

OFFICE OF THRIFT SUPERVISION

APPROVAL OF AN APPLICATION TO FORM A SERVICE CORPORATION

**Order No.: 2002-48
Date: October 24, 2002
Docket No.: 01437**

OceanFirst Bank, Toms River, New Jersey (Savings Bank) has applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1828(m) and 12 C.F.R. Part 559, requesting approval to establish a second-tier service corporation, OFB ReInsurance, Ltd., Turks and Caicos Islands, British West Indies (Service Corporation). The Service Corporation is being established to reinsure a portion of the private mortgage insurance (PMI) on loans originated and underwritten by the Savings Bank and its subsidiaries. It is contemplated that the underwriters will cede a percentage of the premiums on the policies reinsured by the Service Corporation for reinsuring the underwriting risk. (The foregoing is referred to as the Application.)

A federal savings association may request OTS approval to invest in a lower-tier service corporation that engages in activities that are "reasonably related to the activities of financial institutions." OTS has previously determined that providing PMI reinsurance under an arrangement similar to that proposed by the Savings Bank is a permissible activity for a service corporation of a federal association. Generally, a service corporation's reinsurance of PMI on loans made by its parent savings association or its subsidiaries is "reasonably related to the activities of financial institutions" because reinsurance of PMI strengthens a credit enhancement that facilitates lending activities of financial institutions and involves assuming the risks associated with those lending activities.

Federal savings associations may invest up to three percent of assets in service corporations, provided that any investment in excess of two percent of assets must "serve primarily community, inner city, or community development purposes." The Savings Bank's proposed investment is within the regulatory limitations.

In addition, § 559.1(a) provides that OTS may, at any time, limit a federal savings association's investment in a service corporation, or may limit or refuse to permit any activities of a service corporation, for supervisory, legal, or safety and soundness reasons.

Based on our review of the Application, OTS concludes that the proposed investment is not objectionable on safety and soundness or supervisory grounds, provided that the Savings Bank and the Service Corporation satisfy the conditions set forth below, which are intended to ensure that the proposed activities do not raise supervisory concerns.

For the reasons set forth above, OTS has determined that the Application satisfies all applicable approval standards and criteria, and is hereby approved, provided that the following conditions are complied with in a manner satisfactory to the Northeast Regional Director, or his designee (together, the Regional Director):

1. The Savings Bank must receive all required regulatory approvals prior to consummation of the proposed transaction and provide copies of each such approval to the Regional Director;
2. The Service Corporation must conduct its activities in accordance with the representations made in the Application, and obtain the Regional Director's prior written approval for any material deviation from any of the activities, facts, or representations described in the Application;
3. The proposed transaction must be consummated within one hundred and twenty (120) calendar days from the date of this Order;
4. The Service Corporation must make available to OTS such information as OTS deems necessary to monitor the Service Corporation's activities and the effect of those activities on the safe and sound operation of the Savings Bank, and maintain a duplicate set of records in the United States, at the Savings Bank's home offices, or if satisfactory to the Regional Director, elsewhere in the United States;
5. The Service Corporation must maintain a registered agent in the Savings Bank's home office, or if satisfactory to the Regional Director, elsewhere in the United States to receive service of process on the Service Corporation's behalf;
6. The Service Corporation must provide all financial statements in United States dollars in accordance with generally accepted accounting principles, including financial information required to be submitted quarterly in the Thrift Financial Report;
7. The Savings Bank must promptly inform the Regional Director in writing of all changes in the directors, officers and managers of the Service Corporation;
8. The Savings Bank must establish and document internal controls that demonstrate adequate oversight of its investment in the Service Corporation and provide materials documenting the institution of such controls to the Regional Director;
9. The Service Corporation must consent in writing to the disclosure by the Turks and Caicos Islands governmental authorities to OTS of such information on its operations that OTS deems necessary from time to time to determine and enforce compliance with applicable United States law;

10. While the Service Corporation is a subsidiary of the Savings Bank, the portion of reinsurance risk assumed by the Service Corporation attributable to the Savings Bank must be considered: (i) in determining the loan-to-value ratio for loans on the Savings Bank's books for purposes of determining whether such loans exceed the Supervisory Loan-to-Value Limits set forth in the Appendix to 12 C.F.R. § 560.101, and (ii) in determining whether such loans are "Qualifying Mortgage Loans" for risk-weighting purposes set forth in 12 C.F.R. Part 567; and
11. While the Service Corporation is conducting the proposed insurance activity, the Savings Bank, for purposes of calculating its regulatory capital as provided in 12 C.F.R. § 567.6(b), must treat the amount of the Service Corporation's maximum reinsurance obligation on any loan that the Savings Bank has sold as a loan sold with recourse.

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

By order of the Director of the Office of Thrift Supervision, or his designee, effective
October 24, 2002.



Scott M. Albinson
Managing Director
Office of Supervision