

OFFICE OF THRIFT SUPERVISION

Approval of Holding Company Application and Acceptance of Rebuttals of Control

Order No.: 2010-18
Date: April 30, 2010
Docket Nos.: 13964 and H-4673 and
H-4674

Lazares & Company, LLC (Parent Company) and Federal One Holdings, LLC (Holding Company), Milton, Massachusetts, (collectively, the Applicants) have applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1467a(e)(1)(B) and 12 C.F.R. § 574.3, for permission to acquire Domestic Bank (Savings Bank), Cranston, Rhode Island. In addition, the Arthur T. Demoulas Revocable Trust (Family Trust) and General Catalyst GP V, LLC, Cambridge, Massachusetts, and certain of its affiliates (Investors, see Attachment A) (collectively, the Rebutting Parties) each has filed a Rebuttal of Control, pursuant to 12 C.F.R. § 574.4(e) regarding the Savings Bank and its holding company.

Background

The Parent Company and the Holding Company are shell companies formed recently to facilitate the proposed acquisition of the Savings Bank.

The Savings Bank is a Deposit Insurance Fund (DIF)-insured, federally chartered stock savings bank with its home office in Cranston, Rhode Island. The Savings Bank offers deposit products and mortgages through its nine offices. The Savings Bank is a wholly owned subsidiary of Sargent Investors, Inc. (Current Holding Company).

In the proposed transaction, the Holding Company will acquire all of the outstanding common stock of the Current Holding Company from its existing shareholders for cash and a subordinated note. Upon consummation of the acquisition, the Holding Company will infuse additional capital into the Savings Bank.

The Rebutting Parties request that OTS accept their respective Rebuttals of Control. Each Rebuttal of Control asserts that the respective Rebuttal Party will not directly or indirectly acquire control of the Parent Company, the Holding Company, the Current Holding Company, or the Savings Bank. In support of their respective Rebuttals of Control, each Rebuttal Party has submitted a draft Rebuttal of Control Agreement.

Holding Company Application

Section 10(e)(1)(B) of the Home Owners' Loan Act (HOLA) and the OTS Acquisition of Control Regulations (Control Regulations)¹ provide that OTS must approve a holding company application seeking permission to acquire one savings association by a company other than a savings and loan holding company unless OTS finds the financial and managerial resources and future prospects of the company and association involved to be such that the acquisition would be detrimental to the savings association or to the insurance risk of the DIF. Also, OTS must consider the impact of any acquisition on competition. Further, 12 C.F.R. § 563e.29(a) requires that OTS take into account assessments under the Community Reinvestment Act (CRA) when approving savings and loan holding company acquisitions.

With respect to managerial resources, OTS has reviewed the backgrounds of the Applicants and the Applicants' officers and directors, and the backgrounds of the proposed officers and directors of the Current Holding Company and the Savings Bank. The application materials indicate that these individuals possess experience in various business endeavors and have extensive financial and banking industry experience.

OTS's review of the above-mentioned parties has not revealed any information that would lead OTS to conclude that managerial resources considerations are not consistent with approval. However, the background checks for certain individuals are still in process. Therefore, OTS is imposing condition 6, to ensure that the managerial resources of the Applicants, the Current Holding Company, and the Savings Bank are consistent with the standards for approval. Based on the relevant information, OTS concludes that the managerial resources of the relevant persons and companies are consistent with approval of the application, subject to the satisfaction of the condition.

With respect to financial resources, OTS has considered the Applicants' financial resources, and the Current Holding Company's and the Savings Bank's proposed capitalization. The Holding Company will retain a significant amount of the proceeds of the private placement of its securities. The Savings Bank will be well capitalized under the OTS Prompt Corrective Action regulation after consummation of the proposed transaction. OTS concludes that the Applicants', Current Holding Company's, the Holding Company's, and the Savings Bank's financial resources are consistent with approval of the application.

With respect to future prospects and the insurance risk to the DIF, OTS has considered the financial and managerial resources of the Applicants, the Current Holding Company and the Savings Bank. In addition, OTS has reviewed the Savings Bank's proposed business plan, and concludes that it is acceptable. OTS is imposing condition 4, to help ensure that the Savings Bank operates pursuant to its business plan and changes to and from the business plan are not detrimental to the Savings Bank. To help ensure that the Savings Bank's future prospects are consistent with approval, OTS is also imposing condition 5, to enable OTS to confirm that the

¹ See 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3 (2009)

Savings Bank is being operated properly. The conditions are designed to ensure that the Savings Bank's future prospects are consistent with approval.

OTS is imposing condition 7, to help ensure the directors of the Savings Bank and its audit committee have the requisite independence and the Savings Bank's future financial resources and prospects will not be compromised by concerns related to the Holding Company's subordinated debt.

OTS concludes that the future prospects of the Applicants, the Current Holding Company and the Savings Bank, and the risks to the DIF, are consistent with approval provided that the Applicants, the Current Holding Company, and the Savings Bank comply with the conditions set forth herein.

The transaction will not result in any currently operating, unaffiliated insured depository institutions becoming affiliated. Accordingly, OTS finds no basis for objection to the transaction on anti-competitive grounds.

As for the CRA, the Parent Company and the Holding Company do not control an insured depository institution, and therefore, are not subject to the CRA. The Savings Bank has a "Needs to Improve" CRA rating, but the Applicants will undertake measures to correct the deficiencies that resulted in the rating. No public comments were received on the proposed transaction. Accordingly, OTS concludes that there is no basis for objection to the Applicants' acquisition of the Savings Bank on CRA grounds.

Rebuttals of Control

The Control Regulations state that an acquiror is deemed, subject to rebuttal, to have acquired control of a savings association² if the acquiror, directly or indirectly, or through one or more subsidiaries or transactions or acting in concert with one or more persons or companies, acquires more than 10 percent of any class of voting stock of a savings association and is subject to any control factor, as described in 12 C.F.R. § 574.4(c).³

Parties attempting to rebut control are required to file a submission setting forth facts and circumstances supporting their contention that no control relationship would exist after the proposed acquisition. In addition, such parties must file a rebuttal of control agreement.

OTS may reject any control rebuttal that is inconsistent with the facts and circumstances known to it, or which does not clearly and convincingly rebut the presumption of control. If OTS concludes that it would be injudicious to rely on an acquiror's representations, based on past activities of the acquiror, or other concerns, OTS may conclude that the acquiror has not clearly and convincingly rebutted a determination of control. In addition, an acquiror that is in conclusive control of a savings association may not rebut control of that savings association.

² The definition of "savings association" includes savings and loan holding companies. *See* 12 C.F.R. § 574.2(p) (2009).

³ 12 C.F.R. §§ 574.4(b)(1)(i) and 574.4(c) (2009).

Each of the Rebutting Parties has filed a written submission setting forth facts and circumstances in support of its contention that no control relationship exists between such Rebutting Party and the Applicants, the Current Holding Company, and the Savings Bank. Each Rebutting Party represents that it would not seek to exert control over the Parent Company, the Holding Company, the Current Holding Company, or the Savings Bank. Neither Rebutting Party would acquire more than 25 percent of any class of the Holding Company's voting securities, or otherwise acquire conclusive control of the Savings Bank, or any of its holding companies.

The Family Trust has submitted a rebuttal of control agreement that conforms to 12 C.F.R. § 574.100. The Investors have submitted a rebuttal of control agreement that differs from the standard rebuttal agreement set forth at 12 C.F.R. § 574.100, because it notes that an affiliate of the Investors has engaged in a consulting arrangement with the Applicants. The standard rebuttal agreement provides that a rebutting party will not engage in any intercompany transactions with the entity for which it is rebutting control, or any of that entity's affiliates, or be a party to any agreements with that entity or its affiliates. The Investors represent that the arrangement was negotiated on an arm's length basis, in the ordinary course of business at market rates and terms, and does not constitute a material portion of the Investors' business. Moreover, the Investors have represented that the arrangement will terminate upon consummation of the proposed transaction. OTS concludes that, based on the representations made in the Rebuttal of Control, the arrangement does not provide the Investors with the ability to influence or control the Applicants, the Holding Company, the Current Holding Company, or the Savings Bank, and therefore, does not contravene the purposes of a rebuttal of control. On the basis of the facts presented, OTS concludes that each of the Rebuttals of Control meets the applicable approval standards.

Conclusions

Based on the foregoing analysis, the Rebuttals of Control are hereby accepted. Based on the foregoing analysis, OTS concludes that the holding company application meets the applicable approval criteria. Accordingly, the holding company application is hereby approved, subject to the following conditions:

1. The proposed transaction must be consummated within 120 calendar days from the date of this Order;
2. No later than the date of consummation of the proposed transaction, the chief financial officers of the Parent Company, the Holding Company, the Current Holding Company, and the Savings Bank must certify in writing to the OTS Northeast Regional Director (Regional Director) that no material adverse changes have occurred with respect to the financial condition or operation of the Parent Company, the Holding Company, the Current Holding Company, and the Savings Bank, respectively, as disclosed in the application. If additional information having a material adverse bearing on any feature of the application is brought to the attention of the Parent Company, the Holding Company, the Current Holding

Company, the Savings Bank, or OTS since the date of the financial statements submitted with the application, the transaction must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;

3. The Parent Company, the Holding Company, the Current Holding Company, and the Savings Bank must, within 5 calendar days after the effective date of the proposed transaction: (a) advise the Regional Director in writing of the effective date of the proposed transaction; (b) advise the Regional Director in writing that the transaction was consummated in accordance with all applicable laws and regulations, the application, and this Order; and (c) provide a reconciliation of the Savings Bank's capital to the Regional Director;
4. The Savings Bank must operate within the parameters of its three-year business plan. The Savings Bank must submit any proposed major deviations or material changes from the plan (including those initiated by any of the Savings Bank's holding companies) for the prior, written non-objection of the Regional Director. The request for change must be submitted no later than 60 calendar days prior to the desired implementation date;
5. For three years following consummation of the proposed transaction, the Savings Bank must submit to the Regional Director within 45 calendar days after the end of each calendar quarter, a business plan variance report detailing the Savings Bank's compliance with the business plan and an explanation of any material deviations;
6. With respect to any proposed director or officer for whom the background checks have not been completed, the Parent Company, the Holding Company, the Current Holding Company, and the Savings Bank, as applicable, must take such action as required by the Regional Director if the Regional Director objects to any such person based on information obtained during the background checks; and
7. At least 40 percent of the Savings Bank's board of directors must be individuals who are not officers or employees of the Parent Company, the Holding Company, the Current Holding Company, or affiliates thereof, and who have not otherwise been determined by the Regional Director to lack sufficient independence. At least one member of the Savings Bank's board of directors must be an individual who is not an officer, director or employee of the Parent Company, the Holding Company, the Current Holding Company, or any affiliate, and who is not an officer or employee of the Savings Bank, and who has not otherwise been determined by the Regional Director to lack sufficient independence. At least 50 percent of any audit committee established by the Savings Bank must be directors who are not officers or employees of the Savings Bank, the Applicants, the Current Holding Company, or any affiliates, and who have not otherwise been determined by the Regional Director to lack sufficient independence.

The Regional Director may, for good cause, extend for up to 120 calendar days any time period set forth herein.

By order of the Acting Director of the Office of Thrift Supervision, or his designee,
effective April 30, 2010.



Grovetta N. Gardineer
Managing Director
Corporate & International Activities

Attachment A

THE INVESTORS

General Catalyst GP V, LLC
General Catalyst Partners V, L.P.
General Catalyst Group V, L.P.
GC Entrepreneurs Fund V, L.P.
General Catalyst Group V Supplemental, L.P.