

Additional Tier 1 Term Sheet

This document sets out key terms for special instruments or capital certificates, issued by mutual-form banking organizations, eligible to qualify as additional tier 1 capital, pursuant to section 217.20(c) of the Board's Regulation Q. See appendix for further details on Regulatory Q's requirements for the terms for qualifying capital instruments. Banking organizations are encouraged to seek legal advice and consider additional legal requirements, such as state law or regulatory requirements, that may be applicable to the offering of mutual capital certificates. These key terms are offered as one method of complying with the requirements of section 217.20(c) for mutual-form banking organizations specifically. Banking organizations are encouraged to reach out to Federal Reserve staff if they have questions.

Key Terms for Mutual Capital Certificates ("Certificates")

Issuer:	Mutual-Form Bank Holding Company, Mutual-Form Savings and Loan Holding Company, or Mutual-Form State Member Bank ("Mutual Banking Organization")
Certificates Offered:	Certificates are instruments, issued by the Mutual Banking Organization, representing paid-in capital, the paid-in amount of which shall be classified as equity under U.S. Generally Accepted Accounting Principles.
Ordinary Distributions:	The Mutual Banking Organization may make distributions on the Certificates only if declared by its board of directors (or a duly authorized committee of the board), to be paid out of the Mutual Banking Organization's net income, retained earnings, or surplus related to other additional tier 1 instruments. The Mutual Banking Organization retains full discretion at all times to cancel distributions on the instrument without triggering an event of default, a requirement to make a payment-in-kind, or an imposition of other restrictions, except in relation to any distribution to holders of instruments that are on parity with the Certificates. Distributions on Certificates will not be cumulative and are not mandatory. The Mutual Banking Organization has flexibility to choose an appropriate distribution rate, including rates that are adjusted periodically independent of a Mutual Banking Organization's credit quality, in relation to general market interest rates. However, distribution rates cannot reset based in whole or in part on the Mutual Banking Organization's credit quality, nor contain a "step-up" feature or other terms that create an incentive to redeem the instruments early.¹
Maturity:	Certificates are perpetual and have no maturity date.
Redemption:	Certificates do not have any maturity date, and holders of Certificates will not have the right to require redemption. The Mutual Banking Organization may, in its discretion, redeem the Certificates with the prior approval of the Board of Governors of the Federal Reserve System ("Board"). The Certificates may be callable by their terms, provided the Certificates may be called by the Mutual Banking Organization only after a minimum of five years following issuance, except that the Certificates may allow it to be called earlier than five years upon the occurrence of a regulatory event that precludes the instrument from being included in additional tier 1 capital, a tax event, or if the issuing entity is required to register as an investment company pursuant to the Investment Company Act of 1940 (15 U.S.C. 80a-1 <i>et seq.</i>). The Mutual Banking Organization must receive prior approval from the Board to exercise any call option on the Certificates. Prior to exercising the call option,

¹ State member banks are subject to other legal restrictions on reductions in capital resulting from distributions, including out of the capital surplus account, under 12 U.S.C. § 324 and 12 CFR 208.5.

or immediately thereafter, the Mutual Banking Organization must either replace the Certificates to be called with an equal amount of instruments that satisfy the criteria under section 217.20(b) or (c), or demonstrate to the satisfaction of the Board that, following redemption, the Mutual Banking Organization will continue to hold capital commensurate with its risks.

Ranking:

Certificates must be subordinated to depositors, general creditors, and subordinated debt holders, both with respect to payments and in a receivership, insolvency, liquidation or similar proceeding. The Certificates are not secured, nor covered by any guarantee of the Mutual Banking Organization or of an affiliate of the Mutual Banking Organization, and Certificates are not subject to any other arrangement that legally or economically enhances the seniority of the instrument.

Liquidation rights:

In the event the Mutual Banking Organization voluntarily or involuntarily liquidates, dissolves, or winds up its affairs, holders of Certificates may be entitled to receive an amount per certificate, plus any ordinary distributions that have been declared but not paid prior to the date of payment of distributions to Certificate holders. Distributions can be made only to the extent the Mutual Banking Organization has assets that are available for distribution to Certificate holders, after payment or provision for payment of more senior obligations.

Voting rights:

Certificate holders can be granted voting rights to the extent permitted by the charter of the Mutual Banking Organization and applicable federal and state law.

Conflicts of Interest and Financing:

The Mutual Banking Organization, or an entity that the Mutual Banking Organization controls, may not purchase or directly or indirectly fund the purchase of the Certificates.

Preemptive rights:

The Certificates do not have any features that would limit or discourage additional issuance of capital by the Mutual Banking Organization, such as provisions that require the Mutual Banking Organization to compensate holders of the Certificates if a new instrument is issued at a lower price during a specified time frame.

Listing:

Not required. Certificates can be listed or not listed.

Appendix - Additional Tier 1 Capital Requirements under Regulation Q

Citation to 12 CFR 217.20	Regulatory Text Requirement	Term
217.20(c)(1)(i)	The instrument is issued and paid-in.	Certificates Offered
217.20(c)(1)(ii)	The instrument is subordinated to depositors, general creditors, and subordinated debt holders of the Board-regulated institution in a receivership, insolvency, liquidation, or similar proceeding.	Certificates Offered; Liquidation Rights; Ranking
217.20(c)(1)(iii)	The instrument is not secured, not covered by a guarantee of the Board-regulated institution or of an affiliate of the Board-regulated institution, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument.	Ranking
217.20(c)(1)(iv)	The instrument has no maturity date and does not contain a dividend step-up or any other term or feature that creates an incentive to redeem.	Maturity; Ordinary Distributions; Redemption
217.20(c)(1)(v)	If callable by its terms, the instrument may be called by the Board-regulated institution only after a minimum of five years following issuance, except that the terms of the instrument may allow it to be called earlier than five years upon the occurrence of a regulatory event that precludes the instrument from being included in additional tier 1 capital, a tax event, or if the issuing entity is required to register as an investment company pursuant to the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.). In addition: (A) The Board-regulated institution must receive prior approval from the Board to exercise a call option on the instrument. (B) The Board-regulated institution does not create at issuance of the instrument, through any action or communication, an expectation that the call option will be exercised. (C) Prior to exercising the call option, or immediately thereafter, the Board-regulated institution must either: Replace the instrument to be called with an equal amount of instruments that meet the criteria under paragraph (b) of this section or this paragraph (c); or demonstrate to the satisfaction of the Board that following redemption, the Board-regulated institution will continue to hold capital commensurate with its risk.	Redemption
217.20(c)(1)(vi)	Redemption or repurchase of the instrument requires prior approval from the Board.	Redemption

Citation to 12 CFR 217.20	Regulatory Text Requirement	Term
217.20(c)(1)(vii)	The Board-regulated institution has full discretion at all times to cancel dividends or other distributions on the instrument without triggering an event of default, a requirement to make a payment-in-kind, or an imposition of other restrictions on the Board-regulated institution except in relation to any distributions to holders of common stock or instruments that are pari passu with the instrument.	Ordinary Distributions
217.20(c)(1)(viii)	Any distributions on the instrument are paid out of the Board-regulated institution's net income, retained earnings, or surplus related to other additional tier 1 capital instruments. State member banks are subject to other legal restrictions on reductions in capital resulting from cash dividends, including out of the capital surplus account, under 12 U.S.C. 324 and 12 CFR 208.5 .	Ordinary Distributions
217.20(c)(1)(ix)	The instrument does not have a credit-sensitive feature, such as a dividend rate that is reset periodically based in whole or in part on the Board-regulated institution's credit quality, but may have a dividend rate that is adjusted periodically independent of the Board-regulated institution's credit quality, in relation to general market interest rates or similar adjustments.	Ordinary Distributions
217.20(c)(1)(x)	The paid-in amount is classified as equity under GAAP.	Certificates Offered
217.20(c)(1)(xi)	The Board-regulated institution, or an entity that the Board-regulated institution controls, did not purchase or directly or indirectly fund the purchase of the instrument.	Conflicts of Interest and Financing
217.20(c)(1)(xii)	The instrument does not have any features that would limit or discourage additional issuance of capital by the Board-regulated institution, such as provisions that require the Board-regulated institution to compensate holders of the instrument if a new instrument is issued at a lower price during a specified time frame.	Ranking; Preemptive Rights
217.20(c)(1)(xiii)	If the instrument is not issued directly by the Board-regulated institution or by a subsidiary of the Board-regulated institution that is an operating entity, the only asset of the issuing entity is its investment in the capital of the Board-regulated institution, and proceeds must be immediately available without limitation to the Board-regulated institution or to the Board-regulated institution's top-tier holding company in a form which meets or exceeds all of the other criteria for additional tier 1 capital instruments.	N/A

Citation to 12 CFR 217.20	Regulatory Text Requirement	Term
217.20(c)(1)(xiv)	For an advanced approaches Board-regulated institution, the governing agreement, offering circular, or prospectus of an instrument issued after the date upon which the Board-regulated institution becomes subject to this part as set forth in § 217.1(f) must disclose that the holders of the instrument may be fully subordinated to interests held by the U.S. government in the event that the Board-regulated institution enters into a receivership, insolvency, liquidation, or similar proceeding.	N/A