Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Conditional Approval #1006
September 2011

August 12, 2011

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Re: Conversion Application Under 12 C.F.R. Part 192 and Capital Distribution Filing Under 12 C.F.R. Part 163, Fullerton Federal Savings Association, Baltimore, Maryland ("Savings Association"), Docket No. 3579
NATS No. R2-2011-0125

Bank Merger Act Application, Fairmount Bank, Baltimore, Maryland ("Bank")
Docket No. 8193
NATS No. R2-2011-0126 .

Dear Messrs. Soukenik and Crosland:

The Savings Association has filed with the Office of The Comptroller of the Currency ("OCC"), an application (the "Conversion Application") for approval to convert from a Federally chartered mutual savings association to a Federally chartered stock savings association (Conversion), pursuant to section 5(i)(2) of the Home Owners' Loan Act, and 12 C.F.R. Part 192 (Conversion Regulations). The Savings Association intends to sell 1,000 shares of its stock to Fairmount Bancorp, Inc., Baltimore, Maryland (Holding Company), a Maryland-chartered savings and loan holding company, and the Holding Company will offer shares of its common stock based on the appraised value of the Savings Association. Immediately after completion of the Holding Company's stock offering, the Savings Association will merge into the Bank, a Federal savings association subsidiary of the Holding Company. The Bank will be the surviving depository institution. The Bank seeks approval under section 18(c) of the Federal Deposit Insurance Act (the "Bank Merger Act' or "BMA") and 12 C.F.R. § 163.22(a) to acquire the Savings Association ("BMA Application"). The Savings Association requests approval to make a

capital distribution of all of the net proceeds to the Holding Company, pursuant to 12 C.F.R. Part 163 ("Capital Distribution Filing").

The Conversion Regulations provide that the OCC may approve an application for conversion only if: (i) the plan of conversion adopted by the savings association's board of directors complies with 12 C.F.R. Part 192; (ii) after the conversion, the savings association will meet its regulatory capital requirements; and (iii) the conversion will not result in a taxable reorganization of the association under the Internal Revenue Code. In addition, 12 C.F.R. § 192.200(c) provides that the OCC, in reviewing an application for conversion under 12 C.F.R. Part 192, will examine the extent to which the conversion will affect the convenience and needs of the community, and may deny or condition the application on the basis of this review. Furthermore, the Conversion Regulations provide that a plan of conversion shall contain no provision that the OCC shall determine to be inequitable or detrimental to the applicant, its savings account holders or other savings associations or to be contrary to the public interest.[1]

The Conversion Regulations, at 12 C.F.R. § 192.5(c), provide that the OCC may waive any provision of 12 C.F.R. Part 192, for good cause.

The Savings Association has requested waivers of: (i) 12 C.F.R. § 192.105(a), which requires a business plan reflecting how the Savings Association will deploy the proceeds of the conversion; (ii) 12 C.F.R. § 192.395(b), which requires that a converting savings association first fill orders for its stock up to a maximum of two percent of the conversion stock to promote a widespread distribution of stock; and (iii) 12 C.F.R. § 192.505, which restricts the ability of the Savings Association's officers and directors to freely trade stock obtained in the conversion or stock of the converted institution. None of the three requests for which the applicants have requested a waiver incorporates a statutory requirement.

The OCC may waive any requirement of the mutual-to-stock conversion regulations. Generally, the OCC will not grant a waiver unless the waiver is equitable, is not detrimental to the converting association, its account holders or other savings associations, and is not contrary to the public interest.[2]

Section 192.105(a), addressing business plans, assumes that the converted institution will continue to operate after the conversion. In this case, the Savings Association will cease to exist when the transaction is consummated, because the Savings Association will be merged into the Bank, and will operate under its existing business plan. Moreover, the Savings Association's assets and liabilities will constitute only a minor part of the Bank upon completion of the transaction. Accordingly, no purpose is served by requiring a business plan.

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1 12 C.F.R. § 192.130.

2 12 C.F.R. § 192.5(c).

Second, because the Holding Company's common stock will be offered and sold in the conversion, implementing a two percent limitation on purchases of the Holding Company's stock in just the community offering portion of the offering in order to ensure a widespread distribution of the stock, as would be required by section 192.395(b), will have little impact on the overall distribution of Holding Company common stock following the offering, especially given the size of the offering. At the minimum of the offering, only 36,428 shares will be offered (there are currently 444,038 Holding Company shares outstanding). A two percent limitation would amount to 729 shares. In addition, at all other prior levels of the offering the purchase limitation is five percent. Limiting purchases to two percent in the community offering portion might impede the ability of the Holding Company to complete the stock sale.

Third, because the Savings Association will be merged into an existing entity that is owned by a publicly owned stock corporation and it is that corporation's stock that will be issued and sold in the conversion, the provisions in section 192.505, limiting post-conversion stock trading by officers and directors of the converted institution are not necessary for the plan of conversion here.

Based on the foregoing discussion, the OCC concludes that good cause exists to waive 12 C.F.R. §§ 192.105(a), 192.395(b), and 192.505, to the extent contemplated in the proposed transaction.

The OCC has considered the Savings Association's Plan of Conversion Merger (Plan), and has concluded that the Plan contains the required provisions. The Holding Company proposes to offer its common stock pursuant to the subscription priorities as required by the Conversion Regulations. The Holding Company will offer its common stock at a discount from its recent market price.[3] A discount on the acquiror's stock price is a common feature of a merger conversion, and the OCC has no objection to the proposed discount of 15 percent of the current value of the Holding Company common stock for the proposed transaction.

The proposed transaction complies with the provisions addressing designation of a "local community." A preference for natural persons residing in the area constituting the "local community" is required by 12 C.F.R. § 192.390(b). The local community is defined in section 192.25 as including the county in which the Savings Association has its office. The Plan conforms to that requirement. The Savings Association has only one office, located in Baltimore, Maryland. The Savings Association has delineated Baltimore City and Baltimore County, Maryland, as the Savings Association's local community. The Holding Company proposes that the Holding Company's existing stock-based recognition and retention plans be given a secondary preference in the community offering. The OCC Conversion Regulations only provide for a primary preference in the community offering. Therefore, the OCC has no objection to the provision for a secondary preference in the community offering. In addition, the

[3] The recent market price is defined in the Plan as the average of the last sales price (or average closing bid and asked quotations, if there is no last sales price) of a share of the Holding Company's common stock on the OTC Bulletin Board for the thirty trading days ending on the second day prior to the date of the prospectus.

OCC concludes that the Plan is in accordance with the relevant regulatory requirements, provided that the requested waivers are granted, and that the Savings Association complies with the conditions described below.

In addition, the OCC has determined to permit the Savings Association to undertake a merger conversion because of the Savings Association's small asset size, and the relatively high level of expenses that it would incur were it to undertake an independent conversion. Based on the structure of the proposed transaction and the financial condition of the Savings Association, we conclude that the proposed conversion is fair to all parties. The OCC concludes that the proposed conversion is consistent with applicable policies regarding merger conversions.

Bank Merger Act Application

In evaluating a BMA application in which the resulting depository institution is a federal savings association, the OCC is required to consider the effect on the capital of the resulting association; the financial and managerial resources of the constituent institutions; the future prospects of the constituent institutions; the effect of the transaction on competition; the convenience and needs of the community; conformance to applicable law, regulation, and supervisory policy; and factors relating to fairness of and disclosure concerning the transaction.[4] Also, the BMA requires the responsible agency to take into consideration, in its evaluation of the BMA application, the effectiveness of any insured depository institution in combating money-laundering activities.[5] Under 12 C.F.R. § 195.29, the OCC must consider the constituent institutions' record of performance under the Community Reinvestment Act (CRA).

With respect to capital, the Bank and the Savings Association are both "well-capitalized." At the conclusion of the transaction, the combined entity will be "well-capitalized." At the conclusion of the transaction the pro forma consolidated capital of the Bank will be 12.84 percent core, 22.82 percent tier 1 risk-based and 23.94 percent total risk-based. Therefore, the OCC concludes that the capital of the resulting association is consistent with approval.

With respect to managerial resources, the current senior executive officers of the Bank will continue to manage the Bank's business. One of the Savings Association's directors will become a director of the Bank and the Holding Company. The other directors of the Savings Association will become an advisory board to the Bank. Given that the Bank's management will remain in place at the conclusion of the transaction, the OCC has no objection to the Bank's management. The OCC concludes that the managerial resources of the Bank are consistent with approval.

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[4] 12 U.S.C. § 1828(c)(5)(B); 12 C.F.R. § 163.22(d). Also, the Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203 (Jul. 21, 2010), at section 623, added an additional approval criterion addressing interstate merger transactions. The proposed merger does not involve an interstate merger, and therefore, this standard is not applicable to the proposed transaction.

[5] 12 U.S.C. § 1828(c)(11).

With respect to financial resources and future prospects, the Bank is projected to be profitable and "well-capitalized" after the merger and the Savings Association will cease to exist as a separate entity after the transaction. The OCC has not objected to the Bank's current business plan, approved in connection with its June 2, 2010 conversion to stock form. Based on the foregoing, the OCC concludes that the financial resources and future prospects of the Bank and the Savings Association are consistent with approval.

With respect to competitive factors, both institutions operate in the Baltimore, Maryland geographical market. As a result of the merger, the Bank's market share will change only minimally. In addition, the Department of Justice has not objected to the transaction. Therefore the OCC concludes the competitiveness considerations are consistent with approval.

With respect to convenience and needs of the community, the Bank will continue its current operations, as well as the Savings Association's existing operations. Further, the BMA Application indicates that there are no anticipated significant changes in, or discontinuation of, any services or products as a result of the merger, and the Bank does not propose to close the Savings Association's office. The Bank has represented that it will address the Savings Association's CRA deficiencies. Accordingly, the OCC concludes that convenience and needs considerations are consistent with approval.

With respect to CRA, the OCC takes into account the prior CRA performance of any savings association that engages in a transaction that requires OCC approval under the BMA. At its most recent examination, the Bank received a "Satisfactory" rating at its CRA examination. The Savings Association currently has a "Needs to Improve" CRA rating. In connection with the proposed transaction, the Bank represented that it would provide the former Savings Association customers with all the products and services it currently provides its own customers. In addition, the Bank has represented that it will address the Savings Association's CRA deficiencies. As a result, and because the Savings Association is disappearing after the transaction, the OCC concludes that approval of the BMA Application is consistent with the CRA.

With respect to anti-money laundering, the OCC must review the constituent institutions' records of compliance with anti-money laundering statutes and regulations as part of the analysis of any BMA transaction. The most recent compliance examinations of the Bank and the Savings Association include evaluations of their compliance with the Bank Secrecy Act (BSA). Based on the Bank's compliance record, the OCC does not object to the Bank's compliance with the BSA or any other anti-money laundering laws or regulations. Similarly, the Savings Association's most recent compliance examination did not identify problems regarding the Savings Association's compliance with such laws.

Based on the foregoing, the OCC concludes that approval of the proposed merger is consistent with the anti-money laundering criterion.

With respect to conformity with law, fairness, disclosure and advisory directors, the proposed transaction, if consummated as proposed, complies with all applicable laws. Appropriate publications have occurred, and disclosure materials relating to the proposed transaction have been filed with the appropriate regulators and will be provided to the Savings Association's members. Only one of the directors of the Savings Bank will join the board of directors of the Bank, and the rest will join an advisory board of the Bank. The OCC has determined that this arrangement is consistent with 12 C.F.R. § 163.22(d)(1)(vi). Accordingly, the OCC concludes that considerations pertaining to conformity with law, fairness, disclosure and advisory directors are consistent with approval.

Capital Distribution

The Savings Association has requested OCC approval, pursuant to 12 C.F.R. § 163.143, to make a capital distribution of between $170,000 at the minimum and $350,000 at the maximum or $453,500 million at the super-maximum to the Holding Company. The OCC's regulations provide that a capital distribution notice 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 the OCC or condition of approval.[6] The OCC does not object to the capital distribution. The proposed distribution does not raise safety and soundness concerns, it will not violate any prohibition contained in law, agreement with the OCC, or condition of approval, and the resulting institution, the Bank, will remain "well capitalized" after the distribution. Accordingly, the OCC concludes that the Savings Association's capital distribution is consistent with approval.

Conclusions

Based on the foregoing analysis, and subject to the commitments and representations made in the Conversion Application and by representatives of the Holding Company, and subject to the receipt of all other applicable regulatory approvals, the OCC concludes that the Conversion Application meets the applicable approval criteria. Accordingly, the Conversion Application is hereby approved, and the waivers of 12 C.F.R. §§ 192.105(a), 192.395(b), and 192.505, to the extent contemplated in the proposed transaction, are hereby granted, subject to the following condition:

> Promptly after the completion of the sale of all the shares of capital stock to be sold in connection with the Conversion, the Bank must submit to the OCC's Thrift Licensing Lead Expert (Lead Expert) in Washington, D.C.: (a) a certification by the Holding Company's chief executive officer stating that all the shares proposed to be sold have been sold, the price at which they were sold, and the date of completion of the offering; and (b) a statement by

[6] 12 C.F.R. § 192.146.

the Bank's independent appraiser that, to the best of his/her knowledge and judgment, nothing of a material nature has occurred (taking into account all of the relevant factors including those which would be involved in a change in the maximum subscription price) which would cause him/her to conclude that the sale price was not compatible with his/her estimate of the Holding Company's and the Bank's total *pro forma* market value at the time of sale.

In addition, for the reasons set forth above, and subject to the commitments and representations made in the BMA Application and Capital Distribution Filing and by representatives of the Holding Company, and subject to the recommended conditions, and subject to receipt of all other applicable regulatory approvals, the OCC approves the BMA Application and Capital Distribution Filing, to the extent contemplated in the proposed transaction, provided:

1. The Savings Association and the Bank must receive all required regulatory approvals, and submit copies of all such approvals to the Lead Expert, prior to consummation of the proposed transaction;

2. The proposed transactions must be consummated no earlier than 15 calendar days and no later than 120 calendar days from the date of this approval;

3. On the business day prior to the date of consummation of the proposed transactions, the chief financial officers of the Savings Association and the Bank must certify in writing to the Lead Expert that no material adverse changes have occurred with respect to the financial condition or operation of the Savings Association, and the Bank, respectively, as disclosed in the applications. If additional information having a material adverse bearing on any feature of the applications is brought to the attention of the Savings Association, the Holding Company, the Bank, or the OCC since the date of the financial statements submitted with the applications, the transactions must not be consummated unless the information is presented to the Deputy Comptroller for Licensing (Deputy Comptroller) and the Deputy Comptroller provides written non-objection to the consummation of the transactions;

4. The Savings Association must, within 5 calendar days after the effective date of the proposed transactions: (a) advise the Deputy Comptroller in writing of the effective date of the proposed transactions; and (b) advise the Lead Expert in writing that the transactions were consummated in accordance with all applicable laws and regulations, the applications and this approval; and

5. No later than 30 calendar days after the merger of the Savings Association with and into the Bank, the Bank must advise each accountholder whose withdrawable accounts in the Bank would increase above $250,000 as a result of the transaction, or whose uninsured

balance would increase as a result of the merger, of the effect of the transaction on deposit insurance coverage, and submit a copy of such notice to the Lead Expert.

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

The conditions of this approval are conditions "imposed in writing by a Federal banking agency in connection with any action on any application, notice, or other request" within the meaning of 12 U.S.C. § 1818. As such, the conditions are enforceable under 12 U.S.C. § 1818.

The conditions set forth in the Office of Thrift Supervision's April 15, 2010, letter approving the Bank's mutual-to-stock conversion and related filings remain in place.

Sincerely,

Stephen A. Lybarger
Deputy Comptroller for Licensing