

OFFICE OF THRIFT SUPERVISION

Approval of Holding Company Application

Order No.: 2010-60
Date: October 14, 2010
Docket Nos.: 17988, H-4659, H-4660,
H-4661, H-4662, H-4664,
H-4665, and H-4666

JCF III AIV SRV GP LLC, New York, New York, and others, (collectively, Applicants), have applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1467a(e)(1)(B) and 12 C.F.R. § 574.3, for permission to acquire Saddle River Valley Bank (Savings Bank), Saddle River, New Jersey (Application).

Background

The Applicants include the seven recently formed limited partnerships and limited liability companies listed in Appendix A. All of the Applicants are directly or indirectly controlled by Mr. J. Christopher Flowers.¹ The investments will be made primarily through two funds structured as limited partnerships, JCF III AIV SRV SLP LP and JCF III AIV SRV LP. No single investor will own more than 9.9 percent of the limited partnership interests of either of the funds.

The Savings Bank is a Deposit Insurance Fund (DIF)-insured, federally chartered stock savings bank with its home office in Saddle River, New Jersey. The Savings Bank offers deposit products and commercial and consumer loans and mortgages through its two offices in Saddle River and Oakland, New Jersey. The Savings Bank is a wholly owned subsidiary of Saddle River Valley Bancorp (Holding Company).

The Applicants propose to acquire at least 50.5 percent, and up to 100 percent, of the outstanding common stock of the Holding Company. The Applicants propose to purchase 50.5 percent of the common stock of the Holding Company. Thereafter, the Holding Company will conduct a tender offer for its common stock, other than the common stock owned by the Applicants. The Holding Company proposes to infuse into the Savings Bank a portion of the proceeds of the sale of its common stock to the Applicants. In addition, after the tender offer, the

¹ Certain other entities controlled by Mr. Flowers have provided written commitments to OTS that such entities will not: (i) exercise, or attempt to exercise, directly or indirectly, control or a controlling influence over the management, policies, or business operations of the Applicants, the Holding Company, or the Savings Bank (collectively, the Thrift Entities); (ii) acquire or hold any securities of any of the Thrift Entities; or (iii) engage in any transactions with any of the Thrift Entities. Based on the relevant facts, including these commitments, OTS concludes that no entities controlled by Mr. Flowers, other than the Applicants, are required to join the Application.

Applicants propose for the Holding Company to conduct an offering of its common stock to the Applicants and others for the infusion of additional capital into the Savings Bank.

As a result of the proposed transaction, the Applicants will become savings and loan holding companies.

Holding Company Application

Section 10(e)(1)(B) of the Home Owners' Loan Act and the OTS Acquisition of Control Regulations² provide that OTS must approve a holding company application seeking permission to acquire one savings association by a company other than a savings and loan holding company unless OTS finds the financial and managerial resources and future prospects of the company and association involved to be such that the acquisition would be detrimental to the savings association or to the insurance risk of the DIF. Also, OTS must consider the impact of any acquisition on competition. Further, 12 C.F.R. § 563e.29(a) requires that OTS take into account assessments under the Community Reinvestment Act (CRA) when approving savings and loan holding company acquisitions.

With respect to managerial resources, OTS has reviewed the backgrounds of Mr. Flowers and five other persons associated with Mr. Flowers who will become directors of the Savings Bank and the Holding Company. The Application materials indicate that the individuals proposed as management for the Applicants and the Holding Company's and Savings Bank's boards of directors possess experience in various business endeavors and have extensive financial industry experience. OTS is imposing condition 9 below because the background check of one of the individuals associated with Mr. Flowers is not yet completed. OTS concludes that the Applicants', the Holding Company's, and the Savings Bank's managerial resources are consistent with approval of the Application, subject to compliance with condition 9.

With respect to financial resources, OTS has considered the Applicants' financial resources and the Holding Company's and the Savings Bank's proposed capitalization. The Applicants have demonstrated adequate resources to undertake the acquisition. The Savings Bank will meet all of its capital requirements and will be well capitalized under the OTS Prompt Corrective Action³ regulation. OTS concludes that the Applicants', the Holding Company's, and the Savings Bank's financial resources are consistent with approval of the Application.

With respect to future prospects and the insurance risk to the DIF, OTS has considered the financial and managerial resources of the Applicants, the Holding Company and the Savings Bank. OTS is imposing conditions 4 and 10 to ensure that the transaction is consummated in accordance with the proposed terms. OTS is imposing condition 5 to help ensure that the Savings Bank operates pursuant to an acceptable business plan and changes to and from such a business plan are not detrimental to the Savings Bank. To help ensure that the Savings Bank's

² 12 C.F.R. Part 574 (2010).

³ 12 C.F.R. Part 565 (2010).

future prospects are consistent with approval, OTS is also imposing condition 6 to enable OTS to confirm that the Savings Bank is being operated properly.

OTS is imposing condition 7 because several management officials of the Applicants will serve as directors of the Savings Bank. The Applicants, as private equity funds and related entities, may have investment goals and time horizons, and profit motives that differ from the goals, horizons and motives that an independent person solely focused on the Savings Bank's operations may hold. In such circumstances, the presence of independent directors on the board of directors and audit committee is consistent with safe and sound management, and helps to ensure that the Savings Bank's future prospects are consistent with approval.

Condition 11, to the extent it pertains to transactions with affiliates, is specifically contemplated under OTS's Transactions With Affiliates Regulations.⁴ Condition 11 helps ensure that any transactions with affiliates or related interests are conducted in a safe and sound manner, and helps ensure that the Savings Bank's future prospects are consistent with approval. In addition, OTS is imposing condition 8 to ensure that any new senior managers or directors have the requisite character and responsibility, and that the Savings Bank's future prospects are consistent with approval.

OTS concludes that the future prospects of the Applicants, the Holding Company and the Savings Bank, and the risks to the DIF, are consistent with approval, provided the Applicants, the Holding Company, and the Savings Bank comply with the conditions set forth herein.

The proposed acquisition will cause the Savings Bank to become affiliated with another operating insured depository institution. However, the other institution does not operate in the same geographic market as the Savings Bank. Therefore, the proposed transaction would not result in a lessening of competition in the Savings Bank's market. Accordingly, OTS finds no basis for objection to the transaction on anti-competitive grounds.

As for the CRA, the Applicants do not control an insured depository institution, and therefore, are not subject to the CRA. As a recently formed institution, the Savings Bank has not received a CRA rating. OTS has not received any CRA related complaints regarding the Savings Bank. OTS is imposing condition 12 to ensure the CRA Plan is consistent with the Savings Bank's business plan. Accordingly, OTS concludes that there is no basis for objection to the Applicants' acquisition of the Savings Bank on CRA grounds, subject to the recommended condition.

Conclusions

Based on the foregoing analysis, OTS concludes that the holding company application meets the applicable approval criteria. Accordingly, the holding company application is hereby approved, subject to the following conditions:

⁴ 12 C.F.R. § 563.41(c)(4)(D) (2010).

1. The proposed transaction must be consummated within 120 calendar days from the date of this Order;
2. Prior to the consummation of the proposed transaction, the chief financial officers of the Applicants, the Holding Company and the Savings Bank must certify in writing to the Northeast Regional Director or his designee (Regional Director) that no material adverse changes have occurred with respect to the financial condition or operation of the Applicants, the Holding Company and the Savings Bank, respectively, 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 Applicants, the Holding Company, the Savings Bank, or OTS since the date of the financial statements submitted with the Application, 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;
3. The Applicants, the Holding Company, and the Savings Bank must, within five 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; (b) advise the Regional Director in writing that the transaction was consummated in accordance with all applicable laws and regulations, the Application, and this Order; and (c) provide a reconciliation of the Savings Bank's capital to the Regional Director;
4. No later than 30 calendar days after the date of consummation of the proposed transaction, JCF III AIV SRV LP must submit to OTS a copy of the final list of its investors;
5. The Savings Bank must operate within the parameters of the amended business plan submitted with the Application for three years after consummation of the transaction. The Savings Bank must submit any proposed major deviations or material changes from the plan (including those initiated by any of its holding companies) for the prior, written non-objection of the Regional Director. The request for change must be submitted no later than 60 calendar days prior to the desired implementation date;
6. For three years following the date of consummation of the proposed transaction, 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;
7. At least 40 percent of the Savings Bank's board of directors must be individuals who are not officers or employees of the Applicants or affiliates thereof, and who have not otherwise been determined by the Regional Director to lack sufficient

independence. At least one member of the Savings Bank's board of directors must be an individual who is not an officer, director or employee of the Applicants or any affiliate, and who is not an officer or employee of the Savings Bank, and who has not otherwise been determined by the Regional Director to lack sufficient independence. At least 50 percent of any audit committee established by the Savings Bank must be directors who are not officers or employees of the Savings Bank, the Applicants or any affiliates, and who have not otherwise been determined by the Regional Director to lack sufficient independence;

8. For two years following the date of consummation of the proposed transaction, 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 changes in responsibilities of any senior executive officer;
9. With respect to the proposed director for whom the background check has not been completed, the Applicants, the Holding Company, and the Savings Bank must take such action as required by the Regional Director, if the Regional Director objects to such person based on information obtained during the background check;
10. Within 30 calendar days after the date of consummation of the proposed transaction, the Applicants, the Holding Company, and the Savings Bank must file with OTS a final balance sheet and regulatory capital ratios (tangible equity, Tier 1 leverage, Tier 1 risk-based, and total risk-based) for the Savings Bank before and after the transaction, with adjusting entries and footnotes explaining each adjustment, along with an accounting opinion confirming that the transaction was accounted for in accordance with generally accepted accounting principles;
11. For two years following the date of consummation of the proposed transaction, any contracts or agreements pertaining to transactions between the Savings Bank and its affiliates or related interests of affiliated persons, as defined in 12 C.F.R. § 561.5(d), not yet submitted for review must be provided to the Regional Director at least 30 calendar days prior to their planned execution and receive the Regional Director's written non-objection prior to implementation of the contract or agreement; and
12. The Savings Bank must amend its CRA Plan to include data, including lending projections, that are consistent with the Savings Bank's amended business plan. No later than 60 calendar days following the date of consummation of the proposed transaction, the Savings Bank must submit the amended CRA Plan to the Regional Director for his written non-objection.

The Regional Director may, for good cause, extend any time period set forth herein for up to 120 calendar days.

By order of the Acting Director of the Office of Thrift Supervision, or his designee, effective October 14, 2010.



Grovetta N. Gardineer
Managing Director
Corporate & International Activities

Appendix A

Applicants

<u>Name</u>	<u>Domicile</u>
JCF III AIV SRV GP LLC	Delaware
JCF III AIV SRV GP LP	Alberta (Canada)
JCF III AIV SRV LP	Alberta (Canada)
JCF III HoldCo SRV LP	Alberta (Canada)
SRV Holdings LLC	Delaware
JCF III AIV SRV SLP LP	Alberta (Canada)
JCF III AIV SRV SLP LLC	Delaware