

## OFFICE OF THRIFT SUPERVISION

### APPROVAL OF ACQUISITION OF A FEDERAL SAVINGS BANK AND REBUTTAL OF CONTROL

Order No.: 2000-02

Date: January 10, 2000

E\*TRADE Group, Inc., Menlo Park, California (the "Company"), has applied to the Office of Thrift Supervision ("OTS") to acquire Telebank, Arlington, Virginia (the "Savings Bank"), a federal stock savings bank, pursuant to 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3. In addition, SOFTBANK America Inc. and controlling entities have filed, pursuant to 12 C.F.R. § 574.4(e), a rebuttal of control submission that includes a rebuttal of control agreement (collectively, "the Applications").

The OTS has considered the Applications under the standards set forth in 12 U.S.C. § 1467a(e), and 12 C.F.R. §§ 574.4 and 574.7, and under the Community Reinvestment Act, 12 U.S.C. §§ 2901 *et seq.*, and the OTS regulations thereunder, 12 C.F.R. Part 563e. Also, the OTS has considered several letters commenting on the holding company applications, all filed by Inner City Press/Community on the Move. In addition, the OTS has also considered the digest prepared by the OTS Southeast Regional Office, a legal opinion by the Business Transactions Division, a summary by the Office of Examination and Supervision, and a memorandum from the Office of Compliance Policy and Specialty Examinations (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 conditions set forth below are complied with in a manner satisfactory to the Southeast Regional Director, or his designee ("Regional Director"). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The 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 Director;
2. The proposed transaction must be consummated within one hundred and twenty (120) calendar days from the date of this Order;
3. Prior to the consummation of the proposed transaction, the Chief Financial Officers of the 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 Company and the Savings Bank, respectively, as disclosed in the Application, including but

not limited to directors, shareholders, or the business plan; and that no additional information having an adverse bearing on any feature of the holding company application has been brought to the attention of the Company, the Savings Bank or the OTS, since the date of the financial statements submitted with the Application;

4. The Company and 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 proposed transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Applications, and this Order;
5. The Savings Bank must submit independent audit reports to the Regional Director for the first three years following consummation of the transaction. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4;
6. At least 40 percent of the Savings Bank's board of directors must be individuals who are not officers or employees of the 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 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 and investment committees must be directors who are not officers or employees of the Savings Bank, the Company or any affiliates. Within 90 days of consummation of the proposed transaction, the Savings Bank must add a sufficient number of additional directors to its board to comply with the above requirements. The Savings Bank must submit appropriate background information and receive the written non-objection of the Regional Director prior to the commencement of each director's service;
7. For a period of 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 senior executive officers or any change in responsibilities of any senior executive officer;
8. The Company and its subsidiaries and affiliates and Telebank Financial Corporation ("TFC")/ the Savings Bank and its subsidiaries and affiliates 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 Company and the Savings Bank 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 thrift;

9. The Company and the Savings Bank must submit copies of all proposed web site disclosures, including disclosure pages viewed when transferring between Telebank's and ETG's web sites, within 30 days of consummation of the transaction for the review and non-objection of the Regional Director;
10. The Savings Bank must operate within the parameters of its business plan. No later than August 31 of each year during the three years following consummation of the proposed transaction, the Savings Bank's board must review and update the business plan and the Savings Bank's management must present the updated business plan to the Regional Director for his review and written non-objection. At any time during the first three years following consummation of the proposed transaction, the 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 Company), and, in particular, those pertaining to cross-marketing 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 30 calendar days before the proposed change is implemented. Further, the OTS may impose conditions on the Savings Bank as part of any OTS review of the changed business plan;
11. After consummation of the proposed transaction and until termination of this condition by the Regional Director, thrift senior management (including the Chief Executive Officer) must be required to meet at least quarterly with the Regional Director to update the OTS regarding the Savings Bank's financial performance, business strategies, and any new activities;
12. The 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 within 60 days after the consummation of the transaction;
13. All contracts or agreements pertaining to transactions with affiliates must comply with 12 C.F.R. § 563.42. Any contracts or agreements related to transactions with affiliates, not yet submitted to the OTS for review, must be provided to the Regional Director at least 30 days prior to execution and the Savings Bank must receive his written non-objection prior to implementation;
14. No later than 30 days after the consummation of the transaction, the boards of directors of the Company and the Savings Bank must adopt formal resolutions stating that the internal audit and compliance departments of both entities will conduct ongoing reviews of cross-marketing activities, including customer privacy considerations, for appropriateness and compliance with regulatory standards. The boards of directors of the Company and the Savings Bank must

receive reports on such reviews at least quarterly. Such board reviews must be documented in the board minutes of each entity;

15. Any affiliate of the Company that engages in securities activities ("Securities 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;
16. A majority of the Savings Bank's board of directors must not be individuals who are directors or employees of any Securities affiliate;
17. The Savings Bank and any Securities affiliate are prohibited from sharing common officers unless prior approval is obtained from the Regional Director, which shall be based on criteria such as regulatory compliance, experience, character, integrity and the ability to perform both duties;
18. The Savings Bank and any Securities 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; exercising fiduciary powers, 12 C.F.R. § 550.140; and any other additional or successor statements of policy or regulations addressing these subjects. The officers and directors of the Savings Bank and any Securities affiliate are prohibited from using their influence to: (a) take advantage of a business opportunity for the Securities affiliate's benefit when the opportunity is of present or potential advantage to the Savings Bank; or (b) place the Securities affiliate in a position that leads to, or could create the appearance of a potential conflict of interest;
19. The charter and bylaws of the Savings Bank must be properly amended to reflect the change in corporate title to E\*Trade Bank and any redesignation of the Savings Bank's home office;
20. The Company and the Savings Bank must submit a written tax sharing agreement and written tax and accounting opinions to the Regional Director for his review and approval within 30 days after consummation of the transaction;
21. The Savings Bank must continue to comply with the terms, requirements, and conditions contained in all Year 2000 guidance issued by the OTS and/or the Federal Financial Institutions Examination Council; and

22. Prior to consummation of the transaction, SOFTBANK America, Inc. and controlling entities shall submit a signed rebuttal agreement which is acceptable to the OTS.

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 January 10, 2000.

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