October 2013 Volume 2, Issue 4

State of North Dakota DEPARTMENT of FINANCIAL INSTITUTIONS

A MESSAGE FROM COMMISSIONER ENTRINGER

My message this quarter is going to reiterate two issues addressed in previous newsletters, loan file documentation and lessening of credit standards. In late October, I attended Eide Bailly's Annual Bankers Seminar and had the opportunity to listen to Dr. Scott MacDonald's presentation on Aggregate Bank Performance. One of the slides hit me as particularly relevant to banking in North Dakota; the data presented showed the relationship of the Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans and the Net Percentage of Domestic Respondents Reporting Stronger Demand for Commercial Real Estate Loans. The respondents who indicated stronger demand for commercial real estate loans amounted to 40% while the respondents indicating tightened standards for commercial real estate loans was -20%! This tends to illustrate what a short memory we have related to the problems which caused much of the recent banking crisis! We are noticing a continued high degree of technical exceptions in our reports of examination (previously mentioned in the October 2012 newsletter) and I am also hearing that credit standards are being relaxed in some of our markets. What concerns me is that there appears to be a correlation between the data in Dr. MacDonald's presentation and the information we are noticing in our examinations. While I hate to sound like a broken record, I cannot help but think of the famous quote from George Santayana: "Those who cannot remember the past are condemned to repeat it." So once again, I am encouraging you to maintain strong lending standards in your policies and procedures and to make sure the loan files are appropriately documented.

I would also like to make you aware of a letter which I provided to a deposit placement service in October. A bill from the 2009 Legislative Session amended two sections of the North Dakota Century Code dealing with Governmental Finance, specifically Sections 21-04-09 and 21-06-07. These two sections pertain to the pledging of securities in lieu of a bond and authorized investments for public funds. The particular amendments addressed use of deposit placement services and requires the commissioner to deem such deposit placement services as "appropriate". The letter I issued in October can be found on our website at http://www.nd.gov/dfi/regulate/SBB%20Orders/CommissionerOpinion10222013%20.pdf ; this letter determines the Reich & Tang Deposit Solutions, LLC's Demand Deposit Marketplace program to be an appropriate service for use by a North Dakota public corporation.

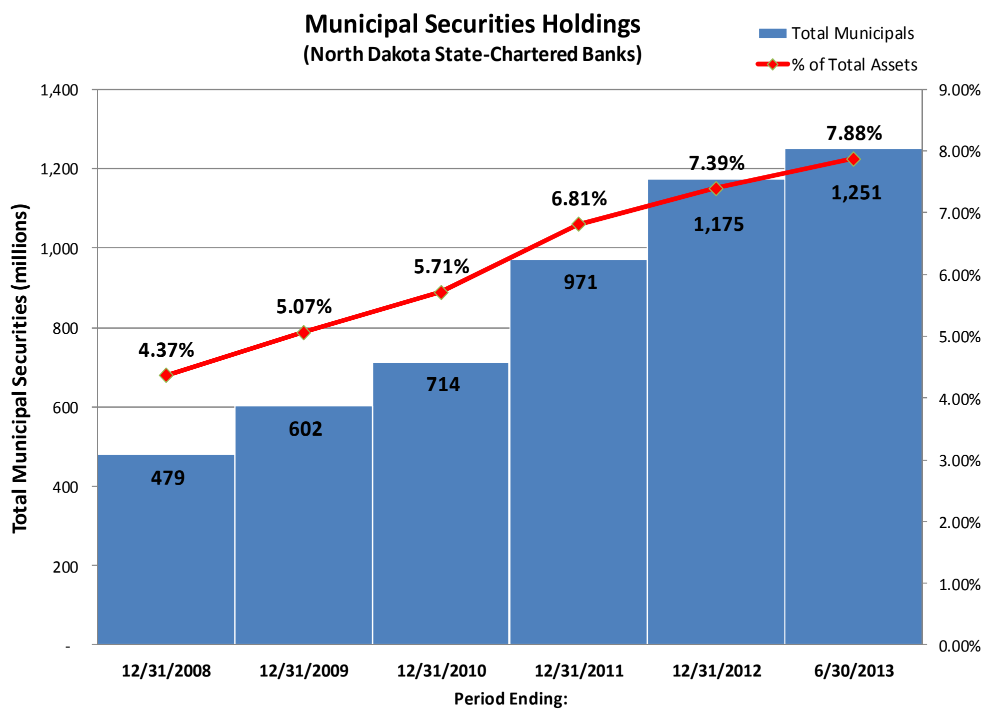
In closing I would like to wish you all a very happy and safe Holiday Season as well as a prosperous New Year!

NORTH DAKOTA RESIDENTS RANK 3RD IN SAVING FOR EMERGENCIES

The findings are part of a survey conducted by the Financial Industry Regulatory Authority, Inc. (FINRA) Investor Education Foundation. This financial capability study is designed to explore how Americans manage their resources and make financial decisions. North Dakota consumers ranked 2nd in least likely to have an "underwater" mortgage (6% vs. national average of 14.5%) and nearly 46% has a rainy day fund compared to the national average of 40%. Consumers in North Dakota are also more likely to pay their credit card bills in full each month: 57% vs. 49%. Survey results are available at: http://www.usfinancialcapability.org/. The Web site features a clickable map of the United States allowing users to compare the financial capabilities of ND residents with residents of other states and nationwide.

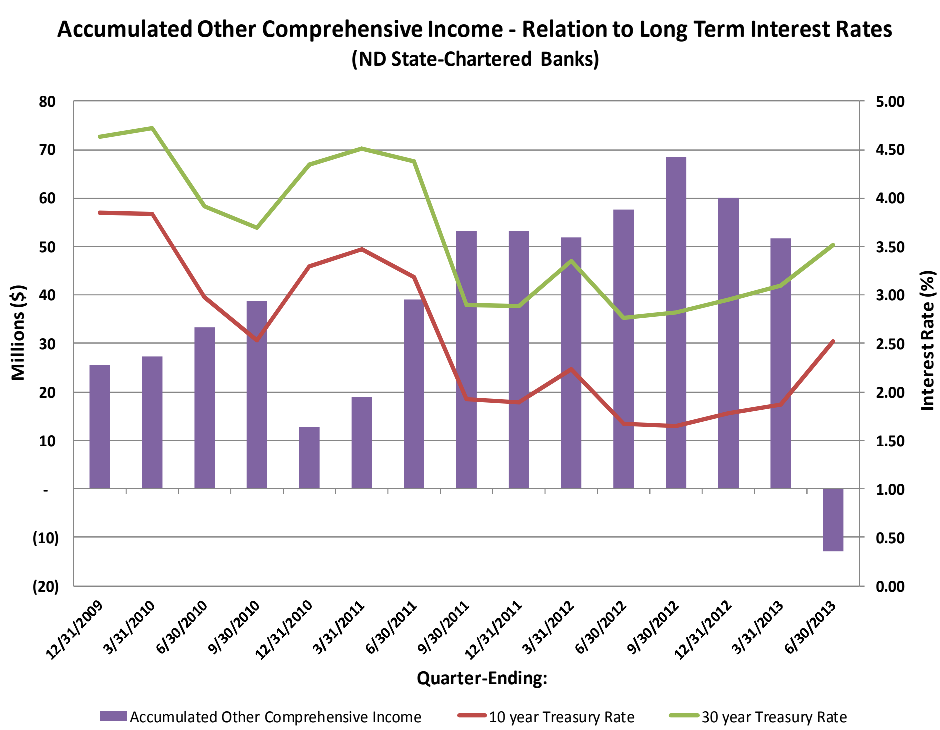
MUNICIPAL SECURITIES

This graph illustrates the increase across our state in the amount invested in municipal securities. This trend is not unique to North Dakota but is seen across the country. Banks should ensure appropriate due diligence and monitoring are conducted for any investments. Make sure bonds with higher risk characteristics are identified and that enhanced credit and financial statement analysis are applied as necessary. A good resource outlining examiner expectations is found in the FDIC Supervisory Insights Summer 2013: http://www.fdic.gov/regulations/examinations/supervisory/insights/index.html



INTEREST RATE RISK

You are likely noticing an enhanced examiner focus on your asset-liability and interest rate risk management program. The FDIC sent out a Financial Institution Letter on October 8, 2013, titled Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment. This FIL re-emphasizes the importance of effective measurement and modeling. To illustrate how a change in rates can impact you, take a look at this graph showing Accumulated Other Comprehensive Income in relation to long term interest rates. The FIL is located here: http://www.fdic.gov/news/news/financial/2013/fil13046.html



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