PROVIDING PERMANENT RESERVE STOCK POWERS
FOR THRIFT INSTITUTIONS
AS AN INCENTIVE FOR REINVESTMENT

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About the Authors

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Rozran is a member of the Health Facilities Planning Board of the State of Illinois which determines policies and regulates capital expenditures for health care facilities in the State. Previously, she served as Vice President and Housing Chairman of the League of Women Voters of Chicago, and is still active in the Chicago and Illinois League on committees related to housing, local government and urban public policies. She participates in the Chicago Regional Housing Study and Action Group.

She has recently been engaged in efforts seeking a linkage between savings and loan association conversion approval and reinvestment obligations at both state and federal levels. She has written numerous papers and articles on the role of public policy in urban areas, including "City Finance" which appeared in Chicago's Future: An Anthology of Reports, Speeches and Scholarship Providing an Agenda for Change (Stipes Publishing Company, 1976).

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Dr. Rosser also serves as a public interest member of the Illinois Savings and Loan Board. In that capacity, he has been instrumental in securing public hearings regarding conversions of state-chartered savings and loan associations and in developing an Illinois conversion policy which is reinvestment-oriented.

His professional memberships include the American Society of Planning Officials and the National Association of Housing and Redevelopment Officials. His recent publications are as follows: Maintaining Viable Communities: The Investment-Disinvestment Process and Some Strategies for Housing Maintenance and Rehabilitation in the Pilsen Community of Chicago (with Calvin Bradford); "Aurora, Illinois: A Case Study of a Low- and Moderate-Income Housing Set-Aside Ordinance;" "Using State Regulatory Authority to Stimulate Prudent Lending In a Changing Environment" (with Calvin Bradford and Stanley Hallett); Demand, Supply and Marketing of Single-Family Mortgage Credit (with Calvin Bradford and Dennis Marino); "Tying Bank Privileges to Performance."

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Summary

This paper discusses how government can use its regulatory powers to provide incentives for thrift institutions to meet the thrift and credit needs of mature communities. It demonstrates this strategy by linking the granting of a privilege sought by the thrift institution—in this case, approval to convert from a mutual to a stock association—with the institution's performance on reinvestment.

This paper suggests that an applicant for conversion be required to demonstrate that the association will provide in- creased thrift and credit services to its chartered service area following conversion. The author suggests that such a linkage of privilege and performance would permit government to provide incentives to the private sector to help accomplish public goals.

The author notes that at the present time, Missouri law permits only the mutual form of ownership for both state and federally chartered savings and loan associations located in the state. She suggests that should this strategy have sufficient appeal, the Savings and Loan Law might be amended to permit conversions under conditions which would benefit reinvestment.

PROVIDING PERMANENT RESERVE STOCK POWERS FOR THRIFT INSTITUTIONS AS AN INCENTIVE FOR REINVESTMENT

Introduction

"Technically, the conversion process [from a mutual to a stock form of ownership] involves the granting of a new charter. Thus, it invokes all the obligations of chartering. When an institution applies for a charter, the applicant may see such a process as an imposition. Actually, regulation may be viewed as a privilege, and the chartering process may be likened to franchising. However, as one astute housing lawyer put it, they get more than the right to use golden arches, secret recipes or the picture of a benign, old white-haired gentleman; they get federal deposit insurance and protection from too much competition. The monitoring functions of state and federal regulators attempt to insure that the decisions and management of the institutions always result in a reasonable profit. All this is done in the name of protecting the deposits of the public. But in return for all this protection from external conditions or from their own poor judgment, institutions are required, in their charters, to serve the credit needs of areas specifically defined in their charter application. This service is the other side of the coin of the protection of regulation."[1]

This paper discusses how government can use its regulatory powers to provide incentives for thrift institutions--that is, savings and loan associations--to meet the thrift and credit needs of mature communities. It demonstrates this strategy by linking the granting of a privilege sought by the thrift institution--in this case, approval to convert from a mutual to a stock association--to the institution's demonstration that it will meet the thrift and credit needs of its chartered service area after its conversion.

This strategy is predicated on the view that savings and loan associations (S&Ls), like other regulated financial institutions, are the beneficiaries of numerous special privileges that generally are not available to privately capitalized businesses. Some examples of these privileges follow. First, S&Ls enjoy market area protection due to regulated entry, benefit from public protection against price competition, and are permitted to pay an interest rate exceeding the maximum rate which banks may pay by one-fourth point. The result of these privileges is that most S&Ls pay the maximum interest rate, and depositors have no price incentive to switch S&Ls but do have a price incentive to prefer saving in S&Ls over banks. Second, the Federal Savings and Loan Insurance Corporation (FSLIC) insures each S&L depositor up to $40,000 against loss of deposited funds. This federal security blanket alleviates consumer concern about the soundness of his S&L and the competence of its management because if an S&L fails, he will most probably be protected. As a result, there is no safety incentive for consumers to switch S&Ls. Third, S&Ls are authorized to open branch offices. This privilege permits them to solicit deposits and to make loans in areas which are often geographically removed from their original service area. As a result, S&Ls generate additional income.

Since S&Ls, like other regulated financial institutions, are recipients of these privileges from government, as a public policy matter the additional privileges these institutions seek might be linked to their performance in meeting the thrift and home-lending needs of areas they are chartered to serve. Savings and loan associations which neglect the needs of areas they are chartered to serve but choose to pursue more profitable lending opportunities elsewhere create serious social and fiscal consequences for neighborhoods whose life chances are improved enormously by the prudent inflow of capital and credit.

Approval of applications for conversion of savings and loan associations from mutual to stock institutions is an example of the granting of a privilege which might be linked to performance.

A conversion of a savings and loan association from mutual ownership to ownership by stockholders is a reorganization of the association from a form of cooperative ownership by depositors to private ownership by stockholders. The effect of conversion is to transfer the net worth of an institution and the voting rights in the institution from its depositors to private investors who obtain an equity position in the corporation.

Conversions affect parties both inside and outside the savings and loan industry. Parties outside the industry who are affected include the depositors, stock purchasers, and residents of the communities in which the savings associations are located. Conversions also affect the general public because they represent a privilege granted by financial regulators to savings associations which results in increased profitability of the associations. The focus of this paper will be on how regulators can use conversions as incentives to promote reinvestment in the communities served by converting institutions.

Structure of Ownership of Savings and Loan Associations

Mutual v. Stock Associations

Savings and loan associations may be either mutual or stock associations. Mutual S&Ls are cooperatively owned by depositors. Ownership of the net worth[2] is vested in the depositors, while voting rights for election of board of directors are vested in the membership of the mutual association, which includes both depositors and borrowers. In reality, most members waive their voting rights by signing revocable proxies, which assign their voting rights to a designee of management. There are no stockholders in mutual S&Ls because mutuals are owned by the depositors in the institution who are entitled, on a pro rata basis according to their share of the deposits, to the value of the association in the rare event it is liquidated. This entitlement is in addition to depositors' individual savings account holdings. When an account is closed, the depositor receives the balance of his account but forfeits his ownership interest.

Stock S&Ls, of which there are several forms, are privately owned by stockholders. Ownership of the net worth of a stock S&L and the voting rights in that association are vested in the investors who have purchased outstanding equity stock which represents the value of the association. The stock can be traded, which means that ownership of the association may be purchased and sold. If the profits of the stock S&L permit, investors may receive dividends on earnings, which are issued in addition to interest on deposits.

Depositors at a stock S&L own only their own savings accounts on which they continue to receive interest, and they have no voting rights in elections of boards of directors or policy issues. Depositors in a stock S&L which converted from a mutual association do not lose their rights to the net worth of the previous mutual association in the event of a complete liquidation, provided that they retain the savings balance which they maintained immediately prior to conversion.[3]

Federal and State Charters

Savings and loan associations may be either federally-chartered or state-chartered.

Federally-chartered S&Ls are chartered under the Home Owners Loan Act of 1933,[4] a federal law, and are regulated and supervised by the Federal Home Loan Bank Board (FHLBB).

Until 1974, all federally-chartered S&Ls were required to be mutual associations. Under a 1974 amendment to the National Housing Act,[5] a limited number of test conversions were permitted with provisions for such converting institutions to retain their federal charters.[6]

The Comptroller General of the United States concluded that the moratorium on conversions expired on June 30, 1976, and that federally-chartered mutual associations which converted to stock corporations after that date could not retain their federal charters.[7] Sixteen federally-chartered mutual associations received FHLBB approval to convert to federally-chartered stock corporations after June 30, 1976. The Comptroller General's opinion placed the status of these institutions in doubt. There has not been congressional action to clarify the situation. However, there are currently bills pending in both houses of congress regarding conversions.[8] One bill would permit conversions and one would prohibit conversions.

Missouri state-chartered S&Ls are chartered under the Missouri Savings and Loan Law[9] and regulated and supervised by the Division of Savings and Loan Supervision.

In Missouri, all savings and loan associations, whether federally or state chartered, appear to be required to be mutual associations.[10] Missouri did at one time permit stock associations, but these are now prohibited by law.[11]

Currently, twenty-seven states permit state-chartered associations to operate under a stock charter.[12]

Federal and state charters may be exchanged on a reciprocal basis with a specified application and approval process under the 1948 amendments to the Home Owners Loan Act of 1933,[13] which specify clear and explicit conditions for such an exchange of charters, and under application provisions of Missouri law.[14]

The Conversion Process

Depending on the type of conversion undertaken, conversions may involve merely the reorganization of ownership of the S&L from a form of cooperative ownership by depositors to private ownership by stockholders or they may include the infusion of additional capital.

Conversions of federally-chartered S&Ls undertaken under a 1974 law which permitted such conversions on an experimental basis without the loss of federal charter were permitted to take one of three forms: conversion by distribution of stock to depositors at no cost, conversion by creation of a public trust to hold the beneficial interest in the converted institution, and conversion by sale of stock. No public trust conversions have been undertaken. After approving two conversions by no cost distribution of stock to depositors, the FHLBB concluded that free distribution was not a good idea since (1) it could encourage account shifting by savers interested only in qualifying for stock distributions and (2) it rewarded current depositors from value accumulated over many years by previous depositors. All other conversions of federally-chartered S&Ls have been by sale of stock.

Whatever the form of conversion, plans for conversion typically are initiated by management of the converting association, and the conversion process requires preparation of a "plan of conversion." The plan must be approved by all of the following:

---the association's board of directors

---the association's depositors and borrowers which constitute its voting membership

---the Federal Home Loan Bank Board (FHLBB)

---in addition, if the association is state-chartered, the conversion generally must be approved by the state regulator

The process of conversion is completed when an association, having obtained the necessary approvals, adopts a new charter and issues stock to those who have purchased it.

Conversion--A Controversial Issue

Conversion is currently a controversial issue and has generated a fair degree of public interest.

Arguments Supporting Conversion

Advocates of conversion provide several arguments supporting conversions. First, they contend that the process permits savings associations to raise additional capital to permit continued expansion of lending while continuing to meet net worth requirements which are set by the FHLBB to protect savers against any loss which may be incurred on the S&L's assets (e.g., outstanding loans).

It has been reported that "Savings and loan associations have experienced restrictions on growth and problems in meeting net worth established by the Federal Home Loan Bank Board. They saw a stock form of ownership as a means of growing and improving their net worth position."[15]

The alternative methods of increasing the funds available for lending both appear unsatisfactory. The first alternative, undertaking debt financing, is not currently available to mutual associations. However, it is available to stock corporations following conversion. The second alternative, generating additional deposits for the S&L, is generally viewed as a slower process than the sale-of-stock method and may not result in increased capital, but merely in a transfer of capital from one S&L to another.

Second, advocates suggest that the stock corporation which results from conversion has increased flexibility and is better able to compete against commercial banks, which operate in the stock form.

Third, advocates of conversion suggest that a stock corporation will be able to attract and compensate qualified employees because of its ability to offer stock options.

<u>Agruments opposing Conversion</u>

Opponents of conversion provide several arguments. First, they contend, that among the associations proposing to convert are those with insufficient reserves which see the sale of stock and resulting generation of additional capital as a panacea for what may be fundamental management deficiencies in the association.

Second, because of the reserve requirements for S&Ls, institutions which are rapidly growing by generating additional deposits must continually increase the size of their reserves, so that the need for the infusion of additional capital may occur repeatedly. This very concern has been raised by Kenneth Virch, Executive Director of the Council of Mutual Savings Institutions:

> Conversion is a "one shot" solution to the mutual S&L's problem, destroying the mutual in the process. Experience indicates that after

> conversions, the problem still exists. Usually the concerned association cannot go back to the market for another stock offering.[16]

Experiences with converted associations indicate that the problem of insufficient reserves for a growing institution may not be resolved by one infusion of new capital, and some associations have issued another stock offering following conversion.[17] This situation raises the basic question of whether the net worth requirements for savings and loan associations are appropriate and whether a change in those requirements would eliminate the most frequently stated reason for conversion.

Third, some opponents also contend that associations owned by stockholders will be less inclined than are mutual associations to serve their communities' credit needs since managers of stock companies must put first priority on earning the highest return on invested capital. In many cases, management perceives that loans on existing housing in mature communities carry slightly higher risks and makes the decision to invest a substantial portion of the loan portfolio--including that which represents savings deposits from neighborhood depositors--in new housing in suburban locations. Such decisions have been made by management of both mutual institutions and stock corporations. However, because of the stock corporations' need to maximize profit, the flow of capital from mature communities to recently-developed communities may become even more pronounced following conversion.[18]

Public Interest Implications of Conversions

The conversion issue has created considerable recent interest within the savings and loan industry, and members of the industry have taken positions on both sides of the issue. Although approximately 15% of the S&L business is currently in stock associations, not all S&Ls favor conversion. In fact, among the opponents is an organization of savings and loan associations. Groups outside the savings and loan industry have also exhibited recent interest in the conversion issue. Many of those interested are concerned about the public interest implications of conversions and wish to insure the interests of three groups affected by conversions: the current depositors, the stock purchasers, and the residents of the association's chartered service area.

Protecting the Interest of Current Depositors and Stock Purchasers

Conversions are of some importance from a public interest perspective because the net worth of a converting institution, accumulated over years of operation and derived from the savings of many depositors, is transferred to purchasers of stock without compensation to depositors. In addition, the institution's net worth beyond value at the time of conversion--in which each depositor previously had a pro rata interest so long as he/she remained a depositor--now is available to depositors only if they purchase the stock.

A recent study by the U.S. Comptroller General[19] has indicated a number of areas of inequity in conversions and areas in which the conversion objective of broad participation by depositors and lack of "windfall profits" to insiders (members of management and their associates) was systematically undermined. Remedies for some of these inequities have been proposed,[20] but at the end of 1977, none have been adopted.

Providing Thrift and Credit Services to the Community

Protecting the thrift and credit services of residents of the association's primary service area is important because both federally- and state-chartered S&Ls are chartered to serve local thrift and home lending needs.[21]

Dr. Calvin Bradford recently compared the conversion process to the granting of a new charter to a savings and loan association and, as such, viewed Federal Home Loan Bank Board approval of an application for conversion as the reestablishment of a commitment on the parts of both the S&L and the regulatory body that the converting institution will serve the thrift and credit needs of its local service area.

> The conversion process allows the regulators an opportunity to examine not simply the promises to serve an area as yet unserved, as would be the case in the original charter, but to examine the past efforts of the institution to meet the credit needs of the areas defined in the original charter, or those areas which have become their service area, de facto, as the deposit and lending base has spread beyond original charter definitions.... The issuing of a new charter ought to be restricted to those institutions which can demonstrate that they have fulfilled the obligation of their old charter. If conversion involved nothing more than the simple issuing of a new charter, it would still demand an assessment of the institution's ability to meet the service requirements attached to that charter.[22]

Criteria have been proposed for evaluating applications for conversion in order to insure that savings associations which convert will serve the thrift and credit needs of their communities following conversion.[23] The Illinois Savings and Loan Board in November, 1977, recommended to the Illinois Savings and Loan Commissioner a series of policies for evaluating applications for conversion.[24] These policies, if adopted by Commissioner Griffin, will require Illinois state-chartered associations proposing to convert to designate their current service area and to document how they intend to meet the thrift and credit needs of that service area following conversion to a stock institution.

Providing Stock Powers As An Incentive for Reinvestment

The conversion issue can be the focus of a reinvestment strategy developed from the perspective that government can provide incentives to the private sector to help accomplish public goals by harnessing what Charles Schultze, Chairman of the President's Council of Economic Advisors, calls "the 'base' motive of material self-interest."[25] According to this view, government can offer thrift institutions an incentive by approving conversions and can insure that approvals of conversion applications will help accomplish public goals by requiring, as a condition of conversion, that credit be made available in older neighborhoods.

This approach differs from the traditional view that the privileges financial institutions seek--such as approval to convert--must be characterized as good or bad in and of themselves. This strategy judges conversion in relation to its effect on savings associations' performance in their chartered service areas and, as such, considers it to be potentially useful in offering an incentive for reinvestment.

Problems and Possibilities

Implementation of this strategy faces two problems.

First, an incentive strategy related to conversions cannot be implemented at this time in Missouri because state law appears to permit only the mutual form of ownership for both state- and federally-chartered savings and loan associations located in the state. Should this strategy have sufficient appeal, it would be appropriate to consider amending the Savings and Loan Law to permit conversions under conditions which would benefit reinvestment.

Second, the strategy provides an opportunity to evaluate a savings and loan association's plan to serve its service area, but it does not provide sanctions in the event that the association fails to comply with its stated intentions. Unless some means of insuring adherence to the plan can be developed, it is conceivable that institutions will submit acceptable proposals for meeting the thrift and credit needs of their communities, secure approval of their applications for conversion, and then fail to comply with their approved plans.

This linkage of "privilege" and "performance" is an appropriate and potentially valuable utilization of the regulatory power. If the necessary legislative changes were made to permit its implementation, this strategy offers an incentive for thrift institutions to voluntarily reinvest in mature communities in order to obtain the privileges they seek--the right to secure a new charter which permits them to convert from a mutual to a stock association.

A modification of this strategy which requires a financial institution to demonstrate its past "performance" in order to obtain "privileges" from government was adopted recently by the federal government.[26] The Community Reinvestment Act of 1977 requires that the record of a financial institution in "meeting the credit needs of its entire community, including low- and moderate-income neighborhoods" be "take[n] into account in its evaluation of an application for a deposit facility," which includes branches, relocations, mergers, deposit insurance, and charters. The Community Reinvestment Act of 1977 is not yet effective.

The use of government powers as an incentive for some desired action is a strategy which is new to the regulatory field but has been used for many years by the Internal Revenue Service as it offered tax incentives for a variety of investments. It might be considered as offering potential for encouraging the private sector to help accomplish reinvestment in mature communities.

Footnotes

1. Calvin Bradford, "Statement Before the Illinois Savings and Loan Board Concerning the Conversion of State-Chartered Mutual Savings and Loan Associations to Stock Corporations," Chicago, August 23, 1977.

2. Net worth is the value of an S&L as a corporation, based on profits which are built up from the use of the association deposits over its years of operation. Net worth is calculated by subtracting the liabilities from the assets of the association and includes the total reserves of the association, retained earnings which have not been paid out as interest and/or dividends (undivided profits, surplus), and capital stock, if any. Reserves are funds from an S&L's earnings which are required to be set aside to take care of possible losses incurred in the course of business. Minimum levels of reserves are specified by the Federal Savings and Loan Insurance Corporation (FSLIC), which insures savings and loan association deposits.

3. Depositors in the stock S&L which converts from a mutual association have rights to a pro rata share of a liquidation account which equals the net worth of the institution prior to conversion and is to be distributed only in the event of a complete liquidation of the association. The depositors' individual interest in the liquidation account is reduced if the deposit balance is decreased subsequent to conversion and eliminated if the account is closed.

4. Home Owners' Loan Act, U.S. Code, Vol. 12, Secs. 1461-1470 (Supp. 1977).

5. U.S. Code, Vol. 12, Sec. 1725 (j).

6. Federally-chartered savings and loan associations in Missouri appear to be prohibited from converting to stock corporations according to provisions of the Savings and Loan Law, Vernon's Annotated Missouri Statutes, Chap. 369.364 which specifies that all "laws of this state for associations organized under the laws of this state and for the members and savings and deposit account owners thereof and all such laws shall apply to such associations and the members thereof." (Emphasis added.)

7. Legal opinion of the Comptroller General of the United States with respect to whether a federal mutual savings and loan association converting to the stock form of organization after June 30, 1976, may, under 12 U.S. Code, Sec. 1725 (j)(3), retain its federal charter. Reference No. B-114827, July 8, 1977.

8. U.S. Congress, House, A Bill to Prohibit the Conversion of Certain Depository Institutions from the Mutual to Stock Form of Organization, H.R. 8610, 95th Cong., 1st Sess., 1977, p.1; U.S. Congress, Senate, A Bill to Extend the Moratorium on Conversions of Insured Savings and Loan Associations, and for Other Purposes, S. 2091, 95th Cong., 1st Sess., 1977, pp.1-9.

9. Savings and Loan Law, Vernon's Annotated Missouri Statutes, Chap. 369.010-369.369.

10. Savings and Loan Law, Vernon's Annotated Missouri Statutes, Chap. 369.364.

11. Council of Mutual Savings Institutions, "A Survey...The Threat of 'Conversion' of Mutual Savings and Loan Associations to Capital Stock– and Their Acquisition by S&L Holding Companies," New York, undated, p.10.

12. Ibid.

13. Home Owner's Loan Act, U.S. Code, Vol. 12, Sec. 1464(i).

14. Savings and Loan Law, Vernon's Annotated Missouri Statutes, Chap. 369.069, 369.074.

15. Comptroller General of the United States, Changing Ownership of Mutual Savings and Loan Associations--An Evaluation, Report to the Senate Committee on Banking, Housing, and Urban Affairs, FOD-77-10, Reference No. B-114827("GAO Report"), May 20, 1977.

16. Kenneth Virch, "Conversions of Mutual S&Ls into Capital Stock S&Ls Viewed Skeptically," American Banker, August 12, 1977, p.19.

17. Robert Scharfman,"Oral Testimony Before the Illinois Savings and Loan Board," Chicago, August 23, 1977.

18. For a discussion of profit maximization in mutual and stock associations, see Henry C. Wallich, Mutuality--Past and Future (New York: Council of Mutual Savings Institutions, undated), pp.18-22.

19. Comptroller General, Changing Ownership of Mutual Savings and Loan Associations.

20. A bill which proposes to remedy these inequities has been introduced into the U.S. Senate by William Proxmire, Chairman of the Senate Committee on Banking, Housing, and Urban Affairs: A Bill to Extend the Moratorium, S. 2091. Testimony presented to the Illinois Savings and Loan Board also proposed remedies for these inequities: Andrea R. Rozran, "Testimony Before the Illinois Savings and Loan Board," Chicago, August 23, 1977.

21. Home Owner's Loan Act, U.S. Code, Vol. 12, Sec. 1465; Savings and Loan Law, Vernon's Annotated Missouri Statutes, Chap. 369.019.3(3).

22. Bradford, "Statement Before the Illinois Savings and Loan Board," pp.2-3.

23. Bradford, Ibid, pp.8-10; Rozran, "Testimony Before the Illinois Savings and Loan Board," pp.5-6.

24. See Appendix A for a copy of the Resolution of the Illinois Savings and Loan Board.

25. Charles L. Schultze, "The Public Use of Private Interest," Harper's Magazine (May, 1977): 43-62.

26. Community Reinvestment Act of 1977, U.S. Code, Vol. 12, Sec. 2901.

APPENDIX A

Resolution of the Illinois Savings and Loan Board:

WHEREAS, Illinois Savings and Loan Commissioner Timothy E. Griffin requested at our meeting held on May 24, 1977 that the Illinois Savings and Loan Board recommend regulations for the conversion of State-chartered savings and loan associations from mutual to stock; and

WHEREAS, the Board has used the major portion of our time at our meetings since then on this subject and we have held public hearings to obtain testimony on this matter; and

WHEREAS, testimony at these hearings gave a wide range of opinions, all of which have now been given due consideration by our Board; and

WHEREAS, the Federal Home Loan Bank Board (FHLBB) has issued regulations governing conversions of all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC), which regulations probably will be amended and changed from time to time; and

WHEREAS, it should be noted that all Illinois-chartered savings and loan associations are insured by the FSLIC and therefore are subject to FHLBB regulations; and

WHEREAS, this Board recognizes its responsibility to foster and promote the State-chartered system of savings and loan associations of Illinois, as we believe that the people of Illinois are best served by a well balanced dual system of both State and Federally chartered savings and loan associations; and

WHEREAS, on the basis of our deliberations and hearings this Board seriously doubts that the public interest will be better served by the conversion of additional mutual associations to permanent reserve stock institutions; and

WHEREAS, the Board is concerned with the possibility that the FHLBB, through the FSLIC, as a means of supplementing the equity capital of individual, mutual associations, might exert undue influence to force conversions;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby makes the following recommendations to the Commissioner:

(1) The Commissioner shall receive and and review copies of all filings required to be made under relevant regulation as presently promulgated or as may be amended by the FHLBB;

(2) There shall be required a policy statement and/or a plan from each converting institution demonstrating how it will meet the credit needs in the area which the institution has determined to be its "Service Area;"

(3) The Commissioner shall approve only those conversions which appear on their face to be equitable to all interested parties, including but not limited to officers, directors, employees, withdrawable capital shareholders and borrowers of the converting institution; and

(4) The Commissioner shall consider the reserve requirements of any other supervisory agency only as one of the factors in the determination of the advisability of the conversion.

APPROVED November 29, 1977.