Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W., Washington, DC 20552 • (202) 906-6000

March 31, 2011

John F. Breyer, Jr., Esq.
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8180 Greensboro Drive, Suite 785
McLean, VA 22102

Re: Minority Stock Issuance Application filed by a Subsidiary of a Mutual Holding Company, Mid-Southern Savings Bank, FSB, Salem, Indiana (Savings Bank), OTS No. 4817

Dear Mr. Breyer:

The Savings Bank has applied to the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1467a(o) and 12 C.F.R. § 575.7, to issue up to 54,492 shares of its common stock pursuant to the Savings Bank's 2010 Stock Equity Incentive Plan (2010 Plan) (Application). In connection with the proposed transaction, the Savings Bank has requested that OTS waive 12 C.F.R. §§ 575.7(c)(2), 575.8(a)(1), 575.8(a)(11), 575.8(a)(14) and 575.8(a)(21).

The Savings Bank is a federally chartered savings bank headquartered in Salem, Indiana, and a first-tier subsidiary of Mid-Southern, M.H.C., Salem, Indiana (MHC), a federal mutual holding company. The MHC owns approximately 71 percent of the Savings Bank's common stock, and minority shareholders hold the remaining 29 percent. The Savings Bank completed its reorganization into a mutual holding company structure in 1998 (Reorganization), and in connection with the Reorganization, the Savings Bank conducted a minority stock offering.

In 1999, the Savings Bank promulgated the 1999 Management Recognition and Development Plan (1999 MRP) and the 1999 Stock Option Plan (1999 SOP). Under the 1999 MRP, restricted stock awards were made for 1.0 percent of the outstanding shares. Under the 1999 SOP, stock option awards were made for 2.27 percent of the outstanding shares. The 1999 MRP and the 1999 SOP have expired.

The 2010 Plan would have a term of ten years and provide for the issuance of up to 54,492 shares of the Savings Bank's common stock to its officers, directors, and employees, pursuant to awards and stock options. The 2010 Plan would provide for new restricted stock awards for up to 14,603 shares of common stock and for new stock options exercisable for up to 39,899 shares of common stock. The award agreements will provide for vesting at the rate of 20 percent per year. If all the shares covered under the 2010 Plan are issued, the MHC's ownership interest in the Savings Bank would decrease from 71 percent to approximately 68.38 percent, and the minority interest would increase from 29 percent to approximately 31.62 percent.

The 2010 Plan will not be tax-qualified. Under the Savings Bank's charter, the Savings Bank's shareholders must approve the 2010 Plan. A majority of the minority shareholders voting approved the 2010 Plan at the annual meeting of stockholders held on July 27, 2010.

OTS's Mutual Holding Company regulations (MHC Regulations), at 12 C.F.R. § 575.7(a), provide 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 12 C.F.R. §§ 575.7 and 575.8.

Specifically, (i) the proposed issuance must be made pursuant to a Stock Issuance Plan (SIP) that meets the requirements of section 575.8, (ii) the SIP must be consistent with the charter of the association, (iii) the SIP must provide the association with fully sufficient capital and not be inequitable or detrimental to the association or the mutual holding company, or to the members of the mutual holding company, (iv) the price range of the stock must be reasonable, (v) the mutual holding company must hold more than 50 percent of the association's outstanding common stock after the transaction, (vi) the association must furnish all information required by the OTS, (vii) the proposed stock issuance must meet the convenience and needs standards set forth in the mutual to stock conversion regulations at 12 C.F.R. § 563b.200(c), and (viii) the proposed issuance must comply with all other applicable laws and regulations.

The Savings Bank's SIP meets the requirements of § 575.8, except for the provisions for which the Savings Bank has requested a waiver. The SIP provides that the MHC will hold more than 50 percent of the Savings Bank's common stock after the offering. The shares awarded under the 1999 MRP and 1999 SOP and the proposed issuance of shares under the 2010 Plan will not, in the aggregate, exceed the quantitative limits of 12 C.F.R. §§ 575.8(a)(3) – (a)(9).

The SIP is consistent with the Savings Bank's charter, which has authorized the number of shares that would be outstanding after the issuance, and requires a shareholder vote for issuances to management of the Savings Bank other than in a general public offering.

As for provision of sufficient capital to the Savings Bank, the Savings Bank is well capitalized, as defined under OTS's Prompt Corrective Action regulations. The proposed stock issuance, if completed in the manner described in the application, will not be inequitable to the Savings Bank or the MHC's members. With respect to the provision of information required by OTS, the Savings Bank has furnished all information OTS has requested.

In light of the Savings Bank's "Satisfactory" Community Reinvestment Act rating, its compliance activities, and the fact that the Savings Bank contemplates no change in its products or services as a result of the proposed offering, the proposed transaction 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 statute or regulation (other than provisions for which a waiver has been requested).

The Savings Bank has requested that OTS waive 12 C.F.R. §§ 575.7(c)(2), 575.8(a)(1), 575.8(a)(11), 575.8(a)(14), and 575.8(a)(21). The MHC Regulations provide that OTS may waive a provision of the regulations for good cause.[1] In addition, OTS regulations provide generally that the "Director may, for good cause and to the extent permitted by statute, waive the applicability of any provision of [Chapter V of 12 C.F.R.]."[2]

None of the provisions for which the Savings Bank has requested a waiver is mandated by statute. Therefore, the only issue regarding the waivers is whether "good cause" exists. The pertinent issue here is whether any of the requested waivers would, under the circumstances, be contrary to the purposes of the relevant regulation.

The restrictions applicable to minority stock issuances are imposed for the same reasons that similar restrictions are imposed in the mutual-to-stock conversion process, that is, to ensure that the stock issuance process is fair to all concerned, and not detrimental to the interests of the federal deposit insurance fund.

Both the MHC Regulations and the mutual-to-stock conversion regulations contemplate the issuance of stock pursuant to employee and director plans.

With respect to the § 575.8(a)(1) requirement that the Savings Bank issue stock at an aggregate price equal to the total *pro forma* market value of the stock, based upon an independent appraisal, the shares will be issued as a benefit to management and employees or options will be granted with an exercise price based on the market price of the stock at the date granted. An appraisal is not appropriate here, because the stock will be issued as compensation at various times.

With respect to the § 575.8(a)(11) requirement that the Savings Bank issue the stock at a uniform per share price, plans such as the 2010 Plan, by their nature, do not issue shares at a uniform price, primarily because the shares are awarded for no cash consideration, or options are granted over an extended period of time.

With respect to the § 575.8(a)(14) requirement that insiders of the Savings Bank not purchase stock of the Savings Bank during the three years following the offering, except with OTS approval (except in certain circumstances), the requirement is intended to be triggered by public offerings of stock. Issuances in plans approved in connection with public offerings have not been subject to a separate limitation.

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1 12 C.F.R. § 575.1(b) (2010).
2 12 C.F.R. § 500.30(a) (2010).

With respect to the limits on the duration of a stock offering set forth at 12 C.F.R. §§ 575.7(c)(2) and 575.8(a)(21), the regulatory limits are directed at public offerings, and plan offerings, by their nature, commonly continue over an extended period of time.

For the reasons stated above, OTS finds that the application satisfies the applicable approval standards and that there is an adequate basis to grant the waiver requests. Accordingly, the application is hereby approved and the requested waivers are granted.

Sincerely,

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

________/s/________________
Kevin A. Corcoran
Deputy Chief Counsel for
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cc: Regional Director
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