



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

December 31, 2013

Pratin Vallabhaneni, Esq.  
Debevoise & Plimpton LLP  
555 13th Street N.W.  
Washington, D.C. 20004

Dear Mr. Vallabhaneni:

This is in response to the application by Principal Financial Group, Inc.; Principal Financial Services, Inc.; Principal Life Insurance Company; and Principal Holding Company (together, the “Principal Companies”), all of Des Moines, Iowa, to deregister as savings and loan holding companies (“SLHCs”) pursuant to section 604(i) of the Dodd-Frank Act, 12 U.S.C. § 1467a(a)(1)(D)(ii)(II), and the Board’s Regulation LL, 12 CFR 238.4(d). The Principal Companies seek to deregister because their subsidiary federal savings association, Principal Bank (“Bank”), Des Moines, functions solely in a trust or fiduciary capacity pursuant to section 2(c)(2)(D) of the Bank Holding Company Act, 12 U.S.C. § 1841(c)(2)(D) (“section 2(c)(2)(D)”).

Background

Section 604(i) of the Dodd-Frank Act amended the Home Owners’ Loan Act (“HOLA”) to exclude from the definition of an SLHC a company with a subsidiary savings association that functions solely in a trust or fiduciary capacity as described in section 2(c)(2)(D). Under section 2(c)(2)(D), the term “bank” does not include an institution that “functions solely in a trust or fiduciary capacity” if it meets the following criteria:

- i. all or substantially all of the deposits of such institution are in trust funds and are received in a bona fide fiduciary capacity;
- ii. no deposits of such institution which are insured by the Federal Deposit Insurance Corporation [(“FDIC”)] are offered or marketed by or through an affiliate of such institution;
- iii. such institution does not accept demand deposits or deposits that the depositor may withdraw by check or similar means for payment to third parties or others or make commercial loans; and

- iv. such institution does not –
  - I. obtain payment or payment related services from any Federal Reserve [B]ank, including any service referred to in section 11A of the Federal Reserve Act; or
  - II. exercise discount or borrowing privileges pursuant to section 19(b)(7) of the Federal Reserve Act.<sup>1</sup>

To transform itself into an institution that functions solely in a trust or fiduciary capacity, Bank ceased offering noncustodial deposit accounts and either terminated those accounts or transferred those deposits to an unaffiliated third-party institution. In addition, Bank ceased originating commercial loans and divested its entire loan portfolio to third-party institutions. Bank has limited its activities to those described in 12 CFR part 150, Subpart E, of the regulations of the Office of the Comptroller of the Currency (“OCC”).<sup>2</sup>

#### The Section 2(c)(2)(D) Factors

As part of its approval of Bank’s conversion to an institution that functions solely in a trust or fiduciary capacity, the OCC, Bank’s chartering authority and primary supervisor, limited the institution’s activities to those described in 12 CFR part 150, Subpart E.<sup>3</sup> Bank’s activities are substantially similar to the activities of the subsidiary savings associations of previous deregistration applicants and have previously been recognized by the Board as trust or fiduciary activities.<sup>4</sup> The Board has consulted with the OCC and reviewed available information and has confirmed that Bank operates only in a trust or fiduciary capacity.

Section 2(c)(2)(D) requires that “all or substantially all of the deposits of such institution are in trust funds and received in a bona fide fiduciary capacity.” The Board considers the “all or substantially all” requirement of section 2(c)(2)(D) to be met where 99 percent of all deposits are maintained in a trust or fiduciary capacity,<sup>5</sup> not taking into account the \$500,000 in nontrust deposits the savings association must hold in order to receive federal deposit insurance.<sup>6</sup> Bank

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<sup>1</sup> 12 U.S.C. § 1841(c)(2)(D).

<sup>2</sup> Bank’s sole fiduciary activity is to serve as a custodian for individual retirement accounts.

<sup>3</sup> Pursuant to 12 CFR 150.580(b), Bank is permitted to serve as a custodian of individual retirement accounts within the meaning of section 408(a) of the Internal Revenue Code.

<sup>4</sup> State Street Boston Corporation, 81 Federal Reserve Bulletin 297 (1995); JP Morgan & Co., Inc., 73 Federal Reserve Bulletin 810, 812, and fn. 5 (1987).

<sup>5</sup> See Board letter to Mr. Raymond J. Manista dated September 26, 2012. See also letter dated February 28, 1997, from Oliver I. Ireland, Associate General Counsel, to S. Alan Rosen, Esq.; and letter dated May 15, 1996, from Oliver I. Ireland, Associate General Counsel, to L. Richard Fischer.

<sup>6</sup> 12 CFR 303.14(a). To be chartered as a federal savings association under section 5 of HOLA, the Office of Thrift Supervision required that the savings association be FDIC insured. 12 CFR

meets this requirement. It conducts its business exclusively through fiduciary accounts maintained at Bank and a correspondent account at an unaffiliated third-party institution.

Bank does not make commercial loans. Bank plans to hold and continue to invest in first mortgages, which are purchased from and serviced by third parties. These loans are being held to satisfy the qualified thrift lender (“QTL”) test.<sup>7</sup> Bank will not originate any first mortgages. Bank has represented that it will conduct due diligence to ensure that any loans purchased are not used as rental property and will require lenders from which it purchases loans to represent and warrant that the properties securing the loans are owner occupied and not used as rental property. In addition, Bank will periodically review its loan portfolio and will divest of any loans not secured by properties that are solely occupied by the borrower.

Bank will also continue to hold existing home equity lines of credit (“HELOCs”) to satisfy the QTL test. Bank’s policy is to decline to make or purchase any HELOC whose application indicates that the proceeds will be used for business purposes. Bank has represented that it will make every commercially reasonable attempt to determine if borrowers are using or have used loan proceeds for business purposes and will divest of any such HELOCs.<sup>8</sup>

The Board has confirmed, based on a review of supervisory information, consultations with the OCC, and information provided by the Principal Companies, that no products or services offered by Bank are marketed by the Principal Companies. Bank does not offer its customers demand deposit accounts or accounts whose funds may be withdrawn by check or similar means for payment to third parties. Bank also does not obtain payment or related services from a Federal Reserve Bank or exercise discount or borrowing privileges with any Federal Reserve Bank. Bank obtains, and will continue to obtain, these services and privileges from third-party institutions. Finally, the Principal Companies and Bank have committed to abide by each of the section 2(c)(2)(D) requirements on an ongoing basis.

### Conclusion

Based on the foregoing and all the facts of record, including the most recent call report and report of examination of Bank and consultation with the OCC, the General Counsel and the Director of the Division of Banking Supervision and Regulation, acting pursuant to authority delegated by the Board, have approved the application by the Principal Companies to deregister

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552.2-1(b)(3)(i). The OCC has retained the deposit insurance requirement. 12 CFR 152.1(b)(3)(i).

<sup>7</sup> See 12 U.S.C. § 1467(m).

<sup>8</sup> Bank will also hold and continue to invest in mortgage-backed securities (“MBSs”) and collateralized mortgage obligations (“CMOs”) to satisfy the QTL test. Bank invests in both residential and commercial MBSs and CMOs, which it acquires from unaffiliated securities dealers. Because these investments are in a securitized form and because Bank is holding the securities rather than the underlying loans, these investments are not prohibited by the section 2(c)(2)(D) ban on commercial loans.

as SLHCs. This action is taken in reliance on all the facts of record, including all the representations and commitments made to the Board in connection with the application. Those representations and commitments constitute conditions imposed in writing in connection with the approval of the Principal Companies' application to deregister as SLHCs and, as such, may be enforced in proceedings under applicable law. Any change in the representations or commitments may result in a different conclusion and should be reported to Board staff promptly.

Sincerely yours,

A handwritten signature in blue ink that reads "Robert deV. Frierson". The signature is written in a cursive style with a long horizontal flourish at the end.

Robert deV. Frierson  
Secretary of the Board

cc: Catharine Lemieux, Executive Vice President  
Federal Reserve Bank of Chicago  
Office of the Comptroller of the Currency