

OFFICE OF THRIFT SUPERVISION

Approval of Voluntary Supervisory Conversion, Holding Company, and Branching Applications

Order No.: 2011-33
Date: May 3, 2011
Docket Nos.: H-4766 and 07212

American Eagle Savings Bank, Boothwyn, Pennsylvania (Savings Bank) seeks the Office of Thrift Supervision's (OTS) approval to convert from a federally chartered mutual savings association to a federally chartered stock savings association in a voluntary supervisory conversion, pursuant to sections 5(i) and 5(p) of the Home Owners' Loan Act (HOLA), and the voluntary supervisory conversion provisions of the OTS Mutual-to-Stock Conversion Regulations (Conversion Regulations), 12 C.F.R. Part 563b, Subpart B. In addition, e3holdings, inc., Malvern, Pennsylvania (Holding Company) seeks OTS approval to acquire the Savings Bank, pursuant to section 10(e) of the HOLA and 12 C.F.R. § 574.3, in connection with the Savings Bank's voluntary supervisory conversion. In addition, the Savings Bank seeks approval under 12 C.F.R. §§ 545.93 and 545.95 to open a branch office after consummation of the acquisition.

Background

The Savings Bank is a Deposit Insurance Fund (DIF)-insured, federal mutual savings association. The Savings Bank had total assets of approximately \$22.1 million as of December 31, 2010. The Savings Bank is undercapitalized, as defined under OTS's Prompt Corrective Action Regulations.¹

The Savings Bank proposes to convert from a federally chartered mutual savings association to a federally chartered stock savings association. In the voluntary supervisory conversion, the Holding Company, a Pennsylvania-chartered corporation formed in September 2010, will acquire all of the Savings Bank's common stock. Upon consummation of the voluntary supervisory conversion, the Savings Bank will be "well capitalized," as defined under OTS's Prompt Corrective Action Regulations. The Savings Bank proposes to open a branch office in Malvern, Pennsylvania in October 2011.

Voluntary Supervisory Conversion

Pursuant to 12 C.F.R. § 563b.625, a savings association is eligible to convert to a federal stock savings association in a voluntary supervisory conversion if the savings association is undercapitalized and a standard conversion that would make the association

¹ 12 C.F.R. § 565.4(b)(3) (2011).

adequately capitalized is not feasible, and the association will be a viable entity following the conversion.²

The Savings Bank is currently undercapitalized. OTS concludes that a standard conversion is not feasible for the Savings Bank because of its distressed condition, its small size, and the high costs of undertaking a standard conversion in relation to any potential proceeds of any stock offering that would be undertaken in a standard conversion.

As to viability, under 12 C.F.R. § 563b.625(b), a savings association will be a viable entity following a supervisory conversion if: (1) the savings association will be adequately capitalized as a result of the conversion; (2) the savings association, the conversion, and the acquiror will comply with applicable supervisory policies; (3) the transaction is in the best interest of the savings association, the DIF and the public, and; (4) the transaction will not injure the savings association or be detrimental to the savings association, the DIF or the public interest.

Upon consummation of the transaction, the Savings Bank will be well capitalized, and have core, tangible, and risk-based capital of 45.6 percent, 45.6 percent, and 79.3 percent, respectively. The proposed transaction and the participants therein will comply with applicable supervisory policies. OTS concludes that, because the transaction will cause the Savings Bank, which is currently undercapitalized, to become well capitalized, and OTS has reviewed the proposed business plan for the Savings Bank, and has concluded that the business plan, as amended, is acceptable, that the transaction is in the best interest of the Savings Bank, the DIF, and the public, and will not be detrimental to the Savings Bank, the DIF, or the public interest. Accordingly, OTS concludes that the Savings Bank will be viable upon consummation of the proposed supervisory conversion.

The structure of the proposed transaction, in which the Holding Company will acquire all of the Savings Bank's common stock in the voluntary supervisory conversion, is consistent with the Conversion Regulations. Section 563b.605(c) provides that a converting institution may sell its shares directly to an acquiror, who may be, among other things, a company.

The Conversion Regulations provide that a plan of conversion shall contain no provision that OTS determines to be inequitable or detrimental to the applicant, its accountholders or other savings associations, or to be contrary to the public interest.³ OTS has reviewed the Savings Bank's plan of conversion, and concludes that the plan of conversion contains no provisions that are inequitable or detrimental to the applicant, its accountholders or other savings associations, or contrary to the public interest.

² 12 C.F.R. § 563b.625(a)(1) (2011).

³ 12 C.F.R. § 563b.130 (2011).

OTS's voluntary supervisory conversion regulations, at 12 C.F.R. § 563b.670(d), provide that any employment contracts that are incidental to the conversion must be justified. The Savings Bank proposes employment contracts for two new management officials and none for existing management. In order to ensure that the employment contracts are consistent with approval, OTS is imposing condition 9, regarding any new employment contracts.

Accordingly, subject to the above described condition, the proposed voluntary supervisory conversion of the Savings Bank meets the applicable statutory and regulatory standards for approval.

Holding Company Application

Section 10(e)(1)(B) of the HOLA provides that OTS must approve a proposed acquisition of a 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 the insurance risk of the DIF.⁴ Consideration of the managerial resources of an acquiring company or savings association must include consideration of the competence, experience, and integrity of the officers, directors, and principal shareholders of the company or savings association.⁵ OTS must also consider the impact of the acquisition on competition.⁶ Further, 12 C.F.R. § 563e.29 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 information submitted by the Holding Company with respect to the Holding Company's directors and executive officers, and the proposed directors and executive officers of the Savings Bank, and has found no material adverse information. However, the background checks for certain of the proposed directors and executive officers are not complete. Therefore, OTS is imposing condition 10 to help ensure that the managerial resources of the Savings Bank and the Holding Company are consistent with approval.

Based on the above, OTS concludes that the managerial resources of the Holding Company and the Savings Bank are consistent with approval, subject to the recommended condition.

With respect to financial resources, the Holding Company will infuse capital into the Savings Bank to cause the Savings Bank to be well capitalized upon consummation of the voluntary supervisory conversion. In addition, the Holding Company expects to raise substantial additional capital as a result of a private placement currently underway. That

⁴ 12 U.S.C. § 1467a(e)(1)(B); see also 12 C.F.R. § 574.7(c) (2011).

⁵ 12 U.S.C. § 1467a(e)(1)(B).

⁶ 12 U.S.C. § 1467a(e)(2) and 12 C.F.R. § 574.7(c)(2) (2011).

capital should be available to the Savings Bank, if necessary. Accordingly, OTS concludes that the financial resources of the Holding Company and the Savings Bank are consistent with approval.

With respect to future prospects and the risks to the DIF, as discussed above, the managerial and financial resources of the Holding Company and the Savings Bank are consistent with approval, and OTS does not object to the Savings Bank's proposed amended business plan. The Savings Bank will be well capitalized upon consummation of the proposed transaction. In order to help ensure that the future prospects of the Holding Company and the Savings Bank are consistent with approval, OTS is imposing conditions 4, 5, 6, 7 and 8, regarding adherence to the proposed business plan, monitoring of the business plan, independent audits, transactions with certain parties, and the addition of new executive officers or directors. In addition, OTS is imposing condition 11, regarding the final list of investors and a certification from each investor concerning regulatory control provisions, to ensure that the proposed transaction does not violate OTS's Acquisition of Control Regulations.

Accordingly, OTS concludes that the future prospects of the Holding Company and the Savings Bank, and the risks to the DIF, are consistent with approval, subject to the recommended conditions.

With respect to competitive considerations, the proposed transaction will not cause the Savings Bank to become affiliated with any other insured depository institution. Accordingly, the proposed transaction will not result in a monopoly or lessen competition. Based on the foregoing, OTS concludes that the competitive effects of the acquisition are consistent with approval.

With respect to the CRA, the Holding Company has not previously controlled any institution that is subject to the CRA. Accordingly, OTS concludes that approval of the holding company application is consistent with the CRA.

With respect to the proposed opening of a branch office in Malvern, Pennsylvania, 12 C.F.R. § 545.95(b)(1) provides that OTS shall approve a branching application only if the overall policies, condition and operations of the savings association afford no basis for supervisory objection and the proposed branch will open within 12 months of approval. Furthermore, OTS will evaluate the savings association's CRA record.⁷ OTS has considered the Savings Bank's condition upon consummation of the transaction, and the Savings Bank's business plan, including the plan for opening the branch office. In addition, OTS evaluated the Savings Bank's CRA plan and is satisfied it will fulfill its obligation to meet the credit needs of the entire community, including low- and moderate- income neighborhoods. Based on OTS's review, OTS concludes that the proposed branching is consistent with applicable regulations.

⁷ 12 C.F.R. § 545.95(b)(1)(ii) (2011).

Conclusion

Based on the applications and the foregoing analysis, OTS concludes that the applications satisfy the applicable approval standards, provided that the following conditions are complied with in a manner satisfactory to the Northeast Regional Director (Regional Director)⁸. Accordingly, the applications are hereby approved, subject to the following conditions:

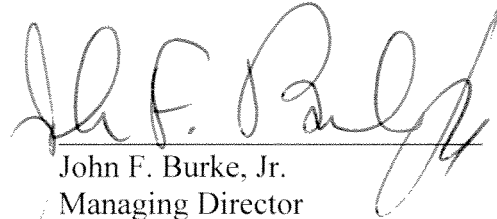
1. The proposed supervisory conversion and holding company acquisition (Proposed Transaction) must be consummated within 120 calendar days from the date of this Order;
2. On the business day prior to the date of the Proposed Transaction, the chief financial officers of the Holding Company and the Savings Bank must certify in writing to the Regional Director that no material adverse changes have occurred with respect to the financial condition or operation of the Holding Company and the Savings Bank, respectively, as disclosed in the applications. If additional information having a material adverse bearing on any feature of the applications is brought to the attention of the Holding Company, the Savings Bank, or OTS since the date of the financial statements submitted with the applications, the Proposed Transaction must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to the consummation of the Proposed Transaction;
3. The Holding Company 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 Proposed Transaction was consummated in accordance with all applicable laws and regulations, the applications 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 the business plan submitted with the applications, for three years after consummation of the transaction. During that period, any proposed major deviations or material changes from the plan, (including changes resulting from decisions made by the Holding Company), must be submitted 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;

⁸ Following the Transfer Date, *see* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. Law No. 111-203, § 311, 124 Stat. 1520-21 (2010), all submissions, requests, communications, consents or other documents relating to this Order shall be directed to the Comptroller of the Currency, or to the Federal Reserve System (Board of Governors), as appropriate, or to the individual, division, or office designated by the Comptroller of the Currency or the Board of Governors.

5. For three years following the date of 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 deviations;
6. The Savings Bank must submit independent audit reports to the Regional Director for three years after the date of consummation of the Proposed Transaction. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4;
7. For the two years following the date of consummation of the Proposed Transaction, any contracts or agreements pertaining to transactions with affiliates, or to related interests of affiliated persons as defined in 12 C.F.R. § 561.5(d) of the Holding Company and the Savings Bank, not yet submitted to OTS for review, must be provided to the Regional Director at least 30 calendar days prior to their planned execution and receive his written non-objection prior to their implementation;
8. For the two years following the date of consummation of the Proposed Transaction, the Savings Bank must receive the prior written non-objection of the Regional Director for any proposed new directors or executive officers or any significant change in responsibilities of any executive officer;
9. The Savings Bank and the Holding Company must submit for review all employment agreements between the proposed officers and the Savings Bank and receive prior written non-objection of the Regional Director prior to their execution;
10. With respect to any proposed director or executive officer for whom background checks have not been completed, the Holding Company or Savings Bank, 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 check, and
11. No later than thirty calendar days following the date of consummation of the Proposed Transaction, the Holding Company must submit to the Regional Director a final list of investors with a written certification from each investor that the investor has read and is familiar with OTS Control Regulations, and will not acquire control of the Holding Company or Savings Bank as a result of the purchase of Holding Company stock.

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

By order of the Director of the Office of Thrift Supervision, or his designee, effective May 3, 2011.

A handwritten signature in cursive script, appearing to read "John F. Burke, Jr.", written over a horizontal line.

John F. Burke, Jr.

Managing Director

Corporate & International Activities