

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER
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DESCRIPTION

10008

2007 HOUSE APPROPRIATIONS

HB 1008

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1008

House Appropriations Committee  
Government Operations Division

Check here for Conference Committee

Hearing Date: 1/11/07

Recorder Job Number: 939

Committee Clerk Signature

*Tanya Voegelé*

Minutes:

Chairman Carlson opened the hearing on House Bill 1008. A bill for an act to provide an appropriation for defraying the expenses of the department of financial institutions.

Tim Karsky, Commissioner for the Department of Financial Institutions testified in support of the bill. See attached testimony 1008.1.11.07A.

**Representative Kempenich:** What is the cost per square foot that you are looking at for office space in Grand Forks? (page 3 of testimony)

**Tim Karsky:** We are paying \$11.00-\$11.50 per square foot currently in Fargo. That is what we estimate for Grand Forks.

**Representative Thoreson:** What area will the Grand Forks office cover?

**Tim Karsky:** A little west of Devils Lake and south to Highway 200.

**Representative Thoreson:** Who is Devils Lake covered by now, Minot or Fargo?

**Tim Karsky:** Grand Forks covers it now. We have four field examiners up there they just don't have an office there.

**Chairman Carlson:** Originally there were some problems with the law where people would get a payday loan at one place and then running to another place and getting more money on the same paycheck. Have we cleaned that mess up?

**Tim Karsky:** Last session you authorized the department to get a database processed. We put the project up for bid and tomorrow the committee will meet to accept the bid. We are optimistic that the database will be in place March 1<sup>st</sup>. The database bid has been a lot more complicated than expected. I thought we could go "off the shelf".

**Chairman Carlson:** Do you regulate the rates and the fees?

**Tim Karsky:** Yes.

**Representative Thoreson:** If software was not available "off the shelf", did you have to contact a software company to develop a program to do this?

**Tim Karsky:** The provider who will be selected picks up all of the cost for development of the database. But they will be getting a fee that the payday lender will pay. That will cover the cost of development.

**Chairman Carlson:** Consumer License means a mortgage lender?

**Tim Karsky:** It includes all of them.

**Representative Kempenich:** What kind of computers are they?

**Tim Karsky:** Most of our computers would be 15 bank examiner laptops.

**Representative Thoreson:** Does that cost include software bundled in on the machine?

**Tim Karsky:** No. Only operating system.

**Representative Skarphol:** Are you acquiring any of the computers through the state?

**Bob Entringer:** They are on state bid.

**Representative Skarphol:** Are you getting power user laptops? Is that what is required for you?

**Bob Entringer:** We are not getting power user laptops. Our requirements are not such that we would need that extra.

Representative Thoreson requested a break down on the computer purchase.

**Representative Thoreson:** What is your current turnover?

**Tim Karsky:** In the past it has been about 25%. When we gave the salary increases in March, it has slowed down.

**Representative Thoreson:** Are they paid out of the equity pool?

**Tim Karsky:** No.

**Representative Williams:** What is the difference between a bank and a credit union?

**Tim Karsky:** A bank is owned by stockholders and a credit union is owned by all of its members.

**Representative Skarphol:** You have a 24.7% increase in travel is that to address some of the concerns about the travel?

**Tim Karsky:** Some of the travel includes seminars and workshops.

**Representative Kroeber:** Who sets the rates for the payday lenders?

**Tim Karsky:** We set the rates four years ago at 20% of the amount financed. It is a flat fee.

Rick Clayburgh, President and CEO of the North Dakota Bankers Association, testified in support of this bill.

**Representative Thoreson:** Back to the payday loan, the software system that you are thinking of developing, is that only for institutes within the state? Would it tie into a federal database also?

**Tim Karsky:** No we are not tying into another database. But if you have an internet payday lender, they would have to interface with this database. There are currently seven states that

have these databases but none of them communicate with each other. They are all state specific. The databases are really specific to that state's laws.

Rick Clayburgh stated that Don Foresburg the Executive Director for the Independent Community Bankers of ND could attend the meeting but the ICBND is in support of the Commissioner's budget.

Chairman Carlson requested a copy of the audit report for the Bank of North Dakota.

The hearing was closed.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1008

House Appropriations Committee  
Government Operations Division

Check here for Conference Committee

Hearing Date: 1/25/07

Recorder Job Number: 1992

Committee Clerk Signature

*Anya Voegde*

Minutes:

Representative Thoreson went over the highlights from the Executive Budget.

1. Provides funding to establish an office in Grand Forks. (\$29,860)

a. People are already working in Grand Forks but there is no office set up.

2. Provides funding for information technology equipment under \$5,000. (\$35,671)

a. For computers for the inspectors as well as the software.

3. Increases of operating expenses for increased travel expenses. (\$70,909)

a. Inspectors are on the road all of the time.

**Chairman Carlson:** Do the inspectors use State Fleet vehicles?

**Tim Karsky:** We use all State Fleet vehicles. The rates per mile depend on the type of vehicle.

**Representative Thoreson:** The only other issue which did come up was possible changes in lodging reimbursements. It is not reflected in this bill because there is a separate bill which has not yet passed.

**Chairman Carlson:** Why would the lodging change?

**Vice Chairman Carlisle:** This bill is all special funds.

**Representative Thoreson:** Consumer licenses have increased quite a bit.

**Chairman Carlson:** there is no increase of fees in this bill?

**Representative Thoreson:** No.

A motion was made by Representative Thoreson seconded by Vice Chairman Carlisle to recommend a DO PASS vote on House Bill 1008 to the House Appropriations Full Committee. The committee vote was Y-8 N-0 A-0. The bill will be carried by Representative Thoreson.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1008

House Appropriations Committee

Check here for Conference Committee

Hearing Date: 1/29/07

Recorder Job Number: 2100

Committee Clerk Signature

*Kanya Voegeli*

Minutes:

Chairman Svedjan called the hearing to order on House Bill 1008.

Representative Thoreson described the bill and handed out a breakdown of the increased request. See attachment 1.

**Rep. Monson:** If they are traveling from Fargo to Grand Forks and they are going to establish an office in Grand Forks wouldn't their travel expenses go down instead of up by \$70,909?

**Representative Thoreson:** We did discuss travel expenses with Mr. Karsky and I think the increase costs were the fuel and travel. They have a lot of people on the road so they said that there would be an increase because of that. They also had concerns about increases in lodging. There is a separate bill out there to raise the state lodging amounts that would not be reflected in this budget but they feel that if that does go up they will need additional funding for that. That was where the majority of increase in travel costs was coming from.

**Chairman Svedjan:** Do they use the Motor Pool?

**Representative Thoreson:** Yes.

**A motion was made by Representative Thoreson, seconded by Representative Skarphol to DO PASS House Bill 1008. The committee vote was 22 Yeas, 0 Nays, 2 Absent and Not Voting. The bill will be carried by Representative Thoreson.**



**REPORT OF STANDING COMMITTEE (410)**  
January 31, 2007 1:28 p.m.

**Module No: HR-19-1651**  
**Carrier: Thoreson**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1008: Appropriations Committee (Rep. Svedjan, Chairman) recommends DO PASS**  
(22 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1008 was placed on the  
Eleventh order on the calendar.

2007 SENATE APPROPRIATIONS

HB 1008

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1008

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 02-21-07

Recorder Job Number: 3609

Committee Clerk Signature

*Steve Delzer*

Minutes:

**Chairman Holmberg** opened the hearing on HB 1008 at 3:15 pm on February 21, 2007 regarding Department of Financial Institutions.

**Timothy J. Karsky, Commissioner, Department of financial Institutions (DFI)** presented written testimony (1) and oral testimony in support of HB 1008. He shared the DFI supervises state-chartered banks, building 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), and money transmitters. The Department also has examination responsibilities for the Bank of North Dakota (BND).

The Department's budget consists of three cost centers:

1. Banks and Trust Companies.
2. Credit Unions.
3. Consumer Licenses.

**Chairman Holmberg** asked if anyone was testifying in opposition of the bill. There was no more testimony. He asked the wishes of the committee.

**Senator Grindberg moved a DO PASS, Seconded by Senator Bowman. A roll call vote was taken resulting in 12 yeas, 0 nays and 2 absent. Senator Krauter will carry the bill.**

The hearing on HB 1008 closed.

Date: 2-21-07  
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1008

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken \_\_\_\_\_

Motion Made By Brundberg Seconded By Bowman

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann			Senator Larry J. Robinson	✓	
Senator Tom Fischer	✓		Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 12 No 0

Absent 2

Floor Assignment Krauter

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

**REPORT OF STANDING COMMITTEE (410)**  
February 27, 2007 10:56 a.m.

**Module No: SR-37-3993**  
**Carrier: Krauter**  
**Insert LC: . Title: .**

**REPORT OF STANDING COMMITTEE**

**HB 1008: Appropriations Committee (Sen. Holmberg, Chairman) recommends DO PASS**  
(12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1008 was placed on the  
Fourteenth order on the calendar.

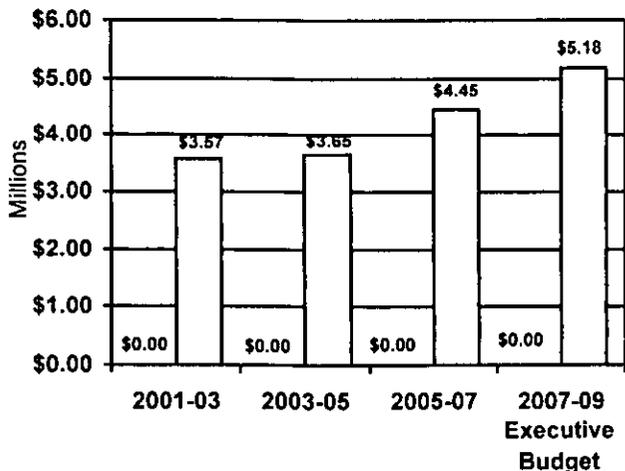
2007 TESTIMONY

HB 1008

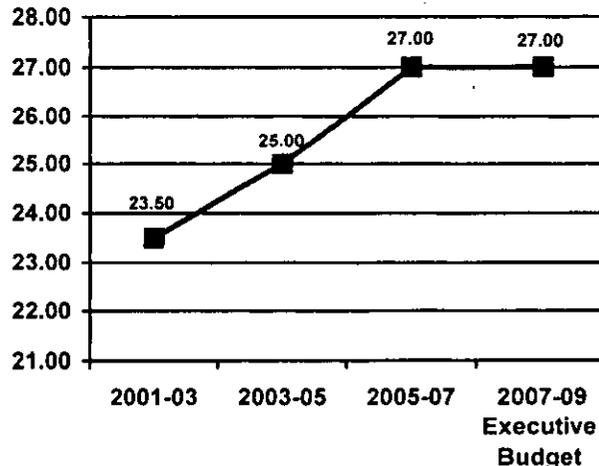
**Department 413 - Department of Financial Institutions  
 House Bill No. 1008**

	FTE Positions	General Fund	Other Funds	Total
2007-09 Executive Budget	27.00	\$0	\$5,181,860	\$5,181,860
2005-07 Legislative Appropriations	27.00	0	4,445,503	4,445,503
Increase (Decrease)	0.00	\$0	\$736,357	\$736,357

**Agency Funding**



**FTE Positions**



■ General Fund □ Other Funds

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding to establish an office in Grand Forks		\$29,860	\$29,860
2. Provides funding for information technology equipment under \$5,000		\$35,671	\$35,671
3. Increases operating expenses for increased travel expenses		\$70,909	\$70,909

**Continuing Appropriations**

No continuing appropriations for this agency.

**Major Related Legislation**

At this time, no major legislation has been introduced affecting this agency.

## TESTIMONY FOR HOUSE BILL NO. 1008

House Government Operations Division/Appropriations

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

Chairman Carlson and members of the Government Operations Division, I am Tim Karsky, Commissioner for the Department of Financial Institutions. I am here today to testify in support of the appropriation of \$5,181,860.

***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), and money transmitters. 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 licenses. Banks, trust companies, and credit unions pay annual assessments that cover all direct

examination costs and allocated overhead for the respective cost centers. 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 80 state-chartered banks, plus the Bank of North Dakota, which compares with 87 state-chartered banks two years ago. The number of banks has decreased over the past several years due to mergers and consolidations. The Department currently has two new bank charter applications pending, which are expected to be acted on by the end of March 2007. Although we are seeing a reduction in the number of banks, assets continue to grow, 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 responsibility 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. Currently the Department has 15 field bank examiners who conduct examinations throughout the State of North Dakota. As

you will recall, the Legislature granted this Department an additional position during the last Legislative Session, which increased the number of bank examiner positions from 14 to the current level of 15. The Department has four field locations: Grand Forks, Fargo, Minot, and Bismarck. The Department rents office space in three locations: Bismarck, Fargo, and Minot, and has asked for approval to establish a Grand Forks office. The establishment of this field office will save time and resources for the Grand Forks examiners by eliminating the commute to Fargo and back when it is necessary for them to work in a field office. The Department has budgeted \$29,860 to open the Grand Forks field office, which includes equipment and office space rental. The Department does not anticipate raising bank assessment fees to cover any additional costs associated with the increased budget for the bank division.

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

Currently there are 33 state-chartered credit unions, which is six less from two years ago. Credit unions continue to show growth, with total assets increasing from \$1.152 billion on September 30, 2004, to \$1.305 billion as of September 30, 2006. This represents an approximate 13.2% 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 Trust Companies

Currently there are two 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. It should be noted that the Department has received preliminary indications that a major federal thrift savings bank is in the process of converting to a state-chartered trust company. This will add additional demands on the bank examination staff.

### Consumer Licenses

The number of consumer licenses issued by the Department continues to increase. At this time four years ago the Department had approximately 662 licensees, 881 licenses two years ago, and 937 licenses today; this represents a 15.5% increase over the biennium. The number of licenses is as follows: 389 collection agencies, 32 consumer finance companies, 81 deferred presentment service providers (payday lenders), 416 money broker/mortgage lenders, and 19 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 cycle. The Department feels there is a considerable amount of activity in the mortgage lending business and is in the process of gearing up for a regular examination cycle of mortgage lenders.

We have not asked for additional staff at this time; however, it is anticipated in the next biennium we would need to add staff to this division to accomplish the examination goals and requirements. Because of the increased risk, the number of products, and chance for fraud, we believe a regular examination of mortgage lenders is needed. The Department continues to receive additional applications for new licenses on a weekly basis, and the renewal process will begin for all licensees in approximately two months. The Department spends an enormous amount of man hours during the renewal period reviewing applications and although automation has helped speed up the process, the increase in licensees continues to put pressure on this division.

Furthermore, the Department has been examining 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. The Department will spend a considerable amount of dollars to train examiners on the mortgage lending aspect; additional training dollars will be spent on money transmitter examinations and collection agency education.

### ***OVERVIEW***

As indicated, the Department has asked for a total budget of \$5,181,860. This is approximately a 16.5% increase over our prior budget; however, it should be noted that \$29,860 is additional expense to open the Grand Forks field office. It

should also be noted that the Department has not replaced its computers since 2002 and has budgeted for all computers to be replaced in this biennium (24), which accounts for approximately \$42,000. The Department's travel expense has also increased due to additional training needs for examiners to stay abreast of all the changes in the industries that are regulated and increased travel costs to conduct examinations in the State of North Dakota. The Department's data processing costs have decreased by \$30,000 in the biennium due to the Department not having to spend money to update its records management system, as was done in the last biennium to accommodate the money transmitter licensees that the Department now regulates. Salaries have also increased substantially since the last biennium; however, the additional position added for the money transmitter area in the last Legislative Session was not carried in the salary line item. This position had all expenses associated with it carried in a separate line item that amounted to approximately \$193,000 of which approximately \$94,000 was attributed to salaries. The other increases in salaries are due to the Department working with the Human Resource Management Services and upgrading salaries for beginning examiners through the senior examiner position. Although the Department has become more competitive in the industry which has slowed the turnover ratios, there is still pressure from the Federal Deposit Insurance Corporation, and the banking and credit union industry in soliciting Department employees for

employment in their organizations. Travel continues to be the number one reason why examiners leave and if they are not compensated adequately for the travel, I would expect some turnover to continue. Salaries represent approximately 80% of the Department's overall budget.

In review of our 2005-2007 appropriation, the Department expects approximately \$1,300,000 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 House Bill No. 1008.

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

Thank you.



State of North Dakota

DEPARTMENT of FINANCIAL INSTITUTIONS

Attachment 1

Timothy J. Karsky  
Commissioner

Robert J. Entringer  
Assistant Commissioner

Douglas D. Grenz  
Chief Examiner - Banks

James M. Laidlaw  
Chief Examiner - Credit Unions

CSBS ACCREDITED 1993  
NASCUS ACCREDITED 2000

MEMORANDUM

DATE: January 19, 2007  
TO: Representative Blair Thoreson  
Government Operations Division/Appropriations  
FROM: Timothy J. Karsky, Commissioner *Timothy J. Karsky*  
SUBJECT: Department of Financial Institutions Budget  
House Bill No. 1008

This Memorandum is a follow-up to our meeting on Thursday, January 18, 2007, concerning House Bill No. 1008 which is the appropriation for the Department of Financial Institutions. In this meeting we discussed our budget and you requested additional information concerning the \$736,357 increase in our appropriation for the biennium 2007-2009. I have broken down the increase by the various bulletin points below:

- As you are aware, the Governor recommended a 4% salary increase in each of the next years of the biennium \$210,262
- Health benefits have increased for the biennium \$67,500
- Costs for retirement benefits \$4,437
- TOTAL \$282,199

MEMORANDUM  
January 19, 2007  
Page 2

- As discussed in the meeting, the Department had an appropriation in the last biennium for a money transmitter position and it is now being moved to salaries and benefits \$113,379
- The Department gave market equity adjustments to our examiners in the last biennium \$176,302
- The Department gave promotions to examiners moving from an Examiner I to Examiner II, Examiner II to Examiner III, and an Examiner III to a Supervisory Examiner \$146,717

The increase for the salary line item now totals \$718,567

As indicated in House Bill No. 1088, operating expenses have increased \$219,032. Part of this increase is due to one-time purchases as listed below:

Office space and equipment for Grand Forks Field Office	\$29,860
*Purchase new computers/monitors	\$42,000
Software/supplies	\$20,846

\*As noted in my testimony, the Department has not purchased new computers since 2002.

The Department will not have to increase credit union assessments, bank assessments, or licensing fees to cover the increase in the budget.

During the 2005-2007 biennium the Department utilized its contingency fund to purchase secured email software and will be purchasing encryption software before the end of the biennium. This is for security reasons for confidential information.

MEMORANDUM

January 19, 2007

Page 3

The legislature authorized the commissioner to administer or authorize the development of data base in the last session. No funds were appropriated for this data base however because the commissioner would be contracting with a vendor to develop the data base we had to go through the procurement process. The estimated value of the contract exceeded \$25,000 and therefore the Department of Financial Institutions had to have a person certified to do procurement in excess of \$25,000. The procurement training was completed in September 2005. The request for proposal web-based commercial off the shelf solution was issued on December 1, 2006 with all bids due December 22, 2006. Only two proposals were received due to the experience and qualification requirement issued in the request for proposal. The experience requirement was that the company had to have implemented a solution in at least 2 other states and the company had to have been in existence for at least 3 years. The Department of Financial Institutions is about to issue a Notice of Intent to Award with the goal of the data base going live by March or April at the latest. The data base is intended to do the following:

- Eliminate the need for the deferred presentment service provider to rely on the customer's representation as to eligibility for a payday loan by providing a statewide data base to record a consumer's transaction with a deferred presentment service provider
- Provide a means to enforce the \$600 aggregate statutory limit by prohibiting a customer from entering into a transaction with a lender in violation of this limit
- Serve as a tool for the Department of Financial Institutions to become more efficient and focused in the examination of deferred presentment service providers by reviewing information from the data base
- Serve as a tool for the deferred presentment service provider by providing reports to the lender

TJK:sr

2-21-07

TESTIMONY FOR HOUSE BILL NO. 1008

Senate Appropriations Committee

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### ***OVERVIEW***

As indicated, the Department has asked for a total budget of \$5,181,860. This amount represents \$4,130,846 in salaries and wages; \$1,031,014 in operating expense; and \$20,000 contingency expense. This is approximately a 16.5%

increase over our prior budget; however, it should be noted that \$29,860 is additional expense to open the Grand Forks field office. It should also be noted that the Department has not replaced its computers since 2002 and has budgeted for all computers to be replaced in this biennium (24), which accounts for approximately \$42,000 and related software expense of \$20,800. The Department's travel expense has also increased due to additional training needs for examiners to stay abreast of all the changes in the industries that are regulated and increased travel costs to conduct examinations in the State of North Dakota. The Department's data processing costs have decreased by \$30,000 in the biennium due to the Department not having to spend money to update its records management system, as was done in the last biennium to accommodate the money transmitter licensees that the Department now regulates. Salaries have also increased substantially since the last biennium; however, the additional position added for the money transmitter area in the last Legislative Session was not carried in the salary line item. This position had all expenses associated with it carried in a separate line item that amounted to approximately \$193,000 of which approximately \$94,000 was attributed to salaries. The other increases in salaries are due to the Department working with the Human Resource Management Services and upgrading salaries for beginning examiners through the senior examiner position (\$176,302). The Department also gave promotions to examiners

who moved from an Examiner I to Examiner II, from Examiner II to Examiner III, and Examiner III to Supervisory Examiner in the amount of \$146,717. In addition, the Governor proposed a 4% salary increase in each of the next years of the biennium, which is an additional \$210,262 for our budget and does not include the health benefits which have been increased for the biennium by approximately \$67,500 or cost for retirement benefits of \$4,437. Although the Department has become more competitive in the industry which has slowed the turnover ratios, there is still pressure from the Federal Deposit Insurance Corporation, and the banking and credit union industry in soliciting Department employees for employment in their organizations. Travel continues to be the number one reason why examiners leave and if they are not compensated adequately for the travel, I would expect some turnover to continue. Salaries represent approximately 80% of the Department's overall budget.

In review of our 2005-2007 appropriation, the Department expects approximately \$1,300,000 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 House Bill No. 1008.

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