

## OFFICE OF THRIFT SUPERVISION

### Approval of Service Corporation and Mutual Holding Company Activities Applications

**Order No. 2003-21**

**Date: June 6, 2003**

**Re: Docket Nos. H-2343,  
H-3628, 6210**

First Federal of Northern Michigan (Savings Bank), Alpena, Michigan, has applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1828(m) and 12 C.F.R. Part 559 to establish a service corporation to conduct insurance agency activities. In addition, Alpena Bancshares, MHC (MHC), Alpena, Michigan, and Alpena Bancshares, Inc. (Holding Company), Alpena, Michigan, have applied to OTS pursuant to 12 C.F.R. § 575.11(a) to engage in activities through a subsidiary other than the Savings Bank.

The MHC owns approximately 56% of the outstanding stock of the Holding Company, which owns all of the stock of the Savings Bank. The Savings Bank proposes to acquire all of the stock of InsuranCenter Corp., Alpena, Michigan (Insurance Agency), and to hold the Insurance Agency as a service corporation. The Insurance Agency is a Michigan-chartered company that conducts insurance agency activities.

#### **Service Corporation Considerations**

Section 5(c)(4)(B) of the Home Owners' Loan Act (HOLA), and its implementing regulations at 12 C.F.R. Part 559, provide that a federal savings association may make investments in the capital stock, obligations, or other securities of any corporation organized under the laws of the state in which a federal savings association's home office is located, if such corporation's entire capital stock may be purchased only by savings associations of such state and federal associations with their home office in the state. The Insurance Agency is a Michigan corporation. The Savings Bank's home office is located in Michigan, and the Savings Bank will own all of the Insurance Agency's stock. Accordingly, the service corporation application meets these § 5(c)(4)(B) and Part 559 requirements.

OTS regulations, at 12 C.F.R. § 559.4(f)(3), provide that a service corporation of a federal association may, as a preapproved activity, engage in insurance agency activities for casualty, automobile, life, health, and accident insurance. The Insurance Agency will engage exclusively in these preapproved activities. Accordingly, the Insurance Agency's proposed activities are permissible for the service corporation of a federal savings association.

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.<sup>1</sup> 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.

The Savings Bank's total investment in service corporations will be within the statutory and regulatory limits. Based on the application, OTS concludes that the proposed acquisition of the Insurance Agency is not objectionable on safety and soundness or supervisory grounds.

### **Mutual Holding Company Considerations**

Section 575.11(a) specifies that a mutual holding company may engage in activities specified by § 10(c)(2) or 10(c)(9)(A)(ii) of the HOLA,<sup>2</sup> and activities described in § 575.10(a)(6). Section 575.10(a)(6) provides that a mutual holding company may acquire control of, and make non-controlling investments in the stock of, any corporation other than a savings association or savings and loan holding company only if: (1) the corporation is engaged exclusively in activities permitted by § 575.11(a), or the corporation's stock would be a permissible investment for a federal savings association under Part 559 or by a state savings association under the law of any state where the mutual holding company's subsidiary thrift has its home office; and (2) the corporation is not controlled, directly or indirectly, by a savings association subsidiary of the mutual holding company.<sup>3</sup>

With respect to the first criterion, the Insurance Agency, which will conduct preapproved insurance agency activities, will engage in activities that are permissible for a service corporation subsidiary of a federal savings association.<sup>4</sup>

With respect to the second criterion, § 575.10(a)(6)(ii) provides that corporations in which a mutual holding company invests under the authority of 12 C.F.R. § 575.10(a)(6) must not be "controlled, directly or indirectly, by a savings association subsidiary of the mutual holding company." OTS has previously concluded that § 575.10(a)(6)(ii) prohibits a mutual holding company from directly or indirectly holding investments in subsidiaries of its savings association subsidiary other than through the savings association itself, and does not prohibit a savings association subsidiary of a mutual holding company from having a wholly owned subsidiary.<sup>5</sup> Accordingly, the Savings Bank's proposed investment in the Insurance Agency is permissible under the Mutual Holding Company Regulations.

<sup>1</sup> 12 C.F.R. § 559.5 (2003).

<sup>2</sup> 12 U.S.C. § 1467a(c)(2) or § 1467a(c)(9)(A)(ii).

<sup>3</sup> 12 C.F.R. § 575.10(a)(6) (2003).

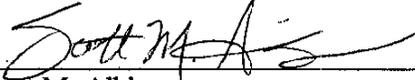
<sup>4</sup> 12 C.F.R. § 559.4(f)(3) (2003).

<sup>5</sup> See OTS Order No. 2002-20 (May 17, 2002).

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

1. The Insurance Agency must commence the activities proposed in the applications within 120 calendar days from the date of this Order. This time period may be extended for up to 120 calendar days, for good cause, by the Regional Director; and
2. Within five (5) calendar days after consummation of the transaction, the Savings Bank must submit to the Regional Director a written certification specifying: (i) the effective date of the proposed transaction and (ii) that the transaction was consummated in accordance with all applicable laws and regulations, the application as amended, and this Order.

By order of the Director of the Office of Thrift Supervision, or his designee,  
effective June 6, 2003.

  
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Scott M. Albinson  
Managing Director  
Office of Supervision