

OFFICE OF THRIFT SUPERVISION

Approval of Holding Company Application and Mutual Holding Company Disposition Notice

Order No.: 2004-45
Date: September 10, 2004
OTS Nos. H-3730, H-3731,
01272

Northwest Bancorp, Inc., Warren, Pennsylvania (Applicant), seeks the Office of Thrift Supervision's (OTS) approval under section 10(e) of the Home Owners' Loan Act (HOLA) and OTS's Acquisition of Control Regulations (Control Regulations) to acquire Leeds Federal Savings Bank, Baltimore, Maryland (Savings Association). In connection with the proposed acquisition, Northwest Bancorp, MHC, Warren, Pennsylvania (MHC), has given OTS notice under section 575.10(b)(1) of OTS's Mutual Holding Company Regulations (MHC Regulations) that the MHC will transfer the stock it holds in the Savings Association to the Applicant.

The Applicant is a federally chartered mid-tier mutual holding company, and is the sole owner of two state-chartered savings banks, Northwest Savings Bank, Warren, Pennsylvania (Savings Bank), and Jamestown Savings Bank, Lakewood, New York. Both savings banks have elected to be treated as savings associations for purposes of section 10 of the HOLA, pursuant to section 10(l) of the HOLA. The MHC, a top-tier federally chartered mutual holding company, holds 58.82% of the Applicant's stock. In addition, the MHC owns all of the stock of the Savings Association and of First Carnegie Deposit, Carnegie, Pennsylvania, a federal stock savings bank. The Savings Association, a federally chartered, Savings Association Insurance Fund (SAIF)-insured, stock savings association, operates from its main office and one branch office located in the Baltimore, Maryland area. Upon consummation of the Applicant's acquisition of the Savings Association, the Savings Association will be merged into the Savings Bank.

The Applicant's minority shareholders would gain a significant windfall if their ownership interest in the Applicant were not adjusted to reflect the value of the Savings Association in connection with the proposed transaction. Accordingly, in connection with the merger, the Applicant will issue additional shares of its stock to the MHC, representing the value of the MHC's existing interest in the Savings Association, based upon an independent appraisal. The issuance of additional shares to the MHC will result in a corresponding dilution of the interest of the minority shareholders.

The proposed transaction requires OTS approval of: (1) the Applicant's acquisition of the Savings Association, pursuant to 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3; and (2) the MHC's notice under section 575.10(b) of OTS's MHC Regulations to transfer the Savings Association's stock to the Applicant.

Section 10(e)(2) of the HOLA and 12 C.F.R. Part 574 provide that in reviewing the proposed acquisition of a savings association by a savings and loan holding company, OTS must consider the managerial and financial resources and future prospects of the company and associations involved, the effect of the acquisition on the associations, the insurance risk to the Bank Insurance Fund and the SAIF, and the convenience and needs of the community to be served.¹ OTS must also consider the impact of any acquisition on competition.² In addition, 12 C.F.R. § 563e.29 requires that OTS take into account assessments under the Community Reinvestment Act (CRA) when considering holding company acquisitions.

With regard to managerial resources, in our regulatory capacity we are familiar with the management of the Savings Bank, the Savings Association and the Applicant, and have no objection to the managerial resources of any of these entities. The directors and senior executive officers of the Savings Bank and the Applicant will remain in place after the transaction. We conclude that the managerial resources of the Applicant, the Savings Bank and the Savings Association are consistent with approval.

With regard to financial resources, the Savings Association and the Savings Bank are both well capitalized and the Savings Bank is expected to remain well capitalized after the transaction is consummated. The Applicant has more than \$500 million in shareholders' equity. The application indicates that the transaction will constitute a tax-free reorganization under the Internal Revenue Code. However, because the Applicant has not submitted a final signed tax opinion to that effect, we are conditioning approval of the transaction on submission of such an opinion. Requiring submission of the tax opinion will help ensure that the transaction does not adversely affect the financial resources of the Applicant, the Savings Association or the Savings Bank. We conclude that the financial resources of the Savings Association, the Savings Bank and the Applicant are consistent with approval.

Based on our review of the managerial and financial resources of the Applicant, the Savings Bank and the Savings Association and on the fact that the Savings Bank has been operating profitably, we conclude that the future prospects of the Savings Association, the Savings Bank and the Applicant are consistent with approval of the acquisition.

With respect to the competitive impact of the transaction, the Savings Association and the Savings Bank are both subsidiaries of the MHC and, therefore, the transaction will not adversely affect competition.

OTS takes into account an applicant's record of performance under the CRA for a holding company application under section 10(e) of the HOLA. At its most recent CRA examination the Savings Association received a CRA rating of "Satisfactory." At its most recent compliance examination the Savings Bank received a CRA rating of "Satisfactory." Also, Jamestown Savings Bank was assigned a CRA rating of

¹ 12 U.S.C. § 1467a(e)(2); 12 C.F.R. § 574.7 (2004).

² Id.

“Satisfactory” at the conclusion of its most recent CRA compliance examination. Accordingly, we conclude that the holding company application is not objectionable based on CRA grounds. Also, because the offices of the Savings Association will remain open after the transaction and the mix of products offered will not be reduced, we conclude that the convenience and needs of the community are consistent with approval of the holding company application.

We have considered whether the proposed acquisition raises concerns under section 575.10(b) of the MHC Regulations. That provision was designed to ensure that a mutual holding company or its subsidiary savings association does not avoid the OTS Mutual-to-Stock Conversion Regulations through a transfer of the depository institution’s stock, and otherwise protect the interests of members of the mutual holding company. We determined that dilution of the Applicant’s minority interest would be required to avoid a windfall to the Applicant’s minority shareholders.³ Based on the circumstances surrounding the Applicant’s acquisition of the Savings Association, including the Applicant’s proposed issuance of stock to the MHC and the cancellation of the MHC’s debt to the Applicant, as described in the application, we have concluded that the proposed transaction does not raise concerns that the Savings Association is engaging in a mutual to stock conversion in avoidance of OTS’s regulations. In addition, the members of the MHC, including those who have membership interests in the MHC as a result of having deposit accounts in the Savings Association, will not lose the membership rights they currently hold in the MHC at the conclusion of the transaction.

Based on the foregoing, the holding company application and the mutual holding company disposition notice 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 Applicant 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. Prior to the consummation of the proposed transaction, the chief financial officers of the Applicant, the MHC, the Savings Bank and the Savings Association 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 Applicant, the MHC, the Savings Bank or the Savings Association as disclosed in the application. If additional information having a material adverse bearing on any feature of the application is brought to the attention of the Applicant, the MHC, the Savings Bank, the Savings Association or OTS since the date of the financial statements submitted with the application, the transaction must not be consummated unless the

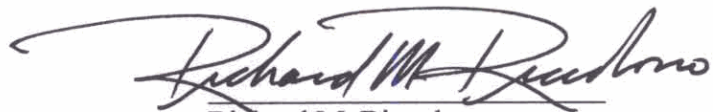
³ See, e.g., OTS Order No. 2003-41 (August 20, 2003).

information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;

4. The Applicant and the MHC must, within 5 calendar days after the effective date of the proposed transaction, advise the Regional Director in writing: (a) of the effective date of the transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the application, and this Order; and
5. No later than 30 calendar days after the date upon which the transaction is consummated, the Applicant must submit to the Regional Director a signed final federal tax opinion.

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 September 10, 2004.



Richard M. Riccobono
Deputy Director