

## MEMORANDUM

**DATE:** January 28, 2025  
**TO:** House Industry, Business and Labor Committee  
**FROM:** Corey Krebs, Assistant Commissioner  
**SUBJECT:** Testimony in support of House Bill No. 1507

Chairman Warrey and members of the House Industry, Business and Labor Committee, thank you for the opportunity to testify in support of House Bill No. 1507. I would also like to thank the bill sponsor, Rep. Vollmer for introducing this bill.

House Bill 1507 creates a new section in title 6 of the North Dakota Century Code and amends several other sections of title 6 to establish a new type of bank charter in North Dakota law. Historically, we had version of this type of charter up until 2007 when the then outdated law was rescinded. Not having this law means this was not a chartering option for financial institutions which otherwise may have used this charter if it was a better business fit for their operations. While we do not have any immediate

commitment to convert to this type of charter, we have been asked about it many times since 2007.

We believe that having this charter as an option is important for state's rights and the dual chartering banking system. Banking regulation in the United States is unique in the world since banks can choose to have a state charter or a federal charter. This creates an element of competition between the state government and the federal government, holding us both accountable to ensure banks operate in a safe and sound manner, but also ensuring the regulatory environment is not overly burdensome or otherwise stifling to innovation or profitability. We have this competitive environment for stock issuing community banks and credit unions, and this bill gives that same choice to those with a mutual ownership structure. Today, the only option for a mutual bank is to be federally chartered, and we would like to see that changed. Our department has a good history with our regulated institutions, with most banks and credit unions in North Dakota choosing a state charter, so to open it up for the mutual banks makes sense.

There are a few important things to note before I go into the specific sections of this bill. When I use the term mutual bank, cooperative financial institution, or savings and loan association, I am saying the same thing. These are basically different names for the same general concept, which is

a financial institution in the form of bank, which is not owned by shareholders rather it is a not-for-profit entity with a cooperative ownership structure.

It is also important to note that rather than establishing a whole new section of law covering every aspect of cooperative financial institutions, we crafted this for sections of existing laws governing community banks to also apply to cooperative banks, unless specifically exempt. This bill only creates one new section of law within title 6 to address areas unique to a cooperative financial institution. To get a complete picture of state laws governing this charter, a reader would also need to read the balance of title 6 in addition to the changes noted in this bill. For any new sections of law, we looked for consistency with the Office of the Comptroller of the Currency's mutual bank charter and Massachusetts's Cooperative Bank charter.

Looking at the specific sections of this bill, section 1 adds or amends several definitions. The most notable is the amendment to the word "bank". Since the term "bank" is used throughout chapter 6 within laws relating to community banks, adding cooperative financial institution to this definition subjects this charter to all of the state laws governing other banks. This allows us to regulate two distinct charters with the same set of laws where possible.

Section 2 of the bill replaces some of the legacy terminology of “savings and loan association” within §6-01-15 replacing with the more modern terminology we are using for this charter, which is “cooperative financial institution”.

Section 3 of the bill addresses fees for organizing, branching, and converting as established in §6-01. Fees are set at rates comparable to those of community banks for the same activity.

Sections 4, 5, and 6 exempts cooperative financial institutions from governance type rules within §6-02 and §6-03 designed for stock-issuing community banks. These sections are not applicable since no stock is issued with a cooperative bank model. Rules addressing governance activities for cooperative financial institutions are addressed in later sections of the bill.

Sections 7, 8, and 9 create processes specific to a cooperative financial institution’s conversion and branching activity within §6-03. It also exempts cooperative financial institutions from surplus requirements as “surplus” is a term correlated with stock issuance.

Section 10 is a new section of law and to establish the corporate existence, governance, capital, and conversion for cooperative financial institutions. Sections of chapter 6 where the cooperative financial institutions

are exempted, are addressed here with provisions better tailored to the cooperative governance model.

Section 11 amends §6-05, allowing a cooperative charter to apply for fiduciary/trust powers, which is available to community banks.

Section 12 amends §6-06, eliminating outdated conversion processes from this section and inserting a reference to the section created in sections 10 and 11 of this bill where conversions are addressed.

Sections 13 and 14 amend §6-07.2 related to the process of voluntary and involuntary liquidations of a cooperative financial institution. The changes make it fit into existing processes for other charters.

Section 15 exempts cooperative financial institutions from §6-08-08.1 as this section of code relates to stock banks.

There is a fiscal note with this bill, but you will see that the department is not projecting any income or expenses related to this bill. We do not expect a conversion to this charter right away, a business decision such as this usually takes a few years to consider and plan for. When we do get a business to make this conversion, income and expenses will be roughly equal as assessments are set at a rate to offset costs. The size of the income and expenses varies depending upon the size of the financial institution making the conversion.

Finally, Chairman and members of the committee, we just received some additional feedback on this bill from some bankers with expertise on this type of charter. There were several suggestions which I characterize as important details that are worth adjusting within this bill. The big picture of what we are trying to do does not change, but several of the technical details could and should be improved upon to make this a more workable law. Additionally, we noted a drafting error that should also be addressed. If the committee will allow, I would ask for a few days to put together an amendment to implement these recommended changes.

Mr. Chairman, thank you for the opportunity to provide this testimony. I would be happy to answer any questions the Committee may have.