

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

May 14, 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 9:01 a.m., Thursday, May 14, 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)*
Kim Larson, Member *(Phone)*

ALSO PRESENT: Corey Krebs, Secretary *(Office)*
Ryan Spah, Chief Examiner – Banks *(Office)*
Angie Mills Fischer, Review Examiner *(Phone)*
Lisa Kirschmann, Administrative Assistant *(Phone)*
Dean DuPontis, Assistant Attorney General *(Office)*
Christie Obenauer, Union State Bank of Hazen *(Phone)*
Dan Carey, VISIONBank *(Phone)*
Miranda Muscha, VISIONBank *(Phone)*
Kelli Simonson, VISIONBank *(Phone)*
Karen Grandstrand, Fredrikson & Byron *(Phone)*
Peter Anderson, KodaBank *(Phone)*
Paul Sirek, KodaBank *(Phone)*

APPROVAL OF MINUTES

Chair Kruse indicated the Board received copies of the minutes of the regular meeting held on March 30, 2020.

It was moved by Member Beall, seconded by Member Schmid, and carried by a vote of 6 to 0, to approve the minutes of the regular meeting held March 30, 2020.

KODA BANCOR, INC., DRAYTON – APPLICATION TO ACQUIRE WALL STREET HOLDING COMPANY, HAMILTON, ND; WALL STREET HOLDING COMPANY CONTROLS 100% OF BANK OF HAMILTON, HAMILTON, ND.

Review Examiner Mills Fischer reviewed the memorandum. The request was received on April 10, 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 by Koda Bancor, Inc.

It was moved by Member Larson, seconded by Member Beall, and carried by a vote of 6 to 0, to approve the application for Koda Bancor, Inc., Drayton to acquire Wall Street Holding Company, Hamilton, ND; Wall Street Holding Company Controls 100% of Bank of Hamilton, Hamilton, ND.

Messieurs Anderson and Sirek left the call.

UNION STATE BANK OF HAZEN, HAZEN – APPLICATION TO ACQUIRE ASSETS OF STROUP INSURANCE AGENCY, HAZEN, WHICH HAS SIMILAR SHAREHOLDERS AS THAT OF UNION HOLDING COMPANY, WHICH OWNS 100% OF UNION STATE BANK.

Review Examiner Mills Fischer reviewed the memorandum. The request was received on April 27, 2020.

Member Schmid asked if it is common for banks in the state to own their own insurance agencies?

Chair Kruse indicated that some insurance agencies are owned by the holding company but some are owned by the bank directly; typically when the insurance agency is small.

Review Examiner Mills Fischer stated it is the recommendation of the Department to approve the request by Union State Bank of Hazen to invest less than \$350,000 to purchase and acquire assets of Stroup Insurance Agency with the condition of providing the purchase agreement, including the specific purchase price, and sufficient information and proposed insurance agency staffing to the department.

It was moved by Member Heilman, seconded by Member Beall, and carried by a vote of 6 to 0, to approve the application for Union State Bank of Hazen, Hazen – Application to acquire assets of Stroup Insurance Agency, Hazen, which has similar shareholders as that of Union Holding Company, which owns 100% of Union State Bank.

Ms. Obenauer left the call

VISIONBANK, FARGO – LIFE INSURANCE WAIVER REQUEST

It was moved by Member Beall, seconded by Member Schmid for the Board to move into closed session at 9:22 a.m. by a vote of 6-0 to review the memo containing examination information for VISIONBank, Fargo – Life Insurance Waiver Request pursuant to North Dakota Century Code 6-01-07.1, and returned to open session at 9:35 a.m. Those that were present during the executive session were Chair Kruse, Member Beall, Member Heilman, Member Schmid, Member Stennes, Member Larson, Corey Krebs, Ryan Spah, Angie Mills Fischer, Dan Carey, Karen Grandstrand, Miranda Muscha, Kelli Simonson, Lisa Kirschmann and Dean DuPountis.

Chair Kruse asked how much of the debt was unsecured when first put on the books.

Dan Carey stated a portion of the debt was unsecured but he would have to review. Miranda Muscha stated it was not all of the debt.

Board Member Larson asked about the timing of this waiver request to the board in relation to the August 2019 examination date. Mr. Carey indicated this was their request.

Board Member Larson asked if other banks that were participants in loans to this borrower were also involved in this policy. Mr. Carey indicated that the participant banks are not part of this policy.

Review Examiner Mills Fischer stated if the board decides to approve the waiver request by VISIONBank, the waiver will be for VISIONBank to retain a life insurance policy on an identified borrower and including the bank's payment of premium, remit any excess over and above what the bank is owed to the borrower's estate, and that the bank keep the Department apprised of the status. The bank should also take into consideration losses incurred by the other banks that participated on the credit. In addition, if said waiver is approved, it should be issued to the bank as an Order.

It was moved by Member Beall, seconded by Member Schmid to allow VISIONBank to hold life insurance on a charged-off borrower.

Further Discussion:

Commissioner Kruse stated that the administrative code allows the Commissioner or the Board to consider these waivers. This is in front of the Board because as the State Regulator, Commissioner Kruse believes that it sends the wrong message to grant a waiver under these circumstances. Approving the waiver would allow the death of the borrower to serve as the primary collection tool for repayment of problem debts. This is different than an assignment of life insurance on debt with an ordinary repayment source. The borrower's debt was in default prior to the life insurance assignment; this was not taken to protect a primary repayment source, rather the death benefit which is triggered by the death of the borrower is the primary repayment source. Approving a waiver would signal it is acceptable that banks speculate on their customers' lives for repayment of debt. With concerns about public mental health, concerns about farmer suicides, and severe economic pressures, approving the waiver is poor public policy as it could create reputational risks for this bank and the industry as a whole. It can appear that banks are taking advantage of distressed borrowers' fragile state of mind and profiting from their death, timely or otherwise. Federal guidance defines this activity as unsafe and unsound practice. Commissioner Kruse stated she could not in good conscience grant the waiver, so she thought it would be fair to the bank to bring this to the Board for their consideration.

Member Schmid asked that if the waiver was granted, did the bank still need to apply to the FDIC to hold the policy. Commissioner Kruse and Mr. Carey both indicated the bank did need to apply.

Member Beall asked if this waiver was legal, indicating we had granted waivers in the past. Commissioner Kruse stated the Board granted one under a similar scenario several years ago. She further stated that it is not common practice for a bank to keep a life insurance policy on a borrower after the debt has been charged off. Her discussion with the FDIC Kansas City regional office indicated that they have only seen this particular scenario twice, both in North Dakota. The purpose of the North Dakota administrative rules allowing life insurance assignments on borrowers is to protect the bank against the borrowers' death while the loan is in force, not when the borrower defaults.

The board voted 0 to 6 with the motion denied. The motion was denied for a waiver to the administrative code.

Mr. Carey and Ms. Grandstrand, Ms. Muscha and Ms. Simonson left the call

2020 ANNUAL ASSESSMENT POLICY FOR STATE CHARTERED BANKS AND TRUST COMPANIES

Secretary Krebs presented the Annual Assessment Policy. One scenario was presented proposing a discount of 47%. The difficulty in creating projections due to the current pandemic and uncertain economic environment was discussed.

It was moved by Member Beall, seconded by Member Heilman, and unanimously carried, to approve the 2020 Annual Assessment Policy with a 47% discount to the bank and trust company assessment.

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 established an interstate facility in Forest Lake, Minnesota. American Bankers Association Community Engagement Foundation's request to use the word "bankers" in the registered trade name was approved. JJ Best Bank & Co. International, LLC,

requested to use the word “bank” in the registered trade name, which was denied by the Commissioner.

BANK BUDGET UPDATE

Secretary Krebs gave an update on the budget.

It was moved by Member Beall, seconded by Member Schmid to move into closed session at 10:18 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 10:27 a.m. Those that were present during the executive session were Chair Kruse, Member Beall, Member Heilman, Member Larson, Member Schmid, Member Stennes, Corey Krebs, Ryan Spah, Angie Mills Fischer, Lisa Kirschmann and Dean DuPountis.

OTHER ITEMS

Commissioner Kruse indicated the state office is still closed to the general public except for by appointment due to COVID-19. Corey Krebs is the only individual working in the Bismarck office, rest of the staff is working from home.

Commissioner Kruse said the Department is receiving notices from banks that some are now opening their lobbies to the public.

Commissioner Kruse stated she has heard from First International Bank and Trust confirming the life insurance excess funds were paid to the insured’s estate. Member Stennes stated that given what he knows today, he would have voted no on granting a life insurance waiver to First International. He believes the no vote on the VISIONBank application was the right thing to do.

Commissioner Kruse thanked Member Larson for his service. This was Member Larson’s last meeting as his term will end June 30, 2020, after being on the board since 2010.

The meeting adjourned at 10:36 a.m.



Lise Kruse, Chair



Corey Krebs, Secretary