100 years of lessons learned: Establishing a state-owned bank
Kelvin Hullet, Economic Development and Government Programs
March 8, 2018
The true definition of “horsepower” in the early 20th century
A.C. Townley - Nonpartisan League (NPL)

Grassroots organizer

By 1919 controlled levers of state government

Passed three acts:
1. Created bank and elevator
2. Created the Industrial Commission
3. Allowed for sale of bonds
1919-1921

Period of turmoil as banks and grain industry “struck back” — Prevented the sale of the bonds

1921 - Voters recalled the governor; ag commissioner and attorney general

Day before they left office, Industrial Commission sold BND Bonds to themselves to fund the Bank
Mission: To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota
Vision

BND is an agile partner that creates financial solutions to current and emerging economic needs.
How does BND “work?”
Governance

Industrial Commission
• Governor, Ag Commissioner, Attorney General
• Appoint president and executive committee
• Approve loans more than $15M

Legislature
• Approves Budget through appropriations process
• Can appropriate a “Dividend” from the Bank
• Can legislate specific loan activities and products

Advisory Board
• Seven members from across the State
• Bankers and business leaders appointed by Governor
• Approve loans $5M - $15M

BND Executive Committee
• Seven members of Senior Staff
BND’s “charge”

- Provide stability, consistency in approach
- Community banks serve as distribution channel
- Different risk model
- Finance Economic Development Efforts
- Support Agriculture Producers
- Be there in times of trouble
- Above all, AGILITY is key
Mission-based lending

CONSOLIDATED LOAN PORTFOLIO YE 2017
(IN THOUSANDS)

- Residential, $762,480
- Commercial, $2,071,953
- Student, $1,405,941
- Farm, $668,904
Partner with community banks

Borrower’s proposed project
$5,000,000

Borrower applies for a loan with a commercial lender
$3,750,000 (75%)

Lender makes application to participate in one of BND’s programs

BND participates with the lead bank

<table>
<thead>
<tr>
<th>Lender’s loan amount</th>
<th>BND loan amount</th>
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<tbody>
<tr>
<td>$1,875,000</td>
<td>$1,875,000</td>
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</tbody>
</table>

Equity (25%)
$1,250,000
Banker’s bank

bnd.nd.gov/fi

- ACH
- Cash management
- Bond accounting
- Coin & currency
- Deposit accounts
- Fed activity settlement
- Fed Reserve pass-through
- Foreign currency/drafts
- Letter of credit
- Pledging and safekeeping services
- Wire transfers
Deposits

Fees and taxes

State treasurer

BND

Agriculture, Business, Residential and Student Loans

Investments
A decade at BND

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets</th>
<th>Loans</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>3,516,974</td>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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<tr>
<td>2015</td>
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<td>2016</td>
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<td>7,295,268</td>
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<td>2017</td>
<td>7,003,302</td>
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<td>7,003,302</td>
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</tbody>
</table>
Cumulative Net Income and Capital Distributions

- Cumulative Profit
- Cumulative pmt to GF and other funds

Year: 2000-2017
Values: $0-$1,800,000

Bank of North Dakota
What happens to profits

- $0--2009-2014 No General Fund contribution
- $100M to 2015-2017 General Fund Budget
- $140M to 2017-2019 General Fund Budget
- $100M to Infrastructure Revolving Loan Fund
- $31M to 2017-2019 Buy Down Programs
- $150m to Farm Financial Stability Program
- Loans to State Agencies
  - $15M to New State Radio System
  - $50M to State Water Commission
  - $90M to Western Area Water Supply
Agriculture

Assist family farms, beginning farmers, diversification

- Majority of ag loan programs only available through local lender
- Ag PACE buydown
- Farm Financial Stability
Farm Financial Stability Program

- Committed $300M – Funded $155M

- Borrower: North Dakota resident with a principal occupation of farming
- Evidence of cash flow shortage in 2014-2016
- Local bank operating line for 2016 required
- Allowed farmers to restructure debt load with lower interest rates
Economic Development Road Map

**Entry Point**
- Department of Commerce
- Entrepreneur Centers
- Local EDC Organization
- Local Financial Institutions
- Million Cups
- Regional Councils
- SBA, SCORE & SBDC
- University Research Centers

**Seed Funding**
- BND Beginning Entrepreneur
- BND Venture Capital Fund
- Innovate North Dakota
- Research ND

**Intermediate Stage**
- BND Accelerated Growth Loan Program
- BND Venture Capital Fund
- North Dakota Development Fund
- Private Sector Venture Capital Funds

**Mature Stage**
- Bank Financing
- BND PACE/Flex PACE
- Private Sector Equity
- SBA Loans

The Accelerated Growth Loan program was created.

BND expanded the Venture Capital Fund and Beginning Entrepreneur Loan programs to close this gap.

BND redefined its Business Development Loan program to address this gap.
BND Financing Continuum

- BND Venture Capital & Seed Funding
- BND Beginning Entrepreneur Loan Guarantee
- BND Business Development Loan Program
- BND Accelerated Growth Loan Program
- BND Participation Loan & PACE/Flex PACE

Helping Banks Develop Their Customers by Offering Unique Financial Alternatives
Government lending

- School construction
  - On- and off-balance sheet
- Medical PACE buydown
- Western Area Water Supply
  - Critical needs loans in Bakken
- Emergency lending
  - To Department of Emergency Services
  - Dakota Access Pipeline (DAPL) response
  - Flood relief loans
Critical Needs Program

- Cities and counties in the Bakken with access to Gross Production Tax
- Monthly payments over 10-year period
- Interest Rate 1.5% over 30-Day Libor adjusted monthly with floor of 1.75%
- Financed $200M in improvements: schools, law enforcement facilities and courthouses
Mortgage Origination Program for rural lenders

• Rural lenders want to assist customers but unable to originate loans (Passed 2015)

• BND can originate USDA or Conventional financing working directly with consumers

• Maximum Loan of $400,000

• Allows local bank to provide service without threat of customer recruitment
Deal and Deal One student loans

DEAL Loans Funded

Deal One is a refinancing alternative

- Must be a ND resident (6 Months)
- Refinance all student loans
- Fees paid by BND
- 4.97% fixed
- 3.09% variable
Lessons learned

• Ensure government-owned bank fits in blueprint of city/county/state
• Private financial sector trust, support and cooperation is a prerequisite
  • Need to be viewed as a partner, not a competitor
  • Build relationships with financial institutions
• Must be run as a bank and business with professionals in all financial disciplines
• Avoid political influence in decision making
  • Management autonomy
  • Process and procedures
  • Elected official trust of management
• Agile and responsive
  • Understand role
  • Understand limits
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