

OFFICE OF THRIFT SUPERVISION

Approval of Application for Permission to Organize a Federal Savings Bank

Order No.: 2004-55

Date: December 10, 2004

Docket No.: 17987

Edward L. Townsend (Applicant) has applied for the approval of the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1464(e) and 12 C.F.R. § 552.2-1 for permission to organize Bank of Grove, F.S.B. (Savings Bank), Grove, Oklahoma (Application). The Applicant has filed an application with the Federal Deposit Insurance Corporation (FDIC) for insurance of the Savings Bank's deposits under the Savings Association Insurance Fund.

OTS has considered the Application under the standards set forth in 12 U.S.C. § 1464(e) and 12 C.F.R. §§ 543.3, and 552.2-1, and other applicable statutes and regulations. OTS also has considered the Application under the Community Reinvestment Act (CRA), 12 U.S.C. §§ 2901 *et seq.*, and OTS's regulations thereunder, 12 C.F.R. Part 563e. In addition, OTS has considered the submissions made and the commitments provided by the Applicant.

OTS may grant a federal savings association charter only: (1) to persons of good character and responsibility; (2) if, in OTS's judgment, a necessity exists for such association in the community to be served; (3) if there is a reasonable probability for the association's usefulness and success; and (4) 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, when considering the application, also takes into account an applicant's description of how it will meet CRA objectives. Furthermore, OTS considers the composition of the savings association's board of directors, the amount of initial capital provided by the organizer and the business plan for the savings association, including projected financial information.

With respect to character and responsibility, the Application indicates that the Applicant will be the Savings Bank's Chairman of the Board, Chief Executive Officer, and Chief Lending Officer. The Applicant and the proposed President of the Savings Bank, who will also be a member of the Savings Bank's proposed board of directors, have experience operating banking institutions. The Application indicates that all five proposed members of the Savings Bank's board of directors possess extensive business experience and will reside in Oklahoma. In addition, routine background checks were made and they did not result in the disclosure of information that would be inconsistent with approval of the Application.

We have reviewed the background information provided in the Application and the results of the OTS background checks and conclude that the character and responsibility of the Applicant are consistent with approval of the Application.

With respect to whether a necessity exists for the Savings Bank in the community to be served, the Application indicates that the Savings Bank will engage in deposit and lending activities. The Savings Bank will market its deposit and lending activities primarily in Delaware County, Oklahoma. Total deposits insured by the FDIC in Delaware County grew 8.0 percent in 2003 and 14.0 percent in 2004. The Application indicates that the population of Delaware County grew by 2.0 percent, from April 1, 2000, to July 1, 2002. We conclude that the increases in deposits and population demonstrate that there is a necessity in the community for the Savings Bank.

With respect to undue injury to local thrift and home financing institutions, while the Savings Bank may take some business from existing institutions, those institutions are generally larger and operate over a broader territory than will the Savings Bank. Moreover, the Savings Bank's projected level of deposits is insignificant in comparison to the total \$326.8 million of insured deposits held by depository institutions in Delaware County. In addition, no one opposed the Application in response to the public notice. Therefore, we conclude that the Savings Bank will not cause undue injury to thrift and home financing institutions in the geographic area where its customers will be located.

With respect to the reasonable probability for the association's usefulness and success, the Savings Bank will be well capitalized. The Savings Bank's business plan is reasonable and its proposed management is acceptable. In addition, approval of the Application will be subject to conditions requiring that the Savings Bank submit any proposed major changes or deviations from the business plan to OTS for prior written non-objection, provide OTS with reports of variances between the business plan and actual operations, submit audit reports to OTS during its first three years of operation, and submit contracts or agreements pertaining to transactions with affiliates during the first eighteen months of operation. OTS review of variance reports and proposed material changes to the business plan helps ensure that changes to or from the business plan included in the Application would not be detrimental to the Savings Bank. The requirement that the Savings Bank provide audit reports enables OTS to review the controls and procedures employed by the Savings Bank during its first years of operation. Such oversight is appropriate so OTS may confirm that proper procedures are being followed. In addition, in order to ensure OTS' ability to review any proposed changes in the Savings Bank's senior officers or directors, we are imposing a non-standard condition of approval requiring that for two years following the commencement of operations, the Savings Bank must receive the prior written non-objection of the Regional Director for any proposed new directors or senior executive officers or any significant change in responsibilities of any senior executive officer. This condition is appropriate to enable OTS to confirm that the Savings Bank will be operated properly and by qualified personnel. Accordingly, all of these conditions are appropriate for maintaining the safe

and sound operation of the Savings Bank and, therefore, the likelihood that it will be useful and successful.

Based on the foregoing, as well as the Applicant's commitments and representations, we conclude that there is a reasonable probability of the Savings Bank's usefulness and success.

With respect to the provision of credit for housing in a safe and sound manner, the Savings Bank will extend credit for housing within its market area. The Savings Bank expects that the majority of its loan portfolio will be made up of loans for one to four family housing. We have concluded that the Savings Bank proposes to conduct these activities safely and soundly. Accordingly, we conclude that the Savings Bank will provide credit for housing in a safe and sound manner.

The Savings Bank has no prior CRA performance. OTS received no public comments objecting to the Application. The Savings Bank's CRA assessment area consists of Delaware County, Oklahoma. OTS has reviewed the Savings Bank's CRA plan, including among other things, the proposed levels of lending and concludes that the CRA plan is consistent with the regulations. We find that the Savings Bank has made a satisfactory showing that it will satisfy the requirements for the CRA.

The Savings Bank intends to adopt a charter and bylaws that conform to the model charter and bylaws for a federal stock savings bank. The Savings Bank will have an initial capitalization that exceeds the minimum regulatory requirement. In addition, because the Savings Bank's board of directors will be made up of persons with varied backgrounds, no more than a third of whom are in closely related businesses, and its members live and/or work in Oklahoma, the composition of the board meets the regulatory requirements set forth in 12 C.F.R. § 543.3(d).

Based on the foregoing, the Application is hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Midwest Regional Director or his designee (Regional Director):

1. The Savings Bank must receive all required regulatory approvals and submit copies of all such approvals to the Regional Director prior to consummation of the proposed transaction;
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 consummation of the proposed transaction, the chief financial officer of 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 Savings Bank 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 Applicant, 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;

4. The Savings Bank must, within 5 calendar days after the effective date of the proposed transaction, provide a reconciliation of the Savings Bank's capital to the Regional Director and must advise the Regional Director in writing: (a) of the effective date of the transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Application, all commitments and representations provided by the Applicant to OTS, and this Order;
5. 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;
6. 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 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 with a copy sent to the FDIC Regional Office;
7. For three years following 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 an explanation of any deviations;
8. For two years following the commencement of operations, the Savings Bank must receive the prior written non-objection of the Regional Director for any proposed new directors or senior executive officers or any significant change in responsibilities of any senior executive officer; and
9. During the first eighteen months of operations, any proposed contracts or agreements pertaining to transactions with affiliates must be provided to the Regional Director for his written non-objection at least 30 calendar days prior to their execution and implementation.

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
December 10, 2004.

A handwritten signature in black ink, appearing to read "Scott M. Albinson", written over a horizontal line.

Scott M. Albinson
Managing Director
Office of Examinations, Supervision and
Consumer Protection