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## MUTUAL SAVINGS BANK REORGANIZATION

### House Bill 5152 (Substitute H-1) First Analysis (10-25-01)

**Sponsor: Rep. Alan Sanborn**  
**Committee: Insurance and Financial  
Services**

#### ***THE APPARENT PROBLEM:***

A mutual savings bank is owned by, and operated for the benefit of, its depositors. In Michigan, mutual savings banks must be chartered and regulated by the Office of Financial and Insurance Services (OFIS). The charter for a savings bank combines many functions of a commercial bank and a savings institution. However, according to information supplied by the Michigan League of Community Banks, the primary difference between a commercial bank and a savings bank is that "a savings bank is required by law to commit the majority of its assets to home lending and has limited flexibility in the amount of commercial and consumer lending it can provide." Unlike savings banks, commercial banks have greater flexibility in determining the types of financial services that will be provided to customers, such as mortgages, commercial business loans, personal loans, and so forth, and also in determining the proportion of their businesses to be focused on each of these services.

Another difference is that mutual savings banks cannot sell stock in order to raise capital for expansion of financial services. Under current law, a savings bank must be chartered as either a "mutual" (owned and controlled by the account holders) or as a "stock" (owned and controlled by the shareholders) savings bank. This can limit the types of financial services that a mutual savings bank can offer to members of the community in which it is located. It has been suggested that the law regulating mutual savings banks be amended to allow such banks to reorganize as mutual holding companies which can in turn organize and incorporate new savings bank subsidiaries, such as stock savings banks.

#### ***THE CONTENT OF THE BILL:***

The bill would amend the Savings Bank Act (MCL 487.3706a) to allow an existing mutual savings bank to reorganize as a mutual holding company. Only mutual savings banks engaged in the savings bank

business before reorganization would have this option. In addition, the following conditions would have to be met:

- The reorganization plan would have to comply with mutual holding company laws as established by the Office of Thrift Supervision (OTS) within the U.S. Department of Treasury. The plan would also have to be approved by OTS, and OTS would have to grant a federal charter to the newly created mutual holding company. (A "mutual holding company" is defined under the federal Home Owner's Loan Act, 12 U.S.C. 1467a and in OTS regulations.)
- The state Office of Financial and Insurance Services (OFIS) would have to approve the plan.
- The existing mutual savings bank's board of directors would have to approve the plan at a meeting called in accordance with the bank's articles of incorporation and bylaws.
- A majority of the total votes of the members of the existing mutual savings bank that are eligible to be cast would have to approve the plan after a membership meeting was called in accordance with the bank's articles of incorporation and bylaws.

The bill would also allow a person (an individual, corporation, limited liability company, governmental entity, partnership, limited liability partnership, or other legal entity) to organize and incorporate any new savings bank subsidiary of the existing mutual savings bank. If the new savings bank were organized for the sole purpose of effecting a reorganization plan in accordance with the bill, the new savings bank subsidiary would have to have its principal office in the same city or village as the principal office of the existing mutual savings bank. (A "new savings bank" would mean a bank that was not engaged in the savings bank business before the reorganization provided in the bill.)

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Additionally, the assets, liabilities, and banking business of the existing mutual savings bank could not be transferred to any new savings bank subsidiary or federal savings bank subsidiary under the reorganization plan until the OFIS or OTS approved a charter for the subsidiary to operate as a savings bank or federal savings bank subsidiary. Further, if a subsidiary charter applicant represented, and the OFIS commissioner believed, that the subsidiary would conduct substantially the same banking business as the existing mutual savings bank, then the OFIS would have to approve the application unless the OFIS determined in writing that the application did not meet the act's requirements for a savings bank.

### ***FISCAL IMPLICATIONS:***

According to the Office of Financial and Insurance Services, the bill would have no fiscal impact on the state. (10-24-01)

### ***ARGUMENTS:***

#### ***For:***

Currently, according to the Office of Financial and Insurance Services (OFIS), the Savings Bank Act does not address the needs of mutually owned state-chartered savings banks regarding the ability to raise capital, primarily because the act prohibits savings banks from selling stock. The bill would remedy this situation by allowing a mutual savings bank to reorganize as a mutual holding company, which could in turn establish and charter a new savings bank subsidiary, such as a stock savings bank. The new stock savings bank, as a subsidiary of the mutual holding company, would "own" the assets, liabilities, and banking business of the original mutual savings bank. The account holders, or "members", of the mutual savings bank would become shareholders of the mutual holding company, which would retain a controlling majority of the stock in the new stock savings bank. People who live in the community where a mutual savings bank reorganized into a stock savings bank could also benefit by the addition of new financial services that the new savings bank would be able to offer.

#### ***For:***

The bill would not require mutual savings banks to reorganize as mutual holding companies; it would merely give them the option of doing so. Any bank wishing to reorganize would still need to get OFIS approval as well as meet conditions required under federal laws and regulations. By restricting a bank's

option to reorganize as only a mutual holding company as defined in federal law and regulations as specified in the bill, the state would not have to create a process by which to regulate such reorganizations. Instead, the well-established and well-regulated process of OTS (which is the primary regulator of all federal and many state-chartered financial institutions) could be utilized.

### ***POSITIONS:***

The Office of Financial and Insurance Services supports the bill. (10-24-01)

The Michigan League of Community Banks supports the bill. (10-24-01)

Analyst: S. Stutzky

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.