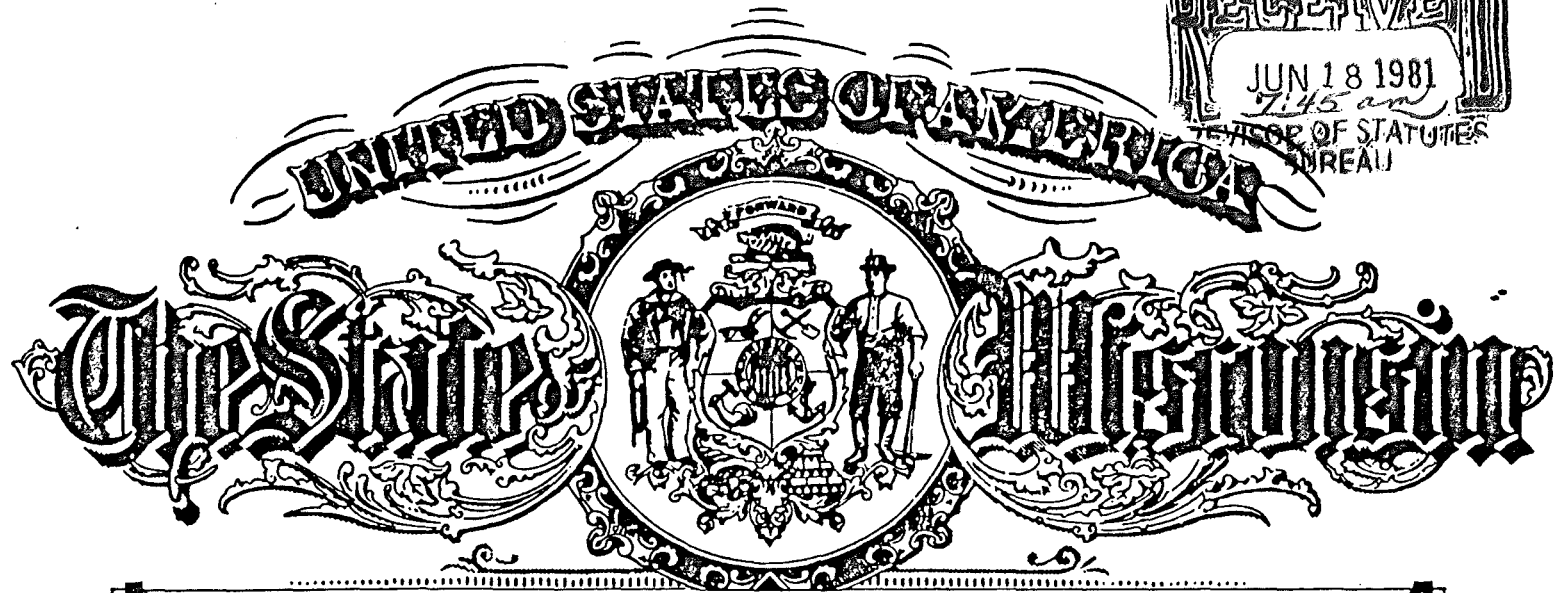


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Office of Commissioner of Savings and Loan

STATE OF WISCONSIN)
OFFICE OF COMMISSIONER OF SAVINGS AND LOAN)

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ORDER NO. 110

I, R. J. McMahon, Commissioner of Savings and Loan and custodian of the official records of the Office of Commissioner of Savings and Loan, do hereby certify that the annexed Order No. 110 relating to legal reserve and net worth requirements for state chartered savings and loan associations, was duly approved and adopted by this office on June 16, 1981.

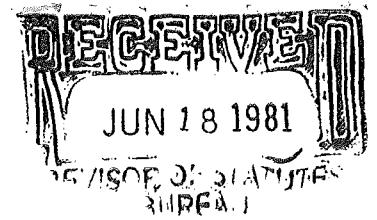
I further certify that the copy of the Order annexed hereto has been compared by me with the original on file in this office and that the same is a true copy thereof, and the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official of this office in the City of Madison this 16th day of June, 1981.

R. J. McMahon
R. J. McMahon, Commissioner



8-1-81



ORDER OF THE
OFFICE OF THE COMMISSIONER OF SAVINGS AND LOAN
ADOPTING, RENUMBERING, AMENDING, AND REPEALING RULES

ORDER NO. 110

WHEREAS, the rules embodied by this order were submitted to the Legislative Council staff as required under section 227.029 of the Wisconsin Statutes; and

WHEREAS, in accordance with section 227.021 of the Wisconsin Statutes official notice of a hearing on the rules embodied by this order was published in the Wisconsin Administrative Register of January 1981; and

WHEREAS, pursuant to that notice a public hearing was held on February 25, 1981, at which a draft of the attached rule was the topic of discussion; and

WHEREAS, following that hearing a final draft of the rule was approved by the Commissioner of Savings and Loan and the Savings and Loan Review Board; and

WHEREAS, on March 26, 1981, the final draft of the rule was submitted to the presiding officers of the Senate and Assembly and was referred by those officers to the appropriate standing committee on April 1, 1981 and March 27, 1981, respectively, all in accordance with section 227.018 of the Wisconsin Statutes; and

WHEREAS, neither legislative standing committee has objected to any portion of the proposed rule and the time for so doing has expired;

Now, Therefore, pursuant to the authority vested in the Commissioner of Savings and Loan and the Savings and Loan Review Board by sections 215.02(7)(a) and 215.24, Wis. Stats., the Office of the Commissioner of Savings and Loan hereby adopts rules as follows:

ORDER OF THE OFFICE OF THE COMMISSIONER
OF SAVINGS AND LOAN, ADOPTING, AMENDING
OR REPEALING RULES

AN ORDER to repeal and recreate chapter S-L 12 of the administrative code, relating to legal reserve and net worth requirements for state chartered savings and loan associations.

Analysis of the Office of the Commissioner of Savings and Loan

Section 215.24 of the statutes requires state chartered savings and loan associations to maintain a reserve irrevokably established for the sole purpose of absorbing losses. That reserve is designated as the association's "legal reserve". Section 215.24(5) also envisions the commissioner establishing a minimum net worth level to be attained by state chartered associations.

This rule replaces the existing legal reserve requirements with a new and more flexible approach involving a combination of "legal reserve" and net worth. Under the new rule each association must maintain a legal reserve in an amount of at least 2% of its total assets. To provide a further buffer against losses, an association is also required to maintain a minimum level of net worth. An association's legal reserve is included in its net worth, but that portion of net worth in excess of the association's legal reserve may be used for purposes other than absorbing losses. However, if an association permits its net worth to drop below the required net worth level, the commissioner may require it to adhere to a plan designed to correct that deficiency. The proposed rule outlines some of the provisions that may be included in such a plan, enumerating some of the powers available to the commissioner under existing law.

Under the rule insured associations are required to maintain net worth of at least 3.5% of total assets. Noninsured associations are required to maintain net worth of at least 4.5%. The rule provides for higher net worth requirements under circumstances when the nature of an individual association's operations lead the commissioner to believe that a greater buffer is necessary to enable the association to maintain its stability in the event of potential losses. The proposal also provides for the phase-in of net worth and legal reserve requirements for newly chartered associations.

Pursuant to authority vested in the commissioner of savings and loan and the savings and loan review board by sections 215.02(7)(a) and 215.24, Wis. Stats., the office of the commissioner of savings and loan repeals and recreates rules as follows:

SECTION 1. Chapter S-L 12 of the administrative code is repealed and recreated to read:

CHAPTER S-L 12
LEGAL RESERVE AND NET WORTH REQUIREMENTS

S-L 12.01 DEFINITIONS. The defined terms used in this chapter have the meanings designated in s. 215.01, Stats.

S-L 12.02 LEGAL RESERVE REQUIREMENT. (1) LEGAL RESERVE TO BE MAINTAINED.

(a) Except as may be provided in par. (b), each association shall maintain a legal reserve in an amount equal to at least 2% of its total assets at the end of its fiscal year. A stock association may designate any portion of its capital stock or paid in surplus account as legal reserve.

(b) In order to provide a newly chartered mutual association an opportunity to meet its legal reserve requirement over a reasonable period of time, the commissioner may on a case by case basis establish a graduated schedule of net worth levels to be attained by the association.

(2) TRANSFERS TO LEGAL RESERVE. At the close of its fiscal year each association shall transfer to its legal reserve an amount equal to the lesser of the following:

(a) 10% of the sum of the association's net income during the period and the earnings distributed by the association during the period; or

(b) An amount sufficient to reach the level required under sub. (1).

(3) FAILURE TO MAINTAIN REQUIRED LEGAL RESERVE. If an association's legal reserve falls below the level required of it under sub. (1), the commissioner may after a review of the facts commence proceedings under s. 215.32, Stats.

S-L 12.03 NET WORTH REQUIREMENT. (1) LEVEL TO BE MAINTAINED. (a) General provision. Except as may be provided in par. (b), an association shall at all times maintain net worth in an amount equal to at least:

1. 3.5% of its total assets, if it is an insured association.
2. 4.5% of its total assets, if it is a noninsured association.

(b) Exceptions. 1. The commissioner may require an association to maintain net worth higher than that specified in par. (a) if the commissioner determines that the nature of the association's mortgage instruments and the composition of its mortgage portfolio do not afford the association a sufficient opportunity to adjust the interest it receives on its assets to levels that more closely correspond to the changing costs of maintaining its liabilities, or that the nature of the association's operations otherwise entail a risk requiring greater net worth to assure the association's stability.

2. To afford a newly chartered mutual association an opportunity to meet its net worth requirement over a reasonable time, the commissioner may on a case by case basis establish a graduated schedule of net worth levels to be attained by the association.

(2) CALCULATION OF NET WORTH. For purposes of determining compliance with sub. (1) net undistributed income shall be added to the association's net worth accounts. Net undistributed loss shall be deducted from the association's net worth accounts. For purposes of this subsection "net undistributed income" or "net undistributed loss" means the difference between income and expenses at any time prior to the closing of the association's books, calculated according to generally accepted accounting principles (GAAP).

(3) ACTIONS TO RE-ESTABLISH COMPLIANCE. (a) Generally. If an association's net worth falls below the level required under sub. (1), the commissioner may by order issued under ch. S-L 25, Wis. Admin. Code, direct the association to adhere to a specific written plan established by the commissioner to correct the association's net worth deficiency. In addition to any other provisions the plan may:

1. Require the association to maintain an increased level of liquidity specified by the commissioner.

2. Require the association to cease or limit specified expenditures.

3. Prevent the association from originating or purchasing loans of one or more types.

4. Prevent the association from making specified investments, including investments under chs. S-L 22 and S-L 24, Wis. Admin. Code, and investments otherwise permitted under s. 215.13(26), Stats.

5. Prevent the association from filing applications for branch offices.

6. Prevent the association from opening customer savings accounts of any specified class, category or amount, or at any specified interest rate.

7. Prevent the association from accepting additions to existing savings accounts, except under such conditions as may be specified by the commissioner.

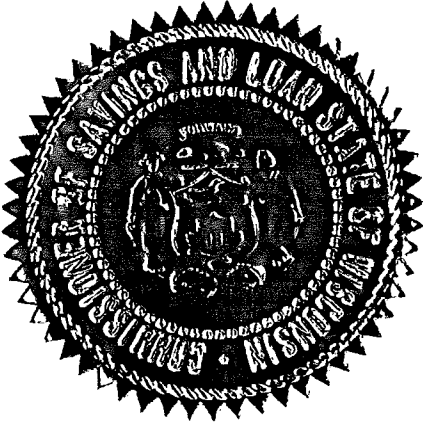
(b) Additional measures pertaining to stock associations. 1. No stock association may pay a dividend to stockholders or otherwise distribute any profits when its net worth is, or if upon such payment or distribution would be, below that required under sub. (1).

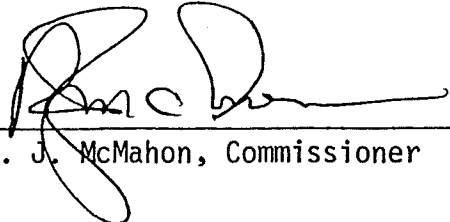
2. Unless a longer period is authorized by the commissioner for good cause shown, a stock association whose net worth falls below that required under sub. (1) shall increase its net worth to the required level within 6 months after the deficiency first occurs.

S-L 12.04 OTHER POWERS RETAINED. Nothing in this chapter shall limit the commissioner's authority to take such other remedial measures as he or she may deem necessary to safeguard the interests of the public and the association.

SECTION 2. EFFECTIVE DATE. This order shall take effect on the first day of the month following its publication in the Wisconsin administrative register.

Dated: June 16, 1981





R. J. McMahon, Commissioner