Business Assistance Connection (MBAC)
Liz Marchi - Two Bear Capital
Dawn McGee - Good Works Ventures
Tracy McIntyre - Montana Cooperative Development
Mark Menke - Montana Business Assistance Connection
Mark O'Neill - Opportunity Bank of Montana

Appendix B Continued

Mark Ranalli - Biosqueeze

David Rook - Clearwater Credit Union

Joel Rosenberg - Three Rivers Bank

Mary Rutherford - Montana Community Foundation

Sharon Small - People's Partner For Community Development, Morning Star Credit Union

Tom Swenson - Bank of Montana

Christy Tatsey - Parallel Connections

Liane Taylor - Montana Department of Commerce

Paul Tuss - Bear Paw Development Corporation

Maria Valandra - Clearwater Credit Union

Kayla Vokral - SBDC Business Advisor, Big Sky Economic Development (BSED)

James Wasem - Days at Dunrovin

Javon Wing - Inspired Life Coaching

Appendix C: List of Small Business Funders Based in Montana

Banks Headquartered in Montana
American Bank Montana
Ascent Bank
Bank of Bozeman
Bank of Bridger
Bank of Montana
Bank of the Rockies
Belt Valley Bank
Bravera Bank Billings
Citizens Bank and Trust Company
Eagle Bank
Farmers State Bank
First Citizens Bank of Butte
First Interstate Bank
First Montana Bank
First Security Bank
First Security Bank of Deer Lodge
First Security Bank of Roundup
First State Bank of Forsyth
Freedom Bank
Garfield County Bank
Glacier Bank
Granite Mountain Bank
Independence Bank
Little Horn State Bank
Madison Valley Bank
Mahnattan Bank
Northwest Farm Credit Services
Opportunity Bank of Montana
Peoples Bank of Deer Lodge
Rocky Mountain Bank
Stockman Bank
The Bank of Baker
The Bank of Commerce
The First State Bank of Malta
The First State Bank of Shelby
Three Rivers Bank of Montana
TrailWest Bank
Unity Bank
Valley Bank of Kalispell
Valley Bank of Ronan
Western Security Bank
Yellowstone Bank

Credit Unions Providing Small Business Lending
Altana Credit Union
Clearwater Credit Union (also CDFI)
Intrepid Credit Union
Montana Credit Union
Ravalli County Federal Credit Union
Rocky Mountain Credit Union
Southwest Montana Community Federal Credit Union
Whitefish Credit Union
Wolf Point Federal Credit Union

Certified Development Financial Institution (CDFI) Providing Small Business Lending
Butte Local Development Corporation
Great Falls Development Alliance (GFDA)
Mission West Community Development Partners
MoFi
Native American Community Development Corp. (NACDC)
Native Amerian Development Corporation
Peoples Partners for Community Development

Federal Grant/Loan Programs
Farm Service Agency of USDA
US Small Business Administration
US Department of Agriculture

State Grant/Loan Programs (See Appendix D)
Montana Department of Labor
Montana Department of Commerce
Montana Board of Investments
Montana Finance Facility Authority

Investment Crowd Funding
Crowdfund Montana

Private Investment Funds
Delight and Riot LLC
Frontier Angles
Goodworks Ventures
Homestake
Next Frontier Capital
Two Bear Capital

Economic Development Organizations Providing Loans
Bear Paw Development Corporation
Beartooth RC&D
Big Sky Economic Development
Eastern Plains Economic Development Corp.
Great Northern Development
Headwaters RC&D
High Plains Financial in Great Falls
Mission West Development Partners
Missoula Economic Partnership
Montana Business Assistance Corp.
Montana West Economic Development
Prospera Business Network
Snowy Mountain Development Corp.
Southeastern MT Development Corp.
Sweet Grass Development

Specialized Lenders
Unsecured Funding Source (UFS)
Juniper Capital

Appendix D: State of Montana Funding Programs for Small Business

Montana Department of Commerce Financing and Grants:

<https://business.mt.gov/>

Montana Growth Fund (formally Big Sky Economic Development Trust Fund):

Loan participation, loans and grants for business

Big Sky Film Grant:

Grant opportunities for businesses targeting the B2C market developing eligible production within Montana.

Commercial Property Assessed Clean Energy (C-PACE):

A tool that can finance energy efficiency and renewable energy improvements on commercial property.

Community Development Block Grant:

Fixed-rate financing available at low interest rates, and can offer payment deferrals, lower payments in the first year, and interest-only payments. For businesses targeting the B2C market developing eligible production within Montana.

Export Montana, Trade Show Assistance:

Provides up to \$3,000 to help with out-of-state and international expansion by exhibiting at trade shows.

Growth through Ag Program:

Grant and loan to promote agriculture diversification, can be used for equipment, construction and promotion.

Indian Country Programs:

- Tribal Business Development Grant (new)
- Indian Equity Fund Small Business Grant
- Tribal Tourism Grant
- Native American Collateral Support Program

Microbusiness Financing Program:

Program for businesses with less than 10 full-time employees and less than \$1M in revenues seeking up to \$100,000 in financing.

Private Activity Bonds:

Enables qualified borrowers to access tax-exempt capital markets at investment grade interest rates providing terms up to 20-years.

Montana Board of Investments:

Partnering with Montana banks and EDOs, the Board has designed a series of loan programs that can be tailored to meet unique needs. These programs can enable access to lower, fixed-rate financing with customized loan terms. Job creation projects can further reduce interest rates up to 2.5%.

Montana SBIR/STTR Matching Funds:

For eligible companies working on a project for a federal agency, Montana offers up to \$60,000 matching grant funds for Phase I and Phase II.

Montana State Small Business Credit Initiative (SSBCI):

Dynamic loan participation program through qualified Certified Development Financial Institutions (CDFI) and Revolving Loan Funds (RLF).

Department of Labor Job Training Subsidies:

Contact: <https://dli.mt.gov/>

AccelerateMT:

Custom innovative workforce training and upskilling program which aligns the goals of the business in partnership with leaders in academics, business and government.

Trade Education Employer Tax Credit:

Creates a flexible non-refundable employer tax credit for employer-paid trade education up to \$2,000/per employee with a \$25,000 cap per employer.

Montana Apprenticeship Tax Credit:

State tax credit to launch a new or expand a current training program. May provide up to \$1,500 for each new apprentice with special consideration given for veterans.

Primary Workforce Training Grant:

Funds to businesses for training new and existing full-time employees with a maximum grant of \$5,000 for each full-time employee and \$2,500 for each part-time employee. Additional \$500 incentive available for five eligible hiring classifications.

Appendix E : Questionnaire for Quantitative Survey of Funders

Q1 Which description below best represents your organization, based on the largest percentage of your funding activities? Please click one button (X) below.

- Bank with less than \$10 billion in assets (1)
- Bank with more than \$10 billion in assets (2)
- Credit union (3)
- Angel and/or venture fund (4)
- CDFI or Loan fund (5)
- Public funding program with loans or grants (State or federal—e.g., SBA, USDA, Dept of Commerce) (6)
- Public funding program with investments (State or federal—e.g., SBA, USDA, Dept of Commerce) (7)
- Private foundation with loans or grants (8)
- Private foundation with investments (9)
- Certified Investor (10)
- Individual-- "loaned" money to friend or family to start or grow a business (11)
- Individual-- "invested" money as shareholder with friend or family to start or grow a business (12)

Q2 Does your organization typically make loans or investments to small businesses it considers new or startups? Please click one button (X) below.

- Yes(1)
- No(2)

Q3 What percent of your organization's loans or investments in Montana are to? Your best guess is OK.

- Male owned businesses : _____ (1)
- Female owned businesses : _____ (2)
- Total : _____

Q4 What percent of your organization's loans or investments in Montana are to? Your best guess is OK.

- Veteran owned businesses : _____ (1)
- Non-veteran owned businesses : _____ (2)
- Total : _____

Q5 What percent of your organization's loans or investment are to? Your best guess is OK.

- American Indian owned businesses : _____ (1)
- White (non-Hispanic) owned businesses : _____ (2)
- Hispanic owned businesses : _____ (3)
- African-American owned businesses : _____ (4)
- Asian-American owned businesses : _____ (5)
- Other race owned businesses : _____ (6)
- Total : _____

Q6 What percent of your organization's loans or investments in Montana are to? Your best guess is OK.

- Rural-based businesses located on a reservation : _____ (1)
- Rural-based businesses not located on a reservation : _____ (2)
- Urban-based businesses (Billings, Bozeman, Butte, Great Falls, Helena, Kalispell, Missoula) : _____ (3)
- Total : _____

Q7 What percent of your organization's loans or investments in Montana are to? Your best guess is OK.

- Agriculture, forestry, fishing businesses : _____ (1)
- Mining, quarrying, oil and gas extraction businesses : _____ (2)
- Construction and utilities businesses : _____ (3)
- Manufacturing businesses : _____ (4)
- Retail trade, wholesale trade, transportation and warehousing businesses : _____ (5)
- Information, finance and insurance, real estate and rental, professional, technical or scientific, administrative and support, waste management and remediation businesses : _____ (6)
- Educational service, health care or social service businesses : _____ (7)
- Arts, entertainment, recreation, accommodation and food service businesses : _____ (8)
- Other service businesses : _____ (9)
- Total : _____

Q8 In each of these business sectors, do you see the sector as having stronger growth opportunities, about the same growth opportunities, or weaker growth opportunities in Montana than in other parts of the country? Please click one button (X) below for each sector. Stronger growth opportunities (1) Same growth opportunities (2) Weaker growth opportunities (3)

- Agriculture (Q8_1) 1,2,3
- Forest products (Q8_2) 1,2,3
- Technology (Q8_3) 1,2,3
- Small business (Q8_4) 1,2,3
- Tourism (Q8_5) 1, 2, 3
- Healthcare (Q8_6) 1, 2, 3
- Other service sector (please specify) (Q8_7) 1, 2, 3
- Other sector (please specify) (Q8_8) 1, 2, 3

Q9 How many total loan originations did your organization have in 2021 in Montana? Your best estimate is OK.

_____ Total number of 2021 loan originations in Montana (1)

Q9v How many total investments did your organization have in 2021 in Montana? Your best estimate is OK.

_____ Total number of 2021 investments in Montana (1)

Q10 In calendar year 2021, what was total dollar amount of loan originations in Montana (both new lending and renewals) your institution committed for any purpose, inclusive of agricultural, commercial, consumer, and real-estate related lending (Please exclude COVID PPP loans)? Your best estimate is OK.

_____ Total dollar (\$) amount of all 2021 loan originations in Montana (1)

Q10V In calendar year 2021, what was total dollar amount of investments in Montana your institution committed for any purpose, inclusive of agricultural, commercial, consumer, and real-estate related lending? Your best estimate is OK.

_____ Total dollar (\$) amount of all 2021 new investments in Montana (1)

Q11 How many new loans did your organization lend to Montana-based businesses in 2021 (Please exclude COVID PPP loans)? Your best estimate is OK.

_____ Total number of new loans to Montana-based businesses in 2021 (1)

Q11V How many new investments did your organization make to Montana-based businesses in 2021? Your best estimate is OK.

_____ Total number of new investments to Montana-based businesses in 2021 (1)

Q12 What is your organization's average small business loan amount in Montana based on 2021 annual lending (Please exclude COVID PPP loans)? Your best estimate is OK.

_____ Average small business loan amount in Montana (\$) (1)

12V What is your organization's average small business investment in Montana based on 2021 annual results? Your best estimate is OK.

_____ Average small business investment amount in Montana (\$) (1)

Q13 What percent of your organization's total loan portfolio in Montana is for small business lending based on calendar year 2021? Your best estimate is OK.

_____ Percentage for small business lending (1)

13V What percent of your organization's total investment portfolio in Montana is for small businesses based on calendar year 2021? Your best estimate is OK.

_____ Percentage for small business investment (1)

Q14 Which factors does your organization consider when approving a loan for a small business in Montana? Please click all that apply.

- Age of business (1)
- Availability of asset-based collateral (2)
- Lack of, or less developed, infrastructure in the community or area the business is located (3)
- Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel) (4)
- Number of years of business tax returns (5)
- Availability of audited financial statements for the business (6)
- Good prior relationship with borrower (7)
- Level of existing debt for the business, including credit card debt for business owner/founder (8)
- Increasing size of the business (9)
- Amount of equity invested by owner/founder in the business (10)
- Business's industry/economic sector (11)
- Business location outside your institution's primary lending area and/or far from your branch office (geography) (12)
- Credit score for business and/or primary owner(13)
- Quality of management (14)
- Realism/quality of business plan (15)

Q14v Which factors does your organization consider when approving an investment for a small business in Montana? Please click all that apply.

- Age of business (1)
- Lack of, or less developed, infrastructure in the community or area the business is located (3)
- Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel) (4)
- Number of years of business tax returns (5)
- Availability of audited financial statements for the business (6)
- Good prior investment relationship with company or related company (7)
- Level of existing debt for the business, including credit card debt for business owner/founder (8)
- Increasing size of the business (9)
- Business's industry/economic sector (11)
- Business location outside your institution's primary investing area (geography) (12)
- Credit score for business and/or primary owner (13)
- Quality of management or ownership (14)
- Realism/quality of business plan (15)

Q15 Which of those factors is the main factor that your organization considers when approving a loan for a small business in Montana? Please click one button (X) below.

- Age of business (1)
- Availability of asset-based collateral (2)
- Lack of, or less developed, infrastructure in the community or area the business is located (3)
- Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel) (4)
- Number of years of business tax returns (5)
- Availability of audited financial statements for the business (6)
- Good prior relationship with borrower (7)
- Level of existing debt for the business, including credit card debt for business owner/founder (8)
- Increasing size of the business (9)
- Amount of equity invested by owner/founder in the business (10)
- Business's industry/economic sector (11)
- Business location outside your institution's primary lending area and/or far from your branch office (geography) (12)
- Credit score for business and/or primary owner (13)
- Quality of management (14)
- Realism/quality of business plan (15)

Q15v Which of those factors is the main factor that your organization considers when approving an investment for a small business in Montana? Please click one button (X) below.

- Age of business (1)
- Lack of, or less developed, infrastructure in the community or area the business is located (3)
- Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel) (4)
- Number of years of business tax returns (5)
- Availability of audited financial statements for the business (6)
- Good prior investment relationship with company or related company (7)
- Level of existing debt for the business, including credit card debt for business owner/founder (8)
- Increasing size of the business (9)
- Business's industry/economic sector (11)
- Business location outside your institution's primary investing area (geography) (12)
- Credit score for business and/or primary owner (13)
- Quality of management or ownership (15)
- Realism/quality of business plan (16)

Q16 Which types of small business lending does your organization currently have outstanding with clients in Montana? Please click all that apply.

- Asset based lending (1)
- Working capital lending (2)
- Revolving line of credit (3)
- Receivables and/or factoring (4)

Q17 Would your organization be willing to lend for working capital and/or line of credit (without asset-backed collateral) in Montana if you could avail of an SBA or other guarantee program? Please click one button (X) below.

- Yes (1)
- Maybe (2)
- No (3)

Q18 Why would your organization be willing to lend for working capital and/or line of credit (without asset-backed collateral) if you could avail of an SBA or other guarantee program?

Q18n Why would your organization not be willing to lend for working capital and/or line of credit (without asset-backed collateral) if you could avail of an SBA or other guarantee program?

Q19 Does your organization use a credit-scoring model to partially or fully automate the underwriting or decision-making process for small business loans in Montana? Please click one button (X) below.

- Yes - model developed in-house by our own organization (1)
- Yes - model provided by credit reporting agency (ex. Dunn & Bradstreet, Experian, etc.) (2)
- Yes - other (please specify) (3)
- No (4)

Q20 What type of organization do you consider to be your biggest competitor in terms of small business lending in Montana? Please click one button (X) below.

- State or regional banks with local presence (less than \$10 billion in assets) (1)
- National banks with local presence (over \$10 billion in assets) (2)
- Online banks with no local presence (3)
- Credit card issuer (4)
- Credit unions (5)
- Loan funds (CDFIs, etc.) (6)
- Fintech or non-bank online lenders (7)
- Other (please specify) (8)

Q21 How do you rate the current quality of your organization's small business lending or investment portfolio when compared to your organization's overall portfolio? Please click one button (X) below.

- Higher quality than the overall portfolio (1)
- About the same as the overall portfolio (2)
- Lower quality than the overall portfolio (3)

Q22 Would your organization like to increase or decrease its lending or investing for small businesses in Montana? Please click one button (X) below.

- Increase (1)
- Make no change (2)
- Decrease (3)

Q23 Business owners from which, if any, socio-economic groups does your organization see as a growth opportunity? Please click all that apply.

- All types of clients, regardless of socio-economic profile (1)
- Women business owners (2)
- Rural business owners (3)
- Veteran business owners (4)
- American Indian business owners (5)
- Other (please specify) (6)

Q24 Why do you think the socio-economic groups you chose are a growth opportunity?

Q25 Which of the following internal factors significantly impede your organization's ability to increase small business lending or investing in Montana? Please click factors that apply.

- Credit or investment products offered (1)
- Breadth of other services offered besides credit/investment products (2)
- Established relationships between borrowers/client businesses and staff (3)
- Customer service (4)
- Flexibility in collateral or investing requirements(5)
- Flexibility in pricing or loan/investment structure(6)
- Willingness to accept alternative forms of documentation(7)
- Ability to accurately assess lending or investment risk(8)
- Ability or willingness to lend to, or invest in, marginal borrowers (9)
- Decision speed (10)
- Funding speed (11)
- Availability of lending or investing capital (12)
- Other (please specify) (13)

Q26 Does your institution offer any development services (incubation, accelerator, business growth coaching, technical assistance, etc.) to existing or potential small business borrowers or investees? Please click one button (X) below.

- ☐ Yes - We do this directly (1)
- ☐ Indirectly - we refer businesses to our partner organizations (ex. CRDC, SBDC, and/or business support organizations) (2)
- ☐ No (3)

Q27 Which of the following development services does your organization (or partner organizations) offer existing or potential small business borrowers or investees? Please click one button (X) below for each service.

- Yes (1) No (2)
- Coaching on business plan, technical issues, or growth strategy for the business (Q27_1)
- Credit counseling and/or financial education for business owner (Q27_2)
- Advisory on real estate or asset purchases (Q27_3)
- Other (please specify) (Q27_4)

Q28 Does your organization participate in any federal or state loan, grant, loan guarantee, or investment programs (SBA, USDA, Dept of Commerce, CDFI fund, etc.)? Please click one button (X) below.

- ☐ Yes (1)
- ☐ No (2)

Q29 Which of the following federal or state programs does your organization participate in? Please click all that apply.

- ☐ Department of Agriculture (federal or state) (1)
- ☐ Department of Commerce (federal or state) (2)
- ☐ Small Business Administration (Federal or state) (3)
- ☐ CDFI fund (4)
- ☐ Other (please specify) (5)

Q30 Is your organization able to fully deploy the capital provided through federal or state loan, grant, or investment programs (SBA, USDA, Dept of Commerce, CDFI fund, etc.)? Please click one button (X) below.

- ☐ Yes (1)
- ☐ No (2)

Q31 Has your organization experienced any of the following challenges when participating in federal or state loan, grant, or investment programs (SBA, USDA, Dept of Commerce, CDFI fund, etc.)? Please click one button (X) below for each challenge.

Yes (1) or No (2)

- Targeted recipients: it is challenging to find client businesses that meet the socio-demographic targets
- Matching requirements: Federal or state funding requires a match that is challenging to raise
- Economic sector requirements: it is challenging to identify client businesses in approved economic sectors
- Geographic requirements: it is challenging to identify client businesses in approved geographies
- Other (please specify)

Q32 Do you have any further comments or questions for the research team?

Appendix F: Number of Respondents For Each Data Point in Funder Survey

		Count	Valid N
Q1 Which description below best represents your organization, based on the largest percentage of your funding activities?	Bank with less than \$10 billion in assets	11	
	Bank with more than \$10 billion in assets	1	
	Credit union	2	
	Angel and or venture fund	2	
	CDFI or loan fund	10	
	Public funding program with loans or grants	9	
	Public funding program with investments	0	
	Private foundation with investments	1	
Q2 Does your organization typically make loans or investments to small businesses it considers new or startups?	Yes	31	
	No	5	
Q3_1 What percent of your organization's loans or investments in Montana are to? - Male owned businesses			33
Q3_2 What percent of your organization's loans or investments in Montana are to? - Female owned businesses			33
Q4_1 What percent of your organization's loans or investments in Montana are to? - Veteran owned businesses			31
Q4_2 What percent of your organization's loans or investments in Montana are to? - Non-veteran owned businesses			31
Q5_1 What percent of your organization's loans or investment are to American Indian owned businesses?			31
Q5_2 What percent of your organization's loans or investment are to White non-Hispanic owned businesses?			31
Q5_3 What percent of your organization's loans or investment are to Hispanic owned businesses?			31

	Count	Valid N
Q5_4 What percent of your organization's loans or investment are to African-American owned businesses?		31
Q5_5 What percent of your organization's loans or investment are to Asian-American owned businesses?		31
Q5_6 What percent of your organization's loans or investment are to Other race owned businesses?		31
Q6_1 What percent of your organization's loans or investments in Montana are to? - Rural-based businesses located on a reservation		33
Q6_2 What percent of your organization's loans or investments in Montana are to? - Rural-based businesses not located on a reservation		33
Q6_3 What percent of your organization's loans or investments in Montana are to? - Urban-based businesses (Billings, Bozeman, Butte, Great Falls, Helena, Kalispell, Missoula)		33
Q7_1 What percent of your organization's loans or investments in Montana are to? - Agriculture, forestry, fishing businesses		34
Q7_2 What percent of your organization's loans or investments in Montana are to? - Mining, quarrying, oil and gas extraction businesses		34
Q7_3 What percent of your organization's loans or investments in Montana are to? - Construction and utilities businesses		34
Q7_4 What percent of your organization's loans or investments in Montana are to? - Manufacturing businesses		34
Q7_5 What percent of your organization's loans or investments in Montana are to? - Retail trade, wholesale trade, transportation and warehousing businesses		34
Q7_6 What percent of your organization's loans or investments in Montana are to? - Information, finance and insurance, real estate and rental, professional, technical or scientific, administrative and support, waste management and remediation businesses		34
Q7_7 What percent of your organization's loans or investments in Montana are to? - Educational service, health care or social service businesses		34
Q7_8 What percent of your organization's loans or investments in Montana are to? - Arts, entertainment, recreation, accommodation and food service businesses		34

		Count	Valid N
Q7_9 What percent of your organization's loans or investments in Montana are to? - Other service businesses			34
Q8_1 Agriculture	Stronger	18	
	Same	9	
	Weaker	7	
Q8_2 Forest products	Stronger	9	
	Same	14	
	Weaker	11	
Q8_3 Technology	Stronger	15	
	Same	12	
	Weaker	7	
Q8_4 Small business	Stronger	17	
	Same	14	
	Weaker	3	
Q8_5 Tourism	Stronger	27	
	Same	6	
	Weaker	1	
Q8_6 Healthcare	Stronger	16	
	Same	16	
	Weaker	3	
Q8_7 Other service sector	Stronger	2	
	Same	0	
	Weaker	1	
Q8_8 Other sector	Stronger	0	
	Same	1	
	Weaker	1	
Q9_1 How many total loan originations did your organization have in 2021 in Montana? - Total number of 2021 loan originations in Montana			32
Q9v_1 How many total investments did your organization have in 2021 in Montana? - Total number of 2021 investments in Montana			3
Q10_1 In calendar year 2021, what was total dollar amount of loan originations in Montana your institution committed for any purpose.			32

		Count	Valid N
Q10V_1 In calendar year 2021, what was total dollar amount of investments in Montana your institution committed for any purpose.			3
Q11_1 How many new loans did your organization lend to Montana-based businesses in 2021 (Please exclude COVID PPP loans)?			29
Q11V_1 How many new investments did your organization make to Montana-based businesses in 2021?			3
Q12_1 What is your organization's average small business loan amount in Montana based on 2021 annual lending (Please exclude COVID PPP loans)?			32
Q12V_1 What is your organization's average small business investment in Montana based on 2021 annual results?			3
Q13_1 What percent of your organization's total loan portfolio in Montana is for small business lending based on calendar year 2021?			32
Q13V_1 What percent of your organization's total investment portfolio in Montana is for small business investment based on calendar year 2021?			3
Q14_1 Age of business	Yes	23	
Q14_2 Availability of asset-based collateral	Yes	28	
Q14_3 Lack of, or less developed, infrastructure in the community or area the business is located	Yes	11	
Q14_4 Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel)	Yes	12	
Q14_5 Number of years of business tax returns	Yes	23	
Q14_6 Availability of audited financial statements for the business	Yes	10	
Q14_7 Good prior relationship with borrower	Yes	25	

		Count	Valid N
Q14_8 Level of existing debt for the business, including credit card debt for business owner or founder	Yes	29	
Q14_9 Increasing size of the business	Yes	20	
Q14_10 Amount of equity invested by owner or founder in the business	Yes	27	
Q14_11 Business's industry/economic sector	Yes	21	
Q14_12 Business location outside your institution's primary lending area	Yes	16	
Q14_13 Credit score for business and/or primary owner	Yes	26	
Q14_14 Quality of management	Yes	29	
Q14_15 Realism or quality of business plan	Yes	29	
Q14v_1 Age of business	Yes	1	
Q14v_3 Lack of, or less developed, infrastructure in the community or area the business is located	Yes	1	
Q14v_4 Land title issues (ex. the business's land is owned in tribal trust - non-fee or tax parcel)	Yes	1	
Q14v_5 Number of years of business tax returns	Yes	0	
Q14v_6 Availability of audited financial statements for the business	Yes	1	
Q14v_7 Good prior investment relationship with company or related company	Yes	0	

		Count	Valid N
Q14v_8 Level of existing debt for the business, including credit card debt for business owner or founder	Yes	1	
Q14v_9 Increasing size of the business	Yes	2	
Q14v_11 Business's industry or economic sector	Yes	2	
Q14v_12 Business location outside your institution's primary investing area	Yes	1	
Q14v_13 Credit score for business and/or primary owner	Yes	1	
Q14v_14 Quality of management or ownership	Yes	1	
Q14v_15 Realism or quality of business plan	Yes	2	
Q15 Which of those factors is the main factor that your organization considers when approving a loan for a small business in Montana?	Age of business	0	
	Availability of asset-based collateral	5	
	Availability of audited financial statements for the business	1	
	Good prior relationship with borrower	1	
	Level of existing debt for the business, including credit card debt for business owner/founder	4	
	Amount of equity invested by owner/founder in the business	6	
	Credit score for business and/or primary owner	1	
	Quality of management	2	
	Realism/quality of business plan	7	

		Count	Valid N			Count	Valid N
Q15v Which of those factors is the main factor that your organization considers when approving an investment for a small business in Montana?	Amount of equity invested by owner or founder in the business	1		Q19 Does your organization use a credit-scoring model to partially or fully automate the underwriting or decision-making process for small business loans in Montana?	Yes - model developed in-house by our own organization	2	
	Realism or quality of business plan	1			Yes - model provided by credit reporting agency (ex. Dunn & Bradstreet, Experian, etc.)	5	
Q16_1 Asset based lending	Yes	25			Yes - other (please specify)	5	
Q16_2 Working capital lending	Yes	22			No	7	
Q16_3 Revolving line of credit	Yes	16		Q20 What type of organization do you consider to be your biggest competitor in terms of small business lending in Montana?	State or regional banks with local presence (less than \$10 billion in assets)	7	
Q16_4 Receivables and or factoring	Yes	8			National banks with local presence (over \$10 billion in assets)	2	
Q17 Would your organization be willing to lend for working capital and/or line of credit (without asset-backed collateral) in Montana if you could avail of an SBA or other guarantee program?	Yes	16			Online banks with no local presence	1	
	Maybe	13			Credit card issuer	1	
	No	2			Credit unions	1	
Q18_1 Collateral	Yes	5			Loan funds (CDFIs, etc.)	2	
Q18_2 Risk is less	Yes	3			Fintech or non-bank online lenders	0	
Q18_3 Allow loans to entities not usually allowed	Yes	3			Other (please specify)	2	
Q18_4 Unclassifiable	Yes	1		Q21 How do you rate the current quality of your organization's small business lending or investment portfolio when compared to your organization's overall portfolio?	Higher quality than the overall portfolio	3	
Q18n_1 Over leveraging of business	Yes	1			About the same as the overall portfolio	24	
Q18n_2 Only do collateral based	Yes	2			Lower quality than the overall portfolio	4	
Q18n_3 Still need collateral	Yes	1		Q22 Would your organization like to increase or decrease its lending or investing for small businesses in Montana?	Increase	30	
Q18n_4 Other risk factors	Yes	1			Make no change	3	
Q18n_5 Difficult to collect	Yes	2			Decrease	0	
Q18n_6 Past bad experience	Yes	1		Q23_1 All types of clients, regardless of socio-economic profile	Yes	26	
Q18n_7 Unclassifiable	Yes	1		Q23_2 Women business owners	Yes	10	

		Count	Valid N
Q23_3 Rural business owners	Yes	12	
Q23_4 Veteran business owners	Yes	9	
Q23_5 American Indian business owners	Yes	10	
Q23_6 Other (please specify)	Yes	1	
Q24_1 Our focus	Yes	1	
Q24_2 Currently underserved	Yes	4	
Q24_3 Growing area	Yes	1	
Q24_4 Harder working individuals	Yes	1	
Q24_5 Montana advantage in this area	Yes	1	
Q24_6 Do not base lending on socio-econ	Yes	3	
Q24_7 All are growth areas	Yes	5	
Q24_8 Unclassifiable	Yes	1	
Q25_1 Credit or investment products offered	Yes	7	
Q25_2 Breadth of other services offered besides credit or investment products	Yes	2	
Q25_3 Established relationships between borrowers or client businesses and staff	Yes	5	
Q25_4 Customer service	Yes	3	
Q25_5 Flexibility in collateral or investing requirements	Yes	9	
Q25_6 Flexibility in pricing or loan or investment structure	Yes	6	
Q25_7 Willingness to accept alternative forms of documentation	Yes	5	

		Count	Valid N
Q25_8 Ability to accurately assess lending or investment risk	Yes	6	
Q25_9 Ability or willingness to lend to, or invest in, marginal borrowers	Yes	9	
Q25_10 Decision speed	Yes	9	
Q25_11 Funding speed	Yes	5	
Q25_12 Availability of lending or investing capital	Yes	12	
Q25_13 Other (please specify)	Yes	4	
Q26 Does your institution offer any development services (incubation, accelerator, business growth coaching, technical assistance, etc.) to existing or potential small business borrowers or investees?	Yes - We do this directly	14	
	Indirectly - we refer businesses to our partner organizations (ex. CRDC, SBDC, and/or business support organizations)	16	
	No	3	
Q27_1 Coaching on business plan, technical issues, or growth strategy for the business	Yes	18	
Q27_2 Credit counseling and/or financial education for business owner	Yes	17	
Q27_3 Advisory on real estate or asset purchases	Yes	11	
Q27_4 Other (please specify)	Yes	3	
Q28 Does your organization participate in any federal or state loan, grant, loan guarantee, or investment programs?	Yes	30	
	No	2	
Q29_1 Department of Agriculture (federal or state)	Yes	22	

		Count	Valid N
Q29_2 Department of Commerce (federal or state)	Yes	17	
Q29_3 Small Business Administration (federal or state)	Yes	19	
Q29_4 CDFI fund	Yes	13	
Q29_5 Other (please specify)	Yes	3	
Q30 Is your organization able to fully deploy the capital provided through federal or state loan, grant, or investment programs?	Yes	23	
	No	7	
Q31_1 Targeted recipients: it is challenging to find client businesses	Yes	8	
Q31_2 Matching requirements: Federal or state funding requires a match	Yes	13	
Q31_3 Economic sector requirements: it is challenging to identify clients	Yes	10	
Q31_4 Geographic requirements: it is challenging to identify client businesses	Yes	6	
Q31_5 Other (please specify)	Yes	1	