Office of Thrift Supervision
Department of the Treasury

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November 12, 2010

Kip A. Weissman, Esq.
Robert B. Pomerenk, Esq.
Luse Gorman Pomerenk & Schick, P.C.
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Washington, D.C. 20015

Re: Mutual Holding Company Reorganization, Application for Approval of a Minority Stock Issuance by a Subsidiary of a Mutual Holding Company, Savings and Loan Holding Company Application and Related Applications filed by Oconee Federal Savings and Loan Association, Seneca, South Carolina, OTS No. 04769 (Association), and Oconee Federal Financial Corp., Seneca, South Carolina, OTS No. H-4755 (Applicant)

Dear Messrs. Weissman and Pomerenk:

The Association, a federally chartered mutual savings association, has filed with the Office of Thrift Supervision (OTS) a notice (Notice) of its intent to reorganize into a federally chartered mutual holding company to be known as Oconee Federal, MHC (Mutual Holding Company), pursuant to section 10(o) of the Home Owners' Loan Act (HOLA), 12 U.S.C. § 1467a(o), and 12 C.F.R. § 575.3. In addition, the Applicant seeks approval from OTS, pursuant to 12 U.S.C. §§ 1467a(e) and 1467a(o) and 12 C.F.R. §§ 574.3, 575.7 and 575.14, to acquire the Association and to issue up to 33 percent of its common stock to persons other than the Mutual Holding Company (Offering). The Association also seeks OTS approval to make certain capital distributions under 12 C.F.R. § 563.143. The various filings together seek OTS approval of the Association's reorganization, along with all of the constituent elements of the reorganization.

The Transaction

In the proposed transaction, the Association proposes to reorganize into a three-tier mutual holding company structure in a multi-step transaction described in detail in the Notice. Upon completion of the reorganization, the Applicant will complete the Offering, and at least 50 percent of the net proceeds of the Offering will be contributed to the Association. After the transactions contemplated by the various filings, the Association will be a wholly owned

subsidiary of the Applicant and the Mutual Holding Company will own approximately 65.02 percent of the Applicant's common stock. The Association will establish a charitable foundation in conjunction with the Offering, contributing 1.98 percent of the Holding Company's total outstanding common stock and up to $364,320 (at the maximum of the offering range) to the foundation. The remaining 33 percent of the Applicant's common stock will be issued to subscribers in the Offering. The Association will contribute $50,000 to the Mutual Holding Company.

Mutual Holding Company Reorganization

Section 10(o) of the HOLA and the OTS Mutual Holding Company regulations (MHC Regulations) require a savings association that proposes to reorganize into a mutual holding company structure to file prior notice of the reorganization with OTS. The HOLA and the MHC Regulations provide that OTS may disapprove a proposed mutual holding company reorganization under certain circumstances.[1]

Based on OTS's most recent examination of the Association, its capital levels, and the proposed capitalization of the Mutual Holding Company and the Applicant, we conclude that the Notice meets the criteria set forth at 12 C.F.R. §§ 575.4(a)(1)-(3). As discussed below, the proposed Offering meets the applicable approval standards. The Association has provided the information required by OTS, and with the waivers discussed below, the proposed transaction, if carried out in conformity with the description contained in the Notice, will not violate any provision of law. Accordingly, the Notice satisfies the applicable criteria for approval, provided OTS grants the regulatory waivers that the parties have requested.

Approval of the reorganization as structured requires that OTS waive 12 C.F.R. §§ 575.6(a) and 575.6(b). OTS has routinely waived these two regulatory provisions, pursuant to 12 C.F.R. § 575.1(b), to streamline the application process in reorganizations structured as proposed by the Association. OTS concludes that there is good cause to waive the two provisions in connection with the proposed reorganization here for the same reasons that the provisions have previously been waived.

Establishment of the Applicant as a Subsidiary Holding Company

The formation of the Applicant is consistent with the MHC Regulations. The Applicant will have a federal charter, as required by 12 C.F.R. § 575.14. The Applicant's proposed federal charter is consistent with 12 C.F.R. § 575.14(c). The Applicant proposes to hold all of the common stock of the Association, as required under 12 C.F.R. § 575.14(a). The Mutual Holding

[1] 12 U.S.C. § 1467a(o)(3); 12 C.F.R. § 575.4(a) (2010).

Company will hold more than half of the Applicant's stock, as required by 12 C.F.R. §§ 575.7(a)(5) and 575.8(a)(2).

Formation of Interim Associations

The Association must receive OTS approval under 12 C.F.R. § 552.2-2 to form two interim savings associations. The establishment of, and transactions involving, the two interim federal savings associations are consistent with previous transactions OTS has approved and are consistent with 12 C.F.R. § 552.2-2.[2]

Holding Company Applications

In the proposed reorganization, the Association would acquire two interim savings associations, and, subsequently, the Applicant would acquire the Association. Accordingly, the transaction requires OTS approval under Section 10(e) of the HOLA, and the OTS regulations thereunder (Control Regulations).

Section 10(e)(2) and the Control Regulations provide that in reviewing the proposed acquisition of two savings associations by a company, such as the Association, 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 Deposit Insurance Fund (DIF), and the convenience and needs of the community to be served.[3] Section 10(e)(1)(B) of the HOLA provides that OTS must approve a holding company application proposing the acquisition of one savings association by a company other than a savings and loan holding company, such as the Applicant, 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 the insurance risk of the DIF.[4] In both cases, OTS must consider the impact of any acquisition on competition. Also, 12 C.F.R. § 563e.29 requires that OTS take into account assessments under the Community Reinvestment Act (CRA) when approving holding company acquisitions.

As for managerial resources, OTS, in its role as the Association's regulator, is familiar with the Association's managerial resources, and concludes that the Association's managerial resources are consistent with approval. The board of directors of the Applicant will consist of the present directors of the Association, and the executive officers of the Applicant will consist of the executive officers of the Association. The interim savings associations will be shell

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[2] See e.g., the letter approving Enfield Federal Savings and Loan Association's mutual holding company reorganization (April 17, 2002).

[3] 12 U.S.C. § 1467a(e)(2); 12 C.F.R. § 574.7 (2010).

[4] 12 U.S.C. § 1467a(e)(1)(B).

entities that never open for business. Accordingly, OTS concludes that the Applicant's, the interim savings associations' and the Association's managerial resources are consistent with approval.

As for financial resources and future prospects, the Association has been operating profitably. As of June 30, 2010, the Association had total assets of approximately $333.5 million, equity capital of approximately $59.6 million, and core, tangible, and total risk-based capital ratios of 17.89 percent, 17.89 percent, and 38.18 percent, respectively. The Applicant will retain approximately $6.23 million at the minimum, and approximately $8.574 million at the maximum (approximately $9.823 million at the super maximum), respectively, from which a loan to the Employee Stock Ownership Plan (ESOP) will be made, and to contribute the remaining net proceeds to the Association. The only activities of the Applicant will be ownership of the stock of the Association and a loan to the ESOP. Accordingly, we conclude that the financial resources and future prospects of the Applicant, the interim savings associations and the Association, and the risks to the DIF are consistent with approval.

The proposed acquisitions will not cause the Association to become affiliated with any other operating depository institution. Accordingly, the transactions are not objectionable on competitive grounds.

As for the CRA, and convenience and needs of the community, the Association received a rating of "Satisfactory" at its most recent CRA examination. The Applicant, as a newly formed entity, has no CRA experience. OTS has received no comments objecting to the proposed transaction. The Association does not propose to reduce its services after the transaction. Accordingly, we conclude that approval of the holding company acquisitions is consistent with the CRA and with the convenience and needs standard.

Bank Merger Act Application

The proposed merger of an interim federal savings association into the Association requires OTS approval under 12 U.S.C. § 1828(c) (Bank Merger Act), and 12 C.F.R. §§ 552.13 and 563.22(a). The approval standards for the merger are similar to the approval standards set forth under section 10(e) of the HOLA, which have been discussed previously.[5] In addition, the Bank Merger Act requires that OTS consider the effectiveness of any insured depository institution in combating money laundering activities.[6] Also, section 563.22(d) requires OTS to consider whether the transaction conforms to applicable laws, regulatory policies, and factors relating to fairness and disclosure. The CRA requires that OTS consider the CRA record of the Association in evaluating the merger application.

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[5] 12 U.S.C. § 1828(c)(5), and 12 C.F.R. § 563.22(d) (2010).

[6] 12 U.S.C. § 1828(c)(11).

The Association is well capitalized. The merging interim association would be a shell entity that will not open for business. Accordingly, the merger would have no material effect on the Association's managerial and financial resources and future prospects, and no effect on competition. OTS's review of the Association's compliance activities does not provide grounds for objection under 12 U.S.C. § 1828(c) based on the Association's anti-money laundering activities. The transaction, an internal reorganization that was disclosed to the Association's members, is not objectionable on fairness or disclosure grounds, and we are aware of no information indicating that the proposed transaction is inconsistent with any other law or regulation. For the reasons stated in connection with the holding company applications, OTS concludes that the merger application satisfies the convenience and needs and CRA criteria.

Minority Stock Issuance

Section 575.7(a) provides that no savings association subsidiary of a mutual holding company may issue stock to persons other than its mutual holding company parent unless the association obtains advance approval of each such issuance from OTS and the issuance complies with the criteria for approval set forth in section 575.7. Stock issuances by the Applicant are subject to the provisions of the MHC Regulations pertaining to minority stock issuances as if the Applicant were a former mutual savings association that reorganized into a mutual holding company structure.[7]

We have reviewed the Association's Plan of Reorganization and Stock Issuance Plan (Plan), and have concluded that the Plan meets the requirements of section 575.7, including the requirements cross-referenced in sections 575.8 and 563b.300(a). In particular, the Association has submitted an acceptable appraisal based upon an independent evaluation.

The Conversion Regulations, at 12 C.F.R. § 563b.390(b), require that in the Association's community offering, the Association give a purchase preference to natural persons residing in the Association's local community. For any community offering, the Plan provides: (a) a first purchase priority for natural persons residing in the Association's community, which means Oconee and Pickens Counties, South Carolina, the counties where the Association maintains offices and has its customers. Thus, the preference for persons residing in the Association's community satisfies the requirement contained in section 563b.390(b).

The proposed issuance is consistent with the proposed charters of the Association and the Applicant, provides the Association with adequate capital, and is not inequitable to the Association, the Mutual Holding Company, or the Mutual Holding Company's members. OTS has determined that the price range for the stock is reasonable. The Mutual Holding Company will hold approximately 65.02 percent of the Applicant's stock after the transaction, and the

[7] 12 C.F.R. § 575.14(b)(2010).

Applicant and the Association have furnished the requisite information.

Section 575.7(d)(6)(i) provides that all minority stock issuances must comply with 12 C.F.R. Part 563g and, to the extent applicable, Form OC. Because the Offering involves shares of the Applicant and not of the Association, Part 563g is inapplicable to the Offering and the Offering has been registered with the Securities and Exchange Commission under the Securities Act of 1933. Section 575.7(d)(6)(ii) requires that minority stock issuances be structured in a manner similar to a standard conversion under 12 C.F.R. Part 563b. The purchase priorities are consistent with the priorities for mutual to stock conversions, and the Plan meets the other requirements of 12 C.F.R. Part 563b.

OTS is imposing condition number 10 because OTS carefully applies the criteria set forth in 12 C.F.R. § 563b.525 in reviewing an offer or acquisition under 12 C.F.R. § 563b.525 in the first three years following a minority stock issuance. Accordingly, it is appropriate for the reorganized entity (and its holding company) to seek OTS clearance before speaking with potential acquirors, given the possibility that the acquisition may not ultimately be approved. This condition helps ensure compliance with 12 C.F.R. § 563b.525, and helps ensure the Association's safety and soundness by reducing the possibility that the Association (or the Applicant) will expend time and resources pursuing a transaction that they ultimately may not be able to complete.

In light of the Association's acceptable CRA rating, its compliance activities, and its intention to use part of the offering proceeds to fund new loans, we conclude that the proposed stock issuance meets the convenience and needs standard set forth at 12 C.F.R. § 563b.200(c). Finally, we are aware of no information indicating that the proposed transaction is inconsistent with any other law or regulation.

Capital Distribution Notice

The Association has requested OTS approval, pursuant to 12 C.F.R. § 563.143(a)(2), to make capital distributions. The Association proposes to make a capital distribution of $50,000 to capitalize the Mutual Holding Company. In addition, the Association will retain approximately $6.23 million at the minimum, and approximately $8.574 million at the maximum (approximately $9.823 million at the super maximum), respectively. The Association will remain well capitalized after the distributions and the distributions will not materially reduce the Association's capital. Moreover, the distributions do not raise any safety and soundness concerns and they will not violate any law, agreement with OTS, or condition of approval. Accordingly, we conclude that the Association's proposed capital distributions are consistent with approval.

Conclusion

Based on the foregoing analysis, the Notice, and the accompanying holding company applications, merger application, application to form interim associations, applications for federal charters for the Mutual Holding Company and the Applicant, and other component steps of the mutual holding company reorganization are hereby approved, pursuant to delegated authority, provided that the following conditions are complied with in a manner satisfactory to the Southeast Regional Director, or his designee (Regional Director):

1. The Association, the Mutual Holding Company, and the Applicant must receive all required regulatory approvals prior to consummation of the reorganization and acquisitions with copies of all such approvals supplied to the Regional Director;

2. The reorganization and acquisition must be consummated within 120 calendar days after the date of this Approval Letter;

3. No later than the business day prior to consummation of the reorganization and acquisition, the Association must submit to the Regional Director a certification stating that the reorganization has been approved by the majority of the total votes eligible to be cast at the special meeting of members of the Association called to vote on the transaction;

4. No later than the business day prior to the date of consummation of the reorganization and acquisition, the chief financial officers of the Mutual Holding Company, the Applicant, and the Association 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 operations of the Mutual Holding Company, the Applicant, or the Association, respectively, since the date of the financial statements submitted with the Notice and related applications. If additional information having a material adverse bearing on any feature of the Notice or related applications is brought to the attention of the Mutual Holding Company, the Applicant, the Association, or OTS since the date of the financial statements submitted with the Notice or related 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;

5. Upon completion of the organization of the interim federal savings associations, the boards of directors of the interim federal savings associations, the Mutual Holding Company, the Applicant, and the Association must ratify the Plan; and

6. No later than five calendar days after the date of consummation of the reorganization and acquisition, the Mutual Holding Company, the Applicant, and the Association must file with the Regional Director a certification by legal counsel stating the effective date of the reorganization and acquisition, the exact number of shares of stock of the Association acquired by the Applicant, the exact number and percentage of shares of the Applicant acquired by the Mutual Holding Company, that the interim federal savings associations did not open for business, and that the reorganization was consummated in accordance with all applicable laws and regulations, the Notice, the related applications, the Plan, and this Approval Letter.

In addition, pursuant to 12 C.F.R. § 575.1(b), OTS hereby waives the applicability of 12 C.F.R. §§ 575.6(a) and 575.6(b).

Furthermore, based on the foregoing analysis, the Applicant's MHC-2 application is hereby approved, pursuant to delegated authority, provided that the following conditions are complied with in a manner satisfactory to the Regional Director:

7. The Applicant's common stock to be sold in the Offering must be sold in compliance with the restrictions contained in 12 C.F.R. § 563.76;

8. Promptly after the completion of the sale of all the shares of common stock to be sold in connection with the Offering, the Applicant must submit a certification by the Applicant's chief executive officer stating the exact number and percentage of shares acquired in the Offering by persons other than the Mutual Holding Company, the gross and net proceeds of the Offering, and the date of completion of the Offering;

9. Prior to closing of the Offering, the Association must submit to the Director, Applications, Corporate & International Activities, a statement by the Association's independent appraiser that to the best of the appraiser's knowledge and judgment, nothing of a material nature has occurred (taking into account all relevant factors) that would cause the appraiser to conclude that the value of the stock sold in the Offering was not compatible with the estimate of the Applicant's and the Association's *pro forma* market value at the time of sale; and

10. For three years following the completion of the Offering, neither the Applicant nor the Association may, without prior written consent of the Managing Director, Corporate & International Activities, or her designee, take any action with a view toward a transaction that would require stockholder approval under 12 C.F.R. § 552.13(h).

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

The proxy soliciting material included under Exhibits 7 and 8(a) of the MHC-1 Notice, and the stock offering materials included under Item 4 and Exhibit 5(b) of the MHC-2 application will be discussed in a separate letter.

Sincerely,

_____/s/_____
Donald W. Dwyer
Director, Applications
Corporate & International Activities

_____/s/_____
Kevin A. Corcoran
Deputy Chief Counsel for
Business Transactions

cc: Regional Director
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