

Emergency legislation enacted in the special session also gave authority to the Board of Public Works to issue, at its discretion, general obligation bonds of the State not to exceed the aggregate principal amount of \$100 million. Bond proceeds may be provided to MDIFC or to the Savings and Loan Association Capital Stabilization Fund (Fund), a special non-lapsing fund established by the legislation. The Fund may be applied at the discretion of the Governor to purchase net worth certificates of any Maryland chartered savings and loan association, if, in the opinion of the Secretary of Licensing and Regulation, by so doing the association will qualify for insurance of its deposits and accounts by the FSLIC. Net worth certificates are special capital instruments which MDIFC-insured associations are authorized to issue for the purpose of increasing their capital. The Board of Public Works may authorize the purchase of such certificates in exchange for money, bond anticipation notes, or other obligations of the State in consideration for the net worth certificates. The net worth certificates give the State the right to exercise significant operational control over the association. As of October 31, 1985, none of the authorized \$100 million general obligation bonds had been issued; however, net worth certificates totalling approximately \$19 million had been purchased from three associations in exchange for a like principal amount of bond anticipation notes of the State. Each of those bond anticipation notes matures three years after its date of issuance, subject to prior redemption at par at any time at the option of the State, and bears interest, payable annually, at the rate of 9.3%. Each of the three associations have presented plans acceptable to the State to redeem their net worth certificates within three years. While outstanding, the net worth certificates pay dividends at a rate of 10.8%.

The emergency legislation also gave the Governor and others certain emergency powers. As of October 31, 1985, two savings and loan associations remain in conservatorship. By order of the Circuit Court, the savings deposits held by the two associations under conservatorship have been frozen and are to earn interest at the contract rate for unmatured certificates of deposit and at 5.50% per annum for all other accounts. The Governor has also provided for the cessation of withdrawals from one association and limited withdrawals from 13 other associations to \$1,000 per month per account.

On October 17, 1985, the Governor convened a second special session of the General Assembly which enacted legislation allowing out-of-state bank holding companies until June 1, 1986 to acquire one or more savings and loan associations and convert them into commercial banks. The acquired association(s) must have been placed into conservatorship before October 15, 1985 or been the subject of withdrawal restrictions before that date, and the aggregate total savings account liability of the association(s) to be acquired must exceed \$450 million as of June 1, 1985, or, if less than that amount but greater than \$250 million, the acquisition must meet certain statutory criteria and be concurred in by the Governor. Effective October 31, 1985, Chase Manhattan Corporation acquired three savings and loan associations with total savings deposits of \$492 million, one of which was in conservatorship and two of which had withdrawal restrictions. MDIFC agreed to pay Chase Manhattan \$25 million on that date, and to return by December 31, 1986, \$4.1 million of the associations' capital notes. Chase Manhattan agreed to repay on November 10, 1985, \$58.1 million of loans outstanding to MDIFC and relinquish all claims to the associations' capital deposits with MDIFC.

Provision for insurance losses is made at the time an association requires financial assistance or when such assistance is anticipated. These amounts are reviewed periodically and adjusted as required based on the financial and economic conditions at the time. At June 30, 1985, the provision for insurance losses was \$325.1 million.

As of June 30, 1985, MDIFC has pledged investments totalling \$130 million to the Federal Reserve Bank of Richmond as collateral for \$130 million of loans made by the Bank to member associations of MDIFC. Subsequent to June 30, 1985, \$47 million has been returned to MDIFC. In addition, MDIFC has made loans of \$19.7 million as of June 30, 1985 to member associations. The loans are collateralized by loans receivable of the associations with a nominal value double that of the loans. Subsequent to June 30, 1985, MDIFC has made additional loans, net of repayments, of \$28.5 million to member associations, with similar collateral arrangements.

MSSIC, although exempt from State of Maryland income taxes, was subject to Federal income taxation. MSSIC's income tax return for the year ended December 31, 1971, was examined by the Internal Revenue Service (IRS) to determine the propriety of the insurance loss reserve provision. The matter was decided adversely by the U.S. Court of Claims in February 1981. In September 1982, MSSIC received a Notice of Tax Deficiency from the IRS relating to the years 1974 through 1980. Additionally, in July 1984, a Notice of Tax Deficiency relating to the years 1981 and 1982 was received. A petition for redetermination of the proposed deficiency was filed with the U.S. Tax Court and the case was tried in December 1984. A decision has not yet been reached. The primary issue addressed in the court case is the propriety of the loss reserve provision. In the opinion of management of MDIFC, adequate provision for income taxes has been recorded to cover any additional tax liabilities that may result from the outcome of this litigation.