

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION  
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1061

2007 HOUSE APPROPRIATIONS

HB 1061

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1061

House Appropriations Committee  
Government Operations Division

Check here for Conference Committee

Hearing Date: 01/16/07

Recorder Job Number: 1160

Committee Clerk Signature

Minutes:

Chairman Carlson opened the meeting on House Bill 1061. This is a bill for an act to amend and reenact section 6-09.7-09 of the North Dakota Century Code, relating to the maximum amount of Bank of North Dakota agricultural real estate loans; and to provide an effective date.

Representative Kim Koppelman spoke in support of this bill and stated that it is a continuation of a piece of legislation that was passed four years ago. The former bill had a sunset of a four year window; HB1061 extends that window and increases the cap. What the Bank of ND program does is simply allows the bank to act as a guarantor of agricultural real estate loans.

**Representative Thoreson:** Why the increase from \$5 million to \$8 million?

**Representative Koppelman:** I think it is because the bank feels they need more flexibility but I will let Mr. Humann address it further. I believe that they have only granted eight guarantees of loans totaling a little over \$2 million.

Bob Humann, Senior Vice President of Lending for the Bank of ND spoke in support of the bill.  
See Attached testimony 1/16/07a.

**Representative Kempenich:** What is a typical real estate loan length? Why the five years?

**Bob Humann:** The reason for the five years is that the prepayment history was satisfactory in that five years and the lien lenders would be more willing to take the credit on without the guarantee at that point.

**Vice Chairman Carlisle:** Looking at your testimony, you haven't used the original \$5million is that how I read that and yet you want to go up to \$8million, what's the reason?

**Bob Humann:** That is correct we have not used close to the \$5million but keep in mind we have had pretty good farm conditions in the last four years. So once the legislators leave town and left it at \$5million and there would be a run on demand for this program we would be stuck and have to turn the program off.

**Chairman Carlson:** I struggle a little bit with that philosophy. If the bank tells me that I can borrow \$8million but I only need \$2million am I supposed to borrow \$6million so I feel good about the difference? If you haven't used all of the money, you probably wont use up the \$8million. I have trouble wondering why we raise the cap, to make two programs match, if you are not using it, doesn't make a lot of sense. Obviously, the \$400,000 to an individual borrower, assuming every body borrowed the maximum; you have only made eight loans.

**Bob Humann:** We have been averaging \$200,000.

**Chairman Carlson:** You have only guaranteed eight loans in two years?

**Bob Humann:** Actually it has been since August 1, 2003. The year of 2004 on the written testimony is a typo.

**Chairman Carlson:** How do you show this on the balance sheet for the bank, being we have the bank's budget, lets take this one step further? If you make commitments of another \$3million how do you carry that on your balance sheet?

**Bob Humann:** As we issue the guarantees on the farm real estate loans we set aside an allowance in our loan loss reserve for potential losses. We have a \$30million loan loss reserve at the Bank of ND.

**Chairman Carlson:** So you would have to increase that by \$3million if you added \$3million more on here?

**Bob Humann:** We don't think that if we issue \$3million in loans they are all going to go bad. Banking history would probably tell us that we probably satisfied 5-10% of those loans from the loan loss reserve for potential claims we can't obtain with this program. By increasing this from \$5million to \$8million it does not make a lot of difference for the Bank of ND, it is just to get ready for the higher demand for the guarantees for the lenders out there.

**Chairman Carlson:** Has part of it been because the interest rates have been so good in other banks in the last couple of years that they had no reason to access your program because their local lender, without going through the Bank of ND, could have lent money at a fairly competitive rate?

**Bob Humann:** That is somewhat true. We have had good farm conditions. Also we have other programs such as the Beginning Farmer Real Estate Program, the Established Farmer Real Estate Program; we have a lot of lenders out there looking for real estate loans. Farm Credit Services is a good player. Why hasn't this program been used more? This program gets used for troubled farmsteads.

**Representative Skarphol:** You have used \$2.1million of the \$5million in 3 years, and you have two years before the guarantees start to fall off on the front end is that a correct assumption?

**Bob Humann:** That would be correct. Some of these were made after 2003, 2004 and 2005. so they are five year guarantees.

**Representative Skarphol:** Can you provide us something that shows what kind of loan amounts are going to start to fall off on the front end to match up with the time frame that would be established by passing this? This will take effect in 07-09 and by 09 you will be in the sixth year of this program you will have dropped a year's worth of guarantees I am going to assume.

**Bob Humann:** That is correct. There is no doubt. We have asked for the increase to get ready for future demand that might be out there. By raising the cap it would open the door for more applicants in the state.

**Representative Skarphol:** Carleen, Will you provide us with a list of the various loan categories at the bank and how many dollars worth of guarantees we have outstanding. It can be brought to the sub-committee meeting.

**Chairman Carlson:** Is the \$8million a big deal?

**Bob Humann:** If it comes down to removing the sunset and not getting the increase, I don't have any problem with that. But because we were already here asking to remove the sunset we decided to ask for the increase in the program maximum.

**Chairman Carlson:** We don't want to be in the banking business in here you guys have to do diligence to make sure the loans are solid and meet the criteria and are going to be repaid and the risk factors are acceptable. What we have to decide is if you want to commit more funds potential funds to the bank for the program or not and if you guys say you have to have it that is different than saying well we just would like to match the programs up. In my opinion, that is how I read it.

**Representative Kempenich:** Mr. Chairman, I think you are simplifying. If you look at the conditions in the South Central part of the state this last year. All indications are that we may be looking at it again I think you are going to start, plus interest rates have started up this last

year too, I think you are going to see more use of these programs when you start looking at the scope of things. We have had a good run for the last seven or eight years it has been a pretty decent run. One thing about farmers, they never keep it going.

**Bob Humann:** Those are good points. We really see price appreciation of the land in the last few years, so it is kind of hard for farmers to walk away from it when the equity is going up. Where we are looking at some losses on this program we are going to start to evaluate and they are going to happen so we are going to be very cautious on the type of guarantees that we get into with this program. The other thing I want to bring up is that a huge lender most likely would, normally housed at FSA, probably get 90% FSA guarantees that could be on the loan for the entire term of the loan. With this program it is just a five year guarantee. But a lot of the people we are getting in to this program no longer qualify for FSA.

**Chairman Carlson:** Does your rate reflect the risk then?

**Bob Humann:** We have a guarantee fee. That is all we get off of this. We charge a guarantee fee that is equal to 1.5% of the guarantee amount at the time of issuance. That is what the charge is.

Chairman Carlson closed the hearing.

The committee took further action (see recorder job number 1161 starting around 6:45)

A motion was made by Representative Kempenich and seconded by Representative Thoreson for a DO PASS on HB 1061. The roll call votes were eight yes to pass the bill. The recommendation will be sent to the Full Committee. The bill will be carried by Representative Kempenich.

# 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1061

House Appropriations Committee

Check here for Conference Committee

Hearing Date: 1/22/07

Recorder Job Number: 1532

Committee Clerk Signature *Kanya Voegele*

Minutes:

Chairman Svedjan called the meeting to order on House Bill 1061.

Representative Kempenich described the bill.

**Rep. Klein:** How long has the cap been \$5million?

**Representative Kempenich:** It has been in been in place since about 2003.

**Rep. Kreidt:** Would this be for anyone not just first time farmers?

**Representative Kempenich:** This is not a beginning farmer loan. It is a guaranteed loan. It is open to anyone. They probably do have some restrictions as far as what your net worth is and stuff like that on this. I think a lot of these are based along \$300,000 net worth.

**Chairman Svedjan:** These are limited generally to agriculture loans not necessarily beginning farmer?

**Representative Kempenich:** Yes it is agricultural real estate.

**Rep. Wald:** These are participating loans with a local lender they are not primary loans?

**Representative Kempenich:** No these are guaranteed loan with a local lender.

**Chairman Svedjan:** There is no potential negative impact on the Bank of ND on this?

**Representative Kempenich:** The local lender assumes 25% of the risk. The Bank of ND would assume 75% of the risk. Most of the time these loans are secured really well, and if something did happen, the Bank would get some of that.

**Representative Skarphol:** These are only five year guarantees in other words the Bank of ND only guarantees these loans for five years. After that the local lender would be responsible.

**Representative Kempenich:** The Government Operations recommends a DO PASS vote.

**A motion was made by Representative Kempenich, seconded by Representative Carlisle to DO PASS House Bill 1061. The committee vote was 22 Yeas, 0 Nays, 2 Absent and Not Voting. The bill will be carried by Representative Kempenich.**

**FISCAL NOTE**  
**Requested by Legislative Council**  
12/27/2006

Bill/Resolution No.: HB 1061

**1A. State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>						
<b>Expenditures</b>						
<b>Appropriations</b>						

**1B. County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

**2A. Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This legislation increases the maximum amount of outstanding loan guarantees and provides an effective date with Bank of North Dakota's farm real estate loan guarantee program.

**B. Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

None of the sections of this legislation have a fiscal impact to the State of North Dakota.

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

**A. Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

**B. Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Robert A. Humann	<b>Agency:</b>	Bank of North Dakota
<b>Phone Number:</b>	328-5703	<b>Date Prepared:</b>	01/08/2007



Date: 1/22/07  
 Roll Call Vote #: 1

**2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1061**

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Kemp Seconded By Carlisle

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Gulleon	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 22 No 0

Absent 2

Floor Assignment Kemp

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
January 24, 2007 11:00 a.m.

**Module No: HR-14-1110**  
**Carrier: Kempenich**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1061: Appropriations Committee (Rep. Svedjan, Chairman) recommends DO PASS**  
**(22 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1061 was placed on the**  
**Eleventh order on the calendar.**

2007 SENATE APPROPRIATIONS

HB 1061

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1061

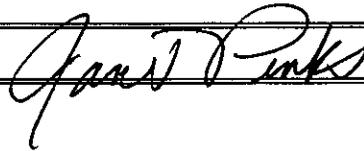
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03/05/07

Recorder Job Number: 4380

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1061.

Representative Kim Koppelman, District 13, West Fargo, introduced HB 1061 indicating is strictly a continuation of a program started four years ago which allows the Bank of North Dakota to guarantee agricultural real estate. The fiscal note is zero but it allows the bank of North Dakota to be involved.

Bob Humann, Senior Vice President of Lending, Bank of North Dakota, presented written testimony (1) in support of HB 1061. He described the first change, which removes the sunset date in the bill and increases the maximum amount of loan guarantees. He discussed the program activity since 2003.

Senator Krebsbach indicated that now they have 3.6 million available why increase to 8 million and as land values have increased drastically, is \$400,000 enough maximum, should that be raised. The response was they are not too concerned about the maximum but do expect many more applications to come in.

Senator Krauter moved a do pass on HB 1061, Senator Grindberg seconded. No discussion took place. A roll call vote was taken resulting in 13 yes, 0 no, 1 absent. The bill passed and Senator Krauter will carry the bill.

Chairman Holmberg closed the hearing on HB 1061.

Date: 2/15/07  
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1061

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DP

Motion Made By Krauter Seconded By Middleberg

Senators	Yes	No	Senators	Yes	No
Chairman Ray Holmberg	✓		Senator Aaron Krauter	✓	
Vice Chairman Bill Bowman	✓		Senator Elroy N. Lindaas	✓	
Vice Chairman Tony Grindberg	✓		Senator Tim Mathern		
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Krauter

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE (410)**  
March 5, 2007 4:43 p.m.

**Module No: SR-41-4490**  
**Carrier: Krauter**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1061: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS**  
(13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1061 was placed on the  
Fourteenth order on the calendar.

2007 TESTIMONY

HB 1061

TESTIMONY TO THE  
HOUSE APPROPRIATIONS GOVERNMENT OPERATIONS COMMITTEE  
HOUSE BILL 1061  
BOB HUMANN – SVP OF LENDING  
BANK OF NORTH DAKOTA  
JANUARY 16, 2007

The proposed changes relate to the Bank of North Dakota's Farm Real Estate Loan Guarantee program. The first change on line 7 removes the sunset date of July 31, 2007. The second change on line 13 increases the maximum amount of outstanding loan guarantees that may be issued by the Bank from \$5,000,000 to \$8,000,000. The proposed maximum of \$8,000,000 will match the proposed maximum on the Beginning Entrepreneur Loan Guarantee program. Following is program activity from program inception of August 1, 2003 through December 31, 2006:

Loans Guaranteed:	8
Total of Loans Guaranteed:	\$2,181,230
Total Guarantee Amounts:	\$1,635,923
Outstanding Guarantees:	\$1,390,716
Remaining Guarantee Availability:	\$3,609,284
Guarantee Claims Paid:	0
Amount of Claims Paid:	\$0

Although program usage has been limited, it is important to have this program available as another available option to lead lenders. Further information on the Farm Real Estate Loan Guarantee program is attached. Your approval is recommended.

North Dakota

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## Farm Loan Programs

[Beginning Farmer](#) · [Established Farmer](#) · [Family Farm](#) · [Farm Operating](#) · [FSA](#) ·  
[ENVEST](#) · [Ag PACE](#) · [Bank Participation](#) · [First Time Farmer](#) · [Farm Real Estate](#)  
[Loan Guarantee](#) · [Feedlot](#) · [Livestock Waste](#)

## Farm Real Estate Loan Guarantee Program

(Program available August 1, 2003 thru July 31, 2007)

This program is designed to assist farmers with the purchase or the restructuring of agricultural real estate loans by providing a financial institution with a 75% guarantee of total loans that do not exceed \$400,000 to an individual borrower.

### Loan Requirements

**Lead Lender** - Any bank, credit union, or lending association that is a part of the farm credit system, and savings and loan association in the state of North Dakota. The lead lender will be responsible for submitting a [Farm Real Estate Loan Guarantee Lender Payment History Form](#) to BND, annually.

**Borrower** - A North Dakota resident at least eighteen (18) years old.

**Guarantee** - Bank of North Dakota may guarantee up to 75% of the amount of principal due the lender. The total of agricultural real estate loans to be guaranteed may not exceed \$400,000 to an individual borrower. The Bank may approve a guarantee on a loan up to 80% of the certified appraised value of the agricultural real estate.

**Term** - The guarantee term may not exceed 5 years.

**Guarantee Fee** - .5% per year or a one time fee of 1.5% of the guaranteed portion. The guarantee fee may be included in the loan or in the rate charged by the lender.

Application by a lead lender is required to apply for BND's guarantee. See application for additional documentation required when submitting a request to BND. Lead lender is responsible for servicing the loan.

**Interest Rate** - The maximum amount the lender may charge may not exceed 3% above BND base rate. The guarantee fee may be included in the loan or in the rate charged by the lender.

**Other Features** - This program can be used in conjunction with other BND loan programs. The Bank may have no more than \$5,000,000 in outstanding loan guarantees under the farm real estate loan guarantee program.

For more information about this program or other Bank of North Dakota programs, contact:

Bank of North Dakota  
 700 East Main Ave  
 PO Box 5509  
 Bismarck ND 58502-5509  
 (701) 328-5786  
 1-800-472-2166 ext. 5786  
 TDD (Telephone Device for the Deaf) 1-800-643-3916

HB 1061

As of 12/31/2006	Farm Real Estate Loan Guarantee Program (Inception 8-1-03)	Beginning Entrepreneur Loan Guarantee Program (Inception 7-1-99)	Feedlot Loan Guarantee Program (Inception 8-1-05)
Loans Guaranteed	8	156	3
Total of Loans Guaranteed	\$ 2,181,230	\$ 6,748,115	\$ 1,636,464
Total Guaranteed Amounts	\$ 1,635,923	\$ 5,708,067	\$ 1,390,994
Program Guarantee Maximum	\$ 5,000,000	\$ 3,400,000	None
Applicant Guarantee Maximum	\$ 400,000	\$ 100,000	None
Outstanding Guarantees	\$ 1,390,716	\$ 3,144,484	\$ 1,258,000
Remaining Guarantee Availability	\$ 3,609,284	\$ 255,516	\$ 1,258,000
Guarantee Claims Paid	0	7	0
Amount of Claims Paid	\$ 0.00	\$ 150,901.00	\$ 0.00

**TO:** House Appropriations Sub-Committee  
**FROM:** Bob Humann - SVP of Lending, BND  
**DATE:** January 19, 2007  
**SUBJECT:** BND PACE Programs Information

2005-2007 Biennium	PACE	Flex PACE	BioDiesel PACE
Available Buydown Funds *	\$ 7,194,840	\$ 1,751,087	\$ 1,200,000
Loans Funded 2005-07 Biennium	47	14	1
Original Loan Amount Funded	\$ 21,953,304	\$ 8,700,324	\$ 3,420,560
Buydown Funds	\$ 3,892,474	\$ 1,205,450	\$ 398,036
Loans Pending as of 12-31-06	8	1	0
Loan Commitments Outstanding	\$ 3,713,945	\$ 850,000	\$ -
Buydown Funds	\$ 1,169,412	\$ 94,622	\$ -
Flex PACE Reserved Buydown Funds		\$ 447,923	
Remaining Buydown as of December 31, 2006	\$ 2,132,955	\$ 3,092	\$ 801,964

\* Breakdown of Available PACE and Flex PACE Buydown Funds

\$5,700,000	Legislative Appropriation
\$ 244,972	Carry Forward from Previous Allocation
\$1,000,955	Adjustments on Defaulted or Prepaid PACE Loans
<u>\$2,000,000</u>	Transfer from the Beginning Farmer Revolving Fund
\$8,945,927	Of this amount, \$2 million was earmarked for Flex PACE, but as PACE funds were quickly committed, the total available for Flex PACE was reduced to \$1,751,087.

2003-2005 Biennium Buydown Fund	PACE
Available Funds **	\$ 6,390,448
Loans Funded 2003-05 Biennium	66
Original Loan Amounts Funded	\$ 37,706,624
Buydown Funds	\$ 4,935,484
Loans Pending as of 6-30-05	16
Loan Commitments Outstanding	\$ 14,495,990
Buydown Funds	\$ 1,169,412
Remaining Buydown as of June 30, 2005	\$ - 14,339

\*\* Breakdown of Available PACE Buydown Funds

\$5,700,000	Legislative Appropriation
\$2,441,163	Carry Forward from Previous Allocation
\$1,449,285	Adjustments on Defaulted or Prepaid PACE Loans
\$1,000,000	Transfer to the Ag PACE Fund
<u>\$2,200,000</u>	Transfer to the General Fund
\$6,390,448	Carry Forward to the 2005-2007 Biennium

TESTIMONY TO THE  
SENATE APPROPRIATIONS COMMITTEE  
HOUSE BILL 1061  
BOB HUMANN – SVP OF LENDING  
BANK OF NORTH DAKOTA  
MARCH 5, 2007

The proposed changes relate to the Bank of North Dakota's Farm Real Estate Loan Guarantee program. The first change on line 7 removes the sunset date of July 31, 2007. The second change on line 13 increases the maximum amount of outstanding loan guarantees that may be issued by the Bank from \$5,000,000 to \$8,000,000. The proposed maximum of \$8,000,000 is recommended to reflect the increase in land values. The increase to \$8,000,000 will match the proposed maximum on the Beginning Entrepreneur Loan Guarantee program. Following is program activity from program inception of August 1, 2003 through December 31, 2006:

Loans Guaranteed:	8
Total of Loans Guaranteed:	\$2,181,230
Total Guarantee Amounts:	\$1,635,923
Outstanding Guarantees:	\$1,390,716
Remaining Guarantee Availability:	\$3,609,284
Guarantee Claims Paid:	0
Amount of Claims Paid:	\$0

Although program usage has been limited, it is important to have this program available as another available option to lead lenders. The dry conditions in southwest North Dakota in 2006 have increased program interest. Further information on the Farm Real Estate Loan Guarantee program and history on all the bank's guarantee programs is attached. Your approval is recommended.