

Appendix to the Report of the Special
 Volume 5 Counsel on the Savings + Loan Crisis
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JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
ONE SOUTH CALVERT STREET . SUITE 1006 . BALTIMORE, MARYLAND 21202

301/659-6330

MEMORANDUM

File
SAL
Contingency

TO: John J. Corbley, Secretary
Department of Licensing and Regulation

FROM: David H. Wells, Jr., Deputy Director
Division of Savings and Loan Associations

RE: State-Chartered Savings and Loan Industry

DATE: May 4, 1981

This is the last in a series of epistles which began last April when the savings and loan industry in Maryland survived a crisis of major proportions with Sharon's acquisition of Security with assistance from MSSIC.

My previous reports document the impact of high interest rates on the savings and loan industry as well as the erosion of the financial strength of the industry. The past year and a half has been a period of tremendous change and consolidation as associations have moved from a very regulated operating environment into a much less regulated environment.

At least part of the blame for the current state of the industry must be borne by the regulators who did not permit the use of market rate adjustable mortgage instruments until two and a half years after market rate savings certificates were authorized. Hindsight is 20-20. Nonetheless, most of the necessary structural changes are in place for the savings and loan industry to operate successfully in a less regulated environment, although greater flexibility to compete for savings is still required. The key variable now is the ability of associations to adapt to the new environment.

Interest Rates

My previous reports detail the dramatic fluctuations in interest rates in 1980. Since November 1980, the 26-week Treasury Bill rate has fluctuated between 15.423% and 12.096%. This rate currently stands at 14.042%. Since November, the prime rate has also fluctuated in a fairly high range between 15½% and 21½%. Prime currently stands at 18%.

As I noted in February, interest rate forecasts for 1981 vary widely. Some economists are projecting that the prime rate will exceed the 21½% rate reached in December later in 1981, while other economists are projecting that prime will fall to the 14-15% level in the second half of 1981. Again, I will not make a guesstimate as to where interest rates are headed for the remainder of this year, but neither of the scenarios outlined above will have a positive impact on the savings and loan industry.

Earnings

After the rapid decline in interest rates in the middle of last year, I advised you that the earnings situation at most associations would improve toward the end of the year. As you can see from the chart below, 23 State-chartered associations finished 1980 in the red, after reaching a peak of 46 in August.

In February, I noted that the number of associations posting operating losses would increase sharply in the early months of 1981 due to the run-up in interest rates which began again in November 1980. As noted above, interest rates have remained relatively high since November and I don't foresee any meaningful rebound in associations' earnings through the third quarter of 1981. The number of associations with unprofitable operations on a monthly basis during 1980 and 1981 is as follows:

<u>Month</u>	<u>No. of S/L's with a Net Operating Loss</u>	
	<u>1980</u>	<u>1981</u>
January	14	37
February	20	41
March	23	40
April	28	
May	34	
June	39	
July	44	
August	46	
September	38	
October	29	
November	26	
December	23	

Supervisory Problems

Although no State-chartered associations are immediately threatened with insolvency, several associations experienced staggering losses in relation to their total capitalization in 1980. For some of these associations, their losses have accelerated in the first quarter of 1981, thus increasing the possibility of supervisory intervention in the future. This is illustrated by the chart on the next page.

<u>Association</u>	<u>12/31/79 Net Worth</u>	<u>12/31/80 Net Worth</u>	<u>Net Operating Loss</u>	<u>Loss as a % of Capital</u>	<u>March 1981 Quarterly Loss</u>	<u>Quarterly Loss as a % of Capital</u>
Security S/L	\$ 2,622,511	\$ 1,333,408	\$1,289,103	49.0%	\$ 262,482	19.7%
Calvert S/L	3,977,240	2,033,473	1,903,482	48.0%	745,191	36.6%
First Progressive S/L	585,494	331,423	254,069	43.0%	72,915	22.0%
Metropolis B/A	2,337,479	1,748,115	589,364	25.0%	241,969	13.8%
GSSL	-12,779,451	11,074,369	1,705,082	13.0%	1,256,647	11.3%
Old Court S/L	1,951,449	1,718,670	202,846	11.8%	146,220	8.5%

As you are aware, the Security situation was resolved early last year when the association was acquired by Sharon, with assistance from MSSIC. Although Security continues to experience losses, its fate is tied to that of Sharon (which is well capitalized) due to the execution of a Guaranty Agreement which we required as a condition for Security to trade under Sharon's name.

I advised you in February that our most serious supervisory problem was Calvert. That situation was resolved in mid-March when Mr. Brown approved the merger of Calvert with Yorkridge Federal, subject to the hypothecation of \$1 million as an additional reserve fund for the surviving association. The effective date of the merger was April 1, 1981, and it came none too soon as Calvert lost nearly a quarter of a million dollars a month during the first quarter of 1981.

The most significant supervisory problem facing the Division at this time is Government Services. This association is a publicly-traded stock association whose shares are traded in the over-the-counter market. The company has well in excess of 500 stockholders and must file its earnings reports with the Securities and Exchange Commission. There is a very real possibility that public confidence in this institution will be shaken when it reports a net operating loss of \$2,485,972 to its stockholders for the year ended March 31, 1981. Under SEC rules, this has to be reported by June 30, 1981.

Government Services problems are compounded by the fact that the association's auditors, Peat, Marwick, Mitchell & Co., have issued qualified audit reports to other troubled savings and loan associations. The qualification states that the association's ability to continue in business as a "going concern" is dependent on a significant decline in interest rates. In light of the association's operating results in the fiscal year ended March 31, 1981, it would seem likely that Peat, Marwick, and Mitchell would issue a qualified audit report to Government Services. This qualification would be disclosed to the association's stockholders in the company's annual report as well as in the documents filed with the SEC by June 30.

Although Government Services still has net worth in excess of \$9 million, it is a difficult situation to deal with due to its size (\$364 million in total assets); the fact that it is a public company; and the fact that its board of directors has been very slow to respond to the company's problems. Although the association is currently engaged in merger discussions with several associations, it is difficult to predict whether anything will come from those discussions.

As far as the other three associations listed above are concerned, they are all involved in merger negotiations or other negotiations which will increase their capitalization. I should also note that two other associations--Chevy Chase and American National-- have operating losses in excess of \$1 million but have the capital

to weather this storm. One other association--Merritt--may also warrant further comment in the future as it has a net operating loss in excess of a half million dollars and over \$4 million tied up in one slow land development loan.

Mergers

In 1980, the Division approved 14 mergers or consolidations, thus reducing the number of State-chartered associations from 143 to 129. So far this year, 7 State associations have merged out of existence and one--Equitable--has converted to a federal charter, thus reducing the number of State-chartered associations to 121. In addition, the following merger application is currently on file with the Division:

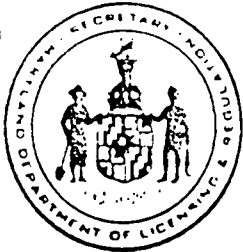
City Savings and Loan Association
into Augusta Savings and Loan Association

From my discussions with people in the industry, I expect that the Division will receive several more merger applications in the next month or so.

Federal Legislation

In November, I advised you that under the Monetary Control Act of 1980, MSSIC associations were given access to the Discount Window of the Federal Reserve in extraordinary circumstances, such as a severe deposit run-off. On January 28, 1981, Mr. Wolf of MSSIC, Mr. Brown, and I met with representatives of the local Federal Reserve branch in order to clarify certain questions we had regarding this new law. At the request of the Federal Reserve, Mr. Wolf submitted these questions to them in writing on February 24, 1981. On March 19, 1981, we received the attached letter from the Federal Reserve Bank of Richmond which favorably resolves all of our significant questions regarding the ability of MSSIC associations to borrow from the Federal Reserve on an emergency basis. Given the current situation at Government Services, it would make sense to prepare for the possibility that at least a few associations may have to borrow from the Federal Reserve by the end of June.

DHW:cpk



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
ONE SOUTH CALVERT STREET, SUITE 1006, BALTIMORE, MARYLAND 21207

301/659-6330

MEMORANDUM

TO: The Honorable Harry Hughes
Governor, State of Maryland

FROM: Charles H. Brown, Jr., Director
Division of Savings and Loan Associations

DATE: July 6, 1981

It is certainly no secret that the savings and loan industry throughout the country is having problems. Almost daily there is an article in our own local paper, the Washington Post, the Wall Street Journal, and other national newspapers and magazines, all pointing out the troubles in our industry. There have been so many damaging articles that we are concerned that one of these days the public will think twice about their deposits in savings and loans and will be withdrawing even more heavily than in the past, which could create a run on our associations.

The Wall Street Journal has had many articles on associations taken over by the Federal Home Loan Bank, supervisory mergers by the Bank, and the latest story involving West Side Federal in New York, one of the largest associations on the East Coast with \$2.5 billion in assets and one of the most troubled. Financial analysts fear that the collapse of this association could cost the Federal Savings and Loan Insurance Corporation in excess of \$700 million. Further, this could shake the public confidence in savings and loans and might possibly create a crisis situation as a result of heavy savings withdrawals brought about by adverse publicity.

The Wall Street Journal just recently reported that the savings and loan industry nationally lost \$2.1 billion in savings withdrawals during the month of March. In April, there was a savings loss of \$4.6 billion. Additionally, there was a loss in May of \$161 million, making a total savings loss for the three months of \$6.9 billion.

Let us get closer to home--here in our own State. Our own industry in Maryland lost \$31 million in savings withdrawals in March and another \$65 million in April, for a total savings loss for the two months of \$96 million. Our Maryland associations did

have an \$8 million savings increase for May. This figure applies to both federally-insured and our own State-chartered, MSSIC-insured associations. The savings withdrawn have, for the most part, gone into the money market mutual funds operated by Merrill Lynch, T. Rowe Price, and other investment bankers. These money market mutual funds total today in excess of \$127 billion, the better part of which has been withdrawn from savings and loan associations.

To pay these withdrawals, savings and loan associations must borrow funds from the Federal Home Loan Bank in the case of federally-insured associations and from commercial banks insofar as our State-chartered associations are concerned. The prime rate at commercial banks today is again at 20.5%. Our associations are paying prime and, in some cases, prime plus 1% or 2% depending, of course, on the particular bank.

To compete with the money market mutual funds, associations are paying exceptionally high rates on savings certificates, rates far in excess of earnings in an attempt to compete with the mutual funds. Six-month money market certificates effective June 30 are paid at the rate of 13.871%, down from 15.925% on May 23, 1981. Jumbo certificates (certificates of \$100,000 or more) are paid at rates in excess of 17%. All of these high rates are paid out of an average return on the mortgage portfolio of roughly 9.5%. The associations today, for the most part, are paying these high rates and are eating into their reserves in doing so--reserves set aside over the years by statute to offset any investment losses.

As of December 31, 1980, there were 188 federal and State-chartered associations in Maryland with assets of approximately \$10.7 billion, viz:

	<u>ASSETS IN BILLION</u>	
14 State-chartered, federally-insured	\$1.2	
121 State-chartered, MSSIC-insured	<u>2.4</u>	
<u>53</u> Federally-chartered		3.6
		<u>7.1</u>
188 Total		\$10.7

Of the 135 associations supervised as of December 31, 1980, we are now down to 124 due to mergers and the loss of one association which converted to a federal charter.

Chairman Pratt of the FHLB recently reported that 70% of associations in the nation are operating in the red. At the present time, out of the 124 associations that we regulate, about 35% or 44 associations are operating in the red. I believe it is safe to say that we have a crisis situation on our hands which can only get worse if the economy continues. This crisis is why we are here today to

advise you of our problems and also to discuss the possibility of some kind of aid from the State.

On the federal side, the Federal Savings and Loan Insurance Corporation has an insurance fund of \$6.5 billion and an additional line of credit with the U. S. Treasury of \$750 million and insures deposits of \$507 billion in 3,939 federally-insured associations.

The FSLIC has asked the Reagan administration to increase the borrowing capacity from the Treasury Department from \$750 million to \$3 billion. So far, Treasury Secretary Regan has indicated that he will not look favorably on this request. According to an article in a recent issue of the Wall Street Journal, there are 263 federally-insured associations with abnormal problems on the FHLB watch list.

As far as our insuring corporation is concerned, with us today is Charles Hogg, Executive Vice President of the Maryland Savings-Share Insurance Corporation, who will speak on his corporation, their resources, and how they are operating in today's climate.

CHB:cpk

June 1, 1981

Honorable Harry Hughes
Governor of Maryland
State House
Annapolis, Maryland 21401

Re: Savings and Loan Industry
Variable Rate Mortgages

Dear Governor Hughes:

This report will furnish your office with additional information following our meeting on May 4, 1981, regarding the above captioned matter. It will supplement my letter dated May 1, 1981.

Current National Status

The health of this industry is suffering on a national level. In May, 1981, federally insured savings and loans suffered a \$4.63 billion "outflow", the biggest monthly loss since 1947. In April, the outflow exceeded \$2 billion. Outflow is the difference between new deposits and withdrawals. The single largest cause of the outflow is the shift of savings deposits from the "thrifts" to the money market mutual funds, which are unregulated.

On a national level, legislation is being requested as follows:

1. Regulate the money market certificates.
2. Permit federally insured savings and loans to merge with commercial banks.

Savings and loans are required to channel most of their funds into home mortgages. This creates a financial problem when the cost of funds to the savings and loans is 12 percent and it has outstanding portfolio loans to homeowners at 7 percent since the early 1970's.

The Federal Home Loan Bank Board is currently allowing lenders to adjust the rates on new loans in future years to offset the above situation. It will still take many years for the federal

Honorable Harry Hughes

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savings and loans to work off these old unprofitable loans. The State Board of Savings and Loan Association Commissioners has drafted regulations permitting the State-chartered, State-insured savings and loans to implement a similar program. The proposed regulation is being reviewed by the Administrative, Executive and Legislative Review Committee.

Recently, a small federally insured savings and loan in Chicago failed. It is only the fourteenth time since the Federal Savings & Loan Insurance Corporation (FSLIC) was created in 1934 that a direct pay out has been required to depositors. This prompted a comment from FSLIC that 5 percent of the weaker federal savings and loans could fail, if the interest rate situation does not improve. One solution is for such savings and loans to merge with other institutions.

Current Maryland Status

In Maryland, some large State-chartered savings and loans are announcing expansion plans through increasing passbook interest rates and acquiring smaller savings and loans through merger. Such a plan was announced recently by John Hanson Savings and Loan.

Further, the unprofitable operations of State-chartered savings and loans in Maryland continues to increase because interest rates have remained relatively high. Between January 1980 and April 1981, the number of savings and loans with net operating losses increased from 14 to 40. Although no State-chartered associations are immediately threatened with insolvency, some have experienced accelerated losses as related to capitalization in 1981, that increases the possibility of supervisory intervention in the future.

Mergers

In 1980, the Division of Savings and Loan Associations approved 14 mergers or consolidations, thus reducing the number of State-chartered associations from 143 to 129. So far this year, 7 State associations have merged out of existence and one--Equitable--has converted to a federal charter, thus reducing the number of State-chartered associations to 121. In addition, the following merger application is currently on file with the Division:

City Savings and Loan Association
into Augusta Savings and Loan Association

From my discussions with people in the industry, I expect that the Division will receive several more merger applications in the next month or so.

Honorable Harry Hughes

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Conclusion

Against this background, the AELR Committee must weigh the approval or disapproval of the draft regulations permitting State-chartered, State-insured savings and loan associations to issue variable rate mortgages, and not be in violation of federal antitrust laws, as pointed out by the Office of the Attorney General.

Apparently, in view of the contents of the letter dated March 19, 1981 (attached) received by the Maryland Savings-Share Insurance Corporation (MSSIC) from the Federal Reserve Bank of Richmond, it may not be necessary to further explore the savings and loan contingency plans discussed with your office in the Spring of 1980.

I will keep your office advised of the events that transpire at the hearing on June 2, 1981, before the AELR Committee.

Sincerely,

John J. Corbley
Secretary

JJC:el

Enclosure

cc: Mr. Ejner J. Johnson

Confidential

STATE OF THE
MARYLAND SAVINGS-SHARE INSURANCE CORPORATION
INDUSTRY

Presented by

Charles C. Hogg, II
Executive Vice President
Maryland Savings-Share Ins. Corp.

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AG-458

FINANCIAL STUDY OUTLINE

I. Purpose:

The purpose of these financial comparisons and projections is to illustrate based on the current economic environment, (i.e. High Money Market Rates, Net Savings Outflows, Earning Losses) the potential need for large amounts of cash to be infused in select MSSIC associations in the next 12 to 18 months' period.

II. Assumptions:

In attempting to project the financial needs of the MSSIC Industry over the next 12 to 18 months' period, various assumptions were made:

- 1) For comparability and projection purposes the 25 largest MSSIC associations in asset size will be used. Only the largest 25 will be evaluated ~~but~~ for the following reasons:
 - A) The top 25 represent \$2,127,624,600 in total assets. This represents 87.11% of the \$2,442,513,821 in total assets in the MSSIC Industry.
 - B) The largest associations present greater financial risks than smaller associations.
 - C) More complete information is available on the 25 largest MSSIC associations.
- 2) The top 25 associations have been combined to present summary financial data. The type of information provided includes balance sheet items, income statement items, savings and mortgage activity, ratio analysis and earnings projections.
- 3) In Exhibit 5, eleven MSSIC associations among the top 25 largest associations are presented in an earnings proforma for the next

12 to 18 months. The associations selected were chosen because they are experiencing significant losses from operations and have only poor to moderate net worth positions. In Exhibit V, the average losses experienced by these associations in the past 3 months ending May 31, 1981 are projected out 12 months and 18 months. A 30% tax credit is used to offset part of this loss. The projected net worth is then compared to the net worth at present and if the projected net worth is below 3%, the amount of cash necessary to restore the 3% level is presented. The projections presented assume no changes in interest rates and savings deposits remaining exactly at the present level. Funds provided from mortgage loan repayments are not considered because the benefit that would be derived from this would most likely be offset by savings-mix changes from passbook to a higher concentration of certificates.

III. Findings:

1) Exhibit I

The 25 largest MSSIC associations continue to grow in both total assets and savings. However, the net worth of these associations continues to decline.

2) Exhibit 2

The 25 largest MSSIC associations are using the funds made available to them through Mortgage Loan Repayments and new savings growth to pay off expensive borrowed money at the banks. In an environment of lower rates, these funds would normally be used to make home-owner mortgage loans.

3) Exhibit 3

Mortgage Loan Repayments each year represent approximately 15%

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of the total assets of the top 25 associations. Therefore, excluding new savings and highly liquid assets, only mortgage loan repayments can be reinvested at the current rates. This situation explains why associations cannot afford to pay on most of their savings deposits the rates they do to maintain these savings deposits.

4) Exhibit 4

- A) The combined income statements of the top 25 MSSIC associations both profitable and unprofitable, indicate that a severe earnings loss trend has started to occur in 1981.
- B) The combined loss of the 11 associations used in Exhibit 5 is \$4,771,556 or 76% of \$6,247,258 for the two months ending May 31, 1981.

5) Exhibit 5

To maintain these 11 selected associations at a 3% net worth level based on the earnings projections presented, an infusion of cash of \$17,792,644 will be needed in 12 months or \$27,536,337 will be needed in 18 months assuming nothing is done until then.

IV. Caveats

- 1) The loss projections presented are based on the average net income/loss of the past 3 months ending May 31, 1981. The possibility exists that losses have been incurred during this period but not yet reflected in our financial statements since some associations are not on a full accrual accounting system.
- 2) The velocity of losses incurred may continue at an increasing rate as assets are liquidated to fund current liabilities.
- 3) There is a likelihood that associations that currently appear sound may experience unforeseen earnings problems that will require infusion of capital in the next 12 to 18 months' period.

- 4) Our projections assume the current interest rates. It is possible that rates may reach higher levels and this would then translate into further losses of greater magnitude.
- 5) A devastating problem may develop in the next 12 to 18 months if a lack of public confidence in MSSIC or FSLIC thrifts occurs. This problem is that of disintermediation. This problem could evolve from:
 - A) A continued bad national press concerning the thrift industry;
 - B) A major insolvency among a FSLIC institution where uninsured funds are lost;
 - C) The inability of large MSSIC institutions to obtain a "going concern" audit opinion.
 - D) MSSIC having to expend large amounts of capital to member associations.

The results of a lack of public confidence in the MSSIC industry causing disintermediation could exhaust all available lines of credit for both MSSIC and its member institutions.

(Note: MSSIC members borrow from banks at rates usually above the prime rate)

SUMMARY FINANCIAL DATA

Exhibit I

TOP 25 ASSOCIATIONS

	@ 5/31/81 (\$000)	@ 3/31/81 (\$000)	@ 12/31/80 (\$000)	@ 9/30/80 (\$000)	@ 6/30/80 (\$000)	@ 12/31/79 (\$000)
Total Assets	\$ 2,127,624	\$ 2,105,785	\$ 2,077,351	\$ 1,970,130	\$ 1,832,502	\$ 1,763,274
Total Mortgage Loans	\$ 1,734,324	\$ 1,715,655	\$ 1,685,883	\$ 1,576,000	\$ 1,481,025	\$ 1,513,499
Passbook Savings	\$ 758,281	\$ 761,752	\$ 781,761	\$ 872,304	\$ 771,709	\$ 688,669
Certificate Savings	\$ 1,072,277	\$ 1,044,582	\$ 975,771	\$ 812,947	\$ 813,219	\$ 767,933
Total Savings	\$ 1,830,558	\$ 1,806,334	\$ 1,757,532	\$ 1,685,251	\$ 1,584,928	\$ 1,456,602
Net Worth						
General Reserve-Losses	\$ 49,096	\$ 48,571	\$ 47,542	\$ 45,913	\$ 44,887	\$ 42,500
Surplus/Undiv. Profits	17,352	20,090	22,335	20,728	22,286	23,961
Guaranty Stock	5,244	4,642	4,642	4,548	4,562	4,548
Paid-In-Surplus	12,071	12,142	12,124	11,839	11,839	11,839
Current Undistr. Net Income	(6,736)	(4,361)	(558)	(1,419)	(2,118)	3,283
Subordinated Debt	7,419	7,621	6,473	6,429	8,702	10,902
Hypothecations	214	71	41	41	71	91
Total Net Worth	\$ 84,659	\$ 88,777	\$ 92,599	\$ 88,079	\$ 90,229*	\$ 97,124
% Total Net Worth	4.625%	4.92%	5.27%	5.226%	5.192%	6.668%
To Total Savings						

* Adjusted to reflect retroactive change in accounting principles by member association.

TOP 25 ASSOCIATIONS

Exhibit 2

	@ 5/31/81 (\$000)	@ 3/31/81 (\$000)	@ 12/31/80 (\$000)	@ 9/30/80 (\$000)	@ 6/30/80 (\$000)	@ 12/31/79 (\$000)
Delinquent Loans	\$ 16,511	\$ 17,596	\$ 15,778	\$ 17,066	\$ 19,560	\$ 15,139
Loans-in-Foreclosure	4,096	4,228	3,749	4,549	3,384	4,200
Total Slow Loans	\$ 20,607	\$ 21,824	\$ 19,527	\$ 21,615	\$ 22,944	\$ 19,339
% Total Slow Loans to Total Mtg. Loans	1.188%	1.27%	1.16%	1.37%	1.54%	1.28%
Borrowed Monies	\$ 83,974	\$ 95,708	\$ 120,615	\$ 121,132	\$ 80,841	\$ 134,618
Loans-in-Process	\$ 70,163	\$ 72,238	\$ 70,266	\$ 52,021	\$ 36,250	\$ 45,455
Outstanding Mtg. Commitments	\$ 106,474	\$ 90,072	\$ 90,520	\$ 99,908	\$ 78,087	\$ 78,838

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SAVINGS AND MORTGAGE ACTIVITY
TOP 25 ASSOCIATIONS

Exhibit 3

	<u>@ 5/31/81</u> <u>(\$000)</u>	<u>@ 3/31/81</u> <u>(\$000)</u>	<u>@ 12/31/80</u> <u>(\$000)</u>	<u>@ 9/30/80</u> <u>(\$000)</u>	<u>@ 6/30/80</u> <u>(\$000)</u>	<u>@ 12/31/79</u> <u>(\$000)</u>
Savings Receipts	\$ 308,840	\$ 274,279	\$ 240,325	\$ 247,581	\$ 194,543	\$ 162,388
Savings Withdrawals	294,914	272,195	246,337	229,796	157,947	165,483
Net Savings Receipts	<u>\$ 13,926</u>	<u>\$ 2,084</u>	<u>\$ (6,012)</u>	<u>\$ 17,785</u>	<u>\$ 36,596</u>	<u>\$ (3,095)</u>
Dividends Credited	<u>\$ 11,002</u>	<u>\$ 21,767</u>	<u>\$ 20,516</u>	<u>\$ 20,057</u>	<u>\$ 17,586</u>	<u>\$ 14,706</u>
Mortgage Loans Made	<u>\$ 24,243</u>	<u>\$ 23,910</u>	<u>\$ 41,763</u>	<u>\$ 37,875</u>	<u>\$ 32,335</u>	<u>\$ 24,972</u>
Mortgage Loan Repayments	<u>\$ 25,493</u>	<u>\$ 24,889</u>	<u>\$ 26,718</u>	<u>\$ 43,965</u>	<u>\$ 29,793</u>	<u>\$ 24,578</u>

Note: Above reflects monthly figures

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CONSOLIDATED INCOME STATEMENT

Exhibit 4

TOP 25 ASSOCIATIONS

For the Quarters Ending:

	<u>5/31/81</u>	<u>3/31/81</u>	<u>9/30/80</u>	<u>6/30/80</u>	<u>3/31/80</u>	<u>12/31/79</u>
Total Gross Income	\$ 36,502,378	\$ 53,554,810	\$ 47,341,763	\$ 47,939,607	\$ 43,837,664	\$ 41,121,708
Total Expenses	\$ 9,103,401	\$ 13,644,995	\$ 10,257,412	\$ 12,359,572	\$ 13,349,890	\$ 12,042,307
Total Dividends	\$ 33,646,235	\$ 45,807,339	\$ 36,344,739	\$ 36,905,672	\$ 32,957,033	\$ 28,159,079
Net Income/(Loss)	\$ (6,247,259)	\$ (5,897,524)	\$ (739,612)	\$ (1,325,637)	\$ (2,469,259)	\$ 920,322

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EXHIBIT 5

12 MONTH LOSS PROJECTIONS

18 MONTH LOSS PROJECTIONS

	<u>12 MONTH LOSS PROJECTIONS</u>				<u>18 MONTH LOSS PROJECTIONS</u>				
	<u>APPROX. 3 MOS. AVG. LOSS</u>	<u>ANNUALIZED 12 MO. LOSS</u>	<u>12 MO. LOSS LESS 30 % TAX CREDIT</u>	<u>NET WORTH PRES. PROJ. N.W. TO 3%</u>	<u>LOSS-12 MOS. & INFUSION TO RETURN N.W. TO 3%</u>	<u>ANNUALIZED 18 MO. LOSS</u>	<u>18 MO. LOSS LESS 30 % TAX CREDIT</u>	<u>NET WORTH PRES. PROJ. N.W. TO 3%</u>	<u>LOSS-18 MOS. & INFUSION TO RETURN N.W. TO 3%</u>
Baltimore County	\$ (170,303)	\$ (681,212)	\$ (476,848)	4.77% 4.05%	\$ -	\$ (1,021,818)	\$ (715,273)	4.77% 3.70%	\$ 201,723
Chevy Chase	\$ (3,265,760)	\$ (13,063,040)	\$ (9,144,128)	3.03% 1.13%	\$ 9,029,035	\$ (19,594,560)	\$ (13,716,192)	3.03% .18%	\$ 13,133,141
Eastern Shore	\$ (88,121)	\$ (352,484)	\$ (246,739)	3.35% 2.16%	\$ 173,444	\$ (528,726)	\$ (370,108)	3.35% 1.56%	\$ 297,332
Fairfax	\$ (284,585)	\$ (1,138,340)	\$ (796,838)	7.00% 3.70%	\$ -	\$ (1,707,510)	\$ (1,195,257)	7.00% 2.06%	\$ 227,322
First Progressive	\$ (105,823)	\$ (423,292)	\$ (296,304)	3.35% -.27%	\$ 267,410	\$ (634,938)	\$ (444,457)	3.35% -2.08%	\$ 415,426
Friendship	\$ (345,626)	\$ (1,382,504)	\$ (967,753)	4.59% 2.31%	\$ 292,916	\$ (2,073,756)	\$ (1,451,629)	4.59% 1.17%	\$ 776,864
Government Services	\$ (2,251,783)	\$ (9,007,132)	\$ (6,304,993)	3.04% .90%	\$ 6,215,389	\$ (13,510,698)	\$ (9,457,489)	3.04% -.16%	\$ 9,352,681
Merritt	\$ (300,000)	\$ (1,200,000)	\$ (840,000)	4.92% 3.47%	\$ -	\$ (1,800,000)	\$ (1,260,000)	4.92% 2.76%	\$ 139,701
Metropolis	\$ (257,013)	\$ (1,028,052)	\$ (719,636)	4.16% 2.26%	\$ 281,427	\$ (1,542,078)	\$ (1,079,455)	4.16% 1.32%	\$ 638,915
Old Court	\$ (60,000)	\$ (240,000)	\$ (168,000)	2.80% 2.50%	\$ 280,128	\$ (360,000)	\$ (252,000)	2.80% 2.30%	\$ 392,179
Security	\$ (312,223)	\$ (1,248,892)	\$ (874,224)	2.44% 1.16%	\$ 1,252,895	\$ (1,873,338)	\$ (1,311,377)	2.44% .12%	\$ 1,961,053
		<u>\$ (29,764,948)</u>	<u>\$ (20,835,463)</u>		<u>\$ 17,792,644</u>	<u>\$ (44,647,422)</u>	<u>\$ (31,253,197)</u>		<u>\$ 27,536,337</u>

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STATE OF MARYLAND
DEPARTMENT OF LICENSING AND REGULATION

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July 21, 1981

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Honorable William S. James
State Treasurer
State Treasury Building
Annapolis, Maryland 21401

Honorable James O. Roberson
Secretary
Department of Economic and
Community Development
2525 Riva Road
Annapolis, Maryland 21401

Honorable H. Louis Stettler, III
Secretary
Department of Budget and Fiscal
Planning
State Treasury Building
Annapolis, Maryland 21401

Gentlemen:

On July 7, 1981, representatives of the state-chartered/state-insured (MSSIC) savings and loan institutions in Maryland presented a proposal to Governor Harry Hughes regarding the problems facing that industry. A copy of the proposal is enclosed for your information.

The purpose of this letter is to inform you of a request made by the Governor at a meeting in his office on July 17, 1981, attended by Mr. Ejner S. Johnson and myself. At the July 7th meeting, the Governor made a commitment to the savings and loan representatives that I would meet with them and review the recommendations contained in the enclosed proposals. At the first such meeting, it became apparent to me that other departments of the State government should be involved in the discussions for a better understanding of the recommendations.

Accordingly, the Governor asked that I communicate with each of you for the purpose of arranging a meeting with the savings and loan representatives to continue the discussion regarding

Honorable William S. James
Honorable James O. Roberson
Honorable H. Louis Stettler, III
Page 2
July 21, 1981

the recommendations. The identity of the representatives is contained within the proposal. I have communicated with the Chairman of the group, Mr. Jerome S. Cardin, and have been informed that they would be available to meet in Annapolis on any afternoon of the week beginning July 27th, except for Thursday, July 30th. Obviously, we cannot meet on July 28, because of the prescheduled meeting of the Governor's Cabinet.

After you have an opportunity to review the enclosure, I would appreciate hearing from you in order to establish a convenient meeting date.

Sincerely,

John J. Corbley
Secretary

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Enclosure

cc: Honorable Harry Hughes
✓ Mr. Ejner J. Johnson

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January 27, 1982

The Honorable Harry R. Hughes
Governor of the State of Maryland
State House
Annapolis, Maryland 21404

This letter, Governor....

is to serve as the interim report of the Ad Hoc Committee which has studied the MSSIC Insured Savings and Loan Industry. You were kind to meet with us on July 7, 1981, and requested a follow-up report.

We thank you for your cooperation and interest, as well as for the assistance given us by various individuals in your Administration, particularly Secretary John J. Corbley and Deputy Secretary, Hans Mayer.

After months of meetings, endless research and even a bit of prayer, the Committee concluded that, absent legislation, there is only one way the State could presently assist in strengthening the industry. That is to assure the liquidity of MSSIC, if necessary, through the employment of the vast cash resources of the Maryland State Employees Retirement System(s). This program, of course, could be structured so that it in no way would violate the investment criteria or fiduciary responsibilities of the Systems, would be fully collateralized by either U.S. Government securities or residential mortgages and would produce a return to the System equal to that which could be achieved through other investments. This amounts to Marylanders aiding Marylanders and doing it without additional risk or cost.

In an effort to effect this kind of interchange, Messrs. Jerome Cardin and Charles Hogg on October 2, 1981, met with Messrs. Howard France and Arthur Lynch, representing the Retirement Systems. This meeting was set up for us by Comptroller Louis Goldstein, who has been most cooperative and helpful. Unfortunately, the results of this meeting have not been particularly fruitful. Your assistance here would be very helpful in accomplishing our goals.

With further reference to legislation, it was the feeling of the Committee that due to the current delicate environment in which the savings and loan industry finds itself, that it would be inadvisable to propose any legislation regarding the industry which would in any way be controversial or misunderstood. However, the Committee does feel that certain legislation should be introduced at a more appropriate time that would provide the vehicle and procedure whereby

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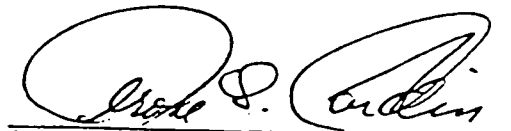
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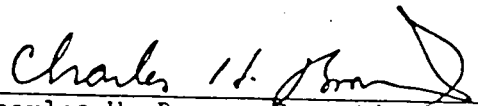
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The Honorable Harry R. Hughes
January 25, 1982
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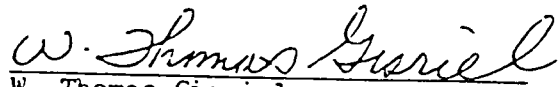
the State could, should the situation arise, support the savings and loan industry in much the same manner as the Federal government is "committed" to support the federally insured portion of the industry. To this end, we will, between now and the 1983 session of the legislature, make certain recommendations for legislative action which will strengthen the industry and thereby assure all Maryland citizens of the protection they so rightfully deserve.

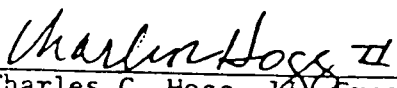
Sincerely,

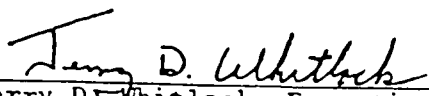

Jerome S. Cardin, Chairman

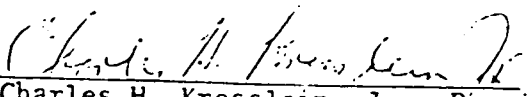

Charles H. Brown, Jr., Director
Division of Savings & Loan Associations

CARDIN AND WEINSTEIN, P.A.
ATTORNEYS AT LAW
SUITE 301
6615 REISTERSTOWN ROAD
BALTIMORE, MARYLAND 21215


W. Thomas Gisriel
Chairman of the Board of Commissioners
Division of Savings & Loan Associations


Charles C. Hogg, Executive Vice-President
Maryland Savings-Share Insurance Corporation

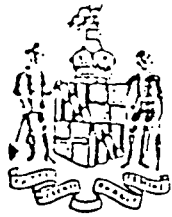

Jerry D. Whitlock, Executive Vice President
John Hanson Savings & Loan, Inc., and
Chairman of the Board, MSSIC


Charles H. Kresslein, Jr., President
Maryland Savings and Loan League

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STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS, MARYLAND 21404

HARRY HUGHES
GOVERNOR

February 2, 1982

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Jerome S. Cardin, Esquire
Chairman of the Ad Hoc Committee
on the MSSIC Insured Savings
and Loan Industry
Cardin and Weinstein, P.A., S.301
6615 Reisterstown Road
Baltimore, Maryland 21215

Dear Chairman Cardin:

Thank you for your recent report of the Ad Hoc Committee
on the MSSIC Insured Savings and Loan Industry.

My Administration will continue to be interested in pro-
viding whatever assistance that it can to aid you in strength-
ening the non-federally insured savings and loan industry in
Maryland. I will also be happy to review any recommendations
for legislative action which you may care to give me between
now and the 1983 Session of the General Assembly.

Sincerely,
Harry Hughes
Governor

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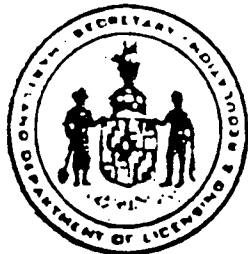
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HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
ONE SOUTH CALVERT STREET . SUITE 1006 . BALTIMORE, MARYLAND 21202
301/659-6330

M E M O R A N D U M

TO: Mr. John J. Corbley, Secretary
Department of Licensing and Regulation

FROM: Charles H. Brown, Jr., Director
Division of Savings and Loan Associations

RE: State-Chartered Savings and Loan Industry

DATE: December 14, 1981

This memorandum is intended to update you on the State-chartered industry in recent months. The high interest rates have continued to undermine the earnings of our associations. Associations all over the country, both federal and state, continue to have problems as earnings continue to decrease and losses are charged to reserves, which reserves continue to shrink because of the earnings losses.

Recently, there has been some dramatic change in interest rates. At the time of our last report in May, interest rates on the 26-week Treasury Bill was 15.925% (May 23, 1981). This rate increased to 16.104% on August 25, 1981 and then started an up and down fluctuation. For the past seven weeks, the rate has dropped each week and, as of December 1, 1981, it hit 10.951%. However, on December 8, 1981, there was a slight increase to 11.022%. The interest paid on money market certificates (certificates with a minimum deposit of \$10,000 issued for a 26-week period) is based upon the 26-week Treasury Bill auction rate. With the decline in interest rates, the DIOC, in October, authorized associations to compute the interest on the money market certificate based upon a four-week average. The four-week average was 11.090% as of December 8, 1981.

Thirteen-week Treasury Bill rates were at a high of 16.750% in May, 1981 and have been dropping steadily in recent weeks to the present rate of 10.404%. The 91-day savings certificate rates are based upon the 13-week or 91-day Treasury Bill auction rate.

In addition to the 91-day certificate and the 26-week money market certificate, our associations, along with the federally-chartered associations, offer a 30-month or 2½ year small savers certificate. The rate paid on this particular certificate is based upon the auction rate on the 30-month or 2½ year Treasury

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Bill. However, the DIDC placed a cap on the interest rate of 12% regardless of the auction rate. Beginning August 1, 1981, the DIDC lifted the cap and associations were permitted to pay the auction rate which, at that time, was 15.55%. The entire industry was very upset over the action of the DIDC in removing the cap as all it did was to increase the costs on this particular certificate. These rates increased from 15.55% to 16.55% in September. Beginning in September, the rates on the 30-month or 2 1/2 year certificate started to decline and now stand at 12.95% as of December 8, 1981.

The prime rate which hit a high of 21.5% in November, 1980 fluctuated in the early part of the year from 17% to 20.5%. Beginning in August, 1981, the prime rate started to decline and is now at 15.75%, although two of the larger commercial banks--Continental Illinois in Chicago and Crocker National in San Francisco--are at 15.50%. The prime rate is the rate banks charge their best corporate customers and it generally has an effect on other interest rates.

The Federal Reserve Discount Rate, which is the rate charged member banks for borrowing from the Federal Reserve Bank stood at 14% prior to October 30, 1981, at which time the rate was reduced to 13%. On December 3, 1981, the discount rate was reduced to 12%. Some economists are predicting further reductions but others are standing pat on the present rate, which all boils down to the uncertainty of the future.

NEW SAVINGS PLANS

You are aware that the DIDC recently authorized the issuance of the "All Savers" certificate. This is the certificate on which the interest is tax deductible up to \$1,000 for an individual and up to \$2,000 for a married couple. The interest rate paid by associations on the "All Savers" certificate is pegged at 70% of the average annual investment yield on the Treasury's 52-week Treasury Bill. Treasury auctions are held every fourth Thursday and the rates become effective the following Monday. The rate on the certificate is good for one year. When first issued, the rate paid was 12.61% which subsequently dropped to 12.14%, 10.77%, and then 8.34% on November 25, 1981. The next auction will be on December 24, 1981 and it is anticipated that the rate will be even lower.

The DIDC authorized the issuance of the "All Savers" certificate for a limited time, beginning October 1, 1981 through December 31, 1982, at which time they will be discontinued. Certificates are issued for only one year any time during that period. Certificates issued in December, 1982 will be good until December, 1983 when they will mature. Regardless of the number of certificates owned by a depositor, the tax deduction amounts to a maximum of \$1,000 or \$2,000 depending upon the type of tax return filed. 2898

Under DIDC rules, 75% of the receipts from "All Savers" certificates are supposed to be invested in home mortgages or mortgage related securities of the FNMA. It is not likely that associations will make long-term investments in mortgages out of the proceeds of one-year certificates not knowing whether these certificates will be extended for any additional periods of time. I believe it is safe to say that the investments will be the government related securities with FNMA.

The "All Savers" certificate with the low interest rate was to be the salvation of the industry as it was supposed to reduce the cost of money. Additionally, the DIDC permitted the transfer of money market certificates (26-week certificates) to the "All Savers" without penalties for terminating the money markets prior to maturity.

Nationally, \$18.7 billion in certificates were sold in the first month (October). This compared to \$5.4 billion of money market certificates for the first month at time of issue. As with any new certificate offered, not all of the \$18.4 billion was new money. It appears, again nationally, that 25% to 30% of the "All Savers" is new money and that 45% consisted of rollovers and conversions of six-month money market certificates and that 12% came from passbooks. The "All Savers" certificate appears to be doing what it was designed to do, i.e., have a moderating influence on the cost of funds and reversing the outflows of savings for the prior seven months. In our own State-chartered system here in Maryland, the "All Savers" certificates sold amounted to \$127 million. We do not have available figures on the transfer from money markets or passbook accounts so that we can determine the new money received on "All Savers".

Up until the new "All Savers" certificates were issued, the savings and loan industry in Maryland had a rather rough time with savings losses. The losses, both federal and state, were as follows:

<u>Month</u>	<u>Millions</u>
April	- \$ 96
May	+ 8
June	- 78
July	- 72
August	- 8
September	- 20
Net savings losses	- \$266

With the issuance of the "All Savers" certificate, the industry in Maryland, federal and state, went ahead \$25 million in savings for the month of October, 1981. The "All Savers" certificate was a definite plus for our industry.

Money market mutual funds continue to be the main competition of the thrift industry. Just within the past few weeks, the funds increased as follows:

	<u>In Billions</u>	
	<u>Increase</u>	<u>Total</u>
November 20, 1981	3.72	\$176.42
November 27, 1981	3.57	179.99
December 4, 1981	2.86	182.85
December 11, 1981	2.68	185.53

As shown above, these funds now total in excess of \$185 billion, most of which came out of thrift institutions.

Beginning January 1, 1982, the industry will have a new tool to obtain new or additional funds. The DIDC has expanded the IRA and Keogh retirement accounts. The IRA accounts have been increased to \$2,000 for individuals and \$2,250 for spousal IRA's; Keogh limits were doubled to \$15,000. Naturally, all financial institutions will be issuing these retirement accounts as will the mutual funds, brokerage houses, and insurance companies. Savings and loans, along with banks, will have marketing advantages over the mutual funds inasmuch as the accounts will be insured by either the Federal Savings and Loan Insurance Corporation or the Maryland Savings-Share Insurance Corporation. Our State-chartered associations can reap the benefits provided they move aggressively enough to exploit them.

One bad feature, however, is the rate to be paid. The DIDC has referred to these accounts as the "wild card" IRA/Keogh certificates in that they have not set a definite rate to be paid. The rate can be fixed or variable over the life of the account, which life must be 18 months or more. Care must be taken by associations that they not lock themselves in with high rates for long periods at a time when rates are trending down. Because of the long term nature of a retirement account, these accounts are another plus for our industry.

EARNINGS

The Federal Home Loan Bank has indicated that 80% to 90% of their associations are operating in the red, and one association a day is coming up with negative or zero net worth. There have been many articles in the press of supervisory mergers by the Bank. As an example, one of these mergers involved three associations, i.e., an association located in Florida and another in New York merged into a California-based association. Just this past Friday, the FHLB announced a merger of Boca Raton Federal in Florida and Mohawk Savings and Loan of New Jersey into City Federal Savings and Loan in Elizabeth City, New Jersey. There have been and will be others. These mergers will surely be the beginning of interstate branching, banking, etc.

For our State-chartered associations, we presently have 41 out of 118, or 35%, of our associations operating in the red. However, these 41 associations represent 70% of the assets of the State-chartered system. This would have been higher had Government Services, a \$380 million association, not sold their building and wiped out their losses. Most of our associations are somewhat weaker now than six months' ago as they have been forced to rely on their reserves for their operations.

At the beginning of 1981, we had 133 associations as follows:

Federally Insured	14
MSSIC Insured	<u>119</u>
Total	<u><u>133</u></u>

Due to mergers and the conversion of one federally-insured association to a federal charter, we now have 118 associations--13 federally insured and 105 MSSIC insured as of this date. Many of the mergers were small associations which were open only one night a week. Among the larger mergers were:

- Golden Ring Savings and Loan Association
(Assets \$20 million)
into
Heritage Savings Association
(Assets \$37.5 million)

- Yorkridge Federal Savings and Loan Association
(Assets \$180 million)
into
Calvert Savings and Loan Association
(Assets \$155 million)
(Yorkridge gave up their federal charter and is
now known as Yorkridge Calvert, a State-chartered,
federally-insured institution)

- Metropolis Building Association
(Assets \$45 million)
into
John Hanson Savings and Loan, Inc.
(Assets *)

- Eastern Shore Savings and Loan Association
(Assets \$21 million)
into
John Hanson Savings and Loan, Inc.
(Assets *)

- Frederick Avenue Building Association
(Assets \$1 million) into
John Hanson Savings and Loan, Inc.
(Assets *)

Conversion of Equitable Savings and Loan Association, a State-chartered, federally-insured association, to a federally-chartered association and out of the State system (Assets \$190 million)

As mentioned above, there were numerous other mergers of associations with assets of \$1.5 million or less into larger associations. It is anticipated that we will have a few more applications for merger in the near future.

In a recent article in the Wall Street Journal, a copy of which is attached, the Federal Home Loan Bank reported that the bank's "problem list" tripled in the first half of 1981. On January 1, 1981, there were 121 members of the Federal Home Loan Bank system on the problem or watch list. This list increased to 404 by July 1, 1981, or about 10% of their associations. At about that time, a new Chairman of the Federal Home Loan Bank Board was appointed by the President and he discontinued giving out figures on problem associations. Recently, the Chairman acknowledged that had the list continued it would have increased considerably.

SUPERVISORY PROBLEMS

In our own back yard, we have a few associations that we are watching and which can be considered supervisory problems. A brief rundown on these associations follows.

Old Court Savings and Loan is one of our stock-chartered associations with assets of approximately \$73 million. Jerry Cardin, whom I am sure you know, is the majority stockholder. The association has had severe earnings problems for sometime and, because of this, the reserves of the association have dropped considerably. Recently, their local bank canceled their line of credit and demanded repayment of the association's borrowings from the bank. The association asked MSSIC for assistance and MSSIC subsequently purchased \$725,000 in subordinated debentures from Old Court. In consideration of purchasing the subordinated debt, MSSIC and Old Court entered into an insurance agreement by which several sanctions or restrictions were made requiring MSSIC approval on certain operations. Also, by terms of the insurance agreement, Old Court turned over to MSSIC voting proxies on a majority of the outstanding stock along with an agreement that would give MSSIC the authority to merge the association if the operation continues to be unprofitable and the reserves reach 2% of savings.

Based upon MSSIC's reserve rules, Old Court's reserves are presently about 3%. The operations of the association are still deteriorating and, consequently, both the Division and MSSIC are seeking a merger partner. One possibility of a merger partner is Sharon Savings and Loan, who took over Security in mid-1980 when Security was having serious problems. There is

have just come into the picture and have had little chance to really explore the situation. John Hanson has indicated that they might step into the picture if needed so that there will be no bad press or scandal. One thing in our favor is the fact that Jerry Cardin is the principal stockholder and, hopefully, he will not let anything happen to the association that would affect his good name.

Another association of concern is First Progressive Savings and Loan, which has assets of approximately \$10 million. The association is a mutual association located on Charles Street between Franklin and Centre. The reserves of the association are just about gone and will probably be wiped out by year end.

First Progressive has requested assistance from MSSIC to the extent of a \$5 million loan and a \$1 million line of credit. MSSIC denied their request. MSSIC and the Division met jointly with Albert Aaron, President, and members of his staff to determine what plans the association has for the future and, sad to say, they had little to offer. Mr. Aaron indicated that he would fight us if we tried a forced merger or a takeover. Mr. Aaron agreed at our meeting to enter into the usual insurance agreement with MSSIC but, to date, has not signed it.

Subsequent to our joint meeting, I met privately with Mr. Aaron and advised him that he is reaching the point where the Division will have no alternative but to seek a conservator or a receiver, and that he should seek a merger partner immediately so as to prevent a scandal resulting from a conservatorship or a receivership. Mr. Aaron then asked me to seek a partner for a possible merger.

Unfortunately, First Progressive has nothing to offer. They have little or no net worth, a "lousy" location, a top-heavy payroll, and a questionable mortgage portfolio. If we are able to line up someone to take them over, it can only be done with assistance from MSSIC. No association will buy trouble without cash assistance. Nonetheless, we do have two associations that are at least looking into the situation. The association is of such size that MSSIC can easily handle the situation. This can be worked out but, as I said, there must be ample assistance from MSSIC.

Chevy Chase Savings and Loan is the largest of our State-chartered associations and the third largest association in the State. It is a stock-chartered association with assets of \$605 million. The stock of the association is owned by the Chevy Chase Lake Corporation, which corporation is, in turn, owned by B. Frank Saul, a very wealthy and well known mortgage broker in the D. C. and suburban Maryland areas.

First, let me say that we and MSSIC have been meeting regularly with Frank Saul and he is not going to let

happen to the association. Chevy Chase has been operating at a loss all year and the accumulated loss through October 31, 1981 amounted to \$9.3 million. The remaining net worth of the association is approximately \$9.5 million. Chevy Chase has a service corporation known as the Manor Corporation, which owns a large block of stock in Financial General Bankshares, Inc. Financial General controls many banks in Maryland, the District of Columbia, Virginia, Tennessee, and New York. In mid-1980, a Mid-eastern group agreed to acquire the stock of Financial General. The Manor Corporation had planned on selling their stock and expected to realize somewhere between \$4 million and \$5 million.

Financial General had apparently received all regulatory approvals except New York, where the Banking Board of the State of New York just recently rejected the application of the Mid-eastern Investors to acquire Financial General. A copy of the article which appeared in the Wall Street Journal is attached. Chevy Chase had planned on applying the proceeds of the sale of the Financial General stock on the accumulated losses of the association and which it now appears will not happen at this time.

Frank Saul, in the meantime, has come up with a plan where he will purchase additional stock in the association. Additionally, he has arranged for the association's depositors to purchase subordinated debentures and about \$12 million in assistance from MSSIC in the way of capital notes. It is hoped that this transaction will be consummated in the very near future. This is a big one, but it will be worked out.

Government Services Savings and Loan is another stock-chartered association, with assets of \$380 million. I refer you to page 4 of the report to you dated May 4, 1981. You will note in the report that Government Services had a loss as of March 31, 1981, the end of their fiscal year, of \$2.4 million. Since that time, earnings losses continued into the new fiscal year and the association also continued to suffer heavy savings losses. Additionally, a dissident group of stockholders tried to get control of the association by soliciting proxies for use at the annual meeting to be held in August, 1981. A lot of unfavorable publicity appeared in the Washington Post and other papers relative to the losses sustained by the association due to the inability of management to run the association.

Government Services was headed for a real proxy fight. The date of the annual meeting was changed by management, which resulted in a court suit by the dissident stockholders, all of which was very damaging to the association. The dissidents claimed that the date of the meeting was moved forward by management so that they, the dissidents, would not have time to solicit the needed proxies. The court agreed with the dissidents and the meeting date was changed to a date later than the original. It appeared that management could lose the proxy battle and at the last moment, I believe the day before the annual meeting, an agreement was reached with the dissidents wherein they were given

the board of directors, along with other concessions. At the annual meeting the following day, the stockholders approved the agreement and the election of directors as per the agreement.

While all of this was going on, the association continued to lose savings and the earnings picture turned from bad to worse. Government Services is a publicly-traded stock association whose shares are traded in the over-the-counter market. Being publicly traded, all the problems of the association were subject to disclosure. With all of this, Government Services was sitting on a very valuable piece of real estate in Montgomery County. With losses increasing and net worth shrinking, the directors of the association, knowing they had some very valuable real estate in their office building, decided to sell their property at a profit of about \$6 million, which could be applied on their losses with the balance going to net worth. At this point, Government Services is showing a nice profit and has increased their net worth to \$11 million plus. The association is now leasing the same space.

I understand that the association is still receptive to merger offers, not knowing what the future holds for the savings and loan industry. Things are operating fairly smoothly at this point, but losses continue. The sale of the building has bought some time for the association.

In our report of May 4, 1981, you were advised that our most serious supervisory problem was Calvert Savings and Loan, a State-chartered but federally-insured association. Calvert merged with Yorkridge Federal in April, 1981. Yorkridge dropped their federal charter and became part of our State-chartered system with federal insurance of accounts and adopted the name of Yorkridge-Calvert Savings and Loan Association. The merger was approved by me only on the condition that a hypothecation would be made of \$1 million to be used as an additional reserve fund for the surviving association. The two associations accepted this condition, which was subsequently approved by the Federal Home Loan Bank. I have in our safe a certificate of the Maryland National Bank in the amount of \$1 million in the name of the Arrow Title Company but subject only to the order of the Division Director. This certificate or hypothecation is held in accordance with an agreement between the Arrow Title Company, the Federal Home Loan Bank, and this Division. The Arrow Title Company is owned by Melvin Berger, President of Yorkridge-Calvert.

Yorkridge-Calvert is now our No. 1 problem. The assets of the association are now \$362 million. Calvert had severe earnings problems. The association worked out a merger agreement with Yorkridge Federal with the hope that Yorkridge could bail them out. I had some reservations whether Yorkridge Federal, which had their own problems, was in a position to help them. For this reason, I demanded the \$1 million hypothecation as an additional reserve fund.

After the merger, the situation of the resulting association went downhill. The association continued to lose savings, which meant that they had to borrow from the Federal Home Loan Bank. While the savings went down, borrowed money went up, and the cost of borrowed money just ate them up. The borrowings today are \$96 million.

In May, 1981, the Division, jointly with the Federal Home Loan Bank, made an examination of the association. This examination was only six months after the previous examination and was done because we had to know which way the association was headed. We found that the earnings of the association were in the red which, in turn, reduced the reserves or net worth of the association. It was determined as a result of this examination that the net worth of the association would last about six months. Naturally, we had been in contact with the Federal Home Loan Bank frequently during the examination.

In early November, 1981, the report of examination was forwarded to the association. The board of directors of Yorkridge-Calvert were directed to review the report and reply to the comments within 30 days. The directors were also advised that the Division and the Federal Home Loan Bank desired a supervisory conference with the entire board after we received their reply to the report of examination. This past Friday, December 11, 1981, I, along with members of my staff and three representatives of the Federal Home Loan Bank, held a joint supervisory conference with the entire board of Yorkridge-Calvert. The board of Yorkridge-Calvert has several very prominent members of the Jewish community among its members, i.e., Jack Luskin (Luskin's Discount Appliances) better known on television as "The Cheapest Guy in Town" and Louis Bluefield of Bluefield Caterers.

Yorkridge brought out their big guns insofar as their counsel was concerned. They were represented by Daniel Goldberg, former General Counsel to the Federal Home Loan Bank Board, and Isaac Neuberger of the firm of Melnicove, Kaufman, Welner, and Smouse here in Baltimore.

The purpose of the meeting was, of course, to impress upon the board the very serious problems of the association and to obtain a resolution from the board authorizing the Federal Home Loan Bank to arrange for an immediate merger of the association in addition to many other sanctions, including a rollback of salaries of their executive officers to 1980 levels; cutbacks in all benefits to officers, directors, and employees; a reduction in excessive advertising expenses which included a lot of gift giving, tickets to athletic events, distribution of wine to customers at Jewish holidays, etc.; a reduction in automobiles used by association employees from 15 to 5 and with the understanding that the remaining cars will be used only for business purposes; the immediate disposition of an antique cadillac and an antique fire engine (owned by Yorkridge prior to the merger); and other sanctions.

The directors of the association agreed immediately to the various sanctions but did not agree to the agreement permitting the Federal Home Loan Bank to arrange a merger partner. (The Federal Home Loan Bank does not really need this agreement to act as we or they can put them into conservatorship or receivership without their approval. The agreement simply makes it unnecessary to go the conservatorship/receivership route.) The association did not refuse to sign the agreement but only asked for a little more time to work out their own problems. A little more time is not a matter of months but a matter of weeks.

The Federal Home Loan Bank has recently authorized their associations, at time of merger, to use a purchase method of accounting which calls for the revaluation of certain assets of the association to be acquired and then set up "goodwill," which goodwill would be written off over a period of time. We call it in the Division creative accounting. All it does is buy the association a little more time. Yorkridge has Peat, Marwick, and Mitchell reviewing the purchase method, which report they expect to receive this week. It will be followed up with a request to the Division and the Federal Home Loan Bank that they be permitted to use this method of accounting retroactive to the date of merger. Although the Federal Home Loan Bank was very enthusiastic about the purchase method at one time, the representative from the Federal Home Loan Bank stated that the bank has "cooled" on this somewhat recently.

At the conclusion of the meeting, the Yorkridge directors were advised again that this matter will be resolved very promptly one way or the other and that they must act promptly. Fortunately, this association is insured by the Federal Savings and Loan Insurance Corporation and if a receiver is appointed, it will be the FSLIC. I believe our meeting really impressed the Yorkridge directors with the very serious problems at the association and I feel that they will act promptly. I will advise you as soon as the matter is resolved.

We have a few other small associations which are having net worth problems due to earnings and we are working with MSSIC to keep them going--none real serious at this point. MSSIC has also given financial assistance to several associations who were pinched for liquidity due to savings withdrawals or exhaustion of lines of credit. Many of these associations have already repaid MSSIC in full.

Finally, Charles Hogg of MSSIC and I met recently with representatives of the Federal Reserve Bank of Richmond with respect to our associations' use of the Federal Reserve Bank Discount Window. I can report now that the Fed window is open to our associations. Fed will lend only for liquidity purposes brought about by disintermediation. They will not lend for mortgage purposes. Before Fed grants a loan, however, this Division, along with MSSIC, must certify as to the need for and the use of the funds and that the association concerned has exhausted all lines of credit. Fed

also stated that they will not lend to a "sinking ship." At least it is now clear that the Federal Reserve is available for emergency purposes. We were not really sure of the position of the Federal Reserve until this recent meeting even though we had met several times prior to this. So, as of now, the Fed is ready. The only problem is that they have not established a limit on their lending and it will probably be on a case-by-case basis.

I will keep you posted from time to time on the progress of our associations in view of the dramatic change in interest rates during the past few weeks.

As a matter of information, we have about 25 associations that are now issuing the alternative mortgage instruments. Very few, however, are really making loans at this time. Rather, the associations are more interested in keeping liquid until they see where the economy is going and if interest rates will continue downward.

There could be some dramatic changes in the future and many of our savings and loan people feel that we are beginning to see daylight with the decrease in interest rates. Only time will tell, however.

I will keep you posted from time to time on the condition of our industry.

CHB:cpk

Attachments

Corning Glass To Buy MetPath For \$150 Million

Stock Purchase for 91% Buyer
Doesn't Own Is Expected
To Enhance Clinical Area

Wall Street Journal Staff Reporter
CORNING, N.Y. — Corning Glass Works said it agreed in principle to acquire MetPath Inc. for \$150 million in Corning stock. Corning already owns 9% of MetPath.

The proposed merger, which requires approval of Corning directors and MetPath shareholders as well as certain regulatory agencies, is expected to be completed next March.

Corning makes glass products, including medical instruments and diagnostic products. MetPath is a Teaneck, N.J.-based clinical laboratory testing company.

"As a result of this merger," said Amory Houghton, Corning chairman, "Corning will be positioned in two different aspects of clinical diagnostics—products through our existing business and services through MetPath."

The agreement in effect values each MetPath share at \$23. The amount of Corning stock to be exchanged for each MetPath share will be determined by dividing \$23 by the average closing price of Corning shares for a 10-day period before mailing of proxy materials to MetPath shareholders, the company said.

In any case, Corning said it would exchange no less than 6,300 or more than 4,485 of a Corning share for each MetPath share. MetPath jumped 85.3% yesterday on the American Stock Exchange, closing at \$20.72 on volume of 145,000 shares. MetPath has about 7.1 million shares outstanding.

Based on current prices, Corning would need to issue between 254,156 and 318,644 common shares. Corning closed yesterday on the New York Stock Exchange at \$53.75 a share, down 12 1/2 cents. Corning currently has about 18.3 million common shares outstanding.

MetPath also granted Corning an option to buy one million authorized but unissued MetPath shares at \$23 each.

MetPath founder and chairman, Paul A. Hixon, his family and all other MetPath directors together own about 12% of MetPath shares and have agreed to vote in favor of the transaction, Corning said.

A Corning spokesman said MetPath will remain a separate subsidiary.

In the fiscal year ended Sept. 30, 1961, MetPath earned \$6.6 million, or \$1 a share, on revenue of \$107 million. In 1960, Corning earned \$117 million.

List of Troubled S&Ls More Than Tripled In First Half Before Agency Halted Tally

By TIMOTHY D. SCHULHART
Staff Reporter of The Wall Street Journal

WASHINGTON—The Federal Home Loan Bank Board's list of troubled savings and loan associations more than tripled in the first half of 1961 before the agency abruptly stopped keeping the tally.

The Bank Board's "problem list" jumped to 404 by last July from 121 on Jan. 1, according to data released under a freedom of information request by The Wall Street Journal.

Bank Board statistics show how this year's record-topping interest rates have affected the financial fortunes of the nation's S&Ls. According to the figures, 114 S&Ls were on the problem list as of Oct. 1, 1960, and the list increased by only three through the end of last year.

However, in the first three months of 1961, the problem list doubled to 244 and by July 1, when it hit 404, about 10% of the country's S&Ls were on it.

Bank Board Chairman Richard Pratt decided last July to stop maintaining the list, contending "inordinate attention" was being paid to the number. In a recent interview, Mr. Pratt acknowledged that the list—if it had been continued—would have grown. "I believe the number would be higher," he said.

Mr. Pratt said he didn't think the number of problem S&Ls "provided useful information or helped with the dialogue as to the needs and problems of the thrifts." He denied that the list was dropped because of a fear that further sharp increases in its numbers might erode public confidence in the thrift industry.

Other financial regulators, including the banking oversight agencies and the National Credit Union Association, still maintain lists of troubled institutions. The Federal Reserve Board and the Federal Deposit Insurance Corp. release the numbers of banks on their problem rosters.

Bank Board officials say that the 12 district home loan banks are playing an increased role in keeping track of troubled S&Ls. "There's more being done in the field," says a Bank Board spokesman. Mr. Pratt said that if Congressmen requested the number of problem S&Ls, "we would have ways of researching and coming up with an indication of that."

Mr. Pratt's decision to stop maintaining the list was surprising because last spring

he readily disclosed the problem-list numbers whenever asked by lawmakers or reporters. But that was before the industry's financial troubles worsened.

Bank Board general counsel Thomas Vartanian, in a letter accompanying some of the data requested, said that after July 1 "the board changed its method of reviewing the operations of savings and loan associations. Accordingly, we no longer maintain a 'problem list.'"

Mr. Vartanian said that rather than keeping the list, "the board is attempting to monitor closely the operations of all associations, while giving special attention to those which at any time warrant special attention for any of a number of reasons."

He maintained that the problem list didn't include only S&Ls that were likely to fail. At any given time, he said, the list may have included S&Ls that required closer supervision for nonfinancial reasons.

The decision against keeping the list displeased the S&L industry. In a letter to Mr. Pratt in late October, William O'Connell, executive vice president of the U.S. League of Savings Associations, called it a "prudent and commendable decision."

Mr. O'Connell then asked the Bank Board chairman to stop issuing monthly data on the industry's savings flows. S&Ls have experienced heavy outflows of funds to competing financial institutions this year.

Mr. Pratt said he doesn't intend to stop releasing the monthly figures.

McDonnell Receives Job to Develop Navy Jet Trainer

2909

CO

COMPANY

Massachusetts
Mutual
CHALLENGER

Northwestern
Mutual
CHALLENGER

New York
Life
CHALLENGER

THE MARYLAND STATE BUDGET

FOR THE FISCAL YEAR ENDING

JUNE 30, 1981

SUBMITTED TO THE

General Assembly of Maryland

BY
HARRY HUGHES
Governor



JANUARY

1980

Volume II

SUMMARY
of
PERSONNEL DETAIL,
by

MAJOR AREAS OF GOVERNMENT

	1980 Authorized	1981 Authorized
Legislative and Judicial	415	417
Executive and Administrative Control	188	195
Financial and Revenue Administration	680	680
Budgetary and Fiscal Administration	7,033	7,032
Personnel Administration, Retirement and Employee Relations	1,570	1,648
State Planning	359	362
General Services	13,880	13,909
Transportation	3,376	3,235
Natural Resources and Recreation	627	627
Agriculture	6,131	6,850
Health, Hospitals and Mental Hygiene	20,782	20,628
Human Resources	347	368
Licensing and Regulation		
Public Safety and Correctional Services		
Public Education		
Economic and Community Development		
Total	60,546	61,154

The following is a partial listing of additional employment categories supported by an authorized position as described in the Personnel Detail.

	1980 Estimated	1981 Estimated
Non-Budgeted	510	430
Moss, Transit Operations	2,122	2,123
Maryland Transportation Authority	812	812

SYMBOLOLOGY

- * Includes additional position
- ▲ Represents General and Special funded positions authorized since authorized commission of 1980 budget
- Represents increase in salary other than standard scale
- 1. Represents Federal funded positions authorized since submission of 1980 budget.
- 2. Represents multiple positions exist in a given classification, numeral designates that position
- 3. Represents increase in allowance column due to transfer of position(s) Where multiple positions exist in a given classification, numeral designates that position

DEPARTMENT OF LICENSING AND REGULATION

THE DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS
SUPERVISION AND REGULATION OF BUILDING,
SAVINGS AND LOAN OR HOMESTEAD ASSOCIATIONS

Program and Performance:

Sections 144 through 161 I.L. of Article 23, establish the Division of Building, Savings and Loan Associations to supervise and regulate the incorporation, organization and operations of State chartered building, savings and loan associations to assure, insofar as possible, that associations are operated in compliance with statutory and regulatory requirements and accepted industry standards.

	1978 Actual	1979 Actual	1980 Estimated	1981 Estimated
Units of Measurement:				
Regular Examinations	129	114	120	120
Special Examinations	10	0	5	5
Franchise Tax on Free Shares	\$966,588	\$1,113,517	\$1,200,696	\$1,328,565
Filing Fees	13,660	17,250	20,000	20,000
Miscellaneous	1,293	990	500	500
Total	\$981,541	\$1,131,757	\$1,221,196	\$1,349,065

Appropriation Statement:

	1978 Actual	1979 Actual	1980 Appropriation	1981 Allowance
Number of Authorized Positions	33	33	33	33
01 Salaries and Wages	478,657	549,816	549,251	549,251
02 Technical and Special Fees	4,978	3,900	5,932	5,932
04 Communication	8,413	7,304	9,832	9,832
04 Travel	7,219	9,400	10,325	10,325
07 Motor Vehicle Operation and Maintenance	7,164	3,050	11,788	11,788
08 Contractual Services	5,672	23,372	24,550	24,550
09 Supplies and Materials	5,416	6,020	4,784	4,784
10 Equipment—Replacement	224	3,283	1,952	1,952
11 Equipment—Additional	1,775	650		
13 Fixed Charges	27,649	33,430	34,872	34,872
Total Operating Expenses	63,532	86,509	98,103	98,103
Total Expenditure	547,167	640,225	653,284	653,284

Original General Fund Appropriation	538,955
Transfer of General Fund Appropriation	10,297
Total General Fund Appropriation	549,252
Less: General Fund Reversion	2,085
Net General Fund Expenditure	547,167
Total	653,284

Budget Bill Text:

34.03.04.01 Supervision and Regulation of Building, Savings and Loan or Homestead Associations	653,284
General Fund Appropriation	653,284

DEPARTMENT OF LICENSING AND REGULATION

SUMMARY OF DIVISION OF LABOR AND INDUSTRY

	1979 Actual	1980 Appropriation	1981 Allowance
Total Number of Authorized Positions	285	288	288
Salaries and Wages	3,630,460	4,137,358	4,281,301
Technical and Special Fees	143,242	71,044	105,787
Operating Expenses	1,552,612	2,099,989	2,007,900
Original General Fund Appropriation	3,255,432	3,768,210	3,768,210
Transfer of General Fund Appropriation	235,539	144,335	
Total General Fund Appropriation	3,490,971	3,912,545	4,372,988
Less: General Fund Reversion	20	2,317,842	2,022,090
Add: Net Total General Fund Expenditure	3,490,951	6,220,407	6,301,098
Federal Fund Expenditure	1,805,363		
Total Expenditure	5,296,314		

GENERAL ADMINISTRATION—DIVISION OF LABOR AND INDUSTRY

Program and Performance:

The Division operates under Sections 324 and 333 of Article 27; Sections 813A through 813C of Article 43; Sections 167 through 180 of Article 48; Sections 161 through 170 of Article 56; Section 5 of Article 62B; Sections 1 through 13 and 25 through 81 of Article 89; Sections 1 through 14, 55A through 55H, and 81 through 107 of Article 100; Section 17 of Article 101; and Title 16 Section 510.1 of the Education Article.

This program covers the policy making and overall administration of this division of personnel, assignment of duties and management of all fiscal operations of the division including budgetary control, inventory, cost accounting, supplies, services, maintenance, and banking of all monies received by the division for boiler inspections and license fees. It is included in this program. The following boards, councils and committees are administratively supported: Advisory Committee on Minimum Wage Law, Apprenticeship and Training Council, Board of Boiler Rules, Occupational Safety and Health Advisory Board, Amusement Council on Prevailing Wage Rates, Employment Agency Advisory Board and the Amusement Safety Advisory Board.

Approximately 60 per cent of the total cost of this program will be recovered by the State in accordance with Sections 44 and 79 of Article 80 and Section 17 of Article 101

LICENSING AND REGULATION—PERSONNEL DETAIL.

COMMISSIONER OF CONSUMER CREDIT

Classification of Employment	1919 Actual	1940 Appropriation	1941 Allowance
Enforcement and Licensing:			
1 Commissioner	29,400	31,200	31,200
2 Assistant Commissioner, Consumer Credit	22,561	23,915	23,915
3 Examiner IV, Small Loans	22,055	41,222	41,222
4 Examiner III, Small Loans	87,446	76,345	76,332
5 Examiner II, Small Loans	40,964	46,829	48,043
6 Secretary IV	12,585	13,340	13,340
7 Office Secretary II, Stenographic	11,786	12,494	12,494
Less: Turnover Expectancy		245,345	247,046
Total	13	226,797	242,693
	13	240,216	242,693

THE DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS

Supervision and Regulation of Building, Savings and Loan or Homestead Associations:

1 Director, Department of Building, Savings and Loan Associations	29,300	31,100	31,100
2 Deputy Director, Department of Building, Savings and Loan Associations	26,256	27,832	27,832
3 Chief Bank Examiner	19,756	23,915	23,915
4 Bank Examiner V	18,825	22,205	22,205
5 Bank Examiner IV	44,223	61,231	61,631
6 Bank Examiner III	171,725	199,058	204,613
7 Bank Examiner II	37,523	59,166	61,693
8 Bank Examiner I	4,371	24,924	25,847
9 Bank Examiner Trainee		33,460	33,612
10 Statistical Assistant II	11,554	12,494	12,494
11 Office Secretary III, Stenographic	12,584	13,340	13,340
12 Office Secretary II, Stenographic	11,464	12,494	12,494
13 Office Secretary I, General		10,900	11,324
14 Typist Clerk I	14,546	9,028	9,549
15 Fiscal Clerk I	9,781	8,669	8,881
Less: Turnover Expectancy	33	478,657	560,460
Total	33	478,657	549,251
	33	549,816	549,251

DIVISION OF LABOR AND INDUSTRY

General Administration—Division of Labor and Industry:

1 Commissioner	39,200	41,600	41,600
2 Deputy Commissioner, Division of Labor and Industry	32,117	26,196	27,770
3 Assistant Attorney General V, General Counsel	28,076	30,058	30,058
4 Assistant Attorney General IV, General Counsel	22,844	25,993	27,019
5 Administrator II	26,256	27,832	27,832
6 Administrative Officer I	33,713	40,840	38,241
7 Administrative Aide I	13,193	14,265	14,265
8 Office Secretary III, General	12,584	13,340	13,340
9 Office Clerk II	10,424	11,646	11,666
10 Additional Assistance	1,156		

LICENSING AND REGULATION—PERSONNEL DETAIL.

DIVISION OF LABOR AND INDUSTRY—(Continued)

Classification of Employment	1919 Actual	1940 Appropriation	1941 Allowance
Employment Standards—Division of Labor and Industry:			
1 Chief, Division of Labor Standards	22,561	25,770	25,770
2 Wage and Hour Investigator Supervisor	10,960	18,758	19,133
3 Wage and Hour Investigator III	33,516	35,528	35,528
4 Wage and Hour Investigator II	190,519	156,430	156,810
5 Wage and Hour Investigator I	64,286	63,097	66,024
6 Supervisor of Compliance Activities			
7 Public Contracts	16,593	17,764	17,761
8 Accountant-Auditor II	15,557	16,401	16,401
9 Field Auditor II	60,145	48,602	52,313
10 Administrative Specialist I	15,893	12,574	13,306
11 Clerk IV	11,005	11,666	11,666
12 Office Secretary I, Stenographic	11,786	12,494	12,494
13 Office Secretary II, General	9,119	11,666	11,666
14 Typist Clerk III	19,088	21,328	22,136
15 Stenographer Clerk III	20,468	19,483	20,021
16 Additional Assistance	5,381	8,669	9,121
Less: Turnover Expectancy		480,419	490,254
Total	34	460,430	475,846
	34	470,818	475,846

Mediation and Conciliation—Division of Labor and Industry:

1 Chief Mediator	31,186	34,700	34,700
2 Office Secretary II, General	11,786	12,494	12,494
3 Mediator	9,824	17,206	17,206
4 Additional Assistance	699		
Less: Turnover Expectancy		53,495	47,194
Total	2	61,400	46,250
	2	61,400	46,250

Safety Inspection—Division of Labor and Industry:

General Administration:			
1 Fiscal Clerk III, General	8,713	9,743	11,010
2 Office Clerk II, General	8,226	9,905	11,212
3 Office Secretary I, Stenographer	1,299	8,905	9,482
4 Typist Clerk III		7,971	8,350
5 Stenographer Clerk II	6,443	8,775	9,280
6 Stenographer Clerk I	8,326	7,833	8,254
Elevator Inspection:			
7 Administrative Officer I	14,010		
8 Office Clerk II	4,553		
9 Chief, Elevator Inspection	20,948		
10 Operations Specialist II	8,417		
11 Elevator Inspector III	36,573	22,205	22,205
12 Elevator Inspector II	47,260	94,543	20,611
13 Elevator Inspector I	190,508	86,392	95,478
14 Office Secretary I, General	15,133	36,831	88,124
15 Chief Boiler Inspector	18,050	21,332	368,719
16 Deputy Boiler Inspector	57,729		23,332
17 Office Secretary II, Stenographic	8,451		
18 Typist Clerk III	18,207		
19 Additional Assistance	6,671		

THE MARYLAND STATE BUDGET

FOR THE FISCAL YEAR ENDING

JUNE 30, 1982

SUBMITTED TO THE

General Assembly of Maryland

BY
HARRY HUGHES
Governor



JANUARY

1981

Volume II

SUMMARY
OF
PERSONNEL DETAIL
BY

MAJOR AREAS OF GOVERNMENT

	1981 Appropriation	1982 Allowance
Legislative and Judicial	2,487	2,546
Executive and Administrative Control	527	540
Financial and Revenue Administration	2,378	2,367
Budgetary and Fiscal Administration	114	112
Personnel Administration, Retirement and Employee Relations	418	419
State Planning	195	194
General Services	688	688
Transportation	7,096	7,131
Natural Resources and Recreation	1,532	1,532
Agriculture	362	360
Health, Hospitals and Mental Hygiene	14,053	13,816
Human Resources	3,093	3,102
Licensing and Regulation	642	639
Public Safety and Correctional Services	6,812	6,823
Public Education	20,626	20,779
Economic and Community Development	349	401
Total	61,330	61,436

The following is a partial listing of additional employment categories supported by an authorized position as described in the Personnel Detail:

	1981 Estimated	1982 Estimated
Non-Budgeted	441	416
Mass Transit Operations	2,168	2,154
Maryland Transportation Authority	816	816

SYMBOLOLOGY

- * Indicates additional position.
- A. Represents General and Special funded positions authorized since submission of 1981 budget.
- F. Represents increase in salary other than standard scale.
- F. Represents Federal funded positions authorized since submission of 1981 budget. Where multiple positions exist in a given classification, numeral designates that portion authorized.
- T. Represents increase in allowance column due to transfer of position(s). Where multiple positions exist in a given classification, numeral designates that portion transferred.

A 1157

DEPARTMENT OF LICENSING AND REGULATION

THE DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS

SUPERVISION AND REGULATION OF BUILDING, SAVINGS AND LOAN OR HOMESTEAD ASSOCIATIONS

Program and Performance:

Sections 144 through 161 LL, of Article 23, establish the Division of Building, Savings and Loan Associations to supervise and regulate the incorporation, organization and operations of State chartered building, savings and loan associations to assure, insofar as possible, that associations are operated in compliance with statutory and regulatory requirements and accepted industry standards.

	1979 Actual	1980 Actual	1981 Estimated	1982 Estimated
Units of Measurement:				
Number of Regular Examinations	114	125	125	125
Number of Special Examinations	0	0	5	5
Revenue Collected—Franchise Tax on Free Shares	\$1,113,517	\$1,078,371	\$1,186,208	\$1,304,828
Filing Fees	18,218	8,950	20,000	20,000
Miscellaneous, Non-Licensing	990	2,763	500	500
Total Revenue	\$1,132,725	\$1,090,084	\$1,206,708	\$1,325,328

Appropriation Statement:

	1980 Actual	1981 Appropriation	1982 Allowance
Number of Authorized Positions	33	32	32
01 Salaries and Wages	532,532	585,993	578,620
02 Technical and Special Fees	5,231	5,930	5,500
03 Communication	8,959	9,832	10,505
04 Travel	12,123	10,325	13,000
07 Motor Vehicle Operation & Maintenance	3,651	11,788	5,670
08 Contractual Services	14,222	24,550	14,890
09 Supplies and Materials	7,719	4,784	8,000
10 Equipment—Replacement	2,697	1,952	—
11 Equipment—Additional	816	—	—
13 In-Plant Charges	28,543	34,872	30,477
Total Operating Expenses	78,730	98,103	82,542
Total Expenditure	616,493	690,026	666,662
Original General Fund Appropriation	612,412	653,284	
Transfer of General Fund Appropriation	4,091	36,742	
Total General Fund Appropriation	616,503		
Less: General Fund Reversion	10		
Net General Fund Expenditure	616,493	690,026	666,662

Budget Bill Text:

34 03.04.01 Supervision and Regulation of Building, Savings and Loan or Homestead Associations	666,662
General Fund Appropriation	666,662

DEPARTMENT OF LICENSING AND REGULATION

SUMMARY OF DIVISION OF LABOR AND INDUSTRY

	1980 Actual	1981 Appropriation	1982 Allowance
Number of Authorized Positions	285	300	300
Salaries and Wages	4,188,018	4,606,235	5,021,163
Technical and Special Fees	79,860	108,787	50,240
Operating Expenses	1,645,253	2,079,832	2,150,445
Original General Fund Appropriation	3,758,230	4,372,904	
Transfer of General Fund Appropriation	322,733	391,018	
Total General Fund Appropriation	4,080,963		
Less: General Fund Reversion	30		
Net Total General Fund Expenditure	4,080,933	4,764,006	5,133,965
Add: Federal Fund Expenditure	1,832,218	2,030,848	2,094,703
Total Expenditure	5,913,151	6,794,854	7,230,668

GENERAL ADMINISTRATION—DIVISION OF LABOR AND INDUSTRY

Program and Performance:

The Division operates under Sections 324 and 333 of Article 27; Sections 813A through 813C of Article 43; Sections 167 through 180 of Article 48; Sections 161 through 170 of Article 56; Section 5 of Article 62B; Sections 1 through 13, 25 through 81 of Article 89; Sections 1 through 14, 35A through 35H, and 81 through 107 of Article 100; Section 17 of Article 101; Title 16 Section 510.1 of the Education Article; and Chapters 57, 94, 704, 710, 816 and 834 of the Acts of 1980.

This program covers the policy making and overall administration of this division. Preparation and presentation of the budget, personnel records, selection and assignment of duties and management of all fiscal operations of the division including budgetary control, inventory, cost accounting, supplies, services, maintenance, and banking of all monies received by the division for boiler inspections and licenses fees are included in this program.

The following boards, councils and committees are administratively supported: Advisory Committee on Minimum Wage Law; Apprenticeship and Training Council; Board of Boiler Rules; Occupational Safety and Health Advisory Board; Advisory Council on Prevailing Wage Rates; Employment Agency Advisory Board and the Amusement Safety Advisory Board.

Approximately 60 per cent of the total cost of this program will be recovered by the State in accordance with Sections 46 and 79, Article 89, and Section 17, Article 101.

LICENSING AND REGULATION—PERSONNEL DETAIL

STATE INSURANCE DIVISION—(Continued)

Classification of Employment	1948 Actual	1949 Appropriation	1952 Allowance
4 Office Secretary I, Stenographic Bureau	23,332	24,066	24,966
5 Chief, Examination and Property Bureau	27,287	29,781	—
Less: Turnover Expectancy	—	146,499	134,755
Total	136,622	2,778	2,695

Licensing—State Insurance Divisions:

1 Services Supervisor I	15,322	16,395	16,395
2 Office Secretary II, Stenographic	12,198	13,237	13,369
3 Typist Clerk III	8,668	9,660	10,218
4 Stenographer Clerk III	7,708	9,527	9,503
5 Stenographer Clerk I	6,168	8,193	8,607
6 Office Clerk II	80,084	85,741	86,649
7 Office Clerk I	11,380	11,656	11,656
8 Insurance Investigator II	17,764	19,008	—
9 Additional Assistant	878	—	—
Less: Turnover Expectancy	—	—	156,397
Total	160,170	173,417	3,128

Complaint and Investigation—State Insurance Division:

1 Assistant Attorney General IV, General Counsel	11,647	22,920	26,238
2 Insurance Investigation Chief	21,986	23,760	23,760
3 Assistant Chief Enforcement Officer	13,487	20,473	20,473
4 Insurance Investigation Assistant Chief	19,133	20,473	20,473
5 Insurance Investigator II	171,072	215,097	239,445
6 Office Secretary II, Stenographic	12,494	13,369	13,369
7 Office Secretary I, General	8,224	12,483	12,483
8 Office Secretary I, Stenographic	19,547	37,203	37,449
9 Typist Clerk IV	—	—	11,324
10 Insurance Investigator I	11,772	—	—
Less: Turnover Expectancy	—	365,778	405,014
Total	291,302	15,969	8,100

Consumer Education—State Insurance Division:

1 Chief Enforcement Officer	7,056	—	—
2 Assistant Chief Enforcement Officer	5,649	—	—
3 Insurance Investigator II	4,982	—	—
4 Public Affairs Officer I	4,907	—	—
5 Office Secretary II, Stenographic	3,696	—	—
6 Office Secretary I, General	3,442	—	—
7 Office Secretary I, Stenographic	3,164	—	—
Total	37,164	—	—

Hearings—State Insurance Division:

1 Chief Hearing Officer, Insurance Division	23,915	25,590	25,590
2 Hearing Officer, Insurance Division	52,842	62,439	63,540
3 Additional Investigator II	—	—	—

LICENSING AND REGULATION—PERSONNEL DETAIL

STATE INSURANCE DIVISION—(Continued)

Classification of Employment	1948 Actual	1949 Appropriation	1952 Allowance
4 Legal Assistant II	9,228	14,665	15,545
5 Office Secretary I, General	10,898	12,117	12,360
6 Typist Clerk III	5,807	9,161	9,640
7 Assistant Commissioner Insurance Division	7,447	—	—
Less: Turnover Expectancy	—	145,274	147,995
Total	130,037	28,327	3,130

STATE BANK COMMISSIONER

Examination of Financial Institutions:

1 Bank Commissioner	32,812	40,800	40,800
2 Deputy Bank Commissioner	29,795	30,912	31,531
3 Chief Bank Examiner	18,230	25,590	25,590
4 Bank Examiner V	50,113	47,520	47,520
5 Bank Examiner IV	47,980	66,162	66,162
6 Bank Examiner III	226,772	285,157	286,622
7 Bank Examiner II	52,371	52,371	54,207
8 Bank Examiner I	88,625	38,616	28,296
9 Office Secretary III, Stenographic	31,479	14,974	14,274
10 Office Secretary II, Stenographic	13,340	13,369	13,369
11 Stenographer Clerk I	12,833	13,369	13,369
12 Stenographer Clerk II	8,222	9,390	9,390
13 Typist Clerk III	17,782	12,483	12,483
14 Operations Specialist III	6,665	18,325	19,320
Less: Turnover Expectancy	—	654,969	650,074
Total	584,648	627,073	13,001

COMMISSIONER OF CONSUMER CREDIT

Enforcement and Licensing:

1 Commissioner	31,200	33,400	33,400
2 Assistant Commissioner, Consumer Credit	23,915	27,574	27,574
3 Examiner IV, Small Loans	41,222	44,108	44,108
4 Examiner III, Small Loans	85,940	75,226	77,939
5 Examiner II, Small Loans	38,572	33,549	35,199
6 Operations Specialist II	—	22,054	22,054
7 Secretary IV	13,666	14,274	14,274
8 Office Secretary II, Stenographic	12,495	13,369	13,369
Less: Turnover Expectancy	—	263,557	267,917
Total	247,010	260,061	3,360

THE DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS

Supervision and Regulation of Building, Savings and Loan or Homestead Associations:

1 Director	31,100	31,800	31,800
2 Public Director, Department of Building	—	—	—

LICENSING AND REGULATION — PERSONNEL DETAIL

THE DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS — (Continued)

Classification of Employment	1946		1941		1945		Allowance
	Actual	Expected	Actual	Expected	Actual	Expected	
3 Chief Bank Examiner	1	23,913	1	25,500	1	25,590	—
4 Bank Examiner V	2	19,370	1	23,527	1	23,760	—
5 Bank Examiner IV	5	117,788	8	175,352	8	176,216	—
7 Bank Examiner III	9	156,850	7	138,317	7	136,022	—
8 Bank Examiner II	3	32,089	1	14,910	1	15,797	—
9 Bank Examiner I	3	36,992	2	37,053	2	36,896	—
10 Office Secretary III, Stenographic	2	22,155	4	44,392	4	46,850	—
11 Office Secretary II, Stenographic	1	13,340	1	14,274	1	14,274	—
12 Office Secretary I, General	1	12,399	1	13,369	1	13,369	—
13 Statistical Assistant I	1	11,007	1	12,117	1	12,360	—
14 Fiscal Clerk I	1	12,494	1	13,369	1	13,369	—
15 Typist Clerk III	1	6,434	1	9,503	1	10,017	—
Less: Turnover Expectancy		8,767		10,218		10,608	
Total	33	532,532	32	585,993	32	578,620	

DIVISION OF LABOR AND INDUSTRY

General Administration — Division of Labor and Industry:

1 Commissioner	1	41,600	1	44,600	1	44,600	
2 Deputy Commissioner, Division of Labor and Industry	1	26,197	1	29,714	1	31,497	
3 Assistant Attorney General VI, General Counsel	1	30,058	1	34,736	1	34,736	
4 Assistant Attorney General V, General Counsel	1	25,989	1	31,222	1	31,847	
5 Administrative Officer II	1	27,832	1	29,781	1	29,781	
6 Administrative Officer I	1	21,944	1	23,760	1	23,760	
7 Administrative Aide I	1	16,631	1	18,865	1	19,998	
8 Office Secretary III, General	1	14,265	1	15,264	1	15,264	
9 Office Secretary II, General	1	13,340	1	14,274	1	14,274	
10 Fiscal Clerk III, General	1	1,402	1	11,782	1	12,486	
11 Office Clerk II	1	10,136	1	11,782	1	12,486	
Less: Turnover Expectancy		10,136		11,782		12,486	
Total	10	229,394	10	243,332	10	255,661	

Employment Standards — Division of Labor and Industry:

1 Chief, Division of Labor Standards	1	25,770	1	27,574	1	27,574	
2 Wage and Hour Investigator Supervisor II	1	18,758	1	20,473	1	20,473	
3 Wage and Hour Investigator Supervisor I	1	17,581	1	19,008	1	19,008	
4 Wage and Hour Investigator I	11	156,435	11	168,959	11	189,947	
5 Supervisor of Compliance Activities, Public Contracts	5	62,952	5	65,873	5	68,768	
6 Administrative Specialist III	1	17,764	1	19,008	1	19,608	
7 Accountant-Auditor II	1	14,155	1	15,264	1	15,264	
8 Field Auditor II	4	50,534	4	55,977	4	57,816	
9 Clerk IV	1	12,494	1	13,369	1	13,369	
10 Office Clerk I	1	1,570	1	1,483	1	1,483	
12 Office Clerk I	1	1,401	1	1,483	1	1,483	

LICENSING AND REGULATION — PERSONNEL DETAIL

DIVISION OF LABOR AND INDUSTRY — (Continued)

Classification of Employment	1946		1941		1945		Allowance
	Actual	Expected	Actual	Expected	Actual	Expected	
13 Statistical Assistant I	1	11,242	1	12,483	1	12,483	
14 Office Secretary I, General	2	21,328	2	23,689	2	24,480	
15 Typist Clerk III	2	19,462	2	21,836	2	21,836	
16 Stenographer Clerk III	1	8,668	1	9,760	1	10,308	
17 Stenographer Clerk I	1	1,027	1	8,812	1	8,044	
18 Office Secretary I, Stenographic	1	11,666	1	12,483	1	12,483	
19 Additional Assistance	—	892	—	—	—	—	
Less: Turnover Expectancy		37		34,852		554,536	
Total	37	470,190	36	509,336	36	543,445	

Railroad Safety and Health — Division of Labor and Industry:

1 Assistant Commissioner	1	24,484	1	24,484	1	25,953	
2 Assistant Attorney General V, Special Counsel	1	24,484	1	24,484	1	25,953	
3 Industrial Hygienist V	1	20,993	1	20,993	1	22,252	
4 Railroad Safety Inspector, Equipment	2	31,182	2	31,182	2	33,040	
5 Railroad Safety Inspector, Track	3	43,698	3	43,698	3	49,560	
6 Railroad Safety Inspector Trainee, Equipment	2	28,500	2	28,500	2	29,625	
7 Railroad Safety Inspector Trainee, Track	1	12,516	1	12,516	1	13,230	
8 Electronic Technician I	—	—	—	—	—	—	
9 Office Clerk II	—	—	—	—	—	—	
10 Office Secretary II, Stenographic	—	—	—	—	—	—	
11 Office Secretary I, General	2	20,552	2	20,552	2	21,674	
12 Hearings Officer, Licensing and Regulation	1	19,483	1	19,483	1	20,527	
13 Industrial Hygienist IV	1	19,483	1	19,483	1	20,527	
14 Office Secretary I, Stenographic	1	255,090	1	255,090	1	260,527	
Less: Turnover Expectancy		119,347		119,347		5,210	
Total	16	135,743	16	135,743	16	255,317	

Mediation and Conciliation — Division of Labor and Industry:

1 Chief Mediator	1	34,616	1	37,200	1	37,200	
2 Office Secretary II, General	1	12,494	1	13,369	1	13,369	
Less: Turnover Expectancy		—		50,569		50,569	
Total	2	47,110	2	49,575	2	49,575	

Safety Inspection — Division of Labor and Industry:

General Administration:							
1 Fiscal Clerk II, General	1	11,229	1	11,997	1	12,237	
2 Stenographer Clerk II	1	8,775	1	9,330	1	10,506	
3 Stenographer Clerk I	1	7,153	1	8,004	1	8,392	
4 Typist Clerk IV	1	1,470	1	1,470	1	1,017	
Elevator Inspection:							
5 Operations Specialist III	1	14,947	1	25,340	1	25,500	
6 Chief, Elevator Inspection	1	22,205	1	23,760	1	23,760	
7 Elevator Inspector III	5	90,646	5	102,165	5	102,365	
8 Elevator Inspector II	6	89,826	6	113,118	6	114,048	

THE MARYLAND STATE BUDGET

FOR THE FISCAL YEAR ENDING

JUNE 30, 1983

SUBMITTED TO THE

General Assembly of Maryland

BY
HARRY HUGHES
Governor



JANUARY

1982

Volume II

DEPARTMENT OF LICENSING AND REGULATION

THE DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

SUPERVISION AND REGULATION OF SAVINGS AND LOAN OR HOMESTEAD ASSOCIATIONS

Program and Performance:

Titles 8 and 9 of the Financial Institutions Article of the Annotated Code establish the Division of Savings and Loan Associations to supervise and regulate the incorporation, organization and operations of State chartered savings and loan associations insofar as possible, that associations are operated in compliance with statutory and regulatory requirements and accepted industry standards.

	1984 Actual	1983 Actual	1982 Estimated	1983 Estimated
Units of Measurement:				
Examinations.....	125	122	122	122
Revenue Collected—Franchise Tax on Free Shares.....	\$1,078,371	\$1,224,367	\$1,286,586	\$1,349,865
Filing Fees.....	8,950	8,850	8,000	8,000
Miscellaneous, Non-Licensing.....	2,763	682	600	600
Total Revenue.....	\$1,090,084	\$1,233,869	\$1,295,186	\$1,358,456

Appropriation Statement:

	1981 Actual	1982 Appropriation	1983 Appropriation	1983 Allowance
Number of Authorized Positions.....	32	31	31	31
01 Salaries and Wages.....	559,277	558,536	568,512	568,512
02 Technical and Special Fees.....	6,117	5,500	5,885	5,885
03 Communication.....	7,950	10,505	9,453	9,453
04 Travel.....	12,088	13,000	15,700	15,700
07 Motor Vehicle Operation & Maintenance.....	3,321	5,670	12,272	12,272
08 Contractual Services.....	27,242	14,800	28,602	28,602
09 Supplies and Materials.....	6,274	6,000	8,965	8,965
13 Fixed Charges.....	29,138	30,477	46,028	46,028
Total Operating Expenses.....	86,013	80,542	121,020	121,020
Total Expenditure.....	651,407	644,578	695,417	695,417
Original General Fund Appropriation.....	653,984			
Transfer of General Fund Appropriation.....	36,742			
Total General Fund Appropriation.....	690,026			
Less: General Fund Reversion.....	38,619			
Net General Fund Expenditure.....	651,407	644,578	695,417	695,417

Budget Bill Text:

34 03.04.01 Supervision and Regulation of Savings and Loan or Homestead Associations
General Fund Appropriation.....

695,417

DEPARTMENT OF LICENSING AND REGULATION

SUMMARY OF DIVISION OF LABOR AND INDUSTRY

	1981 Actual	1982 Appropriation	1983 Allowance
Total Number of Authorized Positions.....	209	206	206
Salaries and Wages.....	4,468,388	4,922,979	4,872,578
Technical and Special Fees.....	86,723	50,240	108,412
Operating Expenses.....	1,933,293	2,178,382	2,471,804
Original General Fund Appropriation.....	4,372,988		
Transfer of General Fund Appropriation.....	391,018		
Total General Fund Appropriation.....	4,764,006		
Less: General Fund Reversion.....	239,140		
Net Total General Fund Expenditure.....	4,524,866	5,060,648	5,261,610
Federal Fund Expenditure.....	1,963,538	2,091,953	2,141,194
Total Expenditure.....	6,488,404	7,150,601	7,402,794

GENERAL ADMINISTRATION—DIVISION OF LABOR AND INDUSTRY

Program and Performance:

The legal references for this Division are Sections 8-502 to 8-515 of Article 21; Sections 324 through 333 of Article 27; Sections 14J and 212 of Article 41; Sections 11 and 813A-813C of Article 43; Section 3 of Article 43B; Sections 167 to 180 of Article 48; Sections 161 to 170 of Article 56; Sections 1 to 13 and Sections 28 to 99 of Article 69; Sections 4 in Article 55A to 55H and 81 to 95A of Article 100; Sections 17 and 30 of Article 101; Article—Education 16-510.1; Article—Natural Resources 8—1413.2, and Chapters, 302, 338, 339, 576 and 695 of the Acts of 1981.

This program covers the policy making and overall administration of this division. Preparation and presentation of the budget, personnel records, selection and assignment of personnel, assignment of duties and management of all fiscal operations of the Division including budgetary control, inventory, cost accounting, supplies, services, maintenance, and banking of all monies received by the Division for boiler inspections and licenses fees are included in this program.

The following Boards, Councils and Committees are administratively supported: Advisory Committee on the Wage Law, Maryland Apprenticeship and Training Council, Board of Boiler Rules, Maryland Occupational Safety and Health Advisory Board, Advisory Council on Prevailing Wage Rates, Employment Agency Advisory Board and the Amusement Ride Safety Advisory Board.

Approximately 60 per cent of the total cost of this Program will be recovered by the State in accordance with Sections 46 and 79 of Article 89, and Section 17 of Article 101.

A-1151

LICENSING AND REGULATION — PERSONNEL DETAIL

COMMISSIONER OF CONSUMER CREDIT

(Classification of Employment)	1981 Fiscal	1982 Appropriation	1981 Actual	1982 Appropriation	1981 Balance
1 Commissioner	1	33,912	1	33,400	1
2 Assistant Commissioner, Consumer Credit	1	27,968	1	27,574	1
3 Examiner IV, Small Loans	2	44,784	2	44,108	2
4 Examiner III, Small Loans	4	81,294	4	81,294	4
5 Examiner II, Small Loans	4	16,746	4	16,746	4
6 Operations Specialist II	1	17,752	1	17,752	1
7 Secretary IV	1	22,321	1	22,054	1
8 Office Secretary II, Stenographic	1	14,493	1	14,274	1
		13,574	1	13,369	1
Less: Turnover Expectancy		252,819		254,223	
Total	13	252,072	12	248,235	12
		4,384		2,542	
				251,681	

DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

(Classification of Employment)	1981 Fiscal	1982 Appropriation	1981 Actual	1982 Appropriation	1981 Balance
1 Director	1	35,311	1	34,800	1
2 Deputy Director	1	30,957	1	30,500	1
3 Chief Bank Examiner	1	25,982	1	25,590	1
4 Bank Examiner V	2	44,045	2	47,520	2
5 Bank Examiner IV	9	169,251	9	196,766	9
6 Bank Examiner III	4	110,963	4	72,542	4
7 Bank Examiner II	4	12,693	4	14,910	4
8 Bank Examiner I	5	48,242	5	50,046	5
9 Bank Examiner Trainee	3	14,313	3	22,196	3
10 Office Secretary III, Stenographic	1	14,493	1	14,274	1
11 Office Secretary II, Stenographic	1	12,331	1	10,705	1
12 Statistical Assistant II	1	13,574	1	13,369	1
13 Office Secretary I, General	1	11,886	1	12,360	1
14 Office Clerk I, General	1	8,746	1	11,663	1
15 Fiscal Clerk II, General	1	6,490	1	10,705	1
Less: Turnover Expectancy		567,946		574,673	
Total	32	559,377	31	558,536	31
		9,410		6,161	
				568,512	

DIVISION OF LABOR AND INDUSTRY

(Classification of Employment)	1981 Fiscal	1982 Appropriation	1981 Actual	1982 Appropriation	1981 Balance
1 Commissioner	1	44,600	1	44,600	1
2 Deputy Commissioner	1	29,716	1	31,497	1
3 Assistant Attorney General VI, General Counsel	1	34,504	1	34,736	1
4 Assistant Attorney General V, General Counsel	1	31,432	1	31,847	1
5 Administrator II	1	29,781	1	29,781	1
6 Administrative Officer II	1	23,760	1	23,760	1
7 Administrative Officer I	1	16,549	1	19,998	1
8 Administrative Aide I	1	15,264	1	15,264	1

LICENSING AND REGULATION — PERSONNEL DETAIL

DIVISION OF LABOR AND INDUSTRY — (Continued)

(Classification of Employment)	1981 Fiscal	1982 Appropriation	1981 Actual	1982 Appropriation	1981 Balance
9 Office Secretary III, General	1	14,274	1	14,274	1
10 Fiscal Clerk III, General	1	11,799	1	12,486	1
Less: Turnover Expectancy		258,243		2,582	
Total	10	251,679	10	255,661	10
				2,582	
				256,681	

Employment Standards—Division of Labor and Industry:

1 Chief, Division of Labor Standards	1	27,574	1	27,574	1
2 Supervisor II	1	20,473	1	20,473	1
3 Wage and Hour Investigator	1	19,008	1	19,008	1
4 Wage and Hour Investigator II	10	185,961	10	172,301	10
5 Wage and Hour Investigator I	7	71,159	7	97,408	7
6 Supervisor of Compliance Activities, Public Contracts	1	4,433	1	19,008	1
7 Administrative Specialist III	1	13,935	1	15,591	1
8 Accountant-Auditor II	1	17,646	1	17,646	1
9 Field Auditor II	3	49,949	3	42,552	3
10 Statistical Assistant I	2	12,028	2	12,483	2
11 Office Secretary I, General	2	23,440	2	36,963	2
12 Stenographer Clerk III	1	7,758	1	10,308	1
13 Stenographer Clerk I	1	7,437	1	8,004	1
14 Office Clerk II	2	18,595	2	21,966	2
15 Typist Clerk III	2	21,703	2	21,836	2
16 Stock Clerk I	1	13,369	1	13,369	1
Less: Turnover Expectancy		510,400		16,015	
Total	36	516,468	37	543,445	37
				5,634	
				543,764	

Railroad Safety and Health—Division of Labor and Industry:

1 Assistant Commissioner RR Safety and Health	1	12,128	1	31,000	1
2 Assistant Attorney General V, Special Counsel	1	9,457	1	26,733	1
3 Industrial Hygienist V	1	13,089	1	26,504	1
4 Railroad Safety Inspector, Equipment	2	10,335	2	31,618	2
5 Railroad Safety Inspector Trainee, Equipment	2	10,113	2	25,032	2
6 Railroad Safety Inspector, Track	3	5,654	3	47,702	3
7 Railroad Safety Inspector Trainee, Track	1	9,361	1	12,516	1
8 Office Secretary II, Stenographic	2	3,267	2	23,645	2
9 Electronic Technician I	1	—	1	14,274	1
10 Office Secretary I, General	1	—	1	12,483	1
11 Office Clerk II	1	—	1	12,183	1
12 Industrial Hygienist IV	1	—	1	—	1
13 Hearing Officer	1	—	1	—	1
Less: Turnover Expectancy		266,990		11,673	
Total	16	73,404	13	255,317	13
				2,512	
				11,876	
				255,616	

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THE MARYLAND STATE BUDGET

FOR THE FISCAL YEAR ENDING

JUNE 30, 1984

SUBMITTED TO THE

General Assembly of Maryland

BY
HARRY HUGHES
Governor



JANUARY

1983

Volume II

DEPARTMENT OF LICENSING AND REGULATION

THE DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

SUPERVISION AND REGULATION OF SAVINGS AND LOAN OR HOMESTEAD ASSOCIATIONS

Program and Performance:

Title 8 and 9 of the Financial Institutions Article of the Annotated Code establish the organization and operations of State chartered savings and loan associations insofar as possible, that associations are organized in compliance with statutory and regulatory requirements and accepted industry standards.

	1981 Actual	1982 Actual	Estimated	1981 Estimated
Units of Measurement:				
State Chartered Savings and Loan	123	114	110	110
Total Assets of State Chartered Savings and Loan Offices (Billions)	\$ 3,694	\$ 4,414	\$ 5,275	\$ 6,303
Savings and Loan Service Corporations	284	292	300	315
Shared Automated Teller Machines	40	44	50	55
Examinations	35	48	75	100
Revenue Collected—Franchise Tax on Savings	122	121	113	113
Filing Fees	\$1,224,367	\$1,142,591	\$1,256,850	\$1,382,535
Miscellaneous, Non-Licensing	8,850	9,000	9,000	9,000
Total Revenue	\$1,233,217	\$1,151,591	\$1,265,850	\$1,391,535

Appropriation Statement:

	1982 Actual	1983 Appropriation	1984 Allotment
Number of Authorized Positions	31	31	31
01 Salaries and Wages	551,248	617,899	633,866
02 Technical and Special Fees	7,026	5,885	5,957
03 Communication	8,095	9,453	9,265
04 Travel	22,697	15,700	21,125
07 Motor Vehicle Operation & Maintenance	10,636	12,272	8,387
09 Supplies and Materials	34,470	28,602	36,510
11 Equipment—Additional	8,938	8,965	10,074
13 Fixed Charges	357	46,028	—
Total Operating Expenses	115,851	121,020	26,502
Total Expenditure	674,125	744,804	111,863
Original General Fund Appropriation	644,578	695,417	—
Transfer of General Fund Appropriation	32,700	49,387	—
Total General Fund Appropriation	677,278	744,804	—
Less: General Fund Reversion	3,153	—	—
Net General Fund Expenditure	674,125	744,804	751,686

Budget Bill Text:

34 03 01 01 Supervision and Regulation of Savings and Loan or Homestead Associations	751,686
General Fund Appropriation	751,686

DEPARTMENT OF LICENSING AND REGULATION

SUMMARY OF DIVISION OF LABOR AND INDUSTRY

	1982 Actual	1983 Appropriation	1984 Allotment
Total Number of Authorized Positions	204	276	276
Salaries and Wages	4,625,211	4,903,497	5,049,090
Technical and Special Fees	48,347	108,412	71,101
Operating Expenses	2,460,694	2,279,319	2,822,444
Original General Fund Appropriation	5,060,648	5,291,610	—
Transfer of General Fund Appropriation	—	386,434	—
Total General Fund Appropriation	5,060,648	5,678,044	—
Less: General Fund Reversion	23	—	—
Net Total General Fund Expenditure	5,031,809	5,648,044	5,645,673
Add: Federal Fund Expenditure	2,102,443	2,141,184	2,298,072
Total Expenditure	7,134,252	7,789,228	7,943,745

GENERAL ADMINISTRATION—DIVISION OF LABOR AND INDUSTRY

Program and Performance:

The legal references for this Division are Sections 8-502 to 8-515 of Article 21; Sections 324 through 333 of Article 27; Sections 14-J and 212 of Article 41; Sections 11 and 813A-813C of Article 43; Section 3 of Article 43B; Sections 167 to 180 of Article 48; Sections 161 to 170 of Article 56; Sections 1 to 13 and Sections 28 to 99 of Article 89; Sections 4 in 14, 55A to 55H and 81 to 95A of Article 100; Sections 17 and 30 of Article 101; Article—Education 16-510.1, Article—Natural Resources 8—1413.2, and Chapters 302, 338, 339, 576 and 695 of the Acts of 1981.

This program covers the policy making and overall administration of this division, preparation and presentation of the budget, personnel records, selection and assignment of personnel, assignment of duties and management of all fiscal operations of the Division including budgetary control, inventory, cost accounting, supplies, services, maintenance, and handling of all monies received by the Division for boiler inspections and licenses fees are included in this program.

The following Boards, Councils and Committees are administratively supported: Advisory Committee on the Wage Law, Maryland Apprenticeship and Training Council, Board of Boiler Rules, Maryland Occupational Safety and Health Advisory Board, Advisory Council on Prevailing Wage Rates, Employment Agency Advisory Board and the Amusement Ride Safety Advisory Board.

Approximately 60 per cent of the total cost of this Program will be recovered by the State in accordance with Sections 46 and 79 of Article 89, and Section 17 of Article 101.

LICENSING AND REGULATION—PERSONNEL DETAIL

STATE INSURANCE DIVISION—(Continued)

Classification of Employment	1942 Actual	1943 Actual	1944 Actual	1945 Actual
6 Stenographer Clerk I	9,127	8,343	8,725	8,725
7 Office Clerk II	83,634	81,003	81,508	81,508
8 Typist Clerk III	10,875	10,530	11,138	11,138
Less: Turnover Expectancy			170,144	170,144
Total	13,163,678	13,176,960	13,177,353	13,177,353

Complaint and Investigation—State Insurance Division:

1 Insurance Investigation Chief	24,746	25,899	25,899	25,899
2 Insurance Investigator Assistant Chief	21,832	22,316	22,316	22,316
3 Operations Specialist I	13,915	22,316	22,316	22,316
4 Insurance Investigator II	239,397	251,293	243,215	243,215
5 Office Secretary II, Stenographic	13,369	14,573	14,573	14,573
6 Office Secretary I, Stenographic	24,967	27,214	27,214	27,214
7 Office Secretary I, General	22,648	27,080	27,214	27,214
8 Typist Clerk II	9,940	9,137	9,627	9,627
9 Assistant Attorney General VI, General Counsel	32,286			
Less: Turnover Expectancy			392,374	392,374
Total	22,403,100	21,399,828	21,388,450	21,388,450

Hearings—State Insurance Division:

1 Chief Hearing Officer, Insurance Division	27,574	30,056	30,056	30,056
2 Advisor, Insurance Hearings	21,300	23,300	23,300	23,300
3 Hearing Officer II, Insurance Division	68,448	75,985	76,939	76,939
4 Legal Assistant II	15,984	18,854	19,235	19,235
5 Office Secretary I, General	12,359	13,607	13,607	13,607
6 Typist Clerk IV	10,270	11,890	12,344	12,344
Less: Turnover Expectancy			173,682	173,682
Total	8,155,935	8,172,832	8,173,726	8,173,726

STATE BANK COMMISSIONER

1 Bank Commissioner	40,800	44,500	44,500	44,500
2 Deputy Bank Commissioner	31,531	35,058	35,058	35,058
3 Chief Bank Examiner	25,590	27,894	27,894	27,894
4 Bank Examiner V	87,776	103,596	103,596	103,596
5 Bank Examiner IV	118,130	144,234	144,234	144,234
6 Bank Examiner III	170,514	176,835	176,835	176,835
7 Bank Examiner II	29,274	37,939	38,973	38,973
8 Bank Examiner I	56,351	57,587	60,188	60,188
9 Accountant-Auditor III	3,211	18,786	19,914	19,914
10 Office Secretary III, Stenographic	14,974	15,559	15,559	15,559
11 Office Secretary II, General	10,121	14,573	14,573	14,573
12 Office Secretary I, Stenographic	8,046	10,492	10,492	10,492
13 Typist Clerk IV	4,110	11,553	12,226	12,226
14 Typist Clerk III	14,793	10,824	11,452	11,452

Examination of Financial Institutions:

1 Bank Commissioner	40,800	44,500	44,500	44,500
2 Deputy Bank Commissioner	31,531	35,058	35,058	35,058
3 Chief Bank Examiner	25,590	27,894	27,894	27,894
4 Bank Examiner V	87,776	103,596	103,596	103,596
5 Bank Examiner IV	118,130	144,234	144,234	144,234
6 Bank Examiner III	170,514	176,835	176,835	176,835
7 Bank Examiner II	29,274	37,939	38,973	38,973
8 Bank Examiner I	56,351	57,587	60,188	60,188
9 Accountant-Auditor III	3,211	18,786	19,914	19,914
10 Office Secretary III, Stenographic	14,974	15,559	15,559	15,559
11 Office Secretary II, General	10,121	14,573	14,573	14,573
12 Office Secretary I, Stenographic	8,046	10,492	10,492	10,492
13 Typist Clerk IV	4,110	11,553	12,226	12,226
14 Typist Clerk III	14,793	10,824	11,452	11,452

LICENSING AND REGULATION—PERSONNEL DETAIL

STATE BANK COMMISSIONER—(Continued)

Classification of Employment	1942 Actual	1943 Actual	1944 Actual	1945 Actual
15 Office Clerk I	13,600	12,144	12,144	12,144
Less: Turnover Expectancy			721,774	721,774
Total	34,628,124	34,686,890	34,713,538	34,713,538

COMMISSIONER OF CONSUMER CREDIT

1 Commissioner	33,400	36,500	36,500	36,500
2 Assistant Commissioner, Consumer Credit	27,574	30,056	30,056	30,056
3 Examiner IV, Small Loans	44,108	48,078	48,078	48,078
4 Examiner III, Small Loans	90,269	109,887	110,928	110,928
5 Operations Specialist II	22,054	24,039	24,039	24,039
6 Office Secretary I, Stenographic	14,014	14,573	14,573	14,573
7 Stenographer Clerk I	14,274	15,559	15,559	15,559
8 Examiner II, Small Loans	8,432		8,725	8,725
Less: Turnover Expectancy			278,692	278,692
Total	12,254,125	12,274,662	12,273,885	12,273,885

THE DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

1 Director	34,800	38,000	38,000	38,000
2 Deputy Director	29,068	33,300	33,300	33,300
3 Chief Bank Examiner	25,590	27,894	27,894	27,894
4 Bank Examiner V	40,496	51,798	51,798	51,798
5 Bank Examiner IV	203,990	235,475	238,101	238,101
6 Bank Examiner III	53,778	59,197	62,818	62,818
7 Bank Examiner II	27,309	48,756	51,650	51,650
8 Bank Examiner I	67,722	53,434	56,563	56,563
9 Office Secretary III, Stenographic	14,274	15,559	15,559	15,559
10 Office Secretary II, Stenographic	10,135	10,492	10,492	10,492
11 Office Secretary I, General	12,312	13,607	13,607	13,607
12 Statistical Assistant II	13,369	14,573	14,573	14,573
13 Personnel Clerk I	11,249	13,215	14,005	14,005
14 Typist Clerk IV	7,158	12,706	12,706	12,706
Less: Turnover Expectancy			628,094	628,094
Total	31,551,248	31,617,890	31,611,946	31,611,946

Supervision and Regulation of Savings and Loan or Homestead Associations:

1 Director	34,800	38,000	38,000	38,000
2 Deputy Director	29,068	33,300	33,300	33,300
3 Chief Bank Examiner	25,590	27,894	27,894	27,894
4 Bank Examiner V	40,496	51,798	51,798	51,798
5 Bank Examiner IV	203,990	235,475	238,101	238,101
6 Bank Examiner III	53,778	59,197	62,818	62,818
7 Bank Examiner II	27,309	48,756	51,650	51,650
8 Bank Examiner I	67,722	53,434	56,563	56,563
9 Office Secretary III, Stenographic	14,274	15,559	15,559	15,559
10 Office Secretary II, Stenographic	10,135	10,492	10,492	10,492
11 Office Secretary I, General	12,312	13,607	13,607	13,607
12 Statistical Assistant II	13,369	14,573	14,573	14,573
13 Personnel Clerk I	11,249	13,215	14,005	14,005
14 Typist Clerk IV	7,158	12,706	12,706	12,706
Less: Turnover Expectancy			628,094	628,094
Total	31,551,248	31,617,890	31,611,946	31,611,946

DIVISION OF LABOR AND INDUSTRY

1 Commissioner	44,600	48,700	48,700	48,700
2 Deputy Commissioner	31,497	36,393	36,393	36,393
3 Administrator II	29,781	32,462	32,462	32,462
4 Administrative Officer III	25,204	27,801	27,801	27,801
5 Administrative Officer I	13,378	18,851	19,081	19,081
6 Administrative Aide I	15,264	16,618	16,618	16,618
7 Office Secretary III, General	14,274	15,559	15,559	15,559

General Administration—Division of Labor and Industry:

1 Commissioner	44,600	48,700	48,700	48,700
2 Deputy Commissioner	31,497	36,393	36,393	36,393
3 Administrator II	29,781	32,462	32,462	32,462
4 Administrative Officer III	25,204	27,801	27,801	27,801
5 Administrative Officer I	13,378	18,851	19,081	19,081
6 Administrative Aide I	15,264	16,618	16,618	16,618
7 Office Secretary III, General	14,274	15,559	15,559	15,559

THE MARYLAND STATE BUDGET

FOR THE FISCAL YEAR ENDING

JUNE 30, 1985

SUBMITTED TO THE

General Assembly of Maryland

BY
HARRY HUGHES
Governor



JANUARY

1984

Volume II

SUMMARY
OF
PERSONNEL DETAIL
BY
MAJOR AREAS OF GOVERNMENT

	1984 Appropriation	1985 Allotment
Legislative and Judicial	2,567	2,624
Executive and Administrative Control	588	626
Financial and Revenue Administration	2,361	2,358
Judiciary and Fiscal Administration	112	111
Personnel Administration, Retirement and Employee Relations	420	428
State Planning	168	171
General Services	740	742
Transportation	9,216	9,216
Natural Resources and Recreation	1,495	1,519
Agriculture	405	426
Health, Hospitals and Mental Hygiene	13,414	13,391
Human Resources	5,959	6,267
Licensing and Regulation	617	617
Public Safety and Correctional Services	7,720	7,798
Public Education	20,917	21,031
Economic and Community Development	439	456
Employment and Training	1,400	1,395
Total	68,538	69,176

The following is a partial listing of additional employment categories

	1984 Estimated	1985 Estimated
Non-Budgeted	121	121
Maryland Transportation Authority	903	940

SYMBOLOLOGY

- Indicates abolished position(s)
- Indicates additional position(s)
- Represents General or Special funded position(s) authorized since submission of 1984 budget
- † Represents Federal funded position(s) authorized since submission of 1984 budget. Where multiple positions exist in a given classification, numeral designates that portion authorized
- ‡ Represents increase in allowance column due to transfer of position(s). Where multiple positions exist in a given classification, numeral designates that portion transferred.
- ‡ Represents increase in salary, other than standard scale

DEPARTMENT OF LICENSING AND REGULATION

THE DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

SUPERVISION AND REGULATION OF SAVINGS AND LOAN OR HOMESTEAD ASSOCIATIONS

Program and Performance:

Titles 8 and 9 of the Financial Institutions Article of the Annotated Code establish the Division operations of State chartered savings and loan associations to supervise and regulate the incorporation, organization and associations of State chartered savings and loan associations to assure, insofar as possible, that operations are operated in compliance with statutory and regulatory requirements and accepted industry standards.

	1983 Actual	1983 Actual	1984 Estimated	1985 Estimated
Units of Measurement:				
State Chartered Savings and Loan Assets of State Chartered Savings and Loans (Billions)	114	114	116	118
Savings and Loan Offices	4,414	5,247	6,237	7,414
Corporations	292	291	300	315
Shared Automated Teller Machines	44	60	72	84
Examinations:	48	71	85	100
Savings and Loans—By State Examiner	108	101	102	104
Savings and Loans—Jointly with F.H.L.B.	13	13	14	14
Service Corporations	44	60	70	80
Administrative Action:				
Investigation of Complaints and Inquiries	334	371	375	375
Applications	24	35	40	45
Orders of the Director	24	35	40	45
Board of Commissioner Meetings	12	12	12	12
Conferences	358	377	400	400
Revenue Collected—Franchise Tax on Savings	\$1,142,391	\$1,662,656	\$1,829,921	\$2,011,813
Filing Fees	6,200	16,000	10,000	10,000
Miscellaneous, Non-Licensing	608	2,372	1,000	1,000
Total Revenue	\$1,152,399	\$1,681,028	\$1,839,921	\$2,022,813
Appropriation Statement:				
Number of Authorized Positions:				
01 Salaries and Wages	599,546	620,009	703,869	6,650
02 Technical and Special Fees	6,374	5,957	10,039	21,110
03 Communication	8,674	9,265	8,387	8,380
04 Travel	18,762	20,079	36,510	50,844
07 Motor Vehicle Operation and Maintenance	3,575	3,267	10,074	6,100
08 Contractual Services	41,323	36,510	26,502	43,022
09 Supplies and Materials	6,173	10,074	110,810	139,495
11 Equipment—Additional	9,090	—	736,776	850,034
13 Fixed Charges	21,870	26,502	—	—
Total Operating Expenses	102,467	110,810	139,495	139,495
Total Expenditure	708,287	736,776	850,034	850,034
Original General Fund Appropriation	695,417	—	—	—
Transfer of General Fund Appropriation	13,287	—	—	—
Total General Fund Appropriation	708,704	—	—	—
Total General Fund Appropriation	708,704	—	—	—

DEPARTMENT OF LICENSING AND REGULATION

SUMMARY OF DIVISION OF LABOR AND INDUSTRY

	1983 Actual	1984 Appropriation	1985 Allowance
Total Number of Authorized Positions	271	260	260
Salaries and Wages	5,982,857	5,937,787	6,094,337
Technical and Special Fees	40,631	70,013	75,556
Operating Expenses	1,511,553	1,756,955	1,848,963
Original General Fund Appropriation	5,961,610	5,694,759	—
Transfer of General Fund Appropriation	33,880	—	—
Total General Fund Appropriation	5,995,490	5,694,759	—
Less: General Fund Reversion	48,372	—	—
Net General Fund Expenditure	5,947,118	5,464,683	5,504,645
Federal Fund Expenditure	2,267,923	2,268,072	2,509,231
Add: Total Expenditure	7,535,041	7,764,755	8,013,876

GENERAL ADMINISTRATION—DIVISION OF LABOR AND INDUSTRY

Program and Performance:

The legal references for this Division are Sections 8-502 to 8-515 of Article 21; Sections 324 through 333 of Article 27; Sections 143 and 212 of Article 41; Sections 11 and 813A, 813C of Article 43; Section 3 of Article 43B; Sections 167 to 180 of Article 45; Sections 161 to 170 of Article 56; Sections 1 to 13 and Sections 28 to 99 of Article 89; Sections 4 in 14, 25A to 27B and 81 to 95A of Article 100; Sections 17 and 30 of Article 101; Article—Education 16-510.1; Article—Natural Resources 8-1413.2, and Chapters 302, 339, 378 and 695 of the Acts of 1981.

This program covers the policy making and overall administration of this division. Preparation and presentation of the budget, personnel records, selection and assignment of personnel, assignment of duties and management of all fiscal operations of the Division including budgetary control, inventory, cost accounting, supplies, services, maintenance, and banking in this program.

The following Boards, Councils and Committees are administratively supported: Advisory Committee on the Wage Law, Maryland Apprenticeship and Training Council, Board of Boiler Rules, Maryland Occupational Safety and Health Advisory Board, Advisory Council on Prevailing Wage Rates, Employment Agency Advisory Board and the Amusement Ride Safety Advisory Board.

Approximately 60 percent of the total cost of this Program will be recovered by the State in accordance with Sections 46 and 79 of Article 88, and Section 17 of Article 101.

LICENSING AND REGULATION—PERSONNEL DETAIL

STATE INSURANCE DIVISION

Classification of Employment	1943 Actual	1944 Appropriation	1945 Allowance
Hearings—State Insurance Division:			
1 Chief Hearing Officer, Insurance Division	1	30,056	1
2 Advisor, Insurance Hearings	1	23,300	1
3 Hearing Officer II	3	76,839	3
4 Legal Assistant II	1	18,854	1
5 Office Secretary I, General	1	13,607	1
6 Typist Clerk IV	1	11,887	1
7 Administrative Officer II	—	9,800	—
Fringe Benefits	—	173,683	—
Turnover Expectancy	—	175,481	—
Total	8	173,726	8

STATE BANK COMMISSIONER

Classification of Employment	1943 Actual	1944 Appropriation	1945 Allowance
Examination of Financial Institutions:			
1 Bank Commissioner	1	44,078	1
2 Deputy Bank Commissioner	1	35,058	1
3 Chief Bank Examiner	1	27,894	1
4 Bank Examiner V	4	103,596	4
5 Bank Examiner IV	9	216,351	9
6 Bank Examiner III	4	88,612	4
7 Bank Examiner II	1	20,719	1
8 Bank Examiner I	4	60,188	4
9 Bank Examiner Trainee	—	—	—
10 Office Secretary III, Stenographic	1	15,559	1
11 Office Secretary II, General	1	14,573	1
12 Office Secretary I, General	1	13,208	1
13 Typist Clerk IV	2	24,452	2
14 Office Clerk I	1	12,343	1
Fringe Benefits	—	703,386	—
Turnover Expectancy	—	677,294	—
Total	33	703,386	31

COMMISSIONER OF CONSUMER CREDIT

Classification of Employment	1943 Actual	1944 Appropriation	1945 Allowance
Enforcement and Licensing:			
1 Commissioner	1	36,500	1
2 Assistant Commissioner, Consumer Credit	1	30,056	1
3 Administrative Officer II	1	25,797	1
4 Examiner IV, Small Loans	2	48,078	2
5 Examiner III, Small Loans	5	110,928	5
6 Office Secretary III, Stenographic	1	14,707	1
7 Stenographer Clerk III	1	15,559	1
8 Typist Clerk IV Part-time	—	10,359	—
Fringe Benefits	—	277,379	—
Turnover Expectancy	—	283,305	—
Total	13	377,379	13

LICENSING AND REGULATION—PERSONNEL DETAIL

THE DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

Classification of Employment	1943 Actual	1944 Appropriation	1945 Allowance
Supervision and Regulation of Savings and Loan or Homestead Associations:			
1 Director	1	38,000	1
2 Deputy Director	1	33,300	1
3 Chief Bank Examiner	1	27,894	1
4 Bank Examiner V	2	35,673	2
5 Bank Examiner IV	10	235,460	10
6 Bank Examiner III	3	90,611	3
7 Bank Examiner II	2	43,208	2
8 Bank Examiner I	3	40,713	3
9 Bank Examiner Trainee	—	—	—
10 Office Secretary III, Stenographic	1	15,165	1
11 Office Secretary II, Stenographic	1	15,559	1
12 Office Secretary I, General	1	14,334	1
13 Office Secretary I, Stenographic	1	12,006	1
14 Personnel Clerk	1	11,574	1
15 Statistical Assistant II	1	11,477	1
Fringe Benefits	—	599,546	—
Turnover Expectancy	—	607,864	—
Total	30	599,546	30

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Appendix to the Rpt of the Special Counsel on the Savings 48 of 52
& Loan Crisis (1986) Exhibits IVB6-IVC1 , pp2926-2994

This is how I'd like the headers to read.
Thanks

DIVISION OF BUILDING,
SAVINGS AND LOAN ASSOCIATIONS
BOARD OF BUILDING

SAVINGS AND LOAN ASSOCIATIONS COMMISSIONER

ANNUAL ACTION REPORT
PREPARED PURSUANT
TO THE
REGULATORY PROGRAMS
EVALUATION ACT OF 1978



Annapolis, Maryland

PREPARED BY
THE DEPARTMENT OF FISCAL SERVICES

2926

EVALUATION REPORT

BOARD OF SAVINGS AND LOAN COMMISSIONS
DIVISION OF SAVINGS AND LOAN ASSOCIATION

Financial Institutions Article, Section 8-101

Department of Fiscal Services
Division of Budget Review

October 28, 1980



WILLIAM S. RATCHFORD, II
DIRECTOR

DEPARTMENT OF FISCAL SERVICES

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October 28, 1980

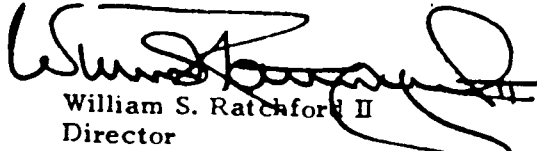
To the Members of the
General Assembly of Maryland

This evaluation of the Board of Savings and Loan Commissioners and the Division of Savings and Loan Associations has been prepared by the Department of Fiscal Services pursuant to the Regulatory Programs Evaluation Act of 1978 (Chapter 808, Acts of 1978). The evaluation is to assist the Senate Economic Affairs Committee and the House Economic Matters Committee in preparing their report to the General Assembly. It was prepared pursuant to the plan of evaluation reviewed and approved by the Committees.

This evaluation was prepared under the general direction of Dr. Donald B. Weatherspoon, Director of the Department's Division of Budget Review. Warren Deschenaux, Sunset Coordinator, directed the research effort and prepared the evaluation report. Other staff members of the Department who participated in the research program included Gail Webber and college and graduate students retained during the summer. Myriam Langley and Thomas Steich from the Department of Legislative Reference assisted in field work and legal research. Margit Eilers typed the report.

The Department of Fiscal Services appreciates the cooperation and assistance it received from individuals, organizations, and governmental agencies involved with the Board of Savings and Loan Commissioners.

Copies of a draft of this evaluation have been made available to interested persons for their review and comment. Several responses were received and we appreciate the time taken to review the draft document. However, any errors of fact as well as the findings and comments contained in the report are solely the responsibility of the Department.


William S. Ratchford II
Director

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SUMMARY

Description

The Board of Savings and Loan Commissioners and the Division of Savings and Loan Associations regulate state chartered savings and loan associations. The Board and Division were created in 1962, and are a part of the Department of Licensing and Regulation. The Board consists of 9 members, appointed by the Governor, with the advice and consent of the Senate. The Division is headed by a Director, appointed by the Secretary of the Department of Licensing and Regulation with the approval of the Governor. The 1981 budget provides for 33 positions in the Division and appropriates \$653,284 for its operation. Franchise tax revenues totaled \$1,090,085 for F.Y. 1980. The principal functions performed in the regulation of savings and loan associations are applications processing, examination and supervision, complaint handling and rulemaking.

Findings

MARYLAND'S EXPERIENCE WITH AN UNREGULATED INDUSTRY DEMONSTRATES A NEED FOR REGULATION.

APPLICATION POLICIES DO NOT APPEAR TO RESTRICT ENTRY OR EXPANSION.

SAVINGS AND LOAN EXECUTIVES INDICATE STATE EXAMINERS DO A GOOD JOB OVERALL.

EXAMINATION REPORTS ARE INFREQUENTLY HELPFUL TO ASSOCIATION EXECUTIVES.

THE STATE EXAMINATION PROGRAM IS HAMPERED BY EXCESSIVE TURNOVER.

A MAJORITY OF RESPONDENTS TO A SURVEY OF COMPLAINANTS SAID THE DIVISION SOLVED THEIR COMPLAINTS.

THE DIVISION LACKS EXPRESS AUTHORITY TO ACT IN CONSUMER MATTERS.

COMPLAINT RECORDS WERE DISPERSED AND TELEPHONE LOGS WERE NOT MAINTAINED WHEN COMPLAINT PROCEDURES WERE REVIEWED IN JULY. IMPROVEMENTS HAVE BEEN MADE.

THE DIVISION DOES A GOOD JOB OF MEETING THE INFORMATIONAL NEEDS OF ASSOCIATIONS.

THE BOARD HAS NOT ESTABLISHED A PROCEDURE FOR RULEMAKING BY PETITION.

MARYLAND IS ONE OF FOUR STATES WITH A STATE INSURANCE PROGRAM.

THE CORPORATION'S POWERS RESULT IN DIVIDED REGULATORY AUTHORITY.

OBSERVATION OF RECENT BOARD MEETINGS SHOWS PUBLIC MEMBERS AFFECTING POLICY.

PUBLIC AND INDUSTRY MEMBERS DIFFER ON THE ISSUE OF COMPETITION AND THE ROLE OF THE SMALL NEIGHBORHOOD ASSOCIATION IS IN DOUBT.

MARYLAND IS ONE OF ONLY 13 STATES WITH THREE OR MORE FINANCIAL REGULATORY AGENCIES. A REVIEW INDICATES SOME PROBLEMS WITH EXISTING REGULATORY ARRANGEMENTS.

CHAPTER I

A. The Industry

Today's savings and loan associations trace their roots in Maryland to 1837 when the General Assembly first authorized the charter of mutual savings societies created to assist members in the purchase of homes. Modern associations retain the attributes of these original societies, emphasizing savings and lending. The savings and loan industry is now the principal supplier of home mortgage credit in Maryland and in the nation. In 1975, a study by the State Department of Economic and Community Development estimated that over half of Maryland home mortgages were provided by state and federal savings and loan associations. State chartered associations accounted for roughly 15% of home mortgages.

The business, however, is evolving. Recent changes in state and federal law have given savings and loan associations wider discretion in the sort of assets they can hold and deposits they can accept. Other provisions permit associations to convert from mutual (depositor owned) to stock (stockholder owned) organizations. All of these changes are intended to keep associations viable in today's economic environment. The effect is to make associations more closely resemble banks. Some observers predict the savings and loan of the future will be, in essence, a "consumer" (as opposed to a "commercial") bank.

Indications are that this transition will not occur overnight. Results of a survey of executives of Maryland chartered associations indicate that the majority of institutions do not plan to use most of the newly granted powers, although the largest associations appear to be most willing to try them. (See Appendix A for survey results.) This reflects both conservative business thinking and the fact that many small associations cannot afford the capital investment required to supply certain of the new services. The extent of change is also limited by statutory provisions limiting the proportion of assets which may be dedicated to non-mortgage lending. These include a provision of the Internal Revenue Code which denies special tax deductions to associations who put less than a fixed amount of their assets in home mortgages.

B. Dual Regulation

Since 1933 the savings and loan industry has been subject to both state and federal regulation. In that year, Congress created the Federal Home Loan Bank Board (FHLBB) and authorized the charter of federal savings and loan associations to exist alongside state associations. In 1934, the Federal Savings and Loan Insurance Corporation was established, offering insurance for deposits in federal associations and qualified state chartered associations. The members of the federal board also constitute the board of the Corporation, although the agencies are technically distinct. Together they supervise federal associations. The Corporation also has authority over the state chartered associations whose deposits it insures.

Since 1973, all Maryland chartered associations have been required to have deposit insurance. They have an option of being insured through the federal corporation or an insurance entity established under State law in 1962, the

Maryland Savings Insurance Corporation. The relationship of the State Corporation to the overall State regulatory program is explored in a subsequent section.

At the close of 1979, there were 53 federally chartered associations in Maryland, with aggregate assets of over \$6.6 billion. At the same time, there were 15 state chartered associations with federal insurance. Their assets exceeded \$1.1 billion. There were also 132 state chartered, insured associations whose total assets were more than \$2 billion. Maryland chartered, state insured associations are small on the average compared to the other types of institutions. Thirty percent of these associations have assets of under \$1 million. Over 60% of them have assets of less than \$5 million.

Traditionally, the Maryland savings and loan industry was dominated by small neighborhood associations; mostly in Baltimore City. This situation continues to characterize the industry. A full 40% of respondents to a survey of savings and loan executives indicated that their association continues to have strong ties to a particular neighborhood or ethnic group.

The number of state chartered associations is declining. At the close of 1970, there were 208 state chartered associations; by the end of 1979 that number was reduced to 147. The number is not declining because of failures. Rather, the trend is for small associations to be merged into larger associations or to be liquidated.

C. Regulatory Structure

Together, the Board of Savings and Loan Commissioners and the Division of Savings and Loan Associations regulate state chartered associations. The Board and Division were created in 1961, and are presently a part of the Department of Licensing and Regulation.

The Board consists of nine members appointed to staggered four year terms by the Governor with the advice and consent of the Senate. Three members must be directors or attorneys for associations insured by the Maryland Savings Share Insurance Corporation. Two must be Directors or attorneys for State associations insured by the Federal Savings and Loan Insurance Corporation. Four public members complete the Board. Members receive a \$50 per diem for board work, but may not receive more than \$1,000 in a year. The Board's principal powers and duties include general rule making authority, review of charter applications, and appellate review of orders issued by the Division.

The Division is headed by a director who is a statutory officer appointed by the Secretary of the Department of Licensing and Regulation, with approval of the Governor. The Director is selected from a list of three nominees provided by the Board of Commissioners. The Director must have at least five years experience as an officer, Director, or attorney for a savings and loan association. Alternatively, he or she may have experience as an employee of a federal or state financial regulatory agency. The Director serves at the pleasure of the Secretary.

With the approval of the Secretary, the Director appoints a Deputy who functions as an employee of the Division, but remains outside the merit system while in office. The Director may also employ staff. The F.Y. 1981 budget provides for 33 positions in the Division, including 25 examiners.

D. Regulatory Functions, Description

The principal functions performed in the regulation of savings and loan associations are applications processing, examination and supervision, complaint handling and rulemaking. These are considered below:

Applications: Before an association may be created or enter into a variety of transactions, State approval must be secured. Among the matters which must be approved by the Board are new charters, charter conversions, and certificate account plans. Most other application decisions are within the discretion of the Director. These include branch and merger applications, and those for establishment of electronic teller facilities.

Examination and Supervision: The Division is required to examine state chartered associations at least once every two years. Over the past five years State associations have been examined roughly once every 14 months. An examination involves a visit by Division employees to the State association to review its financial records and operations. Each examination results in a report by the examiners noting violations of State law or questionable practices discovered. Copies of examination reports are given to the association and retained by the Division. Examination reports are otherwise confidential. The number of examinations has declined along with the number of associations (from 191 in 1970 to 114 in 1979). Average duration of exams has grown from 18 days to 28 days. This is attributed to the growth in complexity and size of institutions during that time.

Associations are also required to file monthly or quarterly reports of their financial condition with the Division. Examinations and reports provide information on the soundness of associations. Based on examinations and reports, the Director may issue orders aimed at compelling associations to adhere to provisions of their charter, by-laws, or pertinent rules and regulations. Between 1976 and 1979, five violation orders were issued.

Complaint Handling and Inquiries: The Division receives complaints and inquiries concerning savings and loan associations by telephone and in writing. The Division has assigned two individuals to work part-time on consumer complaints. When the Office was visited in July, no log was kept of telephone contacts, so no estimate of the volume of telephone complaints can be made. A review of the Division's files revealed 70 written complaints were received in F.Y. 1980. The Division also provides information to associations. Nearly 40% of association executives responding to a mail survey reported calling the Division for information at least once a month.

Rulemaking: Legislation adopted last year (Chapter 856, Laws of 1980) gives the Board broad rulemaking powers. Among the matters which are to be specified by rule are capital reserve requirements, permissible investments, consumer loan powers, and the permissible form of alternative mortgages. These powers give the Board significant influence over the shape and availability of financial services in Maryland associations.

E. Fiscal Data

Between F.Y. 1976 and F.Y. 1980, direct and indirect expenditures for regulation of state chartered savings and loan associations grew from \$502,076 to \$616,388, a 22% increase. Indirect expenditures are the cost of services provided centrally through the Secretary of Licensing and Regulation, primarily for legal assistance.

Most revenues associated with the savings and loan industry are derived from a franchise tax levied on deposits of all federal and state associations in Maryland. This tax is collected by the Miscellaneous Revenue Division of the Comptroller's Office. A small additional amount is attributed to application fees paid to the Board. All revenues revert to the General Fund.

Overall, revenues grew significantly between F.Y. 1976 and F.Y. 1980. They increased from \$769,538 to \$1,090,085 in that period, or 41%. In each year revenues from the franchise tax and fees exceeded expenditures. It is important to remember, however, that the franchise tax is collected from all associations in the State, not just those regulated by the Division and the Board. Thus, it would be misleading to assume that regulation is "paying its own way". In F.Y. 1979, deposits in federal associations were more than double those in state associations. On this basis, it appears that the bulk of revenues are contributed by associations not regulated by the State.

FISCAL DATA: DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	Percent Change 1976-80	1981 Approp.
Positions	32	32	32	33	33		33
Expend.:							
Direct	489,012	462,604	517,248	547,167	608,163		
Indirect*	13,064	17,948	16,455	16,468	8,225		
Total	502,076	480,552	533,703	563,635	616,388	22%	653,284*
Revenues	769,538	900,345	981,541	1,131,735	1,090,085	41%	1,348,565*
Revenues Less Expend.	267,462	437,741	464,293	568,100	481,922	80%	695,317*

*Estimated.

CHAPTER II

A. Need for Regulation

MARYLAND'S EXPERIENCE WITH AN UNREGULATED INDUSTRY DEMONSTRATES A NEED FOR REGULATION

A report of the Legislative Council in 1940 indicated that at that time, Maryland was the only state without a comprehensive program for regulating State chartered savings and loan associations. Although some attempts were made in the 1940's to initiate regulation, it was not until 1961, in the wake of a scandal in which thousands of depositors lost their savings, that serious regulation was commenced.

The conditions resulting in regulation stemmed from the practices of a small proportion of the 450 associations operating at that time. Investigations revealed that most of the problems occurred among a group of associations opened in the late 1950s or early 1960s under a form of ownership that encouraged risky investments by permitting excess profits to be distributed to the original investors. Frequently, these problem associations were controlled by out-of-state interests.

These associations attracted deposits by offering gifts, high dividends, and the promise that deposits were insured. Deposits were then either directly appropriated by the controlling interests through embezzlement or insider loans, or applied to high risk investments including second or even third mortgages.

The deposit insurance which many depositors expected to protect them frequently proved illusory. A review of the list of companies that insured deposits in this state raises grave doubts about the seriousness of the coverage. Among them were the Federated Swiss Insurance Underwriters of Tangier, Morocco and the American Savings and Loan Indemnity Company of Panama. Depositors in associations dealing with these and other companies were ultimately disappointed.

By 1960, the scandal was brewing. Federal postal inspectors opened the door with an investigation of mail fraud involved in savings and loan transactions. State authorities subsequently stepped in. A 1963 press account related that by that time, 250 State charters had been revoked, usually on grounds that they were not being used as authentic savings and loan operations. Six others were in the hands of a court appointed supervisor, while persons involved in eight more were under federal prosecution for mail fraud.

In an effort to protect the reputation of the industry, State associations, which had previously resisted efforts to impose regulation, endorsed establishment of a state regulatory program. This, combined with the scandal atmosphere created by wrongful acts in some associations, was enough to permit a regulatory program to be initiated.

This experience illustrates, in relatively recent times, the consequences of the failure to closely regulate practices in the savings and loan industry. It is evidence of a continuing need for regulation. Public sentiment also argues for

continued state regulation in this field. Sixty-two percent of respondents to a telephone survey of 611 Maryland residents indicated that they favored state regulation of financial institutions, like savings and loan associations.

The need for state regulation is further emphasized by the fact that there is no federal authority reviewing the operations of 132 of the 147 state chartered institutions. Because Maryland has decided not to require associations to be federally insured, preferring instead to create a state chartered insurance entity, the State has assumed full responsibility for the regulatory function. Shortcomings of the State regulatory program will not be compensated for by a federal agency.

B. Regulatory Functions

Applications

POLICIES DO NOT APPEAR TO RESTRICT ENTRY OR EXPANSION.

It does not appear that the policies of the Board or the Division have operated to restrict entry or expansion of services in the savings and loan industry. The table below shows action on applications received by the Board and the Division between 1975 and 1980. With the exception of four of the 91 branch applications, all applications received in that period were approved.

Table 1

Type	ACTION ON APPLICATIONS 1975-1980*		
	Received	Denied	Pending
Charter	2	0	0
Branch	91	4	2
Relocation	46	0	3
Merger	34	0	3
Liquidation	1	0	1
Elec. Terminal	3	0	1

* Includes calendar year 1975-79 and 1980 to date.

SOURCE: Division of Savings and Loan Associations

Examinations

SAVINGS AND LOAN EXECUTIVES INDICATE STATE EXAMINERS DO A GOOD JOB OVERALL.

Eighty-two percent of respondents to a survey of State savings and loan executives gave the Division an "excellent" or "good" rating on the performance of examinations. The only aspects of examination in which executives expressed an appreciable lack of confidence were the ability of examiners to adequately assess management policies and data processing operations. Twenty-one percent of respondents rated State examiners to be "only fair" or "poor" in assessing internal control and management of associations. Thirty-five percent of respondents using

data processing facilities rated the abilities of State examiners only "fair" or "poor" in that regard. These data may reflect a need for improvement in these aspects of the examination process.

EXAMINATION REPORTS ARE INFREQUENTLY HELPFUL TO ASSOCIATION EXECUTIVES.

Over half (64%) of executives responding indicated examination reports were only "occasionally" or "never" helpful to them in identifying problems in their association. While this may reflect a natural resistance to criticism, it may also indicate some problems with the characteristics of the reports. The Division may wish to explore ways in which reports could be made more helpful to associations.

THE STATE EXAMINATION PROGRAM IS HAMPERED BY EXCESSIVE TURNOVER.

The F.Y. 1981 budget allocates 25 examiner positions to the Division. Data provided by the Division indicates that between 1975 and the present, 21 examiners have left the Division; three to retire and the rest to other jobs in the industry or the public sector. This rate of turnover is disruptive of the state examination effort.

The Division Director attributes the turnover rate to the state salary structure. An examiner trainee currently starts at a base step of \$10,948 a year. In testimony before a state salary review committee in 1979, the Division Director indicated that state examiners were paid considerably less than their federal counterparts. He noted that an Examiner III with 36 months of state service could earn between \$14,500 and \$19,100. A federal examiner with 30 months service was paid between \$19,200 and \$25,000. It appears that if qualified examiners are to be recruited and retained, a competitive salary structure will have to be established.

Complaints and Inquiries

A MAJORITY OF RESPONDENTS TO A SURVEY OF COMPLAINANTS SAID THE DIVISION SOLVED THEIR COMPLAINTS.

A review of the complaint files of the Division indicated that seventy written complaints were filed in F.Y. 1980 involving state chartered associations. Questionnaires were sent to all complainants asking whether their complaint had been solved to their satisfaction, whether they were satisfied with the handling of the complaint, and whether they would complain to the Division again in a similar situation. Thirty-nine persons completed and returned the questionnaire. Their answers suggest that the Division has solved consumer problems in over half the cases. A larger proportion were satisfied with handling on the matter, and a still greater number reported that they would try again if a similar situation arose. The table below reports survey results:

Table 2

RESULTS OF SURVEY OF COMPLAINTS.

	No	Yes	Total
Was your complaint solved?	18 (46%)	21 (54%)	39 (100%)
Were you satisfied with the handling of your complaint?	14 (39%)	22 (61%)	36 (100%)
Would you complain again to the Division?	8 (22%)	28 (78%)	36 (100%)

Data were also collected from the files of the Office concerning the subject matter of complaints, the procedure used and the swiftness of action taken by the Division. Data for this analysis included all complaints filed in F.Y. 1980 and a sample of complaints over the previous five years. It reveals that most complaints were mortgage related (69%). In most cases (74%), Division action included a letter to the association involved. Only 4% of the records reviewed indicated that a field investigation was conducted. In other instances, the complaint was handled over the phone. Records indicate that almost a third of complaint files were closed within a week, while 95% were settled within 60 days.

THE DIVISION LACKS EXPRESS AUTHORITY TO ACT IN CONSUMER MATTERS.

The Division lacks clear authority to enforce the Maryland Consumer Protection Act. Although Section 103(c) of the Commercial Law Article appears to give state agencies such power, legal authority on the matter suggests that no such agency power exists. (See 630.A.G. 183 1978). The issue is currently in litigation in State v. Anthony Plumbing of Maryland, Inc., No. 119-A/454/A-58729 (Circuit Court, Baltimore City, filed May 5, 1979). The General Assembly may wish to give the Division express authority to enforce consumer protection provisions against state chartered associations. Such legislation might include powers to define, settle and penalize unfair or deceptive practices. These powers could be shared between the Board and the Division.

COMPLAINT RECORDS WERE DISPERSED AND TELEPHONE LOGS WERE NOT MAINTAINED WHEN COMPLAINT PROCEDURES WERE REVIEWED IN JULY. IMPROVEMENTS HAVE BEEN MADE SINCE.

Until August, the Division did not maintain a log of telephone complaints or inquiries. Consequently, no data were available from which to establish the frequency of such contacts with the Division. Such data are necessary to permit management and oversight bodies, including the General Assembly, to determine the importance of the activity in the overall operation of the Office. Telephone logs should continue to be maintained. Also, when files were reviewed, complaint records were not separated from other records of the Division. They were maintained in files relating to the association against which a complaint was made. Consequently, review of overall complaint activity required scouring the file for every association. The Division reports that files have been reorganized and the complaint records are now filed together. This is an improvement, as it facilitates review and control of complaint activity.

THE DIVISION DOES A GOOD JOB OF MEETING THE INFORMATIONAL NEEDS OF ASSOCIATIONS.

Association executives responding to a survey report overwhelmingly that the Division does a good job of keeping them informed. Eighty-seven percent of respondents indicated that the Division did a "good" or "excellent" job responding to inquiries. Eighty-two percent reported that the Division does an adequate job of keeping their association informed of law and rule changes.

Rulemaking

THE BOARD HAS NOT ESTABLISHED A PROCEDURE FOR RULE-
MAKING BY PETITION.

The Administrative Procedures Act requires each state agency with rule-making powers to establish, in its rules, a procedure for rulemaking by petition. Such a provision provides direct public access to the rulemaking process. The Board has not established such a procedure. The Attorney General has developed a model rule for state agencies to use. The Board should adopt the model rule.

C. Maryland Savings-Share Insurance Corporation

A companion to the Board and Division in the regulation of state chartered associations is the Maryland Savings-Share Insurance Corporation. The Corporation is a non-profit entity, created in 1962, to provide state chartered institutions with a local alternative to federal deposit insurance. As detailed earlier, insurance problems played a major role in the establishment of the state regulatory program.

The Corporation is a quasi-public agency. It is chartered by statute (Financial Institutions Article 10-101 et seq.). Three members of its 11 member board are appointed by the Governor. Its rules and by-laws are subject to approval by the Division Director, and exchanges of confidential information between the Division and Corporation are expressly authorized. It is tax exempt.

In other respects, however, it is a private body. Eight directors are elected by insured associations. It is financed through premiums paid by members, and it makes independent decisions respecting the granting or discontinuing of insurance, not subject to review or approval of the Division Director.

MARYLAND IS ONE OF FOUR STATES WITH A STATE INSURANCE PROGRAM.

Maryland, Massachusetts, North Carolina and Ohio are the only states to have established semi-official insurance funds for non-federally insured state associations. Pennsylvania is reported to be in the process of establishing an insurance plan. These plans are desirable to state associations who cannot qualify for federal insurance (for instance, because they do not have a ground floor office or are not open full-time) or who wish to avoid the federal regulation that comes with it. State insurance funds can benefit the public as well. One of the benefits of having a Maryland state insurance fund has been the freedom of non-federally

insured associations to pay dividends on deposits in excess of the maximum established by the federal government for federally insured associations. But the fundamental benefit is simply that insured deposits are protected from loss.

Table 3 compares the Maryland insurance fund to the other state funds. It shows the ratio of fund to deposits to resemble that for the other states. Additional security is provided by a recently acquired \$100,000,000 line of credit.

A survey of state savings and loan executives revealed over half (52%) felt the Maryland fund was adequate to secure deposits of member associations. Sixteen percent of executives felt it was inadequate, while 30% did not know. Most executives (77%) favored a change in state law which would put the credit of the state behind the Corporation. Sixty percent of them indicated that the average depositor does not understand that the credit of the state does not already stand behind it. Recent changes in Federal law have reduced the likelihood that state intervention will be necessary, however. It appears that the Depository Institutions Deregulation and Monetary Control Act of 1980 will permit state chartered associations to borrow from the Federal Reserve in the event that the state insurance fund is exhausted.

Table 3

COMPARISON OF THE MSSIC TO OTHER STATE FUNDS

	Associations Insured	Deposits	Guarantee Fund	Ratio of Deposits to Fund	Line of Credit
Maryland	132	1,773,138,675	44,936,175	2.5%	100,000,000
Massachusetts	130	3,887,779,000	85,892,000	2.2%	
North Carolina	76	1,554,785,305	31,585,137	2.0%	
Ohio	85	1,745,432,398	48,302,368	2.7%	51,000,000

THE CORPORATION'S POWERS RESULT IN DIVIDED REGULATORY AUTHORITY.

Since 1974, all state chartered associations have been required to have deposit insurance through either the Maryland Corporation, or the Federal Savings and Loan Insurance Corporation. Previously, uninsured operations were permitted. The 1974 requirement gives the state insurer the power to control associations by threatening to discontinue insurance if its directives are not followed, especially in the case of associations that cannot qualify for federal insurance. Loss of insurance means loss of the ability to do business under state law.

The result is a situation in which two state bodies—the Division and the Corporation—exercise independent, yet parallel authority over the operations of state associations. It is unclear that this is what the General Assembly intended when it required that associations be insured. In establishing a similar entity in 1973, (the Maryland Credit Union Insurance Corporation), the General Assembly decided that a decision to discontinue insurance could not be made without approval of the state regulatory authority. This issue was probably not considered when MSSIC was established, since uninsured operation was permitted.

This divided authority would not be a problem if the two agencies were of one mind as to what was appropriate for the operation of state associations. There is evidence that this is not the case. A full 25% of respondents to a survey of Maryland chartered savings and loan executives reported that the State insurer and the Division had differed at some time over some aspect of their association's operations. In one instance, the Division Director approved an association's branch application. The Corporation, as a condition of its approval of that change in the association's business, demanded that the directors of that association make additional deposits of a specified amount and promise not to withdraw them for a specified period.

The Executive Director of the Corporation acknowledges that the Corporation and the Division do have differences. The Division, he asserts, is fundamentally concerned with enforcing the law. The Corporation, by contrast, is more concerned with the business end of the association because of its interests as an insurer. While this may account for the differences, it does not necessarily justify them. Whatever the merits of the Corporation's position, as a matter of policy, it is unclear that such authority should be vested in a body which is not directly accountable to the General Assembly or the Governor.

The General Assembly may wish to limit MSSIC's powers to discontinue insurance and compel the associations to comply with its directives. It could most easily do so by adopting provisions parallel to those applied to the Credit Union Insurance Corporation. It would then make cancellation of insurance subject to approval of the Division Director. This would serve as an incentive for all agencies involved to develop more uniform standards for assessment of associations, reducing any confusion among associations as to what is appropriate.

D. Public Representation

The Board of Savings and Loan Commissioners consists of five industry representatives and four "public" members. Public members may not have served as an officer or director of an association for one year before appointment.

THE NOTION OF PUBLIC REPRESENTATION ON REGULATORY BOARDS IS WIDELY FAVORED BY THE GENERAL PUBLIC.

Seventy-seven percent of 611 Marylanders responding to a telephone survey favored public representation on state regulatory boards. Twelve percent of respondents were opposed and 11% were undecided.

In interviews, all Board members endorsed the concept of public representation. They indicated that the presence of public members had subtle effects on the regulatory process. Although no one could then cite a specific instance in which a public member had affected a particular decision, there was consensus that public members contributed different perspectives and experience and that the process was beneficial.

A review of the literature reveals that public representation is not without its critics. Some doubt its efficacy. They argue that those without a commitment to the regulated industry lack interest in Board activities. Further, they assert that consumers, lacking expertise, will either not contribute to board proceedings or rely on the judgements of those with the expertise.

An analysis of Board minutes for the years 1975-1979 lends some support to the critics' point of view. The data show public members attended and participated in meetings less frequently than did industry members. The two groups tended to vote together. In this period, all votes were reported as unanimous. Table 4 reports aggregate data for the five year period.

Table 4

ATTENDANCE AND PARTICIPATION BY PUBLIC AND
INDUSTRY MEMBERS AS REFLECTED BY BOARD MINUTES

	Attendance 1975-1979 Percent	Participation 1975-1979* Mentions (%)
Public Members	76%	976 (28%)
Industry Members	88%	2,538 (72%)
		3,514 (100%)

* Includes motions, seconds and participation in discussion mentioned in Board minutes.

OBSERVATION OF RECENT BOARD MEETINGS SHOWS PUBLIC MEMBERS AFFECTING POLICY.

Whatever the record shows for previous years, observation of the four Board meetings between June and September of 1980 indicate that public members are now having impact on the course of Board policy. For example, the initiative of a public member resulted in the reworking of a draft regulation concerning consumer loans. In the public member's view, the original draft would have excessively restricted the ability of the associations to offer consumer loans, and consequently, restrict the ability of consumers to receive them.

Most interesting, however, have been the recent deliberations concerning the Board's imposition, by rule, of rate ceilings on certificate accounts. Public and industry members are split on this issue. On two related votes in the September meeting, a majority of industry members endorsed a ceiling, while three of four public members opposed it. Also at that meeting, a public member raised possible anti-trust objections to the rule, and an Attorney General's opinion was requested.

PUBLIC AND INDUSTRY MEMBERS DIFFER ON COMPETITION.

The split vote between public and industry members on the issue of rate ceilings seems to be a result of their conflicting perceptions of the Board's role respecting competition. In interviews, all Board members were asked about possible goals of financial regulation. There was substantial agreement among industry and public members on all matters except promoting competition. Four of five industry members indicated that promoting competition was not a proper regulatory objective of the Board. Three of four public members felt that it was. On competitive issues, then, it appears that public members may be in a position to contribute views not substantially represented at the other side of the table.

THE EFFECTIVENESS OF PUBLIC MEMBERSHIP DEPENDS ON THE QUALITY OF APPOINTEES AND THE SUPPORT THEY RECEIVE.

Because the Board has such broad rulemaking authority, it seems important that public representation be provided on it. The quantity of public membership (4 of 9) appears adequate. The evidence of the last five years, however, is that its quality has been uneven. One public member, no longer with the Board, attended fewer than 2/3 of all meetings in every year. By contrast, a recently appointed member, trained as a consumer specialist, has assumed a leading role in Board deliberations. This suggests that the Governor and the General Assembly should exercise particular care in the selection of public representatives.

The nature of the individual is only one aspect, however. It is also necessary to supply public members with the support necessary for effective participation. The Maryland Consumer Council has developed a program for training public representatives. More may need to be done to improve the technical expertise of public members, however. In interviews, all public members were concerned that they did not thoroughly understand all issues before the Board. One indicated that only after a year did that member feel comfortable with the subject matter. In order to facilitate learning, the Division could prepare a sort of primer course on the industry for public members addressing both business and policy aspects.

E. Public Accountability

Observation of Board proceedings and review of agency records indicates the Board and Division are in compliance with requirements of state law related to openness and accountability in the administrative process. Board rules are promulgated in conformity with the State Administrative Procedures Act. Non-confidential records are available for inspection during business hours at the Division's Baltimore headquarters in satisfaction of Article 76A, Section 2 of the Annotated Code. Board meetings are open to the public in compliance with Article 76A, Section 7 and thorough minutes are prepared.

Board meetings are currently conducted in the afternoon on the second Thursday of the month at the Baltimore headquarters for the Division. The Board might wish to consider evening meetings and meetings held in different parts of the State in order to make its proceedings more accessible to the public.

F. Competition and the Board Regulatory Program

BOARD MEMBERS ARE DIVIDED ON THE ROLE OF THE BOARD RESPECTING COMPETITION.

In interviews, Board members were split on the issue of the Board's proper role respecting competition. Four of nine members indicated that promoting competition was not a proper objective of the Board. By contrast, the majority indicated that promoting competition was an objective of the Board. At the same time, however, a majority of Board members expressed interest in protecting associations from the effects of competition. In the words of one, associations should not be permitted to "steal accounts from somebody else". In light of these data, the position of the Board toward competition is unclear.

THE BOARD AND THE DIVISION ACT TO RESTRICT RATE COMPETITION.

One policy area where this lack of clarity is most pronounced involves deposit dividend rates. Maryland chartered and insured associations have historically paid higher passbook dividends than federal associations. Nevertheless, apparent policy of the Board and Division has been to restrain competition on the basis of rates.

The Division Director reports that until last year, the Division, with the knowledge of the Board, pursued a policy of discouraging associations from advertising the available rates. This was done, he reports, to prevent a "rate war". The policy began under the previous director was carried forward until a year ago, when pressure from associations forced its abandonment. Recent federal rulings in the anti-trust area suggest this policy to have been of doubtful legality.

More recently, regulations have been considered by the Board to establish rate ceilings on certificate accounts. This action was initiated on the advice of the Division. Ceilings were removed by the General Assembly in 1980 (H.B. 1008). Rate ceilings were tentatively approved by the Board at its September meeting by a five-to-four vote. At its October meeting, however, the Board reversed itself, motivated in part by questions as to whether the Board had authority to restrict rates under existing statutes.

THE REASONING BEHIND RATE REGULATION IS BEING QUESTIONED BY ECONOMISTS AND FEDERAL POLICYMAKERS.

Deposits in federally insured financial institutions are now subject to rate limits. The limits were first imposed for banks in 1933, in response to the wave of bank failures at that time. (They were not extended to federal savings and loans until 1966). The reasoning which connected rate limits to preventing failure was as follows: Banks fail because they make excessively risky investments. Banks make risky investments when they have to pay high deposit interest. If deposit interests can be controlled, banks won't make bad investments. In sum, the underlying theory is that banks' investment policies were dictated by what they had to pay for deposits and that rate controls could reduce the need to make risky investments.

The work of some modern economists reverses the theoretical relationship of deposit interest paid to investment policies. They state that banks will decide what rates to pay on deposits by looking at the return on investments with an acceptable risk factor, and their studies support them. Rate limits, then, do not make institutions more safe, only more profitable.

If rate limits do not prevent failure of institutions then what do they do? For one thing, they restrict the basis of competition among institutions subject to them. For another, they work to subsidize the inefficient by insulating them from the forces of the market. This subsidy is paid by every depositor who does not receive a dividend as high as the market would have allowed without the regulation.

At the federal level, rate limits are apparently on the way out. The Depository Institutions Deregulation and Monetary Control Act of 1980 schedules a six year phase-out of interest limits on all time deposits in federally insured institutions.

The General Assembly and the Board may wish to consider whether rate regulation at the state level is appropriate. Rate competition could result in some associations losing deposits to others paying higher rates. Is this "theft" as one Board member described it, or is it the work of the marketplace? Likewise, some associations unable to compete could be forced from the marketplace, not necessarily by failing, but through merger or liquidation. Is this desirable because it promotes efficiency or undesirable because it promotes a further concentration of economic power? The General Assembly may wish to direct the board more clearly on this issue.

G. Emerging Issues

THE FATE OF THE SMALL NEIGHBORHOOD ASSOCIATION IS IN DOUBT.

In interviews, both Board members and representatives of the industry indicated that economic conditions and competitive pressures threaten the future of the small neighborhood association which has traditionally characterized the Maryland market. One issue to be faced by the General Assembly and the Board in the years ahead is the extent to which policy should be bent, if at all, to preserve these associations against seemingly inexorable economic tendencies.

The long term trend is not encouraging for the small association. In 1963, there were reported to be 450 associations in the state. Today there are 208 state and federal associations in Maryland. As is the case with other economic units, small associations (in today's market, those under \$5 million in assets) have not realized economies of scale needed for optimally efficient operation. They are thus at a disadvantage in the marketplace.

In addition to this natural disadvantage are recent changes in the nature of the industry itself, which may have the effect of further excluding these associations from the market. Recent legislative changes have allowed associations to introduce checking services (Negotiable Order of Withdrawal - N.O.W.) accounts and consumer loans, among others. These powers are seen as necessary to preserve the industry in this inflationary period. Small associations are generally not in a position to enter these markets because they lack the capital resources and expertise to do so. The data reported in Appendix A reflects this by showing that only the largest associations have plans to offer these new services. To the extent that these new services are vital to the industry, the small association is further disadvantaged.

In recognition of the pivotal role the neighborhood association has played in the development of many communities, it is natural that there should be an attachment to these institutions. But policy toward them should also be guided by a realistic appraisal of the costs and benefits of protecting them.

First, it must be asked how the small association can be preserved. It appears that the only course would be to insulate them from market forces. This would involve inhibiting competition and retarding the adoption of new services by the industry.

It may be argued that this would not work. Maryland has no control over the larger forces acting on the small associations. In fact, the State has jurisdiction over less than half of the assets in savings and loan associations in the State. Federal associations, though fewer in number, have the largest share of the Maryland market, already. To pursue protective policies will only serve to restrict the ability of Maryland chartered associations to compete with federal associations and other segments of the financial system. Moreover, it will restrict the availability of financial services to Maryland consumers. Thus, it appears that protection of small associations, though sentimentally appealing, is inappropriate because it is futile and counterproductive. The passing of the small association will imply a cost, of course. Most importantly, it will mean loss of local lenders with roots and interest in their community. But this must be balanced against the aggregate cost to consumers across the State as a result of restricting competition.

H. Regulatory Structure

MARYLAND IS ONE OF ONLY 13 STATES WITH THREE OR MORE FINANCIAL REGULATORY AGENCIES.

A 1979 study of financial regulatory structures among the states shows Maryland to be one of only 13 states to regulate its financial institutions through three or more agencies. Thirty states, including all of Maryland's neighbors, do so through a single staff agency (sometimes assisted by one or more boards). Seven states employ two agencies.

REGULATORY STRUCTURE HAS BEEN A MATTER OF CONTROVERSY FOR OVER A DECADE.

Various state reports have weighed the merits of consolidation of Maryland financial regulatory agencies. Two early studies favoring consolidation included the 1967 Governor's Operating Economy Study and a 1971 report of the Secretary of the Department of Licensing and Regulation (the Jewell Report). Both reports emphasize functional similarities in the operations of financial regulatory agencies, especially as regards the examination of financial institutions. Arguing that examiners of the various agencies require roughly the same skills and perform comparable functions, the reports favored creating a single administrative structure to oversee their activities.

A 1976 Commission, consisting of lawyers, legislators and agency representatives, convened by Governor Marvin Mandel, came to a contrary conclusion. It found that consolidation would not work because the resulting agency would be too large and complex to be effectively managed. Figuring in its conclusion was the view that banks, savings and loan associations, and loan companies were specialized areas that required specially trained examiners. Concern that one class of institution would be favored over another in a consolidated agency was also expressed.

The issue of consolidation was raised again in the 1979 Executive Plan of the Department of Licensing and Regulation. This document emphasizes recent trends in the financial industries which are tending to erode the historical distinctions among financial institutions. The theory expressed is that institutions which are becoming more alike should be treated more similarly and that this could best be accomplished through a single administrative unit.

REVIEW INDICATES SOME PROBLEMS WITH EXISTING ARRANGEMENTS.

Although not the exclusive focus of the review, the evaluation of the State's financial regulatory agencies has identified situations which might be improved by alternative structural arrangements. These include lack of coordination, duplication, and manpower problems.

Coordination

It appears that there has been only occasional interchange among employees or heads of the State's financial regulators. Since various regulated institutions are increasingly becoming involved in like lines of business, increased interagency consultation and coordination will be necessary. This could be effected voluntarily through existing agencies and encouraged by the Office of the Secretary. It would be further facilitated, however, by an administrative structure which provided a structural framework through which information sharing and coordination could be assured.

Duplication

Observation suggests growing functional duplication among the existing agencies. The Governor's Operating Economy Study and the Jewell Report emphasized the likeness of the agencies' examination activities. Particularly in the case of the banking and savings and loan industries, recent developments have heightened similarities in the examining task. A second element of duplication involves consumer protection activities. All agencies have or are now developing a consumer protection program focused primarily on response to consumer complaints and inquiries. It is possible that complaint procedures and expertise could be more effectively developed through a consolidated unit of specialists in consumer problems.

Manpower

Review indicates that the Office of the Bank Commissioner and the Commissioner of Consumer Credit lack sufficient personnel to carry on their full regulatory functions in occasional and unpredictable circumstances. The Bank Commissioner lacks enough examiners to examine the State's largest banks. Support is donated from a federal agency. The Commissioner of Consumer Credit's Office must pull examiners out of the field in order to handle complaints when office personnel are absent or otherwise unavailable due to extenuating circumstances. An example of such an extenuating circumstance in the past was the event of an expose on repossession practices, when additional examiners were pulled by the office as needed. While both agencies have adapted to their situations, structural integration of some sort could, if properly managed, permit personnel resources to be directed to areas of peak need. Were the Offices of the

Bank Commissioner, the Commissioner of Consumer Credit and the Division of Savings and Loans better integrated, this reallocation of personnel might be executed with greater ease and less cost to the overall program of regulation.

The General Assembly may wish to consider a reorganization of financial regulation in Maryland. Determining the appropriate scope of such a reorganization may require further study. It does appear, however, that some benefits could be realized from better coordination and shared administration of regulatory activities. Arguments that different types of financial institutions necessarily require their own regulators are undercut by the fact that different kinds of depository institutions are increasingly able to get into the same kinds of business. Moreover, a variety of financial institutions have been more or less successfully regulated from within a single state agency—the Bank Commissioner's Office—for many years.

Nonetheless, there is substantial opposition to the altering of existing arrangements. The majority of State bankers surveyed opposed creation of a single financial regulatory agency. A review of meeting minutes shows that the Board of Savings and Loan Commissioners has opposed the concept on two occasions between 1975 and 1979. In interviews, agency personnel have expressed reservations about the merits of the concept.

APPENDIX A

USE OF NEW POWERS BY
STATE CHARTERED SAVINGS AND LOAN ASSOCIATIONS

In a mail survey, executives of state chartered associations were asked about the plans of their association to use powers recently granted them by changes in state and federal law. Their responses are reported below:

In the next five to ten years, how likely is it that your association will convert from mutual to stock organization?*

<u>Assets</u>	<u>Number</u>	<u>Very Likely</u>	<u>Likely</u>	<u>Unlikely</u>	<u>Very Unlikely</u>
\$5 million or less	52	6 (11%)	3 (5%)	8 (15%)	35 (67%)
Over \$5 million	28	6 (21%)	4 (14%)	3 (10%)	15 (53%)
TOTAL	80	12	7	11	50

* Seven respondents already had stock organization.

Does your association offer or plan to offer the following services?

Number (percent) Offering or Planning to Offer Service

<u>Service</u>	<u>\$5 Million Or less</u>	<u>Over \$5 Million</u>	<u>All Associations</u>
N.O.W. Accounts*	5 (10%)	28 (75%)	37 (33%)
Consumer Loans	16 (30%)	25 (69%)	41 (46%)
Second Mortg.	22 (44%)	28 (77%)	50 (58%)

* Negotiable Order of Withdrawal

APPENDIX B

BOARD OF SAVINGS AND LOAN COMMISSIONERS

Industry Representatives

Chairman:

W. Thomas Gisiel, counsel to American National Building and Loan, Baltimore. Term expires 1981.

John M. Balder, counsel to Lincoln Building and Loan, Baltimore. Term expires 1981.

Jay FitzGerald, counsel to Community Savings and Loan, Gaithersburg. Term expires 1981.

Frank L. Hewitt, Jr., President, Citizens Savings and Loan, Silver Spring. Term expires 1982.

John F. Pasko, Director, White Eagle Savings and Loan, Baltimore. Term expires 1981.

Public Representatives:

Nancy Erwin, former consumer specialist for the White House, Baltimore. Term expires 1984.

Joanne R. Kerstetter, credit counselor, Silver Spring. Term expires 1983.

Charles K. Rittenhouse, realtor, Catonsville. Term expires 1981.

Broadus E. Sawyer, professor of business, Baltimore. Term expires 1983.

RESEARCH TECHNIQUES

1. A telephone survey of Maryland residents.

Between March 29 and April 12, 1980, 611 randomly selected Marylanders were contacted by telephone and asked a variety of questions relating to State regulations.

2. A mail survey of savings and loan executives.

Survey questionnaires were mailed to the presidents of each of the 144 State chartered savings and loan associations. Ninety-three responses were received.

3. A mail survey of persons complaining to the Board.

Survey questionnaires were mailed to the 70 persons filing written complaints with the board in F.Y. 1980. Thirty-nine responses were received.

4. Interviews with Board members.

All board members were interviewed.

5. Interviews with Division personnel.

Interviews were conducted with the Director, Deputy Director, and examiners of the Division.

6. Review of legal materials.

Statutory history and relevant case law were reviewed.

7. Review of literature.

Literature pertinent to the savings and loan industry was reviewed.

8. Review of Board minutes.

Content analysis of board minutes of meetings between January, 1975 and December, 1979 was conducted.

~~Preliminary development of...~~

Survey Loan Board revealed the three following statistically significant trends:

1. Commissioners designated as "Consumers" or public members of the S+L Board have a significantly lower rate of attendance than industry members of the "Consumer" attendance over a five year period, controlling for total sickness and death, was for the four consumer members combined ~~44.4%~~^{66.6%}, as opposed to ~~84.8%~~^{82.8%} for industry representatives over the same period.

2. Consumer members, individually and as a group, participated less frequently than industry members in all aspects of the Board's meetings and decision making processes. An impression ~~of~~ of the minutes and records recorded in the S+L minutes are attributable to industry representatives.

3. Over the five year period examined (1975-1979), in separate meetings, the public interest and welfare in Maryland and/or the U.S. was mentioned only ~~4~~⁴ times. By contrast, the welfare of the industry was mentioned during that same period ~~some~~^{on 308} separate occasions.

Notes of interest: On two separate occasions the Board denounced the idea of consolidation of the state financial agencies - unanimously.

4. In the course of the five year period, industry members dominated discussions recorded in the

mergers 6-7
new charters - 8

2953
replacement id - 21-22
total UNANIMOUS - 0



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
ONE SOUTH CALVERT STREET, SUITE 1006, BALTIMORE, MARYLAND 21202

301/659-6330

MEMORANDUM

TO: Mr. John J. Corbley, Secretary
FROM: Charles H. Brown, Jr., Director
David H. Wells, Jr., Deputy Director
RE: 3% 1981 Fiscal Year Budget Reduction
DATE: September 23, 1980

This is in response to your memorandum of September 19, 1980 requesting that this agency outline a program for reducing its expenditures by 3% during the current fiscal year (1981). Based on a total 1981 appropriation of \$690,026, we understand that we are required to make cost reductions of at least \$20,701.

Outlined below is a general list of the cost reductions and overruns we anticipate in our current budget. In this summary, we have provided you with net figures which correspond directly to the budget; however, the specific reductions and overruns appear in the attached copy of our budget. Below these figures we have also provided you with a narrative summary of some of the major adjustments we have made to the budget.

<u>Budget Category</u>	<u>Reduction</u>	<u>Overrun</u>
Salaries and Wages	\$13,229	
.02 Technical and Special Fees <i>Training, Admin</i>	980	\$ 755
.03 Communication	75	900
.04 Travel <i>Commuter</i>	2,900	4,000
Vehicle Operation <i>Replacement</i>	8,200	
.07 Contractual Services <i>Printing, new car</i>	4,500	
.09 Supplies and Materials	950	2,000
Equipment Replacement <i>Typewriter Rep</i>	1,952	
Total	\$32,786	\$7,655
Net Reduction	<u>\$25,131</u>	

As you can see, a substantial percentage of our cost reduction is achieved in the salary area. Due to the fact that the agency has no vacancies at the present time, the only way we can

achieve this type of cost reduction is to hold the line on employee reclassifications for the remainder of the current fiscal year. With our past retention problems, this is obviously something we do not want to do. However, it appears to be the only way we can achieve a cost reduction of the magnitude mandated by the Governor.

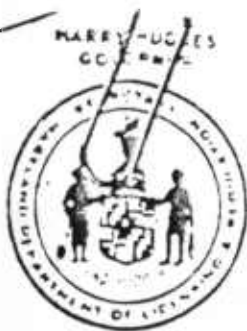
This problem is compounded by the fact that our 1981 appropriation of only \$7,425 for in-State travel is very unrealistic in a period of rising gasoline prices. Our 1980 actual expenditure in this category was \$11,238, and we are anticipating a \$4,000 overrun in this category. We are currently rethinking our examination scheduling practices in an attempt to come as close as possible to our budget appropriation in this category. If we are successful in reducing our expenditures in this area, funds will become available for employee reclassifications.

The other major cost reductions include deferral of \$10,152 in expenditures appropriated for typewriter and vehicle replacement, \$2,900 for out-of-State travel, and \$4,500 for publication of the laws and regulations relating to savings and loan associations. At the end of fiscal year 1980, we provided the industry with a current set of regulations. In the past, we have also provided the industry with current copies of the laws affecting savings and loan associations. Due to the recent recodification of the savings and loan laws, printing and distribution of these statutes would cost the Division a considerable amount of money in the current fiscal year. Instead, we are passing this responsibility on to the industry and advising them how they can obtain current copies of the statutes through the Michie Company in Charlottesville, Virginia. This approach will save the Division \$4,500 in the current fiscal year and might also be used by other agencies which provide free copies of the State law to the industry they regulate.

If any further information is required, please contact us.

CHB:DHW:cpk

Attachment



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301-655-6330

FREDERICK L. DEWBERRY
SECRETARY

MEMORANDUM

TO: Carville J. Brian, Fiscal Administrator
FROM: Charles H. Brown, Jr., Director *CB*
DATE: August 13, 1984

As requested, I am enclosing a schedule showing budget estimates for the fiscal years ending in 1985 and 1986.

Because of the tremendous increase in the growth of our industry, I find it necessary to request three new examiner positions. You will note in the budget estimates that our industry grew from \$5.2 billion in 1983 to \$9.2 billion in 1984, and this growth is expected to continue. Because of the growth our examinations are becoming more complex and more time consuming, and we must have additional help if we are to do the job charged to us by the Code which is "protecting the funds of the public." You are aware that just last week we had three resignations from our examining staff. The three new positions are in addition to replacing the three individuals who resigned.

A few years ago we were giving serious consideration to tying in with the computer system of the Maryland Savings-Share Insurance Corporation. I understand George Wright had explored the possibilities of our doing this and was in full agreement. Because of tying in to the computer system, we lost a position that particular year. However, MSSIC was not entirely satisfied with the system they were using and suggested we hold off until such time as they were satisfied with the system being used. Subsequently a whole new system was purchased by MSSIC and they are ready for us to join them. Our business has grown so much that it is impossible for us to get along without being computerized, and it is essential that we share in MSSIC's system immediately. I cannot tell you at this time what the cost will be but it is something that must be seriously considered. With the pending move of our office to another location, it would not be feasible to put the lines in until we move to a new location. It appears, however, that we will be moving very shortly, and we will wish to install a terminal as soon as we are relocated.

For several years there has been a bill in the Legislature to reduce the franchise tax on savings accounts which is included in the budget estimates. This tax is paid by all savings and loan associations, federal chartered and State chartered, based on savings as of December 31st of each year. The present rate is 130/10,000ths of 1% of savings. The tax was initially established to

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offset the cost of running the Division back in 1961 when the Division was created. The tax in recent years has been far in excess of the cost of operations of the Division to the extent that in 1983 there was a profit to the State of about \$900,000. There will be a similar profit for 1984 and will increase in 1985 and 1986 to over a million dollars. In prior years the bill to reduce this tax has always received an unfavorable report from the Senate Budget and Taxation Committee. I am sure this bill will be filed again by the industry to have the tax reduced or perhaps eliminate the federal chartered associations from payment of the tax. Last year's bill was to cut the rate in half, which would produce a tax comparable to the cost of running the Division. This is something you should be aware of, as one of these days a reduction in the tax might be passed by the Legislature.

CHB:kg
Enclosure

cc: Gordon N. Wilcox, Coordinator
Frederick L. Dewberry, Secretary

BUDGET ESTIMATE

FISCAL YEAR 1986

Department of Licensing and Regulation
(State Agency)

The Division of Savings and Loan Associations
(Institution or Unit)

34.03.04.01 Supervision and Regulation of Savings and
(Program No and Title) Loan Associations

SUPERVISION AND REGULATION OF SAVINGS AND LOAN ASSOCIATIONS

Program and Performance

Articles 8 and 9 of the Financial Institutions Article of the Annotated Code establish the Division of Savings and Loan Associations to supervise and regulate the incorporation, organization and operations of State chartered savings and loan associations to assure, insofar as possible, that associations are operated in compliance with statutory and regulatory requirements and accepted industry standards.

SAVINGS & LOAN STATISTICAL INFORMATION AS OF 6/30/85

	1983 Actual	1984 Actual	1985 Estimated	1986 Estimated
State Chartered Savings and Loan	114	115	118	120
Total Assets of State Chartered Savings & Loans (Billions)	\$45,247	\$9,267	\$11,120	\$12,788
Savings and Loan Offices	291	316	336	356
Savings and Loan Service Corporations	60	85	100	115
Shared Automated Teller Machines (ATMs)	71	78	86	92
POINTS OF MEASUREMENT:				
Examinations:				
Savings and Loans - By State Examiner	101	88	90	92
Savings and Loans - Jointly with F.H.L.B.B.	13	9	10	10
Service Corporations	60	72	85	98
Administrative Action:				
Investigation of Complaints and Inquiries	371	389	400	400
Applications	35	50	60	70
Orders of the Director	35	40	40	40
Board of Commissioner Meetings	12	12	12	12
Conferences	377	370	360	360
Revenue Collected - Franchise Tax on Savings	\$1,462,656	\$1,730,525	\$1,990,103	\$2,189,113
Licensing Fees	16,000	\$19,600	\$15,000	\$15,000
Miscellaneous, Non-Licensing	2,372	\$1,990	\$2,000	\$2,000
Total Revenue	\$1,481,028	\$1,752,115	\$2,007,103	\$2,206,113



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301-659-6330

FREDERICK L. DEWBERRY
SECRETARY

MEMORANDUM

TO: Gordon N. Wilcox
Coordinator

FROM: Charles H. Brown, Jr. *CB*
Director

DATE: August 27, 1984

In my memorandum of August 13, 1984 regarding the budget for the fiscal years ending in 1985 and 1986, I mentioned that I planned to request three new examiner positions for the Division. This memorandum will serve as justification for the three new positions.

As late as 1981 the Division had 33 authorized positions. However, due to budget cuts in recent years, our authorized positions now number only 30. This reduction was in our examining staff.

The State-chartered savings and loan industry has shown a tremendous growth in assets in recent years. I do not have the figures available of the assets of the industry when the Division was created in 1961. However, in 1970 the assets of the State-chartered industry amounted to approximately \$970 million. By 1977 the assets increased to \$2.75 billion. Today the assets of the State-chartered industry, both federally insured and those associations insured by the Maryland Savings-Share Insurance Corporation, approximate \$8 billion. As a matter of information as of December 31, 1983, the breakdown of our industry, asset-wise, is shown below:

	<u>Billions</u>
13 federally insured associations	\$1.387
102 MSSIC insured associations	<u>6.542</u>
Total - 115 insured associations	\$7.929

During the 1982 session of the General Assembly, the legislature authorized our associations to make the same investments permitted banking institutions in the State. In the 1983 session, the legislature authorized our associations to make any investments permissible for a federal savings and loan association. By reason of the additional investment powers granted to our associations, we are now operating under Federal Home Loan Bank regulations, State banking regulations, the Maryland law as set forth in Title 9 of the Financial Institutions Article, as well as rules and regulations promulgated

by the Board of Savings and Loan Association Commissioners. With these additional powers our examinations have become more complex and are taking more time than in the past. It is important for our examiners to review as many loans as possible to determine that lending is made under the laws of Maryland and regulations of the Division and that there are adequate underwriting procedures in effect. As our associations now have the authority to make commercial loans as well as the authority to make investments all over the country, along with deregulation of the industry, it is most important that lending procedures be reviewed as losses incurred by associations are generally in the lending area. The savings and loan industry, unlike commercial banks and finance companies, has historically invested the bulk of its assets in loans secured by real estate. Some believe that with the savings and loans being deregulated and having broader investment powers, that they will become quite similar to a bank in their operations. To date there is little evidence that savings and loans will not continue to invest the bulk of their assets in real estate loans. Real estate loans involve lending on land for acquisition and development, construction as well as permanent loans. Lending today is complex, involves considerable amounts of money, and losses can and do occur.

In addition to our examination of our associations, which is our primary responsibility, the Division processes applications for branch offices, relocation of existing offices, new charter applications, and conversions from mutual associations to stock associations. At the present time we have approximately 30 applications on hand. Each application requires a thorough review of the application, a feasibility study, a survey of the proposed site in the case of branching, relocation or a new charter. We are compelled to bring field examiners into the office to assist us in the review of each application. With the additional time required to make an examination today added to the requirements necessary to process applications for branching, etc., which reduces our examining staff available for examinations, our work load has increased tremendously.

Under the Financial Institutions Article of the Annotated Code, we are compelled to examine each association at least once every two years. With the growth of our associations, the new investment powers granted, and with deregulation of the industry, we feel that two years is too long a period between examinations. We are currently examining our associations about every fifteen months and we are finding it difficult to maintain that schedule with our present examining staff. As the growth of our industry continues, it is imperative that the Division be authorized three additional examining positions.

You are aware of the legislative Task Force which conducted hearings during the summer with regards to the Maryland Savings-Share Insurance Corporation as well as this Division. The Task Force made its final report at a joint meeting of the Senate Economic Affairs Committee and the House Economic Matters Committee on Tuesday, August 21, 1984. One of the matters that the Task Force was particularly interested in was assuring that this Division has adequate and qualified staff to perform the duties with which we are

charged under the Financial Institutions Article, that is, to assure that the funds of the public are protected. The Task Force was aware that we were requesting three additional positions for our examining staff. Additionally, the Task Force was concerned that our examining staff be adequately compensated so that we can not only recruit qualified examiners but also be in a position to retain experienced examiners. The joint economic committees of the House and Senate appeared to be most concerned that the Division have the staff necessary to perform its required duties.

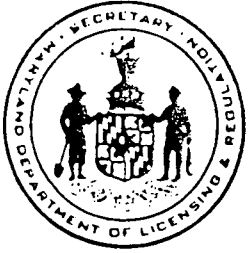
CHB:kg

cc: Secretary Frederick L. Dewberry
Carville J. Brian, Fiscal Administrator

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN,
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301/659-6330

WILLIAM S. LECOMPTÉ
DEPUTY DIRECTOR

September 30, 1985

Wilbur D. Preston, Jr., Esq.
Special Counsel
Suite 1513
301 W. Preston Street
Baltimore, Maryland 21201

Dear Mr. Preston,

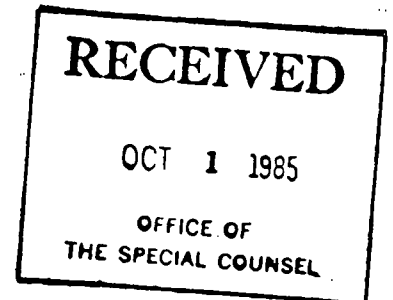
I am sorry for the delay in getting the attached material to you. We had some pretty busy times at the Savings and Loan Division Office following my visit with you and I could not get the time to concentrate on this and get the job done until after my retirement.

I hope you will find this material useful.

Very truly yours,

Charles H. Brown, Jr.
CHARLES H. BROWN, JR.
Former Director

b



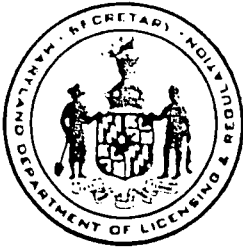
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HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN,
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301/659-6330

WILLIAM S. LECOMPT
DEPUTY DIRECTOR

Wilbur D. Preston, Jr., Esq.
Special Counsel
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Preston:

At the time of my initial visit with you and other members of the Counsel, I indicated I would like to submit a memorandum summarizing my discussion. You indicated that you would be most happy to receive this report. You also asked that I include my feelings as to the future of the savings and loan industry as well as any suggestions or recommendations that I might have in the way of legislation affecting the Division.

My report is attached and I have included several suggestions relative to legislation which I think should be considered by you in your findings.

I trust the report will serve some purpose in your investigation.

Very truly yours,

Charles H. Brown, Jr.
Director

CHB:kg
Enclosure



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 600
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4076
301/659-6330

WILLIAM S. LECOMPTÉ
DEPUTY DIRECTOR

Statement of
Charles H. Brown, Jr., Director
Division of Savings and Loan Associations
For the Special Counsel

The sensitivity of the industry the Division of Savings and Loan Associations is regulating was truly reflected in what happened as a result of the release of a simple press statement announcing the removal of Jeffrey Levitt as managing officer of the Old Court Savings and Loan, Inc. and the appointment of John D. Faulkner, Jr. to succeed Mr. Levitt. The press release noted that the regulators discovered problems connected with Mr. Levitt's management of the association. As Mr. Faulkner had already been employed as a consultant by Old Court and being very familiar with his background, both the Maryland Savings-Share Insurance Corporation and the Division endorsed Mr. Faulkner's appointment.

In recent months problems in the financial industry throughout the country made the State-chartered M.S.S.I.C. industry extremely sensitive to any news items regarding insurance of savings accounts by a private insurer. Early in the year a Sunday evening television show known as "60 Minutes" produced a show regarding the failure in Nebraska of a large financial institution which had private insurance of accounts. Following this broadcast on Monday morning and for several days thereafter the telephones at the Division's office were flooded with calls regarding the failure of the institution in Nebraska and the private insurance fund that was not large enough to cover the losses of the institution that failed. As it turned out, the institution that failed was not a savings and loan association but instead an industrial bank. The phone calls from the public and news media expressed concern over the Maryland Savings-Share Insurance Corporation, which was a private fund, and its ability to cover a similar or large crisis should one develop in Maryland. The news media created a lot of unrest and uncertainty among depositors in State-chartered, privately insured institutions.

Following the Nebraska problem, the Ohio crisis broke. There was country wide news coverage regarding the failure of the Home State Savings followed by the collapse of the Ohio Deposit Guaranty Fund, a private fund

which insured the savings accounts of Home State. The media constantly referred to O.D.G.F. as a private insurer with a comparison of it to the private insurance funds in Maryland, Massachusetts, Pennsylvania and North Carolina. As a result of the media coverage the Division's office was a nightmare with calls from depositors as well as the news media from all over the country always questioning M.S.S.I.C., its strength and its ability to handle a similar situation. It was unbelievable the number of calls we received and my staff spent days just answering the telephone. Some of our associations at this point began to feel the loss of deposits from their savings accounts which led to heavy borrowing in some cases from the Federal Reserve Bank.

With Nebraska, followed by Ohio, we knew for sure that we had a very sensitive and explosive issue on our hands regarding the insurance of savings accounts by a private corporation, the Maryland Savings-Share Insurance Corporation. We knew also that because of the sensitivity of the situation we had to be extremely careful how we would handle any situation, knowing full well that after Nebraska, followed by Ohio, any hint of a problem in Maryland could create a crisis resulting in "runs" on our associations similar to that in Ohio and which conceivably could spread throughout our industry.

Between the years 1981 and 1983 the Federal Savings and Loan Insurance Corporation had about 440 savings and loan associations that failed and the agency and its parent, the Federal Home Loan Bank, had deferred many of the losses by letting essentially insolvent savings and loans continue to operate and letting many others resort to accounting gimmicks to appear solvent. The unrecognized losses far exceeded the F.S.L.I.C. \$6.4 billion reserve fund. This was reported in the May 23, 1984 issue of the Wall Street Journal, copy of which is attached (Exhibit A). During this period Maryland did not lose a single State-chartered association. In Baltimore, the ~~Fidelity Federal Savings and Loan Association~~ was lost as was County Federal Savings and Loan in the Washington suburban area of Montgomery County. I understand in both cases there were bad investments, possible insider dealings and in the case of County Federal, the Federal Home Loan Bank and/or the Federal Savings and Loan Insurance Corporation brought suit against the directors of the association for permitting such insider transactions. Again during this period we were able to keep our State-chartered associations alive.

In a recent article in the May 27, 1985 issue of the Washington Post, copy attached (Exhibit B), the statement was made, "Falling interest rates are giving the nation's savings and loan associations their first relief from a five year landslide of losses that has forced 850 savings and loans to go out of business since 1980. With interest rates down to the lowest level since the late 1970's, the savings and loan industry this year could finally begin to make enough money to rebuild the damage done by deregulation and the highest interest rates in modern history.

The Savings and Loan Division has had little or no authority to censure officers and directors of an association other than through a court appointed conservatorship. As late as the 1984 session of the legislature the Division requested authority to remove officers and directors for engaging in unsafe and unsound practices. ~~SB 576 passed the Senate in 1984 which would have authorized removal powers for the Division.~~ Although passing the Senate, the bill died in committee on the House side.

The Legislative Task Force, co-chaired by Senator Denis and Delegate Kirchenbauer which met last summer, were very concerned that the Division lacked cease and desist authority and authority to remove officers and directors for engaging in unsafe and unsound practices and even more concerned when they learned that the Federal Home Loan Bank had such authority as did the Maryland Bank Commissioner. Realizing such authority could be a necessity in the event of a problem, the granting of such authority was included in the report of the task force to the legislature and subsequently legislation was enacted in the 1985 session granting the Division both Cease and Desist authority (HB 333) and authority to remove officers and directors for engaging in unsafe and unsound practices (SB 112). Both of these bills were signed by the Governor and became effective July 1, 1985.

Over the years the Division has had personnel problems insofar as recruiting of new personnel and the retention of personnel after they have been trained. Any time I have appeared before any legislative committee or any other committee, if the opportunity presented itself, I would bring up this subject. Presently we are trying to recruit "Examiner Trainees" with a college degree, with a major in finance, business education or accounting at a salary of \$12,600 per annum --- \$12,600 --- an impossible situation. Requests have been made numerous times during the past five years to upgrade examiner salaries but with little success. My last request was made in August 1984. Fred Dewberry, Secretary, Department of Licensing and Regulation, very strongly endorsed my request and I forwarded it to Personnel for their action. Delegate Eileen Rehrman of the House Budget and Appropriations Sub-Committee, which committee reviews our budget, and Delegate Diane Kirchenbauer of the House Economic Matters Committee and who co-chaired the Legislative Task Force in the summer of 1984, arranged for a meeting with Secretary O'Brien of State Personnel at Annapolis early in the year to discuss the need for increased salaries for the Division's examining staff. Those in attendance at this meeting were several members of the House Budget and Appropriations Sub-Committee, chaired by Delegate Tim Maloney, including Delegate Rehrman and also Delegate Kirchenbauer. Also in attendance were Banking Commissioner Margie Muller, Consumer Credit Commissioner Alan Fell, and the undersigned. The Bank Commission and Consumer Credit Commission and the Savings and Loan Division use the same personnel spec's for examiner positions and at the same salary levels. After each agency head expressed their concern over low salaries and the inability to recruit personnel and retain them when trained, Secretary O'Brien advised he was very sympathetic about our problem but funds were just not available at that time to make any changes. Additionally, to

make a change it would be necessary to consider every examiner, auditor accountant, etc. in the State system using similar job specifications which was an impossibility and further that a change could not be made for just one agency. Secretary O'Brien did assure us that he would consider a salary review for next year. He also indicated that he would assist us in bringing in experienced individuals at a higher level than trainee if we could find qualified persons.

With it all we still have a turnover. I presently have an authorized staff of 30 persons including the Director and Deputy Director. Of this staff, nineteen (19) are considered field examiners and I now have four (4) vacancies in the field examiner category leaving me fifteen (15). I also have two examiner-supervisors (Grade 5). I have one vacancy in this position. This leaves me with five (5) vacancies in my staff. I have asked for additional personnel many times because of the growth of our industry, the complexity of examinations and the time required to examine with all the new investments authorized but without much success.

When the Division was created in 1961 by the State Legislature, we had many more associations than we have today. However, of the hundreds of associations in existence, I understand the largest association at that time was about \$17 million. Today our largest association, Chevy Chase, which was just recently granted Federal Insurance coverage, is about \$2.3 billion in assets. Quite a contrast today compared to 1961. The assets of the M.S.S.I.C. State-chartered institutions were about \$970 million in 1970, increased to \$2.75 billion in 1977 and to about \$9 billion as of December 31, 1984. The entire State-chartered industry including the thirteen institutions with savings accounts insured by the F.S.L.I.C. was approximately \$10.5 billion at December 31, 1984. When the M.S.S.I.C. insurance program was created by the State Legislature in 1962, I do not believe that anyone ever dreamed this industry would grow to reach the size that it is today.

Of the 115 associations regulated by the Division, 13 are federally insured institutions on which we do a joint examination with examiners from the Federal Home Loan Bank. Of the remaining 102 associations the examination is made by the Division only with no assistance from any other government regulatory agency. At one time I had 34 individuals assigned to my staff but with budget cuts, transfers to other agencies for one reason or another, I now have an authorized staff of only thirty (30) persons. My last request was for three additional positions in the 1985-86 budget, which was denied even though the size of our associations have grown tremendously in recent years creating a tremendous amount of extra work.

The word "deregulation" has been heard many times. Our industry has been deregulated to keep our associations competitive with the federally chartered associations and other financial institutions.

There was a day, five years or more ago, when a State-chartered association was prohibited from making loans more than fifty (50) miles

from its principal office or branch. Today these associations can lend anywhere in the country and some do. We cannot monitor a loan made in Florida, Texas or anywhere else during an examination. Maybe it was not such a good idea to remove that fifty (50) mile restriction.

In 1982 a change in the Code authorized a State-chartered association to make investments under the same conditions applicable to banks. This opened up a whole new lending area to the State-chartered savings and loan industry --- unsecured loans, letters of credit, lines of credit, all types of commercial lending and anything else a bank can do. A few of our associations jumped into this heavily and maybe we are seeing the results of it now.

In 1983 the Division proposed a departmental bill HB 284 which would have restricted deposits between associations up to the amount of insurance. This bill was proposed after the Board of Commissioners adopted regulations covering the same subject and on which the Division was sued in a local court in Baltimore City on the basis that the Board of Commissioners did not have the authority to adopt such a regulation. The Division did win this suit. As originally proposed, the bill passed the House Economic Matters Committee. However, in the Senate Economic Affairs Committee the bill was amended by adding to it a provision that our associations could make the same investments applicable to federal associations. The bill went back to the House Committee which approved the Senate version over the protest of the Division. Authorized investments for State-chartered associations are set forth in Section 9-419(a) of the Financial Institutions Article. These investments are subject to the regulations of the Board of Commissioners. The amendment added to the bill Section 9-419(c) of the Financial Institutions Article and which is not subject to regulations of the Board of Commissioners and the authority to make investments applicable to federal associations was taken out of the hands of the Board of Commissioners. Perhaps the legislature received some bad advice as the Division's bill would have restricted deposits between associations. Under federal regulations deposits between associations are based on a formula of the Federal Home Loan Bank and permits deposits considerably higher than the \$100,000 insured. Today some of our associations may have a considerable investment in other institutions as was reflected in a recent suit by Fairfax Savings Association against M.S.S.I.C. to recover \$20 million deposited at Old Court. Did these changes help to bring down Old Court ---- perhaps.

In 1980 the Division and Board of Commissioners was desirous of regulating interest and dividend rates paid on savings accounts by our associations, similar to Regulation Q which restricted rates which could be paid by federal associations. The Anti-trust Division of the Attorney General's Office advised us that rate controls would be a violation of anti-trust laws and consequently there would be no State action immunity. The proposed regulation was dropped.

In February 1983 the Board of Commissioners was preparing regulations on commercial lending. Again, the Anti-trust Division of the Attorney General's Office advised there could be problems in imposing regulations with certain limitations and restrictions which were more restrictive than bank regulations.

In July 1984 the Division and Board of Commissioners were considering amendments to our lending regulation .30 which covered certain lending restrictions as well as regulations covering a Federal Tie-In to Federal Regulations which also would have been more restrictive than federal regulations, as well as amended regulations on net worth requirements. These proposed regulations were tabled when the Anti-trust Division of the Attorney General's Office warned us of possible anti-trust exposure by reason of a suit threatened by our former Assistant Attorney General, who then was with a local law firm. Again the proposed regulations were dropped.

In September 1984 the Anti-trust Division advised that with regards to the amendment to HB 284, previously mentioned, which authorized our associations to make the same investments allowed federal associations, that the Board would have to prove need, based on safety and soundness, to adopt any regulation more restrictive than that permitted federal institutions.

In 1984, when the Federal Home Loan Bank adopted certain regulations to restrict "Brokered Deposits," the Board of Commissioners proposed regulations which would have prohibited an association from accepting brokered deposits in excess of 10% of savings deposits and if the net worth of an association was less than 3%, the brokered deposits could not exceed 5% of savings. The regulation was published as a proposal in the Maryland Register to be adopted after the proposed publication period expired. Brokered deposits are those deposits received through money brokers on which an association pays the broker a fee. The deposits are considered "hot money" as they tend to follow high interest rates. Brokered deposits were the subject of many discussions during the 1984 summer task force sessions. A suit was filed against the Federal Home Loan Bank on the legality of the Brokered Deposit Regulation and the court ruled against the Federal Home Loan Bank and the Brokered Deposit Regulation died. Again we were advised of possible anti-trust problems inasmuch as the Federal Home Loan Bank had no brokered deposits regulations and we were restricting our associations from raising capital under the same conditions and to the same extent as federal associations (9-420 F.I.A.) Consequently, our brokered deposit regulations were abandoned.

It is evident the Division has had more than its share of problems over the years with both legislation and regulations.

As for Old Court Savings and Loan, examiners from the Division started the examination of Old Court on June 18, 1984 and continued through September 14, 1984. After completing the examination, the work papers were taken to the Division offices where the field examiners then wrote up the

report of examination. Following this the examination was then reviewed by our review section and discussed with the field examiners. Following a review of the comments and other statistical data, the examination is further reviewed by the Chief Examiner and then is ready for typing. The examination is then passed on to the Director or Deputy. The supervisory letter and the report of examination was mailed to the Board of Old Court on November 26, 1984. An association is generally given forty-five (45) days to respond inasmuch as the supervisory letter is sent to the Board of Directors of an association directing that the report should be reviewed by the Board at a Board meeting after which a response is to be sent to the Division. The response from the association was received about January 23, 1985.

As a result of and as a follow-up to our examination, M.S.S.I.C. examiners made a spot review of the operations of Old Court in January 1985. Mr. Hogg of M.S.S.I.C. advised the Division that his examiners found additional problems and violations at Old Court and as a result of M.S.S.I.C. findings, the Division examiners went into the association again on February 11, 1985 to do a follow-up and to begin another examination. M.S.S.I.C., in the meantime, as a result of the findings in the Division's examination and their own spot examination, prepared a letter to the Board of Directors of Old Court setting forth various charges as shown therein accompanied by a management agreement. The letter to be dated March 22, 1985, would, under M.S.S.I.C. rules, give the association an opportunity to respond, which response including the management agreement would be due by approximately April 22, 1985, which, if the management agreement was not signed, would then result in the issuance of a Cease and Desist Order by M.S.S.I.C.. The management agreement contained a voting trust agreement which, if there were further violations of either M.S.S.I.C.'s rules or the Division's or of the management agreement itself, M.S.S.I.C. would then be in the position to vote the stock of Old Court.

The M.S.S.I.C. letter of charges and management agreement was known to the Division although we played no part in its preparation. It was felt that with the management agreement and the voting trust agreement, we had a manageable situation at Old Court that could be worked out over a period of time. Both agencies knew that we had a sensitive and explosive situation on our hands but felt that it could be handled but had to be done quietly and without publicity. Our fears were that any knowledge of the Old Court problems by outsiders could cause a run not only on Old Court but could spread to the whole M.S.S.I.C. industry.

Between examination dates, September 1984 and the start of the new examination on February 11, 1985, we merged into Old Court the First Progressive Savings and Loan Association located in Westminster. Although not on the Board of First Progressive, Jeffrey Levitt was formerly president, which position he relinquished to become president of Old Court. Mr. Levitt, however, was counsel to First Progressive and called all the shots and made all the decisions. First Progressive was a mutual type association and had some problems created by Levitt.

Additionally, there were possible losses at the association. It was decided to merge First Progressive into Old Court. Old Court was the natural candidate as the management at the two associations were already affiliated. It was felt also that it would be better to get all of Levitt's problems under one roof. Although the associations merged, the records of First Progressive were not merged but were kept separately until such time as some of its problems could be resolved.

As previously noted, during the period 1981 through 1983 about 440 federal associations failed according to a report published in the Wall Street Journal on May 23, 1984. Also during this period the Federal Savings and Loan Insurance Corporation had deferred many of the losses by letting essentially insolvent associations continue to operate and letting many others resort to accounting gimmicks to appear solvent. The Wall Street Journal at that time reported that unrecognized losses far exceeded the F.S.L.I.C. Insurance Fund.

During this same period the Federal Home Loan Bank reported approximately 85% of its associations were operating in the red. Of our own State-chartered institutions about 45% were operating in the red. We nursed these associations back to a healthy position and did not lose a single institution. We had problems then but we did not publish these problems in headlines. M.S.S.I.C. and the Division quietly worked together, did what we had to do and salvaged the industry. M.S.S.I.C. advanced funds to many associations to restore liquidity, for net worth purposes or other reasons. We assisted in promoting or arranging mergers for some associations, not supervisory mergers but mergers of associations where management felt it would be difficult to operate in the future. Over the years M.S.S.I.C. and the Division have worked together, without publicity, trying to keep things running smoothly, realizing full well that any bad publicity could be very damaging to the M.S.S.I.C. insured industry.

In the case of Old Court, again the two agencies worked together, quietly, without publicity to do the job that had to be done. A management change was made, an individual qualified to oversee the loan programs at Old Court, one whom it was felt could over a period of time work out the loan problems, was employed. We realized it could not be done overnight but over a period of time was a possibility. With Levitt out of the management area, with some new supervision in the lending area, both agencies felt we had a manageable situation. During this entire period, we knew we were dealing with a very sensitive issue which had to be dealt with and resolved quietly. It was a matter that could not be openly discussed because of the ever present possibility of it becoming public and creating a crisis. Actually, we could have had a crisis long ago had we publicized each and every problem area over the years. I think the M.S.S.I.C. and Division plan would have worked at Old Court had we not had the crisis.

Our relations with M.S.S.I.C. over the years have been very close and with full cooperation by both agencies in the supervision of our associations. I have worked with M.S.S.I.C. for about nine years and I can say without reservation that they, M.S.S.I.C., have been a tremendous back up to the Division.

We continually hear "why were Old Court's problems not disclosed or made public?" Section 9-504 of the Financial Institutions Article of the Annotated Code of Maryland requires the Division Director to keep confidential any information obtained in an examination of an association. Accordingly, there could be no public disclosures. The Division really lacked the authority to do anything other than the appointment of a conservator, and I think it has been proven this would not have been the proper thing to do as it would have only created the crisis earlier than we now have. Again, because of the sensitivity of the M.S.S.I.C. situation, Old Court had to be dealt with and resolved quietly. M.S.S.I.C. and the Division did what we thought was best.

Many times there has appeared in the press, "Where were the regulators while all this was going on at Old Court." Section 9-502 of the Financial Institutions Article requires that the Division examine each association at least once every two years. We are currently on a fourteen to fifteen month examination schedule. A lot can happen between examination dates and did. To answer the question, "Where were the regulators while all this was going on at Old Court," the regulators discovered the problems at Old Court so I don't understand the comments, "Where were the regulators, etc."

The regulators discovered the problems at Old Court but the regulators did not create the crisis. The crisis was created by the news media jumping on the press release of a management change at Old Court and making it a front page item. Items such as this usually are reported in the financial section of the newspapers. This press release of the management change followed so closely on the heels of the Ohio crisis which was preceded by the Nebraska situation in my opinion created the crisis. The news media continues to make Old Court a front page item and the crisis continues.

I would like to note the Division of Savings and Loan Associations regulated 102 M.S.S.I.C. insured institutions and 13 State-chartered federally insured associations. We try to examine all associations on a fourteen to fifteen month schedule. It is getting increasingly difficult with the growth of the industry, with a small staff and a large turnover in personnel.

In addition to the examinations, the Division is responsible for the granting of new charters. Additionally, we must process applications for conversions of mutual associations to stock chartered associations, also

applications for approval of new branch locations, relocations of branches or principal offices. We must consider and prepare regulations for the Division. Each application for conversion requires a tremendous amount of work making sure the conversion will be in accordance with Maryland law and rules and regulations of the Division. Applications for new branches require a complete review of the application including a survey of the site of the location, a review of financial data to determine that the new office will not create serious financial problems due to the cost involved. Many applications result in the Division having public hearings due to protests of the application by other institutions. Hearings can take several days. One of the most recent hearings lasted the better part of four days.

In summary, I would like to state the Division prior to recent legislation which became effective July 1, 1985 had no authority to issue a Cease and Desist Order. The Division had no authority to remove an officer or director for engaging in unsafe or unsound practices. Our only real authority was to request the appointment of a Conservator or Receiver. A Receiver is the last resort and should be used only for an insolvency. The appointment of a Conservator is also questionable as I do not feel a conservatorship should be used on a viable association to get at one person or individual.

We have had many problems over the years, any one of which could have damaged or caused the collapse of the M.S.S.I.C. industry, had the problems been made public. M.S.S.I.C. and the Division worked out these problems quietly and without publicity and headlines either by mergers of ailing institutions into healthy ones, assistance by M.S.S.I.C. during the 1980 to 1983 earnings crunch for liquidity purposes or for net worth purposes. Again, all worked out quietly and without publicity. The Old Court matter was handled in the same manner as it was felt the situation was manageable and could be handled as were so many other problems in the past. Unfortunately, with the Nebraska situation in the early part of the year followed by the Ohio crisis which created a loss of confidence in the private insurance system followed by heavy withdrawals at some of our institutions and publicized heavily by the news media, the collapse of Bevil, Bressler and Schulman and other Government Bond Brokers throughout the country in which a few of our institutions had some losses, it took very little bad publicity to lose the confidence of the public in the private insurance of savings accounts and which resulted in massive withdrawals from our associations. The removal of Jeffrey Levitt as Chief Executive Officer at Old Court was an announcement that ordinarily would have been an insignificant announcement in the financial section of our newspapers. The newspapers chose to make it a front page announcement which turned the whole situation into a "crisis."

Again, I would state that neither this Division nor the Maryland Savings-Share Insurance Corporation was responsible for the crisis which followed the press release on the change of management at Old Court.

As a result of the problem in Nebraska, the Ohio crisis, our own problem here in Maryland followed by the failure of several Government Bond Brokers throughout the country, a question arises as to the role of savings and loan associations in the future and what market will they serve.

I personally am concerned whether the public has lost confidence in the industry. With two states, Ohio and Maryland, having problems which has received more than its share of press all over the country, the image of the industry has gone downhill and this problem was in both states with the state chartered privately insured industry. More important as far as image is concerned is the publicity which comes out of Washington constantly stating that the Federal Home Loan Bank has many many associations operating in the red which endangers the insurance fund of the Federal Savings and Loan Insurance Corporation.

Earlier in this report I quoted from the Wall Street Journal of May 23, 1984 wherein it was reported the Federal Home Loan Bank stated about 440 federally insured savings and loan associations failed and that the Federal Home Loan Bank Board deferred many of the losses by allowing essentially insolvent institutions to continue to operate. It was further stated the unrecognized losses far exceeded the F.S.L.I.C. \$6.4 billion reserve fund. In the May 27, 1985 issue of the Washington Post, it was stated that a five year landslide of losses forced 850 savings and loans to go out of business since 1980. A recent publication, "Washington Memo" of the National Council of Savings Institutions, dated July 5, 1985, copy of which is attached (Exhibit C), stated as follows,

"The push to consider changes in deposit insurance is coming from Democrats and Republicans ---- Representative Wylie of Ohio ---- the ranking G.O.P. member has urged hearings on the issue early in the year.

Adding to the anxiety this week, a Washington Post editorial, supposedly quoting a Federal Home Loan Bank study, noted it would cost \$16 billion to close all 434 insolvent, but still operating, Federal Savings and Loan Insurance Corporation insured institutions That's about \$10 billion more than the F.S.L.I.C. has."

Our own Morning Sun of Saturday, July 20, 1985, copy attached (Exhibit D), quoted Federal Home Loan Bank Board Chairman Edwin Gray, in discussing the failure of the Beverly Hills Savings and Loan Association, Mr. Gray predicted further strains on the F.S.L.I.C. which backs deposits at federally insured savings and loans. F.S.L.I.C. reserves fell for the first time in bank board history, dropping from \$6.4 billion in 1983 to \$5.6 billion in December 1984. Furthermore, with about one-third of all

federally insured savings and loans operating in the red, Mr. Gray said he expects the F.S.L.I.C. insurance fund "could be diminished significantly" in 1985 and 1986. Additionally, both the Morning Sun and the Evening Sun of July 26, 1985, copies attached (Exhibit E), spoke of the insolvencies in the Federal System, 14% of the F.S.L.I.C. insured institutions, which if closed would wipe out the F.S.L.I.C. Insurance Fund. Comments such as quoted above surely will cause the general public to give some serious thought or consideration to future investment of their savings. This, I am sure, will have a real effect on the future growth of the entire industry.

The savings and loan business has always survived a crisis, however, and will probably survive our present problems, country wide. Perhaps the industry will not grow at the rapid pace we have seen in the past but there will be survivors. I think the investments might return to what they were before deregulation. Savings and loans have always been residential lenders and they will continue. Commercial banks, although lenders, have never really been long term lenders. The twenty-five and thirty year mortgage loans were always left to the savings and loans, and there will still be a market for the long term borrower which cannot always be serviced by the commercial banks and cannot afford the short term loans.

I am sure there will be much legislation on both the federal side and the state side in an attempt to reregulate the industry, to correct the damage done by deregulation. For the State of Maryland I would hope to see re-regulation to restore the industry to what it was before so many areas were deregulated. This would include the following:

- (a) Prohibit all insider loans to officers, directors and senior employees in policy making positions. I include in this prohibition loans on personal residences.
- (b) I would like to see commercial lending be prohibited altogether. Commercial lending put some of our associations where they are today. If a complete ban is not possible, then limit commercial lending not to exceed a certain percentage of assets, say 10% or 20%, but some prohibition in the Financial Institutions Article. Consumer loans are now restricted in the F.I.A. Section 9-419, to not more than 10% of savings liability.
- (c) In years gone by associations in Maryland could not make a loan more than 50 miles from its principal office or branch. Today our associations can invest all over the country --- and some do. I would like to see some geographic restriction on lending so that if examiners have any questions or doubts about a particular loan at least a staff inspection could be made, assuming of course, the loan is in an area close by.

There are probably many other areas not covered above. I am sure as we approach the 1986 session of the General Assembly, many bills will be introduced, some of which might have a lot of merit. I am sure the various committees of the legislature will have their work cut out for them and it should produce many necessary changes in the industry.

Whether the savings and loan industry can ever recover the stature it once had will be a matter of restoring public confidence industry wide, as recent press articles have tended to destroy the industry.

5/23/84
50 CENTS

Battered Rescuers

Agencies That Insure Bank, Thrift Deposits Face Major Problems

FDIC, FSLIC Are Dealing With a Rise in Failures, Strains on Their Reserves

But They Have Vast Powers

By G. CHRISTIAN HILL

Staff Reporter of The Wall Street Journal

With the U.S. financial system under tremendous strain, the big risks involving banks and thrift institutions aren't being run so much by their depositors as by the agencies that insure their depositors.

The Federal Deposit Insurance Corp., which insures deposits up to \$100,000 each at commercial and savings banks, and the Federal Savings and Loan Insurance Corp., which provides similar coverage for savings and loan association accounts, are facing unprecedented problems. The crisis at Continental Illinois National Bank & Trust Co. and the growing numbers of bank and thrift-institution insolvencies show that the agencies' strategies for dealing with rescue missions and failures may be failing themselves. Both the FDIC and the FSLIC are getting into their own financial binds.

The FDIC's recent infusion of \$1.6 billion of subordinated debt into Continental Illinois has tied up more than 15% of the agency's annual cash flow indefinitely. Meanwhile, bank failures in the past three years have already cost the FDIC an estimated \$2.3 billion. Continental Illinois is pressing for legislation that would allow out-of-state banks to acquire it. See story on page 14.

The FSLIC's problems are far worse. Between 1981 and 1983, about 400 S&Ls failed, and the agency and its parent, the Federal Home Loan Bank Board, have deferred many of the losses by letting essentially insolvent S&Ls continue to operate and letting many others resort to accounting gimmicks to appear solvent. The unrecouped losses far exceed the FSLIC's \$4.4 billion reserve fund.

'Pattern of Crises'

"Taken as a whole," says Dennis Jacobo, the research director of the U.S. League of Savings Institutions, "events of the early 1980s show a pattern of financial crises unprecedented since the financial debacle of the 1930s. . . . The federal deposit insurance system itself is being threatened by today's failure rate."

However, few observers believe that the nation's banking system will come off worse the way that it did during the Great Depression.

Although severely dented by Continental Illinois, the FDIC's annual cash flow of about \$9 billion is still huge, and so far its total reserve fund of \$16 billion has kept growing despite the rise in failure costs. The FSLIC is considering assessments against S&Ls that could raise nearly \$1.5 billion and also a plan to borrow from the Federal Home Loan Bank System to finance mergers of failed thrifts at little cost.

If either fund becomes strapped, moreover, it can borrow from the Treasury, and Congress has said it would authorize even more funds.

Threat to Deregulation

But if insurance problems are threatening to block depository institutions' drive to complete deregulation, especially the restoration of their pre-1933 powers to underwrite insurance and securities. Instead, regulators are planning new rules and are seeking restrictive legislation. They have banned complete insurance of the insured deposits that helped fuel speculative lending. And they are considering higher capital requirements, tighter supervision of new or weak depository institutions and a varying of insurance premiums according to the risks taken by lenders.

"Reregulation is going to happen," says David Cates, a well-known bank consultant. "The Continental failure—and I think Continental did in fact fail and is being kept alive with embalming fluid—coupled with the FDIC's total coverage of all creditor risk is going to get Congress very upset. The level of risk in banking is rising, and the insurance funds have finite resources."

In addition, the problems at so many financial institutions are exerting enormous pressure on the Federal Reserve to try to drive down interest rates, some bankers believe. The recent rate increases are raising financial institutions' money costs and hurting their already-weak borrowers—and thus making the insurance agencies' job harder.

Endangered Thrifts

"A significant upward change in interest rates," says Bank Board Chairman Edwin Gray, "could again submerge the majority of thrifts in a sea of red ink, and the ability of the thrift industry—and the FSLIC—to absorb such losses could be highly debatable at best."

High interest rates already are aggravating the problems of both insurance agencies. The FDIC has been supporting with promissory notes a group of big, essentially insolvent savings banks whose condition is worsening as interest rates rise. It would take a \$1 billion infusion to restore the savings banks to an adequate level of capital, but even that wouldn't slash their losses from low-yielding mortgage loans.

In addition, high interest rates could soon wipe out the remaining capital of about one-third of the S&L industry. Despite the FSLIC's policy of nursing S&Ls along, S&L failures may cost the agency \$2.3 billion this year, Mr. Gray estimates.

The agencies' problems extend far beyond high interest rates, however. Both insurers were set up to forestall runs on de-

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WALL STREET JOURNAL

EXHIBIT A

MAY 23, 1984

2977

Aftered Rescuers: Agencies That Insure Deposits At Banks, Thrift Institutions Face Major Problems

Continued From First Page

pository institutions by worried small depositors—the classic bank collapse of the Depression era. But now, because of deposit insurance, such runs are rare. The current problem is run by big, largely uninsured depositors, a problem that the agencies weren't really designed to handle.

Moreover, the two agencies are being forced to play a different game under trying conditions. Big institutional depositors have become extremely nervous about the financial system in general and the money-center banks in particular. That system has been destabilized by years of recession, inflation and speculation, and the strains are worse than at any time since the Depression. Commercial banks have sustained record domestic loan losses and have simply deferred or disguised huge additional losses on foreign loans. The S&Ls posted losses totaling about \$10 billion in 1981 and 1982.

Meanwhile, huge amounts of uninsured deposits have become concentrated by money-market funds, pension funds and some other financial institutions at a relatively few money-center and big regional banks. Already spooked by all the strains in the financial system, many of the giant depositors bolted when rumors about a possible failure of Continental Illinois erupted earlier this month, and the Chicago bank was left more than \$6 billion short of meeting its daily obligations.

In subsequently helping to arrange a \$7.5 billion bailout of the endangered bank, the FDIC changed its strategy abruptly. Last year, William Isaac, the FDIC chairman, had told Congress that the agency planned to "discipline" the increasingly deregulated banks, some of which had gone off on a binge of highly speculative lending. The new game plan, Mr. Isaac said, was to slow or stop the flow of deposits to bad banks by requiring fuller disclosure of their troubled loans, and by instilling depositor caution by "moving away from the notion that all creditors at the larger banks and thrifts will always be made whole when an institution fails." And the FDIC did adopt a policy of letting uninsured depositors take losses in some small bank failures.

But that strategy, and a lot of other ill-effects about the ability of the federal insurance system to deal with financial crises, were demolished by the huge run on Continental Illinois by uninsured institutional depositors.

Unprecedented Move

For the first time in the FDIC's 51-year history, the agency was forced to pledge publicly to protect all creditors of a bank, in advance of any failure. It assured the big depositors of de facto government insurance, even though their accounts far exceed the \$100,000 limit. The Federal Reserve added that it would back up the FDIC by, in effect, printing as much money as might be needed to replace withdrawals. And if a merger is necessary, the FDIC probably will have to take larger losses to induce any purchaser to risk buying Continental Illinois.

The FDIC refused to stand by in the face of a run on Continental Illinois because, with so many big banks "burdened with problem loans in excess of their capital, the agency felt that it couldn't risk the crisis of confidence sure to follow Continental's collapse. It was an spread like a contagion to other banks that have adequate capital but serious liquidity problems. Indeed, liquidity is run-

The Rising Costs Of Bank and S&L Failures

	Failures (in billions)	Number of Failures	Insured Deposits (in billions)
FDIC			
1980	22.0	10	11.00
1981	721.0	10	12.30
1982	807.0	41	12.80
1983	832.0	48	13.40
FSLIC			
1980	85.5	21	6.48
1981	817.0	81	6.14
1982	508.8	34	6.20
1983	842.4	81	6.42

1. Does include bank failures and the increase in advances by Federal banks.

2. The S&Ls include nonmember savings and loan associations that the FSLIC doesn't insure, but which are normally reported as failures within the thrift industry.

3. Value of insured funds at year-end.

Source: FDIC, FSLIC

cently the principal weakness of the U.S. financial system.

Last October, the FDIC saw what a liquidity crunch can do to a bank. The First National Bank of Midland, Texas, quickly lost nearly \$800 million of deposits following disclosure of its problem energy loans. The FDIC can easily shore up a single failed bank, but a wave of failed banks would be quite another matter.

Rising Incidence

Until the 1980s, moreover, the FDIC had to contend with only one major run, that at Franklin National Bank in New York in 1974. But in the 1970s, it has had to contend with four: First Pennsylvania Bank in 1980, Greenwich Savings Bank in 1981, First National of Midland in 1983 and now Continental Illinois. Depositor confidence is clearly becoming more fragile.

And some big banks themselves have become leery of their own deposits. "We're afraid of the money market fund managers," one Texas banker says. "Some of them are inexperienced and overreact."

Ironically, much of the current discomfort at banks and S&Ls springs from the deregulation that they themselves so eagerly sought. The S&Ls wanted the right to make a wider range of loans to help generate the earnings to offset their losses on fixed rate mortgages. And both the banks and S&Ls wanted the right to pay depositors unlimited rates to compete with the money market funds and other investors.

The Brokers

At about the same time, deposit brokers, money desks and computer networks sprang up to funnel fully insured \$100,000 deposits to the highest bidder. So, banks and thrifts with a yen to try high risk lending, or to easily obtain the deposits—because of the insurance, with no questions asked. Moreover, the insurance funds and other regulators were too undermanned or too in haste to handle the explosion of failures that resulted from mixing deregulation with an already weakened financial system.

Now, the insurance funds face a twofold problem: to finance mergers of institutions failing because of pre-deregulation loans that amounted to bets on oil, coal, such as energy, fixed-rate mortgage and foreign lending, and to provide insurance to depositors in the "deregulated era without writing a

blank check for every careless lender in the country.

In dealing with failures, the FSLIC chooses a strategy quite unlike the FDIC's. Instead of encouraging full disclosure by troubled institutions, the S&L insurer has pushed the thrifts to disguise their poor condition by using accounting procedures that artificially inflate their capital and earnings. The procedures mainly involve deferring losses from low yielding mortgages, but the FSLIC also is providing promissory notes to some weak S&Ls.

Overstated Capital

In recent congressional testimony, Mr. Gray, the Bank Board chairman, charged that the policy causes a "vast overstatement" of the industry's capital. How vast? FSLIC statistics indicate that 89% of the S&Ls' reported net worth of \$32 billion at the end of 1983 came from accounting gimmicks.

The idea was to buy time, until interest rates dropped and thrifts could return to profitability by replacing low-yielding assets with adjustable-rate loans.

But interest rates didn't drop long enough to staunch the losses, and many S&Ls used deregulation and the illusion of solvency provided by the Bank Board to lure more deposits. Much of the \$63.2 billion brought in last year was used for speculative lending—in fixed-rate mortgage loans, in buying fixed-rate, mortgage-backed securities and in loans for land development, development and office buildings. If interest rates continue to rise, more big losses could be in store.

The linked growth in deposits and loan losses at some S&Ls has been startling. In 19 months, Empire Savings & Loan of Mesquite, Texas, grew 1,645% to \$200 million of deposits as of last Jan. 31. About 85% of its lending was financed through brokers. In March, it collapsed after a construction lending spree that is expected to cost the FSLIC \$184 million.

Even relatively small S&Ls can generate king-size losses. New North Mississippi Savings in Oxford, Miss., lost \$26 million last year on assets of only \$116 million, according to an FSLIC filing. Now, it is under FSLIC conservatorship, with negative net worth of \$30 million.

More Bad News Coming

"FSLIC has an unbelievable accumulation of bad loans coming down the pipe," says one former Bank Board official. More bad loans are the last thing the agency needs. Essentially insolvent S&Ls threaten the nation.

Some experts think that the FSLIC's remaining strategy is to crack down on non-grade S&Ls while treating its growing contingent liabilities for insolvent S&Ls as a kind of national debt. Congress has already passed a resolution to the effect that the full faith and credit of the U.S. government are behind the insurance funds.

"The real value of FSLIC... may not be the \$4 billion fund," says Richard Pratt, a former Bank Board chairman, "but the right to say deposits are risk free and the government stands behind them. Meanwhile, the Bank Board may have to put fairly severe limits on the industry and perhaps license growth only for those institutions that have shown the ability to handle it."

Tax Reform Success Record Limited

Special Breaks Have Continued Their Spread Through Code

By Dale Rowland
Special to The Post Staff Writer

The year was 1963, the president was John F. Kennedy and the burning issue, then as now, was the fairness of the tax system. With characteristic vigor, the young president exhorted, "Now is the time to act. We cannot afford to be timid or slow. For this is the most urgent task confronting the Congress."

On Tuesday, almost 22 years later to the day, President Reagan is to go on national television with almost the same message. He will vow to eliminate tens of billions of dollars of tax advantages benefiting corporations and the rich, using the extra money to lower rates

for all Americans—the threat of Kennedy's plan. The success record for such efforts is not good. Reagan's will be the sixth major proposal in a generation to swap lucrative breaks for lower overall rates. Kennedy tried in 1961 and 1963; President Jimmy Carter tried in 1974. In between, the Treasury Department and Congress each tried twice.

Altogether, they produced just a few significant changes, a shaker of what was envisioned, and no match for the special breaks that continued spreading.

See LESSONS, A4, C4, 1

Finance Committee chairman expects to send tax bill to White House by Christmas.
Page A4

Low Interest Rates Help U.S. Thrift Institutions

Some Area S&Ls Reported Losses

By Nancy L. Ross
Special to The Post Staff Writer

Only two of the seven savings and loan associations in the District of Columbia reported a profit last year, according to the most recent financial statements filed with the Federal Home Loan Bank Board.

Three quarters of Virginia thrift institutions surveyed and three quarters of all 56 federally insured savings and loan associations in Maryland were making a profit during the 1981 fourth quarter, but

their average earnings were below those for the industry, the bank board data show.

Thrift industry executives say the health of most savings and loan has improved this year because of lower interest rates. High rates have been the main cause of the industry's ailments because they force savings and loans to pay higher interest on deposits than they collect on old mortgages that were issued when rates were lower.

The financial statements show that as a group, the District thrifts lost \$23.7 million during 1981. Only Washington Federal Savings and Loan and OBA Federal Savings & Loan made money.

See TABLES, A14, C4, 1

'85 Profits Expected To Set Record

By Jerry Knight
Special to The Post Staff Writer

Falling interest rates are giving the nation's savings and loan associations their first relief from a five-year landslide of losses that has forced 350 S&Ls to go out of business since 1930.

With interest rates down to the lowest level since the late 1970s, the savings and loan industry this year could finally begin to make enough money to rebuild the damage done by deregulation and the

highest interest rates in modern history.

"It appears we will have a very strong earnings year—our best ever—in 1985," William H. O'Connell, president of the U.S. League of Savings Institutions predicted Friday. The best year for the S&Ls was 1978 when the industry earned a record \$1.9 billion.

Federal Home Loan Bank Board Chairman Edwin J. Gray said the 3,150 federally insured associations that the regulatory board make more money in 1985 than they made in the last four years—\$4 billion, \$5 billion, maybe more if interest rates stay down.

Gray said a year of record earnings.

See SAVINGS, A14, C4, 1

INSIDE



Daisy Sullivan celebrates after winning Indianapolis 500. Story, B1.

Soviets Denounce SDI

● An editorial in Pravda said the Soviet Union will not agree to cuts in nuclear arms until the United States ends its pursuit of the Strategic Defense Initiative. Page A21

Iraq Bombs Tehran

● Iraq launched a major air offensive against Iran yesterday, bombing Tehran and other cities in an attempt to force peace talks. Iran threatened reprisals. Page A21

Plane Crash Kills 5

● Five people were killed yesterday after a single-engine plane crashed in Prince William County shortly after takeoff. Page B1

FBI's Walker Raids

● The FBI began raiding John Anthony Walker Jr., accused of spying for the Soviet Union, about three months ago after he was turned in by his daughter and his former wife, a source said. Page B1

Washington Business

● Maryland's S&L crisis has turned a spotlight on secretive Chevy Chase Savings & Loan President B.F. Saul II and the network of interlocking financial firms he helped to shore up the shell. Washington Business

Area S&Ls Work to Recover from High-Interest Ailments

Assets

Liabilities

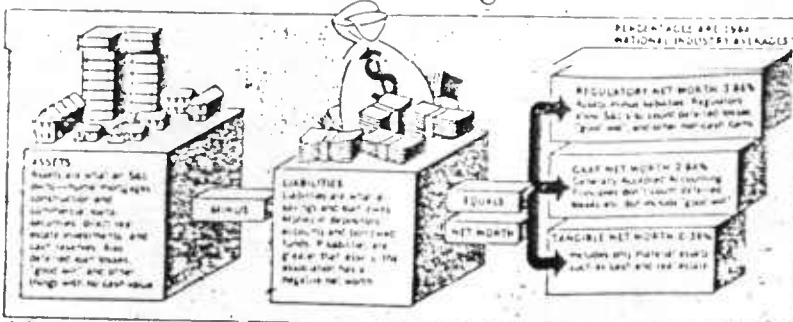
Net Worth

REGULATORY NET WORTH 3.8%

GAAP NET WORTH 2.8%

ADJUSTED NET WORTH 2.8%

PERCENTAGE ARE 1984 NATIONAL INDUSTRIAL AVERAGE



FEDERALLY INSURED SAVINGS & LOANS IN D.C.

IN THE SUM OF QUARTERS AS OF DEC. 31, 1984

NAME	ASSETS	LIABILITIES	NET WORTH	REG. NET WORTH	GAAP NET WORTH	ADJ. NET WORTH	REG. NET WORTH %	GAAP NET WORTH %	ADJ. NET WORTH %
California First S&L	\$1,218,638	\$1,194,971	\$23,667	\$23,667	\$23,667	\$23,667	1.9%	1.9%	1.9%
Washington Federal S&L	1,352,667	1,144,057	208,610	208,610	208,610	208,610	15.4%	15.4%	15.4%
Capital City S&L	378,878	378,878	0	0	0	0	0%	0%	0%
Virginia Federal S&L	280,842	274,939	5,903	5,903	5,903	5,903	2.1%	2.1%	2.1%
Old Federal S&L	63,143	57,267	5,876	5,876	5,876	5,876	9.3%	9.3%	9.3%
Total	\$4,043,128	\$3,949,482	\$93,646	\$93,646	\$93,646	\$93,646	2.3%	2.3%	2.3%

FEDERALLY INSURED SAVINGS & LOANS IN VIRGINIA

IN THE SUM OF QUARTERS AS OF DEC. 31, 1984

NAME	LOCATION	ASSETS	LIABILITIES	NET WORTH	REG. NET WORTH	GAAP NET WORTH	ADJ. NET WORTH	REG. NET WORTH %	GAAP NET WORTH %	ADJ. NET WORTH %
Parsons National Bank	Richmond	\$1,798,902	\$1,620,222	\$178,680	\$178,680	\$178,680	\$178,680	9.9%	9.9%	9.9%
Southwest S&L	Richmond	1,442,367	1,396,295	46,072	46,072	46,072	46,072	3.2%	3.2%	3.2%
Virginia First S&L	Richmond	831,227	826,212	5,015	5,015	5,015	5,015	0.6%	0.6%	0.6%
Northwest S&L	Richmond	3,378,788	2,991,774	387,014	387,014	387,014	387,014	11.5%	11.5%	11.5%
Atlantic S&L	Richmond	2,726,526	2,597,171	129,355	129,355	129,355	129,355	4.7%	4.7%	4.7%
Capital S&L	Richmond	374,323	366,216	8,107	8,107	8,107	8,107	2.2%	2.2%	2.2%
Commonwealth S&L	Richmond	240,978	238,511	2,467	2,467	2,467	2,467	1.0%	1.0%	1.0%
East S&L	Richmond	1,143,111	1,128,254	14,857	14,857	14,857	14,857	1.3%	1.3%	1.3%
First National S&L	Richmond	329,920	327,439	2,481	2,481	2,481	2,481	0.8%	0.8%	0.8%
First National S&L	Richmond	396,551	392,218	4,333	4,333	4,333	4,333	1.1%	1.1%	1.1%
Midway S&L	Richmond	272,765	262,408	10,357	10,357	10,357	10,357	3.8%	3.8%	3.8%
Commonwealth S&L	Richmond	271,954	262,564	9,390	9,390	9,390	9,390	3.4%	3.4%	3.4%
Southwest S&L	Richmond	953,175	948,878	4,297	4,297	4,297	4,297	0.5%	0.5%	0.5%
Commonwealth S&L	Richmond	297,784	292,872	4,912	4,912	4,912	4,912	1.6%	1.6%	1.6%
Commonwealth S&L	Richmond	232,870	229,486	3,384	3,384	3,384	3,384	1.4%	1.4%	1.4%
Lincoln S&L	Richmond	1,580,982	1,512,818	68,164	68,164	68,164	68,164	4.3%	4.3%	4.3%
Commonwealth S&L	Richmond	622,111	614,282	7,829	7,829	7,829	7,829	1.3%	1.3%	1.3%
Commonwealth S&L	Richmond	339,889	334,389	5,500	5,500	5,500	5,500	1.6%	1.6%	1.6%
Commonwealth S&L	Richmond	281,257	274,257	7,000	7,000	7,000	7,000	2.5%	2.5%	2.5%
Liberty S&L	Richmond	39,873	37,996	1,877	1,877	1,877	1,877	4.7%	4.7%	4.7%
Commonwealth S&L	Richmond	21,483	20,832	651	651	651	651	3.0%	3.0%	3.0%
Commonwealth S&L	Richmond	36,632	35,321	1,311	1,311	1,311	1,311	3.6%	3.6%	3.6%
Commonwealth S&L	Richmond	10,949	10,407	542	542	542	542	4.9%	4.9%	4.9%
Total		\$11,171,721	\$10,768,722	\$402,999	\$402,999	\$402,999	\$402,999	3.6%	3.6%	3.6%

FEDERALLY INSURED SAVINGS & LOANS IN MARYLAND

IN THE SUM OF QUARTERS AS OF DEC. 31, 1984

NAME	LOCATION	ASSETS	LIABILITIES	NET WORTH	REG. NET WORTH	GAAP NET WORTH	ADJ. NET WORTH	REG. NET WORTH %	GAAP NET WORTH %	ADJ. NET WORTH %
Capital City S&L	Baltimore	\$1,553,729	\$1,468,267	\$85,462	\$85,462	\$85,462	\$85,462	5.5%	5.5%	5.5%
Capital City S&L	Baltimore	1,294,444	1,242,254	52,190	52,190	52,190	52,190	4.0%	4.0%	4.0%
Capital City S&L	Baltimore	281,922	279,222	2,700	2,700	2,700	2,700	0.9%	0.9%	0.9%
Capital City S&L	Baltimore	930,498	927,587	2,911	2,911	2,911	2,911	0.3%	0.3%	0.3%
Capital City S&L	Baltimore	953,175	948,878	4,297	4,297	4,297	4,297	0.5%	0.5%	0.5%
Capital City S&L	Baltimore	441,246	429,024	12,222	12,222	12,222	12,222	2.8%	2.8%	2.8%
Capital City S&L	Baltimore	329,920	327,439	2,481	2,481	2,481	2,481	0.8%	0.8%	0.8%
Capital City S&L	Baltimore	231,315	229,486	1,829	1,829	1,829	1,829	0.8%	0.8%	0.8%
Capital City S&L	Baltimore	271,954	262,564	9,390	9,390	9,390	9,390	3.4%	3.4%	3.4%
Capital City S&L	Baltimore	307,953	302,564	5,389	5,389	5,389	5,389	1.7%	1.7%	1.7%
Capital City S&L	Baltimore	236,937	234,389	2,548	2,548	2,548	2,548	1.1%	1.1%	1.1%
Capital City S&L	Baltimore	1,143,111	1,128,254	14,857	14,857	14,857	14,857	1.3%	1.3%	1.3%
Capital City S&L	Baltimore	186,344	184,389	1,955	1,955	1,955	1,955	1.0%	1.0%	1.0%
Capital City S&L	Baltimore	157,296	155,225	2,071	2,071	2,071	2,071	1.3%	1.3%	1.3%
Capital City S&L	Baltimore	132,344	131,643	701	701	701	701	0.5%	0.5%	0.5%
Capital City S&L	Baltimore	180,813	179,818	995	995	995	995	0.5%	0.5%	0.5%
Capital City S&L	Baltimore	92,218	91,218	1,000	1,000	1,000	1,000	1.1%	1.1%	1.1%
Capital City S&L	Baltimore	89,274	88,274	1,000	1,000	1,000	1,000	1.1%	1.1%	1.1%
Capital City S&L	Baltimore	87,213	86,213	1,000	1,000	1,000	1,000	1.1%	1.1%	1.1%
Capital City S&L	Baltimore	82,245	81,245	1,000	1,000	1,000	1,000	1.2%	1.2%	1.2%
Capital City S&L	Baltimore	79,220	78,220	1,000	1,000	1,000	1,000	1.3%	1.3%	1.3%
Capital City S&L	Baltimore	62,213	61,213	1,000	1,000	1,000	1,000	1.6%	1.6%	1.6%
Capital City S&L	Baltimore	53,297	52,297	1,000	1,000	1,000	1,000	1.9%	1.9%	1.9%
Capital City S&L	Baltimore	49,213	48,213	1,000	1,000	1,000	1,000	2.0%	2.0%	2.0%
Capital City S&L	Baltimore	44,213	43,213	1,000	1,000	1,000	1,000	2.3%	2.3%	2.3%
Capital City S&L	Baltimore	40,213	39,213	1,000	1,000	1,000	1,000	2.5%	2.5%	2.5%
Capital City S&L	Baltimore	36,213	35,213	1,000	1,000	1,000	1,000	2.8%	2.8%	2.8%
Capital City S&L	Baltimore	32,213	31,213	1,000	1,000	1,000	1,000	3.1%	3.1%	3.1%
Capital City S&L	Baltimore	28,213	27,213	1,000	1,000	1,000	1,000	3.5%	3.5%	3.5%
Capital City S&L	Baltimore	24,213	23,213	1,000	1,000	1,000	1,000	4.1%	4.1%	4.1%
Capital City S&L	Baltimore	20,213	19,213	1,000	1,000	1,000	1,000	5.0%	5.0%	5.0%
Capital City S&L	Baltimore	16,213	15,213	1,000	1,000	1,000	1,000	6.2%	6.2%	6.2%
Capital City S&L	Baltimore	12,213	11,213	1,000	1,000	1,000	1,000	8.2%	8.2%	8.2%
Capital City S&L	Baltimore	8,213	7,213	1,000	1,000	1,000	1,000	12.2%	12.2%	12.2%
Capital City S&L	Baltimore	4,213	3,213	1,000	1,000	1,000	1,000	23.7%	23.7%	23.7%
Capital City S&L	Baltimore	0,213	0,213	1,000	1,000	1,000	1,000	45.2%	45.2%	45.2%
Total		\$10,478,242	\$10,248,722	\$229,520	\$229,520	\$229,520	\$229,520	2.2%	2.2%	2.2%

SOURCE: Figures are for the three savings and loan associations that are based in the Washington Fed for the Federal Home Loan Bank Board. The data cover all quarters of 1984. The figures are based on the Federal Reserve's quarterly reports. The figures are based on the Federal Reserve's quarterly reports. The figures are based on the Federal Reserve's quarterly reports.

and this automatically covered by federal insurance. In Maryland, S&Ls have taken below the 3 percent minimum that FSILC says it could not afford the cost of meeting them with federally insured institutions.

Many savings and loans that meet the 3 percent minimum are required by regulation to have a minimum net worth equal to 3 percent of their liabilities at protection against losses. But the S&Ls have not allowed some of the first to build their net worth by buying assets.

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Regulatory accounting practices... The Virginia associations covered in the Bank Board report show an average net worth ratio of 3.2 percent by regulatory accounting but only 2.5 percent by GAAP.

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Washington Federal is the most profitable S&L in the District and Chairman William Sinclair is one of many first executives who are low net worth is not a problem so long as an association has enough cash to meet expenses.

The \$15 million difference between the regulatory and GAAP net worth represents the amount Washington Federal lost when it sold its underwritten loans, Sinclair explained.

National Permanent reports assets of \$1.15 billion and liabilities of \$1.14 billion as a regulatory accounting basis for a net worth of \$8.6 million or 0.8 percent. But National Permanent carries \$55 million plus millions more in deferred losses from the sale of low interest mortgages.

Edgar Peterson, chief executive officer of National Permanent said the negative GAAP net worth ratio resulted in part from deferred losses dating back to 1982 when it closed out profits of loans at 60-cent prices.

Columbia First Federal Savings and Loan of Washington also reported multimillion-dollar losses. It dropped almost \$1 million in the third quarter of last year, another \$2.4 million in the fourth quarter and an additional \$294,000 in the first three months of 1985.

The two smallest S&Ls in the Washington Fed are in terms of their net worth ratios and assets. Association of Chesapeake Bay and District Federal Savings and Loan of Fairfax, Va., is the smallest with assets of \$10 million and liabilities of \$9 million.

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WASHINGTON

MEMO



National Council of Savings Institutions

1101 Fifteenth Street, N.W., Washington, D.C. 20005-5070 / (202) 857-3100

Vol. 2 No. 26

Washington, July 5, 1985

For Members:

NEXT STOP..DEPOSIT INSURANCE

Another controversial issue on the horizon in Congress... This time..deposit insurance... The House Subcommittee on Financial Institutions is expected to announce hearings fairly soon...

The politicians were bound to get to it eventually... And problems in Ohio and Maryland hurried it along... The big question facing Congress: Is a drastic overhaul of the deposit insurance structure needed?

Timing for the subcommittee hearings could be tricky... Only three working weeks left for Congress in July before the August recess...

The push to consider changes in deposit insurance is coming from Democrats and Republicans... Rep. Wylie of Ohio..the ranking GOP member..has urged hearings on the issue since early in the year...

Adding to the anxiety this week... A Washington Post editorial..supposedly quoting a FHLBB study..noting that it would cost \$16 billion to close all 434 insolvent..but still operating..FSLIC-insured institutions... That's about \$10 billion more than the FSLIC has...

Too early to know what will evolve out of these discussions... But as we have said before..sooner or later Congress will make big changes in the system... Some form of risk-based premium is a good possibility... When the House hearings start..we could be seeing the beginning of the process that will produce that kind of change...

MORE MONEY FOR MORTGAGES

Freddie Mac has a new..temporary..program offering lenders a price premium for certain mortgages... It's intended to promote Freddie's four types of ARMs and four types of GPMs..graduated-payment mortgages..introduced earlier this year...

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DIV. OF SAV. & LOAN ASSNS

EXHIBIT C

2981 F P 835

MORNING SUN

SATURDAY

JULY 20, 1985

Federal S&L regulator criticized as lethargic

By Julie Johnson
Washington Bureau of The Sun

WASHINGTON — The Federal Home Loan Bank Board was criticized yesterday by a House subcommittee for a "pervasive level of lethargy and inertia" in regulating the nation's 3,000 savings and loan institutions.

Bank Board Chairman Edwin J. Gray, who acknowledged problems in overseeing S&Ls, said in his agency's defense that regulators "did not have enough ... to deal with the kinds of problems we faced in savings institutions throughout the industry."

The House Energy and Commerce oversight and investigations subcommittee's hearing yesterday was the third held to investigate the insolvency of the Beverly Hills Savings and Loan Association, the nation's 37th-largest S&L.

In April, the bank board took over

the S&L, appointing new management and contributing \$140 million to keep the institution afloat.

Representative Ron Wyden (D, Ore.), who said "plain stupidity" was behind the Beverly Hills S&L's insolvency, rebutted Mr. Gray's claim that the Bank Board's staff of 750 examiners was too small.

"The real problem is a pervasive level of lethargy and inertia at the board and that they're not willing to use the regulatory tools that they've got right now," Mr. Wyden said.

Mr. Gray, who said the board intends to hire 250 more examiners before 1986, maintained that the agency had been "spread too thin" to investigate problems at Beverly Hills.

"Can I interpret that as you're admitting failure," asked Mr. Luken of Mr. Gray who responded, "Yes."

While focusing on Beverly Hills,

See S&L's, 4A, Col. 5

Mr. Gray predicted further strain on the Federal Savings and Loan Insurance Corporation, which backs deposits at federally insured savings and loans.

FSLIC reserves fell for the first time in bank board history last year, dropping from \$6.4 billion in 1983 to \$5.6 billion last December, according to documents submitted to the subcommittee yesterday.

That amount is about \$400 million less than the \$6 billion figure for reserves often cited to by the bank board.

Furthermore, with about one-third of all federally insured S&Ls now operating in the red, Mr. Gray said he expects FSLIC funds "could be diminished significantly" in 1985 and 1986.

Such a drain is likely because savings institutions increasingly have become involved in risky ventures and unsound investments — a problem that ultimately toppled the Beverly Hills S&L, he said.

Beverly Hills, which had approximately \$700 million in direct invest-

ments at the time of its collapse, failed because of a "series of incredibly high-risk deals with developers," said House Energy and Commerce Committee Chairman Representative John D. Dingell (D, Mich.).

Mr. Gray said the bank board had been slow in detecting problems at the thrift because its records — which he called inaccurate — showed that Beverly Hills had a net worth equal to 3 percent of deposits, which is considered sufficient under FSLIC standards.

Representative Thomas A. Luken (D, Ohio) assailed the bank board's handling of the Beverly Hills case and said there was a "wide discrepancy" in Mr. Gray's attitude toward the California thrifts and his approach to the S&L crises in Ohio and Maryland.

"There is a hard line and a soft line that's been evidenced by the Federal Home Loan Bank Board. The hard line toward Ohio and subsequently Maryland and the soft line which is presented today," Mr. Luken said, noting that the bank board chairman had been a bank official in San Diego.

EXHIBIT D

2982

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JULY 20, 1985

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EXHIBIT D

2983

THE SUN
JULY 20, 1985

S&L insolvency rate called peril to U.S. fund

WASHINGTON (AP) — Almost 14 percent of the nation's federally insured thrift institutions were technically insolvent in 1984, posing a potential risk of \$15.8 billion to the federal insurance fund, according to a staff study by economists at the Federal Home Loan Bank Board.

The new report, disclosed during a Senate Banking Committee hearing yesterday, dramatically underscored the problems facing the nation's savings and loan industry.

The \$15.8 billion potential drain on the federal insurance fund, which protects deposits up to \$100,000, dwarfs current assets in the fund — which totaled \$5.6 billion at the end of 1984.

While the study provided a stark view of the financial health of many of the nation's savings institutions, officials emphasized that it showed a worst-case scenario that is not likely to happen.

The bank board staff study reviewed the assets of the nation's 3,167 federally insured savings and loans in 1984 and found that 434 of the institutions had liabilities either greater or equal to their total assets.

This meant that 13.7 percent of the nation's federally insured thrift institutions were technically insolvent last year.

The bank board economists estimated that if all of these institutions

The \$15.8 billion potential drain on the federal insurance fund dwarfs current assets in the fund.

were to fail the cost of covering the federally insured deposits would total \$15.8 billion.

However, Senator Jake Garn (R, Utah), chairman of the Senate Banking Committee, emphasized that the likelihood of these failures all occurring, or all occurring at one time, was "very, very remote."

In most cases, the bank board seeks to find healthy financial institutions who will take over the troubled thrifts, therefore escaping the need to close the thrift and pay deposit insurance.

Bank board officials have estimated that the instances where they will not be able to do that are likely to cost the insurance fund — the Federal Savings and Loan Insurance Corporation — \$1 billion this year.

Mr. Garn said the study represented a "long-range problem" and not one that should send people immediately "running into every savings and loan in the country, withdrawing their savings because they were all going broke."

The contents of the study were brought up during questioning of Edwin J. Gray, chairman of the bank board, by Senator William Proxmire (D, Wis.).

Mr. Proxmire agreed that there "is no way you are going to have a \$16 billion obligation occur tomorrow morning." But he said that the discrepancy between the assets in the insurance fund and the potential threat to the fund presented a "danger signal" that should be heeded.

"Clearly the problem of capital inadequacy is getting worse, not better," he said.

Mr. Gray said one way the bank board was trying to address the issue was by recommending that Congress allow regulators to charge higher insurance premiums for thrifts that were engaged in risky loan practices.

EVENING SUN
July 26, 1985

One in six of nation's S&Ls considered insolvent

WASHINGTON (AP)—Nearly one-sixth of the nation's federally insured savings and loans institutions were technically insolvent last year, a total that has more than doubled since 1982, according to a new federal study.

The analysis, done by economists at the Federal Home Loan Bank Board, showed that in the unlikely event that all of these institutions failed, it would require a \$15.6 billion payout from the federal deposit insurance fund.

The fund, which protects deposits of up to \$100,000 at savings and loan institutions, had assets of only \$3.6 billion at the end of 1984 — or a little more than a third of what would be needed.

These figures, revealed during a hearing Thursday by the Senate Banking Committee, underscored the plight of many of the country's thrift institutions. From 1980 through 1984, one out of every five federally insured thrifts went out of business.

The bank board study showed the number of ailing institutions is rising at a time in which the total number of thrifts is shrinking.

The study reviewed the assets of 3,167 federally insured savings and loans in 1984. It found 434 of these institutions had liabilities that were either greater or equal to their total assets.

This meant 13.7 percent of the thrift institutions were technically insolvent — compared to 6 percent of institutions in 1983 and less than 1 percent in 1980.

The bank board economists estimated that a failure of those institutions would place a \$15.6 billion demand on the Federal Savings and Loan Insurance Corp.

However, bank board Chairman Edwin

J. Gray, in responding to questions about the report, emphasized that it painted a worst-case scenario which was very unlikely to occur.

The bank board decreases the exposure of the insurance fund by arranging for mergers of troubled thrifts with financially stable institutions rather than simply closing troubled operations and paying off all insured depositors.

Sen. Jake Garn, R-Utah, chairman of the Banking Committee, said the likelihood of such widespread failures was "very, very remote."

Bank board officials have estimated that the FSLIC is likely to pay out \$1 billion this year to depositors.

Garn said that while there was a "long-range problem" that needed to be dealt with, the current insurance assets

were sufficient and people should not start "running into very savings and loan in the country, withdrawing their savings because they were all going broke."

Sen. William Proxmire, D-Wis., agreed that failures of the size discussed in the bank board report were unlikely. But he said the study did present a bleak and disturbing picture of the growing problem of thrift institution insolvencies.

EXHIBIT E

2000

MARYLAND'S S&L CRISIS!

By David Puryear



Dr. David L. Puryear is an economist at the Center for Metropolitan Planning and Research of The Johns Hopkins University. He is the author of *Impacts of Interstate Banking in Maryland*, written in cooperation with the University's Task Force on Financial Deregulation.

As of this writing, Maryland's S&L crisis has quieted. The steps taken by the Governor and the Legislature have restored the confidence of depositors. What remains unclear is how the state will deal with those problem institutions which are unable to qualify for federal insurance within the required time limits.

Most observers of the industry believe that the reserves of the Maryland Savings Share Insurance Corporation (MSSIC) will be insufficient to guarantee existing deposits. This will leave the state with two options involving some very tough political choices. The state can either liquidate those institutions and pay off any shortfall of insured deposits, or it can permit out-of-state takeovers by banks willing to cover the shortfall in exchange for the opportunity to do business in Maryland.

In order to make sense out of these two options, it is useful to know how we got to where we are. There are two parts to this question. First, how did we reach a financial environment which set the stage for the S&L crisis, and second, what "caused" the crisis itself?

The Financial Revolution

We are in the midst of a financial revolution. For more than a decade, the pressures of technology and competition in the financial industry have been pushing us toward greater and greater deregulation. In almost all cases, the

question facing policymakers and regulators is not *whether* to deregulate—we can no more stop this process than King Canute could command the tides. The question is how to accomplish deregulation with the least disruption of the economy.

The growth of money market funds in the 1970s illustrates the unstoppable nature of this revolution. From almost nothing, those funds grew to several hundred billion dollars in the aggregate, all of it outside the control of bank and S&L regulators. Money market funds offered much higher interest rates than banks and S&L's were permitted to pay, leading to enormous withdrawals of funds from traditional financial institutions. The eventual federal response was the phasing out of interest rate ceilings on deposits. Once this happened, financial institutions suddenly had flexibility to compete for deposits, and the most aggressive institutions began to grow rapidly. In Maryland, where state-chartered S&L's had a private insurance system, and where regulatory capacity did not keep pace with industry growth, this environment was like an accident waiting to happen.

The S&L Crisis

The accident began to happen in May 1985 when depositors lined up outside Old Court Savings and Loan. In the weeks since the S&L crisis began, numerous culprits have been iden-

tified, including Old Court S&L, the media (for "sensationalized" coverage), MSSIC, the S&L Division of the Department of Licensing and Regulation, and the Governor and Legislature (for failing to provide the resources for an adequate auditing system).

There is some justification for the presence of each member of this list, but if the Old Court situation had not come to a head, the crisis could just as easily have occurred during a future credit crunch. Then the list would have shortened to the last two: the S&L Division, which regulates state-chartered S&L's, and our political representatives, who are responsible for providing adequate resources for the regulators. It is worth noting that from 1978 to 1984, state-chartered S&L's grew from \$3.5 billion to \$10 billion in aggregate assets, but the number of S&L Division examiners fell from 19 to 16, as the result of budget cuts. The starting annual salary for these examiners remained at the same level of \$12,600 during this period.

Where Do We Go From Here?

The state has two options for dealing with problem institutions which cannot qualify for federal insurance: (1) it can pay off depositors, or (2) it can permit takeovers by out-of-state institutions. A direct state bailout of depositors

WHAT NEXT?

could be very expensive. No one will know how expensive, until the current audit process is complete. The state's cost would depend, in part, upon what happens to interest rates (low rates would reduce the losses on a weak portfolio of assets). But even with low interest rates, the cost could be large enough to jeopardize the state's bond rating, which would mean higher interest rates on all state borrowing.

The second option of permitting takeovers by out-of-state banks could jeopardize the potential economic development benefits of recently-passed interstate banking legislation. Recently, Governor Hughes signed a bill which would permit any out-of-state bank to establish a new full-service bank in Maryland, provided it meets three main criteria: (1) it must have a

limited-service bank in Maryland for 12 months, (2) it must create 1000 new jobs, and (3) it must invest at least \$25 million in capital facilities in the state. Citicorp, which is currently the only limited service bank in operation, can begin providing full banking services in Maryland in July 1986. Several other large banks have applied for limited-service charters and will be eligible to operate as full-service banks 12 months following their final approval.

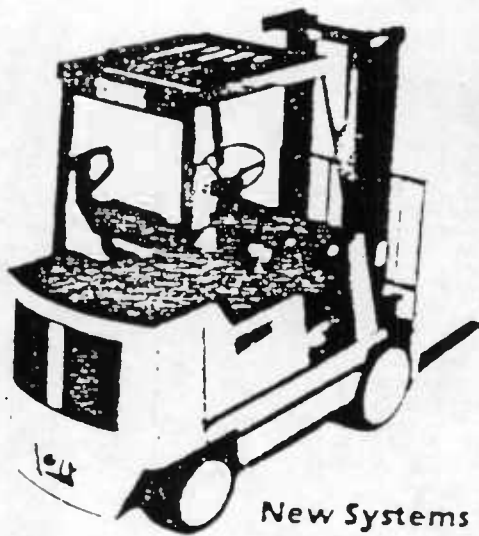
Because all of these out-of-state banks would prefer a head start in the Maryland market, the opportunity to enter the state, via takeover and without a waiting period, is attractive. It would make the requirement to create 1000 jobs less attractive by comparison; indeed the entry of other banks by takeover could scuttle Citicorp's

much publicized plan for the abandoned Fairchild plant in Hagerstown.

There is no easy answer to this dilemma. The ultimate resolution may involve both options; they are not mutually exclusive. In the meantime, until we have more audit information, it would be premature to take any irrevocable steps, despite legitimate concerns on the part of those institutions which remain under the withdrawal limitations.

Every banking system depends upon public confidence and the resolution of the confidence issue in Maryland was a crucial first step. There is a second step, however, and the S&L crisis in Maryland will not be completely over until that second step is taken and those institutions unable to qualify for federal insurance are successfully liquidated or merged. ♣

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Ailing Watchdogs

State Bank Examiners Often Lack Numbers, And Skill to Do Work

They Blame Skimpy Budgets And the High Turnover; Endless Travel Is a Drag

But Training Is Stepped Up

By JOHN BURNEY
AND CLARE AMBERLY

Staff Reports of The Wall Street Journal
On a recent night, Craig Koll, a Wyoming bank examiner, was 140 miles from home, sitting in a motel room in the small town of Lusk and finishing a hot-dog dinner cooked on his portable stove. He had been on the road five of the last seven weeks in an annual—and of late unsuccessful—race by the state's 13 harried examiners to examine all of Wyoming's 62 far-flung banks and thrift institutions.

Mr. Koll said he wasn't certain the race would be won this year, either. "I don't see how we can keep up," he lamented.

Wyoming isn't alone in its fight to keep pace. At a time when bank failures are on the rise, many states find that they don't have enough trained people to examine all their state-chartered financial institutions. They say budget constraints and high turnover, fueled by low salaries and demanding travel, play havoc with their examination staffs. "It's a burn-out situation," says Linda Page, Ohio's bank superintendent. Indeed, when the National Association of State Savings and Loan Supervisors asked state commissioners whether their staffs were adequate, more than half said no.

Lack of Expertise

Some regulators also concede that they lack the expertise to evaluate high-risk investments—such as in high-yield, low-grade "junk" bonds, in real-estate ventures and even in thrifts—now permitted by liberalized laws in some states. "There's nobody on this staff that's capable of analyzing junk bonds," says William J. Crawford, commissioner of savings and loans in California. "I'm the commissioner, and I'm not capable of analyzing them." Federal bank regulators are having their problems, too. See story on page 61.

In the middle are consumers, who, ~~and Wyoming bank and thrift failures, to~~ want assurances that their money is safe.

The personnel problems at many—but by no means all—state regulatory bodies come at a time when some federal agencies, which insure most state and all federally chartered institutions, are seeking to transfer part of their supervisory workload to the states.

For example, Vermont's eight examiners normally review their 20 commercial and savings banks simultaneously with the Federal Deposit Insurance Corp. examiners and issue one joint report. However, Dennis Ellingson, Vermont's deputy commissioner of banking, says that recently the FDIC has pulled back some staffers to chase bank failures nationwide, which are running at eight times the rate just four years ago. That has put more pressure on Vermont and other states that divide the examination workload with federal agencies. "The fact is, our staff is not large enough to go into the large institutions" without help, Mr. Ellingson says.

More Pressure

More pressure may be in the offing. Congress is expected to consider an administration proposal to establish a method of having state regulatory bodies apply for certification. Under the legislation, federal agencies would then be able to rely more heavily on examinations from the certified states rather than duplicate examinations themselves.

But some federal officials balk at the notion. Edwin J. Gray, the chairman of the Federal Home Loan Bank Board, recently said no state has the resources to supervise its state-chartered S&Ls properly. The federal S&L regulator also told Congress in May that some states have gone too far in deregulating thrifts. He cited California, where state thrifts now can invest all their assets in any type of venture. Federal thrifts are limited in how much they can invest in subsidiary businesses and can't invest in real estate or stock, as some state thrifts can.

Last month, Mr. Gray stopped granting federal deposit insurance for state thrifts in California, Texas and Florida. The moratorium has since been lifted from Florida but remains in effect in Texas and California while those states work out and put into effect agreements with the Federal Home Loan Bank Board.

Mr. Gray also has proposed legislation that would permit him to deny insurance to thrifts in states that he believes don't police their financial institutions effectively. The recent crises in Ohio and Maryland, where privately insured state thrifts experienced damaging runs, heightened fears that some states can't do the job.

State Regulators Fretted

The criticism has angered state regulators. "There's a kind of a myth, a fiction, that the federal agencies are somehow superior to state agencies," says Gerald Lewis, Florida's comptroller. State regulators also cite instances in which federal examiners didn't catch a failing bank or savings and loan. In the case of the recently failed Beverly Hills Savings & Loan Association, congressional investigators say, Bank Board examiners conceded that they didn't properly monitor the thrift.

Likewise, William S. Bergman, executive vice president of the National Association of State Savings and Loan Supervisors

Please Turn to Page 6, Column 1

Ailing Watchdogs: State Agencies Lack Staff, Skills for Bank Audits

Continued From First Page

sors, complains that Mr. Gray wants to "drive the stake through the heart" of the state-federal dual banking system. That system allows states to innovate, observers say, citing two innovations at the state level, adjustable rate mortgages and negotiable order of withdrawal, or NOW, accounts.

Nonetheless, the states are having their own problems keeping track of a rapidly changing industry. The biggest problem for state regulators is building—and keeping—a talented examination force. Many are lured away by higher salaries elsewhere. A Florida survey shows that state examiner salaries generally have failed to keep pace with private industry and federal pay scales. For example, in 1984 only one state, Alaska, surpassed the FDIC's salary of \$31,619 to \$41,105 paid mid-level examiners, according to the study.

Add to this an often-grueling travel schedule—in New Mexico, examiners are on the road as much as 40 weeks out of the year—and staffing becomes even more volatile. Annual turnover, particularly among some smaller states, has ranged up to 33% and, in the case of South Carolina, 58%. Attrition at the FDIC in 1984 was 10%.

Most states require that their financial institutions be examined at least once a year—a mandate that many states, such as Wyoming, New Mexico and Illinois, concede that they sometimes can't meet. They rely on federal examinations to fill the gap.

Clearly, conditions vary widely among states. For example, New York, which has the greatest amount of state-regulated assets and the highest number of examiners by far (about 320), has a modest 3% average turnover and pays its examiners well compared with other states.

Some states, however, say they lack not only the manpower but also the expertise to master the complexities of modern banking. "Our \$19,000 bank examiners go up against \$150,000 a-year bankers, and it's no contest," says Elaine Weis, Utah's commissioner of financial institutions. "We don't have the money to hire the numbers or the caliber of people we need, and we don't have the money to keep them."

Requirements for bank commissioners vary. In Colorado, for example, prospective commissioners must take an examination. But, more often than not, the position is simply filled by the state's top official.

The Ohio Debate

The potential consequences of that system revealed themselves recently in Ohio, where the superintendent of thrifts is also appointed. When Home State Savings Bank of Cincinnati overcollateralized its investments with a Florida firm, E.S.M. Government Securities, Ohio's thrift examiners sounded the alarm. "Such excessive overcollateralization . . . poses a serious risk to the association," one examiner wrote in 1982.

But despite these warnings, three different superintendents of thrifts couldn't prevent Home State's collapse. The Division of Savings and Loan Associations "lacked any understanding of the securities industry—just zero," says an individual once close to Ohio's regulatory process.

Robert McAlister, who has headed the division for less than six months and is about to leave it, didn't have any comment.

The evolution of state banking law—or, in some cases, the lack of evolution—has aggravated the problems of many states. Some states recently liberalized their regulations to help thrifts hedge against fluctuating interest rates; the upshot in many cases was that state charters became more attractive than federal ones.

Growth in Florida

For example, Florida had only five state-chartered S&Ls with \$26 million in assets in 1975. Ten years later, after the state broadened the investment powers of its thrifts, the number has jumped to 51 with assets of about \$21 billion. "Literally from the ground up, we had to build an examination team," says Terence M. Straub, Florida's assistant director of the division of banking. Similarly, California's state-chartered thrifts surged more than 40% to 154 between 1982 and last April 30, while

assets more than tripled to \$109.2 billion.

Other states have found themselves short of necessary clout or struggling with antiquated laws. Maryland's regulators, for example, didn't get outright authority to order an institution to stop unsafe business practices until July 1, long after the failure of Old Court Savings & Loan Association sparked a major run on deposits at several institutions. And in Mississippi, most of the banking laws that regulators currently enforce were written in 1931. Lacking legal authority to impose their demands, "we just have to say, 'You can't do that,'" says Atanson Turnbough, deputy commissioner of Mississippi's banking and consumer finance department.

State authorities also complain of poor communications and turf battles with the federal agencies. Regulators in Ohio, for example, weren't told that in 1980 the Federal Home Loan Bank Board and the State of Illinois had found E.S.M. Government Securities to be thinly capitalized and had ordered Unity Savings Association in Schaumburg, Ill., to unwind investments with the securities firm. The Bank Board "solved their own little problem and didn't think about the broader picture," says Peter Barash, the staff director of a congressional subcommittee that reviewed the E.S.M. collapse.

'Real Power Struggle'

Commissioner Weis of Utah says her office has battled with the FDIC over how severely to classify certain problem loans at state banks. "It becomes a real power struggle, and frequently the subject banks are caught in the middle," she says. She also says that when the state wanted to take over troubled State Savings & Loan Association of Salt Lake City, "we couldn't get the Federal Home Loan Bank Board to take action." So Utah hired lawyers, in part, to try to get the Bank Board to move more quickly. "It was open warfare," she says. Ultimately, the Bank Board did take over State Savings.

With banking growing more complex, state regulators are honing their skills. Illinois and New York officials, among others, use computers to track their financial institutions, and this year about 600 state bank examiners—up from 196 two years ago—will attend training seminars run by federal agencies to augment programs already operating in many states. And partly to demonstrate the states' competence to Congress, the Conference of State Bank Supervisors, a trade organization, recently introduced a program to accredit state regulatory procedures.

"The real question is future regulatory structure," one banking consultant contends. "If you're going to carve out a role for the states, you ought to know how much they can handle."



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
ONE SOUTH CALVERT STREET . SUITE 1006 . BALTIMORE, MARYLAND 21202
301/659-6330

HIGHLY CONFIDENTIAL

MEMORANDUM

TO: Mr. John J. Corbley, Secretary

FROM: Charles H. Brown, Jr., Director *CB*

DATE: April 29, 1982

This will confirm our conversation of today with respect to the Yorkridge-Calvert Savings and Loan Association. The association has been on our watch list for many, many months; as a matter of fact, ever since the merger of Calvert and Yorkridge Federal back in April of 1981. You will recall that Yorkridge Federal gave up their federal charter when they merged into Calvert and, consequently, the merged association continued as one of our State-chartered associations, but with federal insurance of accounts. At the time of the merger, I directed that \$1 million be hypothecated to the Division to increase the net worth of the association. We have in our possession a certificate of deposit from the Maryland National Bank in the name of the Arrow Title Company, Inc. The certificate is subject to the order of the Director of this Division.

Since the merger, losses continued and the net worth of the association declined. At the time of our last examination, it was estimated that the association would have negative net worth in about six months' time, or right about now.

The Federal Home Loan Bank, in attempting to salvage some associations, has authorized a "plan of purchase accounting." This plan is used in mergers of associations, especially where one association is considerably weaker than the other. Purchase accounting is a revaluation of the assets and liabilities of the merged or disappearing association and which, through a very involved method, gives an association net worth. This method of accounting is recognized under GAP accounting and is also recognized by the accounting industry, including the big 8.

Yorkridge-Calvert recently requested that the association be authorized to change their accounting to the purchase method, dating back to the merger in April of 1981. The accounting firm

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employed by Yorkridge-Calvert restructured the books of the association as of December 31, 1981 based on purchase accounting. With this restructuring, the association came up with a net worth of \$8.2 million. As the accounting firm employed by Yorkridge-Calvert is not one of the larger firms in town, the association switched to Peat, Marwick & Mitchell, with Peat to make an audit as of December 31, 1981. Prior to their actual engagement, Peat was consulted on the use of the purchase accounting method by the association and, for all intents and purposes, the association had Peat's blessing. However, at that time, Peat had not examined the actual calculations but gave an opinion as to the procedures being used. We had discussions with Peat relative to this type of accounting and we advised Peat that when they made their audit as of December 31, 1981, we wanted the figures checked by them to make sure they were accurate.

Last Friday, April 23, 1982, I received a phone call at about 4:15 p.m. asking me to attend a meeting in the office of the Federal Home Loan Bank Board on Monday morning at 11 a.m. I was advised then that there were some problems in the accounting with respect to the purchase method. At the meeting on Monday with members of the staff from the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, the General Counsel's Office, and Messrs. Isaac Neuberger and Dan Goldberg, attorneys representing Yorkridge-Calvert, we were advised that Peat, Marwick & Mitchell, in checking the purchase accounting figures, found an \$8 million error. This error resulted in the net worth of Yorkridge-Calvert being reduced from \$8.2 million on the purchase accounting method to \$100,000; and with the losses that the association will have during the month of April, will wipe out the \$100,000 to the extent that they will have negative net worth and will be insolvent. We are still sitting on the \$1 million hypothecation, however.

The attorneys for the association presented several plans to the regulators to try and salvage the association. The new plan was still using the purchase method of accounting, but using a longer period of time for writing off good will, etc. There were several other items that were offered, including the stock to a title company owned by Melvin Berger, president of the association, and Marvin Rosenthal, chairman, which title company, during its peak year, had \$800,000 in income. Actually, members from the federal regulator's office did not look too kindly on the proposals. The federal regulators have been trying since December, 1981, when members of their office and this Division met with the board of directors of Yorkridge-Calvert, in an attempt to have the directors of the association, among other things, give the Federal Home Loan Bank the authority to merge the association. Such authority would be that the directors would not balk a merger if a merger partner could be found. The Yorkridge-Calvert directors have resisted to this point, and the patience of the Federal Savings and Loan Insurance Corporation is wearing thin at this point.

The Bank is considering the new proposals which, if accepted, would restore the net worth of Yorkridge-Calvert to around \$7 million. However, there is still a question in my mind whether they will go along with it. If they do not go along with the request of Yorkridge-Calvert, there are only a few things that can be done. At that point, the Division will probably be in the driver's seat because we are the supervisory agent. We can, then, if we see fit, petition the court for a conservator or a receiver. Under the Financial Institutions Article, the Federal Savings and Loan Insurance Corporation would be appointed in either case. If the corporation were appointed receiver, they could then take steps to merge the association on their own without the approval of the shareholders or anyone else. If a receiver is not appointed, we or the Bank could seek a merger partner, which will be difficult.

To merge one of our associations, we would need the approval of the shareholders, which would require printing of notices, proxies, and a special meeting of shareholders. Of course, that is only part of the merger problem. The other part is finding someone that they could be merged with. You know that United Federal is supposedly merging into Baltimore Federal. The only other association large enough in the State to take this association would be Loyola Federal, and I can assure you that Joe Mosmiller, chairman of the board of Loyola Federal, is not about to buy trouble. He has an association that is well run and he doesn't need this. There are other federal associations that are in the \$250-\$300 million category, but I don't think any of them would be interested in a merger. Where do we go from there?

The Federal Home Loan Bank, as you have read in the paper, has been merging associations all over the country--Florida into California, Mississippi into New Jersey--and, for the most part, these mergers have been out-of-state mergers. That is probably what will happen here. The Federal Home Loan Bank told us that they do not have a merger partner lined up at this point.

When the Bank is attempting to line up a merger partner, the first thing they do is to try and work out a merger without any assistance being given on the part of the Bank to the surviving association. In the absence of finding a partner, they will then ask for bids from certain associations. What this means is that an association will bid on the weak association and, at the same time, ask for assistance from the Federal Home Loan Bank. I have learned just today that the Federal Savings and Loan Insurance Corporation will be going into Yorkridge-Calvert tomorrow to obtain the necessary information required for, as they say, a "bid package," so it appears that the Bank will be putting this out for bid shortly.

As far as we're concerned, this purchase method simply buys additional time for an association with the hope that the economy will turn around and they can work this thing out. I think at this point we will have to sit tight for a few days and see what the Bank

comes up with with respect to the proposals offered by Yorkridge-Calvert. If they do not accept the proposals, we will probably be forced to go the receiver route. The big problem seems to be that there is nothing that we can do other than the appointment of a receiver. If a merger is worked out, it needs the approval of the shareholders. If the Federal Home Loan Bank wishes to convert the association to a federal charter so that they could then merge them with another association, the conversion to a federal charter would need the approval of the shareholders. There is no supervisory provision in our law, and there isn't a whole lot we can do.

We are not interested in a receiver at this point because that could certainly have some effect on the whole industry, particularly since it is on the street that United Federal is having problems and Yorkridge-Calvert is a half mile farther up the road from United. A receiver could conceivably start a run on the savings and loan industry.

We will be watching this thing on a day-to-day basis and will keep you posted as you requested.

Bill LeCompte and I are thinking in terms of going to Washington next week to visit with the General Counsel to really nail down their procedures in handling a situation such as this where the Federal Savings and Loan Insurance Corporation is the insurer and the State is the regulator. This is the first time in the history of the Division that we have run into this situation. If we do get to Washington, I'll advise you of the results of our meeting.

I gave you figures this afternoon relative to certain items which I will set forth here again. The association has the following at this time:

Savings Deposits	\$243,547,539
Borrowed Money (probably all with the FHLB)	\$100,000,000 +
Number of Depositors	45,720
Branches	11
Assets	\$365,000,000 +
Deposits not insured by reason of certain accounts being in excess of \$100,000	\$ 9,300,000 +

When you get into a situation like this, the regulator can be a sitting duck for a possible suit because of the actions in having a receiver appointed. Bill and I recently attended a federal-state supervisors conference in Washington and a better part of the conference was on problems such as we have here. The Commissioner of the State of Illinois advised the entire group that Illinois has more than its share of problems and that numerous associations have been placed into receivership. He further stated that he has in excess of \$200 million in law suits against him because of his actions.

If an association is unsafe and unsound and a receivership is the only way out, I don't know how many suits would be filed against the regulators if we petitioned for a receivership. An association with negative net worth is certainly unsafe and unsound. However, as it appears that we will take the first step to have the insurance corporation appointed the receiver, I suppose you could say that we are a likely prospect for a suit.

There's not much more I can tell you at this point that you don't already know, but as I said, I will keep you posted from day-to-day.

CHB:cpk

Appendix to the Rpt of the Special Counsel on the Savings 49 of 52
& Loan Crisis (1986) Exhibits IV D1-IV F6, pp 2995-3059

This is how I'd like the headers to read.
Thanks



STATE OF MARYLAND
EXECUTIVE DEPARTMENT

TO: Governor Harry R. Hughes

DATE 10/5/84

FROM: George W. Liebmann

SUBJECT: Savings & Loan Insurance and Banking Legislation

I have not followed in detail the controversy over these matters. I am certain that both of them will be issues of concern at the coming session of the General Assembly and thought I ought to communicate the following reflections with regard to them.

1. The discussions I have seen with respect to savings and loan legislation suggest that the recommendations of the legislative committee will be inadequate and will in some ways not touch on what seem to me important questions. Apart from the essentially unlimited MSSIC insurance coverage which, as I understand it, is not proposed to be significantly modified, there are very serious problems arising from self-dealing by officers of some of the more high-flying associations. This self-dealing arises from the extreme permissiveness on this question of Maryland law. Section 9-307 of the Financial Institutions Article permits loans to corporations or businesses in which an interest of 10% or more is owned by an officer or director of the association, where the loan is approved by a two-thirds vote of the disinterested directors and approved by the director of the Division of Building Savings & Loan and secured by collateral appraised by an appraiser approved by the Division Director. These restrictions in practice have not been notably meaningful in contrast with the essentially absolute restrictions in federal law. It should also be noted that the above cited restrictions relate only to loans made to officers or directors of associations or businesses controlled by them. Restrictions on persons who are in control of associations, particularly stock associations, but who are not officers or directors, are significantly more mild. Section 9-323 of the Financial Institutions Article allows controlling persons who are not officers or directors to engage in transactions with stock associations where disclosure is made to the Board of Directors, the transaction is approved in good faith by the recorded vote of the disinterested directors, and

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Governor Harry R. Hughes
October 5, 1984
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profits are not at the expense of the association. Section 9-323(d)(2) expressly excludes from the disclosure and voting provisions "compensation paid to a controlling person for services." It is in fact the practice in many associations for the controlling person to reap substantial gains by assessment of "points" for legal services in connection with routine loan transactions.

My perception is that there has been an extraordinary amount of self-dealing with respect to some of the best known associations. When this is added to the technical insolvency of most of the associations the risk exists of serious losses to the Guarantee Fund in the event of an extended period of high interest rates. It would seem to me important that the state move now to tighten the conflict of interest regulations and limit the exposure of the Guarantee Fund by restricting insurance of multiple accounts and possibly by restricting the insurance of brokered deposits. The potential exposure of the state in this connection is such as to render it unwise to hand over the drafting of legislation to a consensus of the affected industry since the industry as a whole has an interest in the most exorbitant possible state guarantees. Although the full faith and credit of the state has not been pledged to the Guarantee Fund, I do not think that anyone seriously doubts the political pressures which would arise in the event of serious defaults. I add that, having regard to the potential exposure of the state, I have serious doubt of the wisdom of the legislation (Section 10-109 of the Financial Institutions Article) that affords the members of associations eight of the eleven directors on the Board of MSSIC. In that connection I note that both the Federal Savings & Loan Insurance Corporation and the Federal Deposit Insurance Corporation are supervised by boards composed entirely of Presidential appointees, see as to the former 12 USC §1437.

Put bluntly, the present Guarantee Fund, as it functions in this state, is little more than an industry promotion fund and notwithstanding the fine language about no pledge of credit, the state has effectively given the industry

Governor Harry R. Hughes
October 5, 1984
Page 3

a blank check. Adequate "consensus" legislation in this field is not in the cards and should not be striven for. The appropriate consensus to be sought is consensus with the legislative leadership and not consensus with the industry.

2. So far as banking legislation is concerned, the Administration has been under great pressure to provide legislation authorizing either nationwide or regional branching. In that connection, it is worthy of note that the only legislation which has shown any signs of movement in Congress is the so-called Garn bill which would authorize regional branching but which has now died in the House Committee presided over by Congressman St. Germain. The notion that regional branching should be authorized in this state because otherwise some form of national branching is "inevitable," I find difficult to follow. Nor do I perceive the advantages of regional branching. There are already a significant number of good sized banks in the state and a significant amount of competition between them. The relaxation of restrictions on the powers of other types of financial institutions has further enhanced competition. To the extent that regional branching is authorized, it is far from clear to me that the Maryland banks will be the branchers rather than the branched. The one-time benefit to present bank shareholders arising from takeover bidding does not offset this long-term detriment to the state. Baltimore is not a great financial center, is not the center of a federal reserve bank, and is not the geographical center of the region usually spoken of. It is not unlikely that it will be converted into a branch office town for banking purposes as it already is for purposes of industrial organization. The benefits to the state from this I do not perceive, nor, given the mobility of capital and the improved communications of the computer age, do I perceive the need for banks of geographically wider scope. I find it hard to believe that the soundness of our banking system will be enhanced if Maryland bankers are encouraged to make loans in regions of which they know nothing and if the reverse also applies. To the extent that the ultimate outcome of such a process is the creation of a limited number of large regional banks, none of which can

Governor Harry R. Hughes
October 5, 1984
Page 4

be suffered to fail, the outcome will be, as it has been in France and to a considerable extent in England, effective nationalization of the banking system.

Since the early debates over the Bank of the United States the regulation of banking has always been perceived as involving political as well as economic issues. I do not think that the prejudice against a high level of concentration over the banking system which has prevailed throughout most of the nation's history is unfounded or should be lightly abandoned. Nor do I think that you as Governor should be stampeded into supporting proposals whose rationale and ultimate outcome has not been fully thought out. These are not fashionable views and they are not the views of most of the people who undoubtedly will be consulting with you in respect of these matters. Nonetheless, I believe that attention to them may save both you and the state a good deal of grief in the future. The state should not be converted into a backwater so far as control over its banking system is concerned, nor should it issue blank checks to its savings and loan industry in general or the least ethical elements in it in particular. If you doubt what I say about the latter, I suggest you make appropriate inquiries among those knowledgeable in such matters with respect to the amount of self dealing which now prevails.



STATE OF MARYLAND
EXECUTIVE DEPARTMENT

TO: ✓ Fred Dewberry & Ben Bialek *Aug 11/84* DATE October 30, 1984
FROM: Johnnie Johnson
SUBJECT: Banking and Savings & Loan Regulations -
George Liebmann's Observations

I draw your attention to the attached memorandum from George Liebmann to Governor Hughes dealing with banks and savings and loan associations and the regulation thereof.

George, at one time, served on the Governor's staff and is still on retainer. From time to time, he offers observations on matters of public interest, usually with great insight.

George's discussion on savings and loan associations raises some particularly troubling problems that current practices permit, especially those that relate to what George calls self-dealing. His concern over the capability of the Guarantee Fund to respond to insolvencies also merits your consideration. Quite frankly, when the recent recommendations were made by a legislative committee on savings and loan matters, I, too, felt they were inadequate.

I would appreciate it if you would review the attached document and then I think it would be wise to meet with George to discuss his concerns with more specific remedies in mind.

EJJ:mcs

Attachment

P.S. That portion of George's memorandum that pertains to banks I am sending to Frank DeFrancis for consideration by his Task Force. It seems to me that George's observations on savings and loan problems call for more immediate solutions to regulatory problems while his observations and recommendations on banking are policy-oriented and more of a long-range nature.

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DEPARTMENT OF LICENSING AND REGULATION

November 1, 1984

MEMORANDUM TO: Mrs. Margie H. Muller
Mr. Charles H. Brown

FROM: Frederick L. Dewberry
Secretary

SUBJECT: Johnson Memorandum regarding
Banking and Savings & Loan Legislation

Attached is a memorandum from Johnnie Johnson dated October 30, 1984 forwarding a memorandum from George W. Liebmann, Esquire, special consultant to the Governor, expressing concerns about your respective legislation.

Please review Mr. Liebmann's comments and respond to me. We then might arrange a meeting in Mr. Johnson's office, as he has suggested, to discuss more specifics with Liebmann and Ben Bialek.

el

Attachment

cc: ✓ Mr. Edward E. Cline
Mr. Daniel S. Minnick
Mr. Francis X. Pugh

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HARRY HUGHES
GOVERNORMARGIE H. MULLER
BANK COMMISSIONER

DEPARTMENT OF LICENSING AND REGULATION
STATE BANK COMMISSIONER
ONE NORTH CHARLES 1301 BLAUSTEIN BUILDING
BALTIMORE, MARYLAND 21201
301/659-6262

FREDERICK L. DEWBERRY
SECRETARYCHARLES R. GEORGE
DEPUTY
BANK COMMISSIONER

November 5, 1984

TO: Secretary Frederick L. Dewberry

FROM: Margie H. Muller *mtm*

SUBJECT: Johnson Memorandum: Response to Mr. Liebmann's Comments

As requested, I am responding to the banking portion of the 5 October Memorandum from Mr. Liebmann to Governor Hughes.

While Mr. Liebmann's comments are thoughtful and comprehensive, I must respectfully disagree with his conclusion that interstate banking is a "notion." Whether Maryland acts or not, the wheels are in motion nationally, and this State is confronted with the need to act soon or find itself "walled in" or "walled out" as the case may be.

It is true that Maryland is now served by many small community banks and a handful of banks with assets in the billions of dollars. A number of them, and not just the large ones, claim to need some sort of interstate arrangement to extend their franchise beyond Maryland's borders. They are already competing with outside institutions that are making commercial loans here and offering consumer credit services to Maryland residents. Some of these banks wish to strengthen their positions by expansion into new markets and others seek affiliations with outside institutions to position themselves to compete with money-center giants. There is no doubt that they are well along in preparation for what they believe will be inevitable through state and/or Congressional action. Certainly the relaxation of geographic barriers will lead to outside control of some institutions but not necessarily the total abandonment of Maryland as a headquarters state.

In both California and New York, the recent removal of local branching restrictions has brought expansion of large banks and growth of small institutions; there appears to be no concentration of resources in either instance. As a matter of fact, such concentration already would have occurred in Maryland if our statewide branching represented a threat to small institutions.

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Sec. Frederick L. Dewberry
Page Two
November 5, 1984

Also, we do not see negative effects from Maryland banks' present lending practices in distant regions; the larger banks continuously seek and serve borrowers in commercial and industrial regions through regional, national and international calling officers. At the same time, outside institutions have set up loan production offices here and send officers to visit corporate treasurers---all with no apparent damage to local lenders.

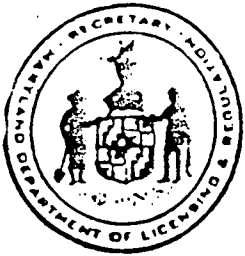
The history of interstate banking in New England and in regions where interstate banking has been grandfathered is still too recent to predict the outcome, but even Maine where more than 70% of banking resources are owned by outsiders has reported a growth in jobs and capital. Further, the Maine Bank Commissioner has told me that the outside holding companies have not changed bank names, boards of directors, or staffs, but have enabled these newly acquired subsidiaries to offer broader services and larger loans.

Whether or not Maryland permits interstate banking under the state's rights provided by the Douglas amendment to the Bank Holding Company Act, outside institutions can and will continue their activities within our borders. They bring competition into the Maryland marketplace, but without allowing Maryland institutions to move outside, we could see a weakening of Maryland banks which would make them easy prey when national legislation opens the floodgates---which I believe is a certainty.

MHM:srg

cc: *Devin*
Kevin
Cough

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HARRY HUGHES
GOVERNOR

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301-659-6330

FREDERICK L. DEWBERRY
SECRETARY

MEMORANDUM

TO: Frederick L. Dewberry, Secretary

FROM: Charles H. Brown, Jr., Director *B*

DATE: November 21, 1984

This is in response to your memorandum of November 1, 1984 with which you enclosed a copy of a memorandum dated October 5, 1984 from George W. Liebmann, Esquire, to Governor Hughes.

I recently sent to you copies of legislation which the legislative task force has proposed as a result of a study made during this past summer of the State-chartered Savings and Loan Industry and the Maryland Savings-Share Insurance Corporation. Mr. Liebmann indicates the recommendations of the task force are inadequate and do not touch on some areas he considers very important to the industry. He refers, of course, to the fact that officers and directors are permitted to make loans from their own associations and for their own personal benefit which he says can lead to some very serious problems arising from self dealing. Mr. Liebmann also questions the insurance of savings accounts by MSSIC which, as he states, there is no proposal from the Task Force to significantly modify the insurance coverage.

As I recall, there was little or no discussion by the Task Force on loans to officers and directors or to those sections of the Financial Institutions Article which permits such loans. Mr. Liebmann sets out in his memorandum the requirements of Sections 9-307 and 9-323 which authorizes the so-called insider loans under certain conditions. The authority for our associations to make the loans in question is in the law and some of our associations do make such loans. Even though the F.I.A. permits lending to officers and directors, I too have some reservations about insider loans and have often felt this should be more restrictive. As a matter of fact, I have often felt this should be prohibited altogether especially insofar as commercial lending, land acquisition and development loans, etc. are concerned. I do not feel a loan on the principal residence, and which is made in compliance with the sections of the F.I.A. permitting such loans, should necessarily be restricted. My statement is based on a loan on the principal residence only and not on a recreation or vacation home or any other residence for whatever purpose. I would not be upset if legislation was introduced restricting loans to affiliated parties, i.e. officers, directors and controlling persons. Mr. Liebmann refers to the restrictions in federal law which, I find, are considerably more restrictive to affiliated persons.

There is a lot of concern being expressed today over the growth of the industry and the ability of the Maryland Savings-Share Insurance Corporation to meet its obligation in the event of a major catastrophe in the industry. MSSIC, as you are aware, was created by the state legislature in 1962 for the purpose of insuring savings accounts in State-chartered institutions as an alternative to federal insurance. Although created by the legislature, MSSIC is not a State agency and the insurance of accounts is not backed or guaranteed by the State. I feel that the public is generally of the opinion that MSSIC is a State agency and the insurance is, therefore, backed by the State. As Mr. Liebmann does, I feel in the event of a major emergency there would be political pressure on the legislature to have the State back the deposit insurance of MSSIC. If there are any discussions on MSSIC's ability to survive a catastrophe, it might be well to allow Charles Hogg, President of MSSIC, to participate so that he can address the financial soundness of the Corporation.

Mr. Liebmann comments on the structure of the Board of Directors of MSSIC. Present law provides for 11 Directors, 3 of whom are public interest or consumer members appointed by the Governor. The remaining 8 members are elected by the membership which consists of the 102 State-chartered MSSIC insured associations. I can't deny that I have heard comments that the structure should be reversed or at least have more consumer members rather than industry members. I would point out that if such a change was made, it would be necessary to obtain some very knowledgeable individuals in insurance and financial institutions, as the entire Board of MSSIC actively participates in the consideration and approval of rules and regulations for the corporation. I attend the MSSIC Board meetings and I can say without hesitation that I find the directors to be most interested in the safety and soundness of the industry, and they watch very closely the activities of each association in the State-chartered system. These individuals, both consumer and industry members, are very dedicated members of the Board and take their positions as a Board member very seriously. As mentioned by Mr. Liebmann, the Federal Home Loan Bank Board consists of three members, all appointed by the President of the United States. I assume from his comment that he feels there should be more public members than presently exists on the MSSIC Board. I am sure you are aware the Division of Savings and Loan Associations has a Board of Commissioners of which 4 are public interest members and 5 are from the industry.

I will agree George Liebmann raises some interesting and important issues which we can discuss further at your convenience if you feel it necessary to do so.

CHB:kg

T. R. O. W. K.

STATE OF MARYLAND
DEPARTMENT OF LICENSING AND REGULATION

November 27, 1984

MEMORANDUM TO: Mr. Ejner J. Johnson
Staff Director

FROM: Frederick L. Dewberry
Secretary

SUBJECT: Response to George Liebmann's
Memorandum regarding Savings
Loan and Banking Legislation

Attached are copies of responses to above referenced memorandum from the State Bank Commissioner and the Director of the Division of Savings and Loan Associations.

We will be pleased to arrange a meeting with George Liebmann and Ben Bialek as you may see fit.

el

Attachments

cc: ✓ Mr. Edward F. Oline
Mr. Daniel J. Minnick
Commissioner Margie H. Muller
Mr. Charles H. Brown
Mr. Francis X. Pugh
Mr. Ben Bialek

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MINUTES

MSSIC TASK FORCE

JUNE 12, 1984

The Maryland Savings-Share Insurance Corporation Task Force held its organizational meeting on June 12, 1984 at 1:00 p.m. Co-Chairman Kirchenbauer stated that one of the focuses of the Task Force should be on the evolution of S & L's from small institutions serving small depositors to larger integrated financial enterprises which attract large scale investors. Co-Chairman Denis agreed and added that, though the S & L industry has been distressed nationwide, it has flourished in Maryland. He noted that the combined assets of Maryland S & Ls have doubled in the past year because of a large influx of deposits. He said that there was a need to discover the origin of these vast sums of money and the reasons for the influx. He expressed concern that the regulatory authority of Maryland was inadequate to deal with a rapidly expanding industry; this concern was especially strong with regard to the acquisition by S & L's of land development subsidiaries. He noted that the federal must be complemented in these areas and that less disclosure was needed at the State level than at the federal level.

The Task Force agreed to meet again on June 26 to receive an overview of the S & L industry and MSSIC's role in that industry. Several documents were handed to counsel to be reproduced for the next meeting.

Respectfully submitted,

Lars Kristiansen

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MINUTES
JOINT SUBCOMMITTEE ON SAVINGS AND LOANS
JUNE 26, 1984

1) Charles Brown (Director, Division of S&L's) and Bill LaCompte (Deputy Director) gave a brief history and current status of the Division of Savings and Loans.

History

The Division was created in 1961 following a large savings and loan scandal. Before that time savings and loan associations could be chartered in the State without being subject to any true regulatory authority. These associations advertised that their accounts were insured by special "insurance corporations"; however, these "insurance corporations" were chartered in Tangier, Morocco, or Panama. When depositors began requesting withdrawals it was found that the associations had no available funds. The associations closed and deposits were lost to many consumers. Many of the directors of these associations were imprisoned, as well as prominent political figures in the State.

A commission was set up in response to this crisis and was led by Case (of Smith, Sommerville, and Case). The commission's work led to the creation of the Savings and Loan Division and MSSIC. One of the cornerstones of the legislation was the requirement that all State chartered savings and loans must have their accounts insured by either FSLIC or MSSIC.

Current Status of Industry

As to the state of the Savings and Loan industry at present Mr. Brown noted that, in 82-85, 85% of savings and loans across the country and 45% of Maryland associations had operated in the red; this was caused by high interest rates which drew money out of savings and loans and into money market funds. However, Mr. Brown noted that there had been a turnaround in 83-84 and that most Maryland associations were in the black.

He noted that there had been an expansion in recent years in the savings and loan industry due to statutory changes and innovative financing schemes. He gave the following examples:

- 1) Prior to the revision of the Financial Institutions Article (1980), state-chartered associations could not lend to properties located outside a 50 mile radius; the exception was mortgages insured by the FHA. During the revision of the Financial Institutions Article, this restriction was removed and thus eliminated any regulatory power which the Division had over the location of investments. However, Mr. Brown stated that he generally had no problem with associations making loans outside the 50 mile radius. He stated that though it was impossible to know how much money was being lent out of state, the reimposition of the 50 mile radius would probably hurt the competitiveness of Maryland associations. Mr. LaCompte noted that many out-of-state borrowers combine loans from Maryland S&L's and their own in-state lenders; Maryland associations have been popular because their liquidity was good.
- 2) The recent deregulation of lending allowed state chartered associations to make the same type of loans as federally chartered associations. The laundry list of permissible investments [FI 9-419(a)] was amended and now subsection (c) was added which, in Mr. Brown's opinion, gave blanket authority for investments by State associations.
- 3) Recently, brokered savings have become a hot item in the industry. Brokered savings are large deposits brought to an association by a broker who in return receives a commission. However, these are highly volatile and risky funds as they are very sensitive to changes in interest rates and deposit yield and, when moved, are usually moved in large sums.

Possible areas for required action

Mr. Brown stated that he had no problems with the amount of commercial loans made by Maryland S&L's because commercial loans are more profitable than mortgage loans; the higher profitability is needed to cover the high interest rates paid on deposits.

Also, he stated that there was no problem with an association being involved in land development because it facilitated the availability of building or development loans to builders.

However, Mr. Brown was disturbed by the poor range of enforcement mechanisms which could be employed by his agency. He noted that, other than the option of persuasion, the only enforcement power vested in the Division is the power to get a court appointed conservator or receiver. In his words, this power is useless as a regulatory mechanism since the appointment of a conservator would be too harmful to the public confidence in the association; this dilemma is especially acute when the association is basically well run but where there is one director whose actions are harmful to the association.

Mr. Brown noted that the power to remove officers or directors of associations was essential. Currently, officers or directors can only be removed with the explicit cooperation of the board of directors of the association involved. In addition, Mr. Brown noted that he currently only has the power to issue voluntary cease and desist orders; he stated the need to be able to issue legally binding cease and desist orders.

Mr. Brown noted that under FI9-502, S&L's are required to be examined every two years; however, because of the increasing size and complexity of the industry, Mr. Brown expressed a desire that associations be examined more frequently. However, this could not be done, he stated, without more staff. He noted that, currently, the Division tries to examine details about each association (such as losses derived from bad loans) but that, because of lack of staff, such examinations can only be made where an apparent problem has arisen.

Mr. Brown also noted that the franchise tax imposed on S&L's originally was intended as a special tax to pay for the operation of the Division; however, the revenues raised by this tax are now paid into the General Fund and the Division's expenses are subject to the budget process.

This tax (equal to 130/10,000 of savings of S&L each year) produced a surplus of \$1 million over the budget of the Division. Mr. Brown requested that some of this surplus be appropriated for use by the Division to hire new examiners and increase the pay of current ones. Currently, examiner trainees start at \$12,000/year and after 6 years get \$16,000; this makes it difficult to obtain qualified people.

2) Charles Hogg, President of MSSIC, gave a short summary of MSSIC's history and purpose (he included a written copy of his remarks):

As to enforcement mechanisms, he noted that MSSIC and the Division work together to enforce the law. That both MSSIC and the Division have promulgated regulations; these regulations are, however, slightly inconsistent.

He noted that if an association's net worth fell to unacceptable levels, MSSIC could take some action. If net worth was at 3.7% or below, MSSIC may impose sanctions and the association must submit a plan to improve its viability; at 3.0% net worth the S&L must work out special insurance agreements. MSSIC can issue voluntary cease and desist notices; if the S&L violates the notice, MSSIC can dissolve the association's "charter". He noted that no cease

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Mr. Hogg supported the concept of granting the Division Director some additional intermediate enforcement powers. He referred to current enforcement powers as "sledge hammers"; he said that less drastic enforcement mechanisms were needed to prevent public panic without hampering enforcement.

Mr. Hogg noted that some S&L's had expertise at making commercial loans. The question, in his mind, was whether commercial loans should be restricted or opened up. While he admitted that a ratio of commercial loans of 60%-70% was too high, he stated that the regulation of commercial loans should not be too restrictive and should have a provision for waivers.

3) Bill Kuethe(Kuethe S&L) brought out the following points:

1. That there is a dichotomy in the S&L industry.
 - a) There are a few large S&L's which specialize in commercial deposits and loans and only try to get larger.
 - b) There are many small "ethnic" S&L's which deal in their community areas.
2. When MSSIC started, the largest S&L had assets totalling \$25 million. Now, the largest has assets totalling \$2 billion. MSSIC's \$158 insurance fund is insufficient to cover the largest institutions. He also opined that the risk to MSSIC was increased by the rise of stock S&L's; these associations use brokered deposits to grow.
3. MSSIC is necessary for small S&L's because they cannot qualify for FSLIC insurance.
4. In his opinion, though many of the largest S&L's could obtain federal insurance, they chose not to because federal law requires them to lower their passbook rate to 5 1/2%. He noted that the packaging and selling of loans is done only by larger S&L's; small S&L's are neighborhood mortgage institutions.
5. He stated that he was worried about uncontrolled growth in the industry; he approved of growth so long as reserves and liquidity were adequate. He added, that MSSIC and the Division did not have sufficient enforcement powers to adequately regulate large S&L's.

Respectfully submitted

Lars B. Kristiansen
Committee Counsel

MINUTES

JOINT SUBCOMMITTEE ON SAVINGS & LOANS

JULY 10, 1984 MEETING

A) Charles Brown stated his support for reintroducing SB576(1984) in the 1985 Session. However, he also reiterated the need for the power to issue cease and desist orders.

On Senator Denis' amendments to SB576, Mr. Brown had the following comments:

- 1) Increasing the limit on MSSIC insurance from \$100,000 to \$300,000 was not relevant. Under either limit, the insurance is still per account; thus, a person could have several accounts and thus burden the system.
- 2) The move of Maryland S&L's into Delaware would not cause problems, even though MSSIC in effect insures "Delaware" S&L's (though chartered in Maryland). Delaware S&L's are not required to have insurance. The move of Maryland S&L's does not cost MSSIC anything so long as deposits are not "high cost dollars" or from large investors.
- 3) On disclosure, Mr. Brown agreed that it would be beneficial to change the law to require an S&L to send a statement of financial condition to any person on request (banks do this now). However, while financial statement could include assets and liabilities and the names of officers and directors, he did not think that the financial statement should include a list of out-of-state depositors (on the grounds that such information is hard to get and serves no real purpose).
- 4) On brokered deposits, Mr. Brown stated that Maryland associations had received a total of \$226 million in brokered deposits. One unnamed S&L had its brokered deposits distributed as follows:

\$2.3 million in certificates of 90 days or less
\$9.5 million in certificates of 180 days or less
\$11.0 million in certificates of 1 year or less
\$11.0 million in certificates of over 1 year

He noted that regulations require that each S&L maintain a list of its brokered deposits

He also noted that there was an average of 2% in brokered deposits in the institutions in the State and that such a figure was not a problem. He referred to the example of Empire Savings & Loan in Texas which had 85% of its deposits made up of brokered deposits; the highest percentage of a Maryland S&L was 17% and only 13 of the state chartered S&L's have brokered deposits.

He noted that new regulations (effective October 1, 1984) will limit brokered deposits to 10% of an association's total savings and to 5% if the association's net worth is less than 3.0%.

Minutes

Joint Subcommittee on Savings & Loans
July 10, 1984--PAGE 2

- 5) On the 50-mile limit, Mr. Brown stated that, though it is easier to examine local loans, his Division can examine out-of-state loans at the expense of the S&L. He noted that much out-of-state money is not brokered accounts.

He noted that many problems stemmed not so much from the type of investment, but the management of such investments (ie.-it is what the S&L pays for deposits which pressures S&L's to make more risky investments with higher yields).

B) Charles Hogg(MSSIC) agreed that depositors have a right to be informed about the condition of their association but he did not agree that such information should be as detailed as that required in Senator Denis' amendments to SB576. He opined that the amount of out-of-state deposits held by an S&L was not really meaningful to its depositors. He noted that MSSIC has increased surveillance of receipts of out-of-state deposits and investments. On the amendments to the following sections, he made the following comments:

- 1) §9-306-Useful, except out-of-state deposit information not necessary.
- 2) §9-426-not necessary; survey being done by MSSIC
- 3) §10-105-not a good idea because it restricts the competitiveness of Maryland S&L's. When questioned what he thought of using the federal guidelines, he noted it was not necessary, as there were no problems now.

Mr. Hogg supported granting to the Division the power to issue cease and desist orders.

C) Charles Kresslein(representing the S&L industry) noted that the current confidentiality statute prevented fishing expeditions(ie.-salary comparisons, etc.). He outlined the Federal requirement that any member of an association's board who makes more than \$40,000 a year must disclose expenses if they were "affiliated persons"; he noted that this requirement led to the resignation of many board members.

He opposed the proposed \$300,000 total insurance limit because associations would not know if the depositor had money in other associations and whether the insurance would be sufficient. He opposed restricting Maryland S&L's in making out-of-state loans or accepting out-of-state deposits on the grounds that such restrictions would make Maryland associations uncompetitive on a nationwide basis.

He noted that if interest rates go up because of the federal deposit there will be major problems in the industry. In his opinion, a 20% prime rate could force savings rates up to 16.5%. This would result in fixed rate mortgages losing their status as good investments and being phased out in favor of adjustable rate mortgages. However, the associations would suffer loss in income before the transition could be made.

On the ownership of land development corporations by S&L's, he thought there were no problems. He stated that Garn-St. Germain gave S&L's more flexibility to earn a greater income in order to pay higher savings rates.

MSSIC JOINT SUBCOMMITTEE

MINUTES OF MEETING, JULY 17, 1984

The meeting was called to examine HB1130(1984). The first witness was Charles Hogg, President of MSSIC. He testified that the urgency for HB1130 no longer exists. He also stated that the bill would impose additional qualifications for directorship on the MSSIC Board which were attuned to the financial condition of the member institution from which the particular director came. He stated that a 4% net worth cutoff was probably too high. He noted that if there is a director on the MSSIC Board who serves an S&L which is under investigation by MSSIC, that director does not participate in discussions or vote. He stated that to issue a cease and desist order you need 9 of the MSSIC members to vote for the order; Mr. Hogg stated that in his experience no cease and desist order has ever come up for a vote in MSSIC.

James Otto stated that he represented the 45 members of MSSIC who supported the concept in HB1130. He stated that MSSIC members should have the right to establish additional qualifications for directors on the MSSIC Board, if necessary. Both he and Mr. Hogg stated that 9 of 11 votes was not a "super" majority which would preclude enforcement of MSSIC regulations.

Jerry Whitlock(John Hanson S&L) stated that John Hanson S&L is the third largest S&L in Maryland. He said the current required qualifications are sufficient. He noted that HB1130 would in effect require the S&L (which employs the director) to qualify (through a 4% net worth requirement), rather than the director himself. He stated that 22 S&L's would oppose HB1130; Mr. Whitlock also insisted that this was not an issue of large versus small S&L's, because the 4% net worth requirement does not determine soundness. He said that the S&L Division of DLR should get increased enforcement powers instead.

James Lauderman agreed with Mr. Whitlock on two points. The first was that HB1130 standards for directorship are unrelated to the capacity of an individual to be a director of MSSIC; the second is that HB1130 would eliminate the Legislature's power to change guidelines for directorship. He stated that requiring 9 of 11 directors to vote for a cease and desist order is a large majority out of necessity because a cease and desist order is a heavy penalty; such a large majority would not be required for intermediate penalties. He stated that public censure of a financial institution could cause a run on its funds. While Mr. Lauderman did not think MSSIC should use the same procedures as the

PAGE 2

Federal Home Loan Bank(FHLB), he approved of the FHLB's way of calculating net worth. While he opposed any comprehensive increase in disclosure requirements for S&L's, he did concede that an element of discipline through disclosure was a good thing.

Charles Brown (Director, Division of Savings and Loans) also stated that the net worth of an S&L does not reflect an individual's ability to serve on MSSIC Board; he said that HB1130 would prevent some good associations from participating in MSSIC Board. He noted that changes in MSSIC by laws must be approved by him.

Respectfully submitted

Lars B. Kristiansen
HOUSE ECONOMIC MATTERS COMMITTEE
Committee Counsel

MINUTES

JOINT SUBCOMMITTEE ON SAVINGS AND LOANS

JULY 31, 1984

Charles Brown distributed a handout on FI§9-419. He pointed out that, under FI§9-419(c) Maryland S&L's are allowed to make the same types of investments as federally chartered S&L's without being explicitly subject to the rulemaking power of the Division. He noted that, when the Board of Savings and Loan Commissioners recently considered promulgating regulations on what type of investments were to be allowed under §9-419(c) it was advised by the Attorney General's Office that Maryland law does not grant specific authority for such regulation, and that the regulation might be subject to challenge on anti-trust grounds.

Mike Brockmeyer (Assistant Attorney General) explained the anti-trust problems inherent in the Division's enforcement of Maryland Savings and Loan Law. He noted that it is the policy of the federal anti-trust laws that state laws must foster competition but, also that states have a right to protect investors (i.e., depositors). He observed that the State Board of Savings and Loan Commissioners is composed mainly of industry representatives. However, since these members of the Board are in essence competitors, any regulatory agreement among them could be construed to be an unlawful compact which restricts free competition under the federal anti-trust laws.

In response to similar situations in other states, the Supreme Court developed the "State-Action" doctrine. Under this doctrine, the federal government would not intervene if a restriction on free competition was enacted by a State Legislature to protect a legitimate state interest. The test to satisfy this doctrine has two prongs:

- 1) The state must clearly articulate and affirmatively express a state policy which would allow the displacement of competition in order to protect a state interest; and
- 2) There must be active state supervision of the implementation of that policy.

Mr. Brockmeyer opined that the existence of the S&L Division satisfied the second prong of the test; however, he was uncertain whether Maryland could satisfy the first prong. He noted that a state policy of "protecting the public safety" is not sufficient since the policy must explicitly state that it intends to restrict some forms of competition to reach certain objectives.

He informed the subcommittee that an explicit statement concerning the restriction of competition was not contained in FI§9-419(c) whether the investments allowed under this subsection are under the regulatory aegis of the Division or whether the subsection can be considered an alternate lending authority outside the scope of the state's power. In other words, FI§9-419(c) could be construed to provide absolute parity between state and federal S&L's rather than merely allow state associations to engage in certain additional investments subject to regulation by the state. He promised the Joint Subcommittee a letter of advice on these issues for next week.

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Respectfully submitted
Lars B. Kristiansen
Committee Counsel

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MINUTES

JOINT SUBCOMMITTEE ON SAVINGS & LOANS

AUGUST 8, 1984 MEETING (1:25p.m.)

Charles Hogg noted that amending the confidentiality statute to give the Division Director the power to require standardized disclosure of each S&L's operations would allow the Division to determine format and frequency of the disclosures through regulation. Bill LeCompte noted that the word "member" could be changed to "person" in §9-306(b)(1); Senator Denis agreed that this would be a more useful format than amending §9-504 (confidentiality statute).

Delegate Kirchenbauer asked for more information on the condition of savings and loans in Maryland.

There were general objections from Mr. Kresslein to monitoring out-of-state deposits. Mr. Whitlock stated that the 50-mile rule was originally applied to the making of loans, not the acceptance of deposits. Mr. Hogg noted that MSSIC allow only 10% brokered deposits; if the S&L's networth is below 4%, MSSIC only allows 5% brokered deposits. MSSIC also restricts brokered deposits from any single broker to 1% of total deposits. He noted that banks do not monitor out-of-state funds. However, he also noted that MSSIC is currently monitoring "Jumbo" accounts (all jumbos are not brokered, but most brokered are jumbo). Mr. Kresslein reminded the subcommittee that a recent federal regulation issued to control brokered accounts was struck down by a federal court as unconstitutional. Delegate Kirchenbauer asked whether it could not help to insure all accounts if the large accounts were broken up and the funds spread among several institutions. This suggestion was opposed by Mr. Kresslein.

Mr. Hogg and Mr. LeCompte noted that there were inconsistencies in MSSIC and Division regulations. Mr. Hogg noted that the MSSIC survey would be forthcoming; he stated that data indicates that not much "cross-investing" is going on.

On the issue of increased salaries for auditors, Mr. LeCompte noted that there has been a 100% turnover among examiners for the Division in the last 3 years: these examiners are trained by the Division and then leave for much more lucrative jobs with S&L's. Mr. Kresslein noted that the franchise tax no longer goes into a special fund to pay for the operation of the Division. The Division is allotted funds through the budget and the franchise tax is paid into the general fund. Mr. Kresslein stated that the revenue raised by the franchise tax now greatly exceed the funds allotted to the Division in the budget. He asked that the tax be lowered; he noted that, in addition, the Division charges \$107 per day per man for examinations.

Minutes
Joint subcommittee on Savings & Loans
August 8, 1984--Page 2

It was noted that the law did not specify a deadline for independent audits (required of institutions with over \$5 million in assets). Del. Kirchenbauer asked that the Division investigate whether these audits were done in a timely fashion.

The meeting was attended by Delegates Kirchenbauer, Harrison, Littrell, Lutz, and Morsberger and by Senator Denis.

Respectfully submitted by
Lars Kristiansen

Testimony of Charles C. Hogg, II
before
Commerce, Consumer and Monetary Affairs Subcommittee
of the
Committee on Government Operations
April 3, 1984

I am pleased to appear before the Subcommittee to present my views on the state/private deposit insurance systems and to discuss in particular the Maryland Savings-Share Insurance Corporation (MSSIC). My testimony will provide brief background on MSSIC and respond to the four topics listed in Chairman Barnard's letter of March 22, 1985.

MSSIC was created in 1962 by a special act of the Maryland General Assembly for the purpose of providing a viable alternative for deposit insurance for state-chartered savings and loan associations. In the early 1970's Maryland law was changed to require deposit insurance for all savings and loans in the state, and MSSIC and the Federal Savings and Loan Insurance Corporation (FSLIC) were the only providers authorized. The Charter of MSSIC appears at Title 10, Financial Institutions Article, Annotated Code of Maryland. The stated purposes of the Corporation are listed there as follows:

- "(1) Promote the elasticity and flexibility of the resources of members;
- (2) Provide for the liquidity of members through a central reserve fund; and
- (3) Insure the savings accounts of members."

The operations of MSSIC are directed by a Board of Directors comprised of three members appointed by the Governor of Maryland and eight members elected from among representatives of member associations. The Board of Directors employs a staff of financial professionals to implement Board policies. I am President and Chief Operating Officer. In addition to the Board of Directors, we have a Membership Committee which meets monthly to review the operations of the member associations and to determine the eligibility of new associations for membership.

Our analysis of the operations and financial condition of member associations is an

active, not a passive, one. Each member whose assets exceed \$3 million is required to submit monthly a complete financial report which includes a balance sheet, income statement and supplemental data. This information is entered into an IBM 34 computer which is programmed to point out exceptions to all of our rules, regulations, guidelines and policy statements. In addition the computer provides reports on trend analysis, margin analysis and any change beyond established parameters. These reports are reviewed by our financial analysts, and presented to the Membership Committee and Board. Most importantly, our staff follows up on the reports by on-site visits to and review of the operations of selected institutions highlighted by the reports. These visits and reviews may include checking on securities portfolios, loan files, operating expenses and other specific areas of interest, or they may entail a complete review of the operations of the institution.

In addition to our major data processing efforts, our staff uses an IBM Personal Computer to perform selected analysis on member associations as well as for internal uses.

To supplement the analysis and review conducted by my staff, we have complete access to the examinations and files of the Division of Savings and Loan Associations (the Division), the state agency with regulatory responsibilities for the state chartered industry. Members of my staff attend the Exit Interviews conducted by the state upon completion of an examination of an institution, and we receive at the same time as the institution a copy of the Examination Report, and subsequently, a copy of the institutions response to comments in that examination. Coordination between MSSIC and the Division is further enhanced by the Director's attendance at MSSIC Board meetings, and my attendance at meetings of the Board of Commissioners. Our staffs and senior officials meet frequently to coordinate our efforts in dealing with potential problem associations and to insure that total, complete and free lines of communications exist. Copies of correspondence between our offices and member institutions are regularly

exchanged.

Our coordination and cooperation with the Federal Home Loan Bank Board (FHLBB) is naturally more limited, although we do attend seminars and meetings where representatives of the FHLBB participate. In addition, I have recently held meetings with the Director of the Insurance Section of the FSLIC on methods of planning for and executing institution closings or other supervisory actions. We retain as a consultant the firm of the former Director of Insurance of the FSLIC.

The financial data I will provide today is as of December 31, 1984 to give a good comparative basis, although our data processing capabilities allow us to provide monthly data. We will be pleased to provide any data the committee wants.

At December 31, 1984 the 101 members of MSSIC (now 102) had total assets of \$8.9 billion and total savings deposits of \$7.2 billion. Included in the assets are mortgage loans of \$5.8 billion and Investments and Securities of \$1.6 billion. Our largest member had total assets of \$1.6 billion and our smallest member had assets of \$152,968.

At the same date, MSSIC had total assets of \$204.8 million, which included highly liquid investments, primarily U.S. Government or Agency securities of \$132.2 million. In addition, the Central Reserve Fund, used for liquidity, had assets of \$80.8 million, also invested in liquid securities. Our premium structure consists of a 2% Capital Deposit maintained by member associations with MSSIC. These deposits are adjusted semi-annually as of June 30 and December 31 of each year. We calculate our reserves or net worth to be \$166.8 million. The components of this reserve position are Capital Deposits (\$144.3 million), Retained Earnings (\$17.5 million) and a Reserve for Insurance Losses (\$5.0). All of the MSSIC figures are audited as of December 31, 1984 and Touche Ross & Co. has given an unqualified opinion on our financial statements.

At this point in my testimony, I would like to digress to introduce a topic that has significant meaning to MSSIC and which could add over \$15 million to our retained earnings and reserve position.

This Subcommittee has asked us to make recommendations to Congress on measures which could be taken to strengthen the private deposit insurance system. Mr. Chairman, MSSIC is proud of its record. We feel depositors in members of MSSIC are thoroughly protected by our continuing to operate as we have since we were established in 1962.

There is one area, however, where a change in the law would allow MSSIC to increase insurance reserves, which would add further protection to our members. As the Committee is aware, the federal deposit insurance agencies, the FDIC and FSLIC and the central liquidity facility of the National Credit Union Administration, are statutorily exempt from federal income taxes. MSSIC is statutorily exempt from Maryland state taxes. MSSIC, however, is not exempt from federal taxes, although several state organizations which perform functions similar to those of MSSIC are exempt from federal taxes.

This disparity in treatment results from the fact that the section of the Internal Revenue Code which provides the federal exemption for deposit insurers, section 501(c)(14)(B), applies only to organizations created before September 1, 1957. MSSIC is excluded by virtue of having been established in 1962.

There is no logical reason for this discrimination. A federal tax exemption for MSSIC would permit us to add approximately fifteen million dollars to our insurance reserve fund, that figure representing taxes owed to the federal government, but not yet paid to the government. If MSSIC were operating under a federal exemption, we would be fifteen million dollars stronger, yet there would be no revenue loss to the federal Treasury. More importantly, we would operate in the same federal tax position as the federal deposit insurance agencies and those private insurers established before September 1, 1957.

A bill H.R. 6199, was introduced last Congress to eliminate entirely the cut-off date in Section 501(c)(14)(B) of the Code. We understand that a similar bill will be

reintroduced this session. We hope it will be enacted into law. In light of Congress' concerns over the ability of federal and state deposit insurers to do their jobs well, all deposit insurers should have the same federal tax treatment, particularly when they perform as well as MSSIC.

As we have pointed out, our exacting procedures for membership in MSSIC, and the careful ongoing scrutiny that we make of our state's savings and loan industry, are a depositor's best protection against loss. No depositor in Maryland has lost even a single penny since MSSIC was organized in 1962, and we intend to continue this fine record. A federal tax exemption would help us perform the job of assuring the maximum protection available under law to depositors with members of MSSIC.

A proper and appropriate early-warning and regulatory/supervisory system such as is in place in Maryland and at MSSIC should preclude the failure of one or more large insured thrifts from occurring suddenly or as a surprise to regulators and insurers. Careful and constant monitoring must be used to detect potential problems before they become serious, and enforcement and corrective action must be taken quickly and effectively. Should a significant failure occur, however, several options are available to the regulator and insurer. These options, exercised early and decisively, include voluntary merger, assisted merger or acquisition, conservatorship or receivership, assumption of management and control, sale of branches or other assets and controlled liquidation. Obviously all sources of liquidity, including the Federal Reserve Bank Discount Window, bank lines and other sources must be activated. Communications among all parties concerned must be open and effective.

Several lessons have been learned from the events in Ohio. These deal primarily with communications, liquidity sources, and regulatory response. As a result of the Ohio situation, we have reviewed our methods of communications with our members, and with the executive and legislative branches of our State government. We are capable of disseminating quickly critical information to 102 savings and loans, and of getting from

these institutions, and their branches, fast and accurate information.

We have reviewed and are assured that those institutions who are eligible are properly filed and prepared to utilize their access to the Federal Reserve Bank Discount Window. We have instructed our members to reconfirm the terms and conditions of borrowing under bank lines of credit. MSSIC's own liquidity position has been temporarily increased

We have the systems in place to deal with an unfortunate event. All the parties involved, including the Federal Reserve Bank, are prepared to do our jobs, quickly and effectively.

It has been my pleasure to appear before you. I would be happy to answer any questions. Thank you for your time and interest.

CLAUDE W. BARNARD JR. GEORGIA
JOHN M. SPRATT JR. SOUTH CAROLINA
JIM HOLTZ PENNSYLVANIA
BIL FRERKIN ALABAMA
ALBERT G. BUSTAMANTE TEXAS

NINETY-NINTH CONGRESS

Congress of the United States

House of Representatives

COMMERCE, CONSUMER, AND MONETARY AFFAIRS
SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-377
WASHINGTON, DC 20515

LARRY E. CRAIG IDAHO
PATRICK L. SWANWELL GEORGIA
J. JAMES SARTON NEW JERSEY

MAJORITY—D001 008—407

March 22, 1985

Mr. Charles H. Brown, Jr.
Director, Savings & Loan Division
State of Maryland
231 E. Baltimore Street, 7th
Baltimore, MD 21202

Dear Mr. Brown:

On April 3, 1985, the Commerce, Consumer and Monetary Affairs Subcommittee will begin hearings into the Ohio deposit insurance situation, the adequacy of the Federal and state responses to it, and the operation of other state/private deposit insurance funds, including the one that operates in your state. The subcommittee is specifically interested in the manner in which state/private deposit insurance funds interact with their thrift supervisory agencies.

I therefore request your appearance at the subcommittee's hearing on April 3, at 9:30 a.m. in Room 2154 of the Rayburn House Office Building. Your testimony should respond to the following:

1. Please describe your agency's operations and enforcement powers, and the general condition of the thrifts in your state. In so doing, please answer or furnish the following:
 - a. For each year, 1982 to date, the budget of the Maryland Savings & Loan Division and the number of individuals employed in professional level examination/supervisory capacities.
 - b. The number and asset range of (i) state-chartered and insured and (ii) state-chartered but federally insured, thrift institutions currently supervised by your office.
 - c. Describe briefly the frequency with which Maryland institutions are examined and the civil and criminal powers available to your agency to supervise these institutions (i.e., cease and desist powers, suspensions or removal powers, civil fines, etc.) Are you satisfied with the sufficiency of these powers?
 - d. Do you impose on the institutions you supervise reserve, capital or other safety and soundness requirements designed to prevent the likelihood of insolvency? If so, what basic requirements do you impose?
 - e. How many of Maryland's (i) federally insured and (ii) nonfederally insured thrifts are presently on your "problem" list?

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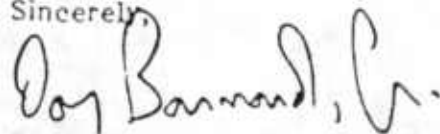
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DIV. OF SAV. & LOAN ASSNS

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2. Please describe, as comprehensively as possible, the ways in which your agency interacts with the administrators of the state's deposit insurance fund. In this connection,
- a. Do you routinely and systematically make available to the insurance fund administrators (i) examination reports and related documents involving, and (ii) information about any supervisory actions taken against, the state/private insured thrifts?
 - b. Do you have authority to order the termination of an association's state/private deposit insurance? If so, under what set of conditions are you authorized to do so; and set forth the number of such insurance terminations from 1980 to date. If you do not have insurance termination authority, does that authority reside elsewhere?
3. Please set forth your views on how Maryland Savings-Share Insurance Corp. might operate more effectively to prevent or minimize losses to the fund; and how your agency's coordination and cooperation with the operators of the insurance fund could be improved.
4. Please comment on the Ohio deposit insurance situation and the adequacy of responses by state and Federal officials (including the Federal Reserve, Home Loan Bank Board, and SEC officials). What specific lessons have been learned and what recommendations are you prepared to make to Congress regarding recent events in Ohio and their possible repetition elsewhere?
6. Please feel free to provide any additional information or views which you believe are relevant to the issues being studied by the subcommittee.

Your responses to and testimony concerning the above will greatly assist the Congress in determining whether reforms are necessary in the present system of state/private insurance, in state and Federal banking supervision and in the regulation of nonregistered securities dealers. The Rules of the House of Representatives require that you supply the subcommittee with 100 copies of your testimony no later than the close of business on April 1, 1985. If there are any questions, please do not hesitate to call the subcommittee staff director, Peter S. Barash, or staff counsel, Stephen R. McSpadden.

Sincerely,



Doug Barnard, Jr.
Chairman

DB:psb/srm:v

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN
DIRECTOR



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

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BALTIMORE, MARYLAND 21202-4078
301 659-6330

FREDERICK L. DEWBERRY
SECRETARY

WILLIAM S. LECOMPT
DEPUTY DIRECTOR

March 29, 1985

Representative Doug Barnard, Jr., Chairman
Commerce, Consumer and Monetary Affairs Subcommittee
Rayburn House Office Building, Room B-377
Washington, D. C. 20515

Dear Representative Barnard:

In response to your letter of March 22, 1985, I would be pleased to appear at the subcommittee's hearings on the Ohio deposit insurance situation which will be held on Wednesday, April 3, 1985.

I am enclosing herewith the data requested in your letter and which will be included in any testimony that I might give during the hearings.

Very truly yours,

Charles H. Brown, Jr.
Charles H. Brown, Jr.
Director

CHB:kg
Enclosure

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DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

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FREDERICK L. DEWBERRY
SECRETARY

WILLIAM S. LECOUMPT
DEPUTY DIRECTOR

The Division of Savings and Loan Associations was created by the State Legislature in 1961 for the purpose of regulating the State-chartered savings and loan industry in Maryland. The insurer, more popularly referred to as MSSIC, was created by the Maryland State Legislature in 1962 for the purpose of insuring savings accounts of State-chartered savings and loan associations which were not federally insured by the Federal Savings and Loan Insurance Corporation (F.S.L.I.C.). The corporation, although created by the State Legislature, is not a State agency nor is the insurance of savings accounts backed or guaranteed by the State of Maryland. However, under Maryland Law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining eight directors are elected by the membership consisting of the 101 institutions insured by it.

The Savings and Loan Division for the State of Maryland has a staff of 30 individuals of which 18 are field examiners, 2 examiner-supervisors and a chief examiner. Additionally, there is the Director of the agency, Charles H. Brown, and the Deputy Director, William S. LeCompte, plus clerical employees. Since 1982 the Division has operated on the budgets as set forth below:

1982	Actual	\$ 674,125
1983	Actual	708,387
1984	Actual	734,015
1985	Appropriated	960,785
1986	Proposed	1,020,604

The Division of Savings and Loan Associations, for the State of Maryland, regulates 114 State-chartered associations as follows:

	Assets December 31, 1984 <u>in Billions</u>
13 State-chartered with insurance of savings accounts by the Federal Savings and Loan Insurance Corporation (FSLIC)	\$ 1.6
101 State-chartered with insurance of savings accounts by the Maryland Savings-Share Insurance Corporation (MSSIC)	8.6 8.9
Total State-chartered industry	<u>\$10.5</u>

The 13 associations insured by the FSLIC have assets ranging from \$495 million downward to \$21 million. The assets of the 101 MSSIC insured institutions range from \$1.6 billion downward to our smallest association of \$152,968. We have 18 associations with assets in excess of \$100 million and 58 associations with assets under \$10 million. We have many small, neighborhood associations, some of which are open to the public only one or two evenings per week.

Under Maryland law the Division is required to examine our associations at least once every two years. At the present time examinations are made approximately every 14 to 15 months. If need be an association could be examined more frequently if the Division Director considers it necessary. Additionally, both the Division and the insurer, MSSIC, require that our institutions submit a monthly operating report so that we can keep abreast of the operations between examination periods. Associations with assets of \$5 million or more are required to have an annual independent audit by a Certified Public Accountant.

Presently, the Division has limited enforcement authority. However, as a result of a 1984 Maryland legislative summer task force study of the savings and loan industry, several bills were introduced in the State legislature this year which will give the Division greater authority to regulate the industry. These bills cover the following:

1. The authority to issue a Cease and Desist Order for any violations of Maryland law or regulations of the Division.
2. Would allow the removal of any officer or director found to be operating in an unsafe and unsound manner.
3. Clarification of the regulatory authority of the Board of Savings and Loan Commissioners over State-chartered associations.
4. Requirement that an association must have available for the public an annual financial statement.

The Division Director and the Board of Savings and Loan Association Commissioners are satisfied that these new powers will give the Division the authority to regulate the State-chartered industry. These bills are awaiting passage in the Senate and the House and when passed and signed by the Governor will become law effective July 1, 1985.

By regulations of the Board of Commissioners, our institutions are required to maintain a net worth of at least 3% of the savings deposits. Additionally, the insurer, MSSIC, also has its own net worth requirements which I am sure will be included in the presentation by Charles Hogg, President of MSSIC.

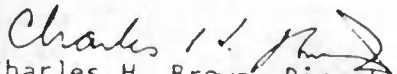
Presently we do not have any associations that we feel have severe operating problems. There are always some associations which we feel we need to monitor more closely than others and at this time we have three associations in this category.

The Division works very closely with the insurer, MSSIC, in the supervision of the State-chartered industry. MSSIC receives copies of the examinations made by the Division. Both the Division and the insurer receive the monthly operating report of each association. Both agencies receive copies of the annual independent audit. Information is exchanged by the agencies so that we are both kept fully aware of the operations of each and every institution. If a supervisory conference with any institution is necessary, both agencies are involved. Additionally, the Division Director attends the Board of Directors meetings of the insurer and Mr. Hogg, President of MSSIC, attends the meetings of the Board of Savings and Loan Commissioners. There is full cooperation between the two agencies in the supervision of our industry.

Maryland Law requires that any institution operating within the State must have insurance of savings accounts by either the Maryland Savings-Share Insurance Corporation or the Federal Savings and Loan Insurance Corporation. Although the Division does not have the authority to terminate the insurance, the insurer, MSSIC, does have such authority. The termination of the insurance, however, would probably result in a supervisory merger of an institution with a stronger association or the appointment of a conservator or a receiver for liquidation purposes. In that respect, under Maryland law the Federal Savings and Loan Insurance Corporation or the Maryland Savings-Share Insurance Corporation has an absolute right to be appointed conservator or receiver of a savings and loan insured by it.

With regards to the Ohio situation it is felt the regulator and insurer here in Maryland took steps to assure that our institutions were fully informed of the situation and that our associations were prepared to meet unusual withdrawals resulting from publicity from the failure of the Home State Savings and Loan Association and the Ohio Deposit Guaranty Fund. Our insurer, MSSIC, was very liquid and was prepared to render whatever assistance that might be needed by the membership. It is felt other government agencies, in particular the Federal Reserve Bank, moved promptly to render any needed assistance for institutions which qualified. The Federal Home Loan Bank of Atlanta kept in constant touch with the Division to determine whether Maryland was having any savings losses which could result in a large number of applications for federal insurance of savings accounts.

In conclusion I would say that all government agencies on both the state and federal level reacted promptly for the protection of the industry and, more in particular, the public.


Submitted by Charles H. Brown, Director
Division of Savings and Loan Associations,
State of Maryland

March 29, 1985

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~~SECRET~~

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DEPUTY COUNSEL
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ASSISTANT ATTORNEY GENERAL
CHIEF, LITIGATION AND ADMINISTRATION

April 10, 1984

Charles H. Brown, Jr., Director
Division of Savings and Loan Associations
231 E. Baltimore Street-Seventh Floor
Baltimore, Maryland 21202

Re: Custom Savings & Loan Association

Dear Mr. Brown:

You have requested advice of counsel as to whether the Division Director has the power to seek restitution for affected accountholders of Custom Savings and Loan Association ("Custom") who deposited funds in any of Custom's several variable rate Cash Fund Accounts, under the facts set forth in the succeeding paragraph.

While several different Cash Fund accounts were offered by Custom involving minor differences in terms, the general format involved advertisements offering a high guaranteed yield for a limited period of time, with all such accounts operating as daily variable rate statement savings accounts after the guaranteed period, the rate being "subject to daily changes to reflect money market conditions." The questioned practice occurred during the variable rate phase when the daily rate would be set by Custom's three principal officers after reviewing rates of local competitors. Accountholders could call Custom's office (with some difficulty) and be advised of the day's rate. This telephone service did not operate on weekends and holidays. A MSSIC examination covering a 6 month period revealed Custom's consistent practice of lowering the daily rate over weekends and holidays up to 3.6% per annum from the last quoted rate, and then jumping the next post-weekend or holiday rate back to the area of the last quote (e.g. dropping from a 10.3% quoted annual rate for Friday to a 6.9% annual rate for Saturday and Sunday, and averaging a reduction of approximately one and one-half points for reviewed weekends). Neither accountholders, the Division, nor MSSIC were aware of the practice prior to the examination, and could not reasonably be expected to have discovered it from

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Charles H. Brown, Jr.
April 10, 1984
Page 2

the periodic account statements, given the complications inherent in interest calculations involving a variable daily rate and compounding. On the demand of the Director and MSSIC, Custom has discontinued the questioned practice.

For purposes of this opinion, I am assuming that Custom's unique ratesetting practices set forth above violate applicable law or Board of Commissioners regulations and thus come within the scope of §8-401 of the Financial Institutions Article discussed below. The meager statement that a depositor's variable rate account is "subject to daily charges to reflect money market conditions" may well fall short, on grounds of accuracy and completeness, of the disclosure of "the method of computing the dividend or interest" required under the Truth in Savings section of savings and loan law. Code, Financial Institutions Article, §9-403(2). Further, from an overview of Custom's Cash Fund practices, the same statement on the variable rate together with the telephone advice on specific weekday rates being paid to depositors could constitute an inaccurate and misleading advertisement under Board Regulation COMAR 09.05.01.18C.

However, even assuming these violations of savings and loan law and regulation (the practices being promptly terminated on demand of the Director), after a review of the area, I conclude that the Division Director does not have the power to require restitution from Custom for affected accountholders for lost interest resulting from the "dropped" weekend and holiday rates.

Applicable powers of the Director are set forth in Titles 8 and 9 of the Financial Institutions Article of the Maryland Code. Under §8-303, the Director is given "general supervision of savings and loan associations in this State", and §8-401 empowers him to issue orders to compel associations to comply with their charter or bylaws, any applicable law, or any rule or regulation of the Board of Commissioners. Significantly, the penalty and enforcement powers of the Director (and the Board of Commissioners) are quite limited. Missing are powers to fine, to suspend or revoke charters, to remove officers or directors, or to order restitution. (Compare specific powers of the Insurance Commission to revoke or suspend an insurer's certificate of authority or impose a fine of up to \$50,000 for violation of the Insurance Code or regulations including unreasonable delay in paying claimants amounts due them, under Article 48A, §§55 and 55A; the power of the Division of Consumer Protection to assess damages against violators of the Consumer Protection Act flowing from improper or incomplete restitution under §13-204(10) of the Commercial Law Article; and the Bank Commissioner's removal power over bank directors and officers for engagement in unsound banking practice under §5-801 of the Financial Institutions Article).

It would be stretching matters to conclude that the Division Director's general supervisory power over associations, combined

Charles H. Brown, Jr.
April 10, 1984
Page 3

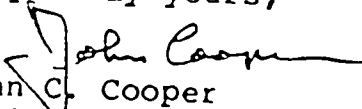
with the liberal construction directed by §§8-103 and 9-906 of the Financial Institutions Article, allow the Director to order restitution in this situation. The usual rule is that state agencies have only those powers conferred by statute, either expressly or by necessary implication. Am. Jur., "Administrative Law", §70; Albert v. Public Service Commission, 209 Md. 27, 34 (1956). Cooper, State Administrative Law, p. 695 sets forth collected cases

" . . . involving situations wherein an agency, believing that the public interest would be served if certain action were required, undertakes to order a course of conduct which under the statute it has no authority to require."

The uniform result was reversal by the reviewing court. See also Id. at p. 705.

While it is presumed that the variable rate practices of Custom described above are unique, I note that you have now specifically advised all state chartered associations that such practices will henceforth be treated as deceptive and misleading. I also understand that the Board is considering tightening up variable rate disclosure requirements by regulation.

Very truly yours,


John C. Cooper
Assistant Attorney General

JCC:pjm

copies to Francis X. Pugh
Robert deV. Frierson

ADVICE OF COUNSEL; NOT AN OPINION OF THE ATTORNEY GENERAL

3032

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PAUL W. GRIMM
ASSISTANT ATTORNEY GENERAL
CHIEF, LITIGATION AND ADMINISTRATION

May 28, 1984

MEMORANDUM

TO: Charles H. Brown, Jr., Director
Division of Savings and Loan Association

FROM: John C. Cooper, Assistant Attorney General

RE: First Progressive/Old Court Articles of Merger

* * * * *

The following changes will be required to the submitted Articles, to obtain my approval. Unless otherwise noted, statutory references are to Title 3 of the Corporations and Associations Article of the Code (1983 Supp.):

1. There is an inconsistency as to where First Progressive's principal place of business is located between the first (unnumbered) paragraph and Paragraph THIRD. (Also in Paragraph THIRD, as I read § 3-109 (a)(6)(ii), any leasehold interest in land should be set forth for First Progressive.)

ok - not needed

2. To comply with § 3-109 (a)(8), Paragraph SEVENTH needs a statement that the terms and conditions of the transactions set forth in the articles were advised, authorized and approved by Old Court in the manner and by the vote required by its charter and the laws of Maryland.

3. It appears to me that § 3-109 (a)(5) requires a statement as to the issuance of any Old Court stock to First Progressive interests.

JCC:dk

Polony - Won't testify & no other protesters.

AX-2 - From Conis - Willing to stand on Aggravation.
 - Mitig Analysis of Savings Rates - Area F.I.S.
 - Corrects Smith figures - Carries 13 1/2 + 3 pts
 - (for 2 mos.) only rate - Mkt rate is 10 1/2% - one of highest
 - Fiscal '83-'84 - Commitments for +500 single
family homes + 11 mil in 3 yrs (now &).
 - Lag time - (Table 10) - built into budgeting
at O balance
 - Will furnish written statement on home
MTG program

AX-3 - Old Ct. Memorandum
Can absorb 2 yr projected branch loss.
Area F.I.S not full service & competitive on modern basis
35,000 in PSA & Dep. median age - Effect + 17 mil for F.I.S.
FHLBB standards on branching
8 mil now in Old Ct from area residents (Presumably)

Cross Exam -
Smith - S&L law keeps from inquiring into finances.
Look at 8-102 of F.I.
Financial Competition factor, inquire into finances
High rates + emphasis on commercial loans

Evaluation of Financials [App.] -
Composition of MTG loan commitments - Mix of commercial
Const & Commercial
No of nonrecourse loans, unsecured loans
Contract - Many pledged assets
Loss in low interest loan sales
average No. of Junior Certs. (54 mil - 22% of deposits).
Loss - Lease %
Inward ed. Net (part of net worth - 12/31/83 statement)
Net Worth - 5.9 of 8 and is current carrying h. but
spiral up. Shows extraneous recent growth + low volume loss
on commercial etc. loans.
See long memo

81,740,
 700
 58,100
 515
 450
 1000
 1000

Cardin - Argue - Agree pub. interest is the ϕ & D's decision.
Nexus Brand App. (5 yrs ago) similar & now
going very well. Some type area.

Home Mfg. - App shows 182, ~~and~~ out
of 242 in residential areas. Always a major home lender.

Unsecured - Im. per deregulation like other FI's.

→ ? on MSSIC objection to branch.

D- :

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301/659-6330

Reg. 40

M E M O R A N D U M

TO: Charles H. Brown, Jr., Director
FROM: Alexander M. Watt, Jr., Examiner-Supervisor
RE: Application by Old Court Savings and Loan, Inc. to
Establish and Maintain a Branch Office at 6608 Belair
Road, Overlea, Maryland 21206.
DATE: April 23, 1984

I have reviewed this application to the extent necessary to properly evaluate the data submitted by the applicant. I have conducted a field survey of the proposed site and reviewed the operational projections for the proposed branch as well as the overall operations of the association. My findings are as follows:

I. Site

The proposed office to be built will consist of approximately 2,000 square feet in a new building to be constructed.

The building will be located at the end of a new 40,000 square foot strip shopping center containing a few stores. No details are available as to the number of stores or the perspective tenants. The center will be built in the heart of Overlea located between Kenwood Avenue and Northern Parkway. The new office will contain a drive-in and ample parking spaces.

An inspection of the area revealed very heavy traffic on Belair Road, which is one of the main arteries of Overlea. The site will have very good visibility to the traffic on Belair Road. The site is also between Kenwood Avenue and Northern Parkway, which are the other main arteries of Overlea where they intersect with Belair Road.

Ex-8
AC 10-24-85

3036

II. Office Building

Currently, this site is vacant land and is to be improved by a commercial strip center this summer. The office building is to be built by a partnership of Levitt and Pearlstein at a cost of approximately \$70,000. Jeffrey Levitt, a controlling stockholder of Old Court, is one of the principals of Levitt and Pearlstein. The savings and loan is to lease the building for a rental of 40,000 per year plus CPI adjustments every five years. The savings and loan will make their own tenant improvements totaling \$69,978 and are detailed in Table 8 of the application.

During the survey, I learned that Rosedale Federal has just leased a similar sized office adjacent to the White Marsh Mall for approximately \$32,000. Also, Commercial Credit Savings and Loan has an application on file for 7972 Belair Road for an office containing 1600 square feet at an annual rental of approximately \$25,000 per year. Examiner being a resident of this area for over ten years feels that Old Court's site is inferior and over priced. Many people avoid Belair Road from Glenmore Avenue to Fullerton Avenue because it is the one of the most congested areas of Belair Road. There are several alternate routes to take to avoid this area, which causes the location to be diminished in exposure and convenience. The examiner recommends an independent appraisal of the rental value of this site before allowing the approval of this branch.

The proposed office will contain teller counter for four tellers, a lobby, managers office, new accounts area, drive-in tellers area, staff lounge, restroom and storage area.

III. Primary Service Area

The primary service area (PSA) for the branch encompasses the area known as Overlea, Maryland. The applicant has provided a map as required by the application showing the area. The outer boundaries of the PSA are within 10-15 minutes driving time to the office per the examiner's actual testing. This meets the reasonableness test of the PSA. The proposed location, the commuting nature of the work force, the traffic system, and the peculiar geographic barriers around the area all help to shape the PSA. Taking all facts into consideration, from personal inspection, interviews and over ten years of living in this area, the PSA appears reasonable.

IV. Proposed Services

The applicant would offer at the proposed branch office the same services it currently offers at its existing offices. These were not included in the application and therefore could not be compared to existing financial institutions. However, I believe with all the financial institutions in the PSA, there are no new services that are not currently being offered at competitive rates in the area.

The projected business hours will be designed to compete with the hours of existing financial institutions in the area, most probably Monday through Friday, from 9 a.m. to 4 p.m. with evening hours on Friday.

V. Market Penetration

At the time this application was submitted, the association had 689 savings accounts in the PSA totaling \$8,648,344 or 3.48% of Old Court's total savings. In addition, the association had 84 mortgage loans totaling \$3,594,260 or 1.49% of Old Court's total loans.

VI. Savings Potential

The applicant stated that the proposed site will provide new deposits of \$1.2 million by the end of the first year. In reviewing figures for all of the savings and loans in the area, it appears the area is saturated. The only savings and loan with any growth is Eastern Savings which is an aggressive institution with a superior location to the proposed site and present competition. Eastern is located at Belair Road and the Beltway with the largest shopping center in the PSA. At this location, they are easily accessible to Harford Road and Pulaski Highway via the Baltimore Beltway as well as Belair Road. At this location, residents from the PSA can do their shopping and banking in one stop and many can avoid the congestion of the proposed site. However, past performance of new savings and loan branches show that this \$1.2 million figure is attainable. The newness and advertising will bring in at least this much the first year. Growth projected in the second and third years will probably not be obtainable.

VII. Projections

The applicant, using \$1.2 million in new savings, projects a \$31,000 loss the first year. I have looked over the financial statements, and their projections appear reasonable. Also, the income and expenses are in line with other first year projections submitted by other applicants.

VIII. Operations and Net Worth

As of March 30, 1984, Old Court Savings and Loan has 4.1% total net worth as defined by Regulation .40 and .40-1. Although the association has had large losses over the last several years, it

seems new management and the favorable interest rate climate has turned the association around. Due to this tremendous turn around, the examiner feels a favorable examination and certified audit should be completed before final approval from the Division is granted.

IX. Conclusion

Examiner feels that because the rent is excessive, the location is inferior and the net worth just barely meets the minimum, this branch should be denied. Two other branches are pending for this Savings and Loan at this time and could cause a net worth problem if three are opened up at once. I believe, if one of the other sites are more promising, that site should be approved at this time and the other two held off until we see if Old Court can maintain a 4% reserve.

Therefore, I do not recommend that the application of Old Court Savings and Loan to establish a branch office at 6608 Belair Road, be approved. I believe, if the proposed site is moved more than a mile north, the site would be convenient to the White Marsh PSA that is projected for substantial growth over the next several years.

Gordon Exp.
Lambert
Lambert, Exp.

4/24 S&L Hearing on Old Court Branch App -
6608 Rubin Rd.

(1)

X-1 Application

X-1 letter Protest letters
6

X-1 Watt Memo

Michigan
Smith, Exp. Rosedale - Primarily over X - Open on financials etc.
Threat to financial stability of ill-asset F.I.'s.
Concerns on App -

max mtg
rate - mtg
attractive
interest rates
+ most sites
Financial
Problems?

(a) Static Mkt. (b) Present serving F.I.'s. (c) Old
at
Ct. Mtg Rate 14% + 4 pts; Money Mkt 10.5% (Looking to
attract deposits + invest in non mtg. areas.
High Rent (per Watt memo); Table 9, p 15 till
of App. - Accuracy of performance income, - p 16 Cash Flow -
"No lag time included in carrying area share."
on Expense figures

Financial Status - Quality of earnings & practices

Henry Elsnic - Madison & Brookford

No need for another S&L in area - Brookford
closed area office for lack of business

Old Ct interested in commercial loans.

Land Records - Butte County - City loan was 218,000
- 82 ; 317,000 in '83.

Loan sup priority to home mtg loans

30D (1) - Home loans + 50% of assets - Thinks ill
- to include

Net Worth - 4% Portion borrowed from MSSIC
Repd. in full - \$525,000

X - open - Sup grant of 5,000,000 (10% of 50M)

Area opposite bank it kept up w/ industry.

- Aggressive local F.I.'s. 6 1/4 p. hr.; NOW w/10 chng
8.73

[no chng facilities]; 3 mos. certifs - 9.75
1 yr 9.4-9; Mtg. rate - 12 7/8 - 13 1/4 on insured loans

ITAD AWN
Establishment of a Branch Office
Old Court Savings and Loan
6608 Belair Road
Baltimore, Maryland 21206

13270

IVF4

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November 24, 1980

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Mr. David H. Wells, Jr.
Deputy Director
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Dear Mr. Wells:

You have asked for our opinion on whether the Board of Savings and Loan Commissioners would violate the anti-trust laws if it were to adopt a uniform schedule of rate ceilings specifying the maximum dividend or interest rates that State-chartered savings and loan associations would be permitted to pay on savings certificate accounts and other types of fixed term accounts.

For the reasons given below, it is our opinion that,

OPINION OF THE ATTORNEY GENERAL

Cite as: Opinion No. 80-086 (November 24, 1980) (to be published at 65 Opinions of the Attorney General (1980))

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under the federal antitrust laws, the Board of Commissioners does not have the requisite statutory authority to impose such rate ceilings. Consequently, if the Board were to establish a uniform schedule of rate ceilings, members of the Board might well be held to be acting in violation of the federal antitrust laws and, as a result, would be subject to substantial personal liability under those laws. 1/

I.

Both the Sherman Act [15 U.S.C. §§ 1 through 7] and the Maryland Antitrust Act [Title 11, Subtitle 2 of the Commercial Law Article] establish a policy of favoring free enterprise and open competition. Thus, when competitors agree to practices that unreasonably restrain competition, serious antitrust concerns are raised. See National Society of Professional Engineers v. United States, 435 U.S. 679 (1978).

Often, members of State regulatory and licensing agencies are themselves owners, directors, or employees of competitors of the institutions that they regulate. In this case, as a result of qualifications required by statute, we find that five of the nine members of the Board of Savings and Loan Commissioners are themselves actively engaged in the savings and loan industry - representing associations that compete against each other and against

1/ Given our conclusion that the federal antitrust laws preclude the setting of the rate ceilings, we need not - and, therefore, do not - here address the question of whether this activity also would be subject to sanction under the Maryland Antitrust Act.

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other associations regulated by the Board. 2/ Thus, there is some danger that members of the Board of Commissioners may be in violation of the antitrust laws when they impose regulations or take other actions that, in effect, impede competition within the industry that the Board regulates. As the Supreme Court has indicated in recent decisions, state regulatory officials are not, by virtue of their status alone, exempt from federal antitrust laws. See, e.g., Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975).

Members of State regulatory agencies are exempt from the federal antitrust laws only if their official actions gain protection under a legal theory called the "state action" doctrine. 3/ This doctrine was first enunciated in Parker v. Brown, 317 U.S. 341 (1943). In that case, the

2/ See § 8-202(a)(2) of the Financial Institutions Article, which provides:

"(2) Of the [nine] board members:

(i) Three shall be industry members who for at least 5 years immediately before appointment have been officers or directors of or attorneys for Maryland savings and loan associations insured by the Maryland Savings-Share Insurance Corporation; [and]

(ii) Two shall be industry members who for at least 5 years immediately before appointment have been officers or directors of or attorneys for Maryland savings and loan associations insured by the Federal Savings and Loan Insurance Corporation[.]"

3/ It has been suggested that the Maryland Antitrust Act, In § 11-203(10) of the Commercial Law Article, would serve to permit the establishment of such a rate ceiling. Section 11-203(10) exempts:

[continued]

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Supreme Court upheld the validity of a proration marketing program of agricultural commodities. The program was administered by a California state agency, acting in accordance with state law; the state, through policy and legislation, directed the proration program. Analyzing this state activity in light of principles of federalism and statutory interpretation, the Supreme Court reasoned that, in passing the Sherman Act, Congress did not intend to restrain the actions of the states acting in their sovereign capacities. Rather, the federal antitrust statute should be read to reach private activity only and not "state action".

Since Parker v. Brown, however, the Supreme Court has grappled with the difficult task of determining whether a given activity is essentially private activity or an act of the state acting as sovereign. Through a case-by-case refinement of this analysis, the Court has fashioned a standard for judging when activity undertaken by state officials will be considered "state action" and, as such, exempt from the federal antitrust laws.

In its most recent decision concerning the state action doctrine, the Supreme Court reiterated the reasoning of its earlier decisions and explained that the suspect activity

3(continued)/

"A state or federal savings and loan association to the extent that the activity is regulated or supervised under the savings and loan laws of the State or the United States[.]"

However, as previously noted, we are here concerned only with the application of the federal antitrust laws (see note 1 above), and an exemption from the Maryland Antitrust Act does not serve as an exemption from the federal antitrust laws.

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must satisfy a two-prong test in order to be considered action by a state. California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., ___ U.S. ___ [100 S.Ct. 937] (1980). First, the restraint must be "one clearly articulated and affirmatively expressed as state policy"; second, "the policy must be 'actively supervised' by the State itself". ___ U.S. at ___ [100 S.Ct. at 943] (quoting City of Lafayette v. Louisiana Power & Light Co., 435 U.S. 389, 410 (1978)).

In enunciating this test, the Supreme Court reaffirmed its earlier decisions regarding the type of statutory authorization that, in order to satisfy the first prong of the test, will be considered to be a "clearly articulated and affirmatively expressed" policy. In Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975), for example, the Supreme Court held that a minimum fee schedule for attorneys' services was a private price fixing activity even though it was enforced by the Virginia State Bar, a state agency. Finding that there was no state law that required the State Bar to undertake this activity, the Court stated: "It is not enough that, as the [co-defendant] County Bar puts it, anti-competitive conduct is 'prompted' by state action; rather, anti-competitive activities must be compelled by direction of the State acting as a sovereign." 421 U.S. at 791 (emphasis added). See also United States v. Texas Board of Public Accountancy, 464 F. Supp. 400 (W.D.Tex. 1978), aff'd, 592 F.2d 919 (5th Cir. 1979), cert. denied, ___ U.S. ___ [100 S.Ct. 262] (1979).

Thus, in applying the Midcal test to a suspect activity, the initial inquiry in each case is whether there is a "clearly articulated" policy to restrict competition; and whether that policy - and the resultant activities - are "compelled by direction" of an "affirmatively expressed" statutory directive intended to supplant the free market. If such a policy exists, the inquiry then must examine whether there is "active" state control or "supervis[ion]" of the competition-inhibiting activity. Only if both prongs of this test are satisfied will the state agency be exempt from the federal antitrust laws. If, however, the activity fails to satisfy either prong of the test, neither the state agency nor its members will enjoy "state action" immunity.

II.

Under the state action doctrine, then, our first inquiry must be to determine whether the Board of Savings and Loan Commissioners has been authorized, by explicit statutory direction, to adopt a uniform schedule of rate ceilings.

Section 9-405 of the Financial Institutions Article of the Maryland Code provides as follows:

"(a) In general. - Dividends or interest on a savings certificate account or other type of fixed term account shall be:

(1) Subject to the approval of the Board of Commissioners; and

(2) In accordance with the rules and regulations of the Board of Commissioners.

(b) Approval by Board of Commissioners. - Within 45 days of the request, the Board of Commissioners shall approve an association's request to pay a dividend or interest under this section if:

(1) Earnings of the associations [sic ^{4/}] are sufficient to pay the proposed dividend for a period of at least 1 year; and

(2) The public interest is protected.]

^{4/} The pluralization of the term "association" is a publisher's error. See Chapter 856, Laws of Maryland 1980, which enacted this section to refer to "[e]arnings of the association...."

(c) Appeal. - An applicant aggrieved by the action or nonaction of the Board of Commissioners under this section may appeal in accordance with Subtitle 4, Title 8 of this article."

~~Until July 1, 1980, State law placed a specific statutory ceiling on the payment of dividends on what was then called a "free share account". See former Article 23, § 161 FF(a) of the Maryland Code. Chapter 856, Laws of Maryland 1980, repealed that law, effectively removing the statutory ceiling, and enacted new § 9-405 of the Financial Institutions Article. This new section permits associations to offer any rate of dividends or interest on fixed term accounts, "[s]ubject to the approval of the Board" and "[i]n accordance with the rules and regulations of the Board".~~

The legislative policy evidenced by § 9-405 is clearly to broaden the options available to associations and to foster and encourage competition among them on the basis of the rate of return to be paid on fixed term accounts. 5/

5/ This conclusion is supported by § 9-420 of the Financial Institutions Article. Section 9-420 provides:

"Notwithstanding any other provision of law and subject to the approval of the Board of Commissioners, a savings and loan association may raise capital under the same conditions and to the same extent as a federal association as if the powers were specifically enumerated in this title."

This section gives State-chartered associations, on approval of the Board of Commissioners, the option of raising capital (e.g., by attracting new depositors) under the limitations governing federally-chartered associations. This section does not mean that State associations may only

[continued]

Under § 9-405(b), this open competition is only to be restrained when necessary to protect the public interest or to prevent an association from offering more than it can responsibly afford.

More significantly, although § 9-405(a)(2) appears to grant the Board plenary authority to issue rules and regulations, the statute clearly contemplates that the rates will be set on a case-by-case basis: Section 9-405(a)(1) provides that dividends to be offered on fixed term accounts shall be "[s]ubject to the approval of the Board of Commissioners". Section 9-405(b), in turn, requires the Board to respond to "an association's request to pay a dividend or interest under this section" within "45 days of the request". Before responding, the Board must consider the financial responsibility of the applicant, and it must approve the request if the "[e]arnings of the associatio[n] [6/]" are sufficient to pay the proposed dividend for a period of at least 1 year" and if the "public interest is protected". The language of the statute thus clearly presupposes a case-by-case review of requests, independently made by individual associations, to pay certain rates. This language - and the apparent intent underlying § 9-405 - is directly at odds with the concept of a uniform rate schedule

5(continued)/ offer dividends under the same conditions as federal associations. Rather, it is designed to allow State savings and loan associations to remain competitive with federal associations; thus, any Board-imposed rate ceiling that would be below the federal level, even if otherwise authorized, would be contrary to the policy manifested by this section. Indeed, subject to the limitations in § 9-405, State associations would remain free, even given § 9-420, to offer higher interest rates than federal associations.

6/ See note 4 above.

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or ceiling to be imposed on all savings and loan associations, regardless of their respective individual financial capabilities.

In our view, the Board's general authority under § 9-405 to approve requests and to issue rules and regulations regarding dividends or interest on savings certificate and other fixed term accounts does not immunize the Board, under the state action doctrine, from potential antitrust liability arising out of the adoption of a uniform rate schedule. An agency's general authority to regulate a particular industry or activity is not, of itself, sufficient for purposes of applying the state action doctrine. Rather, as previously noted, the grant of authority must be a clear and affirmative directive that compels the state to engage in the particular anticompetitive activity. California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., ___ U.S. ___, ___ [100 S.Ct. 937, 943] (1980).

A comparative illustration of the application of this rule is provided by United States v. Texas Board of Public Accountancy, 464 F. Supp. 400 (W.D.Tex. 1978), aff'd, 592 F.2d 919 (5th Cir. 1979), cert. denied, ___ U.S. ___ [100 S. Ct. 262] (1979). In that case, the Texas Board of Public Accountancy was empowered by state statute to adopt Rules of Professional Conduct "to establish and maintain a high standard of integrity in the profession of public accountancy". 464 F. Supp. at 402. One of the Rules adopted by the Board prohibited public accountants from making competitive bids for professional services. The Department of Justice challenged the Board's Rule as a price-fixing device. The court rejected the Board's state action immunity defense because its enabling statute only permitted the adoption of appropriate Rules, but did not direct that the particular anticompetitive restriction be imposed. In the absence of the requisite statutory directive, the court held that the Rule was a per se unreasonable restraint of trade in violation of § 1 of the Sherman Act [15 U.S.C. §-1].

A similar result is necessary here. Nowhere does § 9-405 - or any other statutory provision - direct the

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Board of Commissioners to adopt regulations setting a uniform rate ceiling on fixed term accounts. To the contrary, the statutory scheme obviously envisions, if not requires, a case-by-case review of rate applications. Consequently, the broad general authority of the Board to adopt rules and regulations is not sufficient, in this situation, to immunize the Board from the antitrust laws. 7/

Section 9-405(b)(2) directs the Board to approve an association's request for approval of its proposed rates if "[t]he public interest is protected". Some members of the Board have expressed the view that the public might be confused by an increasing number of certificate plans and that a rate ceiling would instill public confidence in State institutions. Certainly, these concerns, in and of themselves, are not without some merit. However, they are simply not relevant to antitrust analysis. Absent an explicit legislative directive that serves to supplant competition in favor of some other policy, the antitrust laws require us to consider competition as itself "protect[ing]"

7/ It has been suggested that the Board of Commissioners' authority under § 9-405 is co-extensive with or comparable to the authority of the Federal Home Loan Bank Board. The state action doctrine, however, requires us to analyze the Board's own statutory authority, without regard to the authority of any other agency.

Moreover, the relationship between the federal antitrust laws and the Board of Commissioner's authority under State law is governed by the Supremacy Clause of the United States Constitution, and, as such, is subject to application of the state action doctrine. This is not true of the relationship between the federal antitrust laws and the Federal Home Loan Bank Board's authority under federal law, which involves laws of equal dignity and, as such, is subject to a different analysis, to which the state action doctrine has no applicability.

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the "public interest".^{8/} Thus, although broad "public interest" justifications of this nature are familiar defense banners in antitrust cases, they are simply inapposite. For example, in National Society of Professional Engineers v. United States, 435 U.S. 679 (1978), the justification offered for a ban on competitive bidding was that it "ultimately inures to the public benefit by preventing the production of inferior work and by insuring ethical behavior." 435 U.S. at 693-694. In discussing these proffered justifications, the Supreme Court said:

"[T]he purpose of the analysis is to form a judgment about the competitive significance of the restraint; it is not to decide whether a policy favoring competition is in the public interest, or in the interest of the members of an industry. Subject to exceptions defined by statute, that policy decision has been made by the Congress." 435 U.S. at 692 (footnote omitted).

III.

In the absence of state action immunity, our inquiry then shifts to whether the uniform rate schedule contemplated by the Board would constitute a restraint of trade in violation of the antitrust laws.

^{8/} This is true not only of the Sherman Act but, also, the Maryland Antitrust Act. Section 11-202(a)(1) of the Commercial Law Article provides:

"The General Assembly of Maryland declares that the purpose of [the Maryland Antitrust Act] is to complement the body of federal law governing restraints of trade, unfair competition, and unfair, deceptive, and fraudulent acts or practices in order to protect the public and foster fair and honest intrastate competition." (Emphasis added.)

Obviously, the adoption of a uniform schedule of rate ceilings applicable to all State-chartered associations would be an anticompetitive restriction. Moreover, such a schedule would be, in antitrust terms, "price fixing". Price fixing has been said to have a "pernicious effect on competition". Northern Pacific Railway Co. v. United States, 356 U.S. 1, 5 (1958). Because of this, price fixing has been invariably held to be a per se unreasonable restraint of trade and, as such, a violation of the antitrust laws. See, e.g., Catalano, Inc. v. Target Sales, Inc., U.S. [100 S.Ct. 1925] (1980) (An agreement among competing wholesalers to terminate the practice of giving credit has an impact on prices and is, therefore, price fixing).

Simply stated, an activity is price fixing when two elements are present. First, there must be an agreement among competitors; second, that agreement must tend to affect price. An effect on price, whether the selling price or the purchase price, exists whenever there is any interference with the free market setting of price terms. As the Supreme Court has stated:

"Any combination which tampers with price structures is engaged in an unlawful activity. Even though the members of the price-fixing group were in no position to control the market, to the extent that they raised, lowered, or stabilized prices they would be directly interfering with the free play of market forces. The Act places all such schemes beyond the pale and protects that vital part of our economy against any degree of interference." United States v. Socony-Vacuum Oil Co., Inc., 310 U.S. 150, 221 (1940).

Although the specific degree of effect of an agreement on price is difficult to assess, it is clear that any effect will trigger the per se rule. Thus, for example, an agreement concerning minimum price "floors", as in Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975), or an agreement as to maximum price "ceilings", as in Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc., 340 U.S. 211 (1951), are equally offensive to the antitrust laws.

We believe that these elements of price fixing would be present if the Board were to adopt a uniform schedule of interest rate ceilings. 9/ First, as previously noted, the majority of the members of the Board are themselves affiliated with competitors of the associations that would be bound by the schedule. The decision of the Board to adopt a rate schedule thus would clearly be an agreement among competitors. 10/

Second, the agreement would directly affect prices. In the absence of a uniform rate schedule, savings and loan associations would be free to compete for customers by independently establishing - subject, of course, to the requisite Board approval under § 9-405 - rates of return and minimum lengths of deposit. Competition on this basis would benefit both the associations and consumers. The savings and loan associations could compete for depositors with

9/ The jurisdictional requirement of the Sherman Act also would be satisfied. In McLain v. Real Estate Board of New Orleans, Inc., U.S. [100 S.Ct. 502] (1980), the Supreme Court explained the standard for determining whether federal antitrust jurisdiction exists. Jurisdiction will be found where the activity affected by the price fixing is "in" interstate commerce or has a substantial "effect" on interstate commerce. U.S. at [100 S.Ct. at 509]. In McLain, the Court found the requisite interstate nexus could exist because the provision of real estate brokerage services depended on the financing of residential property sales by financial institutions. The Court recognized that the lending institutions involved in financing these sales were engaged in interstate commerce.

10/ Indeed, we understand that the Board had submitted its proposed plan for uniform rate ceilings to the Maryland Savings and Loan League, a trade association of direct competitors, and was waiting for its comments before taking final action on the plan.

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other savings and loan associations, as well as with other types of savings institutions, such as savings banks and credit unions. The consumer would be able to shop for and obtain the highest return on his or her savings in the period of time that best satisfies that consumer's needs. The adoption of a uniform rate schedule would directly affect the setting of this price term. Associations that might be less capable of offering higher rates than those permitted by such a maximum rate ceiling would have less reason to fear aggressive competition from their competitors - who, being subject to the same rate ceiling, would be restricted to the same maximum rates. Conversely, although a savings and loan association might be financially capable of offering a higher, more consumer-appealing, rate of return, it would be artificially restricted to a lower "maximum rate" that has been established, in effect, by its competitors.

IV.

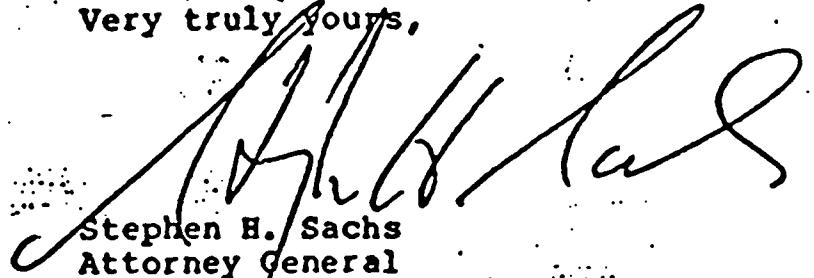
In summary, it is our opinion that § 9-405 does not affirmatively express a legislative policy or intent to restrict competition among savings and loan associations. To the contrary, § 9-405 is a legislative statement in furtherance of the State's general policy of favoring competition. ^{11/} We certainly do not suggest that, in proposing such a uniform schedule, the Board or any of its members would intend to act in any manner that it or they believe to be contrary to the public interest. But, when competitors exercise their power to limit competition, antitrust analysis focuses only on the objective result, not on subjective purpose, no matter how well-intended.

^{11/} As noted above, this is dramatically evidenced by the fact that § 9-405 itself was enacted to replace a statutory ceiling on dividends.

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Consequently, if the Board were to establish a uniform schedule of rate ceilings, "state action" immunity would not apply, and members of the Board might well be held to be acting in violation of the federal antitrust laws and, as a result, would be subject to personal liability under those laws.

Very truly yours,




Stephen H. Sachs
Attorney General



Naomi F. Samet
Assistant Attorney General



Alan M. Foreman
Assistant Attorney General



Avery Aisenstark
Principal Counsel
Opinions and Advice

MEMORANDUM

January 23, 1981

TO: Board of Savings & Loan Commissioners
FROM: Naomi F. Samet *NS*
SUBJECT: Meeting Re: Variable Rate, Mortgages regulations

We attended a meeting on January 21, 1981 to discuss the variable rate mortgages regulations. Present at the meeting were Alan Foreman, David Wells, Charlie Brown, Tom Gisriel, Charlie and me. These regulations appear in COMAR and have been adopted a long time ago but the Board does have some proposed regulations to amend those existing regulations.

The problem is that the regulations, both as existing and as proposed, have restrictions on the interest rate variation over the term ^{of the} loan. Tom Gisriel was arguing throughout the meeting that there was a distinction to be drawn here. He said that they were not setting the price of the loan because the bank was free to set the original interest rate. What they were doing was setting the limits on the variations in the loan. We explained to him several times that both of these elements are part of the price mechanism and that there is no difference. We explained that tampering with the price mechanism in any way is price fixing.

They made it very clear that the purpose of the restrictions in the variable rate mortgage regulations is not to insure financial stability of associations. It is to protect the public. What they are afraid of is that the savings and loans will have great bargaining power and will lock consumers into terrible deals which they will not be able to pay and then will foreclose on the mortgages.

We asked them where they thought they had statutory authority for protecting the public from getting ripped off by savings and loans. They pointed to the general purpose clause in § 8-102 of the Financial Institution Article. This section says that ~~they can prevent~~ the purpose of the legislation is to protect the economic security and general welfare of the people. We explained that protecting the public interest could not be weighed against the harm that

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competition might cause. We also discussed the competitive restriction of the index. First of all, it is conceivable that it could injure a savings and loan's financial security. That is, that a savings and loan may be locked into this range of permissible interest rates and will be faced with money shortages. This would be the exact same problems that occurred when the savings and loans were locked into a maximum interest rate. In addition, it is possible that being locked into this range may mean that the savings and loan would not be able to offer new mortgages and therefore would be locked out of competing for new mortgages. As to the theory that the consumer is unable to negotiate the terms of his contract with a savings and loan, this does not mean that the savings and loans cannot compete on the terms that they offer consumers. For example, they may offer different terms and a consumer could shop for the best terms. In addition, the consumer may be injured by having all the savings and loans offer the same range of interest because he might otherwise have been able to negotiate a better deal.

Additional restrictions which appear in the regulations were discussed. Section .30 prohibits re-negotiated mortgages. This is the balloon type of mortgage. There may be some serious question as to whether such a prohibition is illegal. The State statute in § 9-421, allows for alternative mortgage instruments. Then what the Board is saying is that certain alternative mortgages are not permitted. Another restriction is that the regulations say that banks are required to extend loan maturity when requested by the consumer. They apparently read § .30C(16)(b)(c)(bb) as saying that if the consumer requested the extension that the bank must grant it. These are additional restrictions to consider.

I asked who was subject to these regulation. The State chartered and State insured associations have a choice of following the State regulations or the federal regulations. A State chartered federally insured associations have a choice of following either the State or the federal. The federally chartered association, however, have no choice and must follow the federal regulations. The federal regulations apparently allow for less variation and have not been popular among the banks.

We explained that we appreciated their concern for protecting the public and that we shared those concerns. However, we had serious questions as to whether they had the statutory authority to impose restraints in the name of protecting those interests.

We called Steve Sachs and set up an appointment for all of us to meet with him on February 2, 1981 at 10:00 a.m.

After the meeting, Charlie and I went up to speak to Steve. We explained to him briefly the problems here. He thought that there might be sufficient ambiguity in the statute to make this a very close question. He thought that perhaps the best route was to ask the Board to go to the General Assembly and ask that this be put in its statutory authority. While they were doing that we would hold off on saying that it was illegal because it was such a close question. We decided that we would write Steve a memorandum setting forth these conflicting concerns here and let him decide on February 2 exactly how this should be treated.

Appendix to the Rpt of the Special Counsel on the Savings 50 of 52
& Loan Crisis (1986) Exhibits IV F7-IV G-6, pp 3060-3119

This is how I'd like the headers to read.
Thanks

MEMORANDUM

February 10, 1981

TO: Thomas W. Gisriel, Chairman
Board of Savings & Loan Commissioners

FROM: Charles O. Monk, II, Chief, Antitrust Division *COM*

SUBJECT: Variable Rate Mortgage Regulations

You have asked whether the regulations governing variable rate mortgages and the proposed amendments to those regulations raise antitrust concerns. For the reasons discussed below, we have concluded that these regulations involve substantial antitrust concerns best resolved by clarification of your enabling statute. Nevertheless, we believe that your existing variable rate mortgage regulations and the proposed amendments are supported by sufficient statutory authority to justify state action immunity.

I. SUMMARY OF ANALYSIS

Existing regulations governing variable rate mortgages are found in COMAR .09.05.01.30C (16). While authorizing savings and loan associations to offer variable rate mortgage loans, these regulations impose substantial restrictions on the interest rate terms of these loans. The existing variable rate mortgage regulations were adopted in April, 1980, prior to the enactment of the new Financial Institutions Article.

Under present law, the Board's statutory mandate to issue regulations governing the terms of variable rate mortgages is not explicitly set-out. However, because the existing variable rate mortgage regulations were a matter of public record and, therefore, presumably known to the General Assembly when the Financial Institutions Article was adopted and because the Board has broad, general authority under the new law to adopt regulations, we have concluded that the General Assembly intended that the terms of variable rate mortgages be regulated by your Board. As discussed more fully below, we must, however, impose the following caveat regarding this conclusion: if, after this matter has been brought to the General Assembly's attention, the General Assembly fails to take action to clarify your statutory authority or refuses to do so, we would then be forced to conclude that the policy of this State is not to impose such restrictions on the terms of variable rate mortgages. In that event, your regulations would not be supported by the requisite statutory mandate and, therefore, not protected by state action immunity.

II. REGULATIONS

COMAR .09.05.01.30C (16)(a) provides that the interest rate adjustments offered by an association may not exceed the latest index of national home mortgage interest rates at the time of the adjustment as computed by the Division of [Building,] Savings & Loan Associations, or, if the association prefers, the index of the Federal Home Loan Bank Board. In section (16)(b), the regulations impose a limitation on how frequently the interest rate may be adjusted, and set the minimum and maximum adjustment. Under the existing regulations, adjustments may not be made more than once a year. The proposed amendments would reduce that period to six months. The minimum adjustment of .125 percent would not be changed. The maximum interest rate adjustment is presently set at .5 percent a year with a total maximum net increase or decrease of 5 percent over the life of the loan. The proposed amendments would increase this adjustment rate significantly by setting the maximum adjustment at 1.5 percent every six months, which the maximum net increase or decrease over the life of the loan would remain at 5 percent. In addition, when notified of the increase, section (16)(b) (v)(bb) gives the borrower the option of requesting an extension of the loan maturity up to one-third of the original loan term. In our meeting with you on January 21, 1981, you explained that the Board interprets this section to require savings and loans to grant such requested loan maturity extensions. This requirement would not be changed by the proposed regulations.

III. ANTITRUST CONCERNS

Both the existing and proposed regulations discussed above allow savings and loan associations to determine independently the original rate of interest they will charge on variable rate mortgage loans. These regulations, however, significantly restrict the amount this rate may vary and the times this rate may vary over the life of the loan. The regulations also require associations to offer a deferral of monthly payment increases by extending the loan maturity when requested by the borrower.

The terms of the mortgage loan relating to frequency and amount of interest rate variation and date of loan maturity are clearly elements of the price mechanism. From an antitrust perspective, they are indistinguishable from

the term setting the original interest rate. Accordingly, any tampering with the free market setting of this term would be "price fixing."

As discussed more fully in Opinion No. 80-086 (November 24, 1980) (to be published at 65 Opinions of the Attorney General, _____ (1980)) regarding interest rate ceilings on fixed term accounts, price fixing exists when there is an agreement among competitors which affects prices in any way. Price fixing is held to be unreasonable per se and therefore, invariably illegal under the antitrust laws. Catalano v. Target Sales Co., _____ S.Ct. _____ (1980); United States v. Socony-Vacuum Oil Co., Inc., 310 U.S. 150 (1940).

Because the regulations impose restrictions on the free market setting of this element of the price, and because, as is frequently the case with State regulatory agencies, the majority of the members of the Board of Savings and Loan Commissioners are themselves actively engaged in the savings and loan industry, ^{1/} there is some danger that the Board is engaged in price fixing when it promulgates and enforces these regulations.

State agencies may, however, in limited circumstances, be immune from the antitrust laws under the state action doctrine. Suspect activity will be considered action by the State acting as a sovereign and, therefore, exempt from the antitrust laws when it satisfies the two-prong test set out in California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 100 S.Ct. 937 (1980). First, there must be a clearly articulated state policy to restrict competition that is compelled by statutory directive. Second, there must be active state control over the competition restraining activity.

Thus, in order to determine whether the Board would enjoy state action immunity for its variable rate mortgage regulations, we must determine whether the Board's enabling statute directs and compels it to impose these competitive restrictions. For the reasons discussed below, we conclude that the Board's authority to adopt the variable rate mortgage regulations appears to be sufficient.

^{1/} This is a result of qualifications for membership set out in Md. Fin. Inst. Code Ann. § 8-202(a)(2).

IV. STATUTORY AUTHORITY

The recently enacted Financial Institutions Article contains several sections which relate to the Board's authority in this area.

Section 9-419(a)(1) authorizes savings and loan associations, "[s]ubject to the regulations of the Board of Commissioners," to invest in "[a]ny mortgage on real property that is a first or second lien on property." Section 9-421(a) specifically allows savings and loans, "[i]n accordance with the regulations of the Board of Commissioners," to "permit borrowers to repay indebtedness on a loan by any method of repayment or plan, including a plan or repayment of indebtedness on a loan that is other than a direct monthly reduction of principal plan that has a fixed interest rate, level payments, and full amortization."

Sections 9-419(a)(1) and 9-421(a) reflect a legislative policy to broaden the prospects of competition in this area. While the prior statute did not prohibit alternative mortgages, ^{2/} the new statute, in section 9-421, explicitly authorizes savings and loans to offer alternatives to conventional mortgage loans. Although these changes indicate an intention to open-up the mortgage market to competitive forces, there is no indication that the General Assembly was, at the same time, attempting to preclude existing or then proposed consumer protection measures such as your variable rate mortgage regulations. Indeed, the general purpose clause contained in section 8-102 of the Financial Institutions Article supports this conclusion. That section states that it is the legislative policy of the State that:

(1) The savings and loan business is so integrated with the financial institutions of this State and is so important as a method of promoting home ownership and thrift that it is in the public interest that:

(i) Savings and loan associations be supervised as a business affecting the economic security and general welfare of the people of this State....

^{2/} In 79 Op. Att'y Gen. 281 (1979) (December 4, 1979) the Attorney General concluded that then existing state law did not bar the use of variable rate mortgages.

In our meeting with you, you expressed significant concerns regarding possible injury to the public in the absence of regulatory limitations over variable rate mortgage instruments. You mentioned the need to protect those members of the public, who may have relatively little bargaining power when obtaining residential mortgage loans, from entering mortgage contracts with wide-ranging interest rates variations. You also expressed the concern that once committed by contract to these loans, these borrowers would face foreclosure on their homes when unscrupulous operators of savings and loan associations increased the interest rate beyond the borrower's means. We recognize the importance of these concerns.

V. CONCLUSION

Notwithstanding the antitrust concerns discussed above, several factors weigh against our advising you to remove immediately all restrictions on the terms of these mortgage loans. First, variable rate mortgages are a relatively new phenomenon in this State, to the Board, to the savings and loan associations, and to the public. Second, as the public purpose clause may have been intended to relate to the extent of the Board's authority to regulate this area, some ambiguity exists in the statutory framework of the new Financial Institutions Article. We believe that the General Assembly in enacting the new law believed that the Board would continue to control variable rate mortgages by regulation. However, in authorizing the continuation of your variable rate mortgage regulations, we must caution you that the statutory authority necessary to exempt this activity is ambiguous.

Therefore, we suggest that you seek a clarification of your statutory authority to impose the interest rate limitations contained in your regulations. If you are unsuccessful in obtaining such explicit authority from the General Assembly, we recommend that you repeal these regulations at that time.

cc: Charles H. Brown, Jr., Director
Division of Savings & Loan Associations
David H. Wells, Jr., Deputy Director

May 10, 1982

MEMORANDUM:

TO: Thomas W. Gisriel, Chairman
Board of Savings & Loan Commissioners

Charles H. Brown, Jr., Director
Division of Savings & Loan Association

FROM: Charles O. Monk, II, Chief, Antitrust Division
Naomi F. Samet, Assistant Attorney General

SUBJECT: Variable Rate Mortgage Regulations

NFS
12/11/82

As you recall, at your request, we reviewed the existing regulations regarding alternative mortgage instruments. By memorandum dated February 10, 1981, we advised the Board that the regulations "involve substantial antitrust concerns best resolved by clarification of your enabling statute." This memorandum will discuss the effect of the General Assembly's failure to pass a bill clarifying the Board's authority, under § 9-421 of the Financial Institutions Article, to regulate the terms of interest rate fluctuations of alternative mortgage instruments.

As we explained, in order for a State agency to enjoy state action immunity from the antitrust laws, it must act pursuant to an explicit, affirmative legislative directive to undertake the anti-competitive activities. Section 9-421, in our opinion, did not contain such a grant of authority. However, because the existing variable rate mortgage regulations were adopted prior to enactment of the Financial Institutions Article, and because the Board's statutory mandate in § 9-421 is ambiguous, we suggested that the Board seek clarification of its authority from the General Assembly. In that memorandum, we reached the following conclusion:

[I]f, after this matter has been brought to the General Assembly's attention, the General Assembly fails to take action to clarify your statutory authority or refuses to do so, we would then be forced to conclude that the policy of this State is not to impose such restrictions on the terms of variable rate mortgages. In that event, your regulations would not be supported by the requisite statutory mandate and, therefore, not protected by state action immunity.

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Our reasoning has not changed since writing that memorandum. We therefore conclude that the General Assembly did not intend to direct the Board with explicit, affirmative authority to undertake the regulation of interest rates as contained in the existing regulations. Accordingly, we must conclude that the Board would lack state action immunity for enforcement of those regulations. We urge the Board to repeal those regulations immediately and to enact new regulations consistent with the Board's authority in § 9-421.

Needless to say, if the Board would like our assistance in explaining our conclusions and advice to Secretary Corbley or to the AELR Committee, we would be more than willing to do so.

COM/NFS:ph

cc: Stephen H. Sachs, Attorney General

Eleanor M. Carey, Deputy Attorney General

Alan M. Foreman, Assistant Attorney General

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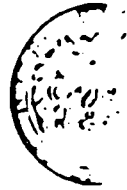
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September 24, 1984

The Honorable Howard A. Denis
Suite 700
7979 Old Georgetown Road
Bethesda, Maryland 20014

The Honorable Diane Kirchenbauer
10414 Lorrain Avenue
Silver Spring, MD 20901

Re: Power of Board of Savings
and Loan Association
Commissioners to Limit
Brokered Savings Deposits

Dear Senator Denis and Delegate Kirchenbauer:

I am writing to report that we have reviewed the Board of Savings and Loan Commissioners' proposed amendment to COMAR section 09.05.01.18H (limiting amounts of brokered savings deposits that associations may accept) to determine whether this proposed action would be immune from the antitrust laws under the State Action doctrine. As we reported to the Board at its recent meeting, we do not believe that the proposed regulation is within the scope of the State Action doctrine and, therefore, could be subject to scrutiny under the antitrust laws.

The limitation in the proposed amendment clearly restrains competition. This limitation, found in proposed COMAR § 09.05.01.18(H)(3)(a), provides:

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TTY FOR DEAF:
Balto. Area 383-7555
D.C. Metro 565-0451

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An institution may not have brokered savings deposits which exceed 10 percent of total savings, except that an institution with a net worth of less than 3 percent as set forth in Regulation .40-1 may not have brokered savings which exceed 5 percent of the total savings. For this calculation, brokered savings accounts include all deposits on which a commission or fee has been paid for the current term of the deposit.

The implication of the proposed amendment is that savings and loan associations desiring to raise capital through the acceptance of brokered deposits in order to improve their competitive position among savings and loan associations will have only limited access to this tool. Further, the proposed amendment will restrain the competitive ability of brokers, and institutions they represent, that may compete with savings and loan associations for investment dollars by limiting their access to secure and insured sources of deposits. As a result, this proposed amendment to COMAR section 09.05.01.18H may be subject to antitrust scrutiny unless it is immune from the operation of the antitrust laws under the State Action doctrine.

The Supreme Court articulated two criteria for State Action immunity in California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 455 U.S. 97 (1980). These criteria are that, "First, the challenged restraint must be 'one clearly articulated and affirmatively expressed as State policy'; second, the policy must be 'actively supervised by the State itself'." 445 U.S. at 105. We do not believe that the active supervision requirement of Midcal Aluminum is at issue here. However, we are concerned that the proposed regulation may not be supported by the requisite expression of State policy by the General Assembly to satisfy the first criterion.

Acceptance of brokered savings deposits are regarded as a device by which a savings and loan association raises capital. Accordingly, it is subject to the provisions of section 9-420 of the Financial Institutions Article of the Maryland Annotated Code. Section 9-420 provides:

Notwithstanding any other provision of law and subject to the approval of the Board of Commissioners, a savings and loan association may raise capital under the same conditions and to the same extent as a federal association as if the powers were specifically enumerated in this title.

Md. Fin. Inst. Code Ann. § 9-420 (1980).

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At present, federal savings and loan associations are not subject to restrictions on accepting brokered savings deposits like those contained in the proposed regulation. Indeed, a recent attempt by the Federal Home Loan Bank Board to limit the ability of federal associations to accept brokered savings deposits was overturned on appeal by the United States District Court for the District of Columbia Circuit. See FAIC Securities v. U.S., Federal Banking Law Rep. (CCH) ¶ 99,984 (D.D.C. 1984). Accordingly, the proposed amendment is contrary to the provisions of section 9-420.

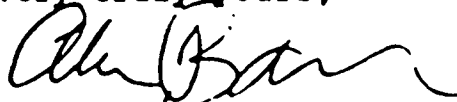
We recognize that section 9-420 does condition the ability of State savings and loan associations to act with complete parity with federal associations by providing that the authorization contained in this provision is "subject to the approval of the Board of Commissioners". We do not believe that this phrase empowers the Board to set blanket limitations for all associations. Rather, we construe it to mean that the Board may review the plans of individual associations to accept brokered deposits and, based on individual circumstances, determine whether those associations should be permitted to accept the levels of brokered savings deposits that they desire. Cf. 65 Op. Att'y Gen. 13, 16-17 (1980). We believe that it is possible for the Board to promulgate a procedural regulation to effect this. However, the Board advised us that it did not believe that such a procedural regulation was desirable at this time.

Robert DeV. Friarson, Deputy Counsel, Department of Licensing and Regulation is now in the process of preparing a draft of a statutory amendment which would permit the Board to place limitations on the amounts of brokered savings deposits that associations may accept. He will shortly provide this language to Lars Kristiansen, Counsel to the Savings and Loan Association Task Force. The language that he will provide should not be construed as an endorsement or support either by the Office of the Attorney General or the Department of Licensing and Regulation of any bill that may incorporate this suggested language. It is submitted merely for the convenience and consideration of the Task Force.

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Although this letter is not an Opinion of the Attorney General, it does represent our considered views on this matter. Please do not hesitate to call me if you have further questions.

Very truly yours,



Alan M. Barr
Assistant Attorney General

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cc: W. Thomas Gisriel, Chairman
Charles H. Brown, Jr., Director

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MINUTES

JOINT SUBCOMMITTEE ON SAVINGS AND LOANS

JULY 31, 1984

Charles Brown distributed a handout on F159-419. He pointed out that, under F159-419(c) Maryland S&L's are allowed to make the same types of investments as federally chartered S&L's without being explicitly subject to the rulemaking power of the Division. He noted that, when the Board of Savings and Loan Commissioners recently considered promulgating regulations on what type of investments were to be allowed under 59-419(c) it was advised by the Attorney General's Office that Maryland law does not grant specific authority for such regulation, and that the regulation might be subject to challenge on anti-trust grounds.

Mike Brockmeyer (Assistant Attorney General) explained the anti-trust problems inherent in the Division's enforcement of Maryland Savings and Loan Law. He noted that it is the policy of the federal anti-trust laws that state laws must foster competition but, also that states have a right to protect investors (ie. - depositors). He observed that the State Board of Savings and Loan Commissioners is composed mainly of industry representatives. However, since these members of the Board are in essence competitors, any regulatory agreement among them could be construed to be an unlawful compact which restricts free competition under the federal anti-trust laws.

In response to similar situations in other states, the Supreme Court developed the "State-Action" doctrine. Under this doctrine, the federal government would not intervene if a restriction on free competition was enacted by a State Legislature to protect a legitimate state interest. The test to satisfy this doctrine has two prongs:

- 1) The state must clearly articulate and affirmatively express a state policy which would allow the displacement of competition in order to protect a state interest; and
- 2) There must be active state supervision of the implementation of that policy.

Mr. Brockmeyer opined that the existence of the S&L Division satisfied the second prong of the test; however, he was uncertain whether Maryland could satisfy the first prong. He noted that a state policy of "protecting the public safety" is not sufficient since the policy must explicitly state that it intends to restrict some forms of competition to reach certain objectives.

He informed the subcommittee that an explicit statement concerning the restriction of competition was not contained in F159-419(c) whether the investments allowed under this subsection are under the regulatory aegis of the Division or whether the subsection can be considered an alternate lending authority outside the scope of the state's power. In other words, F159-419(c) could be construed to provide absolute parity between state and federal S&L's rather than merely allow state associations to engage in certain additional investments subject to regulation by the state. He promised the Joint Subcommittee a letter of advice on these issues for next week.

Respectfully submitted
Lars B. Kristiansen
Committee Counsel

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January 28, 1985

The Honorable Dennis F. Rasmussen
Chairman, Senate Finance Committee
Presidential Wing
James Senate Office Building
Annapolis, Maryland 21401

Re: Senate Bill 109

Dear Senator Rasmussen:

At the Senate Finance Committee's hearing on S.B. 109 on Wednesday, January 23, 1985, the Committee asked me to summarize, in writing, our legal analysis regarding the need for inclusion in the bill of the phrase "even if the requirements and limitations restrict free economic competitions" or similar language. We believe that such language is necessary to ensure achievement of the bill's purpose of permitting the Board of Savings and Loan Commissioners to regulate, within the limits set out in the bill, without subjecting the Board and its members to antitrust liability. This letter sets forth the legal foundation for this view. As the Committee also requested, I am enclosing with this letter copies of several court decisions that the Committee may find helpful in considering the need for this language.^{1/}

^{1/} Copies of the following cases are enclosed: California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 445 U.S. 97 (1980); New Motor Vehicle Board v. Orrin W. Fox Co., 439 U.S. 96 (1978); United States v. Texas State Board of Public Accountancy, 464 F. Supp. 400 (W.D. Tex. 1978), aff'd, 592 F.2d 919 (5th Cir.) cert. denied, 444 U.S. 925 (1979); Cochran v. Comptroller, 292 Md. 3 (1981)

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The Honorable Dennis F. Rasmussen
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The Sherman Act, 15 U.S.C. §§ 1-7 establishes economic competition as a fundamental national policy. See Northern Pacific Railway Co. v. United States, 356 U.S. 1, 4 (1958). The Maryland Antitrust Act establishes that economic competition is also the policy of the State of Maryland. See Md. Com. Law Code Ann. §§ 11-202(a)(1) (1983). Both the federal and State antitrust laws protect free economic competition by making illegal various practices that restrain the interaction of competitive forces.

For example, serious antitrust concerns are raised where competitors agree to practices that unreasonably restrain competition. See National Society of Professional Engineers v. United States, 435 U.S. 679 (1978). In many cases the majority of members of State regulatory and licensing boards are themselves competitors of the people they regulate. For example, five of the nine members of the Board of Savings and Loan Association Commissioners are industry members. Md. Fin. Inst. Code Ann. § 8-202(a)(2) (1980). Consequently, agreements among the board members to adopt policies that restrain competition may raise antitrust issues. See American Society of Mechanical Engineers, Inc. v. Hydrolevel Corp., 456 U.S. 556 (1982) (activity by professional association, through its members, that resulted in barring a competitor's product from the market violated the antitrust laws.)

State regulatory agencies may be exempt from the antitrust laws under a theory called the State Action Doctrine. However, the Supreme Court has indicated in recent decisions that state regulatory agencies are not, by virtue of their status alone, immune from the antitrust laws. See, e.g., Goldfarb v. Virginia State Bar, 421 U.S. 773 (1979). Unless there is clear statutory authority for the competition-restricting policies of the regulatory board, the fundamental policy favoring competition may not be supplanted by regulations of the board.

In California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 445 U.S. 97 (1980), the Supreme Court set out two standards which must be met for the State Action Doctrine to protect anticompetitive conduct undertaken by private parties pursuant to a state regulatory program. First, the competition-restraining activity must be authorized by a statute that contains a "clearly articulated and affirmatively expressed" state policy permitting competition to be limited. 445 U.S. at 105. Second, the state policy must be actively supervised by the state's agents. The standards set out in Midcal also apply to the determination of whether a state agency's actions are within the State Action exemption. See New Motor Vehicle Board v. Orrin W. Fox Co., 439 U.S. 96, 109 (1978). See also Cochran v.

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Comptroller, 292 Md. 3 (1981) (a case involving an antitrust challenge to the Comptroller's enforcement of the Unfair Cigarette Sales Act).^{2/}

As applied to a state regulatory board, where a board has adopted a regulation or policy that may unreasonably restrain competition, the restraint must be compared to the state policy set out in the board's enabling statute. If the challenged restraint is "clearly articulated and affirmatively expressed" in the statute as the state policy, the first portion of the Midcal test is satisfied and the board is immunized. Where, however, there is no clearly stated legislative objective, or where the agency exceeds its statutory authority, it will not enjoy State Action immunity.

In United States v. Texas State Board of Public Accountancy, 464 F. Supp. 400 (W.D. Tex. 1978), aff'd, 592 F.2d 919 (5th Cir.), cert. denied, 444 U.S. 925 (1979), for example, the court held that a state accounting board was not immune from the antitrust laws when it promulgated a rule prohibiting accountants from competitive bidding for professional services. Although the board's enabling statute authorized it to issue regulations, it did not express a policy concerning competition that mandated the challenged rule. Promulgation of the rule was therefore found to be an agreement among competitors that unreasonably restrained trade and violated the antitrust laws.

Recently, the United States Department of Justice has initiated lawsuits against two other state boards. In an action against the Louisiana State Board of Certified Public Accountants, the Department has challenged regulations that restrain trade by limiting advertising without requisite authority. United States v. State Board of Certified Public Accountants of Louisiana, Civ. No. 83-1947 (E.D. La. filed Apr. 15, 1983). In another action, the Department challenged regulations of an Alaska board prohibiting competitive bidding without statutory authority. United States v. Alaska Board of Registration for Architects, Engineers, and Land Surveyors, No. A-82-423 CIV (D. Alaska filed

^{2/} The Midcal test requires that a state regulatory board satisfy only the first portion of this test -- careful adherence to the state's policy regarding competition as expressed in its statutory mandate--to obtain antitrust immunity. The active supervision requirement is satisfied by the fact that the board is itself a state agency.

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Oct. 12, 1982) (consent judgment entered on November 18, 1983 in which board agreed to eliminate rule.)

In short, members of a regulatory board who are members of the industry they regulate may be considered participants in a conspiracy to restrain trade if they adopt competition-restraining regulations that are not clearly authorized in their statutory mandate. Under such circumstances, board members may be personally liable under the antitrust laws.

The significant risks posed by the prospect of antitrust litigation underscore the need to ensure that the language of legislation intended to authorize boards to restrict competition through regulation will be sufficient to place the board's actions within the State Action exemption. We believe that the phrase "even if the requirements and limitations restrict free economic competition" constitutes a clear and affirmative statement of policy and will place the actions authorized in S.B. 109 within the exemption.

The language employed to confer State Action immunity in S.B. 109 is very similar to language that the General Assembly employed in legislation enacted during the 1983 session that was intended to confer State Action immunity upon numerous activities of local governments. See 1983 Md. Laws chs. 395, 397, 510.3/ For example, this 1983 legislation authorized local governments to exercise zoning and land use planning powers without regard to the antitrust laws saying, "It is the policy of the General Assembly and of this State that competition and enterprise shall be so limited [to attain the purposes of the statute]." Md. Ann. Code art. 23A, § 2(36)(iv) (Supp. 1984). See also Md. Ann. Code art. 25A, § 5(X)(2)(iv) (Supp. 1984); Md. Ann. Code art. 66B, § 2.01(b)(4) (1983).

With regard to public transportation, the 1983 statute provides, "It has been and shall continue to be the policy of the State to authorize each municipal corporation to displace or limit competition in the area of public transportation [to attain the purposes of the statute]." Md. Ann. Code art. 23A, § 2A(a)(1)

^{3/} Like regulatory boards, actions of local governments must also be taken pursuant to a clear and affirmative expression of legislative intent to restrict competition if they are to be immune from the antitrust laws. See, Community Communications Co. v. City of Boulder, 455 U.S. 40 (1982).

The Honorable Dennis F. Rasmussen
January 28, 1985
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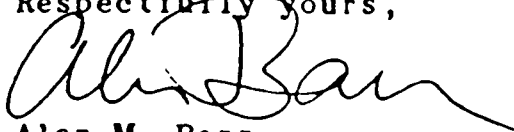
(Supp. 1984). See also Md. Ann. Code art. 25, § 3D(a)(1) (Supp. 1984); Md. Ann. Code art. 25A, § 5A(a)(1) (Supp. 1984).

In addition, in the 1983 legislation the General Assembly authorized local governments to grant either exclusive or non-exclusive franchises for water and sewerage systems "notwithstanding any anticompetitive effect." Md. Ann. Code art. 23A, § 2A(b)(2)(i) (Supp. 1984). See also Md. Ann. Code art. 25, § 3D(b)(2)(i) (Supp. 1984); Md. Ann. Code art. 25A, § 5A(b)(2)(i) (Supp. 1984). The General Assembly further authorized local governments to award franchises or concessions on locally owned property "without regard to any anticompetitive effect." Md. Ann. Code art. 23A, § 2A(d)(2) (Supp. 1984). See also Md. Ann. Code art. 25, § 3D(c)(2) (Supp. 1984); Md. Ann. Code art. 25A, § 5A(c)(2) (Supp. 1984).

The clear expressions of the General Assembly's intention to permit competition to be limited that appear in its 1983 legislation require that this intention be stated as clearly in S.B. 109. Indeed, where the General Assembly grants a power in clear, express language in one statute, Maryland's Court of Appeals has indicated that it will be reluctant to imply the same power in another statute that lacks similarly express language. State v. Jonathan Logan, Inc., 301 Md. 63, 72, 76 (1984). This emphasizes the need to utilize, in S.B. 109, either the phrase "even if the requirements and limitations restrict free economic competition" or equally affirmative and clear language to ensure that the purpose of the bill will be achieved.

While this is not an Opinion of the Attorney General, it represents our considered views on this matter. If you or the Committee desire any further information, please do not hesitate to contact me.

Respectfully yours,



Alan M. Barr
Assistant Attorney General

AMB/jes
0020AMB

cc: W. Thomas Gisriel, Chairman
Charles H. Brown, Jr., Director
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A-150 C

MEMORANDUM

TO: WDP & WBC
FROM: GBM
RE: Antitrust Advice on Rate Ceilings
DATE: October 30, 1985

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You have asked for my opinion regarding advice given by the Antitrust Division of the Attorney General's office that the Board of Savings and Loan Commissioners would not be exempt from application of the antitrust laws under the state action doctrine for placing a ceiling on the amount of interest State-chartered savings and loan associations would be permitted to pay on various accounts.¹ The Deputy Director of the Division of Savings and Loan Associations had requested an opinion as early as 1980 as to whether a uniform schedule of interest rate ceilings adopted by the Board of Savings and Loan Commissioners would violate the antitrust laws. By letter dated November 24, 1980, the Attorney General issued an opinion concluding that the state action doctrine would not apply, a uniform interest rate

¹ Regulating the amount of interest a savings and loan could pay was but one of many proposed actions rejected by the Antitrust division on the basis of potential liability under the antitrust laws. Generally, there was little to no antitrust analysis except to conclude that the state action doctrine would not apply.

ceiling would be price fixing and members of the Board of Commissioners could be personally liable for the resulting violation. 65 Opinions of the Attorney General 13 (1980) ["Opinion"].

In Part I, infra, I discuss the issue of an antitrust violation irrespective of the state action doctrine. As you can see, I question the pro-forma conclusion made in the Attorney General's Opinion that the setting of an interest rate ceiling would be the result of a conspiracy, combination or contract, required to show a violation of the antitrust laws. IN Part II, infra, I conclude that, assuming a violation, the Opinion errs in finding it would not be exempt.

I.
Antitrust Violation

Title 8 of the Financial Institutions Article of the Maryland Code provides for the creation of the Board of Savings and Loan Association Commissioners. Md. F. I. Code Ann. §8-201. The Board is composed of nine members appointed by the Governor, and five of the nine members must be immediately prior to appointment directors or officers of, or attorneys for, a savings and loan association. Id. §8-202(a).² There is no requirement that any of the Commissioners disassociate themselves from the savings and loan industry, but they cannot participate in the

² Of the five, three must immediately prior to appointment have been associated with an institution insured by MSSIC and two must have been associated with a federally insured institution. The other four members are public members.

issuance of any order that affects any savings and loan in which they have an interest or a connection as, inter alia, director, officer or attorney. Id. §8-208.

Assuming that the conflicts of interest section of Title 8 cited above would not preclude the setting of an interest rate ceiling, the first issue that must be addressed is whether such an action would be an antitrust violation irrespective of the state action doctrine. Generally, to show a violation of Section One of the Sherman Act, there must be a "contract, combination . . . or conspiracy in restraint of trade. . . ." 15 U.S.C. §1. There is no question but that the fixing of interest rates in the form of a maximum ceiling would be a form of price fixing, a per se unreasonable restraint of trade. A question emerges, however, as to whether such action would be by contract, combination or conspiracy.

The terms used in Section One, "contract, combination or conspiracy" all envision actions taken by a plurality of actors. 2 Von Kalinowski, Antitrust Laws & Trade Regulation §6.01[2] at 6-9 (1981). The Attorney General concluded without any discussion that because five of the nine members of the Board were affiliated with five different savings and loan institutions, any adoption of a rate schedule "would clearly be an agreement among competitors," thus meeting the plurality of actors requirement. 65 Attorney General's Opinions 13, 20. I do not agree with this conclusion. The individual commissioners are

not appointed to further the individual interests of the savings and loan with which they are affiliated. Instead, they are appointed by the Governor, Md. F. I. Code Ann. §8-202, to a regulatory body which has the function of supervising the entire industry. Id., §8-102. The individual Commissioners cannot participate in any decision that affects their savings and loan, id., §8-208, and take an oath, id., §8-202(c), to execute their duties without partiality and prejudice and to not receive any profits of any other office during their term of office. Md. Constitution Art. 1 §9. The Attorney General earlier concluded that the Commissioners were public officers, opining that they exercised the sovereign power of the State. 64 Attorney General Opinions 267, 268, n.3.

In light of the above, I do not believe that the setting of a maximum rate schedule can be viewed as five banks fixing prices through the actions of their agents, the individual commissioners. It would seem clear that the individual Commissioners would be acting as public officers and not as the agents of the savings and loans with which they were affiliated. For example, if a Commissioner committed a common law tortious act while performing his functions as Commissioner, it would seem obvious that the savings and loan with which the commissioner was affiliated would not have liability imputed to it as the Commissioner would not be acting within the course and scope of his office with the savings and loan. Similarly, the setting of

an interest rate ceiling by the Board should not be imputed back to the savings and loans with which the individual Commissioners were affiliated, and thus not an agreement among competitors.

In my view, the actions of the nine Commissioners in setting a rate ceiling would be analogous to the actions of a corporation and its directors or employees in furthering corporate policy. It has been held that the plurality of actors requirement is not met where the only actors are a corporation and its employees or directors. Holter v. Moore & Co., 702 F.2d 854 (10th Cir.), cert. denied, 104 S. Ct. 347 (1983); Nelson Radio & Supply Co. v. Motorola, Inc., 200 F.2d 911 (5th Cir. 1952), cert. denied, 345 U.S. 925 (1953); Call Carl, Inc. v. B. P. Oil Corp., 403 F. Supp. 568 (D. Md. 1975), affirmed, 554 F.2d 623 (4th Cir.), cert. denied, 434 U.S. 923 (1977). Viewed in this light, the entity setting the ceiling would be the Board of Commissioners, a single entity, and the required plurality of actors would be missing in that the individual Commissioners would be part of a single entity.

Notwithstanding the above, an argument could be made that the plurality of actors requirement could be met by alleging a combination between the Board of Commissioners and the savings and loans which operated pursuant to the interest rate ceiling. Such an argument was successfully made in U.S. v. Texas State Bd. of Public Accountancy, 464 F. Supp. 400 (W.D. Tex 1978), affirmed, 592 F.2d 919 (5th Cir. 1979), cert. denied, 444 U.S.

925 (1979). There, the Department of Justice challenged a rule by the state board prohibiting competitive bidding among accountants. The district court found a conspiracy because public accountants approved of the rule and adhered to it. 464 F. Supp. at 403.

There is very little reasoning advanced by the court and that reasoning is suspect. The court viewed public accountants who adhered to the rule similar to the unwilling franchisees in Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134 (1968). It would seem that a franchisee who agrees to an anticompetitive provision in a franchise agreement is in a different position vis a vis being a conspirator than an accountant who is following state law or a savings and loan paying rates of interest in accordance with state law. Under the theory employed by the court, the State would be a co-conspirator with those institutions that charge a permissible, non-usurious rate of interest on loans in a suit brought by an entity that wished to exceed the legal limit of interest.

Because I believe that the Attorney General's Opinion incorrectly interpreted the state action doctrine, I will not belabor this issue.

II.
State Action Doctrine

Assuming an antitrust violation could be shown by the setting of an interest rate ceiling, the next question is whether such action would be exempt from the antitrust laws on the basis of the state action doctrine. The Attorney General's Opinion concluded that the legislature did not explicitly authorize and compel the adoption of a uniform interest rate ceiling and therefore such action would not be immune. 65 Attorney General's Opinion at 15-18. I disagree with this conclusion.

The state action doctrine first emerged in Parker v. Brown, 317 U.S. 341 (1943). That case involved California legislation which authorized the establishment of a Commission to prevent agricultural waste and conserve the agricultural wealth of the state. The Commission was authorized to appoint a Program Committee which would formulate a marketing plan concerning a specific product grown in a defined production zone. The Program Committee could be formed only upon the petition of at least ten producers of the product in a given geographic area. The Committee's membership was made up of producers and handlers of the product. The marketing plan devised by the Committee had to be approved by the Commission and consented to by 65% of the producers who owned 51% of the acreage in the area devoted to the

particular crop. Such a marketing plan was adopted concerning raisins, which dictated how much and to whom raisins could be sold and at what price.

The Court in Parker assumed that such a program would violate the Sherman Act if it resulted from private action, id. at 350, but ruled that the Sherman act was never intended "to restrain a state or its officers or agents from activities directed by its legislature." Id. at 350-51. The Court noted that it was the state "which has created the machinery for establishing the . . . program. . . . The state in adopting and enforcing the . . . program made no contract or agreement and entered into no conspiracy in restraint of trade . . . , but as sovereign, imposed the restraint as an act of government which the Sherman Act did not undertake to prohibit." Id. at 352.

The immunity established in Parker was limited to acts of government by the state as sovereign. City of Lafayette, La. v. Louisiana Power & Light Co., 435 U.S. 389, 409-13 (1978); Goldfarb v. Virginia State Bar, 421 U.S. 773, 790-91 (1975). Parker made it clear that the state could not bestow immunity on those violating the Sherman Act merely by authorizing violations or by declaring a violation lawful. 317 U.S. at 351.

The determination of when the state was engaging in an act of government as sovereign begins with identifying the actor seeking the immunity. Hoover v. Ronwin, 104 S. Ct. 1989, 1995-96 (1984); First American Title Co. of South Dakota v. South Dakota

Land Title Assoc., 714 F.2d 1439, 1450-51 (8th Cir. 1983), cert. denied, 104 S. Ct. 709 (1984); Highfield Water Co. v. Public Service Commission, 488 F. Supp. 1176, 1187 (d. Md. 1980). See also 6 Von Kalinowski, supra, §46.03[2] at 46-26 (1979).

Enactments by a state legislature of otherwise unlawful anticompetitive systems of regulation are immune from liability under the antitrust laws. New Motor Vehicle Board of California v. Orrin W. Fox Co., 439 U.S. 96, 109-11 (1978).³ Similarly, actions by the state supreme court acting in its supervisory capacity over the practice of law constitute sovereign action by the state, immune from the antitrust law. Bates v. State Bar of Arizona, 433 U.S. 350, 359-60 (1977).⁴

Thus, where the conduct complained of is contained in regulations or legislation passed by the legislature or state supreme court, it appears there is automatic immunity from the

³ In New Motor Vehicle Board, a state statute required a car manufacturer to secure the approval of a state agency before opening a franchised dealership in the market area of an existing franchisee if the franchisee protests the establishment of a competitor.

⁴ In Bates, the state supreme court restricted advertising by attorneys. The Court ruled that such a restriction, although anticompetitive, was immune from antitrust attack in that the state, as sovereign through its highest court, imposed the restriction. 433 U.S. at 359-62. In Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975), the Court ruled that §1 of the Sherman Act was violated by the publication of a minimum fee schedule by the county bar association, which was enforced by the state bar association, a state agency under the courts. The Court rejected the immunity defense as there were no state court rules mentioning minimum fees. 421 U.S. at 790. In Bates, the state court specifically had such a rule. 433 U.S. at 359-60.

antitrust laws irrespective of any other considerations. Hoover, supra, 104 S. Ct. at 1996, 1998. In the instant situation, a provision establishing a uniform ceiling on interest rates was not expressly set forth in the Maryland statutes regulating savings and loan associations. Instead, it was a regulation proposed by a state agency, the Board of Commissioners. Similar to municipalities and other political subdivisions, state agencies "simply by reason of their status as such" do not qualify per se as the state acting in its sovereign capacity and thus do not automatically receive immunity for their actions. City of Lafayette, supra, 435 U.S. at 408. Rather, anticompetitive actions taken by state agencies and political subdivisions are immune if they are taken "pursuant to state policy to displace competition with regulation. . . ." Id. at 413. See also Town of Hallie v. City of Eau Claire, 105 S. Ct. 1713, 1717-20 (1985); California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 445 U.S. 97, 105 (1980).

The question arises as to how to determine if a specific anticompetitive action taken by a state agency is done pursuant to state policy to displace competition with regulation. It was in answering this question that the Attorney General's Opinion erred. The Opinion stated that the specific anticompetitive regulation must be compelled by the legislature or be authorized by explicit statutory direction. 65 Attorney General's Opinion at 15, 17, 18. Because the Board's authority

to impose a uniform rate ceiling was not expressly authorized by statute, the Attorney General's Opinion concluded that the Board was not compelled to do so and therefore would not be immune.

Id. at 18.5

The mistake made in the Opinion and in subsequent opinions was that it applied a standard once thought applicable to a private party seeking to enjoy the state's immunity from the antitrust laws. Where a private party engaged in anticompetitive conduct which it claimed was shielded from antitrust liability because of the state action doctrine, it was thought that it must show that it was compelled to act in such a fashion by the state. Town of Hallie, supra, 105 S. Ct. at 1719-20.⁶ The case relied on by the Attorney General's Opinion at page 15 to support its compulsion argument, Goldfarb v. Virginia State Bar, 421 U.S. 773 (1975), involved anticompetitive conduct by a private county bar association in setting minimum fees. See Town of Hallie, supra, 105 S. Ct. at 1720. The mere fact that the state bar, a state

⁵ As noted in note 1, supra, the Attorney General's office prevented the Board of Commissioners from taking various actions on the basis that it would not be immune under the state action doctrine. In all of these instances, there was no express grant of authority by the legislature to enact the specific regulation.

⁶ In Southern Motor Carriers Rate Conference v. United States, 105 S. Ct. 1721 (1985), the Court ruled that as long as the state policy to displace competition with regulation is clearly articulated, compulsion to engage in the anticompetitive conduct by the private party is not a requirement. Compulsion is relevant as evidence of the policy.

agency, enforced the fee schedule did not raise the setting of fees to a state policy to displace competition among attorneys regarding what they charged for their services.⁷

The Attorney General Opinion's conclusion that the specific restraint of setting a uniform ceiling for interest rates had to be explicitly authorized by statute to obtain immunity is simply incorrect. In City of Lafayette, supra, decided in 1978, the Court stated that to show state policy such that immunity from the antitrust laws would attach, there need not be "a specific, detailed legislative authorization." 435 U.S. at 415. Rather, the issue is whether the legislature had clearly articulated a state policy "to displace competition with regulation." Id. at 413. As noted by the Court:

While a subordinate governmental unit's claim to Parker immunity is not as readily established as the same claim by a state government sued as such, we agree with the Court of Appeals that an adequate state mandate for anticompetitive activities of cities and other subordinate governmental units exists when it is found 'from the authority given a governmental entity to

⁷ Although not cited in the Opinion, the case of Cantor v. Detroit Edison Co., 428 U.S. 579 (1976) is analogous to Goldfarb. There, a private utility company instituted a free light bulb program. A light bulb marketer sued the company, claiming that the company was using its monopoly power to injure his business. The free light bulb program was approved by the state utility commission so the defendant claimed immunity. The Court rejected the notion that a private company could impose an anticompetitive restraint and claim immunity on the basis of approval by a state agency. There was no showing of a state policy to displace competition in the sale of light bulbs with regulation.

operate in a particular area, that the legislature contemplated the kind of action complained of.' 532 F.2d, at 434.

435 U.S. at 415. The Supreme Court recently in Town of Hallie reaffirmed the standard adopted in City of Lafayette that state policy to displace competition is shown where anticompetitive effects logically would result from the broad authority to regulate. 105 S. Ct. at 1718.⁸

⁸ In fairness to the Antitrust Division, the statements quoted above from City of Lafayette were part of the plurality opinion authored by Justice Brennan on behalf of four Justices, and the Town of Hallie decision was not announced until March, 1985. The Court in Town of Hallie stated that it had never "fully considered . . . how clearly a state policy must be articulated . . . [to] constitute state action" immune from the antitrust laws. 105 S. Ct. at 1717. Notwithstanding this proviso, it is still difficult to understand why the antitrust Division consistently opined that to find an authorization of state policy there must be explicit statutory authorization compelling the Board of Commissioners to impose the specific restraint. Aside from the language in City of Lafayette, Parker itself does not support such a view. In Parker, the enabling statute authorized the Program Committee to devise marketing plans for specific products in specific areas. The statute did not explicitly authorize price fixing or customer restrictions. By authorizing the use of marketing plans, the state had evidenced a policy of supplanting competition concerning the industry being regulated. Finally, many lower courts recognized that a finding of state policy to displace competition did not depend on a state statute explicitly detailing the authorization to impose the specific restraint. See, e.g., City of North Olmsted v. Greater Cleveland Regional Transit Authority, 722 F.2d 1284, 1287-88 (6th Cir. 1983); First American Title Co. of South Dakota v. South Dakota Land Title Association, 714 F.2d 1439, 1451 (8th Cir. 1983), cert. denied 104 S. Ct. 709 (1984); Corey v. Look, 641 F.2d 32, 37 (1st Cir. 1981). Indeed, the District court of Maryland concluded some seven months before the Opinion that state policy would be presumed if state agencies were doing the regulating, and if a local subdivision was doing the regulating, it need only be shown that the legislature contemplated such a restraint. Highfield Water Co. v. Public Service Commission, 488 F. Supp. 1176, 1190 (D. Md. 1980).

Applying the standards set forth above, it is clear that the policy of the State of Maryland was to displace unfettered competition between savings and loan associations with regulation regarding the setting of interest rates such that any action by the Board of Commissioners to adopt a uniform ceiling would have been immune from antitrust attack. This is not a situation as suggested by the Opinion at page 17 where the Board of Commissioners was given general authority to regulate that was insufficient to find a state policy to impose competitive restraints on the associations in setting interest rates. The state policy behind the establishment of the Board was set forth by the legislature as follows:

It is the policy of this State that:

(1) The savings and loan business is so integrated with the financial institutions of this State and is so important as a method of promoting home ownership and thrift that it is in the public interest that:

(i) Savings and loan associations be supervised as a business affecting the economic security and general welfare of the people of this State; and

(ii) The business and financial stability of savings and loan associations be promoted and assured; and

(2) The number and minimum size of savings and loan associations shall be regulated in the interest of securely and efficiently serving the residents of any locality in which an association operates.

Md. F. I. Code Ann. §8-102. The Maryland Court of Appeals indicated that this policy showed a desire to curb competition among savings and loan associations. See County Federal Savings & Loan Assoc. v. Equitable Savings & Loan Association, Inc., 261 Md. 246, 263-64, 274 A.2d 363 (1971). Clearly, a policy of supervising the savings and loan associations as a business and assuring their business and financial stability logically contemplated regulations that would regulate the amount of interest paid out by the associations such that there would not be unfettered competition in this regard between the associations.

Moreover, even under a stricter standard, it is clearly articulated in Titles 8 and 9 that the policy of the State of Maryland was to regulate competition regarding the payment of interest by the savings and loans. The Board was expressly granted the authority to adopt rules and regulations to carry out the provisions of the Financial Institutions Article concerning savings and loan associations. Md. F. I. Code Ann. §8-207(b). Section 9-402 of the Financial Institutions Article authorizes the issuance of savings accounts only in accordance with Board rules and regulations. Section 9-404(a) of that Article authorizes the payment of interest on savings accounts but restricts in subsection (c) the payment of that interest. By granting to the Board the authority or power to adopt regulations

concerning the issuance of savings accounts, and by restricting the payment of interest, the legislature clearly articulated a policy to displace competition with regulation.

Even more specific is §9-405(a), which specifically requires the Board's approval for a savings and loan to pay interest on savings certificate accounts or other fixed term accounts and further provides that the payment of dividends or interest "shall be . . . in accordance with the rules and regulations of the Board. . . ." Md. F. I. Code Ann. §9-405(a)(2). Thus, the individual savings and loans were not free to compete by setting their own interest rates on fixed term accounts. This is a clear articulation of state policy to displace competition with regulation concerning the amount of interest paid. The fact that there was no specific authorization to establish a uniform ceiling or no statement about anticompetitive effects is irrelevant. Town of Hallie, supra, 105 S. Ct. at 1719.⁹

The discussion above evidencing a state policy to displace competition with regulation of interest rates shows the inapplicability of the only case discussed at any length in the

⁹ The Opinion suggested at page 18 that the statutory scheme envisioned if not required the setting of interest rates on a case by case basis as opposed to a uniform rate ceiling. While this may support an argument that the Board would have abused its power to regulate interest rates by setting a uniform ceiling, this is of no significance to a discussion of whether there was a violation of the antitrust laws. See Highfield Water Co. v. Public Service Commission, 488 F. Supp. at 1190-91.

Attorney General's Opinion, United States v. Texas Board of Public Accountancy, 464 F. Supp. 400 (W.D. Tex. 1978), affirmed, 592 F.2d 919 (5th Cir.), cert. denied, 444 U.S. 929 (1979). In that case, a state agency made up of private accountants was empowered to promulgate rules of professional conduct to maintain a high standard of integrity in the profession. All rules were effective only upon approval by a majority of certified public accountants. One rule prohibited competitive bidding, a clear antitrust violation. National Society of Professional Engineers v. United States, 435 U.S. 679 (1978). The court found no state action immunity because a policy to maintain standards of integrity did not concern or contemplate a ban on competitive bidding. 464 F. Supp. at 404. As shown above, however, the Maryland statutory scheme clearly concerned or contemplated a restriction on competition over the payment of interest.¹⁰

In light of the above, the Attorney General's office should have concluded that the setting by the Board of a uniform ceiling on interest rates would have been immune from antitrust liability.

¹⁰ The Texas State Bd. case clearly belongs in that line of cases represented by Community Communications Co. v. City of Boulder, 455 U.S. 40 (1982) where the Court held that a neutral statute bestowing regulatory power on a political subdivision was not a clear articulation of state policy to replace competition with regulation in a specific industry.

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August 3, 1984

Mr. W. Thomas Gisriel, Chairman
Board of Commissioners
Division of Savings and Loan Associations
231 East Baltimore Street
Baltimore, Maryland 21201

Dear Mr. Gisriel:

You have requested advice concerning the effect of a portion of Chapter 678, Laws of Maryland 1983, codified at Md. Fin. Inst. Code Ann. § 9-419(c) (1983), on the authority of the Board of Commissioners of the Division of Savings and Loan Associations ("Board") to regulate investments by state associations. Specifically, you have asked if this subsection precludes the Board from exercising the regulatory authority expressly granted in section 9-419(a) over types of investments enumerated therein when different guidelines for the same types of investments are prescribed for federal associations.

For reasons set forth below, we conclude that section 9-419(c) does not generally supplant the statutory authority of the Board granted in section 9-419(a). State associations--except when investing in deposits of federally-insured institutions--continue to be subject to state rather than federal regulation. 1/ We nevertheless caution, however, that our

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1/ Your inquiry raises, and our analysis is confined to, issues relating to the statutory construction of state law. Accordingly, we do not here consider federal preemption issues possibly arising under the Garn-St Germain Depository Institutions Act of 1982.

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Mr. W. Thomas Gisriel, Chairman
August 3, 1984
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conclusion is not totally free from doubt and we would consider clarifying legislation most appropriate.

I

SECTION 9-419(c)

Upon its face, section 9-419(c) appears to constitute nothing more than a statutory-construction guide to resolve a state association's authority to make types of investments not enumerated in section 9-419(a):

This section does not prohibit a State-chartered savings and loan association from making any investment that is permissible for a federal savings and loan association.

However, on closer review there is an unresolved ambiguity: section 9-419(c) appears to be a limitation on prohibitions contained in section 9-419(a), but section 9-419(a) does not prohibit certain types of investments by state associations; it authorizes specific investments.

Only upon reading the session laws in which subsection (c) was enacted, Chapter 678, Laws of Maryland 1983, does a broader legislative intent become discernible. The purpose of Chapter 678 is set forth as follows:

For the purpose of authorizing state-chartered savings and loan associations to invest in deposits of certain insured financial institutions; providing that a State chartered savings and loan association may make any investment permitted a federal savings and loan association; and generally relating to authorized investments of savings and loan associations.

Although indicative of an intent to allow state associations greater investment authority, the precise extent of the authority being granted is unclear. Significantly, when the General Assembly intended to allow state associations to engage in an investment activity (deposits in certain insured financial institutions), it expressed this purpose by clearly "authorizing"

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Page 3

the activity in the first clause. The second clause -- describing the purpose of section 9-419(c) -- presents a marked contrast. Rather than expressing its purpose as a separate, coordinate authorization for making investments, the legislature chose the less clear "providing" -- suggesting a more limited intent to qualify (i.e. add a proviso to) the immediately preceding authorization.

The legislative history, consisting primarily of the Senate Economic Affairs Committee's "Summary of Committee Report," reveals that section 9-419(c) was added by Committee amendment to H.B. 284. This amendment was simply designed to alleviate concerns that under proposed federal regulations a federal association could invest unlimited amounts in deposits of institutions insured by the FSLIC or FDIC while state associations would be restricted to certain amounts of deposits by a Board regulation. 2/ The Committee describes the purpose of its amendment as providing "state-chartered institutions with investment opportunities equal to those of their main competitors, the federally chartered savings and loan associations." In context, the report evidences an extremely close nexus between section 9-419(c) and a state association's ability to compete for investments in deposits; indeed, the report neither discusses nor identifies any additional inequity affecting other types of investments authorized by section 9-419(a). 3/

We have carefully considered an interpretation of this subsection whereby the Board's express authority under section

2/ Factually, the report was in error. The specific regulation discussed in the Committee's report was repealed before the amendment was considered. Under current regulations of the Board, state associations are subject to amount limitations for investments in other financial institutions, though different from the limitations discussed in the report.

3/ An additional source of legislative history demonstrates the uncertain status of section 9-419(c) as a broad, independent grant of authority. At a veto hearing convened for Chapter 678, commentators advanced alternative--and at times conflicting--interpretations of the Board's authority in light of this subsection. Even comments from proponents of the legislation attempted to characterize the bill as being limited in intent.

Mr. W. Thomas Gisriel, Chairman
August 3, 1984
Page 4

9-419(a) would be displaced by or subordinated to a parallel system of federal regulatory guidelines. This expansive reading of section 9-419(c) is, in our opinion, not required by the plain language or legislative history of this subsection. Especially in the absence of a clearer expression of legislative intent, we are reluctant to conclude on the record before us that the General Assembly intended to effect by simple amendment the virtual abrogation of state control over state associations. We note that, in the past, when the legislature has intended to authorize parity with federal associations, it has done so in quite an unambiguous manner. 4/

Significantly, an expansive reading of section 9-419(c) violates two well-established, cardinal rules of statutory interpretation. Repeals by implication are disfavored under Maryland law, and repeals not express will not be found unless demanded by irreconcilability or repugnancy. See Harden v. Mass Transit Adm., 277 Md. 399 (1976), and cases cited therein. It is also an equally familiar rule that:

where there is, in the same statute, a particular enactment, and also a general one, which, in its most comprehensive sense, would include what is embraced in the former, the particular enactment must be operative, and the general enactment must be taken to affect only such cases within its general language as are not within the provisions of the particular enactment.

Maguire v. State, 192 Md. 615, 623 (1949).

Applying these principles to your inquiry--and mindful of the legislative history of Chapter 678--we conclude that, subject to the antitrust considerations discussed in Part II below, the Board retains full statutory authority to impose standards

4/ For example, section 9-420 provides "[n]otwithstanding any other provision of law and subject to the approval of the Board of Commissioners, a savings and loan association may raise capital under the same conditions and to the same extent as a federal association as if the powers were specifically enumerated in this title."

Mr. W. Thomas Gisriel, Chairman

August 3, 1984

Page 5

differing from federal guidelines on all types of investments enumerated in section 9-419(a) other than investments in deposits insured by the FSLIC or FDIC. With respect to those deposits, we defer to that one part of the legislative history that is clear and unambiguous -- that subsection (c) is designed to overcome competitive limitations that might arise out of investments in certain deposits -- and conclude therefore that a state association may follow federal guidelines when investing in deposits insured by these institutions.

We are, of course, cognizant of a legislative intent during the amendment process -- albeit indistinct -- to expand the lending authority of state associations beyond the types of investments enumerated in section 9-419(a). In this regard, we interpret section 9-419(c) as empowering state associations to make any type of investment not enumerated in section 9-419(a) to the same extent authorized under federal guidelines. But, given the principles described above, we cannot further read section 9-419(c) as also applying to the types of investments specifically enumerated in section (a), other than investments in certain deposits. 5/

In concluding our analysis of section 9-419(c), we reiterate that while our reading is preferred as being more consistent with the legislative history and rules of statutory construction, it is by no means the only reading of this subsection. Clarifying legislation, therefore, is most appropriate. We are persuaded, however, that in the absence of any further legislative enactments our interpretation can be considered as correctly perceiving the legislative intent behind and the effect of Chapter 678.

II

AUTHORITY UNDER SECTION 9-419(a)

Our advice would not be complete without a brief discussion of the limitations imposed on the Board's exercise of authority under section 9-419(a) by antitrust considerations. We discuss

5/ To avoid totally unregulated transactions, we would suggest the Board promulgate an appropriate federal tie-in regulation.

Mr. W. Thomas Gisriel, Chairman
August 3, 1984
Page 6

these considerations against the backdrop of federal guidelines because legislative history reveals that federal associations are considered to be major competitors of state associations.

In enacting the Maryland Antitrust Act, the General Assembly explicitly stated that the purpose of the Act "is to complement the body of federal law governing restraints of trade, unfair competition, and unfair, deceptive, and fraudulent acts or practices in order to protect the public and foster fair and honest intrastate competition." Md. Com. Law Code Ann. § 11-202(a)(1) (1983). The Sherman Act, 15 U.S.C. §§ 1-7 (1975), is the basic source of this federal law. The Supreme Court stated that:

The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality, and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition.

Northern Pacific Railway Co. v. United States, 356 U.S. 1, 4 (1958).

Coinciding with the State and national policy in favor of competition is the need for the State to regulate occupations and industries to protect the public against fraudulent or unsafe practices. State regulation protecting the public from such abuses may restrain the free and unfettered competition which is central to the policy of the antitrust laws. Nevertheless, as discussed below, unless the General Assembly has affirmatively stated that competition in a particular industry should be displaced by regulation, it is the duty of regulatory boards not only to protect the public from unsound practices, but equally to promote the public interest in competition in the regulated industry.

Mr. W. Thomas Gisriel, Chairman
August 3, 1984
Page 7

The Supreme Court has recognized that tension may arise between the policy favoring competition and a state's need to impose regulatory regimes that may restrain competition. In the seminal case of Parker v. Brown, 317 U.S. 341 (1943), the Supreme Court attempted to accommodate these conflicting goals. In that case, the Court indicated that the provisions of the Sherman Act would not extend to "[anticompetitive] activities directed by a [state] legislature." 317 U.S. at 350-51 (emphasis added).

As conflicts between the Sherman Act's policy of competition and a state's need to regulate industries have escalated in number in recent years, the Supreme Court has refined its criteria for determining whether actions of state regulators are subject to the Sherman Act. The clearest expression of these criteria was articulated in California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 445 U.S. 97 (1980). The criteria are that:

First, the challenged restraint must be "one clearly articulated and affirmatively expressed as state policy"; second, the policy must be "actively supervised by the state itself." 6/

445 U.S. at 105 (citation omitted). Where the actions of a state regulatory board meet these criteria, its actions are "outside the reach of the antitrust laws under the 'state action' exemption." New Motor Vehicle Board v. Orrin W. Fox Co., 439 U.S. 96, 109 (1978). However, where the regulatory board's actions do not meet these criteria they are subject to antitrust scrutiny.

In applying the state action test to regulations promulgated under section 9-419(a), two questions must be answered. First, does the Board have the requisite "clearly articulated and affirmatively expressed" authority to enact regulations

6/ Although the Supreme Court has not directly ruled on the manner and extent to which a legislature must actively supervise the activities of a state regulatory board, it is our view that the active supervision requirement is satisfied when the challenged activity has been undertaken by a state regulatory board.

Mr. W. Thomas Gisriel, Chairman
August 3, 1984
Page 8

restricting the amount of the investments enumerated in section 9-419(a)? Second, if the Board has such authority, what is the effect of section 9-419(c)?

Section 9-419(a) is prefaced with the words, "Subject to the regulations of the Board of Commissioners, a savings and loan association may invest in any of the following types of investments...." In section 8-102, the General Assembly has stated that it is the policy of the State that "the business and financial stability of savings and loan associations be promoted and assured." This grant of authority to enact regulations to protect the financial security of associations is sufficient to give the Board antitrust immunity to restrict competition to the minimum extent necessary to fulfill the Board's statutory obligation. 7/

A finding that the Board does have the requisite specific authority to enact restrictive regulations under section 9-419(a) does not end the inquiry. As discussed above, the General Assembly enacted section 9-419(c) cognizant of the competition between state associations and federal associations in the area of investments. Although we do not construe section 9-419(c) to have repealed the power of the Board to regulate all investments enumerated in section 9-419(a) -- and only to have a direct

7/ The history of section 9-419(a) evidences the sufficient legislative directive to permit the Board to place restrictions upon the amount of investments enumerated in section 9-419(a) that may be anticompetitive. The current section 9-419 was codified in 1980 within the Financial Institutions Article. Its predecessor, Md. Ann. Code art. 23, § 161Z, stated "Subject to such conditions and restrictions as the Board, by regulation, may from time to time impose, every association shall have the power to invest...." This language clearly and unambiguously expressed the intention of the General Assembly to permit the Board to limit the amount of the enumerated investments that may effect competition. Significantly, the Committee Comments to section 9-419 state that the "former phrases 'conditions and restrictions,' and 'may from time to time impose' were deleted as included in the phrase 'subject to the regulations of the Board.'" Thus, it is clear that it was the intention of the General Assembly that the Board may enact restrictive regulations with respect to investments enumerated in section 9-419(a).

Mr. W. Thomas Gisriel, Chairman
August 3, 1984
Page 9

effect upon investments in certain deposits -- we are constrained to reiterate that this interpretation is not without doubt. A court may disagree and construe section 9-419(c) as placing state associations in total parity with federal associations with respect to all investments enumerated in section 9-419(a). As a result, any Board regulations that restrict investments under section 9-419(a) to a greater extent than the law governing investments of federal associations could be subject to an antitrust challenge. Moreover, even if our interpretation of section 9-419(c) is accepted by a court, antitrust liability could still arise from regulation under section 9-419(a) that is broader than necessary to carry out the Board's statutory function.

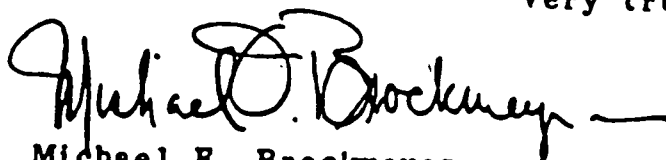
Because of the potential of antitrust liability, the Board must exercise its regulatory authority only after careful consideration of the competitive effects of its proposed action. Before enacting any regulation that places limitations on investments that are more restrictive than those imposed upon federal associations, the Board must take into consideration federal standards and must make specific, detailed findings that conditions in this State require different treatment for state associations. These findings must clearly demonstrate that any such regulation was promulgated to protect the financial security of savings and loan associations; not merely to restrict competition.

III

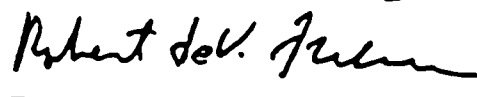
CONCLUSION

In summary, it is our advice that subject to antitrust considerations the Board may impose by regulation limitations on the types of investments enumerated in section 9-419(a) except investments in deposits insured by FSLIC or FDIC. Although this is our carefully considered advice on this matter, it is not an Opinion of the Attorney General.

Very truly yours,



Michael F. Brockmeyer
Assistant Attorney General and
Chief, Antitrust Division



Robert deV. Frierson
Assistant Attorney General
Deputy Counsel, Department
of Licensing & Regulation

3102

A 137

RECEIVED

JAN 11 1984

JAN 12 1984

6211 North Forest Rd.
Bethesda Md. 20817
January 8, 1984

EXEC. DEPT.
Mary Hughes
Legislature of Maryland
State Capitol
Annapolis, Md. 21401

Q. What is Maryland Savings-Share Insurance Corporation? (M.S.S.I.C.)
A. It is a permanent non-profit corporation that the Legislature of Maryland created to provide protection against loss of savings invested in member institutions.

Dear Sirs:

As I have been reluctant to open up a savings account or purchase a C.D. in a bank insured by Maryland Savings-Share Insurance Corporation, I would appreciate your clarifying a few facts for me.

Until recently I felt these banks were insured by the State of Md. as their name implies. It is only recently I learned M.S.S.I.C. is a private company.

I have heard many financial

A63130

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reports on the subject of M.S.B.I.C.
 say they insured, not put their
 savings into a bank insured
 by them. That M.S.B.I.C., although
 they advertise facts accounts is
 insured to \$100,000, actually do not
 have enough reserves to cover the
 full amount of insurance on
 facts account. That an account
 holder, may not collect anything,
 or only a fraction of their savings
 should a bank insured by M.S.B.I.C.
 have problems or fail. That since
 these banks are not government
 insured like F.D.L.C. or F.D.B.I.C., the
 U.S. government would not step
 in to help the customers of an
 M.S.B.I.C. insured bank.

*63137

-3-

Some years ago, I wrote the
Banking regulators in Baltimore about
Government Insurance Co of Bethesda,
from ^{reading} the financial page of
the Post, I felt they were in trouble &
withdrew my money. I was told they
were solvent, yet sometime later this
MPSIC Bank was deeply in trouble
and combined with Chevy Chase & L.
Who is one to believe if your
regulators are not truthful with
the public.

Each year the Washington Post
publishes the solvency figures of all
federally insured Area Banks. This
is comforting. Yet MPSIC will
not publicly disclose these figures
in order to protect their fee

A63138

paying insured banks. This also
makes one deeply suspicious of
M.B.I.C.'s insurance protection.

There are many people who are
mislead into believing M.B.I.C. Accts.
~~to~~ are insured by the State of Maryland,
which it is not. I do not feel
they should be permitted to use
"Maryland" for their privately owned
insurance company, thus instilling
false confidence.

I would appreciate a written
response I have already read
their Q & A pamphlet which doesn't
clarify the feeling something is lacking
if financial experts feel M.B.I.C. insurance
is not safety.

P.S. The less I am
concerning is
friendship S. L. Chung

Very truly yours,

(Mrs) Seena King

463139

TRANSMITTAL SLIP		DATE
		1/17/84
TO: Dir. Charles H. Brown, Jr.		
Savings and Loan		
FROM: Secty. Corbley		
<input type="checkbox"/> NOTE & FILE <input type="checkbox"/> PER YOUR REQUEST <input type="checkbox"/> NOTE & RETURN <input type="checkbox"/> PER OUR CONVERSATION <input type="checkbox"/> NOTE & SEE ME <input type="checkbox"/> FOR YOUR APPROVAL <input type="checkbox"/> FOR YOUR COMMENTS <input type="checkbox"/> FOR YOUR INFORMATION <input type="checkbox"/> FOR YOUR SIGNATURE <input type="checkbox"/> TAKE APPROPRIATE ACTION <input checked="" type="checkbox"/> PREPARE REPLY FOR SIGNATURE OF <u>Gov. Hughes</u> Re: <u>Mrs. Seena King</u>		
COMMENTS:		
Please return double-spaced draft response to my office ¹³⁰ 1/18/84. A65130		

FORM: OLR/OSA/84/2-80/10M

IVG2

3107



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301/659-6330

MEMORANDUM

TO: John J. Corbley, Secretary
FROM: Charles H. Brown, Jr., Director *CB*
DATE: January 17, 1984

Attached is a draft of a reply to Mrs. Seena King's Letter to the Governor, which I hope you will find satisfactory.

CHB:kg

1/15/84
called
Charles Brown
to review

Page 1 - OK -
but offers that
sketches issues
raised in King's
King's letter
Point of view
310 letters on this subject
more stronger on the
issues & back up - into
based on previous
difficulties
would be withdrawn
at once

IVG3

~~SECRET~~

FBI FEDERAL BUREAU OF INVESTIGATION

[REDACTED]

Don Hughes

Re: Mrs. Seena King

COMMENTS:

Please return double-spaced draft
response to my office by 1/18/84.

A63133

FORM: DLR/OSA/84/2-80/10M



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301/659-6330

FEB - 8 1984

MEMORANDUM

E
Type Draft
and talk to me
about
Revised
again.

TO: Secretary John J. Corbley
FROM: Charles H. Brown, Jr., Director *B*
DATE: February 7, 1984

At your request I have reworked the draft of a reply to Mrs. Seena King's letter to the Governor, which I hope you will find satisfactory.

Mrs. King asked many questions which I found rather difficult to answer. This letter is, perhaps, a little stronger than most letters that we write regarding MSSIC because of the many questions she raised. I don't feel, however, that there is much more that I could tell her.

If you have any suggestions, let me know.

CHB:kg
Enclosure

CC - To Johnson

3 Revisions
could be sent to work
Team - external

IVG4

~~AG-115~~

3110

DRAFT

Mrs. Seena King
6214 Leeke Forest Court
Bethesda, Maryland 20817

Dear Mrs. King:

This will acknowledge your letter with
~~I have your letter of January 8, 1984 and I note your comments relative to~~
the Maryland Savings-Share Insurance Corporation.

The insurance corporation, sometimes referred to as MSSIC, was created by the Maryland State Legislature in 1962 for the purpose of insuring savings accounts of State-chartered savings and loan associations, which were not federally insured. Although created by the State Legislature, MSSIC is not an agency of the State of Maryland, nor is the insurance of savings accounts backed by or guaranteed by the State of Maryland.

MSSIC is a private corporation which is owned by the membership. Under the laws of the State of Maryland I, as Governor, appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining directors are elected by the membership. The corporation ^{confidentially} works ~~hand in hand~~ with the Division of Savings and Loan Associations, which is the State regulatory agency that supervises State-chartered savings and loan associations. Both MSSIC and the Division share ^{certain supervisory functions and information regarding} information on the operation of all State-Chartered associations. ~~so~~ *The purpose is to be certain that* that they ~~can be sure~~ the associations are operating within the laws of the State of Maryland and the rules and regulations of the Board of Savings and Loan Association Commissioners, in addition to the regulations of the Maryland Savings-Share Insurance Corporation.

MSSIC insures each savings account up to \$100,000, which is similar to the insurance by the FSLIC. Under MSSIC rules, however, ~~8991111~~ an individual may have more than one account in ¹⁴¹⁵⁽¹¹²²⁾ ~~1415~~ sole name and each account would be insured up to \$100,000.

Handwritten notes on the right margin, including a signature and the word "Confidentially".

Since
As savings and loan associations insured by MSSIC are not members of the Federal Home Loan Bank System, the savings accounts of these institutions are not insured by the Federal Savings and Loan Insurance Corporation and, consequently, the U. S. Government would ~~not step in to help~~ ^{protect} customers of a MSSIC insured institution should there be a problem. However, with recent legislation passed by the U.S. Congress, MSSIC institutions are now eligible to obtain funds from the Federal Reserve Bank for emergency purposes. This assistance ~~would be by way of~~ ^{is obtained thru} short term borrowings which must ~~be repaid~~ be repaid.

If any ~~of them~~ MSSIC insured associations ^a should have financial problems, the insuring corporation would advance funds to the association to take care of the immediate needs. Should the state regulator, or MSSIC itself, feel that additional assistance is needed, a merger with a stronger institution would be arranged and all of the assets, liabilities, savings accounts and net worth of the ailing association would be transferred and merged into the stronger association. } If the ailing institution cannot be salvaged, the state regulator would petition the Circuit Court for the particular jurisdiction for the appointment of a conservator to reorganize the institution or a receiver to liquidate the association. A liquidation of an association would result in the sale of all of the assets of the institution including mortgages, real estate owned, office building and other investments, the proceeds of which would be used to pay off all creditors and owners of savings accounts. If there are not sufficient funds available to reimburse the creditors and savings account owners, MSSIC would then supply the required funds. I would point out that the failure of any institution does not necessarily result in the loss of a savings account that is insured. At the present time MSSIC associations are very liquid and their assets can be converted to cash promptly, which would result in a prompt liquidation of an association.

Mrs. Seena King
Page Three

Presently MSSIC has reserves of approximately \$237 million including a line of credit which would be used for emergency purposes. This, along with the proceeds from the sale of assets of any institution, should be sufficient to guarantee the funds of owners of savings accounts. I would like to point out that during the past two years with financial institutions all over the country having financial problems, Maryland has not lost a single State-chartered association.

In your letter you mention you are considering opening an account with Friendship Savings and Loan in Chevy Chase, Maryland. As a matter of information, Friendship is a State-chartered association with insurance of ^{its} savings accounts ~~by~~ ^{with} MSSIC.

You mentioned that each year the Washington Post publishes figures on all federally insured institutions in your area. Under Section 9-504 of the Financial Institutions Article of the Annotated Code of Maryland, information obtained in an examination or on a report by a State-chartered savings and loan association is considered confidential. MSSIC respects the confidentiality section of the Financial Institutions Article and does not release for publication information similar to that permitted by the Federal Home Loan Bank. I am sure, however, that if you request a financial statement from any savings and loan association, they would be happy to comply with your request.

I trust I have answered your inquiry. If you have any further questions, however, please do not hesitate to write me.

Very truly yours,

Harry Hughes
Governor

A53128

(Ret. 2/27/84)

JAN 12 1984
10

EXECUTIVE DEPARTMENT
State House
Annapolis, Maryland 21404

PLEASE
RETURN

Date: 1/11

TO: Secy. Corbelly

FROM: (Ms.) E. Luise (Hawn, Admin. Asst.)

Re Letter From: Mrs. Susan King

FOR:

- Your Information
- Necessary Action
- Handling at your discretion
- Your Reply, copy to me

PLEASE:

Draft reply (on plain paper) for Governor's signature

REMARKS: 2/27/84 - Luise, this draft
has been through three revisions.

It is a very sensitive area and should
be reviewed by Mr. Johnson before
release. The House Economic Matters
Committee is considering a task force
to study this issue during the interim
session.

PLEASE RETURN THIS 68118 IN ACCORDANCE WITH
ACTION REQUESTED ABOVE

PS-632

PR-3-1

IVG5

3111

MARCH 5, 1964

to obtain funds from the Federal Reserve Bank for emergency purposes. This assistance is obtained through short term borrowings which must be repaid.

If any MSSIC insured association should have a financial problem, the insuring corporation would advance funds to the association to take care of the immediate needs. Should the State regulator, or MSSIC itself, feel that additional assistance is needed, a merger with a stronger institution would be arranged and all of the assets, liabilities, savings accounts and net worth of the ailing association would be transferred and merged into the stronger association.

If the ailing institution cannot be salvaged, the State regulator would petition the Circuit Court for the particular jurisdiction for the appointment of a conservator to reorganize the institution or a receiver to liquidate the association. A liquidation of an association would result in the sale of all of the assets of the institution including mortgages, real estate owned, office building and other investments, the proceeds of which would be used to pay off all creditors and owners of savings accounts. If there are not sufficient funds available to reimburse the creditors and savings account owners, MSSIC would then supply the required funds. I would point out that the failure of any institution does not necessarily result in the loss of a savings account that is insured. At the present time, MSSIC associations are very liquid and their assets can be converted to cash promptly, which would result in a prompt liquidation of an association.

In your letter you mention you are considering opening an account with Friendship Savings and Loan in Chevy Chase, Maryland. As a matter of information, Friendship is a State-chartered association with insurance of its savings accounts with MSSIC.

You mentioned that each year the Washington Post publishes figures on all federally insured institutions in your area. Under Section 9-504 of the Financial Institutions Article of the Annotated Code of Maryland, information obtained in an examination or on a report by a State-chartered savings and loan association is considered confidential. The Maryland Savings-Share Insurance Corporation respects the confidentiality section of the Financial Institutions Article and does not release for publication information similar to that permitted by the Federal Home Loan Bank. I am sure, however, that if you request a financial statement from any savings and loan association, they would be happy to comply with your request.

I hope this information will be of assistance to you.

Sincerely,


GOVERNOR

HJI/JJC/nm

cc: Secretary Corbley
Ms. Sylvia Ramsey
Mr. Ejner Johnson
Mr. Ben Bialek
Mr. Lou Panos

A63120

Maryland Savings-Share Insurance Corporation

BALTIMORE LIFE BUILDING
901 NORTH HOWARD STREET
BALTIMORE, MD. 21201
PHONE 727-7810

September 10, 1982

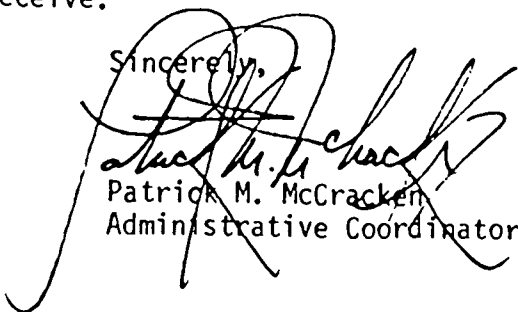
F.Y.I.

On or about August 20, 1982, subscribers of Money magazine began receiving copies of their September 1982 issue of that magazine. At the bottom of page 20 and at the top of page 24 appeared a two sentence letter, which together with the response, we have enclosed.

Since August 23, 1982 MSSIC has responded to several hundred requests from people across the nation who have asked for the list mentioned in the response to the aforementioned letter. A copy of this list and our letter to these inquiries are enclosed.

It is our understanding that the September 1982 issue of Money was first made available on the news stand on Tuesday, August 31, 1982. And as of this date, we have seen no let up in the volume of mail we receive.

Sincerely,



Patrick M. McCracken
Administrative Coordinator

PMM/pat

Enclosures

IVG6

3116

White Horse

This is the taste that
doesn't run with
the herd. Bold.
Free-spirited.
Gloriously Scotch
in character.
But so smooth,
so mellow
only one word can
really capture it.
Sleek.



**Sleek
Scotch**

Bottled in Scotland
Enjoyed in 171 Countries.

Blended Scotch Whisky - 40 Proof - 40% Alc/Vol - Imported by Heublein & Boschee, Inc., New York, N.Y.

MONEY HELPS



Currency dealers are
swamped with rubles
from that period.

Q. I have just opened an Individual Retirement Account with my broker, who subtracted both a \$25 fee and his commission from my \$2,000 investment. Is he allowed to do this?

JOHN SBONTZ
Shrewsbury, Mo.

A. Yes, although clearly it would be to your advantage to pay your fees and commissions on top of your contribution and have the full \$2,000 working for you. But the Internal Revenue Service has yet to rule on whether fees and commissions may be paid this way, so in the meantime most brokers are collecting fees separately but subtracting commissions from the account. You should ask your broker to do this too. The \$2,000 you send to your broker is fully deductible on your tax return, whether or not it includes commissions and fees. But if you pay the fees apart from your contributions, IRA experts believe that the IRS will regard them as an investment expense and let you deduct them in addition to the \$2,000.

Q. In 1917 my Russian-born grandfather converted his life savings into four 500-

ruble notes to travel to the old country, but the revolution intervened, preventing him from going. I have the bills, which are dated 1912. Are they worth anything?

BARRY FROES
Tracy, Calif.

A. At most, they might bring a dollar or two each. During the inflationary period that began around World War I, Russia and major European powers such as Germany, Austria and France printed large quantities of paper money. Currency dealers are still swamped with bills from that era. For example, Ossie's Coin Shop in Allentown, Pa. already has a pile of 500-ruble notes, but would pay \$1.50 apiece for yours. James Risk of Stack's Coin Galleries in New York City isn't buying. "I see more 500-ruble notes than anything," says Risk, who'd part with his for 10¢ to 15¢ each.

Q. I recently graduated from college with a degree in computer science. I've been told that any costs I incur while looking for work are tax deductible as long as I get a job in my field. Is this true?

SHARON PAZICH
Weirton, W. Va.

A. No. The IRS allows deductions for job-hunting expenses, but only if you're seeking a position in a field in which you're already employed. The costs of your first job search don't qualify.

Q. I've heard that there are banks in Maryland offering money-market funds that are insured. Can you tell me anything about them?

JOHN J. CAPOZZI
Boonton, N.J.

A. Savings and loan associations—not banks—in Maryland and North Carolina have started offering savings accounts that resemble money-market funds. The accounts, open to both residents and non-residents, have names like Money Fund Account or Daily Money Account. Each is insured up to \$100,000 by a state-chartered agency. Maryland and North Carolina are among a handful of states that provide an alternative to federal deposit insurance. S&Ls that are covered by state-authorized insurers are exempt from federal limits on interest rates. The S&Ls put the cash from these accounts into many of the same things that money-

Writer: David J. Malachuk



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market funds invest in, such as Treasury bills and bank certificates of deposit. Yields have been as high as those of money funds. Minimum deposits generally range from \$1,000 to \$3,000, and you can write checks for minimums varying from zero to \$500. For a list of S&Ls with such accounts, write to Maryland Savings Share Insurance Corp., 901 N. Howard St., Baltimore, Md. 21201 or North Carolina Savings Guaranty Corp., P.O. Drawer 2688, Raleigh, N.C. 27602.

Q. I own preferred stock in IteI, the equipment-leasing company that filed for bankruptcy last January. I see that the common stock is traded on the Pacific exchange, but I can find no listing for the preferred. Is there a market for these securities? Will they be worth anything when the company reorganizes?

GRACIE MILLER
Eugene, Ore.

A. IteI preferred stock recently traded over the counter and on the Philadelphia exchange at about \$2 a share, down from an all-time high of \$16.375 in 1977. Under the reorganization plan that IteI hopes to have in place around the end of the year, new shares in the company will be distributed to stockholders. It's too soon to tell how many shares of the new stock you'll get in exchange for the old, but the total value of your holding probably won't change.

Q. I'm a manager at a hospital, and I'm required to have a car for emergency calls after working hours. I also use the car about once a week during the day for business. Can I take a tax deduction for depreciation and my driving expenses? I'm not reimbursed.

FRANK SCHLIEF
Stone Ridge, N.Y.

A. Maybe. To qualify as tax-deductible business use, your trips must be to someplace other than the hospital. The IRS considers the cost of travel to a place of business—even after normal working hours—a commuting expense, which is not deductible. For those of your trips that qualify, you can deduct 20¢ a mile or a percentage of your total expenses and depreciation, based on the percentage of time you use the car for business.

Q. We have to pay a yearly fee to our homeowners' association for such things

U.S. News & World Report

美国新闻与世界报道

BEIJING BUREAU

Qianmen Hotel

Beijing

People's Republic of China

BY AIR MAIL



Maryland Savings Share Insurance Corp.
901 N. Howard Street
Baltimore, Maryland 21201

U. S. A.

Appendix to the Rpt of the Special Counsel on the Savings 51 of 52
& Loan Crisis (1986) Exhibits IV G-7-IV H5 , pp 3120-3178

This is how I'd like the headers to read.
Thanks

Maryland Savings-Share Insurance Corporation

BALTIMORE LIFE BUILDING
901 NORTH HOWARD STREET
BALTIMORE, MD. 21201

PHONE 727-7810

CHARLES C. HOGG II
EXECUTIVE VICE PRESIDENT

An Open Letter To A Potential MSSIC Saver

Thank you for your recent inquiry concerning Maryland Savings-Share Insurance Corporation (MSSIC) and the list of associations offering variable rate savings plans. We have enclosed the list; however, greater detail on each separate account offering should be addressed directly to the individual associations.

MSSIC was created in 1962 by an act of the Maryland legislature, and while the company is not an agency of the State, the company works closely and coordinates its activities with the Division of Savings and Loan Associations, part of the Maryland Department of Licensing and Regulation. All Maryland state-chartered savings and loan associations are regulated, supervised and examined by the Division of Savings and Loan Associations. In addition, our company reviews and monitors the financial reports and operations of all associations. Such monitoring is intended to alert both the Division and this Corporation to potential problems and our efforts are joint in discovery and resolution. Indeed, because of the fact that we insure only Maryland chartered associations, we feel privileged in knowing each of our members and their management, and in working closely with them over the years.

The function and philosophy of this Corporation is not unlike that of other similar organizations such as the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation and others; that is, to insure savings deposits and, in events of default, to provide savers timely access to their deposits. The operation of MSSIC has been overwhelmingly successful. Over the 19 years since its creation, MSSIC has insured over 150 savings and loan associations. No losses have been experienced. When one member, in 1964, became insolvent, MSSIC immediately advanced approximately \$216,000 to enable the depositors to withdraw their funds. A year later, after the association was liquidated, these funds were returned to MSSIC because liquidation of the association produced sufficient funds to fully reimburse MSSIC. No depositors lost any savings. Nor have there been similar incidents since 1964. The confidence inspired by MSSIC's insurance program has caused depositors in MSSIC-insured associations to increase the amounts of their deposits from \$180 million in

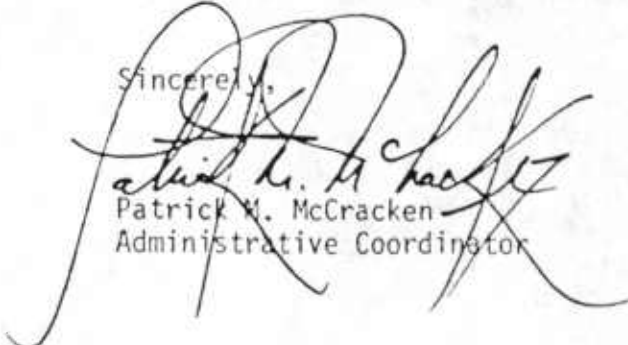
1962 to over \$2.4 billion in 1981. This confidence is not misplaced. MSSIC has among the highest ratio of capital-to-savings deposits of any savings insurance fund, including FSLIC. The increase in deposits has resulted in greater availability of funds for home mortgages and construction. One additional note: each separate savings account is insured to a maximum of \$100,000, with no residency requirements.

As for the financial condition of our Corporation, by referring to a copy of our audited financial statement as of December 31, 1981, you will find the answer to that question and any others you may have concerning our financial structure. A copy of this report is available upon request.

The year 1981 saw significant growth in both assets and savings among our member associations. At year end in our institutions average liquidity was over 15% and the net worth to savings ratio on a consolidated basis was above 5%. This strength and depositor assurance coupled with the safety of MSSIC's liquid assets and strong reserves makes us confident of the soundness of our Corporation and its member savings and loan associations.

Hopefully, this letter will aid you in achieving a greater knowledge and clearer understanding of our company. If you have any further questions, please contact us.

Sincerely,



Patrick W. McCracken
Administrative Coordinator

PMM/pat

Enclosures

Q. What is Maryland Savings-Share Insurance Corporation? (MSSIC)

A. It is a permanent non-profit corporation that the Legislature of Maryland created in 1962 to provide protection against loss of savings invested in member institutions.

Q. How many savings and loan associations are insured by the Corporation?

A. Approximately 100.

Q. Who directs the activities of MSSIC?

A. Activities are directed by an 11 member Board of Directors, of which 3 are appointed by the Governor of Maryland and 8 are elected by member institutions.

Q. What high standards protect savings in member institutions?

A. The insurance corporation protects savings by:

1. Only insuring those institutions that have been certified by the Director of the Division of Savings and Loan Associations of the State of Maryland.
2. Requiring through its rules and regulations, that members maintain high standards of operation.
3. Evaluating and monitoring

members' operations by analyzing copies of reports of examinations performed by the Division of Savings and Loan Associations and review and analysis of reports submitted by member associations.

4. Requiring institutions to maintain reserves against losses.

Q. What does insurance cost the saver?

A. Nothing—the cost is borne by the member institution.

Q. What types of accounts are insured?

A. All types of accounts are insured: regular passbook, certificate and bonus accounts, installment and club accounts, and other forms of withdrawable accounts.

Q. What is the maximum amount of insurance provided for a saver in a member institution?

A. \$100,000 for each separate account.

Q. Are two or more accounts which are titled the same insured and, if so, to what limits?

A. Our Charter states that "Each separate account" is insured to the maximum amount of insurance; this

amount is currently \$100,000 for each separate account.

Q. If you have savings in more than one association who are members of this corporation, are they insured?

A. Yes! Each is insured separately in each separately insured association.

Q. If a financial problem becomes apparent in a member association, what steps are taken to solve the problem and prevent default?

A. In the event of an apparent financial problem, MSSIC has several options open to it, all designed to prevent default. The form of the solution is largely dependent on the problem, however, some of the possibilities would be a loan, a cash contribution, the purchase of assets, a merger with a stronger association or a combination of these.

NOTE: The information in this pamphlet is based upon the charter, by-laws, rules and regulations of the Maryland Savings-Share Insurance Corporation which are subject to amendment from time to time, and are available at the office of the Maryland Savings-Share Insurance Corporation, 901 North Howard Street, Baltimore, Maryland 21201.

MSSIC ASSOCIATIONS OFFERING VARIABLE RATE NOW/SAVINGS ACCOUNTS

Admiral-Builders Savings and Loan Association
7699 Harford Road
Baltimore, Maryland 21234
(301) 661-3230
Contact Person: Walter R. Klohr, Jr.
"Executive II Statement Savings"
"Money Market Passbook"

First Maryland Savings and Loan, Inc.
2500 Davidsonville Road
Crofton, Maryland 21114
(301) 721-7300
Contact Person: Michael S. Hollins
"NOW Account"

Chesapeake Savings and Loan Association
2068 Somerville Road
Annapolis, Maryland 21401
(301) 266-8080
Contact Person: Judith H. Miles
"Executive II Funds Management Account"

First Progressive Savings and Loan
Association
229 East Main Street
Westminster, Maryland 21157
(301) 876-1511
Contact Person: Paul R. Freeman
"Variable Rate NOW Account"

Community Savings and Loan, Inc.
1914 Montgomery Village Avenue
Gaithersburg, Maryland 20760
(301) 948-8800
Contact Person: John D. Faulkner, Jr.
"Community Daily Money Account"

Friendship Savings and Loan, Inc.
5415 Friendship Boulevard
Chevy Chase, Maryland 20015
(301) 656-7100
Contact Person: Sharon S. Riley
"Insured Money Market Account"

Custom Savings Association
1013 Reisterstown Road
Pikesville, Maryland 21208
(301) 486-5200
Contact Person: Barry Renbaum
"Cash Fund Account"

Government Services Savings and Loan, Inc.
7200 Wisconsin Avenue
Bethesda, Maryland 20014
(301) 986-6600 OR (301) 792-0013
(800) 638-8072
Contact Person: Alexander R. M. Boyte
"Insured Money Fund Account"

Eastern Savings and Loan Association
15 Walker Avenue
Baltimore, Maryland 21208
(301) 486-6800
Contact Person: Michael D. Surgen
"Eastern Money Market Account"

Liberty Savings and Loan Association
9337 Liberty Road
Randallstown, Maryland 21133
(301) 922-3500
Contact Person: Lynda Nusinov
"Liquid Asset Money Fund"

Fairfax Savings Association
17 Light Street
Baltimore, Maryland 21202
(301) 659-0800
Contact Person: Allen L. Hardester, Jr.
"Asset Growth Fund"

Merritt Savings and Loan, Inc.
6 St. Paul Street
Baltimore, Maryland 21202
(301) 752-4533
Contact Person: Milton Sommers
"Money Market Fighter"

Municipal Savings and Loan Association
115 East Joppa Road
Towson, Maryland 21204
(301) 828-1800
Contact Person: John W. Shilling, Jr.
"Municipal's Money Fund"

Old Court Savings and Loan, Inc.
25 Light Street
Baltimore, Maryland 21202
(301) 727-3357
Contact Person: Billy P. Cuzzart
"Premium Investment Account"

Regal Savings and Loan Association
10123 Reisterstown Road
Owings Mills, Maryland 21117
(301) 363-1772
Contact Person: Stewart D. Sachs
"Asset Account"

Security Savings and Loan, Inc.
4 East Franklin Street
Baltimore, Maryland 21202
(301) 727-5514
Contact Person: Zell C. Hurwitz
"Ready Asset II"

Severn Savings Association
1726 West Street
Annapolis, Maryland 21401
(301) 268-4554
Contact Person: Bradford Towne
"Insured Money Fund"

Sharon Savings and Loan, Inc.
4 East Franklin Street
Baltimore, Maryland 21202
(301) 727-4415
Contact Person: Zell C. Hurwitz
"Ready Asset II"



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE MARYLAND 21202
SEVENTH FLOOR
301 656-6330

JOHN J. CORBLEY
SECRETARY

January 11, 1984

Mrs. Wilma G. Nesley
4032 Moss Place
Alexandria, Virginia 22304

Dear Mrs. Nesley:

Your recent letter to the Maryland State Bank Commissioner has been referred to this Division for reply.

The Custom Savings Association is a State-chartered association with assets of approximately \$120 million. The association is regulated by this Division. The association is operated in accordance with the laws of the State of Maryland and the rules and regulations of the Board of Savings and Loan Association Commissioners. The association is profitable and presents no supervisory problems to the Division.

Savings accounts of Custom are insured by the Maryland Savings-Share Insurance Corporation. The corporation, referred to as MSSIC, was created by the Maryland State Legislature in 1962 for the purpose of insuring the savings accounts of State-chartered associations. Although created by the State Legislature, the corporation is not an agency of the State of Maryland, nor is the insurance of savings accounts backed by or guaranteed by the State of Maryland. The corporation insures each savings account up to \$100,000, which is similar to the insurance by the Federal Savings and Loan Insurance Corporation.

You enclosed with your letter a copy of an ad relative to the Insured Cash Fund of the association. I have no idea when this ad was published or whether it was received by you from the association. I note, however, the rate in the ad is guaranteed through January 1, 1984. You indicate that you cannot find anything in their literature regarding notification to you if and when the rate is reduced to a lower figure. As the ad indicates, the Cash Fund is a daily variable rate statement account, which rate can change daily. I would suggest, therefore, that you contact the association to determine what rate you are now receiving so that you will know exactly the return you can expect on your account.

A32328

Mrs. Wilma G. Nesley
January 11, 1984
Page Two

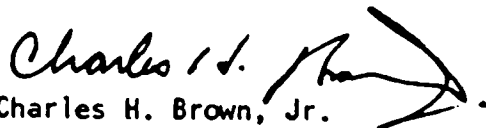
In reply to your question regarding taxes, there will be Maryland income taxes payable on your deposits inasmuch as you are a resident of Virginia.

I am somewhat concerned about the comments in your letter with regards to the association. I plan to contact the association regarding the handling of your account, which apparently left something to be desired.

I hope I have answered your inquiry. If you have any questions, however, regarding the Insurance corporation, I would suggest you write them at the address below:

Maryland Savings-Share Insurance Corporation
Baltimore Life Building
901 North Howard Street
Baltimore, Maryland 21201

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:kg

A32399

3120



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301 659-6330

FREDERICK L. DEWBERRY
SECRETARY

November 7, 1984

Mr. Ray E. Brown
R.D. #1, Box 230
Towanda, Pennsylvania 18848

Dear Mr. Brown:

I have your letter of October 25, 1984 requesting information on the Eastern Savings Association and Custom Savings Association, both located here in Baltimore.

Both institutions are State-chartered savings and loan associations regulated by this Division. Eastern has assets of approximately \$104 million, and Custom has assets of approximately \$297 million. Both associations are profitable.

Savings accounts at both associations are insured by the Maryland Savings-Share Insurance Corporation. The corporation, referred to as MSSIC, was created by the State Legislature in 1962 for the purpose of insuring savings accounts of State-chartered savings and loan associations. Although created by the State Legislature, MSSIC is not a State agency nor is the insurance of accounts backed or guaranteed by the State of Maryland. MSSIC is a private corporation owned by the membership consisting of 102 State-chartered associations. Under Maryland law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining directors are elected by the membership.

The insurance of savings accounts by MSSIC is similar to that of the Federal Savings and Loan Insurance Corporation in that accounts are insured up to \$100,000. Under the MSSIC plan each account is insured, whereas under the FSLIC plan the insurance is also \$100,000, but the insurance is based upon the ownership of an account or accounts. Also, FSLIC is an agency of the federal government.

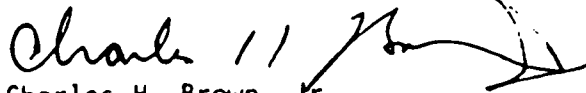
A32432

Mr. Ray E. Brown
November 7, 1984
Page Two

I trust I have answered your inquiry. If you have any further questions about the insurer, I would suggest you contact them at the address below:

Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,



Charles H. Brown, Jr.
Director

CHB:kg

A32433

3128



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301 659-6330

FREDERICK L. DEWBERRY
SECRETARY

November 7, 1984

Mr. Stephen F. Johnsen
24 Doty Avenue
Danvers, Massachusetts 01923

Dear Mr. Johnsen:

Your letter of October 10, 1984 to the Maryland Attorney General, Office of Consumer Protection, has been referred to this Division for reply.

Old Court Savings Savings and Loan Association is a State-chartered association with assets of approximately \$600 million and which is regulated by this Division. The association is one of the larger associations here in the Baltimore area and is quite profitable in its operations.

Savings accounts at Old Court are insured by the Maryland Savings-Share Insurance Corporation. The corporation, referred to as MSSIC, was created by the State Legislature in 1962 for the purpose of insuring savings accounts of State-chartered savings and loan associations. Although created by the State Legislature, MSSIC is not a State agency nor is the insurance of accounts backed or guaranteed by the State of Maryland. MSSIC is a private corporation owned by the membership consisting of 102 State-chartered associations. Under Maryland law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining directors are elected by the membership.

The insurance of savings accounts by MSSIC is similar to that of the Federal Savings and Loan Insurance Corporation in that accounts are insured up to \$100,000. Under the MSSIC plan each account is insured, whereas under the FSLIC plan the insurance is also \$100,000, but the insurance is based upon the ownership of an account or accounts. Also, FSLIC is an agency of the federal government.

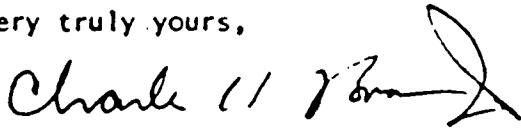
A32453

Mr. Stephen F. Johnsen
November 7, 1984
Page Two

I trust I have answered your inquiry. If you have any further questions about the insurer, I would suggest you contact them at the address below:

Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,



Charles H. Brown, Jr.
Director

CHB:kg

A32454

3139

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERS BUILDING - STATE ROOM
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301 659-6330

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

February 15, 1985

Joseph A. Nitti, Esq.
2116 Merrick Avenue
Merrick, New York 11566

Dear Mr. Nitti:

Your letter of February 5th to the Department of Licensing and Regulation has been referred to this Division for reply.

The Division of Savings and Loan Associations regulates 104 associations which are insured by the Maryland Savings-Share Insurance Corporation. These institutions are examined periodically by this Division to assure that they are operating in accordance with the laws of the State of Maryland and the rules and regulations of the Division of Savings and Loan Associations.

Savings accounts at these institutions are insured by the Maryland Savings-Share Insurance Corporation. This corporation, referred to as MSSIC, was created by the State Legislature in 1962 for the purpose of insuring savings accounts at State-chartered associations not federally insured. Although created by the State Legislature, the corporation is not an agency of the State of Maryland nor is the insurance of savings accounts guaranteed or backed by the State of Maryland. Under Maryland law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining directors are elected by the membership. The Division of Savings and Loan Associations has no jurisdiction over the insurer in the day to day operations. It is a private corporation and, of course, has its own rules and regulations. Both this Division and the insurer do have the authority to regulate borrowing and lending procedures at our State-chartered institutions. Both agencies have very specific regulations which the institutions are required to follow.

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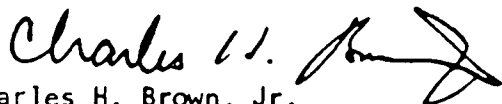
Joseph A. Nitti, Esq.
February 15, 1985
Page Two

The program you referred to on television "60 Minutes" has raised a lot of questions as to the safety of associations that are not federally insured. I would like to mention that the assets of the insurer in Nebraska, I understand, were only about \$1.5 million and such being the case, they were severely undercapitalized. It should be noted also that the institution that failed in Nebraska was not a savings and loan association but was considered an industrial bank. However, I am not sure of the meaning of industrial bank as pertains to the State of Nebraska. I can say that here in Maryland the Maryland Savings-Share Insurance Corporation has assets of approximately \$183 million and is well capitalized compared to the situation in Nebraska. I might also mention that with all of the problems throughout the country in the savings and loan industry, the State of Maryland has not lost a single association.

I trust I have answered your inquiry. If you have any further questions about the insurer, I would suggest that you contact them at the address below:

Mr. Charles Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,



Charles H. Brown, Jr.
Director

CHB:kg

3132

A321S3

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301/659-6330

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

February 21, 1985

Mr. Saul J. Mindel
3513 Tarkington Lane
Silver Spring, Maryland 20906

Dear Mr. Mindel:

Attorney General Stephen H. Sachs has requested that this agency respond to your recent letter concerning the television program "60 minutes" that has raised many questions about our State-chartered savings and loan associations that have deposit insurance through the Maryland Savings-Share Insurance Corporation.

The failed institution in Nebraska which was the subject of this particular program was not a savings and loan association but was an industrial loan bank. From what I understand, there appeared to be very little regulation of this particular type of institution in Nebraska. The deposits were apparently insured by a private insurance company which was not backed by either the federal or the state government. The total resources of the insurer were about \$1½ million, and obviously it was severely undercapitalized.

State-chartered savings and loan industry in Maryland, consisting of 13 associations insured by the Federal Savings and Loan Insurance Corporation and 104 associations insured by the Maryland Savings-Share Insurance Corporation, are all regulated and examined by this Division. The Financial Institutions Article of the Annotated Code of Maryland requires that all State-chartered associations be examined at least every two years and we currently examine our institutions approximately every fourteen to fifteen months. Our examinations are made to insure that associations are operating under the laws of the State of Maryland and the rules and regulations of the Board of Savings and Loan Association Commissioners.

Savings accounts of the 104 non-federally insured institutions are insured by the Maryland Savings-Share Insurance Corporation (MSSIC), which was created by the State Legislature in 1962. MSSIC, although created by the State Legislature, is not a State agency nor is the insurance of accounts guaranteed or

A32190

Mr. Saul J. Mindel
February 21, 1985
Page Two

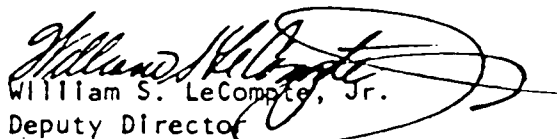
backed by the State of Maryland. Under Maryland law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining directors are elected by the member associations in MSSIC.

In addition to our examinations, MSSIC makes periodic examinations on a random basis or to obtain specific information concerning something that they have noticed in a report filed by an institution. The examinations by this Division are shared with MSSIC. Additionally, monthly financial reports are filed by each association with this Division and the insurer. Associations with assets in excess of \$5 million are required to have an annual audit performed by a certified public accountant, and a copy of this audit report is furnished to both this office as well as MSSIC.

The assets of the State-chartered industry in Maryland approximate \$10.5 billion, which includes approximately \$1.5 billion in assets of the federally insured institutions. MSSIC is insuring savings accounts in excess of \$7 billion based upon aggregate savings as of November 30, 1984. The assets of the corporation as of November 30, 1984 were approximately \$183 million. The insurance fund of the corporation at the same date was approximately \$145 million with an additional \$80 million in what is referred to as a Central Reserve Fund used for liquidity purposes. Additionally, the corporation has a line of credit with several banks amounting to \$60 million. You can see the Maryland Savings-Share Insurance Corporation is well capitalized when you compare it with the insurer in Nebraska who had assets of approximately \$1½ million.

I trust this satisfactorily addresses your questions concerning MSSIC insurance. For your review, I am also enclosing a very recent article which appeared in the Evening Sun. If I can be of any further assistance, please do not hesitate to contact me.

Very truly yours,


William S. LeCompte, Jr.
Deputy Director

WSL:sdb

A32191

3134

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301 659-6330

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

March 21, 1985

Mr. Carl R. Reiner
Route 1, Box 227
Riverview Terrace
St. Michaels, Maryland 21663

Dear Mr. Reiner:

Your letter of March 1, 1985, to the Commissioner of Banks concerning the Maryland Savings-Share Insurance Corporation has been referred to this Division for reply.

All State-chartered associations are regulated by this Division, which is an agency of the State of Maryland. The Division makes periodic examinations of all of our associations to determine that these institutions are operating within the laws of the State of Maryland and the rules and regulations of the Board of Savings and Loan Association Commissioners. In addition to the periodic examinations, we receive monthly reports on the operations of each association so that we can determine the status of each association between examination dates.

The Maryland Savings-Share Insurance Corporation, referred to as MSSIC, was created in 1962 by the State Legislature for the purpose of insuring savings accounts of State-chartered savings and loan associations which were not federally insured. Although created by the State Legislature, the corporation is not an agency of the State of Maryland nor is the insurance of accounts guaranteed or backed by the State. Under Maryland law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the corporation. The remaining directors are elected by the membership consisting of the 103 State-chartered associations insured by it.

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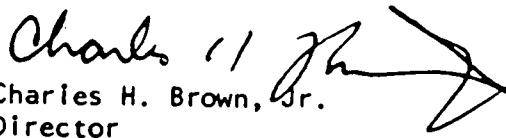
Mr. Carl R. Reiner
March 21, 1985
Page Two

Savings accounts at State-chartered associations are insured up to \$100,000, which is similar to that of the Federal Savings and Loan Insurance Corporation. The corporation is well capitalized and we feel it can meet its obligations with respect to the insurance of accounts. This Division and MSSIC work hand in hand in the supervision of the State-chartered industry. The two agencies exchange information on our associations so that we may be assured of a safe and sound operation.

I trust I have answered your inquiry. If you have any further questions on the insurer, I would suggest you contact them at the address below:

Mr. Charles C. Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:kg

A32163-

3136



FREDERICK L. DEWBERRY
SECRETARY

STATE OF MARYLAND

CHARLES H. BRC
DIRECTOR

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301/659-6330

WILLIAM S. LECOMP
DEPUTY DIRECTOR

March 27, 1985

Mr. and Mrs. Harry E. Mitchell
115 Channel Buoy Road
Ocean City, Maryland 21842

Dear Mr. and Mrs. Mitchell:

I have your letter of March 20, 1985 which was addressed to the State Bank Commissioner and which was referred to this Division for reply.

The Maryland Savings-Share Insurance Corporation, which insures savings accounts of State-chartered institutions which do not have federal insurance, was created by the State Legislature in 1962 for the aforementioned purpose. Although the corporation was created by the State Legislature, it is not an agency of the State, nor is the insurance of accounts guaranteed or backed by the State. The corporation, referred to as MSSIC, insures each account in each institution up to \$100,000. You, individually or jointly with your wife, may have any number of accounts that will be insured, providing each account does not exceed \$100,000. You may also have accounts in two or more institutions and the accounts would be insured, again providing they do not exceed \$100,000.

I trust I have answered your inquiry. If you have any further questions, I would suggest you contact the insurer at the address below:

Mr. Charles C. Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,

Charles H. Brown, Jr.
Director

CHB:kg

BALTIMORE METRO AREA 659-6330
OUTSIDE BALTIMORE METRO AREA
TOLL-FREE 1-800-452-7521

3137

A32161

TTY FOR DEAF
BALTO. AREA 383-7555
D. C. METRO 565-0451

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES M. BROWN,
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301/659-6330

WILLIAM S. LECOMPTE,
DEPUTY DIRECTOR

March 27, 1985

Mr. Robert A. Lee
Carlton, Lee & Co., Inc.
105 North Pine Street
Warsaw, North Carolina 28398

Dear Mr. Lee:

I have your letter of March 19, 1985 relative to funds of your clients invested in State-chartered savings and loan associations, in particular Community Savings & Loan, Inc. here in Maryland.

The "Ohio" situation has caused some concern of depositors in our institutions inasmuch as savings accounts in State-chartered associations in Ohio were insured by the Ohio Deposit Guaranty Fund, which is similar to that of the Maryland Savings-Share Insurance Corporation here in Maryland.

The Maryland Savings-Share Insurance Corporation, referred to as MSSIC, was created by the Maryland State Legislature in 1962 for the purpose of insuring savings accounts at State-chartered savings and loan associations that were not insured by the Federal Savings and Loan Insurance Corporation. Although created by the State Legislature, MSSIC is a private corporation and is not an agency of the State of Maryland, nor is the insurance of savings accounts backed or guaranteed by the State. By Maryland law the Governor of the State of Maryland does appoint three consumer or public interest members to the Board of Directors of the corporation. The remaining members are elected by the membership. The insurance by MSSIC is similar in some respects to that of the FSLIC. However, under the MSSIC insurance plan each account is insured up to \$100,000.

Although we are not exactly sure what happened in Ohio, it appears from what we read that the association borrowed rather heavily, 50% of their assets, from the brokerage firm and pledged certain investments as

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Mr. Robert A. Lee
March 27, 1985
Page Two

collateral for the loan. Since the brokerage firm was closed by the S.E.C. and is apparently in bankruptcy, the collateral for the loan made by the association is not available and which created a sizable loss to the association. While the Ohio Institution did borrow 50% of their assets from the brokerage firm, here in Maryland our Insurer, MSSIC, does have a regulation which prohibits an institution from borrowing more than 15% of their liabilities from any source. While we are not sure what the Ohio regulations were, we do feel that our Insurer does have some control over the aggregate amount of borrowings that may be made by an association, which is considerably less than the situation in Ohio.

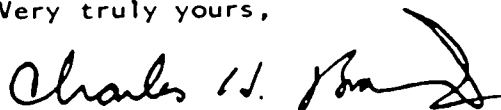
Based upon the assets, the insurance fund, the liquidity fund and other sources available, we feel that the Insurer, MSSIC, can meet its obligations with regards to the insurance of savings accounts at our State-chartered industry.

The Community Savings & Loan, Inc. is an association with approximately \$600 million in assets and presents no supervisory problems to the regulator. In response to your comment, "What steps, if any, do you anticipate taking to preclude a similar situation in Maryland?", I can only state that whenever a situation occurs such as that in Ohio, all regulators will take steps to more closely monitor the institutions that they regulate.

I trust I have answered your inquiry. If you have any further questions on the insurer, I would suggest that you contact them at the address below:

Mr. Charles C. Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,



Charles H. Brown, Jr.
Director

CHB:kg

3139

A32159

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN,
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301 659-6330

WILLIAM S. LECOMPTE,
DEPUTY DIRECTOR

April 1, 1985

First Baptist Church of Dover
Corner Division and Bradford Streets
Dover, Delaware 19901

Attention: Mr. Harry Britt, Treasurer

Dear Mr. Britt:

This is in reply to a letter dated March 22, 1985 from Mr. William P. Livingston with regards to the Second National Building & Loan, Inc.

Second National Building & Loan is a State-chartered association with assets of approximately \$531 million which is regulated by this Division. The association is well run, profitable and presents no supervisory problems to the Division.

Savings accounts at Second National are insured by the Maryland Savings-Share Insurance Corporation. The corporation, referred to as MSSIC, was created by the State legislature in 1962 for the purpose of insuring savings accounts of State-chartered savings and loans which were not federally insured. The corporation, although created by the State legislature, is not an agency of the State of Maryland, nor is the insurance of savings accounts backed or guaranteed by the State. However, under Maryland law the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of MSSIC. Savings accounts at the association are insured up to \$100,000 for each account. The insurance is similar in most respects to the insurance by the Federal Savings and Loan Insurance Corporation. However, the FSLIC is an agency of the U. S. government.

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A32152

Mr. Harry Britt, Treasurer
April 1, 1985
Page Two

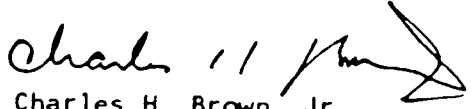
Should there be a problem at an association, the insurer and this Division would merge a weak association with a strong association so that your savings account would then continue with the merged institution. If it was necessary to liquidate an association, this does not mean that there would be a total loss of savings at the disappearing association. The assets would be sold and MSSIC, the insurer, would make up the difference between the proceeds of the sale of the assets and that due each depositor. I would like to point out, however, that the liquidation of any association would be as a last resort, as there are other remedies that can be used by the insurer and by the regulator.

Knowing that you are somewhat upset in view of the savings and loan situation in the State of Ohio, we feel that this is a situation peculiar to the association involved. We are confident that a similar situation could not happen in Maryland, and we are equally confident that the Maryland Savings-Share Insurance Corporation can meet its obligations with respect to the insurance of savings accounts in our State-chartered system.

I trust I have answered your inquiry. If you have any further questions regarding the insurer, I would suggest you contact them at the address below:

Mr. Charles C. Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:kg

~~A32153~~

3141

LARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301 659-6330



FREDERICK L. DEWBERRY
SECRETARY

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

April 8, 1985

Mr. Edward J. Augustine
P. O. Box 17253
Phoenix, Arizona 85011

Dear Mr. Augustine:

Your letter of March 25, 1985 to Margie H. Muller, Bank Commissioner for the State of Maryland, has been referred to this Division for reply. Old Court Savings and Loan, Inc. is a State-chartered savings and loan association with assets of approximately \$850 million. Old Court is one of our larger institutions.

All State-chartered associations are regulated by this Division which is an agency of the State of Maryland. The Division makes periodic examinations of all of our associations to determine that these institutions are operating within the laws of the State of Maryland and the rules and regulations of the Board of Savings and Loan Association Commissioners. In addition to the periodic examinations, we receive monthly reports on the operations of each association so that we can determine the status of each association between examination dates.

Savings accounts at most State-chartered associations are insured by the Maryland Savings-Share Insurance Corporation. This corporation, generally referred to as MSSIC, was created by the Maryland State Legislature in 1962 for the purpose of insuring savings accounts of State-chartered savings and loan associations which were not federally insured. The corporation, although created by the State Legislature, is not an agency of the State of Maryland nor is the insurance of accounts backed or guaranteed by the State. MSSIC is a private corporation owned by the membership consisting of 103 State-chartered associations insured by the corporation. Under Maryland law, the Governor of the State of Maryland does appoint three public interest or consumer members to the Board of Directors of the insurer. The remaining directors are elected by the membership.

Mr. Edward J. Augustine
April 8, 1985
Page Two

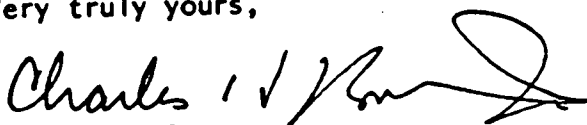
Under the MSSIC insurance plan each savings account in an association is insured up to \$100,000. The insurance is similar to that of the Federal Savings and Loan Insurance Corporation with respect to the amount of insurance. I might mention, however, that the FSLIC is an agency of the U. S. government.

This Division and MSSIC work hand in hand in the supervision of the State-chartered industry. The two agencies exchange information on our associations so that we may be assured of a safe and sound operation.

I trust I have answered your inquiry. If you have any further questions on the insurer, I would suggest you contact them at the address below:

Mr. Charles C. Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:kg

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES M. BROWN, JR.
DIRECTOR



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301 659-6330

FREDERICK L. DEWBERRY
SECRETARY

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

April 12, 1985

MSIC

Delegate Virginia M. Thomas
6153 Forty Winks Way
Columbia, Maryland 21045

Dear Delegate Thomas:

This is in reference to the recent inquiry from your office concerning the soundness of the Maryland chartered savings and loan industry. I understand that your office has received numerous calls from constituents as a result of the recent failure and closing of Home State Savings and Loan in Ohio.

Enclosed are several articles concerning the Ohio situation. By way of an oversimplification, Home State was highly leveraged and significantly over-invested with a Florida based securities firm known as E.S.M. Government Securities Inc. (ESM). EMS failed with losses estimated from \$300 million to \$315 million. There are numerous allegations of impropriety made against ESM, including fraud and misappropriation.

Home State reportedly had borrowings of some \$670 million with ESM. This appears to be an unreasonable concentration, when you consider that Home State had total savings of only about \$668 million. Home State's losses from ESM were estimated at \$150 million, whereas their reserves were somewhat less than \$20 million.

The deposits of Home State were insured by the Ohio Depository Guarantee Fund (ODGF). This private insurance fund had reported reserves of about \$136 million. Obviously, the failure of Home State decimated the insurance fund. With media coverage, runs began to occur in the 70 other Ohio associations with deposit insurance through ODGF. On March 15, 1985, Governor Richard Celeste closed these institutions by declaring a 3-day "bank holiday".

3141

A32139

CD

Page 2

April 12, 1985

Re: Letter to Delegate Virginia M. Thomas

Presently, there are 115 Maryland State-chartered associations which are regulated and examined by this Division. The Financial Institutions Article of Maryland requires that all State associations be examined at least once every two years. The Division currently examines each institution on an 12-15 month basis. The examinations are made to insure that the associations are operating in accordance with applicable State laws and regulations and are operationally sound. In addition to our examinations we also receive a financial statement each month from every association. This monthly report enables our agency to detect early any adverse trends in an association's operation. Also, under Division regulations all institutions of over \$5 million in assets are required to obtain an annual certified audit from a certified public accounting firm.

Insurance of savings accounts for 102 associations in Maryland is provided by the Maryland Savings-Share Insurance Corporation (MSSIC). Although this corporation was created by the State Legislature in 1962, it is not a State agency nor is the insurance of the accounts backed or guaranteed by the State of Maryland. Under Maryland law the Governor of the State does appoint three public interest members to the Board of Directors of MSSIC, with the remaining eight directors being elected from the member associations.

This Division and MSSIC work very closely in monitoring the operation of the MSSIC insured system. MSSIC receives copies of our examination reports and also conducts random and special examinations of its member institutions. MSSIC also receives copies of the monthly operating reports filed by each association as well as copies of the association's audit report from the certified public accountants. MSSIC does issue rules and regulations to which their members must comply.

With respect to the problems encountered by Home State Savings and Loan in Ohio, it is significant to note that MSSIC has a guideline which limits borrowings to 15%, whereas Home State had roughly 50% borrowings. Both MSSIC and this Division have many regulations which prohibit undue concentrations of lending or borrowing. As you are probably aware, there were three (3) pieces of legislation which were just recently passed by the General Assembly to augment the regulatory power of the Savings and Loan Division.

In conclusion, the Maryland savings and loans are actively regulated, examined and audited to safeguard against any problems such as those encountered in Ohio. The industry is profitable and MSSIC does have significant resources to assist in resolving any problem that may occur. I am enclosing a somewhat recent article which ran in the Sunpapers which discusses MSSIC and its resources.

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A32140


Page 3

April 12, 1985

Re: Letter to Delegate Virginia M. Thomas

I trust that this response is satisfactory to your inquiry. If you, or any of your constituents, would have any further questions, please do not hesitate to contact this office.

Very truly yours,


William S. LeCompte, Jr.
Deputy Director

WSL:sdb

Enclosures

cc: Charles H. Brown, Jr.

3146

A32141

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4078
301 659-6330

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

April 19, 1985

Mrs. Helena M. List
5704 Gischel Street
Baltimore, Maryland 21225

Dear Mrs. List:

Your letter of March 24, 1985 to Senator Mathias has been referred to this Division for reply.

Savings accounts with State-chartered institutions are insured by the Maryland Savings-Share Insurance Corporation. This insurance applies to those institutions that are not federally insured. The insurer, referred to as MSSIC, was created by the State Legislature in 1962 for the purpose of insuring savings accounts of State-chartered institutions that were not federally insured. Although created by the State Legislature, the insurance of savings accounts is not guaranteed or backed by the State of Maryland, nor is the corporation an agency of the State. Although a private corporation, the Governor under Maryland law does appoint three consumer or public interest directors to the Board of the corporation.

Savings accounts are insured up to \$100,000. Under the MSSIC plan each account in an association is insured to a maximum of \$100,000. This means, of course, that you as an individual could have two or more accounts in any one association and each account would be insured up to \$100,000.

To respond to several questions asked Senator Mathias, there are five states which authorize a private insurance fund, i.e., Ohio, Massachusetts, Pennsylvania, North Carolina and Maryland. In the State of Maryland it is optional on the part of an institution as to the type of insurance they desire to carry. Maryland law does require that there be insurance by either the Federal Savings and Loan Insurance Corporation or the Maryland Savings-Share Insurance Corporation. Many of our associations chose to accept the MSSIC plan. Of course, there are many institutions in Maryland that are insured by the Federal Savings and Loan Insurance Corporation. The MSSIC plan which was adopted in 1962

Mrs. Helena M. List
April 19, 1985
Page Two

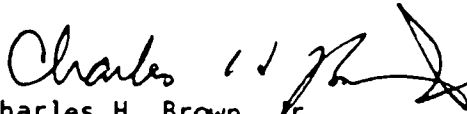
did permit many, many associations in existence in 1961 to have some form of insurance for their savings accounts. At that time many associations in Maryland were small neighborhood institutions that were operating only one night a week and perhaps did not have a ground floor location. With this type of operation, they would not have been qualified for federal insurance nor would they be qualified today, as one of the requirements for federal insurance is that an association have a full-time operation and that their office be located on a ground floor level.

I know that since the Ohio situation last month there is some concern on the part of some depositors as to the safety of funds with State-chartered associations which are insured by MSSIC. I can only say with respect to your concern that I am confident that MSSIC can meet its obligation with respect to insurance of your account and others. You are, of course, free to choose any institution that you desire for your deposits and if you have any concern about your present institution, you do have the liberty to transfer your account to a federally insured institution.

I trust I have answered your inquiry regarding the institutions in Maryland. If you have any further questions about the insurance of your account, I would suggest you get in touch with the insurer at the address below:

Mr. Charles C. Hogg, President
Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Baltimore, Maryland 21202

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:kg

3148

A32131



THE



Serving Harford County, Md

Thursday, December 20, 1984

THE AEGIS

County faces lawsuit for halting building permits

The county government is on the verge of being sued by a local commercial developer who claims he is being illegally denied building and occupancy permits for two structures on the grounds his property does not come proper zoning for those uses.

A lawyer for Steven R. Hankins, the developer, confirmed Tuesday that he would file suit against the County in Circuit Court either Wednesday or Thursday after the Freeman administration failed to meet its deadline for resolving the matter.

The lawsuit, written by Melmore, Pa. attorney Warren A. Shouse, P.A., said he will ask the Court to issue an injunction ordering the County to issue the disputed building permits and will seek monetary damages for the allegedly costly delays caused his client by the dispute. The suit had not been filed as of this week's Aegis deadline at noon Wednesday.



STEVEN R. HANKINS

County officials acknowledged last week that they were refusing to release a building permit sought by McDonalds Corporation which has

leased a lot in Mr. Hankins' Emmorton Business Park near the interchange of I-95 and Route 24 and had planned to

(Continued on Page A-23)

“My client feels he has been betrayed by the County Economic Development Department which is supposed to be encouraging projects of this nature, and he stands to lose several million dollars as the result of this action.”

Attorney Warren M. Kolwasky

”



A BICENTENNIAL end was a special Methodist Church

You may not know it, but police

By Michele Dietz

Did you ever wonder, while talking on the phone with someone, whether or not you were being tape recorded?

Better yet, have you ever said something embarrassing during a phone conversation, and then realized you actually were being tape recorded?

This may happen to Harford Countians now, if they call certain police departments in the county.

With the installation of the 911 emergency calling system here in October, each of the five police depart-

ments serving Harford County received a tape recording machine, automatically designed to record all calls coming in on 911 lines.

But the machine also has the ability to tape calls coming in on other emergency, and non-emergency lines as well — it just depends on whether the various police agencies in the county decide that they want this service.

And that decision, or rather the carrying out of that decision, has been as varied as the five police agencies themselves.

No. For example, if you call the police, you will be tape recorded. But if you call the fire department, you will not be tape recorded. If you call the police through 911, you will be tape recorded. If you call the police through 911, you will be tape recorded.

IN BRIEF



ROUND BALL — Area high school teams got together last week for a full slate of basketball games. The action continues tonight with the finals in the girl's invitational tournament in Havre de Grace. Page E-7.

SEASON'S SEAFOOD — Don't forget seafood when planning your holiday fare. Page C-7.



POSITIVE — Army National Guard Lt. Col. Bruce Hart, a former



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County sued after permits for buildings are withheld

(Continued from Page A-1)

Build a fast food restaurant on the site. It was also confirmed that Mr. Hankins has been told by the County that he cannot expect to receive use and occupancy permits for a two-story office building for which he previously received a building permit. The office building is about 85% complete.

According to Mr. Kowalsky, the dispute centers around what the lawyer said is a "reinterpretation" of the zoning code made by the County Planning Department in early November and subsequently backed by an opinion from the County Law Department and by County Executive Habern W. Freeman personally.

"We maintain the reinterpretation is totally wrong, and the County is acting illegally and arbitrarily," said the lawyer. "My client feels he has been betrayed by the County Economic Development Department which is supposed to be encouraging projects of this nature, and he stands to lose several million dollars as a result of this action."

The 30-year-old developer who has lived in the county for 25 years burst on the commercial development scene here this year with heavy financial backing from Old Court Savings and Loan, a Baltimore financial institution which has become heavily involved in highly speculative commercial and residential development ventures here and elsewhere in the state.

The 56-acre Emmorton project is just one of several in which Mr. Hankins is involved. Another is an office building currently under construction in downtown Bel Air just across the street from the main Harford County office building.

During a reception at the Emmorton project two weeks ago, Mr. Hankins attributed the County's actions against him to attempts by unnamed competitors to undermine his projects here.

The first phase of the Emmorton project also contains a 30,000 square foot warehouse/industrial building and a motel which have both been completed. Mr. Hankins recently applied for a \$1.5 million County industrial revenue bond to finance construction of a second industrial building in the park which he intends to use for the manufacture of modular housing units.

According to documents on file in the County Planning and Zoning Office, Mr. Hankins received all requisite site and development plan approvals for the restaurant and office building after a series of in-house reviews conducted by that department

and others between February and July.

Mr. Kowalsky insisted that County officials were well aware throughout that review period that Mr. Hankins intended to put an office building and a restaurant on lots three and four respectively in the project's first phase.

He cited numerous newspaper articles on the project which prominently mentioned McDonalds as well as a quarterly newsletter published by the County Economic Development Office last summer that also said the nationally known chain was going to build a restaurant in the park.

Development plans for the project which were reviewed and approved by the County also showed "the exact configuration for a fast food restaurant," Mr. Kowalsky added.

According to the lawyer, in early November Mr. Hankins received a telephone call from County Planning and Zoning Director Robert Lynch in which he was informed that "the office building building permit had been issued in error, and that my client would be proceeding at his own risk with the likelihood he would not be issued use and occupancy permits for tenants."

He (Hankins) was also informed by Mr. Lynch that because of a subsequent reinterpretation of the zoning code by the department, a building permit would not be issued for the McDonald's project.

Mr. Kowalsky said both he and his client held subsequent meetings with County officials including Mr. Lynch and the County Executive, but those talks failed to produce any resolution of the dispute. The County was apparently notified two weeks ago that a lawsuit to resolve the matter would follow.

The reinterpretation, according to one zoning official knowledgeable in the matter, concerns sections in the code relating to general industrial districts which specifically state up to 10% of gross land area can be used for so-called services and 5% used for personal services and retail uses.

Mr. Kowalsky said the code places a restaurant as a service use.

One informed source said Mr. Hankins was told by Planning and Zoning staff throughout the winter, spring and summer review process that the office building and restaurant met the code's percentage criteria, written criteria which would normally override a chart elsewhere in the code which does not list either offices or restaurants as a permitted uses in the CI zone.

The Emmorton Business Park property carries CI zoning, and records

show that prior development plans for the project showing a proposed restaurant actually date back to 1976 when another owner received a preliminary approval from the County for a business park on the property.

Mr. Kowalsky said the Planning Department has now decided that any restaurant or office use in a CI zone must be "auxiliary" to a permitted building and not a single use by itself in a building.

According to the lawyer, Mr. Freeman told him in a subsequent meeting that he had received an verbal opinion from the County Law Department to that effect. A written opinion was produced after that meeting, he added.

"Nowhere in the code does it state that these uses have to be 'auxiliary' to a permitted building," said Mr. Kowalsky. "The County in effect manufactured a reason to stop my client."

In an interview last week, Mr. Freeman said he was legally bound to follow the position of his Law and Planning Departments in the matter, but he offered to support legislation that would specify that an office building can be a permitted use in the CI zone.

"I think there was an oversight when the code was drafted," the Executive told *The Aegis*. "There is no reason why you should keep office buildings out of an industrial or business park. That was a mistake we can correct with legislation."

He added, however, that he agrees with the interpretation regarding the McDonalds issue.

"Fast food restaurants and other retail uses do not belong in commercial/industrial parks unless you are going to make them a part of another building, like a motel coffee shop," said the Executive. "I really have a problem with allowing wholesale commercial/retail development in the CI zone."

Mr. Freeman also said he was aware of the lawsuit threats, "but we told Hankins and Kowalsky repeatedly to provide us with documentation of their claims, and they never did. We never even saw a lease with McDonalds."

Mr. Kowalsky later said the restaurant chain signed a 20-year ground rent lease with SRH Investments, Mr. Hankins' development firm, in late June. He also said the company is backing his client's stand on the building permit issue "100%."

North Harford loc

Over \$200 in property was reported stolen from lockers at North Harford High School on Thursday. Police said a radio, tape and head-

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\$175 stolen from

The theft of \$175 from an office at Fallston High School was reported Thursday to Maryland State Police. Two suspects are being sought in

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at

Theft at Edgewood Youth Center

Someone reportedly removed \$64 from a file cabinet at the Edgewood Multi-Purpose Youth Center on Thursday.

The money was taken from an of-

fice area of the facility, according to Bruce M. Freeman, Program Coordinator.

DFC Gary Vernon is handling the investigation.

Stolen checks passed here

...and passed at local busi-

What

First Md. S&L warned by agency

00003958

By Willis Witter
Washington Times Staff

First Maryland Savings & Loan Association of Silver Spring was in violation of state regulatory lending limits on Nov. 30 despite a warning 11 months earlier, according to documents obtained by The Washington Times.

Regulations established by the Maryland Savings & Insurance Corp. (MSSIC) — the state-chartered privately financed quasi-regulatory agency — limit commercial loans to 40 percent of a thrift institution's total savings.

But First Maryland, in its Nov. 30 financial statement to MSSIC, reported \$114.3 million invested in commercial loans — more than 70 percent of its total savings deposit base of \$155 million.

The report broke down the loans into the following categories:

- \$11 million in commercial loans.
- \$27.2 million in land and land development loans.
- \$13.1 million in residential construction loans.

Under regulatory guidelines, these loans are considered commercial, although they are subject to revision by MSSIC in determining the 40 percent guideline. The S&L, with four branches in Maryland and an office in downtown Washington, is one of the state's

largest savings associations with assets exceeding \$207 million.

First Maryland Chairman Julian Seidel in a telephone interview yesterday, said, "Some of your information is erroneous and some of your calculations and interpretations are out of context."

But Mr. Seidel refused to supply any data. He also



declined to comment when asked if First Maryland is currently in violation of regulatory lending restrictions.

MSSIC in a Dec. 21, 1982, letter warned Mr. Seidel that First Maryland was not complying with commercial loan limits.

"First Maryland is in violation of three lending regulations prescribed by Section 3-217 of the MSSIC Rules and Regulations. Two of these violations are significant and the third is minor," said MSSIC Executive Vice President Charles C. Hogg II.

The section states that "the aggregate outstanding principal balance of all loans made by a member upon the security of real or leasehold property which is commercial... shall not at any time exceed 40 percent of the total savings of the members."

Mr. Hogg's letter alleged that First Maryland had \$7.13 percent of its savings base invested in commercial loans as of Nov. 30, 1982. It also alleged that First Maryland had 31.9 percent of its savings in construction loans, thereby violating a second regulation which limits construction lending to 25 percent of savings.

Included in that letter was MSSIC's "strong recommendation" that First Maryland "impose restrictions on further mortgage loans" until the violations were corrected.

Despite the MSSIC notice in 1982, First Maryland's latest reports show that commercial lending continued to increase above regulatory limits for the next year ending Nov. 30, 1983.

Mr. Hogg, contacted by telephone at his home yesterday, did not deny that the letter was written to First Maryland, or that the institution was in violation of MSSIC regulations. But, in regard to specifics, he said, "Obviously I can't substantiate the figures you have, not having them in front of me."

see S&L, page 7B

MSSIC, a private company owned by 102 member institutions, insures accounts at First Maryland for up to \$100,000. The insurance also applies to other state-chartered S&Ls, which are not insured by the federal government.

First Maryland entered into an operating agreement with MSSIC in early 1983, after state banking examiners found a significant number of problem loans in its portfolio. The agreement requires First Maryland to receive MSSIC approval for certain loans, sources said.

Despite the regulatory supervision and the recommendation in Mr. Hogg's letter, First Maryland's records show that commercial

IVG9

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The Washington Times
James
1/30/84

Bank examiners look at workings of First Md. S&L

B. W. S. Water
ASSOCIATED PRESS

Maryland state banking examiners entered the offices of First Maryland Savings & Loan Association yesterday to investigate allegations of loan problems and violations of state banking regulations, official sources said.

First Maryland, with headquarters in Silver Spring, is one of the state's largest savings institutions. It has assets of more than \$207 million and operates four branches in Maryland and a service office in the District.

First Maryland has violated at least three regulations, including excessive commercial and construction loans, according to allegations by Charles C. Hogg II, executive vice president of the Maryland Savings Share Insurance

Corporation. MSSIC is a quasi-regulatory independent agency that insures

accounts up to \$100,000 at 102 state-chartered S&Ls. MSSIC and the Maryland Division of Savings and Loan Associations, a state agency, share regulatory responsibilities for these institutions.

First Maryland Controller W. Max Hollman in a telephone interview refused to confirm or deny that state examiners were present.

But state sources, who declined to be identified, said the examiners arrived at the S&L's offices for auditing purposes yesterday morning.

The Washington Times earlier reported that 70 percent of First Maryland's savings base was invested in commercial loans in violation of the MSSIC ceiling of 40 percent.

The Times has learned that First Maryland recently increased its reliance on deposits from third-party money brokers. Internal data state

see S&L, page 12A

S&L

From page one

that First Maryland increased its jumbo deposits in denominations of \$100,000 or more from \$35.7 million to \$46.4 million in the final two months of 1983.

Jumbos are supplied mostly by third-party brokers, who specialize in channeling money from investors to institutions offering high interest rates. Regulatory officials are concerned because brokered money tends to be unstable. It is withdrawn if an institution reduces its interest rates or experiences financial difficulty.

Recently, federal regulators proposed tough limits on brokered deposits, saying they create an "unjustified exposure" to the federal deposit insurance system. The state and MSSIC currently

have no regulatory limits on the use of brokered money. But MSSIC's Mr. Hogg said in an interview there is concern over the practice and it is being studied.

The Times also has obtained documents which indicate First Maryland has failed to maintain the required level of residential mortgages in its lending portfolio. Under state regulations, a savings association must have at least 50 percent of its assets invested in owner-occupied structures.

As of Nov. 30, First Maryland had \$46.6 million in residential, owner-occupied home mortgages — about 25 percent of its assets — according to a monthly performance report submitted to MSSIC and the state savings division.

Mr. Hogg and Charles Brown Jr., the state savings division director, declined in comment

to say an arrangement with Maryland early last year after a significant number of problem lenders' sources say agreement requires MSSIC approval for certain loans, say.

Since early 1983, numerous employees have left First Maryland, dissatisfied with the direction the institution was taking.

Despite First Maryland's growth from a \$30 million institution in 1981 to \$207 million last year, sources say the growth was accompanied by an increase in problems and a drop in net worth percent of assets.

Net worth, which represents cushion for depositors' losses, dropped from 3 percent in 1981 to 1.9 percent in September

1/3/84
1/3/84



Walter Oates, Washington Times

ay summarizes meeting with President Reagan.

Bank examiners look at workings of First Md. S&L

By Willis Witter
WASHINGTON TIMES STAFF

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see S&L, page 12A

scorecard shows 'plusses'

this overview issues: pulsion of 147 20 countries. last year dous setback t has been so iphasis is be- elligence to 3B reversals,

the Soviet Union and client states suffered setbacks or found their hands full in Nicaragua, Afghanistan and Cambodia. Other nations are experiencing more success in resisting Soviet-sponsored infiltration.

Terrorism remains the one area where Soviet-backed operations are increasing and there is concern that the upcoming Olympic Games

in Los Angeles will be eyed as a target by these groups.

The main training grounds for the most active terrorist groups are Libya, South Yemen, Syria, Bulgaria and the Soviet Union.

It is known that the Oct. 23 bombing of the U.S. Marine headquarters in Beirut was carried out by a Shi'ite group of about 20 members. The mission was launched from a

base camp in the Bekaa Valley. The members of the group stopped off at a mosque in downtown Beirut for blessing before carrying out the attack.

The source said published reports that as many as 500 American intelligence agents are aiding the 12,000 to 18,000 contra guerrillas

see TERROR, page 12A

Two Terps suspended in marijuana arrests

By Happy Fine
WASHINGTON TIMES STAFF

In the wake of the suspension of All America candidate Adrian Branch yesterday the University of

Dick Dull yesterday. "It will be in effect until the judicial authority have disposed of this matter."

A trial date of May 22 has been set for the two athletes, plus a third person arrested with them.



3153

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that some "mistakes are being made" and that he was not in a hurry.

Energy Council member Jim Sims said U.S. officials are looking underground but said the effort to publicize a senior administration aide the Energy secretary announces off-site consultations in the Nevada desert Las Vegas.

He said there has been concern about the tests because of a successful attempt to nuclear demonstrate is primarily instructors could site, others also announcement of

to a vote in the

Christian Voice, a conservative group, said in the Republican effort, "but the big these issues will be

a vote on the amendment by no end of March if we get a success on Mr. Jarmin said. become too late discharge petition movement to a vote on

delaying such a one would mean essentially shooting

on, R-Wash., said appropriate" for Congress on these issues, but he brought to the forward legislation with efficiently. amount of time" several of the issues. Sen. Gorton were offered as related matters, procedural wrangles, retrievable Senate

on, R-Wyo., how objection to vote but they are "old friends."

Republican Party to learn to say to senators who "laundry" on the

Rudman, R-N.H., enthusiasm for the fine if they want the debates," but is this country."

Beirut International Airport, the lifeline of Lebanon" capital, to be closed on and off during the day.

A Marine spokesman, Maj. Dennis Brooks, said the American forces "had no way of knowing" what they hit and what casualties there were.

"We are sorry about any civilian casualties, but the bottom line is that we are taking fire from the area and we have to defend ourselves."

After a spell of relative quiet here, yesterday's events plunged the Marines, whose headquarters are at the airport, into daylight clashes with Shi'ite Moslem militiamen, involving tanks, mortars and machine guns.

Maj. Brooks said one of the Marines who was wounded in the afternoon clashes died while waiting to be evacuated for treatment to a ship off the coast here.

One wounded Marine was flown by helicopter to the amphibious assault ship Guam. Two others suffered slight injuries in midmorning clashes with the militia. They were

himself in the foot. He was treated at the American University Hospital.

Maj. Brooks said a lot of shooting still was going on around the Marine base 90 minutes after a 6 p.m. truce reported by police. He said he believed the Lebanese army was fighting with militiamen near the airport and could not tell if Marines were involved.

He said the 9:10 a.m. battle involved small-arms fire. A second, half-hour-long attack started at 10 a.m. and involved small-arms fire and rocket-propelled grenades from the militiamen and a retaliatory barrage by Marine tanks, 60mm mortars, machine guns and small arms, Maj. Brooks said.

A third battle started at 2:30 p.m., Maj. Brooks said, starting with small arms fire and escalating to rocket-propelled grenade and mortar fire. He said the Marines fired back with tanks and, eventually, 81mm mortars.

Anti-government Druze militiamen of Walid Jumblatt's Progressive Socialist Party took no

have no regulatory limits on the use of brokered money. But MSSIC's Mr. Hogg said in an interview there is concern over the practice and it is being studied.

The Times also has obtained documents which indicate First Maryland has failed to maintain the required level of residential mortgages in its lending portfolio. Under state regulations, a savings association must have at least 50 percent of its assets invested in owner-occupied structures.

As of Nov. 30, First Maryland had \$46.6 million in residential, owner-occupied home mortgages — about 25 percent of its assets — according to a monthly performance report submitted to MSSIC and the state savings division.

Mr. Hogg and Charles Brown Jr., the state savings division director, declined to comment.

MSSIC entered into a supervi-

garian intelligence, which in turn works closely with the KGB.

There has been a gradual buildup in the CIA's Directorate of Operations as part of the administration's response to Soviet-backed terrorism and other clandestine operations.

The directorate was reduced when the CIA was headed by Stausfield Turner in the administration of President Carter. President Reagan replaced Turner with William Casey, who served in the World War II Office of Strategic Services, the predecessor of the CIA.

Mr. Casey was presidential campaign manager for Mr. Reagan.

The source said U.S. intelligence

Hills above the Marine base.

The Druze are a secretive sect whose creed is based on Islam.

Late in the day, as the sun was setting on the city that long-time observers say is no longer recognizable as the outcome of commerce and modernity in the Middle East, flames from buildings set afire by shelling could be seen along the route from the airport to the heart of the city.

Those who dared take to the road drove in a frenzy of horn-honking and high-speed spurts, suddenly braking to avoid areas where gunfire could be heard or smoke seen.

One taxi driver, fearful of getting caught in cross-fire, careened his Mercedes into the wrong side of the divided highway along the Mediterranean, spun his car around, then backed up at high speed, leaving it up to the oncoming traffic to avoid him. It was the only way he could get his passenger into the center of the city without getting caught up in a monstrous traffic jam.

This article is based in part on wire service reports.

S&L *

From page one

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The state and MSSIC currently

TERROR

From page one

fighting against the Marxist Sandinista regime in Nicaragua are erroneous. The figure is closer to 20 and the results of their efforts were described as remarkable.

Reports that the administration was downplaying an alleged Soviet role in the 1981 attempt to assassinate Pope John Paul II also were denied. The source said the KGB was known to have been involved in murder in the past and there were direct links between the alleged assassin Mehmet Ali Agca and Bul-

sory arrangement with First Maryland early last year after a significant number of problem loans aminers, sources say. The agreement requires First Maryland to receive MSSIC approval for certain loans, sources say.

Since early 1983, numerous employees have left First Maryland, dissatisfied with the direction the institution was taking.

Despite First Maryland's growth from a \$30 million institution in 1981 to \$207 million last year, sources say the growth was accompanied by an increase in problem loans and a drop in net worth as a percent of assets.

Net worth, which represents the cushion protecting depositors from losses, dropped from 3 percent in 1981 to 1.9 percent in September 1983.

operatives now combine both approaches as in a recent reaction to a terrorist incident in Africa in which hostages taken by terrorists were freed unharmed.

Described as "Star Wars in the bush," the ease was satisfactorily handled by teamwork among the local U.S. intelligence station chief, a pair of agents flown out from Washington, plus information gleaned from sophisticated photography techniques that pinpointed locations of guards.

An analysis of the photographs taken and flown here it was used ages without in-

Protecting Maryland's savers

FRI 2-3-84

The Maryland Savings Share Insurance Corporation, a private firm founded 22 years ago to insure accounts at Maryland savings-and-loan institutions not covered by federal deposit insurance, is having trouble keeping up with its members' explosive deposit growth in the last two years. Some Maryland S&Ls are bigger than MSSIC, and that's worrisome. But MSSIC itself is to blame for some of the industry's problems.

And there are problems. As our Willis Witter reports today, the net worth of several MSSIC-insured S&Ls is far below the 3.1 percent of assets that federal regulators consider prudent. For a savings-and-loan, "net worth" is how much the firm would be worth if all of its loans were repaid and all deposits withdrawn. Since deposits can go out a lot faster than loan payments come in, a net worth cushion — and the lines of credit other banks provide based on that cushion — gives an S&L the flexibility it needs when withdrawals exceed repayments and new deposits. The same cushion protects shareholders if the S&L takes a loss.

Fortunately, MSSIC's help for ailing members isn't limited to its \$212 million in assets and its \$60 million line of credit with non-member banks. MSSIC's professional staff has arranged member mergers where an S&L appeared unable to survive on its own, and provides operating oversight and advice when danger signals first appear.

But MSSIC's staff is small, and may not have grown enough recently to keep up with the astonishing growth in member deposits detailed in our reporter's story today. Maryland's savers are also protected by the also-understaffed State Division of Savings and Loan Associations, but the division hasn't shown the aggressive inquisitiveness that lets depositors sleep at night.

The present system has worked for two decades, but it could be stretched to the breaking point if the state's savings-and-loan associations' growth continues unchecked and under-supervised. The Maryland legislature should begin hearings now, while there's still no disaster this side of the horizon.



DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
SEVENTH FLOOR
301 659-6330

JOHN J. CORBLEY
SECRETARY

MEMORANDUM

TO: Secretary John J. Corbley
FROM: Charles H. Brown, Jr., Director
DATE: February 3, 1984

B Feb

Attached is a copy of the latest article on First Maryland Savings and Loan which appeared in this morning's issue of the Washington Times.

It appears the reporter is doing a job on MSSIC. He does in his article give some figures on four of our State-chartered associations here in Maryland in which he shows the net worth of the associations. I would point out that he quotes the net worth as a percentage of assets. Our regulations compute net worth as a percentage of savings. In the second column he shows Gibraltar as having a net worth to assets of 0.6% as of November. Using a current figure of December 31, Gibraltar's net worth to savings was 4.9%; First Progressive's net worth as of December 31st based upon our regulations was 2.7%; Old Court was 4.4%; Fairfax was 4.1%; and First Maryland was 3.5%. Again, our figures are based upon a percentage to savings.

If a reporter some way, somehow, obtains a copy of the monthly report made by associations to the Division, there are certain items that do not appear which form a part of net worth. One of these items is hypothecations. A hypothecation is where officers and/or directors of an association will pledge to MSSIC or to the Division a portion or all of their savings and which then would become part of net worth. The hypothecations are in savings accounts which are frozen and can be released only upon the written permission of the Division and/or MSSIC. A reporter would have no way of knowing of this item unless the informer passed it on to him and which apparently has not been done in this case. Also, a reporter would need to know how to read the report to determine which items fall into particular categories. A good example would be loans on homeowner occupied property. The total of these loans would be shown on the report. However, also shown on the report are GNMA certificates which are backed by first mortgage loans and which are included for our purposes as mortgages on owner occupied property. This all means that much of the information that is being quoted by the reporter is not necessarily true or as the condition exists according to him.

I think the worst thing about today's article is the heading which states "Maryland agency lax on regulating S & Ls." You have to read the first two paragraphs to find that the reporter is not talking about this Division but is referring to MSSIC.

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As mentioned above, this is the latest in a series of articles by the Washington Times. I am sure there will be more and I will keep you posted.

Maryland agency lax on regulating S&Ls

By James Waller
Washington Post Staff Writer

The insurance agency sponsored by the state of Maryland to guarantee the safety of the deposits in the state's 102 savings-and-loan associations is in at least one instance failing to enforce its own regulations in a period of soaring deposits and declining net worth ratios.

The Maryland Savings Shares Insurance Corp (MSSIC) was created in 1962 after several savings associations folded, uninsured depositors lost millions of dollars, the speaker of the Maryland House of Delegates went to jail and two congressmen were convicted for attempting to quash a federal investigation.

In early 1963, MSSIC entered into a supervisory agreement with a member institution, First Maryland Savings and Loan Association of Silver Spring, which was found to be in violation of a regulation limiting commercial loans.

Regulations permit a maximum of 40 percent of an institution's total savings in commercial loans. In November 1982, 57 percent of First Maryland's savings deposits were placed in commercial investments. One year later that figure was about 70 percent.

MSSIC President Charles C. Hogg II said steps are taken to correct regulatory violations whenever they are discovered. But he declined to comment specifically on First Maryland.

MSSIC's 10 member staff, which includes three officers, two clerical workers and five examiners, is charged with protecting more \$5.3 billion in insured savings deposits — an amount which grew by more than 50 percent last year alone.

Since 1979, MSSIC-insured institutions have tripled in size. Combined assets have grown to nearly \$6.5 billion, with most of the growth occurring in the past two years. At the same time, net worth has declined from 6 percent of assets to 3.4 percent.

Net worth is the cushion protecting depositors if an institution suffers losses.

By federal regulatory standards, any savings and loan association with a net worth below 3.1 percent of its assets is subject to government supervision.

Mr. Hogg says MSSIC has adequate resources to regulate growth of its 102 member associations, which at last year's pace would double in size every 18 months. No depositor has ever lost a cent in a MSSIC-insured institution, but the system is facing the most severe challenges in its 22-year history.

Some MSSIC-insured S&Ls are soliciting new deposits by advertising high interest rates in newspapers throughout the nation. And some of the money is invested in fast-growing states like Texas, Colorado, California and Florida.

Last year was a profitable one for the system, which added \$61 million to net worth through retained earnings alone. The net worth ratio for the entire system increased for the first time in five years, from 2.8 percent in 1982 to its present 3.4 percent.

On the basis of the 1983 performance, it might appear the MSSIC-insured system has turned the corner.

But a look at some of MSSIC's aggressive members shows growth at those institutions continues to be built with low net worth ratios.

For example:

- Gibraltar Building and Loan Association of Annapolis is advertising business checking accounts that pay 10 percent interest. It has grown in size from \$18.5 million to \$142 million in less than two years. As of November, its net worth was 0.6 percent of assets.

- First Progressive Savings and Loan Association of Westminster grew from \$9.9 million in 1981 to \$62 million in 1983. Its net worth is 1.6 percent of assets.

- Old Court Savings and Loan Association of Baltimore went from \$79.6 million to \$413.9 million in two years. Its net worth is 2.1 percent of assets.

- Fairfax Savings Association of Baltimore grew from \$54.6 million to nearly \$420 million in two years. It had 2.9 percent net worth Aug. 31.

- First Maryland S&L, in yesterday's editions of The Washington Post, advertised a "First Rate Super IRA" at 20 percent interest. Net worth ratios at First Maryland have declined as the institution grew from \$30 million to more than \$200 million. First Maryland has net worth of 2.5 percent of its assets.

Says Jack Gontentag, a banking professor at the University of Pennsylvania's Wharton School, "What's going on in Maryland doesn't sound much different from what a lot of federal institutions are doing."

But Mr. Gontentag says that federal officials are concerned that S&L growth in some areas of the country is getting out of hand, and they are trying to stop it. Lately, the Federal Home Loan Bank Board required all S&Ls with less than 3 percent net worth to receive regulatory approval before accepting brokered deposits. The board also has proposed tough rules that would virtually eliminate federal insurance protection on brokered deposits.

Money brokers, a growing group of entrepreneurs, specialize in channeling investor money into institutions offering the highest interest rate.

Brokered funds tend to be unstable because they are withdrawn quickly, without notice, if any adverse event affects the institution. This could be an earnings loss, an unfavorable turn in the real estate market or a piece of unfavorable news about a specific institution.

MSSIC's Mr. Hogg says brokered money is a nationwide financial problem and that his office is studying the ramifications of the practice. But currently, no action is contemplated.

Charles Brown, director of the Maryland Division of Savings and Loan Associations, says, "There is no problem with brokered money so long as it is managed properly."

Mr. Brown's division, part of the state government, has 20 examiners and shares regulatory responsibility with MSSIC. Like MSSIC, the division plans no substantial increases in the budget or staff this year.

Mr. Hogg says the MSSIC system is safe, in part, because it is designed to grow as the individual associations expand. Assets of MSSIC have grown from \$45 million in 1979 to the present \$214 million.

Says Ray Garcia, executive vice president of Cates Consulting Analysts in New York: "It's difficult for financial institutions to expand into the commercial area and maintain lending quality controls."

Industry officials say commercial investments typically are riskier than traditional S&L mortgage lending for owner-occupied homes. But the risk of commercial lending is offset by the reward of higher profitability, if the projects are successful.

Regulatory officials, including Mr. Hogg, insist that such lending powers are needed for S&Ls to compete in the climate of the deregulated financial services industry.

"If an association has the expertise and an understanding of the market that they are investing in, then there's nothing wrong with it. It all falls back on the ability of management to do those sort of things," Mr. Hogg said.

Not so, says Mr. Gontentag of Wharton: "That's like saying that an institution could invest in highly volatile common stocks and be careful about it."

"No matter how careful you are, commercial real estate investments are subject to swings in the market."

"The fact that an association has (deposit) insurance means that it can get away with it. Depositors are relying on the insurance, not the expertise of an individual association's management."

Says Sandra K. Johnigan, an executive with the American Institute of Certified Public Accountants: "It's a phenomenon of the market."

"If it's a good market, you come out smelling like a rose, if the market turns bad, institutions that rely heavily on commercial real estate lending get into trouble."

But Mr. Hogg says if loan underwriting practices are sound and the underlying values of the investments are there, there may be some "workout situations" in the event of a downturn. The system would not be seriously threatened, he says.

To protect depositors, MSSIC has resources of about \$214 million, more than two-thirds of which is cash or securities that quickly could be converted to cash in the event of an emergency.

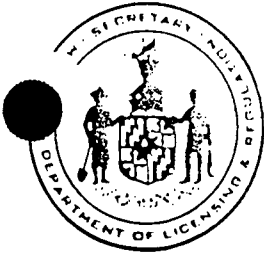
But some of its assets — such as \$22 million worth of debt that MSSIC has purchased from member institutions — would be virtually worthless in the event of a general crisis.

MSSIC also has a \$60 million line of credit with a group of institutions led by the First National Bank of Chicago.

In addition, the recently enacted Garn-St Germain Banking Act gives individual MSSIC institutions the ability to borrow from the Federal Reserve discount window.

"We obviously feel comfortable. We are properly monitoring the growth in the system, it has been dramatic but our system is designed so that MSSIC grows as the system grows," Mr. Hogg says.

MAR 20 1984



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
231 EAST BALTIMORE STREET BALTIMORE, MARYLAND 21202
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MEMORANDUM

TO: John J. Corbley, Secretary
FROM: Charles H. Brown, Jr., Director
DATE: March 19, 1984

File with other articles

Attached are several additional articles which have appeared in the Washington Times concerning the Maryland savings and loan industry. You will note the article dated March 13, 1984, refers to the Custom Savings and Loan Association and their method of computing dividends on weekends as compared to the other business days of the week. The Sun Papers picked this up and also ran an article under date of March 14th, a copy of which is attached.

I advised you about a week or so ago that the reporter questioned me on the amount of our budget, the number of examiners that we have in the field and whether the increase in our examining staff has kept up with the increase in the growth of our industry. The article entitled "Safeguards for Maryland Savings and Loan Depositors Not Working" is by Leonard Curry, a columnist for the Washington Times. I understand a reporter must have his articles approved by the legal staff of a newspaper before it is printed; however, the editorial editors and columnists are on their own and they write articles as they see fit. Leonard Curry is a columnist and in his article regarding our budget, etc. he has taken a couple of shots at the regulators. I have numbered these remarks and would like to explain his comments.

Number 1, I believe, is Chevy Chase Savings and Loan, which is our largest State-chartered association, an association with assets in excess of \$1.5 billion. The reporters are critical that Chevy Chase has grown so fast and their capital or net worth has not kept up with their growth. This has been the feeling of many people. However, Willis Witter, the reporter who actually supplied the information for Leonard Curry's article, met with representatives of Chevy Chase about a week or so ago and was given information which is confidential as far as we are concerned but can be given out by an association. Apparently, the reporter Witter, after seeing Chevy Chase' figures, is satisfied that Chevy Chase is a pretty well run association and, in talking to him in Annapolis Thursday, he indicated that he has no problems at Chevy Chase, which appears to have control of their situation. This was good to hear, but on questioning him, he would not tell me where he got the information, but I do know through Chevy Chase

John J. Corbley, Secretary
March 19, 1984
Page Two

that representatives met with Witter.

The second comment was a savings and loan maintaining a phony balance sheet that lists mortgage loans in default for years. I don't know who or what he is talking about here, unless it is another shot at First Maryland Savings and Loan, which his original article was about. First Maryland does make commercial loans all over the country and there is nothing wrong with it as long as the loans are good. At one time we had in our law a prohibition against loans being made outside of a 50-mile radius from the principal office or a branch office of an association. That restriction was removed when the Financial Institutions Article became effective in 1980, so without the 50-mile restriction some of our associations are making loans all over the country and First Maryland is one of those, and there is no prohibition against it. I will say it is rather difficult to monitor a loan made in California or Texas or Washington State, Oklahoma, as some of their loans have been made. I think I am going to present to the Board a suggestion that we limit loans out of state to a certain percentage of the mortgage portfolio. Additionally, this would probably be a good subject for the summer task force, if such a group is formed and meets to consider new legislation for the industry. I think I would be very much in favor of some sort of a restriction on out of state lending.

The third comment was the fact that an association is defrauding its depositors when it reduces interest rates over the weekend, as compared to what it has paid Monday through Friday. This situation was discovered by the Division and MSSIC over a month ago. On February 10, 1984, we met with representatives from the Custom Savings Association and directed them to discontinue this practice. We further asked the Attorney General's Office whether we could enforce the association to make restitution. We have not as yet received a reply from the Attorney General's Office. The newspapers picked this up after we had made the discovery and requested an opinion from the Attorney General, and it just made good copy for them but the matter had been taken care of long before the newspapers got into the act, except for the restitution part.

I am also enclosing an article dated March 14, 1984, by the same reporter, Willis Witter, concerning "Maryland's banks fight out of state competition."

I will keep you posted on anything else that develops.

CHB:kg
Enclosures

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Safeguards for Md. S&L depositors not working

People who have deposited \$30 million in Maryland savings and loan associations' assets have found for several years based on the same standard that has been in effect for years.



been a federal S&L, it would have been classified as "troubled." But two years later the S&L continues to such in deposits faster than it can build capital from profits and stockholder investments.

Another S&L maintains a phony balance sheet that lists mortgage loans in default for years in a category that characterizes them as sound as those of mortgage loans on which borrowers are making regular payments. This S&L also violates its state charter by lending more money to risky commercial and speculative borrowers than to individuals buying owner-occupied housing.

A third S&L defrauds its depositors by not informing them that its 12 percent interest rates apply only to weekdays. On Saturday and Sunday, the S&L drops its interest rate below 9 percent. Over the course of a year, this means that the 12 percent interest rate that is prominently advertised has an actual yield closer to 10 percent.

The Maryland Division of Savings and Loan Associations — the state government auditors — and the Maryland Savings Share Insurance Corp — the private self-regulating body — are aware of these violations. But the regulators, who are supposed to be acting in the best interests of depositors, lack the will to take action in some cases and lack the power in others.

Maryland pays starting salaries of \$11,900 a year for S&L auditors and caps their pay at \$27,000 — compared with starting salaries of \$18,000 for accountants performing similar duties in the private sector.

While the budget for the state-funded Division of Savings and Loan Associations has increased about 10 percent in the past two years, the assets of the supervised S&Ls have more than doubled.

The state system of supervising Maryland-chartered S&Ls emerged from the chaos of S&L failures more than two decades ago when thousands of Maryland depositors lost some or all of their savings.

But the supervisory system that was adequate for 1962 has failed to mature with the growing and evolving industry it purports to oversee.

For example, Maryland regulators found that a large S&L was undercapitalized to the extent that, had it

Committee head to lead probe of Maryland S&Is

By Staff of the *Fri. Maryland 1987*
4B

ANNAPOLIS — The chairman of the Senate Committee on Economic Affairs said yesterday he would take a leading role this summer in an investigation of Maryland's \$6.5 billion savings-and-loan industry.

Sen. Jerome Connell, D-Anne Arundel, said he will either be chairman or co-chairman of a General Assembly task force that will examine legislative remedies for protecting Maryland's 402 privately insured S&Is.

"There have been, unquestionably, a lot of allegations concerning the insurance of state chartered savings and loan associations," Mr. Connell said in an interview.

A major issue is whether the state's private insurance system "leads to unsound lending policies," said Mr. Connell, himself a former S&I president.

Within the next two weeks, Mr. Connell said, he would meet with Delegate Fred Kuntzinger, D-France Georges, chairman of the House Committee on

Economic Matters, to complete plans for the task force investigation.

Maryland has 114 state-chartered savings associations. Of these, 12 have federal deposit insurance and the remaining 102 are insured by the Maryland Savings Share Insurance Corp.

Despite its name, MSSIC is a private company that is owned, operated and funded by its member associations.

In the last two years, MSSIC-insured institutions have grown at an explosive pace, with some of the state's larger associations experiencing a five-fold increase in assets.

In many cases, profits of S&Is and infusions of new capital from investors have failed to keep pace with growth in assets. State regulators increase surveillance of S&Is with capital less than 3 percent of deposits.

Much of the asset growth was fueled by money from out-of-state investors, attracted by nationwide advertising of high interest rates and unlimited MSSIC insurance protection.

To lend the money at a profit, some



Jerome Connell, chairman of Maryland's Senate Committee on Economic Affairs.

associations have invested heavily in commercial projects outside Maryland, though state regulations require the institutions to concentrate their lending on owner-occupied housing.

Mr. Connell said an investigation is in order because "the insurance does not appear to be adequate."

He voiced particular concern that some of the associations might not be using sound lending practices with large sums coming into the system as deposits and going out as loans.

Unlike federal deposit insurance, which protects each depositor up to \$100,000, MSSIC insurance has no limits.

Mr. Connell said he favors a task force composed of lawmakers from both houses of the General Assembly. The group would meet this summer and hear testimony from state, MSSIC and industry representatives.

The panel could then draft legislation for next year's session of the legislature.

S&L Caught With Its Rates Down

Maryland regulators have cracked down on a savings and loan that advertised high rates, adjusted daily, then paid lower rates on weekends without telling depositors.

In late January, Custom Savings and Loan of Pikesville, Md., was offering a rate of 11.2 percent and a yield of 12.02 percent on its money market account. This was half a percentage point more than its closest competitor and more than a full percentage point over what most Baltimore financial institutions were paying.

Although Custom told customers that its rate could be changed daily, it did not inform them that on weekends it lowered its rate to just over half the 11.2 percent it was paying on weekdays.

The practice had been going on for more than a year when it was discovered by state regulators. "We took exception to the practice and made them stop it," a state official said. Regulators are still discussing what disciplinary action to take as well as whether Custom should be ordered to make restitution to customers. Custom officials declined to comment.

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SUN - 3/14/64

poore fresh among its kiddie-market and expands the company's appeal with older consumers by offering new restaurant concepts.

Last summer, the company changed its pizza recipe, adding more cheese and taking out some of

See PIZZA, D3, Col. 1



The Sun/Walter M. McCaskey

Family Entertainment Centers Chairman Pat Hopf hopes good food can bring his company's arcade restaurants back from the brink of failure.

felt we made some progress in our discussions," Mr. Scheer said. "We think it was a good meeting, and we'll go back in and continue Friday."

Mr. Scheer would not disclose details of the new merger, but it was learned that it would involve the firms' selling off some stainless-steel and flat-rolled steel plants.

second-largest steel production, after the U.S. Steel.

Mr. McGrath said the would produce such ownership in the product less steel and flat-rolled the basic steel used in a

See STEEL, D18, (

State questions rates policy at Custom S&L

By Brian Sullam

For more than a year, Custom Savings and Loan had a checking account that advertised the highest rates of interest on deposits in the region. But according to thrift industry officials, those rates were available only on weekdays.

On the weekends, the officials claim, Custom lowered the rate on its Cash Fund Account to rates that were slightly more than half those offered during the week.

The association apparently did not inform its customers about this practice, and it was only discovered in February, when state regulators were running routine examinations on the association's cost of funds.

The State Division of Savings and Loan Associations and the Maryland Savings Share Insurance Corporation,

the private organization that insures deposits of its members, asked Custom officials to stop the practice of lowering the interest rates on the weekends.

William S. LeCompte, Jr., deputy director of the savings and loan division, declined to confirm that the association in question was Custom, but he said, "The institution was told to stop the practice, and it decided not to continue even though it says it has done nothing wrong."

Called at Custom's headquarters on Reisterstown road in Pikesville, Barry Renbaum, the association's managing officer, refused to take a call seeking comment on Custom's interest-paying practices.

According to Mr. LeCompte, the question of lowering interest rates on the weekend has never come up before the state savings and loan board

before, but he said: "This issue has come about primarily because of deregulation and the creation of these variable rate funds."

Asked if it was illegal to advertise one rate and then offer another, Mr. LeCompte said the laws governing savings and loan advertising were very general and prohibit "advertisements that are false and misleading."

While the savings and loan apparently did not tell customers it lowered the rate on the weekend, it did inform them that the rate can be changed daily.

The association relied heavily on advertising in local newspapers as well as out-of-town papers such as *The Wall Street Journal* and *The New York Times*.

It is not known how many out-of-state accounts Custom has, but the association has grown quite rapidly in

the past two years. At the end of 1982, the association had \$40 million in assets and now has over \$100 million.

In one of the last ads run in Baltimore in late January, Custom was quoting a rate of 11.2 percent and a yield of 12.02 percent on its \$1,000 Custom Cash Fund — a rate that was at least one percentage point above what other thrift institutions were offering at the time.

One savings industry executive, who wished to remain anonymous, said his association maintained an account at Custom and discovered that it was not earning the advertised yield.

According to this official, Custom officials would quote a rate that it pays what it pays on the weekend.

At its monthly meeting last Thursday.

See CUSTOM, D18, Col. 5

Slurry killed in commit

By Doug Struck
Annapolis Bureau of The Sun

Annapolis — A Senate voted yesterday to kill that would have enabled of a 375-mile pipeline slurry from Appalachia peake Bay.

The Senate Economic Committee voted to stop over the summer, instead "Too far, too fast," as member Frederick C. Dorenbester) of the amb

The vote was 6-3 against lobbyists for unio rallied their members if peeled through door into the com

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The companies, joined by Commerce Secretary Malcolm Baldrige,

S&L commissioners question rate policy

CUSTOM, from D1

day, the Savings and Loan Commissioners asked the state attorney general to determine what action the board could take against Custom. (In the public minutes, the institution was not named.)

John Cooper, the assistant attorney general assigned to the division, said his office will be taking a broad look at what, if any, actions the board or division can take against Custom. He said the question of restitution to Custom's customers would also be addressed.

He could not say how quickly the attorney general's office could render an opinion, but he said it would be done as "quickly as possible."

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Maryland Savings and Loan Insurance Corporation

BALTIMORE LIFE BUILDING
901 NORTH HOWARD STREET
BALTIMORE, MD. 21201

(301) 727-7810

CHARLES C. HOGG II
PRESIDENT

March 12, 1984

Stephen H. Sachs
Attorney General
Seven North Calvert Street
Baltimore, Maryland 21202

Dear Steve,

Gil Sandler has asked me to respond to your note concerning the several recent articles written by Willis Witter in the Washington Times.

Mr. Witter appears to have embarked on a crusade to bring about certain "reforms" in the way the Division of Savings and Loan Associations and MSSIC regulate, supervise and insure the Maryland chartered, MSSIC insured savings and loan industry. As indicated in the articles, I have met with him on at least three occasions and talked to him by telephone on other occasions. He has also talked to Charlie Brown and Bill LeCompte at the Division, and to many unnamed and therefore unsubstantiated "banking sources" and "sources".

The articles are a mixture of accurate statements, often offset by inaccuracies, wrong interpretations of data and unfounded innuendos, and irrelevant facts. Rather than attempt in this letter to address each of the above categories, I would be pleased to meet with you at your convenience to answer any questions you may have or to review the operations of MSSIC.

I assure you that both MSSIC and the Division bear the responsibilities placed on us seriously, and that we are doing a good job of insuring the deposits placed by consumers in our member savings and loans. If there were not some problems, we would not need regulators, insurers, or for that matter, Attorneys General. We are, however, fully aware of and dealing with the problem areas.

Best personal regards.

Sincerely,

Charles

Charles C. Hogg, II
President

CCH/nc

cc: Charles H. Brown, Jr.
Gilbert Sandler
John D. Faulker, Jr.

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Md. insurer wary

Guarantee funds in 2 states have many parallels

Baltimore Sun

By Brian Swam 3-15-85

Last Friday's failure of a Cincinnati savings and loan was a lot closer to Maryland than the physical distance would indicate.

Home State Savings Bank closed Friday, a victim of its dealings with the failed ESM Government Securities, Inc. Home State, whose depositors hastily withdrew more than \$20 million, had private deposit insurance.

The Ohio Deposit Guarantee Fund, which insures the deposits of 70 state-chartered savings and loans in that state, is structured in much the same way as the Maryland Savings Share Insurance Corporation,

"The failure of a savings and loan can create questions in the public's mind, and we wanted to be prepared."

CHARLES HOGG III
President of Maryland fund

which provides coverage to 102 Maryland-chartered savings associations.

The Ohio fund is a private insurance company created to provide deposit insurance for state-chartered savings and loans that don't want to get federal deposit insurance.

(With federal insurance come many regulations that put restrictions on an association's activities, ranging from the interest it pays on

deposits to the kinds of investments it makes.)

Though the Ohio fund carries the state's name, it is not a state agency, nor does the government back the Deposit Guarantee Fund's insurance with its "full faith and credit." The same is true of MSSIC.

North Carolina, Massachusetts and Pennsylvania have private deposit companies similar to those in Maryland and Ohio.

There have been numerous large failures among banks and savings and loans in recent years, but the failed institutions were insured by federal deposit insurance agencies. Home State is the first large failure for a private insurance fund.

Home State's failure, which is estimated to involve losses of \$150 million, has jeopardized the financial health of the Deposit Guarantee Fund, which has only about \$139

See MSSIC, 18C, Col. 5

Ohio S&L's failure makes insurer wary

MSSIC, from 12C

million in assets. On Tuesday, the Ohio legislature enacted a \$70 million bailout to keep the private insurance agency afloat.

MSSIC's insurance fund had assets of \$204.8 million at the end of 1984, and a special liquidity fund had assets of \$80.8 million.

Still, MSSIC executives have been watching the Ohio situation closely.

"We have been monitoring their situation since last Thursday," said Charles Hogg III, MSSIC's president and chief operating officer.

Ever since it was announced last week that the Securities and Exchange Commission had closed ESM Government Securities because it was insolvent, Mr. Hogg said, MSSIC has been in close touch with its members.

"The failure of a savings and loan can create questions in the public's mind, and we wanted to be prepared," he said.

As a first step, he said, MSSIC set out to determine whether any of the larger associations in Maryland had had dealings with ESM. After finding that none had, Mr. Hogg said, he asked that all of the larger MSSIC members report any large withdrawals.

In addition, Mr. Hogg sent Paul Trice, MSSIC's senior vice president, to Ohio Tuesday to gather as much information as he could about the condition of the Deposit Guarantee Fund, which was severely depleted by the failure of Home State.

Mr. Hogg said one thing his agency found was that the Deposit Guarantee Fund did not enforce some of

the restrictions MSSIC imposes on its members.

The Ohio fund "did not have any rules on bank borrowing or repurchase agreements," Mr. Hogg said, adding that MSSIC does not allow a member to borrow more than 15 percent of its liabilities (which generally are the funds a financial institution uses to make loans and investments).

By contrast, Home State had borrowed more than 50 percent of its liabilities.

Mr. Hogg also said the Ohio fund got financial information on its members from state regulators, which meant weeks and sometimes months of delay before the information arrived.

The Deposit Guarantee Fund apparently reviewed an association's loan portfolio more intensely than its investment portfolio, Mr. Hogg said.

Since the advent of financial deregulation, savings and loans, which used to invest primarily in residential mortgages, have received expanded investment powers. They are replacing mortgages with a variety of securities — including Treasury bills, mortgaged-backed securities and financial futures — but often the examiners look only at the mortgage portfolio and neglect to look at the investment portfolio.

Mr. Hogg said MSSIC was going to focus its attention on the government securities dealers its members use.

"I don't want to establish an approved list of dealers, but I want our members to pay careful attention to the dealers they use," he said.

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Many of you are receiving and will continue to receive comments concerning the closing of Home State Savings Bank in Cincinnati, Ohio. The following are some of the facts we have gathered to date concerning this situation. This status report was prepared based on conversations Mike Shank and Steve Farrar have had with various officials during a visit to Ohio this week.

BACKGROUND

- Home State was insured by the Ohio Deposit Guarantee Fund, a private insurance fund.
- Beginning in 1982, Home State began dealing with ESM Securities, a small government securities dealer in Miami, Florida.
- Transactions between Home State and ESM consisted of reverse repurchase borrowings whereby ESM lent money to Home State upon the collateral of government securities. It has been determined that ESM subsequently took those securities and either sold them or pledged them to other parties. In some cases ESM pledged the same collateral more than once.
- Through these transactions, Home State nearly tripled in size between 1983 and 1984. More than half of their balance sheet was concentrated in ESM transactions. Because their collateral was misappropriated, they stand to lose a significant amount of money.
- Home State was controlled by a prominent Ohio political figure with close ties to the state's governor. His son-in-law was affiliated with ESM Securities.
- Negotiations to sell Home State are presently underway. Our conversations with the Ohio Superintendent of Savings and Loans indicated two potential purchasers.
- In order to maintain public confidence, Ohio's governor has signed a bill creating a second guarantee fund with \$50 million of state funds and \$40 million of additional deposits from existing ODGF members. This guarantee fund would be activated if the funds of "old" ODGF prove insufficient. There has been no final determination of Home State's ultimate losses because the receivers of ESM are still trying to account for all the collateral.

Our investigations to date have led us to conclude that there are some striking similarities between this situation and the failure of Commonwealth in Nebraska. (You were previously furnished a copy of our Nebraska case study.) These are as follows:

- Home State was dominated by a single individual who owned most of its stock and directed the ESM transaction. No shareholder of a FIAC-insured institution controls its activity in such a manner.
- Home State's major stockholder was allowed to contribute real estate in lieu of cash to the capital of Home State to correct possible capital shortages. For FIAC purposes only cash items are includible to meet capital requirements.
- ODGF did not have the power to require Home State to correct its questionable practices. In fact, they did not have an insurance contract with its members. In a FIAC institution such transactions would have constituted unsafe and unsound procedures and would have been stopped immediately. If ODGF had had such powers it is estimated the loss could have been limited to an amount which would not have exceeded Home State's capital and certainly would have left ODGF's funds intact. (FIAC has in fact, in the past, identified questionable investment practices and has been successful in having them curtailed.)
- ODGF did not have an independent Board of Trustees, thus members, including the owner of Home State, exerted a large influence on the actions of ODGF. FIAC is, by law, controlled by an independent Board of Trustees elected to protect depositors.
- ODGF did not collect or analyze in-depth financial information on its insured institutions. It did not have an early warning system. FIAC has one of the most sophisticated early warning systems in the nation.
- ODGF had sustained earlier losses due to mismanagement of its insured institutions. FIAC has never had a loss or a deposit related claim.
- ODGF did not perform independent reviews of its insured institutions. At the time of Home State's collapse, the only current information ODGF had on the institutions was a balance sheet. FIAC performs diagnostic reviews and operational audits on its insured institutions. It compiles a complete set of financial information which includes balance sheet, income statement, investment portfolio, gap analysis, and trend reports. FIAC is always aware of the financial condition of its insured institutions.
- ODGF and the state financial institutions regulator worked at cross purposes in handling the Home State



situation. There were threats of law suits between the two parties. FIAC works closely with the regulators of its insured institutions. Regulation and supervision of these institutions have always been coordinated with full cooperation between the parties.

- ODGF had virtually no outside funding sources and did not qualify for significant reinsurance. FIAC has \$75 million in bank credit lines with Wachovia as the lead bank. FIAC also has \$27 million in reinsurance from the world's leading insurance companies
- ODGF insured deposits in full; FIAC insures deposits to \$100,000 and IRA accounts to \$250,000.
- ODGF was not regulated or closely supervised by the state of Ohio. FIAC has always been closely regulated by the state of North Carolina. The Department of Commerce performs an annual examination of FIAC and reviews the financial condition of its insured institutions throughout the year.

You will receive questions from your depositors about Ohio and all your personnel should be prepared to answer them as forthrightly as possible. The situation in Ohio has been poorly handled. The situation is not unlike the failures in Tennessee caused by the Jake Butcher fraud. There has never been an incidence of lax regulation because of political conflicts of interest in North Carolina. Like Nebraska, there was only an insurance fund, not a professionally staffed risk manager to assist Home State. It is clear that this situation could not occur in North Carolina with an FIAC insured institution.

We will continue to update you as the situation progresses and, as always, stand ready to answer any of your questions or those of your depositors, Please keep us informed of any events which relate to this situation.

12801

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

TO: Managing Officers of all MSSIC Associations
FROM: Charles C. Hogg, II
President
RE: The Ohio Situation
DATE: March 25, 1985

The past two weeks have been tense and trying, but all segments of the MSSIC system have performed admirably and well under difficult circumstances. This memorandum will attempt to summarize the events since March 7, 1985, to outline the steps and actions taken by MSSIC and its members, to determine our current position and future actions and to highlight the lessons we have or should have learned from this experience.

THE SITUATION IN OHIO

I will not rehash the events that lead to the problems at hand. You have read about that, or heard about that, because it has created a media blitz. The local newspapers, radio and television outlets have generally presented a balanced accounting of the events, although there were a few incidents of reckless or irresponsible reporting. We have found that those who asked before reporting have been most fair and objective. What is important is that we all learn from the unfortunate experience of our friends in Ohio.

WHAT MSSIC HAS DONE

The actions taken by MSSIC upon determining the facts, severity and implications of the Ohio situation took place on many fronts. On the financial front, we insured that the investments in both the insurance fund and the Central Reserve Fund were as liquid as necessary. We did not take any extraordinary measures because we by policy maintain a high level of liquidity, but we did review what would be necessary to mobilize large amounts of cash quickly. We were also in contact with our line banks to insure that they were prepared. Cash and currency rooms at local banks were alerted, and senior officers at six local banks were briefed. Contact was made and continually maintained with the Federal Reserve Bank of Richmond and its Baltimore Branch. Emissaries went to Richmond, and borrowing resolutions were sent to all MSSIC members. ✓

On the Public Relations front, we maintained open and candid communications with the local media of all forms and with the national media. Gilbert Sandler and Associates was on a high level of alert and was most helpful. We kept Charles H. Kresslein, Jr. at the Maryland League of Financial Institutions and, through him, the U.S. League, well informed. This exchange of information was most helpful. ✓

At the State level, we continually briefed and worked with Messrs. Brown and LeCompte, and Secretary Dewberry at the Department of Licensing and Regulation. The Governor's Staff Director and the leadership of the House and Senate were briefed and kept informed. All of these were most supportive and provided good suggestions and assistance.

The MSSIC staff performed exceptionally in talking to concerned depositors, the media and to member associations. The Board of Directors was kept informed through newspaper clippings, the Membership Committee was briefed and the Executive Committee was alerted to meet on call should that have become necessary.

ACTIONS BY MEMBERS

Many of our member associations took some very sound, prudent precautionary steps that may well have helped prevent a panic among their depositors. These should be exchanged and reviewed for use by all members. In addition to the obvious steps of increasing liquidity, other steps included close contact and communications with branches, staffing additional tellers, having senior officers meet and reassure depositors, and briefing all staff members. Some members packaged mortgages or securities as collateral for delivery to lending sources. Close contact and open information was maintained with banks and Federal Reserve Bank borrowing procedures were implemented or reviewed. A lower advertising profile was adopted by some.

We must be careful not to over-react to a situation such as this, but many prudent actions should be taken. An appearance of "business as usual" must be maintained, but behind the scenes, many actions must be taken in a calm, orderly manner. MSSIC must be kept informed, because we can provide assistance and guidance, but each institution's own contingency plans must be in place and activated.

CURRENT POSITION

To date, MSSIC members have experienced some expected outflows, but there have been no lines and no depositor panic. There may have been some fundamental changes in the way we do business, and carefully analysis must be made of savings inflows and outflows over the next few weeks. The mix of liabilities must be monitored and important savings customers contracted and reassured. Just because the media blitz appears to have subsided does not mean that we can relax.

LESSONS LEARNED

This portion of the memo cannot be completed yet, because we are still learning from this experience. The lessons we have learned thus far, however, include:

1. Communication is key to this kind of environment. We are exploring several kinds of "networks", be they electronic, telephonic, messenger services or other. Communications must flow both ways between MSSIC and its members.

2. Real liquidity is important, and collateral at some level should be maintained pre-packaged.

3. The public's confidence is our most important product, and the one thing we must have.

3/21/85

Bob.

This is in response to your request for information concerning the failure of Home State Savings and Loan in Ohio, which has resulted in the subsequent closing of the 71 Ohio savings and loans which were insured by the Ohio Deposit Guaranty Fund (ODGF). As you are aware, ODGF is a private deposit insurance fund which structurally has some similarity to the Maryland Savings Share Insurance Corporation (MSSIC). MSSIC insures 102 institutions in Maryland with total deposits of \$7.2 billion.

For your review, and keen analytical scrutiny, I am enclosing some of the numerous articles which have been concerning the Ohio situation. By way of an oversimplification, Home State was highly leveraged and significantly overinvested with a government securities fund known as E.S.M. Government Securities Inc. (ESM). ESM failed, with losses estimated to be from \$300 to \$315 million. Numerous allegations of impropriety have been made against ESM including fraud and misappropriation.

Home State reportedly had borrowings of some \$670 million with ESM. The borrowings were in the form of repurchase agreements (repos) and reverse repurchase agreements (reverse repos), which means that Home State had pledge securities, or been assigned securities as part of the borrowings. The highly leveraged position is seen

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from the fact that Home State had aggregate savings deposits of \$668 million and \$670 million borrowings. Home State's estimated losses were \$150 million and they had only about \$20 million in reserves.

The private insurance fund, ODGF, had reserves of approximately \$136 million. After Home State's problem there was little, if anything, left of the insurance fund, and Home State began to experience "RUNS." With continued media coverage the other ODGF institutions began to have heavy withdrawals and the Governor, Richard Celeste, declared a 3 day "bank holiday", i.e. he closes them to stop withdrawals. Several articles contain comments about the wisdom of Governor Celeste's decision. The closing took place March 15 (Friday) and as of today, March 21, it is unknown if any ODGF insured institutions are open. Reportedly a few, perhaps 14 or so that have applied for federal insurance, have been permitted to open.

Obviously, the point of your inquiry, along with many other people, is what about MSSIC? To start, based upon calls to our larger institutions, no MSSIC institution was involved with ESM securities. Furthermore, MSSIC has a guideline which limits borrowings to 15% of liabilities, i.e. a MSSIC institution couldn't leverage to the point of Home State.

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With respect to financial stability, I have enclosed a copy of Selected MSSIC and Industry Data as of 12/31/84. The MSSIC data has appeared in the newspaper articles, but not most of the industry data. Significant items would be that 65% of the industry's assets are in mortgage loans and another 18% is in investments and securities. (In our system, the bulk of investments and securities are in government or mortgage backed issues). The liquidity in the industry is 16.8%, which reflects either cash or items that are readily convertible into cash. And although we choose not to make an issue of it, MSSIC reserves to aggregate industry deposits is 2.31% compared to .76% of FSLIC. Of course by Congressional Resolution FSLIC is backed by the full faith and credit of the federal government.

The adequacy of the Ohio regulatory agency has also been an issue. I, ~~Ernest~~ Director Brown, ~~do not~~ know what the Ohio regulations are, however ~~our agency does~~ have both statutory and regulatory restrictions and requirements which would protect against some of problems encountered in Ohio. We have conflict of interest statutes (FIA 9-307 and 9-323) and Regulation 43. Under a recent advice of counsel from Jack Cooper, unsecured loans to officers and directors are prohibited and secured loans ~~thereof~~ are reviewed and approved by the Division Director.

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You are quite familiar with the fact that some of our regulations, specifically Regulation 30 A, B, & C, place stricter lending requirements on State-chartered associations than are applicable to federal associations. Among these are loans to one borrower and limitations as to what percentage of appraised value an association can lend. Hopefully SB 109 and HB 596 with an antitrust review will preserve these regulations which we feel address safety and soundness issues. Also, SB 111 and 112, and companion HB 333 and 334 will add much needed enforcement authority.

We examine our associations on a 12 to 15 month basis. All associations, except for the smaller ones, file monthly financial statements with both us and MSSIC. Although we ~~do~~ do not, MSSIC has a sophisticated computer system and in-house financial analysts on a full time basis. We expect to be joining their system in ~~January~~ July or August of this year. We also require all associations of \$5 million or more in assets to obtain an annual certified audit by an independent accounting firm. Bottomline, we don't feel we have any surprises out there, and our problems are manageable.

In summary, if you have had the fortitude to read this far, the only true problem being faced by the

Pg 5

State chartered MSSIC system as the possibility of loss of confidence and "Runs" on the associations. MSSIC and the industry ~~are~~ ^{are} liquid and sound, but so were most of the 70 other Ohio institutions which were closed. Some isn't a balance sheet item, but it is a ^{POSSIBLE} liability at this time. Cash flows have been monitored daily at the larger associations, but no sizeable run off of deposits have occurred. Bruce Sillman of the Morning Sun interviewed Charlie and I this morning and he said he had gone to Pikeville yesterday and there ~~was~~ was very little lobby traffic in the many MSSIC institutions along Reisterstown Road. I'd like you to read the Sun Editorial on public confidence and emphasize the need not to injure it to anyone that you discuss this material with.

Bill

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OFFICE OF THE ATTORNEY GENERAL
DEPARTMENT OF LICENSING AND REGULATION
501 ST. PAUL PLACE
14TH FLOOR
BALTIMORE, MARYLAND 21202-2272
(301) 659-6220

April 11, 1985

TO: Stephen H. Sachs
Attorney General

FROM: Francis X. Pugh *F. Pugh*
Robert deVries Prierson

SUBJECT: MISSIC-Insured Associations

This memo will briefly outline a possible approach to the concerns you expressed yesterday over MISSIC-insured associations, Old Court and Merritt in particular.

This approach must necessarily be undertaken by the Governor and undertaken with "vigah". Politically, the Governor will be faced with a recalcitrant Board of Commissioners (lead by Tom Gisrael) and a more recalcitrant MISSIC Board. Recently, the Governor's Office has met with stiff opposition over the issue of whether the MISSIC seal erroneously portrays the organization as an agency of the State. The specter of causing "a run on the banks" will be ever present and a political justification for caution or inaction. Through the Office of the Secretary, however, the Governor should be able to get the information and implement the steps we suggest below. Our office will be able to assist in advice on the confidentiality provisions of the Financial Institutions Article.

Short Term

Step 1. The Governor should find out--face-to-face--if any Maryland institutions are in trouble at the present. We have heard the same rumors you have, and the Licensing and Regulation regulators shake their heads with due off-hand comments.

Step 2. The Governor should assemble extra specialist to "watch the watchdogs" so he can be personally assured that the Maryland associations are strong. Our personal opinion is that neither Licensing and Regulation nor MISSIC staff are up to this task and are easily over-matched by the CEO's of troubling associations.

Step 3. The Governor could periodically publish the reports of associations under provisions in the Financial Institutions Article to assure the citizens that their money is safe.

IVH5

Stephen H. Sachs
April 11, 1985
Page 2

Long Term.

Legislation (with the proper "task force", if required) should be proposed for next year to phase-out large (say over \$50 million) associations from MISSIC to FSLIC. We feel that MISSIC was never intended to cover the larger associations. If such a cap were in place, the State may well be able to pledge its "full faith and credit" without affecting its bond rating.

We also have reluctantly concluded that without the Governor's active participation, there is little our office can independently undertake to address or even discover the dimensions of the problem.

We will meet with you at your convenience.

FXP:RdeVF:cda

Appendix to the Rpt of the Special Counsel on the Savings 52 of 52
& Loan Crisis (1986) Exhibits IV H6 - IV H 19 , pp 3179 - 3239

This is how I'd like the headers to read.
Thanks

OFFICE OF



STEPHEN H. SACHS
ATTORNEY GENERAL

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ASSISTANT ATTORNEY GENERAL
Counsel to the
Department of Licensing and Regulation

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CHARLES O. MONK
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THE ATTORNEY GENERAL
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ROBERT deV. FRIERSON
ASSISTANT ATTORNEY GENERAL
DEPUTY COUNSEL
JOHN K. ANDERSON
ASSISTANT ATTORNEY GENERAL
CHIEF, LITIGATION AND ADMINISTRATION

April 23, 1985


Mr. Ejner J. Johnson
Staff Director
Executive Department
State House, 2nd Floor
Annapolis, Maryland 21404


Dear Mr. Johnson:

Enclosed is a draft of some proposed legislation relating to savings and loan associations which we will be happy to discuss with you at your pleasure. Should some emergency arise, the Board of Commissioners under FI §§9-701 and 9-702 could petition for the immediate appointment of a conservator and under §9-703, the court could put limitations or restrictions on withdrawals to prevent a run. MSSIC would have the first right to be appointed conservator under §9-709.

The next step could be finding a buyer for the savings and loan association's portfolio or a lender on the strength of the portfolio to provide liquidity. If the better investments have already been pledged to the Federal Reserve, it may be difficult to obtain a buyer or lender without the guaranty of MSSIC. We believe MSSIC would have this authority under FI §10-104(c)(2); however, express authority is contained in the proposed legislation.

Very truly yours,


Francis X. Pugh
Assistant Attorney General
Counsel to the Department


Robert deV. Frierson
Assistant Attorney General
Deputy Counsel to the Department

FXP:RF:cda
Enclosure

IVH6

3179

A57119

SUMMARY OF PROPOSED LEGISLATION

The underlying concept is that MSSIC was never designed to insure large S & Ls who had the administrative and other ability to obtain FSLIC insurance. The bill would therefore require "Major" S & Ls (those over 50 million dollars in savings accounts) to convert to FSLIC.

Major S & Ls not obtaining FSLIC (or FDIC insurance) could not remain open for business, with, however, the following grace periods:

1. S & Ls just growing into Major size S & Ls.
2. S & Ls with applications pending for federal insurance.
3. S & Ls with federal applications denied but where the division determines that the public will not be jeopardized and
4. S & Ls merged or merging with financial institutions.

At the end of the grace period if federal insurance is not obtained, the S & Ls could operate under certain restrictions for a period of time, including a limitation on withdrawals. The Board of Commissioners could then make a determination that a conservator or receiver should be appointed.

MSSIC should be given express authority (which it may already have) to guarantee a lender or buyer coming to the rescue of a S & L. It would also become the announced policy of the State to lend money to MSSIC if necessary to bail out a smaller S&L in trouble.

Criminal penalties would be imposed prohibiting self-dealing and the Governor would be given the right to declare a bank holiday for S & L's.

~~A57120~~

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* film at 11:00

Add new subsections to Financial Institutions Article §9-101
(definitions)

FI §9-101.

"FEDERAL INSURANCE" MEANS INSURANCE ISSUED BY THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION OR THE FEDERAL DEPOSIT INSURANCE CORPORATION.

"MAJOR SAVINGS AND LOAN ASSOCIATION" MEANS A SAVINGS AND LOAN ASSOCIATION WITH SAVINGS ACCOUNTS IN AN AGGREGATE AMOUNT OF \$50,000,000 OR MORE.

Add new sections to Financial Institutions Article, Title 9,
Subtitle 1 (prohibition)

S9-103

(A) NO MAJOR SAVINGS AND LOAN ASSOCIATION SHALL BE OPEN FOR
BUSINESS ON OR AFTER SEPTEMBER 1, 1985 UNLESS:

- (1) ITS ACCOUNTS ARE INSURED BY FEDERAL INSURANCE; OR
- (2) IT IS QUALIFIED TO BE OPEN FOR BUSINESS UNDER
SUBSECTION (B).

(B) A MAJOR SAVINGS AND LOAN ASSOCIATION MAY BE OPEN FOR
BUSINESS WITHOUT FEDERAL INSURANCE:

(1) FOR A PERIOD OF TIME NOT EXCEEDING 6 MONTHS AS MAY BE
DETERMINED BY THE DIVISION DIRECTOR IF:

(I) ITS APPLICATION FOR FEDERAL INSURANCE IS
SUBSTANTIALLY COMPLETE; AND

(II) THE DIVISION DIRECTOR DETERMINES THAT THE MAJOR
SAVINGS AND LOAN ASSOCIATION WILL QUALIFY FOR FEDERAL INSURANCE;

(2) FOR A PERIOD OF TIME NOT EXCEEDING 6 MONTHS AFTER ITS
APPLICATION FOR FEDERAL INSURANCE HAS BEEN DENIED UNDER TERMS AND
CONDITIONS AS THE DIVISION DIRECTOR SHALL PRESCRIBE IF THE
DIVISION DIRECTOR DETERMINES THAT THE INTEREST OF THE SAVINGS
ACCOUNT HOLDERS WILL NOT BE JEOPARDIZED;

(3) FOR A PERIOD OF TIME NOT EXCEEDING 1 YEAR AS MAY BE
DETERMINED BY THE DIVISION DIRECTOR IF IT IS OWNED OR CONTROLLED,
DIRECTLY OR INDIRECTLY, BY AN INSTITUTION WITH FEDERAL INSURANCE
AND THE INSTITUTION:

(I) GUARANTEES THE SAVINGS ACCOUNTS OF THE MAJOR SAVINGS AND LOAN ASSOCIATION; OR

(II) HAS ENTERED INTO AN AGREEMENT TO ACQUIRE OR MERGE WITH THE MAJOR SAVINGS AND LOAN ASSOCIATION; OR

(4) FOR A PERIOD OF TIME NOT EXCEEDING 1 YEAR AS MAY BE DETERMINED BY THE DIVISION DIRECTOR FROM THE DATE OF BECOMING A MAJOR SAVINGS AND LOAN ASSOCIATION IF A SAVINGS AND LOAN ASSOCIATION WAS NOT A MAJOR SAVINGS AND LOAN ASSOCIATION ON THE EFFECTIVE DATE OF SECTION BUT LATER BECOMES A MAJOR SAVINGS AND LOAN ASSOCIATION.

(C) IF THE BOARD OF COMMISSIONERS DETERMINES THAT IT IS IN THE PUBLIC INTEREST, IT MAY INITIATE PROCEEDINGS FOR THE APPOINTMENT OF A CONSERVATOR OR A RECEIVER UNDER §9-701 OR §9-708 OF THIS ARTICLE FOR AN ASSOCIATION NOT QUALIFIED TO BE OPEN FOR BUSINESS UNDER THIS SECTION.

§9-104

(A) AN ASSOCIATION NOT QUALIFIED TO BE OPEN FOR BUSINESS UNDER §9-103 OF THIS SUBTITLE MAY ALLOW WITHDRAWALS AS MAY BE DETERMINED BY THE DIVISION DIRECTOR BY A SAVINGS ACCOUNT HOLDER DURING ANY PERIOD OF 30 CONSECUTIVE DAYS UNDER THE FOLLOWING CONDITIONS:

(1) THE WITHDRAWAL AMOUNT MAY NOT EXCEED \$750 IN THE AGGREGATE IN EACH SAVINGS ACCOUNT FOR EACH PERIOD OF 30 CONSECUTIVE DAYS; AND

A57124

(2) THE ASSOCIATION SHALL KEEP AN ACCOUNTING OF WITHDRAWALS MADE AND THESE WITHDRAWALS SHALL CONSTITUTE CREDITS AGAINST THE PRO RATA DIVIDEND OF A WITHDRAWING SAVINGS ACCOUNT HOLDER IN THE EVENT THAT THE ASSOCIATION IS LIQUIDATED.

(B) AN ASSOCIATION NOT QUALIFIED TO BE OPEN FOR BUSINESS UNDER §9-103 OF THIS SUBTITLE MAY RECEIVE DEPOSITS AS MAY BE DETERMINED BY THE DIVISION DIRECTOR UNDER THE FOLLOWING CONDITIONS:

(1) DEPOSITS SHALL NOT BE SUBJECT TO ANY LIMITATION ON PAYMENT OR WITHDRAWAL UNLESS A CONSERVATOR OR A RECEIVER HAS BEEN APPOINTED UNDER §9-701 OR §9-708 OF THIS ARTICLE;

(2) DEPOSITS SHALL BE SEGREGATED AND SHALL NOT BE USED TO LIQUIDATED ANY INDEBTEDNESS OF THE ASSOCIATION; AND

(3) DEPOSITS SHALL BE KEPT ON HAND IN CASH IN THE FOLLOWING MANNER:

(I) INVESTED IN DIRECT OBLIGATION OF THE UNITED STATES OR THIS STATE; OR

(II) DEPOSITED IN A FINANCIAL INSTITUTION APPROVED BY THE DIVISION DIRECTOR.

Add new subsection to Financial Institutions Article §10-116 (State's Credit not pledged) and new Financial Institutions Article §10-116A (emergency action -- MSSIC pledge)

§10-116.

(a) This title does not, and the corporation may not, pledge the faith or credit of this state.

(B) IT IS THE POLICY OF THIS STATE THAT FUNDS WILL BE APPROPRIATED AND LOANED TO THE MARYLAND SAVINGS-SHARE INSURANCE CORPORATION IF NECESSARY TO PROTECT SAVINGS ACCOUNT HOLDERS IN SAVINGS AND LOAN ASSOCIATIONS OTHER THAN MAJOR SAVINGS AND LOAN ASSOCIATIONS AS DEFINED IN §9-101 OF THIS ARTICLE.

§10-116A.

(A) UPON THE DETERMINATION OF THE CORPORATION AND THE DIVISION DIRECTOR THAT AN EMERGENCY EXISTS, THE CORPORATION MAY PLEDGE THE INSURANCE FUND TO PROTECT A FINANCIAL INSTITUTION OR OTHER ENTITY LENDING MONEY TO, OR PURCHASING ASSETS OF, A MEMBER ASSOCIATION IF THIS IS NECESSARY TO PROVIDE LIQUIDITY OR OTHERWISE PROTECT, HOLDERS OF SAVINGS ACCOUNTS.

(B) THE ACTION PROVIDED FOR IN SUBSECTION (A) MAY NOT BE TAKEN WITH RESPECT TO A MAJOR SAVINGS AND LOAN ASSOCIATION AS DEFINED IN §9-101 OF THIS ARTICLE.

A57126

Add new subsection to Financial Institutions Article §9-307
(conflict of interest--penalty provision)

FI §9-307. Conflict of interest.

(a) Loans prohibited to director or officer.--(1) For purposes of this section "member of the immediate family" of an officer or director means a spouse, child, parent, sibling, grandparent, or grandchild.

(2) Except as provided in subsection (b) of this section, a savings and loan association or its subsidiary may not make a loan directly or indirectly to:

(i) Any officer or director of the association; or

(ii) Any corporation or business in which an interest of 10 percent or more is owned by an officer or director of the association, or member of the immediate family of an officer or director.

(b) Exceptions to prohibition.--A loan is not prohibited by subsection (a) of this section if the loan is:

(1) Secured by the borrower's:

(i) Principal residence; or

(ii) Savings accounts in the association, provided that a loan secured by a savings account may not be more than the withdrawal value of the account; or

(2) (i) Approved by a two-thirds vote of the board of directors, any interested director taking no part in the vote;

(ii) Approved by the Division Director; and

A57127

(iii) Secured by collateral appraised by a disinterested appraiser approved by the Division Director.

(c) Savings accounts.--An officer or director of a savings and loan association may not directly or indirectly buy at less than face value any interest in a savings account issued by the association.

(D) ANY PERSON WHO VIOLATES THIS SECTION IS GUILTY OF A MISDEMEANOR, AND ON CONVICTION IS SUBJECT TO A FINE OF NOT MORE THAN \$1,000 OR BY IMPRISONMENT FOR NOT MORE THAN ONE YEAR, OR BOTH.

Add new subsection to Financial Institutions §9-323 (control of association -- penalty provision)

§9-323. Control.

(a) "Controlling person" defined.--In this section "controlling person" means an individual or legal entity, acting directly or indirectly, individually or in concert with one or more other individuals or legal entities, or through one or more subsidiaries, who owns, controls, or holds with power to vote, or holds proxies to vote more than 20 percent of the voting shares of the capital stock association, or controls in any manner the election of a majority of the directors of the capital stock association.

(b) Control by noncitizen.--A person who is not a citizen of the United States may not directly or indirectly acquire control of a capital stock association.

(c) Control of more than one association.--(1) A person may not directly or indirectly acquire control of more than one capital stock association.

(2) This subsection does not apply to a holding company of a savings and loan association, the Maryland Savings-Share Insurance Corporation, or the Federal Savings and Loan Insurance Corporation.

(d) Conflict of interest.--(1) A controlling person may engage in a business or transaction with a capital stock association only if:

(i) A full disclosure of the business or transaction

~~A57129~~

and the nature of the controlling person's interest is made to the board of directors of the capital stock association;

(ii) The transaction is approved in good faith by the recorded vote of the present and voting disinterested directors of the association; and

(iii) Any profits of the controlling person are not at the expense of the capital stock association and do not prejudice its best interests.

(2) This section does not apply to compensation paid to a controlling person for services.

(e) Loan to controlling person.--A capital stock association may make a loan to any controlling person if:

(1) The loan is approved in good faith by the recorded vote of the present and voting disinterested directors of the association;

(2) The security is appraised by a disinterested appraiser; and

(3) The loan is approved by the Division Director.

(F) ANY PERSON WHO VIOLATES THE PROVISIONS OF SUBSECTIONS (D) OR (E) IS GUILTY OF A MISDEMEANOR, AND ON CONVICTION IS SUBJECT TO A FINE OF NOT MORE THAN \$1,000 OR BY IMPRISONMENT FOR NOT MORE THAN ONE YEAR, OR BOTH.

Add new subsection to (Governor's executive orders)

ARTICLE 41, §15C.

(D) IF AN EMERGENCY EXISTS AS TO A SAVINGS AND LOAN ASSOCIATION, THE GOVERNOR:

(1) MAY PROCLAIM A DAY ON WHICH THE SAVINGS AND LOAN ASSOCIATION MAY REMAIN CLOSED; AND

(2) SHALL LIMIT THE PROCLAMATION TO THE PRINCIPAL OFFICE AND BRANCH OFFICES OF THE ASSOCIATION THAT THE EMERGENCY AFFECTS.

MEMO

FROM

APR 2 1955

FREDERICK L. DEWBERRY

4/1/55

Johnnie -

Enclosed are copies of
the Congressional
testimony of both Hogg
and Brown as promised.

Fred

IVH7

3192

A52371



HARRY HUGHES
GOVERNOR

STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS, MARYLAND 21404

August 1, 1985

Wilbur D. Preston, Jr., Esquire
Special Counsel
Office of the Governor, 15th Floor
301 West Preston Street
Baltimore, Maryland 21201

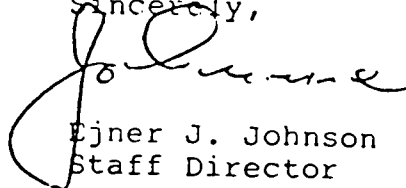
Dear Woody:

I recall that during the interview, you indicated that you had not been able to secure copies of the testimony by Charles Hogg or Charlie Brown before the Commerce, Consumer and Monetary Affairs Subcommittee of the Committee on Government Operations.

In perusing my files, I discovered my copies of the testimony which are enclosed for your use.

Also enclosed is a copy of a letter from Charlie Brown to the Subcommittee providing additional data which they had requested.

Sincerely,



Ejner J. Johnson
Staff Director

EJJ:mcs

Enclosures

Testimony of Charles C. Hogg, II
before
Commerce, Consumer and Monetary Affairs Subcommittee
of the
Committee on Government Operations
April 3, 1984

I am pleased to appear before the Subcommittee to present my views on the state/private deposit insurance systems and to discuss in particular the Maryland Savings-Share Insurance Corporation (MSSIC). My testimony will provide brief background on MSSIC and respond to the four topics listed in Chairman Barnard's letter of March 22, 1985.

MSSIC was created in 1962 by a special act of the Maryland General Assembly for the purpose of providing a viable alternative for deposit insurance for state-chartered savings and loan associations. In the early 1970's Maryland law was changed to require deposit insurance for all savings and loans in the state, and MSSIC and the Federal Savings and Loan Insurance Corporation (FSLIC) were the only providers authorized. The Charter of MSSIC appears at Title 10, Financial Institutions Article, Annotated Code of Maryland. The stated purposes of the Corporation are listed there as follows:

- "(1) Promote the elasticity and flexibility of the resources of members;
- (2) Provide for the liquidity of members through a central reserve fund; and
- (3) Insure the savings accounts of members."

The operations of MSSIC are directed by a Board of Directors comprised of three members appointed by the Governor of Maryland and eight members elected from among representatives of member associations. The Board of Directors employs a staff of financial professionals to implement Board policies. I am President and Chief Operating Officer. In addition to the Board of Directors, we have a Membership Committee which meets monthly to review the operations of the member associations and to determine the eligibility of new associations for membership.

Our analysis of the operations and financial condition of member associations is an

active, not a passive, one. Each member whose assets exceed \$3 million is required to submit monthly a complete financial report which includes a balance sheet, income statement and supplemental data. This information is entered into an IBM 34 computer which is programmed to point out exceptions to all of our rules, regulations, guidelines and policy statements. In addition the computer provides reports on trend analysis, margin analysis and any change beyond established parameters. These reports are reviewed by our financial analysts, and presented to the Membership Committee and Board. Most importantly, our staff follows up on the reports by on-site visits to and review of the operations of selected institutions high-lighted by the reports. These visits and reviews may include checking on securities portfolios, loan files, operating expenses and other specifics areas of interest, or they may entail a complete review of the operations of the institution.

In addition to our major data processing efforts, our staff uses an IBM Personal Computer to perform selected analysis on member associations as well as for internal uses.

To supplement the analysis and review conducted by my staff, we have complete access to the examinations and files of the Division of Savings and Loan Associations (the Division), the state agency with regulatory responsibilities for the state chartered industry. Members of my staff attend the Exit Interviews conducted by the state upon completion of an examination of an institution, and we receive at the same time as the institution a copy of the Examination Report, and subsequently, a copy of the institutions response to comments in that examination. Coordination between MSSIC and the Division is further enhanced by the Director's attendance at MSSIC Board meetings, and my attendance at meetings of the Board of Commissioners. Our staffs and senior officials meet frequently to coordinate our efforts in dealing with potential problem associations and to insure that total, complete and free lines of communications exist. Copies of correspondence between our offices and member institutions are regularly

exchanged.

Our coordination and cooperation with the Federal Home Loan Bank Board (FHLBB) is naturally more limited, although we do attend seminars and meetings where representatives of the FHLBB participate. In addition, I have recently held meetings with the Director of the Insurance Section of the FSLIC on methods of planning for and executing institution closings or other supervisory actions. We retain as a consultant the firm of the former Director of Insurance of the FSLIC.

The financial data I will provide today is as of December 31, 1984 to give a good comparative basis, although our data processing capabilities allow us to provide monthly data. We will be pleased to provide any data the committee wants.

At December 31, 1984 the 101 members of MSSIC (now 102) had total assets of \$8.9 billion and total savings deposits of \$7.2 billion. Included in the assets are mortgage loans of \$5.8 billion and Investments and Securities of \$1.6 billion. Our largest member had total assets of \$1.6 billion and our smallest member had assets of \$152,968.

At the same date, MSSIC had total assets of \$204.8 million, which included highly liquid investments, primarily U.S. Government or Agency securities of \$132.2 million. In addition, the Central Reserve Fund, used for liquidity, had assets of \$80.8 million, also invested in liquid securities. Our premium structure consists of a 2% Capital Deposit maintained by member associations with MSSIC. These deposits are adjusted semi-annually as of June 30 and December 31 of each year. We calculate our reserves or net worth to be \$166.8 million. The components of this reserve position are Capital Deposits (\$144.3 million), Retained Earnings (\$17.5 million) and a Reserve for Insurance Losses (\$5.0). All of the MSSIC figures are audited as of December 31, 1984 and Touche Ross & Co. has given an unqualified opinion on our financial statements.

At this point in my testimony, I would like to digress to introduce a topic that has significant meaning to MSSIC and which could add over \$15 million to our retained earnings and reserve position.

This Subcommittee has asked us to make recommendations to Congress on measures which could be taken to strengthen the private deposit insurance system. Mr. Chairman, MSSIC is proud of its record. We feel depositors in members of MSSIC are thoroughly protected by our continuing to operate as we have since we were established in 1962.

There is one area, however, where a change in the law would allow MSSIC to increase insurance reserves, which would add further protection to our members. As the Committee is aware, the federal deposit insurance agencies, the FDIC and FSLIC and the central liquidity facility of the National Credit Union Administration, are statutorily exempt from federal income taxes. MSSIC is statutorily exempt from Maryland state taxes. MSSIC, however, is not exempt from federal taxes, although several state organizations which perform functions similar to those of MSSIC are exempt from federal taxes.

This disparity in treatment results from the fact that the section of the Internal Revenue Code which provides the federal exemption for deposit insurers, section 501(c)(14)(B), applies only to organizations created before September 1, 1957. MSSIC is excluded by virtue of having been established in 1962.

There is no logical reason for this discrimination. A federal tax exemption for MSSIC would permit us to add approximately fifteen million dollars to our insurance reserve fund, that figure representing taxes owed to the federal government, but not yet paid to the government. If MSSIC were operating under a federal exemption, we would be fifteen million dollars stronger, yet there would be no revenue loss to the federal Treasury. More importantly, we would operate in the same federal tax position as the federal deposit insurance agencies and those private insurers established before September 1, 1957.

A bill H.R. 6199, was introduced last Congress to eliminate entirely the cut-off date in Section 501(c)(14)(B) of the Code. We understand that a similar bill will be

reintroduced this session. We hope it will be enacted into law. In light of Congress' concerns over the ability of federal and state deposit insurers to do their jobs well, all deposit insurers should have the same federal tax treatment, particularly when they perform as well as MSSIC.

As we have pointed out, our exacting procedures for membership in MSSIC, and the careful ongoing scrutiny that we make of our state's savings and loan industry, are a depositor's best protection against loss. No depositor in Maryland has lost even a single penny since MSSIC was organized in 1962, and we intend to continue this fine record. A federal tax exemption would help us perform the job of assuring the maximum protection available under law to depositors with members of MSSIC.

A proper and appropriate early-warning and regulatory/supervisory system such as is in place in Maryland and at MSSIC should preclude the failure of one or more large insured thrifts from occurring suddenly or as a surprise to regulators and insurers. Careful and constant monitoring must be used to detect potential problems before they become serious, and enforcement and corrective action must be taken quickly and effectively. Should a significant failure occur, however, several options are available to the regulator and insurer. These options, exercised early and decisively, include voluntary merger, assisted merger or acquisition, conservatorship or receivership, assumption of management and control, sale of branches or other assets and controlled liquidation. Obviously all sources of liquidity, including the Federal Reserve Bank Discount Window, bank lines and other sources must be activated. Communications among all parties concerned must be open and effective.

Several lessons have been learned from the events in Ohio. These deal primarily with communications, liquidity sources, and regulatory response. As a result of the Ohio situation, we have reviewed our methods of communications with our members, and with the executive and legislative branches of our State government. We are capable of disseminating quickly critical information to 102 savings and loans, and of getting from

these institutions, and their branches, fast and accurate information.

We have reviewed and are assured that those institutions who are eligible are properly filed and prepared to utilize their access to the Federal Reserve Bank Discount Window. We have instructed our members to reconfirm the terms and conditions of borrowing under bank lines of credit. MSSIC's own liquidity position has been temporarily increased

We have the systems in place to deal with an unfortunate event. All the parties involved, including the Federal Reserve Bank, are prepared to do our jobs, quickly and effectively.

It has been my pleasure to appear before you. I would be happy to answer any questions. Thank you for your time and interest.

1
NAME OF DEPOSIT INSURANCE FUND Maryland Savings-Share Insurance Corporation

I. General Information:

All financial data for both MSSIC and industry is as of December 31, 1984

1. Type(s) of Financial Institution(s)

whose deposits you insure:
State chartered savings and loan associations

2. In which state(s) do you insure:

Members must have principal offices in Maryland. There are two branches in Delaware.

3. A. Cost of initial membership

in your fund, if any: 0.4% of initial savings for new members, due for each of first five years

B. Annual premium: opportunity cost on 2% Capital Deposit

C. Continuing equity contribution or membership deposit:

2% Capital Deposit adjusted June 30 and December 31

4. Maximum coverage per account or per depositor:

\$100,000 per account

5. Do you insure brokered deposits:

Yes, but members are limited in levels accepted

6. Number of insured institutions, by type:

A. Under \$100 million: 83

B. \$100 million to \$500 million: 11

C. \$500 million to \$1 billion: 6

D. Over \$1 billion: 1

7. Aggregate amount of deposits insured, by type of institution:

\$7,212,447,328

8. Your fund's total useable assets:

Total Assets \$204,818,857, Reserves \$166,756,118

9. Ratio of usable insurance fund assets to deposits insured:

$$\frac{\text{Reserves } \$166,756,118}{\text{Savings } 7,212,447,328} = 2.31\%$$

11. Background:

1. Are you a governmental or private agency and are you a creation of State law? Please provide a text or description of your basic statutory authority.
 "There is a Maryland Savings-Share Insurance Corporation, established as a nonprofit, nonstock corporation, the members of which are associations that are accepted for membership under this title." Section 10-102, Title 10, Financial Institution Article, Annotated Code of Maryland.
2. Please provide name of the state agency(ies), if any, with supervisory authority over your books, records, operations, etc.
 Director, Division of Savings and Loan Associations has approval authority over By-Laws, Rules and Regulations. See Section 10-111, Title 10, FI.
3. If a situation arises where your insurance funds are inadequate to cover deposit losses, do you have, by statute,
 - a. access to the treasuries of the state(s) in which you operate; and/or
 No. See Section 10-116, Title 10, FI
 - b. authority to assess other insured institutions enough to cover the losses?
 Yes. See attached Sections 3-304 and 3-305 of Rules and Regulations
4. Are you subject to state limitations as to the ratio of insurance fund assets to total deposits insured?
 No
5. Do you have lines of credit already established by contract on which you can draw at will? What is the aggregate dollar limit of established lines of credit? With what institution or institutions have these credit lines been established?
 Yes. Loan Agreement dated May 1, 1983 with First Amendment dated April 30, 1984, requires banks to lend up to \$60,000,000 under terms and conditions of Loan Agreement. Participating banks are:

The First National Bank of Chicato	\$25,000,000
The Riggs National Bank of Washington, D.C.	13,000,000
Mellon Bank, N.A.	10,000,000
Union Trust Company of Maryland	7,000,000
Equitable Bank, National Association	5,000,000
	\$60,000,000

6. Do you reinsure your risks with any other insurance carriers? Please provide details.

No.

7. Regarding your board of directors:

a. How is your board of directors selected?

Three (3) members appointed by Governor
Eight (8) members elected from the membership

b. What rules govern the size and composition of the board?

Section 10-109, Title 10, FI. (attached)

c. Who are the present members of your board? (Please provide names and principal affiliations.)

Name

Principal Affiliation

BOARD OF DIRECTORS

George W.H. Pierson (Chairman)
President
Parkville Savings and Loan
Association
7802 Harford Road
Baltimore, Maryland 21234

Jerome F. Dolivka (Vice Chairman)
Executive Vice President
Fairmount Savings and Loan
Association
8201 Philadelphia Road
Baltimore, Maryland 21237

Frances F. Anderson (Treasurer)
Clark and Anderson (CPA's)
900 Crain Highway, S.W.
Glen Burnie, Maryland 21061

Michael J. Dietz (Secretary)
Executive Vice President
Baltimore County Savings and Loan
Association
4208 Ebenezer Road
Baltimore, Maryland 21236
(Mail - P.O. Box 397, Perry Hall, Md. 21128)

Leonard Bass
Vice President
Business Men's Building
Association
916 Munsey Building
Baltimore, Maryland 21202

Joseph P. Carroll
Executive Vice President
Automobile Trade Association
of Maryland
100 Cathedral Street, Suite 9
Annapolis, Maryland 21401

Mr. John C. Donohue, Sr. (Retired)
Donohue Agencies
7402 York Road
Towson, Maryland 21204

Henry R. Elsnic
President
Madison and Bradvord Savings and
Loan Association
6721 Harford Road
Baltimore, Maryland 21234

Mr. John D. Faulkner, Jr.
961 Stable Court
Davidsonville, Maryland 21035

Mr. James D. Laudeman, Jr. (Attorr)
Callahan, Calwell and Laudeman
210 East Redwood Street
Baltimore, Maryland 21202

Terry L. Neifeld
Secretary
Cowenton Savings and Loan
Association
5423 Ebenezer Road
White Marsh, Maryland 21162

III. Supervision of insured institutions:

1. Do you impose on the institutions whose deposits you insure, reserve, capital or other safety and soundness requirements designed to prevent the likelihood of insolvency? If so, what basic requirements do you impose? Yes
- Monthly submission of complete financial report, over \$3 million.
 Liquidity - as defined, 6% of savings - R&R Section 3-210
 Net Worth - as defined, 4.66% of savings - R&R Section 3-211
 Delinquencies - as defined 4.0% of loans - R&R Section 3-212
 Mortgage loan concentration - R&R Section 3-217
 Borrowing - 15% from all sources - Policy Statement No. 2.

2. Please respond separately for each state in which you insure deposits:

a. Do you have authority, either by statute or contract, to discontinue a financial institution's membership in your deposit insurance fund? Yes, If the institution (1) violates the laws of the State, (2) is conducting unsafe or unsound practices, (3) is in violation of By-Laws, Rules or Regulations or (4) has insurance terminated by FSLIC. See Subtitle VI, Rules and Regulations.

b. Under what set of conditions or circumstances would you be authorized to discontinue insurance?

See III.2.a. and Subtitle VI, Rules and Regulations

c. Since January 1, 1980, set forth the number of institutions whose insurance you have discontinued and the reasons for such discontinuance.

None

3. Please respond separately for each state in which you insure deposits:

a. Do you have authority to examine the books, records, loans and other financial transactions of the institutions you insure? Is any such authority statutory or by agreement? Please describe and/or provide a copy of your authority.

Yes. See Section 3-208, Rules and Regulations

b. How frequently do you examine the institutions whose deposits you insure? Please describe your examination policies and procedures. How many examiners/auditors do you have. What is your examination operating budget?

Reviews of operations include both annual reviews and spot reviews, which may be limited to loans, securities, expenses, or other areas of interest. Eight members of twelve member staff devote primary time to review of member operations. Examination or review is major responsibility of staff and budget is not separate.

c. Whether or not you have independent examination powers, do you have a right of access to the examination reports of the relevant financial institution supervisory authority in your state? If so, do you receive their examination reports on a regular basis? Yes. Staff attends Exit Interviews. We receive copy of Examination and Institution's Response to Comments. See Section 3-208, Rules and Regulations.

4. Are the institutions you insure required to have their books audited and their financial statements certified by independent outside accountants?

Yes, if above \$5,000,000 in assets. Small institutions audited internally. See Section 3-203, Rules and Regulations.

5. If a financial problem is discovered or otherwise becomes apparent in a member financial institution, what authority do you have, short of insurance termination, to force correction of the problem and thereby forestall the necessity for claims against the deposit insurance?

1. Appoint Director to Board of institution. (Section 3-204)
2. Issue Cease and Desist Orders (Section 3-222)
3. Remove officers and Directors (Section 3-222)
4. Require Operating Agreement (Section 3-211)
5. Require merger, sale or capital infusion.

IV. Payment of Losses:

1. Do you act as receiver/liquidator for failed institutions you insure?
Yes. "The Federal Savings and Loan Insurance Corporation or the Maryland Savings-Share Insurance Corporation has absolute right to be appointed conservator or receiver of a savings and loan association insured by it." Section 9-709, Title 9, FI.
2. If a financial institution whose deposits you insure is closed due to insolvency, do depositors receive their funds immediately or must they await a liquidation process?
Intent and policy is to provide funds immediately, but liquidation process is provided in Subtitle VII of By-Laws.
3. a. If an institution whose deposits you insure becomes insolvent, is liquidation and a payout of insured deposits your only alternative?
No. See III .5. Also, By-Laws allow transfer of accounts.
- b. Do you have authority to arrange a purchase-and-assumption takeover (purchase of assets and assumption of deposit liabilities) of a closed institution by another sound institution?
Through Operating Agreements.
- c. Do you have authority to keep an insolvent institution open and operating while seeking a merger partner?
Yes
4. Please provide a listing showing, for each insolvency covered by your fund from January 1, 1980, to date: None
 - a. The name, location, and size of the institution;
 - b. The total dollar cost of the insolvency to your fund;
 - c. The dollar amount of insured deposits in the institution at time of closing;
 - d. The dollar amount of uninsured deposits in the institution;
 - e. The percentage recovery to date to depositors on uninsured deposits;
 - f. The gross dollar amount of outstanding unpaid depositor claims; and
 - g. The length of time between the closing of the institution and the completion of all payouts or transfers of insured deposits.

V. Insurance Fund Reserves:

1. How much is your total usable insurance reserve? Provide calendar or fiscal year data for 1981, 1982, 1983, and 1984.

	<u>Capital Deposits</u>	<u>Retained Earnings</u>	<u>Insurance Reserve</u>	<u>Total</u>
1981	\$ 49,073,200	\$ 6,537,191	\$1,250,000	\$ 56,860,391
1982	70,175,786	8,596,545	2,250,000	81,022,331
1983	106,619,400	11,858,672	3,200,000	121,678,072
1984	144,260,100	17,496,018	5,000,000	166,756,118

2. What is the present composition and market value, by type, of your insurance fund assets (for example: U.S. Treasury securities, bank deposits, corporate bonds, mutual fund investments, state/local securities)?
See Footnotes B and C to attached Report on Examinations of Financial Statements and Additional Information, Touche Ross & Co., as of December 31, 1984.

3. Do you invest any insurance fund assets in deposits, notes, debentures, or other obligations of the institutions you insure? How much?
See Footnotes E, F and G to audit above.

4. In each of the past four calendar or fiscal years, what has been the average yield from interest, dividends, etc., on your investment portfolio?

	11.11% in 1984
	10.88% in 1983
	14.84% in 1982
	12.14% in 1981

5. Please provide a copy of your latest annual report.
See 2 and 3 above. Annual Report is not yet published.



STATE OF MARYLAND
EXECUTIVE DEPARTMENT

TO: Harry R. Hughes

DATE April 16, 1985

FROM: Ejner J. Johnson

SUBJECT: MSSIC

On Tuesday, April 16, 1985, Tuck Maddux and I met with Charlie Brown, Director of the Division of Building, Savings and Loan Associations, Department of Licensing and Regulation, and Mr. Bob McTeer, Senior Vice President with the Federal Reserve Bank. The meeting was a part of our continuous monitoring of the savings and loan situation in Maryland.

Both Tuck and I arranged the meeting so that we could have a frank and private discussion with Charlie Brown on conditions in the savings and loan industry in Maryland. Of concern, of course, was the fact that over the past six weeks there has been a continuous out-flow of funds from savings and loan associations totalling \$300 million. This, obviously, has an adverse impact on the liquidity of these associations and hampers somewhat their ability to respond to withdrawal demands in the event that a crisis of confidence might arise.

During the past week, associations in Maryland generally showed a negative balance and deposits exceeded withdrawals only on Friday and Saturday. The rate of withdrawals will continue to be monitored and if they continue, a serious problem could develop. As of April 16th, five Maryland associations have borrowed \$55 million from the Federal Reserve Bank in Richmond to enhance their respective liquidity positions.

To deal with this problem we perceive both a short-term and long-term strategy. The short-term strategy would be as follows:

1. Continuous efforts on the part of both Charlie Brown and Charles Hogg to insure that MSSIC insured associations in Maryland have a high liquidity factor so as to better enable them to respond to demand withdrawals. (At one time Charles Hogg advised me that MSSIC associations were 16 per cent liquid with some as high as 30 per cent. I am sure this has diminished in light of the recent withdrawals.)

IVH8

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A52395

The Honorable Harry R. Hughes
April 16, 1985

Page 2

2. Continuing to insure that MSSIC insured associations of Maryland have packages of mortgages prepared and delivered to the Federal Reserve Bank in Richmond to provide collateral for whatever loans are required through the Federal Reserve Bank's discount window. Mr. McTeer advises that the Reserve Bank will pump as much money as possible into the MSSIC insureds of Maryland to assure liquidity and to prevent a bank holiday from occurring.

3. The third line of defense would be the MSSIC reserves themselves. As of December 31, 1984, the figure is in excess of \$270 million. It should be noted, however, that the \$270 million figure is hardly sufficient to deal with a panic situation when deposits in MSSIC insured associations exceed \$7 billion. Obviously the Federal Reserve Bank is a stronger bulwark in a panic situation than are the MSSIC resources.

In addition, Tuck has information that leads him to believe that the lines of credit provided by a consortium of banks to MSSIC totalling \$60 million will not be renewed when the current agreement expires on May 1st. It if should become public that the banks are apparently waivering in their support of MSSIC insured associations by withdrawing their lines of credit to both MSSIC and individual associations, that fact in an of itself could cause a crisis of confidence.

4. A bank holiday such as Governor Celeste declared in Ohio. Everyone agrees that this is a last resort measure and if it occurs, it would probably require a special session of the General Assembly. I have asked Frank Pugh and Bob Frierson to review the legislation that was passed by the Ohio legislature in response to the crisis in that state. I have also asked both gentlemen to develop at least the framework for legislation that would be required should a bank holiday situation develop here in Maryland. I will be out of the office next week but you might want to discuss with Frank Pugh any progress he is making on this legislation.

There is a strong feeling among regulators (but probably not within the industry) that MSSIC should be restored to its original intent. Charlie Brown indicated to me that in 1962 when MSSIC was created, all of the associations' assets totalled less that \$1 billion. Now, their assets approach \$9 billion and most of that growth has been in the last four years. There is a strong feeling that legislation should be developed that would establish criteria for MSSIC associations guaranteeing that MSSIC insures only the smaller associations and basically those that are ethnic in character with the larger associations being required to apply for FSLIC insurance.

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A52300

The Honorable Harry R. Hughes
April 16, 1985

Page 3

The impression I have is that the consternation among the financial community, especially among bankers, is caused by just a few associations - Old Court, Merritt and Fairfax. Charlie Brown told me confidentially that MSSIC and Old Court have entered into a management agreement and I presume this results because MSSIC and Charles Hogg were dissatisfied with the Association's operation. Jeff Levitt has a reputation for being flamboyant. If this management agreement becomes public, obviously it could create problems for Old Court insofar as confidence and that lack of confidence could spread quickly.

At the meeting with Messrs. McTeer, Brown and Maddux, McTeer indicated that two to three federal auditors could be made available to the Division of Building, Savings and Loan to impose closer scrutiny of the "high roller" MSSIC insureds. I accepted the offer with some trepidation because if it becomes known that federal auditors are taking a look at Old Court and perhaps others, this can create confidence problems.

There is a second meeting scheduled on Thursday, April 18, 1985 at which Charles Hogg will provide detailed information regarding the stability of the associations in Maryland and provide those present, particularly those representing the Federal Reserve Board, with insights into MSSIC's operations. Part of Charles Hogg's plan is to assure the feds that MSSIC is on top of the situation.

In addition to legislation, as part of the long-term solution, there needs to be an upgrading of the auditor positions within the Division of Building, Savings and Loans. Charlie Brown has already discussed this matter with John O'Brien and can hire people at higher than the entry level scale. I also told Charlie Brown that I thought you would be amenable to providing additional positions through Board of Public Works' action. I will talk to John O'Brien about this personally before I leave this week.

EJJ:mcs

Attachments

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A52397



STATE OF MARYLAND
EXECUTIVE DEPARTMENT

TO: Harry R. Hughes

DATE April 19, 1985

FROM: Ejner J. Johnson

SUBJECT: MSSIC ADDENDUM

On Friday, April 19, 1984, Tuck Maddux and I met with representatives of the Federal Reserve Board to further discuss the problems associated with MSSIC insured savings and loan associations in Maryland. This meeting followed a Thursday afternoon meeting at MSSIC headquarters at which Charles Hogg, President of MSSIC, briefed federal and State officials, including Tuck Maddux, Fred Dewberry, Charlie Brown and myself on the status of MSSIC and MSSIC insured associations. The feds wanted to meet with Tuck and me privately because they felt that perhaps Charles Hogg has presented too encouraging a view of developments.

The major concern is the continued deterioration of liquidity within MSSIC associations. Since the beginning of February there has been a \$375 million loss in deposits by MSSIC insureds and five associations are now borrowing from the Federal Reserve. Unless this trend reverses, at some point in time MSSIC associations will exhaust their capability to remain liquid. When that occurs then, obviously, depositors will be unable to withdraw their funds from the associations and you will be faced with the prospect of declaring a bank holiday for the MSSIC insured.

The magnitude of the problem can probably be better understood by recognizing that the five associations have already borrowed from the Federal Reserve about \$100 million more than MSSIC itself has available in liquid assets. Thus, if the Federal Reserve were not there and participating aggressively, we would have no liquidity and some of our associations would be in serious trouble.

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A52398

The Honorable Harry R. Hughes
April 19, 1985

Page 2

As I mentioned in my previous memorandum, Frank Pugh and Bob Frierson are in the process of drafting legislation for introduction at an emergency session of the General Assembly if such should become necessary.

In the meantime, Tuck is meeting very quietly with members of the banking community to line up bank holding companies in the event that take-overs are necessary.

I think it would be helpful if, during the week of April 22nd you would meet with Tuck privately so that he can express his concerns to you in greater detail than is done in this memorandum. I also think it might be helpful if you met with Charlie Hogg, either separately or with Tuck, following your initial meeting with Tuck so that you can be apprised of what steps he is taking to deal with the current problem.

There are many warning signs out there that cause me great concern that a crisis could develop and if it does, it could come upon us quickly and we should be prepared. I do believe that Charlie Hogg and MSSIC generally have been dealing with the liquidity crisis as best they can. I am concerned with what occurs after that capability is exhausted.

The Federal Reserve Board is sending three auditors in to assist us on Monday and one or two of them will immediately be assigned to Old Court. Old Court is a "high roller" and already has borrowed \$75 million from the Federal Reserve. There also is some concern among the feds about the quality of portfolio of such high rollers as Old Court, Merritt, et al.

I have asked Frank Pugh to get in touch with you when the legislation is prepared so that he can review it with you in detail.

All of this action has been taken without the involvement of other members of the staff because the fewer people that know, the less danger there is of stories appearing in print or on television that would tend to undermine public confidence. I think we are between a rock and a hard place. On the one hand we have to exude confidence in order not to undermine still further the position of those associations where withdrawals are a problem. On the other hand, those associations have not done a great deal to merit our confidence.

EJJ:mcs

CC: The Honorable Thomas Maddux

3212

A52399

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576-6550

SUSAN M. RITTENHOUSE
Commissioner, Securities Division
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MICHAEL F. BROCKMEYER
Chief, Antitrust Division
576-6470

TTY for Deaf
Balto. Area 383-7555
D.C. Metro 565-0451

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May 3, 1985

PERSONAL AND CONFIDENTIAL

Mr. Charles C. Hogg II, President
Maryland Savings-Share Insurance Corporation
114 E. Lexington Street, Suite 602
Baltimore, MD 21202

Dear Charlie:

I want to repeat my very strong belief that Old Court Savings and Loan must immediately cease its new advertising campaign currently appearing on television and radio and perhaps elsewhere. That campaign stresses the "Old Court Advantage", the feature of "insurance" and an especially attractive high interest rate. In view of what was disclosed at the meeting in Annapolis yesterday about the unsafe and unsound conditions you have found at Old Court -- particularly the evidence of self-dealing by principals in the Association in violation of Maryland law; significant delinquencies in loan accounts; inadequacies of documentation; and huge, "excessive" fees to principals of the Association -- it is deceptive, indeed unconscionable, to lure deposits from unsuspecting and unknowledgeable depositors by means of advertising hype of this sort. In my judgment Old Court's present advertising, in the context of the conditions that exist there, constitute violations of Maryland's Consumer Protection Act.

As you know, I believe Old Court should be put in conservatorship now and hope that both the Governor and the Board of

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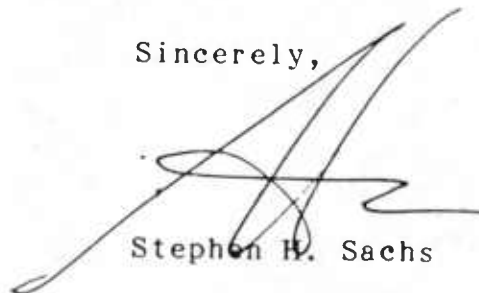
22747

Mr. Charles C. Hogg II, President
Maryland Savings-Share Insurance Corporation

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Savings and Loan Commissioners will soon concur. But in the meantime, and especially in view of the fact that MSSIC has now entered into an operating agreement with Old Court giving MSSIC authority to determine the extent and content of advertising, I urge you to put a stop to it.

Sincerely,

A handwritten signature in black ink, appearing to be 'Stephen H. Sachs', written over a horizontal line. The signature is stylized with a large initial 'S' and a long horizontal stroke.

Stephen H. Sachs

SHS/bw

3214

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May 8, 1985

HAND DELIVERY

Mr. John D. Faulkner, Jr.
Maryland Savings-Share Insurance Corporation
114 E. Lexington Street, Suite 602
Baltimore, MD 21202

Dear Mr. Faulkner:

Pursuant to our telephone conversation of this morning and your request that I "direct" you to comply with the request contained in my letter of May 3 to Charles C. Hogg II, President of MSSIC, I am writing to do so.

As my letter to Mr. Hogg states, and as I repeated to the group assembled in your office this morning, the new aggressive advertising campaign of Old Court, given the conditions of that association as revealed in audits conducted by MSSIC and the Division of Savings and Loan Associations, is profoundly deceptive and fraudulently seeks to induce public confidence in an institution whose true condition, as we know, does not justify it. This deceptive advertising campaign violates Maryland's Consumer Protection Act, which I have the responsibility to enforce.

I recognize that you and others hope that by attracting greater numbers of deposits, Old Court's difficulties can be ameliorated. You are seeking to restore Old Court to financial health. I respect that. But I have to condemn the means you continue to sanction -- the deceptive luring of fresh monies from

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A

4 "CD"

Mr. John D. Faulkner, Jr.

2

unknowledgeable and unsuspecting depositors. My responsibilities as Attorney General require me to direct you to cease this campaign immediately.

Sincerely,

Stephen H. Sachs

enc. Letter of 5/3/85 to Charles C. Hogg II

cc: Mr. Charles C. Hogg II

3216

A-5 "CD"

ADVANTAGES

SECURITY YOU CAN BANK ON

Title 9 of the Financial Institution Article, which governs Maryland's savings and loan industry, states that all savings and loan associations must be insured by either Maryland Savings-Share Insurance Corporation (MSSIC) or Federal Savings and Loan Insurance Corporation (FSLIC).

These are the only corporations permitted by state law to insure Maryland savings and loans.

Created by an act of the Maryland legislature in 1962, MSSIC has grown into a large and very secure organization. With 102 member associations, it now insures over \$7.3 billion in deposits.

MSSIC differs from most other state deposit-insurance systems in that it is a private company owned and financed by its member associations. Only four other states have similar systems.

Although MSSIC receives no financial backing directly from the state, its member institutions are regulated, supervised and periodically examined by the Division of Savings and Loan, part of a state agency.

Over the 23 years of its existence, MSSIC has insured more than 150 savings and loan associations. Throughout those 23 years, MSSIC has developed a proven track record of stability and dependability.

MSSIC's excellent record has inspired faith among savings and loan investors inside and outside of Maryland.

Jayne Anderson, vice president of savings for Old Court Savings and Loan, says "we receive a substantial number of deposits from out-of-state investors as a result of our competitive rates and MSSIC's stability."

The stability of Maryland savings and loan institutions is largely due to stringent MSSIC and state regulations geared to protect the depositor.

For example, the state bars any savings and loan association from lending more than 10 percent of its assets to any one borrower.

"If you line up the regulations on what I consider the gut issues like net worth, liquidity requirements and lending limitations, you will see only a slight percentage difference between MSSIC and FSLIC (Federal Savings and

Loan Insurance Corporation)," observed Paul Trice, an MSSIC representative.

MSSIC also has the power to regulate the industry. In case of inferior standards at any institution, MSSIC may issue a cease-and-desist order. It also has the power to remove officers and directors for imprudent business practices that jeopardize an association's safety.

MSSIC requires those of its members with assets over \$3 million to file monthly reports, while those with less than \$3 million must file reports quarterly.

With a highly sophisticated computer data-processing system, MSSIC can track exceptions and trends in the industry. "We tend to catch things very early," Paul Trice said.

Old Court Savings and Loan currently ranks as the second largest MSSIC member with assets totalling \$839,715,894.

Investors at Old Court Savings and Loan can rest assured in the knowledge that their money is in capable and reliable hands. With MSSIC, investments are protected and insured by a highly professional and solid organization.



17054

ADVANTAGES

INSIDE INFORMATION FOR OLD COURT CUSTOMERS.

Volume 1, Number 2

April 25, 1985

CONDOMINIUM: LIFESTYLE OF THE PAST AND THE FUTURE

You're in good company if you are considering buying a condominium. People from all walks of life and from every age group, income level, and lifestyle own them. Right now, in fact, there are over two million condominium dwellings in the U.S.

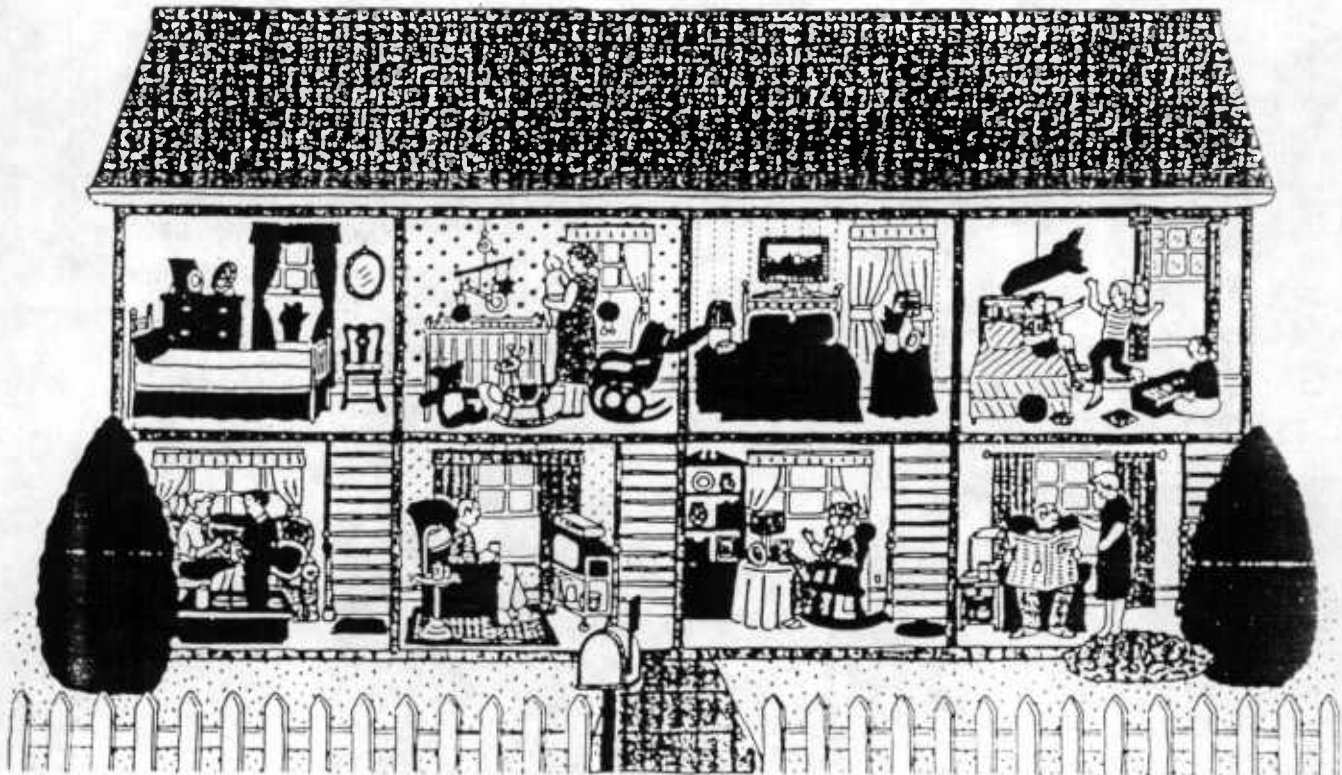
condominium you control a piece of real estate with other people.

More directly, a condominium is individual ownership of a single unit in a multi-unit building or complex of buildings. You have full title to your individual unit, plus a share in the grounds recreational facilities, and other common properties in the complex.

The first recorded condominium dates back about 4,000

If you are thinking of investing in a condominium, the first major step is to take a hard look at your finances. You need a good understanding of your present and potential financial status. And to establish a record with the lender or seller, you also must look at your financial history.

Magill Yerman Realtors, Better Homes and Gardens is your first contact in this process. Their professionals know the condominium market and neighbor-



By the year 2000, according to Department of Housing and Urban Development projections, more than half the people in the country will be living in some form of multi-family housing, such as condominiums.

The word condominium comes from the Latin word *con* (meaning "with") and *dominium* (meaning "control"). Thus in a

years when, according to an ancient Babylonian document, the owner of a two-story house sold the second floor to someone else. Condominiums were common in western Europe as far back as the Middle Ages. Then in the 1930s, the concept leaped across the Atlantic and established itself in America. By 1967, all of the states had enacted some form of condominium legislation.

hoods that fit your needs. They know the area lenders and their requirements. And most of all, they can put together the whole package - you, the condo and seller, and the financing.

Contact Magill Yerman Realtors, Better Homes and Gardens at 234-1300 for more information about the lifestyle and options that condominiums have to offer.

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11-15-85

SHORT TERM STRATEGY
AND ACTION PLAN

OLD COURT SAVINGS AND LOAN, INC.

APRIL 30, 1985

PREPARATION:

John D. Faulkner, Jr.
Huell E. Connor, M.D.

DISTRIBUTION:

Jeffrey A. Levitt
Jerome F. Cardin
Allen Pearlstein

IVH13

3219

AGENDA OF
ITEMS TO BE ADDRESSED
BY FAULKNER, CONNOR, ET. AL.
4/30/85

1. Operating Issue List (1-7)
2. Announcement of Faulkner's role in Old Court
3. Interim Staffing of Action Plan List
4. Meeting with Governor and Federal Reserve on Thursday, May 2, 1985.

I. List to be addressed in immediate future

- I. Liquidity
- II. Federal Reserve Loan Reduction
- III. True Financial Condition
- IV. Accounting Practices
- V. Regulatory Body Attitudes
- VI. Loan Related Matters
- VII. Organizational Issues

I. Liquidity Issue

A. Questions

1. Are net deposits and other sources of cash adequate to maintain and repay debt?

B. Action Plan

1. Examine and identify net deposit situation, loan requirements, and other sources
 - a. Historical Review
 - (1) 90 days
 - b. Protection
 - (1) Develop break even
 - (2) 30-60-90 ----- 240 day cash flow requirement
2. Develop strategy for influencing up deposits
 - a. change the mix
 - b. increase rates
 - c. develop comprehensive marketing and advertising strategy
3. Reduce level of cash disbursements
 - a. identify required/deferrable loan disbursements
 - b. identify necessary/deferrable payment of expenses
4. Sale of Assets
 - a. determine salable assets list
 - b. develop program for improving questionable loan file status

5. Debt

- a. MSSIC - minimum of \$3,000,000
 - (1) Central Reserve Fund
 - (2) Line of Credit
- b. Commercial Bank Lines
- c. Union Trust and others
- d. Federal Reserve (what is their comfort level?)
- e. Private Funds (2 - 3 million)
- f. Other MSSIC family institutions (10 - 15 million)

II. Federal Reserve Loan Status

A. Questions

1. What is the Federal Reserve's attitude regarding:
 - a. Level of loan to Old Court
 - b. Duration
 - c. Management
 - d. Procedures
 - e. Standards of assessing loan files
 - f. Liquidity of Old Court
2. What is the true financial status of Old Court (short and long term)?
3. Who is the decision maker on this account (Federal Reserve)?
4. Can we convert the Federal Reserve's man power assistance from audit to operating function?
5. What level of loan can we maintain and for how long?

B. Action Plan

1. Meet with Federal Reserve (Thursday, 5/2/85 - John Faulkner)
2. Determine the health of the company (See Item III)

III. True Financial Status of Old Court

A. Action Plan:

1. Review available and current financial reports and data including annual audit and management letter.
2. Verification of accuracy of financial reporting systems (short term = review letter) (long term = full audit)
3. Review accounting practices regarding reporting of fee income and establish its conformity with GAAP (General Accepted Accounting Practices). If not, what is regulatory attitude (Federal Reserve and MSSIC) regarding this?
4. Review accounting of securities transactions for compliance and economic benefit
5. Review ADC, Joint Venture and other similar loans for accounting compliance and potential contingent losses
6. Review composition of capital base to determine the effect of the above factors

IV. Accounting Practices

A. Questions:

1. Do the accounting practices of Old Court reflect the true financial status of Old Court?
2. Does current financial reporting correctly conform to GAAP or some acceptable standard (by MSSIC and Federal Reserve),

B. Action Plan:

1. Review all financials, back up detail and accounting procedures
2. Responsibilities:
 - a. External Auditors (to be selected)

V. Regulatory Body Attitudes (MSSIC, Federal Reserve and the Maryland State Government)

A. Questions:

1. Is there a current predisposition on the part of any or all of the above regarding their current or imminent course of action?
2. Is there disparity in their opinions?
3. Who is the lead?
4. What actions should we take to influence their thinking regarding Old Court?

B. Action Plan:

1. Meet with each of the Regulatory Decision makers individually as well as in group on Thursday
2. Determine the empirical and or emotional position of each faction and negotiate with each separately

VI. Loan Related Matters

A. Question:

1. What is the problem?
 - a. is it quality of asset?
 - b. is there a problem with conforming to standard documentation procedure?
2. What are the procedural problems in the loan origination, documentation closing and servicing areas?
3. Do the systems need to be revised or renovated?

B. Action Plan:

1. Review and evaluate "problem" loans as identified by regulators prior to current review - to determine asset quantity and potential liability (if any)

2. Review and evaluate all loans
3. Supervise the legal audit process and its result (already in progress)
4. Develop a satisfactory systems approach to the orderly flow of a loan, from origination to closing
5. Review and revise the loan portfolios to comply with standards as developed by senior management (Faulkner)
6. Identify assets for possible disposition in connection with Item I (Liquidity)

VII. Organizational Issues

A. Questions

1. Is the present organization adequate to meet the requirements of the business?
2. Is the current structure appropriate (authority, reporting, responsibilities, lines of communication, etc)?
3. Are the current functional assignments appropriate to the abilities and skills of present managers?

B. Action Plan

1. Develop interim staffing to plan to implement the action plans above (purchase services)
2. Begin systematic internal audit and assessment of managerial abilities and competence
3. Assess structure and communications systems
4. Begin management meetings of key players within next two weeks in the operating group of the savings and loan and its subsidiaries
5. Begin regular daily senior management meetings with Levitt, Cardin, Pearlstein, Faulkner, etc.

6. Develop a reorganization plan as a result of the above audit and systematically implement (2 to 12 months)

2. Announcement of Faulkner's Role

- meeting should include all key managers in savings and loans and the heads of the subsidiaries
- announcement should be a matter-of-fact statement regarding Faulkner's assuming responsibilities and authority over all savings and loan operations and related subsidiaries
- short meeting
- schedule for Wednesday afternoon

3. Interim Staffing:

1. Professional labor will be purchased to accomplish the majority of the action items under Section 1.
2. Regulatory meeting on Thursday, May 2, 1985
 - a. Determine position of each faction represented:
 - MSSIC
 - Federal Reserve
 - State Government
 - Maddox (Secretary of Economic Development)
 - b. Get clear directions regarding Governor's expectation
 - c. Deliver Good News.

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May 8, 1985

FOR IMMEDIATE RELEASE

OLD COURT ANNOUNCES NEW
OPERATING MANAGER

CONTACT: HEIDI HUTCHINSON
PUBLIC RELATIONS DIRECTOR
SEIDEL & KAYANAN INTERMARKET

BALTIMORE--Jeffrey A. Levitt, president of Old Court Savings and Loan, Inc., has named John D. Faulkner, Jr. operating manager of the institution.

The new position was created to accommodate Old Court Savings and Loan's rapid growth and increasing complexity. "I ~~was~~ ^{have been} ~~hired as~~ ^{to} a consultant ^{for} Old Court Savings and Loan ~~several~~ ^{for the first} 2 months ~~ago~~, and in order to implement some of my recommendations, I was hired as the new operating manager," Faulkner said.

The change, according to Old Court Savings and Loan officials, will provide for a more efficient ^{operations} ~~company~~ with superior customer services. IVH14

Faulkner is considered a pioneer in the savings and loan industry. In 1981, he introduced the first variable rate money-

fund type NOW account in the nation. This "first" is now offered by virtually every financial institution in the country.

"At the time Maryland did not control interest rates," Faulkner explained. "The only requirement was that the institution advise the state of its rate. My innovation was to interpret the rate as being 'variable.' By defining the rate as variable, the savings and loans could compete with the money-funds."

Faulkner was cited for his development in Business Week, U.S. News and World Report, and American Banker in 1981.

During his ten years as president and chief executive officer of Community Savings and Loan, Faulkner expanded the \$3 million company to its present \$600 million in assets with earnings of about \$10 million and a net worth of about \$21 million.

With Faulkner's expertise in savings and loan management and his well-known creativity in the industry, Old Court Savings and Loan officials are pleased to welcome him into the management.

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Old Court Savings & Loan, Inc.
May 8, 1985

FOR IMMEDIATE RELEASE

**JOHN D. FAULKNER, JR. NAMED NEW
MANAGING OFFICER OF OLD COURT
SAVINGS & LOAN, INC.**

**CONTACT: Heidi Hutchinson
Public Relations Director
Seldel & Kayanan Intermarket
(301) 576-0500**

BALTIMORE — John D. Faulkner, Jr. has been named Managing Officer of Old Court Savings & Loan, Inc.

Mr. Faulkner was retained as a consultant for Old Court several months ago. "In order to implement some of my recommendations," he said, "I have been hired as the new Managing Officer."

Charles C. Hogg, II, President of Maryland Savings-Share Insurance Corporation (MSSIC), in commenting on the move, said "With the rapid growth of Old Court, the institution was facing increasingly serious difficulties with its existing management. It was felt that someone with greater expertise in financial management was needed. Mr. Faulkner fills that role and MSSIC supports the appointment."

Mr. Faulkner has been cited for his achievement in the savings and loan industry in Business Week, U.S. News and World Report, and American Banker.

Mr. Faulkner was president and chief executive officer of Community Savings and Loan, Inc., Bethesda, Maryland, for ten years.

##

IVH15

16806

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With regard to the difficulties with existing management, it was simply that our rapid growth left us without enough experienced operations personnel. So we've brought in new ones like Faulkner.

With regard to Levitt, he is still the President and is currently attending to other matters and other holdings throughout the United States.

MSSIC INSURES CATH
ACCOUNT TO \$100,000.

16807

3232

Old Court reveals problems

S&L brings in new top manager

Baltimore Sun

By Brian Sullam
and Ellen Uzelac

5-9-85

Old Court Savings and Loan Association, the second-largest privately insured thrift institution in Maryland, has brought in an outside manager to run its operations, saying that its rapid growth had created serious difficulties.

John D. Faulkner, formerly president of Community Savings and Loan Association of Bethesda, was named Old Court's managing officer last week, the association said yesterday. Mr. Faulkner had spent two months as a consultant to Old Court reviewing its financial condition.

Mr. Faulkner recently left Community Savings to establish his own thrift consulting business. He also sits on the board of the Maryland Savings-Share Insurance Corporation, the private insurance fund for about 100 state-chartered savings associations.

Charles Hogg II, MSSIC president, said Mr. Faulkner's appointment as managing officer at Old Court was not initiated by MSSIC. "He is taking the job at Old Court's initiative," Mr. Hogg said. "The association's stockholders and directors took the action, and we supported them."

Old Court was purchased in 1982 by Jeffrey Levitt and Allan Pearlstein from the Cardin family, which had owned the association for a number of years. Jerome Cardin, a Baltimore lawyer and real estate developer, retained an 18 percent interest in the association.

Mr. Levitt, 42, is a Baltimore lawyer and real estate investor. Mr. Pearlstein is the owner of Sylvania Shoe Manufacturing Corporation, based in the southern Pennsylvania town of McSherrystown.

Neither Mr. Levitt nor Mr. Faulker was immediately available for comment.

According to Mr. Levitt, in an interview before yesterday's announcement, each of the two men, along with their families, owns 41 percent of the association.

Mr. Pearlstein also was the owner of First Progressive Savings and Loan Association of Westminster, which was merged into Old Court in November, 1984.

When Mr. Levitt and Mr. Pearlstein took control of Old Court, the association reportedly had \$140 million in assets. At the end of last year, its assets had grown to nearly six times that figure.

Denris Guidice, executive vice president of Old Court, said the association's rapid growth in the past two years had presented the thrift's management with problems.

"Along with MSSIC, we felt we should have some additional help because of the growth," he said. "We felt we needed some people to help us along."

In a press release issued by Old Court yesterday, the association quoted Mr. Hogg as saying, "With the rapid growth of Old Court, the institution was facing increasing serious difficulties with its existing management. It was felt that someone with greater expertise in financial management was needed. Mr. Faulkner fills that role, and MSSIC supports the appointment."

“With the rapid growth of Old Court, the institution was facing increasing serious difficulties with its existing management.”

CHARLES HOGG II
MSSIC president

In mid-March, about 70 privately insured Ohio savings and loans were closed by Governor Richard F. Celeste. His action followed the collapse of a large Cincinnati savings and loan, whose losses threatened to deplete that state's private insurance fund.

Following that action, MSSIC stepped up the monitoring of its member associations. Maryland is one of four states that have private deposit insurance for state-chartered savings and loans.

Mr. Hogg said MSSIC had been keeping close track of Old Court's condition before the Ohio closings. "Because of the Ohio situation, we accelerated our program," he said.

The management problems at Old Court are "totally manageable," Mr. Hogg said. "We now have a manager who can effectively handle the problems."

Mr. Guidice, the only Old Court official available for comment late last evening, declined to discuss the precise nature of the thrift's problems.

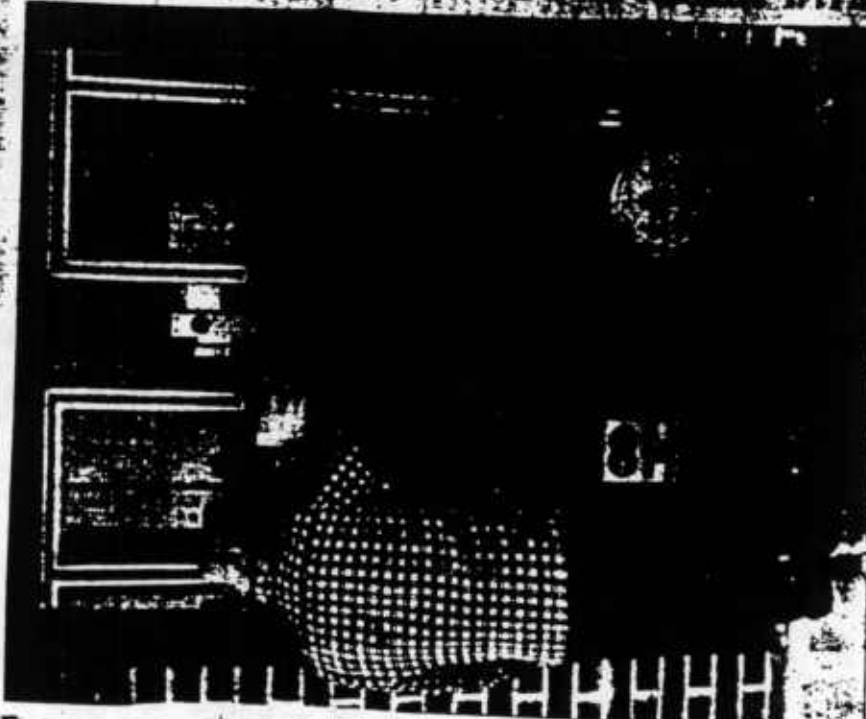
In an earlier interview, Mr. Levitt said the association's growth had been fueled by a willingness to pay high rates of interest on deposits and an aggressive national newspaper advertising campaign to attract depositors.

He said that 25 percent of Old Court's deposits came from out of state. The association's deposit rates are regularly among the nation's highest, according to national surveys.

Old Court has invested in mortgages for single-family houses but has also invested 10 percent to 15 percent of its assets in real estate developments and land acquisitions in Maryland, Florida, Tennessee, South Carolina, New York and New Jersey.

Depositors jam Old Court S&L

Management troubles make customers jittery



Depositors jam Old Court S&L. The crowd is of the nature of a stampede and the depositors are jamming the entrance of the building.

By Mark Perren
Special Staff Writer
The Old Court Savings and Loan Association, which has been in business for 100 years, is having a hard time of it today. The depositors are jittery and the management is in a state of confusion.

At the Old Court branch in East Baltimore, where the depositors are jamming the entrance, the management is in a state of confusion. The depositors are jittery and the management is in a state of confusion.

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LEVITT FAULKNER

Depositors panicking Old Court

OLD COURT, FORMERLY

has been forced to put up with other
property and interests and Old
Court's board of directors and stock-
holders and MSBIC. "mistake
decision to bring property to
... Hogg stresses that Old Court is
... MSBIC has not met
the S&L law's requirements.

"Old Court has made its decisions
of its depositors and borrowers and
other creditors," Hogg said, adding
that the S&L intruded MSBIC's at-
tention because of its "size and
prominence."

Hogg said this morning that
MSBIC staff members and state sav-
ings and loan officials were located
at Old Court's branch offices to talk
with depositors and ease fears.

"We are telling them that there is
no need to withdraw their money,
but if they wish to, their request will
be met with all orderliness," Hogg
said.

"The public's concerns are being
raised unnecessarily over an event
[change in management] that occurs
frequently," he said.

Faulkner, who became a manage-
ment consultant to Old Court about
two months ago, has effectively been
managing officer of Old Court since
early last week, Hogg said.

"With the rapid growth of Old
Court, the institution was facing in-
creasingly serious difficulties with
its existing management," Hogg
said. "It was felt that someone with
greater expertise in financial man-
agement was needed. Mr. Faulkner
fills that role." Faulkner was presi-
dent and chief executive officer of
Community Savings and Loan Inc. in
Bethesda for 16 years.

Hogg said that Levitt's involve-
ment in many ventures and the
"potential for conflict of interest"
prompted the action. However, Hogg
would not cite specific examples of
conflicts, and Old Court officials
also declined to comment on Levitt's
activities.

Levitt, 41, who is vacationing in
Florida and cannot be reached for
comment, has made a number of
highly visible business transactions
in recent years, most of them involv-
ing real estate. In 1981, Levitt, along
with Allan H. Pearstein, acquired
control in Old Court, which at the
time had assets of about \$140 mil-
lion.

Through limited partnerships and
two wholly owned subsidiaries of
Old Court, Levitt is involved in nu-
merous activities, including:

■ Interests in several downtown
office buildings, among them the
Maryland Trust Building at Calver-

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D.C. Metro 365-0451

May 3, 1985

The Honorable Harry R. Hughes
Governor
State House
Annapolis, Maryland 21404

Dear Governor Hughes:

As you are already aware, this Office has received information suggesting the possibility of criminal conduct with respect to transactions engaged in by Old Court Savings and Loan, Inc., its affiliated companies and associated individuals. Based on the information presently available, we believe a criminal investigation is warranted, and request your authorization to undertake such an investigation.

As a result of an audit of Old Court Saving and Loan, Inc. conducted by Glass and Associates, P.A. which disclosed a variety of irregularities in the financial affairs of Old Court, the Maryland Savings-Share Insurance Corporation ("MSSIC"), in February of 1985, voted to initiate cease-and-desist proceedings against Old Court for violations of MSSIC's Rules and Regulations. On March 22, 1985, MSSIC delivered to Old Court a letter charging Old Court with numerous violations of its Rules. Old Court requested that the parties enter into an operating agreement, in lieu of the cease-and-desist proceedings, and with MSSIC's consent, such an agreement was entered into in April of 1985.

The purpose of the operating agreement was to insure compliance on the part of Old Court with MSSIC's Rules, as well as with the provisions of the Financial Institutions Article of

The Honorable Har . R. Hughes

May 3, 1985

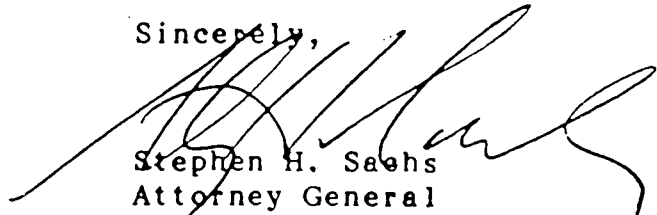
Page Two

the Annotated Code of Maryland. The audit and findings of MSSIC which precipitated the operating agreement had disclosed, among other irregularities, a pattern of self-dealing in which individuals and companies related to Old Court had obtained unsecured loans without proper documentation or disinterested approval, uncollected overdrafts on accounts held by related parties, excessive fees paid to related parties, and the lack of an adequate internal accounting control system. We have received information which indicates that Old Court has violated the terms of the April agreement by making at least one large unsecured loan to a related party, which was specifically prohibited by the terms of the agreement.

Based on the foregoing, we believe a criminal investigation into these matters is necessary. Our investigation would include, but not be limited to, the possible commission of the crimes of theft, misappropriation by a fiduciary, perjury, forgery, falsification of public records, fraudulent misrepresentation by corporate officers, and violations of the State tax laws.

I hereby request, pursuant to the provisions of Article V, §3 of the Maryland Constitution, that the Office of the Attorney General, in conjunction with the Maryland State Police, be authorized to investigate the matters described herein and to prosecute any violations uncovered as a result of that investigation.

Sincerely,



Stephen H. Sachs
Attorney General



HARRY HUGHES
GOVERNOR

STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS, MARYLAND 21404

*File
008 01*

May 3, 1985

The Honorable Stephen H. Sachs
Attorney General of Maryland
The Munsey Building
7 North Calvert Street
Baltimore, Maryland 21202

Dear Attorney General Sachs:

You have advised me that information has been received by your office which indicates the possibility of criminal conduct with respect to the financial affairs of Old Court Savings and Loan, Inc., its affiliated companies and associated individuals. The information suggests the possible commission of the crimes of theft, misappropriation by a fiduciary, perjury, forgery, falsification of public records, fraudulent misrepresentation by corporate officers and violations of the State tax laws. You have requested authorization to investigate this matter further in conjunction with the Maryland State Police.

In accordance with your request, and pursuant to the provisions of Article V, Section 3 of the Constitution of Maryland, I hereby direct you to undertake an investigation into the allegations of criminality referred to above and more fully described in your letter of May 3, 1985. This authorization includes, but is not limited to, the possible crimes enumerated above.

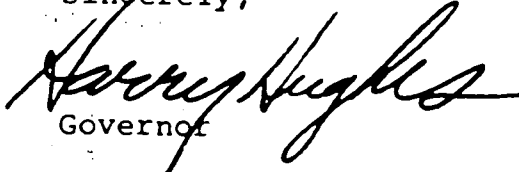
IVH19

The Honorable Stephen H. Sachs

May 3, 1985

In conjunction with this investigation, you are authorized to use any necessary subpoena powers, to present to any grand jury having jurisdiction over the matter any evidence and testimony you consider appropriate to carry out this authorization and directive, with access to the full powers and privileges possessed by a State's Attorney. If criminal conduct is uncovered by this probe, you are authorized to bring and prosecute appropriate charges in any Court of this State with the full powers, rights and privileges possessed by a State's Attorney. You are further authorized to use whatever services of the Maryland State Police or other agencies in State Government you may consider advisable. This letter shall also serve as my order to the Maryland State Police, pursuant to the provisions of the Annotated Code of Maryland, Article 88B, to assist you in this investigation.

Sincerely,


Governor