



BND 

Bank of North Dakota

Achieve more.

FINANCING ECONOMIC DEVELOPMENT

REPORT 2017

President's Message



Bank of North Dakota's focus on economic diversification and economic development is core to our daily activities. Whether collaborating with state agencies, local economic development groups or financial institutions, we believe in returning a portion of the Bank's resources to the residents of North Dakota through loan programs to help them achieve more.

In 2017, we updated current programs to ensure we meet the needs of communities and added loans for expanding businesses and drought disaster relief. We sold the federal student loan portfolio which allows us to increase the outreach of our growing state-sponsored student loan program. We made nearly 30 presentations to businesses about utilizing our unique student loan refinancing program as a recruitment tool and distributed close to \$500,000 in contribution matches to North Dakota residents who are saving for college through College SAVE, the 529 plan administered by Bank of North Dakota (BND).

A new strategic plan for 2018-2020 includes strategies to drive economic growth and diversity, expand access to postsecondary education and advance our role as a statewide resource for financial institutions. We plan to expand BND's leadership in all areas to create more opportunities and greater efficiencies.

As we look to 2018, we need to address the need for increased funding of the Venture Capital Fund program and emerging markets. We believe there are opportunities to streamline the infrastructure funding process to ease application burden and decrease confusion from local entities regarding funding streams.

Ultimately, our mission to support agriculture, commerce and industry drives us to identify current and emerging economic needs in North Dakota. The mission has served us well for 99 years, and I expect it to continue guiding us for many years to come.

A handwritten signature in black ink that reads "Eric Hardmeyer". The signature is written in a cursive, flowing style.

Eric Hardmeyer
President/CEO



Partnerships with financial institutions critical for economic development

Over its nearly 100 years of existence, the relationship between BND and financial institutions has transformed into a strong partnership. Local financial institutions serve as a distribution channel for BND programs.

Bank of North Dakota participates in loans made by local financial institutions. This allows small community banks to be part of large business efforts in their communities. At times, financial institutions themselves need financing, whether for acquisition or refinancing of bank stock, and BND provides the Bank Stock Loan for these situations. Political subdivisions are also customers of BND when the need for financing large projects arises.

A typical loan scenario is demonstrated below:



Student loans are offered directly to the borrower along with two ag loan programs for beginning farmers - Beginning Farmer Chattel Loan and Beginning Farmer Real Estate Loan. However, borrowers are encouraged to maintain their relationships with their community banks for all their other banking needs.

As we look to our future, the 2018-2020 Strategic Plan recognizes the value of our relationships with financial institutions. We will continue to expand our knowledge and capacity as a statewide resource and provide relevant correspondent banking services to meet the needs of our partners.

Loan programs

In response to input from statewide focus groups held in 2016, BND updated the guidelines for its Beginning Entrepreneur Loan Guarantee, PACE, Flex PACE and BND Venture Capital Fund programs. A new loan program, the Accelerated Growth Loan, was added.

Accelerated Growth Loan Program

The Accelerated Growth Loan is a new option to assist North Dakota-based companies entering or anticipating a period of dynamic growth. These companies have a record of proven operations, experienced management and the ability to generate cash flow, but have limited assets for traditional bank financing.

An example of a business utilizing the new program is Myriad Mobile. Myriad Mobile was co-founded by Jake Joraanstad and Ryan Raguse. Since 2011, Myriad has worked with companies and organizations to deploy more than 650 technology solutions that solve problems, refine a competitive advantage, build a paperless process and empower representatives or customers through mobile technologies.

With an emphasis in agriculture, Myriad Mobile provides solutions and opportunities for members of the agricultural community. With the development of Myriad's first product, Bushel, growers are allowed real-time access to their account and crop production data all while developing stronger relationships with their elevators.



Myriad Mobile

Location: Fargo, North Dakota
Omaha, Nebraska

Number of Employees: 60

Lead Bank: Choice Financial

Loan Program: BND Accelerated Growth Loan

Myriad Mobile used the funding to purchase a small company in Omaha, Nebraska, with over 60 clients in the agricultural industry and is upgrading many of those customers to the Bushel product over the course of 2018 and 2019. The funding and acquisition will help bring more than 10 new jobs over the next year at Myriad Mobile in Fargo, North Dakota.

Beginning Entrepreneur Loan Guarantee

In response to a resounding need for more access to capital and services for small businesses, entrepreneurs and startups, the Beginning Entrepreneur Loan Guarantee limit and maximum net worth requirements increased to \$500,000 from \$200,000. It may be used in conjunction with other BND programs and allows the local lender to support economic development while spreading their risk.

PACE/Flex PACE Loan Programs

BND updated the PACE eligibility guidelines requiring the borrower to be a primary sector business as defined by N.D.C.C. § 1-01-49 and to be certified by the North Dakota Department of Commerce. This change unifies the definition of a primary sector business across state agencies and eliminates confusion as to eligibility.

A significant change in the program was to disconnect the PACE buydown from the amount of the loan received by the business. Now, a company can receive a PACE buydown based on actual job creation or the total investment in a new or business expansion project. In addition, the state buydown portion funded by BND was increased from a maximum of \$300,000 to \$500,000. PACE helps communities expand their economic base with both the local lender and community involved in identifying the community needs and providing financial support.

Flex PACE is an alternative program offered by BND that allows communities to provide assistance to businesses that meet the definition of essential services or don't meet the primary sector definition of PACE. Specific options have also been developed for child care facilities and affordable housing projects. The Flex PACE buydown provided by BND increased from \$100,000 to \$200,000 for a business project. Child care projects are eligible for up to \$300,000 in buydown, and affordable housing projects can receive \$500,000 in Flex PACE buydown from BND.

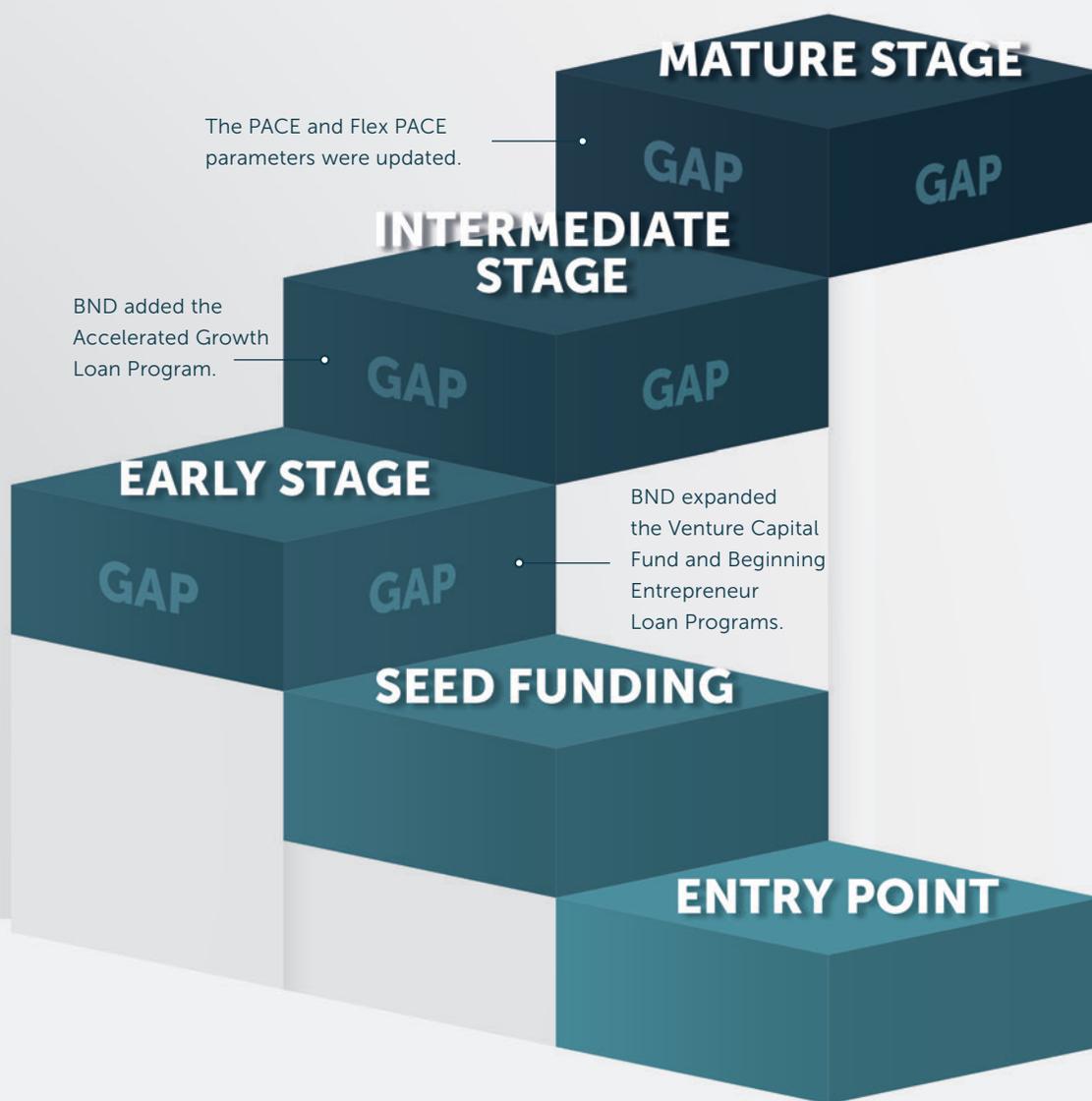
Venture Capital Fund Program

BND is enhancing support of entrepreneurs and early-stage startup companies through its New Venture Capital Fund. There will be a new emphasis to invest in pre-revenue companies, support local community efforts to provide seed capital and enhance public-private partnerships to stimulate early-stage investing in North Dakota companies. This fund is managed by the North Dakota Development Fund, a division of the North Dakota Department of Commerce.

Economic Development Road Map

The economic challenges of a community vary depending on local, state, national and global influences.

A successful business stays in tune with these influences and adjusts its business plan accordingly. In North Dakota, programs have been developed to address the financing needs at every stage of development.



Mature Stage

- Bank Financing
- BND PACE/Flex PACE
- Private Sector Equity
- SBA Loans

Intermediate Stage

- BND Accelerated Growth Loan Program
- BND Venture Capital Fund
- North Dakota Development Fund
- Private Sector Venture Capital Funds

Early Stage

- BND Beginning Entrepreneur
- BND Business Development Loan
- BND Venture Capital Fund
- North Dakota Development Fund
- Private Venture Capital Fund
- Private Sector Angel Funding

Seed Funding

- BND Beginning Entrepreneur
- BND Venture Capital Fund
- Innovate North Dakota
- Research ND

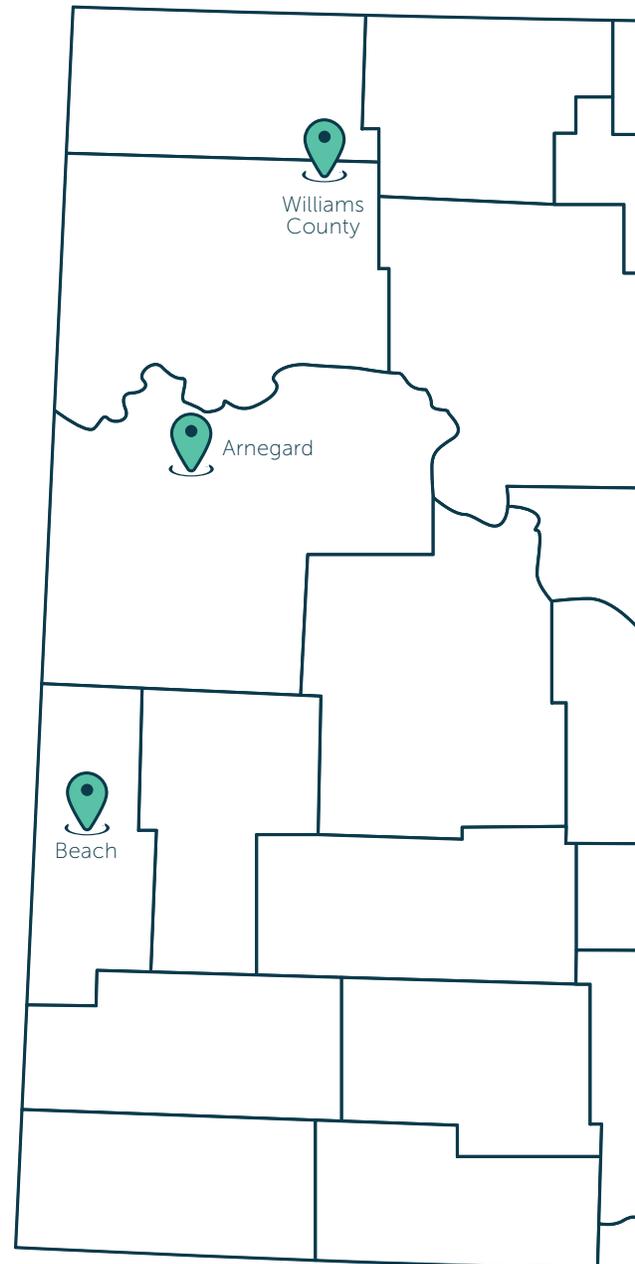
Entry Point

- Department of Commerce
 - Entrepreneur Centers
 - Local EDC Organization
 - Local Financial Institutions
 - Million Cups
 - Regional Councils
 - SBA, SCORE & SBDC
 - University Research Centers
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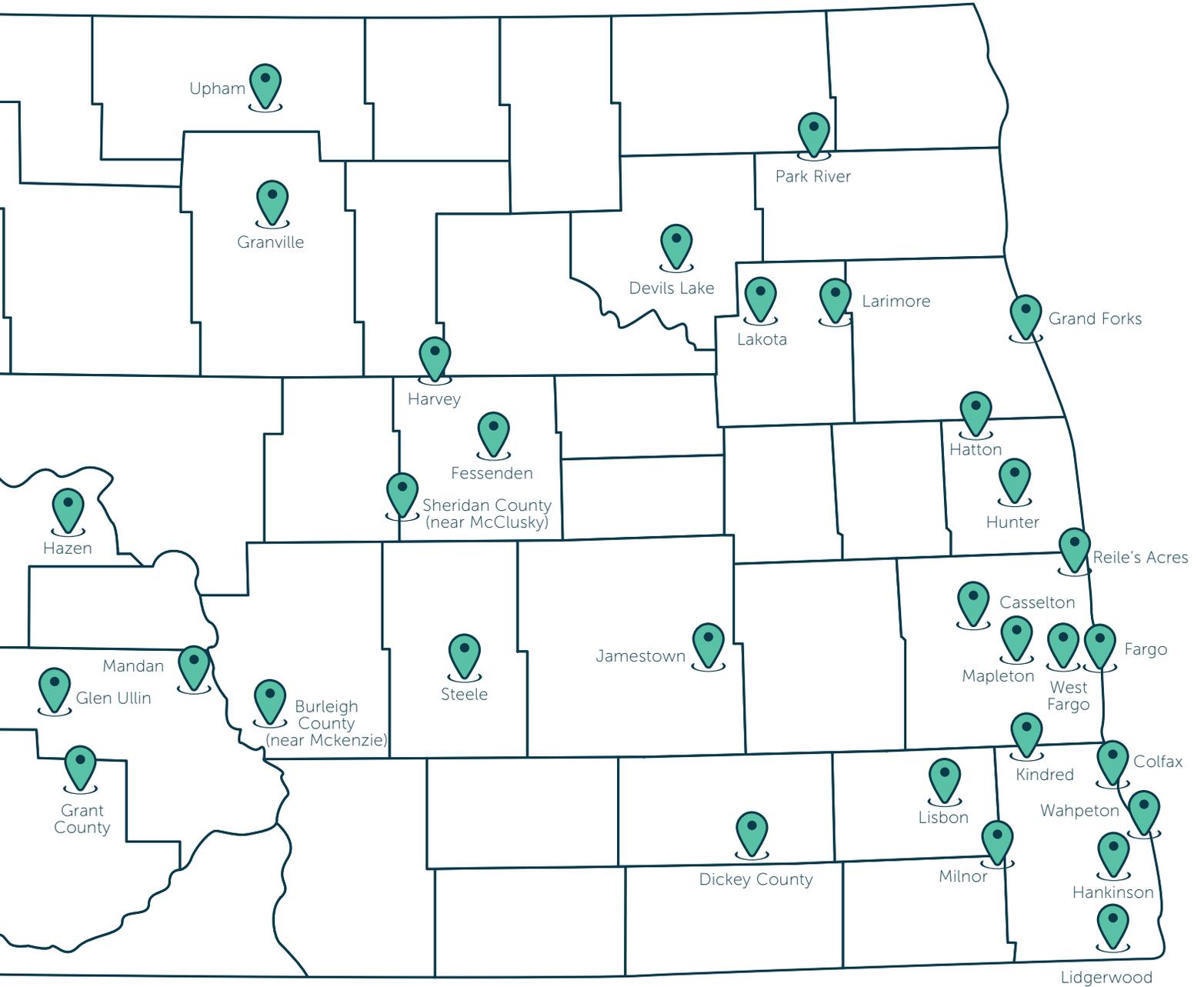
Infrastructure

The 65th Legislative Assembly approved infrastructure funding in Senate Bill 2178. In 2017, \$120 million of BND loans improved water, sewer and road infrastructure in 18 communities. The total funding in this program was for \$150 million which is now fully subscribed.

Focus groups identified five areas of need: gap financing for infrastructure projects with special attention to airports, flood diversion and water-related projects; replacement of existing, aging infrastructure in small and rural communities; the ability to package projects and gain access to various programs simultaneously; new infrastructure for growing communities; and the ability for larger communities to access more substantial state funding through Bank of North Dakota and the Public Finance Authority.



2017 Infrastructure Funding Recipients



Agriculture



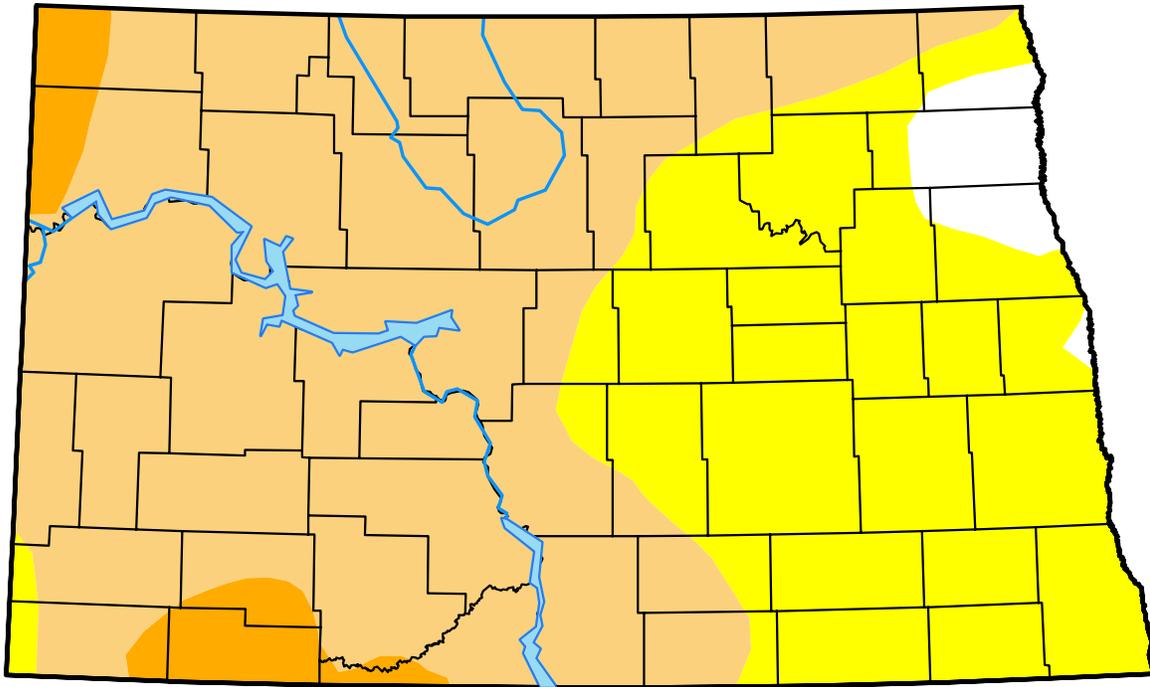
With more than 80 percent of the state impacted by drought in 2017, Bank of North Dakota offered two new loan programs that assisted livestock producers. Because of timely rains in many areas, the need abated somewhat.

Although no borrowers took advantage of the Breeding Stock Rebuilding Program which allowed them to purchase and rebuild breeding stock to average levels predrought, it is expected that there may be some demand moving into spring of 2018. The Feed Cost Loan program assisted two livestock producers.

BND received input from lenders across the state in early 2018 regarding the needs of grain producers, and the local bankers preferred to resolve financing concerns with the borrowers and didn't feel there was a need for a specific BND program.

U.S. Drought Monitor North Dakota

March 6, 2018
(Released Thursday, Mar. 8, 2018)
Valid 7 a.m. EST



Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary.

Educating the workforce



An educated workforce is an essential component of a strong economy. Since Bank of North Dakota distributed the first federally insured student loan in the United States in 1967, our support for higher education has expanded. Today our programs help North Dakota's residents prepare and pay for college, cradle to career.

Business leaders across the state are seeking more technically skilled workers for middle-skill jobs. These jobs require an education beyond high school but not a four-year degree. According to the North Dakota Department of Commerce, 42 percent of North Dakota residents have an associate degree and 28 percent have a bachelor's degree.^{*(1)}

*Based on five-year data of North Dakota residents, 25 years of age and older. This data is cumulative meaning that a resident who has earned more than one level of degree will be included in each of the respective fields.

(1) Kevin Iverson, personal communications January 19, 2018

College SAVE

There were nearly 22,000 College SAVE accounts for North Dakota residents with \$145 million in assets at the end of 2017. North Dakotans made 2,380 qualified withdrawals totaling \$4.55 million.



College planning resources

More than 3,200 high school seniors from 120 high schools took advantage of BND paying a one-time application fee to a ND college at their school's College Application Month event. An online college handbook and weekly Facebook Live sessions educate families on a variety of topics.



Scholarships

BND provides more than \$100,000 in scholarship funding to 67 local Dollars for Scholars chapters and North Dakota Dollars for Scholars. In addition, 50 high school seniors attending a North Dakota college received BND's \$500 Real Deal Scholarship, with one of them receiving an additional \$3,000.



Student loans

Just over 10,000 students used Bank of North Dakota's student loan program to pay higher education costs in 2017. North Dakota residents and out-of-state residents attending a North Dakota college can borrow with no fees and lower interest rates than most private loans.

Refinancing student loans

This program has successfully been used by North Dakota businesses as a recruitment tool. More than 10,000 North Dakota residents have refinanced all their student loans, including federal student loans, with BND. The average amount refinanced is \$48,876; \$534 million has been refinanced since April 2014.



2018-2020 Strategic Plan



The 2018-2020 Bank of North Dakota Strategic Plan was released in December 2017. BND relies on its mission and vision statements as the foundation for the Bank's strategy:

Mission

To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.

Vision

BND is an agile partner that creates financial solutions for current and emerging economic needs.

Several economic development-related trends impacting Bank of North Dakota were highlighted through focus groups and the strategic planning team:

- The speed of change and the ability to develop a workforce with the skills to handle it
- Workforce shortages
- North Dakota's population growth
- Growth in millennials in relation to other groups and their influence on job expectations, purchasing behaviors and housing expectations
- Succession planning for the agricultural industry



Two of the five 2018-2020 strategies specifically address economic development.

Strategy: Drive economic growth and diversity

BND will build on its role in driving economic diversification by innovatively enhancing BND's financing solutions.

Initiatives:

1. Expand BND's leadership role as economic development financing experts, strengthen its ability to facilitate the financing of very large projects and provide programming that drives economic diversification.
2. Grow BND's role in financing municipal infrastructure projects.
3. Collaborate with relevant agencies to enhance the availability of affordable housing.

Strategy: Expand access to postsecondary education

BND will strive to be the preferred and trusted resource North Dakotans choose for planning and preparing for and financing postsecondary education.

Initiatives:

1. Explore funding needs of nontraditional students.
2. Determine how to help students achieve learning goals with reasonable debt levels.
3. Build education market partnerships.
4. Enhance marketing of College SAVE and student loan programs to use for workforce development.
5. Refine and enhance financial literacy efforts to engage students at an earlier age to help prepare them financially for the future.



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