

OFFICE OF THRIFT SUPERVISION

Approval of Application to Amend Permission to Organize Filing, and Approval of Service Corporation and Business Plan Modification Applications

Order No.: 2003-53

Date: October 17, 2003

**Docket Nos.: H-3552, H-3734,
H-3735, 16728**

CIGNA Bank & Trust Company, FSB, Hartford, Connecticut (Savings Bank), in connection with its proposed acquisition of CIGNA Financial Services, Inc. (Broker-Dealer), an affiliated securities broker-dealer, from the Savings Bank's parent corporation, Connecticut General Corporation (Holding Company), has requested Office of Thrift Supervision (OTS) approval of: (i) an application to amend its permission to organize (PTO) application, approved by OTS Order No. 2001-20 (March 30, 2001) (Order); (ii) a service corporation application filed pursuant to 12 U.S.C. § 1828(m) and 12 C.F.R. § 559.11; and (iii) an application to modify the Savings Bank's business plan, filed pursuant to condition 6 of the Order.

Background

The Savings Bank is a federally chartered stock savings bank. It was chartered as a de novo federal stock savings bank, and commenced operations on July 25, 2001. The Savings Bank is a member of the Savings Association Insurance Fund. The Broker-Dealer is a Delaware-chartered corporation, headquartered in Hartford, Connecticut. It is a subsidiary of the Holding Company, is registered with the SEC, and is a member of the NASD. The Broker-Dealer acts as a discount securities broker and does not offer investment recommendations to its customers.

In the proposed transaction, the Broker-Dealer, currently a Delaware corporation, will reincorporate as a Connecticut corporation. The Savings Bank's immediate parent holding company, the Holding Company, will contribute all of the outstanding common stock of the Broker-Dealer to the Savings Bank. The Savings Bank will pay no cash or other consideration for the acquisition of the Broker-Dealer. The Savings Bank will wholly own the Broker-Dealer as a service corporation subsidiary. The Broker-Dealer will continue to engage in its current securities brokerage activities and will continue to be registered as a broker-dealer with the SEC.

Amendment of Permission to Organize Application

OTS approved the Savings Bank's PTO application in March 2001. The Savings Bank is amending its previously approved PTO application to provide for the Holding Company's proposed contribution of all the stock of the Broker-Dealer to the Savings Bank and the Savings Bank's proposed acquisition of the Broker-Dealer. The Savings Bank was organized and commenced operations as a federal savings bank on July 25,

2001. Because the Savings Bank is a newly chartered federal savings bank and has been operating for less than three years, it is a de novo association as defined under OTS regulations.

The proposed transaction requires OTS approval of the Savings Bank's amendment to the PTO application, pursuant to 12 U.S.C. § 1464(e) and 12 C.F.R. § 552.2-1. The Home Owners' Loan Act (HOLA) provides that OTS may grant a federal savings association charter only: (i) to persons of good character and responsibility; (ii) if, in OTS's 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 the HOLA include the same standards, with the additional requirement that OTS consider whether the association will promote credit for housing consistent with the safe and sound operation of a federal savings association. In addition, OTS regulations provide that an applicant for a federal thrift charter must submit with its application a description of how it will meet its Community Reinvestment Act (CRA) objectives. OTS takes this description into account when considering the application and may deny the application or condition approval on CRA grounds.

As for character and responsibility, as the primary federal regulator of the Savings Bank, and the savings and loan holding company regulator of the Savings Bank's holding companies, OTS has considerable experience regarding the Savings Bank and its holding companies. Based on OTS' examination experience, and other experience with these entities, OTS concludes that the character and responsibility of the Savings Bank and its holding companies are consistent with approval.

As for the necessity for the Savings Bank in the community, the Savings Bank commenced operations on July 25, 2001. As of June 30, 2003, the Savings Bank had total assets of \$103.5 million, total liabilities of \$92.1 million, and total shareholders' equity of \$11.4 million. The amendment contemplates the contribution of an existing, operating entity into the Savings Bank. Accordingly, OTS concludes that there is a necessity in the community for the Savings Bank, including the Broker-Dealer's operations.

With respect to undue injury to local thrift and home financing institutions, again, the amendment contemplates the contribution of a currently operating entity to the Savings Bank. In addition, this entity, the Broker-Dealer, is not engaged in home financing. Accordingly, OTS concludes that the proposed transaction will not cause undue injury to local thrift and home financing institutions.

With respect to the probability of the Savings Bank's usefulness and success, based on the application, the Savings Bank's modified business plan, its current financial condition and operations, and its examination history and ratings, OTS concludes that the Savings Bank's probability of usefulness and success are consistent with approval, provided that the Savings Bank complies with the conditions set forth below, which are

intended to ensure that the proposed transaction does not have a negative effect on the probability of the Savings Bank's usefulness and success.

As for the provision of credit for housing, the Savings Bank is currently meeting the Qualified Thrift Lender test. The Savings Bank holds a significant amount of mortgage securities. The Savings Bank has and proposes to continue to extend credit for housing. Accordingly, OTS concludes that the Savings Bank will provide credit for housing in a safe and sound manner.

As for the CRA, the original PTO application included information demonstrating how the Savings Bank will meet its CRA objectives as required by 12 C.F.R. § 563e.29(b). The proposed amendment, involving the establishment of the Broker-Dealer as a subsidiary of the Savings Bank, will not effect how the Savings Bank plans to meet its CRA objectives. Accordingly, OTS concludes that the proposed amendment to the PTO application is consistent with the CRA.

Service Corporation Application

In considering whether a proposed investment in a service corporation by a Federal association is permissible, OTS must consider whether the activity is permissible, whether the amount of the investment is permissible, the state of incorporation of the proposed service corporation and the nature of the investors, and whether there are any supervisory or safety and soundness reasons to limit or to refuse to permit the investment.

With respect to the Broker-Dealer's proposed activities, securities brokerage is a preapproved activity under OTS regulations, under 12 C.F.R. § 559.4(f). The Broker-Dealer, currently a Delaware corporation, will be re-incorporated as a Connecticut corporation, so that it will be chartered in the same state as the home office of the Savings Bank, consistent with section 5(c)(4)(B) of the HOLA. The Savings Bank will own all of the Broker-Dealer's stock, so the proposed investment will meet the ownership requirements of the HOLA and the OTS Subordinate Organization regulations. Also, the application indicates that the Savings Bank will comply with the investment limits of 12 C.F.R. § 559.5(a), by limiting its investment in the Broker-Dealer to less than 2 percent of the Savings Bank's assets. The Savings Bank has no other service corporations. Finally, OTS regulations provide that it may limit service corporation activities for safety and soundness reasons. In order to help ensure that the Savings Bank's acquisition of the Broker-Dealer does not raise safety and soundness concerns, OTS is imposing the approval conditions set forth below.

Application for Business Plan Modification

The application for a business plan modification was filed because condition 6 of the Order requires that the Savings Bank operate within the parameters of its business plan and to submit any proposed major deviations or material changes from its business plan for prior OTS approval. OTS has reviewed the Savings Bank's modified business

plan and concludes that the plan is consistent with approval, provided the Savings Bank complies with the conditions set forth below.

Conclusions

Based on the foregoing analysis and the applications, OTS concludes that the applications meet the applicable approval criteria, provided that the conditions set forth below are satisfied. Accordingly, the applications are hereby approved and the Savings Bank's proposed acquisition of the Broker-Dealer's assets are hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Northeast Regional Director, or his designee (Regional Director):

1. The Savings Bank must receive all required regulatory approvals and submit copies of all such approvals to the Regional Director prior to consummation of the proposed transaction;
2. The proposed transaction must be consummated within 120 calendar days from the date of this Order;
3. On the business day prior to the consummation of the proposed transaction, the chief financial officer of 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 Savings Bank and the Broker-Dealer as disclosed in the applications. If additional information having a material adverse bearing on any feature of the applications is brought to the attention of the Savings Bank or OTS since the date of the financial statements submitted with the applications, the transaction must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to 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 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 to the Regional Director copies of all correspondence between the Broker-Dealer and the NASD and of correspondence between the Broker-Dealer and the SEC, including copies of inspection reports by either agency and copies of quarterly financial reports submitted to the SEC, within 30 calendar days of the date of such correspondence or report. The Regional Director may modify or waive this condition as he deems necessary;
6. Within 30 days of consummation of the transaction, the Savings Bank must provide to OTS a copy of the intercompany agreements between the Savings Bank and the Broker-Dealer and the intercompany agreements between the Broker-Dealer and Connecticut General Life Insurance Company; and

7. Prior to the consummation of the transaction, the Savings Bank must provide to OTS a copy of the Savings Bank's or Broker-Dealer's plans, policies and procedures to ensure proper training, disclosure and licensing requirements for the Savings Bank's call center representatives, as well as for all methods of product delivery, including through transactional websites, compliance with the interagency guidelines for the sale of nondeposit investment products and, where applicable, 12 C.F.R. Part 550.

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

The 2001 Order, including all the conditions therein, approving the Savings Bank's PTO application and the related applications remains in full force and effect and nothing in this Order effects the conditions in the 2001 Order.

By order of the Director of the Office of Thrift Supervision, or his designee, effective October 17, 2003.



Scott M. Albinson
Managing Director
Office of Supervision