

**REGULAR STATE BANKING BOARD MEETING
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

July 15, 2015

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Entringer called the meeting to order at 9:00 a.m., Wednesday, July 15, 2015, by conference call.

MEMBERS PRESENT: Robert J. Entringer, Chairman (*Office*)
Nancy Baerwald, Member (*Cando*)
Linda Beall, Member (*Velva*)
Kim Larson, Member (*Casselton*)
John Schmid, Member (*Carson*)
Tom Stennes, Member (*Harwood*)

MEMBER ABSENT: Cheryl Thompson, Member

ALSO PRESENT: Suzette Richardson, Administrative Staff Officer (*Office*)
Jan Murtha, Assistant Attorney General (*Office*)
Lise Kruse, Chief Examiner – Banks (*Fargo*)
Dawn Ystaas, American Bank Center (*Minot*)
Tim LeClair, Eide Bailly (*Fargo*)
Jeff Kram, Choice Financial Group (*Langdon*)
Rodney Jordahl, Bell State Bank & Trust (*Fargo*)
Greg Hammes, Bell State Bank & Trust (*Fargo*)

ACTING SECRETARY

Chairman Entringer informed the Board that Assistant Commissioner Webb is absent; therefore, Suzette Richardson will be Acting Secretary for this meeting.

REAPPOINTMENT – KIM LARSON

Chairman Entringer notified the Board that Member Larson has been reappointed by Governor Dalrymple to serve another five year term on the Board.

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on May 15, 2015.

It was moved by Member Larson, seconded by Member Schmid, and carried by a vote of 6 to 0, with Member Thompson absent, to approve the minutes of the regular meeting held May 15, 2015, as presented.

DIVIDEND REQUEST – CHOICE FINANCIAL GROUP, FARGO

Chairman Entringer referred to Assistant Commissioner Webb's Memorandum dated June 29, 2015, which indicated the Department received the application for change of control for Choice Financial Holdings, Inc. (CFH) to acquire 1,005 of the issued and outstanding common stock of Northland Financial, Steele (Northland), on June 12, 2015, and was deemed complete on June 29, 2015. Chairman Entringer indicated that pursuant to North Dakota Administrative Code Section 13-03-17-01 notice of the application was published on June 10, 2015; the comment period ended July 10, 2015; and no comment or requests for copies of the application were received.

Chairman Entringer indicated in order to fund the purchase of Northland stock CFH is requesting a special dividend payment from Choice Financial Group (Choice).

Chairman Entringer indicated Choice is requesting approval to declare and pay a special dividend in the amount up to \$15,500,000. In response to Chairman Entringer, Mr. LeClair noted that \$15,500,000 is the correct amount requested for the special dividend to cover any purchase price adjustments.

In response to Chairman Entringer, Chief Examiner Kruse explained her analysis of the dividend request up to \$15,500,000 does not indicate any concerns.

Chairman Entringer indicated Confidential Exhibit 5 of the application indicated Choice will remain well capitalized after payment of the proposed dividend; therefore, the Department recommends approval of the request by Choice to declare a dividend up to \$15,500,000 for the purpose of funding the acquisition of Northland.

It was moved by Member Beall, seconded by Member Baerwald, and carried by a vote of 6 to 0, with Member Thompson absent, to approve the request by Choice Financial Group, Fargo, to declare a dividend up to \$1,500,000 for the purpose of funding the acquisition of Northland Financial, Steele.

CHANGE OF CONTROL – CHOICE FINANCIAL HOLDINGS, INC. TO ACQUIRE NORTHLAND FINANCIAL, STELLE

Chairman Entringer indicated without approval of the previous dividend request, the change of control application by CFH to acquire 100% of the issued and outstanding common stock of Northland would not be presented to the Board.

Chairman Entringer referred to Assistant Commissioner Webb's Memorandum which outlines the conditions regarding a change of control application pursuant to North Dakota Century Code § 6-08-08.1(4).

Mr. LeClair indicated the application is a stock purchase agreement to acquire 100% control of Northland from its current holding company, H.O.M.E., Inc., Steele. Mr. LeClair indicated the applicant is CFH and if the application is approved, CFH would become a 2-bank holding company.

Mr. LeClair continued the intent is to merge Choice and Northland in the future, with the intent to file the merger application if the Board and Federal Reserve approve this change of control application. Mr. LeClair indicated the proposed merger date is October 23, 2015.

Mr. LeClair indicated Northland's Tier one leverage ratio following the proposed transaction would be 9.39% after push down accounting and total risk based capital would be 12.36%. Mr. LeClair indicated a portion to fund the application would be the previously approved dividend request up to \$15,500,000, as well as assumption of trust preferred securities of H.O.M.E., Inc, as well as borrowing additional funds from the Bank of North Dakota.

Mr. LeClair indicated the merged capital ratio as of March 31, 2015, would be 8.57% and the total risk based capital would be 10.69%, as detailed in Confidential Exhibit 5 of the application. Mr. LeClair added that projected financial statements for a three-year period show that all capital ratios will increase, as detailed in Confidential Exhibit 6.

In response to Chairman Entringer, Mr. LeClair indicated the applicant is anticipating action on the change of control application from the Federal Reserve this week. Mr. LeClair added the applicant is fairly certain the Federal Reserve will also approve the assumption of the trust accounts in the near future.

Chairman Entringer indicated that CFH will acquire all the shares of Northland, resulting in Northland becoming a subsidiary of CFH. Chairman Entringer added a merger application between Choice and Northland would then be submitted with a proposed merger date of October 2015.

Chairman Entringer indicated that based on the statutory criterion, the Department recommends approval of the change of control application authorizing CFH to acquire 100% of the issued and outstanding common stock of Northland.

It was moved by Member Stennes, seconded by Schmid, and carried by a vote of 6 to 0, with Member Thompson absent, to approve the change of control application authorizing Choice Financial Holdings, Inc., to acquire 100% of the issued and outstanding common stock of Northland Financial, Steele.

Mr. LeClair and CFO Kram left the conference call at 9:14 a.m.

AMERICAN BANK CENTER, DICKINSON – REQUEST TO PURCHASE EMPLOYEE HOUSING IN CANDO

Chairman Entringer referred to June 26, 2015, letter with attachments the Department received from Ryan Beck, COO of American Bank Center (American), requesting approval for American to purchase residential real estate for the benefit of an employee in Cando.

Dawn Ystaas, Chief Risk Officer (CRO), explained there is limited housing available for the new Market President in Cando; therefore, American is requesting permission to purchase a house in Cando for the Market President and her family to occupy.

In response to Chairman Entringer, CRO Ystaas stated the purchase price of the house is \$135,000, and approximately \$60,000 is necessary for repairs and upgrades, with a total cap set at \$200,000.

Member Larson indicated he thought a request for Board approval was needed for a state-chartered bank to purchase affordable housing, and questioned why residential property valued at \$200,000 was not considered affordable housing for a Market President. In response, CRO Ystaas explained the Market President's spouse is not employed at this time, as well as this not being a long term home for the family.

Member Baerwald explained in the last six months the housing market in Cando has increased the cost of homes by one-third due to the unavailable housing in Devils Lake, as well as the community growth in both Cando and Devils Lake.

Member Baerwald indicated she believes American would definitely be able to resell this property at a value of \$200,000. Member Baerwald added since housing is less expensive in Cando, residents of Devils Lake are buying homes in Cando and commuting 35 miles to Devils Lake.

CRO Ystaas indicated American considered reasonably priced and suitable housing, with suitable housing being the bigger issue.

Member Baerwald added that daycare is also an issue in Cando, resulting in the Market President's spouse not working in order to stay home with the children.

Chairman Entringer explained the first criterion the Board must consider is whether property is reasonably priced and suitable. Chairman Entringer indicated he understands the suitable issue, but questioned whether a \$200,000 mortgage is not affordable for the Market President. CRO Ystaas stated it is not affordable due to the Market President being a one income family at this time.

In response to Member Schmid, Chairman Entringer indicated the Board has previously approved requests to purchase residential real estate in Watford City, Williston, Minot, New Town, and Berthold, with the majority approvals concentrated in the oil patch areas.

In response to Member Schmid, Chairman Entringer indicated he does not know if approving this request will cause an influx of requests for banks to purchase residential real estate; adding that each request would have to be studied very carefully.

Chairman Entringer continued that the question is whether there are other options available in lieu of American purchasing this residential real estate; for example, could American provide a housing allowance to the Market President.

Chairman Entringer stated he believes if the criterion that property is not reasonably priced or suitable is met, the Board could approve the request to purchase residential real estate.

CRO Ystaas added that adequate housing for employees is a deterrent in the smaller communities, and also that American does not plan to hold this property long term.

Member Baerwald indicated she believes bank requests to purchase affordable housing for employees may be more of an issue due to the housing limitation in the smaller communities, as well as the qualified employee market shortage.

Chairman Entringer indicated he believes the Department needs to visit with a bank making a request in advance of coming before the Board to determine if there are other available options.

Member Larson indicated he is questioning the affordability of this real estate and whether the employee's income is enough to purchase the property. Member Larson indicated he feels there are other options available that should be considered. Chairman Entringer agreed this is a good point.

Anita Quale, Rodney Jordahl, and Greg Hammes joined the conference call at 9:29 a.m.

Member Beall agreed with Member Larson that other options should be looked at prior to American purchasing the real estate.

In response to CRO Ystaas, Chairman Entringer indicated both issues of whether affordable housing is available and suitable must be determined by American.

It was moved by Member Larson, seconded by Member Beall, and carried by a vote of 5 to 1, with Member Baerwald voting no and Member Thompson absent, to deny the request by American Bank Center, Dickinson, to purchase employee housing in Cando due to the affordability issue of the property.

Assistant Attorney General Murtha stated American submitted this application to the Board; however, a formal hearing was not held as it was not required. Assistant Attorney General Murtha explained the Board or the applicant can request a formal hearing at this time to review the same information in a more structured process wherein a hearing officer would preside and the applicant would present evidence. Assistant Attorney General Murtha also explained the Board could issue a Final Order which would be the prerequisite for American to appeal to an Administrative Law Judge, in which case a hearing would be conducted by a Hearing Officer in place of the Board.

In response to Chairman Entringer, Assistant Attorney General Murtha indicated American could resubmit an amended application to the Board documenting whether the real estate it requests to purchase in Cando for a bank employee is reasonably priced.

CRO Ystaas left the conference call at 9:35 a.m.

ARTICLES OF AMENDMENT – ASCENSUS TRUST COMPANY, FARGO

Chairman Entringer indicated Ascensus Trust Company will be relocating its principal office from 1126 Westrac Drive, to 1655 43rd Street South, Suite 100, Fargo. Chairman Entringer indicated if the Board approves the Articles of Amendment the Department will forward it to the Secretary of State's Office for filing once the move has taken place.

It was moved by Member Beall, seconded by Member Baerwald, and carried by a vote of 6 to 0, with Member Thompson absent, to approve the Articles of Amendment for Ascensus Trust Company, Fargo, to relocate its principal office from 1126 Westrac Drive, to 1655 43rd Street South, Suite 100, Fargo.

INVESTMENT IN SUBSIDIARY – BELL STATE BANK & TRUST, FARGO

Chairman Entringer indicated Bell State Bank & Trust (Bell) is requesting permission to invest \$4,500,000 in a subsidiary to be known as Bell Real Estate Holdings LLC (Bell Real Estate). Chairman Entringer indicated the subsidiary, Bell Real Estate, will use the funds invested by Bell to purchase a minority interest in Sterling Northland LLC, which will purchase an office building in Hennepin County, Minnesota, in which Bell will be a tenant.

EVP Jordahl explained that Bell intends to use the proposed office building as future branch operations, as this is a very prominent location in Minneapolis, Minnesota. EVP Jordahl stated Bell would obtain 24% ownership of the building and naming rights, which will benefit Bell significantly in the future.

Chairman Entringer indicated the Department recommends approval of this application.

It was moved by Member Larson, seconded by Member Schmid, and carried by a vote of 6 to 0, with Member Thompson absent, to approve the request by Bell State Bank & Trust, Fargo, to invest \$4,500,000 in a subsidiary to be known as Bell Real Estate Holdings LLC.

EVP Jordahl and Greg Hammes left the conference call at 9:40 a.m.

ITEMS TO BE NOTED

Chairman Entringer indicated on June 1, 2015, he approved, as Commissioner, the application by Unison Bank, Jamestown, to discontinue its interstate branch at 20713 East Ocotillo Road, Queen Creek, Arizona.

Chairman Entringer indicated on June 1, 2015, he approved, as Commissioner, the application by First International Bank & Trust, Watford City, to establish a facility at 1533 N 12th St, Bismarck.

Chairman Entringer indicated on July 7, 2015, he approved, as Commissioner, the application by Farmers & Merchants Bank of North Dakota, Tolna, to discontinue its facility at 321 Hwy 15, Northwood.

BANK BUDGET UPDATE

Chairman Entringer indicated the Board received the May 31, 2015, Organizational Status Report by Summary Account for the bank division.

The Board went into closed session at 9:41 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 10:20 a.m.

FIRST INTERNATIONAL BANK & TRUST, WATFORD CITY – REQUEST FOR WAIVER TO HOLD A LIFE INSURANCE POLICY

It was moved by Member Stennes, seconded by Member Larson, and carried by a vote of 6 to 0, with Member Thompson absent, to table the request by First International Bank & Trust, Watford City, for a waiver to hold a life insurance policy on a borrower.

APPROVAL OF EXECUTIVE SESSION MINUTES

It was moved by Member Baerwald, seconded by Member Beall, and carried by a vote of 6 to 0, with Member Thompson absent, to approve the executive session minutes of the regular meeting held May 15, 2015, as corrected.

The meeting adjourned at 10:22 a.m.

Robert J. Entringer, Chairman

Suzette Richardson, Acting Secretary