



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

January 29, 2001

Interpretive Letter #905
February 2001
12 USC 24(7)

Subject: Stock of []

Dear []:

This is in response to your letter of December 8, 2000, addressed to Leigh Hoge, Assistant Deputy Comptroller, Tulsa, Oklahoma. According to your letter, [] (“the Bank”) purchased a key person life insurance policy on its chairman in 1974 and still owns this policy today. Over the years, the issuer of the policy has gone through a number of mergers and corporate restructurings. The most recent change occurred on September 20, 2000, when the insurance carrier’s holding company converted from mutual to stock ownership. Due to this “demutualization,” the Bank, as a policyholder, received a number of shares in the holding company, []. It is my understanding that, under the terms of the transaction, you did not have the option to choose to receive cash instead of the shares. The number of shares involved is less than 0.01 percent of the total outstanding shares of the holding company. You requested confirmation that the Bank may retain these shares of stock, and asked about the appropriate accounting treatment.

You represented that the Bank purchased the life insurance policy for purposes that the OCC has found to be incidental to banking under 12 U.S.C. § 24(Seventh). In fact, since the issuance of former Banking Circular 249 in 1991, the OCC has specifically listed key person life insurance as a permissible holding. When a mutual life insurance underwriter converts to stock form, which has become relatively common in recent years, shares in the new company are distributed to the policyholders based on the amount of insurance that they own. Under these circumstances, the Bank’s receipt of the stock is probably most properly characterized as a byproduct of the permissible activity of purchasing life insurance for the Bank’s needs, and not as a “purchase” of

stock within the meaning of 12 U.S.C. § 24(Seventh). Moreover, the Bank's retention of this stock does not raise any safety and soundness concerns, according to examining personnel who have considered it. Should any such concerns arise, the Bank would be expected to divest the shares, upon the direction of the OCC, as soon as practicable.

Accordingly, the OCC does not object to retention of the [] stock by the Bank. Your supervisory office will contact the Bank separately regarding the accounting question that you raised. I trust that this has been responsive to your inquiry. If you have further questions, please contact me at (202) 874-5300.

Sincerely,

-signed-

Christopher C. Manthey
Senior Attorney
Bank Activities and Structure Division

