

2013 SENATE GOVERNMENT AND VETERANS AFFAIRS

SB 2064

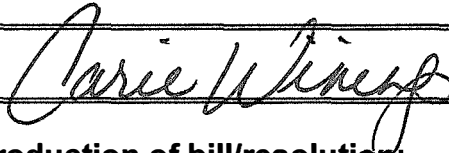
2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

SB 2064
01/10/2013
Job Number 17075

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill for an Act to amend and react section 6-09-44 of the North Dakota Century Code, relating to the Bank of North Dakota residential mortgage loan program.

MINUTES:

Chairman Dever: Opened hearing on SB 2064.

Bob Humann, SVP of Lending, Bank of North Dakota: See Attachment #1 in support.

(10:15) Chairman Dever: I don't recall that the creation of this coming through our committee last time. I am curious about the rational for a couple of things as it was put together then. One is the sunset clause; I would imagine that it was there so that the program proved itself before it continued?

Bob Humann: That is correct. In fact, looking through the legislative history, this went through the Senate IBL, and through the House IBL last session. The sunset was put on there because it was hard to know what the demand was going to be. We did not want the Bank of North Dakota to be the next Countrywide in the United States so we wanted to see how this program was going to work. We were going to unveil it and see what kind of demand there was going to be, and we had to be geared up for this too. We had to purchase new software to handle this loan origination. We had to get adequate staff in place in order to do this. It was a pilot to get our feet wet and gets everything ready to keep this around full time.

Chairman Dever: The reference to other local financial objections; are you in a situation of competition with local banks?

Bob Humann: To be honest, it is not really the Bank of North Dakota's competition, but it is that were concerns during the last legislative session that there might be a bank in a town that does home mortgages, Harvey for example, there is First International Bank and First State Bank, and then there is a National Bank of Harvey; so there are three banks in that town. One might not have the mortgage staff and the compliance expertise for them to be able to do the mortgage loan, but the other two might have. This enables that bank to be able to take care of the customer without having to say that they could not and refer them to the competitor. What happens is once the loan is there they often move other accounts as well. It helps community banks be able to compete.

Chairman Dever: The \$200,000 cap, was that an intent to target lower income individuals? The language reads as though it is not to provide to higher risk.

Bob Humann: That really was not the intent. There are other programs for higher risk loans. There is the Federal Housing Authority program, ND Housings program, First Time Homebuyers, so there are other higher risk loans like the USDA guarantee program, VA guarantee program and they are loans that a lot of other ND banks package and we buy those and we service those loans for the full 15 or 30 years of the loan. That still exists out there. This is the case is where the bank wants to do a conventional loan with a borrower that can come up with 20% down and the bank just doesn't have the capability to be able to do that and they don't want to keep that loan on their books for 15 to 30 years because they are taking that interest rate risk.

Vice Chairman Berry: What would be the average loan referred to you? I understand the purpose, as I understand, is to allow more rural institutions who are not going to have enough

loans requested of them in residential mortgage that they cannot justify paying folks to be trained and on staff. In that situation, I noticed that in the bill it talks about local financial institutions and then in another place it just says private sector mortgage loan availability, are there perimeters by which someone can get a loan from a distance away?

Bob Humann: We have not allowed that to happen. It has to be more local. Some of these are rural but we are keeping them localized. (McClusky example). I thought you were going to the fact of the average loan size. It is around \$108,000. Where we were running into the \$200,000 issue was especially up in the northwest corner of the state where the costs have escalated so much.

Vice Chairman Berry: I understand that this was something that was put into play and basically it was sunset and there were perimeters put on the loan amount and the total loans just to see how it would go? What I am hearing is that things worked well and maybe even better than expected and so in this case you are making it permanent and open this up.

Bob Humann: I couldn't have said it better.

(18:05) Chairman Dever: Where the term local financial institution is referenced here, does that include banks, credit unions, any other organizations that might provide loans?

Bob Humann: In the Bank of North Dakota's definition, it does. I think there are others that will testify to that.

Senator Cook: Things could go south with the great economy that we have now, where is the risk lie? If you are partnering with a local bank, they can go up to 95% of the value. You got the first 80% at risk.

Bob Humann: There is risk there. In that case, if the property was foreclosed out, and we sold it for 50% of what it cost, the bank would end up being in the first position on the 80% and the lead bank would be out the other 15%. They have to be very cautious about who they are

picking to do that with. There are other government guarantee programs out there that will end up 97% of the appraised value of the home. Maybe that is the way they would go with those types of borrowers. There is risk. We think it is part of our mission.

Senator Cook: Understand that with the Bank of North Dakota the risk lies with taxpayers.

Eric Hardmeyer, President, Bank of North Dakota: This has been explained well by Bob. To your point of the overall risk, it is something we deal with every day. It is important. That is why we set it up as a pilot program originally. We wanted to know what we were doing. We will be looking at that level. We have concentration levels throughout the bank for every different type of portfolio. We have talked about putting a limit on this. We are taking the overall limit off, but within the bank we will have parameters on how we want to run this program. You can be assured that we will be looking at our overall concentration level of these mortgages because of the potential losses.

Senator Cook: I think that the most important thing is that those statements are made. First question is do we need to cap it or are you smart enough to know where that is yourself. There still needs to be the understanding of the taxpayer risk.

Chairman Dever: Are there banks getting away from the mortgage business just because of the regulation?

Eric Hardmeyer: It might be better for the trade associations to answer that question.

Bob Humann: When it comes to the risk, when we book a loan we set aside part of that loan in loan loss reserve too. We build that up just in case there is loss. We know there are risks out there.

Chairman Dever: Other testimony in support?

(23:34) **Tim Karsky, Market President for Starion Financial, Bismarck, ND and Independent Community Banks of North Dakota:** See Attachment #2 in support.

(26:40) **Chairman Dever:** So many things are specialized when it comes to loans now.

Tim Karsky: You have to be specialized to survive. Every day I realize how much it costs for us to comply and to walk that fine line.

(27:30) **Rick Clayburgh, President and CEO, North Dakota Bankers Association:** We are here in support of removing the training wheels from this program. Our association is in full support. I want to talk about a couple of historic issues on the program. As a trade association, we have been looking at the issues of residential mortgages in North Dakota for about five years working closely with the Bank of North Dakota, our members, and other organizations that help provide residential mortgage programs in the state. Over the past years because of the regulatory burdens our banks face by the passage of Dodd Frank, and now the creation of the Consumer Financial Protection Bureau; it has become very prohibitive for a number of our banks to provide residential mortgage services anymore. We two years ago worked both with the Independent Community Bankers Association, and our Association and the Bank of North Dakota to come up with this idea in this program to help the bank provide services into the parts of the state that really residential mortgaging has seized up. We have a number of our banks that have terminated doing mortgage loans in their communities. They have stopped the process because they cannot afford to be written up by their regulator. The original sub-prime lending debacle that occurred because we had folks that were going out providing residential mortgage loans and then selling them off to a larger company like Countrywide who went off and securitized these. Even the President has admitted that 96% of all of the sub-prime lending that occurred in this country, occurred outside of the traditional FDIC insured institution. The banks became seized up and we came in and we worked with the bank and we talked about where local mortgages were not available. We came in last session with as it would be amended now; that is what the trade association supported. Our

legislative committee and the North Dakota Bankers Association represent roughly 90% of the banks in the state. We represent the largest and the smallest in terms of asset size. Our legislative committee and the concern that much of the amendments or much of the bill that is before you now is what came out of the last session was more of a concern by some of the conservatives on the House side that felt that the bank was getting into competition with the industry. What we found ironic and frustrating, is it was the industry that was coming in and saying that they would like the servicing bank to help the communities and help our banks. Our legislative committee was unanimous in the support of the Bank of North Dakota this session in the changes that are put forth in this bill. When you get out into the rural parts of the state, especially now with the oil booms that are occurring, we have a housing shortage and our community banks can be part of that effort in helping to ensure that we have good quality residential mortgages available.

(31:55) Vice Chairman Berry: I am interested about the history you provided. Could you elaborate more on the 96% of sub-prime mortgages that were incriminated in this problem, that they were originated outside of regulated institutions?

Rick Clayburgh: The mortgage lending area where most of it was occurring, were non-regulated mortgage brokers who are under regulated mortgage brokers. They have no skin in the game. It is a mortgage broker that will do everything that a lender at a bank would do except that the bank is holding on to it and will try to sell the loan into the secondary market. In this case, when that mortgage broker sells that to companies like Countrywide, they give up everything and I don't think there is recourse against them. They don't have same regulations on them as banks. They were just turning them out and then selling them off to these national companies that were taking them, they securitized those, and we find out after the fact that the rating agencies of those securities were also not properly regulated. Some of those mortgages

that had junk in them were securitized and were given AAA ratings went off into wall street and were purchased by pension plans and all the other folks that would buy those large securitizations and once those mortgages started to crumble they were cruddy paper and everything just fell out from underneath it. Those were not banks that were doing that. Banks were under significant regulation prior to the sub-prime debacle and we are greater restriction now. The banks in many cases could not write many of those loans and in most cases in North Dakota have a little more conservative bend in our banks looking out for their customers to not overextend.

Vice Chairman Berry: The folks buying these, were they not banks?

Rick Clayburgh: There were in many cases investment banks not your commercial bank. Prior to the fall within that market, there used to be about five or six major investment banks. None of those banks exist anymore as investment banks. They have all reclassified as commercial banks, but there is a major difference between them. They did not have same regulatory oversight that a commercial bank has.

Vice Chairman Berry: Has that been dually addressed?

Rick Clayburgh: Our markets have addressed that in some respects. Bankruptcy has addressed that. Those institutions don't exist but we are also now dealing with, in terms of the financial institutions on a national scale, the majors that are involved in large volumes of purchasing mortgage paper, the FDIC, the CFPB, and other have rules in place and more rules have been put in place qualified mortgages and who can get a mortgage and how a mortgage is to be written. It is all part of the CFPB. You have community banks that have done what they are supposed to be doing, and they got pulled into this vortex and they just can't compete under this anymore. They can't afford regulatory burdens or to be written up. In some of those small communities there is no one who can come in and assist them. So much

has piled up that has stopped it for them. In the state, we have a wonderful tool with the Bank of North Dakota and as an industry we see that and want to utilize it. We think it will be operated responsibly.

Vice Chairman Berry: Are you satisfied that changes have been made in terms of the mortgage loan programs nationally and are you satisfied that this situation that occurred that created the problem in 2007 that it has been addressed and won't happen again?

Rick Clayburgh: I cannot say that I believe that. You create rules, you find out what they are and some people find out how to get around them. I cannot say it will not occur, but our response that came from congress and now our regulators have been an overreaction to the community banks where they are going to make it very difficult for the average citizen to be able to reach that American dream of having home ownership. We are going to go back to that time when people have to save and spend more time in an apartment.

Vice Chairman Berry: Are regulations in place that takes care of what you referred to as a shadow industry and not the classic banks?

Rick Clayburgh: I don't believe that congress has come close to addressing that.

(41:30) Chairman Dever: Any further questions?

Greg Tschider, Credit Union Association of the Dakotas: Proposing amendment in support of the bill. See attachment #3. The question is whether it includes credit unions. We have been operating that credit unions have been included in this but there appears to be some ambiguity as to whether or not it does. We simply want to clarify. In discussions, no one seems to have problems with the concept, but we want to avoid future ambiguity. Credit Unions face all of the same problems that the small banks in North Dakota do. We have heard a lot of testimony about the plight that is being faced by financial institutions due to the regulations by congress. There are thousands of pages of regulations. These regulations make work for

attorneys and we are dealing with a lot of overkill on this stuff. Congress has hit the regulated financial institutions that are banks and credit unions, hard. Credit Unions were not part of the problem. We never received any of the bail outs, etc. We are simply here to support the bill and for clarification on the verbiage to add "or credit union".

(46:10) Chairman Dever: Do you know if in the two year history of this program if the credit unions have been involved?

Greg Tschider: We have not needed these services of the Bank of North Dakota. Credit unions operate a little differently than the banks do. We have an entirely different model. One of the things, are that credit unions try to work together more so. There is not the amount of competition. What we have done with situations where people have not been able to service their members, we have been able to find other credit unions that will help them provide services. The fact is that small financial institutions are having trouble surviving and so some smaller credit unions are going to be looking to the Bank of North Dakota.

Chairman Dever: Questions?

Senator Cook: Are there any programs offered by the Bank of North Dakota that credit unions cannot participate with?

Greg Tschider: There is not at this point. We do participation loans just like the banks do.

Senator Cook: Does the language that makes that clear specify credit unions?

Greg Tschider: I don't know that for sure. There are sections that do and sections that don't.

Chairman Dever: Any other testimony in support?

Claus Lembke, ND Association of Realtors: Appeared in support.

Chairman Dever: Other support, Opposition?, Neutral? Closed hearing on SB 2064.

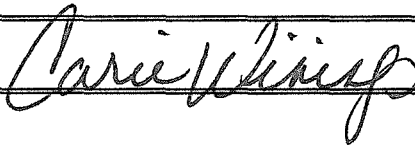
2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

SB 2064
01/11/2013
Job Number 17092

Conference Committee

Committee Clerk Signature



MINUTES:

Chairman Dever: Reopened SB 2064 for discussion.

Senator Nelson: I did not hear the banks objecting that it be added. What I heard was that throughout the code there are conflicting definitions of financial institution and that I in some cases they just add "and credit unions" so that it is clear they are included. I do not know what it says at the beginning of this chapter. Usually the definition of a financial institution should be given in title one of the chapter. If it is there it is a moot point.

Senator Cook: I heard that also. I also heard that there are not programs that do not include credit unions. I assume there is code that puts in place some of the other programs. Maybe the intern can do some research for us. It would not hurt to have everything the same and have a definition maybe.

Chairman Dever: I ran into Tim Karsky and he kind of mentioned that they are working on universalizing the definition.

Senator Cook: this would be the time to do it.

Senator Nelson: It would be easier to attach it to this bill I would think.

Senator Marcellais: I was listening to the news this morning and there is some talk about federal regulations changing on mortgage loan programs and I don't know if we want to take action on this or not.

Chairman Dever: (reads the definition at the beginning of the law) It seems to me that the more updated title for savings and loan is credit union.

Senator Nelson: We have not had a saving and loan for several years have we?

Senator Poolman: They did talk yesterday about the reason for this bill was that because of all of the regulations changes at the federal level. That the regulations have become so cumbersome for the small town rural bank that they cannot afford to process it because they cannot afford all of the software, time, or fees that they could incur.

Senator Marcellais: We do have a tribal bank in Turtle Mountain now, so will this include that too.

Senator Nelson: Can we come up with a new definition?

Chairman Dever: It says it means any bank. So I don't know if it is organized under the same federal and state.

Vice Chairman Berry: We were talking about the time to simplify this and unify the term. I am wondering if there is a time when they want to be separate in the code. I think the financial institutions may want to speak to that.

Chairman Dever: I think we should set this aside to visit with the banking commissioner.

Senator Cook: For what it is worth, I had a conversation with Tim Karsky, and I think a big part of this if the state doesn't do certain things then the federal will come in and take over that policy. I think that is the right thing to do having some conversations with the banking commissioner.

Chairman Dever: That and legislative council and who drafted this bill to see what it would take if it is not too complicated.

Senator Cook: That and the Bank of North Dakota.

Chairman Dever: Stand in recess.

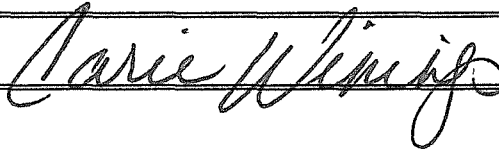
2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

SB 2064
01/17/2013
Job Number 17378

Conference Committee

Committee Clerk Signature



Minutes:

Chairman Dever: Reopened SB 2064 for committee discussion.

In the definitions, financial institutions means any bank, industrial loan company, or savings and loan association organized under the laws of the state or of the United States. I thought savings and loan included credit union but it doesn't. So the banking commissioner said that it might provide better clarification if we do amend it to include credit union. There was some talk about changing that definition and I asked him about it and he said they did not want to do that. It would be too much involved where all it is in the Century Code.

Senator Nelson: I talked to Senator Sinner on the way home. He works for a bank and we were discussing this, and he said basically with mortgages that are looking at here are federally insured business that are involved in the financial world. These things have a federal insurance component to them. We were trying to figure out a way to say something other than "or credit unions".

Chairman Dever: Credit Unions ask for it, the Banking Commissioner said it would be good, Eric Hardmeyer said it would be good, and the bankers did not have any objections to it.

Senator Nelson: Do you have an amendment drawn up?

Chairman Dever: See Attachment #1 for proposed amendment. The amendment is to insert "or credit union" in three places.

Senator Schaible: Moved to adopt amendment proposed.

Senator Poolman: Seconded.

A Roll call Vote Was Taken: 7 yeas, 0 nays, 0 absent.

Amendment Passed.

Senator Poolman: Moved a DO PASS as amended.

Senator Schaible: Seconded.

Chairman Dever: Is there any further discussion?

Vice Chairman Berry: A couple of times during the testimony there was discussion of local/private sector loans being available and in other areas it talks about private sector loans being available; do we need to look further into distinguishing that or is there a conflict there?

Chairman Dever: Where is that? (Asks for clarification on question)

Vice Chairman Berry: (Asks another question that is inaudible about line 8)

Senator Cook: I think the answer is yes, but the way I see this working is that the person who is in need of a loan starts at the local bank and that local bank is more than willing in most cases to work with the Bank of North Dakota. We tend to look at the state bank in competition with the local banks, but in most cases the state bank assumes a lot of the risk and makes it easier for the local bank to issue a loan and be successful. What was taken out of here is the option for some other local bank to protest. I think they are all so accustomed to working with the state bank. It is the online banks out there to be concerned about.

Senator Nelson: The state bank is not going to bail out some internet provider.

Senator Cook: The state bank will not work with them.

Chairman Dever: If the local bank is not available to provide the service, then they would rather have somewhere for their residents to go.

Senator Cook: It is the local bank that is going to give you the money you want.

Vice Chairman Berry: I would agree you would be better off; with the philosophy. I was just wondering what would trigger that, when they say it is not available. Thank you.

Chairman Dever: ok

A Roll Call Vote Was Taken: 7 yeas, 0 nays, 0 absent.

SB 2064 passed as amended.

Senator Cook: Carrier.

13.8092.01001
Title.02000

GVA
Adopted by the Education Committee

January 17, 2013

TD
1/17/13

PROPOSED AMENDMENTS TO SENATE BILL NO. 2064

Page 1, line 9, after "institution" insert "or credit union"

Page 1, line 18, after "~~program~~" insert "or credit union"

Page 2, line 4, after "institution" insert "or credit union"

Renumber accordingly

Date: 1/17

Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 2064

Senate Government and Veterans Affairs Committee

Check here for Conference Committee

Legislative Council Amendment Number 13.8092.01001 . 02000

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Schaible Seconded By Senator Poolman

Senators	Yes	No	Senator	Yes	No
Chairman Dick Dever	✓		Senator Carolyn Nelson	✓	
Vice Chairman Spencer Berry	✓		Senator Richard Marcellais	✓	
Senator Dwight Cook	✓				
Senator Donald Schaible	✓				
Senator Nicole Poolman	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment _____

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

REPORT OF STANDING COMMITTEE

SB 2064: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2064 was placed on the Sixth order on the calendar.

Page 1, line 9, after "institution" insert "or credit union"

Page 1, line 18, after "program" insert "or credit union"

Page 2, line 4, after "institution" insert "or credit union"

Renumber accordingly

2013 HOUSE INDUSTRY, BUSINESS, AND LABOR

SB 2064

2013 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee
Peace Garden Room, State Capitol

SB 2064
March 19, 2013
Job 20133

Conference Committee

Minutes

To establish a permanent residential mortgage loan program

Minutes:

Attachments 1, 2

Rep. Keiser: Hearing opened on SB 2064.

0:24 Eric Hardmeyer: President and CEO of the Bank of North Dakota: I am here in support of SB 2064. This bill amends state statute which allows for the Bank of N.D. to set and create a mortgage origination bill. This bill will remove the sunset clause which will end July 31, 2013. Elaborated on written testimony, attachment 1. We would like to remove the limit on a loan amount.

6:22 Representative Becker: How is the banks market rate that going to be relative to the market rate?

Eric Hardmeyer: The same. This is a market driven program.

6:58 Representative Becker: What makes it so that there is difficulty for someone to get a loan in the regular market in their hometown bank? Why not go to the market?

Eric Hardmeyer: The issue is that they are not able to go to their local bank. They want to go to their bank because that is where they have their relationships. The bank is saying we would love to provide the service to you but Government regulation has made it too onerous that we can't do it anymore. That is why if it is referred to us we are not going to take over any other of their business we would only make a mortgage for that one loan.

Representative Becker: Is it the fair that they will lose their primary business and so they want to use you as vender of the mortgage?

Eric Hardmeyer: I think that is part of the answer and I would think that others from the trade association can speak to that as well.

8:44 Representative Gruchalla: Did you have a mortgage department prior to this pilot project?

Eric Hardmeyer: We have been engaged in the mortgage business for 50-60 years. What we have had to this point is a secondary market where we buy mortgages from other banks.

Representative Gruchalla: This isn't going to cost you a lot ----

Eric Hardmeyer: We did add one staff member, but by enlarge we were able to leverage our existing staff.

Representative Gruchalla: If we extend this, will you need to enlarge the department?

Eric Hardmeyer: Based on the activity that we have seen we are hoping to fill; at this time it is not likely that we will have to.

10:20 Representative M. Nelson: So you're not out marketing mortgages; the bank comes to you with the mortgage and then they will come to you because you have the expertise to get things filled out?

Eric Hardmeyer: That is correct. We are not here to compete with the private sector but instead to partner with them.

10:52 Representative Kasper: The limit of the loans that you can write is now gone this that correct?

Eric Hardmeyer: We are looking to remove the limit of \$8,000,000

Representative Kasper: On line 4 you are talking about a local financial institution or credit union may take a second mortgage. Are the local institutions getting involved second mortgages? What percentage are they getting involved in?

Eric Hardmeyer: Dave Fisher will answer that question.

Dave Fischer, Residential loans manager at the Bank of North Dakota; About 20% of the banks have taken a second mortgage.

Representative Kasper: There choosing not to take the risk otherwise they would be sharing in the loan?

Dave Fischer: They would be taking a risk on the top end.

Representative Kasper: They are choosing not to do so it appears they don't want the risk they want you to take the risk?

Dave Fischer: The ones that don't; the borrower generally has 20% down.

12:36 Representative Kasper: If they is a 20% down stroke by the borrower then you do not allow the resident bank to participate in the rest of the 80% is it only if the borrower wishes to go above the 80%?

Dave Fischer: That is right.

Representative Kasper: Would that be a good thing to allow the local bank to participate in under 80% so that they would have some dollars in the game as well?

Eric Hardmeyer: The mortgage industry is an established industry where these are generally sold in whole. These are 30 year fixed rate mortgages and most banks are not interested in a 30 year fixed rate mortgage as with today's interest rate.

13:50 Representative Kasper: Are you doing any refinancing or is this only the new loans?

Eric Hardmeyer: We have not done any refinancing.

Representative Kasper: Would the bill allow you to do that?

Eric Hardmeyer: Yes, it would.

14:08 Representative Vigesaa: I am working with another bill that is with Housing Financing Agencies Authority. Do you have a relationship with the Housing Finance Agency in situations like this?

Eric Hardmeyer: The idea is that we would help originate those types of loans and help with Mike's program.

14:56 Chairman Keiser: Referred to striking subsection A on 2 line lines 14, and 15. We had limited that to rural residential loans because the argument was made; that is where the banks either can't make the loans because they don't have the support services for the mortgaging or the banks aren't interested in going out there. By striking all of that we are making that state wide?

Eric Hardmeyer: This may be one of those things that we have to take a look at. The intent is still that this is only for those areas that are not reasonable served and that is still in lines 8-9.

16:14 Chairman Keiser: Page 1, line 20 I can see that \$200,000 is too low but we are taking all limits off. You would think that banks would be interested in doing that but if one bank can't handle that size of loan then they can refer it and that is all that is required here is that the financial institution refer it to the bank. Are we going to get in trouble with that?

:02 Eric Hardmeyer: We understand what we are trying to achieve and will write our procedures and policies to protect that. We are interested in exactly what we intended to do and that is helping the small rural banks.

17:41 Representative Becker: I live out of town; I assume that I wouldn't qualify for that?

Eric Hardmeyer: Yes.

Representative Becker: If I am trying to relocate to Wilton would I qualify for this?

Eric Hardmeyer: Yes.

18:25 Rick Clayburgh: President and CEO of North Dakota Bankers Association: Our association is in support of this bill. This bill is helpful to the rural bank but also to the rural loan customer. In regards to areas of the state that are further away from the metropolitan areas where reasonable mortgage lending is available the rural bank and many areas in the state because of the regulations that have come out have forced a lot of banks out of residential mortgage lending. I spoke of why it is difficult for banks in larger metropolitan areas to reach into rural areas. Areas of the state of N.D. residential mortgage lending has seized up. That has been taken away as a tool for our banks. One area we have been able to address is some of the mortgage lending has been primary with agricultural land owners and they will write a mortgage on the loan but not add the house and then add it to the mortgage on the land. But mortgage lending in rural North Dakota has seized up. Spoke of important role BND plays for the banking community. The NDBA represents the largest bank in our state as well as the smallest, and we are unanimous in support of this bill. Voiced support in removing the limit for loan amount and for the pilot amount. This is an important tool for the mortgage borrowers in rural North Dakota.

24:17 Representative Kreun: I see Credit Unions added to this how does that fit your recommendation?

Rick Clayburgh: The reason that language was put in there is that the legislation from 2 years ago dealt with this section of the statute defining financial institutions and in that section Credit Unions are not defined in that section.

25:34 Representative Louser: You had mentioned a qualified mortgage. What has come out of Congress or the regulatory agencies in regards to the rewritable presumption?

25:58 Rick Clayburgh: I haven't read all of the updates on the newest rules but one of the issues is the requirement of the escrow which makes it almost impossible for some of the small banks to try and deal with issue with the balloon type notes if they even qualify in that area.

26:50 John Brown: Executive Vice President for Independent Community Banks of North Dakota: We support SB 2064. Refer to written testimony, attachment 2. The Bank of North Dakota has trained staff, the knowledge of rural N.D. and the desire to help.

29:45 Mike Anderson: Executive Director for ND Housing Finance Agency: I am in support of this bill. We provide financing for first time buyers across the state of N.D. and by statute we are limited we cannot originate loans. We rely on the private sector to originate the loans and sell them to us. On line services are risk to young families and other wise inexperienced home buyers coming in from rural areas and that is that we have access to lot of services on line these days; my concern is getting taken down the wrong road by going on line. The Bank of North Dakota mitigates the risks significantly to these buyers.

31:22 Chairman Keiser: If you haven't had a chance to see Mikes program you might give him a call and visit with him and learn about N.D. Housing and Finance.

Opposition: No opposition to SB 2064

Neutral: No neutral testimony

Rep. Keiser: We have a motion for a Do Pass on SB 2064 made by Representative N. Johnson and seconded by Representative Sukut. Motion passed Yes 14 No 0 Absent 1 Carrier; Rep. Louser

Rep. Louser: In July I went to congress and testified with regards on the qualified mortgage and the rules are 804 pages long. On page 5 they didn't even address the issue that we out to testify on. The problem is that a lender has the opportunity to do a mortgage for someone there is still the threat that if the lender sells that on the secondary market. Seven years later they may be required to buy that back and after all of this mess they still don't have the rules in place. This is good for N.D. They have problems with Dodd Frank.

Rep. Keiser: We will close the close on SB 2064.

Date: 3-19-13

Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2064**

House Industry, Business, and Labor Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider Consent Calendar

Motion Made By Johnson Seconded By Sukut

Representatives	Yes	No	Representatives	Yes	No
Chairman George Keiser	✓		Rep. Bill Amerman	✓	
Vice Chairman Gary Sukut	✓		Rep. Joshua Boschee	✓	
Rep. Thomas Beadle	✓		Rep. Edmund Gruchalla	✓	
Rep. Rick Becker	✓		Rep. Marvin Nelson	✓	
Rep. Robert Frantsvog	✓				
Rep. Nancy Johnson	✓				
Rep. Jim Kasper		wp			
Rep. Curtiss Kreun	✓				
Rep. Scott Louser	✓				
Rep. Dan Ruby	✓	wp			
Rep. Don Vigesaa	✓				

Total Yes 14 No 0

Absent 1

Floor Assignment Louser

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

REPORT OF STANDING COMMITTEE

SB 2064, as engrossed: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends DO PASS (14 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2064 was placed on the Fourteenth order on the calendar.

2013 TESTIMONY

SB 2064

TESTIMONY TO THE
SENATE GOVERNMENT AND VETERANS AFFAIRS COMMITTEE
SENATE BILL 2064
BOB HUMANN – SVP OF LENDING
BANK OF NORTH DAKOTA
JANUARY 10, 2013

Senate Bill 2064 addresses changes proposed to the existing legislation that allows the Bank of North Dakota (BND) to establish a residential mortgage loan program under which the Bank may originate residential mortgages if private sector mortgage loan services are not reasonably available. This program was created during the 2011 legislative session at the request of our financial partners in North Dakota. These entities have been burdened with regulatory compliance on home loan originations since the financial crisis that began in late 2007. It is difficult for community lenders to justify adding sufficient compliance staff to originate a handful of loans per year. They looked to BND for help so they can help their local customers by providing home loans without having to refer their customers to the local competitor or out-of-area lender.

Line 6 of Section 1 will remove the July 31, 2013 sunset on this legislation and make it permanent. BND's Home Loan Origination Program has been well received by North Dakota lenders as the banking associations will speak to.

Removal of lines 14 and 15 will eliminate the \$8 million ceiling on this program. During this biennium BND has funded 13 loans totaling \$1.4 million and have another 15 loans totaling \$1.7 million in process of approval or closing. The \$3.1 million in loan volume is not close to the ceiling of \$8 million, but we only funded one loan in 2011 with BND's residential staff being pre-occupied in helping flooded homeowners with the Rebuilders Loan Program. By removing the sunset and ceiling we are giving North Dakota Lenders confidence that this program will be around to meet their needs. A longer term presence of this program comes at a challenging time in our states development. In many areas of the state, we are seeing a resurgence of population because of the energy development and a strong agricultural economy.

Removal of lines 17 and 18 will eliminate the task of sending objection letters to other local financial institutions in that area. During the current biennium there have not been objections made by other lenders. In reality, from our prospective, we think it is unlikely that another local lender will object to a local resident receiving a home loan from BND that was referred to it by a local competitor. This extra step also extends the loan approval timeframe.

In Section 2(d)1 the maximum loan amount of \$200,000 would be removed and BND would be able to determine the maximum loan amount in loan policy. BND's loan policy changes are approved by BND's Executive Committee, Advisory Board and the Industrial Commission. For this biennium, 6 of the 28 loans have hit the maximum. As building costs have escalated, it can be a challenge to build a new home with a loan of \$200,000. The problem is magnified in the areas affected by the oil development.

BND has originated loans in all four quadrants of the state. BND has been there for North Dakota Lenders that have referred loans for citizens of Bowman, Kenmare, Langdon and Gwinner. These requests for help have come from many of the rural North Dakota lenders. We believe that this service fits within our mission as the economic development bank for North Dakota and it fills a need for our correspondent lending partners.

Your approval of the proposed changes are recommended.

TESTIMONY FOR SENATE BILL 2064

Government and Veterans Affairs Committee

Testimony of Tim Karsky, Market President for Starion Financial, Bismarck, ND and representing the Independent Community Banks of North Dakota in support of Senate Bill No. 2064

Chairman Dever and members of the Senate Government and Veterans Affairs Committee, my name is Tim Karsky and I am here on behalf of the Independent Community Banks of North Dakota, whose memberships totals 61 banks in North Dakota, to testify in support of Senate Bill 2064.

As Bob Humann, from the Bank of North Dakota outlined in his testimony, this bill will allow the Bank of North Dakota to continue its residential mortgage loan program which will allow the bank to originate residential mortgages if private sector mortgage loan services are not reasonably available. The ICBND support the extension of this program so small community banks can continue to offer these services to their community. As you know, the amount of regulations that go with the origination of residential mortgages is phenomenal and is increasing and changing all the time. It is very costly for small banks to keep up on the regulations and to comply with all the laws so it is a big benefit to have the Bank of North Dakota assist in this area.

I can tell you, that my bank, Starion Financial has branches in 5 small communities though out ND and if they were not branches of our bank, they would struggle in making these loans. I can tell you, that we have several people working full time in Compliance and they continually train and educate our staff in this area so we can maintain

compliance with the regulations and offer these products. Small banks do not have this luxury because of the costs associated with training and technology.

Mr. Chairman and members of the Committee, I urge your support of Senate Bill 2064 and would be happy to answer any questions you may have.

PROPOSED AMENDMENT TO SENATE BILL NO. 2064

Page 1, line 9, after "institution" insert "or credit union"

Renumber accordingly

line 16 ^{Pg 2,}
, + line 4

Submitted by

Credit Union Association of the Dakotas

JANUARY 10, 2013

PROPOSED AMENDMENT TO SENATE BILL NO 2064

Page 1, line 9, after "institution" insert "or credit union"

Page 1, line 16, after "institution" insert "or credit union"

Page 2, line 4, after "institution" insert "or credit union"

Renumber accordingly

TESTIMONY TO THE
HOUSE INDUSTRY, BUSINESS & LABOR COMMITTEE
ENGROSSED SENATE BILL 2064
ERIC HARDMEYER, PRESIDENT AND CEO
BANK OF NORTH DAKOTA
MARCH 19, 2013

(1)
SB2064
3-19-2013

Senate Bill 2064 allows the Bank of North Dakota (BND) to establish a permanent residential mortgage loan program under which the Bank may originate residential mortgages if private sector mortgage loan services are not reasonably available. This program was created during the 2011-13 legislative session at the request of our financial partners in North Dakota. These banks and credit unions have been burdened with regulatory compliance on home loan originations since the financial crisis that began in late 2007. Further, it is difficult for community lenders to justify adding sufficient compliance staff to originate a handful of loans per year. They have requested BND's help so they can assist their customers by providing home loans without having to refer their customers to a competitor or out-of-area lender.

This bill will eliminate the July 31, 2013 sunset clause and make this a permanent program. It will also eliminate the \$8 million program limitation and will provide BND flexibility to determine the maximum loan amount. As a senator described this when presented to the Senate, this allows BND to take the training wheels off. By removing the sunset and ceiling we are giving North Dakota lenders confidence that this program will be available to meet their needs. This comes at a particularly interesting time in our states' development; when we are seeing a resurgence of population because of energy development and a strong agricultural economy.

During this biennium BND has funded 15 loans totaling \$1.6 million and we have another 12 loans totaling \$1.5 million in process of approval or closing. These requests represent 18 different lenders from throughout rural North Dakota. BND has originated loans in all four quadrants of the state; through the referral process we have made mortgage loans for citizens in Bowman, Kenmare, Langdon and Gwinner.

Though the \$3.1 million in loan volume is not close to the ceiling of \$8 million, we only funded one loan in 2011 as BND's residential staff was busy helping flooded homeowners with the Rebuilders Loan Program.

This bill also eliminates the task of sending objection letters to other local financial institutions in that area. During the current biennium there have been no objections made by other lenders. In reality, because of potential negative public relations we think it is unlikely that another local lender will object to a local resident receiving a home loan from BND that was referred by a local competitor. This extra step also extends the loan approval timeframe by two weeks and leaves the borrower in a state of uncertainty.

We believe that this service fits well with our mission as the economic development bank for North Dakota and meets a need of our correspondent lending partners. Your approval of the proposed changes is recommended.

(2) SB 2064
3-19-2013

March 19, 2013

House IBL SB 2064

Chairman Keiser & Committee Members:

My name is John Brown and I am the Executive Vice President for Independent Community Banks of North Dakota (ICBND). We support SB 2064 and urge you issue a "Do Pass" on this legislation.

Having been a Community Banker for 36 years in ND I personally know how important it is to establish this as a permanent program for Bank of North Dakota. Additionally, I have visited with several of my member bankers who are using or plan to use this program in the future and they wholeheartedly agree.

The amount of paperwork that is required to complete a real estate loan is just overwhelming for the people buying a home, however, for smaller rural financial institutions the compliance that is required is very onerous. When you don't do that many real estate loans, it's very difficult to have the expertise of a trained employee. The whole objective is to help your customers in your community bank with their financial needs and if you can't they will go elsewhere for this type of lending.

The Bank of North Dakota has historically stepped in to help all the state financial institutions where the need arises. With all that is going on in our state it is not just the larger communities that are seeing more housing transactions. Everyone I spoke to really appreciates the residential mortgage loan program BND has put together.

One of the bankers I spoke with had a few issues, but I was able to address each of them with what is proposed in SB 2064. A rural banker had used a larger east coast institution to do home mortgages, but ran across an appraisal issue with no comparable home sales in the area. The east coast loan officer said he would try and help, but wanted to know how close this home was to a McDonald. The loan officer couldn't believe it was 60 miles and said he just couldn't help. Bank of North Dakota understands our rural areas and knows that is not uncommon!

Another example this rural banker had was dealing with one of his good farm customers who wanted annual payments instead of monthly. That is another concept BND understands and was able to help.

Bank of North Dakota has the trained staff, the knowledge of rural North Dakota and the desire to help. I hope you agree and will attach a "Do Pass" to SB 2064.