

**SPECIAL STATE CREDIT UNION BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

May 3, 2013

A special meeting of the State Credit Union Board was called to order by Chairman Entringer in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota, at 8:30 a.m., Friday, May 3, 2013.

MEMBERS PRESENT: Robert J. Entringer, Chairman (*Office*)
Paul Brucker, Member (*Office*)
Don Clark, Member (*Fargo*)
Steve Tonneson, Member (*Minot*)
Melanie Stillwell, Member (*Williston*)

MEMBERS ABSENT: None

ALSO PRESENT: Aaron Webb, Secretary (*Office*)
Suzette Richardson, Administrative Staff Officer (*Office*)
Janilyn Murtha, Assistant Attorney General (*Office*)
Corey Krebs, Chief Examiner – Credit Unions (*Office*)
Darrell Olson, Town and Country CU (*Minot*)
Jay Landsiedel, Town and Country CU (*Minot*)

WAIVER REQUEST – TOWN AND COUNTRY CREDIT UNION, MINOT

Chairman Entringer explained that Town and Country Credit Union (TCCU) submitted the waiver request regarding the aggregate limit for construction and development (C&D) loan limit on March 1, 2013; however, Chairman Entringer informed President Olson any action on the request would be postponed until the Department could review results from its current examination.

Chairman Entringer indicated since this is the construction season the Department is bringing the request before the Board, and assuming the Board approves the waiver request it will then be forwarded to NCUA for consideration.

Chairman Entringer explained the Board approved a waiver request for TCCU approximately one year ago that increased its C&D lending limit from 15% to 30% of net worth.

Chief Examiner Krebs reviewed his Memorandum dated April 30, 2013, which indicated TCCU is requesting an increase in its C&D lending limit of 100% of net worth. Chief Examiner Krebs explained that credit unions are permitted to seek a waiver from the limits of Part 723.16 of NCUA's Rules and Regulations and Section 13-03-16-08 of the North Dakota Administrative Code.

Chief Examiner Krebs indicated TCCU has provided the necessary data and appears to meet the criteria necessary to obtain a waiver; adding that this request does not create any immediate safety and soundness concerns for TCCU.

Chief Examiner Krebs indicated following discussions with NCUA, the Department recommends approval of a 45% of net worth limit for C&D loans, on the condition the additional 30% of net worth be used exclusively for the construction of office buildings, owner-occupied (business) buildings, apartment complexes, and 1-4 family dwellings.

Chief Examiner Krebs added the Department also recommends this waiver be contingent upon TCCU's continued development of a reasonable concentration risk policy, including geographic C&D lending limits, and also the development of reasonable stress testing, which are both to be completed by December 31, 2013.

Chairman Entringer reiterated the Department held a conference call with NCUA, as well as many telephone conversations with President Olson, which resulted in President Olson providing supplemental information on April 29, 2013, which was provided to the Board.

Chairman Entringer indicated NCUA is comfortable with granting TCCU a C&D lending limit increase to 45% of its net worth.

President Olson referenced the September 12, 2012, information provided by NCUA which provides for waiver requests, promotes member business lending limit, etc., which indicates NCUA support.

President Olson reiterated TCCU's waiver request does not create any immediate safety and soundness concerns, which is outlined in current financial statements provided to the Board.

President Olson indicated within the past two years TCCU has been rated in the top 1% of credit unions in the country for soundness and key financial ratios. President Olson added TCCU's capital is good, and understands the risks in northwest North Dakota due to the oil industry. President Olson indicated TCCU is increasing its allowance for loan loss at a rapid pace (1.43%).

President Olson indicated he believes the numbers allowed under the aggregate construction and development loan limit are extremely low numbers.

President Olson explained TCCU has approximately \$40 million in net worth and under the 45% limitation, TCCU would be allowed approximately \$18-\$20 million for C&D loans; however, have to reduce that in half since the credit union is required to include the unfunded amount, which results in a total of \$9-\$10 million the credit union can lend with the increased waiver of 45%.

President Olson indicated there are approximately \$1 billion of building permits in Minot alone, and TCCU would be restricted to \$9 million even though it is one of the lead lenders in North Dakota.

President Olson stated he believes the bank competitors do not have any regulations in this area.

President Olson indicated TCCU has very experienced lending staff, and explained the credit union's thought process for both commercial and agricultural lending.

President Olson stated TCCU cannot serve its members without an increased lending limit, adding he feels the 45% increase is not sufficient.

President Olson indicated he does not believe this is a safety and soundness issue; therefore, questioned why TCCU be limited to the 45% increase. President Olson stated he understands the action taken by the State Credit Union Board has to be forwarded to NCUA for their consideration and action; adding if the State Credit Union Board would approve the 100% waiver but NCUA reduces it to 45%, he intends to contact the North Dakota congressional delegation to inform them of this issue.

President Olson reiterated he is requesting approval by the State Credit Union Board for a 100% waiver for TCCU.

Member Clark questioned how the previous waiver granted by the State Credit Union Board affected TCCU, and President Olson explained TCCU is presently allowed 15% of its net worth for C&D loans which is not near enough to allow TCCU to help the community.

Member Clark asked what the average duration of these loans is, and President Olson stated they would be typically less than one year; adding that once a project is completed, that loan is put under permanent financing.

Member Clark indicated TCCU has four branch locations in the Fargo area, with the fifth building in process, and stated TCCU does a lot of building in that area, so this waiver request will affect that area as well as northwest North Dakota.

Chief Examiner Krebs addressed the process of a project being classified as C&D to a commercial real estate loan, adding that regulation implies there is some element of when property is functional versus complete. Chief Examiner Krebs stated there are times when a property is complete but will have to remain as a C&D loan for a longer period of time; however, does not expect those situations at TCCU at this time.

Member Stillwell indicated she did not receive a copy of the TCCU's Business Lending Policy, and Chairman Entringer stated because it was very lengthy it was not provided to the Board members.

Member Stillwell questioned what kind of limits TCCU has now and what limits are expected. President Olson stated by regulation TCCU is limited to lending 75% maximum on C&D loans; adding TCCU has different internal guidelines for both northwest and eastern North Dakota, as TCCU is more comfortable doing a full 75% loan to value in Fargo than in Minot and/or Williston. President Olson stated that for every loan TCCU makes, approximately 12-20 loans are refused.

Chairman Entringer asked if it is a fair assumption that TCCU considers loan requests on a case-by-case basis in northwest North Dakota, and never more than 75%. President Olson agreed this is correct, reiterating TCCU never goes beyond 75% in any area.

Member Brucker stated he believes TCCU has presented a strong case with supporting numbers, and through the examination process TCCU has proved it has done well with the waiver granted by the State Credit Union Board previously. Member Brucker referred to the request by TCCU for a 100% waiver, and since NCUA has not given the Board a recommendation as to what percentage would be allowable, he questioned if President Olson would be satisfied if the Board approved a 75% waiver with less restriction, or should the Board consider the 100% waiver or nothing. President Olson stated TCCU would accept any waiver increase the Board approved; however, requests the Board take a stand and approve the 100% waiver request.

Member Tonneson questioned if the construction loans that are rolled into permanent financing causes any restrictions for TCCU at this point, and President Olson stated that is correct. President Olson added TCCU is working with a member business lending CUSO to get more loans approved in the area.

Member Stillwell asked if a certain amount is set aside for allowances per month or based on current loans, and also if TCCU works with the Bank of North Dakota on any loans. President Olson stated TCCU budgets approximately \$100,000 per month and plans to continue building the allowance.

Jay Landsiedel provided background information regarding the allowance account for the Board.

President Olson informed the Board that TCCU is in the position where it could write off every single C&D loan and capital would still remain over 9%.

In answer to Member Stillwell's previous question, President Olson stated TCCU has worked with the Bank of North Dakota on many loans.

Chairman Entringer referred to March 31, 2013, Call Report data indicating commercial loans to net worth for TCCU is currently 281%, and explained that even though banks are not limited in regard to C&D loans, there is guidance for commercial lending, which is a cap of 300%. Chairman Entringer indicated without significant concentration analysis and stress testing of bank portfolios, 300% becomes a limit; therefore, resulting in the question of what percentage is enough for commercial lending for TCCU. President Olson stated he is not sure what that number is, but added that TCCU understands the concentration and diversification issues.

Chairman Entringer indicated that NCUA will expect that TCCU have significant processes in place to monitor concentration risks and stress testing. Chairman Entringer indicated Chief Examiner Krebs has recommended the Department's approval of the waiver request be contingent upon TCCU's continued development of a reasonable concentration risk policy, including geographic C&D lending limits, and also the development of reasonable stress testing, which are to both be completed by December 31, 2013.

Member Tonneson indicated he does not have a problem granting TCCU the 100% waiver request without limitations, and NCUA can make its own decision.

Member Brucker agreed with Member Tonneson; however, because of safety and soundness issues suggests the Board approve a 75% waiver. Member Brucker continued if NCUA also approves a 75% waiver and if TCCU's numbers continue to support the increase, the Board could revisit this issue again.

Member Stillwell indicating she can relate to the situation in northwest North Dakota and stated the demand for loans is very strong. Member Stillwell stated she feels 45% is very limiting for TCCU; adding she believes NCUA will not agree with the 100% request; however, if the Board grants a 50-60% waiver there is the possibility that NCUA will lower that amount.

Member Clark asked President Olson to explain TCCU's options if the Board only approves a 45% waiver. President Olson explained he would contact North Dakota congressional representatives as they have expressed concern as to how regulatory burdens are affecting financial institutions.

It was moved by Member Tonneson and seconded by Member Brucker to approve the request by Town and Country Credit Union, Minot, for a 100% net worth limit for construction and development loans without limitations.

Chairman Entringer suggested an expiration date of June 30, 2014, be placed on the waiver request, which gives the Department results from another examination of TCCU and the June 2014 State Credit Union Board to possibly extend the waiver request. Member Brucker agreed this may make NCUA more comfortable with the approval of the waiver. Chairman Entringer also indicated Chief Examiner Krebs' recommendation that the waiver be contingent upon TCCU's continued development of a reasonable concentration risk policy, including geographic C&D lending limits, along with the development of

reasonable stress testing, both to be completed by December 31, 2013, be included as part of the motion.

Member Tonneson questioned having an expiration date on the waiver request as part of the motion, and suggested relying on the next Department examination to monitor this waiver approval. Chairman Entringer indicated this places a higher burden on the Department as a regulator to revoke the waiver.

Member Stillwell questioned if June 30, 2014, is too short a timeframe, and suggested September 30, 2014. Member Brucker suggested January 1, 2015, and after discussion the Board agreed the expiration date to be included in the motion should be January 1, 2015.

By agreement of Members Tonneson and Brucker, the motion was amended as follows:

It was moved by Member Tonneson and seconded by Member Brucker to approve the request by Town and Country Credit Union, Minot, for a 100% net worth limit for construction and development loans without limitations contingent upon TCCU's continued development of a reasonable concentration risk policy, including geographic C&D lending limits, along with the development of reasonable stress testing, both to be completed by December 31, 2013, and that the waiver request expires on January 1, 2015. The motion carried by a vote of 4 to 1, with Member Clark voting in opposition.

Chairman Entringer indicated the Department will forward the Board's recommendation to NCUA.

The meeting adjourned at 9:30 a.m.

Robert J. Entringer, Chairman

Aaron K. Webb, Secretary