

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1015

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10/30/03
Date

2003 HOUSE APPROPRIATIONS
HB 1015

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1015

House Appropriations Committee
Government Operations Division

Conference Committee

Hearing Date 01-10-03

Tape Number	Side A	Side B	Meter #
1	X	X	All
2	X	X	All
3	X	X	All

Committee Clerk Signature *Chris S. Nylund*

Minutes:

Eric Hardmeyer President of the Bank of North Dakota.

Rep. Carlson What would you want your assets to capital bank if you were a traditional bank, not the bank of ND? What is a good number to have industry wide?

Hardmeyer 8.66 is a healthy ratio. 7% is the baseline when the banking commission starts to get nervous. The banking commissioner prefers to use a straight out leverage ratio. At 7% he is nervous. At 8.66 he is very comfortable. Banks around ND have a higher capital ratio than those around the country, and they average between 9-10%.

An additional 25 million dollars may be coming out of the "rainy day fund." We are not sure how we will end the biennium. This will come out of capital since most of our profits are used for the 60 million dollar transfer.

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Rep. Koppleman What is the primary source of interest income at the bank? What are your reserves invested in?

Hardmeyer Our primary asset is loans at about 1 billion 330 thousand. Of that, 223 million are farm loans, 365 million are student loans, 433 million are business and commercial loans, and 309 million are residential loans.

Rep. Glassheim I calculated the asset to capital ratio and I took 25 million out of 171 million then I get 7.3%, and that is approaching problematic.

Hardmeyer Yes, correct, our ratio after the transfer would be about 7.25%. But in addition to the capital we do have a healthy loan loss reserve of about 25 million dollars. That is about 1.88% extra 55-57% of the loans that we have are guaranteed by the federal government due to the student loans. Also, the residential loans are all made up of FHA which are 100% guaranteed and VA range from 20-60% guaranteed.

Rep. Carlson Are typical banks are they required to have a loan loss reserve? And what would that number be?

Hardmeyer Yes, typical banks hold 1.8%.

Rep. Carlson Could you get how those loans are guaranteed?

Rep. Timm Are there any programs now that anticipates a large loss?

Hardmeyer No, we do not have anything in our portfolio that we are concerned about.

Rep. Koppleman 43-55% of the exposure is not guaranteed. The rest of that is backed by the bank of ND? What would happen if the bank should how a loss?

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Hardmeyer To my recollection the bank suffered significant loan losses of 8-10 million dollars in the 80's. What happens there is it first comes out of reserves, then out of capital. The way the bank is positioned today I don't foresee any surprises.

Rep. Koppleman If it did happen then where would the money come from?

Hardmeyer The deposits in the bank are guaranteed, not the loans.

Rep. Thoreson Are there any years the bank did not show a profit?

Hardmeyer Not in recent years.

Rep. Skarphol The balance of assets shown is 1.9 million, where is the other 675 million?

Hardmeyer In other investments to assure liquidity for the bank to make sure that we have money available to fund our loan growth. They are also in short term investments like Fed. Funds. They are all in good, solid investments. They are all in agencies or government treasuries.

Rep Skarphol What kind of earnings are there on those?

Senior VP of treasury Duration is about 1.2 years, investment portfolio is 270, the average life of less than 5 years. 2-year government is 1.70, and short term is 1.25 percent.

Rep. Warner Is the 140 million in statue SB 2015, or is it in OMB budget bill?

Hardmeyer That is in the bill 2015, so it is in law.

Rep. Carlson What happens if bad times come?

Hardmeyer If there are losses they would hit the 25 million loan loss reserve fund before they hit our capital. We come out to about 23 million worst case scenario, our reserve is very adequate.

Rep. Carlson 25 million was a 1 time transfer that is not in this budget?

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Hardmeyer That is correct.

Rep. Carlson That was not to be replenished?

Hardmeyer Not that I am aware of, and the only way it could be replenished is a transfer back or some retention earnings.

Rep. Carlson The language is there, but the money is not?

Hardmeyer Correct.

Rep. Koppleman How often has the legislature taken from capital to get to the 140 million dollar benchmark ?

Hardmeyer Prior to last session the benchmark was 100 million. It is uncommon to dip into capital to reach a benchmark.

Rep. Glasshelm OMB, in the budget is any amount beyond 25 million included to the ending 2005 balance?

Sandy From OMB, no it is not included.

Rep. Glasshelm If less than 60 million dollars of profit were taken from the general fund what would you do with the money?

Hardmeyer For every 1 million taken out of capital would lose revenue of 55,000 dollars. It costs us on the profit side and cost of money goes down as we retain earnings meaning we could lend money cheaper.

Rep. Carlson Is it a common practice among banks that they would borrow money to lend money instead of using their own money?

Hardmeyer Yes.

Chairman Carlisle What is the employee turnover?

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Hardmeyer very low, we have 178 employees and we have between 5-7 openings at any time.

Chairman Carlisle Are operating expenses less expensive with ITD?

Hardmeyer Yes, with 20,000/month savings with Guarantor-lender system savings. As soon as we convert the lender system we will save about 100,000/month.

Chairman Carlisle Is that reflected in the budget?

Sandy I will make a note of that.

Rep. Skarphol Are you over or under budget stating IT cost in the projected budget?

Hardmeyer Probably under estimating.

Rep. Skarphol From the 01-03 session and the 03-05 session you estimated 2 million dollar savings in IT?

Hardmeyer Correct.

Rep. Skarphol The total cost is going to be over 5 years?

Hardmeyer We would buy one integrated system and put that into play this biennium. We would pay for this over 3-5 years.

Rep. Glassheim How does that system work with ERP?

Hardmeyer This is a banking system and not the same as ERP, however they may overlap a little bit.

Rep. Warner Are there any large market banks that have a portfolio of student loans that are comparable in size to yours nationally? And do they have a commercially available software available instead of starting from scratch.

Hardmeyer Sallie May has a comparable software, but we would be vulnerable to them and though that not the best choice.

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