

**2015 HOUSE APPROPRIATIONS**

**HB 1008**

# 2015 HOUSE STANDING COMMITTEE MINUTES

## Appropriations Committee - Government Operations Division Medora Room, State Capitol

HB1008  
1/12/2015  
Recording Job# 21857

- Subcommittee  
 Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

### Minutes:

See attachment A and B

**Chairman Thoreson:** Opened the hearing on HB1008.

**Robert Entringer, Commissioner, ND Department of Financial Institutions:** See attachment A.

**Chairman Thoreson:** So if we don't have that, we might not have a say in what's happening level. Is that a possibility?

**Robert Entringer:** Yes it would be. Currently, our chief examiner participates in a couple of different work groups and does have input into the rule making. We would lose that ability.

Robert Entringer continued with his testimony.

**Representative Kempenich:** I see that HB1053 is referenced. You're already doing that with your computer replacement and desktop services?

**Robert Entringer:** We replace our computers every 4 years. The computers we're using right now were purchased in 2011. We have not utilized ITD for desktop services. Right now we don't have that ability since we're not housed in the capital. We have budgeted for desktop support through ITD for this biennium.

**Representative Kempenich:** Is that new money? Is that something you've done before?

**Robert Entringer:** The desktop services is new money.

**Chairman Thoreson:** The \$57,000.00; did you just come up with that as an estimate or have you been in conversation with anyone else about possible space in case yours is taken away?

**Robert Entringer:** That is an estimate based on the costs to move as well as what we're anticipating for an increase in lease expense.

Robert Entringer continued with his testimony.

**Representative Kempenich:** From this biennium's budget to the next you're about \$1 million up. Did you increase fees?

**Robert Entringer:** The fees for the banks this year were not increased. I think we gave a 20% credit. We are allowed to carry over funds up to 20% of our budget; so, we had sufficient funds in our carryover. The credit unions did not get a credit this year. They had to pay the full assessment in order to cover the costs allocated to them. With respect to the consumer division, those fees are set in statute; so we can't raise those. We are asking in a bill for an increase in our collection agency licensing fees.

**Chairman Thoreson:** Which bill is that one?

**Robert Entringer:** HB1101. See attachment B.

**Representative Glassheim:** Could you tell me a little about the payday lenders? What kind of regulations we have with that, how much you monitor them and whether they are taking advantage of consumers? How does that work?

**Robert Entringer:** The payday lenders that we license; once they apply for a license, our policy's to examine them within 90 days of licensing. We want to make sure that all of their forms have the appropriate disclosures. We make sure what they're doing is according to what the statute sets forth. If you're licensed by us in ND, you also have to get on our database which is managed by a vendor for us. There are only about 15 states that currently have a database. They put your information into the database and see if you have loans outstanding or if you're eligible for a loan. We currently examine our license to payday lenders every 3 years; typically we don't find any issues with respect to our licensed payday lenders. The complaints we get are regarding unlicensed internet based payday lenders.

**Representative Glassheim:** So you don't have too many complaints about regular licensed vendors in the state.

**Robert Entringer:** Not about our licensed payday lenders.

**Representative Glassheim:** The database controls whether you're eligible to get a loan?

**Robert Entringer:** That is the purpose of the database so that they aren't using borrowed funds to pay off another one. We will not allow our payday lenders to accept credit cards as a form of payment. We will allow debit cards.

**Chairman Thoreson:** If I recall we were one of the first states to take the lead on this.

**Robert Entringer:** You're right. I think we were the fifth or sixth state to go on the data base.

**Chairman Thoreson:** Is Congress looking at some kind of further regulation of payday lenders also? I thought I heard some discussion that there was a bill. If they put regulations in will we have to rewrite what we do or if ours stand alone or not?

**Robert Entringer:** With Consumer Financial Protection Bureau (CFPB); that was created out of Dodd-Frank. We have the ability to participate in a coordinated examination. CFPB does their own examination; the states' do theirs independently. We have not participated because the companies they've done examinations of so far have not been in North Dakota. Most of our payday lenders are local companies.

**Vice Chairman Brandenburg:** Because of all the federal regulations that it's causing increases back to the consumer?

**Robert Entringer:** That isn't an area we look at specifically. It would be my guess that financial institutions have to pass those costs on. There is a tremendous amount of regulatory burden.

**Vice Chairman Brandenburg:** It's not necessarily what you're doing. Those costs are just passed on by the bank or the credit union?

**Robert Entringer:** That would be my guess.

Robert Entringer continued with his testimony.

**Representative Skarphol:** The 221% growth in agriculture and commercial loans; is it approximately both the same in agriculture and commercial arena? Is one of them up and one down?

**Robert Entringer:** That is a combination of both categories. I would say a little more commercial loan than agriculture; but, both are up significantly.

Robert Entringer continued with his testimony.

**Representative Skarphol:** I would like to go back to page 3 of your testimony where you have salary/operating contingency. If I add them up vertically I don't get the same total that you do. If I add them up horizontally I do. The difference is \$120,783.00. Is there an explanation?

**Robert Entringer:** I think it's either a mistake or my inability to add.

**Chairman Thoreson:** If the information isn't correct and if you want to bring a updated copy, we can get the correct information to you.

**Becky Keller, ND Office of Management and Budget:** It's the accrued leave payments line item is in the bill but it isn't in this chart.

**Robert Entringer:** That's correct. That was actually taken out of salaries. I didn't add back into the base level on the salaries line item. It should have been added in that category.

**Representative Kempenich:** Do you have any vacant FTE's right now?

**Robert Entringer:** We are fully staffed.

**Representative Kempenich:** Are you getting graduates or experienced help? Are they just looking for experience and then moving on? Where are you at in your pay scales?

**Robert Entringer:** We have the ability to promote as well as offer raises within the grade that you're in. 99.9% of the time the people we hire are college graduates.

**Representative Kempenich:** Do you need a CPA?

**Robert Entringer:** You don't need a CPA. We do require a little more than the entry level accounting.

**Representative Kempenich:** How far off are you in the federal level? How close does this adjustment of \$1 million get you?

**Robert Entringer:** We don't expect to get comparable to the federal level.

**Jeff Olson, Executive President, Credit Union Association of the Dakotas:** We represent the credit union industry in North and South Dakota; that includes the 38 credit unions in North Dakota and the 21 states that have credit unions that fall under the jurisdiction of the Department of Financial Institutions. I would like to concur with the commissioner's testimony that familiarity and consistency in the examination process is crucial in the relationship that our members have with the examiner.

**Rick Clayberg, President and CEO, ND Bankers Association:** We stand in support of HB1008. Our state chartered banks across the state of North Dakota pay the fees in order to be examined by the commissioner's office. We want to ensure that we have quality individuals coming in and working with the banks; so they don't prolong the length of time that they're dealing with the banks. We want to ensure that they're paying their employees at the proper level; so they're not moving on and having to retrain additional employees.

**Jack MacDonald, Independent Community Banks of North Dakota:** We would like to go on record of supporting HB1008. We've always supported the commissioner's office. We've always appreciated our relationship with the commissioner and hope that you'll give a favorable review of this bill.

**Chairman Thoreson:** Closed the hearing on HB1008.

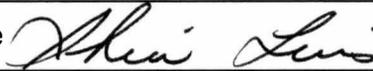
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1008  
1/23/2015  
Recording Job# 22427

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

## Minutes:

"Click to enter attachment information."

**Vice Chairman Brandenburg:** Opened the discussion on HB1008.

**Bob Entringer, Commissioner, ND Department of Financial Institutions:** I don't have a presentation, I'm waiting for questions.

**Representative Hogan:** How are you doing your IT support?

**Bob Entringer:** We have an examiner that maintains our website and does a lot of work with our examination software. Currently he sets our computers up for us. If he's unable to fix it we go to NRG Technology.

**Representative Hogan:** So when the governor asked if you wanted to move to ITD for support you chose to just maintain your independent structure?

**Bob Entringer:** We are looking very seriously at utilizing the desktop support at ITD. We've talked to the CIO about some flexibility in that regard. Currently our computers are set up so that each person has administrative privileges; because they often times need to install software. We're visiting with them on how we can get our computers set up with administrative privileges.

**Representative Hogan:** In your budget are there any desktop support additional purchases or are you going to continue your current patterns.

**Bob Entringer:** We budgeted our laptops at the cost that is allocated in the desktop support.

**Representative Hogan:** In the event that your internal IT expert would leave the agency, would you recruit for that skill set?

**Bob Entringer:** We've been talking about that for a number of years. We're looking at the ITD support as the succession to him.

**Vice Chairman Brandenburg:** You have an increase of \$999,000.00. Is there anything you would like to explain about your budget?

**Bob Entringer:** The biggest increase is the salary increase; included in that is about \$187,000.00 for the optional package. We budgeted for the ability to hire an examiner III; which is the highest level you can achieve within our framework without becoming a supervisor. We have 5 employees that are eligible to retire either currently or in the next biennium; and we budgeted \$100,000.00 for that.

**Representative Skarphol:** So the 5 employees that could possibly resign. Is the \$156,000.00 that's listed as contingency the dollar amount that you have in mind?

**Bob Entringer:** The contingency line item, the \$156,000.00; \$136,000.00 was for a software upgrade that we opted not to do during this biennium. We spent about \$5,000.00 of that and we're not going to continue with the rest of it. When you look at the \$77,000.00 in the appropriation line item; that's comprised of a \$20,000.00 contingency that we've always budgeted for unexpected legal expenses. The difference is moving costs. We budgeted about \$57,000.00 to move.

**Representative Skarphol:** The green sheet references SB2084. Is that bill still alive?

**Bob Entringer:** That bill passed yesterday 7-0.

**Representative Skarphol:** Could you enlighten me what that means?

**Bob Entringer:** There are a number of things in that bill that we're doing.

**Representative Skarphol:** I'm most interested in the last part of that statement.

**Bob Entringer:** If you are a shareholder in a bank or bank holding company and your number of shares goes from under 25% to over 25%; that constitutes a change in control by definition. It's similar to federal law. The person who's shares are going over 25% has to apply to us. Currently you would have to apply for permission to assume control of the institution; under federal law all you have to do is give notice. The appropriation part gives us the ability to charge credit unions an examination fee if it's determined by the commissioner that more than one examination/visitation is required.

**Representative Skarphol:** Typically you charge them for one visit; this would give you the opportunity to charge them for more visits.

**Bob Entringer:** Credit unions and banks both pay an annual assessment that's based on their asset size. When it's a normal examination, we don't charge them for that.

**Representative Skarphol:** In the case of a situation where a new entity wishes to purchase a state chartered bank, the same thing applies?

**Bob Entringer:** They have to apply to our department to assume control of that. There's a significant volume of information that they provide to us. Under our change of control statute, the state banking board has 2 criteria to approve/disapprove an application. The management of the institution isn't experienced enough to be able to run that institution or the interest of the proposed stock holders would jeopardize the interest of the existing stockholders.

**Representative Skarphol:** So having good legal status in another state provides the entity with some credibility but they still have to go through the entire process.

**Bob Entringer:** It certainly helps to be in good standing in another state.

**Representative Boehning:** Just looking at the budget for your special funds, are you going to have to raise your assessment on the banks and credit unions?

**Bob Entringer:** We don't expect to have to raise the assessments for them. It's possible in the second year of the biennium we may have to raise the assessments for the credit unions. We don't expect to have to raise them for the banks.

**Representative Boehning:** How do you set the assessment level? Is that done by administrative rule or do you have authority to just set the assessment?

**Bob Entringer:** It's set by the respective board; so for the banks it's set by the banking board; for credit unions it's set by the credit union board. We come up with a formula from the department's perspective; we present that to the board. When we do our assessment for banks it's in May; credit unions are in June.

**Representative Skarphol:** In the budget detail, I'm a little puzzled by the fact when I look at the budget detail that the salary increase listed is \$956,000.00; the decrease in fringe benefits is \$451,000.00. Could you explain this?

**Becky Deichert, Fiscal Analyst, Office of Management and Budget:** I'll look and get back to you on that.

**Representative Skarphol:** On the second page of the green sheet for salary increase performance \$334,903.00. That's in excess of \$10,000.00 per employee. I'm curious about that number.

**Bob Entringer:** We have 3 grades of field examination staff. Our goal is to always get that person to an examiner III status. It's going to take 3 to 4 years to get them to that level. I'm assuming that's the performance increase we're talking about.

**Representative Boehning:** In the increases in the PERS contribution that's based on 1/1?

**Bob Entringer:** I believe that's in the governor's recommendation.

**Becky Deichert:** Yes that would be.

**Chairman Brandenburg:** Closed the discussion on HB1008.

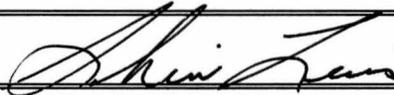
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1008  
2/9/2015  
Recording Job# 23527

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

## Minutes:

See Attachment A.

**Chairman Thoreson:** Opened the discussion on HB1008.

**Adam Mathiak, Fiscal Analyst, ND Legislative Council:** Explained attachment A.

**Chairman Thoreson:** On line 15 of the bill?

**Adam Mathiak:** Correct.

Adam Mathiak continued with his presentation.

**Representative Glassheim:** On this sheet we have operating expense increase of \$37,000.00 and on the bill we have operating expense increase of \$146,000.00. Can you explain it?

**Adam Mathiak:** Some of these are multiple line items. There is a base salary included in that new FTE position but there's also an operating expense that corresponds to that, some travel and possibly some office rental. There's \$30,600.00 of operating expenses associated with that FTE position; and there was \$116,000.00 of increase which was offset against the \$79,000.00 reduction of contingencies.

Adam Mathiak continued with his presentation.

**Becky Deichert, Fiscal Analyst, ND Office of Management and Budget:** What makes up the \$146,807.00 is the \$116,000.00 that Adam talked about in base budget changes plus the \$30,000.00 for the new employee operating expense.

**Representative Skarphol:** If we decided not to do the new FTE, that \$30,600.00 could come out conceivably?

**Becky Deichert:** Yes.

**Representative Skarphol:** I'm not seeing those distinguishing characteristics characteristics on this sheet.

**Adam Mathiak:** The \$30,600.00 is part of that \$218,000.00; so if you decide to remove the FTE position, it would automatically remove both the salary and the operating.

**Representative Skarphol:** So it's all in that line?

**Adam Mathiak:** Yes. I think most of the FTE positions have been displayed that way; if there was corresponding operating expenses with that position it would be in the position total.

**Representative Skarphol:** So the \$37,207.00 is the operating expense increase asked for for the balance of the agency?

**Adam Mathiak:** Yes.

**Representative Kempenich:** It's number one on the change package summary.

**Becky Deichert:** It's just those two numbers. It's the \$116,000.00 and the \$79,000.00.

**Representative Skarphol:** If we wanted to include the FTE, operating expense and wanted to do away the market equity, we would only include the top two numbers on that change package summary.

**Becky Deichert:** You would take the \$218,089.00.

**Representative Skarphol:** We would add that plus the \$37,207.00 for operating right?

**Becky Deichert:** That \$37,207.00 is not related to the new position.

**Representative Skarphol:** If we wanted to do the employee and give the operating expense increase that's the only two that we would do. Correct?

**Becky Deichert:** That's correct. That top number is the cost to continue for salaries; so that doesn't have anything to do with the compensation package.

**Representative Skarphol:** The 48,000?

**Becky Deichert:** The \$196,000.00.

**Representative Glassheim:** Is that the 4% and 3%?

**Becky Deichert:** No. That is just their base cost to continue salaries for the next fiscal year. That has nothing to do with the 4% and 4%.

**Representative Glassheim:** Where's the 4% and 3%?

**Representative Kempenich:** That's in the compensation changes.

**Representative Glassheim:** Aren't those separate from the 4% and 3%?

**Adam Mathiak:** Some of these salary item changes you can see on the worksheet. The \$48,934.00 that's listed on the change package summary has the executive compensation adjustment; you can see that \$48,000.00 on this worksheet as the market equity increase. The \$196,000.00 that was discussed you can see as the base payroll changes. The \$334,000.00 and the \$34,000.00 which are the retirement contribution increase and the performance increase and also the \$129,000.00; the combination of those three would be related to other parts of that \$499,000.00. The 4% and 4% that was recommended should be that \$334,000.00; which is the salary increase performance line on our sheets.

**Representative Hogan:** How do we do the salary changes? Do we do these individually?

**Representative Kempenich:** We have to do these individually. I'd propose to give them a 3% and 3%.

**Chairman Thoreson:** On the house side it would reflect an increase of 3% and 3%. Is that correct?

**Representative Kempenich:** Yes.

**Vice Chairman Brandenburg:** I think we need to look at the market equity, the retirement, health insurance, and just leave that as a base position at this time.

**Chairman Thoreson:** That would be to just leave it at the base level at this time?

**Vice Chairman Brandenburg:** To leave it at the base payroll change.

**Representative Glassheim:** You want to take out the health insurance increase?

**Vice Chairman Brandenburg:** Not take it out; just leave it at the base level.

**Representative Skarphol:** Adam do you know the 3% and 3% would amount to as far as a number?

**Adam Mathiak:** It's going to be \$251,000.00. In our system we can rerun the salary packages in IBARS and come up with the exact numbers for it.

**Representative Kempenich:** We would have to move the \$196,326.00 over.

**Representative Boehning:** I would not leave in the 1 FTE.

**Representative Hogan:** I would like to leave it in.

**Representative Skarphol:** If we wanted to leave out the FTE and wanted to not do the performance and market equity; what else do we need to move across? I would assume the retirement has to go across. We would have a choice on the FTE and operating expense?

**Adam Mathiak:** That's correct. Most of these changes in the past when you approved the salary package;, basically the top four lines would automatically be adjusted. Because of the changes now, you'd have to move some of these things over.

**Representative Glassheim:** You're taking the market equity out completely?

**Representative Skarphol:** We don't know what the situation is going to be on market equity.

**Representative Glassheim:** At this point in time, you want to take it out and we'll see what happens to it later.

**Representative Vigesaa:** If the 3% and 3% is in the performance salary increase, what would raise the base payroll \$200,000.00?

**Adam Mathiak:** Because their salary gets increased in the second year of the biennium, that increase isn't really factored into the future costs and that's why there's this ongoing cost in the future that gets added in as the cost to continue.

**Representative Boehning:** So what we're going to do is we're going to move the base payroll, the 3% and 3%, the \$129,000.00 and the \$37,000.00. Correct?

**Chairman Thoreson:** Then there would be a separate motion to have the \$218,089.00 for the FTE moved over.

**Representative Glassheim:** How does the retirement thing work? Is that the 1% or is that just a continuation of what we've already committed ourselves to in retirement monies?

**Chairman Thoreson:** That's correct.

**Adam Mathiak:** I believe that would be related to the 1% and 1%.

**Representative Boehning:** One is the state's payment and one is the employee's payment. Wouldn't that come out of their checks and not be reflected in anything else?

**Adam Mathiak:** I believe that when it gets done the 1% that comes out of the employee's part is also factored into the increase.

**Becky Deichert:** If you take out that retirement increase; it would come directly out of the employee's paycheck.

**Representative Boehning:** If we take the 1% that state pays out; then that \$34,000.00 should go to zero. Correct?

**Becky Deichert:** Correct.

**Representative Glassheim:** The employee would pay 2%?

**Representative Boehning:** We already assessed them 1% last session; this would assess them 1% this session. If the bill that's out there with the 1% and 1%, the employees will be paying 2%.

**Becky Deichert:** The way I understand it is if you go down to a 3% and 3%, the employee would still have to contribute that 1%. So you would be giving a 3% and 2% raise.

**Chairman Thoreson:** Would it be a 3% and 2%; is the 2% in the second year?

**Becky Deichert:** What you put in it would be the 3% and 3%; but, we'd have to take 1% of that to cover the retirement.

**Chairman Thoreson:** That would be in the second year of the biennium?

**Becky Deichert:** Correct.

**Chairman Thoreson:** Closed the discussion.

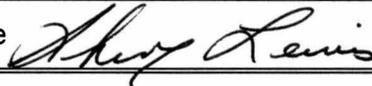
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1008  
2/17/2015  
Recording Job# 23957

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

## Minutes:

Handout #1

**Chairman Thoreson:** Opened the discussion on HB1008.

**Vice Chairman Brandenburg:** What I see looks like what we talked about.

**Representative Hogan:** This is the one we had the discussion earlier this morning on HB1101.

**Chairman Thoreson:** That's not reflected on the green sheet; but that bill came to full appropriations and we did move that out. It's on today's calendar. That's correct?

**Representative Hogan:** Correct.

**Chairman Thoreson:** On the 11<sup>th</sup> order.

**Representative Skarphol:** The fiscal note on that bill provides in the upcoming biennium \$132,800.00 in revenue and the next is \$135,000.00. The revenue would cover the costs associated with that FTE.

**Chairman Thoreson:** I've had discussions with people and we'll leave that for a discussion at a later date.

**Vice Chairman Brandenburg:** Made a motion for a "Do Pass as Amended".

**Representative Boehning:** Seconded the motion.

**Roll call vote:** Yeas 7 0 Nays 0 Absent 1

Motion carried.

Representative Boehning carried the bill.

**Chairman Thoreson:** Closed the discussion

Handout<sup>#1</sup> submitted, not referenced or discussed.

# 2015 HOUSE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Roughrider Room, State Capitol

HB 1008  
2/19/2015  
#24168

- Subcommittee  
 Conference Committee

Committee Clerk Signature

*Beckie Struge*

## **Explanation or reason for introduction of bill/resolution:**

A bill to provide an appropriation for defraying the expenses of the department of financial institutions.

## **Minutes:**

Chairmans opens HB 1008

Representative Boehning: Highlighted changes on amendment 01001.

Chairman Jeff Delzer: Why the extra traveling expenses?

Representative Thoreson: It has to do with the examinations and increased travel going forward.

Committee Member: (speaker not on, inaudible)

Chairman Jeff Delzer: Do they have that many more offices? Or do they think the price of gas will go up?

Representative Boehning: That was part of it with one auditor, but we didn't allow the other one.

Representative Boehning: I move on HB 1008 to adopt amendment 01001.

Representative Kempenich: Seconded

**Voice Vote carries on adopted amendment.**

Representative Boehning: I move HB 1008 as amendment.

Representative Kempenich: Seconded

House Appropriations Committee  
HB 1008  
2/19/2015  
Page 2

**A roll call vote was taken for a Do Pass as Amended HB 1008: Yes: 22 No: 0  
Absent: 1**

Do Pass Carries.

Representative Boehning will carry the bill.

*2/18  
2-19-15  
10/2*

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1008

Page 1, replace lines 11 through 16 with:

"Salaries and wages	\$5,874,989	\$685,549	\$6,560,538
Accrued leave payments	120,783	(120,783)	0
Operating expenses	1,428,445	116,207	1,544,652
Contingency	<u>156,000</u>	<u>(79,000)</u>	<u>77,000</u>
Total special funds	\$7,580,217	\$601,973	\$8,182,190
Full-time equivalent positions	29.00	0.00	29.00"

Re-number accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	House Changes	House Version
Salaries and wages	\$5,874,989	\$685,549	\$6,560,538
Operating expenses	1,428,445	116,207	1,544,652
Contingency	156,000	(79,000)	77,000
Accrued leave payments	<u>120,783</u>	<u>(120,783)</u>	
Total all funds	\$7,580,217	\$601,973	\$8,182,190
Less estimated income	<u>7,580,217</u>	<u>601,973</u>	<u>8,182,190</u>
General fund	\$0	\$0	\$0
FTE	29.00	0.00	29.00

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

	Adds Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Increases in Operating Expenses <sup>3</sup>	Decreases Contingency Funding <sup>4</sup>	Total House Changes
Salaries and wages	\$317,109	\$368,440			\$685,549
Operating expenses			116,207		116,207
Contingency				(79,000)	(79,000)
Accrued leave payments	<u>(120,783)</u>				<u>(120,783)</u>
Total all funds	\$196,326	\$368,440	\$116,207	(\$79,000)	\$601,973
Less estimated income	<u>196,326</u>	<u>368,440</u>	<u>116,207</u>	<u>(79,000)</u>	<u>601,973</u>
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance		\$243,223	\$243,223
Health insurance increase		125,217	125,217
Total	\$0	\$368,440	\$368,440

2012

<sup>3</sup> Funding is added to increase operating expenses from \$1,428,445 to \$1,575,252 due to increases in travel expenses (\$25,330), information technology equipment under \$5,000 (\$68,022), and other operating expenses.

<sup>4</sup> Decreases contingency funding from \$156,000 to \$77,000.

**2015 HOUSE STANDING COMMITTEE  
 ROLL CALL VOTES  
 BILL/RESOLUTION NO. HB1008**

House Appropriations - Government Operations Divison Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
 Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Brandenburg Vice Chairman    Seconded By Representative Boehning

Representatives	Yes	No	Representatives	Yes	No
Chairman Thoreson	x		Representative Hogan	x	
Vice Chairman Brandenburg	x		Representative Glassheim		
Representative Kempenich	x				
Representative Vigesaa	x				
Representative Boehning	x				
Representative Skarphol	x				

Total (Yes) 8 No 0

Absent 0

Floor Assignment Representative Boehning

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

Date: 2/19/15

Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1008

House Appropriations Committee

Subcommittee

158116, 01001

Amendment LC# or Description: \_\_\_\_\_

Recommendation:  Adopt Amendment

Do Pass     Do Not Pass     Without Committee Recommendation

As Amended     Rerefer to Appropriations

Place on Consent Calendar

Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By: Boening                      Seconded By: Kempenich

Representatives	Yes	No	Absent	Representatives	Yes	No	Absent	Representatives	Yes	No	Absent
Chairman Jeff Delzer				Representative Nelson				Representative Boe			
Vice Chairman Keith Kempenich				Representative Pollert				Representative Glassheim			
Representative Bellew				Representative Sanford				Representative Guggisberg			
Representative Brandenburg				Representative Schmidt				Representative Hogan			
Representative Boehning				Representative Silbernagel				Representative Holman			
Representative Dosch				Representative Skarphol							
Representative Kreidt				Representative Streyle							
Representative Martinson				Representative Thoreson							
Representative Monson				Representative Vigesaa							

Totals	
Yes)	
No	
Absent	
Grand Total	

*Motion carries voice*

Floor Assignment: \_\_\_\_\_

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

Date: 7/19/15

Roll Call Vote #: 2

2015 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES 1008  
BILL/RESOLUTION NO. \_\_\_\_\_

House Appropriations Committee

Subcommittee

Amendment LC# or Description: 15. 8116.01001

Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar

Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By: Boening                      Seconded By: Kempenich

Representatives	Yes	No	Absent	Representatives	Yes	No	Absent	Representatives	Yes	No	Absent
Chairman Jeff Delzer	✓			Representative Nelson	✓			Representative Boe	✓		
Vice Chairman Keith Kempenich	✓			Representative Pollert	✓			Representative Glassheim	✓		
Representative Bellew	✓			Representative Sanford	✓			Representative Guggisberg			A
Representative Brandenburg	✓			Representative Schmidt	✓			Representative Hogan	✓		
Representative Boehning	✓			Representative Silbernagel	✓			Representative Holman	✓		
Representative Dosch	✓			Representative Skarphol	✓						
Representative Kreidt	✓			Representative Streyle	✓						
Representative Martinson	✓			Representative Thoreson	✓						
Representative Monson	✓			Representative Vigasaa	✓						

Totals	
Yes)	<u>22</u>
No	<u>0</u>
Absent	<u>1</u>
Grand Total	<u>23</u>

Floor Assignment: Boening

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

**REPORT OF STANDING COMMITTEE**

**HB 1008: Appropriations Committee (Rep. Delzer, Chairman)** recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (22 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1008 was placed on the Sixth order on the calendar.

Page 1, replace lines 11 through 16 with:

"Salaries and wages	\$5,874,989	\$685,549	\$6,560,538
Accrued leave payments	120,783	(120,783)	0
Operating expenses	1,428,445	116,207	1,544,652
Contingency	156,000	(79,000)	77,000
Total special funds	\$7,580,217	\$601,973	\$8,182,190
Full-time equivalent positions	29.00	0.00	29.00"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Changes	House Version
Salaries and wages	\$5,874,989	\$685,549	\$6,560,538
Operating expenses	1,428,445	116,207	1,544,652
Contingency	156,000	(79,000)	77,000
Accrued leave payments	120,783	(120,783)	
Total all funds	\$7,580,217	\$601,973	\$8,182,190
Less estimated income	7,580,217	601,973	8,182,190
General fund	\$0	\$0	\$0
FTE	29.00	0.00	29.00

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

	Adds Funding for Base Payroll Changes <sup>1</sup>	Adds Funding for Salary and Benefit Increases <sup>2</sup>	Adds Funding for Increases in Operating Expenses <sup>3</sup>	Decreases Contingency Funding <sup>4</sup>	Total House Changes
Salaries and wages	\$317,109	\$368,440			\$685,549
Operating expenses			116,207		116,207
Contingency				(79,000)	(79,000)
Accrued leave payments	(120,783)				(120,783)
Total all funds	\$196,326	\$368,440	\$116,207	(\$79,000)	\$601,973
Less estimated income	196,326	368,440	116,207	(79,000)	601,973
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance		\$243,223	\$243,223
Health insurance increase		125,217	125,217
Total	\$0	\$368,440	\$368,440

<sup>3</sup> Funding is added to increase operating expenses from \$1,428,445 to \$1,575,252 due to increases in travel expenses (\$25,330), information technology equipment under \$5,000 (\$68,022), and other operating expenses.

<sup>4</sup> Decreases contingency funding from \$156,000 to \$77,000.

**2015 SENATE APPROPRIATIONS**

**HB 1008**

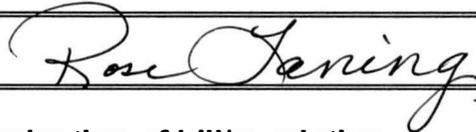
# 2015 SENATE STANDING COMMITTEE MINUTES

## Appropriations Committee Harvest Room, State Capitol

HB 1008  
3/6/2015  
Job # 24443

- Subcommittee  
 Conference Committee

Committee Clerk Signature



### Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

### Minutes:

Attachment 1 - 2

Legislative Council - Chris Kadrmas  
OMB - Becky Keller

**Chairman Holmberg** called the committee to order on HB 1008.

### **Robert J. Entringer, Commissioner, Department of Financial Institutions:**

Testified in favor of HB 1008. Testimony - Attachment 1

(8:10) **Chairman Holmberg:** On your first category, you talk about the 31% turnovers in your employees. Are your employees sited in Bismarck/Mandan or do you have employees that live in Dickinson, Williston or Minot?

**Robert Entringer:** We have offices in Bismarck, Fargo and Grand Forks, so about half of our examination staff is split with half in Bismarck for bank examiners and the other half is in Fargo and Grand Forks, split fairly evenly.

**Chairman Holmberg:** No one is sited out west?

**Robert Entringer:** Our Bismarck crew covers the entire western half of the state. We do have eight examiners in Bismarck

(12:19) **Senator Bowman:** On page 7, it says "today there are 21 state chartered credit unions compared to 23 two years ago", so what is the need for the extra FTE if they actually have less credit unions to ..... I thought there'd be a 5% increase or something.

**Robert Entringer:** The number of credit unions is decreasing but the asset side is continuing to grow. In the two year period from September of 2012 to September 2014, we had an 18% increase in the assets. Most of those assets really end up being in the loan area. That's where we spend the majority of our time is reviewing those loans. The

banks, credit unions, it doesn't matter, they are getting very complex and so it takes us more time.

**Senator Kilzer:** You mentioned that you're looking for a new home. There was another bill that the BND was going to consider building new related buildings for \$17M. Would you have found a new home over there?

**Robert Entringer:** Yes, that was the plan, for us to move into that building. We were one of the agencies that they wanted to have move in there. That would result in about a \$3.5/sq.ft. decrease for rent (per sq ft.) We're currently paying \$15.25/sq. ft. but that's going up to around \$19.50/sq.ft. with the negotiations that we're in right now.

**Chairman Holmberg:** There are continued conversations on that building in the second half.

**Senator Robinson:** You're a special fund agency, what was the rationale the House used not to fund the additional staff person to work with the credit union side of things?

**Robert Entringer:** They never explained to me why they felt they needed to cut that FTE. Maybe the credit union folks can explain that because they were working behind the scenes to try to get that left alone.

**Senator Carlisle:** What you're going to pay for rent... Being I'm from Bismarck, a couple things I watch; one, if we do build that new building, we understand about it, but market rate is one thing I will watch. The other thing, what we did with WSI a lot of years ago, we put in payment in lieu of taxes. That might change your rate. As you know, we took all the buildings out of the equation.

**Robert Entringer:** We had actually completed our budget and submitted it to OMB and then we found out the building was for sale. We contacted OMB and said, "Can we have it back?" We did research and our business manager contacted facility management to see what the rates other agencies were paying in the open market. It was around \$19, so we added that money in there figuring it was going to cost us that much. And then there were expenses to move and re-wire. We had projected an increase in our budget prior to pulling it back and we were figuring about \$16.25/sq.ft. When the new owners came in, they said they weren't making any money here. They were losing money but it was significant for us.

**Senator Wanzek:** Your lease is up in 2015. What if we don't put that new building back in? Are you going to renegotiate the lease you're in right now?

**Robert Entringer:** When we were talking to our landlord, he wanted us to do a 2 year lease which is what we always do. They're not sure what they're going to do with the building going forward. It's possible that we will have to move. We're not banking on the BND building. We're just looking at possibly having to re-locate somewhere else in Bismarck.

**Senator Wanzek:** The bank building wouldn't be built immediately either, so you're going to have to make some sort of arrangements till that does get done.

**Robert Entringer:** Absolutely.

**Jeff Olson, Credit Union Association of the Dakotas:**

Testified in favor of HB 1008.  
Testimony - Attachment 2.

**(21:21) Rick Clayburgh, President & CEO, ND Bankers Association:**  
**Also spoke on behalf of the Independent Community Banks of ND:**  
**Testified in favor of 1008.** No written Testimony.

We also, even though it does not impact our members directly, we encourage and support putting the FTE back in on behalf of the credit unions. Safety and sound - this is a big issue. If this same thing happened on the banking side, we would be asking the same thing, that that be put back in. The whole idea of having familiarity with our members and with our banks is very important. We've spoken with a few of the House members. I personally think it was just a little short-sided because it is purely special funds. There are no general fund dollars included in it. I'll end by adding that the subject matter was brought up this morning, but the ND Bankers Association is very supportive of the Bank of ND adding the financial services building to the Bank of North Dakota and we encourage that to be brought back in during the second half of this session.

**Senator Krebsbach:** If you were to use federal examiners, do the credit unions have to pay a fee to have that done?

**Robert Entringer:** No, they don't pay a fee to the NCUA for the examination. They pay a fee for insurance. That gets into an area that is somewhat controversial from the state perspective because of how they allocate. They call it the overhead transfer rate and how they manipulate their budget to sort of fund the examination side, but no they do not pay a fee to the NCUA for the examination, just simply for the insurance costs which is similar to what banks would do. They pay a fee to the FDIC for deposit insurance.

**Chairman Holmberg:** There have been continuing conversations between various members of leadership and the BND folks about moving forward at some point. He then closed the hearing on HB 1008.

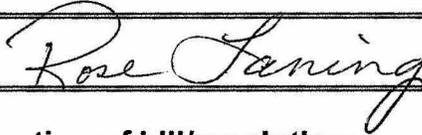
# 2015 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

HB 1008  
4/1/2015  
Job # 25689

- Subcommittee  
 Conference Committee

Committee Clerk Signature



**Explanation or reason for introduction of bill/resolution:**

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

**Minutes:**

Legislative Council - Adam Mathiak  
OMB - Nick Creamer & Tammy Dolan

Chairman Holmberg said the House took out the Credit Union examiner. Both the credit unions and the banks support putting that position back as it's all special fund money. Adam will have an amendment prepared that will put back the FTE and allow them to spend their special funds on it - and then take out the market equity.

House took out regulations of HB - put back the FTE and allow them to their special funds.  
Add back the examiners

# 2015 SENATE STANDING COMMITTEE MINUTES

**Appropriations Committee**  
Harvest Room, State Capitol

HB 1008  
4/2/2015  
Job # 25763

- Subcommittee  
 Conference Committee

Committee Clerk Signature



## **Explanation or reason for introduction of bill/resolution:**

A BILL for an Act to defray the expenses of the Department of Financial Institutions (DO PASS AS AMENDED)

## **Minutes:**

Amendment # 15.8116.02001

**Chairman Holmberg** called the committee to order on Thursday, April 02, 2015 at 11:00 am in reference to HB 1008. All committee members were present. Adam Mathiak, Legislative Council and Nick Creamer from OMB were also present.

**Senator Carlisle** moved the amendment 15.8116.02001. He explained the amendment.

**Motion by Senator Carlisle. 2<sup>nd</sup> by Senator Sorvaag.**

**Chairman Holmberg:** All in favor say aye, it carried.

**Senator Carlisle moved Do Pass as Amended . 2<sup>nd</sup> by Senator Sorvaag.**

**Chairman Holmberg:** Call the roll on a Do Pass as Amended on 1008.

A Roll Call vote was taken. Yea: 13; Nay: 0; Absent: 0.

**Senator Carlisle** will carry the bill. The hearing was closed on HB 1008.

*1/2/15  
JSC*

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1008

Page 1, replace lines 11 through 16 with:

"Salaries and wages	\$5,874,989	\$862,201	\$6,737,190
Accrued leave payments	120,783	(120,783)	0
Operating expenses	1,428,445	146,807	1,575,252
Contingency	<u>156,000</u>	<u>(79,000)</u>	<u>77,000</u>
Total special funds	\$7,580,217	\$809,225	\$8,389,442
Full-time equivalent positions	29.00	1.00	30.00"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$5,874,989	\$6,560,538	\$176,652	\$6,737,190
Operating expenses	1,428,445	1,544,652	30,600	1,575,252
Contingency	156,000	77,000		77,000
Accrued leave payments	<u>120,783</u>			
Total all funds	\$7,580,217	\$8,182,190	\$207,252	\$8,389,442
Less estimated income	<u>7,580,217</u>	<u>8,182,190</u>	<u>207,252</u>	<u>8,389,442</u>
General fund	\$0	\$0	\$0	\$0
FTE	29.00	29.00	1.00	30.00

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

	Adjusts Funding for Health Insurance Premium Increases <sup>1</sup>	Adds Funding for New Credit Union Examiner <sup>2</sup>	Total Senate Changes
Salaries and wages	(\$18,268)	\$194,920	\$176,652
Operating expenses		30,600	30,600
Contingency			
Accrued leave payments			
Total all funds	(\$18,268)	\$225,520	\$207,252
Less estimated income	<u>(18,268)</u>	<u>225,520</u>	<u>207,252</u>
General fund	\$0	\$0	\$0
FTE	0.00	1.00	1.00

<sup>1</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

<sup>2</sup> Funding is added from other funds for a new credit union examiner (\$187,489) and related salary increase (\$7,431) and operating expenses (\$30,600).

Date: 4-2-15  
Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1008

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: 15.8116.02001

- Recommendation:  Adopt Amendment  
 Do Pass     Do Not Pass     Without Committee Recommendation  
 As Amended     Rerefer to Appropriations  
 Place on Consent Calendar  
Other Actions:  Reconsider     \_\_\_\_\_

Motion Made By Carlisle Seconded By Sorvaag

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Heckaman		
Senator Bowman			Senator Mathern		
Senator Krebsbach			Senator O'Connell		
Senator Carlisle			Senator Robinson		
Senator Sorvaag					
Senator G. Lee					
Senator Kilzer					
Senator Erbele					
Senator Wanzek					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*voice vote  
carried*

Date: 4-2-15  
Roll Call Vote #: 2

2015 SENATE STANDING COMMITTEE  
ROLL CALL VOTES 1008  
BILL/RESOLUTION NO. \_\_\_\_\_

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description: \_\_\_\_\_

- Recommendation:  Adopt Amendment  
 Do Pass  Do Not Pass  Without Committee Recommendation  
 As Amended  Rerefer to Appropriations  
 Place on Consent Calendar
- Other Actions:  Reconsider  \_\_\_\_\_

Motion Made By Carlisle Seconded By Sorvaag

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Heckaman	✓	
Senator Bowman	✓		Senator Mathern	✓	
Senator Krebsbach	✓		Senator O'Connell	✓	
Senator Carlisle	✓		Senator Robinson	✓	
Senator Sorvaag	✓				
Senator G. Lee	✓				
Senator Kilzer	✓				
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Carlisle

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

**REPORT OF STANDING COMMITTEE**

**HB 1008, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1008 was placed on the Sixth order on the calendar.**

Page 1, replace lines 11 through 16 with:

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Total special funds	\$7,580,217	\$809,225	\$8,389,442
Full-time equivalent positions	29.00	1.00	30.00"

ReNUMBER accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$5,874,989	\$6,560,538	\$176,652	\$6,737,190
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General fund	\$0	\$0	\$0	\$0
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**Department No. 413 - Department of Financial Institutions - Detail of Senate Changes**

	Adjusts Funding for Health Insurance Premium Increases <sup>1</sup>	Adds Funding for New Credit Union Examiner <sup>2</sup>	Total Senate Changes
Salaries and wages	(\$18,268)	\$194,920	\$176,652
Operating expenses		30,600	30,600
Contingency			
Accrued leave payments			
Total all funds	(\$18,268)	\$225,520	\$207,252
Less estimated income	(18,268)	225,520	207,252
General fund	\$0	\$0	\$0
FTE	0.00	1.00	1.00

<sup>1</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

<sup>2</sup> Funding is added from other funds for a new credit union examiner (\$187,489) and related salary increase (\$7,431) and operating expenses (\$30,600).

**2015 CONFERENCE COMMITTEE**

**HB 1008**

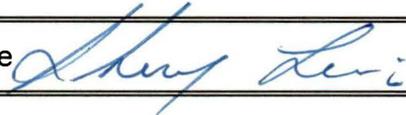
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1008  
4/16/2015  
Recording Job# 26161

Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

## Minutes:

See handout A and B

**Chairman Boehning:** Opened the conference committee on HB1008.

**Senator Carlisle:** Explained the changes that the Senate made to HB1008.

**Chairman Boehning:** You put in the one FTE and the salary based performance; that \$7,400.00 goes with that FTE? Is that why that was increased?

**Chris Kadrmas, Fiscal Analyst, ND Legislative Council:** That's correct. The performance increase was in there and then the health insurance for that FTE is in there.

**Chairman Boehning:** When we had the budget in front of us there wasn't an FTE and all of a sudden it popped into the Senate version. It wasn't in the governor's budget. I'm wondering where that FTE came from.

**Senator Carlisle:** It was in the testimony that they inspect banks and credit unions and it appeared to us that since they're going to pay for it; because it is all special funds, that was my recollection of where it came from.

**Sheila Peterson, Fiscal Analyst, ND Office of Management and Budget:** It was in the governor's budget. We had added it as well.

**Representative Vigesaa:** Has there been growth in the credit union arena that requires the FTE for credit unions? What's the reason for the increase? What is the need that has arisen for the credit union examiner?

**Bob Entringer, Commissioner, Department of Financial Institutions:** We've experienced a fairly significant growth in the total assets of the credit unions. I believe it was around 20% in the biennium. The growth rate was 17.9% in the biennium.

**Chairman Boehning:** Do you have any vacant FTE's currently?

**Bob Entringer:** Yes. We currently have 3 vacant FTE's; one in our consumer division and two in our banking division.

**Chairman Boehning:** How long have they been vacant?

**Bob Entringer:** Those resignations and one termination occurred the beginning of February.

**Chairman Boehning:** Those are all pretty recent in the last couple of months?

**Bob Entringer:** That's correct.

**Chairman Boehning:** We have been taking out FTE's and so forth. How long will it take to fill those positions approximately?

**Bob Entringer:** We're currently interviewing today for one of those positions and we will be interviewing for the other two in two weeks. So, hopefully, by mid-May.

**Senator Carlisle:** If you fill them, what's your turnover?

**Bob Entringer:** It's 31%.

**Senator Carlisle:** My understanding it would be an examiner and the credit unions and the banks both want it.

**Bob Entringer:** That's correct.

**Representative Vigesaa:** Are the credit union examiners specific to credit unions or do your examiners work both banks and credit unions?

**Bob Entringer:** They are specific to banks for credit unions. This proposed FTE would be specific for credit union examinations.

**Senator Wanzek:** Can you tell me with your FTE numbers going back to the previous biennium or two; has it changed much?

**Bob Entringer:** We have not had an FTE added since 2003 or 2005; and that was in our consumer division.

**Senator Wanzek:** Our economy has been growing in the last few years.

**Bob Entringer:** That's exactly the point. The credit unions have been getting involved more and more in commercial lending. That's a fairly complex type of lending; and so it's taking longer with the staff that we have to get those examinations done. By statute we're required to do them every 24 months. We're currently at about 15 to 18 months on our

cycle. Without this FTE we're going to have to start cutting back on some of the examinations that we do on an annual basis; because it's required under federal law, so we wouldn't participate with the NCUA in those examinations.

**Senator Carlisle:** Rick Clayberg was in the hearing; they said the bankers are supporting this FTE.

**Bob Entringer:** That's correct.

**Senator Robinson:** As the commissioner pointed out, the asset base is growing, the loan portfolios are more complex; and we were convinced this was just a good business practice move to insure that our systems are in place.

**Senator Carlisle:** If you would agree we could probably settle this today.

**Representative Vigesaa:** Could you explain briefly how the special funds are accumulated for your institution?

**Bob Entringer:** We charge an assessment to banks and credit unions based on their total assets. They pay a fee to us on an annual basis. For our consumer division we accumulate licensing fees and examination fees that we charge when we go out and examine them. In HB1101 it gave us the authority that we are able to charge an examination fee to credit unions if more than one examination is required per cycle. It's the same authority we have for banks.

**Representative Vigesaa:** I would probably like to have one more meeting and visit with the House members about this.

**Senator Carlisle:** That's fine.

**Chairman Boehning:** Closed the conference committee.

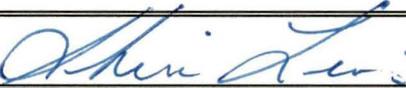
# 2015 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division  
Medora Room, State Capitol

HB1008  
4/20/2015  
Recording Job# 26248

Subcommittee  
 Conference Committee

Committee Clerk Signature



## Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the department of financial institutions.

## Minutes:

"Click to enter attachment information."

**Chairman Thoreson:** Opened the conference committee on HB1008.

**Chairman Thoreson:** Substituted for Representative Boehning.

**Senator Robinson:** The FTE that the Senate agreed to comes at the request of the financial community; both the credit unions and the banking community. It's an examiner; and as I understand it, it's for the credit union side of things. We have fewer credit unions, but we have a much larger deposit base. Many of the loans are in the commercial area and they are complex.

**Chairman Thoreson:** When we had the hearing for HB1008 in our government operations division committee, I know the credit union stood before us and said they were the most heavily regulated financial institutions in the state of North Dakota.

**Senator Robinson:** There have been times when the credit unions and the banking community haven't been on the same page. We think it's healthy when they are and here is a situation where they've come together. I would hope we can move forward and approve this.

**Representative Vigesaa:** We had discussion after our last meeting that we would agree to grant the FTE. I imagine that we don't need to change anything because the other part of the amendment was the health insurance.

**Representative Vigesaa:** Made a motion that the House would accede to the Senate amendments on HB1008.

**Senator Wanzek:** Seconded the motion.

House Appropriations Committee - Government Operations Division

HB1008

April 20, 2015

Page 2

Roll Call Vote: 6 Yeas 0 Nays 0 Absent

Motion carried.

**Chairman Thoreson:** Closed the conference committee.

**2015 HOUSE CONFERENCE COMMITTEE  
ROLL CALL VOTES**

BILL/RESOLUTION NO. HB1008 as (re) engrossed

**House Government Operations Committee**

- Action Taken**     **HOUSE accede to Senate Amendments**  
 **HOUSE accede to Senate Amendments and further amend**  
 **SENATE recede from Senate amendments**  
 **SENATE recede from Senate amendments and amend as follows**
- Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Representative Vigesaa      Seconded by: Senator Wanzek

Representatives				Yes	No	Senators				Yes	No
	4-16	4-20					4-16	4-20			
Representative Boehning	x					Senator Carlisle	x	x		x	
Representative Vigesaa	x	x		x		Senator Wanzek	x	x		x	
Representative Glassheim	x					Senator Robinson	x	x		x	
Representative Thoreson		x		x							
Representative Hogan		x		x							
Total Rep. Vote				3		Total Senate Vote				3	

Vote Count      Yes: 6      No: 0      Absent: 0

House Carrier Representative Boehning      Senate Carrier Senator Carlisle

LC Number 15.8116 . 02001 of amendment 03000 <sup>Title</sup>

LC Number \_\_\_\_\_ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

**REPORT OF CONFERENCE COMMITTEE**

**HB 1008, as engrossed:** Your conference committee (Sens. Carlisle, Wanzek, Robinson and Reps. Thoreson, Vigesaa, Hogan) recommends that the **HOUSE ACCEDE** to the Senate amendments as printed on HJ pages 1414-1415 and place HB 1008 on the Seventh order.

Engrossed HB 1008 was placed on the Seventh order of business on the calendar.

**2015 TESTIMONY**

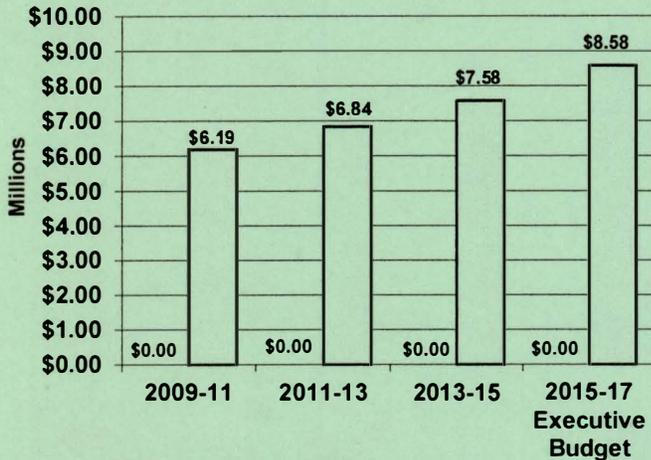
**HB 1008**

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

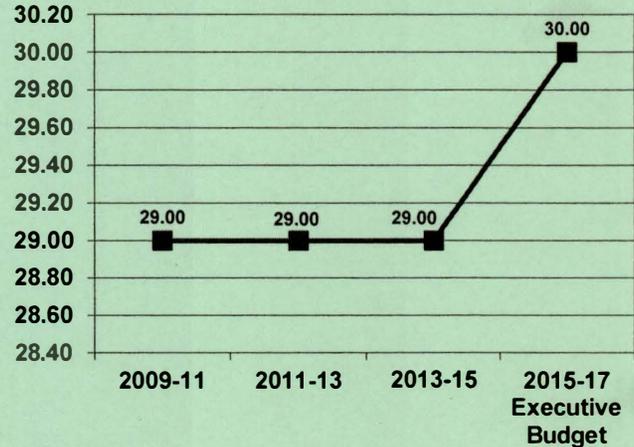
**Executive Budget Comparison to Prior Biennium Appropriations**

	FTE Positions	General Fund	Other Funds	Total
2015-17 Executive Budget	30.00	\$0	\$8,579,908	\$8,579,908
2013-15 Legislative Appropriations	29.00	0	7,580,217	7,580,217
Increase (Decrease)	1.00	\$0	\$999,691	\$999,691

**Agency Funding**



**FTE Positions**



**Executive Budget Comparison to Base Level**

	General Fund	Other Funds	Total
2015-17 Executive Budget	\$0	\$8,579,908	\$8,579,908
2015-17 Base Level	0	7,580,217	7,580,217
Increase (Decrease)	\$0	\$999,691	\$999,691

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

**Executive Budget Highlights**

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases of which \$334,903 relates to performance increases, \$48,934 is for market equity adjustments, \$129,535 is for health insurance increases, and \$34,697 is for retirement contribution increases	\$0	\$548,069	\$548,069
2. Adds funding for a new FTE credit union examiner position of which \$187,489 is for salaries and wages and \$30,600 is for operating expenses	\$0	\$218,089	\$218,089
3. Increases funding for operating expenses	\$0	\$37,207	\$37,207

**Continuing Appropriations**

No continuing appropriations for this agency.

**Significant Audit Findings**

There are no significant audit findings for this agency.

**Major Related Legislation**

**House Bill No. 1053 - Desktop support services** - Requires select agencies to use centralized desktop support services provided by the Information Technology Department.

**Senate Bill No. 2084 - Examination authority** - Expands the authority of the Department of Financial Institutions to investigate a bank holding company that owns or controls a North Dakota chartered financial institution and may pursue and impose penalties. Expands the authority of the department to examine the books and records of any technology service

provider that provides services to financial corporations and financial institutions under the commissioner's supervision. Expands the authority of the department to conduct multiple visitations, inspections, or examinations of institutions under the department's authority if warranted and exempts acquisitions of voting securities of a North Dakota state chartered bank, if the acquiring person notifies the commissioner within the allotted time and provides all requested information.

**Department of Financial Institutions - Budget No. 413**  
**House Bill No. 1008**  
**Base Level Funding Changes**

	Executive Budget Recommendation			Total
	FTE Positions	General Fund	Other Funds	
<b>2015-17 Biennium Base Level</b>	29.00	\$0	\$7,580,217	\$7,580,217
<b>2015-17 Ongoing Funding Changes</b>				
Base payroll changes			\$196,326	\$196,326
Salary increase - Performance			334,903	334,903
Salary increase - Market equity			48,934	48,934
Retirement contribution increase			34,697	34,697
Health insurance increase			129,535	129,535
New FTE - Credit union examiner	1.00		218,089	218,089
Operating expenses			37,207	37,207
<b>Total ongoing funding changes</b>	<b>1.00</b>	<b>\$0</b>	<b>\$999,691</b>	<b>\$999,691</b>
<b>One-time funding items</b>				
No executive recommendation of one-time items				\$0
<b>Total one-time funding changes</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Changes to Base Level Funding</b>	<b>1.00</b>	<b>\$0</b>	<b>\$999,691</b>	<b>\$999,691</b>
<b>2015-17 Total Funding</b>	<b>30.00</b>	<b>\$0</b>	<b>\$8,579,908</b>	<b>\$8,579,908</b>

**DATE:** January 12, 2015  
**TO:** House Appropriations Committee-  
Government Operations Division  
**FROM:** Robert J. Entringer, Commissioner  
**SUBJECT:** Testimony in Support of HB No. 1008

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Chairman Thoreson and members of the House Government Operations Committee, thank you for the opportunity to provide testimony regarding the Department of Financial Institutions Appropriations request, HB 1008, for the 2015-2017 biennium.

As you know Mr. Chairman we were asked to include certain information in our presentation to the Committee and so I would like to begin my testimony with the requested information:

- **Any financial audit findings included in the most recent audit of your department or institution and action taken to address each finding.**

The Department's audit was for the two year period ending June 30, 2012. The audit did not include any audit findings or formal recommendations; however, the Management Letter did include four informal recommendations which were all single occurrences. Nevertheless processes and procedures to address the recommendations were implemented.

- **The major components making up the "base level" amounts for your department or institution.**

1. Salaries/wages and accrued leave payments make up 79% of the Department budget; the Department is fully staffed with 29 FTEs, all of whom are salaried.
2. Operating Expenses comprise approximately 19% of the Base Level Budget; major components of operating expenses representing 74% of the line item include:
  - a. Travel: \$504,920 or 35% of operating;
  - b. Office leases: \$204,000 or 14% of operating;
  - c. Professional Development: \$189,800 or 13% of operating;
  - d. IT Data Processing: \$169,000 or 12% of operating.
3. Contingency makes up the remainder of the Base Level of the budget; the major component of this line item (\$136,000) was for upgrading our internal database in order to download data from the Nationwide Mortgage Licensing System or NMLS.

- **Major ongoing funding increases or decreases approved by the 2011 or 2013 Legislative Assemblies for your department or institution.**

None.

- **Estimated 2013-15 biennium spending compared to 2013-15 appropriations by line item, including amounts spent to date and anticipated spending for the biennium, explaining any major variances to appropriated amounts.**

Line Item	Base Level	Expended	Anticipated	Variance
Salaries	\$5,874,989	\$3,865,299	\$5,616,620	(\$258,369)
Acc. Leave	\$120,783	\$21,489	\$21,489	(\$99,294)
Operating	\$1,428,445	\$820,949	\$1,210,830	(\$217,615)
Contingency	\$156,000	\$13,278	\$18,000	(\$138,000)

The variance with respect to salaries is due to a combination of turnover, which leaves the position vacant for a period of months

during the hiring process, and filling the vacancy with an employee at the entry level wage. In addition, this biennium we had a few employees who did not progress at the pace we had projected, resulting in slower promotions.

The accrued leave payments variance results from only one retirement among those eligible retire; the remainder of the payments were to six employees who left state employment and were paid for accrued annual and, if eligible, 10% of accrued sick leave. As I will discuss later, our turnover ratio has unfortunately been quite high this biennium.

The variance with respect to the operating line item is due to reduced travel and associated expenses resulting from less than projected out-of-state travel to conduct consumer company examinations; less than projected professional development expenses due in part to staff turnover and progression; less than projected building lease fee increases, and legal expenses less than projected.

The contingency variance is due to the decision not to proceed with an upgrade to the internal database to download data from the NMLS as anticipated. This decision accounts for approximately \$130,000 of the variance.

- **2015-17 requested budget changes to the "base level" listed in priority order for both ongoing and one-time items with explanations and justification for each change being requested.**

Line Item	Base Level	Adjustments	Appropriation
Salaries	\$5,874,989	\$1,052,667	\$6,927,656
Operating	\$1,428,445	\$146,807	\$1,575,252
Contingency	\$156,000	(\$79,000)	\$77,000
Total	\$7,580,217	\$999,691	\$8,579,908
FTE	29.00	1.00	30.00

**1<sup>st</sup> Priority:** The salaries line item is calculated based on current staffing and includes projected promotions and raises for each examiner eligible to be promoted and performance raises for those examiners who have reached the highest grade level achievable and

thus are not eligible for promotion. This is vitally important because the entities which we regulate want to “see the same faces” from examination to examination as it improves the process and the quality of the examination. As I mentioned earlier, we have experienced a 24% turnover ratio so far in the biennium. Among those employees who have left, four left to go to work for a financial institution (two in-state and two out-of-state), one went to work for another state agency, one retired and one was terminated. In spite of the rate of turnover our department has been fully staffed as of July 1, 2014. Since the entities we regulate are getting increasingly complex and continue to grow in size, it is critical we maintain well-trained and experienced staff to provide quality examinations.

**2<sup>nd</sup> Priority:** An additional FTE for the Credit Union division. This is included as an optional package but is incorporated in the salary and operating line items. This request has been considered by the State Credit Union Board and they have indicated their support for this position as has the Credit Union Association of the Dakotas. When comparing the number of examinations and total assets per examiner it became apparent that without an additional FTE we were going to need to cut back in areas which was not advantageous to the credit unions being regulated. Specifically, the areas where we would need to cut back would be annual examinations of the large credit unions and examiner participation in work groups and committees at the national level. As a result of these cutbacks, the National Credit Union Association (“NCUA”), the Federal agency which insures North Dakota credit unions, would be the sole examination agency every other year and our State would lose some of its ability to have a voice relating to examination concerns and to have a voice in federal rulemaking and regulation.

**3<sup>rd</sup> Priority:** Included in the operating line is approximately \$84,000 for IT Equipment under \$5,000; this is allocated to purchase new computers for all staff, and several portable printers, scanners and monitors for field examination staff. This is part of our 4-year replacement routine and represents nearly 50% of the increase in the operating line item.

**4<sup>th</sup> Priority:** Included in the Contingency line item is \$57,000 we have budgeted for possible moving expenses for our main office in

Bismarck. The building we are presently located in has been sold and at this point in time we have not been notified if our lease, (which expires June 30, 2015) will be renewed or if we will need to relocate.

- **Any known or potential changes in the level of federal funding to be received by your department or institution and your department's or institution's plan to address the changes.**

The Department does not receive any federal funding.

### ***DEPARTMENT SUPERVISORY AUTHORITY***

The Department of Financial Institutions supervises state-chartered banks, credit unions, trust companies, and other financial corporations which include: collection agencies, money brokers, deferred presentment service providers (payday lenders), money transmitters, 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) 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. The State Banking Board and State Credit Union Board are given the authority to set the assessment formula to cover the examination and allocated overhead costs for the respective industry. In

addition, trust companies pay examination fees for their safety and soundness examinations; by statute the commissioner sets the examination fee at an amount sufficient to recover all costs including salaries and benefits, and travel costs (mileage, meals and hotel expenses). Consumer licensees pay the following fees for the processing and supervisory responsibilities related to the consumer cost center: investigation fees upon initial licensing, annual license fees, and examination fees when an examination is performed. Again, the examination fee is set by the commissioner at an amount sufficient to recover all costs including salaries and benefits, and travel costs.

### **State-Chartered Banks**

Currently, there are 74 state-chartered banks, plus the Bank of North Dakota, which compares with 75 state-chartered banks two years ago. The number of banks has remained relatively stable over the past several years although we continue to see merger and consolidation activity, including two mergers which have been approved but are pending at this time. While we have continued to see a reduction in the total number of banks over the past decade, total assets have continued to grow, evidenced by the 23% increase from \$14.977 billion on September 30, 2012 to \$18.429 billion on September 30, 2014. The continued increase in the asset base

correspondingly increases the Department's responsibilities and time needed to conduct examinations. As the asset base increases, overall loan volume continues to grow and places additional time constraints on examiners; loan review and analysis is one of the primary areas of emphasis during a bank examination. Not only has loan volume grown, but many of the commercial loans we review are becoming increasingly complex. The Department has 16 field bank examiners who conduct examinations throughout the State of North Dakota, and 3 field office locations: Grand Forks, Fargo, and Bismarck.

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

Currently, there are 21 state-chartered credit unions compared to 23 two years ago. Credit unions also continue to show asset growth, with total assets increasing from \$2.376 billion on September 30, 2012, to \$2.802 billion as of September 30, 2014, representing a 17.9% increase. Again, asset growth translates into increased loan volume thereby putting time constraints on our credit union examiners. The credit union division has two examiners and a Chief Examiner to conduct the examinations of state-chartered credit unions.

As mentioned earlier the Department is requesting an additional FTE for the credit union division. While the Department has been able to meet its

mission with respect to credit union examinations, it is becoming increasingly difficult. Oil and agricultural related economic growth coupled with the increased complexity of both the regulatory environment and the institutions we regulate it has strained our ability to maintain the required examination cycle.

To put the growth into perspective, we did an analysis of industry data over a 10 year time horizon. During that time, the number of FTEs dedicated to credit union examinations has not changed; however, assets regulated have increased 124%. Agricultural and commercial loans have increased 221% over the same time horizon which has had a dramatic impact on the examination process as these credits take longer to review. While there are fewer credit unions today there has actually been a net gain in branch locations of 14%.

In an effort to try and assess the Department's workload, comparisons were made to other state credit union regulators and to the industry itself. The average state credit union regulatory agency has total of \$953 million in assets per examiner and 5.5 credit unions per examiner. Our Department has \$1.35 billion in assets per examiner and 10.5 credit unions per examiner. The composition of these assets regulated is as follows: 37.08% are net member business loans compared to a 5.29% average in other states. I

would point out again that agricultural and commercial loans are more time consuming to evaluate due to their complexity. In 2013, the Department conducted 9 examinations per examiner vs. the industry average of 4. Finally, to administer the increased assets, the industry itself has increased the number of FTEs by 45% over the 10 year time horizon, while the department staffing has remained constant.

Given the above analysis of credit union growth and increased complexity, two things are clear to us; there has been an increased examiner workload and a need for additional staffing.

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

There are currently four state-chartered independent trust companies for which the Department has oversight responsibility, which is up one from the previous biennium; we also continue to have 11 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 as of September 30, 2014 of the four independent trust companies was \$44.515 billion which compares to \$32.850 billion as of September 30, 2012; this represents nearly a 35.5% increase and is due primarily to our largest independent trust company. As of December 31, 2013 the banks with trust powers had combined fiduciary

assets of \$5.656 billion, compared to \$3.748 billion on December 31, 2010. Currently, the Department has 2 examiners trained in the area of trust company/trust department examinations.

### **Consumer Licenses**

As of January 6, 2015 the consumer division has active license totaling a combined 2,557 entities including collection agencies, money brokers, mortgage loan originators, deferred presentment service providers (payday lenders), and money transmitters. The breakdown of the licensees includes 1,600 mortgage loan originators, for which we are responsible to track the pre-licensing and continuing education requirements. The remaining 957 consumer licensees represent: 495 collection agencies, 47 deferred presentment service providers (payday lenders), 349 money brokers (primarily mortgage lenders), 65 money transmitters, and 1 debt settlement service provider. Our consumer division conducts examinations of the various entities we license, and also engages in a number of investigations based on information received by way of complaints and communication with other states.

## **Department Accreditation**

One area that I would like to bring to your attention is the Accreditation that the Department has achieved and maintained over the years.

The accreditation program involves a comprehensive review of the critical elements that assure the ability of our department to discharge its responsibilities through an investigation of our administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers.

Our Banking Division first applied for accreditation from the Conference of State Bank Supervisors in 1992 and became the 27<sup>th</sup> state to achieve accreditation of the Banking Division on December 16, 1992. Every five years the Department has to seek reaccreditation with the last reaccreditation occurring in July of 2013. I am extremely proud to report to you that our staff achieved a score of 92.9% on our application, the highest score ever achieved by the Department.

As noted above one of the areas reviewed during the accreditation process is personnel policies and procedures. The 2013 review noted our turnover ratio over the last 3 years averaged 19.2%. The review noted our salaries were comparable to adjacent states but “fall short of federal

regulators.” The review team further suggested that “salaries be further reviewed and adjusted to be comparable to the federal level.”

The remaining suggestions from the review team were legislative or internal policy related.

Additionally, our Credit Union Division has been accredited by the National Association of State Credit Union Supervisors since 2000. The Department has achieved reaccreditation most recently in October 2010 and we are up for reaccreditation later this year. Similar to the bank side, we are subject to a comprehensive review of the areas referred to earlier.

The review team suggestions from the 2010 reaccreditation evaluation primarily dealt with legislative and internal monitoring.

I would also like to point out that the Department will be seeking accreditation in our mortgage area in 2015 from the American Association of Residential Mortgage Regulators and the Conference of State Bank Supervisors. The process will involve an in depth investigation of the same general areas as noted above.

Mr. Chairman we have found that the stated goal of these accreditation processes, “supporting public interest goals by identifying highly competent state banking departments and state mortgage agencies thereby strengthening the capabilities of all state regulators”, has proven to

be very beneficial for our department. In addition it tells our federal counterparts that we have met the highest standards and that our examination and supervision processes are at least equivalent to theirs.

Mr. Chairman and members of the Committee this concludes my testimony. Thank you for your time and I am happy to answer any questions you may have.

15.8026.01000

Sixty-fourth  
Legislative Assembly  
of North Dakota

HOUSE BILL NO. 1101

Introduced by

Industry, Business and Labor Committee

(At the request of the Department of Financial Institutions)

1 A BILL for an Act to create and enact sections 13-04.1-18, 13-08-16, and 13-11-31 of the North  
2 Dakota Century Code, relating to the customer information of money brokers, deferred  
3 presentment service providers, and debt-settlement providers; and to amend and reenact  
4 sections 13-04.1-02.1, 13-04.1-04, 13-04.1-15, 13-05-04, 13-05-05.1, 13-09-03, and 13-09-07.1  
5 of the North Dakota Century Code, relating to money broker licensing requirements and fees,  
6 collection agency licensing requirements and fees, and money transmitter licensing  
7 requirements.

8 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

9 **SECTION 1. AMENDMENT.** Section 13-04.1-02.1 of the North Dakota Century Code is  
10 amended and reenacted as follows:

11 **13-04.1-02.1. Entities exempted from licensing requirements.**

12 This chapter does not apply to:

- 13 1. Banks;
- 14 2. Credit unions;
- 15 3. Savings and loan associations;
- 16 4. Insurance companies;
- 17 5. Individuals licensed under chapter 13-10;
- 18 6. State or federal agencies and their employees;
- 19 7. Institutions chartered by the farm credit administration;
- 20 8. Trust companies;
- 21 9. Any other person or business regulated and licensed to lend money by the state of  
22 North Dakota;

1       10.   A real estate broker, broker, or a real estate salesperson as defined in section  
2           43-23-06.1 in the brokering of loans to assist a person in obtaining financing for real  
3           estate sold by the real estate broker, broker, or real estate salesperson; or

4       11.   Any person, retail seller, or manufacturer providing lease financing for its own property  
5           or inventory held as a normal course of business, or to leases on any real property.

6       **SECTION 2. AMENDMENT.** Section 13-04.1-04 of the North Dakota Century Code is  
7 amended and reenacted as follows:

8       **13-04.1-04. Fee to accompany application for money broker license.**

9       The application for license must be in writing, under oath, and in the form prescribed by the  
10 commissioner. The application must give the location where the business is to be conducted  
11 and must contain any further information the commissioner requires, including the names and  
12 addresses of the partners, officers, directors, trustees, and the principal owners or members, as  
13 will provide the basis for the investigation and findings contemplated by section 13-04.1-03. At  
14 the time of making such application, the applicant shall include payment in the sum of four  
15 hundred dollars, which is not subject to refund, as a fee for investigating the application, and the  
16 sum of four hundred dollars for the annual license fee. In addition, the applicant must pay a fifty  
17 dollar annual fee for each branch location ~~within the state~~. Fees must be deposited in the  
18 financial institutions regulatory fund.

19       **SECTION 3. AMENDMENT.** Section 13-04.1-15 of the North Dakota Century Code is  
20 amended and reenacted as follows:

21       **13-04.1-15. Change of name or address.**

22       A licensee is required to submit within twenty business days of the date of change  
23 notification of a change of name or change of address. The notification must be in the form  
24 prescribed by the commissioner. ~~In addition, the licensee shall submit the original license~~  
25 ~~certificate for reissue.~~

26       **SECTION 4.** Section 13-04.1-18 of the North Dakota Century Code is created and enacted  
27 as follows:

28       **13-04.1-18. Disclosure of customer information.**

29       Except for provisions of chapter 6-08.1 which are inconsistent with this chapter, chapter  
30 6-08.1 applies to all money brokers licensed under this chapter.

1       **SECTION 5. AMENDMENT.** Section 13-05-04 of the North Dakota Century Code is  
2 amended and reenacted as follows:

3       **13-05-04. Application requirements - Fee to accompany application for collection**  
4 **agency license.**

5       The application for a collection agency license must be in writing, under oath, and in the  
6 form prescribed by the commissioner. The application must give the location where the  
7 business is to be conducted and must contain any further information the commissioner  
8 requires, including the names and addresses of the partners, officers, directors, trustees, and  
9 the principal owners or members as will provide the basis for the investigation and findings  
10 contemplated by section 13-05-03. At the time of making such application, the applicant shall  
11 include payment in the sum of four hundred dollars, which is not subject to refund, as a fee for  
12 investigating the application, and the sum of ~~three~~four hundred dollars for the annual license. In  
13 addition, the applicant shall pay a fifty dollar annual fee for each branch location. Fees must be  
14 deposited in the financial institutions regulatory fund.

15       **SECTION 6. AMENDMENT.** Section 13-05-05.1 of the North Dakota Century Code is  
16 amended and reenacted as follows:

17       **13-05-05.1. Change of name or address.**

18       A licensee is required to submit within twenty business days of the date of change,  
19 notification of a change of name or change of address. The notification must be in the form  
20 prescribed by the commissioner. ~~In addition, the licensee shall submit the original license~~  
21 ~~certificate for reissue.~~

22       **SECTION 7.** Section 13-08-16 of the North Dakota Century Code is created and enacted as  
23 follows:

24       **13-08-16. Disclosure of customer information.**

25       Except for provisions of chapter 6-08.1 which are inconsistent with this chapter, chapter  
26 6-08.1 applies to all persons licensed under this chapter.

27       **SECTION 8. AMENDMENT.** Section 13-09-03 of the North Dakota Century Code is  
28 amended and reenacted as follows:

29       **13-09-03. Exclusions.**

30       This chapter does not apply to:

31       1. The United States or any department, agency, or instrumentality thereof;

- 1        2. The United States post office;
- 2        3. The state or any political subdivisions thereof;
- 3        4. Banks, bank holding companies, credit unions, building and loan associations, savings
- 4            and loan associations, or savings banks or mutual banks organized under the laws of
- 5            any state or the United States, ~~provided that they do not issue or sell payment~~
- 6            ~~instruments through authorized delegates who are not banks, bank holding~~
- 7            ~~companies, credit unions, building and loan associations, savings and loan~~
- 8            ~~associations, savings banks, or mutual banks~~ but this exemption does not extend to
- 9            any other person acting on behalf of any such excluded entity;
- 10       5. The provision of electronic transfer of government benefits for any federal, state, or
- 11            county governmental agency as defined in federal reserve board regulation E, by a
- 12            contractor for and on behalf of the United States or any department, agency, or
- 13            instrumentality thereof, or any state or any political subdivisions thereof; and
- 14       6. Authorized delegates of a licensee, acting within the scope of authority conferred by a
- 15            written contract as described in section 13-09-15.

16        **SECTION 9. AMENDMENT.** Section 13-09-07.1 of the North Dakota Century Code is  
17 amended and reenacted as follows:

18        **13-09-07.1. Change of name or address.**

19        A licensee is required to submit within twenty business days of the date of change  
20 notification of a change of name or change of address. The notification must be in the form  
21 prescribed by the commissioner. ~~In addition, the licensee shall submit the original license~~  
22 ~~certificate for reissue.~~

23        **SECTION 10.** Section 13-11-31 of the North Dakota Century Code is created and enacted  
24 as follows:

25        **13-11-31. Disclosure of customer information.**

26        Except for provisions of chapter 6-08.1 which are inconsistent with this chapter, chapter  
27 6-08.1 applies to all debt-settlement providers licensed under this chapter.

**Department of Financial Institutions - Budget No. 413**  
**House Bill No. 1008**  
**Base Level Funding Changes**

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2015-17 Biennium Base Level</b>	29.00	\$0	\$7,580,217	\$7,580,217	29.00	\$0	\$7,580,217	\$7,580,217
<b>2015-17 Ongoing Funding Changes</b>								
Base payroll changes			\$196,326	\$196,326				\$0
Salary increase - Performance			334,903	334,903				0
Salary increase - Market equity			48,934	48,934				0
Retirement contribution increase			34,697	34,697				0
Health insurance increase			129,535	129,535				0
New FTE - Credit union examiner	1.00		218,089	218,089				0
Operating expenses			37,207	37,207				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
<b>Total ongoing funding changes</b>	<b>1.00</b>	<b>\$0</b>	<b>\$999,691</b>	<b>\$999,691</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>One-time funding items</b>								
No executive recommendation of one-time items				\$0				\$0
Other one-time funding item				0				0
Other one-time funding item				0				0
Other one-time funding item				0				0
Other one-time funding item				0				0
<b>Total one-time funding changes</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Changes to Base Level Funding</b>	<b>1.00</b>	<b>\$0</b>	<b>\$999,691</b>	<b>\$999,691</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>2015-17 Total Funding</b>	<b>30.00</b>	<b>\$0</b>	<b>\$8,579,908</b>	<b>\$8,579,908</b>	<b>29.00</b>	<b>\$0</b>	<b>\$7,580,217</b>	<b>\$7,580,217</b>

Other Sections in House Bill No. 1008

Executive Budget Recommendation

House Version

Department of Financial Institutions - Budget No. 413

February 12th, 2015

House Bill No. 1008

Base Level Funding Changes

	Executive Budget Recommendation				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2015-17 Biennium Base Level</b>	29.00	\$0	\$7,580,217	\$7,580,217	29.00	\$0	\$7,580,217	\$7,580,217
<b>2015-17 Ongoing Funding Changes</b>								
Base payroll changes			\$196,326	\$196,326			\$196,326	\$196,326
Salary increase - Performance			334,903	334,903			<u>243,223</u>	<u>243,223</u>
Salary increase - Market equity			48,934	48,934				0
Retirement contribution increase			34,697	34,697				0
Health insurance increase			129,535	129,535			<u>125,217</u>	<u>125,217</u>
New FTE - Credit union examiner	1.00		218,089	218,089				0
Operating expenses			37,207	37,207			37,207	37,207
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Other change				0				0
Total ongoing funding changes	1.00	\$0	\$999,691	\$999,691	0.00	\$0	\$601,973	\$601,973
<b>One-time funding items</b>								
No executive recommendation of one-time items				\$0				\$0
Other one-time funding item				0				0
Other one-time funding item				0				0
Other one-time funding item				0				0
Other one-time funding item				0				0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	1.00	\$0	\$999,691	\$999,691	0.00	\$0	\$601,973	\$601,973
<b>2015-17 Total Funding</b>	30.00	\$0	\$8,579,908	\$8,579,908	29.00	\$0	\$8,182,190	\$8,182,190

Other Sections in House Bill No. 1008

Executive Budget Recommendation

House Version

HB 1008  
2-17-15  
Handout #1



State of North Dakota

DEPARTMENT of FINANCIAL INSTITUTIONS

Robert J. Entringer  
Commissioner

Aaron K. Webb  
Assistant Commissioner

I. Lise Kruse  
Chief Examiner - Banks

Corey J. Krebs  
Chief Examiner - Credit Unions

HB 1008  
3-6-2015  
#1

CSBS ACCREDITED 1993  
NASCUS ACCREDITED 2000

DATE: March 6, 2015  
TO: Senate Appropriations Committee  
FROM: Robert J. Entringer, Commissioner  
SUBJECT: Testimony in Support of Engrossed HB No. 1008

Chairman Holmberg and members of the Senate Appropriations Committee, thank you for the opportunity to provide testimony regarding the Department of Financial Institutions Appropriations request for the 2015-2017 biennium, Engrossed HB 1008.

As you know Mr. Chairman we were asked to include certain information in our presentation to the Committee and so I would like to begin my testimony with the requested information:

**2013-2015 Budget**

Line Item	Base Budget	Est. Spending	Variance
Salaries	\$5,874,989	\$5,616,620	(\$258,369)
Acc. Leave	\$120,783	\$54,212	(\$66,571)
Operating	\$1,428,445	\$1,210,830	(\$217,615)
Contingency	\$156,000	\$18,000	(\$138,000)

The variance with respect to salaries is due to a combination of turnover, which leaves the position vacant for a period of months during the hiring process, and filling the vacancy with an employee at the entry level wage. In addition, this biennium we had a few employees who did not progress at the pace we had projected, resulting in slower promotions.

The accrued leave payments variance results from only one retirement among those eligible to retire; the remainder of the payments were to nine employees who left our employment and were paid for accrued annual and, if eligible, 10% of accrued sick leave. As I will discuss later, our turnover ratio has unfortunately been quite high this biennium.

The variance with respect to the operating line item is due to reduced travel and associated expenses resulting from less than projected out-of-state travel to conduct consumer company examinations; less than projected professional development expenses due in part to staff turnover and progression; less than projected building lease fee increases, and legal expenses less than projected.

The contingency variance is due to the decision not to proceed with an upgrade to the internal database to download data from the NMLS as anticipated. This decision accounts for approximately \$130,000 of the variance.

- **The major components of the "base level" budget.**

1. Salaries/wages and accrued leave payments make up 79% of the Department budget.
2. Operating Expenses comprise approximately 19% of the Base Level Budget; major components of operating expenses representing 74% of the line item include:
  - a. Travel: \$504,920 or 35% of operating;
  - b. Office leases: \$204,000 or 14% of operating;
  - c. Professional Development: \$189,800 or 13% of operating;
  - d. IT Data Processing: \$169,000 or 12% of operating.
3. Contingency makes up the remainder of the Base Level of the budget; the major component of this line item (\$136,000) was for upgrading our internal database in order to download data from the Nationwide Mortgage Licensing System or NMLS.

## 2015-2017 Budget Request

Line Item	Executive Budget	House Version	Change
Salaries	\$6,927,656	\$6,560,538	(\$367,118)
Operating	\$1,575,252	\$1,544,652	(\$30,600)
Contingency	\$77,000	\$77,000	\$0
Total	\$8,579,908	\$8,182,190	(\$397,718)
FTE	30.00	29.00	(1.00)

**1<sup>st</sup> Priority:** The salaries line item is calculated based on current staffing and includes projected promotions and raises for each examiner eligible to be promoted and performance raises for those examiners who have reached the highest grade level achievable and thus are not eligible for promotion. This is vitally important because the entities which we regulate want to “see the same faces” from examination to examination as it improves the process and the quality of the examination. As I mentioned earlier, we have experienced a 31% turnover ratio so far in the biennium. Among those employees who have left, six left to go to work for a financial institution (four in-state and two out-of-state), one went to work for another state agency, one retired and two were terminated. Since the entities we regulate are getting increasingly complex and continue to grow in size, it is critical we maintain well-trained and experienced staff to provide quality examinations.

**2<sup>nd</sup> Priority:** An additional FTE for the Credit Union division. This was included as an optional package and incorporated in the Executive Recommendation in the salary and operating line items; however, as you know the House Appropriations removed the FTE and associated expenditures from the appropriation request. The State Credit Union Board reviewed our proposal for an additional FTE and they indicated their support as has the Credit Union Association of the Dakotas. When comparing the number of examinations and total assets per examiner it became apparent that without an additional FTE we were going to need to cut back in areas, which was not advantageous to the credit unions being regulated. Specifically, the areas where we would need to cut back would be annual examinations of the large credit unions and examiner participation in work groups and committees at the national level. As a result, the National Credit

Union Association (“NCUA”), the Federal agency which insures North Dakota credit unions, would be the sole examination agency every other year and our ability to impact examination concerns would be diminished as would our ability influence federal rulemaking and policy prior to public comment period.

**3<sup>rd</sup> Priority:** Included in the operating line is approximately \$84,000 for IT Equipment under \$5,000; this is allocated to purchase new computers for all staff, as well as several portable printers, scanners and monitors for field examination staff. This is part of our 4-year replacement routine and represents nearly 50% of the increase in the operating line item.

**4<sup>th</sup> Priority:** Included in the Contingency line item is \$57,000 we have budgeted for possible moving expenses for our main office in Bismarck. The building we are presently located in has been sold our existing lease expires June 30, 2015. We are in negotiations for a new 2 year lease and are hopeful we will come to an agreement; however, even if we negotiate a new 2 year lease it is still possible we would need to relocate in June 2017.

**Major Variances**

**Base Level to Executive Recommendation:**

Salaries	\$196,300	Base Payroll Changes
	\$548,000	Executive Budget recommended salary and benefit increases
	\$187,500	Salary and benefits new FTE
Operating	\$84,000	Purchase new computers
	\$30,600	Travel and other expenses related to the new FTE
Contingency	(\$77,000)	One time software update and expenses related to moving the main office

With respect to salaries and benefits the increase in base payroll relates to promotions and performance increases for those employees not eligible for promotions. The executive budget recommended salary and benefit increases is self-explanatory. The Salary and

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benefits for the new FTE were included in the Executive Budget recommendation.

The operating variances relate to purchase of new computers which is part of our normal 4 year replacement plan. The majority of the expenses related to the new FTE are travel expenses, including mileage, hotel and per diem expenses.

The contingency variance relates to a one-time expense of \$136,000 for the update of software to enable a download of data from the Nationwide Mortgage Licensing System; the department opted not to continue with the download and so approximately \$131,000 will not be spent in this regard. The department did include \$57,000 in the contingency line item for expenses related to possible relocation and increased lease costs. As mentioned above we are in negotiations for a renewed lease with our new landlord; however, it is possible that we may need to relocate if we do not come to terms or at the end of the renewed lease in June 2017.

**Executive Recommendation to House Version**

	Executive Recommendation				House Version				Change			
	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds	FTE	General Fund	Other Funds	Total Funds
<b>Ongoing</b>												
New credit union examiner	1.00		218,089	218,089				0	(1.00)	0	(218,089)	(218,089)
Compensation Package			499,135	499,135			368,440	368,440	0.00	0	(130,695)	(130,695)
Market Increase			48,934	48,934				0	0.00	0	(48,934)	(48,934)
<b>Total Ongoing</b>	<b>1.00</b>	<b>0</b>	<b>766,158</b>	<b>766,158</b>	<b>0.00</b>	<b>0</b>	<b>368,440</b>	<b>368,440</b>	<b>(1.00)</b>	<b>0</b>	<b>(397,718)</b>	<b>(397,718)</b>
<b>One-Time</b>												
			0	0		0	0	0		0	0	0
<b>Total One-Time</b>		<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Budget Changes</b>		<b>0</b>	<b>766,158</b>	<b>766,158</b>		<b>0</b>	<b>368,440</b>	<b>368,440</b>		<b>0</b>	<b>(397,718)</b>	<b>(397,718)</b>

The above table explains fairly clearly the variance from the Executive Budget Recommendation to the Engrossed Bill. The FTE and the associated travel and operating expenses were eliminated; the compensation package was changed to decrease the performance salary increase to a “3 and 3”, and the retirement increase and market equity increase were removed.

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**Any known or potential changes in the level of federal funding to be received by your department or institution and your department's or institution's plan to address the changes.**

The Department does not receive any federal funding.

***DEPARTMENT SUPERVISORY AUTHORITY***

The Department of Financial Institutions supervises state-chartered banks, credit unions, trust companies, and other financial corporations which include: collection agencies, money brokers, deferred presentment service providers (payday lenders), money transmitters, 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) 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. The State Banking Board and State Credit Union Board are given the authority to set the assessment formula to cover the examination and allocated overhead costs for the respective industry. In addition, trust companies pay examination fees for their safety and soundness examinations; by statute the commissioner sets the examination fee at an amount sufficient to recover all costs including salaries and benefits, and travel costs (mileage, meals and hotel expenses). Consumer licensees pay the following fees for the processing and supervisory responsibilities related to the consumer cost center: investigation fees upon initial licensing, annual license fees, and examination fees when an examination is performed. Again, the examination fee is set by the commissioner at an amount sufficient to recover all costs including salaries and benefits, and travel costs.

**State-Chartered Banks**

Currently, there are 73 state-chartered banks, plus the Bank of North Dakota, which compares with 75 state-chartered banks two years ago. The number of banks has remained relatively stable over the past several years

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although we continue to see merger and consolidation activity, including an approved merger of three banks into one charter which should be accomplished this month, and two merger applications currently pending action by the state banking board this month. These mergers and potential mergers will reduce the number of state charters to 70 state-chartered and 9 national banks by the end of April. While we have continued to see a reduction in the total number of banks over the past decade, total assets have continued to grow, evidenced by the 23% increase from \$14.977 billion on September 30, 2012 to \$18.429 billion on September 30, 2014. The continued increase in the asset base correspondingly increases the Department's responsibilities and time needed to conduct examinations. As the asset base increases, overall loan volume continues to grow and places additional time constraints on examiners; loan review and analysis is one of the primary areas of emphasis during a bank examination. Not only has loan volume grown, but many of the commercial loans we review are becoming increasingly complex. The Department has 16 field bank examiners who conduct examinations throughout the State of North Dakota, and 3 field office locations: Grand Forks, Fargo, and Bismarck.

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

Currently, there are 21 state-chartered credit unions compared to 23 two years ago. Credit unions also continue to show asset growth, with total assets increasing from \$2.376 billion on September 30, 2012, to \$2.802 billion as of September 30, 2014, representing a 17.9% increase. Again, asset growth translates into increased loan volume thereby putting time constraints on our credit union examiners. The credit union division has two examiners and a Chief Examiner to conduct the examinations of state-chartered credit unions.

As mentioned earlier the Department is requesting an additional FTE for the credit union division. While the Department has been able to meet its mission with respect to credit union examinations, it is becoming increasingly difficult. Oil and agricultural related economic growth coupled with the increased complexity of both the regulatory environment and the institutions we regulate it has strained our ability to maintain the required examination cycle.

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To put the growth into perspective, we did an analysis of industry data over a 10 year time horizon. During that time, the number of FTEs dedicated to credit union examinations has not changed; however, assets regulated have increased 124%. Agricultural and commercial loans have increased 221% over the same time horizon which has had a dramatic impact on the examination process as these credits take longer to review. While there are fewer credit unions today there has actually been a net gain in branch locations of 14%.

In an effort to try and assess the Department's workload, comparisons were made to other state credit union regulators and to the industry itself. The average state credit union regulatory agency has total of \$953 million in assets per examiner and 5.5 credit unions per examiner. Our Department has \$1.35 billion in assets per examiner and 10.5 credit unions per examiner. The composition of these assets regulated is as follows: 37.08% are net member business loans compared to a 5.29% average in other states. I would point out again that agricultural and commercial loans are more time consuming to evaluate due to their complexity. In 2013, the Department conducted 9 examinations per examiner vs. the industry average of 4. Finally, to administer the increased assets, the industry itself has increased the number of FTEs by 45% over the 10 year time horizon, while the department staffing has remained constant.

Given the above analysis of credit union growth and increased complexity, two things are clear to us; there has been an increased examiner workload and a need for additional staffing.

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

There are currently four state-chartered independent trust companies for which the Department has oversight responsibility, which is up one from the previous biennium; we also continue to have 11 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 as of September 30, 2014 of the four independent trust companies was \$44.515 billion which compares to \$32.850 billion as of September 30, 2012; this represents nearly a 35.5% increase and is due primarily to our largest independent trust company. As of December 31, 2013 the banks with trust powers had combined fiduciary assets of \$5.656 billion, compared to \$3.748 billion on December 31, 2010.

Currently, the Department has 2 examiners trained in the area of trust company/trust department examinations.

### **Consumer Licenses**

As of January 6, 2015 the consumer division has active license totaling a combined 2,557 entities including collection agencies, money brokers, mortgage loan originators, deferred presentment service providers (payday lenders), and money transmitters. The breakdown of the licensees includes 1,600 mortgage loan originators, for which we are responsible to track the pre-licensing and continuing education requirements. The remaining 957 consumer licensees represent: 495 collection agencies, 47 deferred presentment service providers (payday lenders), 349 money brokers (primarily mortgage lenders), 65 money transmitters, and 1 debt settlement service provider. Our consumer division conducts examinations of the various entities we license, and also engages in a number of investigations based on information received by way of complaints and communication with other states.

### **Department Accreditation**

One area that I would like to bring to your attention is the Accreditation that the Department has achieved and maintained over the years.

The accreditation program involves a comprehensive review of the critical elements that assure the ability of our department to discharge its responsibilities through an investigation of our administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers.

Our Banking Division first applied for accreditation from the Conference of State Bank Supervisors in 1992 and became the 27<sup>th</sup> state to achieve accreditation of the Banking Division on December 16, 1992. Every five years the Department has to seek reaccreditation with the last reaccreditation occurring in July of 2013. I am extremely proud to report to you that our staff achieved a score of 92.9% on our application, the highest score ever achieved by the Department.

1.9

As noted above, one of the areas reviewed during the accreditation process is personnel policies and procedures. The 2013 review noted our turnover ratio over the last 3 years averaged 19.2%. The review noted our salaries were comparable to adjacent states but “fall short of federal regulators.” The review team further suggested that “salaries be further reviewed and adjusted to be comparable to the federal level.”

The remaining suggestions from the review team were legislative or internal policy related.

Additionally, our Credit Union Division has been accredited by the National Association of State Credit Union Supervisors since 2000. The Department has achieved reaccreditation most recently in October 2010 and we are up for reaccreditation later this year. Similar to the bank side, we are subject to a comprehensive review of the areas referred to earlier.

The review team suggestions from the 2010 reaccreditation evaluation primarily dealt with legislative and internal monitoring.

I would also like to point out that the Department will be seeking accreditation in our mortgage area in 2015 from the American Association of Residential Mortgage Regulators and the Conference of State Bank Supervisors. The process will involve an in depth investigation of the same general areas as noted above.

Mr. Chairman we have found that the stated goal of these accreditation processes, “supporting public interest goals by identifying highly competent state banking departments and state mortgage agencies thereby strengthening the capabilities of all state regulators”, has proven to be very beneficial for our department. In addition, it tells our federal counterparts that we have met the highest standards and that our examination and supervision processes are at least equivalent to theirs.

Mr. Chairman and members of the Committee this concludes my testimony. Thank you for your time and I am happy to answer any questions you may have.

HB 1008  
3-6-2015

#2

# TESTIMONY IN REGARDS TO HOUSE BILL NO. 1008

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JEFF OLSON, CREDIT UNION ASSOCIATION  
OF THE DAKOTAS

Mr. Chairman and Members of the Senate Appropriations Committee, I am Jeff Olson and I represent the Credit Union Association of the Dakotas. We represent 38 credit unions in North Dakota and over 213,000 credit union members. Includes 21 State Chartered Credit Unions and 95 Branches.

Familiarity and consistency are crucial to our state chartered credit unions in the examination process. More specifically, those factors are important in building a positive relationship with our regulator as well as for a credit union in achieving a positive examination outcome.

Because of our unique financial cooperative structure, credit unions are the most regulated entity in the financial service industry and that our credit unions understand that the department's challenges in keeping pace with the creeping complexities of new and ever-changing regulations is both operationally expensive and burdensome for the department. Specifically, North Dakota credit unions support strong but and fair safety and soundness regulation and supervision to protect the financial resources of credit the industry and their members.

As you know, the DFI is self funded, and our members fund their examinations and expenses. Given the economic and job environment here in North Dakota, the Department engaged our members and the potential costs

2.1

for the additional FTE/Examiner. Our members support the proposed additions and expansion as presented by Commissioner Entriger.

More importantly: If the appropriation is not approved, here are the ramifications for our members.

This plan is to cut back on the examination cycle and involvement in the rulemaking and development of examination procedures to correspond to current staffing levels. This includes:

- No planned change to the number of examiners or credit union assessment levels
- Would need to move to an every other year exam cycle for the credit unions \$250 million. NCUA will continue to examine these credit unions every year. The state will only attend every other examination. NCUA would be solely responsible for drafting findings, administrative actions, and examination reports when the Department is not participating.
- Considering amending the current rule for examination frequency from every 24 months to every 30 - 36 months. This would allow us to extend out the examination frequency on credit unions less than \$250 million if necessary.
- Limit involvement with follow up contacts where prudent
- Backing off involvement in the development of exam process and policy discussions with NCUA. Less time would be devoted to NCUA draft rules or examination process changes. Will also need to review the involvement on subcommittees.
- The above may create issues for the Department in relation to accredited status.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1008

Page 1, replace lines 11 through 16 with:

"Salaries and wages	\$5,874,989	\$862,201	\$6,737,190
Accrued leave payments	120,783	(120,783)	0
Operating expenses	1,428,445	146,807	1,575,252
Contingency	<u>156,000</u>	<u>(79,000)</u>	<u>77,000</u>
Total special funds	\$7,580,217	\$809,225	\$8,389,442
Full-time equivalent positions	29.00	1.00	30.00"

Renumber accordingly

**STATEMENT OF PURPOSE OF AMENDMENT:**

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$5,874,989	\$6,560,538	\$176,652	\$6,737,190
Operating expenses	1,428,445	1,544,652	30,600	1,575,252
Contingency	156,000	77,000		77,000
Accrued leave payments	<u>120,783</u>			
Total all funds	\$7,580,217	\$8,182,190	\$207,252	\$8,389,442
Less estimated income	<u>7,580,217</u>	<u>8,182,190</u>	<u>207,252</u>	<u>8,389,442</u>
General fund	\$0	\$0	\$0	\$0
FTE	29.00	29.00	1.00	30.00

**Department No. 413 - Department of Financial Institutions - Detail of Senate Changes**

	Adjusts Funding for Health Insurance Premium Increases <sup>1</sup>	Adds Funding for New Credit Union Examiner <sup>2</sup>	Total Senate Changes
Salaries and wages	(\$18,268)	\$194,920	\$176,652
Operating expenses		30,600	30,600
Contingency			
Accrued leave payments			
Total all funds	(\$18,268)	\$225,520	\$207,252
Less estimated income	<u>(18,268)</u>	<u>225,520</u>	<u>207,252</u>
General fund	\$0	\$0	\$0
FTE	0.00	1.00	1.00

<sup>1</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

<sup>2</sup> Funding is added from other funds for a new credit union examiner (\$187,489) and related salary increase (\$7,431) and operating expenses (\$30,600).

HB 1008

April 16, 2015

Handout A

Department of Financial Institutions - Budget No. 413  
House Bill No. 1008  
Base Level Funding Changes

	House Version				Senate Version				Senate Changes to House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Position	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
<b>2015-17 Biennium Base Level</b>	29.00	\$0	\$7,580,217	\$7,580,217	29.00	\$0	\$7,580,217	\$7,580,217	0.00	\$0	\$0	\$0
<b>2015-17 Ongoing Funding Changes</b>												
Base payroll changes			\$196,326	\$196,326			\$196,326	\$196,326			\$0	\$0
Salary increase - Performance			243,223	243,223			250,654	250,654			7,431	7,431
Salary increase - Market equity				0				0				0
Retirement contribution increase				0				0				0
Health insurance increase			125,217	125,217			106,949	106,949			(18,268)	(18,268)
New FTE - Credit union examiner				0	1.00		218,089	218,089	1.00		218,089	218,089
Operating expenses increase			37,207	37,207			37,207	37,207			0	0
Total ongoing funding changes	0.00	\$0	\$601,973	\$601,973	1.00	\$0	\$809,225	\$809,225	1.00	\$0	\$207,252	\$207,252
<b>One-time funding items</b>				\$0				\$0				\$0
No one-time funding items				\$0				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
<b>Total Changes to Base Level Funding</b>	0.00	\$0	\$601,973	\$601,973	1.00	\$0	\$809,225	\$809,225	1.00	\$0	\$207,252	\$207,252
<b>2015-17 Total Funding</b>	29.00	\$0	\$8,182,190	\$8,182,190	30.00	\$0	\$8,389,442	\$8,389,442	1.00	\$0	\$207,252	\$207,252
<b>Other Sections in House Bill No. 1008</b>	<b>House Version</b>				<b>Senate Version</b>							
	None				None							

**STATEMENT OF PURPOSE OF AMENDMENT:**

**House Bill No. 1008 - Funding Summary**

	<b>Base Budget</b>	<b>House Version</b>	<b>Senate Changes</b>	<b>Senate Version</b>
Department of Financial Institutions				
Salaries and wages	\$5,874,989	\$6,560,538	\$176,652	\$6,737,190
Operating expenses	1,428,445	1,544,652	30,600	1,575,252
Contingency	156,000	77,000		77,000
Accrued leave payments	120,783			
<b>Total all funds</b>	<b>\$7,580,217</b>	<b>\$8,182,190</b>	<b>\$207,252</b>	<b>\$8,389,442</b>
Less estimated income	7,580,217	8,182,190	207,252	8,389,442
General fund	\$0	\$0	\$0	\$0
FTE	29.00	29.00	1.00	30.00
Bill Total				
Total all funds	\$7,580,217	\$8,182,190	\$207,252	\$8,389,442
Less estimated income	7,580,217	8,182,190	207,252	8,389,442
General fund	\$0	\$0	\$0	\$0
FTE	29.00	29.00	1.00	30.00

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

	<b>Base Budget</b>	<b>House Changes</b>	<b>House Version</b>
Salaries and wages	\$5,874,989	\$685,549	\$6,560,538
Operating expenses	1,428,445	116,207	1,544,652
Contingency	156,000	(79,000)	77,000
Accrued leave payments	120,783	(120,783)	
<b>Total all funds</b>	<b>\$7,580,217</b>	<b>\$601,973</b>	<b>\$8,182,190</b>
Less estimated income	7,580,217	601,973	8,182,190
General fund	\$0	\$0	\$0
FTE	29.00	0.00	29.00

**Department 413 - Department of Financial Institutions - Detail of House Changes**

	<b>Adds Funding for Base Payroll Changes<sup>1</sup></b>	<b>Adds Funding for Salary and Benefit Increases<sup>2</sup></b>	<b>Adds Funding for Increases in Operating Expenses<sup>3</sup></b>	<b>Decreases Contingency Funding<sup>4</sup></b>	<b>Total House Changes</b>
Salaries and wages	317,109	368,440			685,549
Operating expenses			116,207		116,207
Contingency				(79,000)	(79,000)
Accrued leave payments	(120,783)				(120,783)
<b>Total all funds</b>	<b>\$196,326</b>	<b>\$368,440</b>	<b>\$116,207</b>	<b>(\$79,000)</b>	<b>\$601,973</b>
Less estimated income	196,326	368,440	116,207	(79,000)	601,973
General fund	\$0	\$0	\$0	\$0	\$0
FTE	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Funding is added for cost-to-continue 2013-15 biennium salaries and benefit increases and for other base payroll changes.

<sup>2</sup> The following funding is added for 2015-17 biennium performance salary adjustments of 2 to 4 percent per year and increases in monthly health insurance premiums:

	General Fund	Other Funds	Total
Salary increase - Performance		\$243,223	\$243,223
Health insurance increase		125,217	125,217
Total	\$0	\$368,440	\$368,440

<sup>3</sup> Funding is added to increase operating expenses from \$1,428,445 to \$1,575,252 due to increases in travel expenses (\$25,330), information technology equipment under \$5,000 (\$68,022), and other operating expenses.

<sup>4</sup> Decreases contingency funding from \$156,000 to \$77,000.

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

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$5,874,989	\$6,560,538	\$176,652	\$6,737,190
Operating expenses	1,428,445	1,544,652	30,600	1,575,252
Contingency	156,000	77,000		77,000
Accrued leave payments	120,783			
Total all funds	<u>\$7,580,217</u>	<u>\$8,182,190</u>	<u>\$207,252</u>	<u>\$8,389,442</u>
Less estimated income	<u>7,580,217</u>	<u>8,182,190</u>	<u>207,252</u>	<u>8,389,442</u>
General fund	\$0	\$0	\$0	\$0
FTE	29.00	29.00	1.00	30.00

**Department 413 - Department of Financial Institutions - Detail of Senate Changes**

	Adjusts Funding for Health Insurance Premium Increases <sup>1</sup>	Adds Funding for New Credit Union Examiner <sup>2</sup>	Total Senate Changes
Salaries and wages	(18,268)	194,920	176,652
Operating expenses		30,600	30,600
Contingency			
Accrued leave payments			
Total all funds	<u>(\$18,268)</u>	<u>\$225,520</u>	<u>\$207,252</u>
Less estimated income	<u>(18,268)</u>	<u>225,520</u>	<u>207,252</u>
General fund	\$0	\$0	\$0
FTE	0.00	1.00	1.00

<sup>1</sup> Funding for employee health insurance premiums is adjusted to reflect the revised premium estimate of \$1,130.22 per month.

<sup>2</sup> Funding is added from other funds for a new credit union examiner (\$187,489) and related salary increase (\$7,431) and operating expenses (\$30,600).