

Internal Revenue Service

Department of the Treasury

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Mutual Bank =

State X =

Y =

Dear :

This letter responds to your February 10, 1999, request for rulings on certain federal income tax consequences of a proposed transaction. The information in that request is summarized below.

Summary of Facts

Mutual Bank is a federally chartered mutual savings association engaged in banking and banking related business in State X. As a mutual entity, Mutual Bank does not have authorized capital stock. Instead, holders of Mutual Bank deposit accounts (the "Depositors") have mutual ownership interests consisting of liquidation and voting rights in Mutual Bank.

For what are represented to be valid business purposes, Mutual Bank's Board of Directors has decided Mutual Bank should convert to a federally chartered mutual holding company structure.

Proposed Transaction

Mutual Bank proposes the following steps, all of which will be undertaken pursuant to a plan and occur sequentially on approximately the same date:

(i) Mutual Bank will form a federal stock savings association ("Interim 1") as its wholly owned subsidiary.

(ii) Interim 1 will form a federal stock corporation ("SHC") and an interim federal stock savings association ("Interim 2"), each as its wholly owned subsidiary.

(iii) Mutual Bank will exchange its federal mutual savings association charter for that of a federal stock savings association to become Stock Bank (the "Conversion"). In the Conversion, the Depositors will constructively exchange their mutual ownership interests in Mutual bank for shares of stock in Stock Bank.

(iv) Interim 1 will cancel its outstanding stock and exchange its charter for that of a federal mutual holding company to become MHC.

(v) Interim 2 will merge with and into Stock Bank with Stock Bank surviving as a wholly owned subsidiary of MHC (the "Merger"). In the Merger, the Depositors will exchange the stock of Stock Bank constructively received in the Conversion for mutual ownership interests in MHC.

(vi) MHC will transfer the stock of Stock Bank to SHC (the "Contribution").

(vii) SHC will offer for sale up to y percent of its common stock, with priority subscription rights granted, in descending order, to certain Depositors in the former Mutual Bank, to certain employee stock benefit plans of Stock Bank, to other members of Mutual Bank, and to certain members of the general public (the "Offering").

As a result of the transaction, Stock Bank will be a wholly owned subsidiary of SHC, which will be (until step (vii) above) a wholly owned subsidiary of MHC. MHC will not have authorized capital stock. Rather, mutual ownership interests in MHC will consist solely of liquidation and voting rights. The Depositors will retain interests in MHC as long as they maintain their deposit accounts in Stock Bank.

You propose that the transaction be treated as, in substance, the conversion of Mutual Bank to Stock Bank, followed by the contribution of Stock Bank by its owners to MHC in exchange for mutual ownership interests in MHC, followed by the contribution of Stock Bank to SHC. You further propose that the Conversion be treated as a reorganization described in § 368(a)(1)(F) of the Internal Revenue Code and that the Merger and Contribution be treated as transfers of property solely in exchange for stock described in § 351(a).

Section 3.01(27) of Rev. Proc. 99-3, 1999-1 I.R.B. 103, 107, provides that the

Internal Revenue Service will not rule on the qualification of a transaction as a reorganization under § 368(a)(1)(F). Additionally, § 3.01(22) of Rev. Proc. 99-3 provides that the Service will not rule on the application of § 351 to an exchange of stock for stock in the formation of a holding company. Although Rev. Proc. 99-3 provides a general no-rule policy concerning §§ 368(a)(1)(F) and 351, it also provides that the Service has discretion to rule on significant subissues that must be resolved to determine whether a transaction qualifies under either of those sections. The Service will only rule on such subissues if they are significant and not clearly and adequately addressed by a statute, regulation, decision of the Supreme Court, tax treaty, revenue ruling, revenue procedure, notice, or other authority published in the Internal Revenue Bulletin.

Representation

To the best of the taxpayer's knowledge and belief, and but for the resolution of the requested rulings below: (i) the Conversion is a reorganization described in § 368(a)(1)(F); and (ii) the Merger, in which the Exchange occurs, and the Contribution are transfers of property solely in exchange for stock described in § 351(a).

Rulings

Based solely on the information submitted and the representation set forth above, we rule as follows:

(1) The requirement § 1.368-1(b) and (e) of the Income Tax Regulations that there be a continuity of interest in a reorganization is satisfied by the Depositors' constructive exchange of mutual ownership interests in Mutual Bank for stock in Stock Bank in the Conversion, notwithstanding the Depositors' constructive exchange of that stock for mutual ownership interests in MHC immediately thereafter. See Rev. Rul. 80-105, 1980-1 C.B. 78; Rev. Rul. 69-646, 1969-2 C.B. 54.

(2) Neither the Exchange, the Contribution, nor the Offering will prevent the Conversion from qualifying as a reorganization under § 368(a)(1)(F). See § 1.368-1(e)(2); Rev. Rul. 96-29, 1996-1 C.B. 50; Rev. Rul. 80-105, 1980-1 C.B. 78; Rev. Rul. 69-516, 1969-2 C.B. 56.

(3) The Merger, in which the Exchange occurs, will be treated as the Depositors' contribution of Stock Bank to MHC in exchange for mutual ownership interests in MHC. See Rev. Rul. 90-95, 1990-2 C.B. 67; Rev. Rul. 67-448, 1967-2 C.B. 144.

(4) The mutual ownership interests in MHC received by the Depositors will be treated as stock within the meaning of § 351(a). See Rev. Rul. 78-286, 1978-2 C.B. 145; Rev. Rul. 69-3, 1969-1 C.B. 103.

A determination of whether the Conversion qualifies as a reorganization under § 368(a)(1)(F) and whether the Exchange and Contribution are described in § 351(a) will be made by the District Director's office upon audit of the federal income tax returns of Mutual Bank, Stock Bank, SHC, and MHC.

We express no opinion on the tax treatment of the transaction under other provisions of the Code and regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above rulings.

The rulings in this letter are based on the facts and representations submitted under penalties of perjury in support of the request for rulings. Verification of that information may be required as part of the audit process.

Procedural Matters

This letter has no effect on any earlier document and is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return of each affected taxpayer for the tax year in which the transaction covered by this letter is completed.

Under a power of attorney on file in this office, copies of this letter are being sent to your authorized representatives.

Sincerely,
Assistant Chief Counsel
(Corporate)

By: _____
Robert T. Hawkes
Assistant to the Chief
Branch 4