Toward Designing a Public Bank for New Mexico

A report of the Alliance for Local Economic Prosperity Banking Committee

September 2020

More information about Alliance for Economic Prosperity at www.aflep.org

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APPENDICES

Toward Designing a Public Bank for New Mexico

1: Executive Summary

New Mexico needs a public bank, a bank that is owned by the people that will finance the needs of New Mexico. In short, a public bank is a financial institution where the state would deposit its money and use it for the good of New Mexico.

A public bank can reduce the costs of government services and infrastructure, help small businesses, increase capital for private-sector banking, and promote economic development. Public banks are not retail banks, like the corner bank branch. Instead, a public bank receives deposits from the state and reinvests them in New Mexico's communities, at lower rates than Wall Street banks charge.

The Alliance for Local Economic Prosperity (AFLEP), New Mexico's Public Banking Think Tank, has been working for 10 years to bring a public bank to New Mexico.

This paper describes the public bank's purpose and mission, the basics of what legislation to charter a bank could look like, what principles would guide the proposed bank's mission, its external and internal relationships with public and private sectors, and how it would structure its operations.

The proposed public bank for New Mexico, would be a "banker's bank," working with local governments and school districts to provide infrastructure loans in place of expensive bonds, and with community banks, credit unions and Community Development Financial Institutions (CDFI) to partner on loan programs for local economic development.

The model AFLEP is proposing has a 12-member board of directors. A Citizens' Nominating Committee would submit qualified candidates to the Governor, who would then appoint the board members. The pubic bank board will hire the president/CEO of the bank. Section 5 outlines the CEO's responsibilities, as well as qualifications and duties of an executive team.

AFLEP's Banking Committee has also worked closely with a team of faculty and graduate students at the University of New Mexico Anderson School to define a hypothetical Pro Forma that demonstrates how the bank would make money for New Mexico. Please see Section 6 for a summary of the analysis. By *investing* a small percentage of the Severance

Tax Permanent Fund to capitalize the bank, $50,000,000, the proposed New Mexico public bank would conservatively be lending more than $250,000,000 in five years. There is a market for the loan programs the bank would provide, ranging from small-business loans to municipal projects, including transportation infrastructure, and much more. New Mexico has been starved of local capital, and a public bank would bring low-cost finance to those businesses and governmental entities that need it.

A public bank will *save* New Mexico money. A public bank will *make* money for New Mexico. A public bank is feasible.

With this roadmap we believe that New Mexico can set the agenda for its financial future.

2: Purpose

The purpose of the proposed New Mexico state public financial institution, a state public bank, is to improve the state's focus, efficiency and effectiveness in the management of its funds by directing them toward investment within New Mexico.

The public bank's Mission is to invest in a way that both enhances the vitality and viability of New Mexico's communities and economic sectors (including increasing the potential of locally owned banks, credit unions and CDFI's) and advances the state's public and private economic and community well-being by investing to increase its human and social capital, build its infrastructure and regenerate its natural assets. [*]

3: Suggested Language for Bill, Describing the State Financial Institution to Be Created

The public bank of New Mexico is created as a state institution to own, control and operate a state-chartered bank.

The public bank of New Mexico shall serve as a fiscal agent of the state, of the New Mexico finance authority and of the state institutions, and any local governments in the state that choose it as their fiscal agent. The bank will serve as a depository for state deposits as defined by the State Legislature. Local governments and public-school

[*] See Appendix A

districts may deposit their funds in the public bank but are encouraged to bank with their local community banks and credit unions. The bank shall safeguard all deposits to it, and those deposits are guaranteed by the full faith and credit of the state.

The public bank of New Mexico shall make loans to public and private entities in an unbiased and consistent manner to provide opportunities for the growth of new and existing initiatives in agriculture, commerce, economic development, education, infrastructure and, as specified in law, other fields in the public interest in the state. The bank constituted as a Bankers' Bank will not compete with locally owned community banks and credit unions but will create loan programs in partnership with them for the purpose of enhancing the wellbeing and quality of life in communities throughout the state, toward increasing the State's human and natural capital. It will also manage revolving loan funds established for the purpose of infrastructure loans to public entities in New Mexico, and for long term loans to private parties.

4: Guiding Principles for Operations of New Mexico State Bank

To make New Mexico's public funds safe, local and working for New Mexicans, the following principles, are meant to serve as guidelines for:

External relationships to the New Mexico's executive and legislative branches, the private banking system and other community stakeholders in economic development;

Structuring the public bank internally to ensure: the safety of its deposits and capital, the soundness of its operations, and Mission congruence of its investments.

Guide to External Relationships

Principle with regard to law (Legally): The public bank will be a state-chartered bank, subject to state, federal and international banking laws, regulations and oversight applicable to the capacity and functions of this proposed financial institution.

Operational Relationship to the Federal Reserve and the FDIC:

The NM public bank would be a non-member participant in the Federal Reserve.

With regard to the public bank's prospective relationship with the FDIC, since insurance is not relevant, regulatory clarification will be needed. *[See* Appendix B*, "Deposit*

Insurance Applications From Proposed Publicly Owned Depository Institutions"]

Principle with regard to state government (Politically): Within the constraints of its charter and appropriate regulatory oversight, loan decisions and internal operations will be exclusively governed by the public bank's board of directors and its qualified banking officers, independent of influence from government officials, elected or appointed, or employees of the state.

The legislature will provide transparent policy direction and priorities for the public bank's development of loan-programs that will benefit local community economic development.

The state public bank and Cabinet Departments will establish appropriate working relationships with regard to: sharing research, data and services relevant to local economic and related human development opportunities and results.

The bank and legislature would be informed primarily by State agencies and officers who are working on: State economic generation and developing entrepreneurs, the State's fiscal health and business planning, capital adjustments and enhancing financial literacy.
Anticipated relationships would be with:
State Treasurer
Economic Development Department
Workforce Solutions
Agriculture
Education
Workforce development
Technical Schools
Colleges/Universities (research & teaching business & professional skills)
Ethics Commission

Principle with regard to local community banks, credit unions and CDFI's: The state public bank will not compete with local community banks and credit unions for deposits and loans; rather it will act through collaborative loan programs [*] and services to enhance their role as privately owned, value-adding financial institutions in their respective communities.

The public bank is a "banker's bank," and would not compete with the private banking

[*] See Appendix C: Bank of North Dakota Business Loan Programs

sector for retail banking customers. It would offer services to state agencies and be prohibited from offering accounts to private parties, including state employees; nor would it offer services such as credit/debit cards, or ATM services.

Principle with regard to substituting loans for public entity bonds: The bank will provide state and local infrastructure financing through direct loans to public institutions (state agencies, local governments and public-school districts).

Principle with regard to other long-term loans: The bank will develop programs that enable local community banks and credit unions to provide consumer and commercial long-term loans that require – for affordability purposes – fixed rate, long-term, full amortization.

Examples of such programs might include: 1) Homeowner solar installation loans for low-income borrowers whose utility payment record is excellent, requiring the loan's monthly payments not to exceed the borrower's previous three-year average of monthly utility payments; 2) Loans for multi-year transitioning from conventional farming or ranching practices to regenerative agriculture, is another potential example that may also require long-term financing.

Guide to Internal Operations

Principle with regard to Oversight:
Oversight authority of the public bank will primarily be with relevant federal and state regulators.

The bank's operational relationship with the Federal Reserve, Federal Home Loan Bank, and other systemic banking entities is discussed in Appendix D, a separate research memo prepared by Professor Reilly White, dated 1/7/2020.

Principle with regard to Internal Responsibilities and Authority:
The Board of Directors of the public bank will set bank policies that ensure the bank's viability and stakeholder interests, enable achievement of its public purpose, monitor the bank's overall ESG (Environmental, Social, Governance) performance, its compliance with its charter and regulatory authorities, and invest the CEO of the bank with responsibilities, appropriate authority and accountability to execute its policies and successfully execute the business of the bank.

Stakeholders include: the initial capital source, depositors, bank employees, the private

banking system, and New Mexico communities.
The board will more specifically be responsible for approving higher risk loans, as defined in credit criteria, and approve the bank's annual operating budget including compensation levels, and personnel policies. The Board will also oversee and ensure the Bank's adherence to its mission to make loans within the scope of its charter.

Principle to reconcile maintaining liquidity while keeping assets invested within the state: Bank loans must be of consistent term by deposit structure of the bank.

Principle with regard to ensuring the bank's safety and soundness: To ensure the integrity and viability of the bank, its fiduciary obligations and banking operations will be managed independently of each other within the bank, to protect against fraud, self-dealing, political influence and other corrupt practices.

The bank's Chief Executive Officer (CEO) will report directly to the board in regard to the bank's operational performance – financial status, risk and liquidity management, loan program execution, financial accountability, adherence to Bank Charter in types of loans and infrastructure improvements made in New Mexico, transparency – the status of its external relations, and accountability to the public.

The Chief Risk Officer (CRO) will report to the CEO and will independently report directly to the board on the status of the bank's fiduciary obligations including the auditing division of the bank: on salaries set by board, levels of risk and risk-based ratio, and ensuring that the legislature respects regulatory standards. [Adhering to FDIC requirements for "safety and soundness," which define: ratios, liquidity, etc.]

The CRO is accountable to the CEO and reports independently to the Board on the current and future need for effective technology for data analysis, internal system controls, risk management, credit risk, compliance monitoring and public information reporting when business practice changes or regulatory requirements occur.

Internal Audit Function reports directly to the Board, and to the CRO for management oversight.

Internal Audit will report all of the following findings directly to the Board: Annual Risk Assessment, Annual Audit Schedule, Whistle Blower Activities including: Reports and Results of Investigations, adherence to Bank Charter in types of loans and infrastructure improvements made in New Mexico, Identified Risk Assessment and Audit Issues, all Issue Resolution Plans, tracking of Issue Resolutions to Plan, completion dates and

Resolution Plans that have exceeded the required completion dates and sustainability of corrective action taken.

Annually, External Auditors will report directly to the Board on the efficacy of the bank's internal controls in identifying and correcting financial and operational weaknesses, risks and sustainability of corrective actions.

Principle with regard to distribution of earnings in excess of operational costs (net income): The State of New Mexico as capital provider for the public bank is therefore its "stockholder." The public bank board of directors annually approves what is returned to the state General Fund, after consideration of the bank's current viability, its projections for future loan demand, its capacity to serve its public benefit mission, its internal infrastructure needs and consultation with its capital provider, the Legislature.

As a general but flexible guideline for distribution of its annual net income, the bank shall credit 50% to retained earnings and pay a dividend equivalent to the remaining 50% to the state General Fund.

With regard to flexibility: In a given year under circumstances where 1) the bank's capital reserve is more than adequate for its projected loan portfolio, or 2) the State has an unfunded need for grant programs related to economic development, the bank's board of directors may agree to a disbursement of more or less than 50% of its annual net income, as long as disbursements above 50% are appropriated toward local economic development, including but not exclusive to: job training and technical business support. If the disbursement to the state budget is more than 50%, the appropriate state agency would be required to demonstrate persuasively that the disbursement above 50% would directly promote New Mexico's economic future; if the contemplated disbursement is less than 50%, the bank would have to demonstrate persuasively that to meet its immediate future loan demand requires an additional increase in its capital reserve beyond its retained earnings contribution to capital for that year.

Principle with regard to Conduct and Ethics: The bank shall adopt a Code of Conduct and Ethics to which all board members and bank employees would attest by signature.

The Compliance Officer, who reports to the CRO, will annually confer with a representative of the Ethics Commission for the purpose of reviewing the bank's accountability with regard to all Risk/Compliance and Internal Operational Policy and Procedures, and Code of Conduct and Ethics attestation oaths.

Any concerns raised by the State Ethics Commission representative regarding actual or potential ethical or code of conduct issues will require the Board to address the concerns and if unable to resolve them, would officially engage the full Ethics Commission for further guidance.

5: Outline of Internal Bank Structure

Board of Directors

The Board of Directors of the State Public Bank would consist of twelve (12) citizen members, one of which would serve as Chair.

Board member terms would be for four years, with a limit of two consecutive terms.

For continuity purposes, terms of membership would be staggered, so that each two years, four members would be newly elected or re-elected. (For initial board terms see "Commencement of Board" in footnote.)[*]

In the case of a tie vote, the proposed action would not prevail.

Criteria for Board Membership

A majority (at least 7 members) would have:
Successful management experience in banking finance and/or banking operations in a regulatory environment, or entrepreneurs with successful, sophisticated business borrowing experience; and

The other five members would be selected from leadership related to successful community economic development experience with triple bottom line outcomes, such as, Chambers of Commerce, Community Foundations, Indigenous organizations, Economic Development Districts and Councils of Government.

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[*] Commencement of Board – The terms of the first board of twelve would be for three different initial periods as follows:

- Four members for eight years, *without* the possibility of re-election,
- Four members for six years, *without* the possibility of re-election,
- Four members for four years *with* the possibility of re-election to an additional four-year term.

For all 12 members, evidence of whole-system thinking and evidence of civic involvement and care for community well-being.

No lobbyists or legislators would be eligible before a five-year hiatus.

Board members are not compensated for services. They are reimbursed for out-of-pocket expenses incurred in performance thereof.

Board Selection Process

The Governor, with input from the other elected executive officers, would appoint a Citizens' Nominating Committee of five members.

Each nominee would have finance or economic development backgrounds similar to the criteria for board membership – mainly finance or broad economic development backgrounds.

Each two years – after the initial board is selected – the Citizens' Nominating Committee would nominate up to 10 candidates from which four Directors would be appointed by the Governor for a four-year term.

The Governor would designate the initial Chair of the Board of Directors from among the appointed Directors; subsequent Chair appointments would follow the same procedure when the Chair of the Board position becomes vacant.

Input from the community with regard to possible candidates for the Public Bank Board would be invited by the Citizens' Nominating Committee.

Banking Staff [**]

Positions and Responsibilities

The bank president/CEO is directly responsible and shall report to the public bank's Board of Directors.

The CEO is responsible for the success of the bank, its continuing viability, its external relations with its creditors, banking and credit union partners and for the advancement

[**] [In 2018, BND has 181 staff, managing assets of $7.02 billion, with current capitalization of $861.9 million; and a loan portfolio totaling $4.5 billion, securities $1.9 billion, and other assets – including cash -- of $612 million.]

of New Mexico's local community prosperity, as well as for hiring its employees and maintaining and improving its financial health and the efficacy and integrity of its internal -operations and overall performance within fiscal and regulatory requirements, including, but not limited to, non-discriminatory and equal protection standards – to be set by the board of directors.

Selection of the President/CEO

- The Board of Directors would appoint a panel of five (5) of its members as an Executive Search Committee and set criteria for selection of first CEO.
- Executive Search Committee would nominate three to five candidates that meet the Board's criteria, from which the Board would select the CEO.
- Criteria for selection of CEO:
    - A successful executive banking background, and
    - Demonstrated community involvement.

Other Executive Employees

- CFO, COO and other administrative officers, except for the Chief Risk Officer (CRO), would be hired by the CEO.
- The bank's CFO is responsible for ensuring safety, soundness and viability of the bank's financial standing.
- The Chief Risk Officer (CRO) would be hired by the Board of Directors.
- The Bank's CRO will hold Certified Risk Manager (CRM) distinction and will be responsible for strategic thinking and planning in providing a vision that aligns with both corporate objectives and regulator expectations.
- In addition to recruiting candidates from the private sector, existing qualified employees of state fund(s) would be prime candidates for a variety of public bank positions.

Qualifications and Pay

Qualifications and Pay criteria relative to the banking industry
In order to attract the necessary capability and retain the quality of professional banking employees that the public bank will require to be successful, pay scales must be competitive in the professional banking marketplace – as determined by the board.

Roles and Systems Relative to:

<u>Loan decisions</u>

The CEO will chair and appoint an internal loan committee to approve bank loans less than a maximum dollar amount [to be determined]; loans above that range that are vetted and recommended by the loan committee will require board approval. Loan officers will individually have the authority to approve smaller loans under a to-be-determined dollar amount.

The CEO will submit criteria and procedures and the board will adopt policies accordingly toward establishing appropriate and effective relations within the New Mexico banking system – including, custom loan programs, working procedures with community banks and credit unions, regulatory authorities, etc.

The internal loan committee, risk management and compliance sections all have roles in executing these policies, that would be spelled out in the bank's management and operating policies.

Development of lending programs are to be guided and loan decisions are to be executed exclusively by the public bank's board of directors and professional banking officers, legally independent of political influence.

Risk management
Use established criteria for risk assessment, and in accord with portfolio criteria and sound established banking practices.

Draft Guidelines for Developing Loan Programs and Diversification of Loan Portfolio

The aim of public bank loan programs is to build community asset viability through the discovery of new community potential and by increasing existing local assets. This will require new data indicators to evaluate the effectiveness of each loan program.

In preparation for developing new loan programs, specific public bank staff would engage continually with local bankers, state agencies and other community leaders, to develop recommendations to bank staff.

Development of economic targets and their desired beneficial community impacts would be guided by legislative and executive branches with input from local communities, the public bank, private financial partners and economic development research.

To achieve these aims bank staff would develop and submit loan program proposals, to be approved by the board. Board approval or disapproval of a new loan program would be based on an evaluation of risk, potential community impact and the relative portion of the program to the bank's overall investment portfolio. Once a program is put into effect, the bank would test results and publicly report its assessment of positive and negative consequences, toward next stage improvement.

Such recommendations would be evaluated by taking into account: community equity, needs and opportunities, reconciled with the bank's portfolio balance and fiduciary responsibility and the resources of private banking partners

6: New Mexico Public Bank Pro Forma

A Pro-Forma is a hypothetical projection of the performance of an entity over time, based on certain stated assumptions.

The AFLEP Banking Committee and a team of UNM Anderson School of Management students: Cody Clements, Kaleigh Hubbard and Kyle Ryan, supervised by Professor Reilly White in collaboration with Steven Gluckstern, a finance advisor, developed a model for evaluating the bank's performance given certain assumptions. Based on the model, several iterations – ranging from very conservative to moderate – were processed to see how a New Mexico Public Bank would perform.

The pro-forma result that follows – just one of a number of possibilities – uses conservative assumptions to depict a state public bank's performance as it starts up over its first five years. The Assumptions re.: capitalization, initial deposits, loan demand, operations and retained earnings are listed below, with Results in the first five years following. Operations expenses are calculated commensurate with the level of bank activity. Distribution of Net Income follows the guidelines outlined in this paper above, (p. 9). The banking model, into which different assumptions can be input and tested, is available upon request.

A) First Year Assumptions

Capitalization[*]: $50,000,000
Beginning State Deposits: $50,000,000 – increased annually based on projected loan demand.
Loan Demand: $44,000,000 – increases annually.

[*] Assumption re: source of Capital: NM-SIC would invest less than 0.2% of its asset under management in the bank; the bank in turn would invest it's Capital Reserve in a 5% bond issued by the State of New Mexico.

Reserve for Loan Loss: 2% for agricultural and commercial loans; 4% for administered loans: $1,000,000
Operations:
Payroll: $2,230,000/year (see Appendix F: Mid-Point Compensation)
Overhead: $670,000/year
Distribution of Net Income:
To the State of New Mexico: 50%
To Retained Earnings: 50%

B) Projected Results

Year (Dec. 31)	**2022**	**2023**	**2024**	**2025**	**2026**
ASSETS					
Cash	$ 4,000,000	$ 9,963,374	$ 42,188,472	$ 95,984,873	$ 149,645,378
Net Loans	$ 44,000,000	$ 88,000,000	$ 135,720,000	$ 189,985,000	$ 251,765,750
Securities	$ 50,000,000	$ 50,000,000	$ 50,000,000	$ 50,000,000	$ 50,000,000
Fixed	$ 1,000,000	$ 1,671,238	$ 2,319,372	$ 2,983,544	$ 3,683,040
All other	$ 1,100,000	$ 1,102,000	$ 1,104,040	$ 1,106,121	$ 1,108,243
Total Assets	**$ 100,100,000**	**$ 150,736,612**	**$ 231,331,884**	**$ 340,059,538**	**$ 456,202,412**
Risk Rated Assets	$ 17,060,000	$ 17,133,058	$ 18,593,272	$ 21,000,770	$ 23,686,052
LIABILITIES					
Deposits	$ 50,000,000	$ 100,000,000	$ 180,000,000	$ 288,000,000	$ 403,200,000
Equity	$ 50,100,000	$ 50,736,612	$ 51,331,884	$ 52,059,538	$ 53,002,412
Total L + E	**$100,100,000**	**$ 150,736,612**	**$ 231,331,884**	**$ 340,059,538**	**$ 456,202,412**

For corresponding Income and Expense Statement and Cash Flow and more Balance Sheet detail, see Appendix E.

APPENDIX A: Opportunities for Financing

New Mexico's future and quality of life in part resides within the unmet demand and potential opportunity found within the gaps. Consider what is not now being seen or is being ignored. What is it that New Mexico will need for recovery and beyond and what are the voids that will need to be filled?

Infrastructure upgrade and development - Schools, upgrading roads, improve health care facilities, water, housing, broadband, rural community restoration
Transition to regenerative agriculture
Beginning Farmer
Hydroponics and aquaponics farming/controlled environment agriculture
Soil regeneration programs
Solar company, smaller scale infrastructure buildout
Emergent environmental fields/alternative energy
Agricultural pollution solutions
Community solar systems
Security and defense systems
Health related and emergency management/ preparedness
Innovative water containment and waste management systems
Research and development, tech partnership
Biotechnology, manufacturing, cybersecurity
Fracking cleanup and retrofit
Rapid technology deployment programs
Supply chain restoration/Supply chain transitions, conversion and fulfillment for manufacturing, semiconductor, solar power, space, food etc.
Algae and biofuels, algal biomass production and research
Integrated bioenergy solutions
Tribal farm projects
Hemp farming
Digital communication/communication systems
Fiber optic technology
3-D printing
Succession for family business/farm/ranch
Border development/import/export

APPENDIX B: FDIC Memo on Proposed Publicly Owned Deposit

Deposit Insurance Applications From Proposed Publicly Owned Depository Institutions

An application for deposit insurance for a proposed depository institution which would be owned or controlled by a domestic governmental entity (such as, for example, a state, county or a municipality) will be reviewed very closely.[5] The FDIC is of the opinion that due to their public ownership, such depository institutions present unique supervisory concerns that do not exist with privately owned depository institutions. For example, because of their ultimate control by the political process, such institutions could raise special concerns relating to management stability, their business purpose, and their ability and willingness to raise capital (particularly in the form of true equity rather than governmental transfers). On the other hand, such institutions may be particularly likely to meet the convenience and needs of their local community, particularly if the local community is currently un- or under-served by depository institutions. In view of such considerations and the policy issues they embody, the FDIC will closely evaluate such applications to ensure that the required statutory factors are met.

[Source: 63 Fed. Reg. 44756, August 20, 1998, effective October 1, 1998; amended at 67 Fed. Reg. 79278, December 27, 2002]

https://www.fdic.gov/regulations/laws/rules/5000-3000.html

APPENDIX C: Bank of North Dakota Business Loan Programs

The following list of loan programs are examples of the variety, breadth and types of loans that the Bank of North Dakota has created in participation with local community banks and credit unions throughout North Dakota. Under these programs, all of the loans are originated by the community bank or credit union in accord with the BND loan program criteria, prompting BND participation.

These examples are relevant to types of loan programs a New Mexico's public bank might create.

BND Business Loans: All of BND's business lending programs work with the local lender as the borrower's first contact. The local lender initiates the loan application with BND on behalf of the borrower.

COVID-19 Relief Programs: The intent of these two programs is to assist businesses that are negatively impacted financially by the COVID-19 pandemic. Both provide low cost, long-term working capital to ND businesses and cash flow to re-start business. A business may only apply for one of the two programs. If a business has multiple locations, it may only submit one application. The business expenses must be for a ND-based business and does not cover out-of-state locations.

COVID-19 PACE Recovery (CPR) Program

The COVID-19 PACE Recovery (CPR) Program assists local financial institutions in providing low interest loans to support North Dakota businesses in their economic recovery due to negative impacts from the COVID-19 pandemic. **Note: BND continues to work through the details for this program based on feedback. Website and fact sheet content will be modified as parameters are determined.** Learn more.
COVID-19 PACE Recovery Program Fact Sheet (PDF)

Small Employer Loan Fund (SELF)

The Small Employer Loan Fund (SELF) assists local financial institutions and certified development corporations (CDC's) in providing loans to assist very small North Dakota businesses in their recovery from the negative impacts caused by the COVID-19 pandemic. **Note: BND continues to work through the details for this program based on feedback. Website and fact sheet content will be modified as parameters are determined.** Learn more
Small Employer Loan Fund Fact Sheet (PDF)

Accelerated Growth Loan Program

The Accelerated Growth Loan Program assists North Dakota-based companies anticipating a period of dynamic growth. Learn more

Bank Participation Loan Program

This program provides loan participation financing to assist financial institutions and their customers. Learn more

Bank Stock Loan

Bank Stock Loans provides financing options for acquisitions or refinancing of a North Dakota financial institution's stock. Learn more

Beginning Entrepreneur Loan Guarantee

The Beginning Entrepreneur Loan Guarantee provides a loan guaranty to an originating lender providing business start-up financing or early stage business expansion. Learn more

Business Development Loan Program

The Business Development Loan Program assists new and existing businesses in obtaining loans when they have a higher degree of risk. Learn more

Export Enhancement Program

Export Enhancement Program provides a guarantee under the Export-Import Bank's Equipment Export Enhancement Program for North Dakota equipment manufacturers. Learn more

Flex PACE for Affordable Housing

Flex PACE for Affordable Housing provides financing with an interest buydown for new affordable multi-family housing units and non-residential child care projects, new or expanding, licensed in North Dakota. Learn more

Flex PACE Program

Flex PACE provides financing with an interest buydown for businesses deemed eligible by their local economic development entity. Learn more

Match Program

Match Program provides competitive interest rates to eligible, financially strong companies looking to move to or expand in North Dakota. Learn more

PACE Program

PACE Loans provide financing with an interest buydown for eligible businesses. Learn more

Small Business Administration (SBA) Guaranteed Loan Purchase Program

Through the SBA Guaranteed Loan Purchase Program, BND purchases the SBA guarantee, lowering the interest rate for borrowers. Learn more

USDA Government Guaranteed Loan Purchase Program

BND purchases a USDA guarantee, lowering the interest rate for the borrower. Learn more

Value-added Guarantee Loan
The Value-added Guarantee Loan assists North Dakota-based companies that want to invest in value-added agriculture and energy products that add value to North Dakota commodities. Learn more

Venture Capital Fund -- Venture Capital Fund provides gap financing between loans and equity for business start-up financing. Learn more

Loan Types for New Mexico - Loan Growth: First Year $44 M – Year 5 $252 M

Infrastructure (in lieu of bonds)
Beginning Entrepreneur
Business Development
Equipment/Inventory
Product Processing, Packaging and Distribution
Agriculture
Working Capital Lines
Disaster

APPENDIX D: Operational Relationship with Federal Reserve, Federal Home Loan Bank, Etc.

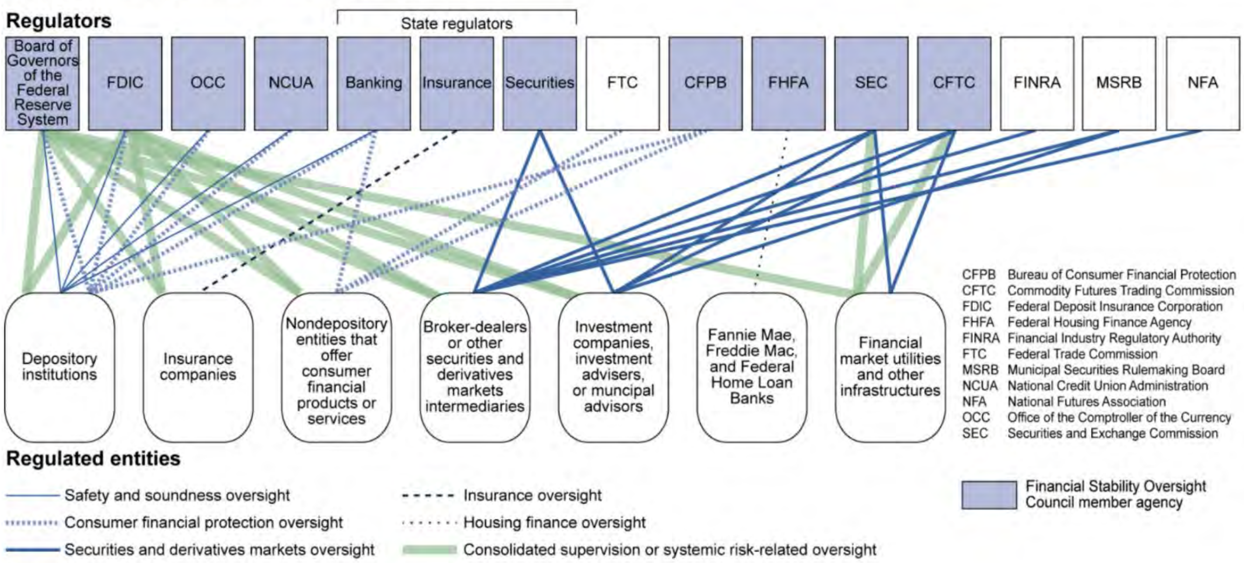
What is its operational relationship with the Federal Reserve, Federal Home Loan Bank, and other systemic banking entities? Would it be different from the Bank of North Dakota?

Prepared by Reilly White -- This version 1/7/2020

Banks can elect whether to have a state or a national charter; if they possess a state charter, they may also elect to be part of the Federal Reserve System. State chartered banks not part of the Federal Reserve System are supervised by their state regulator in addition to the FDIC.

The graphic below supplied by the Government Accountability Office (GAO) provides the framework of current US Bank Regulation. As a depository institution, a Public Bank in New Mexico could be state-chartered (via the New Mexico Regulation & Licensing Department) and regulated by the Federal Deposit Insurance Corporation (FDIC). The Office of Comptroller of the Currency (OCC) requires a specific regulatory structure and inclusion of the word *National* in the bank's title[1]. Likewise, the National Credit Union Administration (NCUA) is structured specifically to regulate federal credit unions. The Federal Home Loan Bank is overseen by the Federal Housing Finance Agency (FHFA).

U.S. Financial Regulatory Structure, 2016



Source: GAO. I GAO-16-175

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[1] See 12 U.S. Code § 22 and 12 CFR § 5.20(e)(1)(i).

The Bank of North Dakota currently operates as the *State of North Dakota* doing business as *The Bank of North Dakota* (BND). This unique regulatory arrangement was made possible by its early chartering. Notably, deposits at the BND are not insured by the FDIC but by 'the full faith and credit of the State of North Dakota'.[2]

In the California statue allowing for public banks, public deposits for municipal banks will be FDIC insured and collateralized, and the Department of Business Oversight (DBO) will operate as the state financial services regulator.

In current regulation, states typically require depository institutions to get FDIC insurance.[3] The combination of state-regulation by the New Mexico Regulation & Licensing Department and FDIC insurance would be likely be required for the bank to operate successfully and assuage any corruption concerns. Even with this regulatory structure, the public bank would be subject to federal regulation and enforcement actions (see Appendix, below).

Appendix: Background on Banking Regulation and Enforcement Actions

Currently, the US maintains three federal regulators[4]: The Office of the Comptroller of the Currency (OCC), established in 1863; the Federal Reserve System (FRS), established in 1913; and the Federal Deposit Insurance Corporation (FDIC), established in 1933. Banks can elect whether to have a state or a national charter; if they possess a state charter, they may also elect to be part of the Federal Reserve System. [5] Traditionally, different charters generated substantial differences between regulatory requirements and scope of activities. Agarwal et. al. (2014) note that charter standards have been converging, and chartering decisions are currently driven primarily by direct costs and perceived regulator accessibility. Large banks desiring to expand to multiple states often prefer national charters, while small banks prefer the lower fees common in state charters.[6]

The monitoring of financial firms occurs *off-site*, requiring depository institutions to file

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[2] See North Dakota Century Code 6-09-10.

[3] https://www.npr.org/sections/money/2009/04/do_banks_need_the_fdic.html. To further support this, see https://www.chicagofed.org/digital_assets/publications/economic_perspectives/1988/ep_nov_dec1988_part2_andrews.pdf where most non-FDIC insured banks were branches of foreign institutions.

[4] The National Bank Act of 1863 established the dual-level regulatory system, where commercial banks are regulated by both state and national regulators. Following the demise of the Second Bank of the United States in 1836, control of banking was devolved into state control. States ranged from having a single state-chartered bank (Illinois and Indiana) to outright bans on banking (Wisconsin).

[5] State chartered banks not part of the Federal Reserve System are supervised by their state regulator in addition to the FDIC.

[6] See Agarwal et. al. (2014), Bierce (2007), and Blair and Kushmeider (2006).

"Reports of Condition and Income", or *Call Reports*, quarterly; *on-site* monitoring is conducted via 'safety and soundness' regulations undertaken by the regulator.[7] Bank examiners use the information derived from on-site monitoring to establish the CAMELS[8] rating for the bank to summarize the financial conditions.[9] The Federal Deposit Insurance Improvement Act of 1991 required supervisors to provide examinations every 12 months for larger institutions. Since 2007, institutions with less than $500 million in total assets were required to have an examination every 18 months.[10]
Based on the financial condition established by both off-and-on-site monitoring, the regulator establishes whether sufficient cause exists to issue an *informal action* (aimed at establishing the banks' commitment to correct noted deficiencies) or the more severe *formal actions*[11], which are publicly disclosed. Formal actions include: *Cease and Desist Orders*, the most severe enforcement action and issues with or without consent; *Written Agreements,* enforceable, written contract signed by both the regulatory supervisor and the financial institution; and *Actions against Individuals*: individualized formal actions against offending parties affiliated with the financial institutions, including (but not limited to) officers, directors, employees, shareholders, attorneys, or accountants. [12]
Informal actions against financial entities sanctioned by the Federal Reserve Board include board resolutions, commitments, and most commonly, memoranda of understanding. In the latter, an informal agreement signed by both the regulator and financial institution designed to identify and remedy weaknesses in the firm's financial condition. Informal regulations are explicit about the need for taking firm action, yet taking action remains voluntary.[13] Noncompliance with informal actions is not without consequence, as they typically result in formal supervisory actions (see Jackson and Symonds, 1999). Informal actions are also substantially more frequent for different risk classes. For the FDIC and FRB, very few 3-rated institutions were given formal actions; however, 92% of FDIC and 73% FRB banks with CAMELS ratings of '3' were granted informal enforcement actions during the same period.[14]
State regulators and federal regulators have been coordinating since the 1980s (Agarwal

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[7] See Agarwal et. al. (2014). On-site regulations are conducted by a regulatory supervisor that examines additional documents, practices, and determines the condition of its loan portfolio.
[8] CAMELS is an acronym comprised of six regulatory components: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to Market Risk.
[9] Banks are evaluated on a 1-to-5 scale, with "1" and "2" indicating a bank with little regulatory risk. "4" and "5" risk ratings are banks offering the highest risk.
[10] Current supervisory examination policy can be found under US Code Title 12, §1820 (d. 3)
[11] Formal enforcement actions are governed by Section 8 of the FDI Act (12 U.S.C. § 1818)
[12] In the 2013 Report to Congress, the FDIC Inspector General concluded the current enforcement regime – including formal and informal actions – was both consistent and appropriate.
[13] Singh, D. (2012). *Banking regulation of UK and US financial markets*. Ashgate Publishing, Ltd..
[14] p. 111, FDIC OIG Report No. EVAL-13-002

et. al. 2014), with the Federal Financial Institutions Examination Council (FFIEC) establishing guidelines to evaluate the suitability of state examinations as federal substitutes. Since 1995, State and Federal regulators could take turns every cycle for examining state chartered banks.[15] Inconsistent regulation – and notably, a delayed corrective action – was partially responsible for the spectacular failure of Washington Mutual Bank. [16] Likewise, Agarwal et. al. (2014) find after extensive research that federal and state regulators are inconsistent: federal regulators downgraded banking institutions twice as frequently as state regulators.[17],[18]

Regulatory Disclosure and Insider Trading

Regulators (like inside traders) are party to material private information on the state of financial firms, but are treated under different sections of the US Criminal Code. Informal actions themselves are unenforceable in court[19]. Similarly, FINRA omits discussion of informal actions from its primary manual of sanction guidelines.[20] The FDIC's official guidance is reflected in its 2005 Financial Institution Letter regarding non-public supervisory information[21], suggesting limited criminal penalties as provided under 18 U.S.C. § 641.[22] Although substantial research exists suggesting that tradeable information provided by regulators exist[23], the disclosure of this information does not currently warrant the designation of 'insider trading' under the SEC,[24] and criminal penalties are substantially lower.

Regulatory parallels exist with debate on the disclosure rules on CAMELS ratings that

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[15] Eligible banks for alternating state and federal regulation have a CAMELS rating of "1" or "2" and are below $10 billion in total asset size.

[16] As noted in Agarwal et. al. (2014), the failure of WaMu in the absence the eventual deal between JP Morgan Chase and the FDIC would have depleted the entire Deposit Insurance Fund. WaMu was the 6th largest bank in the United States at the time of its failure.

[17] In a review of 119 formal enforcement actions across the FDIC, OCC, and FRB, the FDIC inspector general found that they were consistent in their determination and support. On average, firms under formal enforcement actions had ROA 2.0-2.5% lower, Tier 1 Capital 3.1-4.2% lower, and adversely classified asset ratios 6.0-9.2% higher than firms without enforcement actions.

[18] Scott (1977) finds that dual supervision worked to effectively eliminate inefficient rules and foster competition between regulators. Alternatively, former Fed Chair Arthur Burns famously critiqued the dual system as producing a "competition for laxity" *see* Burns (1974)

[19] See the current FDIC *Manual of Examination* Policies here: https://www.fdic.gov/regulations/safety/manual/section13-1.pdf

[20] See "Sanction Guidelines" p. 9 here: http://www.finra.org/sites/default/files/Sanctions_Guidelines.pdf

[21] See FDIC: FIL-13-2005, February 28, 2005

[22] Penalties are not to exceed $1,000 and one-year imprisonment; this compares with the current maximum criminal penalty for insider trading of 20 years and $5 Million, or $25 Million for non-natural persons (15 U.S.C. § 78ff)

[23] See Curry et. al (2003)

[24] For an overview of the legal arguments behind regulatory disclosure, see Dalley (2007)

similarly are not disclosed to the public. Even the Securities and Exchange Commission, despite being a government institution, is forced to use a model developed by a private firm to estimate individual bank risk ratings.[25] The debate on whether to publicize CAMELS ratings is discussed thoroughly by Feldman et. al. (2003), who note that concern that public disclosure would create a hostile environment towards bank regulators in addition to generating 'systemic' market instability. Similar arguments are made with regards to informal enforcement actions.

Of primary interest to our research is the extant literature on informal actions, bank policy, and short selling. Curry et. al. (2003) note that informal actions, while difficult to trace, offer substantial information with regards to signaling regulatory concern. Cole and Gunther (1998) and Gunther and Moore (2003) offer support that regulators provide new negative information about banks. This ties in generally with Kothari et. al. (2009) who find that managers readily release positive news, but often fail to disclose negative information. In a working paper, Balasubramnian and Palvia (2016) use a database of OCC CAMELS ratings in combination with short interest. They find that short interest increases prior to ratings downgrades, but does not decrease prior to upgrades, attributing their findings to short sellers' adept but complimentary use of publicly available information. Reeb et. al. (2014) examined the effect of insider trading on supervised industries, particularly the role of regulators. The authors find evidence that greater insider trading activity occurs around earnings dates in supervised industries resulting in an estimated $1 billion in annual wealth transfers.

Zombie Banks

The combination of sustained economic stress and a complex regulatory environment often results in banks that continue to function despite having an economic net worth below zero. These banks, coined "zombie banks" by Kane (1987) and further developed by Moyer and Lamy (1992), are unique to this sector.

The precise definition of 'zombie banks' has been varied. Kroszner and Strahan (1996) use *Book Value of Common Equity – Intangible Assets < 0* as a primary measure of *de facto* insolvency, since intangible assets is inclusive of factors such as tax deferred assets and goodwill.[26] Huizinga and Laeven (2012) define zombie banks as having a value of Tobin's *q*[27] less than one, a measure that incorporates both market and book values of

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[25] "Bank Exam Ratings May Not Be as Secret as You Think", *American Banker*, August 12, 2011.

[26] As noted in Kroszner and Strahan (1996), Regulatory Accounting Principles established that 'intangible assets' could be included in capital computations. Goodwill (the difference between purchase price and its actual value) is an intangible asset, and often increases substantially for marginally solvent institutions during financial crises.

[27] Tobin's *q* is defined as the market-to-book values of assets

equity. Other widely cited metrics (notably in Kane, 2000) are the presence of negative book value of equity, or having *Total Assets – Total Liabilities < 0*. In all three definitions, the firm has a severe and observable level of financial distress.

Recent literature on Zombie Banks has been limited, but recent concern over European Banks and Basel III regulations have revitalized interest in the topic. In an international database, Calderon and Schaeck (2015) find support that greater government intervention in banking[28] has the byproduct of increasing the number of zombie banks. Homar and Wijnbergen (2015) find that the benefits of recapitalizing troubled banks outweighs the economic drag caused by zombie banks, yet Bruche and Llobet (2014) detail how zombie banks often finance other poor credit strategies, and recapitalizing these banks often results in the continuation of disreputable lending practices. Research has acknowledged the balance between seeing zombie banks as either a consequence of necessary regulation, or broadly symptomatic of poor banking policy interfering with laissez-fair economics.

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[28] The Calderon and Schaek (2015) database is restricted to 'significant' guaranties designed to prevent large systemic losses in the banking industry, and does not include enforcement actions.

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APPENDIX E: Pro Forma Statements: Income, Balance Sheet and Cash Flow Statements

		1-Jan-22 31-Dec-22	1-Jan-23 31-Dec-23	1-Jan-24 31-Dec-24	1-Jan-25 31-Dec-25	1-Jan-26 31-Dec-26	1-Jan-27 31-Dec-27	1-Jan-28 31-Dec-28
1 . Income Statement								
Total Interest Income	USD		4,522,000	4,551,907	4,911,874	5,508,887	6,154,413	6,641,120
Total Interest Expense	USD		200,000	400,000	720,000	1,152,000	1,612,800	1,935,360
Net Interest Income	USD		4,322,000	4,151,907	4,191,874	4,356,887	4,541,613	4,705,760
Interest Rate Spread	%		4%	3%	2%	2%	2%	2%
Non Interest Revenues	USD		388,440	644,320	969,334	1,323,852	1,626,620	1,884,851
Total Net Revenue	USD		4,710,440	4,796,227	5,161,208	5,680,739	6,168,233	6,590,611
Allowance Provision	USD		1,000,000	1,000,000	1,100,000	1,265,000	1,454,750	1,672,963
Non Interest Expenses	USD		3,038,500	3,129,655	3,223,545	3,320,251	3,419,859	3,522,454
Depreciation	USD		35,328	71,300	110,009	152,615	198,676	248,306
Goodwill Impairment	USD		0	0	0	0	0	0
Earnings Before Tax (EBT)	USD		636,612	595,272	727,654	942,874	1,094,748	1,146,888
Taxes	USD		-	-	-	-	-	-
Net Income	USD		636,612	595,272	727,654	942,874	1,094,748	1,146,888
Retained Earnings b/f	USD		0	636,612	1,231,884	1,959,538	2,902,412	3,997,160
Net Income	USD		636,612	595,272	727,654	942,874	1,094,748	1,146,888
Common Dividends	USD		0	0	0	0	0	0
Stock Issuances	USD		0	0	0	0	0	0
Stock Repurchases	USD		0	0	0	0	0	0
Preferred Stock Issuance	USD		0	0	0	0	0	0
Preferred Dividends	USD		-	-	-	-	-	-
Retained Earnings	USD	0	636,612	1,231,884	1,959,538	2,902,412	3,997,160	5,144,049
Profit & Loss Check								

First Public Bank of NM

Statements

2 . Balance Sheet

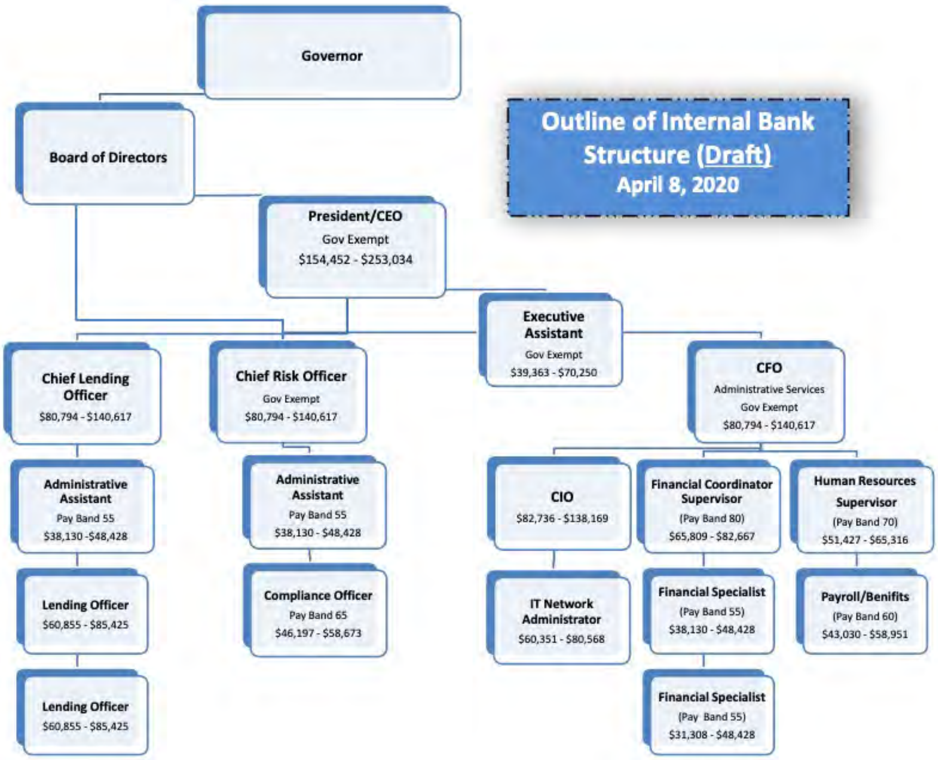
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		1.0	2.0	3.0	4.0	5.0	6.0	7.0
		1-Jan-22 31-Dec-22	1-Jan-23 31-Dec-23	1-Jan-24 31-Dec-24	1-Jan-25 31-Dec-25	1-Jan-26 31-Dec-26	1-Jan-27 31-Dec-27	1-Jan-28 31-Dec-28
Property, Plant & Equipment	USD	1,000,000	1,671,238	2,319,372	2,983,544	3,883,040	4,409,399	5,149,685
Cash	USD	4,000,000	9,903,374	42,188,472	95,984,873	149,645,378	160,227,741	128,852,693
Available for Sale Securities	USD	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Trading Assets / Other Securities	USD	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
New Agricultural Loans	USD	20,000,000	20,000,000	22,000,000	25,300,000	29,095,000	33,459,250	38,478,138
New Commercial Loans	USD	20,000,000	20,000,000	22,000,000	25,300,000	29,095,000	33,459,250	38,478,138
New Administered Loans	USD	5,000,000	5,000,000	5,500,000	6,325,000	7,273,750	8,364,813	9,619,534
Other	USD	0	0	0	0	0	0	0
Total Gross Loans	**USD**	**45,000,000**	**89,220,000**	**137,160,000**	**191,667,000**	**253,726,050**	**324,469,958**	**405,201,451**
Loans as % Deposits	%	*90%*	*89%*	*76%*	*67%*	*63%*	*67%*	*76%*
Loan Losses Allowance	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Net Loans	**USD**	44,000,000	88,000,000	135,720,000	189,985,000	251,765,750	322,189,613	402,553,054
Goodwill	USD	0	0	0	0	0	0	0
Other Assets	USD	100,000	102,000	104,040	106,121	108,243	110,408	112,616
Total Assets	**USD**	**100,100,000**	**150,736,612**	**231,331,884**	**340,059,538**	**456,202,412**	**537,937,160**	**587,468,049**
Risk Weighted Assets	**USD**	**17,060,000**	**17,133,058**	**18,593,272**	**21,000,770**	**23,686,052**	**26,261,294**	**28,783,473**
Funds from SIC	USD	0	0	0	0	0	0	0
Total Deposits	USD	**50,000,000**	**100,000,000**	**180,000,000**	**288,000,000**	**403,200,000**	**483,840,000**	**532,224,000**
Senior Debt	USD	0	0	0	0	0	0	0
Subordinated Notes	USD	0	0	0	0	0	0	0
Convertible Bonds	USD	0	0	0	0	0	0	0
Trading Liabilities	USD	0	0	0	0	0	0	0
Other Borrowings	USD	0	0	0	0	0	0	0
Total Liabilities	**USD**	**50,000,000**	**100,000,000**	**180,000,000**	**288,000,000**	**403,200,000**	**483,840,000**	**532,224,000**
Share Capital	USD	50,100,000	50,100,000	50,100,000	50,100,000	50,100,000	50,100,000	50,100,000
Retained Earnings to Common	USD	0	636,612	1,231,884	1,959,538	2,902,412	3,997,160	5,144,049
Preferred Stock	USD	0	0	0	0	0	0	0
Total Equity	**USD**	**50,100,000**	**50,736,612**	**51,331,884**	**52,059,538**	**53,002,412**	**54,097,160**	**55,244,049**
Total Liabilities and Equity	**USD**	**100,100,000**	**150,736,612**	**231,331,884**	**340,059,538**	**456,202,412**	**537,937,160**	**587,468,049**

Balance Sheet Check

3 . Cash Flow Statement		1-Jan-22 31-Dec-22	1-Jan-23 31-Dec-23	1-Jan-24 31-Dec-24	1-Jan-25 31-Dec-25	1-Jan-26 31-Dec-26	1-Jan-27 31-Dec-27	1-Jan-28 31-Dec-28
Earnings Before Tax (EBT)	*USD*		636,612	695,272	727,654	942,874	1,094,748	1,146,888
Taxes	*USD*		0	0	0	0	0	0
Add back: Allowance Provision	*USD*		1,000,000	1,000,000	1,100,000	1,265,000	1,454,750	1,672,963
Add back: Depreciation	*USD*		35,328	71,300	110,009	152,615	198,878	248,306
Add back: Goodwill Impairment	*USD*		0	0	0	0	0	0
Gross Operating Cash Flow	***USD***		**1,671,940**	**1,666,572**	**1,937,664**	**2,360,488**	**2,748,375**	**3,068,157**
(Increase) / Decrease in Gross Loans	*USD*		(44,220,000)	(47,940,000)	(54,507,000)	(62,059,050)	(70,743,908)	(80,731,494)
ChargeOffs	*USD*		-1,000,000	-1,000,000	-1,100,000	-1,265,000	-1,454,750	-1,672,963
Recoveries	*USD*		220,000	220,000	242,000	278,300	320,045	368,052
(Increase) / Decrease in Funds to Central Bank	*USD*		-	-	-	-	-	-
(Increase) / Decrease in Trading Assets / Other Securities	*USD*		-	-	-	-	-	-
(Increase) / Decrease in Other Assets	*USD*		(2,000)	(2,040)	(2,081)	(2,122)	(2,165)	(2,208)
Increase / (Decrease) in Funds from SIC	*USD*		-	-	-	-	-	-
Increase / (Decrease) in Total Deposits	*USD*		50,000,000	80,000,000	108,000,000	115,200,000	80,640,000	48,384,000
Increase / (Decrease) in Trading Liabilities	*USD*		-	-	-	-	-	-
Cash Flow from Operations	***USD***		**6,669,940**	**32,944,532**	**54,570,583**	**54,512,616**	**11,507,597**	**(30,586,456)**
Capital Expenditures	*USD*		(706,566)	(719,434)	(774,181)	(852,111)	(925,235)	(988,592)
Available for Sale Securities	*USD*		-	-	-	-	-	-
Cash Flow from Investment	***USD***		**(706,566)**	**(719,434)**	**(774,181)**	**(852,111)**	**(925,235)**	**(988,592)**
Senior Debt Increase / (Decrease)	*USD*		-	-	-	-	-	-
Subordinated Notes Increase / (Decrease)	*USD*		-	-	-	-	-	-
Convertible Bonds Increase / (Decrease)	*USD*		-	-	-	-	-	-
Other Borrowings Increase / (Decrease)	*USD*		-	-	-	-	-	-
Share Capital Increase / (Decrease)	*USD*		-	-	-	-	-	-
Common Dividends	*USD*		-	-	-	-	-	-
Stock Issuances	*USD*		-	-	-	-	-	-
Stock Repurchases	*USD*		-	-	-	-	-	-
Preferred Stock Issuance	*USD*		-	-	-	-	-	-
Preferred Dividends	*USD*		-	-	-	-	-	-
Cash flow from Financing	***USD***		-	-	-	-	-	-
Opening Cash Balance	***USD***		4,000,000	9,963,374	42,188,472	95,984,873	149,645,378	160,227,741
Cash Inflow / (Outflow)	***USD***		**5,963,374**	**32,225,098**	**53,796,401**	**53,660,505**	**10,582,362**	**(31,575,048)**
Cash Balance	***USD***	4,000,000	**9,963,374**	**42,188,472**	**95,984,873**	**149,645,378**	**160,227,741**	**128,652,693**
Cash Flow Check								

End of Sheet

APPENDIX F: Outline of Proposed Internal Bank Structure and Employee Salary and Benefit



Position	Status	Base Salary Min Annual	Employer Sponsored Benefits (41%)* Min Salary	Total Compensation (Minimum)	Base Salary Mid Annual	Employer Sponsored Benefits (41%)* Mid Salary	Total Compensation (Mid-Point)
President/CEO	Appointed	$ 154,452	$ 63,325	$ 217,777	$ 253,034	$ 103,744	$ 356,778
Executive Assistant	Appointed	$ 39,363	$ 16,139	$ 55,502	$ 70,250	$ 28,803	$ 99,053
Chief Lending Officer	Appointed	$ 80,794	$ 33,126	$ 113,920	$ 140,617	$ 57,653	$ 198,270
Administrative Asst.	Classified	$ 38,130	$ 15,633	$ 53,763	$ 48,428	$ 19,855	$ 68,283
Lending Officer	Classified	$ 60,855	$ 24,951	$ 85,806	$ 85,425	$ 35,024	$ 120,449
Lending Officer	Classified	$ 60,855	$ 24,951	$ 85,806	$ 85,425	$ 35,024	$ 120,449
Chief Risk Officer	Appointed	$ 80,794	$ 33,126	$ 113,920	$ 140,617	$ 57,653	$ 198,270
Administrative Asst.	Classified	$ 38,130	$ 15,633	$ 53,763	$ 48,428	$ 19,855	$ 68,283
Compliance Officer	Classified	$ 46,197	$ 18,941	$ 65,138	$ 58,673	$ 24,056	$ 82,729
CFO	Appointed	$ 80,794	$ 33,126	$ 113,920	$ 140,617	$ 57,653	$ 198,270
CIO	Classified	$ 82,734	$ 33,921	$ 116,655	$ 138,169	$ 56,649	$ 194,818
IT Network Admin	Classified	$ 60,351	$ 24,744	$ 85,095	$ 80,568	$ 33,033	$ 113,601
Financial Coor Super	Classified	$ 65,809	$ 26,982	$ 92,791	$ 82,667	$ 33,893	$ 116,560
Financial Specialist	Classified	$ 38,130	$ 15,633	$ 53,763	$ 48,428	$ 19,855	$ 68,283
Financial Specialist	Classified	$ 38,130	$ 15,633	$ 53,763	$ 48,428	$ 19,855	$ 68,283
Human Resources	Classified	$ 51,427	$ 21,085	$ 72,512	$ 65,136	$ 26,706	$ 91,842
HR Administrator	Classified	$ 30,518	$ 12,512	$ 43,030	$ 41,809	$ 17,142	$ 58,951
PROJECTED ANNUAL SALARIES/BENEFITS		$ 1,047,463	$ 429,460	$ 1,476,923	$ 1,576,719	$ 646,455	$ 2,223,174

FICA, PERA, RHC, VACATION/SICK, HOLIDAY, INSURANCE