



Office of Thrift Supervision
Department of the Treasury

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May 4, 2004

MEMORANDUM FOR: CHIEF EXECUTIVE OFFICERS OF MUTUAL SAVINGS ASSOCIATIONS AND MUTUAL HOLDING COMPANIES

FROM: Richard M. Riccobono *Richard M. Riccobono*

SUBJECT: Preparation of the Appraisal of an Institution Contemplating Mutual to Stock Conversion or an MHC Stock Issuance by the Same Company that Prepares the Institution's Business Plan

OTS has become aware that firms conducting appraisals for institutions undergoing mutual to stock conversions or institutions in mutual holding company structures that propose to conduct minority stock issuances, in some cases, also prepared the business plan for the institution. While OTS recognizes that some efficiency may result from an institution engaging the same firm to conduct both activities, OTS is concerned that there is an inherent conflict of interest if the same firm prepares both the business plan and appraisal of the institution's value.

There are significant differences in the focus of a business plan and an appraisal. A business plan can be created only after extensive consultation with management as to the future plans for the institution. The business plan should set forth management's future intentions, and in part reflect management's plans for deployment of proceeds from a conversion or stock issuance. The appraisal, on the other hand, should be an independent valuation of the institution.

OTS is concerned that if the appraiser formulates the desired amount of proceeds contemplated in the business plan, the independence of the valuation appraisal may be compromised. For example, if management and the firm preparing the business plan determine that the institution can effectively deploy only a certain amount of stock offering proceeds, the same firm may be reluctant to value the institution at an amount that significantly exceeds the amount of the capital infusion reflected in the business plan. It is also possible that the firm, in valuing the institution, may use that value in formulating the business plan, rather than determining, based on other considerations, such as market opportunities, the amount of capital that the institution could deploy effectively.

The integrity of the conversion (and stock issuance) process rests, in large part, on the accuracy of the appraised value of the institution. Accordingly, OTS considers it essential that appraisers ascertain and recommend a value that is impartial and objective, and deem it appropriate that separate, unaffiliated parties perform the business plan preparation and appraisal services. Therefore, for transactions filed with OTS after July 1, 2004, separate, unaffiliated parties must prepare the business plan and appraisal.