

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

May 12, 2016

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 9:02 a.m., Thursday, May 12, 2016, 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 (*Office*)
Cheryl Thompson, Member (*Fargo*)

MEMBERS ABSENT: None

ALSO PRESENT: Aaron Webb, Secretary (*Office*)
Suzette Richardson, Administrative Staff Officer (*Office*)
Jan Murtha, Assistant Attorney General (*Office*)
Lise Kruse, Chief Examiner – Banks (*Office*)
Fred Manuel (*Detroit Lakes, MN*)
David Schornack (*Perham, MN*)

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on March 3, 2016.

It was moved by Member Larson, seconded by Member Beall, and unanimously carried to approve the minutes of the regular meeting held March 3, 2016, as presented.

CHANGE OF CONTROL APPLICATIONS – QUALITY BANKSHARES, INC., PAGE

Assistant Commissioner Webb reviewed his Memorandum dated May 5, 2016, indicating there are two separate Interagency Change of Control applications before the Board: Ernest Erickson individually to acquire over 25% ownership and control of the voting stock of Quality Bankshares, Inc.; and David Schornack, Denise Schornack, Daniel Welters, and Bonnie Welters as a group (“David Schornack Group”) to acquire over 25% ownership and control of the voting stock of Quality Bankshares. Assistant Commissioner Webb indicated that Quality Bankshares Inc. owns 100% of Quality Bank, Fingal, North Dakota.

Assistant Commissioner Webb indicated the Department received the applications on March 17, 2016, and the applications were deemed complete on April 1, 2016.

Assistant Commissioner Webb indicated pursuant to North Dakota Administrative Code § 13-02-17-01, notice of the applications were published in *Valley City Times-Record* on March 31, 2016. Assistant Commissioner Webb indicated the comment period ended no earlier than April 11, 2016 (David Schornack) and April 20, 2016 (Ernest Erickson), and no comments have been received nor were there any requests for copies of the applications.

Assistant Commissioner Webb reviewed the provisions of Section 6-08-08.1(4), North Dakota Century Code, which outlines criteria for the Board to disapprove a change of control application.

Assistant Commissioner Webb indicated the applications are being filed as a result of a proposed holding company stock redemption; specifically, the remaining stockholders of Quality Bankshares, Inc. plan to redeem 42.42% of the holding company stock from the selling group, which consists of Gary Ihry, Mary Ihry, Reed Ihry, Wade Ihry, Marilyn Ihry, Keith Ihry, Brenda Ihry, and Arlie Braunberger.

Assistant Commissioner Webb explained that as a result of this transaction, Ernest Erickson will individually acquire ownership and control of 31.05% of the voting stock of Quality Bankshares, Inc.; and David Schornack, Denise Schornack, Daniel Welters and Bonnie Welters as a group (“David Schornack Group”) will acquire ownership and control of 68.95% of the voting stock of Quality Bankshares. Assistant Commissioner Webb added that David Schornack will vote for the David Schornack Group shares.

Assistant Commissioner Webb indicated the redemption of shares is to be funded through the refinance of an existing loan to the holding company in the amount of \$1.2 million, a \$400,000 capital injection by the remaining shareholders, and a \$300,000 transfer from the bank’s surplus account through a reduction of capital. Assistant Commissioner Webb added the remaining shareholders of Quality Bankshares, Inc. have committed to future capital injections to support the debt service of the holding company if sufficient funds are not available from the subsidiary bank.

Assistant Commissioner Webb stated the applicants have indicated there will be no changes in executive officers or directors of the bank or holding company as a result of this transaction.

Chairman Entringer indicated the Federal Reserve will also act on the application by Ernest Erickson; however, will not act on the application by David Schornack, Denise Schornack, Daniel Welters, and Bonnie Welters since they previously granted approval to them as a group.

Mr. Manuel pointed out that Schedule 2c was updated as of April 4, 2016, and depicts what will transpire as a result of the applications. Mr. Manuel explained the \$400,000 capital injection by the remaining shareholders was determined based on ownership percentage. Mr. Manuel indicated the bulk of the transaction will be funded from savings; adding that none of David Schornack’s debt is scheduled for repayment from Quality Bank or Quality Bankshares, Inc.

Mr. Manuel stated the Federal Reserve has 60 days to act on the application by Ernest Erickson individually to acquire over 25% ownership and control of the voting stock of Quality Bankshares, Inc., which would be May 15, 2016. Mr. Manuel indicated he will relate the State Banking Board’s decision today to the Federal Reserve and believes that will prompt action by them.

Mr. Manuel indicated because of the negative retained earnings the FDIC needs to approve any distributions from Quality Bank to Quality Bankshares, Inc. Mr. Manuel explained if the distributions are not able to be paid the shareholders of the holding company will take action to support the debt service requirements.

Chairman Entringer explained North Dakota law states that dividends can only be declared from earnings and not from surplus. Chairman Entringer continued since Quality Bank does not classify the proposed distribution as a dividend but as a reduction in stock, action is only required by the FDIC. Chairman Entringer added the Department will provide an opinion to the FDIC regarding the request.

In response to Member Stennes, Mr. Schornack indicated if the FDIC did not approve any distributions from Quality Bank to Quality Bankshares, Inc., the shareholders have committed to inject the capital in order to make the necessary payment.

Mr. Schornack added the Schornack group feels very comfortable with the proposed transaction and believes it is a positive action for the bank's future.

Chairman Entringer clarified that the \$300,000 transfer from the bank's surplus account through a reduction of capital was done previously, and Mr. Schornack added the note was paid down either late 2015 or early 2016, and that money was put directly against the loan at the Bank of North Dakota.

It was moved by Member Larson, seconded by Member Stennes, and unanimously carried to approve the Interagency Change of Control applications for Ernest Erickson individually to acquire over 25% ownership and control of the voting stock of Quality Bankshares, Inc.; and David Schornack, Denise Schornack, Daniel Welters, and Bonnie Welters as a group ("David Schornack Group") to acquire over 25% ownership and control of the voting stock of Quality Bankshares, Inc.

Mr. Manuel indicated he will relay the Board's action to the Federal Reserve.

Messrs. Manuel and Schornack left the conference call at 9:23 a.m.

CHANGE OF CONTROL APPLICATION – MCLEAN BANK HOLDING COMPANY, GARRISON

Assistant Commissioner Webb reviewed his Memorandum dated May 5, 2016, indicating the Department received the change of control application for Jan A. Stroup individually, and Jan A. Stroup and Mary J. Korsmo as part of the Stroup Family Shareholder Group, to control 25% or more of voting stock of McLean Bank Holding Company, Garrison, North Dakota; McLean Bank Holding Company controls the Bank of Turtle Lake, Turtle Lake, North Dakota; Garrison State Bank and Trust, Garrison, North Dakota; and Farmers Security Bank, Washburn, North Dakota, on April 11, 2016, and was deemed complete on April 19, 2016.

Assistant Commissioner Webb indicated pursuant to North Dakota Administrative Code § 13-02-17-01, notice of the application was published in the *McLean County Independent* on April 28, 2016, and the comment period ended May 6, 2016. Assistant Commissioner Webb indicated as of the date of this Memorandum no comments or requests for copies of the application have been received.

Assistant Commissioner Webb reviewed the provisions of Section 6-08-08.1(4), North Dakota Century Code, which outlines criteria for the Board to disapprove a change of control application.

Assistant Commissioner Webb indicated the application provides that Jan Stroup and Mary J. Korsmo acquired McLean Bank Holding Company stock through inheritance of the Estate of the late Wayne Stroup. Assistant Commissioner Webb indicated this transaction results in Jan Stroup controlling 77.9% of the voting shares of the holding company. Further, when the shares controlled by Jan Stroup are aggregated with the shares controlled by Mary J. Korsmo (“Jan Stroup Family Shareholder Group”), this group controls 89.7% of the voting shares of the holding company. Assistant Commissioner Webb stated there are technically two separate change of control applications within this request.

Assistant Commissioner Webb stated since this acquisition was a result of an inheritance, no consideration was paid. Assistant Commissioner Webb stated the applicants indicated there were no changes in directors or management as a

result of the transaction; however, intend to add Julie Broderick as board member of the holding company in 2017, as Ms. Broderick currently serves as the President of Farmers Security Bank, Washburn.

Chairman Entringer explained that Jan Stroup should have submitted a change application previously since he voted Wayne Stroup's shares resulting in over 25% ownership. Chairman Entringer added he requested a change of control application be submitted since the Federal Reserve required an application be filed as the pending transaction will result in Jan Stroup controlling 51%.

It was moved by Member Baerwald, seconded by Member Thompson, and unanimously carried to approve the change of control application by Jan A. Stroup individually, and Jan A. Stroup and Mary J. Korsmo as part of the Stroup Family Shareholder Group, to control 25% or more of voting stock of McLean Bank Holding Company, Garrison, North Dakota; McLean Bank Holding Company controls the Bank of Turtle Lake, Turtle Lake; Garrison State Bank and Trust, Garrison; and Farmers Security Bank, Washburn.

CHANGE OF CONTROL APPLICATION – COMMERCIAL BANK OF MOTT EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

Assistant Commissioner Webb reviewed his Memorandum dated May 5, 2016, indicating the Department received the change of control application by Dean M. Wehri, as trustee of the Commercial Bank of Mott Employee Stock Ownership Plan and Trust ("ESOP") to control 25% or more of voting stock of Commercial Bank of Mott, Mott, North Dakota, on April 13, 2016, and was deemed complete on April 19, 2016.

Assistant Commissioner Webb indicated pursuant to North Dakota Administrative Code § 13-02-17-01, notice of the application was published in the *Dickinson Press* on April 14, 2016, and the comment period ended May 4, 2016. Assistant Commissioner Webb indicated as of the date of this Memorandum no comments or requests for copies of the application have been received.

Assistant Commissioner Webb reviewed the provisions of Section 6-08-08.1(4), North Dakota Century Code, which outlines criteria for the Board to disapprove a change of control application.

Assistant Commissioner Webb indicated if the application is approved, Dean Wehri will be appointed by the Board of Directors of the Commercial Bank of Mott to serve as a trustee and administrator of the Bank's ESOP. Assistant Commissioner Webb indicated the ESOP owns a total of 55% of the voting stock of the Commercial Bank of Mott; therefore, as a trustee of the ESOP, Mr. Wehri would exercise control over the bank as defined under North Dakota law.

Assistant Commissioner Webb indicated since the transaction merely involves an appointment of a trustee, there was no sale or transfer of stock, nor any changes in directors or management.

Chairman Entringer explained the Board previously approved a retroactive change of control wherein three individuals were appointed as new trustees of the ESOP; therefore, there will now be a total of four trustees with the addition of Dean Wehri. Chairman Entringer continued these four trustees must agree on how to vote; however, only one trustee needs to vote.

It was moved by Member Beall, seconded by Member Schmid, and unanimously carried to approve the change of control application by Dean M. Wehri, as trustee of the Commercial Bank of Mott Employee Stock Ownership Plan and Trust ("ESOP") to control 25% or more of voting stock of Commercial Bank of Mott, Mott.

BRANCH APPLICATION – AMERICAN TRUST CENTER, DICKINSON

Assistant Commissioner Webb reviewed his Memorandum dated May 5, 2016, indicating the Department received the application by American Trust Center, Dickinson, to establish a branch at 925 20th Ave. SW, Minot, on March 28, 2016, and was deemed complete on April 12, 2016.

Assistant Commissioner Webb indicated notice of the application was published by the Department in the *Minot Daily News* on April 15, 2016; a copy of the notice was mailed to all banks with trust powers in the City of Minot; and the application was included in the Department's May 2016 Bulletin.

Assistant Commissioner Webb indicated the comment period ended on April 29, 2016, with no comments received or any requests for copies of the application.

Assistant Commissioner Webb reviewed the provisions of Section 6-05-15.4(3), North Dakota Century Code, outlines criteria for the Board regarding establishment of a branch.

Assistant Commissioner Webb indicated American Trust Center is requesting approval to establish a branch at the current branch location of United Community Bank of North Dakota, Leeds, which does not have trust powers. Assistant Commissioner Webb indicated American Trust Center, American Bank Center, and United Community Bank of North Dakota, Leeds, are all owned by American Bancor, Ltd.

Assistant Commissioner Webb indicated the application includes the American Trust Center balance sheet as of February 29, 2016, which shows total equity of \$4,143,476. Assistant Commissioner Webb indicated branch projections for the next three years are: Net Operating Expense will amount to \$3,675 for the first year and \$6,300 for years two and three, as well as Net Income from the branch is projected to be \$11,325 in year one, \$35,700 in year two, and \$53,700 in year three.

Assistant Commissioner Webb indicated that American Trust Center has negotiated a three year lease agreement with the United Community Bank of North Dakota for office space.

Assistant Commissioner Webb concluded it does not appear that the operation of the proposed branch would jeopardize the solvency of American Trust Center or place the company in an unsafe and unsound position.

Chairman Entringer explained that American Trust Center currently has a branch located at American Bank Center's facility in Minot.

In response to Member Larson, Chairman Entringer explained salary and benefit expenses are not outlined in the branch application since current employees will be moved to the proposed branch.

It was moved by Member Larson, seconded by Member Stennes, and unanimously carried to approve the application by American Trust Center, Dickinson, to establish a branch location at 925 20th Ave. SW, Minot, North Dakota, and that Chairman Entringer be authorized to sign the Order on behalf of the Board.

SARGENT COUNTY BANK, FORMAN

Chairman Entringer indicated that Sargent County Bank, Forman, has rescinded its request to invest in a subsidiary, as the bank will operate the leasing division through the bank.

BELL STATE BANK & TRUST, FARGO – NAME CHANGE

Chairman Entringer indicated that Bell State Bank & Trust, Fargo, has submitted Articles of Amendment to the Articles of Incorporation to change its name to Bell Bank. Chairman Entringer indicated the bank will take advantage of the .bank URL designation for the internet (web address would be www.bell.bank). Chairman Entringer indicated the name change would be effective August 21, 2016.

In response to Member Thompson, Chairman Entringer indicated all signs for the main bank, facilities, interstate branches, loan production offices, deposit production offices, and trust office would have to be changed.

It was moved by Member Larson, seconded by Member Schmid, and carried by a vote of 6 to 1, with Member Thompson voting nay, to approve the request by Bell State Bank & Trust, Fargo, to change its name to Bell Bank, Fargo.

2016 ANNUAL ASSESSMENT POLICY FOR STATE-CHARTERED BANKS, TRUST COMPANIES

Chairman Entringer indicated the Board received his May 5, 2016, Memorandum which outlines the expense descriptions for the banking division, as

well as four scenarios for assessments for the Board's consideration: (1) no credit; (2) 25% credit; (3) 27.5% credit; (4) 30% credit.

After review of the assessment scenarios, Chairman Entringer indicated he recommends approving the State-Chartered Bank and Trust Company Annual Assessment Policy and offering a 27.5% assessment credit to the banks and trust companies, not including the Bank of North Dakota.

All Board members agreed offering a 27.5% credit on the assessment was very reasonable.

It was moved by Member Beall, seconded by Member Baerwald, and unanimously carried, to approve the State-Chartered Bank and Trust Company Annual Assessment Policy, along with granting a 27.5% assessment discount to state-chartered banks and trust companies, not including the Bank of North Dakota.

BANK BUDGET UPDATE

Chairman Entringer indicated the Board received the Organization Status by Summary Account and Source for the bank division as of March 31, 2016.

The Board went into closed session at 9:47 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 10:16 a.m.

APPROVAL OF EXECUTIVE SESSION MINUTES

It was moved by Member Stennes, seconded by Member Schmid, and unanimously carried to approve the executive session minutes of the regular meeting held March 3, 2016, as presented.

STAFF UPDATE

Chief Examiner Kruse and Chairman Entringer gave a brief staffing update to the Board.

In response to Member Stennes, Chief Examiner Kruse explained the Department posts job announcements on LinkedIn and Job Service of North Dakota's web page. Chief Examiner Kruse continued that many nd.com websites pick up job announcements so many referrals are obtained that way; however, in the past two years the Department has made aggressive efforts to attend career fairs at NDSU, UND, and the University of Mary. Chief Examiner Kruse added a contact at Concordia College refers individuals to the Department, and also that she has spoken to classes at various colleges and universities regarding employment with the Department. Chairman Entringer added that the majority of the hiring process is now done electronically. Chairman Entringer also indicated the Department retains applications and will contact individuals to see if they are interested in future openings.

EXECUTIVE LEADERSHIP OF CYBER SECURITY

Chairman Entringer indicated the cyber-security training program offered by the Conference of State Bank Supervisors was held yesterday, May 11, 2016, in Bismarck. Chairman Entringer indicated that 75 individuals were in attendance, with approximately 1/3 representing credit unions and 2/3 representing banks. Chairman Entringer indicated he received positive comments regarding the seminar. Chairman Entringer explained that Lise Kruse and Tom Metelmann from the Department, along with Karla Hammer from the FDIC, conducted the afternoon session and did a very good job.

Member Beall stated she felt it was a very good program and obtained practical and useful information.

The meeting adjourned at 10:26 a.m.

Robert J. Entringer, Chairman

Aaron Webb, Secretary