

OFFICE OF THRIFT SUPERVISION

Approval of an Application by a State-Chartered Credit Union to Convert to a Federally Chartered Mutual Savings Bank

Order No.: 2003-15
Date: April 14, 2003
Re: OTS No. 17942

Credit Union of the Pacific, Seattle, Washington (Credit Union) seeks approval of the Office of Thrift Supervision (OTS) pursuant to 12 C.F.R. §§ 543.8 and 543.9 to convert to a federal mutual savings bank, Sound Community Bank, Seattle, Washington (Savings Bank). (The foregoing is referred to as the Application.)

The Proposed Transaction

In the proposed transaction, the Credit Union proposes to convert directly from a state-chartered credit union to a Savings Association Insurance Fund (SAIF)-insured, federally chartered mutual savings bank. The Credit Union's members' interests in the newly converted savings bank would be identical to their interests in the Credit Union.

The Credit Union has an investment in Payment Systems Credit Union Cooperative (Payment Systems). Payment Systems is a joint venture that provides ATM and debit card processing for the Credit Union. The Savings Bank anticipates retaining the investment and continuing to use the services provided by Payment Systems following the conversion.

Conversion Application

The proposed conversion of the Credit Union to a federally chartered mutual savings bank requires OTS approval under 12 C.F.R. §§ 543.8 and 543.9. Section 543.8 allows a depository institution, as defined in section 552.13, that is in mutual form, to convert into a federal mutual savings bank, provided that: (i) the depository institution, upon conversion, will have its deposits insured by the Federal Deposit Insurance Corporation (FDIC); (ii) the depository institution, in accomplishing the conversion, complies with all applicable state and federal statutes and regulations, and OTS policies, and obtains all necessary regulatory and member approvals; and (iii) the resulting federal mutual association conforms, within the time prescribed by the OTS, to the requirements of section 5(c) of the Home Owners' Loan Act (HOLA).

The Credit Union is a "depository institution" within the meaning of section 552.13. The Credit Union has applied to the FDIC for SAIF insurance of accounts for the Savings Bank. OTS is conditioning approval of the Application on the Credit Union

obtaining all required approvals. The Credit Union's members approved the conversion at an October 15, 2002, meeting.

With regard to the third requirement, compliance with section 5(c) of the HOLA, the Credit Union meets the requirements of 12 C.F.R. § 560.30 and section 5(c) of the HOLA, with the exception of the Credit Union's capital account with a corporate credit union and a deposit with the National Credit Union Share Insurance Fund (NCUSIF). OTS is imposing a condition requiring the Savings Bank, as the successor to the Credit Union, to withdraw the capital account as soon as practicable, but no later than 3 years after consummation of the transaction, and withdraw the NCUSIF deposits as soon as possible after consummation of the transaction. The investment in Payment Systems is permissible for a federal mutual savings association.¹

Accordingly, OTS concludes that the requirements under section 543.8 have been satisfied, subject to the imposition of the above-described conditions.

Section 543.9 of OTS' regulations adopts the approval standards of section 5(e) of the HOLA and section 543.2(g)(1). The HOLA provides that OTS may grant a federal savings association charter only: (i) to persons of good character and responsibility; (ii) if, in OTS' judgment, a necessity for such savings association exists in the community to be served; (iii) if there is reasonable probability of the association's usefulness and success; and (iv) if the association can be established without undue injury to properly conducted existing local thrift and home financing institutions. OTS regulations implementing this statute set forth the same standards, and, in addition, require the OTS to consider whether the association will promote credit for housing consistent with the safe and sound operation of a federal savings association.

In addition, OTS' Community Reinvestment Act (CRA) regulations provide that an applicant for a federal thrift charter must submit with its application a description of how it will meet its CRA objectives. OTS takes the description into account when considering the application and may deny the application on that basis.

As to character and responsibility, the Credit Union's management has received ratings that are consistent with approval, and accordingly, OTS concludes that this approval criterion has been satisfied.

With respect to the probability of usefulness and success, the Savings Bank, as the successor to the Credit Union's business, has demonstrated a reasonable probability of success after the transaction. OTS has not objected to the Savings Bank's business plan. To help OTS monitor the Savings Bank, and therefore, help increase the probability of the Savings Bank's usefulness and success, OTS is imposing the conditions noted below. Accordingly, OTS concludes that this approval criterion has been satisfied, subject to the imposition of the noted conditions.

¹ See Op. Chief Counsel (September 15, 1995).

OTS concludes that there is a necessity for the institution in the community, based on the Credit Union's existing operations. In addition, OTS concludes that the conversion of the Credit Union to a federal mutual savings bank will not cause undue injury to local thrift and home financing institutions, in light of the Credit Union's existing operations.

As for the provision of credit for housing and compliance with the CRA, residential mortgage lending currently represents a majority of the Savings Bank's lending activities, and the business plan indicates that residential mortgage lending will continue to be the main lending activity after conversion to a federal savings bank. The business plan indicates compliance with the Qualified Thrift Lender test. The Credit Union has provided an acceptable plan for compliance with the CRA. OTS concludes that the Savings Bank will provide credit for housing and will satisfy the requirements for the CRA.

Accordingly, OTS concludes that the requirements under section 543.9 have been satisfied.

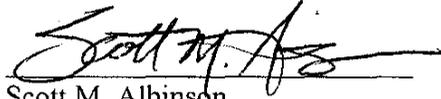
For the reasons set forth above, OTS finds that the Application satisfies the applicable approval standards, provided that the following conditions are complied with in a manner satisfactory to the West Regional Director, or his designee (Regional Director). Accordingly, the Application is hereby approved, subject to the following conditions:

1. The Savings Bank and the Credit Union must receive all required regulatory 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 no later than 120 calendar days from the date of this Order;
3. On the business day prior to the date of consummation of the proposed transaction, the chief financial officer of the Savings Bank and the Credit Union must certify in writing to the Regional Director that no material adverse events or material adverse changes have occurred with respect to the financial condition or operation of the Savings Bank and the Credit Union as disclosed in the Application. If additional information having a material adverse bearing on any feature of the Application is brought to the attention of the Savings Bank, the Credit Union, 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 the 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 proposed transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Application and this Order;
5. Prior to the effective date of the transaction, the Credit Union must submit to the Regional Director a legal or accounting opinion addressing the state tax ramifications of the proposed transaction;
6. Prior to the effective date of the transaction, the Credit Union must submit to the Regional Director for non-objection, the policies and procedures the Savings Bank will employ to ensure that appropriate oversight and controls are in place with respect to the shared services relationship with Financial Services Center Cooperative;
7. The Savings Bank must operate within the parameters of its three year business plan and submit any proposed major deviations or material changes from the plan during the three year period 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;
8. The Savings Bank must file with OTS Schedule CMR as a part of its Thrift Financial Reports and use the OTS model results as a tool for monitoring and managing interest rate risk until notified by the Regional Director that such reports are no longer required; and
9. The Savings Bank must withdraw the capital account with the corporate credit union as soon as practicable, but no later than 3 years after the consummation of the transaction, and must withdraw the deposit with the NCUSIF and the deposit with the corporate credit union as soon as possible. The Savings Bank must submit satisfactory evidence to the Regional Director upon the withdrawal of these accounts.

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

By order of the Director of the Office of Thrift Supervision, or his designee,
effective April 14, 2003.



Scott M. Albinson
Managing Director
Office of Supervision