

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

10008

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Deanna Bell
Operator's Signature

10/30/03
Date

2003 HOUSE APPROPRIATIONS

HB 1008

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Deanna G. Smith
Operator's Signature

10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1008

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 17, 2003

Tape Number	Side A	Side B	Meter #
2	XX	XX	
Committee Clerk Signature <i>Kelly Schmitt</i>			

Minutes:

Timothy J. Karsky, Commissioner Department of Financial Institutes shared written testimony in support of HB 1008.

Rep. Timm asked if his department returned money to the general fund.

Timothy J. Karsky responded his department does not run with a surplus, therefore they don't add to the General Fund. His department is totally self-funding.

Chairman Carlisle made notice of the Agency response received regarding the Berg/Stenjechem letter.

Discussion was held regarding the payday loan industry and the current activity levels in the state of North Dakota.

Rep. Carlson asked if the fee structure is changing enough to cover the expenses for examinations.

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Deanna Gallardo
Operator's Signature

10/30/03
Date

Page 2
Government Operations Division
Bill/Resolution Number HB1008
Hearing Date January 17, 2003

Timothy J. Karsky, yes, Banks & Credit Unions are separate from the payday loan industry, their fee's are higher.

Chairman Carlisle asked about the turnover rate within the department

Timothy J. Karsky responded the 40% turnover rate in our Department with the examiners is related to salary issues. We were at a 60% rate in the last biennium with management positions included. We compete with the Financial Institutions and the Federal Government. We train our examiner but, we can't compete with the \$15,000 they add as starting pay.

Rep. Carlson asked if his department would be interested in a pay for performance incentive program

Timothy J. Karsky replied his department would be interested.

Rep. Koppelman asked how the state of North Dakota compared in taxation and regulations to other states.

Timothy J. Karsky responded his department works with many banking entities, our regulations are consistent with other states.

Jim Schlosser, North Dakota Bankers Association testified on behalf of HB 1008. He shared with the committee a concern over the department turnover rate, and indicated the banks would prefer to work with experienced examiners. He felt the department was run very efficient.

Chairman Carlisle asked if the legislature could do anything to improve the turnover rate,

Jim Schlosser replied increase the salaries and incentive package.

Timothy J. Karsky commented he requested a grade increase which has been accepted by OMB and would respond to the hiring situation in writing.

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10/30/03
Date

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Government Operations Division
Bill/Resolution Number HB1008
Hearing Date January 17, 2003

Bob Entringer, Assistant Commissioner in response to a questions from Rep. Skarphol

indicated the changing needs of his department dictate an increase in IT costs. We use the same software as the FDIC and we have to upgrade to maintain, we have to know what their operating system will be before we can make our plans. We upgrade laptops consistency due to processing chip issues.

Hearing no further testimony, the hearing was closed.

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Deanna Ballantyne
Operator's Signature

10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1008

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 23, 2003

Tape Number	Side A	Side B	Meter #
2	XX		
Committee Clerk Signature <i>Kelly Schmidt</i>			

Minutes: **COMMITTEE WORK**

Discussion was shared regarding the department turnover rate, and classifications as previously discussed in the budget hearing.

Tim Karsky, Commissioner, Department of Financial Institutions stated his department is receptive to a pay for performance program. His departments major goals is to re-classify Examiners 1, 2, and 3. In reference to the ITD expenses of his agency, his department does not have an IT person so, his department pays for all repairs.

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Deanna Ball
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10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1008

House Appropriations Committee
Government Operations Division

☐ Conference Committee

Hearing Date January 31, 2003

Tape Number	Side A	Side B	Meter #
1	xx		
Committee Clerk Signature <i>Kelly Schmidt</i>			

Minutes: **COMMITTEE WORK**

There was discussion regarding the pending proposal for the increase in job classifications for this budget.

Rep. Carlson commented he will see Joe in OMB for an amendment to reflect a pay for performance option.

Joe Morrisette, OMB, indicated the 1/2 FTE in the budget is a continuation that was authorized by the Emergency Commission.. The 1 FTE requested is for a credit union examiner position.. Currently this department has 14 bank examiners for 89 banks and 2 credit union examiners for 39 credit unions, one of which is a supervisor and is filling in. There is under staffing in this area and the credit union examiners are more simplified, thus the ratio is less.

Rep. Skarphol, voiced a concern with the increase in FTE. The direction is to see a decrease in FTE's, where there is a increase one place there should be an increase in another.

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10/30/03
Date

Page 2

Government Operations Division

Bill/Resolution Number HB 1008

Hearing Date January 31, 2003

Rep. Kroeber commented this agency is self-funded and the lobbyist are in support of this increase and will to pay for it.

Joe, OMB also shared there is a reduction in FTE's of approx. 100 in state government. The majority are in Human Services. See pg. 44 of budget book.

Chairman Carlisle called for a motion, a **DO PASS** motion was made by **Rep. Carlson** with a second by **Rep. Thoreson**, motion carried 8 -1.

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Deanna Gallardo
Operator's Signature

10/30/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1008

House Appropriations Committee

☐ Conference Committee

Hearing Date 02-11-03

Tape Number	Side A	Side B	Meter #
3	X		21.0 - 38.0
Committee Clerk Signature <i>Chris S. Nyman</i>			

Minutes:

Chairman Svedjan Opened HB 1008 for discussion. A quorum was present.

Rep. Thoreson Introduced the budget for the Department for Financial Institutions.

Rep. Carlson Are we addressing contractual services in a separate area? Most are IT related and they were a significant amount of money.

Chairman Svedjan There is an ITD task force looking at a lot of this.

Rep. Skarphol I understand it is possible.

Rep. Delzer Does that affect the number of computers in each budget?

Chairman Svedjan I don't know that any future proposed reductions would deal specifically with the number of computers. They would deal with dollars.

Rep. Skarphol It is the intent of the amendment to buy in bulk and create efficiencies.

Rep. Carlisle I move amendment .0101 to HB 1008. 2nd by Rep. Brusegaard.

Rep. Kerzman Are we going to do this on every budget?

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Deanna Hall
Operator's Signature

10/30/03
Date

Page 2
House Appropriations Committee
Bill/Resolution Number HB 1008
Hearing Date 02-11-03

Chairman Svedjan Yes.

Motion Carries

Rep. Carlisle I move Do Pass As Amended. 2nd by Rep. Kempenich.

Jim Smith There are a couple options. One is to reduce each agency appropriation. The other is to craft some language in the ITD appropriation bill to express the intent that you plan to reduce the appropriations in a total amount that would be determined relating to contractual services.

Rep. Skarphol This is a very involved process, and we can take care of it after crossover.

Rep. Carlson We should put intent language in the IT budget before it leaves here.

Rep. Kerzman For consistency, what if some budgets come in with reductions already made?

Isn't that a double whammy?

Chairman Svedjan I'm not in the position to answer that.

Rep. Skarphol If subcommittees have recommended cuts, one needs to note that to prevent double cuts.

Rep. Monson It would be safer to take each budget as we see them. How much time would it take?

Motion Carries. Rep Thoreson will carry the bill to the floor.

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Deanna Ball...
Operator's Signature

10/30/03
Date

Date: 01-31-03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1008

House Appropriations: Government Operations Division Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By Rep. Carlson Seconded By Rep. Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Carlisle	x				
Vice Chairman Carlson	x				
Rep. Koppelman	x				
Rep. Skarphol		x			
Rep. Thoreson	x				
Rep. Timm	x				
Rep. Glassheim	x				
Rep. Kroeber	x				
Rep. Warner	x				

Total (Yes) 8 No 1

Absent 0

Floor Assignment Rep. Thoreson

If the vote is on an amendment, briefly indicate intent:

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Deanna Ball
Operator's Signature

10/30/03
Date

38008.0101
Title.0200
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations
February 7, 2003

VR
2/18/03

HOUSE AMENDMENTS TO HOUSE BILL NO. 1008 Approp. 2-18-03

Page 1, line 9, replace "3,018,549" with "2,987,222"

Page 1, line 11, replace "3,691,275" with "3,659,948"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1008 - Department of Financial Institutions - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$3,018,549	(\$31,327)	\$2,987,222
Operating expenses	<u>672,726</u>		<u>672,726</u>
Total all funds	\$3,691,275	(\$31,327)	\$3,659,948
Less estimated income	<u>3,691,275</u>	<u>(31,327)</u>	<u>3,659,948</u>
General fund	\$0	\$0	\$0
FTE	25.00	0.00	25.00

Dept. 413 - Department of Financial Institutions - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE ¹	TOTAL HOUSE CHANGES
Salaries and wages	(\$31,327)	(\$31,327)
Operating expenses		
Total all funds	(\$31,327)	(\$31,327)
Less estimated income	<u>(31,327)</u>	<u>(31,327)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance.

3376
Date: _____
Roll Call Vote #: 19

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1008

House _____ Appropriations _____ Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass As Amend

Motion Made By Carlisle Seconded By Kempnich

Representatives	Yes	No	Representatives	Yes	No
Rep. Ken Svedjan (Chair)	✓		Rep. Bob Skarphol	✓	
Rep. Mike Timm (Vice-Chair)	✓		Rep. Blair Thoreson	✓	
Rep. Bob Martinson	✓		Rep. Eliot Glassheim		
Rep. Thomas Brusegaard	✓		Rep. Joe Kroeber	✓	
Rep. David Monson	✓		Rep. John Warner	✓	
Rep. Earl Rennerfeldt	✓		Rep. Jeff Delzer		✓
Rep. Francis J. Wald	✓		Rep. Amy Warnke	✓	
Rep. Ole Aarsvold	✓		Rep. Larry Bellew	✓	
Rep. Pam Gulleason	✓		Rep. Keith Kempenich	✓	
Rep. Ron Carlisle	✓		Rep. James Kerzman	✓	
Rep. Al Carlson	✓		Rep. Ralph Metcalf	✓	
Rep. Kim Koppelman	✓				

Total (Yes) ~~20~~ 21 No 1

Absent 1

Floor Assignment Thoreson

If the vote is on an amendment, briefly indicate intent:

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Deanna Ballantyne
Operator's Signature

10/30/03
Date

REPORT OF STANDING COMMITTEE (410)
February 18, 2003 12:08 p.m.

Module No: HR-31-3070
Carrier: Thoreson
Insert LC: 38008.0101 Title: .0200

REPORT OF STANDING COMMITTEE

HB 1008: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (21 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). HB 1008 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "3,018,549" with "2,987,222"

Page 1, line 11, replace "3,691,275" with "3,659,948"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1008 - Department of Financial Institutions - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Salaries and wages	\$3,018,549	(\$31,327)	\$2,987,222
Operating expenses	<u>972,728</u>		<u>972,728</u>
Total all funds	\$3,691,275	(\$31,327)	\$3,659,948
Less estimated income	<u>3,691,275</u>	<u>(31,327)</u>	<u>3,659,948</u>
General fund	\$0	\$0	\$0
FTE	25.00	0.00	25.00

Dept. 413 - Department of Financial Institutions - Detail of House Changes

	REMOVES RECOMMENDED SALARY INCREASE ¹	TOTAL HOUSE CHANGES
Salaries and wages	(\$31,327)	(\$31,327)
Operating expenses		
Total all funds	(\$31,327)	(\$31,327)
Less estimated income	<u>(31,327)</u>	<u>(31,327)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes the Governor's recommendation for state employee salary increases and retains the recommended state payment for health insurance.

2003 SENATE APPROPRIATIONS

HB 1008

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10/30/03
Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1008

Senate Appropriations Committee

☐ Conference Committee

Hearing Date 2-27-03

Tape Number	Side A	Side B	Meter #
2	X		0
Committee Clerk Signature <i>Sandra D. Olson</i>			

Minutes: Chairman Holmberg called the hearing to order. Defraying the expenses of the department of financial institutions-Bank of North Dakota was the issue.

Testimony in Support of HB 1008

Timothy Karsky - Commissioner, Department of Financial Institution (meter 2.7) Read

Testimony Exhibit #1 Discussed history of Bank of North Dakota

Sen. Christmann asked if (meter 11) a bank has branches in different towns is that considered one bank or several? One. There are twice as many "banks" as credit Unions but seven times as many examiners. The assets supervised is \$6.5 billion compared to \$1 billion.

Sen. Tallackson discussed fees scheduling (meter 12) in the past two years. We have not raised the assessments. This year we have a bill in to raise consumer fees \$100 licenses and \$100 investigative fees. These are to cover the positions that work solely on these items. Payday loans and its activity.

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Deanna Tallackson
Operator's Signature

10/30/03
Date

Page 2
Senate Appropriations Committee
Bill/Resolution Number HB 1008
Hearing Date 02/27/03

Sen. Kilzer discussed investigation process (meter 13.0) Depending if on the consumer or bank side.

Sen. Mathern asked about information sharing on payday loans (meter 14.5).

Sen. Tallackson questioned (meter 16) there opinion on payday loans. Discussed pros and cons and potential abuse.

Jim Schlosser - ND Banking Association, We represent the largest and smallest banks in the state of ND as members and we strongly support this legislation.

Greg Tschider - Supports Bill and its need for additional examiners.

Don Foresberg - Supports this legislation and budget.

Testimony in Opposition of HB 1008

None

Senator Ray Holmberg, Chairman closed the hearing.

Deanna G. Hall
Operator's Signature

10/30/03
Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1008 Vote

Senate Appropriations Committee

☐ Conference Committee

Hearing Date 4-3-03

Tape Number	Side A	Side B	Meter #
1	X		2918-3300
Committee Clerk Signature <i>Sandra Duvron</i>			

Minutes: CHAIRMAN HOLMBERG opened the hearing to vote for HB 1008. A bill to defray expenses of the department of financial institutions - Bank of North Dakota.

(Meter 2969) CHAIRMAN HOLMBERG passed out amendment (38008.0201). This agency's budget is special funds so the only change is the health insurance issue.

(Meter 3055) SENATOR ROBINSON made a motion to pass the amendment with a second by SENATOR ANDRIST. A voice vote passed the amendment.

(Meter 3109) A motion of DO PASS AS AMENDED by SENATOR ANDRIST and seconded by SENATOR LINDAAS. A roll call vote of 11 yeas, 0 nays and 3 absent was taken.

SENATOR MATHERN to carry the bill to the Senate floor.

CHAIRMAN HOLMBERG closed the hearing to HB 1008 (Meter 3300)

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Deanna Ballantyne
Operator's Signature

10/30/03
Date

38008.0201
Title.0300
Fiscal No. 1

Prepared by the Legislative Council staff for
Senate Appropriations
April 3, 2003

[Handwritten signature]
4-3-03

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1008

Page 1, line 9, replace "2,987,222" with "2,984,539"

Page 1, line 11, replace "3,659,948" with "3,657,265"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1008 - Department of Financial Institutions - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$3,018,549	\$2,987,222	(\$2,683)	\$2,984,539
Operating expenses	<u>872,726</u>	<u>872,726</u>		<u>872,726</u>
Total all funds	\$3,891,275	\$3,859,948	(\$2,683)	\$3,857,265
Less estimated income	<u>3,891,275</u>	<u>3,859,948</u>	<u>(2,683)</u>	<u>3,857,265</u>
General fund	\$0	\$0	\$0	\$0
FTE	25.00	25.00	0.00	25.00

Dept. 413 - Department of Financial Institutions - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	TOTAL SENATE CHANGES
Salaries and wages	(\$2,683)	(\$2,683)
Operating expenses		
Total all funds	(\$2,683)	(\$2,683)
Less estimated income	<u>(2,683)</u>	<u>(2,683)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 per month to \$488.70 per month.

[Handwritten signature]
Operator's Signature

10/30/03
Date

Amend
Bowman
Andrist
0201

Date: 4-3-03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1008

Senate Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 38008.0201

Action Taken Do Pass As Amend

Motion Made By Andrist Seconded By Krauter Lindaas

Senators	Yes	No	Senators	Yes	No
Senator Holmberg, Chairman	✓				
Senator Bowman, Vice Chair	✓				
Senator Grindberg, Vice Chair	✓				
Senator Andrist	✓				
Senator Christmann	✓				
Senator Kilzer	✓				
Senator Krauter	✓				
Senator Kringstad	✓				
Senator Lindaas	✓				
Senator Mathern	✓				
Senator Robinson	✓				
Senator Schobinger					
Senator Tallackson					
Senator Thane	✓				

Total (Yes) 11 No

Absent 3

Floor Assignment Mathern

If the vote is on an amendment, briefly indicate intent:

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Operator's Signature

Date

10/30/03

REPORT OF STANDING COMMITTEE (410)
April 3, 2003 4:04 p.m.

Module No: SR-60-6706
Carrier: Mathern
Insert LC: 38008.0201 Title: .0300

REPORT OF STANDING COMMITTEE
HB 1008, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (11 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). Engrossed HB 1008 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "2,987,222" with "2,984,539"

Page 1, line 11, replace "3,659,948" with "3,657,265"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1008 - Department of Financial Institutions - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Salaries and wages	\$3,018,549	\$2,987,222	(\$2,683)	\$2,984,539
Operating expenses	<u>672,726</u>	<u>672,726</u>		<u>672,726</u>
Total all funds	\$3,691,275	\$3,659,948	(\$2,683)	\$3,657,265
Less estimated income	<u>3,691,275</u>	<u>3,659,948</u>	<u>(2,683)</u>	<u>3,657,265</u>
General fund	\$0	\$0	\$0	\$0
FTE	25.00	25.00	0.00	25.00

Dept. 413 - Department of Financial Institutions - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	TOTAL SENATE CHANGES
Salaries and wages	(\$2,683)	(\$2,683)
Operating expenses		
Total all funds	(\$2,683)	(\$2,683)
Less estimated income	<u>(2,683)</u>	<u>(2,683)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment reduces the funding for state employee health insurance premiums from \$493 per month to \$488.70 per month.

2003 TESTIMONY
HB 1008

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Deanna K. Sullivan
Operator's Signature

10/30/03
Date

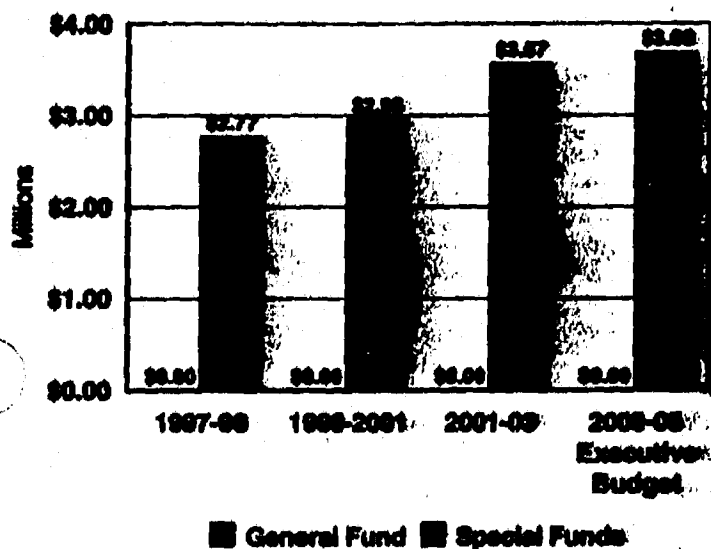
Prepared by the North Dakota Legislative Council
staff for House Appropriations
January 13, 2003

Department 413 - Department of Financial Institutions
House Bill No. 1008

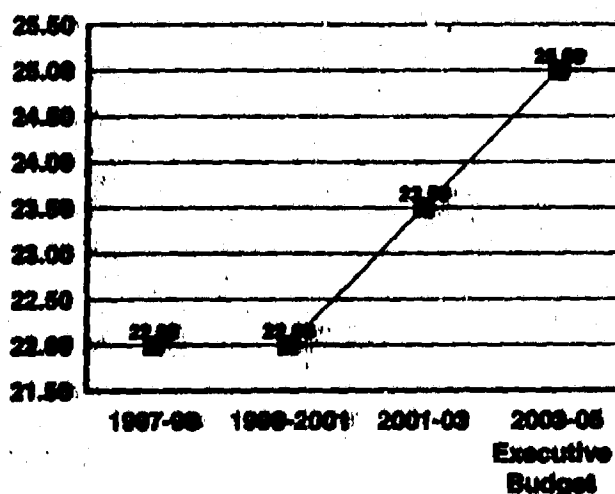
	FTE Positions	General Fund	Other Funds	Total
2003-05 Executive Budget	25.00	\$0	\$3,691,275	\$3,691,275
2001-03 Legislative Appropriations	23.50	0	3,565,141	3,565,141
Increase (Decrease)	1.50	\$0	\$126,134	\$126,134

The 2001-03 appropriation amounts include \$1,286 from special funds for the agency's share of the \$5 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees. The 2001-03 appropriation amounts do not include \$52,627 of additional special funds authority resulting from Emergency Commission action during the 2001-03 biennium.

Agency Funding



FTE Positions



Executive Budget Highlights

	General Fund	Other Funds	Total
1. Adds 1 FTE credit union institution examiner position		\$80,815	\$80,815
2. Provides funding for a .5 FTE consumer finance company examiner position		\$50,038	\$50,038
3. Decreases operating expenses, mainly due to completion of the office automation program, and to meet the 95 percent budget.		(\$142,760)	(\$142,760)
4. Provides funding to adjust examiner salaries in order to reduce turnover and improve examination services		\$167,010	\$167,010

Major Related Legislation

House Bill No. 1184 - This bill relates to the expiration and renewal for consumer finance licenses, provides for license renewals and renewal late fees for money broker and collection agency licenses, and creates a new section relating to the Department of Financial Institutions investigations and subpoenas.

Senate Bill No. 2128 - This bill increases the amounts for consumer finance, money broker, collection agency, and sale of check cashing fees and annual license fees.

Senate Bill No. 2158 - This bill relates to the powers of the Department of Financial Institutions; authorizes the suspension and removal of officers and employees from consumer finance, money broker, and deferred presentment service provider licenses; provides for responses to Department of Financial Institutions information requests; provides the qualifications for consumer finance company, money broker, and collection agency applicants; and provides penalties for violating the consumer finance, money broker, collection agency, and deferred presentment service provider acts.

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Operator's Signature

Date



State of North Dakota

DEPARTMENT OF FINANCIAL INSTITUTIONS

BANK OF ND
Letter response
testimony

Timothy J. Karsky
Commissioner

Robert J. Entringer
Assistant Commissioner

Jeff Jungman
Chief Examiner - Banks

James M. Laidlaw
Chief Examiner - Credit Unions

CSBS ACCREDITED 1993
NASCUS ACCREDITED 2000

January 10, 2003

Representative Rick Berg
House Majority Leader
House of Representatives
State of North Dakota
600 E Blvd Ave
Bismarck ND 58505-0360

	BND	Peer Group
CAP	8.64%	8.16%
(Less 25M)	7.47%	
ROA	1.63%	1.33%
(Return on Assets)	1.06%	
	Adjusted for 35% tax to compare	

Dear Representative Berg:

Jim Smith, Legislative Budget Analyst and Auditor, has asked that I respond to you concerning the financial position of the Bank of North Dakota, and comment specifically on its equity position relative to its assets as compared to similar size banks in North Dakota or the region.

First of all, I would like to indicate that the current financial condition of the Bank of North Dakota as of 12-31-02 is considered good. The Department conducted an examination in March 2002 and found no material weaknesses in the way that the bank operates.

In regards to a measurement of capital, there are numerous ratios used by the industry; however, as a regulator I like the Tier One leverage ratio the best. This takes the bank's total capital stock, surplus, and undivided profits, and measures them to the total average assets of the institution. As of 12-31-02, the Bank of North Dakota's Tier One leverage capital ratio was 8.64%. Compared to a peer group for banks of similar size, the peer group average was 8.16% and the North Dakota peer average was 10.04%. Because the Bank of North Dakota may be asked to contribute up to \$25 million of its revenue to the general fund, I have also calculated the bank's

2000 Schafer Street, Suite G Bismarck, ND 58501-1204

701-328-9933 dfi@state.nd.us

fax 701-328-9955 DiscoverND.com/dfi

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10/30/03
Date

Representative Rick Berg
January 10, 2003
Page 2

capital ratio as of 12-31-02 if this amount had been taken out. If the entire \$25 million is taken out, the bank's Tier One leverage ratio would fall to 7.47%, and this ratio would be below peer group ratios for banks of similar size and well below the North Dakota peer average.

The above ratio does not include the loan loss reserve, as this is a specific reserve set aside for future loan losses. I do realize that approximately 55% of the Bank of North Dakota's loan portfolio is in guaranteed loans, which does reduce the risk of loss in the portfolio. At this time I would not be concerned about the Bank of North Dakota's capital position even if the entire \$25 million is taken out, due to the fact that the bank has an adequate loan loss reserve and a large volume of the loan portfolio is in guaranteed loans. All federally insured institutions must maintain a Tier One leverage ratio of 5% or greater. However, this ratio was used for well run banks with no operational or lending problems.

As you are aware, bank capital performs some very important functions. It absorbs loan losses and other types of losses such as security losses, promotes public confidence, restricts excessive asset growth, and provides protection to depositors of the financial institution. Since 1997 the bank's total assets have grown approximately 70%, and this growth has been supported by the Bank of North Dakota's capital accounts. If the bank continues to grow the only way the bank can support its growth is through the remaining capital or augmenting capital through retained earnings.

It is hard to compare this financial institution to any other peer group area because of the uniqueness of the Bank of North Dakota. However, we have tried to compare the bank's earnings to other institutions by using a marginal 35% tax rate for the Bank of North Dakota so that it can be compared to other institutions which pay taxes. For year ending 2002 the bank's return on assets before taxes was 1.63%, and using a marginal 35% tax rate the return on assets would have been 1.06%. The peer group ratio for banks this size was approximately 1.33%, which indicates the Bank of North Dakota's earnings performance is less than its peer. One of the main reasons for the bank operating less than peer group in the earnings

Representative Rick Berg
January 10, 2003
Page 3

performance would be to the overall net interest margin of the bank, which is approximately 2.20% compared to the peer group ratio of 4.33%.

I trust this will answer your questions concerning the capital accounts for the Bank of North Dakota; however, should you have any additional questions or need clarification on this letter please feel free to contact me at your convenience.

Sincerely,


Timothy J. Karsky
Commissioner

TJK:sr

cc: Jim Smith, Legislative Budget Analyst & Auditor

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10/30/03
Date



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Timothy J. Kersky
Commissioner

Robert J. Entringer
Assistant Commissioner

Jeff Jungman
Chief Examiner - Banks

James M. Laidlaw
Chief Examiner - Credit Unions

CSBS ACCREDITED 1993
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January 13, 2003

Senator Bob Stenehjem
Senate Majority Leader
State of North Dakota
600 East Boulevard Avenue
Bismarck ND 58505

Representative Rick Berg
House Majority Leader
State of North Dakota
600 East Boulevard Avenue
Bismarck ND 58505

Dear Senator Stenehjem and Representative Berg:

The Department of Financial Institutions is in receipt of your letter dated January 8, 2003, wherein you request the Department to respond to four questions outlined in your letter. I will respond to those questions in the order they appeared.

WHAT IS THE MAIN PURPOSE OF YOUR AGENCY?

The Department of Financial Institutions has a Mission Statement which states "To maintain public confidence in North Dakota financial institutions by ensuring the financial industry operates in a safe and sound manner while complying with applicable rules and laws". Banking and the regulation of banks and credit unions have both been key elements in the development of the United States and its financial system. Banks and credit unions have attained a unique and central role in U.S. financial markets through their deposit taking, lending, and other activities. Banks and credit unions hold a vast majority of deposits that are transferable by check. These deposit powers have allowed financial institutions to become the principal agents or middlemen in many financial transactions in the nation's payment system and in the State of North Dakota. As a result, most payments in this State and in the U.S. involve a bank or credit union at some point, and this payment system plays a vital role in enabling goods and services to be exchanged throughout our economy. In terms of deposit activities, banks and credit unions are also important because individuals have traditionally placed a substantial amount of their funds in bank time and savings deposits.

Along with our Mission Statement, the Department feels the most basic reason for regulation of banks and credit unions is depositor protection. Furthermore, a stable banking and credit union environment provides monetary and financial stability, along with an efficient and competitive financial system.

The Department also feels another key function of regulation for all entities is consumer protection.

2000 Schafer Street, Suite G Bismarck, ND 58501-1204

701-328-9933 dfl@state.nd.us

fax 701-328-9955 DiscoverND.com/dfl

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Date

Senator Stenehjem and Representative Berg
January 14, 2003
Page 2

The Department's consumer division regulates approximately 650 entities that include collection agencies, money brokers (mortgage lenders), deferred presentment service providers (payday lenders), consumer finance companies, and sellers of checks. The Department just began monitoring the number of complaints, but it is clear the volume of complaints we handle to assist consumers is significant. The Department assists various individuals with collection agency problems; problems with mortgage lenders such as escrow accounts, fees, and the failure to provide loans in a timely manner; and many other types of complaints. The number of institutions the Department regulates has grown from approximately 85 in 1995 to approximately 650 today. The Department also takes many complaints on entities that are not regulated, which results in action taken by this Department against those entities.

HOW DO YOU MEASURE THE ACHIEVEMENT OF YOUR PURPOSE?

Although this is probably the most difficult aspect of a regulatory agency to measure the achievements of its purpose, a key measurement would be the overall condition of banks and credit unions in the State of North Dakota. Overall, the financial industries that the Department regulates are in good financial condition. The Department currently regulates 89 state-chartered banks and 39 state-chartered credit unions. Of the state-chartered banks, there are no "4" or "5" rated banks. There are only 8 banks rated "3", which would be considered having some risk. The vast majority of state-chartered banks which total 81 are rated "1" and "2".

Furthermore, we continue to see the overall condition of banks prosper. Net loans and leases continue to grow at about five percent per year over the last three years. State-chartered banks continue to be well capitalized, even with the continued growth in the industry.

The Department has received accreditation from both the Conference of State Bank Supervisors and the National Association of State Credit Union Supervisors, which sets forth high standards for individual banking and credit union departments to receive this distinction. The Department continues to offer valuable training to its examiners and provides programs to enhance their education and examination background so they can prefer their duties in an efficient manner.

WHAT CAN THE LEGISLATURE DO, FINANCIALLY AND OTHERWISE, TO HELP YOU ACHIEVE YOUR PURPOSE?

Since 1989, the Department of Financial Institutions has been a self-funded agency and has not received any appropriations from the General Fund. Banks and credit unions pay assessments to cover the cost of regulation for their various industries. In addition, all the entities such as collection agencies, consumer finance companies, deferred presentment service providers, money brokers, and sale of checks pay license fees and

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Deanna G. Ball

10/30/03
Date

Senator Stenehjem and Representative Berg
January 14, 2003
Page 3

renewal fees, along with examination fees, to cover their cost of the regulation. Although the Department is a self-funded agency, it still must go to the Legislature to receive approval for the expenditures in the appropriate biennium. The Department has incurred a substantial amount of turnover amongst its examination staff, which is attributed to our current salary scale. The Department is asking the Legislature this session to reclassify various examiner positions so that these salaries can be increased and hopefully slow the turnover amongst examiners. The Department has the support of both the bank and credit union industries to do this, as they want a strong department which supervises their institutions. A well seasoned and trained staff adds to greater efficiency in performing examinations, and enhances confidence within the banking and credit union industry.

HOW CAN YOU REPORT (MEASURE) YOUR RESULTS SO THE PUBLIC CAN EASILY UNDERSTAND YOUR PURPOSE AND EVALUATE YOUR EFFECTIVENESS?

The Department currently prepares a Biennial Report for the Governor which shows all the financial statistics for banks, credit unions, and other entities the Department regulates. The Department could post these results on its website, or make the report available to the public by placing a form on our website for various individuals to order. The Department also sends Newsletters to the bank and credit union industries, and a separate Newsletter for the consumer entities we regulate. These various Newsletters talk about the Department successes and concerns we have with the various industries. The Newsletters are available to the public through our website.

I hope this will help you understand the Mission of the Department of Financial Institutions and how we evaluate or measure the Department's performance.

Should you have any additional questions, please feel free to contact me at your convenience.

Sincerely,



Timothy J. Karsky
Commissioner

TJK:sr

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10/30/03
Date

1-17-03

TESTIMONY FOR ENGROSSED HOUSE BILL NO. 1008

House Appropriations Committee – Government Operations Division

Testimony of Timothy J. Karsky, Commissioner, Department of Financial Institutions in support of Engrossed House Bill No. 1008.

Chairman Carlisle and members of the Government Operations Division, I am Timothy Karsky, Commissioner of the Department of Financial Institutions. I am here to testify in your support of the appropriations of \$3,691,275 for the Department's 2003-2005 budget.

DEPARTMENT SUPERVISORY AUTHORITY

The Department of Financial Institutions supervises state-chartered banks, building and loan associations (currently there are no state-chartered savings and loan associations), credit unions, and trust companies; currently licenses consumer finance companies, collection agencies, money brokers, sale of checks, agents for deposit, deferred presentment service providers (payday lenders); and additionally, the Department has examination responsibilities for the Bank of North Dakota.

The Department is a special fund, self-supporting agency, with no general fund dollars. The Department's budget consists of three cost centers: (1) banks, (2) credit unions, and (3) consumer licenses. Banks and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for each

Deanna Ball
Operator's Signature

10/30/03
Date

cost center respectively. The State Banking Board and State Credit Union Board have not raised the assessment formula since the financial institution regulatory fund was created in 1989. Additionally, consumer licensees pay investigation fees, annual license fees, and examination fees when an examination is performed, for the processing and supervisory responsibilities related to consumer license activity.

State-Chartered Banks

Currently there are 89 state-chartered banks, plus the Bank of North Dakota, which compares with 94 two years ago. The number of banks continues a downward trend due to mergers and consolidations, a trend we expect to continue. Further, there have not been any new state bank charters issued since 1996; although the Department has had recent inquiries from several individuals or organizations. Despite the continued reduction in the number of banks, assets continue to grow, increasing the Department's responsibilities and time needed to conduct examinations. As of September 30, 2002, excluding the Bank of North Dakota, total assets held by state-chartered banks has grown to \$6.5 billion, which represents a 16.9% increase from September 30, 2000. Loan growth also continues to be strong as loans totaled \$4.5 billion as of September 30, 2002, an increase of approximately \$700 million from two years ago, or an 18% increase. Although the number of banks has decreased slightly during the past two years, loan volume continues to increase, along with the complexity of the loans being reviewed,

Deanna G. Sullivan
Operator's Signature

10/30/03
Date

which continues to put greater demands on the use of examiner time during an examination.

Currently the Department has 14 field examiners whom conduct examinations throughout the State of North Dakota. The number of examiners has not increased in the last five years and, in fact, two examiner positions were reduced in the 1997 Legislature.

The Department has experienced a 40% turnover rate in the bank field examination staff this past biennium. This high turnover ratio is attributed mainly to the fact that the Department cannot compensate examiners a competitive salary when compared to other positions in the regulatory arena, such as the Federal Deposit Insurance Corporation, the Federal Reserve, or the Office of the Comptroller of the Currency. In addition, a number of examiners have taken positions with banks at higher pay levels, and eliminating the large amount of travel as an examiner. Average tenure of all examiners is six years; however, when you take out the four senior personnel, the average tenure is 1.5 years. The Department has requested and received approval from the Office of Management and Budget, as indicated in the budget before you, to increase the examiner classifications to improve salaries in order to decrease turnover. This represents approximately \$167,000 or 4.5% of the Department's budget. This increase will

also cover promotions given in the last eight months of the biennium, as the recommended budget did not take into account these promotions.

State-Chartered Credit Unions

Currently there are 39 state-chartered credit unions, a reduction of three from two years ago. Credit unions also continue to show significant growth, with total assets increasing from \$876,500,000 on September 30, 2000, to \$1,032,500,000 on September 30, 2002. The Department has primary examination responsibility for state-chartered credit unions, utilizing two examiners to conduct examinations. The Department has requested an additional FTE for a credit union examiner as it is extremely difficult to meet the statutory requirements for the examination of credit unions with only two examiners. Furthermore, the number of credit unions may have declined; however, the total assets and total loans, which the Department is responsible for examining, continue to increase. The Department feels with one extra examiner we will be able to continue to examine the small to medium size credit unions when one examiner is at school, on vacation, or sick. We also have several large credit unions the Department can no longer examine with only two examiners. In fact, these past several months we have utilized bank examination staff to assist on a very large credit union, and this resource hampers the remaining bank crews to conduct bank examinations. With the addition of another FTE, the Chief Examiner – Credit Unions would be able to

spend more time in the office doing administrative duties, such as follow-up to enforcement actions, correspondence, examination review and other areas for the credit union industry. We would also like to start a more efficient off-site review program if personnel were available.

State Trust Companies

Presently there are three state-chartered trust companies for which the Department has oversight responsibility. These trust company examinations are conducted by bank examiners who have acquired specialized trust examination training.

Consumer Licenses

The number of consumer licenses issued by the Department continues to increase. Currently the Department has approximately 650 licensees consisting of 257 collection agencies, 42 consumer finance companies, 58 deferred presentment service providers (payday lenders), 280 money brokers (mortgage lenders), and 12 sale of checks. The Department has numerous applications pending for additional licenses on an ongoing basis. In our budget we have asked for an additional half-time FTE, which was granted by the Emergency Commission during this biennium. As you will recall, the Department received permission to add a half-time FTE during the last biennium and was also given the authority to make it a full-time position if the need arose. The Department is now asking that this full-

time position be made permanent by adding the additional half-time FTE. The Department has had a full-time equivalent position in the consumer division vacant since May. However, we have been utilizing an intern from the University of North Dakota who worked throughout the summer for the Department, and is currently employed on a part-time basis. This individual has accepted full-time employment after he graduates this spring. The Department has begun an aggressive examination process for all entities licensed and has enhanced its license application and renewal process. The Department anticipates adding duties to the consumer division, such as money transmitters, and possibly some type of administration for consumer credit counselors in the next biennium. For the record, in the past the Department used various examiners from the bank and credit union industries to conduct consumer examinations. Furthermore, the Assistant Commissioner spent a great deal of time processing these applications. If two FTE's perform these duties, the Department would not have to use other examination staff to assist on consumer examinations.

OVERVIEW

As indicated, the Department's total recommended budget for the 2003-2005 biennium is \$3,691,275. Of this amount, salaries and wages total \$3,018,549, or approximately 82% of the total budget. As you will note, operating expenses total \$672,726 of which \$169,000 is allocated for travel, which includes lodging, per

diem, and vehicle expenses for examiners during the week for the conduct of the examination of financial institutions. Another major portion of the operating would be \$114,000 for rent expense for the Department's office and two field offices, one each in Minot and Fargo. Total equipment expenditures for the next biennium only total \$22,000.

CONCLUSION

The Department's responsibilities continue to grow with the increased emphasis on the consumer division. We anticipate the number of licenses to continue to grow, with more manpower spent on examinations of these entities and handling consumer complaints. Furthermore, we expect the bank and credit union industries to continue to prosper, and would anticipate some new bank charters in the upcoming biennium. It is also possible that some national banks may convert to a state-charter, which would increase the overall number of state-chartered institutions.

I would encourage your favorable consideration of the Department's requested budget appropriation, and I would be happy to answer any questions.

Thank you.



HB 1008

Timothy J. Karsky
Commissioner

Robert J. Entringer
Assistant Commissioner

Jeff Jungman
Chief Examiner - Banks

James M. Laidlaw
Chief Examiner - Credit Unions

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January 22, 2003

Representative Ron Carlisle
Chairman, Government Operations Division
State Capitol
600 E Blvd Ave
Bismarck ND 58505

Dear Chairman Carlisle:

This letter is a follow-up to the Department of Financial Institutions budget hearing on House Bill 1008 held on January 17, 2003. During that meeting you requested that the Department respond to various questions and those responses are listed below.

The first question asked during the hearing was concerning the Department's reclassification of examiner positions. As indicated, the Office of Management and Budget has included in our budget reclassification of pay grades for our field examiners. As stated in my written testimony, this will result in \$167,000 increase to the Department's budget or 4.5%. Also stated in my testimony this increase does not include promotions given by the Department to examiners who have been promoted from an Examiner I to Examiner II position or from an Examiner II to an Examiner III position. The Department will have to absorb this \$45,000 through savings and other portions of our 2003-2005 budget. There was also some discussion from Vice Chairman Carlson concerning a performance pay scale for Department employees. As indicated during the hearing, I would not be opposed to this type of pay structure as long as the Department had input in how performance of Department examiners would be measured. I would encourage a study on this issue.

There was also discussion concerning the Department's money spent on an IT project during the last biennium. As indicated to you in our testimony, the Department's initial budgeted cost from this project was \$60,000 and this information was obtained from the Information Technology Department. Due to additional add-ons and cost overruns this project ended up costing the Department approximately \$130,000, and the difference was made from savings in other areas of our budget. The Department did go to the Emergency Commission for approval on these expenditures.

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701-328-9933 ■ dfl@state.nd.us
fax 701-328-9955 ■ DiscoverND.com/dfl

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10/30/03

Representative Ron Carlisle
January 22, 2003
Page 2

Another area of discussion was the Department's line item for salary and wages. Representative Carlson indicated that the total increase from the 1999-2001 biennium for this line item was approximately \$823,000. The 1999-2001 budget approved by the Legislature was \$2,953,680 and actual expenditures for that biennium were \$2,773,408, a difference of \$180,272. For the present biennium the budget is \$3,617,768 and we are forecasting expenditures of \$3,357,765, a difference of approximately \$260,000. This is due to the turnover within our staff. The majority of the increase in the budget is due to salary and benefits of \$606,264. We have only increased our salary line item for the next biennium by \$8,621 in our requested budget.

The Department firmly believes that by increasing examiner salaries will have a direct impact on the high turnover ratio that we are currently experiencing. We feel that the Department has to be able to compensate the examiners in adequate salary plus offset the large amount of travel that they do to perform their job duties.

Finally, another area the Committee asked for information was what we are/have done regarding unlicensed payday lenders. The following is a chronology of the situation: on January 3, 2002, the Department of Financial Institutions was advised by an officer from the Bureau of Criminal Investigations (BCI) of an advertisement in The Forum for an unlicensed payday loan operation in Fargo. On February 7, 2002, we received a complaint and a copy of another advertisement in the Midweek for the same unlicensed payday lender. On February 15, 2002, we received copies of judgments in favor of the unlicensed payday lender. Initially we drafted an Order to Cease and Desist which we were going to serve upon the unlicensed payday lender. After discussion with our legal counsel and the officer from BCI we decided to have a confidential informant of BCI proceed with transaction with the unlicensed payday lender. The confidential informant contacted the unlicensed payday lender to discuss a transaction on March 12, 2002, and on March 13, 2002, the transaction was consummated. On March 26, 2002, the confidential informant brought in a copy of the cancelled check written to the unlicensed payday lender. According to the documents received from BCI, distribution of the documents includes Cass County Drug Task Force, Fargo, ND. To the best of my knowledge the Cass County States Attorney has the information from BCI.

Sincerely,


Timothy J. Karsky
Commissioner

TJK:sr
cc: Joe Morrisette, Budget Analyst

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Exhibit 1

2-27-03

TESTIMONY FOR ENGROSSED HOUSE BILL NO. 1008

Senate Appropriations Committee

Testimony of Timothy J. Karsky, Commissioner, Department of Financial Institutions in support of Engrossed House Bill No. 1008.

Chairman Holmberg and members of the Senate Appropriations Committee,
I am Timothy Karsky, Commissioner of the Department of Financial Institutions. I am here to testify in your support of the appropriations of \$3,659,948 for the Department's 2003-2005 budget.

DEPARTMENT SUPERVISORY AUTHORITY

The Department of Financial Institutions supervises state-chartered banks, building and loan associations (currently there are no state-chartered savings and loan associations), credit unions, and trust companies; currently licenses consumer finance companies, collection agencies, money brokers, sale of checks, agents for deposit, deferred presentment service providers (payday lenders); and additionally, the Department has examination responsibilities for the Bank of North Dakota.

The Department is a special fund, self-supporting agency, with no general fund dollars. The Department's budget consists of three cost centers: (1) banks, (2) credit unions, and (3) consumer licenses. Banks and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for each

10/30/03

cost center respectively. The State Banking Board and State Credit Union Board have not raised the assessment formula since the financial institution regulatory fund was created in 1989. Additionally, consumer licensees pay investigation fees, annual license fees, and examination fees when an examination is performed, for the processing and supervisory responsibilities related to consumer license activity.

State-Chartered Banks

Currently there are 89 state-chartered banks, plus the Bank of North Dakota, which compares with 94 two years ago. The number of banks continues a downward trend due to mergers and consolidations, a trend we expect to continue. Further, there have not been any new state bank charters issued since 1996; although the Department has had recent inquiries from several individuals or organizations. Despite the continued reduction in the number of banks, assets continue to grow, increasing the Department's responsibilities and time needed to conduct examinations. As of September 30, 2002, excluding the Bank of North Dakota, total assets held by state-chartered banks has grown to \$6.5 billion, which represents a 16.9% increase from September 30, 2000. Loan growth also continues to be strong as loans totaled \$4.5 billion as of September 30, 2002, an increase of approximately \$700 million from two years ago, or an 18% increase. Although the number of banks has decreased slightly during the past two years, loan volume continues to increase, along with the complexity of the loans being reviewed,

3 which continues to put greater demands on the use of examiner time during an examination.

Currently the Department has 14 field examiners whom conduct examinations throughout the State of North Dakota. The number of examiners has not increased in the last five years and, in fact, two examiner positions were reduced in the 1997 Legislature.

8 The Department has experienced a 40% turnover rate in the bank field examination staff this past biennium. This high turnover ratio is attributed mainly to the fact that the Department cannot compensate examiners a competitive salary when compared to other positions in the regulatory arena, such as the Federal Deposit Insurance Corporation, the Federal Reserve, or the Office of the Comptroller of the Currency. In addition, a number of examiners have taken positions with banks at higher pay levels, and eliminating the large amount of travel as an examiner. Average tenure of all examiners is six years; however, when you take out the four senior personnel, the average tenure is 1.5 years. The Department has requested and received approval from the Office of Management and Budget, as indicated in the budget before you, to increase the examiner classifications to improve salaries in order to decrease turnover. This represents approximately \$167,000 or 4.5% of the Department's budget. This increase will

3

also cover promotions given in the last eight months of the biennium, as the recommended budget did not take into account these promotions.

State-Chartered Credit Unions

Currently there are 39 state-chartered credit unions, a reduction of three from two years ago. Credit unions also continue to show significant growth, with total assets increasing from \$876,500,000 on September 30, 2000, to \$1,032,500,000 on September 30, 2002. The Department has primary examination responsibility for state-chartered credit unions, utilizing two examiners to conduct examinations. The Department has requested an additional FTE for a credit union examiner as it is extremely difficult to meet the statutory requirements for the examination of credit unions with only two examiners. Furthermore, the number of credit unions may have declined; however, the total assets and total loans, which the Department is responsible for examining, continue to increase. The Department feels with one extra examiner we will be able to continue to examine the small to medium size credit unions when one examiner is at school, on vacation, or sick. We also have several large credit unions the Department can no longer examine with only two examiners. In fact, these past several months we have utilized bank examination staff to assist on a very large credit union, and this resource hampers the remaining bank crews to conduct bank examinations. With the addition of another FTE, the Chief Examiner – Credit Unions would be able to

spend more time in the office doing administrative duties, such as follow-up to enforcement actions, correspondence, examination review and other areas for the credit union industry. We would also like to start a more efficient off-site review program if personnel were available.

State Trust Companies

Presently there are three state-chartered trust companies for which the Department has oversight responsibility. These trust company examinations are conducted by bank examiners who have acquired specialized trust examination training.

Consumer Licenses

The number of consumer licenses issued by the Department continues to increase. Currently the Department has approximately 662 licensees consisting of 259 collection agencies, 42 consumer finance companies, 59 deferred presentment service providers (payday lenders), 290 money brokers (mortgage lenders), and 12 sale of checks. The Department has numerous applications pending for additional licenses on an ongoing basis. In our budget we have asked for an additional half-time FTE, which was granted by the Emergency Commission during this biennium. As you will recall, the Department received permission to add a half-time FTE during the last biennium and was also given the authority to make it a full-time position if the need arose. The Department is now asking that this full-

time position be made permanent by adding the additional half-time FTE. The Department has had a full-time equivalent position in the consumer division vacant since May. However, we have been utilizing an intern from the University of North Dakota who worked throughout the summer for the Department, and is currently employed on a part-time basis. This individual has accepted full-time employment after he graduates this spring. The Department has begun an aggressive examination process for all entities licensed and has enhanced its license application and renewal process. The Department anticipates adding additional duties to the consumer division, such as money transmitters, and possibly some type of administration for consumer credit counselors in the next biennium. For the record, in the past the Department used various examiners from the bank and credit union industries to conduct consumer examinations. Furthermore, the Assistant Commissioner spent a great deal of time processing these applications. If two FTE's perform these duties, the Department would not have to use other examination staff to assist on consumer examinations.

OVERVIEW

As indicated, the Department's total recommended budget for the 2003-2005 biennium is \$3,659,948. Of this amount, salaries and wages total \$2,987,222, or approximately 82% of the total budget. As you will note, operating expenses total \$672,726 of which \$169,000 is allocated for travel, which includes lodging, per

diem, and vehicle expenses for examiners during the week for the conduct of the examination of financial institutions. Another major portion of the operating would be \$114,000 for rent expense for the Department's office and two field offices, one each in Minot and Fargo. Total equipment expenditures for the next biennium only total \$22,000.

CONCLUSION

The Department's responsibilities continue to grow with the increased emphasis on the consumer division. We anticipate the number of licenses to continue to grow, with more manpower spent on examinations of these entities and handling consumer complaints. Furthermore, we expect the bank and credit union industries to continue to prosper, and would anticipate some new bank charters in the upcoming biennium. It is also possible that some national banks may convert to a state-charter, which would increase the overall number of state-chartered institutions.

I would encourage your favorable consideration of the Department's requested budget appropriation, and I would be happy to answer any questions.

Thank you.