



PRESS RELEASE

Federal Deposit Insurance Corporation

May 31, 1994

FDIC CONSIDERS NEW RULE, OTHER CHANGES INVOLVING MUTUAL-TO-STOCK CONVERSIONS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today decided to seek public comment on two separate approaches to preventing unfair or unsafe conversions of mutual institutions to stock form of ownership. One is a proposed regulation, for intended use in the near future, that would impose new requirements on state-chartered savings banks planning to convert to stock ownership. The other is a longer-term request for comments on whether and how the conversion process should be redesigned, either by the regulators or by Congress. The FDIC has taken a number of steps in recent months to address concerns about "insider" abuse and other troublesome aspects of conversions. In February, the FDIC issued an interim rule requiring state-chartered savings banks to give the FDIC advance notice of conversion plans and the opportunity to object to a transaction. The new proposed rule generally would require FDIC-supervised, state-chartered mutual savings banks -- of which there are about 600 -- to comply with new standards and limitations if they plan to convert to stock form. It would closely track revised rules issued on May 3rd by the Office of Thrift Supervision for conversions of federally chartered savings and loan associations.

Included in the FDIC proposal are provisions that would require a state savings bank proposing to convert to stock form to:

- Submit to the FDIC a detailed, independent appraisal of the institution's market value, including a "peer group" analysis and a projection of future earnings. This would help prevent bank "insiders from benefitting from an unrealistically low stock offering price.
- Have the depositors vote in favor of the proposed conversion before the conversion change could take place, even if a vote is not required by state law.



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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Also, an institution's management could not use proxies obtained from depositors when they open an account (so-called "running proxies") to vote in favor of a proposed conversion.

- Follow strict limitations on the price and timing of stock options and stock benefit plans given to the management. These restrictions are intended to prevent actual or apparent conflicts of interest in management's decision to convert from mutual to stock form.

Other proposed restrictions are aimed at preventing windfall profits for either "professional depositors" (those who place small amounts in accounts at mutual institutions around the country in anticipation of favorable stock prices if an institution converts) or for employee stock ownership plans (ESOPs), at the expense of long-term depositors.

Comments on the proposed rule will be accepted for 30 days after it appears in the Federal Register.

The second action taken today is a request for comments on how to deal with fundamental flaws in the conversion process that have become apparent now because of the healthy state of mutual savings institutions. "The basic issue is the proper and equitable transfer of the pre-conversion value of converting mutual banks and thrifts," FDIC Chairman Andrew C. Hove, Jr., said today. "Is that value currently going to the right parties? To whom and how should that value be transferred? Who should make these determinations? Those, among others, are the difficult questions addressed." Comments are due 60 days after the notice appears in the Federal Register.

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