

DEPARTMENT OF THE TREASURY

Office of Thrift Supervision

12 CFR Part 584

[No. 99-4]

RIN 1550-AB26

Regulated Activities;

Exempt Savings and Loan Holding Companies

AGENCY: Office of Thrift Supervision, Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Office of Thrift Supervision (OTS) proposes to amend its regulations to clarify the circumstances under which certain multiple savings and loan holding companies are able to engage in the same activities as unitary holding companies. In accordance with the governing statute and regulations, multiple holding companies are exempt from restrictions on the types of business activities in which they and their non-thrift subsidiaries may engage, if all (or all but one) of their thrift subsidiaries were acquired in certain types of supervisory transactions and if all their respective savings association subsidiaries are qualified thrift lenders. To retain the focus of the multiple holding company exemption on the statutory purpose, the proposal would establish certain standards by which the OTS would determine whether

a multiple holding company would be entitled to exempt treatment. This proposal is intended to channel the benefits of the multiple holding company activities exemption to companies that actually participate in the resolution of failing or failed thrifts and clarify OTS regulatory policy in an area that has been unsettled.

DATES: Comments must be received on or before [insert date 60 days from date of publication in the Federal Register].

ADDRESSES: Send comments to Manager, Dissemination Branch, Information Management and Services Division, Office of Thrift Supervision, 1700 G Street, NW., Washington, D.C. 20552, Attention Docket No. 99-4. Hand deliver comments to 1700 G Street, N.W., lower level, from 9:00 A.M. to 5:00 P.M. on business days. Send facsimile transmissions to FAX Number (202) 906-7755, or (202) 906-6956 (if the comment is over 25 pages). Send e-mails to public.info@ots.treas.gov and include your name and telephone number. Interested persons may inspect comments at 1700 G Street, NW., from 9:00 A.M. until 4:00 P.M. on business days.

FOR FURTHER INFORMATION CONTACT: Donna Deale, Manager, Supervision Policy, Office of Thrift Supervision (202/906-7488); Richard L. Little, Senior Counsel (Banking and Finance) (202/906-6447); or Kevin A.

Corcoran, Assistant Chief Counsel for Business Transactions (202/906-6962),
Business Transactions Division, Office of the Chief Counsel, Office of Thrift
Supervision, 1700 G Street, NW., Washington, D.C. 20552.

SUPPLEMENTARY INFORMATION:

I. Background

Over the past year, OTS has received inquiries from several different savings and loan holding companies about their eligibility for exempt multiple status under section 10(c)(3) of the Home Owners' Loan Act ("HOLA").¹ Because these inquiries have involved complex factual issues, including the details of transactions that occurred several years ago, and because OTS precedent exists only in the form of legal opinions, OTS is undertaking this proposed rulemaking in order to provide clearer guidance to the industry in a manner faithful to Congressional intent.

Section 10(c) of the HOLA² limits the types of business activities that savings and loan holding companies and their non-thrift subsidiaries may conduct generally to activities and services historically related to the thrift business and to activities approved by the Federal Reserve Board for bank holding companies under section 4(c) of the Bank Holding Company Act.³

¹ 12 U.S.C. 1467a(c)(3).

² 12 U.S.C. 1467a(c).

³ 12 U.S.C. 1843(c).

Exempt from these restrictions are all unitary savings and loan holding companies, i.e., holding companies that control only one savings association (“unitary holding companies”), provided that the subsidiary savings association meets the qualified thrift lender test.⁴ The HOLA also provides that the activities restrictions do not apply to any multiple savings and loan holding company (“multiple holding company”), i.e., a holding company that controls more than one savings association, if

(i) all, or all but 1, of the savings association subsidiaries of such company were initially acquired by the company or by an individual who would be deemed to control such company if such individual were a company—

(I) pursuant to an acquisition under section 13(c) or (k) of the Federal Deposit Insurance Act [12 U.S.C. 1823(c) or (k)], or section 408 (m) of the National Housing Act [12 U.S.C. 1730a (m)]; or

(II) pursuant to an acquisition in which assistance was continued to a savings association under section 13 (i) of the Federal Deposit Insurance Act [12 U.S.C. 1823(i)]; and

(III) all of the savings association subsidiaries of such company are qualified thrift lenders. . . .⁵

⁴ 12 U.S.C. 1467a(c)(3)(A).

⁵ 12 U.S.C. 1467a (c) (3). Section 408(m) of the National Housing Act was repealed by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Title IV, § 407, Pub. L. No. 101-73, 103 Stat. 363 (1989).

This so-called "exempt multiple" treatment in section 10(c) of the HOLA has been implemented by the OTS at 12 CFR 584.2a(a)(1)(ii). So long as all of its savings association subsidiaries are qualified thrift lenders, an exempt multiple holding company may engage in the same activities as any unitary holding company under the HOLA.

The exempt multiple structure proved to be a valuable incentive for attracting acquirors to resolve a number of ailing or failed institutions during the thrift crisis of the late 1980s and early 1990s. Many unitary holding companies were reluctant to acquire failed associations if their only options were to combine a failed association with a healthy subsidiary or to hold the failed association separately and be forced to limit their activities. The exempt multiple structure enabled these holding companies to segregate their failed institutions while they resolved the problems associated with these failed institutions and to continue conducting the same range of activities as unitary holding companies.

Despite its obvious supervisory benefits, the exempt multiple structure has been difficult for the OTS to administer. In large part, this problem has arisen because the statute does not state how mergers and acquisitions after a supervisory acquisition should affect exempt multiple holding company status. For instance, section 10(c) of the HOLA does not mandate or prohibit exempt

multiple treatment in any of the following situations:

- An exempt multiple holding company merges a subsidiary supervisory association, i.e., a subsidiary acquired in a supervisory transaction, with its non-supervisory savings association subsidiary.
- An exempt multiple holding company merges or consolidates with other companies, including other savings and loan holding companies.
- An exempt multiple holding company acquires additional savings association subsidiaries by merger with the company's existing supervisory association subsidiary.
- A unitary holding company, the savings association subsidiary of which is composed almost entirely of assets and liabilities acquired in supervisory transactions, seeks to establish a de novo thrift subsidiary and become an exempt multiple holding company.

OTS believes that the exempt multiple provision in section 10(c) of the HOLA serves a limited but important purpose: to facilitate unitary holding company acquisitions of troubled thrifts that could not otherwise be accomplished without loss of the holding company's unitary status. Accordingly, the OTS is proposing to amend 12 CFR 584.2a(a)(1)(ii) to delineate more precisely the circumstances under which exempt multiple status will be recognized. In general, exempt multiple status will be available only where a qualifying supervisory acquisition otherwise would threaten

existing unitary status. However, because the language of section 10(c)(3) does not restrict the relative timing of supervisory and non-supervisory acquisitions, a unitary holding company that acquired its sole subsidiary savings association in a supervisory transaction and then acquires an additional association in a non-supervisory transaction will be entitled to exempt multiple status. When exempt multiple status is relinquished (for example, where a holding company acquires a savings association in a supervisory transaction, but does not continue to hold it separately,⁶ or where a holding company qualifies as an exempt multiple, but acquires another non-supervisory association and holds it separately), the OTS believes that exempt multiple treatment should not be reactivated by later reorganizing the subsidiary associations.

Under the proposal, a holding company will be entitled to exempt multiple status, if (1) the holding company controls directly or indirectly multiple savings associations after a supervisory acquisition, and the subsidiary association that the holding company acquired in the supervisory acquisition continues to exist as an identifiable savings association subsidiary of the holding company; or (2) the holding company controls a savings

⁶ If an exempt multiple holding company with two supervisory savings association subsidiaries were to merge the two subsidiaries, OTS would not treat the holding company as having relinquished its exempt status.

association continuously after acquiring it in a supervisory acquisition and later acquires an additional association (including by establishing a *de novo* association) as a separate subsidiary in a non-supervisory acquisition.

In cases where an exempt multiple holding company controls a subsidiary supervisory association and later causes the association to engage in a merger, consolidation, or acquisition, the OTS will determine whether the supervisory association has existed continuously since the supervisory acquisition. If the later combination causes the supervisory to lose its essential character, the OTS no longer will consider the holding company to be an exempt multiple. In making this determination, the OTS, as appropriate, will take into account the corporate identity of the surviving savings association as specified in its charter; the relative sizes of the savings associations or other depository institutions involved in terms of assets or liabilities, or both; and such other factors on a case-by-case basis as the Director considers appropriate. The OTS is interested in comments on whether the agency should apply different or additional criteria.

The merger criteria would apply only to mergers, consolidations, or acquisitions by existing exempt multiple holding companies and not to such transactions by unitary holding companies (except where a unitary holding company seeks to preserve the supervisory status of its subsidiary

association). The reason is that a unitary holding company (other than one whose sole thrift subsidiary was acquired in a supervisory transaction) cannot achieve exempt multiple status through later mergers, consolidations, or non-supervisory acquisitions.

The proposed rule would have these practical consequences:

- An exempt multiple that merged its savings association subsidiaries to become a unitary would thereafter become eligible for exempt multiple status only if it later made a qualifying supervisory acquisition, unless all the savings association subsidiaries merged were acquired in supervisory transactions.
- The qualifying supervisory status of a savings association would not transfer from the initial acquiring holding company to a succeeding acquiror, with two exceptions. In general, once a savings association in supervisory status has been restored to health, a new holding company may not acquire it from the original acquiror and still claim supervisory status for the savings association.
 - The first exception to the general rule against transferability of supervisory status is that a succeeding acquisition may itself qualify as a supervisory acquisition under section 10(c).
 - The second exception is that if an existing exempt multiple holding company reorganizes internally and inserts a newly formed holding

company into its structure, then the newly formed company may claim exempt multiple status.

The proposed rule would apply to all existing multiple holding companies, as well as all companies that may seek exempt multiple status on the basis of supervisory acquisitions that occurred before the effectiveness of the final rule. The OTS believes that efforts to grandfather particular classes of holding companies would be cumbersome and likely to lead to inconsistent results. However, it is important that holding companies have certainty as to whether they may exercise unitary powers. Therefore, OTS proposes to open a sixty-day "window" following the effective date of the final rule, during which holding companies that believe they may be entitled to exempt status based on past acquisitions and on earlier rulings or opinions by OTS may seek confirmation of that status from OTS. After the 60-day window closes, OTS will review all later requests for exempt multiple treatment against the criteria set forth in the regulation, even where the supervisory acquisitions that support the exempt multiple request occurred before the effective date of the regulation.

A multiple holding company that does not receive confirmation of exempt status and that does not qualify for exempt status under the regulation will have two years after the effective date of the final rule to cease or divest any activities that are not permissible for multiple holding companies under

section 10(c).

II. Solicitation of Comments

The OTS is asking for comment on the proposal. Specifically, the OTS seeks comment on:

- Whether the proposed amendment will accomplish its stated purposes?
- Whether a different approach would better accomplish the stated purposes?
- Whether, in applying the merger criteria to mergers, consolidations, or acquisitions by existing exempt multiple holding companies, OTS should take into account specific factors in addition to the corporate identity of the surviving savings association and the relative sizes of the savings associations or other depository institutions involved?

III. Executive Order 12866

The Director of the OTS has determined that this proposed rule does not constitute a "significant regulatory action" for the purposes of Executive Order 12866.

IV. Regulatory Flexibility Act Analysis

Pursuant to Section 605(b) of the Regulatory Flexibility Act, the OTS certifies that this proposal will not have a significant economic impact on a

substantial number of small entities. The proposal clarifies the rules governing exempt multiple status and is designed to reduce the burden on multiple holding companies to determine whether they are entitled to exempt status. Moreover, the proposed rule would provide a procedure permitting multiple holding companies that may be relying on past rulings or opinions of the OTS to claim exempt status, to confirm that status after the effective date of the final rule.

V. Unfunded Mandates Act of 1995

Section 202 of the Unfunded Mandates Reform Act of 1995, Pub. L. 104-4 (Unfunded Mandates Act), requires that an agency prepare a budgetary impact statement before promulgating a rule that includes a federal mandate that may result in expenditures by state, local, and tribal governments, in the aggregate, or by the private sector, or \$100 million or more in any one year. If a budgetary impact statement is required, Section 205 of the Unfunded Mandates Act also requires an agency to identify and consider a reasonable number of regulatory alternatives before promulgating a rule. The OTS has determined that the proposed rule will not result in expenditures by state, local, or tribal governments or by the private sector of \$100 million or more. The proposed rule is directed solely to thrift holding companies. It clarifies the rules governing exempt multiple status and is designed to reduce the burden on holding companies to determine whether they are entitled to

exempt status. Accordingly, this rulemaking is not subject to Section 202 of the Unfunded Mandates Act.

VI. Paperwork Reduction Act

OTS invites comment on:

- (1) Whether the proposed information collection contained in this proposal is necessary for the proper performance of OTS's functions, including whether the information has practical utility;
- (2) The accuracy of OTS's estimate of the burden of the proposed information collection;
- (3) Ways to enhance the quality, utility, and clarity of the information to be collected;
- (4) Ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (5) Estimates of capital and start-up costs of operation, maintenance and purchases of services to provide information.

Respondents are not required to respond to this collection of information unless it displays a currently valid OMB control number.

The collection of information requirements contained in this proposal

have been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)). Comments on the collections of information should be sent to the Office of Management and Budget, Paperwork Reduction Project (1550), Washington, D.C. 20503, with copies to the Regulations and Legislation Division, Chief Counsel's Office, Office of Thrift Supervision, 1700 G Street, NW., Washington, D.C. 20552.

The collection of information requirements in this proposed rule are found in 12 CFR 584.2a(a)(3). OTS requires this information in order to determine whether certain holding companies are or may be eligible for exempt multiple holding company status. The likely respondents are savings and loan holding companies.

Estimated average annual burden hours per respondent: 20.

Estimated number of respondents: 30.

Estimated total annual reporting burden: 600.

Start up costs to respondents: none.

List of Subjects in 12 CFR Part 584

Administrative practice and procedure, Exempt savings and loan holding companies, Holding companies, Reporting and recordkeeping

requirements, Savings associations, Securities.

Accordingly, the Office of Thrift Supervision proposes to amend chapter V, title 12, Code of Federal Regulations, as set forth below.

PART 584 - REGULATED ACTIVITIES

1. The authority citation for part 584 continues to read as follows:

Authority: 12 U.S.C. 1462, 1462a, 1463, 1464, 1467a, 1468.

2. Section 584.2a is amended by revising paragraph (a)(1) introductory text and paragraph (a)(1)(ii), redesignating paragraph (a)(2) as paragraph (a)(3), and adding new paragraph (a)(2) to read as follows:

§ 584.2a Exempt savings and loan holding companies and grandfathered activities.

(a) Exempt savings and loan holding companies.

(1) The following savings and loan holding companies are exempt from the limitations of § 584.2(b):

* * * * *

(ii) Any savings and loan holding company (or subsidiary thereof) that controls more than one savings association if all, or all but one of the savings association subsidiaries of such holding company were initially

acquired pursuant to an acquisition under section 13(c) or 13(k) of the Federal Deposit Insurance Act or section 408(m) of the National Housing Act, as in effect immediately prior to the date of enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("supervisory acquisition"), and all of the savings association subsidiaries of such holding company are qualified thrift lenders as defined in § 583.17 of this chapter, *provided that* the Director determines that—

(A) Except in the case of a multiple holding company that has been formed in connection with an internal reorganization, such holding company has continuously controlled a savings association acquired pursuant to a supervisory acquisition at all times since such supervisory acquisition; and

(B) The savings association acquired through a supervisory acquisition on which the exemption contained in this subparagraph is based has continuously existed as an identifiable savings association subsidiary of such holding company at all times since such supervisory acquisition, *provided that* if an exempt multiple savings and loan holding company merges its savings association subsidiaries to become a unitary savings and loan holding company, the resulting savings association subsidiary will be considered to have been acquired in a non-supervisory transaction, unless all the savings associations merged were acquired by the holding company in supervisory

transactions.

(2)(A) For purposes of paragraph (a)(1)(ii)(B) of this section and subject to the restrictions therein, if any savings association subsidiary that was acquired in a supervisory acquisition engages in any acquisition, merger, or consolidation after the subsidiary's own supervisory acquisition, the Director, in determining whether that savings association has existed continuously since such supervisory acquisition, will consider the following factors, as appropriate:

(1) The corporate identity of the surviving savings association as specified in its charter;

(2) The relative sizes of the holding companies, savings associations or other depository institutions involved in terms of assets or liabilities, or both; and

(3) Such other factors on a case-by-case basis as the Director considers appropriate.

(B) The supervisory status of a savings association may not be transferred from the initial acquiring holding company to a succeeding acquiror, unless the succeeding acquisition itself qualifies as a supervisory acquisition under section 10(e) of the Home Owners' Loan Act, or unless an internal reorganization of the initial acquiror causes an acquisition by a newly

formed holding company.


(C) A holding company that believes it is or may become entitled to exempt multiple status based on rulings or opinions that the OTS issued prior to [insert effective date of regulation] may request confirmation of that status from the OTS prior to [insert date 60 days after effective date of regulation]. Such requests must contain a detailed explanation of the basis for exempt multiple status. After [insert date 60 days after effective date of regulation], the OTS will apply only the provisions in subsections (a)(1)(ii) and (a)(2) of this section to requests for exempt multiple status. A multiple holding company that does not receive confirmation of exempt multiple status from the OTS and that does not qualify for exempt status under the regulation, will have two years after the effective date of the final rule to cease or divest any

activities that are not permissible for multiple holding companies under
section 10(c).

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DATED: Feb. 1, 1999

By the Office of Thrift Supervision.


Ellen Seidman
Director