

OFFICE OF THRIFT SUPERVISION

APPROVAL OF APPLICATIONS FOR PERMISSION TO ORGANIZE A FEDERAL SAVINGS BANK AND HOLDING COMPANY ACQUISITION

Order No.: 99-54

Date: September 10, 1999

Lumbermens Mutual Casualty Company, Long Grove, Illinois (the "Holding Company"), has applied for approval of the Office of Thrift Supervision (the "OTS") pursuant to 12 U.S.C. §§ 1464(e) and 1467a(e), and 12 C.F.R. §§ 552.2-1 and 574.3 for permission to organize and acquire LMC Bank, Island Lake, Illinois (the "Savings Bank") (collectively, "the Applications").

The OTS has considered the Applications, as supplemented by representations by the Holding Company, the Savings Bank and their attorneys, under the factors set forth in 12 U.S.C. §§ 1464(e) and 1467a(e), and 12 C.F.R. §§ 543.3, 552.2-1, and 574.7 and other applicable statutes and regulations. The OTS also has considered the Applications under the Community Reinvestment Act (the "CRA"), 12 U.S.C. § 2901 *et seq.*, and the OTS regulations thereunder, 12 C.F.R. Part 563e. In addition, the OTS has considered an analysis prepared by the OTS Central Regional Office ("Regional Office"), a legal opinion by the Business Transactions Division, and a summary by the Office of Examination and Supervision (collectively the "Staff Memoranda"). For the reasons set forth in the Staff Memoranda, the OTS has determined that the Applications satisfy all applicable statutory and regulatory criteria, provided that the following conditions are complied with in a manner satisfactory to the Central Regional Director, or his designee ("Regional Director"). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The Savings Bank and the Holding Company must receive all required regulatory and shareholder approvals prior to consummation of the proposed transaction with copies of all such approvals provided to the Regional Office;
2. The proposed transaction must be consummated no later than 120 calendar days after the date of this Order or within such additional period as the Regional Director may grant;
3. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Savings Bank and the Holding Company must certify to the Regional Director, in writing, that no material adverse events or material adverse changes have occurred with respect to the financial condition or operations of the Savings Bank and the Holding Company, respectively, since the date of the financial statements submitted with the Applications;
4. The Savings Bank must advise the Regional Office in writing within five calendar days after the effective date of the proposed transaction: (a) of the effective date of the proposed transaction and of the Savings Bank's insurance of accounts and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the application and this Order;

5. The Savings Bank must operate within the parameters of its business plan. The Holding Company and the Savings Bank must submit any proposed major deviations or material changes from the plan (including changes resulting from decisions made by the Holding Company), and in particular, those pertaining to the cross-marketing of deposit and non-deposit products or changes in delivery systems, 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 proposed change is implemented;
6. The Savings Bank must submit to the Regional Office quarterly variance reports on the business plan for the first three years of its operations;
7. At least 40 percent of the Savings Bank's board of directors must consist of individuals who are not officers or employees of the Holding Company or affiliates thereof and 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 Holding Company or any affiliate and who is not an officer or employee of the Savings Bank. At least 50 percent of the Savings Bank's audit committee must consist of directors who are not officers or employees of the Savings Bank, the Holding Company or any affiliates;
8. The proposed appointment of any permanent executive officers or directors of the Savings Bank, within the first year of its operations, is subject to the review and non-objection of the Regional Director;
9. Prior to the consummation of the proposed transaction, the Savings Bank must submit a validation letter confirming the valuation of the contributed mortgage loan portfolio. A copy of the letter must be submitted to the Regional Office for review and non-objection;
10. The Savings Bank must submit independent audit reports to the Regional Office for its first three fiscal years. These reports must be in compliance with the audit rules set forth in 12 C.F.R. § 562.4;
11. Any contracts or agreements pertaining to transactions with affiliates, not yet submitted to the OTS for review, must be provided to the Regional Director at least 30 calendar days prior to execution and must receive his written non-objection prior to implementation;
12. Prior to the implementation of operations outside the Savings Bank's initial assessment area, the Savings Bank must establish an internal audit function that will ensure that the call center is properly monitored, trained and in compliance with the Savings Bank's internal policies and procedures, all pertinent agreements and OTS laws and regulations;
13. The Savings Bank, the Holding Company and any affiliates must comply with, at a minimum, the General Guidelines in Disclosures and Advertising set forth in the *InterAgency Statement on Retail Sales of Nondeposit Investment Products*, OTS Thrift Bulletin 23-2, whenever the agents of the Holding Company or an affiliate market the deposit products of the Savings Bank;

14. The Holding Company, its affiliates and the Savings Bank must comply with the anti-tying restrictions of 12 U.S.C. §§ 1464(q) and 1467a(n) and must develop written procedures to effect such compliance. The procedures must disclose any proposed bundling arrangements and must be submitted for the review and non-objection of the Regional Director prior to the opening of the Savings Bank for business;
15. At least 60 calendar days before beginning operations, the Savings Bank must employ a Compliance Officer exclusively dedicated to the development, implementation and management of the Savings Bank's compliance program, including Federal fair lending and consumer protection laws and regulations;
16. At least 30 calendar days before beginning operations, the Savings Bank must submit to the Regional Director for his review and approval, a compliance management program that addresses all Federal fair lending and consumer protection statutes and regulations. The program must include, at a minimum, procedures to train and monitor all employees or other who offer or process the Savings Bank's products;
17. At least 30 calendar days before utilizing the Holding Company's or its affiliates, agents or agencies to market the Savings Bank's products, the Savings Bank must provide written assurance to the Regional Director that, in accordance with the Real Estate Settlement Procedures Act ("RESPA"), such agents and agencies will not be compensated, directly or indirectly, for referral of loans, subject to RESPA, except for services performed;
18. The Savings Bank must review its loan production on an annual basis to determine the number of loans that are inside and outside the designated CRA assessment area. Within 90 calendar days of determining that a majority of its loans originated in the previous year were originated outside the assessment area, the Savings Bank must submit a revised CRA plan to the Regional Director for his review and approval; and
19. At least 30 days prior to the date of consummation of the proposed transaction, the Savings Bank must submit written evidence, acceptable to the Regional Director, that the Savings Bank's Year 2000 efforts comply with the terms, milestone dates, requirements and conditions contained in all Year 2000 guidance issued by the OTS and/or the Federal Financial Institutions Examination Council.

This approval order shall also serve as notice to the Savings Bank that the OTS reserves the authority to evaluate the appropriateness of marketing disclosures as they pertain to the differentiation between insured and uninsured products by having its examiners periodically, and without identification as OTS employees, solicit the Savings Bank or individual agency offices of the Holding Company and affiliates for information on non-deposit investment or insured products.

Any time period set forth herein may be extended for up to 120 calendar days, for good cause, by the Regional Director

By order of the Director of the Office of Thrift Supervision, or her designee, effective September 10, 1999.

A handwritten signature in black ink, reading "Richard M. Riccobono". The signature is written in a cursive style with a large, sweeping initial "R".

Richard M. Riccobono
Deputy Director