April 8, 2002

OTS 02-16 - Gilleran Announces New Proposal for Enhancing the Mutual Thrift Charter

Office of Thrift Supervision

FOR RELEASE at 10:00 A.M. EDT	For further information
Monday, April 8, 2002	Contact: Chris Smith
OTS 02-16	202/906-6677

Gilleran Announces New Proposal for Enhancing the Mutual Thrift Charter

WASHINGTON - As part of an on-going, comprehensive review of the treatment of mutual thrifts, the Office of Thrift Supervision (OTS) is proposing rule changes governing mutual thrifts, mutual holding companies and mutual-to-stock conversions.

"Today's proposal is part of a comprehensive strategy for regulating mutual institutions and the mutual-to-stock conversion process," said Director James Gilleran in announcing the proposed changes. "Along with new examination guidance issued last November, this proposal will help ensure that mutuality continues to be a vital and viable business model," said Gilleran, "and at the same time every thrift has the ability to choose the organizational structure that is best suited to its business plan and strategy."

Mutuals are cooperative institutions and tend to be community-based. Initially, the entire thrift industry was made up of mutual institutions. There are currently approximately 400 OTS-regulated mutuals, plus approximately 60 OTS-regulated mutual holding companies, about half of which have publicly traded subsidiaries. Mutual institutions make up almost 40 percent of all OTS thrifts, and control approximately 7 percent of the industry's assets.

The OTS proposal, which appears in tomorrow's Federal Register, is a follow-up to a proposed rulemaking that appeared in the July 12, 2000, issue of the Federal Register. OTS made extensive changes to the original proposal as a result of public comments received. In addition, the new proposal reflects additional guidance issued by OTS in the intervening 18 months covering several areas addressed by the original proposal.

The new proposal includes significant changes to the initial proposal relating to business plans. It eliminates a requirement for thrifts to obtain a "non-objection" letter from OTS for a business plan before applying to convert from mutual-to-stock, permits stock repurchases to be included in business plans and clarifies how the standards for approval of a business plan are applied.

OTS continues to encourage mutual associations seeking new capital to consider the mutual holding company form of organization as an alternative to a full conversion. The elements of the initial proposal intended to enhance the attractiveness of the mutual holding company option remain unchanged in the new proposal. However, OTS does not favor any one particular form of organization over any other, and the changes to the mutual holding company structure are intended simply to expand the options available to savings associations by making the mutual holding company format a long-term alternative.

The current proposal also addresses the issue of "remutualization," in which a mutual holding company with a publicly traded subsidiary is taken over by a mutual institution. OTS's proposal would allow subsidiaries of mutual holding companies to adopt similar post-conversion anti-takeover provisions to those stipulated for standard conversions, to allow newly-converted mutual holding companies time to implement their business plan before becoming takeover targets.

In response to public comments, OTS has placed an additional limit on management benefit plans for mutual holding companies. In addition to the existing restrictions, the amount of stock permitted to be allocated at the time of reorganization to management benefit plans -- excluding employee stock option plans -- would be limited to not more than 25 percent of the number of shares issued to minority shareholders in the public offering.

Another provision would allow checking account holders to participate in initial public offerings by converting mutuals. The new proposal would also codify the rules on establishing charitable foundations in connection with a conversion. To date, OTS has allowed converting thrifts to fund a charitable foundation with a portion of their stock on a case-by-case basis.

OTS is converting its rules governing mutual-to-stock conversions into a plain language format. Regulations covering mutual holding companies may be translated into plain English at a future date.

In addition to the proposed changes to regulations, the OTS's strategy for regulating mutuals also includes new examination guidance specifically tailored to mutual institutions, issued by OTS in November after a detailed review of its examination procedures; revised guidance on executive compensation for mutuals, helping them to attract and retain personnel; changes in the way OTS compares mutuals with other institutions, designed to remove perceived regulatory pressures to convert to stock; and -- as part of today's proposal -- improvements to the forms used in the conversion application process.

Copies of both the July 12, 2000, proposal and the new proposal may be found on the OTS website, www.ots.treas.gov.

New Proposal - http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-16a.pdf

Original Proposal - http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-16b.pdf

Form AC - Application for Conversion - http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2002-16c.pdf

###

The Office of Thrift Supervision (OTS), a bureau 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.