

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

March 30, 2020

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. Chair Kruse called the meeting to order at 9:00 a.m., Monday, March 30, 2020, by conference call.

MEMBERS PRESENT: Lise Kruse, Chair *(Office)*
Linda Beall, Member *(Phone)*
Todd Heilman, Member *(Phone)*
John Schmid, Member *(Phone)*
Tom Stennes, Member *(Phone)*

MEMBERS ABSENT: Kim Larson, Member

ALSO PRESENT: Corey Krebs, Secretary *(Office)*
Ryan Spah, Chief Examiner – Banks *(Phone)*
Angie Mills Fischer, Review Examiner *(Phone)*
Megan Sauer, Administrative Examiner *(Phone)*
Laura Balliet, Assistant Attorney General *(Office)*
Greyson Tuck, Gerrish Smith Tuck *(Phone)*
John Marchell, First State Bank *(Phone)*
Jill Schneider, Eide Bailly *(Phone)*
Richard Newman, First State Bank *(Phone)*
Anita Quale, First International Bank & Trust *(Phone)*
John Docken, First International Bank & Trust *(Phone)*

APPROVAL OF MINUTES

Chair Kruse indicated the Board received copies of the minutes of the regular meeting held on January 9, 2020 and of the special meeting held February 13, 2020.

It was moved by Member Beall, seconded by Member Schmid, and carried by a vote of 5 to 0, with Member Larson absent, to approve the minutes of the regular meeting held January 9, 2020 and the special meeting held February 13, 2020.

FULL SERVICE INSURANCE AGENCY, INC, BUXTON, ND – APPLICATION FOR CHANGE OF CONTROL – THE MARCHELL, KLOSTER, AND HAUGEN FAMILY CONTROL GROUPS TO RETAIN CONTROL OF 25% OR MORE OF THE VOTING STOCK OF FULL SERVICE INSURANCE AGENCY, INC., BUXTON, ND, WHICH CONTROLS 100% OF FIRST STATE BANK, BUXTON, ND.

Review Examiner Mills Fischer reviewed the memorandum. The request was received on January 23, 2020.

There were no questions from the Board.

Review Examiner Mills Fischer stated it is the recommendation of the Department to approve the change of control application of Full Service Insurance Agency, Inc.

It was moved by Member Schmid, seconded by Member Beall, and carried by a vote of 5 to 0, with Member Larson absent, to approve the application for change of control – The Marchell, Kloster, and Haugen Family control groups to retain control of 25% or more of the voting stock of Full Service Insurance Agency, Inc., Buxton, ND, which controls 100% of First State Bank, Buxton, ND.

LINCOLN HOLDING COMPANY, HANKINSON, ND – APPLICATION FOR CHANGE OF CONTROL – KAREN HURWITT AND THE KAREN R. HEALY HURWITT TRUST TO ACQUIRE OR RETAIN CONTROL OF 25% OR MORE OF THE VOTING STOCK OF LINCOLN HOLDING COMPANY, HANKINSON, ND, WHICH CONTROLS 100% OF LINCOLN STATE BANK, HANKINSON, ND.

Review Examiner Mills Fischer reviewed the memorandum. The request was received on February 17, 2020.

There were no questions from the Board.

Review Examiner Mills Fischer stated it is the recommendation of the Department to approve the change of control application for the Lincoln Holding Company, Hankinson, ND with the condition that all legal agreements be fully executed in order to finalize the transaction, which includes the resignation agreement noted in the memorandum.

It was moved by Member Heilman, seconded by Member Beall, and carried by a vote of 5 to 0, with Member Larson absent, to approve the application for change of control – Karen Hurwitt and the Karen R. Healy Hurwitt Trust to acquire or retain control of 25% or more of the voting stock of Lincoln Holding Company, Hankinson, ND, which controls 100% of Lincoln State Bank, Hankinson, ND.

ITEMS TO BE NOTED

Chair Kruse gave an overview of approvals that were done by the Commissioner since the last State Banking Board meeting. Bell Bank, Fargo, established an LPO in Phoenix, AZ; Blaine, MN; and Wichita, KS. Choice Financial Group, Fargo, established an LPO in Fargo, ND and KodaBank, Drayton, established an LPO and DPO in Grand Forks. U.S. Bancorp Asset Management, Inc. requested to use the word “bancorp” in the registered trade name of the business and Trust for America’s Health requested to use the word “trust” in the registered trade name of the business. Both were approved by the Commissioner.

BANK BUDGET UPDATE

Chair Kruse stated the Department is still working on utilizing the new system. Due to the COVID-19 outbreak in the last few weeks there has not been time to make the changes discussed previously.

Chair Kruse gave an update on the budget as of March 24, 2020. Chair Kruse stated that due to the COVID-19 outbreak the Department has not been traveling, which will save the Department money, and some of that will be put to work moving

the Fargo office. The Department does not know what exams will look like going forward and when we will be able to travel again. Hopefully in May we will have a better understanding of what we will need going forward.

FIRST INTERNATIONAL BANK & TRUST, WATFORD CITY – LIFE INSURANCE WAIVER DISCUSSION

Chair Kruse reviewed the memorandum and asked if Ms. Quale or Mr. Docken had any additional information, they would like the Board to consider.

Ms. Quale stated she had no additional information but wanted to reiterate that the dividends were received because First International Bank & Trust paid off the loan against the policy and she then went over items stated in earlier documentation.

Commissioner Kruse asked about the amount that appeared double-counted, and Member Beall asked if when the bank advanced to pay off the loan, did the bank charge interest to the borrower for the amount that was advanced. Ms. Quale stated it was not advanced on the loan to the borrower but was put as a life insurance investment asset on the bank's books.

Member Beall asked if any interest on the policy and dividends were only booked as recovery, not as an asset income. Ms. Quale stated that is correct, that the bank applied it to recovery to this loan that was still outstanding as a charge off.

Further discussion followed with member Beall and Chair Kruse asking more questions of Ms. Quale about the bank's method of accounting for dividends on the insurance policy and interest charges which were paid from the death benefit. Ms. Quale outlined how the bank had accounted for the dividend and concluded that the bank's calculation had not double counted the income, since the dividends were taken as recoveries instead of income and the bank should be allowed to charge interest on the amount advanced to pay off the loan. Discussion followed with disagreement on the appropriateness of this and the accounting method, and Chair Kruse stated that even with part recognized as a recovery, the end result is the bank benefiting twice, once with the dividend income and once with the recovery which ultimately has the same impact upon the bank. Member Beall and Chair Kruse both stated disagreement with the appropriateness of receiving both income and a recovery.

Chair Kruse stated that the Board appreciates the bank calling in and reiterating their side and that the Board will discuss options with the attorney and communicate their decision to the bank. Ms. Quale stated she appreciated being given the opportunity to call in.

Ms. Quale and Mr. Docken then left the meeting.

The Board went into closed session at 9:38 a.m. to discuss the above matter with the attorney, and also to review the Supervisory Reports of Examination pursuant to North Dakota Century Code 6-01-07.0, and to discuss any confidential records pursuant to North Dakota Century Code 44-04-19.2, and returned to open session at 10:14 a.m. Those that were present during the executive session were Chair Kruse, Member Beall, Member Heilman, Member Schmid, Member Stennes, Corey Krebs, Ryan Spah, Angie Mills Fischer, Megan Sauer, and Laura Balliet.

MOTION TO APPROVE LETTER TO FIRST INTERNATIONAL BANK & TRUST OUTLINING THE STATE BANKING BOARD'S POSITION THAT THE LIFE INSURANCE WAS NOT HANDLED AS APPROVED; EXCESS FUNDS MUST BE RETURNED TO THE INSURED'S ESTATE OR THE BOARD MAY CONSIDER FURTHER ADMINISTRATIVE REMEDIES.

It was moved by Member Beall, seconded by Member Stennes, and carried by a vote of 5 to 0, with Member Larson absent, to approve the motion to proceed with follow up letter as discussed in executive session.

OTHER ITEMS

Chair Kruse briefed the Board on the Department's response to the COVID-19 outbreak. The Department's employees are currently working remotely, except for Assistant Commissioner Krebs who is in the office. Exams are still being conducted and examiners are trying to be as accommodating as possible with the banks to work remotely. The Department's website has been updated with the guidance that is available. Temporary branch modifications and closures are posted on the website and have been well received.

Member Beall asked how the Department will view the economic impact of businesses having to shut down related to COVID-19.

Chair Kruse stated the Department is very aware of the situation businesses are currently going through and encourages banks to work with their borrowers. Banks should address this crisis the same way they have handled borrowers with financial stress in the past. Risk and difficulties are dealt with the same regardless of source, and the Department expects that banks identify the risk in their portfolios. Working with borrowers individually allows the bank to tailor modifications based on each situation. The goal is to minimize losses to both the borrower and the bank, and therefore, the Department believes we will see a variety of workout solutions, including deferred payments, interest-only loans and other modifications that fits the situation.

Member Schmid asked about the CECL delay that was included in the federal bill. Chair Kruse stated that it was delayed until the emergency ends or until December 31, 2020. More information should be released within the coming weeks. Chair Kruse stated that North Dakota institutions report a reintroduction of the TAG Program would be helpful, and the SBA loan programs with the related loan forgiveness will have a big impact.

The meeting adjourned at 10:28 a.m.



Lise Kruse, Chair



Corey Krebs, Secretary