



100 years of lessons learned: Establishing a state-owned bank

Kelvin Hullet, Economic Development and Government Programs
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The true definition of “horsepower” in the early 20th century



A.C. Townley - Nonpartisan League (NPL)



State Historical Society of North Dakota

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



BND 
Bank of North Dakota

Vision



BND is an agile partner that creates financial solutions to current and emerging economic needs.

How does BND “work?”



COUNTING-ROOM OF THE BANK OF NORTH DAKOTA

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

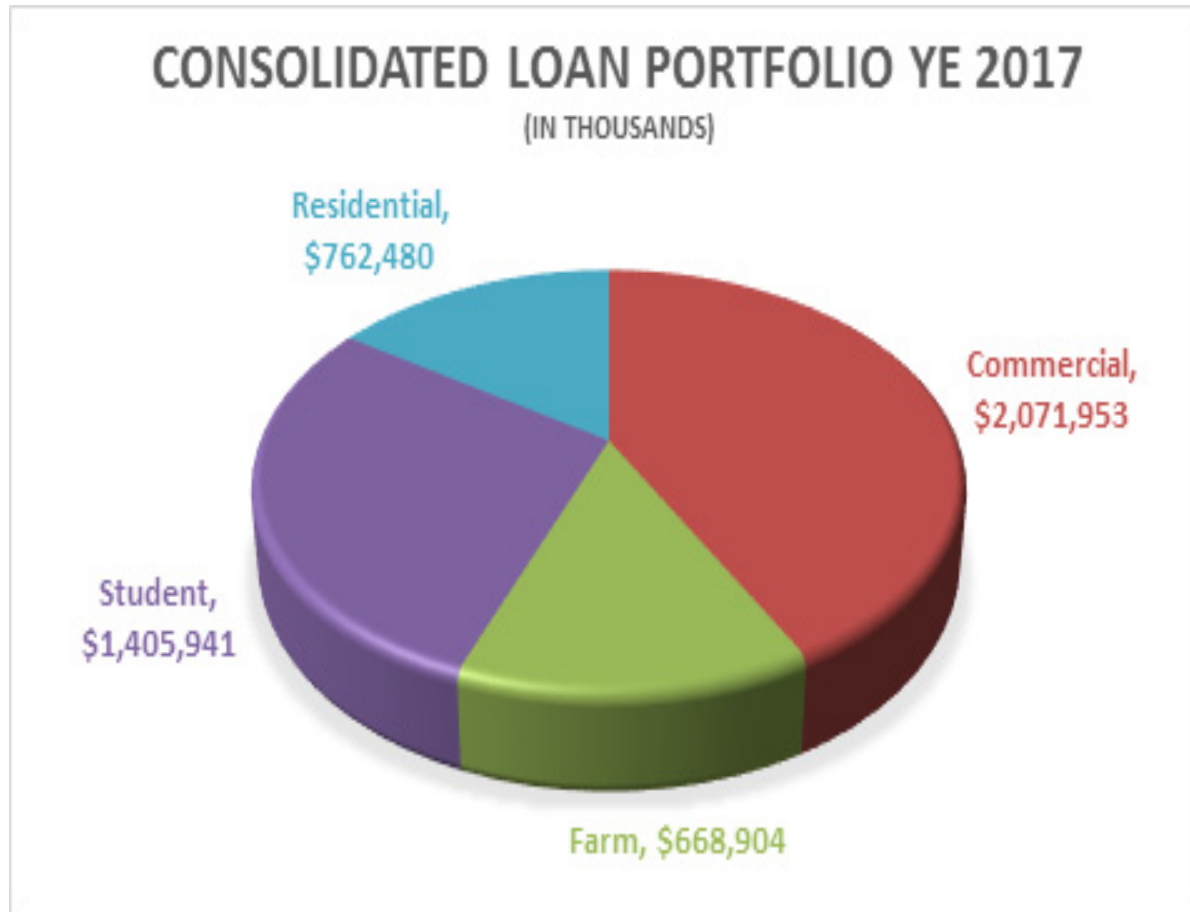
BND Executive Committee

- Seven members of Senior Staff

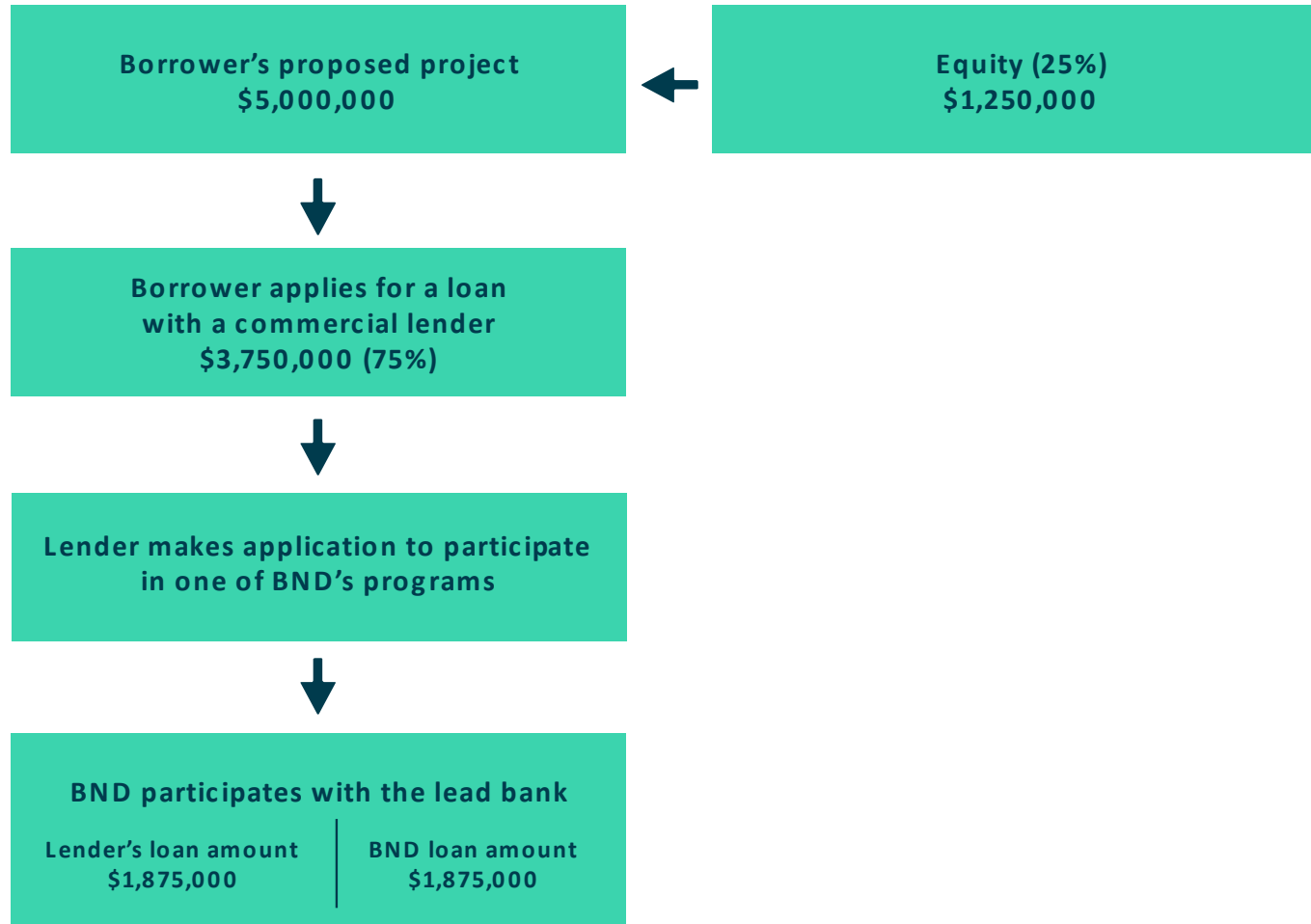
BND's “charge”

- 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



Partner with community banks



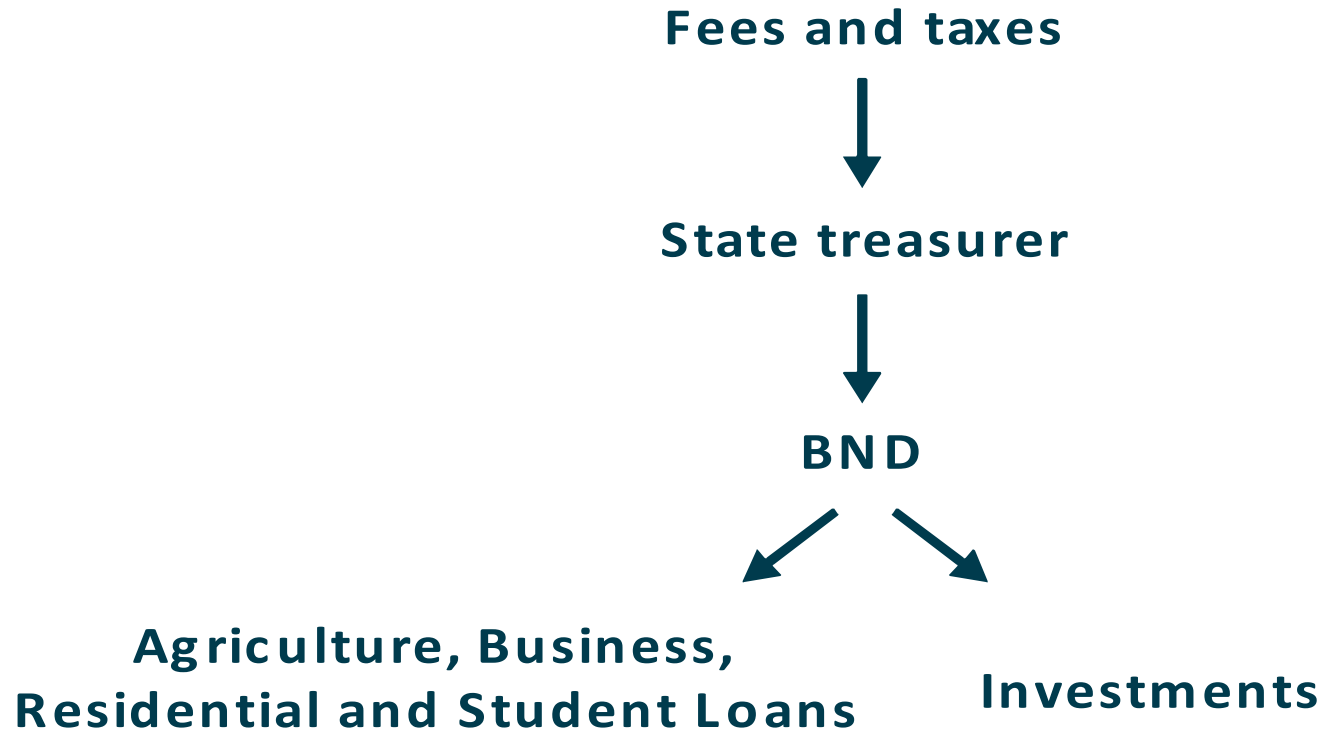
Banker's bank

bnd.nd.gov/fi

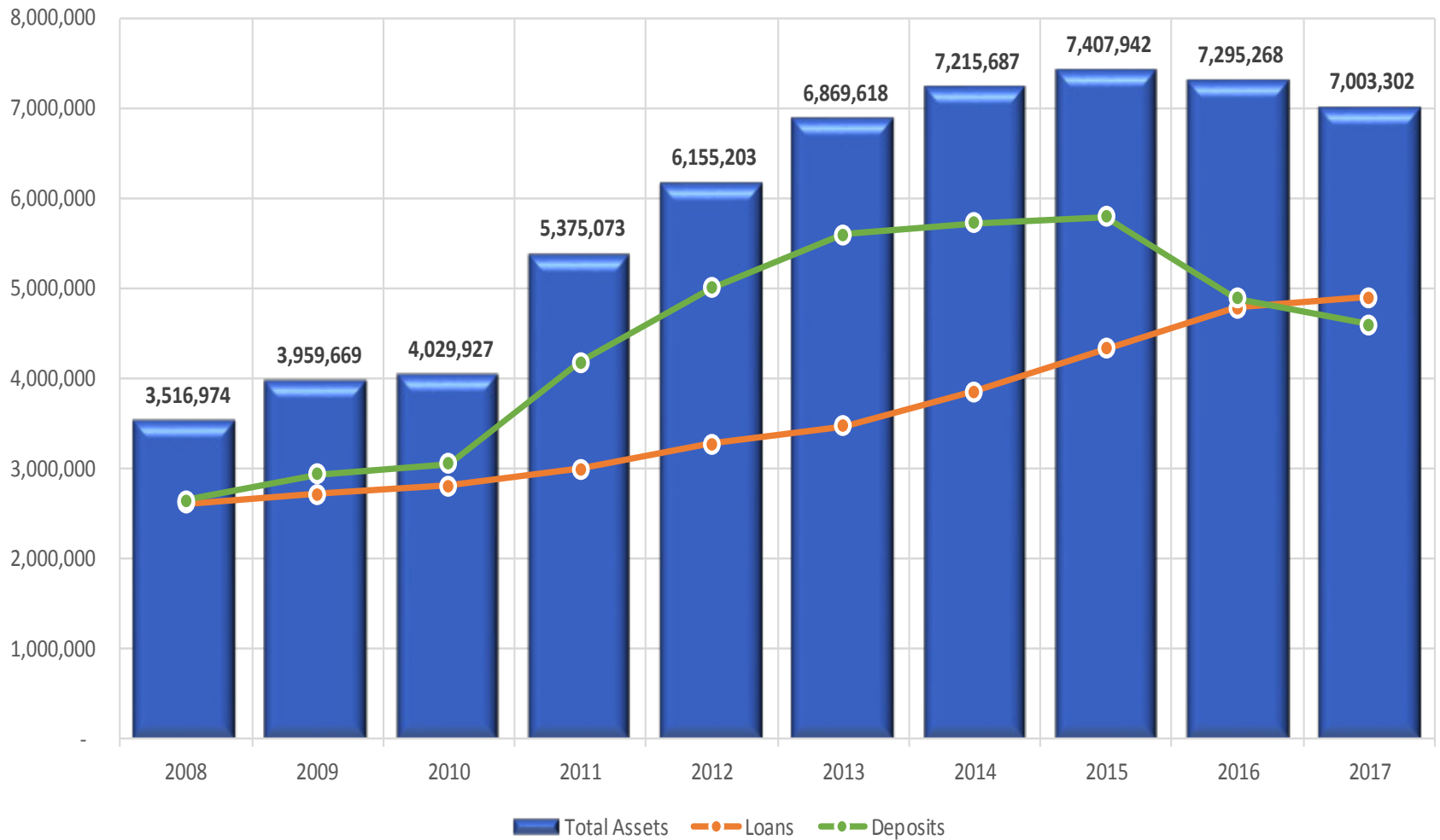
- ACH
- Cash management
- Bond accounting
- Coin & currency
- Deposit accounts
- Fed activity settlement
- Fed Reserve pass-through
- Foreign currency/drafts
- Letter of credit
- Pledging and safekeeping services
- Wire transfers



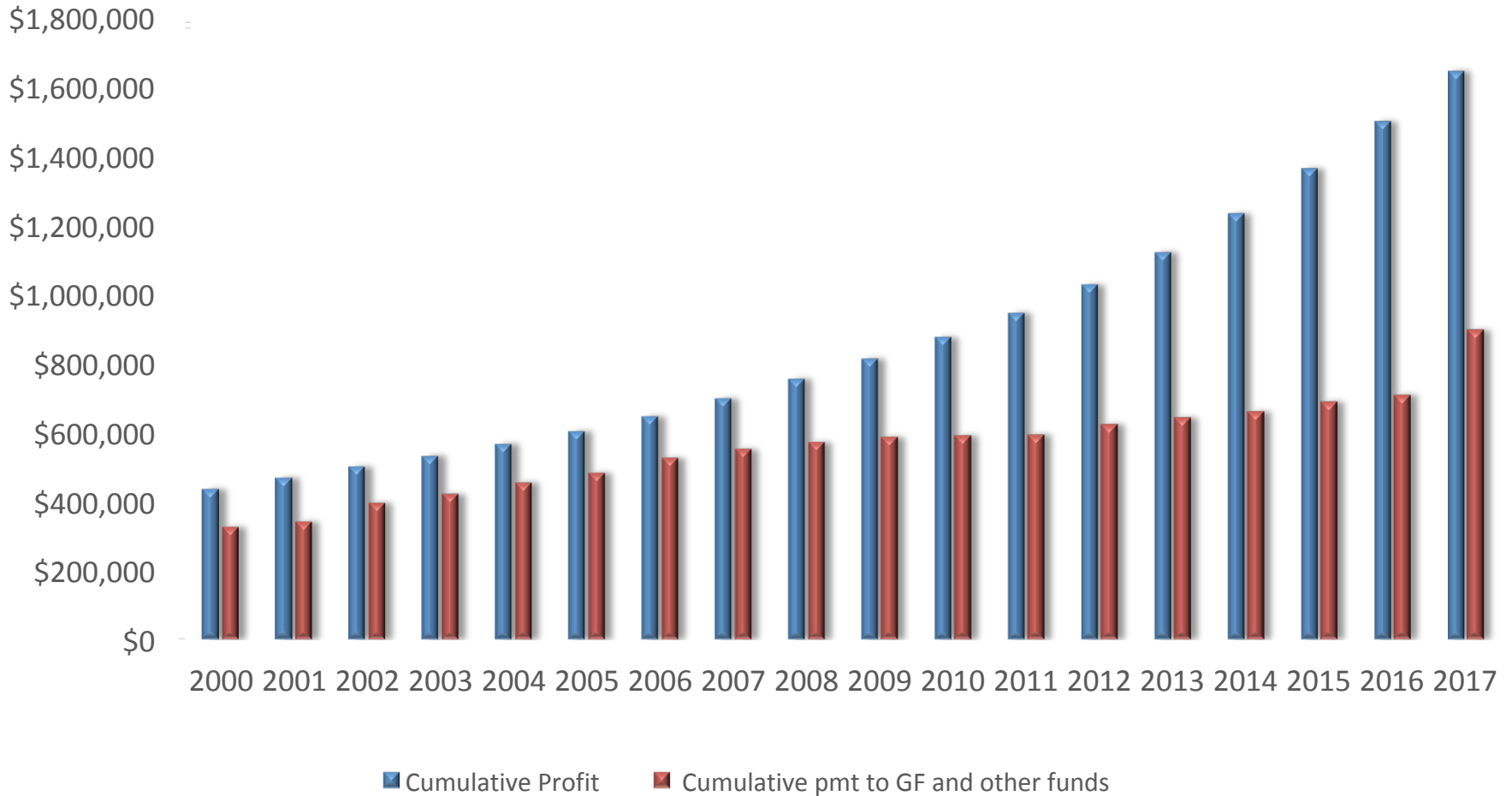
Deposits



A decade at BND



Cumulative Net Income and Capital Distributions



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



Financing Business and Industry



Economic Development Road Map

Entry Point

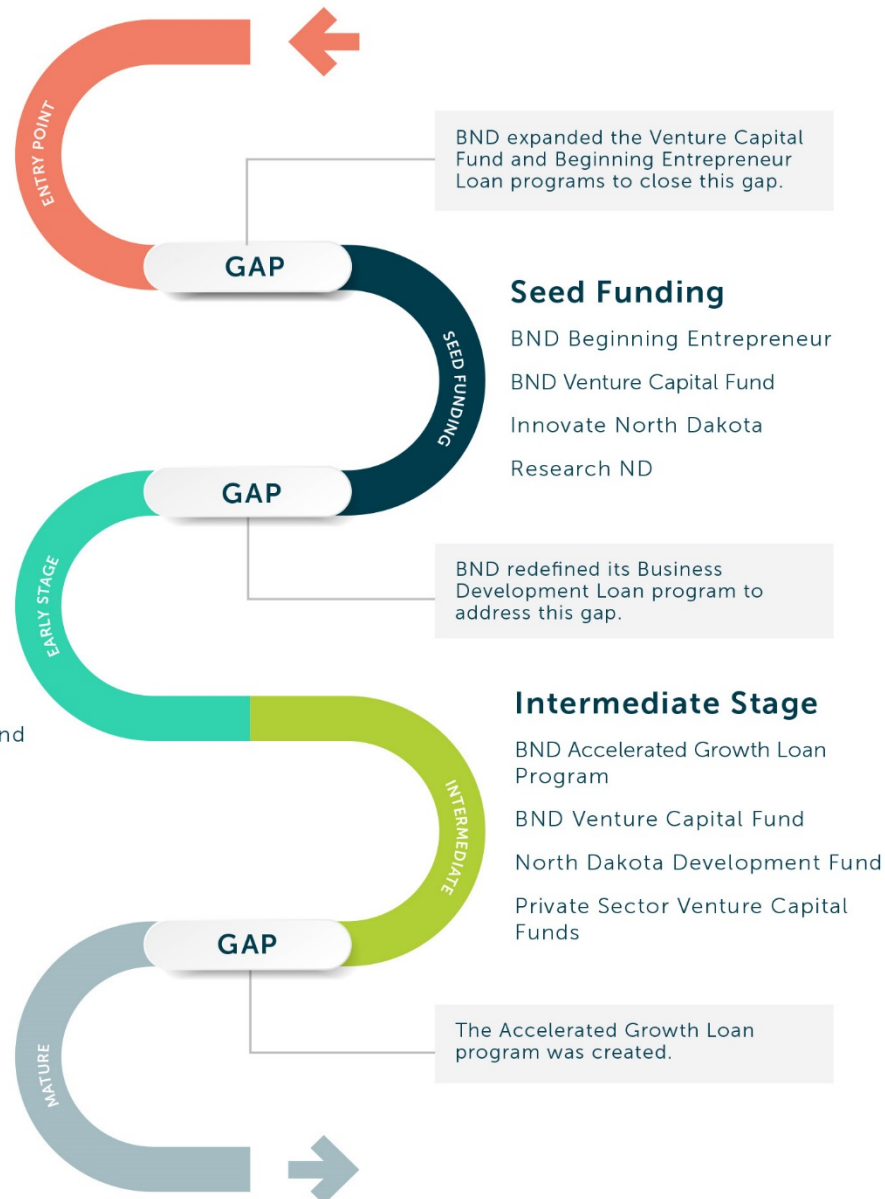
Department of Commerce
Entrepreneur Centers
Local EDC Organization
Local Financial Institutions
Million Cups
Regional Councils
SBA, SCORE & SBDC
University Research Centers

Early Stage

BND Beginning Entrepreneur
BND Business Development
Loan
BND Venture Capital Fund
North Dakota Development Fund
Private Venture Capital Fund
Private Sector Angel Funding

Mature Stage

Bank Financing
BND PACE/Flex PACE
Private Sector Equity
SBA Loans



BND Financing Continuum

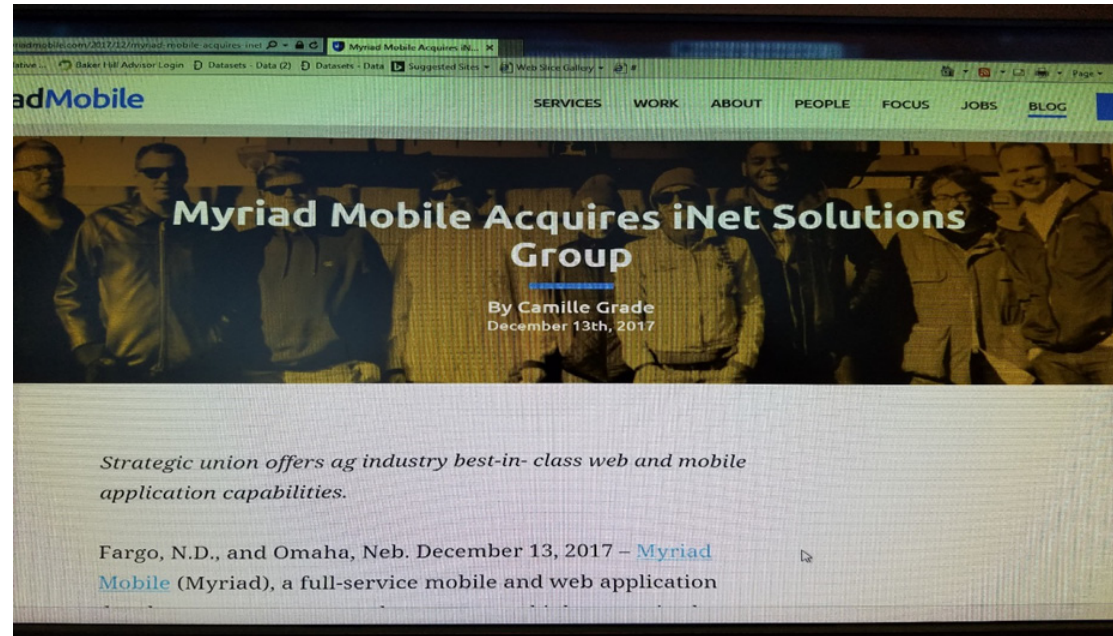
BND VENTURE CAPITAL & SEED FUNDING

BND BEGINNING ENTREPRENEUR
LOAN GUARANTEE

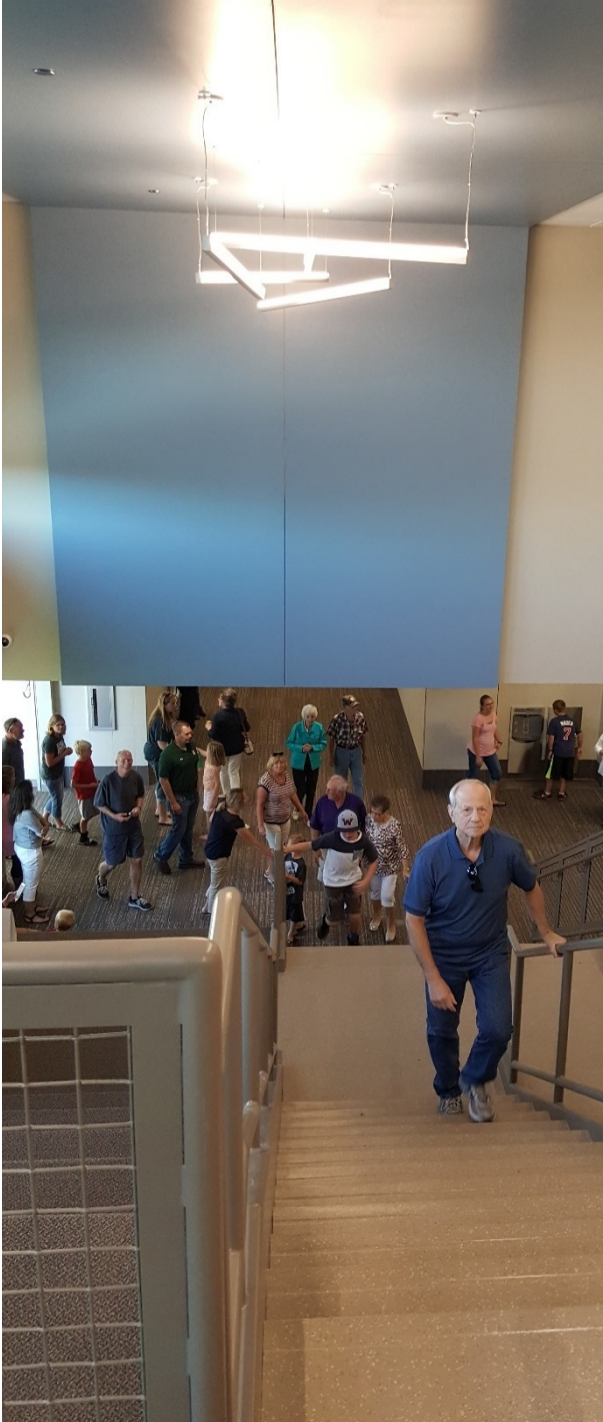
BND BUSINESS DEVELOPMENT
LOAN PROGRAM

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



Filling the gap lending

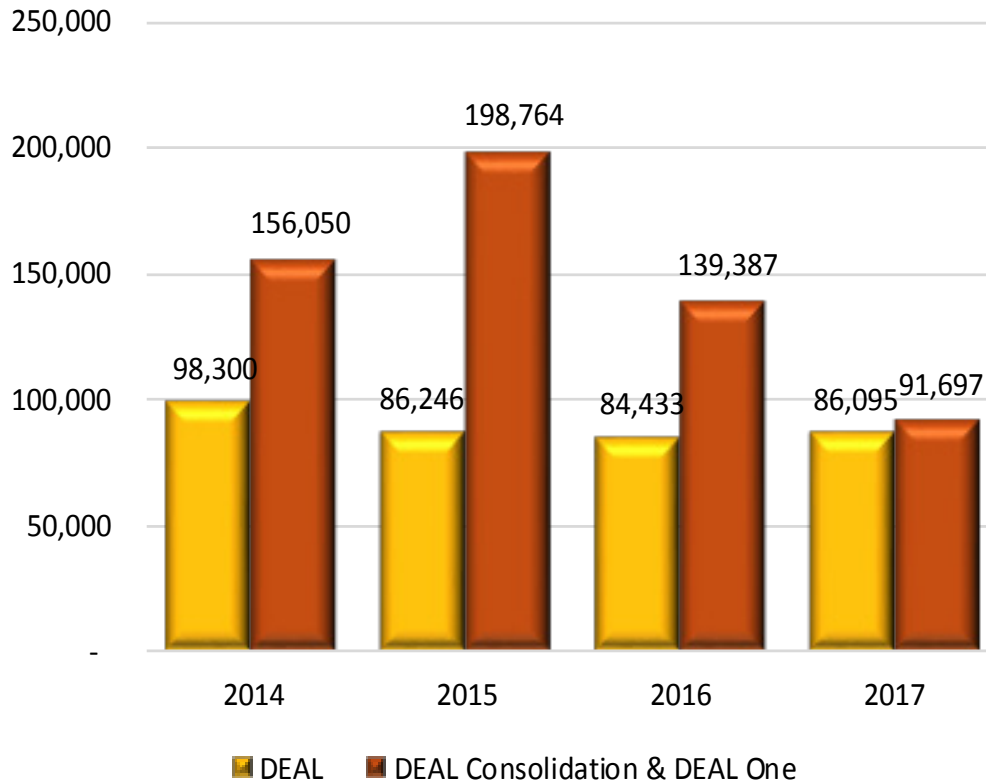


Mortgage Origination Program for rural lenders

- 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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