



**Shadow Financial
Regulatory Committee**

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Statement of the
Shadow Financial Regulatory Committee

on

Conversion of
S&Ls from FSLIC to FDIC Insurance Coverage

November 17, 1986

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Over the last several months a number of FSLIC-insured savings and loan associations have proposed to convert to commercial banks or savings banks with FDIC insurance. The Federal Home Loan Bank Board has expressed concern about this development, noting that a loss of future deposit insurance premiums from healthy savings and loans could adversely affect the ability to sell the bonds to be issued in connection with an FSLIC recapitalization plan. Thus the Bank Board has adopted regulations and procedures designed to impede or prevent conversions of healthy institutions.

The ability of financial institutions to convert from one charter to another is one of the strengths of the American Financial system. It is the best means of preventing excessive or over-zealous regulation by a single regulatory agency. Indeed, in the absence of the ability to change from one type of charter to another -- state to federal, bank to thrift, savings and loan to savings bank, or vice versa -- there would be little justification for our existing complex, multi-layered regulatory structure. We oppose, therefore, actions by the regulatory agencies that would eliminate or weaken this traditional safeguard of the regulatory system.

We recognize, of course, that the FSLIC is in critical financial condition. The Bank Board has imposed a special insurance assessment of 1/8 of 1% of deposits in addition to the normal 1/12 of 1%. This represents an additional cost to FSLIC-insured institutions which is not faced by their commercial bank competitors. It is unlikely that the special assessment will be eliminated in the near future. This provides an incentive for some institutions to seek to change insurance systems in order to avoid that special assessment.

Such a conversion is not easy, as the savings and loan converting to commercial bank status will have to meet the higher capital requirements imposed by the banking regulatory agencies, as well as face some restrictions on its allowable activities. We do not believe that the number of institutions that would find conversion attractive simply to avoid the 1/8 of 1% additional insurance cost is large enough to pose a serious threat to the FSLIC. Institutions reasonably close

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to meeting the FDIC requirements account for less than 10% of the industry's assets.

Existing law provides for a final insurance payment, or "exit fee," when an institution leaves the deposit insurance system, though that provision was not aimed at institutions moving from FSLIC to FDIC coverage. The FSLIC has recently begun to impose a fee on institutions planning such a conversion. The Committee is uncomfortable with such a charge because its objectives are not clear: exit fees cannot represent a significant source of funds to the FSLIC, and exit fees cannot hold unwilling members in the FSLIC system. We also find it difficult to see how an appropriate fee can be determined. Before any such fee is imposed, it must be demonstrated that a fee is essential to a Congressionally-enacted recapitalization plan, and provision for the fee should be explicit in the legislation. Any charge should not be so large as to prevent conversions by those institutions that have a legitimate business reason for conversion.

It is the Committee's policy that members abstain from voting on policy statements in instances in which they have a direct personal or professional involvement in the matter that is the subject of the statement. Accordingly, Mr. Hawke abstained from voting on this statement.