OFFICE OF THRIFT SUPERVISION

Approval of Applications for
Permission to Organize a Federal Savings Bank and
Holding Company Acquisition

Order No.: 2007-07
Date: February 26, 2007
Docket Nos.: H-4342, H-4343, and 18025

Societe Generale, Paris, France (Parent Company) and SG, FSB Holdings, Inc., New York, New York (Holding Company) (collectively, the Applicants), have applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. §§ 1464(e) and 1467a(e), and 12 C.F.R. §§ 552.2-1 and 574.3, to organize and to acquire Societe Generale, FSB, New York, New York (Savings Bank). The Applicants have applied to the Federal Deposit Insurance Corporation (FDIC) for deposit insurance under the Deposit Insurance Fund (DIF) for the Savings Bank's deposit accounts.

The Parent Company is a French bank with operations in a broad range of banking and financial activities, including retail banking, asset management, securities brokerage services, investment banking, capital markets activities and foreign exchange transactions. The Holding Company is a newly formed, Delaware-chartered shell holding company that will hold all of the Savings Bank's outstanding common stock.

The Proposed Transaction

The Applicants propose to establish and to operate a *de novo* federal stock savings bank, the Savings Bank. The Savings Bank will purchase residential mortgages in the secondary market from other financial institutions and mortgage brokers. The Savings Bank proposes to purchase and securitize large portfolios and also purchase smaller portfolios and combine them for securitization. The Applicants proposes to capitalize the Savings Bank with a cash contribution of approximately $240 million. The Parent Company has provided a Foreign Holding Company Agreement.

Comment on the Applications

One organization commented on the Applications, claiming that the Parent Company failed to meet the applicable approval standards because: (i) an Egyptian bank subsidiary may have conducted business with an inappropriate party; (ii) the Parent Company has loaned funds for various environmentally controversial projects; and (iii) a foreign court voided a borrower's loan guarantees on a loan by the Parent Company.

Permission to Organize Application

OTS may grant a federal savings association charter only: (i) to persons of good character and responsibility; (ii) if, in OTS's judgment, a necessity exists for such association in the community to be served; (iii) if there is a reasonable probability for the association's usefulness and success; and (iv) if the association can be established without undue injury to properly conducted existing local thrift and home financing institutions. In addition, OTS must consider whether the association will provide credit for housing consistent with the safe and sound operation of a federal savings association. OTS also considers the initial capitalization of the federal savings association; and the residence and composition of the savings association's board of directors.

Further, 12 C.F.R. § 563e.29(b) provides that an applicant for a federal thrift charter must submit with its application a description of how it will meet its Community Reinvestment Act (CRA) objectives. OTS is required to take this description into account when considering the application and may deny or condition approval on CRA grounds.

OTS has reviewed the background of the Parent Company and its affiliates and has not found any information that would lead OTS to conclude that the Applicants do not have the requisite character and responsibility. OTS has reviewed the backgrounds of the officers and directors of the Applicants and the Savings Bank. OTS's review did not reveal any material adverse information regarding the officers and directors of the Applicants or the Savings Bank. Because background investigations of two individuals are incomplete, OTS is imposing condition 9 to ensure that all of the senior officers and directors of the Holding Company and the Savings Bank have the requisite character and responsibility. With respect to the commenter's first concern, the Parent Company has represented that it fully cooperates with European and international efforts to combat money laundering and the financing of terrorism. Moreover, the Parent Company has advised OTS that the account in question was opened by a non-terrorist organization for humanitarian purposes, and that the Parent Company received confirmation from the organization that owns the account that no funds would be provided to any inappropriate party. Therefore, OTS concludes that the maintenance of such an account does not reflect adversely on the character and responsibility of the Applicants. Thus, OTS concludes that the character and responsibility of the organizers and proposed officers and directors of the Applicants and the Savings Bank are consistent with approval.

As for the necessity for the Savings Bank in the community, the Savings Bank will continue the residential mortgage purchase and securitization services of the Parent Company's affiliates. The Savings Bank will serve a nationwide market and will not accept deposits through retail locations. Accordingly, in our view, the appropriate market for consideration is the national market for residential mortgage products and securitizations. The services to be offered by the Savings Bank will provide mortgage originators nationwide with an outlet for selling mortgages into the secondary market and, therefore, provide a source of liquidity to mortgage originators, including, but not limited to, federal savings associations. Further, the national housing and mortgage markets are growing on a long-term basis, thus providing a need for the services offered by the Savings Bank. Accordingly, OTS concludes there is a necessity for the Savings Bank.

With respect to undue injury to properly conducted existing local thrift and home financing institutions, the Savings Bank will not accept deposits through retail locations. The Savings Bank's operations will be to acquire mortgages from entities that originate mortgages, such as federal savings associations. Thus, the Savings Bank should serve to benefit mortgage origination operations by providing liquidity to those operations by purchasing mortgages. Accordingly, OTS concludes that the Savings Bank will not cause undue injury to properly conducted existing local thrift and home financing institutions.

With respect to the reasonable probability of the Savings Bank's usefulness and success, OTS reviewed the competence and experience of the proposed management of the Savings Bank, its business plan, and its proposed capital levels. OTS concludes that the business plan is reasonable, that the Savings Bank will have adequate capital, that the Savings Bank will be able to conduct its operations appropriately, and that the Savings Bank's managerial and financial resources are consistent with a reasonable probability of success. OTS is imposing conditions 5 and 6 to help ensure that the Savings Bank operates pursuant to an OTS-approved business plan and that changes to, and from, such a business plan are not detrimental to the Savings Bank. To help ensure that the Savings Bank's probability of usefulness and success is consistent with approval, OTS is imposing condition 7, below, to enable OTS to help confirm that the Savings Bank is being operated properly. OTS is imposing condition number 10 to help ensure that the Savings Bank's management continues to have the necessary competency to contribute to the Savings Bank's usefulness and success.

The Savings Bank proposes to conduct business with its affiliates. OTS is imposing condition 8, below, to help ensure that the Savings Bank complies with the requirements applicable to transactions with affiliates. In addition, to help ensure the independence of the Savings Bank's board of directors and its audit committee, in light of the proposed affiliate transactions, OTS is imposing condition number 13 addressing the composition of the Savings Bank's board and its audit committee. Together, conditions 8 and 13 will help ensure that the Savings Bank is operated safely and soundly and that its probability of usefulness and success are consistent with the standard for approval.

With respect to the commenter's concerns about lending on environmentally controversial projects, it does not appear that the loans were impermissible, improper based on safety and soundness grounds, or indicative of other systemic problems. With respect to the concerns about the loans where the loan guarantees were voided, the Savings Bank will not originate mortgages and the commenter provided no detailed information to explain why the loan guarantees were voided. Thus, OTS concludes that this matter does not provide any information to question the management and responsibility of the Parent Company or to question the probability of the Savings Bank's future success. Therefore, the matter does not provide a basis for objection to the application.

Based on the foregoing analysis, OTS concludes that the probability of the Savings Bank's usefulness and success is consistent with approval, subject to the imposition of the conditions, which are intended to help ensure the Savings Bank's usefulness and success.

With respect to the provision of credit for housing, the Savings Bank will not engage directly in mortgage lending, but it will provide credit for housing by purchasing mortgages. Additionally, the Savings Bank will invest in mortgage-backed securities as a means of providing credit for housing. The purchase of mortgages and mortgage-backed securities will enable the Savings Bank to satisfy the qualified thrift lender test. Based on these considerations, and the facts discussed in connection with the probability of the Savings Bank's usefulness and success, OTS concludes that the Savings Bank will provide credit for housing in a safe and sound manner.

With respect to capital, the Savings Bank will have more initial capital than is required by OTS regulations and the Savings Bank plans to be well capitalized throughout its first three years of operations. Accordingly, OTS concludes that the Savings Bank's proposed capital levels are consistent with approval.

OTS regulations require that a majority of a *de novo* federal association's board of directors be "representative" of the state in which the association is located. The majority of the members of the Savings Bank's board of directors reside in the combined metropolitan statistical area in which the Savings Bank will locate its home office. Therefore, OTS concludes that the Savings Bank meets this criterion.

OTS regulations also require that a *de novo* federal association's board of directors be diversified and composed of individuals with varied business and professional experience. The proposed board of the Savings Bank consists of a business development consultant, a financial and commodities consultant, and three senior executive persons of the Parent Company's operations, who are experienced in residential mortgage-backed securitizations and investment banking. OTS concludes that these persons have sufficiently varied business and professional experiences and meet the regulatory standard.

The OTS regulations provide that, except in the case of a *de novo* federal association that is wholly owned by a holding company, no more than one-third of a *de novo* federal association's board of directors may be in closely related businesses. When the holding company does not have substantial independent economic substance, OTS applies the related business criterion to the holding company's board of directors. The Savings Bank will be a wholly owned subsidiary of the Holding Company, a holding company that does not have substantial independent economic substance. However, the Savings Bank's top tier holding company is the Parent Company and it is a large financial services company that has substantial independent economic substance. OTS concludes that this criterion is inapplicable because the Parent Company has substantial independent economic substance.

With respect to the CRA and OTS's CRA regulations, the Savings Bank's CRA assessment area will consist of the New York City MSA. The Savings Bank has requested that it be treated as a wholesale savings association for CRA purposes. Because the Savings Bank will not engage in retail lending, we are approving that request. Based on the Savings Bank's CRA Plan, OTS concludes that the Savings Bank has satisfactorily demonstrated that it will meet its CRA objectives.

The Savings Bank's proposed charter and bylaws conform to OTS regulations in all material respects.

Holding Company Application

Section 10(e)(1)(B) of the Home Owners' Loan Act and the Acquisition of Control Regulations thereunder provide 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 that the financial and managerial resources and future prospects of the company and association involved would be detrimental to the association or the insurance risk of the DIF. OTS must also consider the impact of the acquisition on competition. In the case of an acquisition by a foreign bank, section 10(e)(2)(D) of the HOLA provides that, if the foreign bank is not subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country, OTS must not approve the proposed acquisition. Finally, OTS must take into account assessments under the CRA when considering holding company applications.

For the reasons set forth above, OTS concludes that the managerial resources of the Applicants and the Savings Bank are satisfactory, provided the Applicants and the Savings Bank comply with the conditions discussed above.

With regard to financial resources, OTS reviewed the Applicants' financial positions and the Savings Bank's proposed capitalization and business plan. The applications demonstrate that the Applicants will have sufficient resources and that the Savings Bank will meet all of its capital requirements and will be well capitalized, as defined in the OTS Prompt Corrective Action regulation, throughout the first three years of its operations. Based on the foregoing, OTS concludes that the financial resources of the Applicants and the Savings Bank are consistent with approval of the holding company application.

Based on the factors considered in the above discussions regarding the managerial and financial resources of the Savings Bank and the Applicants, the character and responsibility of the officers and directors of each entity, and the probability of the Savings Bank's usefulness and success, OTS concludes that the future prospects of the Applicants and the Savings Bank are consistent with approval, and will not pose undue risk to the DIF, subject to the imposition of the above described conditions. In addition, to help ensure the future prospects of the Savings Bank are consistent with approval, OTS is imposing conditions 11 and 12 regarding securities affiliates.

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

With respect to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in its home country, OTS considers whether the home country supervisor: (i) ensures that the foreign bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtains information on the condition of the foreign bank and its

subsidiaries and offices outside the home country through regular reports of examination, audit reports, or otherwise; (iii) obtains information on the dealings and relationships between the foreign bank and its affiliates, both domestic and foreign; (iv) receives from the foreign bank, reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the foreign bank's financial condition on a worldwide, consolidated basis, and; (v) evaluates prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. OTS reviewed the manner and nature of the oversight provided by the Parent Company's home country supervisor and concludes that the above criteria are satisfied. The FRB previously has reviewed the regulatory oversight of the Parent Company by the French banking authorities in connection with the Parent Company's applications for agency and representative offices. The FRB previously has concluded that the Parent Company is subject to comprehensive supervision in its home country.[1] Accordingly, OTS concludes that there is no basis for objection to the holding company application based on the home country supervision of the Parent Company.

With respect to the Applicants' performance under the CRA, the Applicants have not been subject to the CRA. Accordingly, OTS concludes that there is not any basis for objection to the holding company application based on CRA grounds.

Conclusion

Based on the information provided with the applications, OTS's analysis of such information, the representations and commitments provided by the Applicants and the Savings Bank, 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 or his designee (Regional Director). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The Applicants and the Savings Bank must receive all required regulatory approvals prior to consummation of the proposed transaction with copies of all such approvals provided to the Regional Director;

2. The proposed transaction must be consummated within 120 calendar days from the date of this Order;

3. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Applicants 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 Applicants 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 Applicants, the Savings Bank, or OTS since the date of the financial statements submitted with the Applications, the transaction must not

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[1] See, for example, Federal Reserve Bulletin, p. 665-667, July 1994, and FRB Order dated March 5, 2001.

be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;

4. The Applicants 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 and of the Savings Bank's insurance of accounts; (b) advise the Regional Director in writing that the 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;

5. The Savings Bank must comply with the business plan submitted with the applications and must submit any proposed major deviations or material changes from the business plan 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 desired implementation date with a copy to the FDIC Regional Office;

6. For three years following the Savings Bank's commencement of operations, 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 explanations of any material deviations;

7. The Savings Bank must submit independent audit reports to the Regional Director for its first three years of operations. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4;

8. During the first eighteen months of the Savings Bank's operations, any contracts or agreements pertaining to transactions with affiliated persons or related interests not yet submitted to OTS for review, or any material changes to previously submitted contracts, must be provided to the Regional Director, and obtain his written non-objection;

9. The proposed director and proposed senior executive officer for whom the respective background investigations have not been completed must take such action as directed by the Regional Director, if the background investigation of the particular individual reveals adverse information;

10. The Savings Bank must receive, for one year following commencement of operations, the prior written non-objection of the Regional Director for any proposed new directors or new senior executive officers, or for any significant change in responsibilities of any senior executive officer;

11. A majority of the Savings Bank's board of directors must not be individuals who be based on criteria such as regulatory compliance, experience, character, integrity and the ability to perform both duties; and

13. At least 40 percent of the Savings Bank's board of directors must be individuals who are not officers or employees of the Applicants 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 Applicants 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 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 any time period set forth herein for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or his designee, effective 2/26/2007.

Scott M. Polakoff
Deputy Director