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1987

PUBLIC HEARING

before

SENATE LABOR, INDUSTRY AND PROFESSIONS COMMITTEE

SENATE BILL 2428

(Permits savings institutions to engage in reciprocal interstate activities in the Central-Atlantic Region)

February 26, 1987
Room 334
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Raymond Lesniak, Chairman
Senator Christopher J. Jackman, Vice Chairman
Senator Edward T. O'Connor, Jr.
Senator Gerald Cardinale
Senator Donald T. DiFrancesco

ALSO PRESENT:

New Jersey State Library

Dale C. Davis, Jr.
Office of Legislative Services
Aide, Senate Labor, Industry and Professions Committee

* * * * *

Hearing Recorded and Transcribed by
Office of Legislative Services
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Hearing Unit
State House Annex
CN 068
Trenton, New Jersey



New Jersey State Legislature

SENATE LABOR, INDUSTRY AND PROFESSIONS COMMITTEE

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NOTICE OF PUBLIC HEARING

February 19, 1987

The Senate Labor, Industry and Professions Committee will hold a public hearing on Thursday, February 26, 1987, at 2:00 P.M., in Room 334, State House Annex, on the following bill:

S-2428
Russo

Permits savings institutions to engage in reciprocal interstate activities in the Central-Atlantic Region.

Anyone wishing to testify should contact Dale Davis, Committee Staff, at 609-984-0445.

STATE OF NEW JERSEY

INTRODUCED JULY 24, 1986

By Senators RUSSO, LESNIAK, CODEY, LYNCH, VAN WAGNER,
BASSANO, JACKMAN, O'CONNOR, ORECHIO, CONTILLO,
COWAN, DiFRANCESCO, CARDINALE, DORSEY, GAGLI-
ANO, HURLEY and DALTON

Referred to Committee on Labor, Industry and Professions

AN ACT permitting insured institutions and savings and loan
holding companies to acquire other insured institutions or sav-
ings and loan holding companies and supplementing P. L. 1963,
c. 144 (C. 17:12B-1 et seq.).

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey:*

1 1. As used in this act:

2 a. "Insured institution," "savings and loan holding company,"
3 and "control" shall have the respective meanings set forth in
4 section 408(a) of the "National Housing Act," as amended (12
5 U. S. C. *§* 1730a). "Insured institution" shall also include federal
6 savings banks, whose accounts are insured by the Federal Savings
7 and Loan Insurance Corporation, as defined in 12 CFR 561.1.

8 b. "Savings and loan subsidiary" means an insured institution
9 or savings and loan holding company, more than 50% of the
10 voting ***[share]*** *shares* or members rights of which are owned
11 or controlled, directly or indirectly, by a savings and loan hold-
11a ing company.

12 c. "Central-Atlantic Region" means the states of New Jersey,
13 Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Mis-
14 souri, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia,
15 Wisconsin and the District of Columbia.

EXPLANATION—Matter enclosed in bold-faced brackets **[thus]** in the above bill
is not enacted and is intended to be omitted in the law.

Matter printed in italics *thus* is new matter.

Matter enclosed in asterisks or stars has been adopted as follows:

*—Senate committee amendments adopted February 26, 1987.

16 d. "Insured institution deposits" means the total domestic
 17 deposits in insured institutions in each state according to the
 18 most recent available statistics of the Federal Savings and Loan
 19 Insurance Corporation or the Federal Home Loan Bank System
 20 or, if those statistics are not available, from sources designated
 21 by the commissioner.

22 e. "Commissioner" means the Commissioner of Banking.

23 f. "Eligible state" means any state which meets either or both
 24 of the following conditions:

25 (1) Any state in the Central-Atlantic Region, when at
 26 least two of those states, in addition to this State, each of
 27 which has at least \$20,000,000,000.00 in insured institution
 28 deposits, have reciprocal legislation in effect; and

29 (2) Any state or territory of the United States, when at
 30 least 13 states in addition to this State (for this purpose the
 31 District of Columbia is included as a state, but all other
 32 territories are excluded), at least four, other than this State,
 33 of which are among the 10 states, other than this State, with
 34 the largest amount of insured institution deposits, have re-
 35 ciprocal legislation in effect.

36 g. "Eligible insured institution" means an insured institution:

37 (1) Located in an eligible state which has reciprocal legis-
 38 lation in effect, other than this State;

39 (2) Which is not directly or indirectly controlled by an
 40 insured institution or a savings and loan holding company
 41 which is not located in an eligible state; and

42 (3) Which has at least 75% of the total aggregate deposits
 43 of the insured institution and the savings and loan sub-
 44 sidiaries of any savings and loan holding company directly or
 45 indirectly controlling the insured institution, if any, in an
 46 eligible state or states.

47 h. "Eligible savings and loan holding company" means a sav-
 48 ings and loan holding company:

49 (1) Located in an eligible state which has reciprocal leg-
 50 islation in effect, other than this State;

51 (2) Which is not directly or indirectly controlled by a sav-
 52 ings and loan holding company which is not located in an
 53 eligible state; and

54 (3) Which has at least 75% of the total aggregate deposits
 55 of its saving sand loan subsidiaries in savings and loan sub-
 56 sidiaries located in an eligible state or states.

57 i. "Location" or "located," when referring to an insured insti-
58 tution, means the state in which the amount of aggregate deposits
59 of all of its offices in that state is greater than the amount of
60 aggregate deposits of all its offices in any one other state or
61 foreign jurisdiction; when referring to a savings and loan holding
62 company, "location" or "located" means the state in which the
63 amount of aggregate deposits of all of its savings and loan sub-
64 sidiaries in that state is greater than the amount of aggregate
65 deposits of all of its savings and loan subsidiaries in any one
66 other state or foreign jurisdiction.

67 j. "Reciprocal legislation" means statutory law of a state of
68 the United States, including the District of Columbia, which
69 authorizes or permits an insured institution or a savings and
70 loan holding company, or both, located in this State to acquire
71 insured institutions or savings and loan holding companies, or
72 both, located in that state on terms and conditions substantially
73 the same as the terms and conditions pursuant to which an in-
74 sured institution or a savings and loan holding company located
75 in that state may acquire insured institutions or holding com-
76 panies, or both, located in this State. The fact that the law of that
77 other state imposes limitations or restrictions on the acquisition
78 of insured institutions or savings and loan holding companies,
79 or both, located in that state by an insured institution or savings
80 and loan holding company, or both, located in this State shall not
81 necessarily mean that the law of that state is not reciprocal
82 legislation; provided, however, that if the law of the other state
83 limits acquisitions by an insured institution or a savings and
84 loan holding company, or both, located in this State to insured
85 institutions or savings and loan holding companies, or both,
86 which are not in competition with insured institutions or savings
87 and loan holding companies, or both, located in or chartered by
88 that state or to insured institutions or savings and loan holding
89 companies which do not have customary deposit and commercial
90 loan powers, the law of that other state shall not be reciprocal
91 legislation. If the reciprocal legislation of that other state imposes
92 limitations or restrictions on the acquisition or ownership of an
93 insured institution or savings and loan holding company located
94 in that state by an insured institution or savings and loan holding
95 company, or both, located in this State, substantially the same
96 limitations and restrictions shall be applicable to the eligible in-
97 sured institution or eligible savings and loan holding company,
98 or both, located in that other state with respect to its acquisition

99 of insured institutions or savings and loan holding companies,
100 or both, located in this State.

1 2. a. Notwithstanding the provisions of any other law of this
2 State, an eligible insured institution or eligible savings and loan
3 holding company may acquire and retain control of an insured
4 institution or savings and loan holding company or insured insti-
5 tutions or savings and loan holding companies located in this
6 State providing the following conditions are complied with:

7 (1) At the time of the acquisition of control of the insured
8 institution or savings and loan holding company or insured
9 institutions or savings and loan holding companies located
10 in this State, the insured institution or savings and loan
11 holding company is an eligible insured institution or eligible
12 savings and loan holding company located in an eligible
13 state which has reciprocal legislation in effect.

14 (2) (a) The eligible insured institution shall have more
15 than 50% of the total aggregate deposits of the insured in-
16 stitution and the savings and loan subsidiaries of any savings
17 and loan holding company directly or indirectly controlling
18 the insured institution, if any, in insured institutions located
19 in an eligible state or states each of which has reciprocal
20 legislation in effect.

21 (b) The eligible savings and loan holding company shall
22 have more than 50% of the total aggregate deposits of its
23 savings and loan subsidiaries in savings and loan subsidiaries
24 located in an eligible state or eligible states each of which
25 has reciprocal legislation in effect.

25A **b. It is not the intent of this act, and nothing in this act shall*
25B *be deemed to permit acquisitions in any form that would result*
25C *in branching into New Jersey of insured institutions or savings*
25D *and loan holding companies.**

26 ***[b.]*** **c.** Nothing in this act shall be deemed to eliminate, re-
27 duce or waive any rights of any savings member, borrowing mem-
28 ber or shareholders of the insured institution or savings and loan
29 holding company being acquired pursuant to any applicable law
30 regarding those rights.

31 ***[c.]*** **d.** In the event an eligible insured institution or eligible
32 savings and loan holding company which controls an insured in-
33 stitution or savings and loan holding company or insured institu-
34 tions or savings and loan holding companies in this State and in one
35 or more eligible states shall cease to be an eligible insured institu-
36 tion or eligible savings and loan holding company (1) as a result

37 of obtaining control of an insured institution or savings and loan
 38 holding company or insured institutions or savings and loan
 39 holding companies located in a state which is not an eligible
 40 state or this State, or (2) as a result of having control of it
 41 obtained by an insured institution or savings and loan holding
 42 company or insured institutions or savings and loan holding
 43 companies which is not an eligible insured institution or eligible
 44 savings and loan holding company, the insured institution or
 45 savings and loan holding company shall within one year make
 46 such divestitures as are necessary to comply with the provisions
 47 of this act. The commissioner shall promulgate regulations to
 48 provide a procedure for divestiture.

49 ***[d.]** *e.* Notwithstanding the provisions of this act, an insured
 50 institution or savings and loan holding company shall not be re-
 51 quired to divest its control of any insured institution or savings and
 52 loan holding company as a result of any subsequent change in,
 53 or invalidity of, the laws of this State, another state or the United
 54 States or as a result of a state ceasing for any other reason to be
 55 an eligible state.

1 3. a. Notwithstanding the provisions of any law of this State,
 2 an insured institution or savings and loan holding company lo-
 3 cated in this State may acquire an insured institution or savings
 4 and loan holding company located in any eligible state other than
 5 this State.

6 b. Nothing in this act or in any other law of this State shall be
 7 deemed to prohibit or limit an insured institution or savings and
 8 loan holding company located in this State from acquiring an in-
 9 sured institution or savings and loan holding company or insured
 10 institutions or savings and loan holding companies located in any
 11 jurisdiction other than an eligible state, which acquisition is other-
 12 wise permitted by applicable law of the United States or any
 13 other state, provided that, if the insured institution or savings
 14 and loan holding company becomes an insured institution or sav-
 15 ings and loan holding company not located in this State, it shall
 16 comply with the provisions of this act if it is to continue to control
 17 an insured institution or savings and loan holding company or in-
 18 sured institutions or savings and loan holding companies located in
 19 this State.

1 4. This act shall take effect on the 30th day after enactment but
 2 section 2 of this act shall remain inoperative until such time as
 3 the commissioner determines that the number of eligible states,
 4 as defined in and required by subsection ***[g.]** *f.* of section 1
 5 of this act, has been established.

BANKING AND FINANCIAL INSTITUTIONS

Permits savings institutions to engage in reciprocal interstate activities in the Central-Atlantic Region.

ASSEMBLY FINANCIAL INSTITUTIONS COMMITTEE

STATEMENT TO

SENATE, No. 2428

[OFFICIAL COPY REPRINT]

STATE OF NEW JERSEY

DATED: MAY 21, 1987

This bill permits the interstate operations of state or federally chartered savings and loan associations or federally chartered savings banks and savings and loan holding companies on a regional or national reciprocal basis under certain circumstances.

The bill supplements the "Savings and Loan Act (1963)" P. L. 1963, c. 144 to establish a Central-Atlantic region for the interstate operation of insured institutions and savings and loan holding companies consisting of New Jersey, Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin, and the District of Columbia. It provides that if any two of these states, excluding New Jersey, with \$20 billion in insured institution deposits adopt legislation permitting New Jersey based savings and loan associations, savings banks, or savings and loan holding companies, or both, to acquire this type of depository institution or savings and loan holding company, or both, in their state, then the region would be established. When the region is established, if any state in the region adopts or has adopted legislation permitting New Jersey institutions or savings and loan holding companies to acquire the same type of depository institution or savings and loan holding company in its state, then the depository institutions or companies in that state could acquire institutions or savings and loan holding companies in New Jersey.

The bill provides that if at least 13 states, excluding New Jersey and including four of the 10 largest states in the nation, as determined by deposits of like institutions (also excluding New Jersey), permit savings and loan associations, federally chartered savings banks or savings and loan holding companies located in New Jersey to acquire like institutions or savings and loan holding companies located in those states,

New Jersey would permit savings and loan associations, federally chartered savings banks or savings and loan holding companies to acquire the same type of institution located in New Jersey and would offer similar reciprocity to any other state on a national basis.

The bill contains anti-leapfrog provisions which prohibit an eligible depository institution or savings and loan holding company in an eligible state which has reciprocity with New Jersey from purchasing a like institution or savings and loan holding company in New Jersey if it is directly or indirectly controlled by a savings and loan association, federally chartered bank, or savings and loan holding company which is not located in an eligible state; if, in the case of an eligible type of institution, less than 75% of the total aggregate deposits of the institution and the savings and loan subsidiaries of any savings and loan holding company directly or indirectly controlling the institution are located in an eligible state or states or if, in the case of a savings and loan holding company, less than 75% of the total aggregate deposits of its savings and loan subsidiaries are located in savings and loan subsidiaries located in an eligible state or states; or if, in the case of a depository institution, 50% or less of the total aggregate deposits of the institution and the savings and loan subsidiaries of any savings and loan holding company directly or indirectly controlling the institution in like institutions located in an eligible state or states with reciprocal legislation in effect or if, in the case of a savings and loan holding company, 50% or less of the total aggregate deposits of its savings and loan subsidiaries are located in savings and loan subsidiaries located in an eligible state or states each of which has reciprocal legislation in effect. If any savings and loan association, federally chartered savings bank or savings and loan holding company ceases to meet these tests after it has acquired an institution of the same type or savings and loan holding company in New Jersey, it must make any divestitures as are necessary to comply with the provisions of this bill within one year. The commissioner must promulgate regulations to provide a procedure for divestiture. However, an institution or savings and loan holding company would not be required to divest as a result of any subsequent change in, or invalidity of, the laws of this State, another state or the United States or as a result of a state ceasing for any other reason to be an eligible state.

Lastly, the bill preserves the rights of savings members, borrowing members and shareholders of the institution or savings and loan holding company being acquired under the provisions of the bill. The provisions of the bill do not apply to the acquisition of any eligible depository institution or savings and loan holding company located in New Jersey by a like institution or savings and loan holding company located in New Jersey.

The Senate Labor, Industry and Professions Committee made technical amendments to the bill and also amended the bill to provide that nothing in the bill shall be deemed to permit acquisitions that would result in the branching into New Jersey of state or federally chartered savings and loan associations or federally chartered savings banks or savings and loan holding companies which are domiciled in a state other than New Jersey.

TABLE OF CONTENTS

Page

Thomas Lindenfeld
Representing Senator John F. Russo
District 10 1

Mary Little Parell
Commissioner
New Jersey Department of Banking 2

Edward Lawlor
President
New Jersey Savings League 7

Alfred H. Griffith
New Jersey Bankers Association 9

Michael F. Spicer, Esq.
New Jersey Bankers Association 9

Rob Stuart
New Jersey Public Interest Research Group 17

APPENDIX

Statement of Mary Little Parell
Commissioner of Banking 1x

Proposed Department of Banking
Amendments to Senate Bill 2428 6x

Department of Banking proposed bill draft
for companion oversight bill 7x

Statement of New Jersey Savings League
on S-2428, with attachments 21x

* * * * *

SENATOR RAYMOND LESNIAK (Chairman): (Chairman begins public hearing, following Committee meeting) Are you representing Senator Russo?

THOMAS LINDENFELD: Yeah.

SENATOR DiFRANCESCO: What are we on this time?

SENATOR LESNIAK: S & Ls. We're trying to establish the record here--

SENATOR DiFRANCESCO: Senator Russo's not coming?

SENATOR LESNIAK: Yeah, because every time--

SENATOR DiFRANCESCO: You're taking a record and he's not coming.

SENATOR LESNIAK: Well, do you want to request that the bill be held because the sponsor's not here?

SENATOR DiFRANCESCO: Absolutely. Do you second that?

SENATOR CARDINALE: Yes.

SENATOR DiFRANCESCO: O'Connor will vote for it.
(laughter)

SENATOR LESNIAK: I think Tom Lindenfeld is more than capable of--

SENATOR DiFRANCESCO: Absolutely. You're right. He's not nearly as abrasive as Senator Russo, and we'd rather have him here.

SENATOR LESNIAK: You know, the worst thing in the world is to have a Committee meeting after a long event.

SENATOR JACKMAN: How come you didn't move my bill?

SENATOR LESNIAK: You weren't here. You just got here, Chris.

Yes, Mr. Lindenfeld?

MR. LINDENFELD: I'll be brief. The recent enactment of interstate banking provisions for commercial banks has led us to the position that perhaps the wave of the future is going to be regional banking and interstate banking, and that that opportunity ought to be afforded to savings and loan institutions -- a group of banks which have traditionally been

a more service-oriented, community-oriented service, and one which probably wouldn't be as likely to take advantage of the interstate banking provisions, as perhaps the commercial banks have been recently.

Nonetheless, giving them that option, set up in the same structure as the commercial banks already enjoy, ought to be something that should be considered, and I'm sure that Senator Russo would be delighted if you were to look favorably upon this bill and release it today at your Committee meeting later on.

SENATOR LESNIAK: Any questions?

SENATOR JACKMAN: Move the bill.

SENATOR LESNIAK: This is not a Committee meeting, Senator Jackman.

SENATOR JACKMAN: Why not?

SENATOR LESNIAK: Because it's a public hearing, that's why.

SENATOR JACKMAN: Okay.

MR. LINDENFELD: Thank you.

SENATOR LESNIAK: Thank you. Mary Parell, Banking Commissioner.

COMMISSIONER MARY LITTLE PARELL: Good afternoon, Mr. Chairman, and members of the Committee. I do have prepared testimony in support of Senate Bill 2428. And also urging the introduction, simultaneously, of a companion bill. I would ask the Chair for some direction as to whether you would like to hear my prepared testimony, or whether I should submit the testimony and make some briefer remarks?

SENATOR LESNIAK: How about summarizing it? Can you do that?

COMMISSIONER PARELL: As the representative of Senator Russo stated, the bill before you today follows the legislation which was enacted last year and would extend to the savings and loan association industry the right to make acquisitions across

state lines, first on a regional basis, and eventually on a national reciprocal basis.

Now, when I testified before this Committee last year, I stated my opinion based both on our experience in New Jersey and on research that interstate banking would be beneficial to competition to the consumers of this State, and therefore, would be in the public interest. My position is the same with respect to this bill. I believe that our savings and loan industry has demonstrated itself to be stable, and mindful of the service needs of the people of this State. It has demonstrated excellent growth, and managerial resources in recent years. And, I see no reason why we should not defer to their wish to have interstate banking privileges at this time.

This bill permits interstate acquisitions -- first within the region, and then nationally -- of the savings and loan associations, including Federally chartered savings and loan associations and Federally chartered so-called savings banks, which are insured by the FSLIC. It's on a reciprocal basis. We would envision a three-state initial region, comprised of New Jersey, Ohio, and Pennsylvania. Those two states already have laws in effect which I believe would be considered reciprocal.

This bill does not usher in the interstate branching approach. It's not intended to do that, and I think you will hear that confirmed by the members of the industry who will speak. Therefore, I have a brief, one sentence, proposed addition to the bill, which would clarify the legislative intent on that score. It has been submitted to the staff. It would say, "It is not the intent of this act, and nothing in this act shall be deemed to permit acquisitions in any form that would result in branching into New Jersey of insured institutions or savings and loan holding companies."

Branching is definitely in the cards for the future. However, it is not in the commercial bank interstate bill, and

for reasons of safety and soundness, and also of having an orderly progression of interstate banking, I would strongly urge the adoption of such language just to clarify the legislative intent.

Now, on the subject of the oversight bill which we are submitting, and hopefully would like to see move along with this bill -- again, the oversight bill concept has already been pioneered with the enactment of the commercial bank interstate bill. And, the main provisions of this bill follow that same format. The format is basically this: That all savings and loan associations in this State, whether Federal or State charter, would be required to register with my Department, so that we would at least have a head count; who they are and where they are.

Now secondly, those same organizations would be required to file a report once a year in a format which they had already developed for some Federal regulator, again, so we can get an overview.

In the case of savings and loan holding companies which control a State-chartered savings and loan, our oversight bill would give us for the first time examination authority in the holding company. And that is for the reason that as controlled decisions begin to move upward toward the holding company level, it is in the interest of the public that the regulator be able to see the shape of the holding company at all times, as well as the shape of the State-chartered association. So, we would like to examine them.

And, we have worked this out with the Federal Reserve in our existing oversight law so that it results in a very minimal amount of additional regulation for the commercial bank industry. And we have already made the same type of preliminary agreement with the Federal Home Loan Bank Board, which oversees savings and loan holding companies. So, we think that these aspects will work smoothly, and will enhance

the safety and soundness of this industry as we move into interstate banking.

There are two additional provisions in today's oversight bill, which I'd like to highlight for you. One is the gradual phase-out of the uninsured savings and loan associations. I think that in the wake of the crises which developed in Ohio and Maryland involving state insurance funds for savings and loan associations, it is clear that New Jersey can no longer afford to have any of its savings and loan associations be uninsured. They have dwindled to a number which is certainly very small. But, responsible legislation, I believe, at this time must recognize that such institutions are an anomaly and give them an opportunity to either get insurance or to conduct an orderly merger or phase-out.

And finally, this oversight bill would enable our State-chartered savings and loan associations to adopt the name "savings bank SLA" if they wish. Savings bank SLA standing for savings bank savings and loan association. Now, we believe that this authority is necessary at this time in order to give parity to the State-chartered savings and loans, for a power which Federally-chartered savings and loans already enjoy, and are utilizing in greater numbers. The alternative, i.e. not allowing our State-chartered associations to use the name savings bank SLA, I believe would quickly -- well quickly -- result in a rather substantial exodus from the State system, i.e. people will change their State charter to a Federal charter in order to use the name savings bank.

Therefore, in conclusion I would just recommend to this Committee favorable consideration both of the savings and loan interstate bill, as proposed, and of our proposed oversight bill whose sponsorship has, hopefully, been arranged. And, I am available for questions.

SENATOR LESNIAK: Commissioner, you said that you wanted the oversight bill to move along with this bill, but the

oversight bill hasn't even been introduced. Are you asking us to hold the bill today?

COMMISSIONER PARELL: Senator, that would be in the discretion of your Committee. I believe a device was used, which you called tie-barring, when the companion bills were presented last year, whereby you would release the bill which was ready to be released today, but you would add language to the effect that it wouldn't become effective until passage of the oversight bill which would require a number, I suppose.

SENATOR LESNIAK: Well, you submitted a proposed amendment before us, that does not include a tie-bar. Are you suggesting that we amend the bill to include a tie-bar?

COMMISSIONER PARELL: If that can be done, I would appreciate it. On the other hand, I don't think that it would be necessary to hold the bill at this time, because I don't detect--

SENATOR LESNIAK: I'm told we can't do that unless there's a bill actually introduced.

COMMISSIONER PARELL: I will consult with the aide on that score. I don't detect any opposition whatsoever to the oversight bill, so I don't think that it's absolutely essential. I don't want to hold up the interstate bill today.

SENATOR LESNIAK: Okay, we can't amend this bill to do that today, because the oversight bill is not introduced.

The other point I want to make is with regard to the amendment that you submitted today. My procedure is going to be that if you have any amendments that we see them before the Committee meeting, not on the day of the Committee meeting, unless there are emergencies that come up.

COMMISSIONER PARELL: This is not that.

SENATOR LESNIAK: Okay. But I would ask you to ask your staff in the future to have these amendments, because I'm not too crazy about seeing things for the first time when they come right before me. I know it happens often, but I'd like to

avoid that. And if it happens on other cases where it shouldn't happen, we'll have to not consider the amendment.

I have one other question. Does the Community Reinvestment Act apply to savings and loan associations as well?

COMMISSIONER PARELL: I believe it does. I would have to check that, though. I believe that it does.

SENATOR LESNIAK: Maybe some members of the industry would be able to-- (several members of audience indicate the act does apply) The reason why I ask that is that that has been a vehicle that has been used to get commercial banks to respond to community needs. And I just say that for the record, because I believe that there were some organizations, as I recall, testifying against our interstate bill. I just find it ironic that that interstate bill has been the vehicle for many community services that wouldn't have been provided without it. And I presume that this would also occur with this bill as well. And, if that does, it's a very good spinoff effect that, maybe, we didn't anticipate when we had the other bill before us.

COMMISSIONER PARELL: I would concur with that, Senator.

SENATOR LESNIAK: When you're on the Federal Reserve Board, you'll adopt the same posture.

COMMISSIONER PARELL: Federal Home Loan Bank Board are--

SENATOR LESNIAK: I know, but I'm talking about-- Wouldn't you rather be on the Federal Reserve Board, if you had the chance? Any other questions? (negative response) Okay, thank you, Commissioner.

Edward Lawlor, New Jersey Savings League?

E D W A R D L A W L O R: Mr. Chairman, members of the Committee, I'm Ed Lawlor, and I'm President of the New Jersey Savings League, a trade association representing 160 Federal savings banks, and savings and loan associations in this State. And I'm here today to speak in favor of 2428.

We submitted an 11 page statement to the Committee, Mr. Chairman, and with your permission I won't read it.

SENATOR LESNIAK: We'll enter that statement into the record along with the Commissioner's as well.

MR. Lawlor: Thank you, I was about to request that. As the Commissioner stated, the bill was passed last year -- Senate Bill 1468 -- that was signed into law on the 28th of March. And it set up the 14 state Central Atlantic Region authorizing bank holding companies in other states to acquire, merge with under certain circumstances, banks or holding companies in this State. Under the law, the banks can only go into the states that have reciprocal legislation. To date -- just for the Committee's information -- there have been 35 states that have authorized some form of interstate activity for their financial institutions.

This bill -- 2428 -- does the same thing that the other bill did for the bankers with three differences. The first is that it applies to savings and loans and Federal savings banks, as well as their holding companies. The second is that it provides for a two-state trigger, rather than a three-state trigger. And the third is it does not contain the limitation on the holding of stock which appears in the banking law; there is no limitation of that type in the State law at the present time for savings and loans, and therefore, it doesn't appear in the bill.

Otherwise, the bills are identical. We deliberately made them the same in the drafting, in working with the staff and the sponsor, so that there wouldn't be any question as to the differences in the bill. And, except for those three differences, they are the same.

As was stated before, we need it in order to keep abreast of the times, and for savings and loans to remain competitive. There's a trend throughout the country for this type of legislation to be passed, and we're getting it from

Washington -- we don't know just when, but certainly very soon -- and it's keyed to the state laws in many cases. If New Jersey doesn't have a law, then the savings and loan associations in New Jersey will have to go by the Federal restrictions.

For these reasons, members of the Committee, and for the others stated in the statement that was submitted for the record, we ask you to please vote favorably on this measure and report it out today. And if there are any questions, I'd be happy to answer.

SENATOR LESNIAK: Any questions? (negative response)

Thank you, Mr. Lawlor. Al Griffith, from the New Jersey--

A L F R E D H. G R I F F I T H: I'm going to defer to Counsel Spicer, Senator.

SENATOR LESNIAK: Okay.

M I C H A E L F. S P I C E R: Mr. Chairman, my name is Michael Spicer, and I'm an attorney representing the New Jersey Bankers Association. I have no formal prepared statement--

SENATOR LESNIAK: Thank God.

MR. SPICER: This bill does not directly regulate the commercial banks. It encompasses a philosophy which is consistent with the interstate bill for commercial banks and therefore is supported by the Bankers Association for the same reasons that we supported the bill with respect to commercial banks and is substantially stated by the Commissioner.

We do have three concerns that we would like to bring to your attention, two of which have already been discussed. One is the question of the oversight bill to accompany this. We believe that that is very important. That pursuant to interstate banking for either commercial banks or savings and loans, there will be many more holding companies involved; the issues become more complex; the need for control and oversight becomes greater, and therefore, an oversight bill should be in place, as there is for the commercial banks.

We have reviewed the proposed bill that the Commissioner has drafted, and are in agreement that that is sufficient and would do the job. Whether you think it desirable to tie them together, or to let them proceed separately, we think whatever the bottom line is, we think that the interstate bill should not go without the oversight bill.

The Commissioner also mentioned the question of branching limitations. Both interstate bills -- the one that's law and the one that's being proposed -- relate to acquisitions. The underlying Federal laws are different between commercial banks and savings institutions with respect to branching across state lines. So, we think the language that the Commissioner has submitted is desirable and necessary and should be included in the bill.

We initially had a concern with the fact that the regional trigger was two states instead of three. While that appears to be a difference from the commercial banks, in the real world, because of the differences in the reciprocal laws of other states, we think that's fair enough to have different trigger numbers in the bill.

We are also concerned with the question of the capital adequacy of out-of-state savings and loans and savings and loan holding companies coming into this State and acquiring New Jersey institutions. As I'm sure you realize, the question of the capitalization and the health of many thrift institutions around the country has been a serious question. And we would recommend that this bill contain a provision with language similar to the bill (sic) which you put into Assembly 2042, which is the bill on powers for savings and loans. Specifically, in the section which would grant commercial loan powers to savings and loans, one of the conditions there was that the savings bank, "have capital equal to that required from time to time by the Board of Governors of the Federal Reserve System for banks chartered under the laws of the United

States, which is a member of the Federal Reserve System, and said capital shall be calculated in accordance with generally accepted accounting principles as applied to banks." Again, that language is taken from Assembly Bill 2042, the Official Copy Reprint. It's found in -- I don't have the number of the section right in front of me, but it is the one dealing with the expanded power to make commercial loans.

And that's the extent of my comments, Mr. Chairman.

SENATOR LESNIAK: You've stated, and this bill does apply to acquisitions between S & Ls in different states, and that this bill is the same, in most part, as the commercial interstate bill. Do you see that this bill precludes an out-of-state savings and loan from starting a savings and loan in this State without an acquisition?

MR. SPICER: Well, I think it would have to be structured as an acquisition, but I don't see why a--

SENATOR LESNIAK: Are you saying that your opinion is that the commercial interstate bill precludes, for instance, a bank from Pennsylvania from starting a bank in New Jersey?

MR. SPICER: Yes, but I think that's perhaps the wrong question. What can be done--

SENATOR LESNIAK: Why is that the wrong question?

MR. SPICER: It's the wrong question because even though it specifically doesn't permit a de novo, because it permits an acquisition, you can form a new bank with the full intent from the start that it's going to be acquired by the out-of-state institution, and you can accomplish the same result.

SENATOR LESNIAK: So why would you have-- Why would you want to play this shell game?

MR. SPICER: Well, in that case, there would still be an entity -- a corporate entity -- which is chartered pursuant to New Jersey law.

SENATOR LESNIAK: Right.

New Jersey State Library

MR. SPICER: Even though it was de novo. When we talk about branching--

SENATOR LESNIAK: I'm not-- Forget about branching.

MR. SPICER: Oh. Why play that shell game, and not do it directly? There's no particular reason. I mean, I--

SENATOR LESNIAK: Okay. You're saying, if the law is construed that way, all you have to do is set up a new bank and then acquire it.

MR. SPICER: That's right. And--

SENATOR LESNIAK: Which doesn't make any sense.

MR. SPICER: No. You play the shell game only because of the literal reading of the law, not for any other reason that I'm aware of.

SENATOR LESNIAK: Are you asking that we amend the bill in any way?

MR. SPICER: Well, that's up to you. What we're saying, it's not--

SENATOR LESNIAK: Well, I'm asking you.

MR. SPICER: Okay.

SENATOR LESNIAK: I'm throwing it back to you. We know it's up to us. Always, it's up to us. But how do you feel about it?

MR. SPICER: We would like to see the bill amended to include the capital adequacy language that I just read, and also to include the language the Commissioner has submitted to you, with respect to branching. And also, to tie it to the oversight. It's not our bill; we don't want to be in the position of being the ones to obstruct a bill that's otherwise going to move.

SENATOR LESNIAK: With regard to the capital adequacy, do you believe that the Commissioner has adequate powers to ensure capital adequacy?

MR. SPICER: There is nothing specific--

SENATOR LESNIAK: I know your answer.

4-10-61

MR. SPICER: --in these bills that satisfies us that that is the case.

SENATOR LESNIAK: Okay. Thank you. Any other questions? (negative response)

I'd like to recall the Commissioner, if I may, to respond to that specific question.

COMMISSIONER PARELL: I agree with Mr. Spicer and the bankers on the goal, which is that we want well-capitalized entities acquiring savings and loan associations here in New Jersey, and nothing but well-capitalized and well-managed organizations. I don't believe the means that they suggest is necessary. It's certainly a respectable means to suggest, but I don't think it's necessary.

The Federal Home Loan Bank, which sets capital requirements for savings and loan associations, has a regulation which is phasing in equal capital requirements for, forthwith for savings and loans, as those which are now required of banks. It's a gradual phase-in, but basically they're all going to be up to the same level in a matter of years.

Similarly, when a savings and loan association converts from a mutual to a stock form, it's my understanding that for their SEC filings and for the sake of attracting stockholder dollars, they have to switch to generally accepted accounting principles. So, this is a subset of the same question of capitalization. In other words, gradually these entities are coming onto an equal par, in terms of capital with--

But, to answer your question most precisely, when a savings and loan association is acquired by a holding company, the Federal Home Loan Bank reviews the transaction, and its primary inquiry is that of financial adequacy and managerial competence. In addition, under our proposed oversight bill, when a State-chartered savings and loan association is

acquired, our primary and indeed sole inquiry is the financial strength and the managerial capability of the acquirer as well as the ultimate capital impact on the resulting institution.

So, I believe that the regulatory tools are in place now, and will be exercised to protect the public interest that only well-capitalized acquirers are permitted to have successful applications.

SENATOR LESNIAK: One last question, Commissioner. This bill passes the Senate and passes the Assembly and gets to the Governor's desk. The oversight bill is stalled, maybe in the Senate Committee, maybe in the Assembly Committee, maybe on the floor, whatever. What's your position to the Governor?

COMMISSIONER PARELL: We can implement the interstate bill without the oversight bill. That's a hard hypothetical for me to respond to, because I know that the Governor feels strongly that increased oversight go hand-in-hand with increased interstate powers.

SENATOR DiFRANCESCO: Do I sense a reluctance on the oversight bill?

SENATOR LESNIAK: The only reluctance I have is that the bill's not ready for introduction, and they should move together. That's the only--

MR. LAWLOR: Mr. Chairman?

SENATOR LESNIAK: Yes?

MR. LAWLOR: May I make a comment on this?

SENATOR LESNIAK: Sure. Please.

MR. LAWLOR: With regard to the suggestion by Mr. Spicer about including the provision of S-2042 (sic) in this bill--

SENATOR LESNIAK: I'm sorry, what provision?

MR. LAWLOR: Mr. Spicer recommended that you give consideration to including the capitalization requirement as was done for the savings banks in their increased powers bill. He did make reference to savings banks, but I think he meant savings banks; he said savings and loans. Actually, that bill doesn't apply to savings and loans.

There's a big difference between a savings and loan association today and a commercial bank. A great big difference. For one thing, we don't make the type of loans that commercial banks do. We're permitted to make a certain percentage -- 10% total of our assets -- in this type of investment. And we haven't done it. We've -- particularly in New Jersey -- remained committed to housing, and that's what we're doing. It would be unfair and unreasonable to apply the same standards for capitalization to savings and loans, and reserves to savings and loans as savings banks, because they don't have the same kind of losses that the commercial banks have.

SENATOR LESNIAK: The Commissioner just said that the Federal regulations are bringing you into parity in this.

SENATOR LAWLOR: They are on a phased-in basis. The new regulation that was passed last year requires--

SENATOR LESNIAK: Is it going to be that unfair?

MR. LAWLOR: But it's going to take a while to phase them in. And also, it isn't just 6%/6%. There are certain other considerations: profitability, the amount of bad loans, the extent of growth-- The savings and loans have been restricted in their growth to make sure they don't grow away from their capitalization for their net worth.

But for this body to change -- for the State Legislature to change -- the law now to require savings and loans to have the same capitalization and reserves that's required for commercial banks by the Controller of the Currency would be very unreasonable. First of all, our losses -- and this is not-- Commercial banking is more risky by its very nature than the type of lending that we do related to housing. And our losses aren't a fraction-- Our losses that we write-off each year, are less than half, far less than half than what commercial banks do.

So, we would urge you not to attach a rider of this kind, because of what the Commissioner said that we had the regulations on the Federal level. In addition to that, if the State Legislature continues to impose more onerous requirements on the State Charter of Institutions, what's going to happen here -- and Senator this is in no way a threat; it's just a statement of fact -- many of the State-chartered institutions are really going to convert to Federally-chartered. If they can do better on their branching, they can do better -- they don't have to respond or comply with very restrictive reserve requirements, they'll take the easiest way and the most effective way for them to operate.

So, we would ask you not to include those restrictions. As the Commissioner said, before any merger or acquisition is approved, either in Trenton or in Washington, both of the supervisory authorities consider this very carefully, and they make certain that there's adequate capital before they'll allow a merger of those two institutions.

Savings and loans in New Jersey have \$50 billion in assets, and they're strong. And Mr. Spicer referred to what's happening to other states in the country. They're having very serious problems with their economies, and we are not. Thankfully, we're moving along just as well as any of the other organizations in New Jersey, and we've been very very successful with respect to profits. As a matter of fact, in many cases right now the savings and loans in New Jersey have reserves in excess of what's required from the banks. But to require any other ones would be an undue burden. We have 30% of the associations today have in excess of 6% reserves.

So, we would urge the Committee not to impose that kind of a burden on the institutions.

SENATOR LESNIAK: Any questions of Mr. Lawlor? (no response) Thank you, Mr. Lawlor. Any other person wishing to testify? Sign up. You broke my rule. No, that's okay.

R O B S T U A R T: I'm sorry. My name is Rob Stuart, and I'm representing the New Jersey Public Interest Research Group. NJPIRG does not have a position on this legislation as it relates to the interstate banking for savings and loans, but as we testified before the Committee when interstate banking was going through for commercial banks, the studies that we've done in New Jersey, both in 1984 and 1985 show that it's relevant and it would be, I think, in the public interest for the Committee to consider consumer protections along with these new freedoms of interstate banking for savings and loans. And particularly in the areas of providing the basic banking services, to providing consumers with more reasonable check-float periods, to provide consumers with government check cashing standards by which people could cash checks -- government checks; checks that are known to be good -- at savings and loans branches.

The members of the Committee have received our reports which document the various float periods that exist in this State. On average a bank institution does, based on information from the Federal Reserve, receive credit for checks in one to two days, although in New Jersey we see that on the far side banks abuse this, and hold checks up to 14 days, and on the average hold it for 6 days. We just heard that savings and loans are doing quite well in terms of profit; we ask that the Committee consider as we didn't then, either amending this legislation to include the consumer protections that have now been separately introduced by Senator Pallone and exist in the form of S-2114, or I guess make a commitment to consider the legislation at an early date.

Because, as we do open this up, banking services -- it is essential for people to have bank accounts. People need to be able to write checks. But, we see that there are examples where banks have precluded low and moderate income from having bank accounts. It comes with the excessive fees that have

steadily increased since bank deregulation in 1982. We see that it becomes almost more expensive to have a bank account than it's worth it. And the needs-- New Jersey needs to step in and provide low and moderate income consumers -- as well as all consumers -- when it comes to check float access to the funds that are theirs.

SENATOR LESNIAK: Senator Pallone's bill and Assemblyman Kosco's bill will be heard at the Committee meeting.

MR. STUART: Excuse me?

SENATOR LESNIAK: Senator Pallone's bill and Assemblyman Kosco's bill -- Assemblyman Kosco's bill deals with check clearing--

MR. STUART: Just certified checks.

SENATOR LESNIAK: And-- It deals with check clearing; whatever.

MR. STUART: Yes.

SENATOR LESNIAK: Assemblyman Kosco's bill and Senator Pallone's bill will be considered at my next Committee meeting. Okay? Any questions? (no response) I'm surprised. Thank you.

Anyone else? All right, I've made everyone's day. I will close the hearing, and we'll consider the bill.

(HEARING CONCLUDED)

APPENDIX

TESTIMONY OF

COMMISSIONER MARY LITTLE PARELL
NEW JERSEY DEPARTMENT OF BANKING

BEFORE THE
SENATE LABOR, INDUSTRY AND PROFESSIONS COMMITTEE

FEBRUARY 26, 1987

Thank you for this opportunity to share the Department's views on Senate Bill No. 2428, legislation that would allow New Jersey's savings and loan associations to participate in reciprocal interstate acquisitions on first a regional, and later on a national, basis. The Department supports the overall effort by our state associations to expand into new interstate markets, and believes that this authority will do much to improve their financial strength and insure their health in the future.

This effort, however, must first be paired with additional regulatory measures that will help the Department protect the public interest in the ensuing era of increased acquisitions among in and out-of-state savings institutions. To this end, the Department has prepared legislation that allows us to monitor the activities of individuals and companies that control a New Jersey savings and loan, much in the same manner as we today oversee the activities of companies controlling state banking institutions as set out in the New Jersey Bank Oversight and Change of Control Act.

A year ago I appeared before this same committee on the subject of interstate banking. At that time I provided you with an extensive record in support of interstate banking, a record which was intended to answer the

questions and concerns with the impact of interstate acquisitions and mergers on the banking industry, competition, the public welfare, and the economy. In examining Senate Bill 2428, our principal considerations were the same: will the public welfare be adequately protected, will competition increase, and will New Jersey continue to play an active role in defining the parameters of its financial environment.

The Department has again concluded that interstate banking will enable our associations to fully respond to the credit needs of consumers and businesses and provide them with a wider range of accessible and fairly priced services. Our savings and loan industry has already produced a strong track record within the state of keeping pace with this demand, as well as with competition, through increased services, products and innovation.

In any discussion of interstate acquisitions of savings associations, one has to go beyond these considerations to also weigh the effects of interstate banking on the savings institution itself. I believe that the move toward interstate banking will clearly help our associations to achieve more economies of scale in the production and distribution of financial products, and ultimately enable them to become more competitive with all types of financial organizations. Moreover, as a recent FHLBB article pointed out, "those institutions that cannot or will not adapt to the changing environment will be able to merge while they are still solvent, and the expansion of interstate banking privileges will maximize the number of potential buyers for those institutions and may push their selling prices up accordingly." Over the long term interstate banking will allow well-managed, strongly capitalized savings and loans with sound strategic plans to diversify their sources and use of funds over wider geographic areas. In turn, this ability will help reduce their loan portfolio risks and lower their costs of deposits as new sources of funds are tapped. For these reasons, the liberalization of

geographic restrictions for our savings and loan associations should be permitted.

I am reminded of an observation made in a 1981 Treasury Department study on interstate banking that I have shared with you in the past, "Since government shaped the financial world that presently exists, government is obliged to create conditions which will permit an orderly evolution to a new financial environment." The orderly progress for interstate expansion for the savings industry is the responsibility of government, and the route toward that expansion should be clearly defined. With respect to the proposed interstate legislation, I think it is a matter of sound public policy that expansion is achieved initially through acquisitions, rather than by merger or branching of the association or holding company. While the spirit of the legislation suggests that branching is not permitted, I would recommend that specific language to that effect be included in the proposed interstate bill. Interstate branching is an issue that needs further study by all segments of the banking industry and by the regulators, and it would not be in the best interests of New Jersey and the industry to permit branching rights at this time.

As we enter a period of interstate thrift acquisitions, it is important that corresponding regulatory mechanisms be adopted to gauge and monitor the activities of those entities entering New Jersey to acquire state associations. The oversight bill that the Department has prepared is modeled on the existing New Jersey Bank Oversight and Change of Control Act that was enacted in conjunction with the passage of the interstate banking law last year. The bill authorizes the Department to: establish certain reporting requirements for companies and individuals who control New Jersey-based savings and loan associations; to expand our examination authority over these entities, and; increase the Department's oversight of acquisitions which

involve changes of control of state-chartered associations by giving us approval authority over these transactions.

I believe that the provisions of this bill are necessary for the safety and soundness of our savings and loan industry in an era of increased acquisitions by individuals and companies from New Jersey and from other states. I would like to say that I have enjoyed the support of the savings industry in developing this bill, and we have devised a proposal that is as least restrictive as possible, while still giving the Department necessary increased supervision responsibility.

The Department has also incorporated two adjacent goals in its proposal. The first calls for the gradual phasing out of the remaining uninsured savings and loan associations by requiring them to either obtain FSLIC insurance, or merge with another institution, or liquidate. The numbers of uninsured S&Ls in New Jersey have been steadily declining over the years and the remaining institutions are carefully supervised by the Department. But they represent an anomaly - and in the wake of the experience of Ohio and Maryland, I believe that for the good of customers and the overall health of the industry, the remainder should be phased out over a fair period of time.

The second goal would allow our state associations to use the words "savings bank, S.L.A." in their name, with a distinction made to their status as a savings and loan association. This authority would give our associations parity with federally chartered savings and loans with regard to the use of "savings banks" in their titles. The Department has received an increasing number of inquiries from our state associations seeking permission to use the name "savings banks" as already permitted by the federal associations. We believe that it is necessary to accommodate this require since by not doing so would, over time, effectively force our institutions to leave the state system.

I hope that the Committee will give its favorable consideration to both the request by the savings and loan industry to pursue interstate acquisitions, as well as the Department's request for expanded supervisory authority.

Thank you for allowing me to share my views with you today.

##

Banking Department Amendments

to

Senate Bill No. 2428

Amendment:

Page	Sec.	Line
4	2	After Line 25

Insert "b. It is not the intent of this act, and nothing in this act shall be deemed to permit acquisitions in any form that would result in branching into New Jersey of insured institutions or savings and loan holding companies."

4	2	26
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Change "b." to "c."

4	2	31
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Change "c." to "d."

5	2	49
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Change "d." to "e."

2/26/1987

BILL DRAFT

An Act concerning the oversight and examination of certain insured institutions and savings and loan holding companies by the Commissioner of Banking, requiring approval by the Commissioner of certain changes in the control of savings and loan associations, phasing out uninsured savings and loan associations, and amending and supplementing P.L. 1963, c. 144 (C.17:12B-1 et seq.).

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. (New section) As used in this Act:

a. "Insured institution" and "savings and loan holding company" shall have the respective meanings set forth in section 408(a) of the National Housing Act as amended (12 U.S.C. 1730a).

b. "State association" shall mean any savings and loan association, building and loan association, or any corporation, however named, now or hereafter operating pursuant to the provisions of P.L. 1963, c. 144 (C.17:12B-1 et seq.). A state association shall also include a person who controls an association when used in section 4 of this act.

c. "Person" shall mean an individual or company.

d. "Company" shall mean any corporation, partnership, trust, joint-stock company, association or similar organization, but does not include the Federal Savings and Loan Insurance Corporation, any Federal Home Loan Bank, or any company the majority of the shares of which is owned by the United States or any state, or by an officer of the United States or any state in his official capacity, or by an instrumentality of the United States or any state.

e. (1) "Control of an insured institutions or state association" means:

(i) Owning, controlling, or having power to vote 10% or more of the outstanding shares of any class of voting securities of an insured institution, directly or indirectly, or acting through one or more persons;

(ii) Controlling in any manner the election of a majority of the directors, trustees, general partners, or individuals exercising similar functions of the insured institution; or

(iii) Exercising or having the power to exercise directly or indirectly a controlling influence over the management or policies of an insured institution; or

(2) A person which is a state association shall not be deemed to control voting securities or assets of a state association acquired (i) in good faith

in a fiduciary capacity, except where those voting securities are held in a trust that constitutes a company or (ii) in the regular course of securing or collecting a debt previously contracted in good faith which securities are disposed of within a period of two years after the date on which they were acquired or after the enactment of this act, whichever is later;

(3) A person is deemed to control voting securities or assets owned, controlled, or held directly or indirectly:

- (i) by any subsidiary of the person; or
- (ii) in a fiduciary capacity, including by pension and profit-sharing trusts, for the benefit of the shareholders, members, employees, or individuals serving in similar capacities, of the person or of any of its subsidiaries; or
- (iii) in a fiduciary capacity for the benefit of the person or any of its subsidiaries.

f. "Subsidiary" of a person or company for purposes of this act, means any person or company which is controlled by such person or company.

g. (1) "Voting securities" means shares of common or preferred stock, general or limited partnership shares of interests or similar interests if the shares of interests, by statute, charter, or in any manner, entitle the holder:

(i) to vote for or to select directors, trustees, partners, or persons exercising similar functions for the issuing company; or

(ii) to vote on or to direct the conduct of the operations or other significant policies of the issuing person;

(2) Preferred shares, limited partnership shares or interests, or similar interests are not "voting securities" if:

(i) any voting rights associated with the shares or interest, including the right to select or vote for the selection of directors, trustees, or partners or persons exercising similar functions, are limited solely to the type customarily provided by statute with regard to matters that would significantly and adversely affect the rights or preference of the security or other interest, such as the issuance of additional amounts or classes of senior securities, the modification of the terms of the security or interest, the dissolution of the issuing person, or the payment of dividends by the issuing person when preferred dividends are in arrears, or, entitle the holder thereof to vote for the election of directors, trustees or partners or

persons exercising similar functions only as the result of the failure to pay a dividend or to fulfill an obligation or satisfy a condition specified by the terms of such share or interests; and

(ii) the shares or interest represent an essentially passive investment or financing device and do not otherwise provide the holder with control over the issuing person.

n. "Commissioner" means the Commissioner of Banking.

i. "Department" means the Department of Banking.

j. "United States" means the United States and includes any of the United States, the District of Columbia, any territory of the United States, Puerto Rico, Guam, American Samoa, and the Virgin Islands.

2. (New Section) a. A savings and loan holding company and an insured institution shall, upon the request of the commissioner, provide to the commissioner a copy of its filings with the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, or their successors, and the Securities and Exchange Commission.

b. A person, other than a savings and loan holding company, a state of the United States, the United States or a corporation the majority of the shares of which are owned by the United States or by any state, which controls a state association shall annually provide the following information to the commissioner on or before April 30:

(i) The identity, personal history, business background and experience of the person, including material business activities and affiliations during the past five years, and a description of any material, pending legal or administrative proceedings in which the person is a party and any criminal indictment or conviction of the person issued by a state or federal court;

(ii) A statement of the assets and liabilities of the person, for each of five preceding fiscal years, together with related statements of income and source and application of funds for each of those fiscal years, prepared in accordance with generally accepted accounting principles consistently applied; and

(iii) Any additional relevant information in that form which the commissioner may require by regulation or by specific request.

c. The commissioner may by regulation or on an individual basis exempt persons from the reporting requirements of this section.

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3. (New Section) a. The commissioner shall have the right to examine any savings and loan holding company which controls a state association, the cost of which examination shall be assessed against and paid by the savings and loan holding company in an amount to be set by regulation of the commissioner.

b. The examination authorized by this section shall be conducted jointly, concurrently or in lieu of examinations made by a federal or other state regulatory agency. The commissioner shall use, to the extent deemed feasible, filings and reports made by the savings and loan holding company which controls a state association to federal or other state regulatory authorities.

c. A copy of any examination report prepared by the department may be given to any federal or other state regulatory authority pursuant to a written agreement providing for the exchange of reports of examinations between the department and the federal or other state regulatory authority.

d. Except as provided in subsection c. of this section, every report and copy of a report of examination of a savings and loan holding company made by or under the supervision of the commissioner and every report and copy of a report of examination of a savings and loan holding company which proposes to control or controls a state association made by or under the supervision of any federal or other state regulatory authority shall be confidential, and shall not be made public by any officer, director or employee of the savings and loan holding company or the department. These reports and reports of examination shall not be subject to subpoena or to admission into evidence in any action or proceeding in any court, except pursuant to an order of the court made upon notice to the commissioner and after affording the commissioner an opportunity to advise the court of reasons for excluding from evidence such report or any portion thereof. The court shall order the issuance of a subpoena for the production or admission into evidence of any such report or portion thereof, only if it is satisfied that (i) it is material and relevant to the issues in the proceedings, and (ii) the ends of justice and public advantage will be served thereby. This subsection shall not apply to any action or proceeding instituted by the commissioner or Attorney General pursuant to any law of this State.

4. (New section) a. No person, acting directly or indirectly, or through or in concert with one or more other persons, shall acquire or offer to acquire or exercise control of a state association unless the commissioner has been given 60 days prior written notice of the proposed acquisition, and has

not issued a notice disapproving the proposed acquisition during that period or during an additional 30 day period immediately thereafter. The period for disapproval may be further extended only if the commissioner determines that any acquiring party has not furnished all the information required under subsection (f) of this section or that in his judgment any material information submitted is substantially inaccurate. An acquisition may be made prior to expiration of the disapproval period if the commissioner issues written notice of his intent not to disapprove the action.

b. If the commissioner determines that he must act immediately upon notice of a proposed acquisition in order to prevent the probable failure of the state association involved in the proposed acquisition, he may waive the approval process requirements of this section.

c. Within three days after the date of the commissioner's decision to disapprove any proposed acquisition, the commissioner shall notify the acquiring party in writing of the disapproval. The notice shall provide a statement of the basis for the disapproval.

d. Within 10 days of receipt of a notice of disapproval, the acquiring party may ask the commissioner in writing to hold a hearing on the proposed acquisition. The hearing shall be held in accordance with the provisions of the "Administrative Procedure Act," P.L. 1968, c.410 (C.52:14B-1 et seq.) and any rules adopted thereunder.

e. The commissioner's disapproval of a proposed acquisition following a hearing shall be subject to review by the Appellate Division of the Superior Court.

f. Except as otherwise provided by regulation, a notice of proposed acquisition filed pursuant to this section shall contain the following information:

(i) The identity, personal history, business background and experience of each person by whom or on whose behalf the acquisition is to be made, including material business activities and affiliations during the past five years, and a description of any material, pending legal or administrative proceedings in which the person is a party and any criminal indictment or conviction of the person issued by a state or federal court;

(ii) A statement of the assets and liabilities of each person by whom or on whose behalf the acquisition is to be made, as of the end of the

fiscal year for each of the five fiscal years immediately preceding the date of the notice, together with related statements of income and source and application of funds for each of those fiscal years, all prepared in accordance with generally accepted accounting principles consistently applied, and an interim statement of the assets and liabilities for each such person, together with related statements of income and source and application of funds, as of a date not more than 90 days prior to the date of the filing of the notice;

(iii) The terms and conditions of the proposed acquisition and the manner in which the acquisition is to be made;

(iv) The identity, source and amount of the funds or other consideration used or to be used in making the acquisition, and if any of these funds or other consideration has been or is to be borrowed or otherwise obtained for the purpose of making the acquisition, a description of the transaction, the names of the parties, and any arrangements, agreements, or understandings between or among the parties;

(v) Any plans or proposals which any acquiring party making the acquisition may have to liquidate the state association or savings and loan holding company, sell its assets or merge it with any company, or make any other major changes in its business or corporate structure or management;

(vi) The identification of any person employed, retained or to be compensated by the acquiring party, or by any person on his behalf, to make solicitations or recommendations to stockholders for the purpose of assisting in the acquisition, and a brief description of the terms of that employment, retainer, or arrangement for compensation;

(vii) Copies of all invitations, tenders or advertisements making a tender offer to stockholders for purchase of their stock to be used in connection with the proposed acquisition; and

(viii) Any additional relevant information in such form as the commissioner may require by regulation or by specific request in connection with any particular notice.

g. In determining whether to approve a proposed acquisition pursuant to this section, the commissioner may consider the following factors with respect to the applicant:

(i) The financial and the managerial resources and experience of the applicant;

(ii) The competence, character, and integrity of the applicant;

(iii) The applicant's plans and intentions with respect to the operation

of the state association.

(iv) Any other factors which the commissioner may deem relevant to the acquisition.

h. With respect to the state association;

(i) The financial condition and prospects of the state association, which shall include consideration as to the sufficiency of current or projected capital positions, as well as the level of indebtedness of the state association, before and after the acquisition;

(ii) The convenience and needs of the depositors and the communities served by the state association; and

(iii) The effect of the proposed acquisition on the safety and soundness of the state association.

i. The commissioner may disapprove any proposed acquisition if:

(i) The financial condition of any acquiring person is such as might jeopardize the financial stability of the state association or prejudice the interests of the depositors of the state association;

(ii) The competence, experience, or integrity of any acquiring person or of any of the proposed management personnel indicates that it would not be in the interest of the depositors of the state association, or in the interest of the public to permit such person to control the state association; or

(iii) Any acquiring person neglects, fails, or refuses to furnish all the information required by the commissioner.

j. Whenever any state association makes a loan or loans, secured or to be secured, by 25 percent or more of the outstanding voting stock of a state association, the president or other chief executive officer of the lending state association shall promptly report such fact to the department upon obtaining knowledge of such loan or loans, except that no report need be made in those cases where the borrower has been the owner of record of the stock for a period of one year or more or where the stock is that of the newly organized institution prior to its opening.

k. The reports required by paragraph (j) of this subsection shall contain such of the information referred to in paragraph (f) of this subsection, and such other relevant information, as the department may require by regulation or by specific request in connection with any particular report.

l. Within 12 months after a change of control, a state association shall report promptly to the commissioner any changes or replacement of its chief

executive officer or of any director, including in the report a statement of the past and current business and professional affiliations of any new chief executive officer or directors.

m. This section shall not apply to the following transactions:

(i) Any transaction subject to regulation 563.22 of the rules and regulations of the Federal Savings and Loan Insurance Corporation (12 CFR 563.22) or under the provisions of Article 13 of P.L. 1963, Chapter 144, C. 17:12B-198 et seq.)

(ii) The acquisition of additional shares of a class of voting securities of a state association or person by any person who has lawfully acquired and maintained control of 25% or more of that class of voting securities after filing the notice required under this section;

(iii) The acquisition of voting securities in good faith in a fiduciary capacity, except that in circumstances described in subparagraph (ii) of paragraph (2) of subsection (e) of section 1 of this act, the person in control of such voting securities shall within 60 days of such acquisition provide the commissioner with a notice containing the information specified in subsection (e) of this section and disposed of such voting securities if the commissioner objects to such control or in situations where the fiduciary has sole discretionary voting authority provide the commissioner with a notice containing the information specified in subsection (e) and dispose of such sole voting power if the commissioner objects to such voting authority;

(iv) The acquisition of voting securities, which would otherwise require a notice under this section, in satisfaction of a debt previously contracted in good faith if the commissioner is notified within 60 calendar days after such acquisition and the acquiring party provides any relevant information requested by the commissioner;

(v) The acquisition of voting securities through inheritance or a bona fide gift if the commissioner is notified within 60 calendar days after such acquisition and the acquiring party provides any relevant information requested by the commissioner;

(vi) The acquisition of the power to voting securities through receipt of a revocable proxy in connection with a proxy solicitation for the purposes of conducting business at a regular or special meeting of a state association or person in control of a state association, if the proxy terminates within a reasonable time after the meeting;

(vii) The receipt of voting securities through a stock dividend or stock split if the proportional interest of the recipient in a state association or person in control of a state association remain substantially the same;

(viii) The acquisition of voting securities acquired in connection with the underwriting of securities if such securities are held only for a period of time as will permit the sale thereof on a reasonable basis;

(ix) Acquisition by any corporation the majority of the shares of which are owned by the United States;

(x) Transactions entered into prior to the effective date of this act;

(xi) Any transaction for which the approval of the commissioner is required prior to consummation other than pursuant to this section;

(xii) Transactions which the commissioner shall determine to be exempt from the application of this section; or

(xiii) Acquisition by any company which immediately prior to that acquisition could be examined by the commissioner pursuant to section 3 of this act, but in such case the commissioner shall be notified within 30 calendar days after the acquisition.

5. The following fees shall be paid to the commissioner for the use of the State. The fees shall be in the minimum amount indicated or in such amount as provided by regulation of the commissioner, which amount shall not exceed the maximum amount provided below:

	<u>Minimum</u>	<u>Maximum</u>
a. Filings pursuant to subsection <u>a</u> of section <u>2</u> , per item filed	\$50.00	\$100.00
b. Filings pursuant to subsection <u>b</u> of section <u>2</u> , per item filed	\$50.00	\$100.00
c. Notice pursuant to subsection <u>a</u> of section <u>4</u> ,	\$625.00	\$2,500.00
d. Request for hearing pursuant to subsection <u>d</u> of section <u>4</u>	\$625.00	\$2,500.00
e. Report required by subsection <u>j</u> of section <u>4</u>	\$50.00	\$100.00
f. Report required by subsection <u>k</u> of section <u>4</u>	\$50.00	\$100.00

g. Report required by subsection <u>1</u> of section <u>4</u>	\$50.00	\$100.00
h. Notice required by paragraph <u>iii</u> of subsection <u>m</u> of section <u>4</u>	\$50.00	\$100.00
i. Notice required by paragraph <u>iv</u> of subsection <u>m</u> of section <u>4</u>	\$50.00	\$100.00
j. Notice required by paragraph <u>v</u> of subsection <u>m</u> of section <u>4</u>	\$50.00	\$100.00

6. (New section) It shall be unlawful, on and after three years from the date of this Act, for any state association to operate without insurance of its accounts by the Federal Savings and Loan Insurance Corporation as defined in C. 17:12B-5(20) (hereinafter "FSLIC insurance").

a. Within one year of the effective date of this Act, every state association shall, as a condition to operate in this state, apply for FSLIC insurance.

b. Any state association which has failed to apply for FSLIC insurance within one year of the effective date of this Act, or which has been denied a commitment for FSLIC insurance, shall, within 90 days thereafter, begin steps to merge with an insured association, or transfer, sell or exchange in bulk its assets to an insured association, or a banking institution as defined in N.J.S.A. 17:9A-1. Liquidation following the transfer, sale or exchange in bulk of its assets shall be managed and directed by the thereupon to be dissolved state association's board of directors in accordance with the provisions of C.17:12B-205.

c. A state association may apply in writing for an extension of time to obtain FSLIC insurance or to consummate a merger or bulk sale. The commissioner may grant one or more 90-day extensions of time, but not exceeding one year, for a state association to obtain FSLIC insurance or cease its operations as herein provided.

7. (New section) In the event that any state association shall fail to comply with this Act, the commissioner may take charge of the state association and possession of all its assets, books and records, and continue the operation of its business until the possession and management shall be returned to its board, or until the association shall merge, be dissolved or liquidated. The operation of the state association by the commissioner shall be in accordance with the provisions of Article 12 of the Savings and Loan Act of 1963, C. 17:12B-177 et seq.

8. (New section) No state association shall be granted a charter by the commissioner on or after the effective date of this Act, unless the state association has obtained a commitment for insurance of its accounts by the Federal Savings and Loan Insurance Corporation.

9. Section 14 of P.L. 1963, C.144 (C.17:12B-14) is amended to read as follows:

10. Contents of certificate of incorporation of a mutual association. The incorporators shall personally sign a certificate of incorporation, which shall state:

(1) The name of the State association, which shall contain the words "savings and loan association[.]" or "savings bank S.L.A.". The name shall not be one already in use by another association in this State, nor one so similar thereto as to deceive the public or lead to uncertainty or confusion and this provision shall be subject to any law ^{otherwise} restricting or prohibiting the use of the word "bank" or "banker" or "banking"; provided, however, that any association organized under this act may make representations describing its powers, services or functions provided for in this act.

11. Section 224 of P.L. 1963, C.144 (C.17:12B-224) is amended to read as follows:

224. Conversion from Federal to State charter; procedure.

Any Federal association may convert itself into an association of this State with the same force and effect as though originally incorporated under this act, and the proceedings to effect such conversion shall be as follows:

(a) When in the judgment of the board of such Federal association it shall be deemed advisable for the interests of its members that the same shall be converted into an association of this State, the board of directors shall adopt a resolution to that effect.

(b) After the adoption of such resolution, a meeting of the members of the association shall be held upon not less than 10 day's written notice to the members by mail, postage prepaid, directed to their addresses appearing on the books of the association, which notice shall contain a statement of the time, place and purpose for which such meeting is called. Proof by affidavit of mailing of such notice shall be mailed to the Federal Home Loan Bank Board before the time of such meeting.

(c) At a meeting of the members of any such Federal association held as provided in paragraph (b) of this section, such members may by the affirmative

vote of 2/3 of the members present either in person or by proxy, declare by resolution the determination to convert the association into an association of this State. A copy of the minutes of the proceedings of such meeting of the members, verified by the affidavit of the president or vice president, and the secretary of the meeting, shall be filed in the office of the commissioner and mailed to the Federal Home Loan Bank Board, within 10 days after the date of such meeting.

(d) Within 30 days after the date of the meeting held as provided in paragraph (b) and (c) of this section, a majority of the board of such Federal association shall subscribe, acknowledge and deposit with the commissioner in duplicate, a certificate which shall contain:

1. The name of the association, which shall not be so nearly like that of any other association as to deceive the public, and the words "savings and loan association or "savings bank S.L.A." shall form a part thereof;

2. The municipality where it is to be located and its business transacted, which shall be within this state;

3. A statement that it is to operate as an association pursuant to this act for the purposes stated herein;

4. The name, residence, occupation and post office address of each officer and director;

5. Application for the approval of the commissioner to the conversion of said association into an association of this state.

12. (New Section) The commissioner shall have the authority to promulgate regulations necessary to carry out the purposes of this Act.

13. (New Section) Upon a finding by the commissioner, after notice and an opportunity to be heard, of a violation by any person of any of the provisions of this act, or any regulation or order of the commissioner issued pursuant thereto, the commissioner may order the person to cease any violations or to pay a civil penalty not in excess of \$1,000.00 per day for each day that the violation has continued, or both, the penalty being recoverable in a summary proceeding under the "penalty enforcement law," N.J.S. 2A:58-1 et seq.

14. (New Section) If any section or portion of this act shall be invalid for any reason, the invalidity shall not affect the validity of the remaining sections or portions of sections.

15. (New section) This act shall take effect immediately after enactment into law of Senate Bill No. 2428.

STATEMENT

As New Jersey's savings and loan associations move into an era of interstate expansion, a regulatory system should be established in order to monitor the activities of those entities that control state associations, as well as to ensure that a safe and sound savings industry is preserved in New Jersey. To this end, this bill sets forth increased supervisory, examination and oversight responsibilities of the Department of Banking in anticipation of the participation of our savings institutions in future interstate acquisitions.

The bill calls for the Department to establish certain reporting requirements, gives it expanded examination and supervisory authority over entities owning savings and loan associations in New Jersey, and increases its oversight of acquisitions which involve changes of control of state-chartered associations. The provisions parallel those found in the "New Jersey Bank Oversight and Change of Control Act" (P.L. 1986, c. 6), which was enacted in conjunction with the New Jersey interstate banking law (P.L. 1986, C. 5).

Section 2 of the bill requires all companies and individuals that control a savings and loan association located in New Jersey (regardless of whether it is state-chartered or federally chartered) to file copies of existing reports with the Commissioner of Banking upon request and for information purposes only. Section 3 provides the Commissioner of Banking with examination authority over all companies which control a state association.

Section 4 concerns the change of control of a state association and provides a mechanism whereby the Commissioner of Banking exercises approval authority over transactions that will result in a change of control of any state association, whether the acquiring party is an individual or a savings and loan holding company.

Section 5 of the bill provides a fee schedule for the filing, reports and notice required under the act.

The balance of the bill is concerned with preparing our savings and loan associations so they can take advantage of the new opportunities for growth and diversification that will arise as a result of interstate expansion. Sections 6 through 9 sets out a time frame whereby all state associations must be part of the Federal Savings and Loan Insurance system. Sections 10 and 11 authorize state

chartered savings and loan associations (whether mutual or capital stock associations) to use the words "Savings Bank, S.L.A." in their names with a distinction made to their status as savings and loan associations.

In summation, these provisions are necessary for the safety and soundness of our savings and loan industry in an era of increased acquisitions by individuals and companies from New Jersey and from other states. The provisions are reasonable and will not impose undue burdens or costs upon the industry, while providing an effective measure of protection for the public.

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MEMORANDUM

TO: Members of the Senate Labor,
Industry and Professions Committee

FROM: New Jersey Savings League

DATE: February 26, 1987

RE: Senate Bill No. 2428
Regional Reciprocal Interstate Acquisitions
Among FSLIC Insured Financial Institutions

BACKGROUND

A number of states have recently enacted legislation authorizing and establishing conditions for regional reciprocal interstate activities among financial institutions. The interstate activities authorized by such legislation are generally limited to financial institutions of the same type within a "regional state." Moreover, the authorization to conduct such regional interstate activities is generally triggered only when a specified number of such regional states enact reciprocal legislation. Several of the states enacting such legislation have also provided a national trigger which would allow such reciprocal privileges to all states. Under the terms of such legislation, a New Jersey financial institution could not acquire or merge with a financial institution located in a state which has legislatively authorized such interstate activity unless: (1) New Jersey extends a reciprocal privilege to financial institutions located in such other state; (2) New Jersey is a "regional state" as defined by the legislation of

such other state; and (3) the reciprocal privilege is extended by the specified number of regional states designated in such other state's legislation. To date, at least thirty-five states have authorized the conduct of some form of interstate activities.

NEW JERSEY COMMERCIAL BANK STATUE

On March 28, 1986, Governor Kean signed into law Senate Bill No. 1467 authorizing bank holding companies located in another state within the "Central-Atlantic Region" to acquire or merge with, under certain conditions, banks or bank holding companies located in this State. Such acquisitions would be permitted when in addition to New Jersey at least three of the states located in the Central-Atlantic Region (Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin, and the District of Columbia) each of which has at least 20 billion dollars in commercial bank deposits, have reciprocal legislation in effect. When at least thirteen states, in addition to New Jersey, of which at least four are among the ten states (other than New Jersey) with the largest amount of commercial bank deposits have reciprocal legislation in effect, the authority for interstate commercial bank acquisitions and mergers will be extended to any state or territory of the United States having reciprocal legislation in effect.

Attached as Exhibit A is a chart setting forth the status of regional reciprocal interstate financial institution activity legislation in each of the states located within the Central-Atlantic Region. Effective August 24, 1986, Pennsylvania became the third state within this Region having at least 20 billion dollars in commercial bank deposits and having reciprocal regional interstate banking legislation authorizing interstate banking acquisitions and mergers with New Jersey.

On August 8, 1986, the New Jersey Department of Banking Commissioner, Mary Little Parell, signed an Order and Determination that as of August 24, 1986, three states, namely Kentucky, Ohio, and Pennsylvania had in effect reciprocal legislation with New Jersey. Therefore, as of that date section 2 of P.L. 1986, Chapter 5 (New Jersey commercial bank statute) became operative. A copy of that Determination is attached as Exhibit B.

Currently, New Jersey does not extend such acquisition or merger authority to savings and loan associations or savings and loan holding companies of another state. The New Jersey Savings and Loan Act of 1963 (N.J.S.A. 17:12B-1, et seq.) prohibits "Foreign Associations" from transacting "the business of a savings and loan association within this State," as well as maintaining "an office within this State for the purpose of transacting such business."

PROPOSED LEGISLATION

Senate Bill No. 2428 sponsored by Senate President Russo and Senator Lesniak, as well as fourteen other Senators as co-sponsors, essentially mirrors the commercial bank legislation signed into New Jersey law. The same fourteen states and the District of Columbia comprise the "Central-Atlantic Region." However, there are several differences. The primary one being, obviously, that this legislation would apply to a federal savings and loan association, a building and loan, savings and loan, or homestead association or a cooperative bank, whose accounts are insured by the FSLIC [an "insured institution" as defined by Section 408(a) of the National Housing Act of 1934, as amended. (12 U.S.C. 1730a)], a federal savings bank whose accounts are insured by the FSLIC and a savings and loan holding company. Another difference is that in addition to New Jersey only two states in the Central-Atlantic Region instead of three states (each of which has at least 20 billion dollars in deposits) having reciprocal legislation in effect would be needed to provide the regional trigger. As shown in Exhibit A, there are only two other states within the Central-Atlantic Region having deposits in excess of 20 billion dollars which now have reciprocal legislation in effect permitting a New Jersey insured institution or savings and loan holding company authority to acquire a similar type institution in that state. Those two states are Ohio and

Pennsylvania. The third state which provides the regional trigger for commercial banks in New Jersey, i.e., Kentucky, neither has legislation in effect or pending nor does it have sufficient deposits to qualify as a triggering state.

As set forth in the commercial bank legislation enacted by New Jersey, the proposed legislation imposes the following conditions of eligibility on the out-of-state insured institution or savings and loan holding company to acquire a similar type institution in New Jersey:

1. Must be located in a Central-Atlantic Region state which has reciprocal legislation in effect;
2. Must not be directly or indirectly controlled [as declined by Section 408(a) of the National Housing Act of 1934, as amended--see 12 U.S.C. 1730A attached as Exhibit C] by an insured institution or savings and loan holding company which is not located in a Central-Atlantic Region state; and
3. Must have at least 75% of its total aggregate deposits (as well as those of the savings and loan subsidiaries of any savings and loan holding company directly or indirectly controlling such insured institution, if any) in a Central-Atlantic Region state or states.

The term "location" or "located" is defined separately for an insured institution and a savings and loan holding company. An insured institution would be located in the state in which the amount of aggregate deposits of all of the offices of such institution in that state is greater than the amount of aggregate deposits of all of its offices of such institution in that state is greater than the amount of aggregate deposits of all of its offices in any one other state or foreign jurisdiction. A savings and loan holding company would be located in the state in which the amount of aggregate deposits of all of its savings and loan subsidiaries (as defined by Section 1b) is greater than the amount of aggregate deposits of all of its savings and loan subsidiaries in any one other state state or foreign jurisdiction. In order to qualify as an "eligible" insured institution or savings and loan holding company under #1 above, the state in which the amount of such aggregate deposits is greatest would have to be Central-Atlantic Region state having reciprocal legislation in effect. To qualify under #3 above, the insured institution or savings and loan holding company would have to have 75% of its total aggregate deposits in a Central-Atlantic Region state or states.

Section 2a of Senate Bill No. 2428 provides further limitations upon the ability of such eligible insured institutions and savings and loan holding companies to acquire and retain control of similar institutions in this State. At the time of such acquisition, the

insured institution or savings and loan holding company would have to be located in a Central-Atlantic Region state which has reciprocal legislation in effect. In addition, the insured institution or savings and loan holding company in order to acquire and retain control of a similar New Jersey financial institution would have to have more than 50% of its total aggregate deposits (including those of each of its savings and loan subsidiaries, if any) in insured institutions located in a Central-Atlantic Region state or states, each of which has reciprocal legislation in effect.

CONCLUSION

This bill would permit the acquisition of an insured New Jersey institution by an out-of-state insured institution or savings and loan holding company under certain conditions and limitations only.

As previously indicated, the failure to enact legislation in New Jersey permitting regional interstate savings and loan association mergers and acquisitions could put the savings and loan association in this State at a material disadvantage.

CENTRAL ATLANTIC REGION
(14 STATES PLUS THE DISTRICT OF COLUMBIA)

	LEGISLATION PASSED		N.J. COMMERCIAL BANKS IN REGION	N.J. FSLIC INSURED INSTITUTIONS IN REGION		NATIONAL TRIGGER	N.J. COMMERCIAL BANKS	N.J. FSLIC INSURED INSTITUTIONS
	COMMERCIAL BANKS	FSLIC INSURED INSTITUTIONS						
DELAWARE	NO	NO	NO	NO		NO	NO	NO
ILLINOIS	YES	NO	NO	NO		NO	NO	NO
INDIANA	YES	PENDING	NO	NO		NO	NO	NO
KENTUCKY	YES	NO	NO	NO		YES	7-15-86	NO
MARYLAND	YES	PENDING	NO	NO		NO	NO	NO
MICHIGAN	YES	YES	NO	NO		YES	10-10-88	10-10-88
MISSOURI	YES	YES	NO	NO		NO	NO	NO
NEW JERSEY	YES	PENDING	YES	YES		YES	YES	YES
OHIO	YES	YES	YES	YES		YES	10-16-88	10-16-88
PENNSYLVANIA	YES	PENDING	YES	YES		YES	3-4-90	NO
TENNESSEE	YES	YES	NO	NO		NO	NO	NO
VIRGINIA	YES	NO	NO	NO		NO	NO	NO
WEST VIRGINIA	YES	YES	NO	NO		YES	12-31-87	12-31-87
WISCONSIN	YES	YES	NO	NO		NO	NO	NO
DISTRICT OF COLUMBIA	YES	YES	NO	NO		NO	NO	NO

28x

STATE OF NEW JERSEY
DEPARTMENT OF BANKING
TRENTON

DECISION AND DETERMINATION
OF RECIPROCITY PURSUANT TO
PUBLIC LAW 1986, CHAPTER 5

New Jersey Public Law 1986, Chapter 5, pertaining to interstate acquisitions by bank holding companies, enacted on March 28, 1986, provides that it shall take effect on the 30th day after enactment but that Section 2 thereof shall remain inoperative until the Commissioner of Banking determines that the number of eligible states, as defined in and required by Section 1 (f) thereof, has been established and until the enactment of Senate Bill No. 1466 of 1986. Pursuant to the requirements of said statute, I hereby issue this Order and Determination.

I specifically make the following findings:

- (1) On August 24, 1986, the condition for establishment of "eligible states" in the Central-Atlantic Region imposed by Section 1.f(1) is met. That condition defines "Eligible States" as: "Any state in the Central-Atlantic Region, when at least three of those states (in addition to New Jersey), each of which have at least

\$20,000,000,000.00 in commercial bank deposits, have reciprocal legislation in effect..." Three states which will have in effect reciprocal legislation with New Jersey as of August 24, 1986 are:

- a. Kentucky - which enacted a law on July 13, 1984 authorizing reciprocity with New Jersey as of July 13, 1986 [Kentucky Revised Statute, Chapter 287, KRS 287.900]. Kentucky's commercial bank deposits are over \$20 billion - \$23,754,034,000 on 3/31/86 per Federal Deposit Insurance Corporation data;
- b. Ohio - which enacted a law on October 17, 1985 authorizing reciprocity with New Jersey on that date [Section 1101.05 Ohio Revised Code]. Ohio's commercial bank deposits are over \$20 billion - \$63,734,544,000 on 3/31/86 per Federal Deposit Insurance Corporation data; and
- c. Pennsylvania - which enacted a law on June 24, 1986 authorizing reciprocity with New Jersey as of August 24, 1986 [P.L. 1986 No. 69]. Pennsylvania's commercial bank deposits are over \$20 billion - \$93,215,127,000 on 3/31/86 per Federal Deposit Insurance Corporation data.

(2) Senate Bill No. 1466 was enacted on March 28, 1986 as Public Law 1986 Chapter 4.

NOW, THEREFORE, IT IS, on this *24* day of *AUGUST*,
1986, DECIDED and DETERMINED THAT:

1. As of August 24, 1986, the states which will comprise "eligible states," as defined in P.L. 1986, Chapter 5, Section 1, are: New Jersey, Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, Wisconsin and the District of Columbia; and
2. As of August 24, 1986, eligible states which have reciprocal legislation in effect, as defined in P.L. 1986, Chapter 5, Section 1, are: Kentucky, Ohio and Pennsylvania; and accordingly,
3. As of August 24, 1986, Section 2 of P.L. 1986, Chapter 5 shall become operative.

ALL INTERESTED PERSONS ARE HEREBY ADVISED that regulations will be issued pursuant to P.L. 1986, Chapter 5, Section 2.a. for enforcement of the conditions of that subsection. FURTHER, all persons making transactions and thereafter controlling banks located in New Jersey pursuant to P.L. 1986 Chapter 5 Section 2 are reminded that they are required to comply with all applicable provisions of