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Memo

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Date: March 3, 2004

To: The Honorable Senator Bill Finch
The Honorable Representative Paul R. Doyle
Chairmen, The Banks Committee
Members of The Banks Committee
Connecticut General Assembly

From: American Bankers Association's Mutuality Advisory Council

RE: Senate Bill No. 363, An Act Concerning Conversions and Reorganizations
of Mutual Savings Banks

Position: Oppose

On behalf of the American Bankers Association's Mutuality Advisory Council, a group of mutually chartered financial institutions throughout the State of Connecticut and the nation, we appreciate the opportunity to share our views on Senate Bill 363 and its potential negative impact on mutual savings banks in Connecticut and the country.

On a national basis, there are approximately 700 mutually chartered savings banks split between federal and state charters. Many state chartered institutions significantly predate their federal brethren by decades and centuries. In Connecticut, mutual savings banks (90% of which are state chartered) have served their customers and communities for almost 200 years. The corporator form of corporate governance reflected in the Connecticut charter is also available in Massachusetts, New Hampshire, and Maine. Corporators represent the voice of the community for the mutual institution and are the touchstone for community issues and outreach. These corporators were the community leaders who in the past had the foresight to create a mechanism for savings for all citizens as a way of encouraging growth and economic well being for both individuals and their communities. This legacy of active community involvement by mutual savings bank corporators still exists today.

Rather than preserve and encourage the continued vitality of the corporator form of mutual savings bank governance, Senate Bill 363 would take away fundamental authority from these informed corporators and mandate a depositor vote in the belief that the depositors, because they represent a larger group, are the better mechanism. Unfortunately, as any stock institution, whether a bank or other

corporation can attest, only a small fraction of shareholders vote. Yet Senate Bill 363 would substitute the depositor voting form of governance that in other states and on the federal level has, to the best of our knowledge, overwhelmingly resulted in a favorable vote for conversion.

Rather than weaken the Connecticut mutual savings bank charter, we encourage you to recognize its strengths that have worked extremely well and should be left intact. The Connecticut Banking Commissioner has used existing law effectively to supervise and encourage prudent activities on the part of its state chartered banks. Other states that provide the corporator form also have used the powers inherent in the charter to foster development and delivery of products and services to their ever-evolving communities. It is a charter that has proven its flexibility, value, and workability. It does not need “fixing” by adding a depositor vote or casting procedures in statute. This is bill for which regulatory action has already addressed and solved the perceived problems. And yet, rather than enhance the regulatory process, the proposed legislation makes it more difficult for the Commissioner to react to a plan of conversion and to adjust that plan to fit the current circumstances. This is because the more specificity in the statute, the less flexibility is provided to an agency charged with its administration. Tying the hands of the Banking Commissioner cannot be the goal of the Committee.

The debate surrounding charter conversion from mutual to stock form is often overrun by emotion rather than reason. When frustrated, who among us has not reacted, “there oughta be a law.” Yet more laws and more rules and more restrictions are not always the right answer. Often a better answer already exists within existing statutes and structures. The good intent to add legislation often has unintended consequences of confusion and undermining the existing better alternative.

It also has the unintended potential of enhancing the ability of those who would force a conversion from mutual to stock (so called “professional depositors”) and takes the choice of whether to remain mutual and places it at risk. Empowering the professional depositors, who have only conversion to stock as a goal, does nothing to build communities and provide services to citizens.

ABA’s Mutuality Advisory Council urges the Committee to reject this legislation. It sends a chilling message to similarly chartered mutual savings banks in other states and weakens the mutual charter in Connecticut unnecessarily.

Thank you for the opportunity to share our views. If you have any questions concerning the issues raised by this letter or wish to discuss further the issues surrounding mutual institutions, do not hesitate to contact Dawn Causey, Mutuality Advisory Council, American Bankers Association at 202/663-5434.