



PRESS RELEASE

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February 8, 1994

FDIC ADOPTS INTERIM RULE REQUIRING REVIEW OF MUTUAL-TO-STOCK CONVERSIONS

FOR IMMEDIATE RELEASE

The FDIC Board of Directors today adopted an interim rule that will enable the agency to formally review and, if necessary, prevent unfair or unsafe conversions of FDIC-supervised savings banks from mutual to stock form of ownership.

The rulemaking, which will become effective when it is published in the Federal Register, was taken under expedited procedures that include a waiver of the customary delayed effective date. This is intended to permit the FDIC to quickly begin reviewing pending and future conversions.

The decision is the latest by the FDIC to address transactions where officers, directors and other "insiders" at converting savings banks may be unjustly enriched at the expense of the institution's depositors, other customers and the FDIC's insurance fund. Among the concerns are that, in some cases, insiders may set the stock offering price well below the true value of the institution, or they may obtain more than a fair share of the stock subscription. Excessive compensation packages also are a concern.

Under the interim rule, an FDIC-supervised state-chartered savings bank must provide the appropriate FDIC regional office with advance notice of its plans to convert from mutual to stock form, as well as copies of all application and disclosure materials. The FDIC then has 60 days from the receipt of a complete notice to review the conversion plan before it can be consummated, although the agency can extend the review period for another 60 days. A proposed conversion could not be consummated if the FDIC objects within the allotted time. If the FDIC notifies the savings bank that it has no objection to the transaction or if the FDIC does not respond within the allotted time, the conversion may be completed.



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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This interim rule departs from the FDIC's past practice of suggesting to other federal or state regulators that modifications be made in a conversion plan.

FDIC Chairman Andrew C. Hove, Jr., said: "The FDIC joins with members of Congress and fellow regulators in having serious concerns about the potential for insider abuse and unsound banking practices when a mutual institution converts to stock form of ownership. While not all conversions present a problem, we believe the public interest is best served if the FDIC quickly begins to review individual cases and, where necessary, prevents abusive transactions from taking place."

Today's action follows a decision by the FDIC's Board on January 24 to seek public comment on the adequacy of existing federal and state conversion laws and regulations, as well as on alleged abuses that may have occurred in conversions. That proposal also includes draft guidelines in areas such as: (1) the correct pricing of the stock; (2) the fair apportioning of the stock; and (3) adequate and timely disclosure of all relevant information that interested parties need to make an informed investment decision. Written responses to this January request are due by March 18.

The agency will accept comments on today's interim rule for 30 days after it is published in the Federal Register. Based on the FDIC's experience reviewing transactions and the public comments received on both the interim rule and the January proposal, the FDIC will decide within the next few months on a final approach toward the broad issues of regulating and supervising conversion transactions.

Last Updated 07/13/1999

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