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ROLL NUMBER

DESCRIPTION

2/20

2007 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2120

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB #2120**

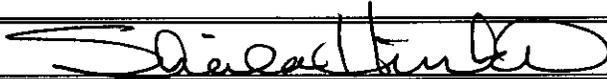
Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **January 8, 2007**

Recorder Job Number: **#743, 744, 745**

Committee Clerk Signature **REVISED**



A BILL for an Act to amend and reenact subdivision c of subsection 1 of section 6-09, 15.01 and section 6-09.15-03 of the NDCC, relating to definitions and BofND participation caps for the beginning entrepreneur loan guarantee program; and to declare an emergency.

Minutes:

S. Klein: Senator Holmberg is here from the Bank of ND.

S. Holmberg: Bill 2120 deals with the beginning entrepreneur program which members of this committee have been on some of the bills which have been produced or refined the program, I know Senator Heitkamp was on the bill in 2001, when the bill was introduced in 1997, there were 5 folks in the House that didn't like it and 41 that did, when you went over to the house, the ratios were different and the bill never made it. 1999 we passed the bill unanimously to set up a program for young people. If they have a good idea but are lacking in collateral, that there is a way partnering between their local bank and the Bank of ND to help move their project forward. You will get the kind of statistics from the BofND in just a few moments, I do know that when the program just started the amount of information that was public information was not hidden by federal requirements was indicated that some of the first loans, in fact, in the history of the program is that there has been a rural influence on the program.

One of the first projects that started actually was with Senator Andrus' district.

The problem with the program is though, that they are going to run out of guarantee availability. You will have the exact number, but I can tell you from experience what happens in a program like this. Back in 1999 when we passed the bill, the amount of guarantee possible was quite conservative. The program ran out of availability of funds which meant you had an economic development program for across the state that all of a sudden had to go into hiatus for awhile until the next Legislative session met. That is not good for marketing the program if all of a sudden, you have to tell them, "Well, we're out of money right now but the Legislature will be meeting soon." That is why you have 2120 before you today. The ideas in 2120 are also included in the interim bill which is in the House – 1027, but, because of the fact that a bill as comprehensive as that one, the odds of that getting out of the Legislature any time before the middle to end of April. This program and the bill before you is to assure that the program does not have to go into hiatus and tell people, "Well, we can't do anything right now, we have to wait until Legislature is done." Therefore the Emergency Clause is entered. The handout they are going to give you show you how many loans have gone sour, but not many compared to the kinds of dark clouds when the bill was first introduced. Was thought it would collapse and the state's going to be holding the bag.

S. Klein: any questions for Senator Holmberg?

S. Wanzek: You're saying it already runs out of money?

S. Holmberg: No, they're not out of money today. The fear, the expectation is that they will probably run out of money before this Legislature is done. That's why the bill was taken out of 1027.

S. Wanzek: Just a comment, most very-successful businessmen fail once or twice before they get there.

S. Andrus: I'm trying to see where this bill protects us from running out of money. It's not transparent in here, is there a cap on how much the guarantee can be?

S. Holmberg: There is a cap right now of 4 million dollars. What does this bill does, page 2..

S. Andrus: Missed that one.

Bob Humann: Senior Vice President of lending for the Bank of ND

Written Testimony

The BofND supports the SB 2120 with proposed change in Section 1 is to simplify the definition of eligible applicants for the beginning entrepreneur loan guarantee program. We have requested that the definition be simplified.

Covered Testimony

Bob Humann cont: it should also be noted that these changes are included in House B 1027 and separate legislation has been introduced today because we are concerned about hitting the maximum. We are seeking 2120 approval and HB 1027 as it is less complex.

Approval is recommended.

S. Behm: If you want to become a beginning young farmer, does he qualify under this....probably not.

B. Humann: No, they would not, they have other programs for both purchases of real estate and cattle that we have available.

S. Wanzek: This really does not cost anything unless, of course, you have to bail out a failed...

B. Humann: That is correct, if we had to pay out on the guarantee, it would be expensive for the bank, as it is a loss for the bank.

S. Wanzek: You just answered the question, but the clarification, it's an expense against the bank, we don't have to appropriate other money for potential, it's all part of the bank's budget?

B. Humann: That is correct. The losses will be paid out of the bank's loan loss reserve. No appropriations.

S. Klein: We've had 7 losses, totaling \$150,000 is that correct? Is that how you read this?

B. Humann: That is correct. The other information that I didn't put on here is that we do collect fees that we charge for each loan that's guaranteed. I totaled up our guaranteed and we were up to \$85,000, so \$150,000 minus \$85,000 from the fee generated, the loss to the bank would be \$65,000, but the bank recognizes that we will have some programs that aren't going to be profitable.

S. Potter: Section 1 where you're changing the net worth, in some cases wouldn't it actually tighten the requirements and make it less available, you've gotten rid of the exclusion on the home and things, so those would not count toward the \$200,000, how would the bank feel about making that \$250 or \$300,000 in net worth as opposed to \$200,000.

B. Humann: We looked at the applications that we were getting, 156 guarantees that we issued, and we tried to see what would be out there, to make the change to simplify things and almost all the people that have applied would still be eligible after we went through and did the definition changes. So we felt pretty good about that. What is the actual dollar amount is really a challenge because this is a beginning entrepreneurial loan guarantee program. How do we define that? The net worth is always going to be hard to set.

S. Klein: Bob, what you're getting is trying to make it easier for you, then to determine that net worth? You don't have to look at somebody's motor vehicles and household goods, that makes it easier on your end to determine net worth and that way and move the process along a little easier is that...??

B. Humann: That's correct. The information is on the website. They're sitting at their desk and start doing a personal financial statement and they have to start coming up with values, and it's hard to figure out what the actual value is. It just simplifies things. Of all the loan programs that we administer at the Bank of ND, we don't have any definitions where we're excluding things from the network.

S. Hacker: Because you're guaranteeing that loan, do you share in the profits of that rate?

B. Humann: We're not involved in the loan other than issuing a guarantee. For issuing a guarantee we get a guarantee fee of 1.5% of the outstanding guarantee allowance.

S. Hacker: What happens to these guys that people, the 7 that it didn't work out, are they... Have they come back and tried it again? How does that work, the guarantee part? Do they have a personal guarantee?

B. Humann: Yes, the individual business, we take an individual personal guarantee from the individual. Could they come back and get another guarantee from the Bank of ND if they have another business idea or wanted to restart a business up? Our internal policy is that they would have to make the loss whole at the BofND before they would entertain another application. If we paid out \$20,000 in guaranteed, they would have to come in and take care of the \$20,000 before they could re-apply.

S. Andrus: Commendable that there is only \$150,000 lost in this program. It would be offset by the guarantee revenue wouldn't it?

B. Humann: That's correct. We generated \$85,000 in guarantee fee entrants, so the loss actually to the bank is \$65,000.

S. Wanzek: Wouldn't some of that fee income be there to help pay the cost of administration.

B. Humann: Yes, that is why I did not include the fee income in the testimony, because I wanted to stay away from discussion of other costs that go along with administering this

program that we have built-in, whether or not we're losing or making money on this program, but we know for SURE that we've lost \$65,000 and that doesn't include the lights and paying the salaries for our people and every thing.

[Question on location on tape.]

S. Klein: Things have changed. Parents built a house for \$13,000 from FHA, had \$700 a year payments, said took lots of cream and eggs.

S. Potter: If I were writing the bill and first time introducing it, I would not have done what they did, but I think we avoid a conference committee sometime later down the road if we just go along with it as it is.

S. Wanzek: I think that net worth is a subject – at the end of the year when I sit with our CPA and the banks; what I think my farmland is worth and what somebody might pay are different things, but, I think it's meant to put some kind of parameter to allow those we know.....

S. Behm: The bankers, know what your land, or your house is worth. I built a house in 1970, cost me \$15,000, that was with \$1000 of new furniture. Today they value that around \$70,000. I'm out in the country.

S. Klein: Depends where you live, Art. I would love to have my home near Bismarck.

S. Heitkamp: Not if you plan on selling it.

Motion for a do pass on SB2120.

S. Heitkamp: It's all about streamlining and making it easier, if anyone has heartburn over the overstrike, that can be amended and come off just as quick and the debate can go on in the House.

S. Potter: Since I'm being looked at, I didn't have heartburn over it, it's just that the testimony was contradictive with overstriking the language.

S. Wanzek: I had the concerned before you voiced them, I think after hearing them, I don't think the intent is to try to exclude anybody and plus they increased it \$100,000, but adding 4 million dollars to the project so it works.

S. Hacker: the value of the equity in the home should be able to be used to secure that loan, no reason if someone has a \$190,000 equity in their home that they should be using that for a business when the state is facing a loss.

S. Behm: Whenever I took out a loan, the net worth – the bankers know what you're worth. By the time you go to the bank, they're pretty sure of what you own or what you don't own, what you owe. They know before they do your net worth.

Senator Wanzek made a motion for a **Do Pass**. Second by **Senator Andrus**. Roll call vote 7-0-0. **Passed**. Floor carried by **Senator Wanzek**.

SB 2120 was placed on the 11th order on the calendar

FISCAL NOTE
Requested by Legislative Council
12/28/2006

Bill/Resolution No.: SB 2120

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
Revenues						
Expenditures						
Appropriations						

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 proposes two changes to the Beginning Entrepreneur Loan program. The first change simplifies the net worth definition of the loan applicant. The second change increases the total outstanding loans that BND may guarantee from \$4 Million to \$8 Million.

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.*

Name:	Robert A. Humann	Agency:	Bank Of North Dakota
Phone Number:	328-5703	Date Prepared:	01/05/2007

REPORT OF STANDING COMMITTEE (410)
January 8, 2007 12:52 p.m.

Module No: SR-04-0299
Carrier: Wanzek
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2120: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2120 was placed on the Eleventh order on the calendar.

2007 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2120

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2120

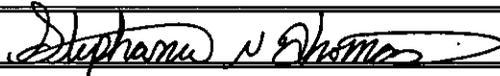
House Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: February 12, 2007

Recorder Job Number: 3397

Committee Clerk Signature



Minutes:

Chair Keiser opened the hearing in SB 2120.

Bob Humann, Bank of ND: Support SB 2120. See written testimony #1.

Rep. Keiser: What's the emergency issue?

Bob: We have \$255,000 of guarantees that we will provide that would have to take us through August 1 of this year, and with the demand that we've been having this month, we anticipate that we will exceed that amount. So, we would look at the emergency clause that would give us more guarantee availability, so that we won't have to stop the programs in the next few months.

Rep. Dosch: I move a do pass on SB 2120.

Rep. Thorpe: Second.

Roll call vote was taken. 13 Yeas, 0 Nays, 1 Absent, Carrier: Rep. Ruby

Hearing closed.

Date: 2-12-07
Roll Call Vote #: _____

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2120

House Industry Business & Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Rep. Dosch Seconded By Rep. Thorpe

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Rep. Amerman	X	
Vice Chairman Johnson	X		Rep. Boe	X	
Rep. Clark	X		Rep. Gruchalla	X	
Rep. Dietrich	X		Rep. Thorpe	X	
Rep. Dosch	X		Rep. Zaiser		
Rep. Kasper	X				
Rep. Nottestad	X				
Rep. Ruby	X				
Rep. Vigesaa	X				

Total Yes 13 No 0

Absent 1

Floor Assignment Rep Ruby

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

REPORT OF STANDING COMMITTEE

SB 2120: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends DO PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2120 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

SB 2120

TESTIMONY TO THE
SENATE INDUSTRY, BUSINESS & LABOR COMMITTEE
SENATE BILL 2120
BOB HUMANN – SVP OF LENDING
BANK OF NORTH DAKOTA
JANUARY 8, 2007

Bank of North Dakota (BND) supports Senate Bill 2120. The proposed change in Section 1 is to simplify the definition of eligible applicants for the Beginning Entrepreneur Loan Guarantee program. Lead lenders that BND work with have requested that the eligibility definition be simplified. For example, have you ever tried to determine a value for clothing? With the elimination of the net worth exclusions, it also made sense to increase the net worth maximum from \$100,000 to \$200,000.

The proposed change in Section 2 would increase the total outstanding loans that BND may guarantee from \$4 million to \$8 million. An emergency clause is also attached to this section. Following is program activity from program inception of July 1, 1999 through December 31, 2006 that justifies the need for the increase:

Loans Guaranteed:	156
Total of Loans Guaranteed:	\$6,748,115
Total Guarantee Amounts:	\$5,708,067
Total Guarantee Availability:	\$3,400,000 (\$4 million X 85%)
Outstanding Guarantees:	\$3,144,484
Remaining Guarantee Availability:	\$255,516
Guarantee Claims Paid:	7
Amount of Claims Paid:	\$150,901

It should also be noted that these proposed changes are also included in House Bill 1027 (Economic Development Committee's bill). Separate legislation has been introduced only because of concerns related to having to stop the program because of hitting the maximum outstanding loan threshold. BND is hoping that Senate Bill 2120 approval will happen faster than House Bill 1027 because of lesser complexity.

Further information on the Beginning Entrepreneur Guarantee Loan program is attached. Your approval is recommended.

North Dakota

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Beginning Entrepreneur Loan Guarantee Program

This program is designed to assist in business start-up financing by providing a financial institution with an 85% guaranty of a loan not to exceed \$100,000.

Lead Lender - Any lending institution that is related or funded under the laws of ND or the United States. The lead lender will be responsible for submitting a [Beginning Entrepreneur Loan Guarantee Program Lender Payment History Form](#) to BND.

Borrower - A North Dakota resident, who has graduated from high school or received a general equivalency certificate, has had some training by education or experience in that type of revenue producing enterprise. The applicant(s), must have a net worth of less than \$100,000 excluding the value of the following personal assets: principal residence, one personal or family motor vehicle, household items and personal belongings.

Guarantee - Bank of North Dakota may guarantee up to 85% of the amount of principal due the lender. The maximum loan may not exceed \$100,000. The Bank may approve a guaranty on a loan up to \$5,000 to a beginning entrepreneur for business start-up expenses including accounting, legal and business planning. The Bank may approve a guaranty on a loan up to \$25,000 without requiring collateral for the loan.

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 guaranty fee may be included in the loan or in the rate charged by the lender.

Application Process - [Application](#) by a lead lender is required to apply for BND's guaranty. See application for additional documentation required when submitting a request to BND.

[Recipient Report](#)
[State Grantor Report](#)
[Business Incentive Agreement](#)

Lead lender is responsible for servicing the loan.

Interest Rate - The maximum amount the lender may charge may not exceed 3% above BND base or NY prime. The guaranty 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 not guarantee more than \$4,000,000 in loans under this 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) 328-5671
 1-800-472-2166 ext. 5671

TESTIMONY TO THE
 HOUSE INDUSTRY, BUSINESS & LABOR COMMITTEE
 SENATE BILL 2120
 BOB HUMANN – SVP OF LENDING
 BANK OF NORTH DAKOTA
 FEBRUARY 12, 2007

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