

2009 SENATE APPROPRIATIONS

SB 2008

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No SB 2008

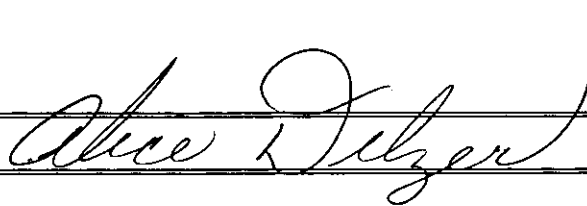
Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 01-19-2009

Recorder Job Number: 7241

Committee Clerk Signature



Minutes:

V. Chair Bowman: Called the committee hearing to order at 3:45 pm in reference to SB 2008 regarding Department of Financial Institutions.

Timothy J. Karsky, Commissioner Department of Financial Institutions: testified in favor of SB 2008 and provided written testimony # 1 in support of the Bill.

V. Chair Bowman: asked on the fiscal note attached is that fiscal note part of what you collect from fees.

Tim Karsky: The fiscal note will be on SB 2160. He continued reading his testimony (06.20) we are hoping that technology will help us alleviate some of these problems referred to in paragraph 2 on page 7 of testimony.

Senator Robinson: a question one a Watch List, is that list put together by your agency or Federal Deposit Insurers Corporation (FDIC) and how can we access through internet which institutions are on that Watch List.

Tim Karsky Both on the bank side the FDIC and the state conduct separate safety in sound institutions . The problem is what I think you are talking about our institutions rated 4 or 5 and the number of those institutions is published by the FDIC this (09.56) The actual bank is confidential. However, administrative actions taken by the FDIC such as cease and assist orders and those types of things are public and you can access those.

Senator Robinson: I am not asking you to mention names but how many banks do we have are on that so called lists that are rated 4 or 5?

Tim Karsky: Out of 81 state chartered banks, I am guessing that we have 4 or 5 or 7. The majority of our banks and credit unions are safe and sound.

Senator Wardner : Can you tell me a little bit how things are going between you and the pay day loans?

Tim Karsky: I think this is the 8th year. We are on our third round of examinations. The data base we approved does a very good job of keeping people in North Dakota from getting over their limit. Overall we have a very good set of laws, our examiners are doing a very good job and things are going very well. (12.21)

Senator Kilzer: on your line item for budget for salary and raises does that include the 5% raise.

Tim Karsky: yes

V. Chair Bowman: Do you have a board that says we need two more employees, how do you make those decisions to increase your staff?

Tim Karsky: The state wants (13.25) experienced examiners. They are very supportive. It usually comes down to administrative decision. .

Jack McDonald representing Independent Community Banks of North Dakota (ICBND)

The ICBND do support the commissioners budget in SB 2008 and encourage a Do Pass.

Rick Clayburgh CEO of North Dakota Bankers Association: We stand in support of SB 2008. Our banks in the state have a very good relationship with state examiners. To examine a bank it is a very technical operation. They do try to maintain good staff that do audit our banks. We support the appropriation for this bill.

V. Chair Bowman closed the hearing on SB 2008.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2008

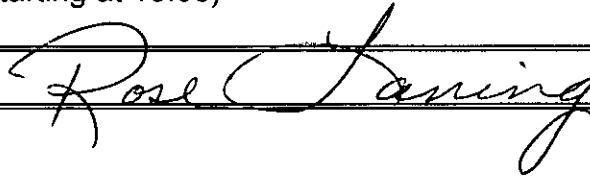
Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: February 9, 2009

Recorder Job Number: 9036 (starting at 18:00)

Committee Clerk Signature



Minutes:

Chairman Holmberg called the committee hearing to order on SB 2008 which is an appropriation for defraying the expenses of the department of financial institutions.

Senator Krebsbach moved Do Pass on SB 2008.

Senator Robinson seconded.

Discussion –

Senator Krebsbach said there was a request for 2 FTEs which comes out of other funds. They consolidated some offices, and they needed an additional person here in Bismarck and they combined the other two offices and found they needed one additional.

The increase is coming from the increases in the salary equity and salary and two examiner positions. They also needed a onetime funding to develop a software interface with the National Mortgage Licensing System. It all comes from covered funds, so there is an increase in their budget of \$1,013,086.

A Roll Call vote was taken. Yea: 11 Nay: 0 Absent: 3

Senator Krebsbach will carry the bill on the floor.

Date: 2-9-09
Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2008

Senate _____ Committee _____

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen. Krebsbach Seconded By Sen. Robinson

Representatives	Yes	No	Representatives	Yes	No
Senator Wardner	✓		Senator Robinson	✓	
Senator Fischer	✓		Senator Lindaas		
V. Chair Bowman	✓		Senator Warner		
Senator Krebsbach	✓		Senator Krauter		
Senator Christmann	✓		Senator Seymour	✓	
Chairman Holmberg	✓		Senator Mathern	✓	
Senator Kilzer	✓				
V. Chair Grindberg	✓				

Total Yes 11 No 0

Absent 3

Floor Assignment Sen. Krebsbach

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

REPORT OF STANDING COMMITTEE (410)
February 9, 2009 4:35 p.m.

Module No: SR-25-2205
Carrier: Krebsbach
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2008: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS
(11 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). SB 2008 was placed on the
Eleventh order on the calendar.

2009 HOUSE APPROPRIATIONS

SB 2008

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2008

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 3/2/09

Recorder Job Number: 9975 (41.11 to end)

Committee Clerk Signature



Minutes:

Chairman Delzer opened the hearing on Senate Bill 2008. Roll was taken at a previous hearing. This bill will be put in to a subcommittee and there is a possibility they will meet this coming Wednesday.

Attached Testimony:

Written Testimony of Tim Karsky- Attachment 2008.3.2.09A

Tim Karsky, Commission, Department of Financial Institutions, presented his testimony

Representative Kempenich: Are your people CPAs, Auditors or what kind of people do you require?

Tim Karsky, Commissioner: Most of the people we hire have accounting backgrounds but they are not CPAs.

Representative Kempenich: That's what you are looking for most of the time?

Tim Karsky, Commissioner: No just an economic or financial and accounting background.

Representative Kempenich: Where do you start with your salary?

Tim Karsky, Commissioner: About \$38,000 a year. We go through the cycles like anybody. Sometimes it is tough to get applications and other times we might have 70 - 80 applications

for one opening and some of those aren't very good. Right now the quality has been relatively decent.

Chairman Delzer: Do you have a list of how many examinations you make out of each office?

Tim Karsky, Commissioner: We could come up with list. I think we do 38 – 40 safety and soundness examinations on the bank side. We examine every state chartered institution between 18 – 24 months. In credit unions we average about an 18 month examination cycle.

Chairman Delzer: When you go out to do an examination, how long does it take?

Tim Karsky, Commissioner: We are going in to a bank of about \$370 million starting today and if there no asset quality problems we could be done with a week pre-exam that we do off site, two weeks on site, and maybe four or five days afterwards. If there are asset quality problems it could take 5 to 6 weeks.

Chairman Delzer: You currently have 7 employees in Bismarck and 4 each in Fargo and Grand Forks?

Tim Karsky, Commissioner: We have. Yes, those are bank examiners and then we have 3 credit union examiners that do the whole state out of Bismarck. So that would be 18. Then we have the consumer examiners.

Chairman Delzer: If you could put some sort of spreadsheet for us.

Tim Karsky, Commissioner: Yes we can.

Representative Kempenich: I was watching something on CNBC last night and it showed the home mortgage originators were a big chunk of our problems. Have you ever had to look at how they do things?

Tim Karsky, Commissioner: We license the mortgage companies. Most of the time if we had a problem, and we have had problems with loan originators, we take action against the company. Either a cease and desist order and maybe revocation of license. We have a bill

that has passed the Senate requiring a loan originator licensing set up by July 2009. If we do not pass that bill the federal government is going to take over the responsibility of licensing loan originators. We haven't had much problem in ND but this law makes a lot of sense. It will put all states on the same playing field.

Chairman Delzer: Are the mortgage originators currently under somebody's license?

Tim Karsky, Commissioner: Of the 40 some companies that operate in ND, I am pretty confident that we know all those loan originators. When we get to the out-of-state, the list changes daily. They can go from company to company to company and it's hard to keep track if some state has taken actions against them. With this database that is going into place everyone will have a unique identifier and we can track from state to state and company to company and bank to mortgage company or whatever. I think it is going to help to keep the bad seeds out.

Chairman Delzer: The two FTEs that you requested do any of them have anything to do with taking over the licensing of real estate brokers and mortgage originators?

Tim Karsky, Commissioner: One would be an examiner for mortgage companies.

Chairman Delzer: That is one of the ones that you requested. You have a half time in the Fiscal Note.

Tim Karsky, Commissioner: That will be SB 2160. We are just going to eat those costs for the admin asst.

Chairman Delzer: The fiscal note says that there would be \$200.0 of fees and \$96.0 of costs.

Tim Karsky, Commissioner: That is kind of misleading. Right now we currently get \$300 for licensing a mortgage companies. We have raised that to \$400. There is also the \$134.0 worth of expenses that we budgeted for the regulatory update on our mortgage database. That's in this bill. When all is said and done, it is going to be close to a break even.

Chairman Delzer: The authority to spend the money is in this bill, not the fee increase. That has to be done administratively.

Tim Karsky, Commissioner: That fee increase is in 2160.

Chairman Delzer: How much would the license be for each individual?

Tim Karsky, Commissioner: \$50 per person for loan originator.

Representative Berg: In the big picture, we are in territory we have never been in before. In the ones that you have done, what are you seeing as the biggest area of concern?

Tim Karsky, Commissioner: There are two areas of concern right now. Traditionally ND banks have operated well above the nation's banks. We have been profitable and our asset quality is very good. Asset quality is starting to deteriorate. We are seeing an increased level of loan classification. We are going to see some loan losses so it will affect the bank's bottom line. Another thing is liquidity. Deposits are hard to come by. All industries are competing for them. ND has traditionally been the largest loan to deposit or loan to asset ratio of any state in the nation so we are much leveraged so when we get problems, we get big problems because we have a lot of loans. Banks right now will make a good loan but they are not going out and leverage themselves on an average deal right now.

Representative Berg: There in lays the problem is that both of those things lend themselves to less credit and less lending. If we want our economy to stay strong here we need to encourage more lending. Do all the banks have a federal examiner come in as well? How many national banks do we have in the state?

Tim Karsky, Commissioner: There are 104 total entities in the state. Eighty one state chartered banks, 3 federal savings and loans and the rest would be national banks. I can get the total. The only agencies that charter banks could be the states, the national examiners and the office of the comptroller of the currency. So there are two charters. The OCC is the

only entity that regulates national banks. On the state level, we as the chartering authority regulate and then the FDIC also comes in on an alternating basis and does a safety soundness examination. If they are federal the FDIC does not come in but the Federal Reserve examiners come in instead. So it's always the state and one other federal entity.

Representative Berg: Can you give us an example of the top three national banks, three state banks and so on.

Tim Karsky, Commissioner: The largest state chartered is State Bank of Fargo. Wells Fargo and US Bank charters are out of state.

Chairman Delzer: Are we doing redundant examinations?

Tim Karsky, Commissioner: The dual banking system has been around for 106 years. Congress is seriously looking at regulatory restructuring. I think the chartering will stay with the state.

Chairman Delzer: The state chartered banks are also being examined by the federal government correct?

Tim Karsky, Commissioner: Yes, they do.

Chairman Delzer: They are being examined each year either by the feds or you?

Tim Karsky, Commissioner: About every 18 months. On the larger, it's about 15 months.

Representative Kempenich: How many do you do jointly?

Tim Karsky, Commissioner: Six or Seven

Representative Berg: there is a theory that this whole crisis is due to mark to market.

Tim Karsky, Commissioner: That's a gap issue. The BND is not subject to any deposit laws or disclosures. That is our entity and although we have examination authority we have no power other than reporting problems to the Industrial Commission. If other banks have loan problems, eventually the BND will have some of those loans. Unless you had them in a

trading accounting then you had to mark to market. If you just had them in assets available or held to maturity, that didn't come in to play. Where the banks kept to the Midwest they are not having issues. Those going outside are where the write downs are going to happen. I don't think credit has tightened up as much as maybe we are going back to where we should have been all along. I think we are getting back to basics and that makes sense.

Chairman Delzer: I can't think of the right word but it's basically where a lot of these have had been sold and insurance purchased and then eventually there is no insurance. Have the feds done anything to close that.

Tim Karsky, Derivatives'—that market is about gone. **Commissioner:** It is tough to do those loans any more. Almost every real estate loan done now is being made according to the conventional rules.

Chairman Delzer: Did a lot of ND fall in to those derivatives?

Tim Karsky, Commissioner: Derivatives. I would say none of our banks or credit unions made sub-prime mortgages. There were mortgage companies that made some of those types of loans. There is no law against what they did as long as they disclosed it.

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Chairman Delzer: What about the Madoff Scheme? Did any of our banks have exposure there? .

Tim Karsky, Commissioner: We haven't seen any repercussions up here

Representative Dosch: The requirement to publish the quarterly call reports went away. How is the average consumer able to track the financial health of their bank without that information out there?

Tim Karsky, Commissioner: The FDIC has a web site and you can call up any financial institution that is insured and get their history for the quarter or for the year and compare them to other financial institutions. It's very sophisticated and is at your fingertips 24 hours per day.

Chairman Delzer: Tim we are going to need an organizational chart and a list of how many of your positions were vacant during the last biennium.

Tim Karsky, Commissioner: Currently all positions are filled. It is a concern that when we have turnover we like to fill those positions quick.

Chairman Delzer: We are going to need a list of your spend down. Where is the excess of the special funds go? Where does that show up in the budget?

Tim Karsky, Commissioner: All the money goes in to the fund and by law we can carry over 20% of that fund to the next biennium. We cannot spend money without authority. We have been within that line almost all of the time. In the early 2000's we sent some money to OMB that went to the GF. Right now we are not going to be near that 20%.

Chairman Delzer: Give us a listing of how that works. I take it that's a continuing appropriation?

Tim Karsky, Commissioner: OK. We use a carryover balance when we go in to the next year when we figure out what we have to set the assessments for the banks and the credit unions. On the bank side once in a while we are able to give a credit on an assessment. If we get this extra position maybe the asset growth will just keep with the increased cost of those funds so we won't have to increase the assessment but we will have more assets to assess on.

Chairman Delzer: There is a line on our budget revenue that says "financial institutions tax." Where does that come from?

Tim Karsky, Commissioner: That comes from the financial institutions themselves that have to pay a certain percentage of their income right in to the state. That's not through us.

Representative Glassheim: On the payday loans, what kind of examination or supervision do you do?

Tim Karsky, Commissioner: We have been averaging about one exam about every 24 months for all 70 of them. Since the law went in to effect we have examined each about three times. We make sure they do not charge more for loans than what is allowed by law; that they are not renewing a loan more than once; we check that all the disclosures are there and all the contracts and agreements are all right. It takes about six or eight hours. We also have the database and we can monitor a lot of stuff from our office and when we get ready to do those exams can see if someone has played the game of renewing too early or not renewing and things like that. That's also how we assure that no one gets a loan over the \$500 - \$600 limit.

Representative Glassheim: You are able to regulate that.

Tim Karsky, Commissioner: We are very pleased with the database.

Representative Glassheim: What is the top amount they are allowed to pay?

Tim Karsky, Commissioner: Almost all charge 20% of the amount financed. You can renew for another 20%.

Tim Karsky, Commissioner: One of the things that we want to clarify. We just went through an audit and they wanted us to clarify what we have been doing and we have asked the AG if it is right. We collect a lot of fees between April 1, May 1 and June 30 that are used for the next year to regulate those industries and should that be counted in that carryover or do we get to take it out of the balance? In 2160 it clarifies the position of what we think is right.

Representative Berg: How does a bank get rid of these bad loans? Is it possible to see them to a holding company and get it off their books so you can't see it or how do they do it?

Tim Karsky, Commissioner: That's a very popular question these last days. A holding company can purchase assets from the bank and under GAP and accounting guidelines they have to purchased at fair value. So if you are selling a million dollar loan that is worth \$600.0 really then the bank should take a \$400.0 hit in the loan loss reserve. If they holding company wants to buy it for \$1.4 million to go in to capital or surplus account, they can.

Representative Berg: So the bank still takes that \$400.0 hit even if the holding company paid \$1.4 million

Tim Karsky, Commissioner: That reason we do that is you don't want to end up with another Enron where you mislead the public about what really happens in the bank and affects their balance sheet. If you were able to transfer all that loss to another entity or subsidiary, no one would have any idea of the condition of that loan portfolio.

Representative Berg: How do you measure liquidity?

Tim Karsky, Commissioner: That helps the bank's liquidity. The BND has been phenomenal about buying some participation. I think our banks are doing a really good job of monitoring liquidity. Now we look at payments coming due, unfunded loan commitments, future commitments in your pipeline minus deposits going in and out. We have some pretty good models that we try to monitor liquidity on a daily, 3 months, 6 months and yearly time frames. Banks all do that now.

Chairman Delzer: Do you examine the holding companies?

Tim Karsky, Commissioner: We have wanted that authority but were never granted it. We have indirect authority to look at some of their books. The Federal Reserve looks at the holding company and we see a copy of the examination report.

Chairman Delzer: Are they separate from the banks?

Tim Karsky, Commissioner: That is correct. Usually they hold 100% of the assets of the bank and normally there are not a lot of other assets in the holding company.

Marilyn Foss, general counsel for the North Dakota Bankers Association, spoke in support of Senate Bill 2008. I would say the state chartered banks of ND are completely aware of the need for a well qualified, stable examining force. We are very appreciative of the work that the Commissioner and his department does to insure that our banks are operated in a safe and sound manner and when problems arise to address those in timely fashion and in a manner is designed to enable the bank to improve its circumstance. I have had a number of occasions over the years to work with the Commissioner where banks have been found to need improvement in their operations. When that happens banks work extremely hard and are typically successful over a period of time in improving their operations and their ratings and come out of it whole. That task is made much better when you have a qualified and stable examining force. We strongly support the Commissioner's budget.

Jack McDonald on behalf of the independent community banks of ND, we too support the Commissioner's budget. We have found him to be extremely helpful in informal situations. I have found them extremely helpful in answering consumer type questions and questions concerning individuals who have gotten themselves in to various difficulties. That's a very important role he plays. I think he helps a lot of ND citizens through his office. We strongly support his budget.

Chairman Delzer closed the hearing of SB 2008.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2008

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 3/18/09

Recorder Job Number: 11225

Committee Clerk Signature <i>Tonya Voegle</i>

Minutes:

Chairman Delzer opened the discussion on Senate Bill 2008.

Representative Dosch: They are requesting two FTE positions. One is for a mortgage examiner and given light of the current mortgage crisis that we are facing. That is something they never have had to do before is inspect that.

Chairman Delzer: That is in bill 2160 that gives them that duty. The mortgage loan originators.

Representative Dosch: No. 2160 is a half time. That is to deal with the licensing of the mortgage lenders.

Chairman Delzer: I think the fiscal note for 2160 actually said one for the mortgage loan situation and a half time for the pay day deal.

Representative Dosch: I just have the half FTE from 2160. On the green sheets it does show the additional funds for the bank examiner and the other for the FTE consumer investigating position.

Chairman Delzer: I would say that those positions cover the positions in 2160. Does it not?

Representative Dosch: It is my understanding that the total they would need would be at 2.5 positions.

Chairman Delzer: I would think they are going from 27-29 I would say the two covers those two positions in 2160. What we would basically be saying there is 1.5 here for the budget and 1.5 out of 2160 and they have to make it work. I don't think that is out of line. Committee members any comments?

Representative Kempenich: Statewide this is not a big issue but nationally it is.

Chairman Delzer: We are adding two. What about the software for the National Mortgage Licensing System? Tammy is this your budget?

Tammy Dolan, OMB: Yes.

Chairman Delzer: Where do they get their special funds or other funds?

Tammy Dolan, OMB: It is all from fees paid by the institutions and the other entities they examine and license.

Chairman Delzer: Where does the excess money reside if there is any?

Roxanne Woeste, Legislative Council: It would be in their special fund that they deposit all of their fees into.

Chairman Delzer: Is there upper limits on that special fund? That is the same place they get their funding from?

Roxanne Woeste, Legislative Council: Correct.

Chairman Delzer: Is there upper limits on there?

Roxanne Woeste, Legislative Council: I am not aware of any statutory requirements

Tammy Dolan, OMB: There is an upper limit on it. I think it is a percentage of their most recent appropriation. If it is anything in excess of that at the end of the biennium it goes to the General Fund.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2008

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 3/24/09

Recorder Job Number: 11490

Committee Clerk Signature *Tonya Vaegeli*

Minutes:

Chairman Delzer opened the discussion of Senate Bill 2008.

The committee was presented amendment 98027.0101.

Chairman Delzer: I think our amendment is one that the right hand side of our section is not going to like very well. All it would do is remove the equity. Are there any questions or comments?

Vice Chairman Thoreson: I will move the amendment 0101.

Representative Glassheim: Second.

Chairman Delzer: Any further discussion?

Representative Glassheim: Question.

Chairman Delzer: All of those in favor say yea.

A motion was made by Vice Chairman Thoreson, seconded by Representative

Glassheim to adopt amendment 98027.0101 to Senate Bill 2008. Motion carried on a voice vote.

Representative Berg: I sat in on this subcommittee and clearly right now we are in a very difficult time in banking in North Dakota. I think they have done a good job and I didn't see any other changes in light of what is going on that I really wish to make.

Chairman Delzer: It is all special fund money created by fees.

Representative Berg: I think this is the guy that Representative Glassheim asked if he needed more people and he said no. I think we should give them an extra \$50,000 for answering the question so well.

Chairman Delzer: One thing that I would like to mention is last biennium we had a problem with state credit unions. Some of what we passed last biennium never got done. The issue was decided not to be brought forward this biennium because of the financial situation the way it has been. I might however come back before the legislature two years from now.

Vice Chairman Thoreson: What was the issue?

Chairman Delzer: The issue was that they wanted to be able to have state chartered credit unions. It required rule changes and the rules never got written. I think in the end the organization that may want to change will bring in the package of rules to have the legislature deal with.

Representative Berg: Just kind of to build on that I think the issue gets down into credit unions being able to make commercial loans. I think if they were state chartered they could make commercial loans. They put a bill in last session to do that. The Department of Financial Institutions was opposed to the bill and it really didn't go anywhere and they said well would you like to write the bill? So the impression was kind of left that well you don't really like the bill but you can write it in a way that is compatible to how you feel it should be governed. That really didn't get done. All I can say is I was on both sides of that issue. During the interim they

came before the IBL committee and personally I wouldn't really point the finger of blame real hard at anyone it is just kind of what it is.

Chairman Delzer: Committee members I wasn't if I sounded that way I wasn't. I just wanted to make sure the committee was aware of what happened last time, why it is not before us this time and the possibility that it may be here next time.

Representative Meyer: Are you saying that there are no state chartered credit unions?

Chairman Delzer: Is that the correct word?

Representative Berg: I think we have state and national chartered credit unions but I think they were.....

Representative Meyer: We have no state chartered savings and loan associations. We have 31 state chartered credit unions.

Chairman Delzer: Maybe that is what they were trying to do is change from a credit union to a savings and loan.

Representative Berg: The point was they wanted to make commercial loans.

Chairman Delzer: It had to do with the regulations and their licensure.

Chairman Delzer closed the discussion.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2008

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 4/1/09

Recorder Job Number: 11629

Committee Clerk Signature <i>Lenya Voegele</i>
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Minutes:

Chairman Delzer opened the discussion on Senate Bill 2008.

Representative Kempenich: With that bill that we just passed (2160) up on the floor, are they going to need some more people?

Chairman Delzer: No. We looked at that. We had that bill before us and I think we decided that that was what was going to happen with the ones that we allowed here. We had that bill here and kicked it back out. I think the only other thing that was ever talked about on this is it seemed to me that Representative Berg at one time had mentioned a study on the fees but I don't know that we have any language or ever adopted anything. So if there is nothing further and we have adopted 0101 we have the amended bill before us.

Representative Dosch: I will move a Do Pass, As Amended.

Vice Chairman Thoreson: Second.

A motion was made by Representative Dosch, seconded by Vice Chairman Thoreson for a Do Pass, As Amended recommendation to the House Appropriations Full Committee

Page 2
House Appropriations Committee
Government Operations Division
Bill/Resolution No. 2008
Hearing Date: 4/1/09

on Senate Bill 2008. Motion carried by a vote of 7-0-1. Representative Glassheim will carry the bill.

2009 HOUSE STANDING COMMITTEE MINUTES

SB 2008

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: April 3, 2009

Recorder Job Number: 11712

Committee Clerk Signature

Shirley Branning

Minutes:

Chairman Svedjan: Called for amendments to SB 2008, the Department of Financial Institutions.

Rep. Glassheim moved amendment .0101 Attachment A, that simply removes the equity.

Rep. Berg seconded the motion.

The motion carried by voice vote and the amendment was adopted.

Rep. Glassheim: explained the bill. There are no General Funds in it. It is supported by fees from institutions that they regulate. They have 81 state banks with assets of \$11B, 31 state credit unions and they regulate consumer institutions, collection agencies, Pay Day Loans, etc. They are asking for two additional FTEs, one a bank examiner and one a real estate mortgage investigator.

They are allowed by statute to keep 20 percent of their operating expenses in reserve above the amount that would go into the general fund. They keep about 10 percent. And have not put much into the general fund because they keep their fees low. \$400 per year is paid in annual fees. They are on a two year cycle of investigating all of these institutions that they regulate. There is one-time funding on the green sheets for a soft ware interface with the national mortgage lending system. I will move a **Do Pass as Amended**.

Rep. Dosch: Second.

Rep. Delzer: SB 2160 is listed on the Green Sheet. That did add a number of mortgage loan originators. That's why we left the two FTEs in.

Vote Taken: Yes 24 No 0 Absent 1 Motion Carries. Carrier: Rep. Glassheim.

98027.0101
Title.0200
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations

March 18, 2009

VR
4/3/09
1082

PROPOSED AMENDMENTS TO SENATE BILL NO. 2008

Page 1, line 12, replace "747,117" with "635,817" and replace "4,873,525" with "4,726,225"

Page 1, line 15, replace "1,020,366" with "909,066" and replace "6,197,788" with "6,086,488"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98027.0101 FN 1

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:**Senate Bill No. 2008 - Department of Financial Institutions - House Action**

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	\$4,873,525	\$4,873,525	(\$111,300)	\$4,762,225
Operating expenses	1,304,263	1,304,263		1,304,263
Contingency	20,000	20,000		20,000
Total all funds	\$6,197,788	\$6,197,788	(\$111,300)	\$6,086,488
Less estimated income	6,197,788	6,197,788	(111,300)	6,086,488
General fund	\$0	\$0	\$0	\$0
FTE	29.00	29.00	0.00	29.00

Department No. 413 - Department of Financial Institutions - Detail of House Changes

	Removes Salary Equity Funding¹	Total House Changes
Salaries and wages	(\$111,300)	(\$111,300)
Operating expenses		
Contingency		
Total all funds	(\$111,300)	(\$111,300)
Less estimated income	(111,300)	(111,300)
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes funding added in the executive budget for state employee salary equity adjustments.

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2008

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98027.0101

Action Taken DO PASS AS AMENDED

☐ Voice Vote

☒ Roll Call Vote

Motion Made By Representative Dosch: Seconded By Vice Chairman Thoreson:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Glassheim	X	
Vice Chairman Thoreson	X		Representative Meyer	X	
Representative Kempenich	X		Representative Kaldor		
Representative Berg	X				
Representative Dosch	X				

Total (Yes) 7 No 0

Absent 1

Floor Assignment Representative Glassheim:

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

Date: 4/3/09
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2008

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number .0101

Action Taken adopt .0101

Motion Made By Glassheim Seconded By Bug

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kemperich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Voice Vote - carry

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

Date: 4/3/09
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2008

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 0101

Action Taken Pass as Amended

Motion Made By Glassheim Seconded By Dosch

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Rep. Skarphol	✓		Rep. Kroeber	✓	
Rep. Wald	✓		Rep. Onstad	✓	
Rep. Hawken	✓		Rep. Williams	✓	
Rep. Klein	✓				
Rep. Martinson	✓				
Rep. Delzer	✓		Rep. Glassheim	✓	
Rep. Thoreson	✓		Rep. Kaldor	✓	
Rep. Berg	✓		Rep. Meyer	✓	
Rep. Dosch	✓				
Rep. Pollert	✓		Rep. Ekstrom	✓	
Rep. Bellew	✓		Rep. Kerzman	✓	
Rep. Kreidt	✓		Rep. Metcalf	✓	
Rep. Nelson	✓				
Rep. Wieland	✓				

Total (Yes) 24 No 0

Absent 1

Floor Assignment Glassheim

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

REPORT OF STANDING COMMITTEE

SB 2008: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (24 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2008 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "747,117" with "635,817" and replace "4,873,525" with "4,726,225"

Page 1, line 15, replace "1,020,366" with "909,066" and replace "6,197,788" with "6,086,488"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98027.0101 FN 1

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 SENATE APPROPRIATIONS

CONFERENCE COMMITTEE

SB 2008

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2008

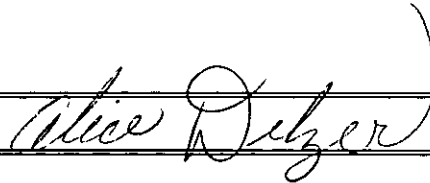
Senate Appropriations Committee

☒ Check here for Conference Committee

Hearing Date: 04-21-09

Recorder Job Number: 12050

Committee Clerk Signature



Minutes:

Chairman Krebsbach called the conference committee to order at 9:30 am in reference to SB 2008. Let the record show that all conferees are present which include Senators Bowman, Seymour and Representatives Dosch, Berg and Glassheim. Tammy Dolan from OMB and Brady Larson from Legislative Council were also present.

Chairman Krebsbach: We will proceed with perhaps some explanations of the changes that were made on the House side. I might say that the Senate side sent the bill off as was presented in the governor's executive budget.

Representative Berg We were working from Hoeven's 2007 budget. (he was joking at the time)

Senator Krebsbach It appears the only changes the House made was with the salary adjustment and the equity and from what I can see that is probably the only change that the House made. Just for salary and equity. There is one bit of a change that was called to my attention and that is on the Senate Bill version 200 with the House amendments. Brady informs me that the line 12 salary and wages there was a transposition in the appropriation area that figure rather than \$4,726,225 should read \$4,762,225. It is correct on the statement of amendments that we find in the book but It is incorrect on the bill itself. Brady, do we need to take action to change that or can you make the change?

Representative Berg I could move to take to move \$36,000 out so it works. Don't you think I should?

Chairman Krebsbach No, we will be adding prices. Where it is just a typographical error, basically, I don't know if we need to take action to have that corrected. Brady will check on that for us. It appears to me that there will be a meeting again on this.

Representative Glassheim It depends on which way Brady changes that.

Chairman Krebsbach At this particular time you are absolutely correct. In all due respect for time we should recess and plan to meet later and by then Brady will have the answer for us on the transposition question and perhaps there will be something settled and decided on the equity question. We are in recess until we are called back to meeting again.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2008 conference committee

Senate Appropriations Committee

☒ Check here for Conference Committee

Hearing Date: April 29, 2009

Recorder Job Number: 12370

Committee Clerk Signature

Rose Laning

Minutes:

Chairman Krebsbach called the conference committee to order on SB 2008 which relates to the department of financial institutions. The minutes are to reflect that all conferees are present: **Senators Krebsbach, Bowman, Seymour and Representatives Dosch, Berg and Glassheim.** **Tammy Dolan** from OMB and **Brady Larson** from Legislative Council were also present.

Senator Krebsbach: We have amendments - .0102. The only issue is basically that of the equity which we are all willing to understand and correct. There was a transposition on the House bill. In line item 12 on the bill, it read \$4,726,225 and that was incorrect. It should have been \$4,762,225. The amendments correct that as well as take care of the equity. I guess because of the correction, normally the process would be for the Senate to accede to the House amendment, however, because of the fact that this correction had to be made, and that error was over on the other side, I believe the proper way to do it would be for you to recede.

Rep. Berg moved the amendments .0102.

Senator Bowman seconded.

Voice vote passed.

Senator Krebsbach: Now to proceed with the bill as it is. I believe according to our counsel, we need to have the House recede and further amend.

Rep. Glassheim moved for the House to recede and to further amend SB 2008.

Senator Bowman seconded.

Senator Krebsbach: Any discussion?

A Roll Call vote was taken. Yea: 6 Nay: 0 Absent: 0

Senator Krebsbach: That completes the work on SB 2008 and the conference committee is dissolved.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2008

That the House recede from its amendments as printed on page 1247 of the Senate Journal and page 1179 of the House Journal and that Senate Bill No. 2008 be amended as follows:

Page 1, line 12, replace "747,117" with "635,817" and replace "4,873,525" with "4,762,225"

Page 1, line 15, replace "1,020,366" with "909,066" and replace "6,197,788" with "6,086,488"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98027.0102 FN 2

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:**Senate Bill No. 2008 - Department of Financial Institutions - Conference Committee Action**

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	\$4,873,525	\$4,873,525	(\$111,300)	\$4,762,225	\$4,762,225	
Operating expenses	1,304,263	1,304,263		1,304,263	1,304,263	
Contingency	20,000	20,000		20,000	20,000	
Total all funds	\$6,197,788	\$6,197,788	(\$111,300)	\$6,086,488	\$6,086,488	\$0
Less estimated income	6,197,788	6,197,788	(111,300)	6,086,488	6,086,488	0
General fund	\$0	\$0	\$0	\$0	\$0	\$0
FTE	29.00	29.00	0.00	29.00	29.00	0.00

Department No. 413 - Department of Financial Institutions - Detail of Conference Committee Changes

	Removes Salary Equity Funding¹	Total Conference Committee Changes
Salaries and wages	(\$111,300)	(\$111,300)
Operating expenses		
Contingency		
Total all funds	(\$111,300)	(\$111,300)
Less estimated income	(111,300)	(111,300)
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment removes funding added in the executive budget for state employee salary equity adjustments, the same as the House version.

**REPORT OF CONFERENCE COMMITTEE
(ACCEDE/RECEDE)**

Bill Number SB 2008 (, as (re)engrossed):

Date: 4/29/09

Your Conference Committee Senate Appropriation

For the Senate:

For the House:

YES / NO			YES / NO		
Krebsbach	☒	☐	Dasch	☒	☐
Bowman	☒	☐	Berg	☒	☐
Seymour	☒	☐	Glassheim	☒	☐

recommends that the (SENATE/HOUSE) (ACCEDE to) (RECEDE from)

the (Senate/House) amendments on (SJ/HJ) page(s) 1247 - _____

____, and place _____ on the Seventh order.

☒ adopt (further) amendments as follows, and place _____ on the Seventh order:

____, having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

((Re)Engrossed) SB 2008 was placed on the Seventh order of business on the calendar.

DATE: _____

CARRIER: _____

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Rep. Glassheim

SECONDED BY: Sen. Bowman

VOTE COUNT 6 YES 0 NO 0 ABSENT

REPORT OF CONFERENCE COMMITTEE

SB 2008: Your conference committee (Sens. Krebsbach, Bowman, Seymour and Reps. Dosch, Berg, Glassheim) recommends that the **HOUSE RECEDE** from the House amendments on SJ page 1247, adopt amendments as follows, and place SB 2008 on the Seventh order:

That the House recede from its amendments as printed on page 1247 of the Senate Journal and page 1179 of the House Journal and that Senate Bill No. 2008 be amended as follows:

Page 1, line 12, replace "747,117" with "635,817" and replace "4,873,525" with "4,762,225"

Page 1, line 15, replace "1,020,366" with "909,066" and replace "6,197,788" with "6,086,488"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98027.0102 FN 2

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

SB 2008 was placed on the Seventh order of business on the calendar.

2009 TESTIMONY

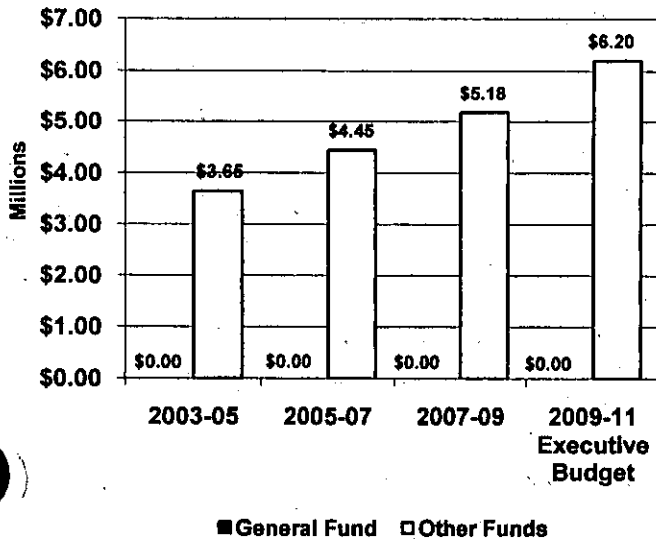
SB 2008

Department 413 - Department of Financial Institutions
Senate Bill No. 2008

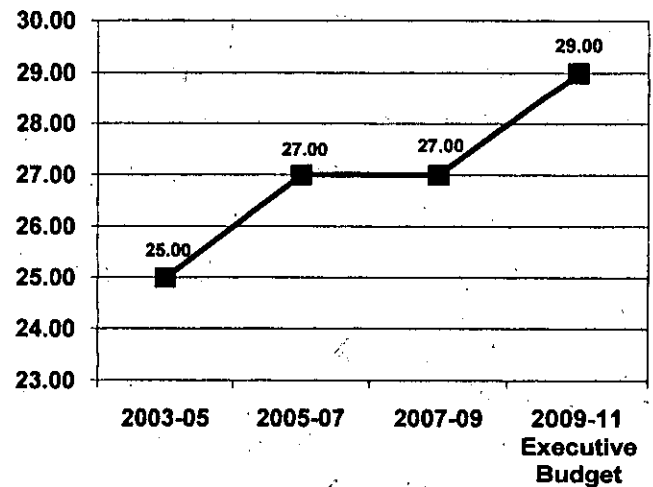
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	29.00	\$0	\$6,197,788	\$6,197,788
2007-09 Legislative Appropriations	27.00	0	5,184,702	5,184,702 ¹
Increase (Decrease)	2.00	\$0	\$1,013,086	\$1,013,086

¹The 2007-09 appropriation amounts include \$7,280 of other funds for the agency's share of the \$10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees. The 2007-09 appropriation amounts do not include \$45,000 of additional special funds authority resulting from Emergency Commission action during the 2007-09 biennium.

Agency Funding



FTE Positions



First House Action

The Senate did not change the executive budget recommendation for the Department of Financial Institutions. Attached is a summary of first house changes.

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides \$111,300 to address salary equity issues, including \$5,300 to address the related second-year salary increase		\$111,300	\$111,300
2. Adds 1 FTE bank examiner position		\$125,254	\$125,254
3. Adds 1 FTE consumer investigator position		\$124,281	\$124,281
4. Provides one-time funding to develop a software interface with the National Mortgage Licensing System		\$117,351	\$117,351

Continuing Appropriations

No continuing appropriations for this agency.

Major Related Legislation

Senate Bill No. 2160 - This bill requires the Department of Financial Institutions to regulate real estate brokerage activity and register mortgage loan originators.

TACH:1

STATEMENT OF PURPOSE OF AMENDMENT:**Senate Bill No. 2008 - Funding Summary**

	Executive Budget	Senate Changes	Senate Version
Department of Financial Institutions			
Salaries and wages	\$4,873,525		\$4,873,525
Operating expenses	1,304,263		1,304,263
Contingency	20,000		20,000
Total all funds	\$6,197,788	\$0	\$6,197,788
Less estimated income	6,197,788	0	6,197,788
General fund	\$0	\$0	\$0
FTE	29.00	0.00	29.00
Bill Total			
Total all funds	\$6,197,788	\$0	\$6,197,788
Less estimated income	6,197,788	0	6,197,788
General fund	\$0	\$0	\$0
FTE	29.00	0.00	29.00

Senate Bill No. 2008 - Department of Financial Institutions - Senate Action

The Senate did not change the executive recommendation for the Department of Financial Institutions.

1-19-2009

TESTIMONY FOR SENATE BILL NO. 2008

Senate Appropriations Committee

Testimony of Timothy J. Karsky, Commissioner, Department of Financial Institutions in support of Senate Bill No. 2008

Chairman Holmberg and members of the Senate Appropriations Committee, I am Tim Karsky, Commissioner for the Department of Financial Institutions. I am here today to testify in support of the appropriation of \$6,197,788.

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, trust companies, and other financial corporations which include consumer finance companies, collection agencies, money brokers, deferred presentment service providers (payday lenders), money transmitters, and the Department currently has a bill to license mortgage loan originators (Senate Bill No. 2160). The Department also 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 and trust companies, (2) credit unions, and (3) consumer licensees. Banks, trust companies, and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for the respective cost centers. Trust Companies also pay examination fees for their safety and soundness examinations. The State Banking Board and State Credit Union Board set the assessment formula to cover the examination and allocated overhead costs for the respective industry. 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 the consumer cost center.

State-Chartered Banks

Currently there are 81 state-chartered banks, plus the Bank of North Dakota, which compares with 80 state-chartered banks two years ago. The number of banks has remained stable over the past several years due to several new charters and also several mergers and consolidations. Although we have seen a reduction in the total number of banks over the past decade, assets continue to grow from \$9,069,045,000 on 9-30-06 to \$11,077,458,000 on 9-30-08, an increase of 22%, increasing the Department's responsibilities and time needed to conduct examinations. Many of our institutions continue to branch, some across state lines, which increases the

Department's responsibilities and the need for time and other resources to conduct these examinations. The overall loan volume continues to grow and puts additional time constraints on examiners, as this is one of the main emphases conducted during an examination. Not only has loan volume grown, but the complexity of many of the commercial loans that we review has also increased. Currently the Department has 15 field bank examiners who conduct examinations throughout the State of North Dakota. The Department has 3 field office locations: Grand Forks, Fargo, and Bismarck. Due to some turnover in key personnel, the Department closed its Minot field office and relocated those examiners to the Bismarck office. The Department rents office space in three locations: Bismarck, Fargo, and Grand Forks. You will note in the bill the Department has asked for 2 FTE positions, and 1 of those would be an examiner position in the Bismarck field office. Although we combined the Bismarck and Minot field offices, we would like to have two examination crews from this office and to do so we need 1 additional examiner. The Bismarck field office territory extends to slightly over half of the state. It is very difficult to conduct an examination with only 3 examiners; therefore, the addition of another examiner would give us two crews of 4 people each.

State-Chartered Credit Unions

Currently there are 31 state-chartered credit unions, which is two less from two years ago. Credit unions also continue to show growth, with total assets increasing from \$1.305 billion on September 30, 2006, to \$1.586 billion as of September 30, 2008. This represents an approximate 21.5% increase in total assets. The credit union division has three examiners to conduct the examinations of state-chartered credit unions. All positions are filled and we do not anticipate expanding this division at this time or in the immediate future.

State-Chartered Trust Companies

Currently there are three state-chartered trust companies for which the Department has oversight responsibility. The 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 has decreased slightly since the last biennium. This decrease is due to the current condition in the mortgage industry and a number of mortgage companies have cancelled their licenses. As of 12-31-04, the Department had approximately 811 licensees, 937 as of 12-31-06, and 866 as of 12-31-08. This represents an approximate 8% decrease over the last biennium. It

should be noted that the Department anticipates licensing loan mortgage originators which we will be responsible for tracking educational requirements for these individuals, and this number could approximate 800 licenses. The current 866 licensees as of 12-31-08 represents 428 collection agencies, 28 consumer finance companies, 78 deferred presentment service providers (payday lenders), 311 money brokers, and 21 money transmitters. The Department by statute has to examine consumer finance companies every 24 months and we currently are examining deferred presentment service providers (payday lenders) on a 24-month examination cycle. Also, with the new federal legislation the Department will have to examine mortgage companies and this is why an additional FTE is requested. It is anticipated that this person would specialize in mortgage lender examinations which is all this individual would do. It should be noted that we have also asked for an additional half-time Administrative Assistant if Senate Bill No. 2160 passes and there is a fiscal note attached to that bill. Furthermore, it is also anticipated that once the mortgage industry rebounds we would expect additional companies to seek licensure from the Department which would also result in an increased number of loan originators.

Furthermore, the Department has continued to examine in-state collection agencies by performing on-site examinations, and we are also conducting examinations of out-of-state collection agencies by way of mail and other electronic means. The Department anticipates continued training in the mortgage venue and also in the collection agency division.

OVERVIEW

As indicated, the Department has asked for a total budget of \$6,197,788. This amount represents \$4,873,525 in salaries and wages, or approximately 79% of the total budget. The Department has requested \$1,304,263 in operating expenses; and \$20,000 contingency expense. This is approximately a 19.7% increase over our prior budget; however, it should be noted that the Department has requested an additional two FTEs. In addition, a one-time operating expense of approximately \$134,000 has been budgeted to upgrade the Department's record management system to accommodate the additional requirements for licensing mortgage companies and loan mortgage loan originators. The Department's travel expenses continue to rise with the increased costs of traveling to the banks and credit unions, and for training which is outside the state. Registration fees and airline costs continue to escalate; however, this training is needed to keep the examiners updated on the most recent laws and regulations.

IT equipment under \$5,000 has decreased approximately \$31,000 since the last biennium as the Department purchased computers during the last 12 months and does not anticipate any additional computers or equipment being purchased in the next biennium.

The Department currently has 6 Examiner III positions, 1 Examiner II positions, and 7 Examiner I positions for the examination of banks and credit unions. It is anticipated the II position would be promoted to Examiner III by the end of the next biennium. The Department continues to struggle with turnover, but hopes to maintain competitive with the banking and credit union industries and the other regulatory agencies. The Department turnover is still impacted by the large amount of travel the examiners encounter and also pressure from the salaries of banking and credit union industries and other regulatory agencies.

In review of our 2007-2009 appropriation, the Department expects approximately \$890,000 in carryover which is a result of some savings in the salary line item due to turnover. Our operating expenses are expected to be very close to what is projected.

Mr. Chairman and members of the Committee, I thank you for your time and encourage you to support Senate Bill No. 2008.

I would be happy to answer any questions you may have.

3-2-2009

TESTIMONY FOR SENATE BILL NO. 2008

House Appropriations Committee – Government Operations Division

Testimony of Timothy J. Karsky, Commissioner, Department of Financial Institutions in support of Senate Bill No. 2008

Chairman Delzer and members of the House Appropriations Committee, I am Tim Karsky, Commissioner for the Department of Financial Institutions. I am here today to testify in support of the appropriation of \$6,197,788.

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, trust companies, and other financial corporations which include consumer finance companies, collection agencies, money brokers, deferred presentment service providers (payday lenders), money transmitters, and the Department currently has a bill to license mortgage loan originators (Senate Bill No. 2160). The Department also 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 and trust companies, (2) credit unions, and (3) consumer licensees. Banks, trust companies, and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for the respective cost centers. Trust Companies also pay examination fees for their safety and soundness examinations. The State Banking Board and State Credit Union Board set the assessment formula to cover the examination and allocated overhead costs for the respective industry. 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 the consumer cost center.

State-Chartered Banks

Currently there are 81 state-chartered banks, plus the Bank of North Dakota, which compares with 80 state-chartered banks two years ago. The number of banks has remained stable over the past several years due to several new charters and also several mergers and consolidations. Although we have seen a reduction in the total number of banks over the past decade, assets continue to grow from \$9.069 billion on September 30, 2006 to \$11.077 billion on September 30, 2008, an increase of 22%, increasing the Department's responsibilities and time needed to conduct examinations. Many of our institutions continue to branch, some across state lines, which

increases the Department's responsibilities and the need for time and other resources to conduct these examinations. The overall loan volume continues to grow and puts additional time constraints on examiners, as this is one of the main emphases conducted during an examination. Not only has loan volume grown, but the complexity of many of the commercial loans that we review has also increased. Currently the Department has 15 field bank examiners who conduct examinations throughout the State of North Dakota. The Department has 3 field office locations: Grand Forks, Fargo, and Bismarck. Due to some turnover in key personnel, the Department closed its Minot field office and relocated those examiners to the Bismarck office. The Department rents office space in three locations: Bismarck, Fargo, and Grand Forks. You will note in the bill the Department has asked for 2 FTE positions, and 1 of those would be an examiner position in the Bismarck field office. Although we combined the Bismarck and Minot field offices, we would like to have two examination crews from this office and to do so we need 1 additional examiner. The Bismarck field office territory extends to slightly over half of the state. It is very difficult to conduct an examination with only 3 examiners; therefore, the addition of another examiner would give us two crews of 4 people each.

State-Chartered Credit Unions

Currently there are 31 state-chartered credit unions, which is two less from two years ago. Credit unions also continue to show growth, with total assets increasing from \$1.305 billion on September 30, 2006, to \$1.586 billion as of September 30, 2008. This represents an approximate 21.5% increase in total assets. The credit union division has three examiners to conduct the examinations of state-chartered credit unions. All positions are filled and we do not anticipate expanding this division at this time or in the immediate future.

State-Chartered Independent Trust Companies

Currently there are three state-chartered independent trust companies for which the Department has oversight responsibility. The independent trust company examinations are conducted by bank examiners who have acquired specialized trust examination training. The total combined fiduciary assets of the three independent trust companies as of December 31, 2008 was \$11.479 billion.

Consumer Licenses

The number of consumer licenses issued by the Department has decreased slightly since the last biennium. This decrease is due to the current condition in the mortgage industry and a number of mortgage

companies have cancelled their licenses. As of December 31, 2004, the Department had approximately 811 licensees, 937 as of December 31, 2006, and 866 as of December 31, 2008. This represents an approximate 8% decrease over the last biennium. It should be noted that the Department anticipates licensing mortgage loan originators for which we will be responsible for tracking the pre-licensing and continuing education requirements for these individuals; we are estimating the number of mortgage loan originators to approximate 800 licenses. The current 866 licensees as of December 31, 2008 represents 428 collection agencies, 28 consumer finance companies, 78 deferred presentment service providers (payday lenders), 311 money brokers, and 21 money transmitters. By statute, the Department has to examine consumer finance companies every 24 months and we currently are examining deferred presentment service providers (payday lenders) on a 24-month examination cycle. Also, with the new federal legislation the Department will have to examine mortgage companies and this is why we are requesting an additional FTE; this new FTE will specialize in mortgage lender examinations. It should be noted that we have also asked for an additional half-time Administrative Assistant if Senate Bill No. 2160 passes and there is a fiscal note attached to that bill. Furthermore, it is also anticipated that once the mortgage industry rebounds

we expect additional companies to seek licensure from the Department which would also result in an increased number of loan originators.

Furthermore, the Department has continued to examine in-state collection agencies by performing on-site examinations, and we are also conducting examinations of out-of-state collection agencies by having these companies submit selected documents either electronically or via regular mail. The Department anticipates continued training in the mortgage venue and also in the collection agency division.

OVERVIEW

As indicated, the Department has asked for a total budget of \$6,197,788. This amount represents \$4,873,525 in salaries and wages, or approximately 79% of the total budget. The Department has requested \$1,304,263 in operating expenses; and \$20,000 contingency expense. This is approximately a 19.7% increase over our prior budget; however, it should be noted that the Department has requested an additional two FTEs. In addition, a one-time operating expense of approximately \$134,000 has been budgeted to upgrade the Department's record management system to accommodate the additional requirements for licensing mortgage companies and loan mortgage loan originators. The Department's travel expenses continue to rise with the increased costs of traveling to the banks and credit

unions, and for training which is outside the state. Registration fees and airline costs continue to escalate; however, this training is needed to keep the examiners updated on the most recent laws and regulations.

IT equipment under \$5,000 has decreased approximately \$31,000 since the last biennium as the Department purchased computers during the last 12 months and does not anticipate any additional computers or equipment being purchased in the next biennium.

The Department currently has 3 bank Supervisory Examiners as well as 6 individuals who are classified as Examiner III's, 1 individual classified as an Examiner II, and 7 individuals classified as Examiner I's for the examination of banks and credit unions. It is anticipated the II position would be promoted to Examiner III by the end of the next biennium. The Department continues to struggle with turnover, but hopes to maintain competitive with the banking and credit union industries and the other regulatory agencies. The Department turnover is still impacted by the large amount of travel the examiners encounter and also pressure from the salaries of banking and credit union industries and other regulatory agencies.

In review of our 2007-2009 appropriation, the Department expects approximately \$890,000 in carryover which is a result of some savings in the

salary line item due to turnover. Our operating expenses are expected to be very close to what is projected.

Mr. Chairman and members of the Committee, I thank you for your time and encourage you to support Senate Bill No. 2008.

I would be happy to answer any questions you may have.

North Dakota

Department of Financial Institutions

Line Item	2006-2007		2007-2009		2009-2011		2007-2009		2009-2011		Total		Difference	
	Actual	Budget	Difference	Actual	Budget	Difference	Actual	Budget	Actual	Budget	2007-2009	2009-2011	2007-2009	2009-2011
Operating														
Travel	327,907	324,967	(2,940)	01/08	353,486	96,431		423,880	-	423,880	353,486	423,880	70,394	
Supplies IT Software	10,141	15,487	5,346		53,127	7,719		60,846	-	60,846	60,846	19,328	(41,518)	
Supplies Professional	12,944	5,930	(7,014)		10,034	1,603		11,637	-	15,030	11,637	15,030	3,393	
Miscellaneous Supplies	1,530	2,675	1,145		101	1,750		1,580	-	1,580	1,750	1,580	(170)	
Office Supplies	9,571	10,638	1,067		8,712	7,695		16,407	-	16,949	16,407	16,949	542	
Postage	13,678	18,070	4,392		8,904	5,333		14,237	-	14,562	14,237	14,562	325	
Printing	6,584	10,929	4,345		4,484	6,091		11,228	-	11,228	10,575	11,228	653	
IT Equip under \$5000	3,647	10,185	6,538		39,233	7,062		10,600	-	10,600	46,295	10,600	(35,685)	
Office Equip & Furn Suppl	3,642	3,860	218		22,343	383		8,300	-	8,300	22,726	6,300	(16,426)	
Insurance	8,326	7,343	(983)		5,475	4,048		10,702	-	10,702	9,523	10,702	1,179	
Rental/Lease - Equip	7,845	7,745	(100)		8,388	11,400		9,316	-	9,316	11,400	9,316	(2,084)	
Rental/Lease - Bldg	126,003	131,440	5,437		129,669	28,348		168,662	-	168,662	158,037	168,662	10,625	
Repairs	100	1,250	1,150		-	1,150		1,150	-	1,150	1,150	1,150	-	
IT Data Processing	121,170	160,026	38,856		102,245	27,745		286,739	-	286,739	129,990	286,739	156,749	
IT Communications	27,425	25,540	(1,885)		26,159	9,833		36,092	-	40,281	36,092	40,281	4,189	
Professional Development	108,589	70,767	(37,822)		103,914	22,893		126,807	-	124,540	126,807	124,540	(2,267)	
Operating Fees and Serv	52,150	52,773	623		39,858	30,852		70,510	-	63,580	70,510	63,580	(6,930)	
Professional Services	98,786	75,900	(22,886)		20,692	20,554		41,246	-	79,836	41,246	79,836	38,590	
Total Operating	938,037	990,525	52,488		840,423	282,291		1,122,714	-	1,304,263	1,122,714	1,304,263	181,549	
Contingency	4,445	20,000	15,555					20,000	-		20,000	20,000	-	
Salaries	3,342,879.00	3,502,478.00	159,799		3,015,497.00	1,091,491		4,873,525.00	-	4,873,525.00	4,106,988	4,873,525	766,537	
Total	4,285,161.35	4,513,003.00	227,841.65		3,855,920.17	1,393,781.83		5,249,702.00	-	6,177,788.00	5,249,702.00	6,197,788.00	948,086.00	

North Dakota

Department of Financial Institutions

Fund Balance June 30, 2005		1,224,008
License Renewal Fees Collected prior to June 30		(306,742)
Fund Balance June 30, 2005		917,266
Budget	4,445,503	
	0.20	
	889,101	
 Fund Balance June 30, 2007		 1,405,110
License Renewal Fees Collected prior to June 30		(376,357)
Fund Balance June 30, 2007		1,028,753
Budget	5,177,422	
	0.20	
	1,035,484	
 Fund Balance June 30, 2009 Projected		 1,409,481
Revenue Projected		4,847,059
License Renewal Fees Collected prior to June 30 Projected		(350,000)
Expenses Projected (Salary)		(3,838,000)
Expenses Projected (Operating)		(1,075,000)
Fund Balance June 30, 2007		993,540
Budget	5,229,702	
	0.20	
	1,045,940	

NUMBER OF FINANCIAL INSTITUTIONS AS OF DECEMBER 31, 2008

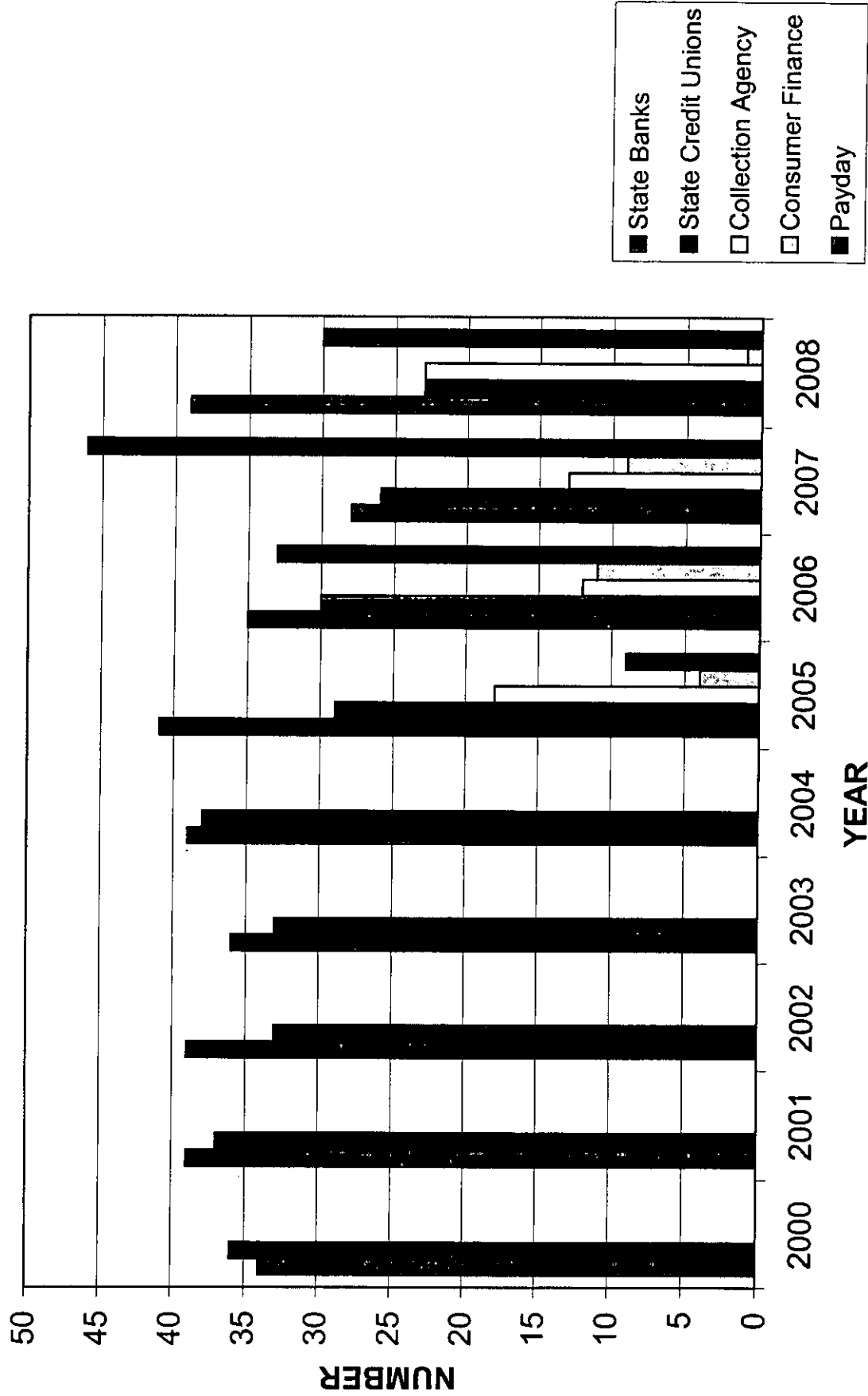
State Banks ¹	81
National Banks	13
Federal S&Ls	3
State Credit Unions	31
Federal Credit Unions ²	20
Trust Companies	3

	State Banks	State Credit Unions
12-31-04	88	39
1-1-05	87	39
2-28-05	87	38
4-1-05	85	38
8-1-05	83	37
11-1-05	83	36
2-1-06	83	35
3-1-06	83	34
3-10-06	82	34
5-1-06	82	33
12-20-06	80	33
4-23-07	81	33
7-17-07	81	33
12-3-07	82	33
1-31-08	81	33
2-22-08	81	32
4-1-08	81	31
12-31-08	81	31

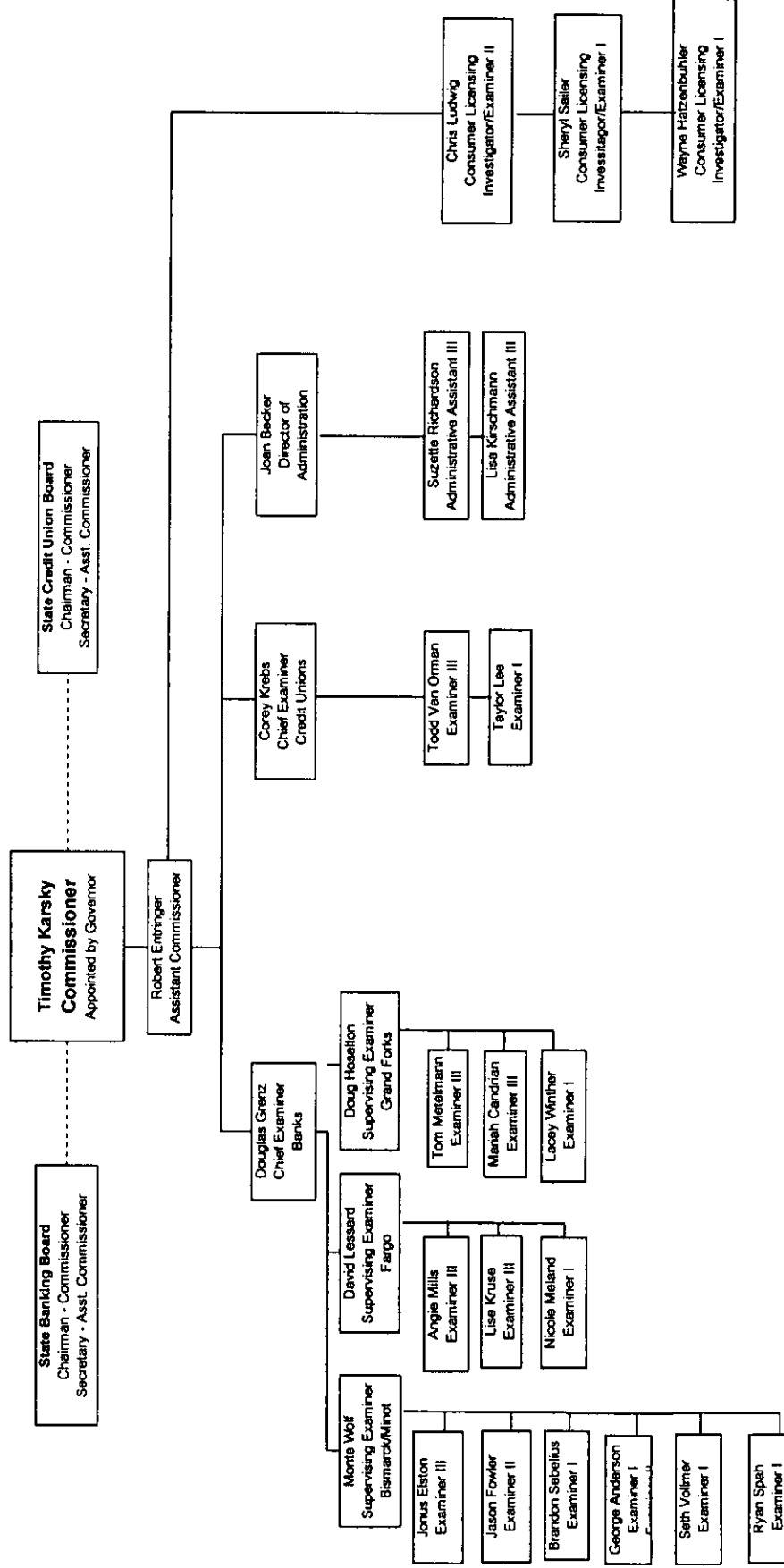
¹ Does not include Bank of North Dakota, Bismarck

² Does not include Midwest Corporate Federal Credit Union, Bismarck

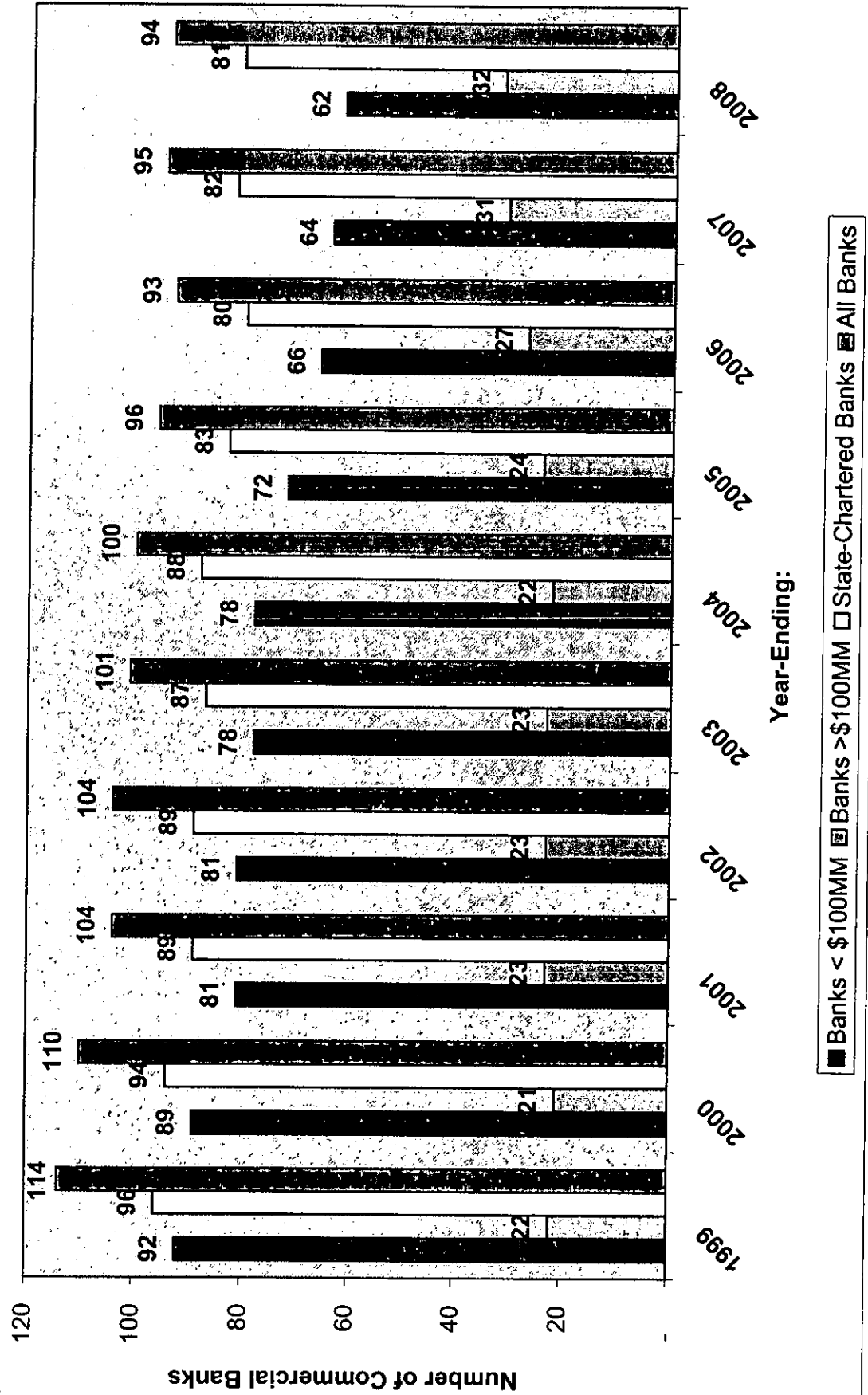
EXAMINATIONS



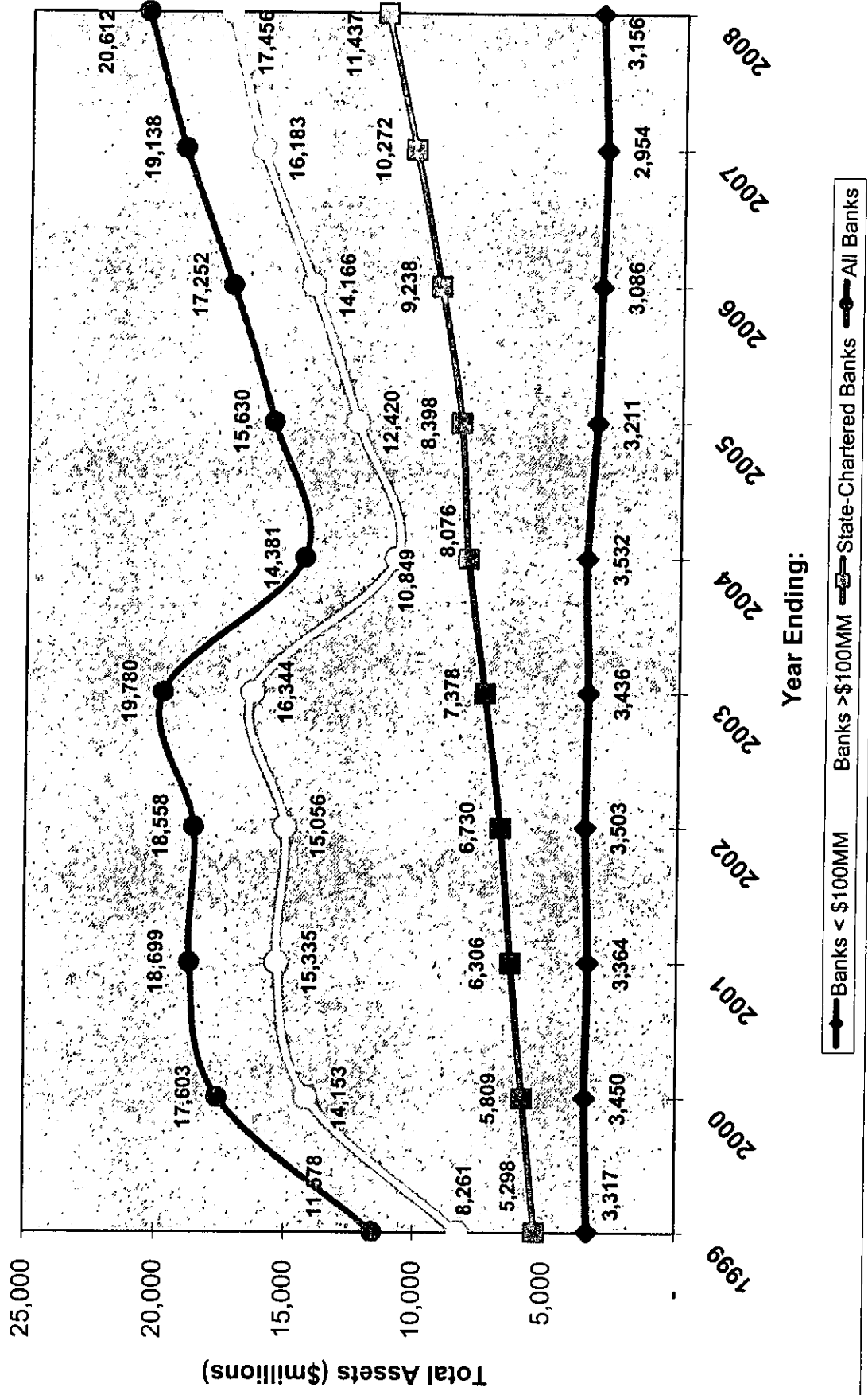
North Dakota Department of Financial Institutions



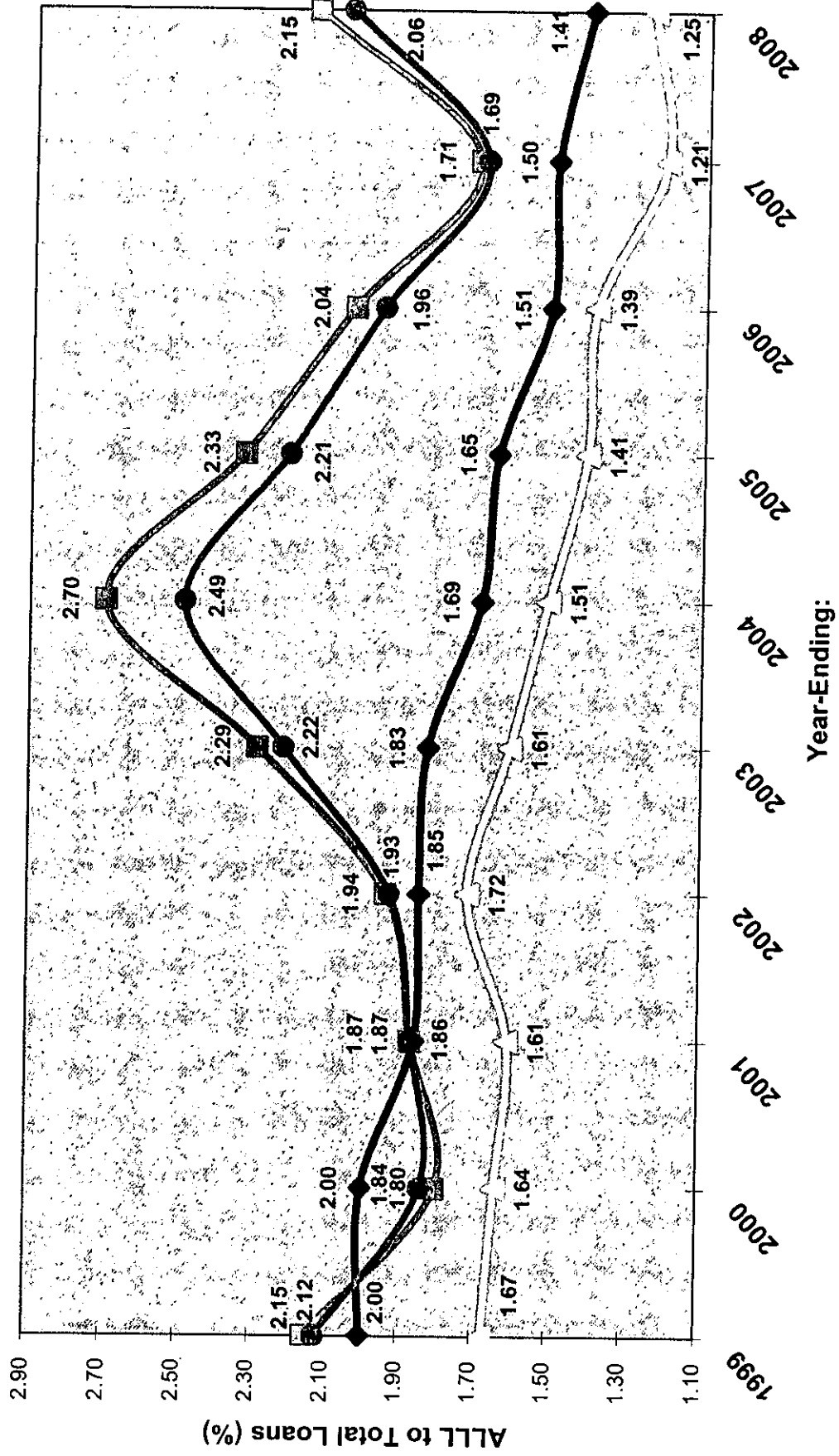
Bank Charter Trends in North Dakota



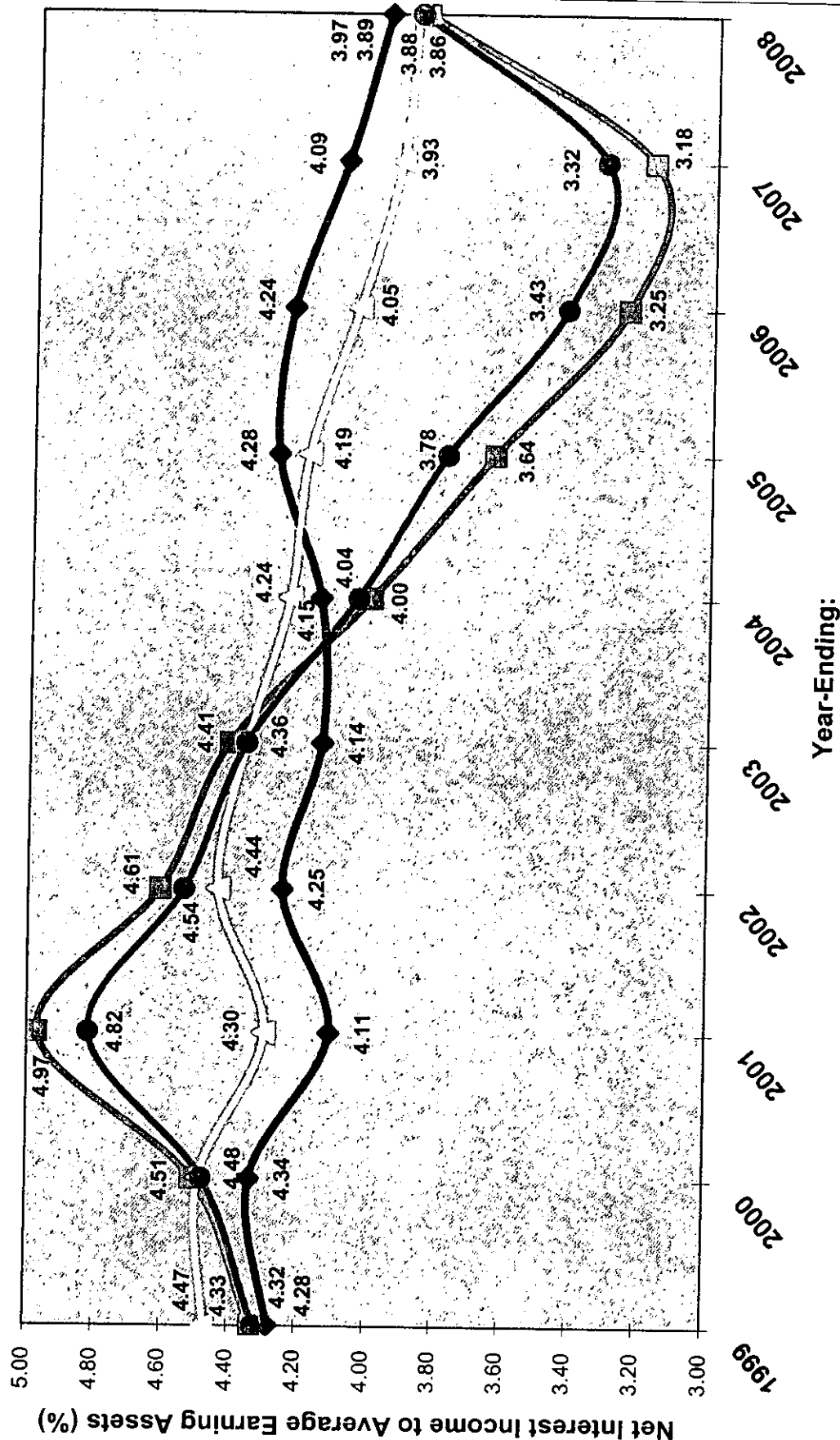
Total Asset Trends in North Dakota



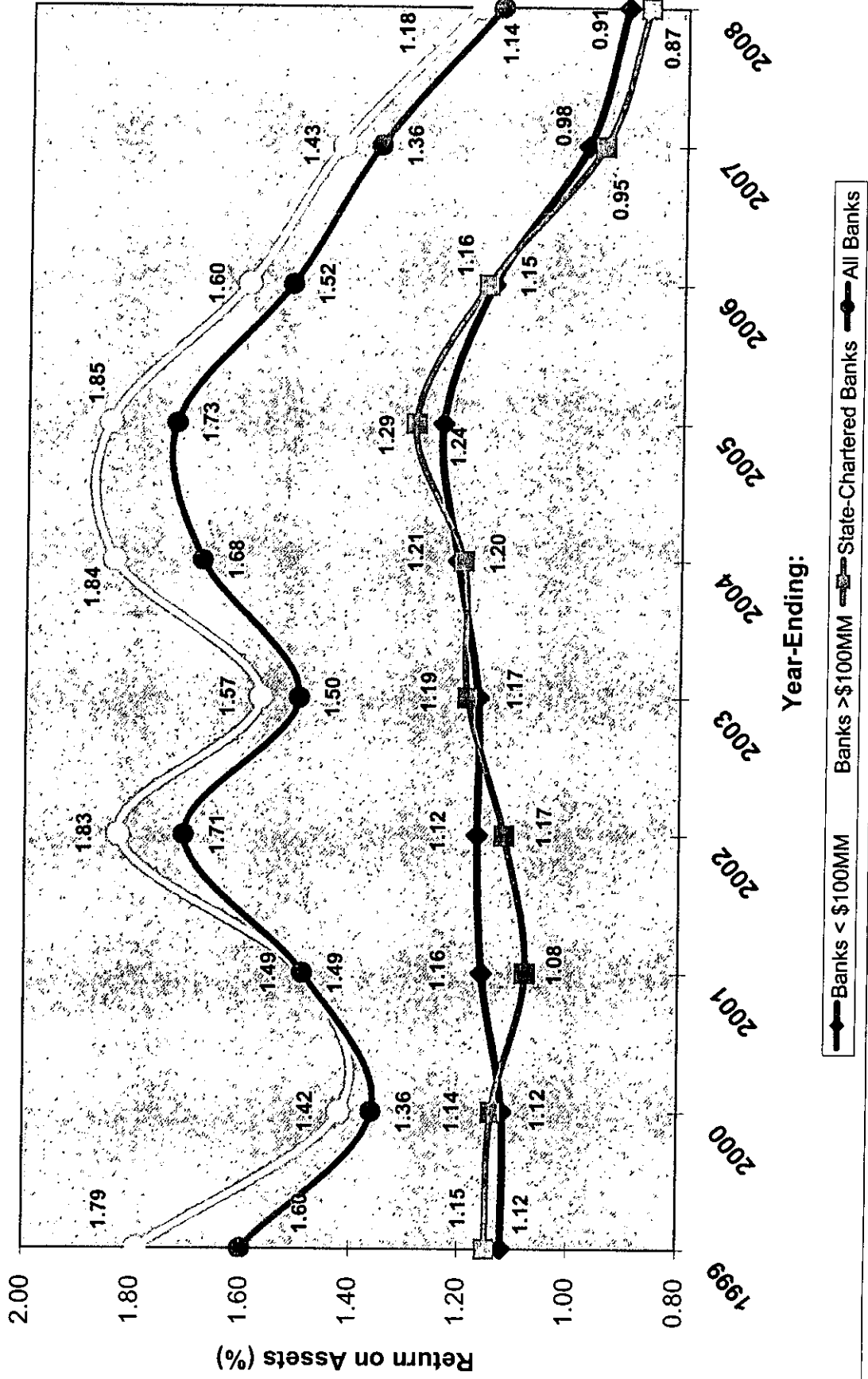
ALLL Trends in North Dakota



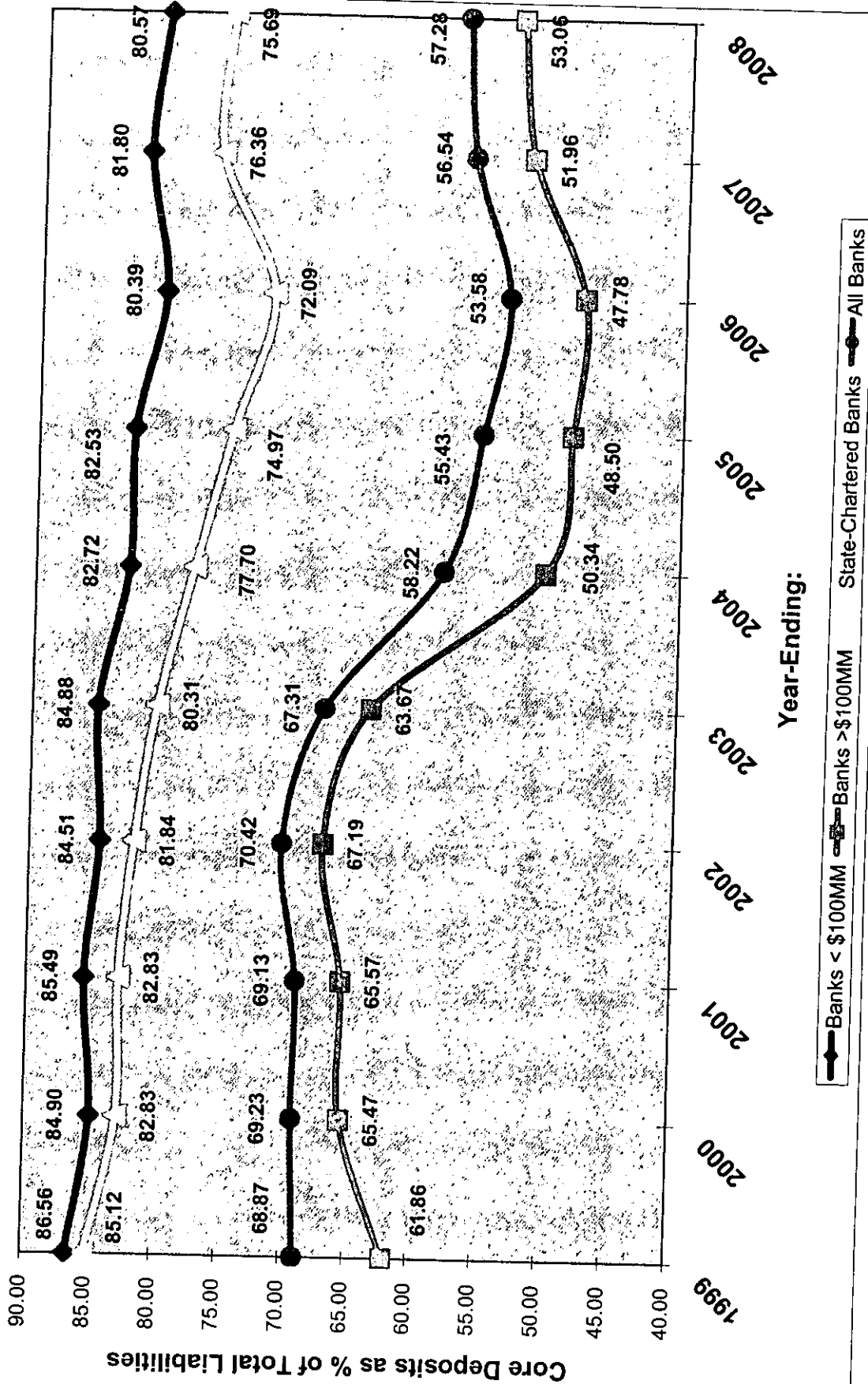
Net Interest Margin Trends in North Dakota



Return on Asset Trends of North Dakota

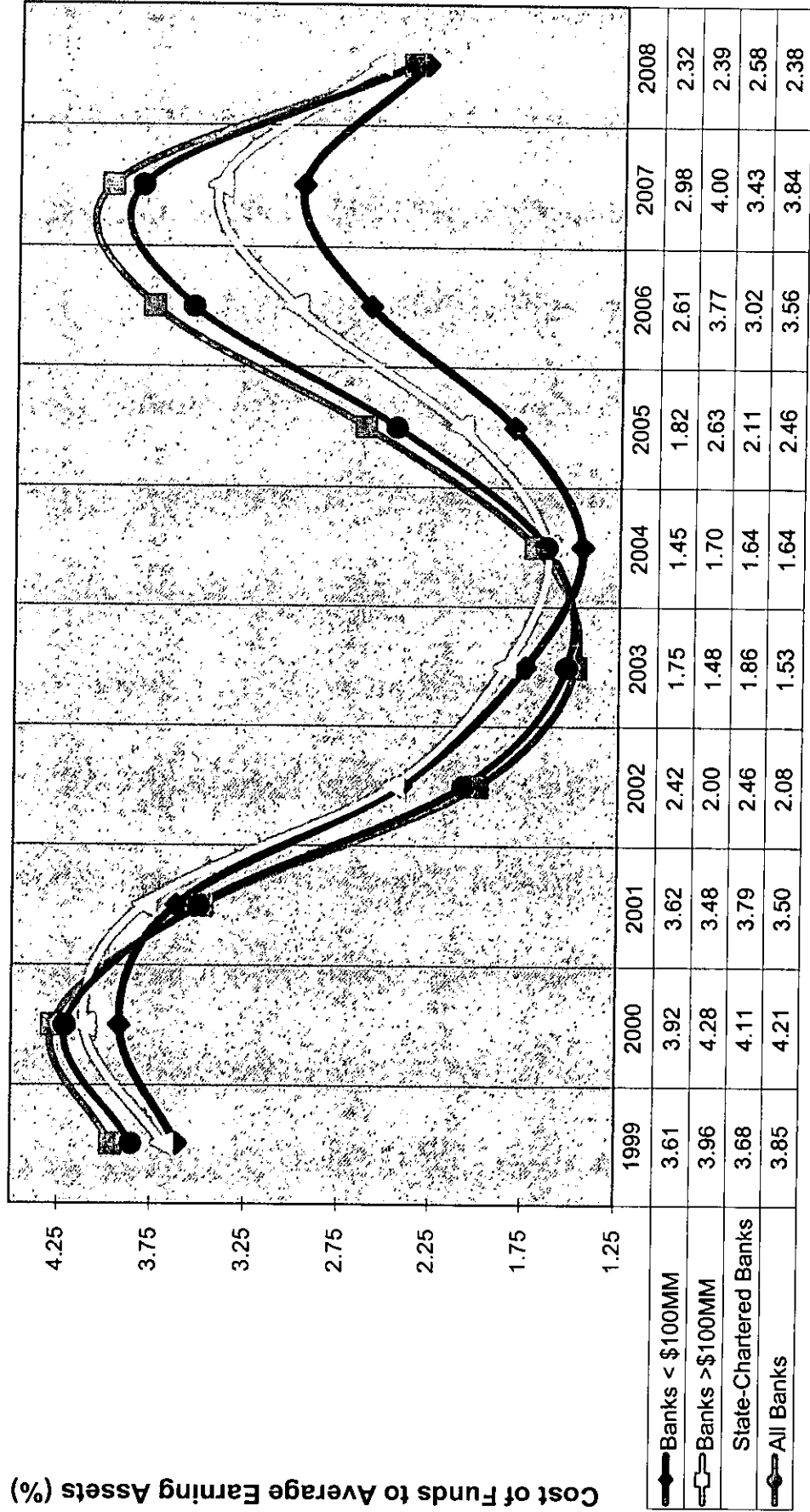


Core Deposit Trends in North Dakota



Cost of Funds Trends in North Dakota

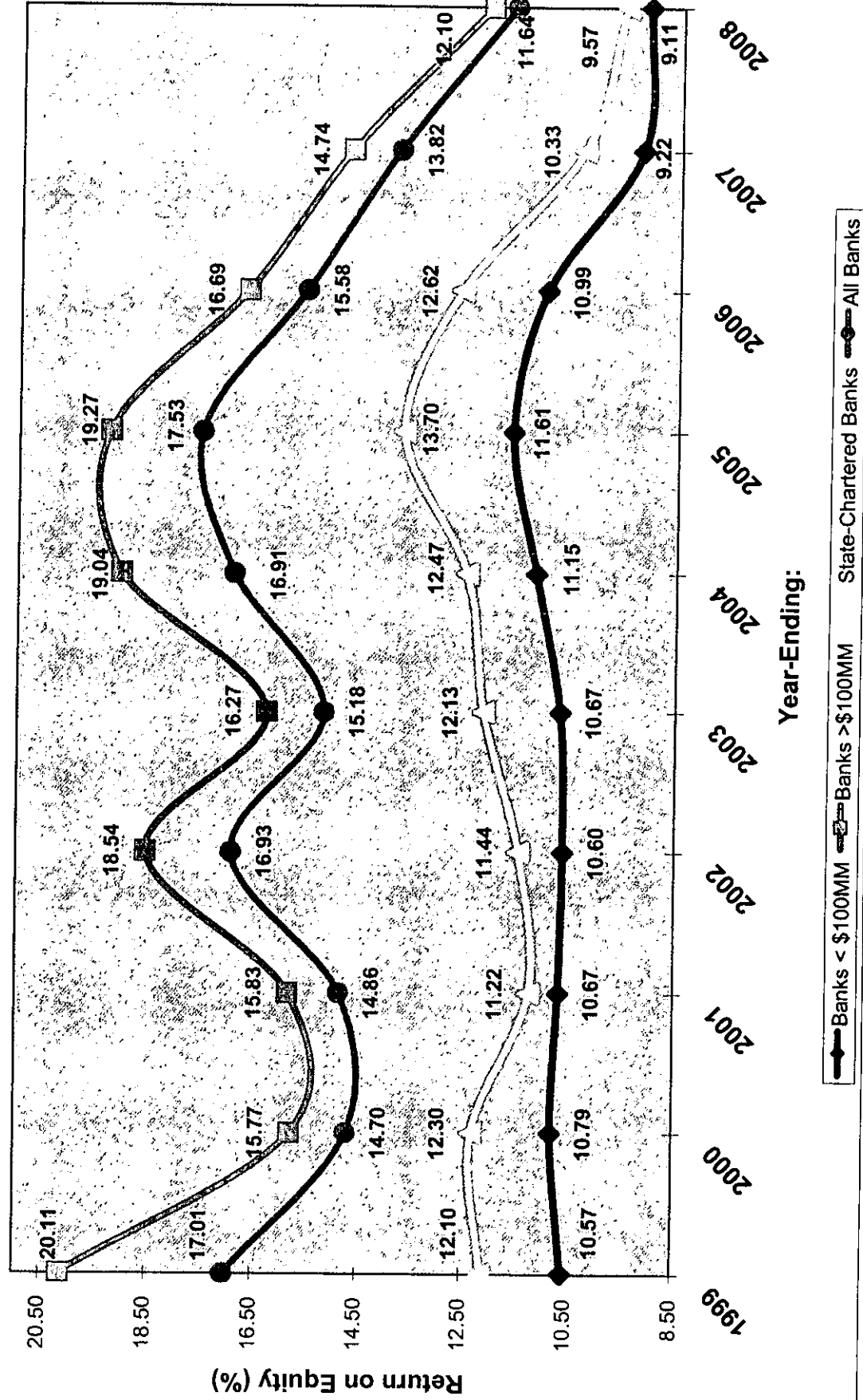
Cost of Funds to Average Earning Assets (%)



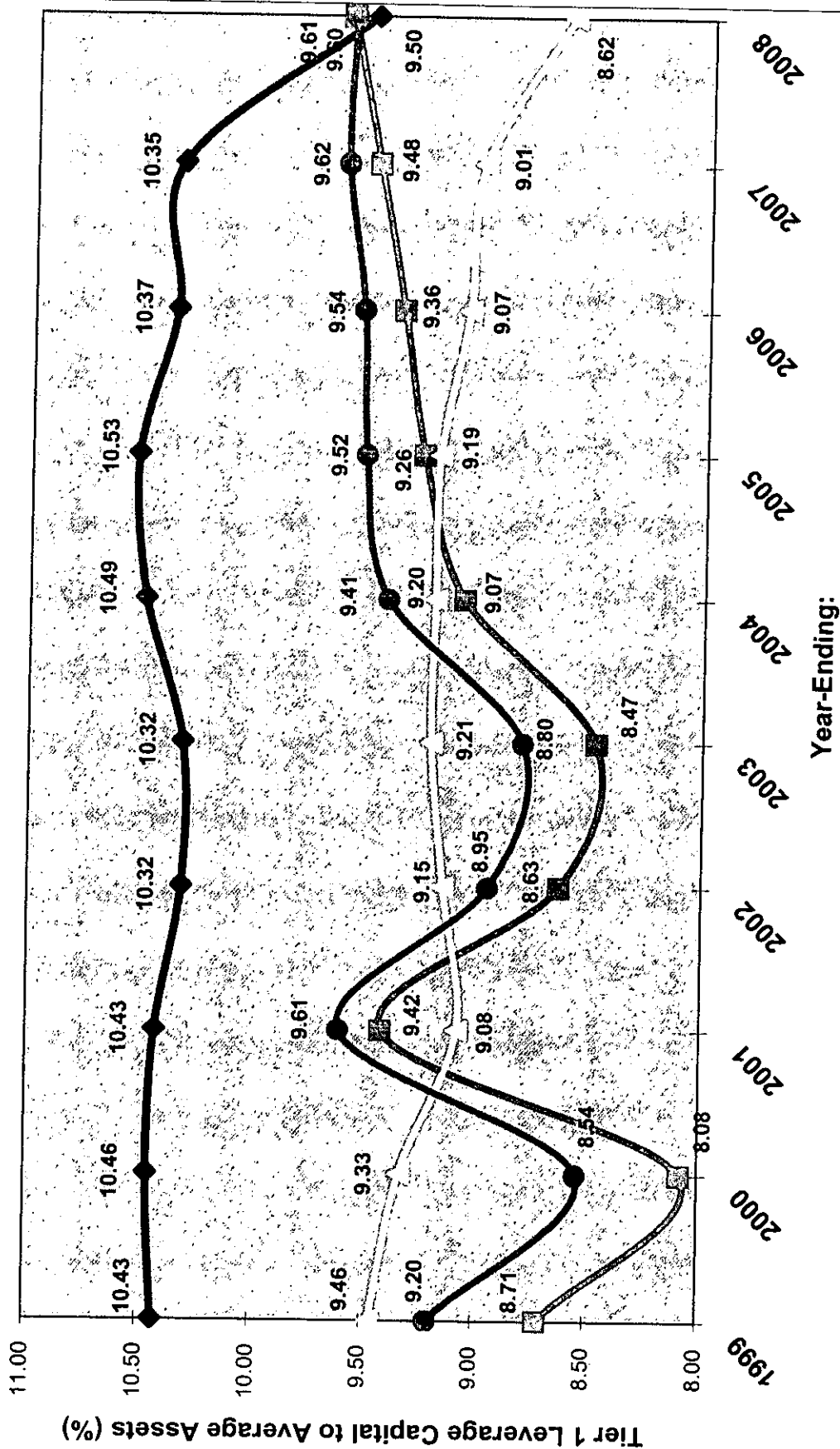
Year-Ending:

Banks < \$100MM
 Banks > \$100MM
 State-Chartered Banks
 All Banks

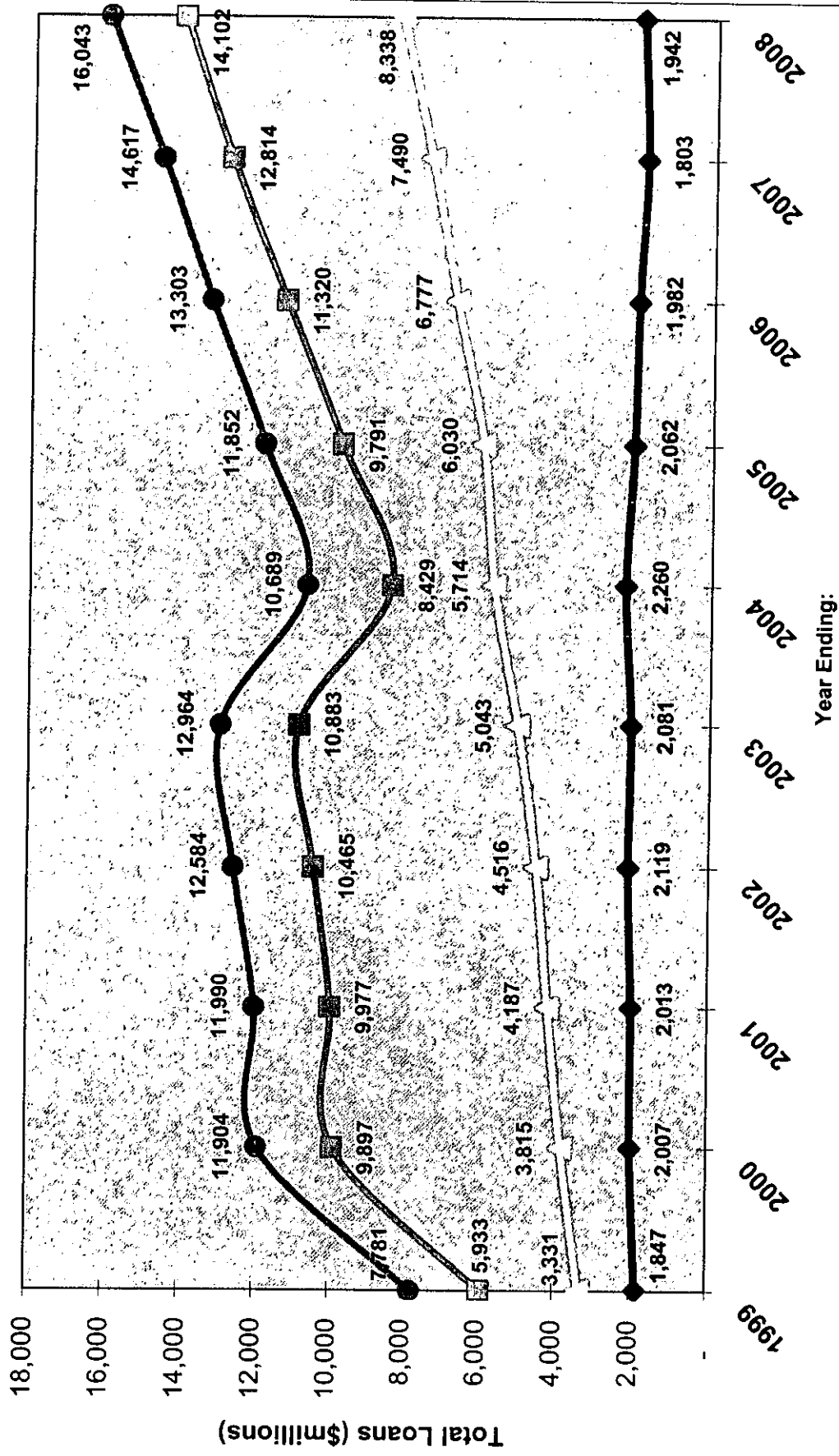
Return on Equity Trends in North Dakota



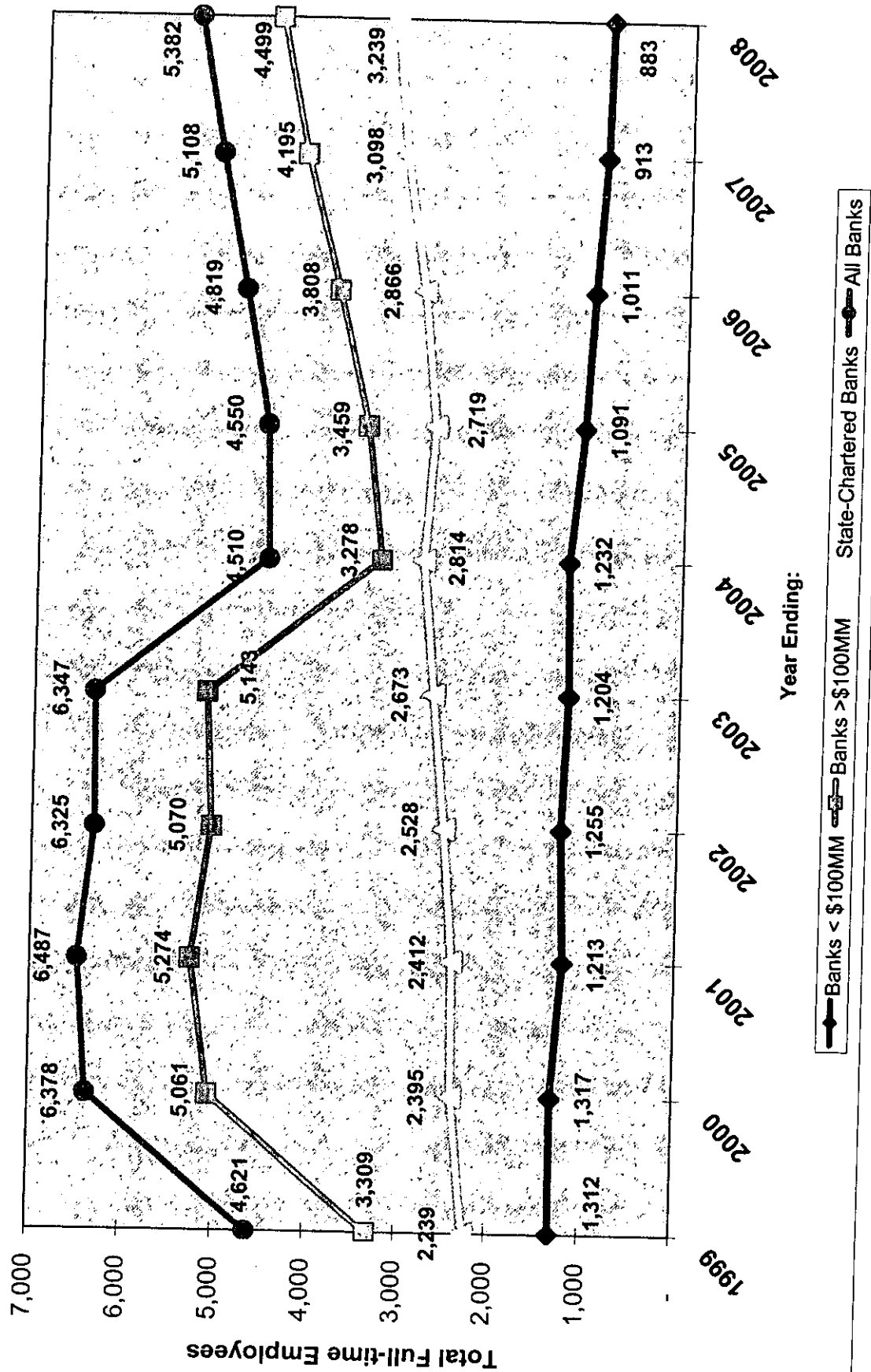
Capital Trends in North Dakota



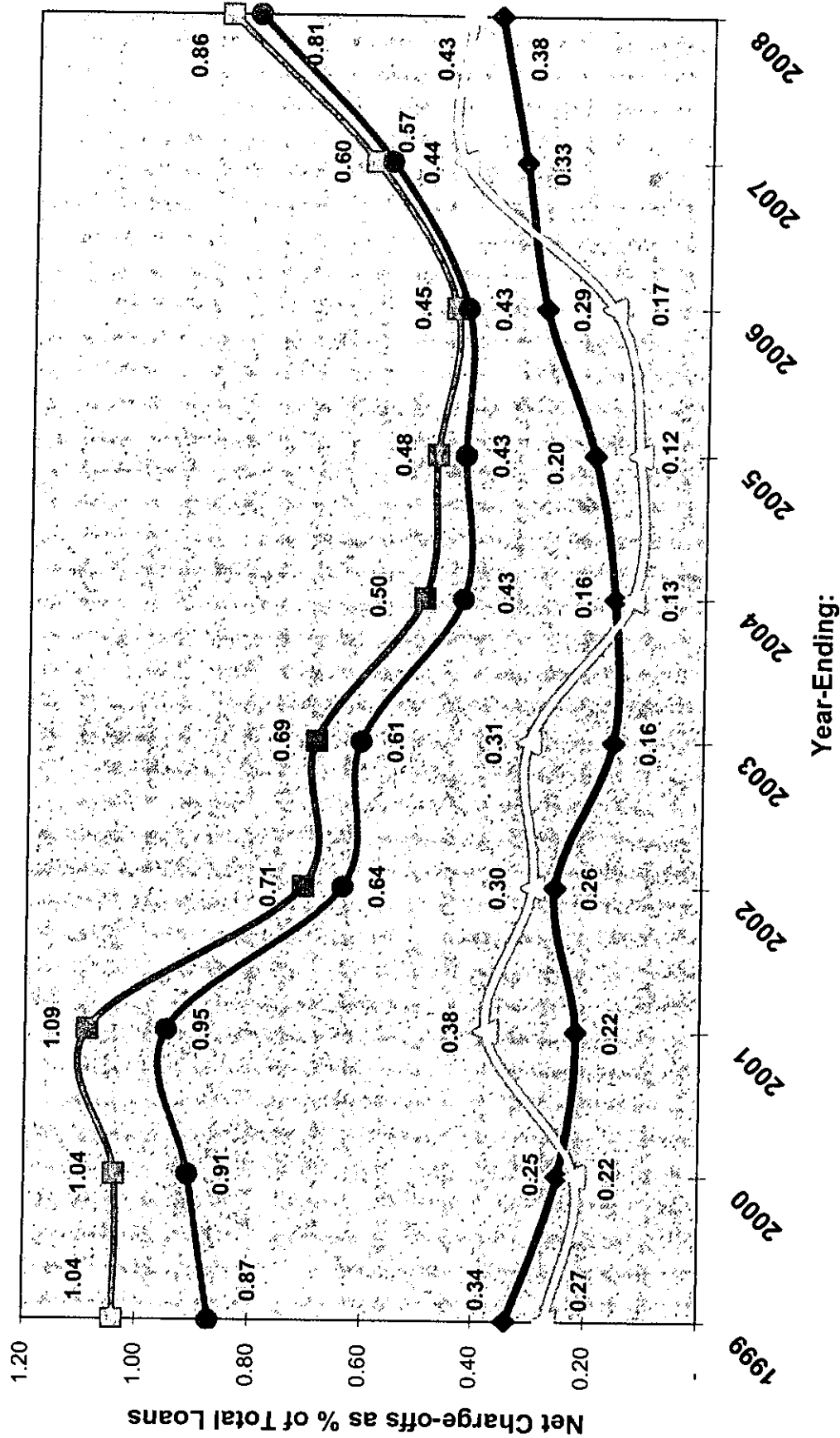
Loan Trends in North Dakota



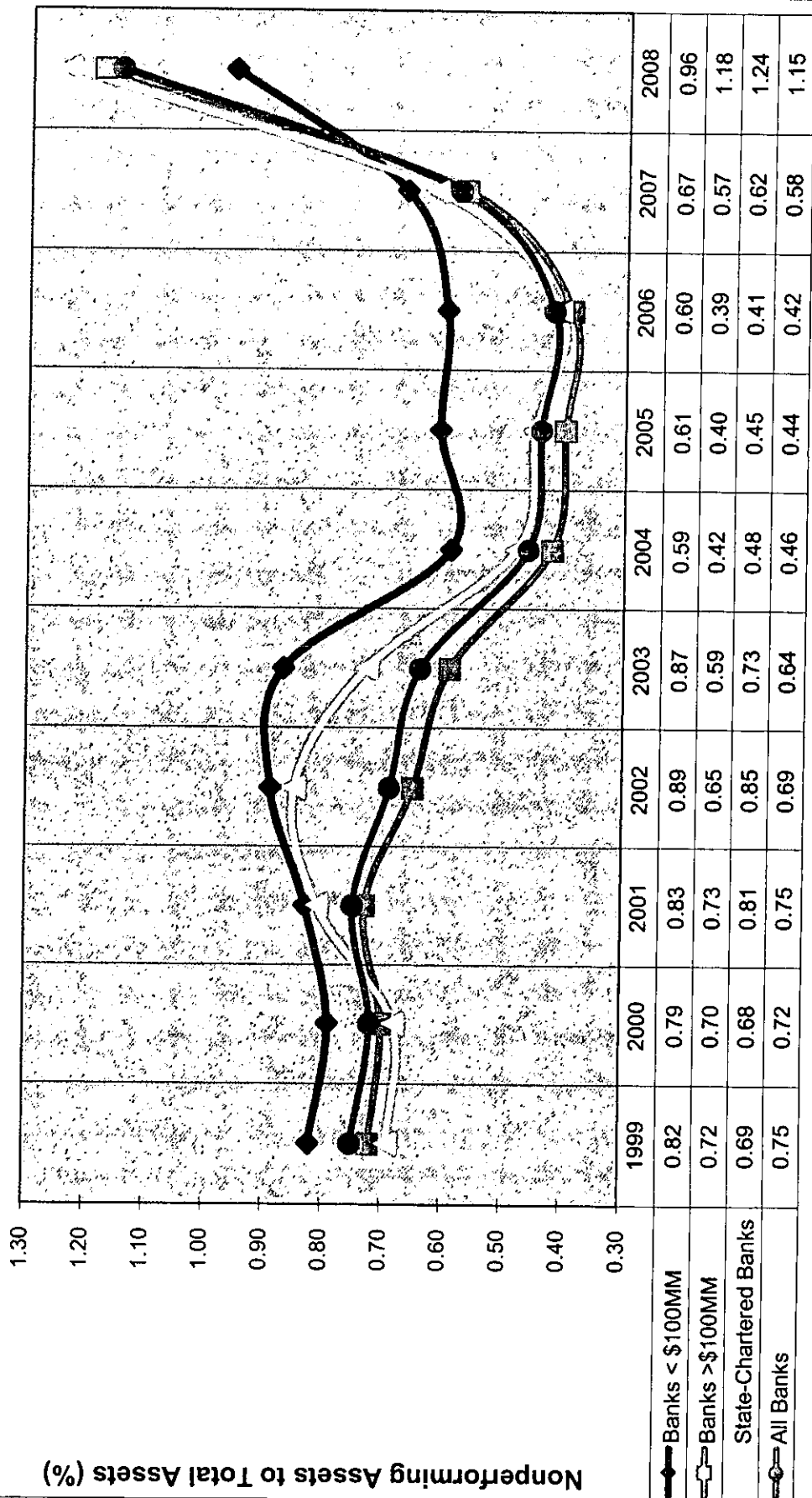
Employee Trends in North Dakota Banks



Charge-off Trends in North Dakota Banks



Nonperforming Asset Trends in North Dakota Banks (Noncurrent loans + OREO as percent of total assets)



Year-Ending:

Banks < \$100MM
 Banks > \$100MM
 State-Chartered Banks
 All Banks