OFFICE OF THRIFT SUPERVISION

Approval of Voluntary Supervisory Conversion and Holding Company Application

Order No.: 2010-35
Date: June 18, 2010
Docket Nos.: H-4716 and 01638

Family Federal Savings of Illinois, Cicero, Illinois (Savings Bank) seeks the Office of Thrift Supervision's (OTS) approval to undertake 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, GreenChoice Holding Company, Inc., Chicago, Illinois (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.

The Parties

The Savings Bank is a Deposit Insurance Fund (DIF)-insured, federally chartered mutual savings bank. The Savings Bank had total assets of approximately $58.35 million as of March 31, 2010. The Savings Bank, with tangible capital of 1.95 percent, is critically undercapitalized within the scope of the prompt corrective action provisions of the Federal Deposit Insurance Act and OTS's Prompt Corrective Action (PCA) Regulations.[1] The Savings Bank is subject to a Cease and Desist order (C&D Order), dated November 20, 2009, which requires the Savings Bank to meet and maintain by June 30, 2010, a tier 1 core capital ratio equal to or greater than 8 percent and a total risk-based capital ratio equal to or greater than 12 percent.

The Holding Company, an Illinois-chartered corporation, was formed in March 2010 for the sole purpose of acquiring the Savings Bank in the proposed transaction. The Holding Company is engaging in a private placement of its common stock to fund this transaction. Upon completion of the private placement, no one shareholder (or group acting in concert) will own more than 9.9 percent of the Holding Company's common stock.

The Proposed Transaction

In the proposed supervisory conversion, the Savings Bank will convert from mutual to stock form, and will issue all of its common stock to the Holding Company, in return for $8.8 million in cash.

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1 12 U.S.C. § 1831o and 12 C.F.R. Part 565 (2009).

Upon consummation of the voluntary supervisory conversion, the Savings Bank will be "well-capitalized," as defined under the PCA Regulations, and the Savings Bank's capital will exceed the levels required under the C&D Order.

Voluntary Supervisory Conversion

Under 12 C.F.R. § 563b.625(b), a savings association is eligible to engage in a voluntary supervisory conversion if severe financial conditions threaten the savings association's stability, and a conversion is likely to improve the association's financial condition.[2]

The Savings Bank is currently critically undercapitalized, with tangible capital of 1.95 percent as of March 31, 2010. Accordingly, OTS concludes that severe financial conditions threaten the Savings Bank's stability for purposes of 12 C.F.R. § 563b.625(a)(2).

In addition, OTS concludes that the proposed voluntary supervisory conversion is likely to improve the Savings Bank's financial condition. Upon consummation of the transaction, including the Holding Company's infusion of capital into the Savings Bank, the Savings Bank will be "well-capitalized," and have core and risk-based capital ratios that exceed the levels required by the C&D Order. Furthermore, OTS has reviewed the proposed business plan for the Savings Bank, and has concluded that the business plan is acceptable.

Accordingly, OTS concludes that the Savings Bank is eligible for a supervisory conversion by virtue of 12 C.F.R. § 563b.625(a)(2).

Furthermore, 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.

Based on the foregoing, OTS concludes that 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

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2 12 C.F.R. § 563b.625(a)(2) (2009). The Conversion Regulations set forth additional circumstances under which a voluntary supervisory conversion may be approved.

detrimental to the savings association or the insurance risk of the DIF.[3] 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.[4] OTS must also consider the impact of the acquisition on competition.[5] 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 senior officers, and the proposed members of the board of directors of the Savings Bank, and has found no material adverse information. Based on its review, OTS concludes that the managerial resources of the Holding Company and the Savings Bank are consistent with approval.

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, and to meet the capital levels required under the C&D Order. The Holding Company will be a shell company. 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. The Savings Bank will be well-capitalized upon consummation of the proposed transaction. The proposed acquisition will improve the future prospects of the Savings Bank, because the Savings Bank will be well capitalized and meet the capital levels required under the C&D Order. OTS has reviewed the Savings Bank's business plan and has found it acceptable. 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, 8, 9, and 10, regarding adherence to the proposed business plan, monitoring of the business plan, independent audits, transactions with certain parties, the addition of new executive officers or directors, the submission of a concentration policy and the submission of an accounting opinion. Those conditions are designed to ensure that the Savings Bank operates pursuant to its business plan and that changes to and from the business plan are not detrimental to the Savings Bank. In addition, these conditions address the submission of variance and audit reports to ensure compliance with the business plan, address possible transactions with affiliates and related parties, and address possible future management to ensure that management has the necessary competence to contribute to the Savings Bank's future prospects and ensure the Savings Bank's future prospects are consistent with approval. The concentration policy will help ensure that the Savings Bank is not subject to undue risk as a result of

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3 12 U.S.C. § 1467a(e)(1)(B); see also 12 C.F.R. § 574.7(c) (2009).

4 12 U.S.C. § 1467a(e)(1)(B).

5 12 U.S.C. § 1467a(e)(2) and 12 C.F.R. § 574.7(c)(2) (2009).

asset concentrations, and the accounting opinion will help ensure that the Savings Bank has accounted for the proposed transaction correctly.

In addition, OTS is imposing condition 11, requiring the prior written non-objection of the Central Regional Director or his designee (Regional Director), for any proposed bonus or incentive compensation arrangements between the Savings Bank or the Holding Company for proposed officers and directors. This condition is designed to ensure that such compensation arrangements are consistent with applicable statutes and regulations, and that such compensation arrangements are not detrimental to the future prospects of the Savings Bank or the Holding Company. In addition, OTS is imposing condition 12, regarding the submission of federal and state tax opinions, to ensure that the transaction is structured as a tax-free reorganization.

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 financial 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.

<u>Conclusion</u>

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 Regional Director. 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 30 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. Within 30 calendar days following the date of consummation of the Proposed Transaction, the Savings Bank must submit to the Regional Director an acceptable Concentration Policy;

5. Within 30 calendar days following the date of consummation of the Proposed Transaction, the Savings Bank must submit an accounting opinion to address the accounting treatment for the Proposed Transaction on the books of the Savings Bank;

6. 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;

7. 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;

8. 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;

9. For the three years following the date of consummation of the Proposed Transaction, any contracts or agreements pertaining to transactions with affiliates and 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;

10. For the three 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;

11. For the three years following the date of consummation of the Proposed Transaction, any bonus or incentive compensation arrangements between the Savings Bank or the Holding Company and their officers and directors, must receive the prior written non-objection of the Regional Director; and

12. Prior to consummation of the Proposed Transaction, the Holding Company and the Savings Bank must submit to OTS final federal and state tax opinions regarding the tax consequences of the Proposed Transaction that conclude that the Proposed Transaction qualifies as a tax-free reorganization.

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 June 18, 2010.

John F. Burke, Jr.
Acting Managing Director
Supervision