BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 28, 1997

Mr. Kevin M. Houlihan
Elias, Matz, Tiernan & Herrick L.L.P.
12th Floor
734 15th Street, N.W.
Washington, D.C. 20005

Dear Mr. Houlihan:

This is in response to the request by Greater Delaware Valley Holding, MHC, Broomall, Pennsylvania ("Greater Delaware"), to waive the receipt of dividends to be declared in 1997 by its majority owned subsidiary bank, Greater Delaware Valley Savings Bank, Broomall, Pennsylvania ("Bank").

On March 3, 1995, Bank reorganized from mutual to stock form, issuing 80.1 percent of its stock to a newly formed mutual holding company, Greater Delaware, and 19.9 percent to the public, including management. In connection with its formation as a holding company, Greater Delaware committed to receive the Board's approval prior to waiving the receipt of dividends declared by the bank and agreed that the Board would have the authority to approve or deny any dividend waiver at its discretion. Pursuant to that commitment, Greater Delaware requests the Board's prior approval to waive receipt of dividends to be declared by Bank in 1997. Greater Delaware indicates that it is seeking the waiver to enable Bank to continue to pay dividends to its minority shareholders at its current dividend rate and avoid potential adverse tax consequences to Bank.

The Board previously has expressed serious concern at the prospect of a mutual holding company waiving receipt of dividends declared by a majority owned subsidiary bank because of the management conflict of interest inherent in dividend waivers that reflects adversely on the managerial resources of the bank holding company.[1] In most cases, the board of trustees of the mutual holding company, as in this case, is comprised of the same individuals as the board of directors of the subsidiary bank, and these same individuals are also minority shareholders of the bank. As a result, the individuals who establish the dividend rate for the bank and declare the dividends on behalf of the bank, may also waive them on behalf of the holding company, and, as minority shareholders, gain personally from any financial benefits stemming from the waiver.[2] The decision to execute such a waiver is not reviewed by the mutual members of the bank holding company, and rests exclusively with the trustees, who have a financial interest and cannot be removed by the mutual members.

In light of the conflict of interest issue raised by this proposal, Greater Delaware has agreed to certain commitments to attempt to address this issue. These commitments include a commitment that the amount of waived

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[1] See, for example, Northwest Bancorp, MHC, 80 Federal Reserve Bulletin 1131 (1994), and NVE Bancorp, MHC, 82 Federal Reserve Bulletin 843 (1996).

[2] In this regard, there appear to be two means by which minority shareholders can benefit from a dividend waiver. First, dividend waivers can result in a transfer of value from the mutual holding company to the minority shareholders. This transfer of value would occur because, in addition to receiving their regular portion of the dividends declared, the minority shareholders would own a pro rata interest in the waived dividends that remain in the retained earnings of the bank. The second potential benefit to the minority shareholders would be receipt of higher dividend payments than the bank would be able to pay if all declared dividends were paid. State law generally restricts the amount of dividends that may be paid, not the amount of dividends declared. This may permit the bank to declare dividends in excess of what would otherwise be possible because a substantial portion of the dividends declared by Bank -- in this case 80 percent -- would not be paid if waived by the mutual holding company.

dividends that are identified as belonging to Greater Delaware would not be available for payment to, or the value transferred to, minority shareholders of the bank, either through dividend payments, upon the conversion of the mutual holding company to stock form, upon the redemption of shares of the stock savings bank, upon the stock savings bank's issuance of additional shares, at liquidation, or by any other means. The Board also considered Greater Delaware's position that the bank's situation is unique because its post conversion earnings have been adversely affected by nonrecurring items and that dividends at the current rate, if paid to all shareholders, could exceed the post conversion earnings of the bank and thereby subject Bank to federal tax liability. The Board notes, however, that Bank's current dividend and tax position is also a result of the dividend rate established by Bank management, which appears high in relation to Bank's earnings preceding and following the conversion. The Board does not believe that any federal tax liability resulting from the payment of dividends to all shareholders at that rate is sufficiently compelling to override the Board's concerns with respect to the conflict of interest inherent in dividend waivers.

Accordingly, in light of the facts of this case and for reasons discussed above, in particular the conflict of interest inherent in the proposed dividend waiver, the Board has denied the request by Greater Delaware to waive receipt of dividends to be declared by Bank.

Very truly yours,

William W. Wiles

William W. Wiles
Secretary of the Board

cc: William E. Hecht, President,
Greater Delaware Valley Savings Bank
Molly Wassom, FRB
Beverly L. Evans, FRB-Philadelphia