

Transmittal



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With the attached final rule, the Office of Thrift Supervision (OTS) is revising its requirements governing the conversion of thrift institutions from the mutual to stock form of ownership. The final rule succeeds an interim final rule.

Included as part of the final rule is a requirement that a converting institution meet the "convenience and needs" of its community. OTS will henceforth consider a conversion applicant's performance under the Community Reinvestment Act (CRA) and other related factors in evaluating its application. The interim final conversion rule and the proposed companion "convenience and needs" rule were issued for public comment on May 3, 1994. The final conversion and "convenience and needs" rule becomes effective January 1, 1995.

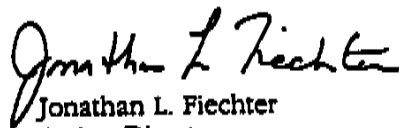
The final rule includes a significant change from the interim conversion rule in the local depositor preference (LDP) provision. LDP is optional rather than mandatory. This means a converting institution may adopt an optional provision in its plan of conversion that provides for a preference to "local depositors" if the conversion stock offering is oversubscribed. The final rule also deletes the 100-mile local area definition of the interim rule. The LDP designation now includes the metropolitan statistical area, all zip code areas corresponding to the converting institution's delineated CRA service area, and such other area or category designated by the institution in its conversion plan.

OTS did not make any provision for the transfer of conversion stock subscription rights in the new rule, and generally will not permit merger-conversions except in supervisory cases involving troubled institutions.

The rule makes the following additional changes:

- Revises the waiting period for management to seek a vote on funding management stock benefit and recognition plans (MRPs). Such votes may occur at an annual or special meeting held no earlier than six months after the conversion is completed. The rule retains the prohibition against the use of conversion stock to fund these plans, and requires stock options be priced at no less than the market rate at the time they are granted.
- Retains a one-year hiatus on stock repurchases by the institution, but gives OTS discretion to allow limited repurchases during the first year where compelling and valid business reasons are established.
- Generally prohibits appraisers or their affiliates from also serving as underwriters or selling agents under the same plan of conversion. Exceptions are where procedures are followed and representations made to ensure that an appraiser is separate from the selling agent affiliate, and the selling agent does not make recommendations or in any way impact the appraisal. No appraiser can receive any fee other than the fee for services in connection with the appraisal.

The final rule was published in the November 30, 1994, edition of the *Federal Register*, Vol. 59, No. 229, pp. 61247-61262



Jonathan L. Fiechter
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Attachment