

OFFICE OF THRIFT SUPERVISION

Approval of an Application for Permission to Organize a Federal Savings Bank and Related Applications

Order No.: 2001-72

Date: December 3, 2001

OTS Docket No.: 17910

Community First Financial Group, Inc., Corydon, Indiana (Holding Company) has applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1464(e) and 12 C.F.R. § 552.2-1 for permission to organize Harrington Bank, FSB, Chapel Hill, North Carolina (the Savings Bank). The Savings Bank has applied, pursuant to 12 U.S.C. § 1828(c) and 12 C.F.R. § 563.22(a), to acquire the deposit liabilities and assets from Harrington Bank, F.S.B., Richmond, Indiana (the Seller). In addition, OTS must also consider, pursuant to 12 U.S.C. § 1467a(e)(4) and 12 C.F.R. § 574.3(a), the indirect acquisition of the Savings Bank by Dr. Douglas Breeden, who controls another savings and loan holding company, Harrington West Financial Group, and its subsidiary savings association, Los Padres Savings Bank, Solvang, California. (The foregoing are collectively referred to as the Applications.) The Savings Bank will be a member of the Savings Association Insurance Fund.

OTS has considered the Applications under the factors set forth in 12 U.S.C. §§ 1464(e) and 1467a(e)(4), and 12 C.F.R. §§ 552.2-1, 563.22(a) and 574.7, and other applicable statutes and regulations. OTS also has considered the Applications under the Community Reinvestment Act, 12 U.S.C. §§ 2901 *et seq.*, and OTS regulations thereunder, 12 C.F.R. Part 563e. In addition, OTS has considered a digest from the OTS Southeast Regional Office, an analysis prepared by Examination Policy, and a legal opinion from the Business Transactions Division (collectively, the Staff Memoranda). For the reasons set forth in the Staff Memoranda, OTS finds that the Applications satisfy the applicable approval standards, provided that the following conditions are complied with in a manner satisfactory to the Southeast Regional Director, or his designee (the Regional Director). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The Savings Bank must receive all required regulatory approvals prior to consummation of the proposed transaction with copies of all such approvals provided to the Regional Director;
2. The proposed transaction must be consummated no earlier than fifteen calendar days and no later than one hundred twenty (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 Seller 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 operation of the Seller and the Savings Bank 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 Seller, 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 the consummation of the transaction;

4. The Savings Bank must advise the Regional Director in writing within 5 calendar days after the effective date of the proposed transaction: (a) of the effective date of the proposed transaction and insurance of accounts; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Applications and this Order;
5. A majority of the Savings Bank's board of directors must be individuals who are not officers, directors, or employees of the Savings Bank, the Holding Company, or any affiliate thereof (including, but not limited to Smith Breeden Associates), and have not otherwise been determined by the Regional Director to lack sufficient independence. The Savings Bank must initially meet this requirement within six months after opening. If compliance with this condition involves the selection of additional directors, each director must receive the written non-objection of the Regional Director;
6. At least 50 percent of the audit committee and at least 50 percent of the investment committee of the Savings Bank must be directors who are not officers or employees of the Savings Bank, the Holding Company, or any affiliates, and have not otherwise been determined by the Regional Director to lack sufficient independence. The Savings Bank must initially meet this requirement within six months after opening. If compliance with this condition involves the selection of additional director(s), each director must receive the written non-objection of the Regional Director;
7. Prior to opening, the Savings Bank must appoint a Chief Financial Officer, and provide notice to, and receive the prior written non-objection of, the Regional Director. The candidate must submit a Biographical and Financial Report, RB-20a Certification, and fingerprint card to the Regional Director;
8. The Savings Bank must submit annual independent audit reports to the Regional Director for the first three fiscal years following the conversion. These reports must be in compliance with the audit rules set forth at 12 C.F.R. § 562.4;
9. No later than five days from the date the Savings Bank opens for business, the Chief Financial Officer must provide the Regional Director a reconciliation of capital for the Savings Bank;
10. The Savings Bank must operate within the parameters of its approved business plan. The Savings Bank must submit any proposed major deviations or material changes from the plan (including changes in the level of capital or changes resulting from decisions made by the Holding Company) for the prior written non-objection of the Regional Director. The request for change must be submitted a minimum of 60 days before the proposed change is proposed to be implemented with a copy to the FDIC Regional Office;
11. The Savings Bank must submit quarterly variance reports on the business plan to the Regional Director for the first three years following the conversion, beginning with the first quarter after the conversion;
12. Prior to opening, the Savings Bank must establish detailed policies and procedures for all operations. Prior to opening, the Savings Bank must provide copies of such policies and procedures and a resolution of its board of directors that indicates that the directorate has


reviewed, approved and implemented such policies and procedures to the Regional Director for his review and approval;

13. During the first three years of operations, the Savings Bank must provide notice to the Regional Director at least 30 days prior to the appointment of a director or senior official or change in responsibilities of any senior executive officer for his written non-objection;
14. The Savings Bank must ensure that periodic audit and compliance reviews of the Smith Breeden Associates arrangement are completed, with regular, formal reports or such reviews provided to the Savings Bank's board of directors. The Savings Bank's written agreement with Smith Breeden Associates must be for a term of not more than one year, with renewals permitted of up to one year. At least annually, the Savings Bank's board of directors must perform a review of Smith Breeden Associates performance of its responsibilities to the Savings Bank and review and approve the contract between Smith Breeden Associates and the Savings Bank. Prior to renewal of the contract, the board of directors must consider audit and compliance reports, regulatory examination findings, and the Savings Bank's financial performance. All such periodic and annual reviews must be documented in the minutes of the board of directors;
15. Prior to opening, the Savings Bank must ensure that its asset and loan portfolios comply with the requirements of Section 1464(c) of the Home Owners' Loan Act and 12 C.F.R. §§ 560.30, 560.93 and 563.41;
16. Within 30 days after opening, the Savings Bank must provide a written opinion to the Regional Director from its external accounting firm that the purchase and assumption transaction was booked in accordance with Generally Accepted Accounting Principles;
17. The Savings Bank must provide a final copy of the agreement with Smith Breeden Associates to the Regional Director for his review and written non-objection;
18. The Savings Bank must provide a copy of the stockholder-approved stock option plan to be used for the Savings Bank's directors and employees to the Regional Director; and
19. The Savings Bank is prohibited from sharing common officers with any securities affiliate unless prior written approval is obtained from the Regional Director.

Any time period specified herein may be extended by the Regional Director, for good cause, up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or her designee, effective

December 3, 2001.



Scott M. Albinson
Managing Director