

2023 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1420

2023 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HB 1420
01/23/2023

Relating to a small business diversity revolving loan fund; to provide a continuing appropriation; to provide an appropriation; and to provide a transfer.
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Chairman Louser called to order 9:37 AM

Members Present: Chairman Louser, Vice Chairman Ostlie, Representatives Boschee, Christy, Dakane, Johnson, Kasper, Koppelman, Ruby, Schauer, Thomas, Tveit, Wagner, Warrey.

Discussion Topics:

- Developing criteria
- Loan approval
- Percentage of ownership
- Locked interest rate
- Information tracking data
- Business development centers
- Economic justice
- Access to capitol
- Unique economic barriers
- Strong vetting process
- New American responses
- Revolving loan fund
- Low interest fixed rate
- Repay ability
- SBA micro loans
- Equal Credit Opportunity Act
- Community Re-investment Act
- Decisions on risk
- CFBB complaints

In favor:

Representative Mary Schneider, District 21 prime bill sponsor, #15677
Christy Dauer, Executive Director, ND Women's Business Center #15260
Fowzia Adde, The Immigrant Development Center, #14929

Opposed:

Kelvin Hullet, Senior Vice President, Business Development, Bank of ND, #15160

Neutral:

Lisa Kruse, Director of ND Financial Institutions (no written testimony)

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Additional written testimony:

Christopher Deery, Cass County Veterans Service Officer, #14851

Cherie Harms, Female small business owner Leonardite Products, #15013

Shannon Duerr, Cavalier County Job Development Authority, #15154

Travis Zabloutney, District 5 Republican Chairman, Minot #15290

Chairman Louser adjourned the meeting 11:04 AM

Diane Lillis, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HB 1420
01/31/2023

Relating to a small business diversity revolving loan fund; to provide a continuing appropriation; to provide an appropriation; and to provide a transfer.

Chairman Louser called to order 3:35 PM

Members Present: Chairman Louser, Vice Chairman Ostlie, Representatives Boschee, Christy, Dakane, Johnson, Kasper, Koppelman, Ruby, Schauer, Thomas, Tveit, Wagner, Warrey.

Discussion Topics:

- Credit test basis
- Discrimination
- Diversity

Representative Ruby moved a do not pass.
Representative Tveit seconded.

Roll call vote:

Representatives	Vote
Representative Scott Louser	Y
Representative Mitch Ostlie	Y
Representative Josh Boschee	N
Representative Josh Christy	Y
Representative Hamida Dakane	N
Representative Jorin Johnson	Y
Representative Jim Kasper	AB
Representative Ben Koppelman	Y
Representative Dan Ruby	Y
Representative Austen Schauer	N
Representative Paul J. Thomas	Y
Representative Bill Tveit	Y
Representative Scott Wagner	Y
Representative Jonathan Warrey	Y

Motion passed 10-3-1

Representative J Johnson will carry the bill.

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Chairman Louser adjourned the meeting 3:43 PM

Diane Lillis, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1420: Industry, Business and Labor Committee (Rep. Louser, Chairman)
recommends **DO NOT PASS** (10 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING).
HB 1420 was placed on the Eleventh order on the calendar.

TESTIMONY

HB 1420

1/20/2023

Dear House Industry, Business, and Labor Committee's

My name is Christopher Deery and I'm the Cass County Veteran Service Officer for said county. Prior to this position I worked for a non-profit (SENDCAA) and Gladys Ray homeless shelter that supported helping homeless veterans positively change the direction of their lives through housing, employment and education therefore I strongly support House Bill 1420 which would create a small business very low interest revolving loan program especially for women, minority persons, and our veterans.

Many veterans come home from deployments uncertain of their goals and what benefits they may have after serving their country. If enacted this bill would give veterans an avenue to pursue a small business loan and add a specific spark to rural and our local communities. Veterans know how to serve and this bill would be a great example of ensuring veteran leaders stay in our communities which in turn provides many other opportunities such as housing, education and the pursuit of the ultimate dream of small business ownership. The low interest rate to borrow would allow veteran owners time to grow within their start up and time could be spent focusing on satisfying their growing customer base.

Veterans in our state have served in all major crisis's when called upon and now is the time to help them once more with HB1420. Veterans have grit, honor, leadership skills and most of all respect for their communities and those living in them. What a wonderful way to repay veterans and those in the community by making their goals of small business ownership a reality.

Respectfully,

Christopher J Deery

Cass County Veteran Service Officer

OIF Veteran

The Immigrant Development Center (IDC) is a non-profit community development corporation located in Moorhead, Minnesota. Established in 2003, its purpose is to provide economic development opportunities for low-income immigrants. The mission is to build the capacity of business and economic skills within the immigrant population, ultimately leading to economic self-sufficiency.

IDC is currently engaged in entrepreneurial training programs with the goal of developing and building the base of entrepreneurship among refugees and immigrants by giving them the tools to open and sustain a business in the United States. We provide translation and interpretation services in multiple languages (English, Somali, Arabic, Swahili and Brava-tribal language) that includes entrepreneurship workshops, coaching to prepare a business plan, guidance during start-up or expansion, and access to financial products.

The clients served by IDC are economically and socially disadvantaged low-income immigrants, including women entrepreneurs, new citizens and refugees, many of whom speak little or no English. Most new immigrants and refugees in the Fargo Moorhead area arrived with few assets, lacking language skills or connections in the community, but many had owned a business in their home country, or have advanced degrees. Most have little or no knowledge of the English language. Cultural difference can be overwhelming for new immigrants or refugees who are seeking to start a new life, stabilize their family, or simply conform to the culture.

The majority of entrepreneurs we train at IDC trained were prior business owners in their home countries but recognized a need for additional training, specific to American business practices and procedures, understanding the U.S financial system as well as assistance in determining business feasibility to ensure there is a sufficient market to support their business plan, and to access business loans.

From this background, many of our clients are likely to be self-employed, as this provides an important means to improve their socioeconomic standing. However, raising funds for their business presents a significant challenge. Personal assets are often the main source of business financing and start-up capital, and language barriers and religious tenets prohibiting loans can hinder entrepreneurial behavior.

Another challenge that puts this particular demographic at a disadvantage is their lack of credit history and the herculean struggle of developing credit history which is a major requirement for accessing capital/funding from the banks. The traditional banking system requires specific criteria be met to open bank accounts and qualify for a loan. Meeting these criteria presents a significant hardship for immigrants/refugees who are seeking funds for business ventures.

Due to the factors enumerated above this demographic are vulnerable and have often times fallen victim to predatory lending because of their limited access to mainstream banking. Low-income households have difficulty securing financing and are most commonly denied loans due to debt-to-income ratios, poor credit history, lack of collateral and incomplete credit applications.

With the enactment of this bill, the micro, small, and medium-sized enterprise (MSME) sector, the backbone of society, would be bolstered. Small enterprises contribute to local and national economies and to the sustenance of livelihoods, especially among groups in vulnerable situations

When the bill is enacted, it will be viewed as fostering diversity, inclusion, and equity.

House Industry, Business, and Labor Committee,

Monday, January 23, at 9 a.m.

Room 327C in the Judicial Wing of the State Capitol.

Testimony in favor of House Bill 1420

Establishment of a Small Business Diversity Loan Fund

Cherie Harms
701-471-2704

cherie@leonarditeproducts.com

This written testimony is in favor of Bill HB 1420 allowing low interest loans for women, minorities and veterans through the establishment of a Small Business Diversity Loan Fund

The low interest loans that may be granted as result of this legislation will be extremely helpful to the economy of North Dakota. Reduced interest loan funds may help to start a business yet more importantly allow an existing business meet growing demands and to address the increasingly challenging workforce situation.

I am assuming the applicant for a low interest Diversity Bank of North Dakota loan must first be working with a lead bank. As a businesswoman who has started two North Dakota businesses, I can tell you grasping the attention of bankers can be difficult. I am also aware minorities in Northwestern North Dakota have run into the same situation. I am realistic enough to know the local, state and federal programs (Pace Buydown, SBA 504 loans and USDA rural development guarantees) I accessed when acquiring bank financing were integral to my ability to work with the local banks who in turn work with the Bank of North Dakota.

From experience I know banks will be more comfortable loaning \$10,000-\$45,000 knowing their customer will have less risk and the loans are supported by the Bank of North Dakota. With less customer risk, the lead bank will be more willing to lend capital.

This legislation is timely, when interest are rising at the same time North Dakota's needs for goods and service are increasing.

As conservative as North Dakota business lenders are, the risk to this revolving fund is almost nonexistent. The benefits to the state, especially rural North Dakota, will be measurable.

Cavalier County Job Development Authority

901 3rd Street Suite 5 ∞ Langdon, ND 58249 ∞ Phone: 701-256-3475 ∞ Fax: 701-256-3536 ∞ E-mail: shannon@utma.com

January 22, 2023

Dear Chairman Louser and Members of the House Industry, Business and Labor Committee:

Chairman and committee members, thank you for taking the time to read this letter. I would like to express my support for HB1420. The creation of a revolving loan fund with a low interest rate for minorities, women and veterans would be valuable to economic development in the state of North Dakota.

The organization I work for, the Cavalier County Job Development Authority (CCJDA), provides economic development services to Cavalier County. Several of our current loan clients would have benefited from a program like this had it been available at the time they started a business.

In the current economic climate with the prime interest rate being much higher than in recent years, low interest rate programs can be the deciding factor when an individual choose whether to start a small business. I feel like this is especially true in rural communities with a smaller customer base where profits margins can narrower.

I have been asked several times in my 15 years with CCJDA if there are any specific programs for veterans, women, or minorities. I usually must respond that there currently are not a lot of easy to access programs that I am aware of. As we frequently work with the Bank of North Dakota on Flex Pace loans, I feel having this program located at Bank of North Dakota would make it easy to access as many lenders and economic developers in the state already work with BND frequently. It would also help increase awareness of the program.

Thank you,



Shannon Duerr
CCCJDA Executive Director



PO BOX 5509, 1200 Memorial Hwy.
Bismarck, ND 58506-5509

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House Bill 1420
House Industry; Business and Labor Committee
January 22, 2023
Kelvin Hullet, SVP Business Development
Bank of North Dakota

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.

Good morning, Chairman Louser and members of the Committee.

My name is Christy Dauer. I am the Executive Director of the North Dakota Women's Business Center (NDWBC). I am joined by our Advocacy Director, Laiken Aune, and we are here in support of HB 1420 which would establish a small business diversity revolving loan program for women, minority, and veteran small business owners.

The North Dakota Women's Business Center is the leading voice, resource, and partner for women business owners statewide. Our mission is to amplify the collective voice and economic impact of the women we serve through advocacy efforts and by creating equitable access to critical business resources.

Throughout 2022, NDWBC board and staff invested in evaluating the direct needs of women business owners. We researched our market share, the business climate in North Dakota, and collected data. Our team also conducted listening sessions in eight communities across the state to hear directly from our clients about their business triumphs and challenges. We learned about their unique economic barriers, how geography plays a role in their stories, and what support looks like to them. The cities included were Williston, Minot, Devils Lake, Grand Forks, West Fargo, Jamestown, Bismarck, and Dickinson. The results indicated our clients continue to face challenges including access to capital, social expectations, gender and racial biases, work-life balance, and in some areas, legal inequities, and a lack of government support on the local, state, and federal levels. These challenges have lasting implications not just for historically underserved communities, but for the broader North Dakota economy.

North Dakota has a rich collection of women-owned business stories – rural training facilities for ice skaters that inspire Olympic excellence, trucking and distribution companies that ship our agricultural goods, architects whose designs leave a legacy on our prairie, archeologists whose work protects and preserves the history of North Dakota's Native Nations, and retail stores and restaurants that provide local communities a place to gather, experience cultural cuisine, tell their own stories and make new ones. According to the Small Business Administration, nearly 43% of North Dakota businesses are women-owned and each of their stories represents a person striving to create a better life for themselves, their families, and their communities.

We want North Dakota to be inclusive, equitable, sustainable, and overall grow economically. To succeed, we must invest in a new, collaborative approach that provides all business owners with the opportunity, funding, knowledge, and support necessary to grow and sustain businesses.

HB 1420 is a step in the right direction, and we encourage a Do Pass recommendation.

Thank you for your time. I will stand for any questions.



Travis Zabloutney
District 5
Minot, ND
1-22-2023

RE: HB1420 Testimony in Opposition

Chairman Louser and members of the house IBL Committee

My name is Travis Zabloutney. I am the current District 5 Republican Chairman in Minot. I am requesting a DO NOT PASS vote on HB1420.

Please let me begin testimony by providing a legal description of **DISCRIMINATION**:

Discrimination refers to the treatment or consideration of, or making a distinction in favor of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit. Discrimination can be the effect of some law or established practice that confers privileges on a certain class or denies privileges to a certain class because of race, age, sex, nationality, religion, or handicap. Federal law, including Title VII of the Civil Rights Act, prohibits employment discrimination based on any one of those characteristics. Other federal statutes, supplemented by court decisions, prohibit discrimination in voting rights, housing, credit extension, public education, and access to public facilities. State laws also provide further protection against discrimination.

Concepts constituting unlawful discrimination include:

That members of one race, color, national origin or sex are morally superior to members of another race, color, national origin or sex.

A person by virtue of their race or sex, is inherently racist, sexist or oppressive.

A person's moral character or status as privileged or oppressed is determined by race, color, national origin or sex.

A person, by virtue of their race, color, national origin or sex should be discriminated against or receive adverse treatment to achieve diversity, equity or inclusion.

As you should be able to clearly see is this Small Business **DIVERSITY** loan fund is discriminatory and has no place in North Dakota Century Code.

Please DO NOT PASS

Sincerely,

Travis Zabloutney

Bill Presentation and Testimony in Support of HB 1420

By Representative Mary Schneider

House Industry, Business and Labor Committee, Scott Louser, Chair

Monday, January 23, 2023

Chairman Louser and Members of the IBL Committee:

North Dakota is proud to be a business-oriented state. It supports many different groups and types of businesses through the Bank of North Dakota, the Commerce Department, the Small Business Development Corporation, Lake Agassiz Development Group, the SBA, banks, and a variety of other federal and private sources. Some of the programs or loan types may seem similar or have common features, but they are different from House Bill 1420 in important ways.

We have many programs for large businesses, major established corporations, and entrepreneurs just starting out. HB 1420, however, is focused on small businesses. That's in part because a substantial majority of all businesses in North Dakota are small businesses, and they are critical to providing the goods and services we need for our homes and communities.

- **72,723** small businesses are active in North Dakota, accounting for **98.8%** of businesses in the state.
- **210,948** North Dakotans are employed by small businesses, which is **57.7%** of the state's workforce.
- Accommodation and food services is the leading small business employer industry in North Dakota, followed by retail trade, health care, and social assistance.

(Sources: Tax Foundation, U.S. News, U.S. Census)

Bipartisan HB1420 is a bill to support and assist a targeted group of small businesses owned by women, minorities, and veterans. That cluster is an underrepresented grouping that other states have identified for precisely this type of access to low interest loans. Generally, the groups may have barriers to funding and development that limits their equality in business, so there is justification to expand their impact for unique reasons. Other states have afforded financial supports to maintain and expand their numbers for the economic health of their state's economy, and the well-being of its citizens. And we can do the same.

In our rural state it is especially important to maintain the strength of small businesses which provide critical goods and services necessary for our health, safety and well-being. Small business owners are our locals—our neighbors, friends, and small town employers.

This small business revolving loan fund would provide loans of amounts between ten thousand dollars and forty-five thousand dollars at one half of one percent per year for a maximum term of ten years.

Eligible borrowers must be a woman, minority, or veteran, a United States citizen, and a resident of North Dakota. An amendment to add a surviving spouse of a veteran to that list has been requested, and is being prepared.

Borrowers may use the funds for working capital, equipment purchases, inventory acquisitions, or other business expenses.

The Bank of North Dakota would administer the fund from an initial \$1 million appropriation from the general fund and the Bank would develop policies for loan participation with local financial institutions. As you know, they have a broad base of experience and ongoing relationships in that regard.

In North Dakota at present there are an estimated 3,368 female-owned businesses, 4.6% of the small businesses, 1,089 veteran-owned businesses or just 1.4 percent, and only 748 minority-owned businesses, a miniscule 1%.

That these groups are represented in small business ownership at disproportionately smaller numbers than in our state's population can be for many reasons. You will read or hear about some of them in testimony on this bill. All may have gaps in their business-related work histories. Many are unable to access traditional loans because of limits in credit histories, or insufficient loan guarantees. Bankers may be, by nature or profession, less likely to stray from tradition or take on untraditional businesses or borrowers.

Other states have focused on the limitations these groups face caused by their status as women, minorities, or veterans with service-related problems, all of which can limit options and needed resources to maintain and expand small businesses. Testimony in support of this bill also emphasizes the value of assisting these diverse businesspeople over the hurdles and past the barriers they can encounter. The three groups add a lot to the richness and diversity of our workforce, our product development, our business community, and our state's communities.

Access to supported low interest loans can make a big difference to small businesses owned by women, minorities, and veterans, while promoting equity and diversity. Compared to the state funds we expend to other projects, programs, and businesses, it is a small price to pay for some potentially big gains. Thank you for considering help and support for a trio of small business owners that need and can greatly benefit from this fund.