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E. LEE BEARD
President/CEO

(18)

February 7, 2001

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2001 FEB -8 P 2:47
INFORMATION SERVICES DIVISION

Manager, Dissemination Branch
Office of Thrift Supervision
Information Management & Services Division
1700 G Street, N.W.
Attention: Docket No. 2000-91
Washington, D.C. 20552

Re: Savings and Loan Holding Companies Notice of Significant Transactions or Activities and OTS Review of Capital Adequacy, 65 Fed. Reg. 64392 (October 27, 2000)

Dear Sir or Madam:

Northeast Pennsylvania Financial Corp (NEP) and First Federal Bank are pleased to comment on the proposed regulations issued by the Office of Thrift Supervision ("OTS"), which would require certain savings and loan holding companies to notify the OTS before engaging in, or committing to engage in, significant debt or asset acquisition transactions, as well as transactions that significantly reduce capital, or transactions for which prior notice otherwise might be required by the OTS in its discretion.

At the outset, NEP and First Federal wish to state our opposition to this proposal, both in terms of the specific regulations drafted and in terms of the proposal's broader implications. In our view, the proposed regulations do not respond to the OTS's underlying concerns relating to the independent franchise value of savings associations, excessive leveraging by holding companies, and certain abusive affiliate relationships that may exist in a handful of organizations.

Instead, this rule introduces an unnecessary and overly burdensome regulation for savings and loan holding companies that we do not believe is needed. The ruling works to "change the rules of the game" with a previously unknown, and practically unworkable, prior notice regulatory process. We believe this proposal is neither necessary nor appropriate and should be withdrawn.

Although we understand that the OTS has legitimate concerns whenever a savings and loan holding company acts to put its savings association subsidiary at risk, we believe the OTS's record of regulating federally chartered savings associations demonstrates quite effectively that the agency already possesses the requisite supervisory tools to prevent such rare occurrences within a narrow universe of rogue holding companies. We support the OTS, for example, in its efforts to provide regulatory and supervisory guidance on such matters as debt issuance and strategic acquisitions. We welcome such guidance in its various forms.

We also believe that the OTS's ability to engage in regular, meaningful and ongoing dialogue with its regulated institutions results in better understanding and a more productive relationship. This practice, in turn, minimizes the opportunity for risky activities to go undetected and uncorrected. Moreover, NEP and First Federal believe that initiatives such as increasing the use of electronically filed Securities and Exchange Commission report data, and revising the OTS's Form H-b (11) to make data more electronically accessible would facilitate further this essential information flow between the OTS and its regulated holding companies.

If adopted in its current form, savings and loan holding companies will be hamstrung by this regulation, and will operate at a significant competitive disadvantage. As the OTS noted in the release, the Federal Reserve Board does not impose a similar review process on its holding companies. This will, in turn, pose a serious risk to the long-term viability and attractiveness of a federal savings association charter. At the time the Board of First Federal considered the mutual to stock conversion, several charter alternatives were considered. Based on our understanding of the regulations surrounding the unitary thrift holding company and the practices then in place with the OTS, the decision was made to utilize this form of organization. Our experiences since the conversion in March 1998 have been positive. While the value of the savings and loan holding company was reduced by the enactment in 1999 of the Gramm-Leach-Bliley Act, which took away the transferability of the unitary savings and loan holding company, we decided to continue with this form of organization. If the rules the unitary savings and loan holding company are changed again, it is in the best interest of all unitary thrift holding companies to once again evaluate the most appropriate form of organization choice.

We believe that the prior notice provisions of the proposed regulation are unworkable for several reasons:

- The proposed 30-day prior notice timeframes could result in significantly longer processing periods as complex and varied transactions are reviewed. This will effectively prevent many legitimate deals from being completed. Many debt issuances and asset acquisitions are developed and consummated within very tight timeframes. This regulation would effectively prevent such deals because the specter of a prior approval period looms overhead.

- That the OTS has attempted to restrict this regulation to a limited class of holding companies does not assuage our fundamental concerns. Even if not covered by the regulation at any particular point in time, this proposal also threatens holding companies that might grow to reach coverage thresholds.

- The review process would be unfairly lengthy as OTS develops the necessary resources to review such a wide variety of potentially covered – and often complex – transactions.

- The 10% capital trigger represents an effective capital standard that, in operation, would result in well-run organizations having to seek prior approval for transactions that pose no significant safety and soundness risks.

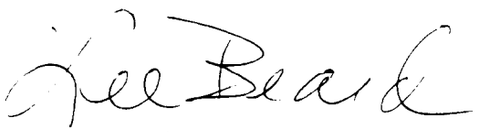
- The proposal vests too much discretionary authority in regional OTS offices, which will result in disparate treatment and varying standards of review among regions. We are especially concerned with the proposed "catch all" authority of the OTS to require a notice application from any savings and loan holding company in the event such notice is deemed necessary by the regional OTS office acting in its discretion. This potential for ad hoc reviews of business decisions would significantly impact the ability of OTS-regulated holding companies to negotiate and complete any number of legitimate business transactions that are not appropriate for prior regulatory review.

- Requiring prior notice for "commitments to engage" in covered transactions ignores the dynamics and fluid nature of transaction negotiations in a modern business environment.

For all of the reasons noted above, we oppose this imposition of additional regulations governing transactions by holding companies, and do not support any OTS proposal that would result in the establishment of defined holding company capital standards.

NEP and First Federal appreciate the opportunity to comment on this important matter. If you have any questions, please contact me at (570) 459-3706.

Sincerely,



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