

## OFFICE OF THRIFT SUPERVISION

### Approval of Service Corporation Application

**Order No. 2005-29**

**Date: August 5, 2005**

**Re: Docket No. 15205**

Farm Bureau Bank, FSB, Sparks, Nevada, a federal savings bank (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, to establish a first-tier Nevada-chartered service corporation, Farm Bureau Service Corporation (Service Corporation), and a second-tier service corporation, Farm Bureau Management Service Corporation (FBMSC), a Texas-chartered corporation. The Service Corporation will be a shell corporation, and FBMSC will provide management services to Farm Bureau TTPP LLC (LLC), a limited liability company organized under Delaware law to purchase federal government contract receivables from tobacco farmers and tobacco quota holders (collectively, Program Participants) participating in the Tobacco Transition Payment Program (TTPP).

The TTPP was created by the Fair and Equitable Tobacco Reform Act of 2004 (Reform Act)<sup>1</sup> and is administered by the Commodity Credit Corporation (CCC), a United States government agency within the Department of Agriculture.<sup>2</sup> The Reform Act established the TTPP to help sustain Program Participants with contract payments from the CCC over ten years while tobacco price support payments are eliminated. The Reform Act specifically provides for assignment of the TTPP contracts so that Program Participants may receive a discounted lump sum in lieu of periodic payments from the CCC over ten years.

OTS regulations, at 12 C.F.R. § 559.3(e)(2), provide that a service corporation of a federal savings association may, subject to OTS approval, engage in an "activity reasonably related to the activities of financial institutions." The Service Corporation's only proposed activity is to hold the stock of FBMSC. FBMSC's only proposed activity is providing management services to support the LLC's business of accepting, at discount, assignments of contracts for payment by the CCC from Program Participants.

After considering the purposes of, and the risks associated with, the LLC's proposed activities, OTS has determined that the proposed activities are sufficiently similar to lending activities of savings associations that there is an adequate basis to conclude that the LLC's proposed activities are reasonably related to the activities of financial institutions. Moreover, because the activities are reasonably related to the activities of financial institutions, managing such activities is also reasonably related to

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<sup>1</sup> Pub. L. 108-357 (October 22, 2004).

<sup>2</sup> 15 U.S.C. § 714.

the activities of financial institutions. OTS concludes that FBMSC's proposed activities are permissible for a service corporation.

Section 5(c)(4)(B) of the Home Owners' Loan Act (HOLA) provides that a federal 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 Service Corporation is chartered under Nevada law. The Savings Bank's home office is located in Nevada, and the Savings Bank owns all of the Service Corporation's stock. Accordingly, the Savings Bank's establishment of the Service Corporation is consistent with the aforementioned provisions of § 5(c)(4)(B) of the HOLA.

OTS regulations, at 12 C.F.R. § 559.3(f)(2), state that a service corporation may invest in a lower-tier entity, without the requirements that the lower-tier entity be incorporated in the same state or be owned solely by savings associations, if the lower-tier entity engages solely in activities that are permissible for a service corporation. The Service Corporation's investment in FBMSC is consistent with the regulation.

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>3</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 establishment of, and investment in, the Service Corporation and FBMSC is not objectionable on safety and soundness or supervisory grounds, provided that the Savings Bank satisfies the conditions set forth below, which are intended to ensure that the proposed activities do not raise supervisory concerns.

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 proposed transaction must be consummated, and the Service Corporation and FBMSC must commence the activities proposed in the application within 120

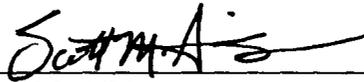
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<sup>3</sup> 12 C.F.R. § 559.5.

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. The Savings Bank must obtain written clearance from the Regional Director prior to taking any action that would result in a material deviation from the activities, facts, representations or level of investment described in the application.

By order of the Director of the Office of Thrift Supervision, or his designee,  
effective August 5, 2005.



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