

LOAN POOL ACCOUNT POLICY

Definitions. The following definitions apply to the farm loan policy:

1. "Board" means the Board of University and School Lands.
2. "Bank" means the Bank of North Dakota established under North Dakota Century Code chapter 6-09.
3. "Commissioner" means the Commissioner of University and School Lands.
4. "President" means the President of the Bank of North Dakota as provided for in North Dakota Century Code chapter 6-09.
5. "Loans" means loans secured by a first mortgage on farm or ranch lands in the state. The security for these loans must not be encumbered by any prior mortgage, lien, tax lien, judgment, or other prior encumbrances, and all real property taxes must be current.
6. "Funds" means monies under control of the Board.
7. "Mortgagor" means a person who is a resident of the state of North Dakota or a legal entity registered in the state of North Dakota and conducting business in the state.
8. "Trusts" means permanent trusts and other funds managed or controlled by the Board.

Board Purchase of Loans Made by Bank. The Board will maintain a loan pool account at the Bank, in accordance with N.D.C.C. § 15-03-04.1. The Board will purchase, with funds on deposit with the Bank in the loan pool account, loans made by the Bank so long as the Bank certifies to the Board that the loans conform to N.D.C.C. chapter 15-03 and the farm loan policy. The Bank shall process all loans made through the investment of trust funds under control of the Board. The Bank will administer, collect, satisfy, or foreclose such loans and do all things necessary and consistent with the standard banking and lending practices in administering such loans on behalf of the Board.

Dedication of Funds to the Loan Pool Account. The Board will periodically dedicate such funds as it deems advisable to the loan pool account.

Withdrawal of Funds from Loan Pool Account. The Commissioner may withdraw from the loan pool account any funds not invested in loans, provided however, the Commissioner shall not withdraw funds needed to meet accepted loan applications in process.

Terms and Conditions. The terms and conditions for loans shall be set periodically by the Board. The President and the Commissioner shall advise the Board as to favorable interest rates, terms and conditions so that income will be maximized. The Commissioner can order an immediate suspension in the acceptance of any new loan applications upon notice in writing to the President. (Addendum A).

Authority of Bank. The Bank may invest monies in the loan pool account, as well as any monies that constitute payments of principal on outstanding loans, in new loans as long as such funds are on deposit in the loan pool account. Any loan payable to the Bank made in accordance with these policies may be endorsed to the loan pool account without recourse

against the Bank. The Bank shall conduct proper appraisals using FmHA, FLB, Bank appraisers, or other competent appraisers.

Duty of Bank and President. The Bank and the President will make a diligent effort to process loans with due speed and efficiency so that all funds dedicated to the loan pool account by the Board will be kept fully invested. Any funds in the loan pool account that are not invested in farm loans shall draw interest comparable to that paid on passbook savings accounts or money market demand accounts, whichever is greater.

Reporting Procedure. Each month the President shall fully account to the Board for all funds under the Bank's control.

Crediting of Principal Payments Received. The Bank will credit all receipts, payments, and collections of principal made on such loans to the loan pool account established in section 15-03-04.1 of the North Dakota Century Code.

Crediting of Interest Payments Received. Upon receipt of interest payments on loans, the Bank may deduct Bank service fee, foreclosure, and deeds in lieu of foreclosure charges and costs and shall credit the balance to the state farm loan pool account (#44-00-861). The Commissioner shall credit all proper trust income accounts in the proper proportion.

Bank Service Fee. In consideration for servicing the loan pool account, the Bank may charge a fee equivalent to one half of 1% of the unpaid principal balance of each loan. Such fee may only be deducted from interest payments actually received.

Mortgagor. Mortgagor must be actively engaged in the business of farming or ranching and the loan proceeds must be used for a farm-related purpose.

Costs and Fees. All costs associated with the application, including appraisal fees, actual expenses, abstractor's fees, filing fees and other costs, shall be borne by the loan applicant. The Bank may charge borrowers origination fees, rate reduction fees or other such fees only if the Commissioner, the President, and a member of the Bank's executive committee, acting unanimously, agree to such fees.

Penalties. There shall be no prepayment penalty assessed on loans originating in the Bank.

Renegotiation. The Bank is authorized to renegotiate the terms of mortgages in the loan pool account as follows:

1. Only prospective restructuring is allowed;
2. No principal or accrued interest may be forgiven; and
3. The Bank must follow sound banking practices in all debt restructuring and renegotiations.

The Bank is also authorized to renegotiate loans which are current when the borrower has asked for an interest rate concession due to competition in the marketplace. Any such renegotiation must be consistent with sound banking practices and the renegotiated rate must be within the guidelines for new borrowers.

Foreclosure. All foreclosures shall be handled in accordance with standard banking and lending practices and the Bank's procedure for processing delinquent farm loan mortgages. Reasonable costs incurred in connection with a foreclosure that is not redeemed shall be deducted from interest due the Board in accordance with this policy.

Deeds in Lieu of Foreclosure. The Bank may accept a deed in lieu of foreclosure, so long as the action is in accordance with standard banking and lending practices, N.D.C.C. §15-03-14, and the Bank's procedure in processing deeds in lieu of foreclosure. If it is in the best interests of the loan pool account, costs associated with accepting a deed in lieu of foreclosure may be deducted from interest due the Board in accordance with this policy.

Partial Releases. Partial releases may be made in accordance with standard banking and lending practices, provided however, that the unpaid principal after the release may not constitute a greater percentage of the value of the security remaining than the total principal bore to the total value of the security at the time of the loan. For purposes of this section the term "value" shall mean the appraised value as established at the time of the loan or the current market value of the remaining security, if less than the appraised value at the time of the loan. All releases must be requested in writing and must be approved by the President.

Subordination.

Documentation

1. Before subordinating its mortgage to an oil and gas lease, the Bank must review all documentation concerning the transaction, including, but not limited to:
 - a. The mortgage covering the real property which is the subject of the oil and gas lease;
 - b. The proposed oil and gas lease;
 - c. The sight draft(s) or other means of payment;
 - d. Any drilling title opinion, or division order title opinion which might have been prepared on the subject property insofar as the opinion relates to the interests of the Mortgagors.
2. The Bank will prepare a subordination agreement and an assignment of income.

Terms

1. A subordination agreement will be executed by the Bank in consideration of the payment to the Bank of all income received by a Mortgagor (lessor) under an oil and gas lease. The Mortgagor and the lessee must execute an assignment to the Bank of all income payable to the Mortgagor under the oil and gas lease. The subordination agreement will not be executed by the Bank of North Dakota before the oil and gas lease is executed nor before the assignment of income is executed.

2. Subordination for leases which are executed simultaneously with the assignment of income and subordination agreement:

When an oil and gas lease is being contracted for at the same time as the subordination, the Bank will subordinate to the oil and gas lease provided an assignment of income is also executed. All bonus money will be paid directly to the Bank for application as provided below.

3. Subordination for previously executed leases:

- a. When an oil and gas lease has been previously executed (and later a subordination is requested), and the Mortgagor is current on the note, the Bank will subordinate, if an assignment of income is also executed.

- b. When an oil and gas lease has been previously executed (and later a subordination is requested), and the note is in default, the decision of whether or not to subordinate to the previously executed lease shall be made in the discretion of the Commissioner and the Bank. In exercising this discretion, the Commissioner and the Bank shall consider the following factors:

- 1) Whether or not drilling is imminent on the tract;
- 2) Whether foreclosure proceedings are in process or likely to be commenced in the near future;
- 3) The prior repayment history of the Mortgagor (lessor);
- 4) Other outstanding debt of the Mortgagor (lessor);
- 5) Any additional consideration to be paid by the lessee for the execution of the subordination (which shall be applied by the Bank to the balance due on the loan).

4. The proceeds of the lease shall be forwarded by the lessee to the Bank. The Bank shall retain that portion of the proceeds of the lease which is required to bring the loan current. Once the loan is current, any excess in proceeds shall be returned to the Mortgagor (lessor).

ADDENDUM A

Terms & Conditions.

General Terms

1. \$3 million limit on total outstanding loans per borrower.
2. Adjustable rate with either 20 or 25 year loan terms and amortized payment schedules, with adjustments to the interest rate and payment schedule on every tenth anniversary date as appropriate; or fixed rate 20 or 25 year loan terms and amortized payment schedules.
3. Total amount of loan may not exceed 75% of the appraised value of the security.

Interest Rates

1. The interest rate at inception and at each adjustment date will be based on the following schedule, subject to the provisions of b and c below.

Premium over Federal Home Loan Bank of Des Moines Fixed-Rate Advances Rate

	<u>Credit Level I</u>	<u>Credit Level II</u>	<u>Credit Level III</u>
10 year adjustable	+2.0%	+2.5%	+3.5%
25 year fixed	+2.5%	+3.0%	+4.0%

The minimum interest rate for the 10 year adjustable and 25 year fixed loans will be as follows, subject to the provisions of paragraph b below.

	<u>Credit Level I</u>	<u>Credit Level II</u>	<u>Credit Level III</u>
10 year adjustable	6.50%	7.00%	8.00%
25 year fixed	6.75%	7.25%	8.25%

2. The Commissioner, the President, and a member of the Bank's executive committee, acting unanimously, are authorized to adjust the rate premiums by up to 50% from the amounts set out in paragraph "1" if conditions in the investment or farm real estate loan markets warrant such a change. The Commissioner, the President, and a member of the Bank's executive committee, acting unanimously, are authorized to adjust interest rate floors by up to 50 basis points from the amounts set out in paragraph "1" if conditions in the farm real estate loan markets warrant such a change. Any such adjustments need not be uniform across all term or credit quality categories.
3. Credit quality determinations, for purposes of establishing the appropriate rate premium for each loan, will be made by the Bank in the same manner as such determinations are made for the farm real estate loans made or participated in by the Bank.