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2

RICHARD T. WHEELER, JR.
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

September 25, 2000

Manager, Dissemination Branch,
Information Management and Services
Division
Office of Thrift Supervision
1700 G Street N. W.
Washington, D.C. 20552

2000 SEP 28 P 4: 37
DISSEMINATION BRANCH

Attention: Docket No. 2000-57

Ladies and Gentlemen:

We commend the Office of Thrift Supervision for its efforts to improve the mutual to stock conversion process and to encourage mutual institutions to form mutual holding companies in lieu of undertaking full mutual to stock conversions. As a traditional mutual savings and loan, we at Franklin Federal are actively pursuing our strategic alternatives in the face of increased competition from large national and international banking organizations, Internet banking organizations, and a number of startup community banks in our market area.

We continue to offer traditional thrift products, such as single-family residential mortgage loans for portfolio, passbook savings accounts, and certificates of deposit. The ever increasing influence of GSE's, such as Fannie Mae and Freddie Mac; the growing efficiency of the financial markets as a result of these GSE's and the Internet; and the Federal Reserve's initiatives to produce a "soft landing" of the economy, which has created an inverted yield curve, combine to make it extremely difficult for a traditional thrift to realize net interest spreads that produce an acceptable profit. We see the mutual holding company charter as a means to broaden into additional, more profitable products without adversely affecting the culture of our savings and loan, which has served us so well for 67 years.

September 25, 2000

Page 2

Two major provisions of the proposed regulations are of particular interest to Franklin Federal. They are (1) the conversion business plan requirements and (2) the proxy solicitation requirements. With regard to the former, we believe that it is incumbent upon management of any converting institution to prepare a business plan that effectively lays out the planned use of the proceeds of the conversion. We agree that there should be a complete and thorough description of the proposed deployment of capital, including the attendant risks and management resources required. We think it is also essential that management demonstrate that it has the expertise to implement any growth and expansion initiatives set forth in the business plan. These are safety and soundness issues and well within the purview of the Office of Thrift Supervision.

However, we do not believe that it is the prerogative of the OTS to specify or influence requirements for a reasonable return on equity. We believe that the management and directors of a converting institution should have total discretion in managing the institution's capital as long as safety and soundness are not compromised. In our judgment, should an institution choose to convert to stock and raise capital that is ultimately returned to stockholders or used to repurchase stock, such actions are perfectly legal and within the province of management and the board of directors, again as long as the safety and soundness of the institution is not impaired. Managements and boards of directors should have the authority to convert to a stock charter as a prelude to being acquired by another organization should they choose to do so in exercising their fiduciary responsibilities. This is not a course of action that Franklin Federal plans to pursue, but we believe it is a course of action that should be reserved for managements and boards of directors and not dictated by a regulatory authority.

A thrift may have a conversion business plan to raise capital for cash acquisitions of other financial institutions in order to diversify into additional financial products. Generally, a conservatively managed thrift, upon conversion to stock form, has excess capital. One of the ways of deploying and leveraging this excess capital is to make cash acquisitions, thereby returning the capital-to-assets ratio to a more manageable level for producing

September 25, 2000

Page 3

acceptable returns on equity. Being able to consummate such acquisitions depends on future negotiations. A converted thrift may attempt, but not be able, to reach agreement with potential acquisition targets. We do not believe an inability to execute reasonable strategies should require the prior written approval of a Regional Director of the Office of Thrift Supervision.

The second issue of extreme importance to Franklin Federal is the proxy solicitation requirements for the formation of a mutual holding company without issuing stock to the public. We do not believe that the formation of a mutual holding company with no stock issued to the public should require a vote of the members of the mutual savings and loan. Speaking on behalf of Franklin Federal, most of our members are elderly and are not used to receiving communications from Franklin Federal. We do not offer checking accounts or have any transaction accounts that require us to send periodic mailings to our members. It is quite rare that we send correspondence to our members. The formation of a mutual holding company is not a complicated transaction for financially sophisticated individuals. However, it can be very confusing to many members of mutual thrifts who are not accustomed to receiving annual reports or other proxy materials from the thrift.

As the OTS effectively pointed out in the proposed regulations, the formation of a mutual holding company with no stock issuance to be public has no effect on the rights of the members of a mutual savings and loan. The members of a mutual savings and loan are not disenfranchised nor are their rights changed in any way. Therefore, we believe a proxy solicitation is unnecessary and counterproductive. Moreover, a requirement to send out proxy materials could very well dissuade a mutual thrift, such as Franklin Federal, from forming a mutual holding company. Rather than facing a process equivalent in many respects to a conversion to stock form, institutions may choose to bypass the mutual holding company route and move to a full conversion if the proxy solicitation rules are similar for both transactions. Therefore, we strongly encourage the OTS to eliminate the proxy solicitation requirements during the formation of a mutual holding company with no stock issuance to the public. We believe a thorough and comprehensive application filed with the OTS would adequately and effectively serve the interests of thrifts and their members.

September 25, 2000

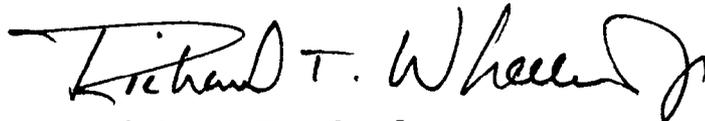
Page 4

Should the OTS decide to require a proxy solicitation in connection with the formation of a mutual holding company, we encourage it to continue to accept the abbreviated filing that is now available to a thrift forming a mutual holding company under current regulations. From our reading of the proposed regulations, the proxy solicitation process under the proposed regulations is the same as the proxy solicitation process for a stock conversion, including detailed disclosures of management remuneration, financial results and other information that are typically not made by mutuals. Therefore, we strongly encourage the OTS to maintain the current abbreviated disclosure requirements should it not eliminate the proxy solicitation process.

We appreciate this opportunity to comment on these issues of extreme importance to our Association. We have also prepared our responses to questions posed by the OTS concerning other mutual holding company issues. These responses are attached as Exhibit A.

Very truly yours,

FRANKLIN FEDERAL SAVINGS AND
LOAN ASSOCIATION OF RICHMOND



Richard T. Wheeler, Jr.
President and Chief Executive
Officer

FRANKLIN FEDERAL SAVINGS AND LOAN ASSOCIATION
RESPONSE TO MUTUAL HOLDING COMPANY QUESTIONS
POSED BY THE OTS

(1) How can OTS make the MHC form more attractive?

Franklin Federal believes that the MHC is attractive in its current form as enhanced by the proposed regulations. We are in the process of preparing an application to the OTS to reorganize as a MHC. Certainly, the elimination of the proxy solicitation process is an improvement to the current regulations. Since MHC's can engage in the expanded investment and activities authorities of financial holding companies, we see no need for any further enhancements to the MHC form other than those contained in the proposed regulations.

(2) For institutions that have determined it is necessary to convert to stock form, will the proposal increase industry interest in converting to MHC form and remaining in that form?

We believe the proposal will increase industry interest in converting to the MHC form and remaining in that form in lieu of a full conversion to stock form for those organizations with a long-term business strategy of remaining independent. Organizations without effective management succession or those facing extreme competition in their marketplaces or those fighting to keep up with technological changes or those struggling to attract competent staff may be seeking an exit strategy as opposed to a long-term independence strategy. Such organizations will not be able to accomplish their goal of selling out in the MHC form.

(3) Should reorganization into MHC or Mid-tier form require a vote of the members?

We believe, as stated in our letter, that a vote of the members is unnecessary. Members of a MHC have not been disenfranchised in any way nor have their rights as depositors been changed. Furthermore,

during the past ten years, other than employees and directors, only three members of our Association have attended an annual meeting of members. This demonstrates to us that they are comfortable delegating decisions to Management and the Board of Directors.

- (4) Should mutual institutions be permitted to affiliate with other mutual institutions to leverage managerial and administrative resources while simultaneously retaining their independent community focus using means other than conversion to stock form or reorganization into MHC form?**

We do not have a strong opinion on this issue. From a common sense point of view, we believe the answer to the question should be yes. We have not studied the issue enough to offer viable ways of accomplishing this affiliation.

- (5) OTS is seeking comment regarding the level of interest among mutual institutions in the formation of bankers' banks to specifically serve their needs.**

Without specific knowledge of the services that bankers' banks may provide to mutual institutions, our initial reaction is that we would have little interest in a banker's bank for our institution.

- (6) What consideration may MHC's or Mid-tiers use to acquire other institutions, such as trust preferred securities, REITs, mutual capital certificates, and stock repurchases to issue stock for acquisitions?**

None of these other forms of consideration interest us. We would not be interested in issuing these other types of securities nor would we be interested in receiving them as consideration should our association be for sale. We believe that cash or stock are cleaner forms of consideration and clearly establish, in a definitive manner, ownership rights.

- (7) How can OTS make it more attractive for mutual institutions to stay in mutual form, particularly where capital raising is not a necessary objective for the institution?**

Two particular ways of making the mutual form more attractive are less regulatory scrutiny and lower capital requirements. We are not sure that conservative mutuals would take advantage of these options, but they could prove attractive in certain circumstances. For example, Franklin Federal has Tier 1 and Tier 2 capital of approximately 10-11%

and risked based capital of 25-30%. As a mutual, we have the ability to increase these percentages by 50-100% by converting to stock form. Therefore, it seems to us that we do not need to carry as much capital as a stock company, since we have the ability to convert to stock form to raise capital if needed. Granted, stock companies could issue additional stock, but that may involve dilution of current stockholder interests or entail other negative consequences. In today's yield curve environment, Franklin Federal would not be at all interested in additional leverage, but in a steep, positively sloping yield curve environment, additional leverage may be attractive.

rtw/as/mutualcommentsexhibitA