

OFFICE OF THRIFT SUPERVISION

APPROVAL OF AN APPLICATION TO FORM A SERVICE CORPORATION

Order No.: 2002-12
Date: April 8, 2002
OTS Docket No.: 04474

AnchorBank, f.s.b., Madison, Wisconsin (the Savings Bank) has applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1828(m) and 12 C.F.R. Part 559, requesting approval to establish a second-tier service corporation, Anchor Reinsurance, Ltd., Turks and Caicos Islands, B.W.I. (the Service Corporation). The Service Corporation is being established to reinsure consumer loans and home equity loans originated by the Savings Bank.

The Service Corporation will reinsure losses, up to a certain dollar limit, on any individual life insured by the underwriter and a percentage limit of the underwriter's liability, subject to a monthly dollar cap, on disability insurance. It is contemplated that the underwriter will cede, subject to a reinsurance fee, a percentage of the life premiums and a percentage of the disability premiums on the policies reinsured by the Service Corporation for reinsuring the underwriting risk.

A federal savings association may request OTS approval to invest in a lower-tier service corporation that engages in activities that are "reasonably related to the activities of financial institutions." Federal savings associations may invest up to three percent of assets in service corporations, provided that any investment in excess of two percent of assets must "serve primarily community, inner city, or community development purposes." In addition, OTS may, at any time, limit a savings association's investment in a service corporation, or may limit or refuse to permit any activities of a service corporation, for supervisory, legal, or safety and soundness reasons.

Federal savings associations have authority to reinsure life and disability insurance underwritten in connection with loans that the association originates.¹ Accordingly, service corporations of federal associations have authority to engage in these activities.²

The Savings Bank, through its wholly-owned Wisconsin chartered service corporation, will hold all of the Service Corporation's stock. The Savings Bank's total investment in its service corporations will be within the statutory and regulatory limits.

Based on the application, OTS concludes that the establishment of the Service Corporation is not objectionable on safety and soundness or supervisory grounds. However, in

¹ See Op. C.C. (January 10, 1995).

² See 12 C.F.R. § 559.4(a) (2001).

order to ensure that the continued operation of the Service Corporation does not create safety and soundness or supervisory concerns, OTS is conditioning its approval of the application.

For the reasons set forth above, OTS has determined that the application satisfies all applicable approval standards and criteria, provided that the following conditions are complied with in a manner satisfactory to the Midwest Regional Director, or his designee (together, the Regional Director). Accordingly, the application is hereby approved, subject to the following conditions:

1. The Service Corporation must conduct its activities in accordance with the representations made in the application, and obtain the Regional Director's prior written clearance for any material deviation from any of the activities, facts, or representations described in the application;
2. The Savings Bank must submit an opinion from counsel, and thereafter annually a certification from the Board of Directors, which states that the Savings Bank and the Service Corporation will maintain separate corporate identities in conformance with 12 C.F.R. Section 559.10;
3. The Savings Bank must establish the Service Corporation within 120 days of the date of this approval, unless an extension is granted by the Central Regional Director;
4. The Service Corporation must make available to OTS such information as OTS deems necessary to monitor the Service Corporation's activities and the effect of those activities on the safe and sound operation of the Savings Bank, and maintain a duplicate set of records in the United States, at the Savings Bank's home offices;
5. The Service Corporation must maintain a registered agent in the Savings Bank's home office (or at such other location as the Regional Director permits);
6. The Service Corporation must provide all financial statements to the Savings Bank and the Regional Office in United States dollars and in accordance with generally accepted accounting principles in the United States;
7. The Savings Bank must promptly inform the Regional Director in writing of all changes in the directors, officers and managers of the Service Corporation;
8. The Savings Bank must establish and document internal controls that demonstrate adequate oversight of the investments in the Service Corporation, and document the institution of such controls to the Regional Director prior to the Service Corporation opening for business; and
9. The Service Corporation must consent in writing to the disclosure by the Turks and Caicos Islands governmental authorities of such information on its operations that OTS deems necessary.

Any time period set forth herein may be extended 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 8, 2002.



Scott M. Albinson
Managing Director
Office of Supervision