

TO: Legislative Economic Development Committee  
FROM: Bob Humann, SVP of Lending  
DATE: July 18, 2006  
SUBJECT: BND Loan Programs Spurring North Dakota's Economy

**Beginning Entrepreneur Loan Guarantee Program:**

Program Information:

This program was implemented in July of 1999 to assist in business start-up financing by providing a financial institution with an 85% guaranty of a loan not to exceed \$100,000. BND has guaranteed a number of loans for start up businesses created by graduating college students. Since 07/01/1999, BND has guaranteed 130 projects with the loans totaling \$5,363,356 and BND's guaranty totaling \$4,531,624. BND may not guarantee more than \$4,000,000 in outstanding loans or, at an 85% guaranty level, \$3,400,000 in guarantees under this program. As of 06/30/2006, BND had outstanding guarantees of \$2,987,377 leaving \$412,623 in remaining guaranty availability.

Suggested Improvements:

With the elimination of the SBA Low-Doc Guaranty program in 2005, the activity in this program has increased. It is suggested that BND support legislation that will increase the total volume that BND can guarantee under this program to \$8 million in outstanding loans.

**PACE Loan Program:**

Program Information:

This program was implemented in March of 1990 to assist North Dakota communities in expanding their economic base by providing for new job development. Job creation is a key component of the PACE program with a requirement that a minimum of one job be created for every \$75,000 of total loan proceeds. In August of 2005, the PACE program was expanded to include FLEX PACE and Biodiesel PACE. Since inception, the PACE loan program has funded 563 PACE loans totaling \$343 million with \$46 million of interest buydown creating 9,923 jobs in North Dakota.

Suggested Improvements:

**PACE & Flex PACE:** A total of \$5.7 million was appropriated to the PACE Fund for interest buydown in the 05-07 biennium. Those PACE interest buydown funds were used 8 months into the biennium. As of 06/30/06, PACE funds of \$1.7 million are available after transferring \$2 million from the Beginning Farmer Revolving Fund. Reasons for the increased demand of interest buydown are the increasing interest rates and opening up the eligibility with FLEX PACE. It is suggested that BND seek a higher appropriation amount up to \$8 million for the next biennium for PACE & Flex PACE.

### **Biodiesel PACE:**

#### Program Information:

A total of \$1.2 million was appropriated to the PACE Fund for Biodiesel PACE and any unused funds will be returned to the general fund on 06/30/07. BND funded one Biodiesel PACE loan totaling \$4,276,000 this year using \$398,000 of interest buy down. There is also the possibility that the Minot project could use \$400,000 of these funds. BND is not aware of any other large projects that could use all of these funds this biennium.

#### Suggested Improvements:

It is suggested that BND support an appropriation amount up to \$800,000 for the next biennium for Biodiesel PACE which would allow two large projects to be funded.

### **New Venture Capital Program:**

#### Program Information:

This program was implemented in August of 2003 to provide flexible financing through debt and equity investments for new or expanding businesses in the state. The legislative cap on this program is \$10 million through July 31, 2009. As of 06/30/06, BND has funded 3 loans for \$605,000 and 4 investments for \$1,431,360. BND has issued commitments for an additional \$3,062,874 and has reserved an additional \$1 million for a large ND project. Remaining funds available total \$3.9 million.

#### Suggested Improvements:

It appears that the \$10 million program cap is adequate at this time.