

OFFICE OF THRIFT SUPERVISION

Approval of Applications for Permission to Organize a Federal Savings Bank and Holding Company Acquisition

**Order No.: 2005-30
Date: August 18, 2005
Docket Nos.: 17988 and H-4140**

Saddle River Valley Bancorp, Saddle River, New Jersey (Holding Company), has applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. §§ 1464(e) and 1467a(e), and 12 C.F.R. §§ 552.2-1 and 574.3, to organize and to acquire Saddle River Valley Bank, Saddle River, New Jersey (Savings Bank). The Holding Company has filed an application with the Federal Deposit Insurance Corporation (FDIC) for insurance of the Savings Bank's deposits under the Savings Association Insurance Fund (SAIF).

The Proposed Transaction

The Holding Company proposes to establish and to operate a *de novo* federal stock savings association, the Savings Bank. The Savings Bank intends to conduct traditional thrift operations. The Holding Company, which is a newly chartered Delaware corporation organized to hold all of the Savings Bank's common stock, is conducting a private placement offering of the Holding Company's common stock to capitalize the Savings Bank.

Permission to Organize Application

OTS may grant a federal savings association charter only: (i) to persons of good character and responsibility; (ii) if, in OTS' judgment, a necessity exists for such association in the community to be served; (iii) if there is a reasonable probability for 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. In addition, OTS must consider whether the association will provide credit for housing consistent with the safe and sound operation of a federal savings association. OTS also considers the initial capitalization of the federal savings association; and the residence and composition of the savings association's board of directors.

Further, 12 C.F.R. § 563e.29(b) provides 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 is required to take this description into account when considering the application and may deny or condition approval on CRA grounds.

With respect to character and responsibility, a review of the backgrounds of the identified officers and directors of the Holding Company and the Savings Bank revealed no adverse information and also indicated that the proposed officers and directors of the Savings Bank have adequate managerial resources to operate a federal savings association. The Savings Bank expects to name additional directors and officers. Accordingly, to ensure that any new senior managers have the requisite character and responsibility, OTS is requiring that such individuals not begin service or employment with the Savings Bank until their background checks have been completed in a manner satisfactory to the Northeast Regional Director, or his designee (Regional Director). OTS concludes that this approval criterion is satisfied, subject to the imposition of the condition, which is intended to help ensure the officers and directors of the Savings Bank have the requisite character and responsibility.

As for the necessity for the Savings Bank in the community, the Savings Bank will commence operations from its Saddle River office. The Savings Bank's proposed market area, in northern Bergen County, New Jersey, and Rockland County, New York, has experienced steady population and deposit growth in recent years and is expected to continue to grow. Therefore, OTS concludes that this criterion is satisfied.

With respect to undue injury to properly conducted existing local thrift and home financing institutions, the Savings Bank will provide new competition in the local market. The Savings Bank's projected level of deposits in its first three years of operations will constitute an insignificant percentage of the deposits in northern Bergen and Rockland Counties. Accordingly, OTS concludes that the Savings Bank will not cause undue injury to properly conducted existing local thrift and home financing institutions.

With respect to the reasonable probability of the Savings Bank's usefulness and success, OTS reviewed the Savings Bank's business plan, proposed capital levels, and the competence and experience of proposed management. OTS concludes that the business plan is reasonable, that the Savings Bank will have adequate capital, and that the Savings Bank's managerial and financial resources are consistent with a reasonable probability of success. To help ensure the success of the Savings Bank, OTS is requiring the Savings Bank to develop, establish and submit to the Regional Director for his review and non-objection: (i) policies, procedures and internal controls for compliance with the Bank Secrecy Act (BSA), and relating to Privacy of Consumer Financial Information and Fair Lending, as well as the final board-approved Compliance Policy; (ii) information regarding the proposed Compliance/BSA officer and/or the independent third party that will be responsible for the Savings Bank's compliance function; and (iii) a report identifying each function it is outsourcing to a third party. OTS also is requiring that, during the first eighteen months of operations, the Savings Bank submit any contracts or

agreements regarding transactions with related interests to the Regional Director and obtain his written non-objection.

Based on the foregoing analysis, OTS concludes that the probability of the Savings Bank's usefulness and success is consistent with approval, subject to the imposition of the conditions, which are intended to help ensure the probability of the Savings Bank's usefulness and success.

With respect to the provision of credit for housing, the Savings Bank will directly and indirectly extend credit for housing. The origination and purchase of mortgage loans will enable the Savings Bank to satisfy the Qualified Thrift Lender test. OTS has determined that the Savings Bank will have adequate policies, procedures and controls, provided that the Savings Bank complies with the conditions set forth in this Order. Based on the above, OTS concludes that the Savings Bank will provide credit for housing in a safe and sound manner.

With respect to capital, the Savings Bank will have initial capital well above the \$2 million required by 12 C.F.R. § 543.3(b). Moreover, the Savings Bank plans to be well capitalized throughout the first three years of operations. Accordingly, OTS concludes that the Savings Bank's proposed capital levels are consistent with approval.

OTS regulations require that a majority of a *de novo* federal association's board of directors be "representative" of the state in which the association is located. OTS regulations also require that a *de novo* federal association's board of directors be diversified and composed of individuals with varied business and professional experience. Further, the regulations require, under the circumstances present in this transaction, that no more than one-third of the Holding Company's board of directors be in closely related businesses. Based on the residency and experience of the Savings Bank's proposed directors, OTS concludes that the Savings Bank's proposed board of directors meets the first two criteria. OTS concludes that, based on the experience of the Holding Company's board of directors, the third criterion has been satisfied.

With respect to the CRA and OTS' CRA regulations, the Savings Bank's initial CRA assessment area will consist of northern Bergen County, New Jersey, and Rockland County, New Jersey. The Savings Bank intends to meet the borrowing needs of its assessment area through residential mortgage lending and small business lending. OTS concludes that the Savings Bank has satisfactorily demonstrated that it will meet its CRA objectives.

Holding Company Application

Section 10(e)(1)(B) of the Home Owners' Loan Act and the Acquisition of Control Regulations thereunder provide that OTS must approve a proposed acquisition of a savings association by a company, other than a savings and loan holding company, unless OTS finds that the financial and managerial resources and future prospects of the

company and association involved would be detrimental to the association or the insurance risk of the SAIF. OTS must also consider the impact of the acquisition on competition. Finally, OTS must take into account assessments under the CRA when considering holding company applications.

For the reasons set forth above, OTS concludes that the managerial resources of the Holding Company and the Savings Bank are consistent with approval, subject to the conditions herein regarding management and the board of directors.

With regard to financial resources, OTS reviewed the Holding Company's financial position and the Savings Bank's proposed capitalization and business plan. The Holding Company has demonstrated adequate resources. The application projects that the Savings Bank will meet all of its capital requirements and will be well capitalized under the OTS prompt corrective action regulation throughout the first three years of operation. Based on the foregoing, OTS concludes that the financial resources of the Holding Company and the Savings Bank are consistent with approval of the holding company application.

Based on the factors considered in the above discussion regarding the managerial and financial resources of the Savings Bank and the Holding Company, the character and responsibility of the officers and directors of each entity, and the probability of the Savings Bank's usefulness and success, OTS concludes that the future prospects of the Holding Company and the Savings Bank, and the insurance risks to the SAIF, are consistent with approval, subject to the imposition of the conditions herein.

The transaction will not result in any currently operating, unaffiliated depository institutions becoming affiliated, and will add a new competitor to the market. Accordingly, OTS finds no basis for objection to the transaction on anti-competitive grounds.

With respect to the Holding Company's performance under the CRA, the Holding Company has not been subject to the CRA. Accordingly, OTS concludes that there is not any basis for objection to the holding company application based on CRA grounds.

Conclusion

Based on the foregoing, OTS concludes that the applications satisfy the applicable approval standards, provided that the following conditions are complied with in a manner satisfactory to the Regional Director. Accordingly, the applications are hereby approved, subject to the following conditions:

1. The Holding Company and 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. At least 30 calendar days prior to commencing operations, the Savings Bank must develop and submit to the Regional Director for his review and non-objection, policies, procedures and internal controls for BSA, Privacy of Consumer Financial Information and Fair Lending, as well as the final board approved Compliance Policy;
4. At least 30 calendar days prior to commencing operations, the Savings Bank must identify the proposed Compliance/BSA officer and/or the independent third party that will be responsible for the Savings Bank's compliance function;
5. At least 30 calendar days prior to commencing operations, the Savings Bank must submit to the Regional Director a report identifying each function it is outsourcing to a third party, including the name of the service provider. During the first three years of operation, the Savings Bank must communicate any significant changes to this report to the Regional Director at least 30 calendar days before each change;
6. During the first eighteen months of operations, any contracts or agreements with related interests as defined in 12 C.F.R. § 561.5(d) not yet submitted to OTS for review, must be provided to the Regional Director for his written non-objection at least 30 calendar days prior to their execution and implementation;
7. The proposed Directors as well as the proposed Chief Financial Officer, Chief Lending Officer, and Chief Operating Officer, will not be considered permanent until the completion of OTS background checks;
8. For two years following commencement of operations, the Savings Bank must receive the prior written non-objection of the Regional Director for any proposed new directors or senior executive officers or any significant change in responsibilities of any senior executive officer;
9. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Holding Company and 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 Holding Company and the Savings Bank, respectively, 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 Holding Company, 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;

10. The Holding Company and the Savings Bank must, within 5 calendar days after the effective date of the proposed transaction: (a) advise the Regional Director in writing of the effective date of the proposed transaction and of the Savings Bank's insurance of accounts; (b) advise the Regional Director in writing that the transaction was consummated in accordance with all applicable laws and regulations, the applications and this Order; and (c) provide a reconciliation of the Savings Bank's capital to the Regional Director;
11. The Savings Bank must operate within the parameters of its three year business plan, and must submit for the prior, written non-objection of the Regional Director, any proposed major deviations or material changes from the plan. The request for change must be submitted a minimum of 60 calendar days before the desired implementation date with a copy sent to the FDIC Regional Office;
12. For three years following commencement of operations, the Savings Bank must submit to the Regional Director within 45 calendar days after the end of each calendar quarter, a business plan variance report detailing the Savings Bank's compliance with the business plan and an explanation of any material deviations; and
13. The Savings Bank must submit independent audit reports to the Regional Director for its first three fiscal years of operation. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4.

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 August 18, 2005.



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