

**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**

March 1, 2002

The regular meeting of the State Credit Union Board was called to order by Chairman Karsky in the Office of the Commissioner, Department of Financial Institutions, 2000 Schaffer Street, Suite G, Bismarck, North Dakota, at 9:35 a.m., Friday, March 1, 2002, by conference call arrangement.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Charles W. Gates, Member (*Texas*)
Judy A. Millar, Member (*Fargo*)
Ervin E. Mund, Member (*Office*)
Steven S. Tonneson, Member (*Minot*)

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Secretary (*Office*)
Jim Laidlaw, Chief Examiner – Credit Unions (*Office*)
Scott Miller, Assistant Attorney General (*Office*)
Buell Reich, North Dakota Credit Union League (*Office*)
Kermit Larson, North Dakota Credit Union League (*Office*)
Stuart Higginbotham, North Star Community CU (*Maddock*)

Diane Olson, Economic Development Corporation (*Bottineau*)
Greg Tschider, Attorney (*Bottineau*)
Darrell Roos, Northern Tier Federal Credit Union (*Minot*)

MINUTES PREVIOUSLY APPROVED BY MAIL

The minutes for the regular meeting of December 7, 2001, had been previously mailed to the Board, and approved.

Chairman Karsky indicated since there is a scheduled time for 10:00 a.m. to consider the expansion of field of membership and establishment of a branch for the North Star Community Credit Union, Maddock, other approval items would be addressed by the Board at this time.

PROPOSAL BY GREG TSCHIDER TO AMEND NORTH DAKOTA ADMINISTRATIVE CODE

Chairman Karsky indicated one item was not included on the agenda, but that he would like to discuss a letter provided by Greg Tschider proposing to amend Regulations 13-03-02-02 and 13-03-02-03 of the North Dakota Administrative Code.

Mr. Tschider reviewed his proposed changes with the Board, which were discussed in detail.

Chairman Karsky asked if the Board was ready to proceed with amending the rules, and the consensus was to redraft the rules with the suggested changes by Mr. Tschider, send them out for Board approval by mail, then the Department would proceed with publication for amending the rules.

NORTH STAR COMMUNITY CREDIT UNION, MADDOCK – APPLICATION TO ESTABLISH A BRANCH IN BOTTINEAU

Chairman Karsky asked Stuart Higginbotham, President, North Star Community Credit Union, Maddock, to review the application to expand the field of membership and establish a branch at 519 Main Street, Bottineau. President Higginbotham indicated the application includes their financial projections, as well as letters of support from various businesses and individuals in the Bottineau community, along with two letters of support from businesses outside the Bottineau community but within the proposed field of membership, and a marketing survey conducted by Minot State University, Bottineau Campus. The marketing survey was done in conjunction with the Bottineau Economic Development Corporation. President Higginbotham indicated the purpose of the survey was to try to find the level of support for another financial institution, as well as the desire for a more competitive environment in Bottineau with regard to the financial services industry.

President Higginbotham indicated the location is on Main Street, Bottineau, in a building owned by the Bottineau Economic Development Corporation, which includes the Technology Center for the Corporation. He indicated they are willing to rent space to the credit union. President Higginbotham indicated that Diane Olson from the Bottineau Economic Development Corporation was also on the conference call and could address questions regarding the level of community support.

President Higginbotham indicated the projections show that the credit union will break even within the three-year projection period, and shows the credit union branch growing to approximately \$8 million over the three-year period. President Higginbotham indicated he feels quite confident that the credit union should be able to achieve that type of growth within the Bottineau community during the three-year period. He stated with the earnings of the credit union as well as the equity position, the credit union can absorb the projected growth as well as the projected net losses over the projection period and still be in good condition.

Chairman Karsky asked if any of the Board members had questions, and Member Tonneson asked what the credit union's target date was for building. President Higginbotham said they intend to see what the response in the community was, but probably within a year or so. Member Tonneson asked whether the projections for years two and three reflected that, and President Higginbotham confirmed that they did. Member Tonneson questioned the growth, especially for year two, which he indicated he felt was quite aggressive. President Higginbotham indicated the growth projection does reflect the proposed new building, but that the credit union intends to pursue growth very aggressively in the Bottineau market. President Higginbotham continued that he did write the projections for aggressive growth, but is confident that the credit union will be able to achieve those numbers within the three-year projection period. Member Tonneson questioned the average member deposit of \$4,000, and President Higginbotham indicated this is based on the current experience, and in Maddock and Rugby the average deposits are \$9,000, so the projection is half of what the credit union is currently experiencing.

Chairman Karsky asked about the name and qualifications of the proposed manager, which is not included in the branch application. President Higginbotham indicated he does have people interested, but until the credit union received approval for the branch, he did not want to disclose that information.

Chairman Karsky indicated he would like to review the criteria for the Board to consider, as found in Section 13-03-15-04(2) of the North Dakota Administrative Code. Chairman Karsky indicated as far as the need criteria, the application includes several letters of support from the community, as well as letters of support from businesses in the surrounding area.

Chairman Karsky indicated there are two letters of opposition to the proposed branch, one from Northern Tier Federal Credit Union. Chairman Karsky indicated Darrell Roos, President of Northern Tier Federal Credit Union was part of the conference call and asked him to outline his concerns with the branch application. President Roos indicated he does feel the Northern Tier Federal Credit Union is servicing the Bottineau area. Although the credit union does not have a real strong base in Bottineau, the support from the Bottineau community has been building, and he added that expanding to the Bottineau community has been in the credit union's plans. President Roos also indicated that Northern Tier Federal Credit Union merged with the Willow City Co-operative Credit Union approximately 10 years ago and it has been a struggle to achieve profitability with this branch, and only recently has been it become profitable for the credit union. He indicated he did not feel it would take much for this branch to return to an unprofitable position for the credit union.

Chairman Karsky asked President Roos if the current field of membership for the Willow City branch includes Bottineau, which President Roos confirmed. Chairman Karsky also asked President Roos if the credit union is competing with North Star Community Credit Union in the Bottineau community now, and President Roos stated he did not feel they were, but they certainly compete in the Rugby community.

Chairman Karsky reviewed the second letter of opposition which was from Marilyn Foss, General Counsel for the North Dakota Bankers Association. Chairman Karsky stated he felt the map included with the application should be viewed which shows that Maddock does have a 50-mile radius from its branch in Rugby, which includes the Bottineau community. President Higginbotham indicated the credit union did do a sort by zip code and they feel right now they have over 300 members that would use the facility in Bottineau immediately. Member Tonneson asked if the current existing member were included in the projections for new members. President Higginbotham stated this projection was strictly new members, and that the credit union expects to add approximately two members a day.

Chairman Karsky reviewed the letters of support which were faxed by President Higginbotham this morning. The first letter was from Farmers Union Oil Company, Newburg, dated February 28, 2002, and the second letter was from the General Manager of Cenex with locations in Westhope, Souris, and Bottineau. Chairman Karsky indicated he felt these two letters of support were important because they represent support from the new area, which would be included in the proposed field of membership. President Higginbotham indicated he felt Diane Olson could speak to the issue of community support for the proposed branch. Ms. Olson indicated she was contacted by President Higginbotham regarding the location in Bottineau and after visiting with the Economic Development Corporation, she indicated the group felt it was a very good idea. Ms. Olson stated there are two very strong banks in the Bottineau community, but there is always a need for other sources of financing, and as they work with businesses, this is definitely an advantage. Ms. Olson indicated after they started working with North Star Community Credit Union on the surveys, there is a lot of excitement and positive feelings regarding the additional options for the community. She also indicated she was surprised at the number of people that are already members of credit unions, whether a state or federally-chartered credit union, so there is a large number of people in the community already familiar with the credit union philosophy. Ms. Olson added the Lake Metigoshe recreation area draws from as far away as Bismarck, and she felt it would be a nice transition to have that type of business in Bottineau.

Chairman Karsky stated Assistant Attorney General Miller, who is not present at the meeting today, had reviewed some of the objections to this application before the meeting and offered the following advise for the Board: that under Section 13-03-15-04(1) (d), North Dakota Administrative Code, the Board may, when it believes it to be in the public interest, order a hearing to be held. Chairman Karsky indicated if the Board chose to order a hearing, testimony would be sought as to why the branch should be approved or not approved, and then make the decision based on that testimony. Chairman Karsky polled the Board as to whether anyone felt a hearing was necessary, and it was unanimous that a hearing was not necessary.

Chairman Karsky asked if the Board had any further questions, and Member Tonneson asked President Roos how many members he felt Northern Tier Federal Credit Union had in the Bottineau community at the present time. President Roos stated their members overlap Bottineau quite a bit, but they have done an informal review and found that approximately 27% of their loan portfolio was from in or

around the Bottineau community, but outside of Willow City. President Roos was unable to give an approximate number of members this would involve.

After further discussion, it was moved by Member Millar and seconded by Member Gates to approve the application by North Star Community Credit Union, Maddock, to establish a branch at 519 Main Street, Bottineau.

Chairman Karsky indicated he feels with regard to the negative impact to any other state or federally-chartered credit union in North Dakota, when there is a proposal to establish a branch, someone will be harmed; however, whether that harm is serious enough is what the Board must consider. He stated both North Star Community Credit Union, Maddock, and Northern Tier Federal Credit Union, Minot, both have members within the Bottineau community, and he feels that whoever establishes a location in the community and services the customers should be allowed to do so. Obviously if North Star Community Credit Union already has 395 customers, there is a need for its branch in Bottineau.

Member Millar indicated the Northern Tier Federal Credit Union, Minot, has had the opportunity to establish a branch in Bottineau, and she commended President Higginbotham for taking action and branching into the community.

After a roll call vote, the motion was approved by a vote of 4 to 0, with Member Mund abstaining.

Chairman Karsky indicated if Assistant Attorney General Miller was present he would advise Member Mund that he should vote. Member Mund indicated since Northern Tier Federal Credit Union does the processing for his credit union, he felt this was a conflict of interest and he opted to abstain. Chairman Karsky indicated the minutes would reflect that Member Mund did abstain from the vote.

NORTH STAR COMMUNITY CREDIT UNION, MADDOCK – APPLICATION TO EXPAND ITS FIELD OF MEMBERSHIP

Chairman Karsky referred to the map which outlines the expansion of the field of membership, indicating the current field of membership is a 50 mile radius of Maddock, a 50 mile radius of Rugby, and the proposal is to add a 50 mile radius of Bottineau.

Chairman Karsky indicated the application states the current number of members of the credit union is 4,849, and estimates the number of potential members added by the charter expansion to be 20,823. Chairman Karsky asked President Higginbotham how he arrived at that number, and President Higginbotham indicated it is the total population of Bottineau and Rolette Counties. Chairman Karsky stated he felt that was a high projection, but President Higginbotham indicated Rolette County is a highly populated county and that he used the census numbers and tried to arrive at what number of people would use that as a trade area, and this number includes some people in the current field of membership.

Chairman Karsky added that the communities being added by the expansion to the field of membership are not highly populated communities and he thought the number was high. President Higginbotham stated that Bottineau is the County Seat of Bottineau County and if the people coming in from the western part of the county cannot use the services of the credit union when they come to Bottineau as their trade center, that the credit union would be disadvantaged. President Higginbotham added the credit union is an agricultural credit union and needs access to the farm market. President Higginbotham stated one of his letters of support was from the Cenex Manager which is headquartered in Bottineau, but also have offices in Souris, Newburg, and Westhope, with Souris and Westhope being in the proposed expansion area. He explained that the Newburg office services a high number of people to the west of Newburg whom would be disadvantaged by not being able to use the services of the credit union.

President Higginbotham explained the school district also buses from as far out as Roth and the Bottineau School is an open school district. He stated a representative from the school district indicated they are starting to obtain students from the Westhope area. If the credit union is not given access to that area in their proposal, and with the letters of support and the needs of that area, as well as the services that are offered by the credit union, President Higginbotham indicated that it is very important that the credit union have access to that market area.

Chairman Karsky reviewed the criteria the Board must consider for an expansion of field of membership as found in Section 13-03-14-02(2) of the North Dakota Administrative Code. He indicated he would like to discuss the letter from Marilyn Foss, General Counsel for the North Dakota Bankers Association, since the issue has come up before in previous applications to expand the field of membership.

Chairman Karsky reviewed the February 19, 1999, Attorney General's Opinion that had been requested by Representative George Keiser which included whether the field of membership of a particular continuing credit union complies with the "well defined rural or urban district" requirement of North Dakota Century Code Section 6-06-07. The Attorney General's Opinion states that the State Credit Union Board has the responsibility of resolving factual issues presented by an applicant for an expansion of field of membership, and that the Attorney General may not issue an opinion concerning a question of fact, and therefore declined to answer this question.

Chairman Karsky indicated that Assistant Attorney General Miller also stated that the Board is acting within its authority and must consider the question of fact and make its ruling based on those facts. Chairman Karsky indicated he feels the North Dakota Bankers Association will probably continue to raise its objections with regard to the field of membership expansion until the Board gets sued and must go to court to decide this issue. Chairman Karsky indicated the Board has ruled on this issue several times in the past and in his opinion, the Board can rule on the expansion of field of membership.

Member Mund asked President Higginbotham since the expansion of field of membership gets close to Mohall and there is a credit union in Mohall, whether he spoke with the Mohall Credit Union manager. President Higginbotham stated he did speak with the Mohall Credit Union manager several times, and Manager Zerr indicated the Mohall Credit Union does not draw from the Bottineau area and she felt it may be a benefit for people that live in that area to have a credit union available.

Mr. Tschider asked if there were any credit unions that were objecting to the expansion of field of membership, and Chairman Karsky asked President Roos if he was objecting. President Roos indicated since the Board had already approved the branch application, he would not object to the expansion of the field of membership.

Member Millar indicated she had looked at the size of the communities being added in the expansion, and they range from 90 to 575 people, with Westhope being the largest, and that she felt there were a lot of people in that rural area that would be served by the credit union.

Chairman Karsky indicated he felt the credit union has met the criteria set forth in the North Dakota Administrative Code and if the Board did not approve the expansion of the field of membership, it would probably hurt the credit union.

Ms. Olson added that it has been the Bottineau Economic Development Corporation Board's philosophy to work with whomever they need to in order to get the job done, and that she has a good relationship with Northern Tier Federal Credit Union and she expects to work with them in the future, as well as working with North Star Community Credit Union.

After discussion it was moved by Member Mund and seconded by Member Millar to approve the expansion of field of membership for North Star Community Credit Union, Maddock, to include a 50 mile radius of Bottineau. The motion was unanimously carried.

NEW SALEM CREDIT UNION, NEW SALEM – ARTICLES OF AMENDMENT TO THE BYLAWS

Chairman Karsky indicated the amendment was to change the bylaws for eligibility to the Board's new policy with regard to immediate family and household members.

It was moved by Member Gates, seconded by Member Mund, and unanimously carried to approve the Articles of Amendment to the Bylaws for New Salem Credit Union, New Salem.

PRAIRIE ROSE CREDIT UNION, BISMARCK – ARTICLES OF AMENDMENT TO THE BYLAWS

Chairman Karsky explained Prairie Rose Credit Union, Bismarck, is amending Sections 1 through 6 of Article XI for the Supervisory Committee. Assistant Commissioner Entringer indicated he sent the proposed standard bylaws for the Supervisory Committee to the credit union for substitution of the Board of Directors for the Supervisory Committee. Assistant Commissioner Entringer stated this is similar to the action taken previously for Capital Credit Union, Bismarck.

After discussion it was moved by Member Millar, seconded by Member Mund, and unanimously carried to approve the Articles of Amendment to the Bylaws for Prairie Rose Credit Union, Bismarck.

CAPITAL CREDIT UNION, BISMARCK – ARTICLES OF AMENDMENT TO THE BYLAWS

Chairman Karsky reviewed the Articles of Amendment to the Bylaws, which include Section 3, Article II; Sections 1, 2, 3, 4, and 5, Article VII; Sections 5 and 6, Article VIII; Sections 1, 2, 3, 4, 5, 6, and 7, Article IX; Sections 1, 2, 3, and 4, Article X; Section 2, Article XI; Sections 2, 3, 4, and 6, Article XII; Section 1, Article XVII; Sections 3, 4, and 5, Articles XIX; and Section 2, Article XXII. He explained most of the amendments were to make the Sections gender neutral, and the changes were not material in nature.

Chairman Karsky reviewed Article X dealing with the credit granting – credit manager section in particular, and there did not seem to be any objectionable changes to that Article.

It was moved by Member Tonneson, seconded by Member Mund, and unanimously carried to approve the Articles of Amendment to the Bylaws for Capital Credit Union, Bismarck.

CITIZENS COMMUNITY CREDIT UNION, DEVILS LAKE – ARTICLES OF AMENDMENT TO THE BYLAWS

Chairman Karsky indicated the proposed amendment was reducing the number of members on the Supervisory Committee to 3 from 5. **It was moved by Member Mund, seconded by Member Millar, and unanimously carried to approve the Articles of Amendment to the Bylaws for Citizens Community Credit Union, Devils Lake.**

DAKOTA PLAINS CREDIT UNION, EDGELEY – ARTICLES OF AMENDMENT TO THE BYLAWS

Chairman Karsky indicated the proposed amendment to Section 2, Article II, is to adopt the State Credit Union Board's definition for immediate family. The amendment to Section 1 drops the last line which states "credit union membership shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined rural or urban district. Section 2 was also amended from the current 50 mile radius to "membership in this credit union is limited to persons living, working, doing business, or worshipping within a 50 mile radius of Edgeley, North Dakota".

Chairman Karsky indicated he would like to postpone action on this proposed amendment so that Assistant Attorney General Miller could review it to make sure this is not indirectly an expansion of field of membership.

LETTER FROM NATIONAL CREDIT UNION ADMINISTRATION DESIGNATING MOHALL CREDIT UNION, MOHALL, AS A LOW INCOME CREDIT UNION

Chairman Karsky explained that previously the Mohall Credit Union had applied for the low income designation and the National Credit Union Administration asked for a recommendation from the Department, and there was a question as to whether that recommendation could be made by the Commissioner or State Credit Union Board. Chairman Karsky indicated he did make the recommendation to approve Mohall Credit Union as a low income credit union, but he wanted to present this to the Board to make sure the Board agreed with the procedure. He stated if the Board does not agree with the procedure, he would present future requests to the Board for its recommendation.

Chairman Karsky indicated he reviewed the rules and felt it was within his authority to recommend to the NCUA that Mohall Credit Union be designated as a low income credit union. Member Tonneson indicated he felt the Commissioner should approve these requests. Chairman Karsky indicated if he felt a credit union's request should be denied, he would present that request to the Board for its consideration.

The Board went into closed session at 11:30 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary