

Chairman Berg and Members of the Industry Business and Labor Committee:

My name is Tim Karsky, Commissioner for the North Dakota Department of Financial Institutions. I am here to report to you today as required by Senate Bill No. 2295 which states that during the 2007 – 2008 interim the commissioner of financial institutions shall study the states building and loan association law and mutual savings bank law and how these laws relate to conversions of state credit unions to building and loan associations or mutual savings banks. Before July 1 the commissioner shall report to the legislative counsel on the outcome of the study and present any proposed legislation the department of financial institutions deems necessary to replace North Dakota Century Code Title 7.

Mr. Chairman and members of the committee I would like to give you a brief background on Title 7 which authorizes building and loan associations. Title 7 states that a corporation mutually operated for the purpose of encouraging home building and thrift among its shareholders and loaning substantially all of its funds to them on real estate mortgage security must be know as a building and loan association. There are no state chartered building and loan associations in the state and in fact there has not been any since the late or mid 1970's. The department has not updated this section of law and in fact was going to repeal the entire section at the last session but interest from a local credit union to convert to a building and loan association negated the repeal. You will

note that Title 7 of the Century Code currently provides for repeal of the language effective August 1, 2009, and new legislation will be proposed during the next session to replace it.

In doing some research I find that there are currently 1,248 savings banks in the United States of which only 420 or approximately 33% are state chartered. There is currently a tremendous advantage to having a federal chartered savings and loan verse's a state chartered namely due to some of the activities such as branching across state lines. Furthermore, the current federal law preempts all state laws regarding their industry.

The last legislative session did authorize for state chartered credit unions to convert to a building and loan association and certain requirements were set forth.

Although the department does not have the legislation drafted I have gone through the old title 7 and have made changes that will be presented to the legislative counsel within the next two weeks. Perdominately those changes will involve the minimum capital standards for building and loan association deleting verbage from this section that is no longer applicable, authorizing cease and desist authority for the department and requirements for an application. The department will also have to do some extensive work with administrative rules if this law is passed.

I would also like to advise the committee that the department of financial institutions is a self funding department whereby banks, credit unions and all the licensees that we license pay their portion to fund the department. At this time it is not clear who will pay all the

cost for ramping up the department to have examiners become trained in examining a building and loan association with an extensive training efforts on home lending in compliance with the federal statues. Furthermore, an examination report will have to be developed which can be automated to serve the departments needs.

Although I am not an expert on the building and loan association or mutual savings banks, it is not known to me at this time what a credit union could do as a mutual savings bank which they can not currently do as credit union. As indicated in the title 7 the main operation of a building and loan association is to make real estate loans and a credit union has this ability to do that at this time.

Mr. Chairman and members of the committee I would be happy to answer any questions that you may have.