



Office of Thrift Supervision
Department of the Treasury

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February 12, 2010

Robert B. Pomerenk, Esq.
Kip A. Weissman, Esq.
Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, N.W., Suite 780
Washington, D.C. 20015

Re: Harvard Savings, MHC, Harvard, Illinois (MHC), OTS No. H-4221, and Harvard Savings Bank, Harvard, Illinois (Savings Bank), Conversion Application Under 12 C.F.R. Part 563b, Savings and Loan Holding Company Application by Harvard Illinois Bancorp, Inc., Harvard, Illinois (Holding Company), OTS No. H-4649, and Related Applications

Dear Messrs. Pomerenk and Weissman:

The MHC has filed with the Office of Thrift Supervision (OTS) an application for approval to convert from a federally chartered mutual holding company, with a mid-tier holding company, Harvard Illinois Financial Corporation, Harvard, Illinois (Mid-Tier), holding the Savings Bank, to a stock holding company (Conversion), pursuant to 12 C.F.R. Part 563b (Conversion Regulations), and 12 C.F.R. Part 575. Also, OTS approval is requested for the Holding Company to acquire the Savings Bank, and for approval of the establishment of two interim federal savings banks to facilitate the Conversion. In addition, the Savings Bank requests OTS approval, pursuant to 12 C.F.R. § 563.143(a)(2), to make a capital distribution to the Holding Company of up to 50 percent of the net proceeds of the proposed public offering (Offering). (Collectively, the foregoing are referred to herein as the Applications.)

The Transaction

In the proposed transaction, which is described in more detail in the Applications, the Savings Bank will charter the Holding Company as a wholly owned Maryland-chartered corporation subsidiary. The Mid-Tier will convert to a federal interim stock savings bank (Interim A) and simultaneously merge with and into the Savings Bank, with the Savings Bank as the surviving entity. Next, the MHC will convert to a federal interim stock savings bank (Interim B) and simultaneously merge with and into the Savings Bank, with the Savings Bank as the surviving entity. Immediately after the MHC and Mid-Tier mergers, the Savings Bank will issue 100 shares of common stock to the Holding Company in exchange for at least 50 percent of the net proceeds of the Holding Company's stock offering. Upon consummation of the Conversion, all of the Savings Bank's common stock will be owned by the Holding Company.

The common stock of the Holding Company will be offered to the persons described in the Plan of Conversion and Reorganization (Plan), pursuant to the Conversion Regulations. At

least 50 percent of the net cash proceeds raised in the Offering will be infused as capital into the Savings Bank. The Savings Bank, in accordance with the Conversion Regulations, will establish a liquidation account.

The Conversion

Section 575.12 of OTS's regulations provides that a mutual holding company converting to stock form must do so pursuant to the Conversion Regulations, and that the basis for the exchange of stock held by persons other than the parent mutual holding company must be fair and reasonable. The Conversion Regulations provide that OTS will approve an application for a mutual to stock conversion only if: (i) the conversion complies with Part 563b; (ii) the converting association meets its capital requirements under 12 C.F.R. Part 567 after the conversion; and (iii) the conversion will not result in a taxable reorganization under the Internal Revenue Code (IRC).¹ In addition, OTS may deny or condition a conversion application based on the converting association's compliance with the OTS regulations under the Community Reinvestment Act (CRA) and the manner in which the converting association proposes to meet the lending needs of the communities it serves after the transaction.² Furthermore, 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 savings account holders or other savings associations or to be contrary to the public interest.³

OTS has considered the MHC's Plan, and, as described in more detail below, concludes that the Plan contains the required provisions and that the Plan is in accordance with the relevant regulatory requirements, provided that the Savings Bank and the Holding Company comply with the conditions described below. In particular, we conclude that the purchase priorities in the subscription offering, and the provisions relating to stock benefit plans, are consistent with the Conversion Regulations.

The Conversion Regulations, at 12 C.F.R. § 563b.390(b), require that in a savings association's community offering, the savings association give a purchase preference to natural persons residing in the savings association's local community. The Plan defines the community as the Illinois Counties of Boone, McHenry and Grundy and the Wisconsin County of Walworth. This definition of community includes the area in which the Savings Bank has its three offices and its CRA assessment area. For any community offering, the Plan provides a purchase preference to natural persons residing in the community. We conclude that the preference for persons residing in the Savings Bank's community satisfies the requirement contained in 12 C.F.R. § 563b.390(b). Accordingly, we conclude that the Plan, including the community offering section of the Plan, satisfies the Conversion Regulations.

¹ 12 C.F.R. § 563b.200(a) (2009).

² 12 C.F.R. § 563b.200(c) (2009).

³ 12 C.F.R. § 563b.130 (2009).

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With respect to the remaining approval criteria, the Conversion would not cause the Savings Bank, which is currently well capitalized, to fail to meet its regulatory capital requirements and the Conversion will not result in a taxable reorganization of the Savings Bank under the IRC.

With respect to the requirement that the MHC reorganize in conformance with 12 C.F.R. § 575.12, which requires any conversion to stock form to be in accordance with part 563b of the Conversion Regulations, OTS concludes that the Conversion is in accordance with that section. Also, because there are no minority shareholders, there is no exchange of stock held by persons other than the MHC.

Based on the Savings Bank's CRA rating of "Satisfactory" and the business plan, OTS concludes that the application meets the convenience and needs requirement set forth at 12 C.F.R. § 563b.200(c).

OTS is imposing condition 3 because many of the post-transaction restrictions relating to mutual-to-stock conversions continue for three years. For OTS to ensure that an institution complies with these requirements, it is appropriate to require the institution to remain subject to OTS jurisdiction for that period of time.⁴

OTS is imposing condition 4 because OTS carefully applies the criteria set forth in 12 C.F.R. § 563b.525 in reviewing an offer or acquisition under 12 C.F.R. § 563b.525 in the first three years following conversion. Accordingly, it is appropriate for the Savings Bank (and its holding company) to seek OTS clearance before speaking with potential acquirors, given the possibility that the acquisition may not ultimately be approved. This condition helps ensure compliance with 12 C.F.R. § 563b.525, and helps ensure the Savings Bank's safety and soundness by reducing the possibility that the Savings Bank or the Holding Company will expend time and resources pursuing a transaction that they ultimately may not be able to complete.

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 savings account holders or other savings associations or to be contrary to the public interest. We conclude that the Plan complies with these requirements, provided that the parties comply with the conditions set forth below.

⁴ We conclude that where, as in the Savings Bank's situation, the Savings Bank is already a state-chartered institution, maintenance of an appropriate state charter with a section 10(l) election satisfies the condition.

Formation of Interim Federal Savings Banks

The transaction requires OTS approval of the formation of two interim federal savings banks pursuant to 12 C.F.R. § 552.2-2. OTS has consistently concluded that the formation of interim federal savings banks in the manner proposed in the subject transaction meets the relevant regulatory criteria. It is contemplated that the Federal Deposit Insurance Corporation will act on the applications to merge the interims with the Savings Bank before the transaction is consummated. We conclude that the proposed formation of the interim savings banks is consistent with 12 C.F.R. § 552.2-2.

Holding Company Application

In the transaction, the Holding Company will acquire the Savings Bank. Accordingly, the transaction requires OTS approval under Section 10(e) of the Home Owners' Loan Act (HOLA), and the OTS regulations thereunder (Control Regulations).

The HOLA and the Control Regulations provide that OTS must approve a holding company application proposing the acquisition of one 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 the association involved are such that the acquisition would be detrimental to the association or the insurance risk of the Deposit Insurance Fund (DIF).⁵ Consideration of the managerial resources of a company or savings association must include consideration of the competence, experience, and integrity of the officers, directors, and principal shareholders of the entity.⁶ OTS must deny a holding company application, however, if the transaction would have certain anticompetitive effects.⁷ In addition, 12 C.F.R. § 563e.29 requires that OTS take into account assessments under the CRA when reviewing savings and loan holding company applications.

With respect to managerial resources, OTS has access to information generated by the Savings Bank's primary federal regulator and OTS, in its role as the MHC's and Mid-Tier's regulator, is familiar with the Savings Bank's managerial resources. The proposed directors and executive officers of the Holding Company and the Savings Bank will be made up of persons who have served as managers of the Savings Bank. OTS concludes that the managerial resources of the Holding Company and the Savings Bank are consistent with approval.

With respect to financial resources, OTS is familiar with the Savings Bank's financial resources. The Savings Bank is well capitalized. The Holding Company will infuse at least 50 percent of the net cash proceeds of the Offering into the Savings Bank. The only activities of the

⁵ 12 U.S.C. § 1467a(e)(1)(B).

⁶ Id.

⁷ 12 U.S.C. § 1467a(e)(2).

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Holding Company will be its ownership of the stock of the Savings Bank and making a loan to the employee stock ownership plan. Accordingly, we conclude that the financial resources of the Holding Company and the Savings Bank are consistent with approval.

With respect to future prospects, we have considered the financial and managerial resources of the Holding Company and the Savings Bank, the Savings Bank's business plan, and the materials pertaining to the offering of stock in the Conversion. The conditions set forth below are intended to ensure that the Savings Bank's future prospects are consistent with approval. We conclude that, provided the conditions set forth below are satisfied, the future prospects of the Savings Bank and the Holding Company, and the risks to the DIF, are consistent with approval.

With regard to anticompetitive effects, the acquisition of the Savings Bank is a transaction among affiliates and does not involve operating depository institutions other than the Savings Bank. Therefore, the proposed acquisition is competitively neutral.

With respect to the CRA, the Savings Bank received a "Satisfactory" CRA rating in its most recent CRA examination, the Savings Bank does not propose to reduce its level of services, and the Savings Bank's business plan does not raise concerns in this area. OTS has received no comments objecting to the proposed transaction. Accordingly, we conclude that approval of the holding company application is consistent with the CRA.

In sum, we conclude that the Holding Company's application to acquire the Savings Bank meets all of the standards for approval.

Capital Distribution

The Savings Bank has requested OTS approval, pursuant to 12 C.F.R. § 563.143(a)(2), to make a capital distribution of 50 percent of the net cash proceeds of the Offering to the Holding Company. OTS's regulations provide that a capital distribution application may be denied if, generally, the proposed capital distribution would: (i) cause the institution to become undercapitalized; (ii) raise safety and soundness concerns; or (iii) violate any statute, regulation, agreement with OTS or condition of approval.⁸

The proposed distribution does not raise safety and soundness concerns and it will not violate any prohibition contained in law, agreement with OTS, or condition of approval, and the Savings Bank will remain well capitalized after the distribution. Accordingly, we conclude that the Savings Bank's capital distribution is consistent with approval.

⁸ 12 C.F.R. § 563.146 (2009).

Conclusions

Based on the foregoing analysis, OTS concludes that the conversion application meets the applicable approval criteria. Accordingly, pursuant to delegated authority, the conversion application is hereby approved, subject to the following conditions:

1. Promptly after the completion of the sale of all the shares of capital stock to be sold in connection with the Offering, the Savings Bank must submit to the Central Regional Director or his designee (Regional Director): (a) a certification by the Holding Company's chief executive officer stating that all the shares proposed to be sold have been sold, the price at which they were sold, and the date of completion of the Offering; (b) executed copies of the proposed amendments to the Savings Bank's charter, the appropriate form of bylaws as prescribed by 12 C.F.R. § 552.5 and a certification by the Savings Bank's secretary that the copies are in conformity with the proposal of the board of directors adopted by the Savings Bank's members; and (c) a statement by the Savings Bank's independent appraiser that, to the best of his/her knowledge and judgment, nothing of a material nature has occurred (taking into account all of the relevant factors including those which would be involved in a change in the maximum subscription price) which would cause him/her to conclude that the sale price was not compatible with his/her estimate of the Holding Company's and the Savings Bank's total pro forma market value at the time of sale;
2. The following general principles of conversion contained in 12 C.F.R. Part 563b, as amended by successor regulations, apply to the Holding Company, and if applicable, any successor company, subsequent to the Conversion as if they were the converting savings bank:

563b.500, 563b.505, 563b.510, 563b.515, 563b.520, 563b.525 and 563b.530;
3. For three years following completion of the Conversion, the Savings Bank must maintain its election under Section 10(l) of the HOLA to be treated as a savings association or otherwise have a charter that subjects it to OTS jurisdiction; and
4. For three years following the completion of the Conversion, neither the Holding Company nor the Savings Bank may, without the prior written consent of the Managing Director, Corporate & International Activities, or her designee, take any action with a view toward a transaction which would require stockholder approval under 12 C.F.R. § 552.13(h).

Furthermore, based on the foregoing analysis, OTS concludes that the holding company application, the applications to form the interim savings banks, and the capital distribution

application, meet the applicable approval criteria, provided the following conditions are satisfied. Accordingly, the holding company application, the applications to form the interim savings banks, and the capital distribution application, are hereby approved, pursuant to delegated authority, provided that the following conditions are complied with in a manner satisfactory to the Regional Director:

5. The proposed transaction must be consummated no later than 120 calendar days after the date of this approval letter;
6. The applicants must receive all required regulatory and shareholder or accountholder approvals for the proposed transaction and submit copies of all such approvals to the Regional Director prior to consummation of the proposed transaction;
7. The Holding Company must comply with each of the conditions, and must submit each of the certifications, as specified in 12 C.F.R. § 574.7(a)(2) and (3), within the time frames specified therein;
8. The Holding Company must not take any action that would prevent its stock from being listed on a national or regional securities exchange;
9. Upon completion of the organization of the interim federal savings banks, the boards of directors of the Savings Bank and each interim federal savings bank must ratify the Plan and the applicable agreements of merger; and
10. The applicants must submit a certification from their independent legal counsel to the Regional Director within five calendar days after the effective date of the transactions stating: (a) the effective date of each of the transactions; (b) that the interim federal savings banks never opened for business; and (c) that the transactions were consummated in accordance with all applicable laws and regulations, the applications, and this approval letter.

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

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The proxy soliciting materials included under Items 3 and 4 of the conversion application, and the stock offering materials included under Item 3 and Exhibit 2(b) of the conversion application will be discussed in a separate letter.

Sincerely,

_____/s/_____
Donald W. Dwyer
Director, Applications
Corporate & International Activities

_____/s/_____
Kevin A. Corcoran
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cc: Regional Director
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