The regular meeting of the State Credit Union Board was called to order by Chairman Entringer in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota, at 9:30 a.m., Friday, March 7, 2014, by conference call.

MEMBERS PRESENT: Robert J. Entringer, Chairman (Office)
Don Clark, Member (North Carolina)
Melanie Stillwell, Member (Williston)
Steve Tonneson, Member (Office)

MEMBER ABSENT: Paul Brucker, Member

ALSO PRESENT: Aaron Webb, Secretary (Office)
Suzette Richardson, Administrative Staff Officer (Office)
Jan Murtha, Assistant Attorney General (Office)
Corey Krebs, Chief Examiner – Credit Unions (Office)
Sara Sauter, Financial Institutions Examiner (Office)
Steve Davis, Capital CU, Bismarck (Office)
Vance Reinbold, Capital CU, Bismarck (Office)

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on December 12, 2013, and the special meeting held on February 12, 2014, 2013.

It was moved by Member Stillwell, seconded by Member Tonneson, and carried by a vote of 4 to 0, with Member Brucker absent, to approve the minutes of
the regular meeting held December 12, 2013, and of the special meeting held February 12, 2014, as presented.

CAPITAL CREDIT UNION, BISMARCK – APPLICATION OF WAIVER FOR AGGREGATE CONSTRUCTION AND DEVELOPMENT LOANS

Chief Examiner Krebs reviewed his Memorandum dated February 26, 2014, indicating Capital Credit Union, Bismarck (Capital), has applied for a waiver from the aggregate construction and development (C&D) loan limit outlined in Part 723.3 of NCUA’s Rules and Regulations, as well as the limit outlined in Section 13-03-16-05 of the North Dakota Administrative Code. Chief Examiner Krebs indicated Capital is seeking a new limit of 30% of net worth for C&D loans.

Chief Examiner Krebs indicated Capital has provided the required documentation and appears to meet the necessary criteria.

Chief Examiner Krebs indicated C&D loans are considered risky business loans; however, Capital’s waiver request does not create any immediate safety and soundness concerns and its financial position should help mitigate risk.

Chief Examiner Krebs indicated Capital’s loan portfolio performance will be reviewed during examinations and the Call Reporting process.

Chief Examiner Krebs indicated the Department recommends approval of Capital’s exemption from the aggregate C&D loan limit.

Steve Davis, Chief Operations Officer of Capital, indicated approximately ten years ago Capital began focusing on business lending and developed the business services department. COO Davis indicated the foundation is strong and sturdy. COO Davis noted Capital’s charge-offs and delinquencies are virtually non-existent in business lending.

COO David indicated the demand for C&D financing has grown and, in order to support its members, Capital is requesting to expand this loan limit.

In answer to Member Tonneson’s question, COO Davis stated Capital’s current limit is 15% of net worth.
Chairman Entringer stated it is a requirement of NCUA to include unfunded commitments; therefore, the 15% limitation is met quickly and limits how many projects can be worked on at one time. COO Davis concurred, adding that North Dakota’s limited construction season is also a problem.

COO Davis stated Capital’s 15% of net worth limitation would cover one single $5 million project, and pointed out that Capital’s interest is to focus on non-speculative C&D loans.

Member Stillwell questioned whether Capital also limits by diversification (how much is put into hotels, apartment buildings, or other types of real estate or operating loans), and COO Davis responded that Capital has concentration guidelines that measure diversification, which currently is more by loan type (agricultural, real estate, and commercial real estate versus home equity type financing and first mortgages).

Member Clark stated he feels COO Davis has done a good job of promoting the request before the Board.

When asked by Chairman Entringer whether Capital is stress testing its portfolio and individual credits, COO Davis indicated stress testing is done at the credit approval level, and the credit union has vastly improved what stress testing can reveal. COO Davis concluded Capital understands the importance of the taking appropriate action in response to stress testing.

Chief Examiner Krebs explained if the State Credit Union Board approves Capital’s request, documentation of the Board’s approval as well as the entire application packet will be sent to NCUA for its action. Chief Examiner Krebs stated he believes NCUA must act within 60 days of receipt of this request.

It was moved by Member Clark, seconded by Member Tonneson, and carried by a vote of 4 to 0, with Member Brucker absent, to approve the request by Capital Credit Union, Bismarck, for a waiver from the aggregate construction and development (C&D) loan limit outlined in Part 723.3 of NCUA’s Rules and Regulations, as well as the limit outlined in Section 13-03-16-05 of the North Dakota Administrative Code, from 15% to 30%.
Assistant Commissioner Webb reviewed his Memorandum dated January 30, 2014, indicating the Department received the application by Capital Credit Union, Bismarck (Capital), to establish a branch at the Dan’s Supermarket Building, 3103 Yorktown Drive, Bismarck, on November 18, 2013.

Assistant Commissioner Webb indicated Capital is an open charter credit union with a field of membership limited to those who reside in the New Salem trade area and organizations and persons living within a 50 mile radius of the credit union’s home office in Bismarck and their immediate families or members of a household, and those within an area between a 50 mile radius and a 75 mile radius of the home office of Bismarck and residents within a 75 mile radius of the branch office in Hazen and residents within a 50 mile radius of Beulah and organizations and persons within a 75 mile radius of 4510 13th Avenue South, Fargo.

Assistant Commissioner Webb indicated the proposed branch is within the current field of membership of Capital; therefore, the credit union is not seeking to expand its field of membership at this time.

Assistant Commissioner Webb reviewed the procedures of Section 13-03-05-04 of the North Dakota Administrative Code regarding establishment of a branch. Assistant Commissioner Webb indicated Capital’s Board of Directors approved the branch application at its June 24, 2013, meeting, and notice of the application was published in the Bismarck Tribune on January 27, 2014, and in the Mandan News on January 31, 2014.

Assistant Commissioner Webb indicated Capital is projecting operating losses for the first two years; however, is projecting Net Operating Income of $25,629 in the third year. Assistant Commissioner Webb continued that the first two years of losses will have an impact on earnings, but Capital’s overall ability to succeed is not an area of concern.

Assistant Commissioner Webb indicated the estimated fixed asset level following the construction of the proposed branch is $9.3 million for an estimated fixed asset ratio of 2.68%, which remains within the regulatory limit.
Vance Reinbold, Chief Financial Officer of Capital, indicated when the application was submitted only the legal description was available for the proposed branch location; however, the physical actual address is 3103 Yorktown Drive, Bismarck, North Dakota, 58503.

CFO Reinbold reiterated Capital is projecting losses within the first two years of operation, but that the branch should achieve a positive net income by year three. CFO Reinbold added this proposed branch is smaller and a more efficient type of layout with slightly over 1,000 square feet.

CFO Reinbold explained the location of the branch in the Bismarck area, and indicated if the application is approved Capital projects opening the branch in September or October 2014.

Assistant Commissioner Webb indicated the Department recommends approval of the application by Capital to establish a branch at the Dan’s Supermarket Building, 3103 Yorktown Drive, Bismarck, North Dakota; to adopt the proposed Order; and authorize Chairman Entringer to sign the Order on behalf of the State Credit Union Board.

Chairman Entringer indicated the physical address of the branch will be inserted in the Proposed Order.

It was moved by Member Tonneson, seconded by Member Stillwell, and carried by a vote of 4 to 0, with Member Brucker absent, to approve the application by Capital Credit Union, Bismarck, to establish a branch at the Dan’s Supermarket Building, 3103 Yorktown Drive, Bismarck, and that Chairman Entringer be authorized to sign the Order on behalf of the State Credit Union Board.

COO Davis and CFO Reinbold left the meeting at 9:48 a.m.

CREDIT UNION BUDGET UPDATE

Chairman Entringer reviewed the Organizational Status by Summary Account and Source for credit unions for the month ending January 31, 2014, as presented.
PROPOSED LEGISLATION

Chairman Entringer indicated the Department is considering proposed legislation for the credit union division and will provide that to the Board at its June or September 2014 meeting.

The Board went into closed session at 9:55 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.

The Board reconvened in open session at 10:21 a.m.

SPECIAL MEETING

Chairman Entringer indicated a special meeting has been scheduled for Wednesday, April 2, 2014, to review the application by Citizens Community Credit Union, Devils Lake, to establish a branch in East Grand Forks, MN.

NEXT MEETING

Chairman Entringer indicated the next regular meeting will be held Friday, June 13, 2014.

The meeting adjourned at 10:24 a.m.

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Robert J. Entringer, Chairman    Aaron Webb, Secretary