



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

SCOTT G. ALVAREZ
GENERAL COUNSEL

March 21, 2006

Oliver I. Ireland, Esq.
Morrison & Foerster LLP
2000 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Dear Mr. Ireland:

This responds to your December 23, 2005, letter requesting a determination that the transactions described below involving Custodial Trust Company (“CTC”), Princeton, New Jersey, would not cause CTC’s parent company, The Bear Stearns Companies Inc. (“Bear Stearns”), New York, New York, to lose certain grandfather rights that it maintains under section 4(f) of the Bank Holding Company Act (“BHC Act”).¹

CTC is a New Jersey-chartered state nonmember bank that became a “bank” for purposes of the BHC Act as a result of the Competitive Equality Banking Act of 1987. Accordingly, Bear Stearns may retain its ownership of CTC and not be treated as a bank holding company only if Bear Stearns and CTC abide by the conditions set forth in section 4(f) of the BHC Act. One of these conditions generally prohibits Bear Stearns from acquiring control or more than 5 percent of the shares or assets of an additional bank or savings association.²

You have indicated that Bear Stearns now wishes to convert CTC into a national bank. You have indicated that this conversion will be effected

¹ See 12 U.S.C. § 1843(f).

² *Id.* at § 1843(f)(2)(A)(i) and (ii).

directly, and that Bear Stearns will not establish, or acquire any shares of, a separate bank or savings association as part of the conversion process.³ Simultaneously with this conversion, however, Bear Stearns also will establish a new, limited-purpose national bank trust company to be named Bear Stearns Bank and Trust Company, National Association (“BSBTC”) in Wilmington, Delaware. You have represented that BSBTC will comply with the limitations and restrictions in, and would qualify for, the trust company exception from the definition of “bank” under section 2(c)(2)(D) of the BHC Act.⁴ Bear Stearns would then cause BSBTC to merge into CTC, with CTC being the entity that survives the merger. This merger is for the purpose of allowing CTC to change its name to BSBTC (“New BSBTC”) and change the location of its headquarters to Wilmington, Delaware.

Bear Stearns currently is the sole shareholder of CTC and would be the sole shareholder of New BSBTC (the re-named CTC) after consummation of the proposed transactions. You have represented that, prior to its merger with CTC, BSBTC would not be an operating company and would have no assets or liabilities. You also have represented that the proposal would not result in any change in ownership or control of CTC and that neither CTC nor Bear Stearns would acquire any assets of, or interest in, an additional operating bank or savings association as part of these transactions.

The direct conversion of CTC from a state-chartered bank to a national bank would not, by itself, cause Bear Stearns to lose its grandfather rights under section 4(f) of the BHC Act.⁵ In addition, the BHC Act would not prevent Bear Stearns from chartering BSBTC. While the BHC Act prevents a grandfathered nonbank bank holding company such as Bear Stearns from acquiring control of an additional bank or thrift,⁶ BSBTC, as a limited-purpose trust company, would not be a “bank” for purposes of the BHC Act.

³ You have represented that the direct conversion of CTC from a New Jersey-chartered bank to a national bank is permissible under both the National Bank Act and the New Jersey Code. See 12 U.S.C. § 35; New Jersey Code § 17-9A-154.1.

⁴ 12 U.S.C. § 1841(c)(2)(D).

⁵ See Letter from Scott G. Alvarez, General Counsel of the Board, to William S. Eckland, Esq., dated October 12, 2004.

⁶ 12 U.S.C. § 1843(f)(2)(A).

Under these circumstances, the Legal Division would not recommend that the Board determine that the transactions described above would cause Bear Stearns to lose its grandfather rights under section 4(f) of the BHC Act.⁷ Of course, after consummation of the proposed transactions, New BSBTC and Bear Stearns must continue to comply with the conditions applicable to a nonbank bank and a grandfathered holding company, respectively, under the BHC Act.

This opinion is limited to the transactions described above and is based on the facts and representations included in your letter and related correspondence. Any material change in the facts presented may result in a different conclusion and should be reported to Board staff. If you have any questions about this letter, please contact Kieran J. Fallon, Assistant General Counsel, at (202) 452-5270, or Andrea R. Tokheim, Senior Attorney, at (202) 452-2300.

Sincerely,

/s/ Scott G. Alvarez

Scott G. Alvarez

⁷ See Letter from Scott G. Alvarez, Associate General Counsel of the Board, to Andrew M. Hodgkin, Esq., dated January 28, 1999.