

OFFICE OF THRIFT SUPERVISION

Approval of Application for Capital Distribution

Order No.: 2010-52
Date: August 25, 2010
Re: OTS No. 01639

Liberty Federal Savings Bank, Ironton, Ohio (Association), a federal stock savings association, has applied (Application) to the Office of Thrift Supervision (OTS) under 12 C.F.R. § 563.143 to make a capital distribution.

The Association is an indirect wholly owned subsidiary of Liberty Federal Bancorp, MHC (Mutual Holding Company), and a direct, wholly owned subsidiary of Liberty Federal Bancorp, Inc. (Mid-Tier). The Association proposes to make a capital distribution of \$2.42 million¹ to the Mid-Tier, which the Association believes would significantly reduce the aggregate Ohio franchise tax liability of the Association and its holding companies.

OTS's regulations provide that a capital distribution filing may be denied if, generally, the proposed capital distribution would: (i) cause the institution to become undercapitalized; (ii) raise safety and soundness concerns; or (iii) violate any statute, regulation, agreement with OTS or condition of approval.²

The proposed capital distribution will not violate any prohibition contained in law, agreement with OTS, or condition of approval, and the Association will remain well-capitalized after the capital distribution.

Because the Association is in a mutual holding company structure, however, the Association and its holding companies are subject to certain constraints in raising capital to support the Association should the need arise. Accordingly, in order to ensure that the proposed capital distribution, which involves a significant portion of the Association's capital, does not present safety and soundness concerns, OTS is imposing conditions 3, 4 and 5 to help ensure that funds distributed in connection with the capital distribution will remain available to provide capital support for the Association if needed, and that the Mutual Holding Company and the Mid-Tier will serve as a source of support for the Association. OTS concludes that the Association's proposed capital distribution is consistent with approval, subject to the imposition of conditions 3, 4 and 5.

¹ The capital distribution would include \$2.07 million in cash and an office building valued at \$350,000.

² 12 C.F.R. § 563.146 (2010).


Conclusion

Based on the foregoing analysis, the Application is hereby approved, pursuant to delegated authority, provided that the following conditions are complied with in a manner satisfactory to the Central Regional Director, or his designee (Regional Director):

1. The transaction must be consummated within 120 calendar days after the date of this Order;
2. On the business day prior to the date of the capital distribution, the chief financial officers of the Mutual Holding Company, the Mid-Tier, 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 Mid-Tier, or the Association, respectively, since the date that the Application was filed. If additional information having a material adverse bearing on any feature of the Application is brought to the attention of the Mutual Holding Company, the Mid-Tier, the Association, or OTS since the date of the date of 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 Mutual Holding Company and the Mid-Tier, without prior written approval of the Regional Director, must not use the funds received from the capital distribution except: (a) to invest in (i) a deposit account at the Association, or (ii) U.S. Treasury and agency securities; (b) to pay (i) regulatory fees and assessments, (ii) its portion of any tax liabilities under the Tax Sharing Agreement, or (iii) the Association under a management services agreement; or (c) as a capital infusion into Association;
4. Upon OTS's written request, the Mutual Holding Company and the Mid-Tier must promptly infuse funds received in the capital distribution into the Association to the extent requested by OTS; and
5. The Mutual Holding Company and the Mid-Tier must serve as a source of support for the Association as long as they control the Association.

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

By order of the Acting Director of the Office of Thrift Supervision, or his designee, effective August 25, 2010.



Grovetta N. Gardineer
Managing Director,
Corporate & International Activities