

OFFICE OF THRIFT SUPERVISION

APPROVAL OF APPLICATIONS FOR PERMISSION TO ORGANIZE A FEDERAL SAVINGS BANK AND HOLDING COMPANY ACQUISITION

Order No.: 98-115

Date: November 12, 1998

State Farm Mutual Automobile Insurance Company, Bloomington, Illinois (the "Holding Company"), has applied for approval of the Office of Thrift Supervision (the "OTS") pursuant to 12 U.S.C. §§ 1464(e) and 1467a(e), and 12 C.F.R. §§ 552.2-1 and 574.3 for permission to organize and acquire State Farm Financial Services, F.S.B., Bloomington, Illinois (the "Savings Bank") (collectively, "the Applications").

The Director has considered the Applications, as supplemented by representations by the Holding Company, the Savings Bank and their attorneys, under the factors set forth in 12 U.S.C. §§ 1464(e) and 1467a(e), and 12 C.F.R. §§ 543.3, 552.2-1, and 574.7 and other applicable statutes and regulations. The OTS also has considered the Applications under the Community Reinvestment Act (the "CRA"), 12 U.S.C. § 2901 et seq., and the OTS regulations thereunder, 12 C.F.R. Part 563e. Furthermore, the OTS has considered comments on the Applications submitted by Inner City Press/Community on the Move, Bronx, New York, California Reinvestment Committee, San Francisco, California, San Diego City-County Reinvestment Task Force, San Diego, California, The Greenlining Institute, San Francisco, California and Woodstock Institute, Chicago, Illinois.

In addition, the Director has considered an analysis prepared by Corporate Activities and the Central Regional Office, an analysis from Compliance Policy and a legal opinion from the Business Transactions Division (collectively, the "Staff Memoranda"). For the reasons set forth in the Staff Memoranda, and after review of the comments, the Director finds that the Applications satisfy the applicable approval standards provided that the following conditions are complied with in a manner satisfactory to the Central Regional Director, or his designee ("Regional Director"). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The proposed transaction must be consummated no later than 120 calendar days after the date of this approval order, unless an extension is granted for good cause by the Regional Director;
2. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Savings Bank and the Holding Company must certify to the Regional Director, in writing, that no material adverse events or material adverse changes have occurred with respect to the financial condition or operations of the Savings Bank and the Holding Company, respectively, since the date of the financial statements submitted with the Applications;

3. The Savings Bank and the Holding Company must obtain all required regulatory and shareholder approvals prior to consummation, and will act to satisfy all requirements and conditions imposed by the OTS, and comply with all applicable laws, rules and regulations;
4. No later than 5 calendar days from the date of consummation of the proposed transaction, the Savings Bank must file with the Regional Director, a certification by legal counsel stating the effective date of the proposed transaction and of the Savings Bank's insurance of accounts, and that the transaction has been consummated in accordance with the provisions of all applicable laws and regulations, the Applications and this order;
5. The Savings Bank must submit independent audit reports to the Regional Office for its first three fiscal years. These reports must be in compliance with the audit rules set forth in 12 C.F.R. § 562.4;
6. The Savings Bank must operate within the parameters of its business plan. The Holding Company and the Savings Bank must submit any proposed major deviations or material changes from the plan (including changes resulting from decisions made by the Holding Company), and in particular, those pertaining to the cross-marketing of deposit and non-deposit products, for the prior, written non-objection of the Regional Director. The request for change must be submitted a minimum of 60 calendar days before the proposed change is implemented;
7. The Savings Bank must submit to the Regional Office quarterly activity reports on the business plan for the first three years of its operations;
8. At least 40 percent of the Savings Bank's board of directors must be comprised of individuals who are not officers or employees of the Holding Company or affiliates thereof and 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 Holding Company or any affiliate and who is not an officer or employee of the Savings Bank. At least 50 percent of the Savings Bank's audit and investment committees must be comprised of directors who are not officers or employees of the Savings Bank, the Holding Company or any affiliates;
9. Any contracts or agreements pertaining to transactions with affiliates, not yet submitted to the OTS for review, must be provided to the Regional Director at least 30 calendar days prior to execution and must receive his written non-objection prior to implementation;
10. At least 60 calendar days before beginning operations, the Savings Bank must employ a Compliance Officer exclusively dedicated to the development, implementation and management of the Savings Bank's compliance program, including Federal fair lending and consumer protection laws and regulations;

11. The Holding Company, its affiliates and the Savings Bank must comply with the anti-tying restrictions of 12 U.S.C. §§ 1464(q) and 1467a(n) and must develop written procedures to effect such compliance. The procedures must disclose any proposed bundling arrangements and must be submitted for the review and non-objection of the Regional Director prior to the opening of the Savings Bank for business.
12. At least 30 calendar days before beginning operations, the Savings Bank must submit to the Regional Director for his review and approval, a compliance management plan that includes, at a minimum, the following components:
 - a) a compliance management structure that develops, maintains and monitors an ongoing system for assuring compliance with Federal fair lending and consumer protection statutes and regulations, and handling consumer inquiries or complaints concerning a transaction involving the Savings Bank that also involves employees, agents or vendors of the Savings Bank or the Holding Company or any affiliates;
 - b) a program for training and monitoring the agents of the Holding Company and its affiliates to assure (i) that all customers are properly and completely apprised of the appropriate distinctions between federally insured deposit products and alternative financial products that may be made available by the agents, and (ii) that the agents do not violate the anti-tying restrictions of 12 U.S.C. §§ 1464(q) and 1467a(n); and
 - c) a quarterly analysis, by race, income and geography, of the disposition of loan applications; and the price, terms and conditions of granted loans, with written reports to senior management of the Savings Bank and to the Regional Director;
13. Within one year of commencing lending operations in any state, the Savings Bank must review, in that state, the extent of the Holding Company's or affiliates' agents' participation in the distribution of the Savings Bank's credit products, including home mortgages, and the anticipated effect of that participation on the Savings Bank's prospective CRA and fair lending performance in that state. The Savings Bank must provide written reports to the Regional Director detailing the results of these reviews. After the initial report, the Savings Bank must provide additional reports addressing these topics on at least an annual basis;
14. The Savings Bank's CRA plan must be subject to any future changes in requirements contained in regulatory policies or regulations that the OTS, on its own, or acting in concert with other financial institution regulatory agencies, determines are appropriate for depository institutions;

15. Any affiliate of the Holding Company that engages in securities brokerage activities ("Broker Dealer affiliate") must be operated as a separate legal entity from the Savings Bank so that: (a) their respective accounts and records are not intermingled; (b) each observes the procedural formalities of separate legal titles; (c) each is held out to the public as a separate enterprise; and (d) none dominates another to the extent that one is treated as a mere department of the other;
16. A majority of the Savings Bank's board of directors must not be comprised of individuals that are directors or employees of any Broker Dealer affiliate;
17. The Savings Bank and any Broker Dealer affiliate are prohibited from sharing common officers unless prior approval is obtained from the Central Regional Director, which shall be based on criteria such as regulatory compliance, experience, character, integrity and the ability to perform both duties;
18. The Savings Bank and any Broker Dealer affiliate must take measures necessary to ensure that their officers and directors adhere to the principles set forth in OTS regulations on conflicts of interest, 12 C.F.R. § 563.200; corporate opportunity, 12 C.F.R. § 563.201; and any other additional or successor statements of policy or regulations addressing these subjects. The officers and directors of the Savings Bank and any Broker Dealer affiliate are prohibited from using their influence to: (a) take advantage of a business opportunity for the Broker Dealer affiliate's benefit when the opportunity is of present or potential advantage to the Savings Bank; or (b) place the Broker Dealer affiliate in a position that leads to, or could create the appearance of a potential conflict of interest;
19. The Savings Bank, the Holding Company and any Broker Dealer affiliate are subject to the provisions of 12 C.F.R. § 563.76, *Offers and Sales of Securities at an Office of Savings Association*, and related policy established in OTS Thrift Bulletins 23-2, *InterAgency Statement on Retail Sales of Nondeposit Investment Products* (the "InterAgency Statement"), and 23a, *Limited Exceptions to Prohibitions on Sales of Savings Institution's Securities*, and any additional or successor statements of policy or regulations addressing these subjects. The Savings Bank and the Holding Company shall ensure compliance by any Broker Dealer affiliate with, at a minimum, the General Guidelines in Disclosures and Advertising set forth in the InterAgency Statement whenever the Broker Dealer affiliate or their representatives market, or offer for sale, deposit products of the Savings Bank; and
20. The Savings Bank's Year 2000 Project Management Program must adhere to the terms, deadlines, requirements and conditions contained in the Year 2000 guidance issued by the OTS and/or the Federal Financial Institutions Examination Council ("FFIEC"), including the May 5, 1997 *FFIEC Year 2000 Project Management Awareness* statement, the December 17, 1997 *FFIEC Safety and Soundness Guidelines Concerning the Year 2000 Business Risk*, the March 17, 1998 *FFIEC*

Guidance Concerning Institution Due Diligence in Connection with Service Provider and Software Vendor Year 2000 Readiness, the March 17, 1998 FFIEC Guidance Concerning the Year 2000 Impact on Customers, the April 10, 1998 Guidance Concerning Testing for Year 2000 Readiness, the May 13, 1998 Guidance Concerning Contingency Planning in Connection with Year 2000 Readiness, the May 13, 1998 Guidance on Year 2000 Customer Awareness Programs, the September 2, 1998 Guidance Concerning Fiduciary Services and Year 2000 Readiness, the October 15, 1998 interim Interagency Guidelines Establishing Year 2000 Standards for Safety and Soundness and companion interim rule, Safety and Soundness Standards and any subsequent OTS or FFIEC Year 2000 guidance, regulations or other requirements.

This approval order shall also serve as notice to the Savings Bank that the OTS reserves the authority to evaluate the appropriateness of marketing disclosures as they pertain to the differentiation between insured and uninsured products by having its examiners periodically, and without identification as OTS employees, solicit the Savings Bank or individual agency offices of the Holding Company and affiliates for information on non-deposit investment or insured products.

By order of the Director of the Office of Thrift Supervision, effective
November 12, 1998.



Ellen Seidman
Director