

## OFFICE OF THRIFT SUPERVISION

### Approval of Voluntary Supervisory Conversion and Holding Company Application

**Order No.:** 2010-24  
**Date:** May 24, 2010  
**Docket Nos.:** H-4680 and 08283

Ideal Federal Savings Bank, Baltimore, Maryland (Savings Bank) seeks the Office of Thrift Supervision's (OTS) approval to convert from a federally chartered mutual savings association to a federally chartered stock savings association in 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, Ideal Holding Company, Baltimore, Maryland (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.

#### **Background**

The Savings Bank is a Deposit Insurance Fund (DIF)-insured, federal mutual savings association. The Savings Bank had total assets of approximately \$6.3 million as of March 31, 2010. The Savings Bank is undercapitalized within the scope of the prompt corrective action provisions of the Federal Deposit Insurance Act and OTS's Prompt Corrective Action Regulations.<sup>1</sup>

The Savings Bank proposes to convert from a federally chartered mutual savings association to a federally chartered stock savings association. In the voluntary supervisory conversion, the Holding Company, a Delaware-chartered corporation formed in November 2009 for the sole purpose of acquiring the Savings Bank, will acquire all of the Savings Bank's common stock. Upon consummation of the voluntary supervisory conversion, the Savings Bank will be "well capitalized," as defined under OTS's Prompt Corrective Action Regulations. In addition, the Savings Bank will establish a liquidation account based on its regulatory capital immediately prior to the voluntary supervisory conversion.

#### **Voluntary Supervisory Conversion**

Pursuant to 12 C.F.R. § 563b.625, a savings association is eligible to convert to a federal stock savings association in a voluntary supervisory conversion if the savings association is undercapitalized and a standard conversion that would make the association

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

adequately capitalized is not feasible, and the association will be a viable entity following the conversion.<sup>2</sup>

The Savings Bank is currently undercapitalized. OTS concludes that a standard conversion is not feasible for the Savings Bank because of its distressed condition, its small size, and the high costs of undertaking a standard conversion in relation to any potential proceeds of any stock offering that would be undertaken in a standard conversion.

In addition, the Savings Bank would be viable upon consummation of the proposed supervisory conversion. Upon consummation of the transaction, the Savings Bank will be well capitalized, and have core, tangible, and risk-based capital of 57.25 percent, 57.25 percent, and 117.91 percent, respectively. Furthermore, OTS has reviewed the proposed business plan for the Savings Bank, and has concluded that the business plan is acceptable.

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.

The Savings Bank's establishment of a liquidation account is consistent with 12 C.F.R. § 563b.610, which provides that, although members of an institution undertaking a voluntary supervisory conversion do not have the right to approve or participate in the conversion, they may have interests in a liquidation account, if one is established.

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 accountholders or other savings associations, or to be contrary to the public interest.<sup>3</sup> In order to ensure that the transaction is fair and consistent with the public interest, OTS is imposing condition 10.

Accordingly, subject to the above-described condition, 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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<sup>2</sup> 12 C.F.R. § 563b.625(a)(1) (2009).

<sup>3</sup> 12 C.F.R. § 563b.130 (2009).

detrimental to the savings association or the insurance risk of the DIF.<sup>4</sup> 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.<sup>5</sup> OTS must also consider the impact of the acquisition on competition.<sup>6</sup> 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. However, the background checks for certain of the proposed directors and officers are not complete. Therefore, OTS is imposing condition 9 to ensure that the persons operating the Savings Bank and the Holding Company have the requisite character and experience.

Based on the above, OTS concludes that the managerial resources of the Holding Company and the Savings Bank are consistent with approval, subject to the recommended condition.

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. The applications state that the Holding Company may establish a title company after the transaction, using a minimal amount of capital. OTS concludes that the Holding Company's financial resources are sufficient for its proposed activities. 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, and OTS does not object to the Savings Bank's proposed business plan. The Savings Bank will be well capitalized, with capital ratios described above, upon consummation of the proposed transaction. 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 and 8, regarding adherence to the proposed business plan, monitoring of the business plan, independent audits, transactions with certain parties, and the addition of new executive officers or directors.

Accordingly, 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.

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<sup>4</sup> 12 U.S.C. § 1467a(e)(1)(B); see also 12 C.F.R. § 574.7(c) (2009).

<sup>5</sup> 12 U.S.C. § 1467a(e)(1)(B).

<sup>6</sup> 12 U.S.C. § 1467a(e)(2) and 12 C.F.R. § 574.7(c)(2) (2009).

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.

### **Conclusion**

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 Southeast Regional Director (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. 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;

5. 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;
6. 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;
7. For the two 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;
8. For the two 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;
9. With respect to any proposed director or executive officer for whom background checks have not been completed, the Holding Company or Savings Bank, must take such action as required by the Regional Director, if the Regional Director objects to any such person based on information obtained during the background check, and
10. The Savings Bank and the Holding Company must receive the prior written non-objection of the Managing Director, Corporate & International Activities, for the payment of any retirement benefits to members of the Savings Bank's incumbent management. Such non-objection would be provided only if such payments: (a) relate only to vested and payable retirement benefits under a retirement plan properly established by the Savings Bank prior to the date of the final

amendments to the acquisition agreement (Plan); (b) are consistent with the terms of a Plan; and (c) are consistent with all applicable laws and regulations.

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 May 24, 2010.



Grovetta N. Gardineer  
Managing Director  
Corporate & International Activities