

14. State of Maryland Deposit Insurance Fund Corporation:

During 1985, several State-chartered savings and loan associations, whose deposits were insured by the Maryland Savings-Share Insurance Corporation (MSSIC), experienced unusually heavy withdrawals of funds by depositors which caused a substantial decline in their liquid assets. As a result, MSSIC was appointed by the Circuit Court of Baltimore City to act as conservator for two of the associations. On May 17, 1985, the Maryland General Assembly enacted legislation creating the State of Maryland Deposit Insurance Fund Corporation (MDIFC), an agency of the State of Maryland Department of Licensing and Regulation and the successor by statutory merger to MSSIC. On May 18, 1985, all savings and loan associations that were members of MSSIC automatically became members of MDIFC. MDIFC insures members' savings deposits deposited prior to that date up to \$100,000 per account and amounts deposited after that date up to the amount insured by the Federal Savings and Loan Insurance Corporation (FSLIC). The savings accounts of all associations operating in the State must be insured by either MDIFC or FSLIC.

Emergency legislation also gave authority to the Maryland Board of Public Works to issue, at its discretion, general obligation bonds of the State not to exceed the aggregate principal amount of \$100,000,000. Bond proceeds may be provided to MDIFC or to the Savings and Loan Association Capital Stabilization Fund (the "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 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 and may be convertible into stock of a capital stock association. As of October 30, 1987 none of the authorized \$100,000,000 general obligations bonds had been issued, however, net worth certificates totalling \$11,906,000 had been purchased from seven associations in exchange for a like principal amount of bond anticipation notes of the State. Each of the bond anticipation notes mature three years after its date of issuance, subject to prior redemption at par at any time at the option of the State, and bear interest, payable annually, at rates of 8.1% to 9.3%. The net worth certificates bear interest at 1.5% above the bond anticipation notes. The State does not intend to redeem the net worth certificates nor to issue general obligation bonds in connection with these transactions and, accordingly, the net worth certificates and bond anticipation notes have not been recorded in the State's financial statements. Interest received on net worth certificates and interest paid on bond anticipation notes during fiscal year 1987 are recorded in the general obligation debt service fund. Each of the seven associations have presented plans acceptable to the State to redeem their net worth certificates within three years.

The emergency legislation also gave the Governor and others certain emergency powers. As of October 30, 1987, four savings and loan associations are in receivership. The deposits at these associations have been frozen and earn no interest pending liquidation of the associations' assets. Also, as of this date, two other savings and loan associations are under conservatorship. By order of the Circuit Court, the savings deposits held by these associations under conservatorship have been frozen and are to earn interest at the contract rate for unmatured certificates of deposit and at 5.25% per annum for all other accounts. In addition, under a 1985 executive order, withdrawals from two other associations not insured by FSLIC are still limited to \$1,000 per month per account.

On May 13, 1986, a bank acquired the insured depositor accounts and certain assets of a member association in receivership. At the end of three years, certain assets acquired by the bank will be appraised and the receivership will share in any gains or losses over adjusted book value. The receivership may also be required to repurchase certain other assets at the end of three years for their adjusted book value. If the receivership fails to make any required payment to the bank, then MDIFC will make the required payment and become subrogated to the bank's claim against the receivership. MDIFC has secured its obligation to make payments to the bank by pledging \$46,700,000 of bond anticipation notes of the State issued to MDIFC. Since the bond anticipation notes were issued only as collateral for the aforementioned guarantee and the State does not intend to issue general obligation bonds in connection with the bond anticipation notes, such notes have not been recorded in the financial statements of the State as of June 30, 1987.