

**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 1, 2018

The regular meeting of the State Credit Union Board was called to order by Chair Kruse 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 1, 2018, by conference call.

MEMBERS PRESENT: Lise Kruse, Chair *(Office)*
Paul Brucker, Member *(Office)*
George Economon, Member *(Fargo)*
Deb Gallagher, Member *(Office)*
Melanie Stillwell, Member *(Office)*

MEMBERS ABSENT: None

ALSO PRESENT: Aaron Webb, Secretary *(Office)*
Joan Becker, Director of Administration *(Office)*
Anders Odegaard, Assistant Attorney General *(Office)*
Corey Krebs, Chief Examiner – Credit Unions *(Office)*
Heidi LaBree, Administrative Examiner *(Office)*
Bob Herrington, North Star Community CU *(Maddock)*
Nick Woodard, United Savings CU *(Fargo)*
Greg Tschider, *(Office)*

APPROVAL OF MINUTES

Chair Kruse indicated the Board received copies of the minutes of the regular meeting held on March 2, 2018.

It was moved by Member Stillwell, seconded by Member Gallagher, and unanimously carried, to approve the minutes of the regular meeting held March 2, 2018, as presented.

UNITED SAVINGS CREDIT UNION, FARGO – ARTICLES OF AMENDMENT OF BYLAWS

Assistant Commissioner Webb indicated we received the application to amend the bylaws on March 26, 2018. The Credit Union Board of Directors approved the change on March 20, 2018.

President Woodard indicated that the bylaws were modified from allowing Board of Director nominations to be made on the floor of the annual meeting to going to a nominating committee. This change was due to a nomination being made on the floor for an individual who would not have been eligible for serving on the Board.

It was moved by Member Gallagher, seconded by Member Brucker, and unanimously carried by a vote of 5-0 to approve the Articles of Amendment to the Bylaws for United Savings Credit Union, Fargo.

President Woodard left the call.

TOLNA CO-OP FEDERAL CREDIT UNION, TOLNA – APPLICATION TO CONVERT TO A NORTH DAKOTA STATE-CHARTERED CREDIT UNION

Assistant Commissioner Webb reviewed the memorandum dated May 15, 2018 indicating that the application was received on November 16, 2017. The authority for a federally chartered credit union to convert to a state-chartered credit union is found in North Dakota Century Code section 6-06-35(2)(a).

Assistant Commissioner Webb reviewed the procedures outlined in Section 6-06-35(2)(a). In addition to the requirements noted, the credit union must secure and maintain National Credit Union Administration insurance of accounts. Once these conditions are met, the State Credit Union Board will instruct the Secretary of State to issue a charter.

Assistant Commissioner Webb indicated the Department received a letter from Mr. Tschider on November 16, 2017 indicating the intention to convert to a state-

charted credit union. Included with the letter was executed Certificate of Organization and Bylaws for the proposed institution. On April 19, 2018 the Department received a letter from NCUA indicating that all the federal requirements had been met and that the credit union was authorized to take any necessary action to convert to a state-chartered credit union. The letter also indicated that NCUA would issue a new share insurance number and certificate to the credit union.

Assistant Commissioner Webb stated that on May 15, 2018 Chair Kruse sent a letter to Mr. Tschider informing him that the requirements of the statute had been met and the matter would be forwarded to the State Credit Union Board for review and direction.

Mr. Tschider discussed the process of converting a federally chartered credit union to a state-chartered credit union. This was the first time he has done this type of transaction. He indicated that although the institution already had share insurance through NCUA, they were required to reapply for share insurance, which resulted in the process taking extra time.

Mr. Tschider discussed the reasons that the credit union wants to become state-chartered. The institution is very small and not growing. They are only open on a part-time basis. They need to make strategic changes in order to grow and provide better services to their members. Their options are to work with another credit union on a management contract, hire staff, or look at a merger partner. The credit union Board felt that the state rules regarding field of membership was more desirable. They also felt it was beneficial to them to work with local examiners. Mr. Tschider indicated the credit union has great reserves, but not many assets.

Member Brucker asked when going through this process in general, does the State Credit Union Board have the option of not accepting the credit union if there are concerns.

Assistant Commissioner Webb indicated that the Board does have to make the choice to instruct the Secretary of State to issue the charter. It appears there is discretion when making this decision. In addition to the State Credit Union Board decision, the NCUA also approves the application. It is logical that the NCUA would not approve the application if the credit union were under enforcement actions from recent examinations.

Mr. Tschider indicated that because NCUA is the insurer, they do have the authority to say deny the request.

Chair Kruse indicated that the Department obtained prior NCUA examination reports for Tolna Co-Op Federal Credit Union as part of the Department's due diligence.

Member Gallagher indicated that the attached bylaws referenced the Supervisory Committee and Credit Committee and asked if the credit union had active committee members. Mr. Tschider indicated that they do have active committee members.

Mr. Tschider disclosed that he was married to Member Gallagher.

Member Gallagher asked if the bylaws could be changed by the Board of Directors or the membership. Mr. Tschider indicated that they could be changed by the Board of Directors.

Chief Examiner Krebs indicated that he reviewed the prior examination reports completed by NCUA.

Member Stillwell inquired as to what the asset size of the institution was. Chief Examiner Krebs stated that as of March 31, 2018 they were \$1.20 million.

Member Gallagher asked where Tolna, North Dakota was located. Chair Kruse indicated it was south of Devils Lake.

It was moved by Member Brucker, seconded by Member Gallagher, and unanimously carried by a vote of 5-0 to approve the application from Tolna Co-Op Federal Credit Union to convert to a state-chartered credit union.

Mr. Tschider left the meeting.

APPROVAL OF THE 2018 ANNUAL ASSESSMENT POLICY FOR STATE-CHARTERED CREDIT UNIONS

Chair Kruse indicated the Memorandum dated May 22, 2018 discussed two budget scenarios. She explained that the Department has statutory authority to carry over 20% of its next succeeding budget to the next biennium. The Department recommends giving a 20% discount.

Member Stillwell pointed out that the previous discount was 15%. This would be a larger discount than previously given.

Chair Kruse indicated that the Department incurred additional legal fees in the current biennium that will not be needed in the next budget cycle.

It was moved by Member Stillwell, seconded by Member Gallagher, and unanimously carried by a vote of 5-0 to approve the State-Chartered Credit Union Annual Assessment Policy with a discount of 20%.

CREDIT UNION BUDGET UPDATE

Chair Kruse indicated the Board will be receiving more information than historically given. She explained that the Department is within budget if the appropriation remaining exceeds 58%. Overall, the appropriation remaining is 73%, which indicates we are within the budget guidelines. There are some line items that are under 58%; however, we have the ability to move things around within the operating budget.

Member Brucker asked if there was a plan to run with one less examiner, as there is a position open at this time. Chief Examiner Krebs responded that the plan is to leave the position open for six months. Chair Kruse indicated that it is difficult to have two new people at the same time. There is a new examiner starting on Monday, so the plan is to hire again in six months to ease the transition.

Chair Kruse acknowledged that the Governor has asked that the Department cut the budget by 10% and staff by one full-time employee. It is early in the process and there is an opportunity to meet with the Governor and OMB to discuss our strategy. We will know more after that meeting of what it will look like for our Department. We historically run lean. Our biggest expense is salary with the second biggest expense being travel. We have support from the industry.

Ms. Becker left the meeting.

ADMINISTRATIVE RULES REVIEW

Members Stillwell and Gallagher met with Chief Examiner Krebs and Assistant Commissioner Webb to review the proposed rules. Mr. Olson from the

Credit Union Association of the Dakotas was also present at the meeting. Chair Kruse asked Chief Examiner Krebs to review the proposed changes.

Chief Examiner Krebs reviewed the changes that were discussed at that meeting. The first change addressed North Dakota Administrative Code section 13-03-02-02. Paragraph three of the existing rule was broken out into three smaller paragraphs that mirrored the bank rule relating to real estate appraisals and evaluations.

Member Brucker asked if the Department received the comments from Town and Country Credit Union regarding the \$250,000 limit if NCUA changed the limit. Chief Examiner Krebs indicated that NCUA did not make the changes to the appraisal limit with other federal regulators. Chair Kruse explained that the new rule provides the limit is \$250,000, if required by federal law. This allows for a higher limit if the NCUA changes the limit, rather than having to change our rules every time there is a change on the federal level.

Chief Examiner Krebs discussed the change made to Section 13-03-05-01 regarding public comment for merger.

Member Brucker stated he received a comment from Town and Country Credit Union regarding the publication requirement of 75-mile radius from the credit union if the field of membership is not 75 miles. Assistant Commissioner Webb indicated that this simplified the process, and that as written, it would be the Department that would mail all notices for mergers.

Member Stillwell asked about mailing the notice to the credit unions. Assistant Commissioner Webb stated that the notice would be mailed to the credit unions within a 75-mile radius of the main office of the applicant those credit unions located in the counties of the merging credit union's main office and branches. Assistant Commissioner Webb indicated it is better to err on the side of more publication rather than less.

Chief Examiner Krebs reviewed changes relevant to Section 13-03-06-01 indicating that the 1 – 4 family non-owner occupied would be defined within Board policy as to whether it will be classified as commercial and require commercial loan underwriting and risk rating. NCUA does not capture these types of loans as commercial.

Chief Examiner Krebs reviewed changes relevant to Section 13-03-06-05 indicating the requirement and frequency for an independent loan review and validation would be at the discretion of the Board of Directors. This is a requirement that will need to be addressed in the credit union's policy. Member Stillwell stated that the need for an independent loan review can also be subject to the examination review. Chief Examiner Krebs indicated the change to paragraph seven of this section was a wording change but did not affect content.

Chief Examiner Krebs indicated that the North Dakota Bankers Association objected to the repeal of the member business loan rule. He explained that since the NCUA rule preempts this rule the rule would not apply. Removing Chapter 13-03-16 takes out confusion.

Chief Examiner Krebs reviewed changes relevant to Section 13-03-20-02 regarding the aggregate amount of participation loans purchased from a single seller. The limit will be set by the Board of Directors. The change brought our rule consistent with NCUA. The North Dakota Bankers Association brought forth concerns about the wording of the participations as it related to financial organization which included governmental entities. Theoretically, a governmental entity could originate a loan and sell it to a credit union. The amended language incorporated the purchasing credit union's field of membership.

Chief Examiner Krebs indicated the change in Section 13-03-20-03 was a reference error that was corrected.

Chief Examiner Krebs reviewed changes relevant to Section 13-03-26-02 regarding interest rate risk policy and program requirements. This change creates a carve out for credit unions less than fifty million dollars to more closely mirror the requirements of NCUA.

Chief Examiner Krebs indicated the change to Section 13-03-28-02 was to make it clear the credit union needed a process of identifying workout loans but that did not need to be generated by robust computer systems.

Chief Examiner Krebs indicated the change in Section 13-03-28-03 was to clarify items related to troubled debt restructuring.

Member Brucker asked what the options were at this point. Chair Kruse stated that the Board could do nothing or restart the process to move forward with the changes. The first step would be to republish the changes with a comment period.

Member Gallagher thanked Chief Examiner Krebs and Assistant Commissioner Webb for their time and assistance in the process.

It was moved by Member Gallagher, seconded by Member Brucker, and unanimously carried by a vote of 5-0 to move forward with the Amended Administrative Rules.

Member Stillwell asked for clarification on the entire process. Assistant Commissioner Webb explained the process.

Chair Kruse asked how long the process would take. Assistant Commissioner Webb indicated that the speed of the process is not in our control but could get it completed in six months if everything goes smoothly.

ITEMS TO BE NOTED

President Harrington thanked the Department for a good examination recently.

President Harrington left the call.

The Board went into closed session at 9:52 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 10:23 a.m.

The meeting adjourned at 10:23 a.m.

Lise Kruse, Chair

Aaron Webb, Secretary