PRESS RELEASE
Federal Deposit Insurance Corporation

January 28, 1994

FDIC REVIEWING MUTUAL-TO-STOCK CONVERSIONS, POSSIBLE NEW SAFEGUARDS

FOR IMMEDIATE RELEASE

The FDIC has announced a thorough review of all aspects of the regulation and supervision of conversions by thrift institutions from mutual to stock form of ownership. Particular attention will be paid to transactions where officers, directors and other "insiders" at savings banks regulated by the FDIC may reap excessive "windfall" gains when their institution converts from mutual to stock form.

Among the concerns is that, in some cases, insiders at mutual savings banks may set the stock offering price well below the true value of the institution, or they obtain more than a fair share of the stock subscription. Excessive compensation packages also are of concern. These activities unjustly enrich the insiders and often deny the converting institution all of the capital it should receive from the stock offering to protect depositors and the FDIC'S insurance fund.

The conversion issue has received considerable attention after a number of mutual savings associations recently structured their conversions to stock ownership presumably so that oversight of the transaction would be switched from the Office of Thrift Supervision (OTS) to the applicable state regulator. Questions are being raised whether some state laws governing these transactions may be less stringent than the OTS rules, and even whether the OTS regulations are adequate. Although the FDIC makes comments to the OTS, the Federal Reserve or the state regulator in individual conversion transactions, the FDIC now is considering adopting its own safeguards for depositors and the insurance funds.

On January 24, the FDIC Board agreed 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. The FDIC proposal also includes draft guidelines in areas such as: (1) the correct pricing of 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.

Also, on January 26, FDIC Chairman Andrew C. Hove, Jr., testified before a subcommittee of the House Banking Committee that the conversion process probably should include: (1) the issuance to depositors of stock purchase rights, which either could be exercised or sold in an established rights market; (2) authority for anyone to purchase these stock rights, subject to appropriate disclosures and procedures; and (3) a requirement that the thrift pay for an independent financial advisor for the depositors.

Chairman Hove also said that FDIC regional offices are being instructed to review each pending conversion transaction involving state-charted banks supervised by the FDIC and, where appropriate, to ask a bank for modifications in those plans. This departs from the FDIC's past practice of suggesting that another federal or state regulator seek modifications in conversion plans. Also, if insider abuse, fraud or other violations of safety and soundness rules are suspected, the FDIC will consider appropriate enforcement actions.

Written responses to the FDIC's request for information and comments on the proposed policy statement are due 45 days after publication in Federal Register. The agency also is considering the development of an enforceable regulation to further safeguard the propriety of these transactions.