

## OFFICE OF THRIFT SUPERVISION

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

**Order No.: 2005-39**

**Date: October 11, 2005**

**Re: OTS Nos. 17926 and H-3779**

Several individuals (Organizers) and Castle Financial Group, Inc., Vestavia Hills, Alabama (Holding Company) (collectively, the Applicants), have applied for approval of 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, for permission to organize and to acquire Castle Bank, Vestavia Hills, Alabama (Savings Bank). (Collectively, the foregoing filings are referred to herein as the Applications.)

#### **The Parties**

The Holding Company and the Savings Bank are proposed to be organized by: George C. Hawkins, III, C. Clark Collier, George C. Hawkins, IV, Tommie G. Cummings and Rocklin D. Alling.

The Savings Bank will be organized as a federally chartered, Savings Association Insurance Fund (SAIF)-insured, stock savings bank and will be a full service federal savings bank.

The Holding Company, a Delaware corporation, is a shell holding company, organized for the purpose of becoming the holding company for the Savings Bank and Castle Bank Mortgage Corporation (Mortgage Co.). The Mortgage Co. is a Delaware chartered mortgage banking company that has been in business since 1986.

#### **The Proposed Transaction**

The Holding Company proposes to establish and operate a de novo federal stock savings association, the Savings Bank. The Holding Company is in the process of selling between 875,000 and 1,200,000 shares of Holding Company common stock for \$10 per share in a private placement, in order to capitalize the Savings Bank. In addition, the Holding Company and the stockholders of the Mortgage Co. have entered into an Exchange Agreement pursuant to which the Mortgage Co.'s stockholders are expected to receive a total of 482,107 shares of the Holding Company's common stock in exchange for their shares of the Mortgage Co. As a result of the exchange, Mr. Hawkins, III will own approximately 34% and 27.4% of the outstanding Holding Company common stock, at the minimum and maximum of the offering, respectively.

The Savings Bank proposes to operate from one location in Vestavia Hills, Alabama. The Savings Bank will be capitalized with \$7 million from the Holding Company.

### **Permission to Organize Application**

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' judgment, a necessity exists for such association in the community to be served; (iii) if there is a 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 regarding the establishment of de novo federal savings associations set forth standards OTS considers in granting a de novo federal charter, regarding: (i) initial capitalization of a federal association; and (ii) the residence and composition of an 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 takes this description into account when considering an application and may deny an application or condition approval on CRA grounds.

With respect to the character and responsibility of the Organizers, OTS has conducted background checks of the Organizers and has reviewed the relevant information submitted in the Applications. The proposed Chief Executive Officer and President, Chief Financial Officer, and Chief Operating Officer of the Holding Company and the Savings Bank have extensive financial industry experience. The application materials indicate that the proposed board of directors possesses experience in the operations of financial institutions and other business endeavors. Based on the relevant information, OTS concludes that the character and responsibility of the Organizers, directors and senior executive officers of the Holding Company and Savings Bank are consistent with approval of the application.

With respect to the necessity for the Savings Bank in the community, the Savings Bank will focus its deposit taking and lending in its primary service area, defined as the city of Vestavia Hills, Jefferson County, Alabama, with a ten-mile radius around its proposed headquarters location, and in its secondary service area, defined as the rest of the Birmingham-Hoover Metropolitan Statistical Area (MSA). Demographic information provided in the application indicates that the population of the primary service area and the MSA increased by 2.71% and 2.52%, respectively, for the 2000-2004 period, and is

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projected to increase 3.19% and 3.12%, respectively, for the 2004-2009 period. With respect to deposit growth trends for the primary service area and the MSA for the 2000-2004 period, aggregate total deposits increased at a compound annual rate of 5.51% and 5.29%, respectively. Thus, we conclude that there is a necessity in the community for the Savings Bank.

With respect to undue injury to local thrift and home financing institutions, the Savings Bank will provide new competition in the local market, and may take some business from existing institutions, but those institutions generally are much larger with more financial resources than the Savings Bank. In addition, the Savings Bank's projected level of deposits at the end of its third year of operations will constitute approximately 0.19% of the deposits in the MSA market. OTS received no comments opposing the application in response to the public notice. Therefore, we conclude that the Savings Bank will not have an adverse impact on local thrift and home financing institutions in the geographic area where its customers will be located.

With respect to the probability of the Savings Bank's usefulness and success, the Savings Bank will be well capitalized and the Savings Bank's business plan is reasonable. The Savings Bank's proposed officers have considerable experience, and its directors' character and responsibility are consistent with approval of the application. In addition, approval of the application will be subject to a number of conditions designed to help ensure that there is a reasonable probability of the Savings Bank's usefulness and success. Conditions 5 through 7 below are designed to help ensure compliance with the business plan included in the application, that changes to or from that plan would not be detrimental to the Savings Bank, and that the Savings Bank operates pursuant to appropriate policies and procedures. OTS is imposing conditions 9 through 11 below to ensure compliance with regulatory provisions and policies concerning related persons or affiliated entities. Also, because the Savings Bank will be a subsidiary of a holding company that has another operating subsidiary and because the Savings Bank will share several officers with and do business with the Holding Company and/or the Mortgage Co., OTS is imposing conditions 8, 12 and 13 below to enable OTS to ensure that the Savings Bank will be operated properly and by qualified personnel.

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.

The Savings Bank's business plan projects substantial residential mortgage lending and that the Savings Bank will meet Qualified Thrift Lender requirements. The Savings Bank will have experienced management, and appropriate procedures regarding lending will be in place. Accordingly, we conclude that the Savings Bank will provide credit for housing consistent with the safe and sound operation of a federal savings association.

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OTS received no public comments objecting to the application. In addition, OTS has reviewed the Savings Bank's CRA statement and has found it to be acceptable. The Savings Bank has designated the MSA as its CRA assessment area. We find that the Savings Bank has made a satisfactory showing that it will satisfy the requirements for the CRA and OTS' implementing regulations.

The Savings Bank intends to adopt a federal charter and bylaws that conform to the model charter and bylaws for a federal stock savings association. The Savings Bank will have an initial capitalization that exceeds the minimum regulatory requirement. In addition, the composition of the Savings Bank's board of directors will comply with 12 C.F.R. § 543.3(d), because a majority of the Savings Bank's directors live or work in Alabama and the Savings Bank's board of directors will be made up of persons with varied backgrounds. Because the Savings Bank will be owned by a holding company that has substantial independent economic significance, there is no limitation on the percentage of board members who are in closely related businesses and no requirement that the Holding Company's board of directors meet the composition requirements of 12 C.F.R. § 543.3(d).

#### **Holding Company Application**

Section 10(e)(1)(B) of the HOLA 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 satisfactory.

With regard to financial resources, OTS reviewed the Holding Company's and the Mortgage Co.'s financial positions 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 discussions regarding the managerial and financial resources of the Holding Company and the Savings Bank, 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

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Holding Company and the Savings Bank are consistent with approval, and will not pose undue risk to the SAIF, subject to the imposition of the conditions discussed above.

The transaction will not result in any currently operating, unaffiliated depository institutions becoming affiliated. 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**

OTS finds that the Applications satisfy the applicable approval standards, provided the following conditions are complied with in a manner satisfactory to the Southeast Regional Director, or his designee (Regional Director). Accordingly, the Applications are hereby approved, subject to the following conditions:

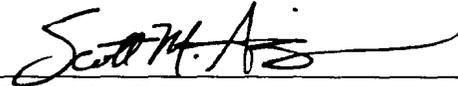
1. The Savings Bank must receive all required regulatory approvals, and submit copies of all such approvals to the Regional Director, prior to consummation of the proposed transaction;
2. The proposed transaction must be consummated within 120 calendar days from the date of this Order;
3. On the business day prior to the consummation of the proposed transaction, the chief financial officer of the Savings Bank, the Holding Company and the Mortgage Co. 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, the Holding Company or the Mortgage Co. 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, the Holding Company, the Mortgage Co. 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, 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 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;

5. The Savings Bank must submit independent audit reports to the Regional Director for its first three fiscal years of operations. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4;
  6. The Savings Bank must operate within the parameters of its three-year business plan. The Savings Bank 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 no later than 60 calendar days prior to the desired implementation date with a copy sent to the FDIC Regional Office;
  7. 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 deviations;
  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. During the first eighteen months of operations, any contracts or agreements pertaining to transactions with affiliates and related interests of affiliated persons as defined in 12 C.F.R. § 561.5(d) of the Savings Bank and the Holding Company, not yet submitted to OTS for review, must be provided to the Regional Director at least 30 calendar days prior to their planned execution and implementation;
  10. Within thirty calendar days after commencing operations, the Holding Company must provide to the Regional Director a list of shareholders, including names, addresses, number of shares owned, and the percentage of total shares owned;
  11. At least twenty calendar days prior to the Savings Bank's commencing operations, the following information must be provided to the Regional Director for any Organizer, or director or officer of the Holding Company or the Savings Bank, who funds the purchase of Holding Company stock with borrowed funds: (i) name of borrower/stock purchaser; (ii) amount borrowed; (iii) source of the loan; (iv) terms of the loan; and (v) how the borrower expects to service the debt;
  12. Should OTS determine that any employee acting in dual roles with respect to the Savings Bank and the Mortgage Co. is having a detrimental effect upon the Savings Bank, OTS may require the elimination of such dual roles; and
  13. At least 40 percent of the Savings Bank's board of directors must be individuals who are not officers or employees of the Holding Company or its affiliates and who have not otherwise been determined by the Regional Director to lack sufficient independence; and at least one member of the Savings Bank's board of directors must
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be an individual who is not an officer, director or employee of the Holding Company or its affiliates and who is not an officer or employee of the Savings Bank, and has not otherwise been determined by the Regional Director to lack sufficient independence. At least 50 percent of any audit and investment committee established by the Savings Bank must be directors who are not officers or employees of the Savings Bank, the Holding Company or its affiliates and have not otherwise been determined by the Regional Director to lack sufficient independence.

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 October 11, 2005.



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