

**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**

**March 3, 2017**

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 9:00 a.m., Friday, March 3, 2017, by conference call.

MEMBERS PRESENT: Robert J. Entringer, Chairman *(Office)*  
Paul Brucker, Member *(Office)*  
George Economon, Member *(Fargo)*  
Deb Gallagher, Member *(Office)*  
Melanie Stillwell, Member *(Williston)*

MEMBERS ABSENT: None

ALSO PRESENT: Aaron Webb, Secretary *(Office)*  
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)*  
Dave Hatton, Financial Institutions Examiner *(Detroit Lakes)*  
Harold Hagen, Hometown CU, Kulm *(Kulm)*

**APPROVAL OF MINUTES**

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on December 2, 2016.

**It was moved by Member Gallagher, seconded by Member Stillwell, and unanimously carried, to approve the minutes of the regular meeting held December 2, 2016, as presented.**

## **HOMETOWN CREDIT UNION, KULM – APPLICATION TO ESTABLISH A BRANCH**

Assistant Commissioner Webb reviewed his Memorandum dated February 21, 2017, indicating the Department received the application by Hometown Credit Union (“Hometown”), Kulm, to establish a branch at 109 North McDougall Drive, Suite #5, Lincoln, on February 2, 2017.

Assistant Commissioner Webb indicated Hometown’s current field of membership is limited to those individuals who reside within a seventy-five (75) mile radius of the home office in Kulm, and a fifty (50) mile radius of its branch office in Hazelton. Assistant Commissioner Webb stated the proposed branch would be located within Hometown’s current field of membership; therefore, an expansion of its field of membership is not a part of this application.

Assistant Commissioner Webb reviewed North Dakota Administrative Code Chapter 13-03-15 which addresses the creation of a branch. Assistant Commissioner Webb indicated Hometown’s Board of Directors approved a resolution to establish this branch on January 30, 2017.

Assistant Commissioner Webb indicated notice of the application was published on February 1, 2017, in the *Bismarck Tribune (Burleigh County)*, *LaMoure Chronicle (LaMoure County)*, *Ashley Tribune (McIntosh County)*, and the *Emmons County Record (Emmons County)*. Assistant Commissioner Webb indicated as of the date of this memorandum, no comments were received concerning the application.

Assistant Commissioner Webb stated that President Hagen indicates even though there are other financial institutions in Lincoln he feels this proposed branch will not harm or significantly impact any other credit union, but instead offers another option to this growing market.

Assistant Commissioner Webb stated that President Hagen indicates that Hometown has proven the ability to grow and prosper, has strong capital and loan loss reserves, a strong earnings history, and a strong Board of Directors and management team which is committed to the success of the proposed branch.

Assistant Commissioner Webb explained although the branch is projecting operating losses for the first three years of operation, this should have a minimal impact on profitability overall. Assistant Commissioner Webb continued that Hometown had a net income of approximately \$1.8 million in 2016, and the projected loss for the branch in years 1, 2, and 3 is (\$165,241), (\$223,846), and (\$132,947) respectively. Assistant Commissioner Webb indicated the Department does not believe Hometown's overall ability to succeed with this branch is an area of concern.

Assistant Commissioner Webb stated a maximum of 6% of assets can be invested in fixed assets; adding that even with the planned expansion, Hometown's fixed assets ratio would continue to be well under the regulatory limit.

President Hagen indicated they have been researching for a possible branch location to grow Hometown, diversify its loan portfolio, and obtain better access to deposit funds. President Hagen indicated the three communities Hometown is currently located in are heavily agricultural; therefore, they have been looking to locate in a metro area. President Hagen stated since Hometown's expertise is in smaller communities, there was no desire to establish a branch in an area as large as Bismarck or Fargo. President Hagen concluded Lincoln is a perfect fit and would allow Hometown to get into more of a consumer market; as well as reduce long-term risk and provide better access to a much larger depository base.

In response to Chairman Entringer, President Hagen stated staff has not yet been hired for the proposed branch, and described the location of the proposed branch in Lincoln.

Chairman Entringer reviewed the proposed Order for President Hagen.

President Hagen indicated Hometown's goal is to have the proposed branch operational by July 1, 2017.

Assistant Commissioner Webb indicated the Department recommends approval of the application by Hometown to establish a branch at 109 North McDougall Drive, Suite #5, Lincoln, North Dakota; and that Chairman Entringer be authorized to sign the proposed Order on behalf of the Board.

**It was moved by Member Gallagher, seconded by Member Economon, and unanimously carried, to approve the application by Hometown Credit Union, Kulm, to establish a branch at 109 North McDougall Drive, Suite #5,**

**Lincoln, and that Chairman Entringer be authorized to sign the Order on behalf of the Board.**

President Hagen left the conference call at 9:10 a.m.

## **NORTH DAKOTA ADMINISTRATIVE RULES**

Chairman Entringer indicated at the December 2, 2016, meeting the Board authorized publication of the rules; however, after conversations with representatives of the Credit Union Association of the Dakotas (CUAD) in January 2017, it was suggested publication of the rules be postponed.

Chairman Entringer stated Greg Tschider, Attorney for the CUAD, indicated his concern that once submitted, the Administrative Rules Committee could remove or change the Member Business Lending (MBL) rules. Chairman Entringer indicated it was therefore the consensus of Mr. Tschider, Jeff Olson, and Steve Schmitz, Chairman of the GAC of the CUAD, to postpone publication of the rules.

Chairman Entringer indicated on February 22, 2017, he and Assistant Commissioner Webb met with the GAC to explain the current state of the MBL rules; emphasizing the fact that NCUA's rule went into effect January 1, 2017, which preempted the state's MBL rule. Chairman Entringer continued the consensus was to table the MBL rule; therefore, the rules are being brought back before the Board with the MBL rule deleted and references amended as necessary.

Chief Examiner Krebs reviewed his Memorandum dated March 1, 2017, which outlines proposed changes due to removal of the MBL rule. Chief Examiner Krebs indicated the proposed changes are in regards to regulatory reference errors and the need to move concepts back to other regulations originally pulled out for inclusion with the MBL rule.

Member Brucker indicated he agrees with the reference changes, but questions suggested Board of Directors requirements.

Chief Examiner Krebs explained each credit union's policy must require a risk rating system on loans at inception to be reviewed as frequently as necessary to satisfy the risk monitoring reporting policy.

In response to Member Stillwell, Chief Examiner Krebs indicated the risk rating system applies to both consumer and commercial loans; adding it basically relates to a credit score.

There was considerable discussion regarding possible “interpretations” and what qualifies as “adequate reserves”.

Chief Examiner Krebs indicated NCUA 723 outlines requirements regarding trending levels to the Board.

Member Brucker questioned whether it is the role of the credit union’s Board of Directors to look in depth into these loans as far as risk rating on the consumer side. Chief Examiner Krebs stated NCUA requires this in regards to the commercial side. Member Brucker questioned how a Board will be able to make these assessments if it is not delegated to the staff.

After discussion, it was clarified that credit union staff would put together the required report for the Board of Directors’ review regarding risk monitoring and credit grading.

Member Stillwell questioned the Board of Directors “evaluating” the performance of the loan portfolio. Member Economon agreed, and it was determined “and evaluate” should be removed from 13-03-06-05(5).

Member Stillwell stated she understands 13-03-06-05(6) to mean every credit union, whether it has an internal or external review, needs to have a periodic independent review; adding she believes “periodic” should be defined. Assistant Attorney General Murtha suggested language such as “no less often than [blank] unless otherwise agreed to”, which relates to a conversation between the regulator and credit union.

Member Brucker questioned whether vehicle or personal loans that go bad so quickly they never appear on the allowance account would taint this process, and Chief Examiner Krebs stated he does not believe so.

Member Stillwell questioned if 13-03-06-05(6) refers to the credit risk rating process relating to substandard, doubtful, loss, or also asking that consumer loans be validated. Chief Examiner Krebs indicated his thought process was that it would apply to commercial loans; however, stated if this is applied to both commercial

and/or consumer at 90 days, a loan is automatically substandard. Chief Examiner Krebs indicated this would need to be further clarified.

Chairman Entringer suggested that 13-03-06-05(7) be clarified as to assessing a consumer portfolio but not individual borrowers.

Member Stillwell suggested “retained earnings” be replaced with “undivided earnings and regular reserves”, since retained earnings has not been defined.

Member Brucker suggested 13-03-04-01 regarding the 6% maximum of assets and investments in fixed assets be reviewed since the federal guidelines have been changed to an individual evaluation of each institution instead of a hard ceiling. Chairman Entringer stated the Department will look at NCUA’s rule regarding fixed assets and provide information for the Board’s consideration.

Chairman Entringer concluded action by the Board regarding the North Dakota Administrative Rules will be tabled, so that the Department can redo suggested changes to the entire North Dakota Administrative Code for review by the Board at its next meeting.

## **CREDIT UNION BUDGET UPDATE**

Chairman Entringer indicated the Board received the Organizational Status by Summary Account and Source for the month ending January 2017.

## **DEPARTMENT BUDGET UPDATE**

Chairman Entringer explained the Legislature initially drafted two budget bills: (1) the executive budget recommendation (then Governor Dalrymple’s proposed budget reflecting a 2½% cut by Governor Burgum) (Senate Bill No. 2068); and (2) the Legislature’s budget (Senate Bill No. 2008) (the Department’s existing budget from this biennium).

Chairman Entringer stated the Department’s budget hearing was heard on January 5, 2017, by the Senate Appropriations Committee, and on March 2, 2017, by the House Appropriations Committee. Chairman Entringer explained the Department removed from the contingency line item the amount budgeted to cover costs for the office to move to the proposed Bank of North Dakota building (which has not taken

place), and the remaining cuts were under the salary and benefits line item. Chairman Entringer indicated the House Appropriations Committee had several questions regarding professional development costs, professional services, travel expenses, carryover to the General Fund, and how Department fees are generated. Chairman Entringer concluded he believes the hearing went well and that the Department's final budget will reflect the 2½% cut.

**The Board went into closed session at 10:00 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, and returned to open session at 10:43 a.m.**

### **APPROVAL OF EXECUTIVE SESSION MINUTES**

**It was moved by Member Brucker, seconded by Member Gallagher, and unanimously carried, to approve the executive session minutes of the regular meeting held on December 2, 2016, as presented.**

### **FUTURE MEETINGS**

Chairman Entringer indicated a merger application may be brought to the Board at the June 2, 2017, meeting, and that a special meeting may be held this summer.

The meeting adjourned at 10:45 a.m.

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Robert J. Entringer, Chairman

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Aaron Webb, Secretary