

**REGULAR 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**

June 5, 2015

The regular 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 9:30 a.m., Friday, June 5, 2015, by conference call.

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

MEMBERS ABSENT: None

ALSO PRESENT: Suzette Richardson, Administrative Staff Officer *(Office)*
Jan Murtha, Assistant Attorney General *(Office)*
Corey Krebs, Chief Examiner – Credit Unions *(Office)*
Sara Sauter, Financial Institutions Examiner *(Office)*
Heidi LaBree, Financial Institutions Examiner *(Office)*
Steve Davis, Capital CU *(Office)*
Greg Tschider *(Office)*
Daniel Wassim, AG Intern *(Office)*

ACTING SECRETARY

Chairman Entringer indicated Assistant Commissioner Webb is not available for this meeting; therefore, Suzette Richardson will be Acting Secretary.

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on March 6, 2015.

It was moved by Member Brucker, seconded by Member Stillwell, and unanimously carried to approve the minutes of the regular meeting held March 6, 2015, as presented.

CAPITAL CREDIT UNION, BISMARCK – REQUEST FOR APPROVAL OF INDIVIDUAL LOAN LIMIT WAIVER

Chief Examiner Krebs reviewed his Memorandum dated May 22, 2015, indicating that Capital Credit Union (Capital) has applied for a waiver to the individual loan limit outlined in NCUA's Rules and Regulations Part 723.8 and North Dakota Administrative Code Section 13-03-16-03.

Chief Examiner Krebs explained Capital is requesting an increase to its lending limit from 15% to 20% for agriculture and commercial business members with a risk rating of "3" or better, with the aggregate amount of outstanding member business loans to any one member or group of associated members not to exceed 20% of Capital's net worth. Chief Examiner Krebs continued that Capital can continue to lend to borrowers who initially meet this criteria and are subsequently downgraded below a "3" rating up to 20% net worth if the new loans are part of a well-documented plan to either improve the borrower's financial position to a "3" rating or better or outlines a plan to reduce the individual balance to 15% or less of Capital's net worth, and loan analysis and documentation shows the additional loans are in the best interests of the member and Capital.

Chief Examiner Krebs explained Capital is also requesting an increase to its lending limit for agriculture only of an additional 10% of its net worth to any one member or group of associated members if such credit is extended for seasonal advances associated with operating purposes for the production of farm products. Chief Examiner Krebs indicated the maximum total with the additional 10% for seasonal operating is 30% of Capital's net worth.

Chief Examiner Krebs indicated after review of Capital's request it was determined a higher individual loan limit will create additional risk; however, Capital's

history in granting these types of credits, as well as the underwriting and control process outlined within Capital's application, should help to mitigate any additional risk.

Chief Examiner Krebs concluded there are no immediate safety and soundness concerns with Capital's application; therefore, the Department recommends approval.

Steve Davis, Chief Operations Officer (COO) of Capital, pointed out the application details the need for Capital to obtain the expanded authority to lend to business members, as well as Capital's preparedness and ability to take on the additional lending.

COO Davis indicated Capital's business lending program was approximately \$1 million 12 years ago and currently is approximately \$80 million. COO Davis explained that Capital understands the different risks associated with business lending. COO Davis explained the current 15% lending limit is forcing Capital to seek out guarantees or participations on many business member loans.

In response to Member Brucker, COO Davis explained Capital included eight definitions of risk ratings as part of its application. Chairman Entringer added the policy was not provided as part of the agenda to the State Credit Union Board because of its size.

COO Davis explained the definitions of the risk ratings: "1" – exceptional quality (very low credit risk); "2" – excellent quality (low credit risk); "3" – good/acceptable quality (average credit risk); "4" – lowest acceptable quality (minimal credit risk); "5" – watch (higher than average credit risk); "6" substandard (classified); "7" – doubtful (classified); and "8" – loss (classified). COO Davis indicated the application request refers to Capital's best members with a risk rating of "3" or above.

In response to Chairman Entringer, COO Davis indicated the difference between the lending limit requests for business members and agriculture is an additional 10% for seasonal operating.

It was moved by Member Brucker, seconded by Member Stillwell, and carried by a vote of 3 to 0, with Member Tonneson absent, to approve the application by Capital Credit Union, Bismarck, for a waiver to the individual loan limit outlined in NCUA's Rules and Regulations Part 723.8 and North Dakota Administrative Code Section 13-03-16-03.

Member Tonneson joined the conference call at 9:39 a.m.

Messrs. Tschider and Davis left that meeting at 9:40 a.m.

UNITED SAVINGS CREDIT UNION, FARGO – RELOCATION

Chairman Entringer explained the Department received the Articles of Amendment to the Certificate of Organization from United Savings Credit Union, Fargo, regarding the relocation of its main office from 220 North 10th Street to 1001 1st Avenue North, Fargo. Chairman Entringer explained he approved the relocation on September 5, 2014; however, the Articles of Amendment to the Certificate of Organization form needs to be approved by the State Credit Union Board and forwarded to the Secretary of State's Office for filing.

It was moved by Member Tonneson, seconded by Member Brucker, and unanimously carried to approve the Articles of Amendment to the Certificate of Organization regarding the relocation of United Savings Credit Union, Fargo.

APPROVAL OF 2015 ANNUAL ASSESSMENT POLICY FOR STATE-CHARTERED CREDIT UNIONS

Chairman Entringer indicated each year the Department provides the Board with information regarding the proposed June 30th assessment for state-chartered credit unions.

Chairman Entringer indicated his Memorandum dated June 3, 2015, details the three divisions of the Department, as well as expense details for the credit union division.

Chairman Entringer reviewed the Department Revenue and Expense for Credit Unions for the current fiscal year which shows a carryover of \$209,375 or 32% of the projected expenses for the next fiscal year of July 1, 2015, through June 30, 2016. Chairman Entringer indicated in 2012 the State Credit Union Board set a carryover goal of 30% of estimated expenses for the next fiscal year; however, decided in 2013 that a 50% carryover would be more appropriate if a larger credit union converted to a national charter, as well as provide sufficient funding for a year.

Chairman Entringer indicated since the Department received Legislative approval to add a FTE to the credit union division, an increase to assessments will be necessary.

Chairman Entringer reviewed the current credit union assessment formula and his proposed changes. Chairman Entringer explained his proposal includes five tiers compared to the previous three tiers. Chairman Entringer indicated approximately five state-chartered credit unions would fall into each of the five tiers.

Chairman Entringer reviewed his spreadsheet which runs the assessment calculations against the March 31, 2015, total assets of state-chartered credit unions using the proposed formula. Chairman Entringer indicated the spreadsheet also shows projections using the current assessment formula, as well as comparisons to NCUA current and projected assessment fee projections.

Chairman Entringer indicated the current and proposed formulas compare unfavorably with the NCUA assessment; however, due to the declining number of state-chartered credit unions it is an inevitable fact. Chairman Entringer continued he is also proposing changes to the allocations of time for the Commissioner, Assistant Commissioner, and Administrative Assistant; as well as delaying the hiring of the new FTE until yearend.

Chairman Entringer pointed out the current assessment formula would not generate sufficient funds to maintain a 30% carryover without including a 6.5% surcharge; however, using the proposed formula would generate sufficient revenue to maintain the carryover and offer a 10% credit.

Chairman Entringer indicated he recommends the State-Chartered Credit Union Annual Assessment Policy be revised to reflect the amount of Department resources allocated to the credit union division, as well as the proposed new assessment formula which offers a 10% credit.

In response to Member Brucker, Chairman Entringer indicated the inequity of assessment fees between credit unions in the current formula would be eliminated in the proposed formula.

Chairman Entringer reviewed the assessment calculation spreadsheet in detail with the Board.

Members Brucker and Tonneson agreed it is sensible to migrate to a more fair formula at this point.

In response to Member Stillwell, Chairman Entringer explained that under the proposed formula the assessment fee is calculated on the total assets in each range; adding that the fee is blended as a credit union's asset base grows.

In response to Member Brucker, Chairman Entringer indicated the State-Chartered Credit Union Annual Assessment Policy must be adopted by June 30, 2015. Chairman Entringer stated a special State Credit Union Board meeting could be scheduled if the Board would like more time to review the assessment material presented.

Member Brucker stated he feels Chairman Entringer did a great job and concurs with his suggestions; however, questioned how the Department's budget will be migrated in the future in order to be comparable to the NCUA assessment fee structure. Chairman Entringer responded that with the addition of an FTE Chief Examiner Krebs will spend less time in the field; therefore, lessening his and Assistant Commissioner Webb's amount of time allocated to the credit union division.

Chairman Entringer stated the Department is also looking at utilizing credit union staff in other areas which would transfer costs to either the bank or consumer divisions. Chairman Entringer indicated the credit union division is applying for accreditation in the mortgage division and, if approved, credit union personnel could periodically conduct mortgage company examinations, which would transfer costs to the consumer division.

Chairman Entringer added as the number of state-chartered credit unions decline, the Department will cross train examiners in the bank, credit union, and consumer divisions.

In response to Member Brucker, Chairman Entringer explained assessing additional costs to credit unions that require special or additional examinations was factored into the projected budget as a "special exam" line item. Chairman Entringer indicated implementation of this fee will be effective July 1, 2015.

In response to Member Stillwell, Chairman Entringer indicated the assessment fee will be based on credit union assets as of June 30, 2015.

In response to Member Tonneson, Chairman Entringer explained his calculations which would allow the 10% credit in the proposed assessment formula.

There was discussion regarding the need to offer an assessment fee comparable to NCUA in order to eliminate the possibility of state-chartered credit unions converting to a national charter.

In response to Member Tonneson, Member Brucker stated the numbers are fact and the commitment was made to add another credit union examiner; therefore, he agrees with Chairman Entringer's proposal. Member Brucker added he is uncomfortable with the difference between the state and NCUA assessment fees; however, does not feel there is any way to rectify that at this time. Member Brucker concluded he is comfortable to move forward with the proposal with the understanding the Department and Board continue to achieve more comparable state and NCUA assessment fees. Member Stillwell concurred with Member Brucker's comments. Member Tonneson also agreed, adding it should be conveyed to the state-chartered credit unions that the Department and Board's ultimate goal is for comparable assessments for state versus federally chartered credit unions.

It was moved by Member Brucker, seconded by Member Stillwell, and unanimously carried to approve the State-Chartered Credit Union Annual Assessment Policy as amended, along with granting a 10% assessment discount to state-chartered credit unions.

LIQUIDITY MEMORANDUM

Chairman Entringer indicated Chief Examiner Krebs sent a Memo to state-chartered credit unions on March 27, 2015, regarding the monitoring of liquidity.

Chief Examiner Krebs indicated liquidity trends are changing throughout the industry; therefore, the Memo outlines what the Department will be looking at during examinations relative to liquidity, as well as ratio guidelines.

REPLACEMENT FOR BOARD MEMBER CLARK

Chairman Entringer stated he will send a memo to all state-chartered credit unions today requesting suggestions for a Board member to replace Member Clark, as directed by the Board at the last meeting.

Daniel Wassim left the meeting at 10:20 a.m.

The Board went into closed session at 10:20 a.m. to review the Supervisory Reports of Examination pursuant to North Dakota Century Code 6-01-07.1, and to discuss any confidential records pursuant to North Dakota Century Code 44-04-19.2.

The Board reconvened in open session at 10:59 a.m.

APPROVAL OF EXECUTIVE SESSION MINUTES

It was moved by Member Brucker, seconded by Member Stillwell, and unanimously carried to approve the executive session minutes of the regular meeting held on March 6, 2015, as presented.

The meeting adjourned at 11:00 a.m.

Robert J. Entringer, Chairman

Suzette Richardson, Acting Secretary