



MEMO

To: Federal Reserve Board
From: Kevin J. Gallagher, President/CEO
Date: October 31, 2011
Re: Interim Final Rule on Dividend Waiver (docket no. R-1429 and RIN no. 7100 AD 80)

We are a local community mutual bank doing business in Montgomery and Bucks counties, along with the northeast portion of the City of Philadelphia, PA. Our asset size is \$145 million and we have been in existence serving these communities since 1871.

In viewing the components of this ruling, it is apparent that with its passing, it will restrict the ability of MHCs to pay dividends and, most importantly, attract capital. This is and would be an unfortunate event as MHCs have been a highly successful alternative corporate structure for mutual institutions that have raised billions of dollars of capital for community banks.

As we continue to grow and expand our marketplace, we anticipate enjoying the benefits of the MHC structure in total; therefore, we are not in favor of the ruling and ask that you review the MHC structure and re-evaluate a more favorable treatment of the MHC.

Mutual community banks have a long history of providing service to their communities and would like to grow and expand and continue as independent banks. The MHC structure is the best vehicle for many mutuals for accomplishing this.

Also, MHCs have successfully raised billions of dollars of new capital for community banks since 1995. The ability of MHC subsidiaries to pay dividends is key to the attractiveness and capital-raising ability of MHCs, and the Interim Final Rule would effectively eliminate the ability of MHCs to pay reasonable dividends.

In addition, the Federal Reserve Board's analysis and concern over potential conflicts of interest in connection with waiving dividends is overstated and can be resolved in ways that do not damage the ability of MHCs to pay reasonable

dividends to their minority stockholders. Depositors, for example, have been and can be advised of the MHCs intent to waive dividends when they vote on an MHC reorganization.

Once again, we ask you to review your interim decision in an effort to produce a more favorable structure.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kevin J. Gallagher".

Kevin J. Gallagher