

APPENDIX E

Bank of North Dakota

The Bank of North Dakota was founded in 1919 and started as a result of an economic breakdown in the farming community. The collapse of the agricultural community was caused in part by the absence of viable financial institutions for which farmers could borrow money. As such, the Bank of North Dakota's main purpose was to encourage and promote agriculture, commerce, and industry in the State of North Dakota. The Bank was owned, controlled, and operated by the State. Therefore, the Industrial Commission consisting of the Commissioner of Agriculture, the Governor of North Dakota, and the Attorney General were the top governing body of the Bank of North Dakota. The governing body is assisted by a seven member advisory board consisting of people with banking experience. The Bank was not a State or Federally Chartered bank, but was formed separate from the regular banking regulations. Additionally, the Bank of North Dakota was not insured by the FDIC, but instead was backed by the full faith and credit of the State of North Dakota. All State funds, educational funds, and penal funds were deposited into the Bank of North Dakota. It was started with \$2 million in State funds. Today the Bank of North Dakota receives State, County, and Municipal fees and taxes in addition to the educational funds and penal funds.

Partnerships With Financial Institutions

North Dakota's Public Bank was successful in expanding the lending capacity of North Dakota's community banks, providing strength in competing against big out-of-state banks. This leveraging of funds by partnering with local banks and credit unions has been crucial to addressing such issues as the student debt crisis, the farm land crisis, the mortgage crisis, and reducing the effects of the 2008 economic downturn for its state. During the 2008 economic downturn, the country lost small banks and credit unions in almost every community. However, in North Dakota, approximately 16 local banks and credit unions exist per 100,000 in population compared to approximately 5 such financial institutions per 100,000 in population elsewhere in the U.S. A very desirable outcome of public banking is strengthening the number of thriving local financial institutions.

From the beginning their operating policy, which was established in 1919, pledged to "be helpful to and to assist in the development of state and national banks and other financial institutions and public corporations within the state and not in any manner, to destroy or be harmful to existing financial institutions." This extremely important emphasis has served to strengthen all banks and credit unions in the State of North Dakota and not act as a competitive force against financial institutions. Furthermore, the sharing of risk through partnerships enables financial institutions to better handle economic adversity. In 2014, the Bank of North Dakota had approximately \$2 billion in participations loans on its portfolio. This partnership helps local banks compete by enabling them to make larger loans than they could on their own. This keeps growing business lenders from obtaining loans at large out-of-state banks.¹⁴ Housing and

Mortgage Loans Throughout the bank's history it supported small mortgage loans in communities where other banks would not. In the 1940s, the public bank was instrumental in assisting with the selling back of farmland to families which had been foreclosed on in the 1930s. In keeping with its mission to support rather than compete with local banks, the Bank of North Dakota does not make home loans directly. Instead, it provides a secondary market, buying up mortgages originated by the state's local banks and credit unions. Approximately 20 years ago, the Bank of North Dakota began buying home loans made by local banks and credit unions. It serves as a secondary mortgage market to its local banks and credit unions. This serves two purposes: (1) It gives local banks and credit unions a way to move loans off their books and free up their resources to make new loans and (2) It provides an alternative to the big banks acting as the secondary market thus reducing handing off business to their competitors. The whole process of originating a home loan with a local community bank or credit union and then selling the mortgage to the Bank of North Dakota keeps the mortgage interest homeowners pay each month in the State of North Dakota rather than going to Wall Street. Together the Bank of North Dakota's mortgages and those held by local banks and credit unions keep 20-25 percent of the state's mortgage debt within North Dakota.

Business and Farm Loans

The Bank of North Dakota participates in business and farm loans with local community banks and credit unions. This mitigates risk for local financial institutions and expands the lending capacity for these institutions. It also provides a local alternative for borrowers so they don't have to go to the large out-of-state banks. It keeps the money local thus multiplying its contribution to the community.

Natural Disasters and Economic Crisis

They were instrumental in helping serve their communities in times of natural disasters such as the 1997 floods in Grand Forks. The Bank of North Dakota established a \$25 million line of credit for the City of Grand Forks, \$12 million line of credit for the University of North Dakota in Grand Forks, and \$25 million for state emergency management. It also set up a disaster relief loan program for families and businesses to help them rebuild. With this assistance, the Grand Forks economy recovered quicker than neighboring states.

The public bank has also been instrumental in assisting farmers in times of weather related disasters. They have refinanced loans and provided disaster relief loan programs. After the economic downturn in 2008, many banks saw their loan portfolio fill up with nonperforming loans. Due to these non-performing loans, banks had to keep larger amounts of capital on the books. This created a balance sheet crisis that caused small community banks and credit unions around the country to fail. Banks and credit unions in North Dakota turned to the Bank of North Dakota to help them increase their capital ratios by buying loans on their books and infusing them with new equity investment through its bank stock loan program.

Student Loans

By the end of 2014, the bank had refinanced over \$100 million in student loans, saving borrowers significant money by cutting their interest payments and keeping the interest paid within the State. Since student loan debt is a major issue nationwide, this forward thinking sets an example for other institutions and communities.

General Fund

According to the Institute for Local Self Reliance, over the last 21 years the Bank of North Dakota has generated almost \$1 billion in profit with approximately \$400 millions of that going into the State's General Fund to support education and public services. This has significantly reduced the tax burden on residents and businesses.

Conclusion

In summary, by the end of 2014, the Bank of North Dakota had \$652 million in capital and \$7.2 billion in assets. Additionally, the bank has grown substantially over the last two decades with profits increasing from \$22 million in 1995 to \$111 million in 2014.

According to the Wall Street Journal, it is more profitable than Goldman Sachs or JPMorgan Chase.

Sources:

(1) The Institute for Local Self Reliance, "Public Banks: Bank of North Dakota" July 2, 2015,

The Bank of North Dakota Website: www.bnd.gov