

July 6, 1998

Dr. Walter Polner, Director of Research  
ASCU  
P.O. Box 5488  
Madison, Wisconsin 53705

Re: Charter Conversions from Credit Union to Bank.

Dear Dr. Polner:

You have asked several questions in connection with legislation currently pending before Congress, namely, HR1151. Particularly, you have asked for examples of credit union officials financially benefiting when credit unions have converted to a stock form financial institution. You have also asked who suggested Section 401 of the legislation which places restrictions on insiders benefiting from such conversions. We are not aware of any credit union official receiving financial benefits as a result of a conversion to stock form. We believe this is primarily due to NCUA's regulatory ban on insider preferences as well as similar restrictions by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC).

NCUA issued a final regulation on March 8, 1995 that prohibits officials from receiving financial benefits of a conversion for "at least two years after the effective date of the transaction." 12 C.F.R. §708a.2(c). The prohibition on insider preferences was supported by many of the public commenters and opposed by none. NCUA was not the only regulator at the time addressing conversion abuses.

In 1994, OTS, concerned with "management . . . undertaking conversions for reasons other than the need for capital," issued an interim and then a final rule limiting such transactions. 59 Fed. Reg. 22725 (1994); 59 Fed. Reg. 44615 (1994). FDIC found it "necessary and appropriate to adopt regulations similar to OTS Regulations" restricting management conversion benefits. 59 Fed. Reg. 30318 (1994).

The issuance of stock options at the conversion price, rather than at the aftermarket price, which in recent years has been substantially higher than the conversion price, creates the impression that insider enrichment may be the main reason for the conversion.

59 Fed. Reg. at 30320. Given the experiences and concerns of OTS and FDIC, NCUA adopted similar restrictions.

Any questions regarding HR 1151 should be directed to the respective Banking Committees in the House and Senate as well as credit union and bank trade organizations.

Sincerely,

Sheila A. Albin  
Associate General Counsel

GC/RSS:bhs

SSIC 3500  
98-0530A