

OFFICE OF THRIFT SUPERVISION

Approval of Application for Permission to Organize a Federal Savings Bank

Order No.: 2003-14

Date: April 10, 2003

Re: OTS No. 17947

Several individuals (the Organizers) have applied for 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 Patriot Federal Savings Bank, Fort Plain, New York (the Savings Bank) (the Application).

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. OTS also has considered the Application under the Community Reinvestment Act (CRA), 12 U.S.C. §§ 2901 *et seq.*, and the OTS regulations thereunder, 12 C.F.R. Part 563e.

Approval Standards

OTS may grant a federal savings association charter only: (1) to persons of good character and responsibility; (2) if, in OTS' 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 regulations require that OTS consider whether the association will promote credit for housing consistent with the safe and sound operation of a federal savings association. OTS also takes into account an applicant's description of how it will meet CRA objectives when considering the application. 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.

Waiver Request

The Savings Bank has requested that OTS waive the requirement of 12 C.F.R. § 543.3(b)(1) that all securities of the same class be sold at the same price (the same price provision). The Organizers have already contributed funds to pay for the Savings Bank's organizational expenses. The Organizers will not receive cash reimbursement for these contributions, but in connection with the Savings Bank's stock offering, the Organizers will receive one share of stock for each \$10 contributed for organizational expenses.

In addition, the Organizers will receive a designated number of non-transferable five-year warrants to purchase a share of the Savings Bank's common stock for a price in excess of the offering price. For all of the Organizers other than the Savings Bank's proposed chief executive officer (CEO), the number of warrants per share of common stock purchased will most likely be substantially less than one warrant per share of stock acquired. The CEO will receive warrants to acquire an amount of shares equal to two percent of the Savings Bank's shares outstanding after the initial offering.

The Organizers will, in essence, acquire units consisting of common stock and warrants, at the same price that non-Organizers will purchase a share of common stock. Accordingly, the Organizers will be acquiring their stock interest at a lower price than non-Organizers, in contravention of section 543.3(b)(1).

OTS may, pursuant to 12 C.F.R. § 500.30(a), waive the regulatory same price provision of § 543.3(b)(1) to the extent necessary to permit the proposed warrant issuances. The regulation permits waivers of OTS regulations if no statute requires the relevant regulatory provision, and there is good cause. The relevant regulatory restriction is not required by any statute. In addition, in light of the relatively minimal amount of warrants, the length of the vesting period, the exercise terms, and because the Organizers, by contributing organizational expenses prior to the establishment of the Savings Bank, have borne a risk that will not be assumed by other shareholders, there is an adequate basis to conclude that a waiver would not be contrary to the purposes of 12 C.F.R. § 543.3(b)(1), and that there is good cause to grant the waiver. Accordingly, OTS hereby waives the same price provision of 12 C.F.R. § 543.3(b)(1) to the extent necessary to permit the proposed warrant issuances.

Evaluation of Application Under Approval Standards

OTS has conducted background checks of the Organizers, and has reviewed the relevant information submitted in the Application. The proposed Chief Executive Officer and President of the Savings Bank has extensive financial industry experience. The application materials indicate that the remaining members of the proposed board of directors possess experience in various business endeavors. Based on the relevant information, OTS concludes that the character and responsibility of the Organizers are consistent with approval of the Application.

The Savings Bank will focus its deposit taking and lending in Fort Plain, Canajoharie, Sharon Springs, Palatine Bridge and St. Johnsville, New York. Demographic information provided in the Application for these towns indicates an overall increase in per capita income between 1990 and 2000 of 47% from \$10,355 to \$15,257. Moreover, per capita income is projected to increase an additional 3.82% per year between 2000 and 2005. Thus, we conclude 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 generally are bigger and operate over a larger territory than will the Savings Bank. OTS received no comments opposing the Application in response to the public notice. Therefore, we conclude that the Savings Bank will not have an adverse impact on local thrift and home financing institutions in the geographic area where its customers will be located.

The Savings Bank will be well capitalized. In addition, the Savings Bank's business plan is reasonable, and the proposed management appears to be competent. In addition, approval of the Application will be subject to various conditions, set forth below, intended to ensure that the Savings Bank follows its business plan, that changes to the business plan included in the Application will not be detrimental to the Savings Bank, that OTS is able to review the Savings Bank's compliance with its business plan and the Savings Bank's controls and procedures, that transactions with affiliates are not detrimental to the Savings Bank, and that management of the Savings Bank remains competent. Accordingly, these conditions are appropriate for maintaining the safe and sound operation of the Savings Bank. We conclude that there is a reasonable probability of the Savings Bank's usefulness and success, provided that the Savings Bank complies with the conditions set forth below.

The Savings Bank's business plan projects substantial residential mortgage lending and that the Savings Bank will meet QTL requirements. In addition, we have concluded that the Savings Bank's probability of usefulness and success is consistent with the standards for approval of the Application. Accordingly, we conclude that the Savings Bank will provide credit for housing consistent with the safe and sound operation of a federal savings association.

OTS received no public comments objecting to the Application. In addition, OTS has reviewed the Savings Bank's CRA statement and has found it to be acceptable. The Savings Bank's CRA assessment area includes Fort Plain, Canajoharie, Sharon Springs, Palatine Bridge, and St. Johnsville, New York. 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 federal charter and bylaws that conform to the model charter and bylaws for a federal stock institution. 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 and a majority of its members live and/or work in New York, the composition of the board meets regulatory requirements.

Conclusion

Based on the foregoing, the Application is hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Northeast

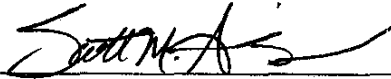
Regional Director, or his designee (Regional Director):

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 an adverse bearing on any feature of the Application is brought to the attention of 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 advise the Regional Director in writing within 5 calendar days after the effective date of the proposed transaction: (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, and this Order;
5. The Savings Bank must submit independent audit reports to the Regional Director for its first three fiscal 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 business plan, including the maintenance of core capital at a minimum of 8 percent. 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 to the FDIC Regional Office;
7. For the 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. During the first eighteen months of operations, any contracts or agreements pertaining to transactions with affiliates not yet submitted to OTS for review, must be provided to the Regional Director for his written non-objection at least 30 calendar days prior to their execution and implementation;

9. For one year following 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;
10. Prior to their execution, all employment contracts to be implemented within the Savings Bank's first year of operations must be submitted to the Regional Director for his written non-objection;
11. The proposed director whose fingerprints were not classifiable must take such action as directed by the Regional Director if the background investigation of the individual reveals adverse information;
12. At least 30 calendar days prior to commencing operations, the Savings Bank must submit to the Regional Director a report identifying each function it is outsourcing to a third party vendor, including the name of the service provider. During the first three years of operation, the Savings Bank must communicate to the Regional Director any significant changes in outsourcing as represented in this report at least 30 calendar days prior to such change;
13. At least 30 calendar days prior to commencing operations, the Savings Bank must develop and submit to the Regional Director for review a copy of all operating policies and procedures;
14. At least 30 calendar days prior to commencing operations, the Savings Bank must develop and submit to the Regional Director for his review and non-objection, detailed policies, procedures, and internal controls for Bank Secrecy Act, Privacy of Consumer Financial Information, and Fair Lending;
15. Prior to commencing its stock offering, the Savings Bank must submit to both the OTS Regional office and the OTS Washington, D.C. office, a copy of the offering circular for review and non-objection; and
16. At least 30 calendar days prior to implementation, the Savings Bank must submit copies of the Warrant Plans for Organizers and the Chief Executive Officer to the Regional Director for non-objection.

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 his designee, effective April 10, 2003.



Scott M. Albinson
Managing Director
Office of Supervision