

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on September 13, 2017 beginning at 1:00 p.m.
Governor's Conference Room
State Capitol

Present: Governor Doug Burgum, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring (By Speakerphone)

Also

Present: Leslie Oliver, Governor's Office
Jessie Pfaff, Agriculture Department
Eric Hardmeyer, Bank of North Dakota
Kirby Evanger, Bank of North Dakota
Members of the Press

Governor Burgum called the Industrial Commission meeting to order at 1:00 p.m. and the Commission took up Bank of North Dakota business.

Mr. Eric Hardmeyer, Bank of North Dakota President, presented the following memorandum and discussed the Bank of North Dakota Drought Disaster Loan Programs:

RE: Drought Disaster Programs

Attached you will find program details for two programs the Bank of North Dakota wishes to implement as a response to the recent drought conditions. These programs were crafted with the assistance of a working group consisting of ag committees of both the bank trade associations, Stockmen's association, Independent Beef Association of ND, NDSU officials and the Ag Commissioner.

Because of the drought conditions it is estimated that as much as 10% of the cattle herds across North Dakota were sold. To assist ranchers with rebuilding their herds, BND will provide loan programs that will, if approved, provide extended terms to rebuild breeding stock to pre-drought levels and to assist with feed procurement.

While it is uncertain what the combined usage of both programs will be, our estimates based on input from the task force members put the total around \$25 million to \$30 million. As with most of our programs BND will work with our partner banks to deliver the program. They will work with their customers to determine if this program is appropriate for them and if so will originate the loan and sell participation to BND.

Later this fall BND will work with ag groups and financial institutions to determine if BND should provide a similar program for tamers who suffered crop losses due to drought conditions.

Your approval is recommended.

Mr. Hardmeyer stated that these programs are not unique for the Bank. The Bank has done this many times over the last 15 to 20 years and Bank management believes this is within the Bank's mission.

Mr. Hardmeyer said the Breeding Stock Rebuilding Program will be available as soon as it is approved. The Program has an application deadline of June 30, 2018. Any livestock producer in the counties that are determined to be D2, D3, D4 and adjacent counties will be eligible. The Bank's participation will be \$500,000 and will fund up to 75 percent of the maximum value on all chattels. The purpose of the Program is to help borrowers rebuild their herds. A unique feature of this program is the seven year term with a two year interest only feature--, typically the Bank wouldn't go that long with a cattle purchase. The Bank is also offering a couple of interest rate options -- fixed or variable.

In response to a question, Mr. Hardmeyer stated there are no penalties for prepayments.

Mr. Hardmeyer said a local bank will be the lead lender on these programs and local lenders have been involved in the development of the programs. These programs had a lot of input and collaboration with the private sector. The Bank is excited about offering the programs.

Mr. Hardmeyer said the companion program is the Feed Cost Program. It is a slightly smaller program with BND's participation capped at \$100,000 with the same interest rate scenarios. The term will be for up to three years for repayment. Typically these types of loans would be considered an operating loan issued for one year. In response to a question he stated that the Bank's base rate is currently 4.25% so today the fixed rate would be 3.25%.

Commissioner Goehring said he was very happy with all the collaboration that took place in developing these programs. The agriculture community was very honest and up front about the things they were dealing with. With the agriculture lenders involvement and knowledge he is hopeful that the Bank is offering something that can work with the understanding that not every situation was going to fit into these programs. Overall this is going to help a lot of producers make some decisions right now before they go into winter. He thanked Mr. Hardmeyer, Mr. Steinwand and Bank staff for all their work on developing the programs.

It was moved by Attorney General Stenehjem and seconded by Commissioner Goehring that the Industrial Commission authorizes the Bank of North Dakota to provide Drought Disaster Programs for Livestock Producers through the following two programs:

**BND Drought Disaster Program for Livestock Producers
Breeding Stock Rebuilding Program**

Purpose: This program is designed to provide financial relief to livestock producers impacted by the 2017 drought.

Applicant: Any livestock producer from a county in D2, D3, or D4 at any time in 2017 per the Drought Monitor map, as well as counties adjacent to the D2, D3, or D4 counties are eligible to apply. Applicants must be a North Dakota resident. Only applicants who can establish a need to replenish their breeding stock to previously established levels will be eligible. This program is not intended to assist with herd expansion.

Funding Limit: BND will participate up to a maximum of 75% of the total loan amount. BND's maximum participation amount is \$500,000.

Lead Lender: Any North Dakota financial institution.

Use of Proceeds: This program will provide Borrowers with financing to purchase and rebuild breeding stock to average levels pre-drought using a 2-year look back period to determine the base herd level the producer is trying to re-establish to. This program can also be used to replenish the breeding stock levels by retaining heifer replacements rather than selling them.

Loan Terms: Up to 2 years interest only and then up to a 7-year amortization depending on lead bank discretion. Average age of livestock being financed should be considered in determining the amortization period.

Interest Rate:

Fixed option: 4.75% with up to a 5-year balloon. Any interest-only period is included in the 5-year balloon. The lead lender may charge up to a 0.25% service fee. (BND to net 4.5%)

Variable option: BND Base Rate minus 0.75% variable adjusting daily or monthly through maturity. The lead lender may charge up to a 0.25% service fee. Annual rate of increase is capped at 1% annually with a floor of 3.25%. (BND to net BND Base minus 1%).

Fees: BND receives a \$250 origination fee.

Collateral: Maximum loan to value of 75% on all chattels. Valuation is based on average market prices. BND and lead bank will share the collateral pro rata. Any FSA loans secured by the chattels will require FSA subordination.

Eligibility: This disaster program is in effect for applications until June 30, 2018.

and

BND Drought Disaster Program for Livestock Producers Feed Cost Program

Purpose: This program is designed to provide financial relief to livestock producers impacted by the 2017 drought.

Applicant: Any livestock producer from a county in D2, D3, or D4 at any time in 2017 per the Drought Monitor map, as well as counties adjacent to the D2, D3, or D4 counties are eligible to apply. Applicants must be a North Dakota resident. Only applicants who can establish an expected shortfall in the amount of feed needed to sustain existing breeding livestock and backgrounding livestock operation levels will be eligible. This program is not intended to assist with the expansion of a livestock operation. Applicants who are backgrounding cattle must demonstrate a history of this practice to be eligible for the program.

Funding Limit: BND will participate up to a maximum of 90% of the total loan amount. BND's maximum participation amount is \$100,000.

Lead Lender: Any North Dakota financial institution.

Use of Proceeds: This program will provide Borrowers with financing the added costs associated with feeding livestock as a result of the drought including but not limited to: 1) purchasing feed, 2) remote haying, 3) hauling hay, 4) hauling livestock to a feedlot, 5) feedlot fees, and 6) harvest of cash crops.

Loan Terms: Fully amortizing term loan. Up to a 3-year amortization depending on lead bank discretion.

Interest Rate:

Fixed option: 4.75% with a up to a 3-year balloon. The lead lender may charge up to a 0.25% service fee. (BND to net 4.5%)

Variable option: BND Base Rate minus 0.75% variable adjusting daily or monthly through maturity. The lead lender may charge up to a 0.25% service fee. Annual rate of increase is capped at 1% annually with a floor of 3.25%. (BND to net BND Base minus 1%).

Fees: BND receives a \$100 origination fee.

Collateral: Maximum loan to value of 75% on all chattels. Valuation is based on average market prices. BND and lead bank will share the collateral pro rata. Any FSA loans secured by the chattels will require FSA subordination.

Eligibility: This disaster program is in effect for applications until June 30, 2018.

In response to a question regarding the difference in the levels of Bank participation between the two programs, Mr. Hardmeyer said the Feed Cost Program will involve smaller loans--\$20,000 to \$30,000 with the local lender already providing operating loans to these borrowers. The loans under this program will have more risk so the Bank indicated they would help with these operating loans by taking up to 90% of the Feed Cost loans which will allow the local lenders to finance a higher level of the borrower's operating line.

In response to a question regarding the collateral on the Feed Cost Loan Program, Mr. Hardmeyer said typically the local lender will combine it into the existing credit they have with the Bank and the Bank will have a pro rata percentage of the collateral.

Mr. Hardmeyer stated they had not set a limit on the programs--they are estimating the demand will be for somewhere around \$25 to \$30 million. For the Commission's information, Mr. Hardmeyer provided a handout on the History of BND's Farm Disaster Relief Programs from 1998 to September 12, 2017. (A copy is available in the Commission files.) He stated based on previous history -- not including the Farm Financial Stability Program-- the largest amount that the Bank has ever done is \$23 million back in 1999. The Program being considered today is specifically for livestock and will have less demand. He stated there is a potential that the Bank would be coming out with another program later this fall for those who are the crop producers. That program would likely be larger than this program.

In response to a question, Mr. Kirby Evanger, Bank of North Dakota, stated that livestock producers in 46 counties would be eligible for these programs.

On a roll call vote, Governor Burgum, Attorney General Stenehjem and Commissioner Goehring voted aye. The motion carried unanimously.

Governor Burgum pointed out that a drought can be just as devastating as a hurricane or a flood but a drought doesn't get the 24-hour TV coverage. The federal government believes that farmers and ranchers don't need help from FEMA or any specific drought relief because the federal farm programs include a baseline of assistance/insurance. What has become evident is that data collection is insufficient when the farm insurance programs are based on a moisture level for the county average. Counties may have only a few rain gauges (weather stations) in the entire county. Many individual farmers have better data than either the state or federal government. He was hopeful that at some point in the future North Dakota could become the most instrumented state with weather data on every square mile--that is something that is can be done so the producer isn't arguing about whether it rained on his land.

In response to a question, Commissioner Goehring stated that 1,131 producers had submitted their names to participate in the hay lottery.

Mr. Hardmeyer indicated the Bank staff would report on the usage of the program at upcoming Commission meetings.

Being no further Bank of North Dakota business, Governor Burgum adjourned the meeting at 1:18 p.m.

INDUSTRIAL COMMISSION OF NORTH DAKOTA



Karlene Fine, Executive Director and Secretary