Lise Kruse - Before the Appraisal Subcommittee

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Chairman Lindo, members of the committee, thank you for the opportunity to address you today and for your willingness to consider our request. My name is Lise Kruse, and I am Commissioner of the North Dakota Department of Financial Institutions. I'm here with Rick Clayburgh and Marilyn Foss, who represent the North Dakota Bankers Association. Our Department oversees 68 banks, 20 credit unions and over 4,700 non-depository licensees. I started with the Department 15 years ago as a bank examiner. Our primary responsibility is to ensure the safety and soundness of our institutions and that financial services are available to our citizens. I am a member of the Governor's cabinet and unfortunately his schedule did not allow him to attend. I am therefore representing the Governor today. One of the Governor's initiatives is to support healthy and vibrant communities. The Governor has made this request because he knows that granting the waiver will benefit all our citizens and all our communities.

Population alone is not a good indicator of scarcity. North Dakota is unique with only three MSAs. We are the size of New England but predominately rural with only 760,000 residents. The distance between Fargo and Williston, our two major cities on opposite corners of the state, is almost 400 miles and more than a six-hour drive. And if you drive only 10 miles from downtown Fargo, you will be standing in a sugar beet field. North Dakota has 4.3 appraisers per 1000 square miles – only Montana and Wyoming have fewer. Cass County – home to the state's largest city, Fargo, is comparable in size to Delaware. But Delaware has 285 appraisers per 1000 square miles, and Cass County has only 27 appraisers.

A year ago in a letter to the Appraisal Foundation, all four North Dakota and South Dakota senators expressed alarm about the appraiser scarcity in our two states, stating, "The perceived diminishment of this problem is concerning, especially as individuals in South and North Dakota are struggling to acquire mortgage financing due to the lack of qualified appraisers serving their communities." Appraisers did not contest the senators' concern; however, when we filed our initial waiver request three months later, the appraisers claimed that no such shortage exists.

It is concerning that Williams County in western North Dakota has a population of nearly 33,000 residents, but only three appraisers live in the county. The surrounding counties do not add much supply. McKenzie County next door is experiencing economic growth, but only has one appraiser with a population of 12,000. Although appraisers from other parts of the state also may cover this area, the three-hour drive from Bismarck makes it challenging. Some bankers have told me they consistently have appraisers come in from Minneapolis, but they must either drive 10 hours or fly, and the high cost is transferred to the customer. That is consumer harm.

As I mentioned, our department's top priority is to ensure the safety and soundness of our state-chartered institutions. I would not be party to this application if it presented unmanageable risks to the safety and soundness of North Dakota financial institutions.

State and federal regulators enforce the law and sound risk management principles. When there are violations, including when required appraisals are missing, we cite them. This application does not change that. Our department and my federal counterparts are indeed capable and will continue to ensure the safety and soundness of our institutions. It is important to note that examiners know that the most important consideration for any loan is the borrower's repayment ability, not the collateral value, which is a secondary repayment source.

We've heard the temporary Waiver referred to as a "nuclear" option. However, Congress enacted the Waiver in 1989. More recently, the federal agencies in 2017 published an advisory stating the Waiver should be used to address appraiser shortages and resulting delays. A few months later senior federal regulators highlighted the Waiver option when visiting North Dakota and other rural states. That is why we are here today. North Dakota needs this to be a real option.

We requested this waiver in good faith. We responded with additional information when requested. We provided available evidence to the Subcommittee to illustrate this problem is real. The scarcity is ongoing and has been around for a long time. Therefore, North Dakota requests that you provide us this relief, give our citizens another option and approve this request.

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