

Minutes of a Meeting of the Industrial Commission of North Dakota
Held on April 24, 2020 beginning at 1:00 p.m.
Pioneer Room - State Capitol

Present: Governor Doug Burgum, Chairman
Attorney General Wayne Stenehjem
Agriculture Commissioner Doug Goehring

Also Present: Some attendees are listed on the attendance sheet available in the Commission files
This meeting was open through a call-in number so not all attendees are known

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

BANK OF NORTH DAKOTA (BND)

Mr. Eric Hardmeyer, BND President, presented COVID-19 Loan Programs for consideration. There are two programs the BND has developed: Small Employer Loan Fund (SELF) program and COVID-19 PACE Recovery Program (CPRP). Mr. Hardmeyer discussed the timing of the programs, noting that BND staff now has clarity on the needs of the business community after reviewing and gaining an understanding of the federal emergency response. BND staff has been working with both the business and banking communities.

The federal programs addressed a specific need, offering a lifeline of liquidity at a critical time for those businesses that have been shut down. The Bank has developed programs for businesses to meet their next needs, including funds to stabilize operations and provide working capital so that when they do reopen, they have ability to pay for operating expenses and buy inventory.

The two programs have been designed to meet the needs of different sized businesses. The Small Employer Loan Fund has been designed for very small businesses. The funding for the program will come from BND capital and will total \$50 million.

The COVID-19 PACE Recovery Program is a buydown program. BND is requesting \$200 million of federal COVID Relief funds that have been made available to the State to fund this program. BND will be able to leverage buydown funds on a basis of 9 to 1 or 10 to 1. Thus, the \$200 million will actually provide loan funding of approximately \$2 billion.

It was noted that the first round of the federal Paycheck Protection Program (PPP) funding provided approximately 11,000 loans totaling \$1.5 billion. The second round of PPP has been approved and will roll out on April 27th.

If approved by the Commission, BND plans to make both proposed programs available on Wednesday, April 29th. This will give BND a few days to work with local partners and also enable local banks to work with the second round of PPP before moving on to the BND programs.

BND will offer the loans for both programs by partnering with local lenders. Local lenders will determine that the businesses applying have been impacted by COVID-19.

Mr. Todd Steinwand, Bank of North Dakota, went through the details of the programs as follows:

Small Employer Loan Fund (SELF) program

Purpose

This program assists local financial institutions and certified development corporations (CDC's) in providing loans to assist very small North Dakota businesses in their recovery from the negative impacts caused by the COVID-19 Pandemic. Loan applications must be received by November 30, 2020.

Eligibility

The borrower must be a North Dakota business, with an employee count of 10 full-time equivalents (FTE) or less. The local lender determines if the applicant's business has incurred economic injury as a result of the COVID-19 pandemic. As of February 15, 2020, the business must: Have established a physical presence in North Dakota; Been current on financial obligations; Have capacity or history of showing it can service debt before February 15, 2020. Borrowers or any owner with at least a 20% share of the business must have a minimum personal credit score of 650.

Use of Proceeds

Proceeds shall be used to support working capital needs, recurring expenses and replenish inventory. Loan funds may not be used to: Fund capital purchases or business expansion; Refinance any existing debt; Provide distributions or dividends to owners.

Loan Limit / Amount

The loan amount is up to \$50,000. The maximum loan amount is equal to six months of operating expenses plus interest as well as any amount needed to replenish inventory, or a maximum loan of \$50,000, whichever is less.

Interest Rate and Fees

Interest rate is fixed at 1%. BND will pay a one-time service fee to the lead financial institution of \$250 or 1% of the loan amount on loans over \$25,000.

Collateral

No collateral is required for loans \$25,000 and under. Collateral is required for loans over \$25,000. All loans require unlimited personal guarantees.

Loan Terms

The Loan term is 120 months and there is no pre-payment penalty. Payments must be made monthly, but the principal and interest payments will be deferred for six months. BND highly encourages the lead lender to set up automatic payments. Also, BND will purchase 100% of the loan.

In response to questions, Mr. Steinwand clarified that the SELF program is for businesses with a physical presence in North Dakota with 10 full-time equivalents or less, meaning that part-time employees will be added together. The local lender will be looking at the business's 2019 financial results and assessing whether payments can be made. There is not a minimum loan amount.

Mr. Steinwand provided some examples of the affordability of the loan payments. With a 1% fixed interest rate and a 120-month term, the monthly payment is \$9 per \$1,000. A \$1,000 loan would have a \$9/month payment and a \$50,000 loan would have a payment of approximately \$438/month.

Regarding fees, BND will pay from the fund a one-time service fee of \$250 to the lead bank, or 1% of the loan amount for loans above \$25,000. Mr. Steinwand clarified that BND will pick up all service fees, including those for loans of \$1,000. The borrower will not pay any service fees. The costs to cover the fees will come from the \$50 million fund.

Governor Burgum requested that more detail be provided on the BND Fact Sheet so that borrowers understand they will not be required to pay the fees. Mr. Steinwand agreed with the request.

Governor Burgum noted that many of the loans could be going to businesses the State asked to close. Because of this, it is appropriate that BND take on the risk of those loans and have local banks help get the programs on the ground.

Mr. Hardmeyer stated that the \$50 million SELF program will be an off-balance sheet program. The \$50 million will be taken out of BND's undivided profit and used for this specific program. All money will be repaid back into the SELF fund. If the Commission chooses, this could be made into a permanent disaster revolving loan fund and a source for future programs. BND's capital position is currently strong with upwards of between 13-14% capital. Utilizing \$50 million for this program would still leave BND in a strong capital position.

Governor Burgum noted that the current interpretation of COVID-19 Federal relief funds is that those funds cannot be used for revolving loan funds. He noted that there is confidence that some of the \$1.25 billion that was received for COVID relief funds can be used for the CPRP.

In response to a question regarding how these programs relate to other federal programs and the Small Business Administration (SBA) programs, Mr. Hardmeyer stated that many companies could have qualified for PPP program and some already have qualified. However, those funds helped businesses through the one to two months where businesses were shut down or activity diminished. The purpose of these companion programs is to provide funds for stability to move forward past PPP. PPP gave businesses a temporary lifeline; this program is needed to move the companies forward for the next six months. Mr. Hardmeyer clarified that businesses will not be required to have exhausted any federal assistance. The programs are designed to help businesses with the first six months after startup.

Mr. Hardmeyer left the meeting at this time. Mr. Steinwand reviewed the details on the COVID-19 program as follows:

COVID-19 PACE Recovery Program (CPRP)

Purpose

This program assists local financial institutions in providing low interest loans to support North Dakota businesses in their economic recovery due to negative impacts from the COVID-19 pandemic. Applications will be accepted through November 30, 2020.

Eligibility

The borrower can be any person or entity whose business is located in North Dakota. The business must have capacity or history of showing it can service debt before February 15, 2020. The local lender determines if the applicant's business has incurred economic injury as a result of the COVID-19 Pandemic.

Use of Proceeds

Proceeds may be used to support working capital needs in the state of North Dakota. Loan funds may not be used: For capital purchases or business expansion; To refinance any existing debt; For the relocation of the business.

Loan Limit / Amount

For businesses of 500 or fewer employees, the maximum loan amount is the lesser of \$5,000,000 or six

months of operating expenses plus interest. For businesses of 501 employees or more, the maximum loan amount is the lesser of \$10,000,000 or six months of operating expenses plus interest. Maximum buydown amount from BND is \$500,000 per biennium, per borrower. Borrower is defined as: An individual, corporation, limited liability company, partnership, association or any combination of these if there is common ownership.

Interest Rate and Fees

Interest rate will be fixed at 3.75% for up to five years. BND to net 3.50%. The lead lender to retain a 0.25% service fee. Borrower will receive a 1% interest rate for the term of the buydown or until buydown funding is exhausted. The buydown of the interest rate to 1% will only occur on permanent financing.

Collateral

BND must share in collateral with the lead lender, and on a pro-rate basis at the time of liquidation.

Participation Requirements

BND may take not less than 50% or more than 80% of the total loan amount as its participation percentage. Standard underwriting procedures will apply to all loans.

Buydown Requirements

Upon conversion to term, the loan will receive an interest rate buydown to 1% for a maximum of five years or until such time as the buydown dollars are fully expended. A community match, jobs or an investment requirements portion are not required.

Loan Terms

At the discretion of the lead lender, principal and interest payments may be deferred for up to six months or the borrower may make interest-only payments for up to six months. After the deferral or interest-only period, the remaining loan balance will term out as a CPRP loan with up to a 10-year amortization with a 5-year balloon.

Lending Criteria

The Lead lender should utilize normal underwriting procedures with consideration given to the current pandemic.

Mr. Steinwand noted that several businesses didn't qualify for PPP because they had over 500 employees. This is why those businesses have a higher maximum loan amount. The maximum BND buydown allowed by statute is \$500,000 per biennium per borrower. A \$4.6 million loan will receive the \$500,000 interest buydown for the first five years. Those above \$4.6 million will not get the full five-year interest buydown. An example was provided in which a \$10 million loan would receive a 1% interest buydown for two years.

Because communities are facing decreased revenues, community match will not be required on this loan as it is required on other PACE programs. BND will provide the full match to buy the interest rate down to 1%.

BND wants the local banks to understand that some of the loans may have inadequate collateral and, because of the current situation, that is acceptable.

Mr. Steinwand stated BND anticipates between 40-50 companies may utilize the program.

It was moved by Commissioner Goehring and seconded by Attorney General Stenehjem that the Industrial Commission authorize the Bank of North Dakota to provide the COVID-19 PACE Recovery Program (CPRP) and the COVID-19 Small Employer Loan Fund (SELF) program to be effective on April 29, 2020 to assist North Dakota businesses in obtaining long-term, low-interest loans and further approving funding of up to \$250,000,000 from a combination of the Coronavirus Relief Fund and Bank of North Dakota accumulated and undivided profits with approximately \$200 million being available for interest buydown and approximately \$50 million for low interest loans. It is noted that the interest buydown dollars will provide up to \$2 billion in low interest loans.

It was discussed that the proposed programs underscore the significance and historic importance of having a State financial institution – the Bank of North Dakota -- that allows the State to be flexible and nimble. It provides a distinct advantage to North Dakota. The Commission thanked the BND staff for their effort in developing the programs which will help North Dakota be well positioned compared to other states.

Governor Burgum thanked Lt. Governor Sanford for his input regarding the importance of not requiring community match. Local revenue has dropped tremendously, and this will make a big difference. Appreciation was expressed for the collaboration between the Department of Commerce, BND, and the local financial institutions.

Mr. Steinwand stressed the importance of the local lenders because these programs could not be done without their partnership.

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

With no further Industrial Commission business, Governor Burgum adjourned the meeting at 1:37 p.m.

North Dakota Industrial Commission



Karlene Fine, Executive Director and Secretary