



DATE: January 13, 2025

TO: Senate Appropriations Committee

FROM: Lise Kruse, Commissioner

SUBJECT: Testimony in Support of SB 2008

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Chairman Wanzek and members of the Appropriations Committee, thank you for the opportunity to provide testimony regarding the Department of Financial Institutions Appropriation request for the 2025-2027 biennium, SB 2008.

**1. DEPARTMENT PURPOSE, DIVISIONS AND PROGRAMS;**  
**NORTH DAKOTA CENTURY CODE CHAPTERS AND**  
**STATUTORY RESPONSIBILITIES**

North Dakota Century Code Titles 6, 13, and 51 are associated with the Department of Financial Institutions.

The department has oversight over banks, credit unions and non-depository financial institutions. Indirectly, every citizen of North

Dakota is impacted since they can be confident in the financial services to which they have access. The department's purpose is to ensure the safety and soundness of the institutions we oversee, which then results in financial services being available to the North Dakota citizen.

A community bank and credit union are central to economic development. Since our institutions are closely connected to their local markets, they are directly affected when the economy weakens. Our objective is to ensure institutions are financially strong and in compliance with applicable laws and regulations. Strong institutions can take targeted risks that can help their communities.

The department supervises the following state-chartered and licensed financial corporations:

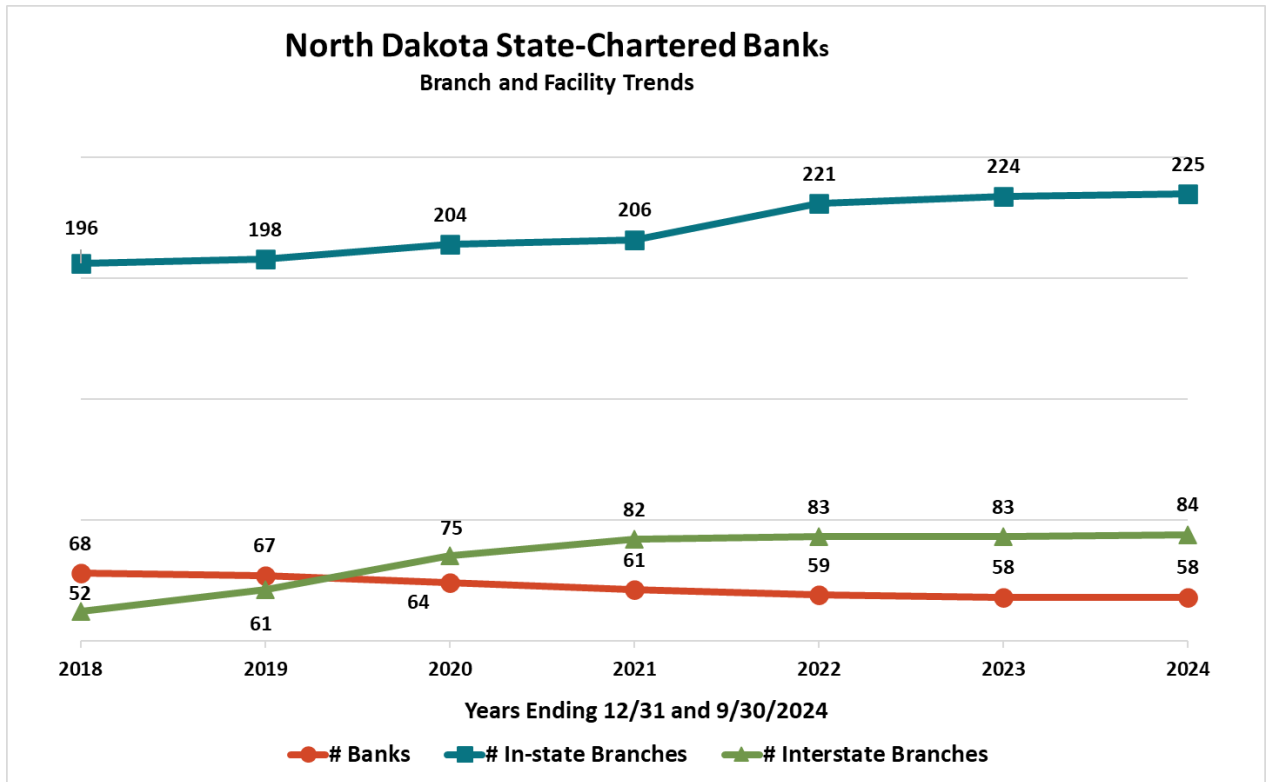
- Banks,
- Credit unions,
- Trust companies,
- Collection agencies,
- Money brokers,
- Deferred presentment service providers (payday lenders),
- Money transmitters,
- Mortgage lenders,
- Mortgage servicers,
- Mortgage loan originators, and
- Debt settlement service providers.

The department also has examination responsibilities for the Bank of North Dakota.

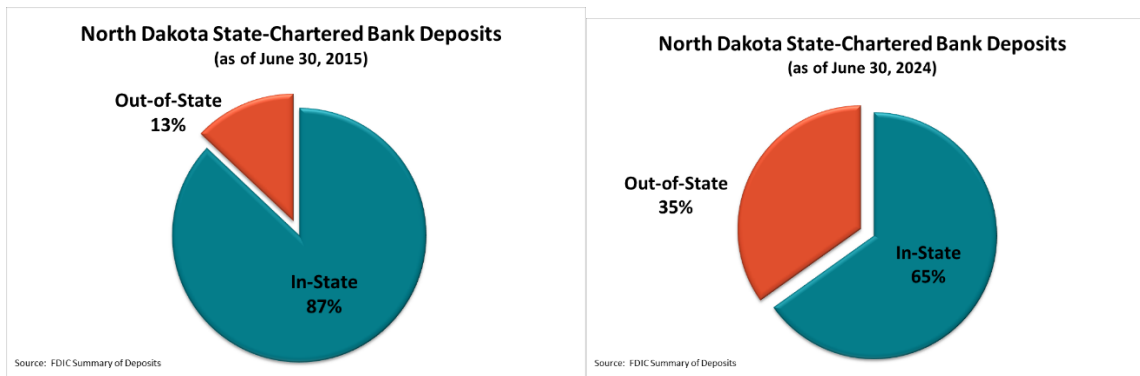
The department is a special fund, self-supporting agency, receiving no general fund dollars. The department's budget consists of three cost centers: (1) banks and trust companies, (2) credit unions, and (3) non-depository licensees. Banks, trust companies, and credit unions pay annual assessments that cover all direct examination costs and allocated overhead for the respective cost centers. In addition, trust companies pay examination fees for their safety and soundness examinations. Non-depository licensees pay fees for processing and supervisory responsibilities related to that cost center: investigation fees upon initial licensing, annual license fees, and examination fees when an examination is performed. Again, the examination fee is set at an amount sufficient to recover all costs.

### **State-Chartered Banks**

North Dakota has 58 state-chartered banks, plus the Bank of North Dakota. The number of banks continue to decline by a few each year due to merger and consolidation activity. While the total number of banks has declined and is expected to further decline, total branches and total assets continue to grow.

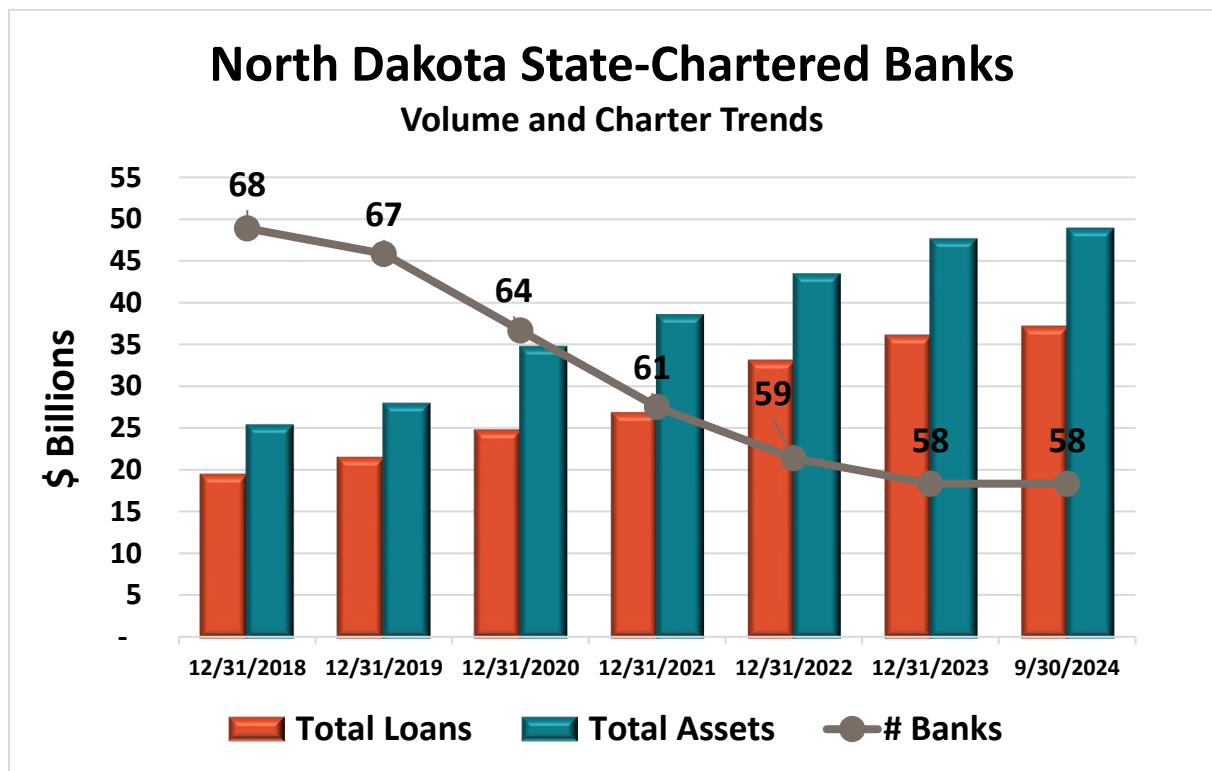


Our banks are expanding outside of North Dakota borders. This pie chart shows the banks' deposit percentage that comes from outside of North Dakota.



Our banks continue to see the value of being a state-chartered bank, where they have a local regulator providing local insight when working with the Federal regulators. In addition, when our banks have merged

with out of state banks they have elected to keep the North Dakota charter.

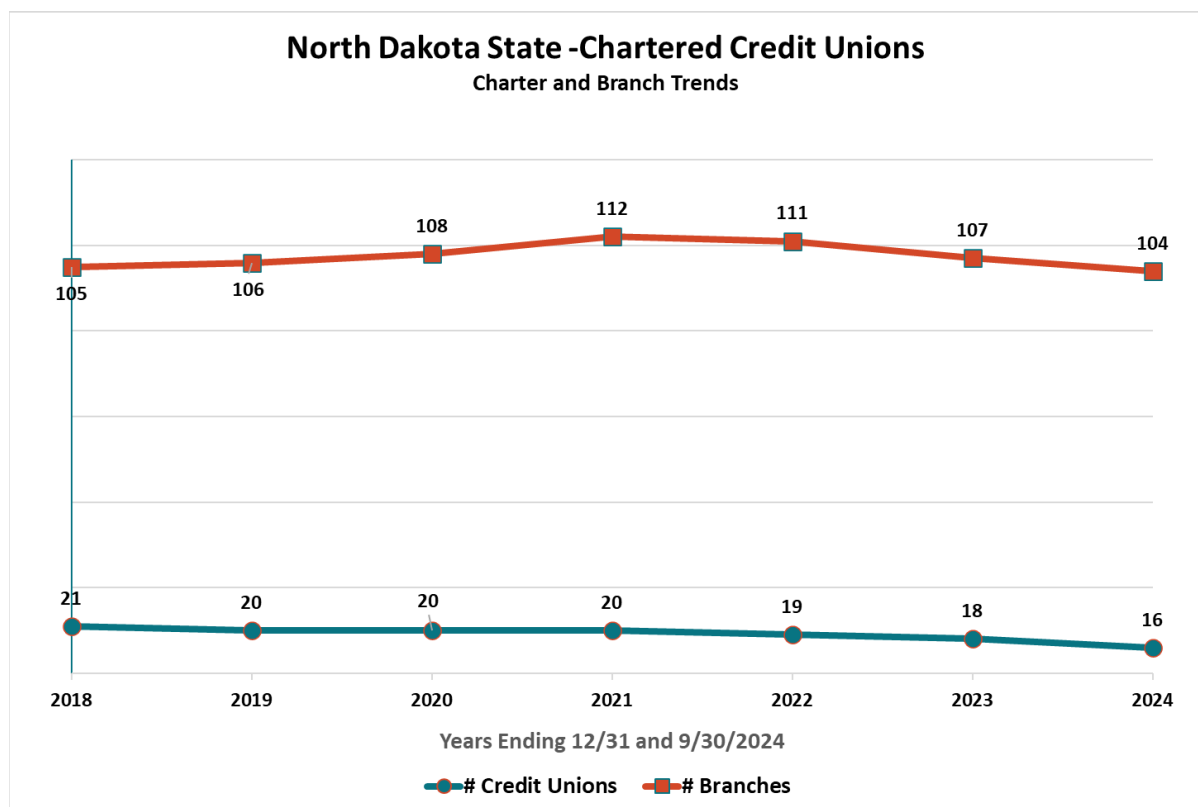


Assets increased 14% from \$43 billion on December 31, 2022, to \$49 billion on September 30, 2024. The continued asset growth increases the department's responsibilities and time needed to conduct examinations. A majority of examination time is spent on loan review, and loans, especially commercial loans, are becoming more complex, which therefore requires experienced examiners. Cybersecurity is a significant concern and therefore more time is dedicated to information technology review during our safety and soundness examinations. When a bank is over \$10 billion in asset size, they have ongoing examinations, requiring full-time examiners dedicated to that particular bank. It benefits the bank to have continuity and examiners familiar with their operations. We have one bank in this category, where the

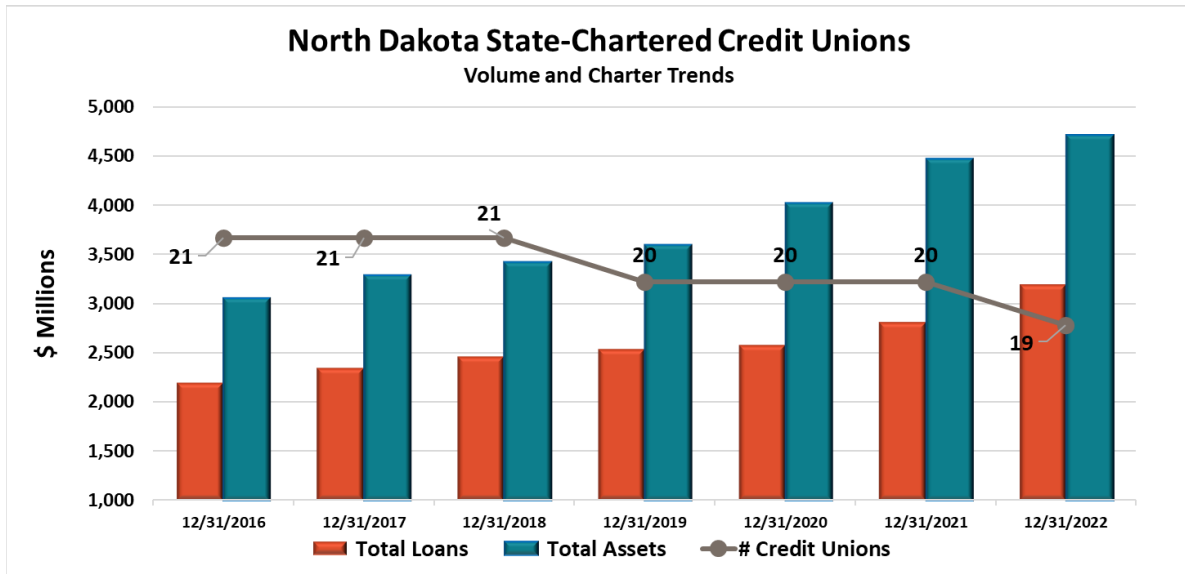
Federal regulator has three dedicated FTEs, while we have one. We need to ensure the state has the same impact on bank oversight as the federal regulators. Additional examination time is also required when banks engage in new and novel activities.

### **State-Chartered Credit Unions**

Currently, there are 16 state-chartered credit unions. As with banks, the reason for the decline is that credit unions are merging.

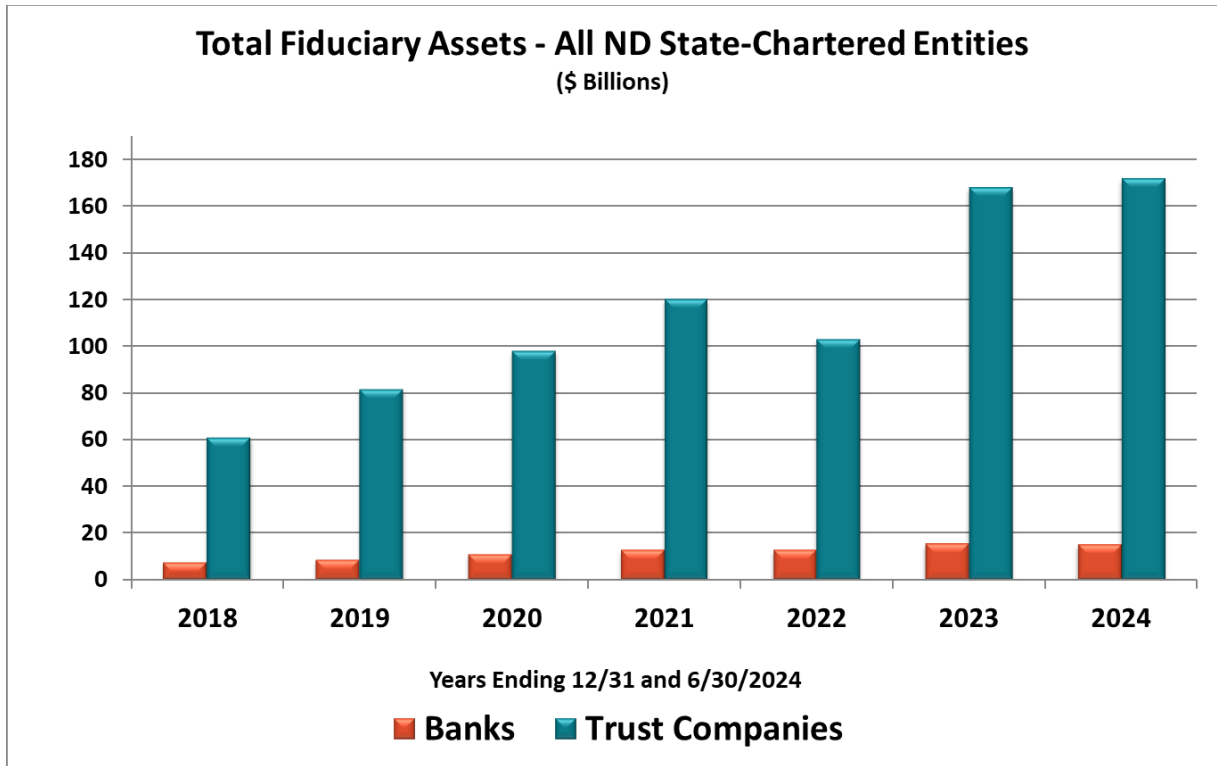


Credit unions also continue to show asset growth, with total assets increasing 6% from \$4.7 billion as of December 31, 2022, to \$5 billion as of September 30, 2024.



### **State-Chartered Trust Companies and Bank Trust Departments**

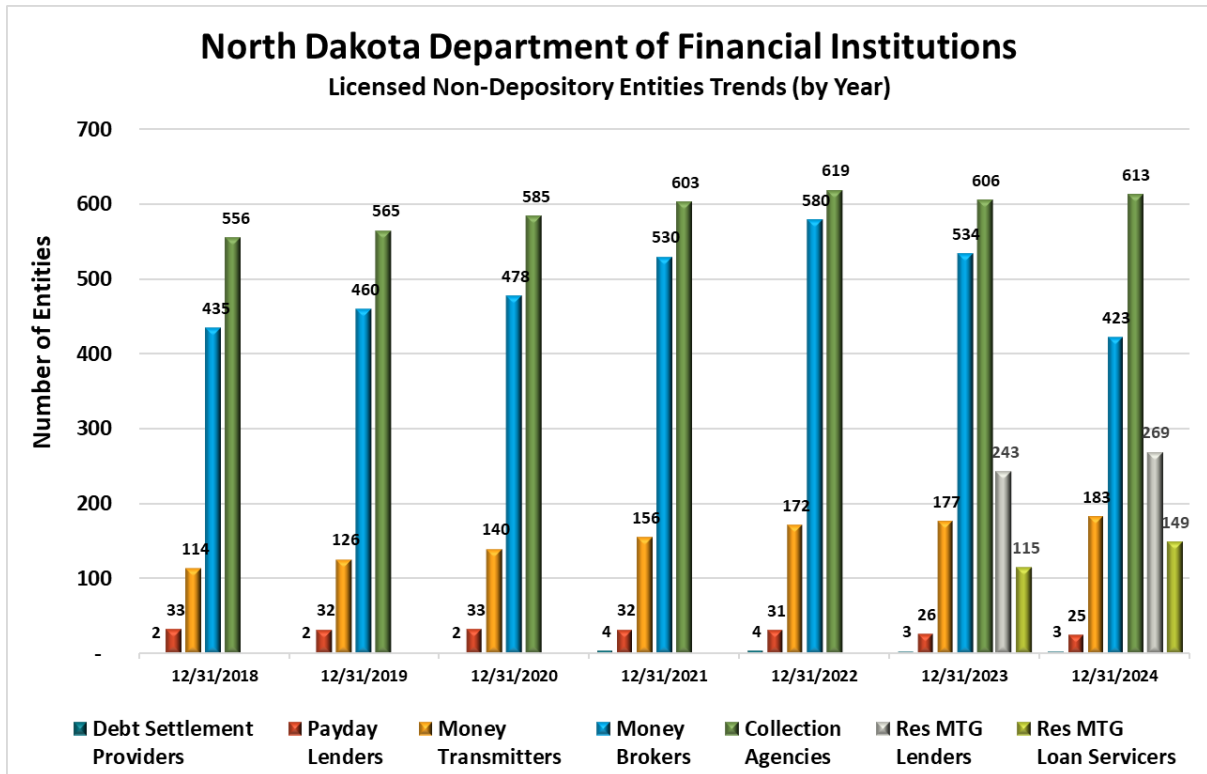
There are four state-chartered independent trust companies for which the department has oversight responsibility; we also have 13 banks which exercise trust powers. The independent trust company examinations are conducted by bank examiners who have acquired specialized trust examination training. The total combined fiduciary assets of the four independent trust companies totaled \$172 billion as of June 30, 2024, a 67% increase from year-end 2022. The banks with trust powers had combined fiduciary assets of \$15 billion as of June 30, 2024, an 18% increase from year-end 2022.



### **Consumer Licenses**

As of December 31, 2024, the consumer division had active licenses totaling 1,665, which is an increase of 18% from the 1,406 licensed year-end 2022.





Not included in the graph above are the 3,983 licensed mortgage loan originators, for which we are responsible to track pre-licensing and continuing education requirements.

Attachment 1 is our organizational chart, which shows the structure of our department. The department has 35 FTEs and this chart is what it will look like in a couple of weeks. Our deputy for non-depositories will start February 3. There is one other vacancy that we are in the process of filling with a starting date in late February. As you can see from the chart, the department has 2 chief examiners, 16 bank examiners, 4 credit union examiners, 7 non-depository examiners, and 6 office staff to supervise and examine our regulated entities. The department has 3 offices: in Bismarck, Grand Forks and Fargo.

## **2. FINANCIAL AUDIT FINDINGS**

There were no audit findings in the most recent audit of our Department.

## **3. ACCOMPLISHMENTS AND CHALLENGES**

### **Accomplishments**

To help with the availability of financial services to North Dakota citizens, the department continues to engage in dialogue with federal regulators to discuss national policy matters and its effect on people in North Dakota. We are involved on a national basis to ensure North Dakota's voice is heard – not only with our federal counterparts, but as a network with other state regulators across the nation. I was elected to serve on the Conference of State Bank Supervisors (CSBS) Executive Board in March 2020, and served as Chair last year. Corey Krebs, the department's assistant commissioner, serves on the National Association of State Credit Union Supervisors (NASCUS) Board. In addition, I have also served on the FDIC Regulatory Advisory Board until it sunset in 2024. Effective January 1<sup>st</sup>, I will be the state bank regulators' representative on the Financial Stability Oversight Council (FSOC) under the U.S. Treasury Department. This involvement ensures that North Dakota and the state regulators' interests are represented on the national stage.

The department's banking division has maintained accreditation through CSBS since 1992, the credit union division through NASCUS since 2000 and the consumer division through the CSBS/AARMR (American Association of Residential Mortgage

Regulators) Mortgage Accreditation Program since 2015. Accreditation signifies that our department meets or exceeds comprehensive organizational and performance standards. It assures the public of the competency of the agency charged with supervising the safety and soundness of the financial institutions entrusted with their savings and personal finances. It assures the industries that we are effective and efficient, with highly trained professionals. It also provides you, our legislators, with an independent validation of the quality and faithfulness to our mission. Lastly, strong state oversight keeps an important balance between state and federal supervision, limiting the risk of increased federal government preemption of state government authorities.

To ensure the safety of our financial system, the department takes action against bad actors. In recent years, we have seen an increase in fraud and scams across the country, which has resulted in revocation of licenses and prohibition orders where individuals can no longer work for entities overseen by the department. It is important that our department has the resources to educate and assist financial institutions when citizens are taken advantage of. To enhance our financial literacy and education efforts, in 2023 we took over the LifeSmarts program from the Attorney General's office. It is a program where high school students compete and we hosted our first annual competition last year, with the next event on February 12.

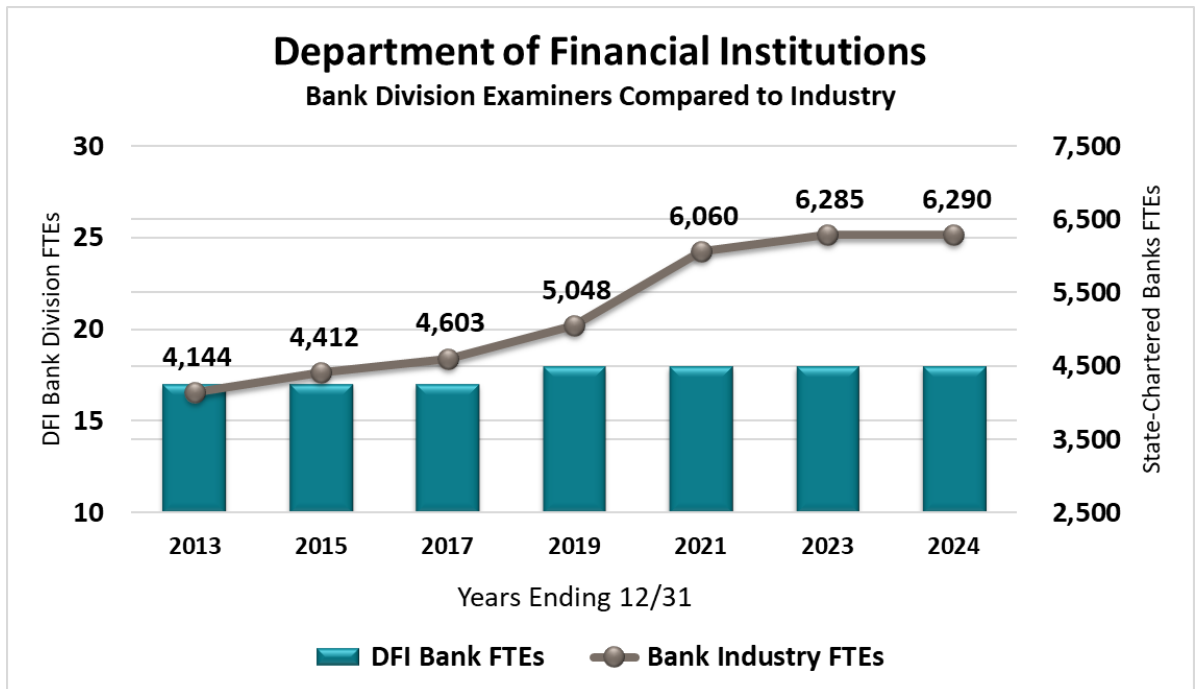
### **Challenges**

One of the greatest challenges is to make sure the department has enough resources and staff of skilled employees to meet our

mandates, and it has been difficult to keep up with the large industry growth. When we add resources, such as FTEs, I want to emphasize that we are not growing government, rather we are responding to the explosive growth in the industries we are overseeing.

We are using automation to the extent possible, and also networking with states across the nation to improve efficiencies and reduce redundancies. However, to prevent federal intervention, it is crucial that our department has the resources to oversee these entities.

Banks and credit unions have also grown considerably and are becoming more complex with expanding product lines and partnerships. The skill and time needed to oversee financial institutions' cyber security measures puts pressure on our department. The graph below shows the number of FTEs added by the banking industry to correspond with their growth, compared to ours. Since 2013, banks have had to increase staffing by 52% to manage their growth while department bank staffing has only increased by 6%. Since we work in partnership with our federal counterparts, we need to ensure the state is a credible partner. It is important to ensure a strong state presence to protect our community banks and limit federal preemption of state authority.



Since our examiners must be competent in every aspect of banking, it takes about 5 years for an examiner to be fully proficient. In the last few years, we have had two bank examiners retire, each with more than 30 years of experience. Retention has improved but 42% of our employees joined our department within the last five years. Additionally, many employees are not staying with the department long enough to even achieve proficiency. Most employees who leave go to the private industry (banks or credit unions). The skills department staff acquire are highly valued by the very same industries we regulate, and these industries often pay a premium that we are unable to compete with.

## **Goals**

The Department goals include the following:

- 1) Retain and protect strong and stable oversight to prevent federal preemption of state law. We need to make sure states retain its piece of the regulatory environment.
- 2) Keep pace with growth and expansion of financial institutions and services. We need the skills and resources to properly assess our institutions for risk, which has become more demanding due to new financial products and partnerships between banks and non-banks as well as the continued growth of the banks and credit unions we oversee.
- 3) Manage increases in non-depository institutions (non-banks).
- 4) Ensure state oversight of financial industry IT vendors and service providers. Since most community banks outsource for IT services, vendor management and our oversight over these entities are important.
- 5) Enhance data analytics capabilities to assist us in being more predictive and proactive in our oversight.
- 6) Continue enhancing our industry and general public communication, which includes our financial literacy program.
- 7) Retain and educate sufficient staff to oversee the industry, and be proactive and responsive. Providing opportunities for growth with competitive salaries and a great work environment should help us succeed in attaining our goals.

#### **4. BUDGET REQUEST/RECOMMENDATION**

The Governor's recommendations will show a budget of \$0, which is due to the Governor fully supporting SB 2028, which will put our department under continuing appropriation. SB 2028 was based on a study that came out of the Government Finance Committee, and it passed the Senate Industry and Labor Committee unanimously last week. The bill will have the department's appropriation determined by the state banking and state credit unions boards in a joint meeting, with the commissioner providing regular reports to the legislature. It is a similar setup to what Texas and Oklahoma have, and it will make the department able to be more responsive as the economy and the financial market changes. There are natural guardrails in place if the boards approve our budget and spending – both against excessive spending, and also to protect against underfunding where we are unable to meet our legislative obligations. The boards consist of business executives with every incentive to keep costs down since it is their money we are spending. Since our institutions have an option to be a federal charter, we must also remain competitive to be the charter of choice. The boards also know what it takes to get the work done, and they know the disadvantages if they have a weak state regulator. If we are not properly funded, they know they will have to deal more with the federal government. The industry appreciates having our department well-staffed with knowledgeable examiners who understand our local economy. The boards also have an incentive to make sure the non-depository side is funded so that we have proper oversight over the non-banks, since those are the banks' and credit unions' competition, and they do not want these entities to be

unregulated. This model is similar to what has been approved by the legislature for agricultural commodity boards and commissions. Those entities are self-funded from their own revenues, and have continuing appropriations authority and are outside the state budget and appropriation processes.

#### **5. REQUEST COMPARED TO 2023**

As mentioned above, if SB 2028 passes, the department will have continuing appropriations.

#### **6. EMPLOYEE TURNOVER AND VACANT POSITIONS**

Our turnover has declined from prior years. In 2023, two employees (6%) left and in 2024, three employees (9%) left.

Last session we were allotted four additional FTEs. Therefore, in July 2023 we had five vacant positions. This included the four new FTEs and one existing FTE. We filled the new positions internally as promotions and hired new employees to fill the entry level positions. Currently we have two vacant positions. One will be filled on February 3, 2025. The other position is posted, with hiring to take place in February. We utilize temporary employees to fill in the gaps when we have vacant positions.

Approximately \$955,000 affected our budget for the FTE funding pool in the 2023-2025 session. We transferred the entire amount from the funding pool. Biennium-to-date we have saved approximately \$255,000 by having vacant positions.

We have not used salary appropriations for any other purpose other than permanent salaries, temporary salaries, and benefits.



## **7. FUNDING EXPLANATION**

The largest component of the department's budget is salaries at 79% of the current total budget. Our largest operating expenses are as follows:

- i. Professional Fees and Services – 29.0% of current operating
- ii. Data Processing – 23.0% of current operating
- iii. Professional Development – 15.8% of current operating
- iv. Travel – 12.8% of current operating
- v. Rental/Lease-Bldg – 10.9% of current operating

Professional fees and services are the highest operating expenses of the department. This includes attorney fees, which has increased due to the industry growth. With the industry expansion, more fraud has resulted, which necessitates more attorney time to protect the State of North Dakota's interests. Data processing and IT costs are the second highest, while professional development is the third. Extensive training is required to become a proficient bank examiner. The work of an examiner is specialized, and significant training is necessary the first five years of an examiner's employment. Although we use online training tools, much of the training for examiners is done in a classroom setting where simulations are utilized. Training is conducted along with our federal and state counterparts, which keeps our examiners up to date on the most recent laws and regulations. Also, providing this specific training to examiners is crucial to remain competent and consistent with our federal counterparts, which also benefits our institutions. It is our priority to continue to hire well-qualified employees and invest significant time and financial resources into their training and development to ensure

the entire workforce has the necessary experience and qualifications to effectively perform their duties. Also, regulatory, accounting, and legal changes require constant training, especially in areas such as anti-money laundering enforcement and information technology issues such as cybersecurity. Much of the training is conducted out of state, which contributes to higher travel costs.

In the past, travel was by far the highest operating expense since examiners must travel to the institutions to conduct examinations. With increasing use of technology, we are able to complete more offsite work; however, an onsite presence in the community institution will always be an important part of our safety and soundness examinations. For banks and credit unions, the travel increases if there is economic/industry deterioration, and therefore, travel costs are dependent on the economy and the condition of the institutions we supervise. If the economy deteriorates, and if any of our institutions struggle as a result, our examination frequency increases, and travel costs will also increase. Both the industry and the examiners recognize the importance of face-to-face interactions when discussing challenging topics.

#### **8. ONE-TIME FUNDING FOR CURRENT BIENNIUM**

There were no one-time funding items for the current biennium.

#### **9. ONE-TIME FUNDING REQUESTED**

No one-time funding requested.

## **10. AGENCY FEE COLLECTIONS**

The department is a special funds agency. Assessments are set by the State Credit Union Board and the State Banking Board for their respective areas. The assessments are set based on what the expected expenses are, which do not exceed our appropriated amount. For the last few years, the industries received significant discounts due to limited expenditures. The non-bank fees are set in statute and fluctuate depending on the number of companies we license.

## **11. FEDERAL STATE FISCAL RELIEF FUNDS**

Not applicable

## **12. OTHER SECTIONS TO BE ADDED**

None

## **13. OTHER BILLS**

The Department introduced one agency bill: HB 1127, with the most significant component adding a model law to ensure we have cyber security oversight over our non-banks at the same level as the federal government.

Other bills affecting the department:

- SB 2028, which gives the department continuing appropriation;
- A bill will be introduced that will requires enhanced oversight over crypto ATMs;
- A bill will be introduced regarding litigation financing to be overseen by the department;

- A bill addressing earned wage access will be introduced, which is also an additional industry to be overseen by the department.

Depending on the approach of these bills, it is likely that fiscal notes may be included since it will require resources and additional FTEs to manage the new department responsibilities. Adding supervisory authority without the resources to execute the law gives a false indication of consumer protection, which is why additional resources are necessary. It is important to note again, that our department is completely self-funded, and the additional resources required will be funded by licensing and examination fees.

**14. CHANGES AGENCY IS REQUESTING TO EXECUTIVE BUDGET RECOMMENDATION**

None

**15. ADDITIONAL INFORMATION**

None

Mr. Chairman and members of the Committee, I thank you for your time and I welcome any questions you may have.



**Lise Kruse**  
Commissioner  
Appointed by the Governor

**State Banking Board**  
Chairman – Commissioner  
Secretary – Asst. Commissioner

**State Credit Union Board**  
Chairman – Commissioner  
Secretary – Asst. Commissioner



**Vacant**  
Deputy – Non-Depository



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Assistant Commissioner



**Ryan Spah**  
Chief Examiner



**Angie Mills Fischer**  
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**Chris Ludwig**  
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
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**Tammy Egeland**  
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