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Statement of Shadow Financial Regulatory Committee

on

Ownership of Stock by Bank Directors

December 11, 1995

Bank directors who own stock in their banks are likely to oversee their banks more effectively than if they simply collect fees for attending meetings. If the bank does well, the directors' shares will gain. If a merger were best for the stockholders, although the managers and some directors might be displaced, the directors would be more likely to act in the interest of the shareholders. Most importantly for taxpayers, who back up the deposit insurance fund, if the bank fails, the directors would take losses along with other stockholders.

The truism that directors who are substantial stockholders have greater incentives to give proper attention to their corporation's affairs is generally accepted and was recognized in the National Banking Act of 1864. This act and the current policy of the Office of the Comptroller of the Currency (OCC) require that a director of a national bank must own a stock in that bank of at least $1,000 par value. (If the bank is owned by a holding company, an equivalent interest as determined by the OCC).

The statutory directors' stock-holding requirement should be brought up to date. The Shadow Financial Regulatory Committee suggests that directors of all stockholder-owned depository institutions should be required to hold a meaningful amount of stock, say the lower of $50,000 in market or (where stock is not regularly traded) book value, or 5% of market or book value. Directors who cannot afford to make this investment immediately should be required to receive a major part of their fees in stock until they reached the $50,000 (or 5%) amount. This is one of many corporate governance provisions of the National Bank Act that merits modernization.