

Press Releases

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OTS 00-61 - OTS Proposes Changes To Conversion, Mutual Holding Company Regulations

Office of Thrift Supervision

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Contact: William Fulwider

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OTS Proposes Changes To Conversion, Mutual Holding Company Regulations

WASHINGTON, D.C., July 11, 2000 - Concerned that the community focus is all too often lost or diluted when mutual thrift institutions convert to the stock form of ownership, the Office of Thrift Supervision (OTS) today launched a program to better enable institutions that wish to remain mutuals to do so.

OTS is pursuing a comprehensive regulatory strategy governing mutual institutions, mutual holding company reorganizations and the mutual to stock conversion process. The program involves:

- Issuing new policy and examination guidance for mutuals;
- Proposing regulations on mutual holding companies and the conversion process;
- Issuing an interim final rule on stock repurchases and mutual holding company dividend waivers; and
- Revising application forms used for mutual holding company reorganizations and the conversion process.

OTS Deputy Director Richard M. Riccobono said, "OTS has spent considerable time listening to the concerns of mutual thrift managers about their ability to increase returns, raise capital and appropriately compensate management, and the merits of converting to a stock institution. Many of them feel that OTS rules tip in favor of conversion, when, in fact, that is not our intention. In many respects, mutuals form the heart of the thrift industry. They are community based and focused and provide a safe place for community members to save, and they invest in their own communities through prudent credit programs."

He said there are still about 425 OTS-regulated mutuals, or nearly 40 percent of all thrifts regulated by the agency, and "the strategy we're undertaking now is to find ways to help improve their position if they want to remain a mutual."

Policy Guidance, Examination Procedures To Change

OTS is developing new analytical techniques, exam procedures and industry guidance to address many of the reasons some mutuals convert to stock and to improve supervision of

mutuals. The guidance will focus on capitalization, compensation, on-site exams and financial analysis of mutuals. The agency is exploring the feasibility of various capital-raising alternatives, such as subordinated debt, mutual capital certificates and non-withdrawable accounts.

Guidance on compensation will change to ensure that mutuals are governed by the same prudential standards as stock thrifts to help mutuals better attract and retain qualified managers and staff. In addition, OTS is revising exam procedures and enhancing analytical tools for assessing the overall financial condition of mutual thrifts.

OTS also is proposing significant enhancements to the mutual holding company (MHC) structure to make it more attractive as a long-term alternative to full conversion. The MHC can provide enhanced opportunities to raise capital while preserving attributes of mutuality.

Should the institution contemplate a full conversion, OTS is proposing that thrift officials meet first with the appropriate OTS regional office to discuss the proposed business plan before filing a conversion application. The proposed rule establishes written standards for an acceptable business plan, including the provision that it demonstrate a reasonable return on equity. The business plan must fully support the business objectives of the conversion.

OTS rules do not permit the acquisition of a converted thrift for a period of three years, but the agency has waived that provision after the first year, if the transaction was non-hostile and shareholders approved. OTS believes waivers are not always in the best interest of the institution, its community or shareholders, and, therefore, plans to fully consider existing regulatory standards before it will allow an acquisition within the first three years following conversion. The agency is notifying the public of this change in its practices.

Other provisions of the proposed rule, which will be published in Wednesday's Federal Register and allows 90 days for comment, cover:

1. special capital distributions by mutuals;
2. creation of a charitable organization in a conversion;
3. circumstances for accelerated vesting of management stock benefit plans; and
4. allocation of conversion proceeds in holding company conversions.

Interim Final Rule on Buybacks, Dividend Waivers and Other Matters

In its interim final rule, also to be published Wednesday, OTS will revise its stock repurchase regulations to conform to the regulations of other banking agencies. In particular, OTS will permit repurchases after the first year following conversion.

OTS is changing its rule regarding MHC dividend waivers to eliminate shareholder dilution. In the past, dilution occurred if OTS required converting MHCs to reduce the number of shares minority shareholders receive in an exchange of their shares for shares in the fully converted company to correspond to the amount of waived dividends. OTS believes the fear of such dilution caused a number of institutions to fully convert to stock form rather than remain MHCs.

Finally, OTS is changing its rules to conform to the MHC provisions of the Gramm-Leach-Bliley Act that allow MHCs to engage in the same types of activities as financial holding companies.

Interim Rule Repurchases of Stock by Recently Converted Savings Associations, Mutual holding Company Dividend Waivers, Gramm-Leach-Bliley Act Changes - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-61a.pdf>

Notice of Proposed Rulemaking Mutual Savings Associations, Mutual Holding Company Reorganizations, and Conversions from Mutual to Stock Form - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-61b.pdf>

Forms - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-61c.pdf>

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The Office of Thrift Supervision (OTS), an office of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at www.ots.treas.gov.