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October 27, 2011

Board of Governors of
The Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551
Email: regs.comments@federalreserve.gov

Re: Docket No. R-1429

Dear Members of the Board:

We appreciate the opportunity to comment on the proposed rule regarding the waiver of dividends to Mutual Holding Companies (MHCs). Our company is a financial and management consulting company that represents savings and loan associations and savings banks throughout the country. We were founded in 1983 and since that time have served hundreds of such institutions including Mutual Holding Companies ("MHCs").

We applaud the Board in taking swift action to implement regulations following the passage of the Dodd-Frank Act. However, in an effort to do so, we believe the Board erred in its interpretations of Section 625 of the Dodd-Frank Act and of the former Office of Thrift Supervision ("OTS") regulations as applied to savings institution in an MHC structure that were formed before December 1, 2009 ("Grandfathered MHCs"). However, we will note here that we believe that non-Grandfather MHCs should be regulated the same as those grandfathered on this matter. The MHC format can be an attractive means of entry into the stock world for boards and managements who have spent decades as mutuals and a valuable means to raise capital in the thrift industry.

With respect to the waiver of dividends to the MHC affiliated with the thrift's Mid-Tier Holding Company, the interim final rule violates both the spirit and intent of the Act. We know Congressman Frank took special interest in making sure that the waiver was preserved for Grandfathered MHCs and it appears the restrictions placed on such waivers by the Board virtually make it either impossible to waive a dividend to the MHC or place unduly onerous and costly restrictions on the ability to do so.

We are particularly concerned with the two items in the proposed regulations regarding compliance with MHC directors' fiduciary responsibilities.

The first is the requirement to obtain an annual, positive vote from the mutual members of the MHC who are, in fact, members of the stock subsidiary bank. Obtaining this vote will be costly and time-consuming. The constituency will have difficulty in understanding the purpose of the dividend waiver. The solicitation of votes implies that mutual members have some stake in the outcome, whereas in actuality any benefit to mutual members is non-existent unless and until the MHC elects a second-step conversion and the value of the stock purchased by members in the second offering increases in value in the after-market. Furthermore, it has been shown that typically 95% of mutual members neither purchase stock in the initial MHC re-organization nor in the second step offering that follows years later. Likewise, those members also have an opportunity to purchase this stock in the aftermarket, many times at a discount to the original issue price.

Our second objection is to the language and, in some cases, specific treatment, of the directors of the MHC. We believe that the Board's proposed change stating that MHC boards have a conflict of interest in determining its dividend policy is a disservice to the board members themselves and to the public shareholders. The MHC is inextricably inter-twined with the other components of the organization. It is not possible to completely segregate the ownership levels and fiduciary duties that exist with the MHC board, the public company board, and the bank board. These boards overlap if not exactly mirror each other. It is conceivable that poor understanding of the overall mission of the company could cause these boards to act at cross purposes with each other and damage the safety and soundness of the organization as a whole. All the constituencies benefit from the boards and management of the entities identifying their common goals and working toward them. Determining a conflict of interest in this regard is particularly tedious. For example, how is the board's decision on dividends different than their approving interest rates to be paid on deposits when they are also depositors of the thrift?

As a provider of conversion services to approximately 200 thrifts converting from the mutual to stock form, we encourage directors to buy stock in their bank. In fact, it is virtually required that for a stock conversion to be successful, directors must buy significant amounts of stock, which for most directors represents a significant amount of their net worth. Directors' purchases are listed in the Offering Circular for all potential investors to see before deciding if they should invest.

One of the criteria many investor's use before deciding to buy stock in any company is the amount of insider ownership. Shareholders expect the board of a company to have its interests aligned with theirs. The proposed rule seems to suggest that in order to avoid a conflict of interest a director should not own stock. This premise is completely the opposite of what is needed since it will ultimately be detrimental to the business and financial interests of the banking organization.

Similarly, limiting MHC directors in their votes on dividend waivers or their right to receive dividends on their investment discourages investment by the directors. The recognition of the fiduciary interests of the mutual members is appropriate but, in our opinion, those interests

are not equal to those of the public shareholder. Under the rules of the MHC, members control the company with their ability to vote on important issues that affect the company.

However, some deference should be paid to the minority public shareholders because their interest represents a real investment in the company. These public shareholders made a financial investment by purchasing stock and deserve the opportunity to earn a free-market return on their investment without the burden of constraints later imposed by government. The stock owned by the MHC represents no such commitment or investment on its part. While it may be argued that the mutual banks "contributed" the pre-conversion capital of the mutual institution, shareholders' investments entitles them to proceeds from the investment of that capital plus the capital they invested. If that were not true, then it would be illogical that a second step-conversion would essentially sell a pro rata portion of the company's capital to new shareholders in exchange for an additional investment.

Many MHC's pay a higher dividend to their public shareholders than they would otherwise be able to pay if they could not waive dividends to the MHC. If the waiver could not be continued and the dividend to shareholders had to be cut, it follows that stock prices for these companies will decline. If part of the Board's intention is to preserve value to the mutual interests, we do not understand how a declining stock price will be good for the mutual interests. In the case of an eventual second step conversion, the overall value will likely be less, thus diminishing any potential value to the mutual interests that elect to buy stock in the second step offering.

Further, dividends paid to the MHC would generate income on which taxes would have to be paid, which is not in the interests of either shareholders or members. These funds could be used for the benefit of the banks and their communities rather than having them segregated into an entity that has no purpose or ability to utilize those funds, much less leverage the funds into loans or investments.

We are hopeful that the Board will reconsider the restrictions being placed on the waiver of dividends to MHCs and conform to what we believe was and is the intent of the Dodd-Frank Act; that is allowing for the waiver of MHC dividends upon the positive assertion that the MHC board is within its fiduciary duties to do so without a depositor vote or onerous requirements for insiders.

Sincerely,

Capital Resources Group, Inc.

CC: The Honorable Barney Frank
United States House of Representatives