



Senate Bill 2266

Presented by: Barry Haugen, President
Independent Community Banks of North Dakota ("ICBND")

Before: Senate Industry and Business Committee
Senator Doug Larsen, Chairman

Date: January 31, 2023

Chairman Larsen and members of the Senate Industry and Business Committee (Committee), my name is Barry Haugen, and I am President of the Independent Community Banks of North Dakota (ICBND). ICBND membership totals over 50 independent community banks throughout our state. ICBND strongly opposes Senate Bill 2266 and respectfully requests a "Do Not Pass" recommendation from the Committee.

SB 2266 seeks to gut the credit union membership section of North Dakota Century Code in the interest of relatively unfettered expansion for certain credit unions at the expense of credit unions that wish to protect their service area. And the bill would certainly infringe upon the tax paying community banks that have effectively served their communities as Main Street stalwarts.

The bill would add "working, or attending school" to the membership qualification of a geographic region. This change, in and of itself, does not seem unreasonable.

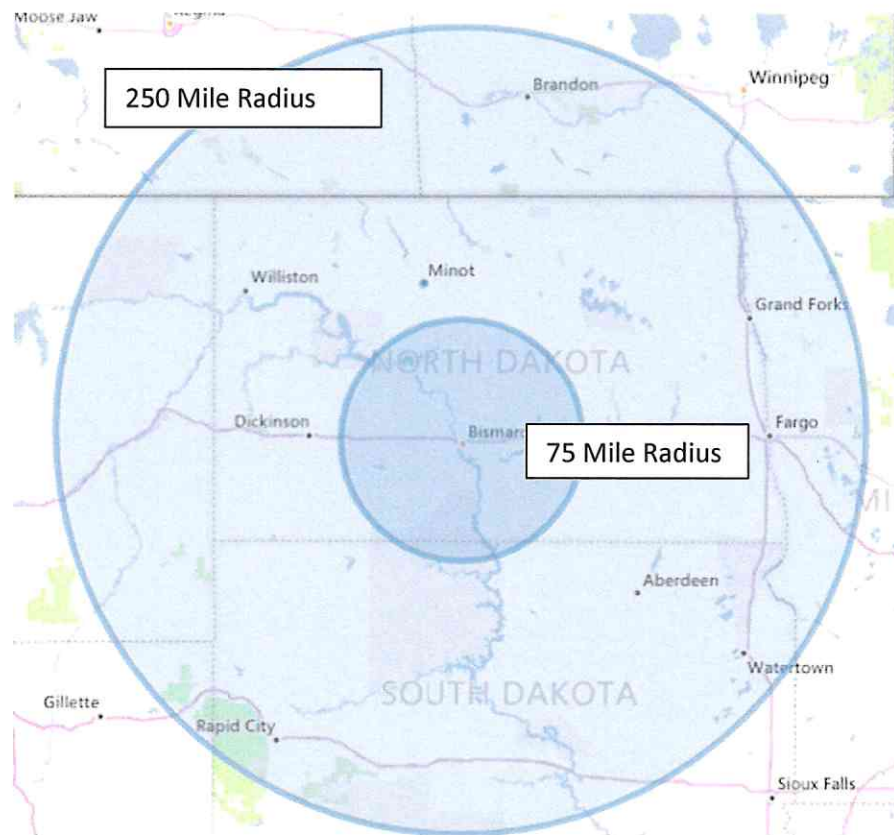
However, the other changes in Section 1 are dramatic and extremely problematic. The first of those is the proposal to change the geographic radius of membership from **75 miles from the credit union main office to 250 miles of ANY credit union office or branch**. Essentially, this would allow state-wide field of membership. And paragraph 4 of Section 1 would **allow a state-chartered credit union to apply for federal standards for field of membership – effectively asking you to allow credit unions to pick and choose statutes that work best for them**. This equates to a "belt and suspenders" approach to ensure the best of both worlds.

If passed, this legislation would pretty much establish two types of financial institutions in the state that would operate on a very uneven and inequitable playing field:

- credit unions who pay no federal or state income taxes and are not subject to the full set of regulations that community banks face, including Community Reinvestment Act rules; and
- community banks.

The credit union tax exemption is based on an outdated 100-year-old law that has never been revisited. Since that time, credit unions have become larger, more complex, and bank-like in their size, powers, product and service offerings, and fields of membership. With these changes, they've also assumed more risk. Credit unions were chartered by Congress to enable people of small means with a "common bond" to pool their resources to meet their basic deposit, savings and borrowing needs. While some credit unions operate that way today, this bill seeks to grow the membership and markets of other credit unions well beyond their statutory mission.

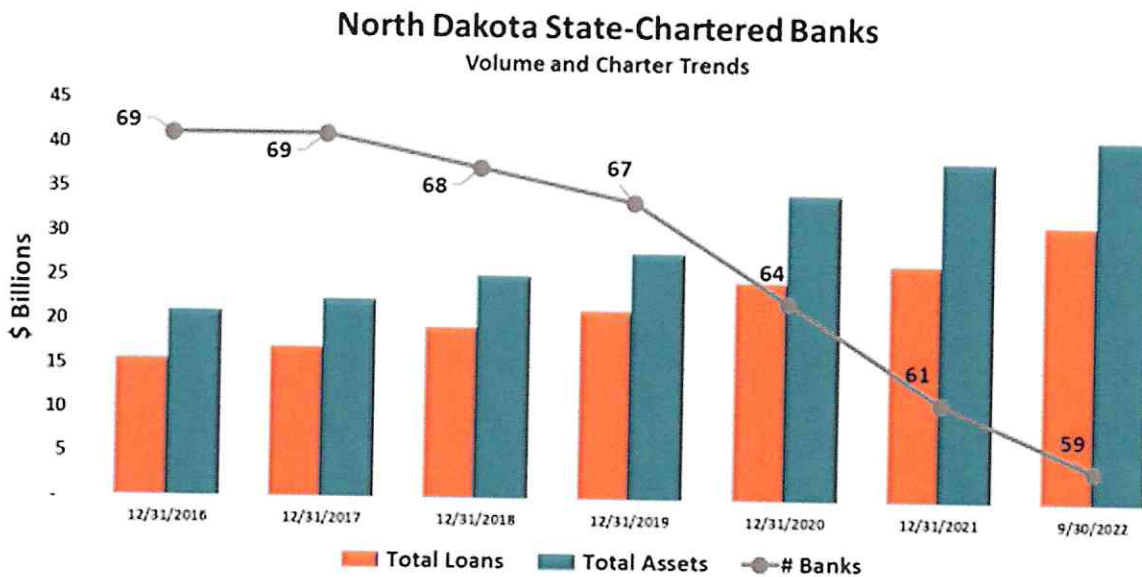
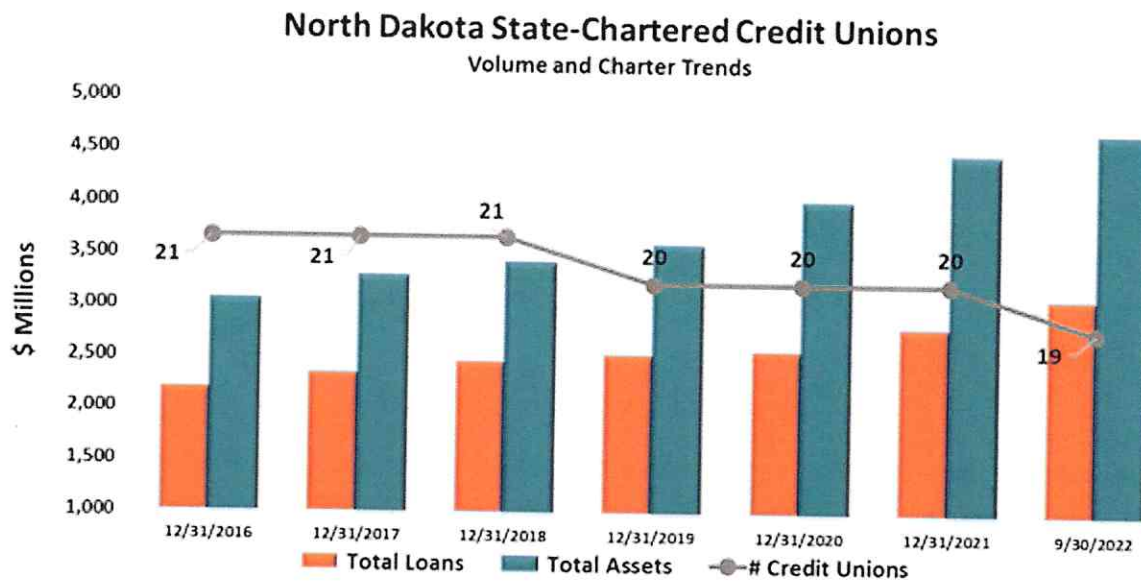
The Community Reinvestment Act (CRA) rules require banks to help meet the credit needs of the communities in which they do business, including low-and moderate-income neighborhoods. Credit unions are exempt from these rules presumably due to their intended membership by "common bond or occupation or association, or to groups within a well-defined neighborhood, community, or rural district". A 250-mile radius for membership does not fit that intent. The graphic below represents the effect to a central-North Dakota based credit union if this legislation passes.



Credit unions should not be allowed to have it both ways. They want to keep all the tax and regulation exemptions of the original intent but cast off any geographical limitations that provided for those exemptions.

Given this background, I now go back to my original question after reading the bill for the first time. What is this bill trying to solve? Has growth of credit unions been stymied by its field of membership rules in state code which were a result of bi-lateral compromise negotiations in a previous legislative session?

The data would indicate there have not been growth constraints on credit unions. Quite the opposite in fact. North Dakota Department of Financial Institutions, in their budget bill testimony, reported that the total assets of state-chartered credit unions grew by 18 percent from 12/31/2020 through 12/31/ 2022. By comparison, state-chartered banks grew total assets by 17 percent over the same period.



Source: North Dakota Department of Financial Institutions

Again, the graphs above me indicate that the total asset growth rate of financial institutions in North Dakota has been robust over the last two years and even slightly more robust by credit unions. While the number of state-chartered banks have declined by 10 since 2016, the number of state-chartered credit unions have declined by only two while credit union branches have grown by 14 locations to 111 across the state.

None of this data would indicate impediments to growth for credit unions in the state which brings me back to the original question – what is this bill trying to solve?

Chairman Larsen and members of the Senate Industry and Business Committee, ICBND sees no legitimate reason to pass this legislation and respectfully requests a “do not pass” on Senate Bill 2266. Thank you for your time and attention.

