

# The Bank of North Dakota is Thriving Today

by Ruth Caplan

With this robust history, the Bank of North Dakota (BND) was well positioned to respond to two devastating floods: the Red River flood of 1997 and the statewide flood of 2011. When the Red River rose 54 feet and breached a dike upstream, the city of Grand Forks flooded. Electrical equipment shorted out, causing a fire that burned down eleven buildings, 60 apartments, and the Grand Forks Herald with its 120 year archive. Fifty thousand people were evacuated. Three hundred fifteen businesses and 75% of area homes were inundated. Property losses topped \$3.5 billion. The BND not only quickly came to the rescue with nearly \$70 million in credit lines, it also coordinated disaster relief with the North Dakota Community Foundation and worked with federal agencies to defer student and home loans.

In 2011, when all of North Dakota's river basins flooded, BND again deferred mortgage and student loan payments. The bank loaned millions of dollars to state agencies for flood recovery efforts and created a Rebuilders Loan Program through local lenders offering loans at no more than 1% for the first 20 years and deferring payments altogether for the first 2 years. Another program provided financing for new construction, rehab and rentals to prevent homelessness.

Of course, banks are in the business of making loans and that's what BND primarily does. Over the years BND has developed a diversity of loan programs serving farmers, homeowners, students, and businesses ranging from small start-up to high tech businesses.

Most loans are made through participation with a lead financial institution, usually a bank, savings and loan, credit union or Farm Credit Services; however, the legislature has given BND specific lending authority to make loans to individuals, e.g., to help new farmers get started and students afford college.

It also provides low-cost financing for agricultural and commercial ventures. PACE (Partnership in Assisting Community Expansion) is BND's primary commercial lending program. The loans are

done in partnership with local financial institutions, allowing local banks to participate in loans, which they could not make on their own given their size. Unlike when they do loans with Wall Street banks, the local banks don't need to worry about having their customers stolen.

Flex PACE allows the community to determine loan eligibility and accountability standards for borrowers that do not qualify under PACE, in order to retain jobs, promote retail and smaller tourist businesses, and provide essential community services.

Ag PACE helps farmers diversify by investing in nontraditional agricultural efforts to create "value added" processing plants or other related businesses.

Other BND commercial loan programs are aimed at beginning entrepreneurs, higher risk endeavors, venture capital, and, most recently, financing non-profit healthcare facilities.

Recently BND initiated a home loan program. Surprisingly, the North Dakota Bankers Association is fully supportive. Their statement highlights unintended consequences.

*Over the past years, because of the regulatory burdens our banks face by the passage of Dodd-Frank, and now the creation of the Consumer Financial Protection Bureau, it has become very prohibitive for a number of our banks to provide residential mortgage services anymore. We, two years ago, worked both with the Independent Community Bankers Association, and our Association and the Bank of North Dakota to come up with this idea in this program to help the bank provide services into the parts of the state that really residential mortgaging has seized up. We have a number of our banks that have terminated doing mortgage loans in their communities. They have stopped the process because they cannot afford to be written up by their regulator.*

Over the years, BND has proven to be flexible and innovative because it is not driven by maximizing profits, but rather to serve the people, local businesses and communities of North Dakota by working in

partnership with existing financial institutions. Today North Dakota has a thriving private banking sector able to withstand the tsunami of the 2009 financial crisis and to prevent being taken over by Wall Street banks, largely due to the presence of the Bank of North Dakota.

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## Why It Works in North Dakota

*"...the Bank of North Dakota is successful because we are partners with North Dakota's financial institutions, not competitors. This was so important that one of the bank's founding principles was "to be helpful to and to assist in the development of state and national banks and other financial institutions and public corporations within the state and not, in any manner, to destroy or to be harmful to existing financial institutions." This directive continues to guide every decision made at the bank today."*

Eric Hardmeyer, BND President and CEO