

OFFICE OF THRIFT SUPERVISION

**APPROVAL OF APPLICATIONS FOR
HOLDING COMPANY ACQUISITION AND
BRANCH OFFICE ESTABLISHMENT**

Order No.: 99-08

Date: February 8, 1999

Lutheran Brotherhood and Lutheran Brotherhood Financial Corporation, Minneapolis, Minnesota (collectively the "Applicants"), have applied to the Office of Thrift Supervision (the "OTS"), pursuant to 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3 for permission to acquire Metro Community Bank, FSB, Minneapolis, Minnesota (the "Savings Bank") and for the Savings Bank to establish a branch office in Minneapolis, Minnesota, pursuant to 12 C.F.R. § 545.92 (collectively, "the Applications").

The OTS has considered the Applications, as supplemented by representations by the Applicants, the Savings Bank and their attorneys, under the factors set forth in 12 U.S.C. § 1467a(e), and 12 C.F.R. §§ 545.92, 556.5 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 Office of Examination and Supervision and the Midwest Regional Office, an analysis from Compliance Policy and a legal opinion from the Business Transactions Division (collectively, the "Staff Memoranda"). For the reasons set forth in the Staff Memoranda, and after review of the comments, the OTS finds that the Applications satisfy the applicable approval standards provided that the following conditions are complied with in a manner satisfactory to the Midwest Regional Director, or his designee ("Regional Director"). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The Savings Bank and the Applicants must obtain all required regulatory and shareholder approvals prior to consummation, and will act to satisfy all requirements and conditions imposed by the OTS, and comply with all applicable laws, rules and regulations;
2. The proposed transaction must be consummated no later than 120 calendar days after the date of this approval order, unless an extension is granted for good cause by the Regional Director;
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 Applicants 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 Applicants, respectively, since the date of the financial statements submitted with the Applications;

4. No later than 5 calendar days from the date of consummation of the proposed transaction, the Savings Bank must file with the Regional Director, a certification by legal counsel stating the effective date of the proposed transaction and of the Savings Bank's insurance of accounts, and that the transaction has been consummated in accordance with the provisions of all applicable laws and regulations, the Applications and this order;
5. The Savings Bank must operate within the parameters of its business plan. The Applicants and the Savings Bank must submit any proposed major deviations or material changes from the plan (including changes resulting from decisions made by the Applicants), and in particular, those pertaining to the cross-marketing of deposit and non-deposit products, 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. At least 40 percent of the Savings Bank's board of directors must be comprised of individuals who are not officers or employees of the Applicants or any affiliate 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 Applicants 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 and investment committees must be comprised of directors who are not officers or employees of the Savings Bank or who are not officers or employees of the Applicants or any affiliate. If compliance with this condition involves the selection of additional director(s), each director must receive the prior approval of the Regional Director;
7. The Applicants, 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 within 30 calendar days of the date of this Order;
8. Within 90 days of this Order, the Savings Bank must submit to the Regional Director, for his review and approval, a comprehensive compliance management plan covering Federal consumer protection and fair lending laws and regulations that govern Savings Bank products, and provides for the training and oversight of all persons, including District Representatives, who offer Savings Bank products.
9. Within 90 days after execution of this acquisition, the Savings Bank must initiate ongoing market research that measures the effectiveness of its advertising and media campaign directed to the general public in comparison to its marketing through District Representatives. An annual report of research results for credit customers must be provided to the Regional Director;

10. Any contracts or agreements pertaining to transactions with affiliates, not yet submitted to the OTS for review, must be provided to the Regional Director, or his designee, at least 30 days prior to execution and must receive his written non-objection prior to implementation;
11. Before any material expansion of its operations beyond the Minneapolis metropolitan area, the Savings Bank must submit to the Regional Director, for his review and approval, revised business, CRA and compliance plans addressing the projected expansion. The revised plans must explain how the Savings Bank's proposed marketing practices will reach out to all segments of the communities it proposes to serve and must analyze the effectiveness of Savings Bank's advertising and media campaigns directed to the general public, based on its market research;
12. Any affiliate of the Applicants that engages in securities brokerage activities ("Broker Dealer affiliate") must be operated as a separate legal entity from the Savings Bank so that: (a) their respective accounts and records are not intermingled; (b) each observes the procedural formalities of separate legal titles; (c) each is held out to the public as a separate enterprise; and (d) none dominates another to the extent that one is treated as a mere department of the other;
13. A majority of the Savings Bank's board of directors must not be comprised of individuals that are directors or employees of any Broker Dealer affiliate;
14. The Savings Bank and any Broker Dealer affiliate are prohibited from sharing common officers unless prior approval is obtained from the Midwest Regional Director, which shall be based on criteria such as regulatory compliance, experience, character, integrity and the ability to perform both duties;
15. The Savings Bank and any Broker Dealer affiliate must take measures necessary to ensure that their officers and directors adhere to the principles set forth in OTS regulations on conflicts of interest, 12 C.F.R. § 563.200; corporate opportunity, 12 C.F.R. § 563.201; and any other additional or successor statements of policy or regulations addressing these subjects. The officers and directors of the Savings Bank and any Broker Dealer affiliate are prohibited from using their influence to: (a) take advantage of a business opportunity for the Broker Dealer affiliate's benefit when the opportunity is of present or potential advantage to the Savings Bank; or (b) place the Broker Dealer affiliate in a position that leads to, or could create the appearance of a potential conflict of interest;
16. The Savings Bank, the Applicants and any Broker Dealer affiliate are subject to the provisions of 12 C.F.R. § 563.76, *Offers and Sales of Securities at an Office of Savings Association*, and related policy established in OTS Thrift Bulletins 23-2, *InterAgency Statement on Retail Sales of Nondeposit Investment Products* (the "InterAgency Statement"), and 23a, *Limited Exceptions to Prohibitions on Sales of*

Savings Institution's Securities, and any additional or successor statements of policy or regulations addressing these subjects. The Savings Bank and the Applicants shall ensure compliance by any Broker Dealer affiliate with, at a minimum, the General Guidelines in Disclosures and Advertising set forth in the InterAgency Statement whenever the Broker Dealer affiliate or their representatives market, or offer for sale, deposit products of the Savings Bank; and

17. The Savings Bank's Year 2000 Project Management Program must adhere to the terms, deadlines, requirements and conditions contained in the Year 2000 guidance issued by the OTS and/or the Federal Financial Institutions Examination Council ("FFIEC"), including the May 5, 1997 *FFIEC Year 2000 Project Management Awareness* statement, the December 17, 1997 *FFIEC Safety and Soundness Guidelines Concerning the Year 2000 Business Risk*, the March 17, 1998 *FFIEC Guidance Concerning Institution Due Diligence in Connection with Service Provider and Software Vendor Year 2000 Readiness*, the March 17, 1998 *FFIEC Guidance Concerning the Year 2000 Impact on Customers*, the April 10, 1998 *Guidance Concerning Testing for Year 2000 Readiness*, the May 13, 1998 *Guidance Concerning Contingency Planning in Connection with Year 2000 Readiness*, the May 13, 1998 *Guidance on Year 2000 Customer Awareness Programs*, the September 2, 1998 *Guidance Concerning Fiduciary Services and Year 2000 Readiness*, the October 15, 1998 interim *Interagency Guidelines Establishing Year 2000 Standards for Safety and Soundness* and companion interim rule, *Safety and Soundness Standards* and any subsequent OTS or FFIEC Year 2000 guidance, regulations or other requirements.

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 Applicants and affiliates for information on non-deposit investment or insured products.

By order of the Director of the Office of Thrift Supervision, or her designee, effective February 8, 1999.


Richard M. Riccobono
Deputy Director