



PRESS RELEASE

Federal Deposit Insurance Corporation

November 22, 1994

FDIC ADOPTS FINAL RULE IMPOSING REQUIREMENTS ON MUTUAL-TO-STOCK CONVERSIONS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today adopted a final rule to address concerns about "insider" abuse and other troublesome aspects of conversions by FDIC-supervised mutual savings banks to stock form of ownership.

The new rule, which is the culmination of numerous steps the FDIC has taken this year to address conversion issues, combines elements of an interim rule adopted in February and a proposed rule issued for public comment in June. As with the interim rule, the FDIC will require advance notice of an institution's conversion plans and will have the authority to block a transaction if there are safety and soundness concerns, breaches of fiduciary duty or other violations of law. The final rule also adds new consumer protections in areas such as how the market value is set for the initial stock offering, how depositors must vote to approve a proposed conversion, and how windfall profits to the bank's management will be prevented.

Chairman Ricki R. Tigert said today: "The FDIC continues to believe that it is the decision of a bank's management and its depositors whether to remain in the mutual form of ownership. If a bank does choose to convert to stock form, the FDIC must make sure that the institution's value is fairly priced and fairly distributed, that insider abuse is prevented, and that the resulting institution is safe and sound. We believe the rule adopted today will help the FDIC meet those objectives."

Additionally, the FDIC has withdrawn the proposed policy statement issued in February 1994 and a separate request for comment -- called the "white paper" -- issued in May 1994 on certain fundamentals of the conversion process.



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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The final rule applies to the approximately 600 state-chartered mutual savings banks supervised by the FDIC. Federally chartered mutual savings banks and savings associations, of which there are about 1,600, are supervised by the Office of Thrift Supervision (OTS).

Chairman Tigert noted that the FDIC's conversion rule is consistent with an OTS rule expected to be issued soon. "The FDIC and the OTS are working closely to ensure, to the extent possible given somewhat different legal authority, that future conversions of mutual thrift institutions are governed by very similar and very high standards of safety and fairness," she said.

The FDIC rule will require a state-chartered mutual savings bank that proposes to convert to stock form of ownership to:

- Provide the FDIC with 60 days' advance notice of plans to convert. If the FDIC finds unfair or unsafe features, it can object to and prevent the consummation of the transaction;
- Submit a full, independent appraisal report on the institution's value as a way to prevent a bank's insiders or others from benefiting from an unrealistically low initial stock offering price;
- Have its depositors vote in favor of the proposed conversion before a change could take place;
- Not use proxies obtained from depositors in advance when they open an account (so-called "running" proxies) to vote in favor of a proposed conversion;
- Postpone implementation of any management benefit or stock option plans until after the conversion, in order to prevent conflicts of interest in management's decision to convert to stock form;
- Give eligible depositors a priority over other buyers, including employee stock ownership plans, in purchasing stock when it is first offered. The final rule permits but does not require a bank's management to give a preference to eligible local depositors as a way to discourage "professional depositors" around the country from placing funds in institutions solely to get special treatment in a stock offering;
- Not buy back its stock within the first year after the conversion, with a limited exception. Stock repurchased after one year would be reviewed by the FDIC on a case-by-case basis; and
- Submit a business plan detailing how capital acquired in the conversion will be used and what earnings are expected.

The final regulation does not prohibit conversions through a merger with an existing institution or an acquisition by a holding company. However, because of the history of abuses associated with these so-called "merger/conversions," the FDIC will closely scrutinize such transactions and those proposing such transactions will have to meet a strict burden of proof.

The existing interim rule will remain in place until today's action becomes effective on January 1, 1995.

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