

House Bill 1420
House Industry; Business and Labor Committee
January 22, 2023
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Mr. Chairman and members of the committee. My name is Kelvin Hullet and I am the Chief Business Development Officer at the Bank of North Dakota. I am here to respectfully oppose HB1420 as proposed. BND's opposition is not based on the merits of the proposal. Instead, it is based on the issue of duplication of programs already offered by the Bank of North Dakota, other state agencies and the Small Business Administration.

While there is always focus and media stories on the proposals for large projects in North Dakota, the fact is that North Dakota's 75,427 small businesses employ over 196,000 people representing almost 99% of all businesses in the state. (SBA ND Small Business Profile) Providing programming to help these businesses grow is an important part of our state's economy.

As proposed, HB1420 would create the small business diversity revolving loan fund administered by the Bank of North Dakota. The loan proceeds would be used for working capital, equipment purchases, inventory acquisitions or other businesses expenses. The proposed maximum term is 10 years with a loan between \$10,000 and \$45,000 and an interest rate of one-half of one percent per year. (Note, I am assuming this is a drafting error and should be 1.5% to match other low interest revolving loan funds in the state.) To be eligible for the program, the owner must be a woman, minority or veteran who is a resident of the state and U.S. Citizen.

In considering this proposed program, BND reviewed the existing programming and also considered how that programming is delivered. We always start from the premise of "what problem are we trying to solve?" As you know, by law, Bank of North Dakota has very few direct loans programs to consumers. The exceptions are student loans; the beginning farmer loan program; established farmer and some loans in the legislatively directed programs. All of BND's commercial loans and the super-majority of agriculture loans are delivered via a lead financial institution who analyzes and structures the loan. Loan programs at BND are normally in response to a need identified by our lead financial institutions and we would note this issue is not one local financial institution's have brought to our attention as an unmet need.

Also important in evaluating the opportunity for a new program is to evaluate what already exists. One of BND's key strengths is to deliver programs that provide "gap" financing which are not met with existing financing programs. The following programs have similar terms for which the proposed applicants in HB1425 can already qualify.

- The Bank of North Dakota Beginning Entrepreneur Guarantee program is delivered through local financial institutions. Applicants are North Dakota residents who graduated from high school or received a general equivalency certificate and has some training; education or experience in the type of revenue producing enterprise for which they are seeking a loan. Borrowers are required to have a net worth of less than \$500,000. The program provides for BND to approve a guarantee on a loan of up to \$5,000 for business startup expenses and may also approve a long guarantee up to \$25,000 without requiring collateral. The interest rate is at market but must be acceptable to BND and may also include a one-year interest only period in the 5-year loan. Collateral is also negotiable. In 2021, BND guaranteed 38 loans worth \$2.846 Million. In 2022, BND guaranteed 44 loans totaling \$2.986 million.
- The Bank of North Dakota Business Development Loan program provides loans to businesses located in the state with a financial condition or the nature of the business leading to a higher credit risk than is normally acceptable to a lending institution. The loan can be for up to \$1,000,000 with a term that is contingent upon use of the funds. The interest rate on a variable loan is .50% below prime adjusted quarterly. (Prime is currently 7.50%) The fixed rate is 2.25% above the Federal Home Loan Bank of Des Moines advance rate can be locked for 5-years. (Current Rate on 5-year is 3.90%)
- The Small Business Administration micro-loan program (www.sba.gov/funding-programs/loans/microloans) provides loans up to \$50,000 delivered through the Lake Agassiz Regional Development Corporation in Fargo. The loans can be used for a variety of purposes similar to the BND programs including working capital; inventory; supplies, furniture; fixtures; machinery and equipment. The maximum term of the loan is Six years with interest rates determined by the intermediary lender.

- The North Dakota Small Business Development Centers delivered start-up and business counseling to 1,783 clients in 2021 resulting in over \$73,000,000 in capital formation supporting 7,158 jobs. (Note, I am a board member of the SBDC and their offices are housed in BND with BND proposing to take over state funding of the organization this session.) The SBDC has advisors in Bismarck; Bowman; Devils Lake; Dickinson; Fargo; Grand Forks; Minot; Williston with the lead office based out of UND in Grand Forks. (www.ndsbdc.org)
- The SBA also delivers loans through the 7(a) loan program designed to provide financing options for small business start-ups in underserved communities. This program provides a loan amount up to \$250,000 with a term depending on the use of the funds. (www.dakotabusinesslending.com/loans/sba-7a/)
- The SBA also provides a program for women owned businesses which may provide up to nine-years of one-on-one business development assistance and prepares the company to compete and receive set-aside and sole-source contracts. The applicants must have a net worth of less than \$850,000, adjusted net income of \$400,000 or less and assets totaling \$6.5m or less. (sba.gov/business-guide/grow-your-businesses/women-owned-businesses)
- In coordination with the SBA women owned business program, the state of North Dakota, through the Department of Commerce is the administrator for the North Dakota Women's Business Center delivering coaching; events and education specifically for women owned businesses in North Dakota. The program also provides insight into funding opportunities through a variety of partners. Examples include: USDA; FedEx; Mastercard Small Business Growth Fund; KIVA and the Souris Basin Impact Fund and funding directed specifically to women in agriculture. (ndwbc.com/funding)

- The Office of Veterans Business Development is devoted to promoting veteran entrepreneurship delivering programs to veterans; service-disabled veterans; reservists; active-duty service members; transitioning service members and their dependents or survivors. The program can match lenders with veterans, provides entrepreneurship training programs and provides the ability to access aside contracting dollars specifically to businesses owned by military veterans. ([sba.gov/business-guide/grow-your-business/veteran-owned-businesses](https://www.sba.gov/business-guide/grow-your-business/veteran-owned-businesses))

Something I want to note about the above programs is they all include additional support for the applicant. It is more than just a loan. It is navigating how to write a business plan; thinking through the challenges beyond finances and then determining how a business might be funded. This type of expertise and guidance is found at the SBA; SBDC and the bankers at local financial institutions. It is not BND's expertise as we partner with these organizations to deliver this type of advice and guidance.

In closing, I hope the review of financing programs currently available provide comfort to the committee and the Legislature that the needs of women, veterans and minority owned businesses are being met in the state. Should the committee decide to move forward with HB1420, BND requests the opportunity to work with the committee to address various fair lending regulations and definitions in the bill before it is ready to advance out of committee.

Thank you for consideration of our testimony and I'm pleased to stand for any questions.