

TESTIMONY TO THE SENATE HUMAN SERVICES COMMITTEE

SENATE BILL 2121

BOB HUMANN – SVP OF LENDING

BANK OF NORTH DAKOTA

JANUARY 19, 2011

Section 1 of Senate Bill 2121 repeals Chapter 6-09.6 of the North Dakota Century Code referencing the Developmentally Disabled Loan Funds (Fund). The purpose of this Fund is to provide financing to nonprofit corporations for project costs related to the establishment of facilities for developmentally disabled, chronically ill, and physically disabled persons. All applications for this Fund must be approved by the North Dakota Department of Human Services. The loans are not to exceed three-fourths of project costs and can be secured by a second mortgage position against the facility. The loans are set up for a term of 25 years. The interest rate is fixed for 25 years at 10.50% for loans relating to facilities for developmentally disabled persons, and 5% for loans relating to facilities for physically disabled persons and chronically mentally ill persons.

There were three separate funds started under this legislation with Fund No. 1 originated in 1981 with four million dollars from the land and minerals trust fund of the State Board of University and School Lands (SLD). This Fund was discontinued in 2003 with outstanding loans of \$2,004,257 purchased by the Bank of North Dakota (BND) with the funds transferred to the general fund. Fund No. 2 was established in 1982 with five million dollars borrowed from the common schools trust fund of SLD. The remaining loan in this Fund was paid in full in the summer of 2010. Fund No. 3 was established in 1985 with \$4,951,145 from the common schools trust fund of SLD. There are 6 loans remaining in this Fund which total \$694,840. There is a balance of \$598,371 of availability in Fund No. 3. The last loan originated out of this Fund was for \$75,000 in 2001.

Section 2 would allow the outstanding balances of Fund No. 3 to be transferred to BND with the proceeds to be deposited in the common school trust fund. The outstanding balance of the six loans when this bill was pre-filed was \$694,840. Since the pre-filing date, a developmentally disabled provider has come forward that will most likely use the remaining Fund No. 3 balance of \$598,371. Because of this an amendment is attached to reflect this change with a total dollar amount of \$1,293,211.

With the shrinking Fund size not justifying the annual audit cost and lack of demand due to the interest rate structure, the recommendation to dissolve the remaining Fund is prudent. BND has met with the Department of Human Services (DHS) and Association of Community Providers (ACP) and we have all concluded that it is time to eliminate the Fund. We have also concluded that the financing needs of the providers can be addressed by traditional bank financing or by North Dakota Lenders working with BND on a loan participation basis. BND is willing to use the Flex PACE Loan Program to provide interest buy down to providers to reduce the interest rate by up to 5% from market interest rates. Also, BND is willing to work with North Dakota Lenders, DHS and ACP to create a program that will provide an option for 25 year fixed interest rates. Your approval is recommended.

At the Request of the Bank of North Dakota

PROPOSED AMENDMENTS TO SENATE BILL 2121

Page 1, on line 9, replace \$694,840 with \$1,293,211.