

Bank of North Dakota

Updated on May 5, 2011

North Dakota is the only state so far that has established a publicly owned bank. Founded in 1919, the Bank of North Dakota has a mission to “promote agriculture, commerce, and industry” and “be helpful to and assist in the development of... financial institutions... within the State.”

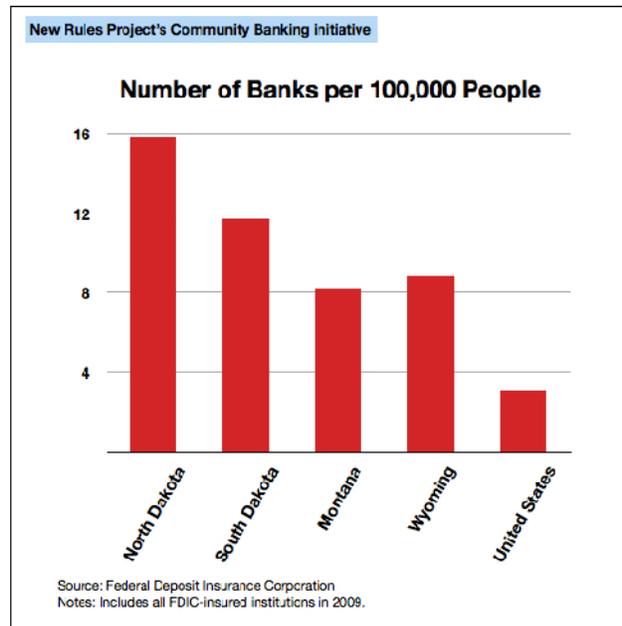
BND functions primarily as a “banker’s bank.” Aside from student loans, BND does little in the way of direct lending. Much of its \$2.8 billion [loan portfolio](#) consists of participation loans in which BND finances part of a loan made by a local community bank. By sharing in these loans, most of which fund businesses and farms, BND expands the lending capacity of North Dakota’s community banks and absorbs some of the risk associated with each loan. BND also provides a secondary market for residential mortgages, buying loans originated by community banks and thus freeing them to make more loans.

Thanks in large part to BND, community banks are much more robust in North Dakota than in other states. North Dakota has 35 percent more banks per capita than South Dakota, and four times as many as the national average ([see our graph](#)). While locally owned small and mid-sized banks (under \$10 billion in assets) account for only 30 percent of deposits nationally, in North Dakota they have 72 percent of the market.

By helping to sustain a larger number of community banks than have survived elsewhere and by enabling them to devote more of their assets to productive loans (as detailed below), BND has strengthened North Dakota’s economy, helped small businesses and farms grow, and spurred job creation in the state.

History and Structure

Desperately poor and tired of being at the mercy of out-of-state economic powers, North Dakota’s farmers launched the Nonpartisan League in 1915. This political party united progressives, reformers, and radicals behind a platform that called for returning control of the state’s economy to its people. At the time, farmers were utterly dependent on out-of-state grain milling companies, national railroads, and Minneapolis banks, all of which had been gouging farmers.



In the 1918 elections, the League won both houses of the legislature. One of the first bills these new lawmakers passed created a publicly owned grain mill, the [North Dakota Mill and Elevator](#), and a publicly owned bank, the [Bank of North Dakota](#) (BND).

BND is governed by the state's [Industrial Commission](#), consisting of the governor, attorney general and the commissioner of agriculture, all elected officials. The commission, in effect, serves as the bank's board of directors. The bank also has a seven-member advisory board, which is appointed by the Governor and consists of people with expertise in banking, including representatives of community banks.

The primary deposit base of the BND is the State of North Dakota. All state funds and funds of state agencies (excluding pension funds and trusts managed by the state) are deposited with the bank as required by law. The bank pays a competitive interest rate that is generally at about the midpoint of rates paid by other banks in the state.

Individuals may also open accounts at the bank, but BND does not market these services and does not have ATMs, branch offices, and other standard features common to retail banks. Deposits from individuals account for less than 2 percent of the bank's total.

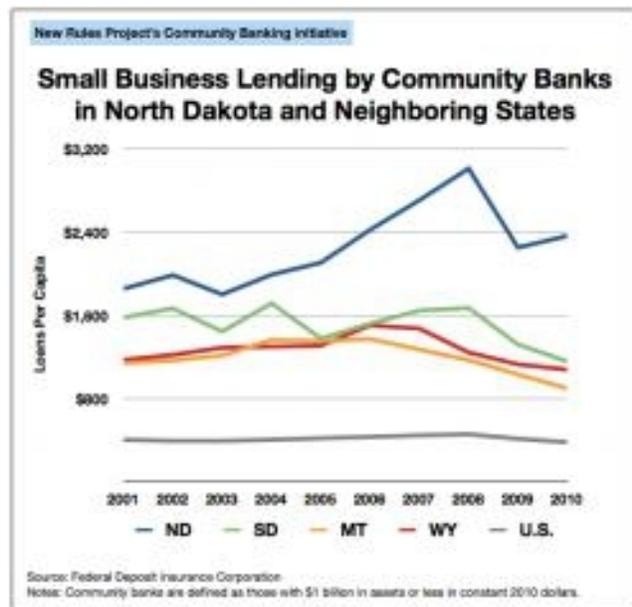
In contrast to most commercial banks, BND is not a member of the Federal Depository Insurance Corporation. Its deposits are instead guaranteed by the state of North Dakota.

Support for Community Banks and Economic Development

Part of the core mission of the Bank of North Dakota is to assist and support North Dakota's community banks. BND has relationships with almost all of the state's 94 local banks.

One of the chief ways BND strengthens these institutions is by participating in loans originated by local banks and credit unions. This expands the lending capacity of local banks. At the end of 2010, BND had about \$1.2 billion in participation loans in its portfolio, an amount equal to 19 percent of the total value of loans outstanding on the books of the state's small and mid-sized community banks. Being able to split loans with BND enables community banks to make larger loans than they could on their own. As their business and farm customers grow, they can continue to meet their lending needs, rather than see them migrate to larger banks.

BND also provides a secondary market for loans originated by local banks. About 15 years ago, the bank began buying residential mortgages. At the time, local banks were looking for an alternative. They no longer wanted to sell their home loans to larger banks like Wells Fargo, which would then market other products and services to those customers. BND stepped in and provided a secondary market that allows local banks to



free up lending capacity without handing customers over to their competitors. BND services the loans it buys, ensuring that North Dakota borrowers continue to have in-state servicing for their mortgages. In 2010, BND purchased about 7 percent of the home loans originated in the state. It currently holds about \$500 million in residential mortgages.

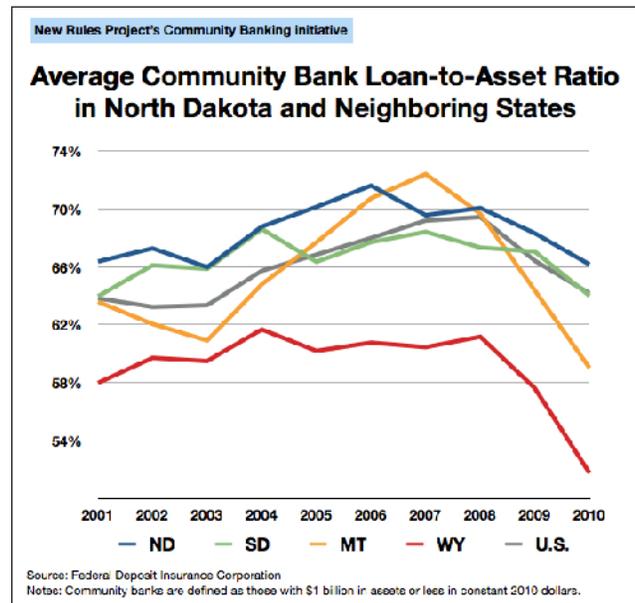
Part of BND's mission is to expand local ownership of banks and increase their capitalization. To this end, the bank has a bank stock loan program, which provides loans to finance the purchase of bank stock by North Dakota residents. In 2008, for example, BND provided a loan to help the employees of Ramsey National Bank & Trust in Devil's Lake, North Dakota, gain a controlling interest in the bank, ensuring that this institution, which was founded in 1892 and has about \$200 million in assets, will continue to be owned locally.

BND also functions as a kind of mini Federal Reserve. It clears checks for both banks and credit unions, provides coin and currency, and maintains an Automated Clearing House system that allows local banks to offer direct deposit and automated payment services to their customers. BND's Federal Funds program assists local banks with short-term liquidity needs and has a daily volume of over \$300 million.

Although municipal and county governments can deposit their funds with BND, the bank encourages them to establish accounts with local community banks instead. BND facilitates this by providing local banks with letters of credit for public funds. In other states, banks must meet fairly onerous collateral requirements in order to accept public deposits, which can make taking public funds more costly than it's worth. But in North Dakota, those collateral requirements are waived by a letter of credit from BND.

BND has helped North Dakota maintain a local banking sector that is markedly more robust than that of other states. As noted above, North Dakota has more local banks (relative to population) than all other states. Over the last ten years, the amount of lending per capita by small community banks (those under \$1 billion in assets) in North Dakota has averaged about \$12,000, compared to \$9,000 in South Dakota and \$3,000 nationally. The gap is even greater for small business lending. North Dakota community banks averaged 49 percent more lending for small businesses over the last decade than those in South Dakota and 434 percent more than the national average ([see our graphs](#)).

Not only are community banks more numerous and more active in North Dakota, but there is some indication that the Bank of North Dakota has enabled them to maintain a higher average loan-to-asset ratio — meaning they are able to devote more of their assets to economically productive lending, rather than safer holdings like U.S. government securities. North Dakota's community banks have generally maintained a higher average loan-to-asset ratio than their counterparts in four neighboring states and nationwide ([see](#)



[our graph](#)). That ratio has also declined much less steeply during the recession. North Dakota banks have contracted lending slightly in the last three years, but not nearly as much as banks have elsewhere.

In the wake of the financial crisis, regulators demanded that banks increase their capital and reserves. While many small banks have struggled to meet these requirements in a weak economy, North Dakota's local banks have had the benefit of BND, which has helped them increase their capital ratios by buying loans on their books and assisted them with raising equity investments through the bank stock loan program.

By and large, BND is run on a for-profit basis. The bank evaluates loan opportunities according to how likely they are to be repaid and provide a return for BND. As the bank's president and chief executive, Eric Hardmeyer, said in an [interview with American Banker magazine](#), "If you are going to have a state-owned bank, you have to staff it with bankers. If you staff it with economic developers you are going to have a very short-lived, very expensive experiment. Economic developers have never seen a deal they didn't like. We deal with that every day."

BND does forego some profit, however, in order to further economic development in the state. The bank offers several programs that accept higher levels of risk or lower returns on certain kinds of loans. Through its PACE Fund ("Partnership in Assisting Community Expansion"), for example, BND buys down the interest rate by 1-5 percent for some job-creating business loans. In 2009, this program saved business borrowers \$3.5 million in interest payments. BND makes about 50 of these loans a year (all in partnership with a community bank and a local economic development entity) and currently has about 300 outstanding, valued at \$50 million. BND operates a similar program for farmers called Ag PACE.

BND also has a Business Development Loan Program, which enables new and existing businesses to obtain loans that have a higher degree of risk than would normally be acceptable to a lending institution, while its Beginning Entrepreneur Loan Guarantee Program guarantees 85 percent of a loan of up to \$100,000 made by a local bank to a start-up entrepreneur.

Returns for the State

At the end of 2010, the Bank of North Dakota had \$327 million in capital and \$4.1 billion in assets. The bank has grown substantially over the last two decades. Its assets have quadrupled, and its net income rose from \$13 million in 1990 to \$62 million in 2010.

Part of the bank's earnings are used to expand its capital base, which in turn enables it to make more loans. The rest of its profits are paid into the state government's general fund, reducing the amount of tax revenue the state needs to collect. How much of each year's earnings are transferred to the state is determined by negotiation between the legislature and the bank's Governing Board. Over the last decade, BND has made \$300 million in payments to the general fund. This amounts to about \$1,200 per family.

Although BND has foregone some profit in order to expand credit and lower the cost of loans for businesses in North Dakota, the bank still has a relatively high return on assets (ROA), a

standard measure of bank performance. Its ROA was 1.46 percent in 2010, compared to a median ROA for all banks in the country of 0.61 percent. In 2006, BND's ROA was 1.99 percent, compared to a median of 1.00 percent for banks nationally.

The bank provides other direct financial benefits to the state. BND can borrow at the Federal Reserve's discount window and lend directly to local governments at lower rates than the municipal bond market provides.

BND can also provide emergency financing that would otherwise have to be shouldered solely by state and local government. When the Red River valley underwent massive flooding in 1997, BND quickly established a \$25 million line of credit for the City of Grand Forks, \$12 million 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. Partly as result of this support, the Grand Forks economy recovered much more quickly than its sister city of East Grand Forks just across the river in Minnesota.

Other States

Several states have begun to look at the idea of establishing a state-owned bank modeled on the Bank of North Dakota. Oregon, Washington, Hawaii, Maine, and Maryland are among the states considering bills in 2010-11 that would either create or study the idea of creating a state bank. This [analysis from the Center for State Innovation](#) provides a good examination of how such a bank could be capitalized and its potential growth trajectory.

More:

- [Bank of North Dakota web site](#)
- [Video: Bank of North Dakota](#)
This 26-minute video, produced by Prairie Public Broadcasting, chronicles the bank's history and current operations.
- [North Dakota State Statutes](#)
See sections beginning at 6-09 for the portion of the code that establishes the bank and governs its operations.
- [Policy of the Bank of North Dakota](#)
Adopted in 1920, sets out the mission and purpose of the bank.
- [Oregonians for a State Bank](#)
- [Oregon State Bank FAQ](#)
- [Center for State Innovation's Analysis of an Oregon State Bank](#)

- [Banking on America: How Main Street Partnership Banks Can Improve Local Economies](#), Demos, April 2011