Dissident Voice

- WSJ Reports: Bank of North Dakota Outperforms Wall Street
  Ellen Hodgson Brown / 11/20/2014

WSJ Reports: Bank of North Dakota Outperforms Wall Street

by Ellen Hodgson Brown / November 20th, 2014

While 49 state treasuries were submerged in red ink after the 2008 financial crash, one state's bank outperformed all others and actually launched an economy-shifting new industry. So reports the *Wall Street Journal* this week, discussing the Bank of North Dakota (BND) and its striking success in the midst of a national financial collapse led by the major banks. Chester Dawson begins his November 16th article:

It is more profitable than Goldman Sachs Group Inc., has a better credit rating than J.P. Morgan Chase & Co. and hasn't seen profit growth drop since 2003. Meet Bank of North Dakota, the U.S.'s lone state-owned bank, which has one branch, no automated teller machines and not a single investment banker.

He backs this up with comparative data on the BND's performance:

[I]ts total assets have more than doubled, to $6.9 billion last year from $2.8 billion in 2007. By contrast, assets of the much bigger Bank of America Corp. have grown much more slowly, to $2.1 trillion from $1.7 trillion in that period.

… Return on equity, a measure of profitability, is 18.56%, about 70% higher than those at Goldman Sachs and J.P. Morgan …

Standard & Poor's Ratings Services last month reaffirmed its double-A-minus rating of the bank, whose deposits are guaranteed by the state of North Dakota. That is above the rating for both Goldman Sachs and J.P. Morgan and among U.S. financial institutions, second only to the Federal Home Loan Banks, rated double-A-plus.

Dawson goes on, however, to credit the BND's remarkable performance to the Bakken oil boom. Giving his article the controversial title "Shale Boom Helps North Dakota Bank Earn Returns Goldman Would Envy: US's Lone State-Owned Bank is Beneficiary of Fracking", he contends.

The reason for its success? As the sole repository of the state of North Dakota's revenue, the bank has been one of the biggest beneficiaries of the boom in Bakken shale-oil production from hydraulic fracturing, or fracking. In fact, the bank played a crucial part in kick-starting the oil frenzy in the state in 2008 amid the financial crisis.

That is how the Wall Street-owned media routinely write off the exceptional record of this lone publicly-owned bank, crediting it to the success of the private oil industry. It would be more accurate to say that the bank made the boom.

Excess Deposits Do Not Explain the BND's Record Profits

Dawson confirms that the BND played a crucial role in kickstarting the boom and the economy, at a time when other states were languishing in recession. It did this by lending for critical infrastructure (roads, housing, hospitals, hotels) when other states' banks were curtailing local lending.

But while the state itself may have reaped increased taxes and fees from the oil boom, the BND got no more out of the deal than an increase in deposits, as Dawson also confirms. The BND is the sole repository of state revenues by law.

Having excess deposits can hardly be the reason the BND has outdistanced even JPMorganChase and Bank of America, which also have massive excess deposits and have not turned them into loans. Instead, they have invested their excess deposits in securities.

Interestingly, the BND has also followed this practice. According to Standard & Poor's October 2014 credit report, it had a loan to deposit ratio in 2009 of 91%. This ratio dropped to 57.5% in 2014. The excess deposits have gone primarily into Treasuries, US government agency debt, and mortgage-backed securities. Thus the bank's extraordinary profitability cannot be explained by an excess of deposits or an expanded loan portfolio.

Further eroding the Dawson explanation is that the oil boom did not actually hit North Dakota until 2010. Yet it was the sole state to have escaped the credit crisis by the spring of 2009, when every other state's budget had already dipped into negative territory. Montana, the runner-up, was in the black by the end of 2009; but it dropped into the red in March of that year and had to implement a pay freeze on state employees.

According to Standard & Poor's, the BND's return on equity was up to 23.4% in 2009 – substantially *higher* than in any of the years of the oil boom that began in 2010.

The Real Reasons for Its Stellar Success

To what, then, are the remarkable achievements of this lone public bank attributable?

The answer is something the privately-owned major media have tried to sweep under the rug: the public banking model is simply more profitable and efficient than the private model. Profits, rather than being siphoned into offshore tax havens, are recycled back into the bank, the state and the community.

The BND's costs are extremely low: no exorbitantly-paid executives; no bonuses, fees, or commissions; only one branch office; very low borrowing costs; and no FDIC premiums (the state rather than the FDIC guarantees its deposits).

These are all features that set publicly-owned banks apart from privately-owned banks. Beyond that, they are safer for depositors, allow public infrastructure costs to be cut in half, and provide a non-criminal alternative to a Wall Street cartel caught in a laundry list of frauds.

Dawson describes some other unique aspects of the BND's public banking model:

It traditionally extends credit, or invests directly, in areas other lenders shun, such as rural housing loans.

. . . [R]etail banking accounts for just 2%-3% of its business. The bank's focus is providing loans to students and extending credit to companies in North Dakota, often in partnership with smaller community banks.

Bank of North Dakota also acts as a clearinghouse for interbank transactions in the state by settling checks and distributing coins and currency. . . .

The bank's mission is promoting economic development, not competing with private banks.

"We're a state agency and profit maximization isn't what drives us," President Eric Hardmeyer said.

. . . It recently started offering mortgages to individuals in the most underserved corners of the state. But Mr. Hardmeyer dismisses any notion the bank could run into trouble with deadbeat borrowers. "We know our customers," he said. "You've got to understand the conservative nature of this state. Nobody here is really interested in making subprime loans."

The Downsides of a Boom

The bank's mission to promote economic development could help explain why its return on equity has actually fallen since the oil boom hit in 2010. The mass invasion by private oil interests has put a severe strain on the state's infrastructure, forcing it to muster its resources defensively to keep up; and the BND is in the thick of that battle.

In an August 2011 article titled "North Dakota's Oil Boom is a Blessing and a Curse", Ryan Holeywell writes that virtually all major infrastructure in the boom cities and counties is strained or exhausted. To shore up its infrastructure needs, the state has committed hundreds of millions of dollars in revenue. Meanwhile, it is trying to promote industries other than oil and gas, such as companies involved with unmanned aircraft, manufacturing associated with wind energy equipment, and data centers; but the remoteness of the western part of the state, along with the high cost of labor, makes doing business there complicated and expensive.

Hydrofracking, which has been widely attacked as an environmental hazard, is not as bad in North Dakota as in other states, since the process takes place nearly two miles underground; but it still raises significant environmental concerns. In 2011, the state levied $3 million in fines against 20 oil companies for environmental violations. It also undertook a review of industry regulations and was in the process of doubling its oil field inspectors.

The greatest stresses from the oil industry, however, involve the shortage of housing and the damage to the county road system, which in many places consists of two-lane gravel and dirt roads. Drilling a new well requires more than 2,000 truck trips, and the heavy rigs are destroying the roads. Fixing them has been estimated to require an investment of more than $900 million over the next 20 years.

These are external costs imposed by the oil industry that the government has to pick up. All of it requires financing, and the BND is there to provide the credit lines.

Lighting a Fire under Legislators

What the Bank of North Dakota has done to sustain its state's oil boom, a publicly-owned bank could do for other promising industries in other states. But Dawson observes that no other state has yet voted to take up the challenge, despite a plethora of bills introduced for the purpose. Legislators are slow to move on innovations, unless a fire is lit under them by a crisis or a mass popular movement.

We would be better off sparking a movement than waiting for a crisis. The compelling data in Dawson's *Wall Street Journal* article, properly construed, could add fuel to the flames.

Ellen Brown is an attorney in Los Angeles and the author of 11 books. In *Web of Debt: The Shocking Truth about Our Money System and How We Can Break Free*, she shows how a private banking cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Read other articles by Ellen, or visit Ellen's website.

This article was posted on Thursday, November 20th, 2014 at 9:14am and is filed under Banks/Banking, Fracking.