

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

March 23, 2017

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., Thursday, March 23, 2017, by conference call.

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

MEMBER ABSENT: Kim Larson, Member

ALSO PRESENT: Aaron Webb, Secretary (*Office*)
Suzette Richardson, Administrative Staff Officer (*Office*)
Jan Murtha, Assistant Attorney General (*Office*)
Lise Kruse, Chief Examiner – Banks (*Fargo*)
Toby Kommer, Hatton Bancshares (*Fargo*)
John Ouradnick, Aspire Financial (*Fargo*)
Steve Rehovsky, First United Bank (*Park River*)

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on January 12, 2017.

It was moved by Member Baerwald, seconded by Member Schmid, and carried by a vote of 6 to 0, with Member Larson absent, to approve the minutes of the regular meeting held January 12, 2017, as presented.

**ASPIRE FINANCIAL, NATIONAL ASSOCIATION, HATTON –
APPLICATION TO CONVERT TO STATE BANK CHARTER**

Chairman Entringer indicated Aspire Financial, National Association, Hatton, formerly known as Farmers & Merchants National Bank of Hatton, has submitted an application to convert to a state charter.

Assistant Commissioner Webb reviewed his Memorandum dated February 21, 2017, indicating the Department received the conversion application on February 2, 2017.

Assistant Commissioner Webb indicated authority to convert to a state charter falls under North Dakota Century Code § 6-03-13.5, which provides the conversion must be granted if the applicant follows federal procedures and meets the requirements for a new charter under state law.

Assistant Commissioner Webb indicated the conversion to a state charter is very similar to a new charter application; however, there is no notice requirement and the State Banking Board does not need to hold a formal public hearing. Assistant Commissioner Webb indicated notice of this application was included in the State Banking Board agenda filed with the Secretary of State and included in the Department's Monthly Bulletin.

Assistant Commissioner Webb reviewed the criteria addressed in Chapter 6-02 of the North Dakota Century Code. Assistant Commissioner Webb indicated on February 2, 2017, the Department received an organization certificate and application for the issuance of a certificate of authority from the applicant.

Assistant Commissioner Webb reviewed the conversion requirements the outlined under North Dakota Century Code § 6-02-06(1): (1) whether the place where such banking association is proposed to be located is in need of further banking facilities; (2) whether the proposed association is adapted to the filling of

such need; (3) whether the proposed incorporators are possessed of such character, integrity, reputation, and financial standing as shown by a detailed financial statement to be furnished by them, and that their connection with the banking association will be beneficial to the public welfare of the community in which such bank is proposed to be established; and (4) any reasons advanced by the applicants why they should be permitted to organize the proposed association and any reasons advanced by any person why such association should not be permitted to be organized.

Assistant Commissioner Webb indicated with a conversion application, the applicant is asked to present the specific facts for consideration directly to the State Banking Board.

Assistant Commissioner Webb indicated a representative of Aspire Financial is available on the conference call to address the above referenced criterion, although any information relating to the bank's financial statements or the qualifications of management are confidential. Assistant Commissioner Webb indicated the applicant has provided a proposed Findings of Fact, Conclusions of Law, and Order for the Board's consideration.

Assistant Commissioner Webb explained if the majority of the Board denies the application the reasons for denial must be clearly stated; if the majority of the Board approves the application the Board must: (1) attach its Order (either adopting the bank's proposed Order or drafting its own) to the organization certificate and present them to the Secretary of State, and (2) inquire into the qualifications of the management of the proposed bank, including experience with financial institutions and other related experience. Assistant Commissioner Webb indicated per North Dakota Century Code § 6-02-07, if the conversion application is approved, the organization certificate and Board Order must also be recorded in the office of the recorder of the county in which the state banking association is to be established. Assistant Commissioner Webb indicated upon completion of the above, the Secretary of State will issue a certificate of authority to the corporation, which will be held by the Commissioner until: (1) an examination is conducted and a certificate indicating the capital stock and required surplus have been paid in full; (2) the Federal Deposit Insurance Corporation insurance of deposits has been secured; and (3) all conditions of the law have been complied with strictly.

Chairman Entringer indicated the Department has not received a protest or objection to the conversion application.

Mr. Kommer indicated due to the size of Aspire Financial, National Association (Aspire), the location of its markets, the solid financial condition of Aspire, and current strategic plan, the state bank charter makes more sense for Aspire.

President Ouradnick stated the conversion will be beneficial for Aspire and help to continue and maintain its services.

President Ouradnick explained Aspire has been in Hatton since 1905 and indicated the state conversion will allow the bank to increase its lending limit for farmers.

President Ouradnick indicated Aspire has been in the Fargo area since 2007, continues to grow, and meets the needs of small business owners. President Ouradnick added the Fargo bank's loan portfolio and deposit base has increased dramatically over recent years.

President Ouradnick indicated no changes in operations are anticipated if the conversion is approved. President Ouradnick stated Aspire has strong ownership, experienced and stable staff, and the bank is financially sound.

In response to Chairman Entringer, President Ouradnick indicated that Aspire will not continue its membership with the Federal Reserve System.

President Ouradnick explained that Aspire proposes to move the main office to Fargo and continue a facility in Hatton. In response to Chairman Entringer, President Ouradnick explained the Fargo office will relocate from 902 28th Street South to 5195 45th Street South. President Ouradnick indicated the relocation would occur in June 2017; adding the relocation was approved by the OCC in April 2016.

Chairman Entringer reviewed the conversion with the Board, indicating that Aspire is well within the fixed asset limitations, and is owned 100% by Hatton Bancshares. Chairman Entringer explained the changes President Ouradnick made to the Bank Organization Certificate and Bank Articles of Association.

In response to Member Thompson, Chairman Entringer indicated a majority of directors of a state bank must reside in North Dakota; however, added there is currently a bill before the Legislature amending the requirement to provide that 2/3 of the directors of a state bank must be citizens of the United States. Chairman Entringer indicated since the proposed conversion would be effective August 2017, and the proposed bill would be effective August 1, 2017, there is no issue for Aspire.

Chairman Entringer indicated the Board of Directors of Aspire and shareholders of Hatton Bancshares approved the proposed conversion to a state charter. Chairman Entringer pointed out the financial statements were part of the conversion application, as well as biographies of Aspire executive officers and Board of Directors (President Ouradnick reviewed for the Board).

Chairman Entringer stated he reviewed Aspire's CRA examination as of June 23, 2015, which indicated the CRA rating is satisfactory.

In response to Member Schmid, President Ouradnick indicated no changes of products offered by Aspire are anticipated if the proposed conversion is approved. President Ouradnick indicated the bank may acquire more consumer business because of Fargo relocation; however, will remain more small business oriented.

In response to President Ouradnick, Chairman Entringer concurred that the conversion date could be moved to July 1, 2017, to avoid an additional assessment to the OCC.

Chairman Entringer reviewed the results of the visitation of Aspire conducted by the Department on March 1 & 2, 2017, highlighting the CAMEL ratings.

Assistant Commissioner Webb pointed out the proposed Findings of Fact, Conclusions of Law, and Order of the State Banking Board will be amended to list the home office of the bank as 5195 45th Street South, Fargo, and a facility located at 415 7th Street, Hatton.

In response to Member Schmid, Chairman Entringer indicated the proposed Findings of Fact, Conclusions of Law, and Order of the State Banking Board

would provide that Aspire has until March 23, 2018, to commence business at 5195 45 St South, Fargo, North Dakota, unless further extended or modified by the State Banking Board.

Chairman Entringer reviewed the criteria of North Dakota Century Code § 6-02-06 the Board must consider. Chairman Entringer and all State Banking Board members present agreed each criterion has been met.

It was moved by Member Beall, seconded by Member Schmid, and carried by a vote of 6 to 0, with Member Larson absent, to approve the application by Aspire Financial, National Association, Hatton, to convert to a state bank charter.

It was moved by Member Schmid, seconded by Member Stennes, and carried by a vote of 6 to 0, with Member Larson absent, to approve the proposed Findings of Fact, Conclusions of Law, and Order by the State Banking Board as amended, and that Chairman Entringer be authorized to sign the Order on behalf of the Board.

Messrs. Kommer and Ouradnick left the conference call at 9:47 a.m.

BLACKRIDGEBANK, FARGO – ARTICLES OF AMENDMENT

Chairman Entringer indicated BlackRidgeBANK, Fargo, has submitted Articles of Amendment to change its number of directors to not less than three and who shall serve until the election of their qualified successors.

Chairman Entringer informed the Board that the bylaws of BlackRidgeBANK state the Board shall consist of a fixed number of members to be set each year at an annual stockholders meeting, the majority of whom shall be residents of the State of North Dakota and shall be elected by the stockholders at the annual meeting or special meeting of the stockholders called for that purpose.

Chairman Entringer stated that BlackRidgeBANK will set a fixed number of directors. Chairman Entringer also indicated that BlackRidgeBANK proposed the legislation on changing the residency requirement for bank directors.

It was moved by Member Baerwald, seconded by Member Beall, and carried by a vote of 6 to 0, with Member Larson absent, to approve the Articles of Amendment for BlackRidgeBANK, Fargo, to change its number of directors to not less than three and who shall serve until the election of their qualified successors.

BANK BUDGET UPDATE

Chairman Entringer indicated the Board received the February 28, 2017, Organizational Status Report by Summary Account for the bank division.

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 the current biennium).

Chairman Entringer explained in order to comply with the 2½% cut 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 even with the proposed cut, the Department should be able to promote examiners and provide the necessary training.

Chairman Entringer indicated a bill was introduced to combine the Securities Department with the Insurance Department; that bill was amended to provide for a study of the combination of this Department with the Securities Department, to determine if there were operational efficiencies to be obtained. Chairman Entringer explained both he and the Securities Commissioner are appointed by the Governor; therefore, it makes more sense for the Securities Department to stay within the Governor's budget authority rather than combining them with an elected official (i.e. Insurance Department). Chairman Entringer

indicated NDBA, ICBND, and CUAD opposed the bill; the bill came out of Committee with a Do Not Pass (9 to 4); and the bill was killed on the floor.

In response to Member Stennes, Chairman Entringer indicated any Department employees that are eligible or will become eligible to retire in the biennium are factored into the Department budget.

FIRST UNITED BANK, PARK RIVER – APPLICATION MERGE FIRST FINANCIAL BANK, ANETA, INTO FIRST UNITED BANK

Steve Rehovsky joined the conference call at 9:59 a.m.

Assistant Commissioner Webb indicated in July 2010 the State Banking Board approved a change of control application whereby First Holding Company of Park River, Inc., which controls First United Bank, Park River, acquired the First Sharon Holding Company, which controlled the First State Bank of Sharon. Assistant Commissioner Webb explained that the acquired bank and holding company have since been renamed: First Sharon Holding Company became Sheyenne Bancor, and the First State Bank of Sharon became First Financial Bank, relocating the bank's main office from Sharon to Aneta. Assistant Commissioner Webb concluded since 2010, First Holding Company of Park River, Inc., has operated the holding companies and banks separately.

Assistant Commissioner Webb reviewed his Memorandum dated February 28, 2017, indicating the Department received the Interagency Bank Merger Act Application on January 5, 2017, for First United Bank, Park River (First United) to merge First Financial Bank, Aneta (First Financial) into First United.

Assistant Commissioner Webb indicated that notice of the application was published by the applicant pursuant to the joint state and federal requirements in the Walsh County Record on February 15, March 1, and March 8 and in The Ness Press on February 10, February 24, and March 10. Assistant Commissioner Webb indicated the public comment period ended no later than March 17, 2017, and no comments were received nor were there any requests for copies of the application.

Assistant Commissioner Webb reviewed Section 6-03-11 of the North Dakota Century Code which outlines the authority for bank mergers.

Assistant Commissioner Webb reviewed Chapter 13-02-13 of the North Dakota Administrative Code which sets forth the requirements for an applicant to follow when merging banks.

Assistant Commissioner Webb indicated the Articles and Plan of Merger, dated January 3, 2017, were included with the merger application.

Assistant Commissioner Webb indicated First Holding Company of Park River, Inc. (sole shareholder of both First United and First Financial) approved the proposed merger as detailed in the January 3, 2017, minutes of the holding company.

Assistant Commissioner Webb indicated the application contains the required pro forma statements, as well as name of the directors and officers of the resultant institution.

Assistant Commissioner Webb stated the application points out there will be no significant changes in services or products as a result of the merger; adding that the resultant bank will be stronger based on an increased lending limit and combined and strengthened compliance operations.

Assistant Commissioner Webb reviewed Section 13-02-13-04 of the North Dakota Administrative Code which sets forth the criteria for the State Banking Board's consideration for approving the application; after reviewing each criterion with the Board, he noted that the criteria appeared to be satisfied.

Assistant Commissioner Webb reviewed Section 6-03-13.3 of the North Dakota Century Code, which provides that upon the State Banking Board's approval of a merger application, the former main office and facilities of the banking institutions being merged will become facilities of the surviving banking institution and the banking institution is not required to file a separate application.

Assistant Commissioner Webb stated the resultant bank intends to continue operations in the former main office of the merging bank, located at 205 Main Avenue, Aneta, and the facilities located at 406 9th Street SW, Cooperstown, and 312 Main Street, Sharon.

President Rehovsky stated that First United (an S corporation) acquired First Financial (a C corporation) in 2010, and at that time First United's accounting firm determined it was more feasible to operate separate holding companies and separate banks since a substantial amount of net operating loss was accumulated. President Rehovsky indicated the net operating loss carry forwards have been utilized; therefore, First Financial no longer needs to be maintained as a separate bank.

In response to Chairman Entringer, President Rehovsky agreed it was the plan to merge the two banks when the initial acquisition took place.

Member Stennes indicated Harwood State Bank will be purchasing the credit card assets of First Financial and questioned whether he would have a conflict of interest regarding voting on the proposed merger application. Assistant Attorney General Murtha explained that Member Stennes has the right to abstain from voting; however, his vote by operational law will be cast with the majority vote.

President Rehovsky added that Harwood State Bank operates a similar card size and average balance as First Financial; adding that First United does not intend to continue that program if the proposed merger is approved.

In response to Member Thompson, President Rehovsky indicated the facility will remain open in Sharon, North Dakota.

Chairman Entringer reviewed the conditions of the proposed Order for President Rehovsky.

Assistant Commissioner Webb stated it is the opinion of the Department all the above criteria have been met; therefore, recommends the merger application be approved, and that the Commissioner be authorized to sign the proposed Order on behalf of the Board.

It was moved by Member Thompson, seconded by Member Schmid, and carried by a vote of 6 to 0, with Member Larson absent and Member Stennes abstaining, to approve the application for First United Bank, Park River, to merge First Financial Bank, Aneta, North Dakota, into First United

Bank, Park River, and that Chairman Entringer be authorized to sign the Order on behalf of the Board.

President Rehovsky left the conference call at 10:13 a.m.

The Board went into closed session at 10:14 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 10:24 a.m.

APPROVAL OF EXECUTIVE SESSION MINUTES

It was moved by Member Beall, seconded by Member Schmid, and carried by a vote of 6 to 0, with Member Larson absent, to approve the executive session minutes of the regular meeting held January 12, 2017, as presented.

NEXT MEETING

Chairman Entringer indicated the annual assessment will be on the agenda at the May 2017 meeting.

PROPOSED LEGISLATION

In response to Member Schmid, Chairman Entringer indicated if the proposed bill passes regarding state-chartered bank directors, one-third of the directors can reside in foreign countries; adding at this time there are no state-chartered banks with directors living in a foreign country.

OFFICE LOCATION

Chairman Entringer informed the Board when the Department renewed its Bismarck office lease two years ago the landlord increased the rent by 25% per square foot. Chairman Entringer indicated he was contacted by the Director of

Facility Management asking that the Department attempt to get the rent reduced. Chairman Entringer stated Department staff met with the landlord and he indicated the rent would not be lowered since all tenants of the building are paying the same rate.

Chairman Entringer indicated the Director of Facility Management plans to meet with our landlord and because there is much more reasonable commercial office space available to rent in Bismarck, if our rent is not reduced it is very likely the office will be moving by June 30th. Chairman Entringer stated commercial office rent in Bismarck/Mandan is ranging between \$15-16 per square foot, and the Department is currently paying \$19.50 per square foot.

DAY WITH THE COMMISSIONER

Member Stennes acknowledged the Save the Date notice regarding the Day with the Commissioner to be held May 16, 2017, and urged the Board support this event.

Chairman Entringer reiterated that the FDIC's Directors College will be held May 17, 2017, and the Department coordinated by holding the Day with the Commissioner on May 16th. Chairman Entringer reviewed agenda items for the event, reminded the Board there is a block of rooms reserved at the Radisson under the Department for Monday night, and that the registration fee is waived for the Board.

After discussion, it was decided to hold the State Banking Board meeting following the Day with the Commissioner; therefore, the meeting was rescheduled to be held at 4:00 p.m. at the Radisson on May 16, 2017.

The meeting adjourned at 10:36 a.m.

Robert J. Entringer, Chairman

Aaron Webb, Secretary