Security First Bank

OF NORTH DAKOTA

Presented by:	Sarah Getzlaff, CEO Security First Bank of North Dakota
Before:	House Industry, Business and Labor Committee Representative Scott Louser, Chairman
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Chairman Louser and members of the House Industry, Business and Labor Committee, my name is Sarah Getzlaff. I am the Chief Executive Officer of Security First Bank of North Dakota with offices in Center, New Salem, Almont, Mandan and Bismarck. I am a 3rd generation community banker, born and raised in Center, ND following in the steps of my grandfather and father who have roots in New Salem. I currently live in Bismarck and work in Mandan. As a North Dakotan, a local small business owner and a community banker, I strongly oppose Engrossed Senate Bill 2266 and respectfully request a "Do Not Pass" recommendation from the Committee.

A little background – our bank is the only financial institution in all of Oliver County. Growing up in Center, which is the only town in Oliver County, I watched my dad support our community by donating his time to economic development boards, the housing authority, the 4H Premium Sale and many other local organizations. I saw the impact of the financial donations he directed to our school, to every church in town regardless of denomination and to almost every community event firsthand. I watched my dad meet with customers whenever and wherever they needed him. I clearly remember him leaving our house late one night to lend a customer cash out of his own wallet for a medical emergency. Just last summer, a friend of his complained about dancing in the dirt at the Oliver County Fair, so our bank donated a concrete dance floor. Stories like this were a constant part of my childhood and a tradition I am honored to continue. You only have to step inside a high school gym or attend the county fair to see that stories like this happen daily at community banks all across North Dakota.

One of the things I love about North Dakota is the overwhelming support for local businesses. We all know local business owners are not only investing in their communities through tax dollars, but through donations for every youth sport, the after-prom party, the county fair, etc. Local business owners are also spending a lot of time serving on church boards, school boards, economic development entities and so on. And, I think we can all agree that watching small towns lose their Main Street when Walmart or another non-local business moves in is heartbreaking – not only are you losing a local, Main Street businesses, but you are losing community volunteers. I know the credit union association represents both the biggest and smallest credit unions, but I have to wonder if this bill passes, if the local, small town credit unions who are in favor of this bill will actually become displaced or consolidated into one of the largest credit unions who are near to or over $1 billion in assets? This would be a devastating unintended consequence.

I grew up listening to my dad discuss the uneven playing field with Credit Unions, and often wondered how we got here – so I did a little research. Congress created a national credit union charter in 1934 – per the act, "membership in individual credit unions was limited to groups having a common bond or occupation" or "to groups within a well-defined neighborhood or rural district."[1] When the tax exemption was granted, credit unions were only allowed to having savings accounts (not even checking accounts) and to make small consumer loans. Since Congress intended credit unions to have a set purpose and a very limited business model, banks didn't really seem to take issue with credit unions or their tax exemption until the 1970's. So, what changed? In the 1970's, the NCUA, the national regulator for credit unions was established as an independent agency. The NCUA quickly focused on credit union expansion – both in number of members and in products offered. "Where early on, people viewed credit unions in terms of helping lower-income people or as kind of a social-services agency,"[1] the NCUA saw them as much more. Since the 1970's, the NCUA has continually expanded credit union authority – granting the power to open all types of deposit accounts, to make business and agricultural loans and to toss aside their original membership restrictions for arbitrary geographical boundaries, such as the 125 mile radius up for debate today. Since the NCUA has essentially turned credit unions into banks, but without going back to Congress to see if the tax exemption still makes sense, banks started to question why the government would allow such an uneven playing field.

I know none of us have any say over a national body like the NCUA, so this history may appear irrelevant and out of our control, but when you look at two local North Dakota businesses – say mine and a local credit union – which offer the exact same products and services – it's important to understand why bankers are opposing further expansion – as we stand today, there are two main difference between credit unions and bank: 1. bank owners pay state and federal income taxes, in addition to payroll and real estate taxes, while credit unions do not. 2. Credit unions have limits on membership. We do have control over whether or not we loosen memberships restrictions and if we loosen them, that only leaves the tax difference.

While advocates say the tax exemption is still warranted as Credit Unions have a required mission to serve people of low-to-modest means and provide services in underserved areas. Community Bankers carry out this mission every day. Even though it's not required by statute, it's every community bank's mission to serve its community and we do so every day regardless of income levels. It's the North Dakota way and the right thing to do. While federal examiners have pushed for us to make credit decisions based on set criteria, we always have and always will push back for our customers and our communities. I recently approved a $2,000 credit card for a ninety-year-old man without a credit score after another financial institution denied him, simply because he didn't have a credit score. We have made countless loans under $500.00 to consumers so they can pay their rent, buy their prescriptions or repair their vehicle – all without a loan fee and at a fair rate, regardless of credit score, simply because we know these people – they live in our communities and have strong character, just not the best financial situation.

Dakota Credit Union Association's "Welcome Back General Assembly" email stated they "keep money in their communities instead of shipping profits off to Wall Street" implying we North Dakota bankers ship our profits off to Wall Street, which is simply not true. This statement is misleading. All but a few banks in North Dakota are community banks. Wells Fargo and US Bank might be the only exceptions and their presence is diminishing. Wells Fargo doesn't even have Loan Officers in Bismarck anymore and is closing their north location. Our bank is a family-owned S Corporation with only a few shareholders – every single one of us pay Federal and North Dakota state income taxes totaling at least a third, if not more, of our income. My bank's local ownership and payment of taxes to the Treasury and North Dakota's Tax Commissioner is not unique – there's the Beall family in Minot, the Streifel's in Powers Lake, the Marchell's in Grand Forks, the Pahlke's in Mandan, the Hoffner's in Beulah, the McLean's in Edgley, the Stenjehem's in Watford City. The banks I just named are only a handful of the local families who own community banks. Other local banks, such as Bravera Bank and Commercial Bank of Mott, are employee-owned, which means their profits stay in their communities as well.

At first glance, increasing membership requirements from a 75 to a 125-mile radius seems fairly inconsequential. But, if this bill were to pass, it perpetuates the unchecked evolution of credit unions from their original focused purpose to full-service financial institutions. Offering identical products and services as North Dakota community bankers, but not paying a penny in taxes. Can you imagine if Target had to pay taxes, but Walmart didn't? If Representatives in the House had to pay income tax, but the Senators didn't? Or, if certain dentists, farmers, home builders or teachers had to pay taxes, while others providing the same exact same services didn't? It's not right. SB 2266 is viewed by some as simply helping the smaller credit unions compete, but it will undoubtedly deepen an already significant competitive gap between banks and credit unions, and likely benefit the growth of larger credit unions, not small ones.

As for whether or not banks make a profit? Yes, we absolutely do. Making a profit is essential to every healthy business. We need a profit to grow, to invest in and support the communities we serve, to increase our reserves for loan losses and like any other for-profit small business, for shareholder return. And, as a for-profit small business, we have an incentive to manage our expenses. With a 25-40% tax advantage, do we know if credit union returns are flowing through to members, or to increased salaries and unessential expenses?

I'll leave you with one last thought – if our bank makes a loan with a 5% interest rate, once you deduct the 35% we pay in taxes, our tax equivalent rate is 3.25%. If a credit union charges a rate of 3.5%, the consumer is getting a better deal and as a bank we appear overpriced because most don't understand the tax disparity, but the credit union is actually making a greater net profit at 3.5% than we are at 3.25%. Or, in simpler terms if we charge a dollar, we have 65 cents left, whereas a credit union could charge 80 cents and still have 80 cents left. They can honestly say they have saved the consumer money and forced us to bring our prices down, but you have to look at the whole picture - their costs are lower. The expansion of credit union geographic membership requirements means less tax dollars are going into our state and local communities and *that* affects all tax paying citizens, even the one who just saved 20 cents.

Chairman Louser and members of the House Industry, Business and Labor Committee, as a local, tax-paying North Dakota business owner, I respectfully request the committee not ammend the bill further and give a "do not pass" on Engrossed Senate Bill 2266.

Thank you for your time and attention.

Sarah Getzlaff

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