

September 2008

DEVELOPMENTALLY DISABLED FACILITY LOAN PROGRAM

This memorandum provides information on the developmentally disabled facility loan program at the Bank of North Dakota, including loan fund program Nos. 1, 2, and 3.

SUMMARY OF DEVELOPMENTALLY DISABLED LOAN FUND PROGRAM NOS. 1, 2, AND 3

The first developmentally disabled facility loan fund program (**No. 1**) was established in 1981 by appropriating \$4 million from the lands and minerals trust fund. North Dakota Century Code (NDCC) Section 6-09.6-01 provides that the purpose of the program is to create a revolving loan fund which provides loans for the establishment of facilities for developmentally disabled, chronically mentally ill, and physically disabled persons. The loan portfolio for program No. 1 was sold to the Bank of North Dakota in June 2003. As of that date, loan fund No. 1 was closed.

The second developmentally disabled facility loan fund program (**No. 2**) was created in 1983 in accordance with NDCC Section 6-09.6-01.1. The law authorizes the loan fund to borrow up to \$5 million from the common schools trust fund to fulfill its purpose which is to provide means for the establishment of facilities for developmentally disabled, chronically mentally ill, and physically disabled persons. The \$5 million available through loan fund program No. 2 has been awarded. Therefore, no loans have been made from loan fund No. 2 since 1996.

The third developmentally disabled facility loan fund program (**No. 3**) was established in 1985 and is codified in NDCC Section 6-09.6-01.2. The loan fund received authorization by law to borrow up to \$4,951,145 from the common schools trust fund. The purpose of the third loan fund remains consistent with the first two developmentally disabled facility loan funds, which is to provide means for the establishment of facilities for developmentally disabled, chronically mentally ill, and physically disabled persons. As of December 31, 2007, loan fund No. 3 is the only active developmentally disabled facility loan fund program available and has a balance of \$598,371 available for potential new loans.

All payments of principal and interest received by loan fund Nos. 2 and 3 and any interest earned on the balance in the loan funds less service fees deducted by the Bank of North Dakota for administration of the fund must be paid to the lands and minerals trust fund. Pursuant to a continuing appropriation, money in the lands and minerals trust fund is used to repay money received by the loan fund from the common schools trust fund. Currently, loans from the common schools trust fund bear an interest rate of 9 percent.

ELIGIBILITY GUIDELINES

All applications for loans through the developmentally disabled facility loan program are made to

the Department of Human Services. Applications approved by the department, in consultation with the State Department of Health, are forwarded to the Bank of North Dakota for approval.

Loans from the loan fund program are made to nonprofit corporations organized in the locality in which a facility is proposed and may not exceed three-fourths of the project costs, including the cost of construction, reconstruction, acquisition, furnishings, equipment, and administrative costs related to the establishment of the project, and the cost or value of real estate upon which the facility is located. The loans are secured by a second mortgage against the facility. The loan terms may not exceed 25 years and bear interest rates of 10.5 percent for loans relating to facilities for developmentally disabled persons and 5 percent for loans relating to facilities for physically disabled persons and chronically mentally ill persons.

LANDS AND MINERALS TRUST FUND SUBSIDY

According to information received from the Bank of North Dakota as of December 31, 2007, 15 loans are outstanding for loan fund Nos. 2 and 3 totaling \$1,544,321. Of this amount, one loan totaling \$55,711 (or 3.6 percent) bears an interest rate of 10.5 percent and 14 loans totaling \$1,488,610 (or 96.4 percent) bear an interest rate of 5 percent.

While loans from the common schools trust fund to the loan fund programs bear an interest rate of 9 percent, over 96 percent of the loans from the loan funds to nonprofit corporations bear an interest rate of 5 percent. In addition, the Bank of North Dakota is authorized by law to deduct from the transfer of payments to the lands and minerals trust fund a service fee equal to one-half of 1 percent of the principal balance of outstanding loans and audit costs. Therefore, additional funds from the lands and minerals trust fund are required to fully reimburse the common schools trust fund. The following schedule compares transfers made from loan payments received by the Bank of North Dakota to the lands and minerals trust fund to loan payments made from the lands and minerals trust fund to the common schools trust fund. The difference reflects the additional funds from the lands and minerals trust fund required to fully reimburse the common schools trust fund:

Fiscal Year	Transfer to Land and Minerals Trust Fund From Bank of North Dakota	Transfer to Common Schools Trust Fund From Lands and Minerals Trust Fund	Interest Subsidy From the Lands and Minerals Trust Fund
2002	\$906,666	\$1,019,119	\$112,453
2003	\$721,368	\$1,017,291	\$295,923
2004	\$1,069,719	\$1,403,235	\$333,517
2005	\$842,447	\$1,308,154	\$465,707
2006	\$492,313	\$807,996	\$315,683
2007	\$482,126	\$797,578	\$315,452
2008	\$525,866	\$794,961	\$269,094