

OFFICE OF THRIFT SUPERVISION

Approval of Holding Company Application and Bank Merger Act Application

Order No.: 2005-20

Date: June 13, 2005

**Docket Nos.: H-4059, H-4060,
17975, 17873**

Citizens Community MHC, Eau Claire, Wisconsin (MHC) and Citizens Community Bancorp, Eau Claire, Wisconsin (Holding Company) (collectively, Applicants) have applied pursuant to 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3, for approval of the Office of Thrift Supervision (OTS) to acquire Community Plus Savings Bank, Rochester Hills, Michigan (Savings Bank). In addition, Citizens Community Federal, Eau Claire, Wisconsin (Association) and the Savings Bank have applied pursuant to 12 U.S.C. § 1828(c) and 12 C.F.R. §§ 552.13 and 563.22(a), for OTS approval of the merger of the Savings Bank into the Association. (The foregoing filings are collectively referred to as the Applications.)

The Applications

The MHC, the top-tier holding company in a federally chartered mutual holding company structure, owns approximately 68.4 percent of the outstanding common stock of the Holding Company, a mid-tier federally chartered mutual holding company, which owns all of the common stock of the Association. The Applicants propose to acquire the Savings Bank, a federally chartered mutual savings association, and merge the Savings Bank into the Association. As a result of the merger, the membership interests of the Savings Bank's depositors will become interests of the same nature in the MHC.

Holding Company and Bank Merger Act Applications

The Applicants' acquisition of the Savings Bank and the merger of the Savings Bank into the Association require OTS approval under section 10(e) of the Home Owners' Loan Act (HOLA), and the OTS regulations thereunder (Control Regulations), and under section 18(c) of the Federal Deposit Insurance Act (BMA), and 12 C.F.R. §§ 552.13 and 563.22(a). In addition, the acquisition must be consistent with 12 U.S.C. §§ 1464(r) and 1815(d)(3) and the mutual holding company regulations, 12 C.F.R. Part 575.

Section 10(e) of the HOLA and the Control Regulations require that OTS consider, with respect to the proposed transactions, the financial and managerial resources and future prospects of the Applicants, the Savings Bank and the Association, the effect of the acquisition on the savings associations, the insurance risk to the Savings Association Insurance Fund (SAIF) and Bank Insurance Fund (BIF), and the convenience

and needs of the community to be served. OTS also must consider the impact of the acquisition on competition. Further, 12 C.F.R. § 563e.29(a) requires that OTS take into account assessments under the Community Reinvestment Act (CRA) when approving holding company acquisitions.

The BMA and the OTS regulations thereunder impose substantially similar standards of approval.¹ The BMA requires, in addition, that the responsible agency consider, in its evaluation of the BMA application, the effectiveness of any insured depository institution in combating money laundering activities. OTS regulations require that OTS consider whether the transaction is equitable to all concerned, whether full disclosure has been provided regarding written or oral agreements through which any person will receive anything of value in connection with the transaction, and whether compensation to officers, directors, and controlling persons of the disappearing association is reasonable.² In addition, because the transaction involves the merger of a BIF insured institution into a SAIF insured institution, section 5(d)(3) of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1815(d)(3), is applicable to the transaction. Section 5(d)(3) of the FDIA requires OTS to determine that: the proposed transaction will not result in the transfer of an institution from one federal insurance fund to the other federal insurance fund; the Association has provided all required information; and that the Association will meet all capital requirements upon consummation of the transaction. The CRA requires, in the context of the merger transaction, that the OTS consider the CRA performance of the institutions.³

As for managerial resources, OTS, in its role as the regulator of the Applicants, the Association and the Savings Bank, is familiar with their managerial resources. Upon consummation of the merger, the Association will continue to be a wholly owned subsidiary of the Holding Company. All, except one, of the Savings Bank's current directors (6 persons) will become advisory directors of the Association. The Savings Bank's President will join the Association's board, and will also become a Senior Vice President of the Association. Based on its experience with the managerial resources of the Applicants, the Association, and the Savings Bank, OTS concludes that the managerial resources of the Applicants, the Association, and the Savings Bank, are consistent with approval.

As for financial resources, OTS is familiar with the financial resources of the Applicants, the Association, and the Savings Bank. As of December 31, 2004, the Association's tangible, core and total risk-based capital ratios were 9.0 percent, 9.0 percent, and 13.78 percent, respectively. As of the same date, the Savings Bank had core, tangible, and risk-based capital ratios of 8.9 percent, 8.9 percent, and 18.46 percent, respectively. The Association will continue to be "well capitalized" pursuant to the OTS Prompt Corrective Action regulation upon consummation of the transaction. OTS also has considered the financial resources of MHC and the Holding Company. Based on the

¹ 12 U.S.C. § 1828(c)(5)(B); 12 C.F.R. § 563.22(d) (2005).

² 12 C.F.R. § 563.22(d)(1)(vi) (2005).

³ See 12 C.F.R. § 563e.29(a)(2005).

foregoing, OTS concludes that the financial resources of the Applicants and the resulting institution are consistent with approval.

Both the Association and the Savings Bank have been operating profitably. The Association has submitted an acceptable business plan. As discussed above, the managerial and financial resources of the Applicants and the resulting institution are consistent with approval. Accordingly, OTS concludes that the future prospects of the Applicants and the resulting institution, and the effect of the transaction on the SAIF and the BIF are consistent with approval, provided that OTS imposes the conditions set forth below.

As for the competitive impact of the transaction, the Savings Bank and the Association compete in separate geographic markets. The Department of Justice's competitive factors report has not objected to the transaction. Accordingly, OTS concludes that the transaction is not objectionable on competitive grounds.

As for CRA, the Association's and the Savings Bank's most recent CRA ratings are "Satisfactory." OTS received no comments addressing CRA considerations. Accordingly, OTS concludes that approval of the transaction is consistent with the CRA.

As for convenience and needs, the Association will be assuming the operations of the Savings Bank's existing offices and providing continuing services to the offices' customers and communities. Accordingly, OTS concludes that approval of the transaction is not objectionable based on convenience and needs.

As for equitable treatment, full disclosure, compensation of officers and directors, and advisory boards, the Applications indicate that the transaction was negotiated at arms'-length, both the Association and the Savings Bank obtained fairness opinions reflecting that the transactions are fair to the Holding Company's minority shareholders, the MHC's members and the Savings Bank's members, respectively. The Holding Company will issue additional shares to the MHC, representing the value of the Savings Bank based upon an independent appraisal. Full disclosure has been provided regarding written or oral agreements or understandings through which any person or company will receive anything of value in connection with the proposed transaction, and compensation to officers and directors is consistent with the regulations. Accordingly, OTS concludes that approval of the transaction is not objectionable based on equitable treatment, full disclosure, and compensation of officers and directors.

As for compliance with money laundering statutes and regulations, OTS has reviewed the Association's Bank Secrecy Act (BSA) policies and believes the Association has adequate BSA policies in place. The Federal Deposit Insurance Corporation's most recent examination found that the Savings Bank's compliance with the BSA was adequate. Accordingly, OTS concludes there is no basis for objection to the BMA application based on anti-money laundering grounds.

As for compliance with other statutes, the transaction will comply with the requirements of section 5(r) of the HOLA. In addition, approval of the transaction is consistent with section 5(d)(3) of the FDIA, because the Association will meet all capital requirements upon consummation of the transaction, the proposed transaction will not result in the transfer of an institution from one federal insurance fund to the other federal insurance fund, and the Association has provided the information required by OTS.

Mutual Holding Company Considerations

Section 575.10(a)(2) provides, in relevant part, that mutual holding companies may acquire control of a savings association in mutual form by merger of such association into any subsidiary of the mutual holding company from which the parent mutual holding company draws members, provided: (i) the proposed acquisition is approved by a majority of the board of directors of the mutual savings association; (ii) the proposed acquisition is submitted to the mutual savings association's members pursuant to a proxy statement authorized by OTS, and approved by a majority vote of the members eligible to vote; (iii) all necessary approvals are obtained from OTS; and (iv) approval of the members of the mutual holding company is obtained, if OTS advises the mutual holding company in writing that such approval will be required.

OTS concludes that all of these requirements have been, or will be, satisfied in the context of the proposed acquisition. A majority of the board of directors of the Savings Bank has approved the proposed acquisition, the proposed acquisition will be submitted for the vote of the members of the Savings Bank (on a proxy statement authorized for use by OTS), the shareholders of the Holding Company, and the Holding Company's minority shareholders. All necessary approvals will have been received from OTS prior to consummation of the transaction.

OTS regulations at 12 C.F.R. § 575.5(a)(2) requires, under these circumstances, that depositors of the Savings Bank receive after the transaction, the same membership rights as depositors of the Association. OTS has reviewed the Applications, and representations of the Applicants and the Association and concludes that the acquisition satisfies this requirement.

OTS must also consider the fairness of the transaction. The Savings Bank's members will receive the same membership rights as the depositors of the Association. To prevent a windfall benefit to the Holding Company's minority shareholders, the Holding Company will issue additional stock to the MHC. While this results in a dilution of the Holding Company's minority interest, the stock value of the minority shareholders' interest will remain unchanged. OTS concludes that the proposed transaction does not conflict with the mutual holding company regulations and does not raise concerns regarding the policies underlying the mutual holding company regulations.

Conclusions

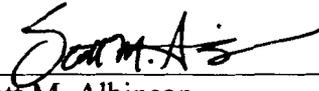
Based on the foregoing analysis, OTS concludes that the Applications meet the applicable approval criteria. Accordingly, the Applications are hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Midwest Regional Director, or his designee (Regional Director):

1. The Applicants, the Association, and the Savings Bank must receive all required regulatory, member and shareholder approvals and submit copies of such approvals to the Regional Director prior to the consummation of the proposed transaction;
2. The proposed transaction must be consummated no earlier than 15 calendar days and 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 officers of the Applicants, the Association, and the Savings Bank 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 operations of their respective entities 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 Applicants, the Association, 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 Applicants and the Association must advise the Regional Director in writing within five 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; and
5. No later than 30 calendar days after the merger of the Savings Bank with and into the Association, the Association shall advise each accountholder, whose withdrawable accounts in the Association would increase above \$100,000 as a

result of the merger, or whose uninsured balance would increase as a result of the merger, of the effect of the transaction on deposit insurance coverage, and submit a copy of such notice to the Regional Director.

The Regional Director may, for good cause, extend any time period set forth herein for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or his designee,
effective June 13, 2005.



Scott M. Albinson
Managing Director
Office of Examinations, Supervision,
and Consumer Protection