

**REGULAR STATE CREDIT UNION BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

June 2, 2017

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 9:00 a.m., Friday, June 2, 2017, by conference call.

MEMBERS PRESENT: Robert J. Entringer, Chairman *(Office)*
Paul Brucker, Member *(Office)*
George Economon, Member *(Fargo)*
Deb Gallagher, Member *(Office)*
Melanie Stillwell, Member *(Williston)*

MEMBERS ABSENT: None

ALSO PRESENT: Aaron Webb, Secretary *(Office)*
Suzette Richardson, Administrative Staff Officer *(Office)*
Corey Krebs, Chief Examiner – Credit Unions *(Office)*
Sara Sauter, Financial Institutions Examiner *(Office)*
Heidi LaBree, Financial Institutions Examiner *(Office)*
Dave Hatton, Financial Institutions Examiner *(Detroit Lakes)*
Bob Herrington, North Star Community CU *(Maddock)*
Darrell Roos, Northern Tier Federal CU *(Minot)*

APPROVAL OF MINUTES

Chairman Entringer indicated the Board received copies of the minutes of the regular meeting held on March 3, 2017, and the special meeting held on May 15, 2017.

It was moved by Member Stillwell, seconded by Member Gallagher, and unanimously carried, to approve the minutes of the regular meeting held March 3, 2017, and the special meeting held on May 15, 2017, as presented.

NORTH STAR COMMUNITY CREDIT UNION, MADDOCK, TO MERGE WITH NORTHERN TIER FEDERAL CREDIT UNION, MINOT

Assistant Commissioner Webb reviewed his Memorandum dated April 19, 2017, indicating the Department received the application on March 6, 2017, by North Star Community Credit Union, Maddock (North Star) to merge Northern Tier Federal Credit Union, Minot (Northern Tier) into North Star.

Assistant Commissioner Webb noted that Section 6-06-36 of the North Dakota Century Code refers to the right of credit unions to merge. Assistant Commissioner Webb also reviewed the procedures of Section 13-03-05-01 of the North Dakota Administrative Code, and indicated all the requirements have been met.

Assistant Commissioner Webb indicated the Board of Directors of both North Star and Northern Tier approved Resolutions to merge on February 15, 2017.

Assistant Commissioner Webb indicated North Star sent a Notice of Special Meeting to the membership the first week of March 2017, and the membership approved the merger on March 23, 2017, by a unanimous vote of the 91 members present. Assistant Commissioner Webb indicated per federal law a merging federal credit union must have a vote of its membership within 60 days after NCUA's preliminary approval of the application; NCUA preliminarily approved the application on May 5, 2017. Assistant Commissioner Webb indicated Northern Tier sent a Notice of Special Meeting to the membership on May 9, 2017, and the meeting was held on May 31, 2017, resulting in a 21-day notice to members, with the membership approving the merger with North Star by a vote of 411 to 216.

Assistant Commissioner Webb indicated on April 19, 2017, notice was mailed to all credit unions within a 50-mile radius of Minot, Velva, Willow City, and Butte, as well as to the North Dakota Bankers Association, the Independent Community Bankers of North Dakota, and the notice was included in the Department's March and April 2017 Bulletins.

Assistant Commissioner Webb indicated per North Dakota Century Code Section 6-06-36 if a merger application is approved, the former main office and any

branches of the credit union merged will become branches of the continuing credit union.

President Herrington indicated he and President Roos began discussing the concept of merging North Star with Northern Tier in the fall of 2016, looking at the benefits and potential drawbacks of a possible merger. President Herrington indicated the primary benefit of the merger is the economies of scale that will allow improved and expanded services to the membership; a dramatically expanded branch network for the convenience of both memberships; as well as a significant diversification of loan portfolio risk for both credit unions. President Herrington stated that North Star has a very strong ag portfolio, whereas Northern Tier has concentrated more on the consumer side, which will result in a good combination.

President Herrington stated as well as meeting all the statutory requirements by providing the necessary notification to all members, informational meetings were also held at each major credit union market so that all members were educated as to the benefits offered through the proposed merger.

President Herrington stated no formal or written comments have been received from the memberships; however, both North Star and Northern Tier held their annual meeting which gave the opportunity for members to express concerns regarding the possible merger. President Herrington indicated concerns have been expressed by the Northern Tier membership, primarily the Willow City area where members feared their branch may close. President Herrington stated there are no plans to close the Willow City branch and that message has been communicated to those members.

President Herrington stated another concern was expressed by members of Northern Tier as to the name change to North Star following the merger. President Herrington stated the members have been reassured the history and heritage of Northern Tier will be honored.

President Herrington indicated following the merger all branches will remain open, except for North Star's 1400 South Broadway, Minot, location. President Herrington explained that both North Star and Northern Tier have branches in this area and it was determined the Northern Tier location would better serve the membership.

President Herrington indicated that assets will be approximately \$300 million post-merger; there will be 10 retail branches; 22,000 members; and combined capital will be approximately \$36 million for an approximate 11.9% net worth ratio.

President Herrington stated estimated forecasts are: year one ROA will be off due to merger expenses; year two ROA will return to 1.1%; and year five ROA should be approximately 1.3%.

In response to Chairman Entringer, President Herrington stated North Star owns the branch building located at 1400 South Broadway, Minot, and plans to sell or use the space for administrative purposes. President Herrington indicated it is prime real estate and a realtor has already been in contact to list the property.

Chairman Entringer noted Northern Tier membership did not vote overwhelmingly favorable for the merger with North Star. President Roos responded that the Willow City area members were most concerned about the branch closing since North Star presently has two branch locations within 25 miles of Willow City. President Roos indicated this concern was addressed and members reassured that no branch closings within the first five years of the merger without a unanimous vote by the Board was a part of the merger agreement. President Roos also indicated many long-term members of Northern Tier are attached to the name; however, does not believe there will be any issues as far as leaving the credit union. President Roos indicated there was some employee apprehensive due to the merger, but assured no employees would be terminated as stated in the merger agreement.

In response to Member Brucker, President Roos explained the 47 members present at the membership meeting were employees that had voted previously, but still encouraged to attend; as well as several members that had sent in a mail vote, but wanted to attend the meeting.

In response to Chairman Entringer, President Herrington explained that following the proposed merger the Board of Directors will be increased to nine directors; consisting of the five existing North Star directors, plus four directors from Northern Tier. President Herrington indicated that Greg Tschider is preparing the bylaw amendments regarding these changes. President Herrington further explained there will be two districts (based on county lines) the directors will be elected from: 4 directors from district 1, 3 directors from district 2, and 2 at-large directors.

In response to Chairman Entringer, President Herrington explained that Northern Tier's geographical field of membership already lies within North Star's existing field of membership; therefore, no expansion of field of membership was necessary. President Herrington continued since the merged credit union could not have both a common bond and geographic tie under state law, the air force membership would be eliminated.

Chief Examiner Krebs stated examinations of both North Star and Northern Tier were conducted by the Department and show no concerns regarding the proposed merger.

Chairman Entringer reviewed the proposed Order for President Herrington.

It was moved by Member Brucker, seconded by Member Gallagher, and unanimously carried to approve the application by North Star Community Credit Union, Maddock, to merge Northern Tier Federal Credit Union, Minot, into North Star Community Credit Union, and that Chairman Entringer be authorized to sign the Order on behalf of the Board.

Messrs. Herrington and Roos left the conference call at 9:24 a.m.

NORTH DAKOTA ADMINISTRATIVE RULES

Chief Examiner Krebs stated the Board approved changes to Article 13-03 of the North Dakota Administrative Code at its meeting held December 2, 2016; however, at its March 3, 2017, meeting it was decided several areas needed to be looked at, and possibly changed. Chief Examiner Krebs reviewed the proposed changes for the Board:

- 13-03-05-01(2) – the proposed changes make the process easier for a federal credit union merging into a state-chartered credit union, as well as allowing the commissioner some discretion to reverse the process so that a merger can be approved prior to publication.
- 13-03-05-01(3) – add state credit union to clarify “board”.
- 13-03-06-01 – the proposed changes reflect items that were previously under the member business loan rule; however, since the member business loan rule is eliminated, these items are returned to this Section.
- 13-03-06-01(11) – the definition of total reserves has been changed to make clear that retained earnings consisted of undivided earnings, regular reserves, and any other appropriations; unrealized gain/loss on available for sale and secondary capital was added.

Chairman Entringer suggested 13-03-06-01(11) be restructured as the word “plus” was used too often.

- 13-03-06-05 – in the initial proposal this section applied to all credits; changes have been made to stagger the requirements for risk rating and classification between commercial and consumer portfolios, as well as clean up Board responsibility versus management responsibility.
- 13-03-06-05(5) – remove the word “ratings” in the third sentence.
- 13-03-16.1 – this chapter is removed and will not be published.

In response to Member Stillwell, Chief Examiner Krebs indicated the definitions found under Chapter 13-03-20 (Participation Loans) are the same as found under the NCUA member business loan rule.

- 13-03-20-02(1)(b) – code reference to NCUA’s member business loan rule.
- 13-03-28-01(4) – code reference change.

Referring to Section 13-03-28-04(4)(a), Member Stillwell pointed out that many commercial and ag loans are set up on an annual pay basis; therefore, questioned the wording “including a minimum of six consecutive payments”. Chief Examiner Krebs agreed and explained when NCUA drafted this rule, he suggested the annual payment issue be considered since there will be non-accrual ag loans for six or seven years. Chief Examiner Krebs stated this is already federal regulation and changing it on the state level would not change the application process. In response to Member Stillwell, Chief Examiner Krebs clarified this section does apply to loan modification workout policy.

The Board agreed with Chairman Entringer’s suggestion to check with FDIC to see how this issue is handled and possibly making a change to this section even if it conflicts with federal regulation.

Chief Examiner Krebs reviewed his Memorandum dated May 30, 2017, which details two options for 13-03-04 (Fixed Assets). Chief Examiner Krebs explained option 1 converts the fixed asset ratio to a percentage of net worth instead of total assets. Chief Examiner Krebs added the risk as a function of net worth is more sensible than the risk as a function of assets. Chief Examiner Krebs indicated 50% of

net worth appears to be a reasonable limit and would have a limited impact on most credit unions.

Chief Examiner Krebs explained that option 2 would be to follow NCUA's regulation and remove the fixed asset limit and follow internal guidance similar to NCUA's Supervisory Letter 15-03. Chief Examiner Krebs stated he does not believe this would be the best approach since all the requirements done before an asset is purchased would be done during the examination process; therefore, if a problem exists it is dealt with after the fact. Chief Examiner Krebs stated there have been three instances in the past where state-chartered credit unions received approval to exceed the current fixed assets limit.

Chairman Entringer stated he prefers to deal with a fixed asset issue before it becomes a problem; therefore, would prefer credit unions request waiver approval from the State Credit Union Board.

Chairman Entringer indicated he asked Chief Examiner Krebs to determine any impact to fixed asset limitations if a percentage of net worth is used, and it appears it would give most credit unions more flexibility than under the 6% limitation. Chairman Entringer stated he feels the 50% of net worth is a better option from his perspective. Chairman Entringer stated when asked by credit unions if he would consider removing the fixed asset limit, his response is an unequivocal no.

Member Brucker suggested amending Option 1 by adding "6% of assets or 50% Net Worth, so that both lessor and higher capitalized credit unions are covered. Member Brucker stated he is concerned about going with the 50% because credit unions that are not well capitalized could be thrown out of compliance because their amount could go down. Chairman Entringer clarified that Member Brucker's suggestion was the greater of 6% or 50% of net worth, and Chairman Entringer indicated he did not have a problem with that change. Chairman Entringer stated this option would also be pending prior to any comments received from the credit unions.

Member Gallagher agreed it is better to have a limit, and agrees with Member Brucker's amendment.

Chief Examiner Krebs indicated 50% of net worth seemed to be the most rational number that would not impact any credit unions negatively in relation to where they would be at 6% of assets.

Member Stillwell agreed with Member Brucker's amendment, as assets can fluctuate at a faster rate than net worth.

Member Economon agreed with Member Brucker's amendment, as this would be a better for less capitalized credit unions.

After further discussion, the Board agreed that "not to exceed 10% of total assets without State Credit Union Board approval should also be added to the end of Option 1, as this would prevent creating a huge earnings problem. The conclusion was that 13-03-04, Option 1, language would include "6% of assets or 50% of Net Worth, whichever is greater, not to exceed 10% of total assets without State Credit Union Board approval".

It was moved by Member Gallagher, seconded by Member Stillwell, and unanimously carried the North Dakota Administrative Code rules as amended are approved for publication, subject to Assistant Attorney General Murtha's review.

APPROVAL OF 2017 ANNUAL ASSESSMENT POLICY FOR STATE-CHARTERED CREDIT UNIONS

Assistant Commissioner Webb reviewed Chairman Entringer's May 12, 2017, Memorandum which outlines the expense descriptions for the credit union division, as well as four scenarios for assessments for the Board's consideration: (1) 10% credit; (2) 12.5% credit; (3) 15% credit; and (4) 17.5% credit.

After review of the assessment scenarios, Assistant Commissioner Webb indicated it is Chairman Entringer's recommendation to not change the assessment formula or policy, and to approve a 15% credit to the assessment formula for the 2017 fiscal year.

In response to Member Stillwell, Chairman Entringer indicated the assessment projections could change if the merger between Northern Tier Federal Union, Minot, and North Star Community Credit, Maddock, is effective prior to June 30, 2017; however, does not believe the merger would be effective before August 31, 2017.

Member Brucker stated he feels it is a positive trend of offering assessment credits, as well as remaining competitive with NCUA; therefore, does not believe this year's credit should be too high so that it has to be lowered next year.

Chairman Entringer pointed out that the number of state-chartered credit unions is not declining, but the assets are increasing. Chief Examiner Krebs indicated 15 years ago the credit union assets were just over \$1 billion, and are now over \$3 billion.

It was moved by Member Brucker, seconded by Member Economon, and unanimously carried, to approve the State-Chartered Credit Union Annual Assessment Policy, along with granting a 15% assessment credit to state-chartered credit unions.

CREDIT UNION BUDGET UPDATE

Chairman Entringer indicated the Board received the Organizational Status by Summary Account and Source for the month ending April 2017.

The Board went into closed session at 10:17 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 10:40 a.m.

APPROVAL OF EXECUTIVE SESSION MINUTES

It was moved by Member Gallagher, seconded by Member Stillwell, and unanimously carried, to approve the executive session minutes of the regular meeting held on March 3, 2017, as presented.

DAY WITH THE COMMISSIONER

Member Brucker commented the Day with the Commissioner held May 15, 2017, was very good; positive comments were received; good information was provided; and he feels it should continue to be held.

Chairman Entringer indicated he proposed to Jeff Olson of the Credit Union Association of the Dakotas that they host future Day with the Commissioner events and the Department would provide the program of topics; as well as a possible Directors College for credit unions.

Member Stillwell suggested the event not be held on a Monday morning, and that more may have attended this year's event if it had not been on Mother's Day weekend.

SEPTEMBER MEETING

It was discussed possibly rescheduling the September 1, 2017, meeting since that is Labor Day weekend.

The meeting adjourned at 10:48 a.m.

Robert J. Entringer, Chairman

Aaron Webb, Secretary