

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

March 13, 2003

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. Chairman Karsky called the meeting to order at 9:07 a.m., Thursday, March 13, 2003, by conference call arrangement.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*California*)
Ron Braseth, Member (*Mayville*)
Bill Daniel, Member (*Office*)
Launa Moldenhauer, Member (*Bismarck*)
Roger Monson, Member (*Finley*)
Gary Petersen, Member (*New Town*)
Terry Zeltinger, Member (*Minot*)

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Assistant Commissioner (*Office*)
Jeff Jungman, Chief Examiner – Banks (*Office*)
Fred Manuel (*Fargo*)
John Brown (*Fargo*)
Dan Carey (*Fargo*)
Dave Felch (*Fargo*)

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on January 16, 2003, and special conference call meetings held on February 10 and 25, 2003. **It was moved by Member Braseth, seconded**

by Member Monson, and carried by voice vote to dispense with the reading of the minutes and approve the minutes as published.

**SECURITY STATE BANK OF NORTH DAKOTA, HANNAFORD -
APPLICATION TO ESTABLISH A FACILITY AT 3000 25TH STREET
SOUTH, FARGO**

Chief Examiner – Banks Jungman reviewed his Memorandum which included the three statutory criteria for approval of a facility application and the Department’s response regarding those criteria.

Chief Examiner – Banks Jungman referred to the report he obtained from Economy.com under attached Appendix A indicating he was looking for any negative factors which might be included in that report. The report indicated the Fargo economy is barely growing; however, it is out-performing the rest of the nation. Chief Examiner – Banks Jungman indicated with there being no negative indicators within the report, his recommendation is that the community would not be adversely impacted by the establishment of another banking facility in the Fargo market.

The second criterion is the financial strength of the bank in relation to the cost of establishing and maintaining the separate facility. The applicant included its financial projections under Tab 2 and Chief Examiner – Banks Jungman also included a copy of the yearend Uniform Bank Performance Report under Appendix B. Chief Examiner – Banks Jungman indicated that overall the bank is a sound financial institution based upon the information from public sources. The application shows they will expend approximately \$532,000 in modifying the existing leased structure, resulting in an investment in fixed assets of approximately 24%. The legal maximum is 65%, and the bank will be well within the legal limitation.

Chief Examiner – Banks Jungman indicated the facility is not expected to be profitable until 2005. Factoring in the expected loss into yearend 2002 would reduce the bank’s net income from \$1.9 million to approximately \$1.7 million for a return on assets of .9%, which would be a worst case scenario. The applicant is projecting a return on assets of 1.12% by 2005, as well as Tier One capital of approximately 8.96%, and primary capital of 7.8%. Chief Examiner – Banks Jungman indicated the growth estimates appear to be reasonable, the proposed

management is John Brown, and based upon the information it appears the applicant has demonstrated compliance with the second criterion.

The third criterion is whether other banks would be seriously injured by approval of the application and the applicant's response is found under Tab 3. The applicant lists 16 other FDIC insured financial institutions in the Fargo market with a combined total of 54 separate locations. Chief Examiner – Banks Jungman obtained the MSA information from the FDIC website, which shows there are 30 FDIC insured institutions with 81 separate facilities. The 81 locations have combined deposits of \$3.7 billion, of which US Bank National Association's one location has deposits of \$1.1 billion. Chief Examiner – Banks Jungman also included the 14 credit unions in the Fargo-Moorhead market, with total assets of approximately \$121 million. Chief Examiner – Banks Jungman stated that based upon the information it can be concluded that the proposal will have little, if any, adverse impact on other banks in the trade area.

Chief Examiner – Banks Jungman briefly reviewed the requirements for the North Dakota Administrative Code, including the contents of the application and the joint federal and state publication. The publication was included in the February 3, 2003, The Forum, which provided for comments to be directed to the State Banking Board. Chief Examiner – Banks Jungman reviewed the Department's recommendation, which based on the information contained in the application as well as supplemental information and a review of the legal requirements, is to approve the facility, subject to the following: (1) maintaining capital levels above the State Banking Board minimum of 7%; (2) the applicant would notify the Department at least 30 days prior to opening; (3) if the transaction is not completed within 12 months the approval would expire; (4) the applicant would notify the Department of any changes in senior management at the facility; (5) the applicant will notify and submit to the Department any material changes from that reported in the application; and (6) the applicant will comply with the provisions listed in the approval letter of February 20, 2003, from the FDIC.

Fred Manuel reviewed the application for the Board at this time. Mr. Manuel referred to Tab 9 which notes that the FDIC has approved the application subject to state approval and receipt of the historical society approval, both of which have been granted. Mr. Manuel stated as far as the convenience and needs criterion, the bank would provide good competition in the Fargo market, with the independent banking philosophy. With regard to the financial strength, Mr. Manuel indicated the bank has been and will continue to be well-capitalized, as

noted on page 7, Tab 2. Mr. Manuel also noted in the third year of the projections because the bank gets close to the 10% total risk-based capital ratio, the holding company does have the capability to inject additional capital, as the parent has earmarked \$750,000 to inject into the bank if the need should arise, which is noted within Section 9a of the application. Mr. Manuel noted the projections indicate a loss in the first two years of operation and a projected profit in the third year of operation for the facility. Mr. Manuel stated from a capital standpoint, they analyzed it and are going to be solidly capitalized throughout the three-year projection period.

Mr. Manuel referred the Board to Tab 6 in regard to the serious injury criterion, and noted that what Chief Examiner – Banks Jungman had looked at was the Fargo-Moorhead metropolitan statistical area, whereas the applicant is looking at just the market within North Dakota, or Fargo/West Fargo. Mr. Manuel noted as of June 30, 2002, there are \$3 billion of deposits in the Fargo/West Fargo market and that the facility would not come close to making a dent in those deposit numbers. Mr. Manuel stated also included under Exhibit 6 is a traffic study which shows that 22,000 vehicles pass in front of the site (25th Street South) on a daily basis, and approximately 16,000 vehicles pass south of the site (32nd Avenue Southwest).

Chairman Karsky asked Mr. Manuel what impact a further decline in interest rates would have on the projections, and Mr. Manuel stated he did not feel a decline in interest rates would have a material impact on the projections.

Mr. Manuel referred the Board to Tab 2, page 2, where it indicates John Brown would be managing the facility in the startup phase, and the bank anticipates hiring staff from the local market, although that has not been finalized. Mr. Manuel informed the Board that Dan Carey has been hired as the manager of the facility, and he feels that addition will enhance the application as well as the projections.

Mr. Manuel requested a change to provision 2 of the proposed Order, from a 30 day notification prior to opening to notify the Department as soon as the applicant knows a date when the facility will be opened. Mr. Manuel noted the target date is late March or beginning of April, and they are trying to hold the contractor to that timeframe.

Mr. Manuel also requested a change to provision 4 of the Order, and that the applicant will be submitting Dan Carey's biographical information to the Department within the next few days.

Chairman Karsky noted that BNC National Bank had not done well going into the Fargo market, and inquired what this institution is going to do differently to be successful. Mr. Carey indicated that having been in the Fargo market for 26 years, he knows there are many people that love that independent connection, and indicated there are some significant relationships that will impact differently. Mr. Carey indicated you need to have those relationships and backup what you say with action. Mr. Carey continued you need to go out and let people know you are an independent bank that can make decisions locally and service their needs in a style that most banks don't want to do, which is very commercialized and personalized.

Member Petersen asked about the "doing business as" designation, and what the business plans are. Mr. Manuel indicated that Vision Bank will be the "doing business as" designation, and that they will have to follow the FDIC guidelines. Therefore, the bank has to make sure that the customer is aware that deposits at Vision Bank and deposits at Security State Bank of North Dakota have one FDIC insurance limitation.

Mr. Manuel referred to Chairman Karsky's question of how this bank will be successful by stating they felt a bank name for the Fargo market could help enhance the operation, which was the reason for the "doing business as" designation.

It was moved by Member Braseth and seconded by Member Moldenhauer to approve the application by Security State Bank of North Dakota, Hannaford, to establish a facility at 3000 SW 25th Street, Fargo, with modifications to the Order in regard to the 30 day notice. At this time Member Daniel noted for the record that John Brown and Mark Brown are limited partners in a business venture for which he is the general partner. Chairman Karsky indicated this would be noted in the minutes. **The motion was unanimously carried.**

Messrs. Manuel, Brown, Carey, and Felch left the conference call.

COMMERCIAL BANK OF MOTT, MOTT – APPLICATION TO RELOCATE THE MAIN OFFICE

Assistant Commissioner Entringer noted that the application is to relocate the present location from 220 Brown Avenue to 305 Brown Avenue, Mott, which is one block across the street. Assistant Commissioner Entringer directed the Board to page 4 of the application, noting the anticipated fixed asset expenditure of \$450,000 for the building, \$49,500 for furniture and fixtures, and \$500 for the lot, for a total of \$500,000. The application also indicates these are not temporary headquarters. Assistant Commissioner Entringer noted the applicant is not required to submit any further information for a relocation of the main office. Page 7 of the application has the anticipated earning prospects, which notes the current net occupancy expenses of \$41,195 compared to proposed occupancy expenses of \$35,000. The only change in management is to hire a junior loan officer; there is no change in the character of the bank's business; and in regards to the convenience and needs the present facility is obsolete, not handicap accessible, and has many mechanical and structural problems.

It was moved by Member Monson, seconded by Member Zeltinger, and unanimously carried to approve the application of Commercial Bank of Mott, Mott, to relocate its main office.

ARTICLES OF AMENDMENT

Assistant Commissioner Entringer noted the Articles of Amendment for Security State Bank, Dunseith, would allow the bank to have perpetual existence.

Assistant Commissioner Entringer noted the Articles of Amendment for State Bank of Fargo, Fargo, would change the bank's name to State Bank and Trust Company, and also allow the bank to have perpetual existence.

It was moved by Member Moldenhauer, seconded by Member Braseth, and unanimously carried to approve the Articles of Amendment for both the Security State Bank, Dunseith, and the State Bank of Fargo, Fargo.

ITEMS TO BE NOTED

Comptroller of the Currency

Effective 12-6-02, Community First National Bank, Fargo, closed branch at 900 South Townsend, Montrose, CO.

The Board went into closed session at 9:41 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary