

Appendix to the Report of the 953587-3
Special Counsel to the Savings & Loan Crisis
2-3-10-48

Volume 3
Chapter III Section D

LEGISLATIVE REFERENCE LIBRARY
90 STATE CIRCLE
ANNAPOLIS, MARYLAND 21401

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Appendix to the Report of the Special
Counsel on the Savings + Loan Crisis

Volume 3
Chapter III Section E

LEGISLATIVE

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ANNAPOLIS, MARYLAND

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COMMUNITY SAVINGS & LOAN, INC.
SPECIAL
BOARD OF DIRECTORS MEETING

OCTOBER 4, 1982

A special meeting of the Board of Directors of Community Savings & Loan, Inc. was held at the office of the Chairman of the Board, Mr. Jay FitzGerald, 5870 Hubbard Drive, Rockville, Maryland on Monday, October 4, 1982.

Chairman Jay FitzGerald called the meeting to order at 10:15 A.M. In attendance were Chairman Jay FitzGerald, President John Faulkner, Jr., Secretary Stanley G. Wolpoff, Robert Appleby, Richard Ridgway, Muriel Weidenfeld, and John Maffay. Absent and excused were Treasurer Jacob Schwalb and Charles R. Wolfe. Guests at the meeting were Controller Michael Shomper and Attorney Arnold Westerman.

Chairman FitzGerald advised the Board of Directors that in front of each Director was a copy of an offer to purchase the stock of Community Savings & Loan, Inc. He called on Attorney Westerman to review the proposal before the Board of Directors. Attorney Westerman advised the Board that he recommended some changes in the offer from Equity Acquisitions Corporation before the Board should consider their proposal. After reviewing the proposal and Attorney Westerman's recommendations for changes in the proposal, Mr. Tom Billman and Mr. Clayton McCuistion of the Equity Acquisitions Corporation were brought into the Boardroom to review the changes that Attorney Westerman requested. Mr. Billman and Mr. McCuistion agreed to all of Attorney Westerman's demands. After the changes were effected in the proposal, the meeting reconvened with all Board of Directors as listed above in the Boardroom.

A motion was made by Chairman FitzGerald, seconded by Richard Ridgway and unanimously approved by all members in attendance amending the By-Laws by removing Section 4, Article 10 (ownership restriction requirement).

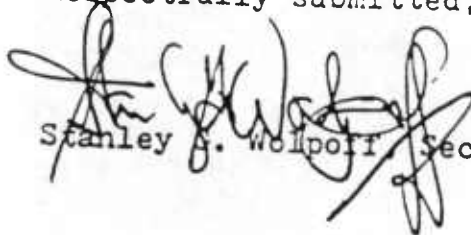
A motion was made by Robert Appleby, seconded by Chairman FitzGerald and unanimously approved by all members in attendance to accept the offer by Equity Acquisitions Corporation as amended for the purchase of Community S&L, Inc. stock at a price of \$3.50 a share.

2. Special Ed. Dir. 10/4/82

A motion was made by Robert Appleby, seconded by John Maffay to have Chairman FitzGerald and President Faulkner and Secretary Wolpoff sign all the appropriate forms to effect the transfer.

There being no further business, the meeting adjourned at 5:46 P.M.

Respectfully submitted,


Stanley G. Wolpoff Secretary

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JAMES C. JONES

CERTIFIED PUBLIC ACCOUNTANT

1012 SEMINARY PLAZA BUILDING
4600 KENMORE AVENUE
ALEXANDRIA, VIRGINIA 22304

(703) 370-9191

EXHIBIT D

February 5, 1976

Board of Directors
Equity Programs Investment Corporation
Alexandria, Virginia

I have examined the balance sheet of Equity Programs Investment Corporation as of December 31, 1975, and the related statements of income and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned financial statements present fairly the financial position of Equity Programs Investment Corporation at December 31, 1975, and the results of its operations and the changes in its financial position for the period then ended, in conformity with generally accepted accounting principles.

JAMES C. JONES

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IIID2

EQUITY PROGRAMS INVESTMENT CORPORATION
Balance Sheet
December 31, 1975

Assets

Current Assets:

Cash In Banks and on Hand (Note 7)	\$358,253.99
Notes Receivable (Note 14)	28,377.00
Account Receivable EPIC Associates V (Note 8)	102,777.70
Account Receivable - Payroll Taxes	1,074.80
Prepaid Interest	932.14
Prepaid Insurance	1,159.48
Accrued Interest Receivable	154.22
Total Current Assets	\$492,729.33

Fixed Assets: (Note 4)

	Cost	Accumulated Depreciation	Book Value	
Office Equipment	\$ 6,293.59	\$ 431.19	\$ 5,862.40	
Automobiles	6,252.42	867.81	5,384.61	
Leasehold Improvements	1,728.59	172.86	1,555.73	
Total Fixed Assets	\$14,274.60	\$ 1,471.86	\$ 12,802.74	12,802.74

Other Assets:

Notes Receivable - Officer	\$ 6,041.17
Partnership Investments (Note 9)	65,808.83
Deposits	698.15
Organization Expense - Net	279.31
Total Other Assets	72,827.46

TOTAL ASSETS

\$578,359.53

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION
Income Statement
For The Year Ended December 31, 1975

Income:

Initial Loan Interest (Note 5)	\$ 19,614.41	
Investor Fees (Note 13)	82,460.36	
Builder Fees (Note 12)	268,104.80	
Property Management Fees (Note 2)	9,008.82	
Gain on Dispositions (Note 1)	2,202.33	
Rental Income	\$ 23,100.31	
Less: Rental Expenses		
Depreciation	\$ 8,545.50	
Interest	18,414.26	
Insurance	380.46	
Real Estate Taxes	990.78	(28,331.00)
Net Rental Loss		<u>(5,230.69)</u>
Total Income		\$376,160.03

Operating Expenses:

Accounting	\$ 13,750.00	
Advertising	3,191.71	
Appraisal Fees	1,407.98	
Auto Expenses	2,905.71	
Bank Charges	96.94	
Bond	20.00	
Business Promotion	476.35	
Commissions	45,857.19	
Data Processing	12,533.66	
Depreciation (Note 4)	1,471.86	
Dues and Subscriptions	2,177.00	
Employee Welfare	2,074.69	
Entertainment	12,039.81	
Franchise Tax	148.00	
Insurance	5,706.87	
Interest	16,001.17	
Legal	15,287.30	
Office Expenses	8,889.52	
Office Rent	6,563.00	
Organization Expense	69.84	
Payroll Taxes	4,465.40	
Permits and Licenses	165.00	
Printing	443.72	
Recording Fees	10,905.72	
Salaries	109,829.22	
Telephone	4,586.16	
Travel	11,203.21	
Total Operating Expenses		<u>292,267.03</u>
Net Income Before Interest Income and Income Taxes		\$ 83,893.00
Interest and Miscellaneous Income		360.30
Total Income Before Income Taxes		<u>\$ 84,253.30</u>
Less: Provision for Income Taxes (Note 6)		28,547.13
NET INCOME		<u>\$ 55,706.17</u>
Primary Earnings Per Common Share	1734	<u>\$ 1.23</u>
Earnings Per Common Share Assuming Full Dilution		<u>\$.58</u>

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION
Changes in Financial Position
For The Year Ended December 31, 1975

FUNDS PROVIDED:

Net Income	\$55,706.17	
Add: Items Not Requiring Cash Outlays		
Amortization	69.84	
Depreciation	1,471.86	
Provision for Income Taxes	28,547.13	
Accrued Interest Payable	1,336.34	
Accrued Salaries Payable	<u>25,501.66</u>	
Funds Provided From Operations		\$112,633.00
Special Payable Associated Partnerships		76,551.00
Accounts Payable Associated Partnerships		73,048.03
Accounts Payable		17,763.70
Notes Payable		171,539.60
Notes Payable Officer		9,500.00
Payroll Taxes Withheld and Accrued		4,352.00
Deferred Credits		13,512.00
Common Stock Issued		101,000.00
Preferred Stock Issued		2,000.00
Total Funds Provided		<u>\$581,901.23</u>

FUNDS APPLIED:

Account Receivable EPIC Associates V	\$102,777.70
Account Receivable Payroll Taxes	1,074.80
Account Receivable Accrued Interest	154.22
Prepaid Expenses	2,440.77
Purchase of Fixed Assets	14,274.60
Deposits	698.15
Receivables from Officers	6,041.17
Investments in Associated Partnerships	65,808.83
Stock Subscriptions Receivable	2,000.00
Cash in Banks and on Hand	358,253.99
Notes Receivable	28,377.00
Total Funds Applied	<u>\$581,901.23</u>

SECURITY PROGRAMS INVESTMENT CORPORATION
Special Payable Associated Partnerships
December 31, 1975

<u>Security Deposits:</u>			
EPIC Associates		\$15,963.00	
EPIC Associates III		12,307.00	
EPIC Associates IV		5,351.00	
EPIC Associates V		<u>13,164.00</u>	
Total Security Deposits			\$46,785.00
<u>Unearned Rent Income:</u>			
EPIC Associates		\$ 5,102.00	
EPIC Associates V		<u>13,164.00</u>	
Total Unearned Rent			18,266.00
<u>Completion Escrows:</u>			
EPIC Associates		\$ 7,500.00	
EPIC Associates V		<u>3,000.00</u>	
Total Completion Escrows			10,500.00
<u>Purchasers Deposits:</u>			
			<u>1,000.00</u>
TOTAL SPECIAL PAYABLE ASSOCIATED PARTNERSHIPS			<u>\$76,551.00</u>
<u>EPIC Associates:</u>			
Security Deposits		\$15,963.00	
Unearned Rent		5,102.00	
Completion Escrow		7,500.00	
Purchasers Deposits		<u>1,000.00</u>	
Total EPIC Associates			\$29,565.00
<u>EPIC Associates III:</u>			
			12,307.00
<u>EPIC Associates IV:</u>			
			5,351.00
<u>EPIC Associates V:</u>			
Security Deposits		\$13,164.00	
Unearned Rent		13,164.00	
Completion Escrow		<u>3,000.00</u>	
Total EPIC Associates V			<u>29,328.00</u>
TOTAL SPECIAL PAYABLE ASSOCIATED PARTNERSHIPS			<u>\$76,551.00</u>

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts Payable	\$ 17,763.70	
Special Payable Associated		
Partnerships (Schedule A-1) (Note 8)	76,551.00	
Account Payable - EPIC Associates (Note 8)	64,962.51	
Account Payable - EPIC Associates III (Note 8)	3,110.72	
Account Payable - EPIC Associates IV (Note 8)	4,974.80	
Accrued Salaries Payable	25,501.66	
Accrued Interest Payable	1,336.34	
Notes Payable - Current (Note 10)	168,753.20	
Payroll Taxes Withheld and Accrued	4,352.96	
Provision for Income Taxes (Note 6)	28,547.13	
Total Current Liabilities	395,854.02	\$395,854.02

Other Liabilities:

Notes Payable - Officer	\$ 9,500.00	
Notes Payable - Non-Current (Note 10)	2,786.40	
Deferred Credits (Note 11)	13,512.94	
Total Other Liabilities	25,799.34	25,799.34

Total Liabilities

\$421,653.36

Stockholders' Equity:

Capital Stock:

Common - 500,000 shares authorized,		
50,000 shares issued, par value \$.01	\$ 500.00	
Contributions in Excess of Par Value	100,500.00	\$101,000.00
Total Common	101,000.00	
Preferred - 100,000 shares authorized,		
50,000 shares issued, par value \$.01	\$ 500.00	
Contributions in excess of Par Value	1,500.00	
Total Preferred	2,000.00	
Total Capital Stock	2,000.00	

Less: Stock subscriptions receivable

Retained Earnings:

Net Income for the Year Ended		
December 31, 1975 (Exhibit B)	55,706.17	
Total Retained Earnings	55,706.17	

Total Stockholders' Equity December 31, 1975

156,706.17

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$578,359.53

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

NOTES TO FINANCIAL STATEMENTS

1. Equity Programs Investment Corporation (EPIC) was incorporated under the laws of the Commonwealth of Virginia on December 30, 1974. The authorized stock is: 500,000 common shares with a \$.01 stated value; 100,000 preferred shares with a \$.01 stated value. As of the balance sheet date, EPIC was acting as the general partner for four limited partnerships formed under the Uniform Limited Partnership Act of the Commonwealth of Virginia. EPIC was also planning other limited partnerships to be formed in which EPIC would be a general partner.

The business of the corporation is to evaluate builder's model homes, enter into purchase-leaseback agreements with builders for partnerships to be formed, arrange financing for the purchase of the model homes by such partnerships, and then market the equity investment portion of the purchase to individuals via limited partnerships, and during the life of the partnerships, manage the properties for the partnerships, and arrange for any subsequent disposition of the properties.

The corporation will not participate in profits or losses from the partnerships until disposition of the partnership properties; at which time, they will share on a 50/50 basis in the difference between the net selling price of the property and the gross purchase price of the property, subordinated to each limited partner's receipt of a 12% accumulative return per annum on his capital contribution.

2. The corporation is liable for the organization and administrative expenses of creating the partnerships and the management thereof. They are entitled to a fee of 5% of gross rental income for this management which is also subordinated to the partner's 12% cumulative annual return on capital contribution.

Contingent liabilities for the partnerships, in which EPIC services as General Partner, are created when the partnership is formed. The greatest contingent liability is for the amount of the mortgages or deeds of trust given to secure the loans on the model homes. No limited partner, as such, shall be personally liable for any of the debts of the partnerships, or of any of the losses thereof beyond his capital contribution plus undistributed profits of the partnerships, except for any distribution that may be made to such limited partner, if the remaining assets of the partnerships are not sufficient to pay the then outstanding liabilities, exclusive of liabilities to limited partners on account of their contribution and liabilities to the General Partner. The General Partner is liable for debts above the aforementioned contribution and undistributed profit. The corporation attempts to place non-recourse notes on the properties, which are acquired in the name of the partnerships. It is the anticipated practice of the corporation to contract for the purchase of additional model homes and subsequently to form new partnerships to take title to the properties. It is EPIC's intent to pay or not pay, at their discretion all loan fees and/or points on the properties mortgaged for the partnerships. EPIC normally would not derive any economic gains or losses between the time the property is contracted for purchase and the eventual purchase by the partnerships.

3. During the year sixty-eight model homes were purchased on behalf of the four limited partnerships. At the balance sheet date sixty-five of these models were being held by the limited partnerships, three having been sold. The total capitalized cost of these sixty-eight model homes were \$4,031,390.25.
4. Depreciation Policies: Office equipment is being depreciated over a seven year period, leasehold improvements over five years, and automobiles over three years. These assets are being depreciated on a straight line basis.

5. The Partnerships pay interest to EPIC for funds which have not been collected from the limited partners, but which have been advanced by EPIC. The interest is computed by determining the cash flow, paying the limited partners their withdrawal based on the amount of equity capital they have paid into the "Partnership" and the balance is deemed to have been interest charged by EPIC to the "Partnership" on such funds advanced.
6. Provision for income taxes reflects the actual tax liabilities net of investment credits for the year ended December 31, 1975.
7. As of the balance sheet date \$152,000.00 of Cash in Bank was restricted. \$140,000.00 served as collateral for a loan of the same amount payable to the District of Columbia National Bank and \$12,000.00 served as collateral for a loan to an officer.
8. The Accounts Receivable from and payable to Associated Partnerships are the net result of all cash receipts and disbursements on behalf of the limited partnerships by the General Partner. The Special Payable to Associated Partnerships reflects the security deposits, unearned rent, completion escrows, and purchaser deposits owing to the various partnerships as of the balance sheet date (see Schedule A-1).
9. The Partnership Investments is the cash investment of EPIC as General Partner plus \$2,202.33 which is EPIC's share of the gain from disposition of units.
10. Notes Payable Current consists of \$140,000.00 payable to D. C. National Bank and \$25,000.00 payable to McLean Bank. Both these notes were satisfied in January, 1976. The balance of \$3,753.20 consists of four installment loans secured by personal property. Notes Payable Non-Current are the payments on the four installment loans due more than one year after the balance sheet date.
11. Deferred credits are the unrealized property management fees and investor charges.
12. Builder fees are paid to EPIC by the seller and equal 6% of the gross sales price and normally 1% of an 80% mortgage for a total of 6.3% of the gross sales price.
13. The Limited Partners of the partnerships pay an amount equal to 10% of their "equity contribution" as an investors fee (2.5% of gross purchase price).
14. Two investors in the Limited Partnerships have been issued thirty day notes by EPIC. These notes bear interest at 8% per annum.

JAMES C. JONES

CERTIFIED PUBLIC ACCOUNTANT

1012 SEMINARY PLAZA BUILDING
4660 KENMORE AVENUE
ALEXANDRIA, VIRGINIA 22304

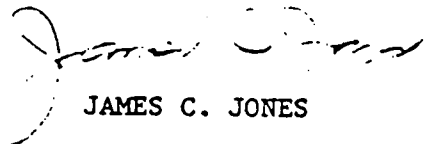
(703) 370-9191

February 21, 1977

Board of Directors
Equity Programs Investment Corporation
Alexandria, Virginia

I have examined the balance sheet of Equity Programs Investment Corporation as of December 31, 1976, and the related statements of income and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned financial statements present fairly the financial position of Equity Programs Investment Corporation at December 31, 1976, and the results of its operations and the changes in its financial position for the period then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.


JAMES C. JONES

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EQUITY PROGRAMS INVESTMENT CORPORATION
Balance Sheet
December 31, 1976

Assets

Current Assets:

Cash in Banks (Note 3)	\$122,670.63
Accounts Receivable - Associated Partnerships (Note 4)	945,024.44
Accounts Receivable - Others (Note 5)	83,244.22
Notes Receivable (Note 6)	9,291.12
Prepaid Interest	576.16
Prepaid Insurance	2,033.24
Accrued Interest Receivable	<u>1,829.13</u>

Total Current Assets

\$1,164,668.94

Fixed Assets: (Note 7)

	Cost	Accumulated Depreciation	Book Value
Automobiles	\$10,373.48	\$ 3,044.46	\$ 7,329.02
Leasehold Improvements	1,728.59	518.58	1,210.01
Office Equipment	<u>13,014.66</u>	<u>1,839.05</u>	<u>11,175.61</u>

Total Fixed Assets \$25,116.73 \$ 5,402.09 \$ 19,714.64

19,714.64

Other Assets:

Notes Receivable - Officers	\$ 10,041.17
Prepaid Interest	556.73
Deposits	8,491.95
Cash Surrender Value - Life Insurance	5,278.00
Organization Expense - Net	209.48
Partnership Investments (Note 8)	\$328,900.30
Less: Allowance for Losses (Note 9)	<u>19,635.86</u>
	<u>309,264.44</u>

Total Other Assets

333,841.77

TOTAL ASSETS

\$1,518,225.35

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts Payable - Trade	\$ 77,206.87	
Accounts Payable - Winthrop Financial (Note 10)	20,429.50	
Accrued Salaries Payable	23,513.20	
Withheld and Accrued Payroll Taxes	2,079.39	
Accounts Payable - Associated Partnerships (Note 11)	386,888.76	
Accrued Interest Payable	13,761.00	
Notes Payable - Current (Note 12)	104,196.00	
Special Payable - Associated Partnerships (Note 13)	198,388.00	
Provision for Income Taxes (Note 14)	34,570.48	
Deferred Income Taxes Payable (Note 14)	<u>68,632.78</u>	

Total Current Liabilities \$929,665.98

Other Liabilities:

Notes Payable - Officers	\$115,352.74	
Notes Payable - Non-Current (Note 12)	3,967.68	
Deferred Credits (Note 15)	<u>187,443.29</u>	

Total Other Liabilities 306,763.71

Total Liabilities \$1,236,429.69

Stockholders' Equity:

Capital Stock:

Common - 500,000 shares authorized, 50,000 shares issued, par value \$.01	\$ 500.00	
Contributions in Excess of Par Value	<u>100,500.00</u>	\$101,000.00
Preferred - 100,000 shares authorized, 50,000 shares issued, par value \$.01	\$ 500.00	
Contributions in Excess of Par Value	<u>1,500.00</u>	
	\$ 2,000.00	
Less: Stock subscriptions receivable	<u>2,000.00</u>	

Retained Earnings:

Balance, January 1, 1976	\$ 55,706.17	
Add: Net Income for the Year Ended December 31, 1976 (Exhibit A-II)	<u>125,089.49</u>	
Balance, December 31, 1976		<u>180,795.66</u>

Total Stockholders' Equity December 31, 1976 281,795.66

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$1,518,225.35

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION

EXHIBIT A-II

Income Statement

For The Year Ended December 31, 1976

Income:

Partnership Operating Losses (Note 1)(Note 8)	\$ (1,388.78)
Initial Loan Interest (Note 16)	53,460.80
Partnership Organization Fees (Note 17)	159,350.26
Builder Fees (Note 17)	728,027.63
Property Management Fees (Note 2)	38,609.77
Gains on Disposition (Note 1)	7,030.01
Reimbursed Expenses	8,635.40
Miscellaneous	<u>120.00</u>

Total Income

\$993,845.09

Operating Expenses:

Accounting	\$ 18,152.50
Advertising	27,051.48
Appraisal Fees	285.00
Automobile Expenses	9,749.56
Bad Debts	2,000.00
Bank Service Charges	236.51
Commissions	158,144.05
Contributions	325.00
Data Processing	859.16
Depreciation (Note 7)	4,524.57
Director Fees	200.00
Dues and Subscriptions	5,217.12
Employee Welfare	3,561.82
Entertainment	20,080.14
Insurance	4,303.39
Interest	41,684.65
Legal	59,147.16
Loss on Investments (Note 9)	19,635.86
Marketing	16,844.64
Office Expenses	26,205.54
Office Rent	15,349.00
Organization Expense	69.83
Partnership Investment Expense (Note 18)	31,877.40
Payroll Taxes	8,214.00
Permits and Licenses	5,920.11
Recording Fees	6,812.47
Research Studies	2,647.01
Salaries	223,158.07
Telephone	15,943.53
Travel	<u>40,217.32</u>

Total Operating Expenses

768,416.89

Net Income Before Interest Income and Taxes

\$225,428.20

Interest Income

2,864.55

Total Income Before Taxes

\$228,292.75

Less: Provision for Income Taxes (Note 14)

103,203.26

NET INCOME

1743

\$125,089.49

Primary Earnings Per Common Share

\$ 2.50

Earnings Per Common Share Assuming Full Dilution

\$ 1.25

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION
Changes in Financial Position
December 31, 1976

FUNDS PROVIDED:

Net Income	\$125,089.49	
Add: Items Not Requiring Cash Outlay		
Accrued Interest	12,424.66	
Allowance for Investment Losses	19,635.86	
Amortization	69.83	
Depreciation	4,524.57	
Partnership Operating Losses	1,388.78	
Provision for Income Taxes	<u>74,656.13</u>	
Funds Provided from Operations		\$ 237,789.31
Utilization of Cash in Bank		235,583.36
Curtailement of Notes Receivable		19,085.88
Accounts Payable Trade Increase		59,443.17
Special Payable - Associated Partnerships Increase		121,837.00
Accounts Payable - Associated Partnerships Increase		313,840.73
Loans from Officers		105,852.74
Non-Current Notes Payable Increase		1,181.28
Increase in Deferred Credits		173,930.35
Advance from Winthrop Financial		20,429.50
Retirement of Automobile - Net of Depreciation		922.11
Cash Draws from Associated Partnerships		<u>27,693.58</u>
Total Funds Provided		<u>\$1,317,589.02</u>

FUNDS APPLIED:

Loans to Officers		\$ 4,000.00
Advances to Associated Partnerships		842,246.74
Accounts Receivable Increase		82,169.42
Increase in Prepaid Expenses		1,074.51
Cash Surrender Value of Life Insurance		5,278.00
Accrued Interest Receivable Increase		1,674.91
Purchase Fixed Assets		12,358.58
Investments in Associated Partnerships		285,143.82
Increase in Deposits		7,793.80
Reduction of Accrued Salary		1,988.46
Curtailement of Notes Payable - Current		64,557.20
Decrease in Withheld and Accrued Payroll Taxes		2,273.57
Partnership Gains Not Drawn from Partnerships		<u>7,030.01</u>
Total Funds Applied		<u>\$1,317,589.02</u>

NOTES TO FINANCIAL STATEMENTS

1. Equity Programs Investment Corporation (EPIC) was incorporated under the laws of the Commonwealth of Virginia on December 30, 1974. The authorized stock: 500,000 common shares with a \$.01 stated value; 100,000 preferred shares with a \$.01 stated value. As of the balance sheet date, EPIC was acting as the general partner for seventeen limited partnerships formed under the Uniform Limited Partnership Act of the Commonwealth of Virginia. EPIC was also planning other partnerships to be formed in which EPIC would be a general partner.

The business of the corporation is to evaluate builder's model homes, enter into purchase-leaseback agreements with builders for partnerships to be formed, arrange financing for the purchase of the model homes by such partnerships, and then market the equity investment portion of the purchase to individuals via partnerships, and during the life of the partnerships, manage the properties for the partnerships, and arrange for any subsequent disposition of the properties. During the year approximately \$10,700,000.00 of builder model homes were purchased on behalf of thirteen limited partnerships and one general partnership.

The corporation participates in operating profits and losses of the partnerships ranging from no interest to 5 1/2% of the partnership operating income or loss. In addition, the corporation shares from 45% - 50% of the difference between net selling price of the property and the gross purchase price of the property, subordinated to each limited partner's receipt of varying cumulative returns on his capital contribution.

2. The corporation is liable for the organization and administrative expenses of creating the partnerships and the management thereof. They are entitled to a fee of 4.5% - 5% of gross rental income for this management which is subordinated to the partner's varying cumulative annual return on capital contribution in some cases.

Contingent liabilities for the partnerships, in which EPIC serves as General Partner, are created when the partnership is formed. The greatest contingent liability is for the amount of the mortgages or deeds of trust given to secure the loans on the model homes. No limited partner, as such, shall be personally liable for any of the debts of the partnerships, or of any of the losses thereof beyond his capital contribution plus undistributed profits of the partnerships, except for any distribution that may be made to such limited partner, if the remaining assets of the partnerships are not sufficient to pay the then outstanding liabilities, exclusive of liabilities to limited partners on account of their contribution and liabilities to the General Partner. The General Partner is liable for debts above the aforementioned contribution and undistributed profit. The corporation attempts to place non-recourse notes on the properties, which are acquired in the name of the partnerships. It is the anticipated practice of the corporation to contract for the purchase of additional model homes and subsequently to form new partnerships to take title to the properties. It is EPIC's intent to pay or not pay, at their discretion all loan fees and/or points on the properties mortgaged for the partnerships.

3. As of the balance sheet date \$113,576.85 was in unrestricted checking accounts while \$9,093.78 was restricted.
4. EPIC serves as the agent for associated partnerships. This receivable is the amount owed by these partnerships.

5. Included in Accounts Receivable - Others is \$52,275.00 expected as a refund for an oil well investment. The original investment was \$61,500.00 and an allowance of 15% was made for collection expenses. Both management and legal counsel concur that this receivable will be recovered.
6. These notes were issued by investors in associated partnerships in lieu of cash capital contributions. The notes bear interest at 8% per annum.
7. Depreciation Policies: Office equipment is being depreciated over a seven year period, leasehold improvements over five years, and automobiles over three years. These assets are being depreciated on a straight line basis.
8. EPIC, as General Partner of various related partnerships, has invested \$196,358.46 in cash, received \$9,232.34 of income, \$1,388.78 of losses, participated in exchanges into new partnerships of \$152,391.86, and received \$27,693.58 of cash withdrawals for a total net investment of \$328,900.30.
9. A loss reserve has been provided for to equal 10% of total cash investments totalling \$196,358.46 by EPIC in the associated partnerships.
10. Winthrop Financial, one of the broker-dealers marketing limited partnership interests, advanced the corporation these funds.
11. EPIC serves as agent for associated partnerships. This payable is the amount owed to these partnerships.
12. Notes Payable Current consists of \$75,000.00 payable to Security National Bank and \$25,000.00 payable to the McLean Bank. The balance of \$4,196.00 consists of five installment loans secured by personal property. Notes Payable Non-Current are the payments on the five installment loans due more than one year after the balance sheet date.
13. The Special Payable to Associated Partnerships consists of security deposits and completion escrows made by the builder/lessees as of December 31, 1976.
14. Provision for income taxes has been computed as the amount of Federal and State tax liability based on the tax rates prevailing as of the balance sheet date applied to the net income before taxes from Exhibit A-II.
15. Deferred Credits are composed of unrealized organization and marketing fees computed on unsold portions of limited partnership equity.
16. Partnerships pay interest to EPIC for funds advanced to purchase rental properties. The interest rate is equivalent to the estimated cash flow in the offering memorandums. As the partners invest their capital the initial loan is curtailed.
17. The builder pays EPIC 6% of the gross sales price and 1% of an 80% mortgage for a total of 6.8% of the gross sales price.
18. During 1976, EPIC made payments to associated partnerships when resale prices were inadequate to return investors' capital as follows: EPIC Associates V \$29,639.40; EPIC Associates VI \$567.00. EPIC also made mortgage payments in the amount of \$1,671.00 on behalf of EPIC Associates IV. These payments were made by the General Partner (EPIC) to the Limited Partnerships to fulfill special guarantees and have been reflected as expenses on the accounting records of Equity Programs Investment Corporation.

JAMES C. JONES

CERTIFIED PUBLIC ACCOUNTANT

1012 SEMINARY PLAZA BUILDING
4680 KENMORE AVENUE
ALEXANDRIA, VIRGINIA 22304

(703) 370-9191

February 28, 1978

Board of Directors
Equity Programs Investment Corporation
and Wholly Owned Subsidiaries
Alexandria, Virginia

I have examined the consolidated balance sheet of Equity Programs Investment Corporation and its wholly owned subsidiaries, EPIC Mortgage, Inc., EPIC Realty Corporation, EPIC Securities, Inc. and Lualaba Models, Inc., as of December 31, 1977, and the related consolidated statements of income and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned consolidated financial statements present fairly the financial position of Equity Programs Investment Corporation and its aforementioned wholly owned subsidiaries at December 31, 1977, and the results of their operations and the changes in their financial position for the period then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.


JAMES C. JONES

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EQUITY PROGRAMS INVESTMENT CORPORATION
AND WHOLLY OWNED SUBSIDIARIES
EPIC MORTGAGE, INC., EPIC REALTY CORPORATION
EPIC SECURITIES, INC., TUNLAW MODELS, INC.
Consolidated Balance Sheet
December 31, 1977

Assets

Current Assets:

Cash in Banks and On Hand (Note 2)	\$ 356,258.03
Account Receivable (Note 3)	1,027,219.92
Notes Receivable (Note 4)	82,230.77
Prepaid Expenses (Note 5)	<u>44,744.71</u>

Total Current Assets \$ 1,510,453.43

Fixed Assets, Net of Depreciation 50,330.84

Other Assets:

Capitalized Lease (Note 1)	\$11,292,093.00
Notes Receivable (Note 4)	177,363.81
Officer Receivables	62,724.61
Cash Surrender Value - Life Insurance	7,559.73
Deposits (Note 7)	18,815.00
Deferred Charges (Note 5)	41,756.87
Partnership Investments - Net (Note 8)	267,534.07
Other Investment	725.00
Organization Expense	<u>7,629.46</u>

Total Other Assets 11,876,201.55

TOTAL ASSETS \$13,436,985.82

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

Liabilities and Stockholder's Equity

Current Liabilities:

Accounts Payable - Trade	\$	120,037.48	
Special Payable - Partnerships (Note 9)		295,661.95	
Account Payable - Partnerships (Note 9)		259,970.47	
Accrued Salaries Payable		49,995.14	
Notes Payable - Current (Note 10)		391,337.02	
Withheld and Accrued Payroll Taxes		5,403.19	
Accrued Interest Payable		31,856.00	
Income Taxes Payable (Note 12)		102,088.51	
Deferred Income Taxes (Note 12)		139,554.67	
Total Current Liabilities		139,554.67	\$ 1,395,904.43

Other Liabilities:

Notes Payable - Officer	\$	75,000.00	
Notes Payable - Noncurrent (Notes 1 & 10)		11,306,095.03	
Deferred Credits (Note 13)		149,749.83	
Total Other Liabilities		149,749.83	11,530,844.86
Total Liabilities			\$12,926,749.29

Stockholder's Equity:

Capital Stock:

Common Stock, .01 stated value 500,000 shares authorized, 107,500 issued (Note 11)	\$	1,075.00	
Contributions in excess of stated value		112,275.00	
		112,275.00	\$ 113,350.00

Retained Earnings:

Balance, January 1, 1977	\$	180,795.66	
Add: Income for the Year Ended December 31, 1977 (Exhibit A-II)		216,090.87	
Balance, December 31, 1977		216,090.87	396,886.53
Total Stockholder's Equity			510,236.53
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY			\$13,436,985.82

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION
AND WHOLLY OWNED SUBSIDIARIES
EPIC MORTGAGE, INC., EPIC REALTY CORPORATION
EPIC SECURITIES, INC., TUNLAW MODELS, INC.
Consolidated Income Statement
For The Year Ended December 31, 1977

<u>Income:</u>	
Initial Loan Interest (Note 14)	\$ 79,136.72
Partnership Organization Fees (Note 15)	457,604.33
Builder Fees (Note 15)	1,155,971.27
Property Management Fees (Note 1)	89,751.78
Reimbursed Expenses	930.29
Miscellaneous Income	591.23
Loan Origination Fees (Note 1)	<u>235,985.02</u>
Total Income	\$2,019,970.64
Operating Expenses (Schedule A-2)	<u>1,700,896.73</u>
Net Income From Operations	\$ 319,073.91
<u>Other Income:</u>	
Farm Sale - Net of Costs (Note 16)	\$ 36,555.68
Interest Income	<u>35,471.68</u>
Total Other Income	<u>72,027.36</u>
Total Income Before Income Taxes	\$ 391,101.27
Provision For Income Taxes - Net of Credits	<u>175,010.40</u>
NET INCOME	<u>\$ 216,090.87</u>

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION
AND WHOLLY OWNED SUBSIDIARIES
EPIC MORTGAGE, INC., EPIC REALTY CORPORATION
EPIC SECURITIES, INC., TUNLAW MODELS, INC.
Consolidated Operating Expenses
For The Year Ended December 31, 1977

Operating Expenses:

Accounting	\$ 18,120.00
Advertising	58,906.71
Auto Expenses	20,005.77
Broker Fees	26,236.04
Commissions, Broker & Reallowance (Note 17)	356,874.16
Consulting	16,064.00
Depreciation	12,882.79
Dues and Subscriptions	9,859.78
Employee Welfare	2,820.72
Entertainment	19,653.99
Insurance	16,723.87
Interest	91,250.91
Lender Charges	4,180.50
Legal	104,366.45
Loan Origination Fees	146,200.91
Loss on Investments	58,570.06
Marketing	35,220.04
Miscellaneous	1,280.42
Office Expenses	64,102.33
Office Rent	24,404.29
Partnership Operating Losses	18,698.82
Payroll Taxes	17,024.90
Penalties	3,949.66
Permits and License	4,975.70
Provision for Investment Losses	29,726.00
Recording Fees	6,508.62
Salaries	440,609.01
Telephone	33,331.04
Travel	58,341.34
	<hr/>
Total Operating Expenses	<u>\$1,700,896.73</u>

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION
AND WHOLLY OWNED SUBSIDIARIES
EPIC MORTGAGE, INC., EPIC REALTY CORPORATION
EPIC SECURITIES, INC., TUNLAW MODELS, INC.
Consolidated Changes in Financial Position
For The Year Ended December 31, 1977

FUNDS PROVIDED:

Net Income	\$216,090.87	
Add: Items Not Requiring Cash Outlay		
Accrued Interest	18,095.00	
Amortization	69.83	
Depreciation	12,882.79	
Partnership Operating Losses	18,698.82	
Deferred Income Taxes	<u>70,921.89</u>	
Funds Provided from Operations		\$ 336,759.00
Decrease in Accounts Receivable		2,877.80
Net Decrease in Partnership Investments		23,031.50
Accounts Payable - Trade Increase		22,401.10
Special Payables - Partnerships Increase		97,273.90
Increased Accrued Salaries Payable		26,481.90
Notes Payable Current Increase		287,141.00
Increase in Withheld and Accrued Taxes		3,323.80
Income Taxes Payable Increase		67,518.00
Notes Payable - Noncurrent Increase		11,302,127.30
Exercise of Stock Subscriptions		2,000.00
Common Stock Issued		<u>12,350.00</u>
Total Funds Provided		<u>\$12,183,285.80</u>

FUNDS APPLIED:

Cash in Banks Increase		\$ 233,587.40
Increase in Current Notes Receivable		72,939.60
Prepaid Expense Increase		41,578.50
Increase in Long Term Notes Receivable		177,363.80
Officer Receivables Increase		52,683.40
Increased Cash Surrender Value - Life Insurance		2,281.70
Deposit Increase		10,323.00
Increase Deferred Charges		41,756.80
Other Investment Increase		725.00
Increase in Organization Expense		7,489.80
Accounts Payable - Partnerships Decrease		126,918.20
Curtail Notes Payable Officers		40,352.70
Decrease in Deferred Credits		37,693.40
Preferred Stock Converted to Common Stock		2,000.00
Purchase Fixed Assets		43,498.90
Capitalized Lease Increase		<u>11,292,093.00</u>
Total Funds Applied		<u>\$12,183,285.80</u>

NOTES TO FINANCIAL STATEMENTS

1. Equity Programs Investment Corporation (EPIC) was incorporated under the laws of the Commonwealth of Virginia on December 30, 1974. As of the Balance Sheet date, EPIC was a Managing General Partner in two (2) General Partnerships and was acting as the General Partner for thirty-two (32) limited partnerships. EPIC's operating policy and procedure is to acquire properties, simultaneously lease it or them, obtain financing and/or provide total funding for the acquisition and subsequently offer limited partnership investments through broker/dealers. Due to this period of acquisition and syndication, EPIC was the only "partner" in six (6) of these limited partnerships. Because of the nature of the business, the assets and liabilities of these entities, with EPIC as the sole partner, are not included in the Balance Sheet of EPIC, but in the financial statements of the individual "partnerships" based on the going concern concept. Additional partnerships of a similar nature are anticipated in the future and are expected to be accomplished within this concept. EPIC is the parent company and presently owns 100% of the outstanding stock of the following corporations: EPIC Mortgage, Inc., EPIC Realty Corporation, EPIC Securities, Inc. and Tunlaw Models, Inc.

The primary business of the corporation is to purchase builder's model homes on behalf of partnerships and enter into purchase-leaseback agreements with the selling builders. EPIC arranges financing of the properties, including necessary short term loans, acts on behalf of the partnership in the settlement and then markets the equity investment available through broker/dealers. During the life of the partnerships, the Corporation manages the properties for the partnerships and arranges for any subsequent disposition of the properties. During the current year, approximately \$16,500,000.00 of builder model homes and lots were purchased on behalf of partnerships. Dispositions amounting to approximately \$4,300,000.00 in sales were made on behalf of partnerships. EPIC was also instrumental in a purchase/lease arrangement for approximately \$11,300,000.00 of builder models on behalf of its wholly owned subsidiary, Tunlaw Models, Inc.

The Corporation participates in operating profits and losses of the partnerships which normally range from 2% interest to 5%. In addition, the Corporation shares from 45% - 50% of the difference between net selling price of the property and the gross purchase price of the property, subordinated to each limited partner's receipt of his contribution to capital and varying cumulative returns on his capital contribution.

Due to the policy of purchasing models prior to syndication of the partnership interests to others, EPIC has varying percentages of ownership in the partnerships at various times. The Corporation has also acquired additional ownership in the partnerships as a limited partner by purchasing or exchanging interests. When the net realizable value of the interest received in the exchanges or purchases has been estimated to be less than the basis of property contributed, the investment has been reduced to reflect this estimate. The loss on partnership investment includes approximately \$60,000.00 for the current year's adjustment to estimated net realizable value.

The Corporation is liable for the organization and administrative expenses of creating the partnerships and the management thereof. They are entitled to a fee of 2.5% - 5% of gross rental income for this management, which in some cases is subordinated to the partners' varying cumulative annual return on capital contributed.

Contingent liabilities of EPIC are created when the limited partnerships are formed due to EPIC's role as General Partner. The most significant contingent liability is for the mortgages or deeds of trust given to secure loans on the model homes. Normally, the mortgage secured is for approximately 80% of the purchase price. Under certain circumstances, they are placed at 90% and subsequently reduced to 80% when the limited partners have contributed their capital. During this period, when a 90% mortgage is on the partnership property, it is EPIC's policy to pay the interest on the 10% excess mortgage. No limited partner, as such, shall be personally liable for any of the debts of the partnerships, or any of the losses thereof beyond his capital contribution plus undistributed profits of the partnerships, except for any distribution that may be made to such limited partner, if the remaining assets of the partnerships are not sufficient to pay the then outstanding liabilities, exclusive of liabilities to limited partners on account of their contribution and liabilities to the General Partner. The General Partner is liable for debts above the aforementioned contribution and undistributed profit. The Corporation attempts to place non-recourse notes on the properties, which are acquired in the name of the partnerships. It is the anticipated practice of the corporation to contract for the purchase of additional model homes and subsequently to form additional partnerships to take title to the properties. EPIC's policy is to contribute cash in exchange for its partnership interest.

The following entities are wholly owned subsidiaries of Equity Programs Investment Corporation:

EPIC Mortgage, Inc. (EPIC Mortgage) was formed as a Delaware corporation in early 1977. Its purpose is to borrow and lend money, or generally deal in promissory notes. During the year under review, EPIC Mortgage acted as a broker/agent between lenders and the EPIC partnerships in securing financing. They paid commitment fees and origination fees and generated income by charging the partnerships fees for the loan placement. EPIC Mortgage's gross profit from origination fees was approximately \$90,000.00 during the current year.

EPIC Realty Corporation (EPIC Realty) was formed as a Virginia corporation in late 1976. Its purpose is to act as a commissioned broker/agent in real estate transactions among EPIC, EPIC associated partnerships, other entities and the general business public. EPIC Realty generated a minimal amount of commissions during 1977. It is also expected to act as Equity Programs Investment Corporation's agent in the State of Illinois due to a conflict of corporate names in the aforementioned State.

EPIC Securities, Inc. (EPIC Securities) was formed as a Virginia corporation in late 1976. Its purpose is to deal in securities. During the year under review, EPIC Securities did not engage in any material transactions.

Tunlaw Models, Inc. (Tunlaw) was formed as a Maryland Corporation in December of 1977. The sole purpose of Tunlaw was to enter into a purchase/leaseback agreement dated December 15, 1977, for model homes with a home builder and to fulfill the obligations contained within this agreement. A summary of this agreement is as follows: Tunlaw purchased model homes for an aggregate purchase price of \$11,292,093.00. The purchase was fully financed with a lending institution. The Corporation has no right to sell the leased properties during the eighty-four (84) month term of the lease. The seller/leasee has the right to resell the properties at its discretion during the term of the lease and has early termination rights upon (i) its sale of the property to third party purchaser, (ii) its pay-off of mortgages, (iii) or if any proceeds from resale

are improperly retained by the landlord. The payment obligation of the lessor is for a monthly payment having an annualized rate of 9 1/2% for the first five years and 12.67% for the remaining two years of the then purchase/sales price of properties under lease. Tunlaw maintains a special account with a bank wherein the monthly lease payments are deposited by the lessee. The bank is authorized to withdraw the necessary funds to be applied to its loan and the remaining balance is unrestricted. This is a totally net lease. The lessor has no normal ownership obligations. Tunlaw is entitled to an early termination fee based on the time of termination, but does not share in sales proceeds above its original purchase and such termination fees.

Tunlaw entered into a loan agreement, dated December 20, 1977, with a lending institution to purchase the models. The bank loaned the aggregate purchase price which is considered to be approximately the builder's cost in these units. The terms are as follows: Due and payable as to principal on December 31, 1981, with prepayment privilege. Interest rate 9% per annum. Equity Programs Investment Corporation acts as guarantor of this loan. Guarantor shall be released from liability thereunder if borrower (Tunlaw) shall have conveyed to the bank its entire right, title and interest in and to all of the properties encumbered by the mortgages in satisfaction of the indebtedness secured by the loan, or the bank has acquired 100% capital stock of Tunlaw. 100% of Tunlaw's stock is pledged to and held by the bank with stock powers duly executed in blank.

This transaction has been reflected in the accounting records as a financing arrangement. The fair market value of the lease is considered to equal the bank loan outstanding of \$11,292,093.00.

2. As of The Balance Sheet date, \$22,351.42 was in restricted accounts.
3. EPIC and its subsidiaries serve as agents on behalf of associated partnerships. \$876,629.85 included in the balance of \$1,027,219.92 is a receivable from associated partnerships.
4. Notes Receivable - \$25,000 from Classic Industries, Inc. is secured by a Second Trust on Classic Industries' property. This property is expected to be foreclosed upon. \$61,500.00 is due from Duke Resources Corporation et al of which \$23,849.53 is considered current. This is the settlement of an oil investment controversy. This note is non-interest bearing and is evidenced by an agreement entered into dated December 8, 1977. This agreement states that payments are to be made on a monthly basis, payable overall in 6 years. In addition to the payments, the payor(s) agree to pay the net proceeds, if any, attributable to a 15% working mineral interest in a well to be drilled within three years and the corporation has a choice of any three well sites designated by the payor. The proceeds of this well are limited to the amount of the note. Property sold to the general public is secured by deeds of trust amounting to \$161,893.87. Included in this amount is \$16,125.00 which is considered current. The notes are on an installment payment schedule which includes 8% interest. The scheduled payments amount to \$1,526.54 and are payable in 5 - 12 years.
5. A Loan Origination Fee paid by Tunlaw has been classified as \$14,115.00 prepaid expense and \$41,756.87 deferred charges. The balance of prepaid expenses consists of \$15,457.50 in other Loan Commitment Fees paid by EPIC Mortgage, Inc. and \$15,172.21 Prepaid Insurance.

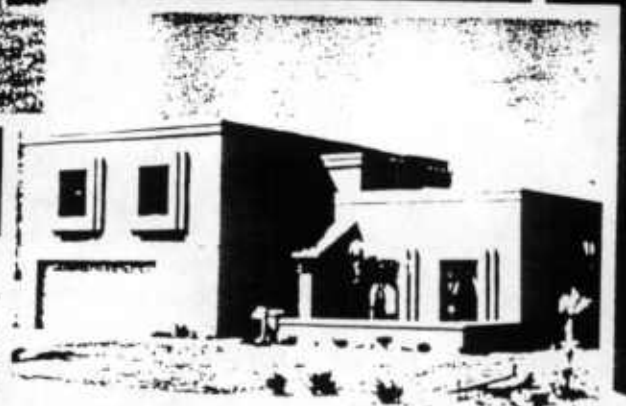
6. Depreciation Policies: Office Equipment is being depreciated over a seven year period, leasehold improvements over five years, and automobiles over three years. These assets are being depreciated on a straight line basis.
7. Cash has been advanced to purchase additional assets. None of these purchases has occurred and it is anticipated that the majority of the deposits will be returned.
8. Partnership Investments represent all of the contributions to associated partnerships for their ownership of partnership interests. These contributions have been reduced by cash withdrawals, losses by the partnerships, reductions to estimated net realizable value, and an allowance equal to 10% of the then net investment to provide for possible future losses on investments. During the current year, EPIC contributed partnership capital of \$174,814.22, recorded operating partnership losses of \$18,698.82, cash withdrawals of \$37,585.16, write-downs to net realizable value of \$80,365.57, and a provision for possible future losses of \$29,726.00.
9. EPIC serves as agent for associated partnerships. The Special Payable consists of Security Deposits and Completion Escrows made by the builder/lessees to the partnership lessors. The Accounts Payable - Partnerships is the net of cash received and disbursed on behalf of the associated partnerships.
10. Notes Payable includes unsecured credit lines with various banks totaling \$170,000.00, a loan of \$163,975.00 from associated partnerships, \$11,292,093.00 to The First National Bank of Chicago which is secured by model homes as explained in Note One and various installment notes secured by autos, truck and office equipment. Interest rates vary from 8 to 15%.
11. The authorized stock consists of 500,000 common shares with a \$.01 stated value. The subscribed preferred stock totaling 50,000 shares was converted to common by two of the officers, which resulted in one officer's owning 54,500 of the 107,500 common shares outstanding as of December 31, 1977. An officer/employee of the corporation exercised an option to purchase 7,500 common shares for \$1.38 per share. There are no additional options or conversion privileges outstanding as of the Balance Sheet date.
12. Income Taxes Payable reflects the amount due and payable with the 1977 income tax returns. Whereas the deferred income taxes are the computed taxes based on the financial statement retained earnings at tax rates prevailing as of the Balance Sheet date reduced by the current taxes payable. The principle difference between tax basis income and financial basis is due to different depreciation methods, the provision for partnership investment losses, deduction of prepaid commitment fees, installment sales and non-recognition of deferred rental income by Tunlaw Models, Inc.
13. Deferred Credits are composed of unrealized organization, marketing and loan origination fees computed on unsold portions of limited partnership equity and unearned property management fees.
14. Partnerships pay interest to EPIC for funds advanced on their behalf to purchase rental properties. The interest rate is equivalent to the estimated cash flow percentage in the offering memorandums.

15. Partnership Organization Fees are paid by the limited partners for services performed by EPIC in creating the investments and partnerships. The builders' fees are paid by the selling builders for EPIC arranging the sale and leaseback of their property.
16. The Corporation purchased raw ground from an officer of the Corporation, subdivided the property and subsequently resold it to unrelated parties.
17. EPIC paid unrelated parties to sell interests in the associated limited partnerships.



equity programs investment corp.

1979 Annual Report



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About the Company

"EPIC" is an acronym for Equity Programs Investment Corporation, but it means **model home financing**. EPIC is involved in two basic industries—homebuilding and finance. From the homebuilding industry we get our product and the income stream that it generates. Categorically though, it is really the finance industry to which EPIC belongs; a specialized area of the finance industry—namely, purchase-leaseback (sale-leaseback).

Sale-leaseback is a well accepted corporate financing technique for many products and companies, the most common being equipment. Generally, the leasing transaction is based on the efficient matching of cost-use with time-use of the product for the lessee. Also, the tax advantages of ownership of the product are shifted from the user to the lessor. For these trade-offs, the equity capital requirements are also shifted from the user to the lessor.

It is our product, however, that makes our company and its sale-leaseback transaction unique. Our product is a house. A particular type of house—a "MODEL HOME". This is the house that builders use to demonstrate to potential buyers their production houses in a finished (generally completely decorated, furnished and landscaped) condition. They are typically the first houses built, the best located and have the lowest initial pricing in the development.

Model homes have always been treated by homebuilders and homebuilding finance companies like every other house in the builder's development. But they are not the same. They are the last house sold by the builder, but the first ones built. They are almost always built with expensive short-term construction financing rather than planned project financing. The builder's loan is usually very low in relation to value because the models contain "extras" as sales or marketing packages. These "extras" require the builder to outlay additional capital at the beginning of a project when he can least afford it.

Our sole activity then is sale-leaseback financing of builder's model homes. We buy these houses from homebuilders at the initial stages of subdivision development. EPIC acquires the houses in a partnership in which it acts as general or managing partner. Limited partners contribute the necessary equity capital and the partnership then leases the "model home" back to the selling builder for as long as he needs it. We have matched his time use with his cost use.

Simply stated, EPIC provides the capital for the models in lieu of the builder providing it. Our partnership then owns an asset that generates an income stream large enough to provide a good cash yield. Our product is also relatively low priced, secure and comparatively liquid to other real estate, if and when we want to sell it. In addition, the ownership of leased real estate has significant tax advantages. Finally, houses have experienced significant price appreciation in the past and the homebuilding industry is now looking forward to a decade of unprecedented demand.

The '80s will be a period of rising prices for all of the production factors in housing. Land, labor, and capital will be in short supply and the conditions that have caused housing costs to increase in the past decade will continue in the next. In the future decade, however, tremendous upward pressure on housing prices will be generated from two additional factors. The first, unprecedented

Cover photos:

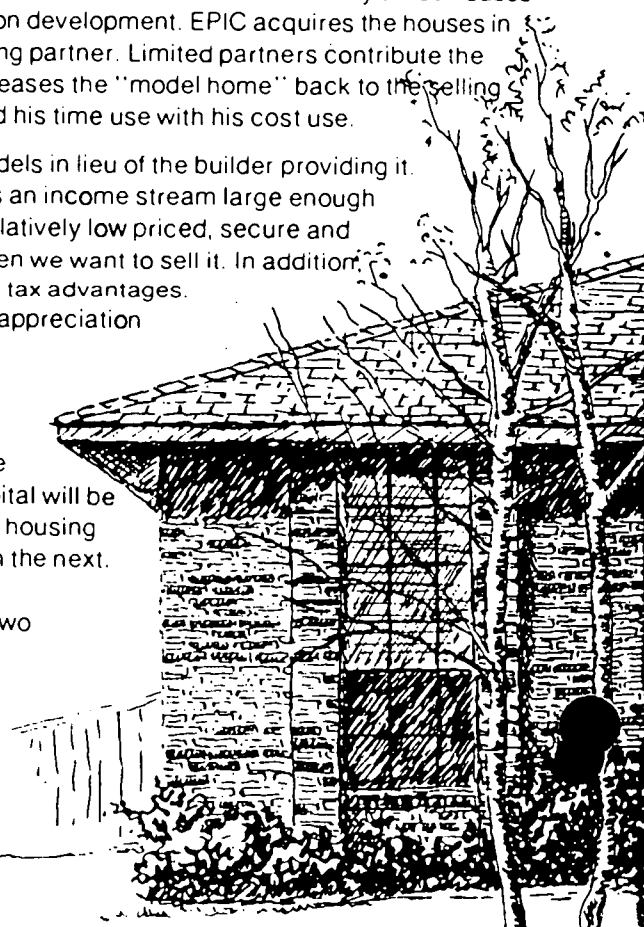
Costain model home
Fairfax County, Virginia

Costain model home
Fairfax County, Virginia

Ryland Group model home
Houston, Texas

Wood Bros. model home
Phoenix, Arizona

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demand caused by the post-war baby boom, will intensify throughout the '80s and only moderate in the '90s. Within the next ten years, demand for housing will exceed the supply capacity of the industry by as much as 200,000 - 600,000 units per year. The second factor, an interruption in the supply of housing caused by economic conditions, will only occur periodically but each occurrence will generate extreme upward pressure on housing prices.

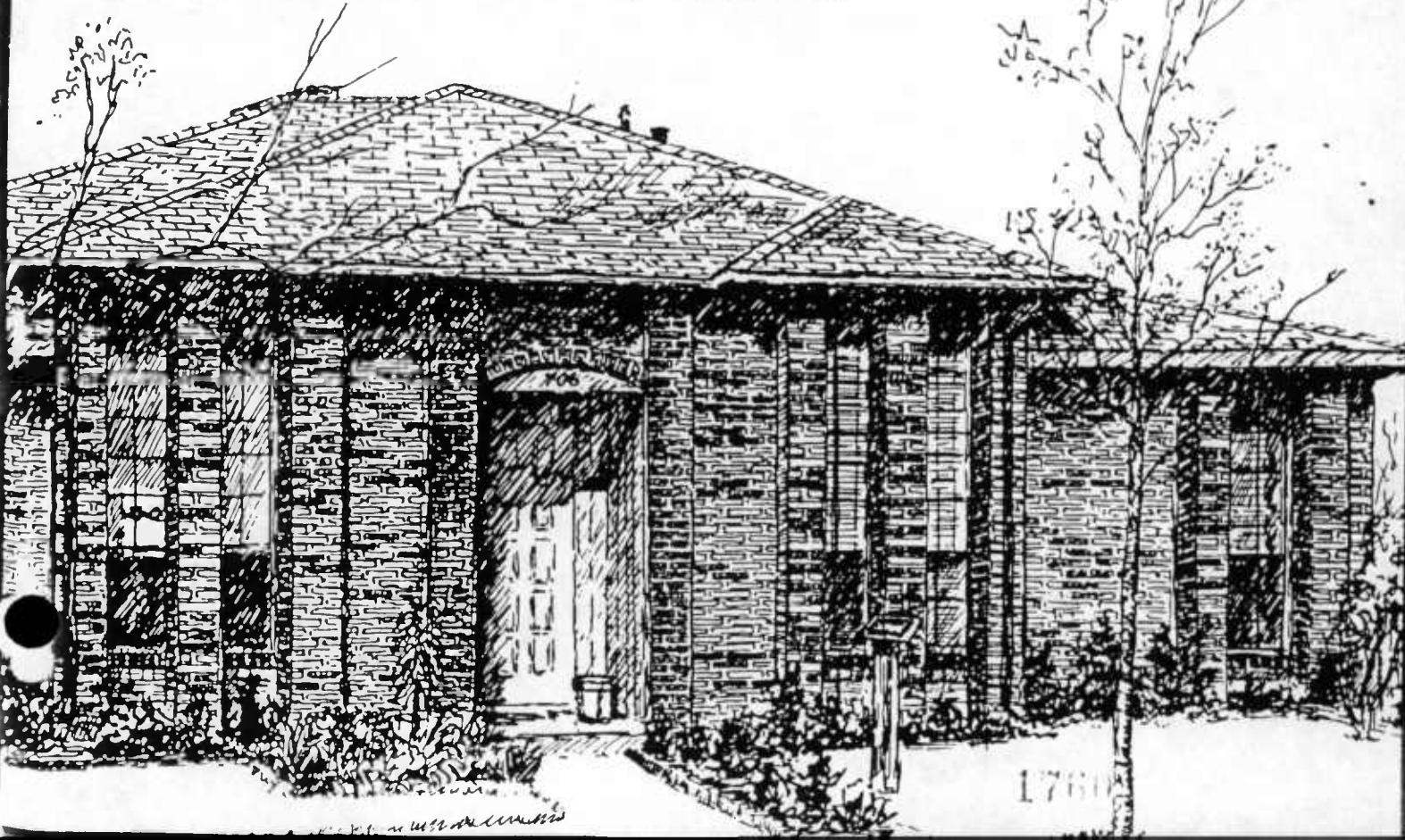
As we approach 1980 we are experiencing the beginning of such an interruption in the housing supply. This interruption is being caused by high interest rates. How severe this interruption will be depends upon the eventual level of interest rates and the ability of consumers to qualify for home loans. If housing starts in 1980 are less than 1,200,000, the resultant price increases in 1981 could be as much as 20-30% over the cost of housing in 1980. This will be caused by pent-up demand being translated into active competition for the existing housing stock as interest rates fall during late 1980 and 1981.

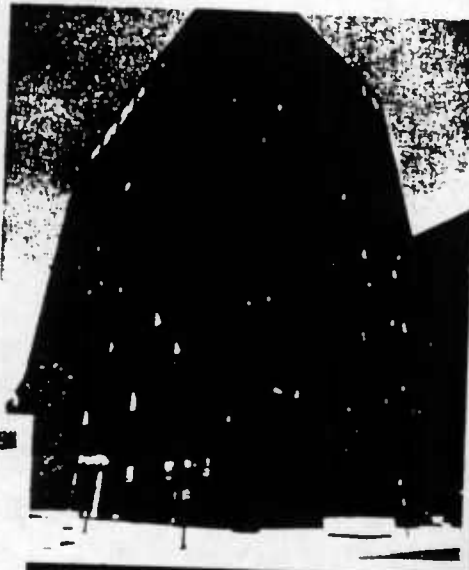
Our business is simple. We combine the simplest form of real estate (a house) with a specialized cost/time form of financing (sale-leaseback) to create a beneficial financial structure for all parties involved.

Meeting EPIC's needs in the '80s will be complex. To meet our capital requirements in this expanding market we must develop new financing instruments for non-owner occupied property. In the building industry we must recycle investment capital to the homebuilder while minimizing our cost of models. However, EPIC has a five-year history of meeting objectives such as these. The report for 1979 that follows shows part of that history.

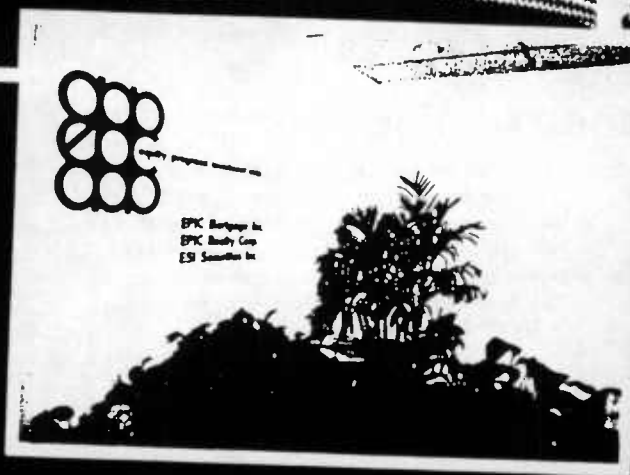
1979 Statistics and Achievements

- Completed fifth full year of operations.
- Net worth increased to over \$1 million at year end.
- Model homes acquired for investment — \$39,139,574.
- Mortgages placed — \$24,464,350.
- Mortgage servicing increased to \$35,000,000.
- Syndicated equity raised — \$5,075,843.
- 25 new limited partnerships were formed.
- Non-leveraged equity raised — \$7,679,500.
- Model homes sold at end of lease term totaled \$7,501,238.
- Year end inventory under management — \$82,480,415.
- Moved and expanded corporate headquarters.
- Staff increased by 19 for a total of 51 employees in the corporate headquarters.





EPIC Corporate Headquarters
Falls Church, Virginia



Review of Operations

1979 was a year of base building for EPIC. In prior years, we were busy developing our program conceptually, gaining experience and developing financing techniques and sources. By the end of 1978 we were in a position to expand our builder operations from an acquisition base of approximately \$30 million to over \$50 million in 1979. To acquire this additional product, we expanded our regional office network in the southern and western U.S. The California and Arizona markets were entered and operations in Colorado, Florida and Texas were strengthened.

This increased acquisition activity required careful analysis, improved financial controls and close management monitoring. The initial thrust in each area was directed to the stronger, more credit-worthy builders that represent the least risk to EPIC with the maximum potential. In fact, our acquisition philosophy—strong builders, expanding markets and medium priced homes—has as its goal, risk aversion combined with sheltered income and appreciation potential.

In conjunction with the regional network expansion, we increased our home office staff by adding additional personnel in partnership administration, realty property management, mortgage servicing, securities administration, legal and computer operations. These additions greatly improved our capability to manage our existing portfolio and provided us the necessary backup to field operations.

At the same time we were planning and implementing our expansion, we were also watching the economy with great concern. We prepared several alternative plans for coping with potential downturns. These plans included increasing our bank credit lines, developing a strong rental management program to offset a weak sales market, and increasing our committed permanent financing.

This preparation became of vital importance in the 4th quarter of the year when the Federal Reserve drastically altered the credit available to the homebuilding industry. Our posture immediately became defensive and we virtually eliminated all new activity in the quarter except for those purchases already committed and financed. This posture will remain our policy until a more favorable outlook for housing can be made.

In 1979 EPIC's net worth increased to over \$1 million. Probably the most significant fact of the year, however, is how well EPIC withstood the severe interruption in activity that occurred in our normally most active quarter—the 4th. This, coupled with the cost of expansion in the earlier quarters, caused profits to be down by approximately 16% year-to-year. More important than year-to-year earnings is the fact that EPIC was able to deal with weaknesses in both the homebuilding and finance industries. In the future, our expanded capabilities that we created in 1979, combined with the strong housing market for the '80s, makes us more optimistic than ever.

ESI Securities, Inc.—One of EPIC's major accomplishments for 1979 was the expansion of its broker/dealer network. Through its broker/dealer network, EPIC raised over \$5,000,000 of syndicated equity and over \$7,600,000 of non-leveraged in 25 limited partnerships. This is the most equity the company has raised for a single year in its five-year history.

EPIC Mortgage, Inc.—1979 marked the third year of operation for EPIC Mortgage, Inc. (EMI), a wholly-owned subsidiary of EPIC. At year end, EMI maintained a servicing portfolio in excess of \$35 million representing some 15 permanent loan investors nationwide.

During 1979, EMI expanded its existing network of mortgage lenders through the creation of EPIC Financial, Inc. (EFI). EFI's first objective was to penetrate one of the country's most capital-surplus regions—New England. EFI's first office was opened in Hartford, Connecticut, by Charles (Chuck) Kipp, Executive Vice President. Chuck, a lifelong resident of Connecticut, was formally Regional Manager for Mortgage Guaranty Insurance Corporation (MGIC) where he was responsible for the development of their New England region.

In less than a year, EPIC Financial, Inc. arranged in excess of \$11 million in permanent loans originated by EPIC Mortgage, Inc. for various EPIC limited partnerships. This represented almost 50% of the mortgages placed during the year.

As inflationary pressures have continued to erode the value of long-term, fixed-rate mortgages, the EPIC concept has become increasingly more attractive to lenders. Since a loan to EPIC is usually structured to pay out between three and five years, a lender can better manage his assets and liabilities for maximum protection and yield in a market that is subject to rapid swings in interest rates. Other features, such as equity kickers and re-negotiable rates during the term of the loan, have been made available to lenders as further inflationary protection. EPIC's unique innovative financing, which offers the liquidity and safety of an insured investment in single family housing, along with the best features of a commercial loan, provides a lender the maximum asset management flexibility.

At the present time, EPIC Mortgage, Inc. is negotiating the issuance of its first Mortgage Pass Through Certificate which is being reviewed by Standard & Poor's for potential rating possibilities. EPIC's five-year track record, the credit of its builder clientele and the national scope of EPIC's operations which offers the investor substantial geographic diversification, are the factors that will enable EPIC to offer in early 1980 the *first* rated security, collateralized solely by investment property.



Tom J. Billman
President

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Marketing Statistics

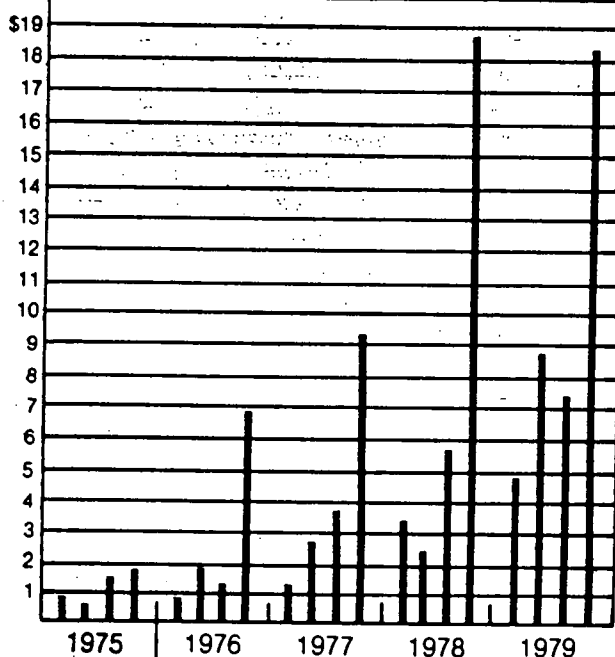
Statistics from EPIC's five years of operations provide the basis for projecting acquisitions and prices in the '80s. Model home acquisitions should exceed \$50 million in 1980. The average price per model will be approximately \$89,000.

Each year, EPIC's acquisitions in the 4th quarter comprise almost 50% of the total year's acquisitions as builders attempt to "clean up" their financial statements for the coming year. This bulge in the flow of product creates pressures on capital and people that we hope to lessen in the future by better planning and builder communication.

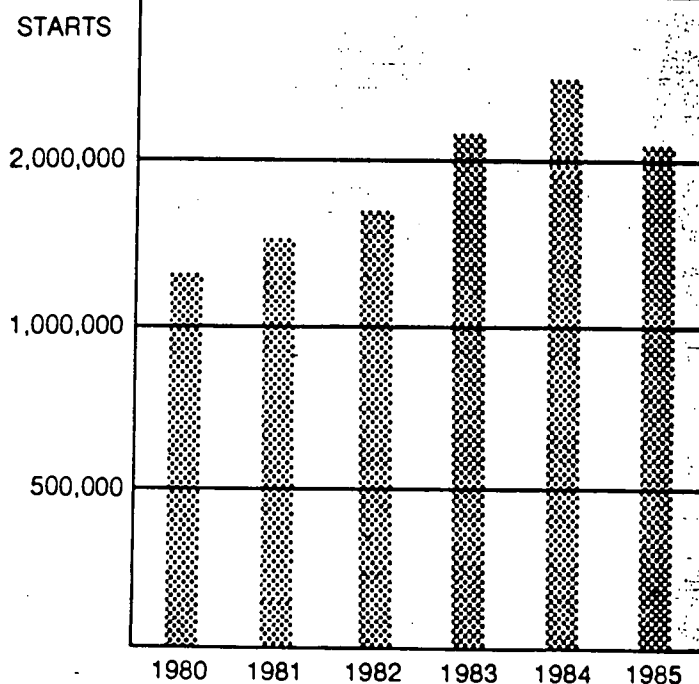
During the '80s prices of new homes will increase dramatically. The graphs on these pages project the NAHB forecast of prices that we believe to be far too conservative. Our experience

EPIC Annual Purchases of Model Homes

Comparison by Quarter (In millions)



NAHB Forecast Summary of Total Housing Starts



Potential Housing Production Shortfall (In thousands)

Year	24-34 Year-Old Population Group	Equilibrium Starts	Projected Starts	Potential Housing Start Shortfall
1980	36,172	2,188	1,722	466
1981	37,462	2,266	1,784	482
1982	37,861	2,290	1,803	487
1983	38,540	2,332	1,835	497
1984	39,203	2,372	1,867	505
1985	39,859	2,411	1,898	513

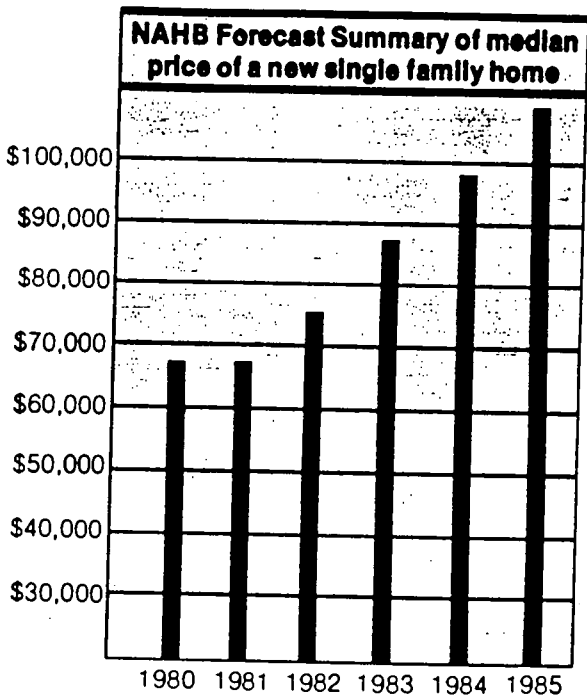
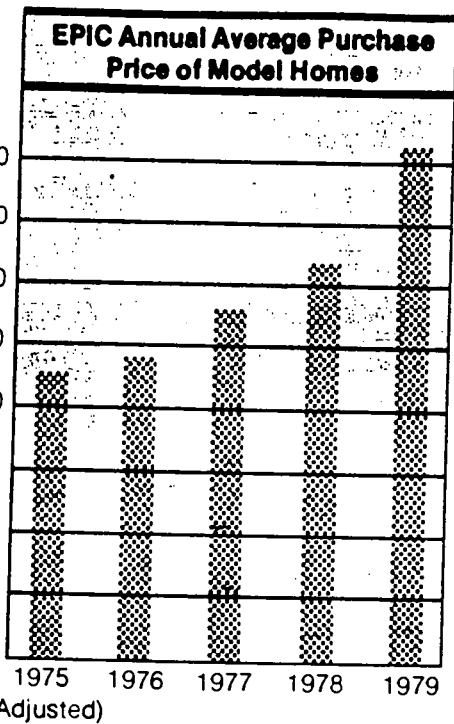
Equilibrium starts based on the average ratio between 1959 and 1977 of the prime housing-buying population to housing starts.

Population projections, Census Bureau, July 1977.

Housing starts, Mortgage Bankers Association Economics Department, December 1979.

indicates that pricing momentum will not be held to these levels in the early '80s and on a year-to-year basis could easily exceed 15%. This would mean that housing prices in 1985 would be double what they are at the end of 1979. After all, this is only a repeat of the pricing changes that occurred over the last six years (1973-1979).

The question that we hear most from lenders and investors is "Where will it (the increase in prices) end? It has to stop sometime!" It is far from certain that such will be the case. Housing represents a haven from inflation for most purchasers rather than a cause of inflation. For others, it represents shelter and stability with tax beneficial financing. As long as this is true, housing prices will continue to increase over the long term.



Projected Sales Price of a New Single Family Home 1980-1985

During the period 1974-1979, the sales price of a new single family home appreciated at an average rate of 11.35%; the lowest rate being 8.4% and the highest rate being 14.1%. * Based on these averages, here is what the anticipated cost of a new single family home will be for the period 1980-1985 using the 1979 NAHB forecast price of \$63,308. These anticipated sales prices are compared to what NAHB forecasts for the 1980-1985 time period.

Year	NAHB Forecast for Sales Price of SFH	Projected Sales Price of SFH using lowest appreciation rate of 8.4%	Projected Sales Price of SFH using average appreciation rate of 11.35%	Projected Sales Price of SFH using highest appreciation rate of 14.1%
1980	\$ 66,138	\$ 68,828	\$ 70,493	\$ 72,234
1981	66,694	74,391	78,494	82,419
1982	74,698	80,840	87,403	94,040
1983	85,198	87,414	97,323	107,300
1984	98,974	94,757	108,369	122,429
1985	107,829	102,717	120,669	139,691

*The appreciation rate schedule was taken from Construction Reports, U.S. Department of Commerce, BUREAU OF THE CENSUS, Fourth Quarter 1979.



*Ryland Group model home
Houston, Texas*



*Raldon Homes, Inc. model home interior
Dallas, Texas*

*Costain model home
Fairfax County, Virginia*

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*Pinecrest Homes model home
Westminster, Colorado*



*Covered Bridge, Inc. model home
Springfield, Virginia*



The People of EPIC



Tom J. Billman
President



Clayton C. McCulston
Vice President for Finance



C. Samuel Haines
*Vice President for Administration/
Corporate Secretary*



Leonard Meltz, Jr.
Vice President for Mortgage



John B. Ignash
Vice President for Realty



Joel H. Bernstein
Vice President for Securities



Joseph Cunningham
Treasurer



Larry J. Mathias
Controller



Sharon L. Metzler
Manager, Realty Administration



Louise Stone
*Manager, Securities and
Compliance Administration*



Julia P. Hill
Manager, Loan Administration



Kathleen A. Carlson
Communications Manager

Regional Offices



Walter M. Levine
Boca Raton, Florida



Lester D. Young
Dallas, Texas



Dan Gaubatz
Denver, Colorado



John A. Donnelly
Houston, Texas



Warren Tamblyn
Phoenix, Arizona



Joseph A. Lenberg
San Diego, California



Frederick M. Dower
Washington, D.C.



Charles S. Kipp, Jr.
*Executive Vice President
EPIC Financial, Inc.*

Consolidated Balance Sheet

Five Year Comparison EPIC and wholly-owned subsidiaries

Assets

	1979	1978	1977	1976	1975
Current Assets:					
Cash in Banks	\$ 1,668,844	\$ 1,335,111	\$ 356,258	\$ 122,671	\$358,254
Associated Partnerships Receivable	1,736,835	2,848,203	876,630	945,024	102,778
Partnership Investments	1,517,759	—	—	—	—
Notes Receivable	6,371,107	2,946,125	82,231	9,291	28,377
Accounts Receivable and Prepays	808,648	98,188	195,335	87,683	3,320
Total Current Assets	\$12,103,193	\$ 7,227,627	\$ 1,510,454	\$1,164,669	\$492,729
Fixed Assets:					
Net of Depreciation	\$ 787,891	\$ 67,052	\$ 50,330	\$ 19,715	\$ 12,803
Partnership Investments —					
Net of Allowance	206,073	226,659	267,534	309,264	65,809
Capitalized Leases	25,533,057	23,271,211	11,292,093	—	—
Notes Payable — Capitalized Leases	(25,533,057)	(23,271,211)	(11,292,093)	—	—
Other Assets	357,765	252,334	316,574	24,577	7,018
Total Assets	\$13,454,922	\$ 7,773,672	\$ 2,144,892	\$1,518,225	\$578,359

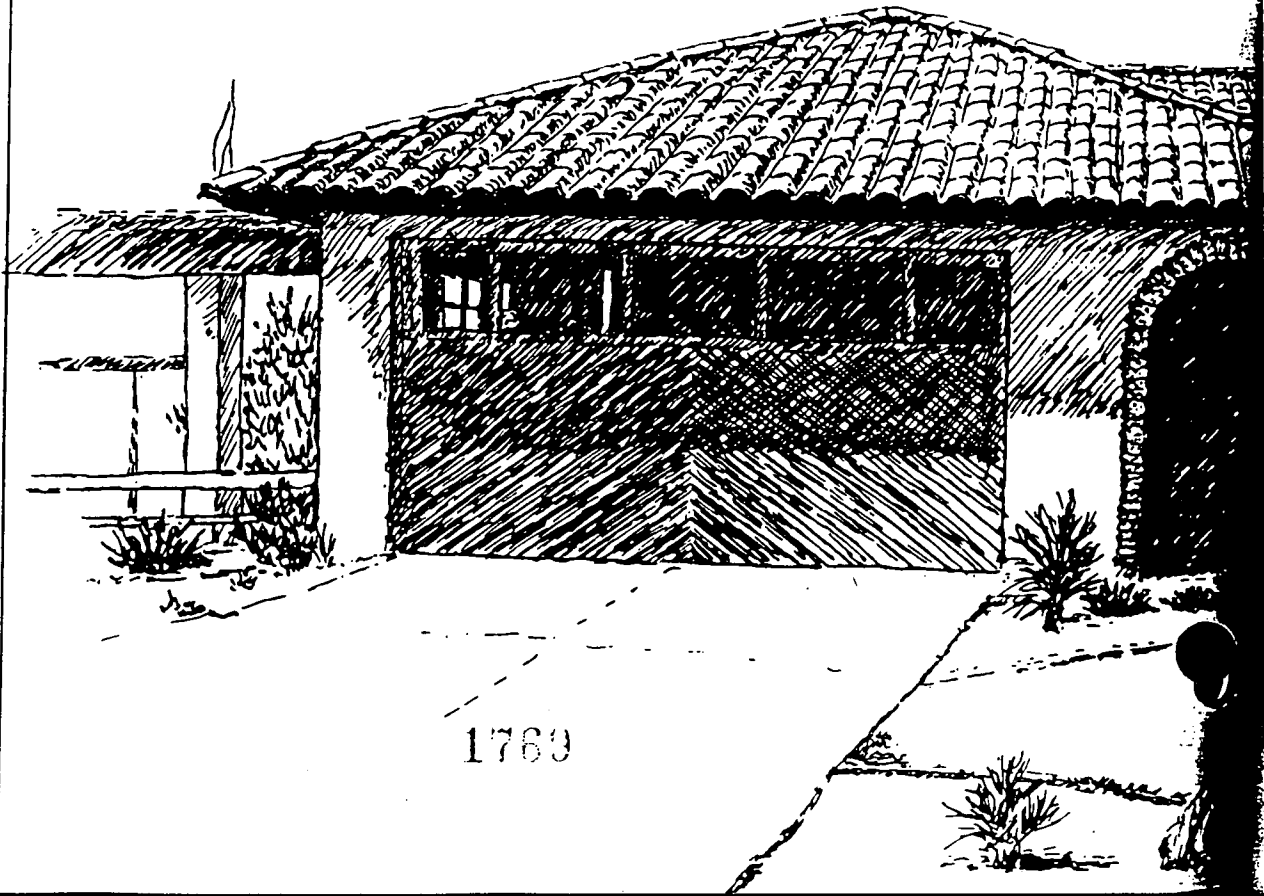
Liabilities and Stockholders' Equity

	1979	1978	1977	1976	1975
Current Liabilities:					
Accounts and Accrued Payables	\$ 1,251,361	\$ 884,896	\$ 207,292	\$ 136,990	\$ 48,955
Current Notes Payable	7,493,591	3,997,992	391,337	104,196	168,753
Associated Partnership Payable	1,670,773	1,070,801	555,632	585,277	149,600
Allowance for Income Taxes	503,966	417,982	241,643	103,203	28,547
Total Current Liabilities	\$10,919,691	\$6,371,671	\$1,395,904	\$ 929,666	\$395,855
Non-Current Liabilities:					
Notes Payable	942,788	170,896	89,002	119,320	12,286
Deferred Income	365,578	354,441	149,750	187,443	13,512
Total Liabilities	\$12,228,057	\$6,897,008	\$1,634,656	\$1,236,429	\$421,653
Minority Interests in Consolidated Partnerships					
Stockholders' Equity	43,731	—	—	—	—
Paid-in Capital	113,350	113,350	113,350	101,000	101,000
Retained Earnings	1,069,784	763,314	396,886	180,796	55,706
Stockholders' Equity	\$ 1,183,134	\$ 876,664	\$ 510,236	\$ 281,796	\$156,706
Total Liabilities and Stockholders' Equity	\$13,454,922	\$7,773,672	\$2,144,892	\$1,518,225	\$578,359

Consolidated Balance Sheet

Five Year Comparison EPIC Associated Partnerships

Assets	1979		1978
Cash in Bank		\$ 377,078	\$ 211,790
Special Receivable-EPIC		986,421	473,209
Accounts Receivable-EPIC		778,567	597,592
Accounts Receivable-Other		394,863	618,514
Escrow		636,057	334,935
Prepaid Interest		700,418	412,304
Prepaid Expenses		1,004,389	807,227
Rental Properties	\$75,018,404		\$42,225,906
Less Accumulated Depreciation	2,212,702	72,805,702	956,806
Total Assets		<u>\$77,683,495</u>	<u>\$44,724,671</u>
Liabilities and Partners' Capital			
Liabilities:			
Accounts Payable, Accrued Interest, Unearned Rent, Purchase Deposits	\$ 1,068,963		\$ 480,761
First Trust Mortgages	53,980,299		32,505,395
Second Trust Mortgages	47,142		894,089
Accounts Payable-EPIC	3,426,561		2,269,703
Security Deposit	670,148		347,237
Completion Escrow	381,597		148,228
Total Liabilities		<u>\$59,574,710</u>	<u>\$36,645,413</u>
Partners' Capital		<u>18,108,785</u>	<u>8,079,258</u>
Total Liabilities and Partners' Capital		<u>\$77,683,495</u>	<u>\$44,724,671</u>



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1977		1976		1975	
\$	238,471			\$	76,551
	295,662		\$ 198,388		73,048
	259,970		386,889		12,304
	269,969		70,441		17,041
	143,492		58,451		60,777
	290,163		146,379		102,170
	677,243		441,340		
\$24,921,985		\$12,707,093		\$3,889,535	
<u>421,584</u>	<u>24,500,401</u>	<u>191,415</u>	<u>12,515,678</u>	<u>57,384</u>	<u>3,832,151</u>
	<u>\$26,675,371</u>		<u>\$13,817,566</u>		<u>\$4,174,042</u>

1977		1976		1975	
\$	244,229	\$	211,687	\$	82,579
	20,207,061		9,878,229		2,966,251
	267,424		560,500		46,000
	876,630		945,024		102,778
	207,423		109,704		46,785
	89,689		88,684		10,500
	<u>\$21,892,456</u>		<u>\$11,793,828</u>		<u>\$3,254,893</u>
	<u>4,782,915</u>		<u>2,023,738</u>		<u>919,149</u>
	<u>\$26,675,371</u>		<u>\$13,817,566</u>		<u>\$4,174,042</u>



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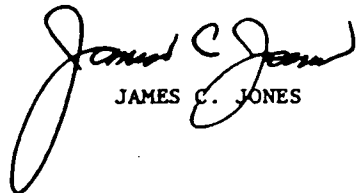
(703) 820-1662

May 9, 1980

Board of Directors
Equity Programs Investment Corporation
and Its Subsidiaries
Falls Church, Virginia

I have examined the comparative consolidated balance sheet of Equity Programs Investment Corporation and its subsidiaries, EPIC Mortgage, Inc., EPIC Realty Corporation, EPIC Securities, Inc., Tunlaw Models, Inc., Sledom Homes, Inc., Wolrab Models, Inc., Dodge Models, Inc., ESI Securities, Inc., Model Home Holding Corporation, EPIC Financial, Inc., EPIC Associates, EPIC Associates IV, IX, XI and XX, as of December 31, 1978 and 1979, and the related comparative consolidated statements of income and changes in financial position for the years then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned consolidated financial statements present fairly the financial position of Equity Programs Investment Corporation and its aforementioned subsidiaries at December 31, 1978 and 1979, and the results of their operations and the changes in their financial position for the periods then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year, subsequent to a reclassification of the prior year.


JAMES C. JONES

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Comparative Consolidated Balance Sheet

EQUITY PROGRAMS INVESTMENT CORPORATION AND ITS SUBSIDIARIES

Assets

	December 31,	
	1979	1978
Current Assets:		
Cash in Bank and On Hand (Note 2)	\$ 1,668,844	\$ 1,335,111
Accounts Receivable (Note 3)	2,472,232	2,848,203
Notes Receivable (Note 4)	6,371,107	2,946,125
Prepaid Expenses, Inventory & Investment (Notes 5 & 6)	73,251	98,188
Partnership Investments (Note 7)	1,517,759	—
Total Current Assets	<u>\$12,103,193</u>	<u>\$ 7,227,627</u>
Fixed Assets, Net of Depreciation (Note 8)	<u>\$ 787,891</u>	<u>\$ 67,052</u>
Other Assets:		
Capitalized Leases (Note 1)	\$25,533,057	\$23,271,211
Notes Payable — Capitalized Leases (Note 1)	(25,533,057)	(23,271,211)
Notes Receivable (Note 4)	210,027	176,846
Deferred Charges (Note 5)	13,527	27,642
Partnership Investments — Net (Notes 7 & 9)	206,073	226,659
Other Assets	134,211	47,846
Total Other Assets	<u>\$ 563,838</u>	<u>\$ 478,993</u>
TOTAL ASSETS	<u>\$13,454,922</u>	<u>\$ 7,773,672</u>

Liabilities and Stockholders' Equity

	December 31,	
	1979	1978
Current Liabilities:		
Accounts Payable — Trade	\$ 339,946	\$ 318,344
Accounts Payable — Investors (Note 9)	65,938	—
Special Payable — Partnerships (Note 10)	986,421	473,209
Accounts Payable — Partnerships (Note 10)	684,352	597,592
Accrued Salaries and Commissions Payable	198,103	142,856
Notes Payable — Current (Note 11)	1,320,305	1,136,372
Notes Payable — Warehousing Line (Note 11)	6,173,286	2,861,620
Payroll Taxes and Insurance Provision	8,663	520
Accrued Interest Payable	269,174	139,431
Income Taxes Payable (Note 12)	—	99,182
Income Taxes Deferred (Note 12)	503,966	318,800
Escrowed Funds (Note 13)	369,537	159,985
Officer Payables	—	123,760
Total Current Liabilities	<u>\$10,919,691</u>	<u>\$6,371,671</u>
Other Liabilities:		
Officer Payables	\$ 75,000	\$ 164,720
Notes Payable — Noncurrent (Notes 9 & 11)	867,788	6,176
Deferred Credits (Notes 14 & 17)	365,578	354,441
Total Other Liabilities	<u>\$ 1,308,366</u>	<u>\$ 525,337</u>
Total Liabilities	<u>\$12,228,057</u>	<u>\$6,897,008</u>
Minority Interest in Consolidated Partnerships (Note 9)	<u>\$ 43,731</u>	<u>\$ —</u>
Stockholders' Equity:		
Capital Stock:		
Common Stock, .01 Stated Value, 500,000 Shares Authorized, 107,500 Issued (Note 15)	\$ 1,075	\$ 1,075
Contributions in Excess of Stated Value	112,275	112,275
	<u>\$ 113,350</u>	<u>\$ 113,350</u>
Retained Earnings:		
Balance, January 1	\$ 763,314	\$ 396,887
Add: Income For The Year Ended December 31 (Exhibit B)	306,470	366,427
Balance, December 31	<u>\$ 1,069,784</u>	<u>\$ 763,314</u>
Total Stockholders' Equity	<u>\$ 1,183,134</u>	<u>\$ 876,664</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$13,454,922</u>	<u>\$7,773,672</u>

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

EQUITY PROGRAMS INVESTMENT CORPORATION AND ITS SUBSIDIARIES

Comparative Consolidated Income Statement

	December 31,	
	1979	1978
Income:		
Initial Loan Interest (Note 16)	\$ 355,561	\$ 106,453
Partnership Organization Fees (Note 17)	163,634	93,256
Builder Fees (Notes 1 & 17)	2,501,815	1,802,314
Property Management Fees (Note 1)	281,075	146,387
Interest Income (Notes 4 & 18)	343,603	138,330
Rent Income (Note 1)	89,980	2,350
Miscellaneous	23,115	2,029
Loan Origination Fees (Notes 1 & 19)	82,817	32,292
Commissions	93,023	11,238
Gains on Partnership Investments (Notes 1 & 7)	176,541	41,298
Document Preparation Fees	37,100	22,400
Total Income	\$4,148,264	\$2,398,347
Operating Expenses	3,618,394	1,738,508
Net Income From Operations	\$ 529,870	\$ 659,839
Less:		
Provision For Income Taxes — Net of Credits (Note 12)	\$ 217,908	\$ 293,412
Minority Interest in Consolidated Partnership Income (Note 9)	5,492	—
NET INCOME	\$ 306,470	\$ 366,427
Earnings Per Share of Common Stock (Note 15)	\$ 2.85	\$ 3.41

Comparative Consolidated Changes In Financial Position

	December 31,	
	1979	1978
FUNDS PROVIDED:		
Net Income	\$ 306,470	\$ 366,427
Add (Deduct) Items Not Requiring Current Funds		
Income From Affiliated Partnerships	(53,676)	(21,717)
Depreciation	50,547	24,670
Amortization of Prepaid Expenses	30,273	14,741
Amortization of Discount on Subordinated Debentures	40,156	—
Deferred Income Taxes	185,166	179,245
Funds Provided From Operations	\$ 558,936	\$ 563,366
Book Value of Fixed Assets Disposed Of	3,655	—
Increase in Deferred Credits	11,137	204,691
Draws Received From Affiliated Partnerships	300,752	178,498
Sale of Consolidated Partnership Rental Properties — Net of Accumulated Depreciation	527,820	—
Subordinated Debentures Issued for Partnership Interests Acquired — Net of Discount	296,607	—
Consolidation of Partnership First Trusts Payable	953,196	—
Net Increase in Other Non-Current Notes Payable	13,824	—
Minority Interests in Consolidated Partnerships	43,731	—
Elimination of Partnership Equity Upon Consolidation	135,308	—
Notes Payable Issued For Capitalized Leases Acquired	11,171,073	15,231,351
Reduction of Capitalized Leases for Liquidation of Notes Payable	8,909,227	3,252,233
Increase In:		
Accounts Payable — Trade	21,602	198,306
Accounts Payable — Investors	65,938	—
Special Payable — Partnerships	513,212	177,547
Accounts Payable — Partnerships	86,760	337,622

	December 31,	
	1979	1978
Accrued Salaries and Commissions	55,247	92,861
Notes Payable — Warehousing Line	3,311,666	2,861,620
Other Current Notes Payable	183,933	745,035
Payroll Taxes and Insurance	8,143	—
Accrued Interest Payable	129,743	107,575
Escrowed Funds	209,552	159,985
Officer Note Payable	—	213,480
Decrease In:		
Accounts Receivable	375,971	—
Notes Receivable	—	518
Notes Receivable — Officer	—	54,403
Prepaid Expenses, Inventory & Investment	20,710	—
TOTAL FUNDS PROVIDED	\$27,907,743	\$24,379,091
FUNDS APPLIED:		
Purchase of Fixed Assets	\$ 66,774	\$ 41,391
Increase in Cash Surrender Value — Life Insurance	2,515	3,178
Capitalized Organization Costs	2,479	—
Increase in Deposits	7,752	2,243
Decrease in Current Portion of Deferred Charges	10,000	—
Increase in Non-Current Notes Receivable	33,181	—
Reduction in Non-Current Notes Payable	—	7,826
Capitalized Leases Acquired By Issuance of Note Payable	11,171,073	15,231,351
Reduction of Notes Payable By Liquidation of Capitalized Leases	8,909,227	3,252,233
Capital Contributions to Affiliated Partnerships	138,590	115,906
Cost of Acquisition of Consolidated Partnership Interest		
Net of Write Down of Cost Over Book Value	223,208	—
Consolidation of Partnership Rental Properties	1,236,087	—
Curtailment of First Trusts Payable	383,706	—
Add: Non-Current Portion of First Trust Payable	58,465	—
Increase in Officer Receivable	75,550	—
Increase In:		
Accounts Receivable	—	1,820,983
Notes Receivable	3,424,982	2,863,894
Prepaid Expenses, Inventory & Investment	—	53,443
Partnership Investments	1,517,759	—
Decrease In:		
Payroll Taxes and Insurance	—	4,883
Income Taxes Payable	99,182	2,907
Officer Payable	213,480	—
Total	\$27,574,010	\$23,400,238
Increase In Cash	333,733	978,853
TOTAL FUNDS APPLIED	\$27,907,743	\$24,379,091

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This is a totally net lease. The lessor has no normal ownership obligations and, therefore, the lease has been reflected in the accounting records as a financing arrangement in accordance with Statement Number 13 of the Financial Accounting Standards Board. The fair market value of each lease is considered to equal the outstanding loan balance. Income derived on these financing arrangements is the difference between lease income and interest paid on the loans, if any, and in one, lease termination fees.

The Corporation entered into an office space lease in 1979. The lease is for a period of five years and one month with minimum aggregate rentals of \$752,200 payable in monthly installments of \$12,331. The lease contains an option to renew for an additional five year period with monthly payments of \$12,668 and clauses for escalations, payment of real estate taxes, and operating expense of the property. A portion of this space has been sub-leased for an aggregate monthly rental of \$6,102.13. These sub-leases are for one to three year periods. During 1979, two additional leasing arrangements were entered into with corporations, both of which are controlled by the majority stockholder of EPIC. These leases are for the use of office furniture, equipment, and vehicles. One lease is for a period of twenty-four months commencing July 1, 1979, with a current monthly requirement of \$2,132.10. The second, which is composed of a number of leases, has been amended to a month to month basis and, as of the balance sheet date, the monthly payment was \$4,238.00. It is anticipated that the Corporation will enter into additional non-capitalized lease rental commitments.

The consolidated financial statements include the accounts of the Corporation, all its subsidiaries, and partnerships which have been previously syndicated and of which EPIC has subsequently acquired approximately fifty percent or more in interest from limited partners. Partnerships are not consolidated during the syndications period. Material intercompany accounts and transactions have been eliminated. The investments in unconsolidated partnerships are stated at equity in net assets of such partnerships, except during the first six months of syndication.

The consolidated financial statements as of and for the year ended December 31, 1978, have been reclassified and are presented herewith for comparative purposes. The reclassification is a netting of certain balances to achieve a more concisely comparative statement. The most material reclassification relates to the U.S. Homes capitalized lease, which has been previously explained. The offsetting notes payable have been presented as contra against the asset and the related interest expense has been netted against interest income. This reclassification does not affect net income or retained earnings of the reporting entities, although it does affect the debt to equity ratio.

CASH IN BANKS:

2. As of the balance sheet date, \$206,258.01 was in

restricted accounts. \$191,773.69 of this amount is reflected in accrued interest payable which relates to capitalized leases and was subsequently paid. Included is \$349,179.40 of escrowed funds which are to be applied to the Escrow Funds Liability for Mortgages. There is also a compensating balance requirement of \$78,000.00 on a loan and restricted funds of \$14,484.00. This cash is classified as current due to the matching principal because the related liabilities are also classified as current. 1978 — \$19,788.98 was restricted and \$159,984.91 escrowed.

RECEIVABLES:

3. Accounts Receivable consists of the following: Agency Receivable from Associated Partnerships \$1,736,835.13 which is net of an allowance for doubtful accounts of \$70,400.67; Receivables from unfunded settlements of \$537,126.05 which were received subsequent to year end; Accrued Interest on Notes Receivable, \$35,352.20; Property Management Fees uncollected at year end, \$9,256.98; Employees and Affiliates, \$7,880.78; Rental Income, \$5,798.29; Lease Termination Fees, \$15,785.84; Reimbursable Expenses, \$20,129.12; Income Tax Refund of \$95,258.00; and Other Receivables of \$8,809.74. The majority of agency receivables are pledged to secure loans. 1978 — \$2,396,259 of the \$2,848,203 is a receivable from associated partnerships. \$451,944 is a receivable from unfunded settlements.

4. Secured Notes amount to \$6,512,913.21 and unsecured are \$68,220.05, which is net of an allowance for doubtful collection amounting to \$9,412.62. \$6,125,050.00 is secured by partnership property in which EPIC is a partner. The interest rate on these notes ranges from 10% to 12% per annum. Notes in the amount of \$144,166.74 are secured by real property and bear interest at 8% per annum. These notes require monthly payments totaling \$2,108.98, including principal and interest. Other Notes secured by real property total \$27,496.47, bear interest at 9% per annum and have required monthly principal and interest payments of \$467.56. Notes due from employees total \$21,155.96. The secured portion from employees is \$7,700.00. Note(s) totaling \$161,500.00 are secured by real property and bear interest at 12% per annum. This note is due March 26, 1980. An officer of EPIC acquired a three year option to purchase approximately fifty percent of this maker corporation's stock at par value. EPIC holds notes totaling \$47,000.00 at 10% per annum interest from two investors in associated limited partnerships. Duke Resources Corporation, et al., owes a non-interest bearing note of \$42,801.60. \$6,296,713 of the notes are pledged as security against Notes Payable. 1978 — Secured were \$3,042,782 and unsecured \$80,189. The allowance for doubtful accounts was \$15,025. Interest rates varied from 8 to 10.50%. Most of the receivables were pledged as security against Notes Payable.

PREPAID EXPENSES, INVENTORY AND INVESTMENT:

5. A Loan Origination Fee paid by Tunlaw has been

classified as \$14,115.00 Prepaid Expense and \$13,526.87 Deferred Charges. The balance of Prepaid Expenses consists of Prepaid Insurance \$6,090.75, Prepaid Commissions \$2,710.06 and Consolidated Partnership Prepayments totaling \$14,584.76 which are mainly insurance, taxes and interest. 1978 — Loan Origination Fees of \$24,115 were prepaid and \$27,642 were deferred. The balance consisted of \$5,461 of insurance and \$362 interest. A builder's model was foreclosed upon and was shown as inventory.

6. Investment in Gold Coins consists of 65 coins which were purchased at a cost of \$550 per ounce. The fair market value as of the balance sheet date was in excess of cost.

PARTNERSHIP INVESTMENTS:

7. Partnership Investments are divided into current and non-current. It is the policy of the Corporation to suspend the equity method of accounting during the normal syndication period, which is deemed to be six months. The equity method of accounting for partnership investments is applied during the syndication period on their intended percentage of ownership. During the syndication period, EPIC's advances to the partnership are recorded as receivables. Subsequent to this period, the receivables are classified as Current Partnership Investments, as it is their intent to dispose of these investments in the ordinary course of business. The non-current Partnership Investments represent EPIC's equity ownership of associated partnerships which is not intended to be sold. It is corporate policy to only recognize the partnership's disposition gains after a substantial portion of the partnership's assets have been sold. Partnership losses are recorded as they occur. A ten percent allowance to provide for possible future partnership losses calculated on the equity basis of the non-current portion at the balance sheet date is reflected to reduce the investments to estimated net realizable value.

FIXED ASSETS:

8. Depreciation Policies: Office Furniture and Equipment is being depreciated over a seven year period, Automobiles over three years, Leasehold Improvements over five years, and the Consolidated Partnership Model Homes over thirty years. All assets, except two of the Model Home Partnerships, are being depreciated by the straight line method.

Description	Cost	
	1979	1978
Office Furniture and Equipment	\$ 53,038	\$ 48,695
Vehicles	31,471	49,850
Leasehold Improvements	62,432	6,694
Model Homes, including \$152,257 land	761,285	—
	<u>\$908,226</u>	<u>\$105,239</u>
Less Accumulated Depreciation	120,335	38,187
Book Value	<u>\$787,891</u>	<u>\$ 67,052</u>

Office Furniture and Equipment and Vehicles not reflected on the Balance Sheet are being leased on a month to month basis from a related party. The Model Homes are stated at the original purchase price of the partnership from the builder.

PAYABLES TO LIMITED PARTNERS:

9. During the year under review, an offer was tendered to the limited partners of five associated limited partnerships. The offers were accepted by most of the limited partners which resulted in EPIC receiving the ownership of their partnership interests and, therefore, the majority ownership of five associated partnerships. This transaction was effectuated by EPIC's obligation to pay the limited partners either by cash or subordinated debenture bonds. The net balance of cash currently owed is reflected as Accounts Payable — Investors on the balance sheet. The bonds payable are reflected in the Notes Payable balance. The bonds bear annual interest of 15.03 to 24.17 percent which is currently payable and/or accrued to maturity. The bonds mature December 31, 1983, and June 30, 1984. As of the balance sheet date, the maturity value was \$515,994.93, offset by \$179,232.56 of unamortized discount, which results in a book carrying value of \$336,762.37. The discount is being amortized on a straight line basis as interest expense over the life of the bonds at \$43,877.60 per annum. The resultant asset, Partnership Investments, has been adjusted to the partnership's original equity basis. This adjustment of \$136,158.56 is included as an Operating Loss on Investments, even though the corporation considered the amount paid as the fair market value of the partnership's equity as of the transaction date.

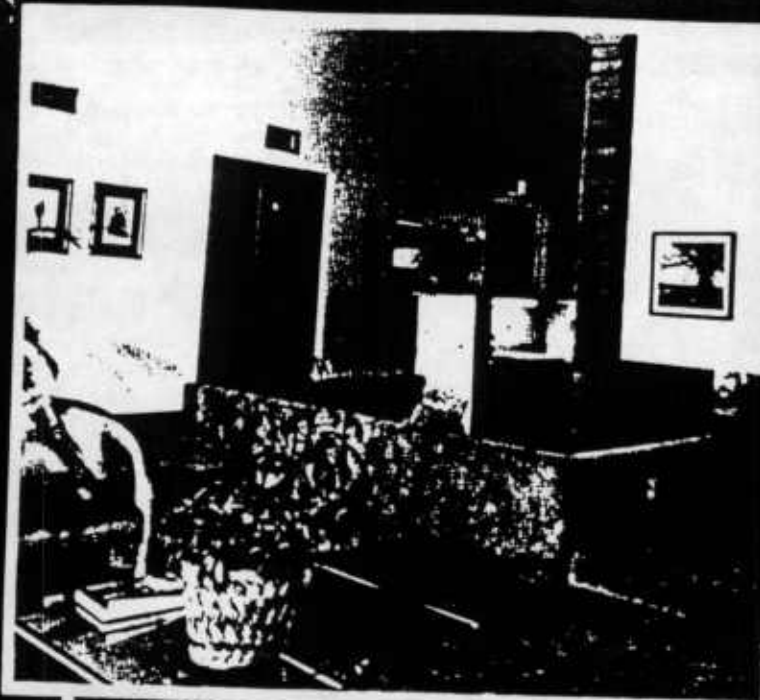
PAYABLES TO ASSOCIATED PARTNERSHIPS:

10. EPIC serves as agent for associated partnerships. The Special Payable consists of Security Deposits and Completion Escrows made by the builder/lessees to the partnership lessors. The Accounts Payable — Partnerships is the net of cash received and disbursed on behalf of the associated partnerships. Refer to Note 3 for receivables from partnerships.

NOTES PAYABLE:

11	Interest Rates	Balance	
		1979	1978
Unsecured Credit Lines	18.25 - 17.50% prime	\$ 275,000	\$ 374,000
Warehousing Lines	18.25 - 17.25%	1,175,000	2,461,620
Associated Partnerships	—	—	242,275
Model Homes	4.00 - 11.00%	100,000	50,000
Subordinated Debentures	18.00 - 24.17%	—	—
Other Various Notes	10.00 - 12.00% prime	1,000,000	475,273
Total		\$4,450,000	\$4,304,168
Less: Non-Current Portion		897,000	6,175
Current Notes Payable		\$3,553,000	\$3,997,993

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INCOME TAXES:

12 Income Taxes Payable reflects the amount due and payable with the 1978 income tax returns. Whereas the deferred income taxes are the computed taxes based on the financial statement retained earnings, at tax rates prevailing during the years earned, reduced by the current taxes payable. The principal difference between tax basis income and financial basis is due to timing differences in recognition of income. The tax return basis does not recognize income as taxable when the funding of settlements was subsequent to year end. (Refer to Note Three.) The taxable year of the Corporation was changed during 1979 from December 31 to September 30. Credits against income have been netted against the income tax expense of the year(s) affected.

ESCROWED FUNDS:

13 EPIC Mortgage as servicing agent received tax insurance and homeowner dues escrow payments, which are held for the appropriate payment therefrom or forwarding to the permanent lender(s). (Refer to Note Two for Funding.)

DEFERRED CREDITS:

14 Deferred Credits consist of unrealized income for partnership organization fees on unsyndicated portions of limited partnership equity.

CAPITAL STOCK:

15 The authorized stock consists of 500,000 common shares with a \$.01 stated value. An officer owns the majority of the 107,500 common shares outstanding as of December 31, 1979. Common Stock issued was unchanged throughout 1978 and 1979, and there are no options or conversion privileges outstanding as of the Balance Sheet date.

INCOME:

16 Partnerships pay interest to EPIC for funds advanced on their behalf to purchase rental properties. The interest rate is equivalent of the estimated cash flow percentage in the offering memorandums.

17 Partnership Organization fees are paid by the limited partners for services performed by EPIC in creating the investments and partnerships. Partnership Organization fees have been netted against the related out of house costs incurred in the syndication of partnership interests. The builders' fees are paid by the selling builders for EPIC arranging the sale and leaseback of their property.

18 The interest income and expenses pertaining to the financing arrangement of the capitalized lease referred to in Note One have been contained to reflect the net earnings thereon.

19 Loan Origination Fees are the fees charged to secure mortgages for the partnerships. This fee has been offset by the Loan Origination Fees paid to obtain these mortgages.

EPIC Subsidiaries

EPIC Mortgage, Inc
EPIC Financial, Inc
EPIC Realty Corp.
ESI Securities, Inc.

EPIC Regional Offices

Boca Raton, Florida
Dallas, Texas
Denver, Colorado
Houston, Texas
Phoenix, Arizona
San Diego, California
Washington, D.C.

EPIC Officers

Tom J. Billman, President
William J. Moore, Senior Vice President
Clayton C. McCuiston, Vice President for Finance
C. Samuel Haines, Vice President for Administration/Corporate Secretary
Leonard Meltz, Jr., Vice President for Mortgage
John B. Ignash, Vice President for Realty
Joel H. Bernstein, Vice President for Securities

General Counsel

James B. Deerin, Jr., Esq.
Repetti, Deerin & Murphy, P.C.
Washington, D.C.

Accountant

James C. Jones
Certified Public Accountant
Alexandria, Virginia



Based in Falls Church, Virginia, EPIC has regional offices serving the entire country. Our widespread growth pattern is indicative of the need for our services. Today's economy and the sophistication of the industry warrants our penetration throughout the U.S. The map above illustrates those states (in dark green) in which EPIC model homes are located.



equity programs investment corporation

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equity programs investment corporation

annual report
1980

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ABOUT THE COMPANY

EPIC is an acronym for Equity Programs Investment Corporation, but it means **model home financing**. EPIC is involved in two basic industries—homebuilding and finance. From the homebuilding industry we get our product and the income stream that it generates. Categorically though, it is really the finance industry to which EPIC belongs; a specialized area of the finance industry—namely, purchase-leaseback (sale-leaseback).

Sale-leaseback is a well accepted corporate financing technique for many products and companies, the most common being equipment. Generally, the leasing transaction is based on the efficient matching of cost-use with time-use of the product for the lessee. Also, the tax advantages of ownership of the product are shifted from the user to the lessor. For these trade-offs, the equity capital requirements are also shifted from the user to the lessor.

It is our product, however, that makes our company and its sale-leaseback transaction unique. Our product is a house. A particular type of house—a "MODEL HOME". This is the house that builders use to demonstrate to potential buyers their production houses in a finished (generally completely decorated, furnished and landscaped) condition. They are typically the first houses

built, the best located and have the lowest initial pricing in the development.

Model homes have always been treated by homebuilders and homebuilding finance companies like every other house in the builder's development. But they are not the same. They are the last house sold by the builder, but the first ones built. They are almost always built with expensive short-term construction financing rather than planned project financing. The builder's loan is usually very low in relation to value because the models contain "extras" as sales or marketing packages. These "extras" require the builder to outlay additional capital at the beginning of a project when he can least afford it.

Our sole activity then is sale-leaseback financing of builder's model homes. We buy these houses from homebuilders at the initial stages of subdivision development. EPIC acquires the houses in a partnership in which it acts as general or managing partner. Limited partners contribute the necessary equity capital and the partnership then leases the "model home" back to the selling builder for as long as he needs it. We have matched his time use with his cost use.

Simply stated, EPIC provides the capital for the models in lieu of the builder providing it. Our partnership then owns an asset that generates an income stream large enough to provide a good cash yield. Our product is also relatively low priced, secure and comparatively liquid to other real estate, it and when we want to sell it. In addition, the ownership of leased real estate has significant tax advantages. Finally, houses have experienced significant price appreciation in the past and the homebuilding industry is now looking forward to a decade of unprecedented demand.

The '80s will be a period of rising prices for all of the production factors in housing: land, labor, and capital



Clayton C. McCuiston
Senior Vice President

James B. Deerin, Jr.
Vice President and General Counsel

Tom J. Billman
President

will be in short supply and the conditions that have caused housing costs to increase in the past decade will continue in the next. In the future decade, however, tremendous upward pressure on housing prices will be generated from two additional factors. The first, unprecedented demand caused by the post-war baby boom, will intensify throughout the '80s and only moderate in the '90s. Within the next ten years, demand for housing will exceed the supply capacity of the industry by as much as 200,000-600,000 units per year. The second factor, an interruption in the supply of housing caused by economic conditions, will only occur periodically but each occurrence will generate extreme upward pressure on housing prices.

Our business is simple. We combine the simplest form of real estate (a house) with a specialized cost-time form of financing (sale-leaseback) to create a beneficial financial structure for all parties involved.

Meeting EPIC's needs in the '80s will be complex. To meet our capital requirements in this expanding market we must develop new financing instruments for non-owner-occupied property. In the building industry we must recycle investment capital to the homebuilder while minimizing our cost of models. However, EPIC has a five-year history of meeting objectives such as these. The report for 1980 that follows shows part of that history

REVIEW OF OPERATIONS



Eugene S. Isaacs
*Vice President for
Realty Asset Management*

Leonard Meltz, Jr.
Vice President for Mortgage

Joel H. Bernstein
*Vice President for Realty Acquisitions
Vice President for Securities*

On January 1, 1980, the country faced a year of economic, political, governmental and international uncertainty—the prospect of a national election, 53 Americans held hostage in Iran and unrelenting inflation. Each of these uncertainties impacted on EPIC's operations. On that date the prime rate was 15.25%, inflation was running at an annual rate of 11.3%, and single family housing starts stood at 1,194,000 for 1979 with a meager 1,200,000 starts predicted for 1980.

The year proved to be as uncertain and volatile as we had projected. First, the prime rate climbed to 20% by April, dropped off to 11% in July and then skyrocketed again ending the year at 20%. Naturally, the home building industry was hit hard by these wild swings in interest rates. Further, the financial community, reacting to falling bond prices and unstable interest rates, confirmed that long-term loans at fixed rates of interest were going the way of the dinosaur.

In order to operate and compete effectively in the unpredictable atmosphere of 1980, EPIC strengthened its commitment to the basic policies that had made it successful in the past. The process of reviewing potential acquisitions was tightened to insure that the product purchased met the strict requirements of highest building standards and strong builder capability and stability. Today, we continue that conservative acquisition policy in the face of continued economic uncertainty.

To finance acquisitions, EPIC, operating through its mortgage banking subsidiary, EPIC Mortgage, Inc., completed the issuance and sale of a \$10,000,000 mortgage pass through security, rated "A" by Standard and Poor's Corporation. This represented the first mortgage pass through security involving exclusively non-owner occupied single family homes ever given an "A" rating by Standard and Poor's. By developing the mortgage pass through security, EPIC can in many cases bypass the standard thrift institution financing and open direct access to the bond community. Mortgage warehousing lines were increased from \$10,750,000 to \$30,500,000 utilizing some of the nation's largest and most sophisticated real estate lenders.

Internally, the corporate structure of EPIC was streamlined to reflect more accurately the related functions grouped under each department and to provide for quicker response to problems that may arise.

These actions and policies resulted in our ability to convert 1980 from a projection of stagnation to a year of continued growth and expansion. Among the results:

- Acquired \$55,234,848 of model homes, representing a 30% increase in volume over 1979.
- Increased the portfolio of mortgages serviced by EPIC Mortgage, Inc. to \$60,905,000 from \$35,000,000.
- Issued a \$10,000,000 mortgage pass through certificate rated "A" by Standard and Poor's and received a commitment to a second \$10,000,000 mortgage pass through security to be rated "A" in part and "AA" in part by Standard and Poor's.

Raised \$8,767,730 of new equity.

- Formed 28 new limited partnerships
- EPIC Mortgage increased its available warehousing lines to over \$30,000,000, adding Chase Manhattan Bank, First National Bank of Boston, and Southeast National Bank of Miami to its existing banks which include Riggs National Bank and National Bank of Washington.

- Increased staff by 38 employees for a total of 82.

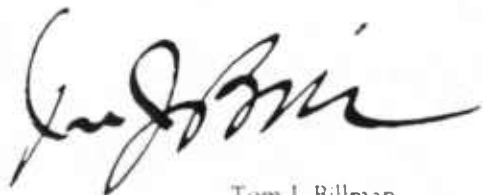
One of the most important actions taken during 1980 was the significant strengthening of the property management function, both at the corporate headquarters and in the regional offices. A subdepartment, known as "Realty Asset Management," headed by a corporate vice president, has been added to the corporate structure. In addition, property management personnel have been added to those regional offices which have significant property management activities. The property management function has become increasingly important and we have substantially improved our ability to carry out our responsibilities in this area.

Perhaps the most striking indication of our success in 1980 is the fact that we were able to hold to our projected volume of model home acquisitions in the face of one of the worst financial markets imaginable. The wild fluctuations of interest rates, stagnation of the housing industry as a whole and an uncertain economic climate

presented a challenge that put every aspect of the EPIC program to the test.

That we were able to meet that challenge is a tribute to the energy, knowledge, imagination and talent of the dedicated people who make up EPIC. It has confirmed the confidence that our builders, lenders and investors have had in EPIC and our program in the past.

We look forward to the future.



Tom J. Billman
President

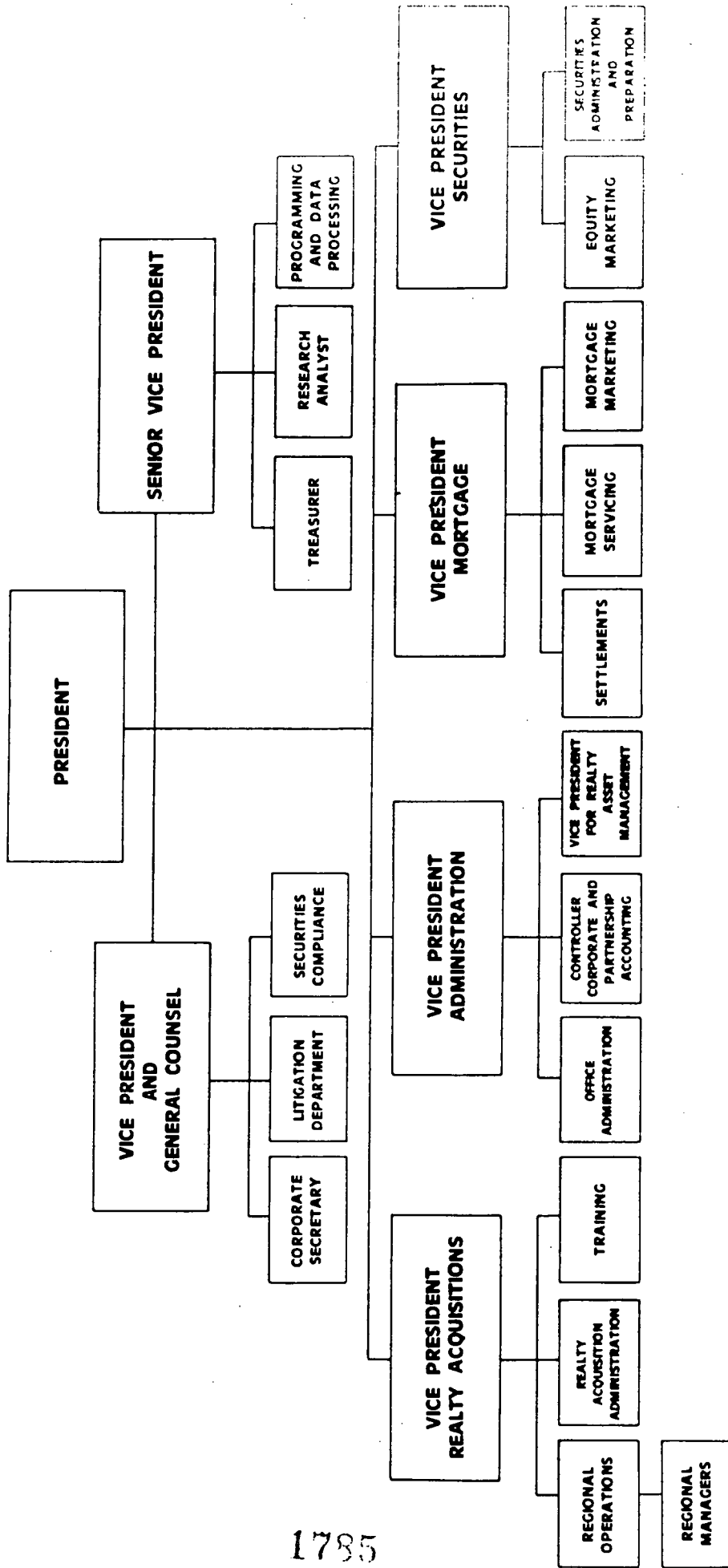


Barbara A. McKinney
*Corporate Secretary and
Deputy General Counsel*

Larry J. Mathias
Controller

Joseph Cunningham
Treasurer

Kathleen A. Carlson
*Assistant Vice President
Office Administration*



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THE EPIC ORGANIZATION

In order to respond to the increasing volume of model home acquisitions planned for the 1980's as well as the changing needs of our partnerships, the organizational structure of EPIC is aligned to separate the staff and planning functions from line operations and to group related functions under separate operating department heads.

The Vice President for Mortgage and Vice President for Securities are principally involved with raising debt and equity, respectively. The Vice President for Mortgage also serves as president of EPIC Mortgage, Inc., EPIC's wholly owned mortgage banking subsidiary. The Mortgage Department is responsible for the initial negotiations of permanent lender commitments, closing and settlement of the individual loans through local title companies and delivery of the loan packages to either intermediate warehousing lenders or to the permanent lenders. A growing part of the mortgage function is the servicing of a mortgage portfolio of \$60,905,000. The Mortgage Department utilizes a special computer program to augment the efforts of its servicing personnel to insure that the mortgage loans are properly monitored and administered on behalf of the permanent lenders. EPIC

Mortgage, Inc. is in the process of obtaining approval as a FHA mortgagee in order to provide standard first mortgage loans to purchasers of former model homes. Once this single family loan origination activity becomes significant, the servicing function is expected to expand in relation to the overall mortgage department function.

The Realty Acquisitions Department has responsibility for the model home acquisition process, including oversight of the nine regional offices, training of regional office personnel and administration of the process required to bring together all of the information necessary to make the decision to acquire specific model homes. The acquisition package normally consists of a detailed builder application for participation in the EPIC program, a written evaluation of the builder and the project prepared by the EPIC regional manager, financial statements of the builder and any guarantor of the lease, location maps, builder advertising materials, and pricing information. The acquisition committee is composed of the President, Senior Vice President, Vice President and General Counsel, Vice President for Realty Acquisitions and Vice Presidents for Mortgage, Securities and Realty Asset Management. After approval of a submission, the Realty Acquisitions Department oversees the completion and execution of the purchase and leaseback agreement, and, in coordination with the Mortgage Department, scheduling and completion of settlement.

The newly created position of Vice President for Realty Asset Management involves responsibility for the entire spectrum of property management—both during leaseback to the builder as well as during any time the property is leased to an individual residential tenant. The Realty Asset Management Department coordinates collection of rents, monitors maintenance of the properties, negotiates "work outs" if required, and coordinates with local real estate brokers for the rental or sale of EPIC properties after expiration of the builder lease.

The Office of General Counsel has been created with specific responsibility for coordination of litigation, securities law compliance, participation in the preparation of the private offering memoranda and related documents as well as providing of legal advice to the other operating departments. In addition, the General Counsel is actively involved in new program development as well as major builder program negotiations and implementation.

The Senior Vice President acts as chief financial officer of EPIC with specific responsibility for corporate and partnership finance, banking relationships and coordination of the cash management function.

MARKETING STATISTICS

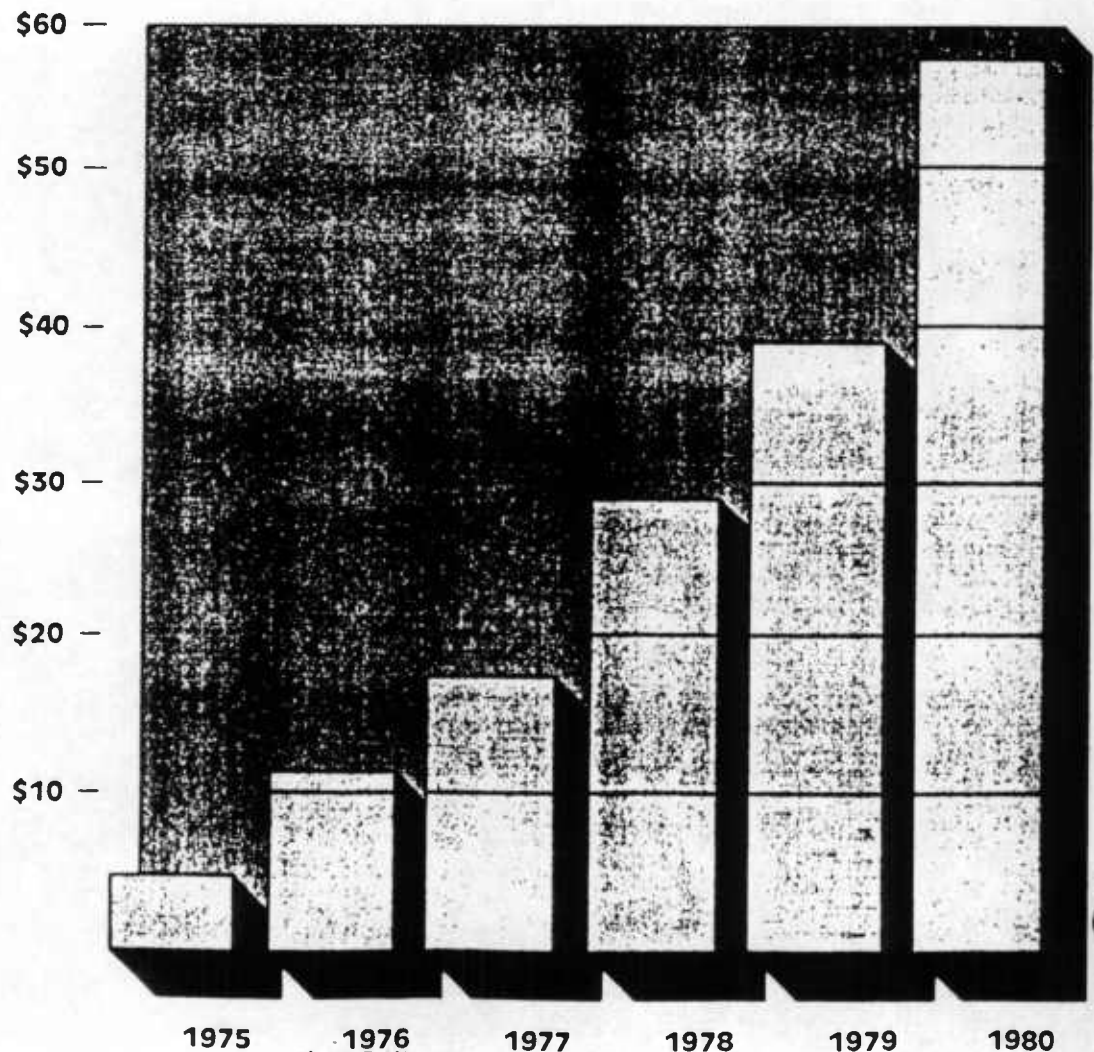
Statistics from EPIC's six years of operations provide the basis for projecting acquisitions and prices in the '80s. Model Home acquisitions should exceed \$70 million in 1981. The average price per model will be approximately \$90,000.

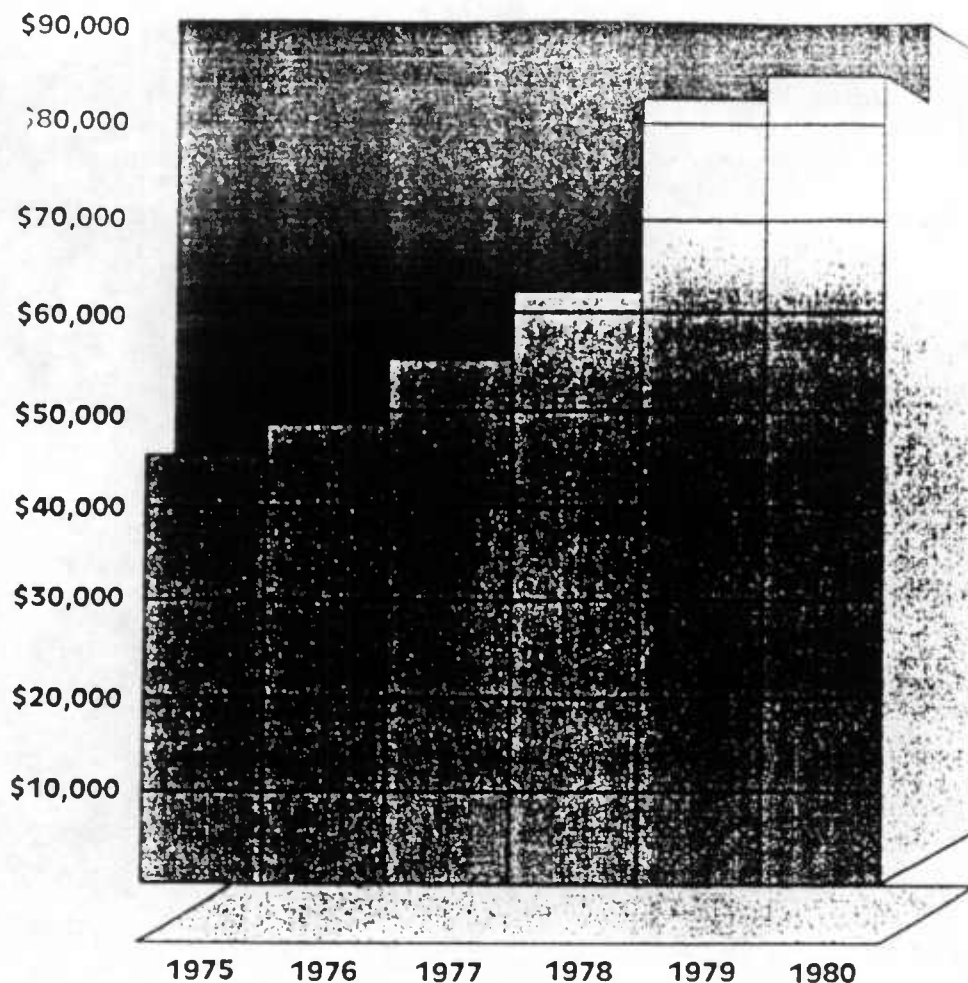
In previous years, EPIC's acquisitions in the 4th quarter comprised almost 50% of the total year's acquisitions as builders attempted to "clean up" their financial statements for the coming year. This bulge in the flow of product creates pressures on capital and people and in 1980 we were able to lessen this bulge by better planning and

builder communication.

During the '80s, prices of new homes will increase dramatically. The graphs on these pages project the NAHB forecast of prices that we believe to be far too conservative. Our experience indicates that pricing momentum will not be held to these levels in the early '80s and on a year-to-year basis could easily exceed 15%. This would mean that housing prices in 1985 would be double what they are at the end of 1980. After all, this is only a repeat of the pricing changes that occurred over the last six years (1974-1980).

**EPIC ANNUAL
PURCHASES OF
MODEL HOMES**
(in millions)





EPIC ANNUAL
AVERAGE
PURCHASE PRICE
OF MODEL HOMES

POTENTIAL HOUSING PRODUCTION SHORTFALL
(in thousands)

YEAR	23-34 YEAR-OLD POPULATION GROUP	EQUILIBRIUM STARTS	PROJECTED STARTS	POTENTIAL HOUSING START SHORTFALL
1981	37,462	2,266	1,183	1,083
1982	37,861	2,290	1,562	728
1983	38,540	2,332	1,762	570
1984	39,203	2,372	1,910	462
1985	39,859	2,411	1,961	450

Equilibrium starts based on the average ratio between 1959 and 1977 of the prime housing-buying population to housing starts.

Population projects, Census Bureau, July 1977.

Equilibrium starts, Mortgage Bankers Association Economics Department, December 1979.

Projected starts, NAHB Forecast.

NAHB FORECAST SUMMARY
OF MEDIAN PRICE
OF A NEW SINGLE
FAMILY HOME

\$100,000

\$90,000

\$80,000

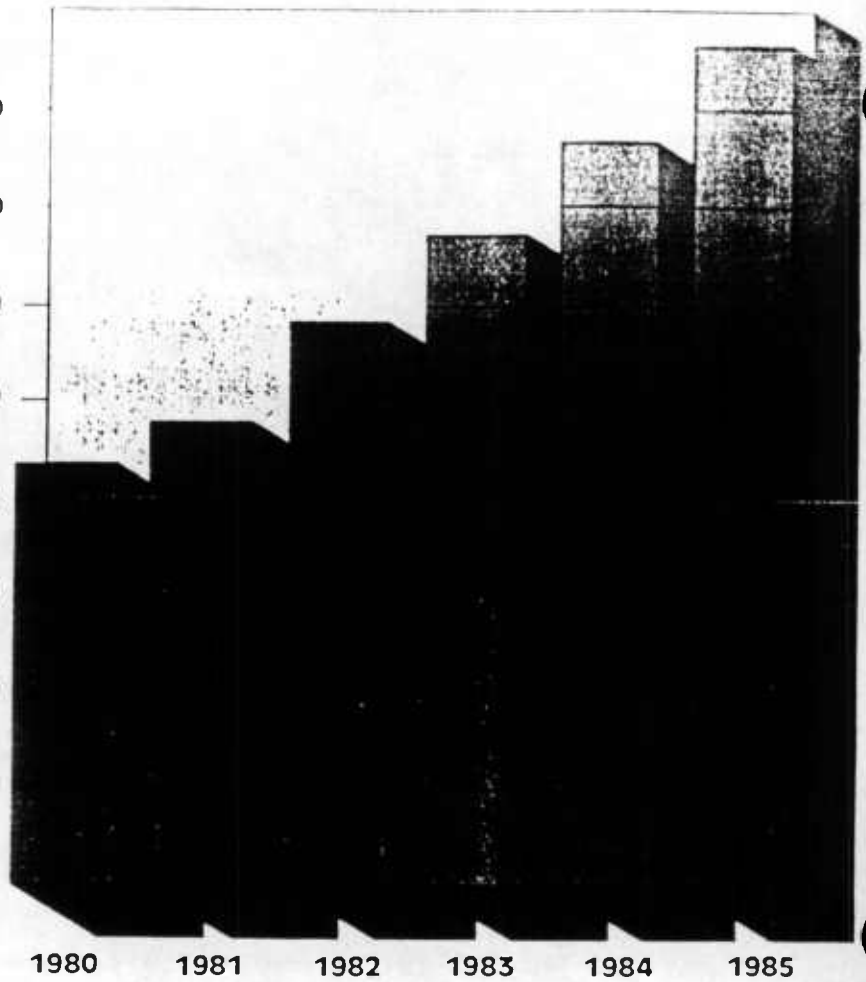
\$70,000

\$60,000

\$50,000

\$40,000

\$30,000



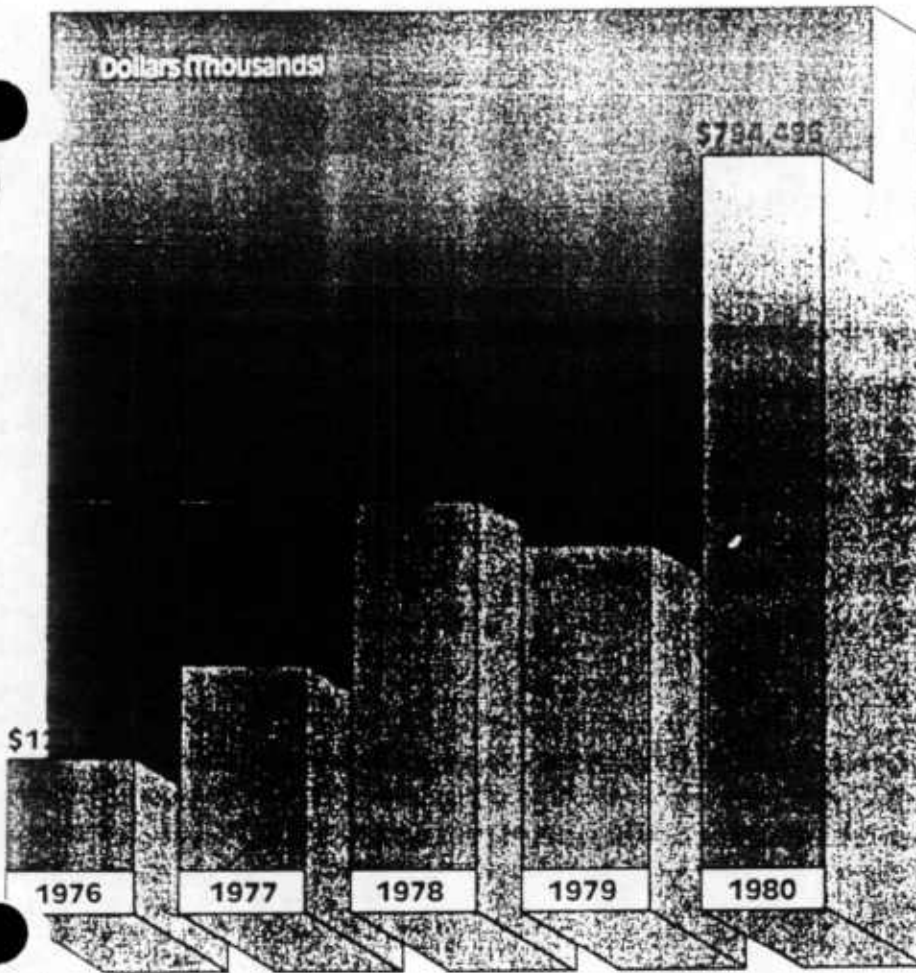
**PROJECTED SALES PRICE OF A NEW SINGLE FAMILY HOME
1981-1985**

During the period 1974-1980 the sales price of a new single family home appreciated at an average rate of 11.35%; the lowest rate being 8.4% and the highest rate being 14.1%. Based on these averages, here is what the anticipated cost of a new single family home will be for the period 1981-1985 using the 1981 NAHB forecast price of \$64,600. These anticipated sales prices are compared to what NAHB forecasts for the 1981-1985 time period.

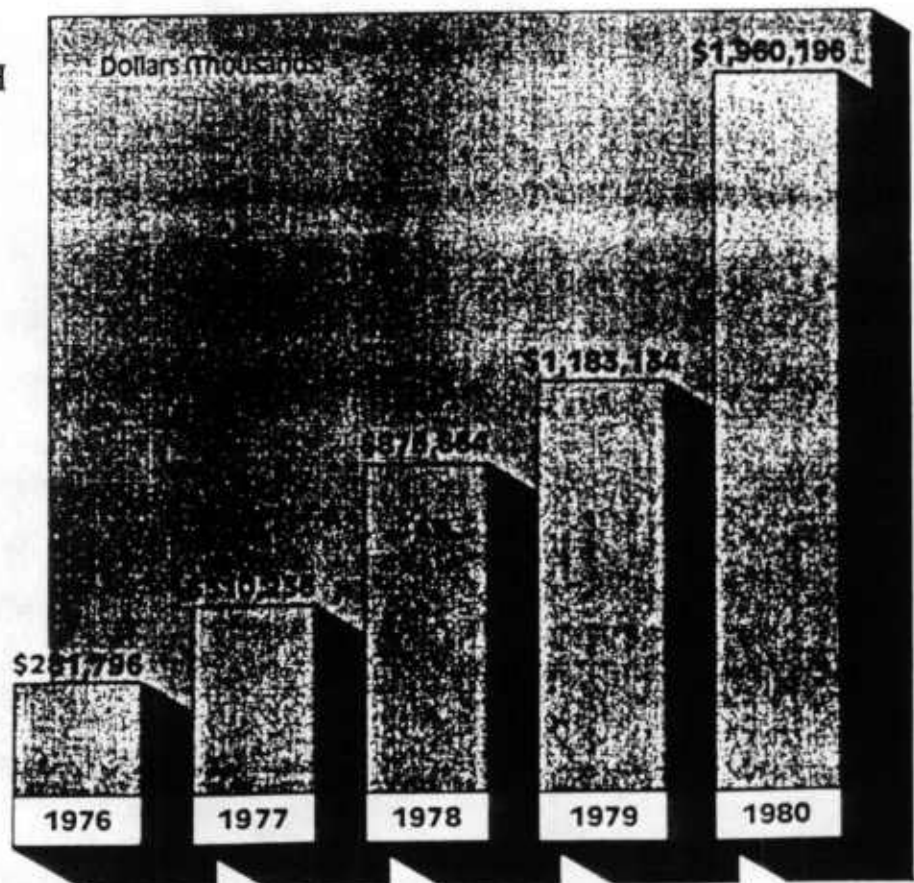
YEAR	NAHB FORECAST FOR SALES PRICE OF SFH	PROJECTED SALES PRICE OF SFH USING LOWEST APPRECIATION RATE OF 8%	PROJECTED SALES PRICE OF SFH USING AVERAGE APPRECIATION RATE OF 11.35%	PROJECTED SALES PRICE OF SFH USING HIGHEST APPRECIATION RATE OF 14.1%
1981	\$ 68,800	\$ 75,908	\$ 80,096	\$ 84,100
1982	78,200	82,284	89,187	95,959
1983	87,000	89,196	99,309	109,489
1984	99,200	96,688	110,582	124,907
1985	107,829	104,810	123,133	142,542

*The Appreciation Rate Schedule was taken from construction reports, U.S. Department of Commerce, Bureau of the Census, fourth quarter 1979.

EPIC EARNINGS
YEAR TO YEAR



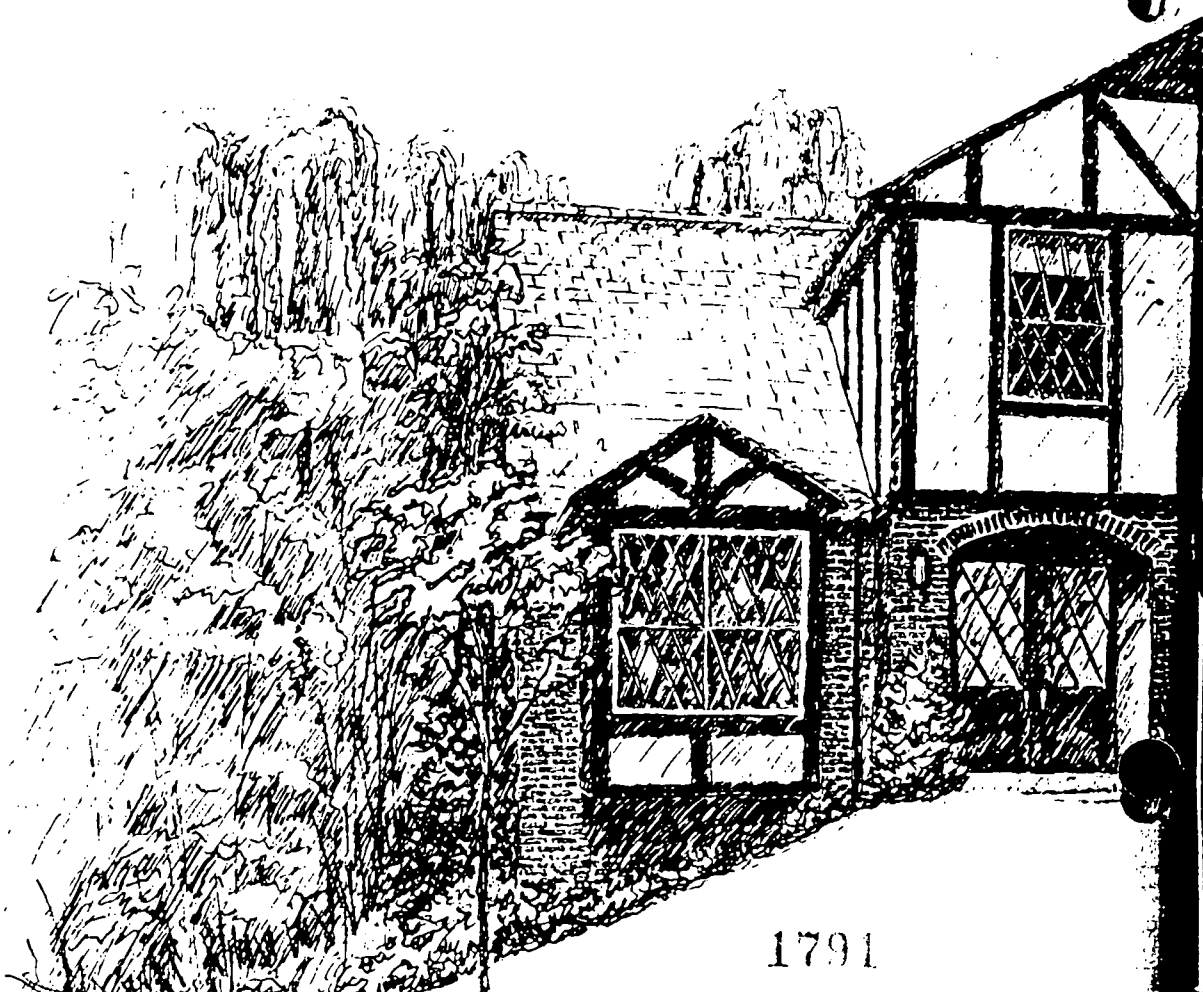
EPIC NET WORTH



CONSOLIDATED BALANCE SHEET

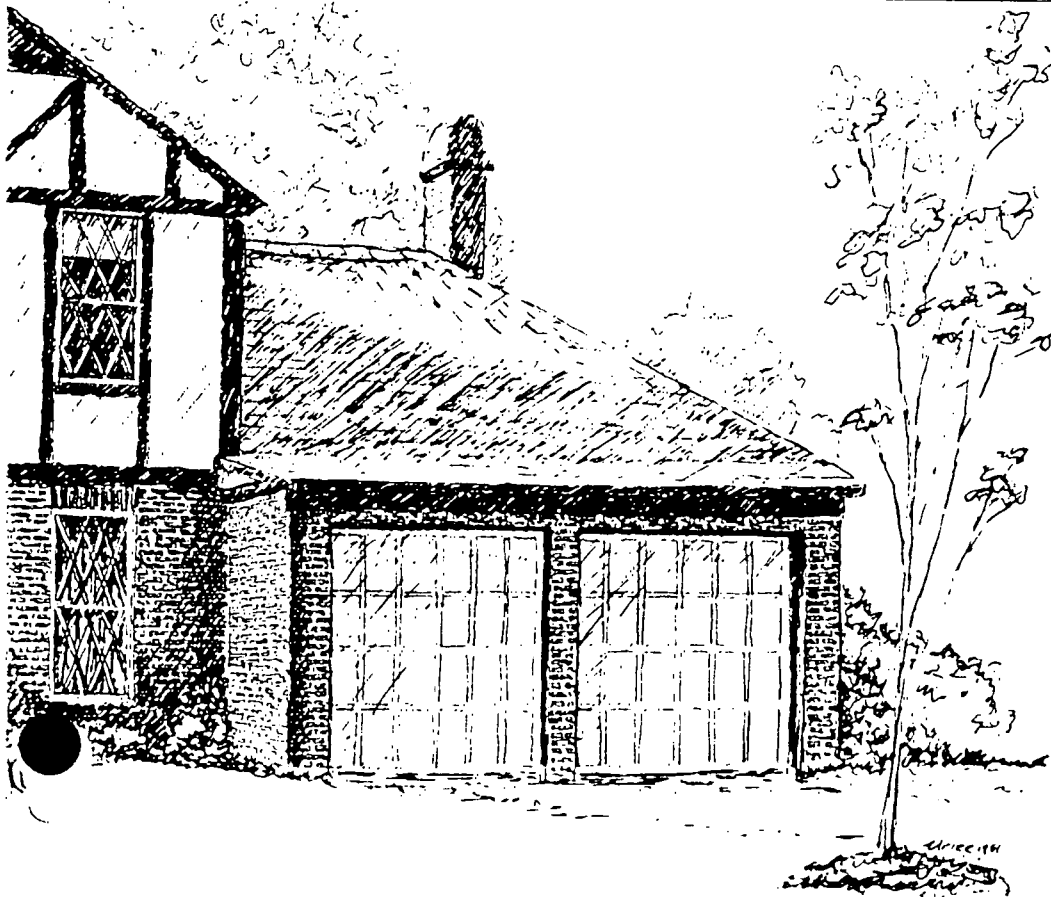
FIVE YEAR COMPARISON EPIC AND WHOLLY-OWNED SUBSIDIARIES

	Assets				
	1980	1979	1978	1977	1976
Current Assets:					
Cash in Banks	\$ 3,147,935	\$ 1,668,844	\$ 1,335,111	\$ 356,258	\$ 122,671
Associated Partnerships Receivable	5,148,180	1,736,835	2,848,203	876,630	945,024
Partnership Investments	—	1,517,759	—	—	—
Notes Receivable	21,154,717	6,371,107	2,946,125	82,231	9,291
Accounts Receivable and Prepaids	802,112	808,648	98,188	195,335	87,683
Total Current Assets	<u>\$30,252,944</u>	<u>\$12,103,193</u>	<u>\$ 7,227,627</u>	<u>\$ 1,510,454</u>	<u>\$1,164,669</u>
Fixed Assets:					
Net of Depreciation	\$ 1,767,893	\$ 787,891	\$ 67,052	\$ 50,330	\$ 19,715
Partnership Investments— Net of Allowance	127,428	206,073	226,659	267,534	309,264
Capitalized Leases	47,261,018	25,533,057	23,271,211	11,292,093	—
Notes Payable—Capitalized Leases	(47,261,018)	(25,533,057)	(23,271,211)	(11,292,093)	—
Other Assets	1,575,500	357,765	252,334	316,574	24,577
Total Assets	<u>\$33,723,765</u>	<u>\$13,454,922</u>	<u>\$ 7,773,672</u>	<u>\$ 2,144,892</u>	<u>\$1,518,225</u>



Liabilities and Stockholders' Equity

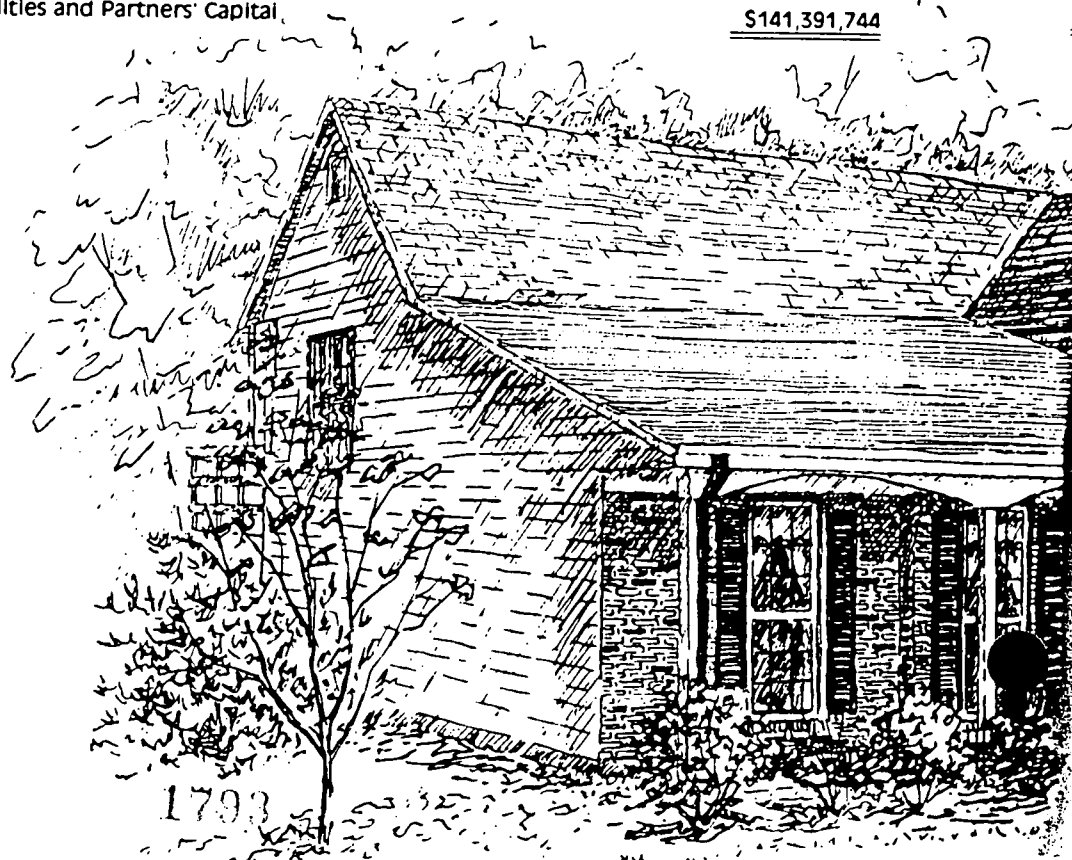
Current Liabilities:	1980	1979	1978	1977	1976
Accounts and Accrued Payables	\$ 2,872,716	\$ 1,251,361	\$ 884,896	\$ 207,292	\$ 136,990
Current Notes Payable	21,776,954	7,493,591	3,997,992	391,337	104,196
Associated Partnership Payable	3,757,747	1,670,773	1,070,801	555,632	585,277
Allowance for Income Taxes	1,087,114	503,966	417,982	241,643	103,203
Total Current Liabilities	\$29,494,531	\$10,919,691	\$6,371,671	\$1,395,904	\$ 929,666
Non-Current Liabilities:					
Notes Payable	1,983,740	942,788	170,896	89,002	119,320
Deferred Income	261,415	365,578	354,441	149,750	187,443
Total Liabilities	\$31,739,686	\$12,228,057	\$6,897,008	\$1,634,656	\$1,236,429
Minority Interests in Consolidated Partnerships	23,883	43,731	—	—	—
Stockholders' Equity					
Paid-in Capital	113,350	113,350	113,350	113,350	101,000
Retained Earnings	1,846,846	1,069,784	763,314	396,886	180,796
Stockholders' Equity	\$ 1,960,196	\$ 1,183,134	\$ 876,664	\$ 510,236	\$ 281,796
Liabilities and Stockholders' Equity	\$33,723,765	\$13,454,922	\$7,773,672	\$2,144,892	\$1,518,225



CONSOLIDATED BALANCE SHEET

Five Year Comparison EPIC Associated Partnerships

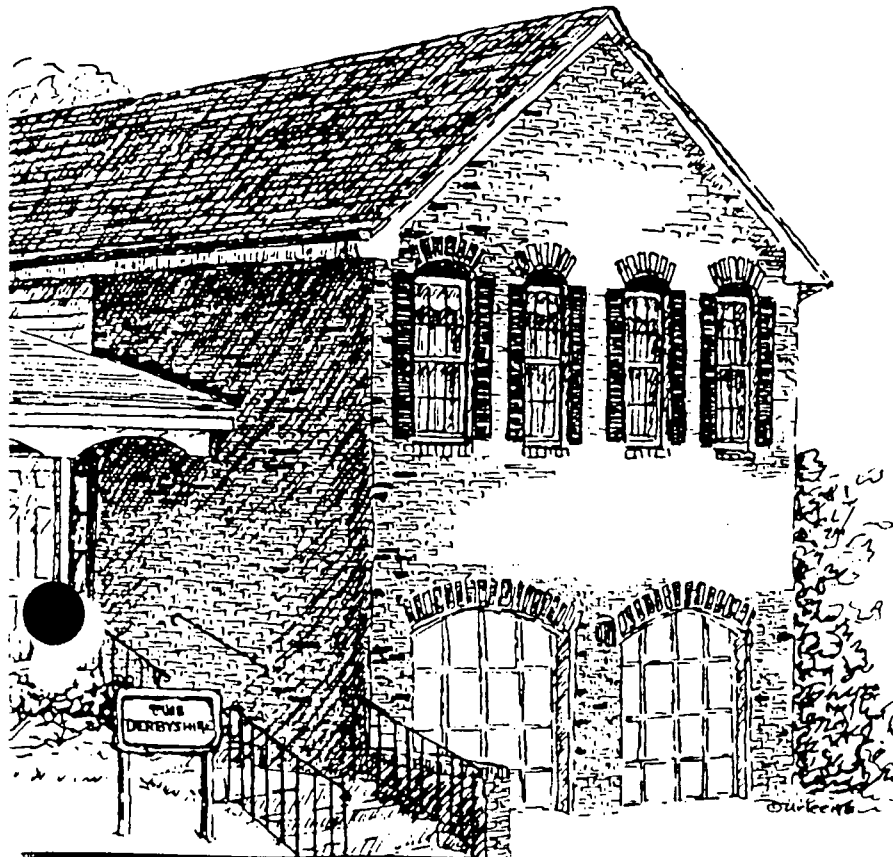
Assets:	1980	1979
Cash in Bank	\$ 589,137	
Special Receivable-EPIC	2,249,032	
Accounts Receivable-EPIC	1,530,233	
Accounts Receivable-Other	1,593,397	
Notes Receivable	2,542,935	
Escrow	1,505,361	
Prepaid Interest	1,203,535	
Prepaid Expenses	1,305,413	
Rental Properties	\$133,173,249	\$75,018,404
Less Accumulated Depreciation	<u>4,300,548</u>	<u>128,872,701</u>
Total Assets	<u>\$141,391,744</u>	<u>2,212,702</u>
Liabilities and Partners' Capital		
1980		
Liabilities:		
Accounts Payable, Accrued Interest, Unearned Rent,		
Purchase Deposits	\$ 2,796,137	\$ 1,068,963
First Trust Mortgages	100,258,209	53,980,299
Second Trust Mortgages	1,296,540	47,142
Accounts Payable-EPIC	5,282,484	3,400,000
Security Deposit	2,034,879	670,000
Completion Escrow	<u>482,686</u>	<u>381,000</u>
Total Liabilities	<u>\$112,150,935</u>	
Partners' Capital	<u>29,240,809</u>	
Total Liabilities and Partners' Capital	<u>\$141,391,744</u>	



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	1978		1977		1976
377,078	\$ 211,790		\$ 238,471		
986,421	473,209		295,662	\$ 198,388	
778,567	597,592		259,970	386,889	
394,863	618,514		269,969	70,441	
—	—		—	—	
536,057	334,935		143,492	58,451	
700,418	412,304		290,163	146,379	
004,389	807,227		677,243	441,340	
	\$42,225,906		\$24,921,985		\$12,707,093
305,702	956,806	41,269,100	421,584	24,500,401	191,415
83,495	<u>\$44,724,671</u>		<u>\$26,675,371</u>		<u>\$13,817,566</u>

	1978		1977		1976
\$ 480,761	\$ 244,229		\$ 211,687		
32,505,395	20,207,061		9,878,229		
894,089	267,424		560,500		
2,269,703	876,630		945,024		
347,237	207,423		109,704		
148,228	89,689		88,684		
74,710	\$36,645,413		\$21,892,456		\$11,793,828
08,785	8,079,258		4,782,915		2,023,738
83,495	<u>\$44,724,671</u>		<u>\$26,675,371</u>		<u>\$13,817,566</u>



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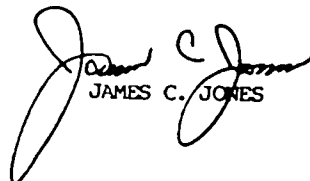
JAMES C. JONES
CERTIFIED PUBLIC ACCOUNTANT
MARK CENTER OFFICE PARK
1900 N. BEAUREGARD ST.. SUITE 106
ALEXANDRIA, VIRGINIA 22311
(703) 820-1662

July 7, 1981

Board of Directors
Equity Programs Investment Corporation
and Its Subsidiaries
Falls Church, Virginia

I have examined the comparative consolidated balance sheet of Equity Programs Investment Corporation and its subsidiaries, EPIC Mortgage, Inc., EPIC Realty Corporation, EPIC Securities, Inc., ESI Securities, Inc., Tunlaw Models, Inc., Sledom Homes, Inc., Wolrab Models, Inc., Dodge Models, Inc., Aladdin Models, Inc., Moxie Models, Inc., Model Home Holding Corporation, EPIC Financial, Inc., EPIC Associates XI, XX, XLII, LXVIII, LXIX, LXXVII and LXXVIII, as of December 31, 1980 and 1979, and the related comparative consolidated statements of income and changes in financial position for the years then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned consolidated financial statements present fairly the financial position of Equity Programs Investment Corporation and its aforementioned subsidiaries at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for the periods then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.


JAMES C. JONES

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COMPARATIVE CONSOLIDATED BALANCE SHEET

Equity Programs Investment Corporation and Its Subsidiaries

December 31,

Assets

Current Assets:

	1980	1979
Cash In Bank and On Hand (Note 2)	\$ 3,147,935	\$ 1,668,844
Accounts Receivable (Note 3)	5,797,626	2,472,232
Notes Receivable (Note 4)	21,154,717	6,371,107
Prepaid Expenses & Investment (Note 5)	152,666	73,251
Partnership Investments (Note 6)	—	1,517,759

Total Current Assets

	\$30,252,944	\$12,103,193
--	--------------	--------------

Fixed Assets, Net of Depreciation (Note 7)

	\$ 1,767,893	\$ 787,891
--	--------------	------------

Other Assets:

Capitalized Leases (Note 1)	\$47,261,018	\$25,533,057
Notes Payable-Capitalized Leases (Note 1)	(47,261,018)	(25,533,057)
Notes Receivable (Note 4)	1,318,306	210,027
Deferred Charges	—	13,527
Partnership Investments-Net (Note 6)	127,428	206,073
Other Assets	257,194	134,211

Total Other Assets

	\$ 1,702,928	\$ 563,838
--	--------------	------------

TOTAL ASSETS

	\$33,723,765	\$13,454,922
--	--------------	--------------

Liabilities and Stockholders' Equity

Current Liabilities:

December 31,

	1980	1979
Accounts Payable—Trade	\$ 473,541	\$ 339,946
Accounts Payable—Investors (Note 8)	—	65,938
Special Payable—Partnerships (Note 9)	2,194,185	986,421
Accounts Payable—Partnerships (Note 9)	1,563,562	684,352
Accrued Salaries and Commissions Payable	521,078	198,103
Notes Payable—Current (Note 10)	2,076,708	1,320,305
Notes Payable—Warehousing Line (Note 10)	19,700,246	6,173,286
Payroll Taxes and Insurance Provision	9,024	8,663
Accrued Interest Payable	531,616	269,174
Income Taxes Payable (Note 11)	596,348	—
Income Taxes Deferred (Note 11)	490,766	503,966
Escrowed Funds (Note 12)	1,337,457	369,537

Total Current Liabilities

	\$29,494,531	\$10,919,691
--	--------------	--------------

Other Liabilities:

Officer Payables	\$ —	\$ 75,000
Notes Payable—Noncurrent (Note 10)	1,983,740	867,788
Deferred Credits (Note 13)	261,415	365,578

Total Other Liabilities

	\$ 2,245,155	\$ 1,308,366
--	--------------	--------------

TOTAL LIABILITIES

	\$31,739,686	\$12,228,057
--	--------------	--------------

Minority Interests in Consolidated

Partnerships (Note 1)

	\$ 23,883	\$ 43,731
--	-----------	-----------

Stockholders' Equity:

Capital Stock:

Common Stock, .01 Stated Value, 500,000		
Shares Authorized, 107,500 Issued and Outstanding (Note 14)	\$ 1,075	\$ 1,075
Contributions In Excess of Stated Value	\$ 112,275	\$ 112,275
Less Loss on Sale of Treasury Stock (Note 1)	(17,434)	—

	\$ 95,916	\$ 113,350
--	-----------	------------

Retained Earnings:

Balance, January 1		
Add: Income for the Year Ended December 31 (Exhibit B)	\$ 1,069,784	\$ 763,314
	794,496	306,470

	\$ 1,864,280	\$ 1,069,784
--	--------------	--------------

	\$ 1,960,196	\$ 1,183,134
--	--------------	--------------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

	\$33,723,765	\$13,454,922
--	--------------	--------------

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

Equity Programs Investment Corporation
and Its Subsidiaries
COMPARATIVE CONSOLIDATED INCOME STATEMENT

	December 31,	
Income:	1980	1979
Initial Loan Interest (Note 15)	\$ 277,542	\$ 355,561
Partnership Organization Fees (Note 16)	331,467	163,634
Bullder Fees (Notes 1 & 16)	3,998,136	2,501,815
Property Management Fees (Note 1)	499,554	281,075
Interest Income (Note 4)	1,129,514	343,603
Rent Income (Note 1)	402,424	89,980
Miscellaneous	13,307	23,115
Loan Origination Fees (Note 18)	482,712	82,817
Commissions	16,710	93,023
Gains on Partnership Investments (Notes 1 & 6)	428,129	176,541
Document Preparation Fees & Services	122,910	37,100
Total Income	\$ 7,702,405	\$ 4,148,264
Operating Expenses	\$ 6,348,874	3,618,394
Net Income From Operations	\$ 1,353,531	\$ 529,870
Less:		
Provision for Income Taxes—Net of Credits (Note 11)	\$ 596,348	\$ 217,908
Minority Interest in Consolidated Partnership Income (Loss) (Note 1)	(37,313)	5,492
NET INCOME	\$ 794,496	\$ 306,470
Earnings Per Share of Common Stock (Note 14)	\$ 7.39	\$ 2.85

**Comparative Consolidated Changes
in Financial Position**

	December 31,	
FUNDS PROVIDED:	1980	1979
Net Income	\$ 794,496	\$ 306,470
Add (Deduct) Items Not Requiring Current Funds		
Income/Loss From Affiliated Partnerships	54,406	(53,676)
Depreciation	51,049	50,547
Amortization of Prepaid Expenses	1,947	30,273
Amortization of Discount on Subordinated Debentures	43,878	40,156
Deferred Income Taxes	(13,200)	185,166
Funds Provided From Operations	\$ 932,576	\$ 558,936
Book Value of Fixed Assets Disposed Of	—	3,655
Cash Surrender Value—Life Insurance—Proceeds	15,475	—
Increase in Deferred Credits	—	11,137
Decrease in Non-Current Portion of Deferred Charges	13,527	—
Draws Received From Affiliated Partnerships	251,777	300,752
Sale of Treasury Stock	100,000	—
Subordinated Debentures Issued for Partnership Interests Acquired—Net of Discount	—	296,607
Consolidation of Partnership First Trusts Payable	871,360	953,196
Net Increase in Other Non-Current Notes Payable	200,714	13,824
Minority Interests in Consolidated Partnerships	—	43,731
Elimination of Partnership Equity Upon Consolidation	114,740	135,308

Notes Payable Issued for Capitalized Leases		
Acquired	35,000,000	11,171,073
Reduction of Capitalized Leases for Liquidation of Notes Payable	13,272,039	8,909,227
Increase In:		
Accounts Payable—Trade	133,595	21,602
Accounts Payable—Investors	—	65,938
Special Payable—Partnerships	1,207,764	513,212
Accounts Payable—Partnerships	879,210	86,760
Accrued Salaries and Commissions	322,975	55,247
Notes Payable—Warehousing Line	13,526,960	3,311,666
Other Current Notes Payable	741,403	183,933
Payroll Taxes and Insurance	361	8,143
Accrued Interest Payable	262,442	129,743
Escrowed Funds	967,920	209,552
Income Taxes Payable	596,348	—
Decrease In:		
Accounts Receivable	104,467	375,971
Notes Receivable—Officer	46,580	—
Partnership Investments	1,517,759	—
Prepaid Expenses & Investment	—	20,710
TOTAL FUNDS PROVIDED	571,079,992	\$27,379,923

December 31,

	1980	1979
AS APPLIED:		
Purchase of Fixed Assets	5 32,634	\$ 66,774
Increase in Cash Surrender Value—Life Insurance	3,056	2,515
Capitalized Organization Costs	2,024	2,479
Increase in Deposits	131,905	7,752
Decrease in Current Portion of Deferred Charges	—	10,000
Increase in Non-Current Notes Receivable	1,108,279	33,181
Capitalized Leases Acquired By Issuance of Note Payable	35,000,000	11,171,073
Purchase of Treasury Stock	117,434	—
Reduction of Notes Payable By Liquidation of Capitalized Leases	13,272,039	8,909,227
Capital Contributions to Affiliated Partnerships	228,725	138,590
Cost of Acquisition of Consolidated Partnership Interests—Net of Write Down of Cost Over Book Value	113,553	137,559
Consolidation of Partnership Rental Properties	998,417	1,236,087
Reduction of Minority Interests in Consolidated Partnerships	19,848	—
Increase in Officer Receivable	—	75,550
Reduction in Deferred Credits	104,163	—
Increase In:		
Investments	50,000	—
Notes Receivable	14,783,610	3,424,982
Prepaid Expenses	82,931	—
Partnership Accounts Receivable	3,411,345	—
Partnership Investments	—	1,517,759
Decrease In:		
Accounts Payable Investors	65,938	—
Income Taxes Payable	—	99,182
Officer Payable	75,000	213,480
Total	\$69,600,901	\$27,046,190
Increase in Cash	1,479,091	333,733
TOTAL FUNDS APPLIED	571,079,992	\$27,379,923

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.

NOTES TO COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

1. Equity Programs Investment Corporation ("EPIC") was incorporated under the laws of the Commonwealth of Virginia on December 30, 1974. As of the balance sheet date, EPIC wholly owned the following consolidated subsidiaries: EPIC Mortgage, Inc., EPIC Realty Corporation, EPIC Securities, Inc., EPIC Financial, Inc., ESI Securities, Inc., Model Home Holding Corp., Tunlaw Models, Inc., Sledom Homes, Inc., Wolrab Models, Inc., Dodge Models, Inc., Aladdin Models, Inc. and Moxie Models, Inc. EPIC is also the managing General Partner in three General Partnerships and the sole General Partner of one hundred and fifteen limited partnerships.

EPIC business operations involve sale-leaseback of principally builder's model homes and its related activities including mortgage financing and equity syndication. Most leases are triple net to the acquiring partnership in which EPIC is the general partner. During 1980 EPIC began a program of non-recourse fully insured mortgage financing. In prior years significant contingent liability was created for the corporation

when recourse mortgage financing was utilized although mortgage loan to value was typically lower in these prior transactions. Also in prior years the limited partners contributed initial capital to the partnership sufficient in cash to refund the general partner's initial advances for property acquisition and the payment of related syndication fees. The present program involves longer term loans to the partnerships by the general partner but the limited partners are obligated to pay partnership operating expenses during the expected holding period of the properties. Syndication fees are to be recognized as income when contributions to the partnership are funded by the limited partners. These future capital contribution obligations are fully recourse to the limited partners. Additional partnerships are anticipated in the future and are expected to be accomplished within this concept.

EPIC's policy toward advances to prior partnerships is to advance operating funds as required up to the fair market value less the estimated net sales costs of the property. Subsequent to the date of the statement EPIC has entered into insured mortgage refinancing agreements with a lending institution for certain of these prior partnerships in the amount of three million dollars (\$3,000,000). These funds will be used to repay general partner advances; in some cases provide up to one year working capital for the partnership and are not expected to exceed a loan-to-value ratio of 80%.

During the life of the partnerships, EPIC, as general partner, manages the partnership affairs and, ultimately,

arranges for disposition of the model homes upon termination of the lease. EPIC participates in operating profits and losses of the partnerships to the extent of its ownership which ranges from a 1% to 5% interest and, in addition, shares in 45-50% of the difference between the net selling price of the property and the gross purchase price of the property plus front end capitalized costs, subordinated to each limited partner's receipt of his original capital and varying cumulative returns on original capital contributions.

Certain subsidiaries have been formed to enter into sale-leaseback financing transactions with U.S. Home Corporation. EPIC has none of the rights of ownership associated with these properties. Its obligations are recourse only to the extent of having to deliver its ownership interests in each subsidiary to the lending institution in order to void its guaranty and obligation. EPIC derives income from these operations for its administrative efforts which is reflected as interest income. The operations of these subsidiaries are reflected as a financial arrangement in accordance with Statement Number 13 of the Financial Accounting Standards Board. The fair market value of each lease is considered to equal the outstanding loan balance.

The consolidated financial statements include the accounts of the corporation, all its subsidiaries, and partnerships which have been previously syndicated and of which EPIC has acquired approximately fifty percent or more in interest. Partnerships are not consolidated during the syndication period. Material inter-company accounts and transactions have been eliminated. The investments in unconsolidated partnerships are stated at equity in net assets of such partnerships, except during the first six months of syndication.

During 1980, EPIC entered into three party exchange transactions under which EPIC exchanged model home properties for other investment property. The other investment property was then concurrently sold to a third party purchaser. At the time of the exchange EPIC entered into a long term management agreement with the exchange participant receiving the model homes under which EPIC receives a management fee and a portion of the net profit upon the sale of the properties.

EPIC's policy is to effect the purchase of model homes, by its partnerships, prior to syndication of the partnership interests. Consequently, EPIC has varying percentages of ownership in the partnerships at various times. EPIC has also acquired additional ownership in the partnerships as a limited partner by purchasing or

exchanging interests in prior partnerships. Certain partnerships are consolidated within the EPIC statement for the current year of which EPIC owns up to one hundred percent. The accounting for purchase of previously syndicated partnership interests is treated differently from pre-syndicated interest because of the intent and historical experience of the corporation.

Because of the nature of the business, the assets and liabilities of EPIC partnerships, with EPIC as the sole general partner, are not included in the balance sheet of EPIC, but rather in the financial statements of the individual "partnerships." These accounting principles are based on the "going concern" concept which is predicted on intent and EPIC's past experience of successfully syndicating partnership interest. The fees which EPIC earns from builders are recognized as income when the builder has consummated the sale and leaseback arrangement with the EPIC partnership(s) but prior to partnership syndication.

The corporation is liable for the organization and administrative expenses of creating and operating the partnerships. In most partnerships EPIC is entitled to a fee of 2.5% to 5.0% of gross rental income. In others the fee is based on the carrying value of the partnership properties. In some instances, this fee is subordinated to the partners' varying cumulative annual return on capital contributed and/or to the return of invested capital to the limited partners. No limited partner is personally liable for any of the debts of the partnerships, or any of the losses thereof beyond his capital contributions in cash or notes, plus undistributed profits of the partnerships. If the remaining assets of the partnerships are not sufficient to pay the then outstanding liabilities, the general partner is liable for the debts of the partnership.

EPIC contributes cash equal to 1% of the partnership capital as payment for its 1% interest in the partnership.

RELATED PARTY TRANSACTIONS

During 1980, there were sale/purchase transactions among certain partnerships, of which EPIC serves as the sole general partner, in which EPIC recognized disposition gains of approximately \$300,000. The sales prices were considered to be at the then fair market values of the properties. In some instances, the purchasing partnership was or was intended to consist of independent third party limited partner investors. Other purchasing partnerships included officers or employees of EPIC as limited partners.

In 1979 an officer of EPIC sold certain coins to EPIC with an option to repurchase at a fixed price. During

1980 that officer repurchased all of the gold coins at that same price.

Cavalier Oil Corporation which is involved in oil and gas exploration and drilling principally in the State of Ohio is controlled by an officer and director of EPIC. During 1980 Cavalier Oil issued one-third of its issued and outstanding stock to EPIC in return for a \$50,000 note due EPIC.

During 1980, additional leasing arrangements were entered into with a limited partnership which is controlled by the majority stockholder of EPIC. These month to month leases are for the use of office furniture, equipment, and vehicles at what are considered fair market rental rates. It is anticipated that the Corporation will enter into additional non-capitalized lease rental commitments with this or other similar entities.

During 1980, certain limited partnerships of which EPIC serves as the General Partner and which includes officers or employees of EPIC as limited partners have in some instances not been charged with certain fees (i.e., syndication fees and broker dealer commissions) which are normally charged to the partnerships.

In 1979, the majority stockholder of the company acquired EPIC stock from shareholders for cash and notes. In 1980, part of this stock was redeemed by the Corporation for a prorata amount of cash and assumption of the indebtedness to the former shareholders. To retire this indebtedness, the corporation conveyed certain limited partnership interests to the selling shareholders. EPIC subsequently issued stock to another officer of the company, in exchange for real property having an appraised value less than the cost of the treasury stock to the corporation.

Option to Repurchase Stock

During 1980 EPIC initiated litigation against certain former officers and employees and a shareholder for breaches of various employment and non-competition agreements and other obligations. The defendants in turn filed defenses and counterclaims. Subsequent to the balance sheet date, that litigation has been settled. EPIC purchased from the shareholder 4,000 shares of stock for the sum of \$100,000 and has an option to purchase the shareholder's remaining interest of 29,000 shares. These shares are under an escrow option at a price of \$400,000 which may be exercised at any time prior to June 15, 1982. In conjunction with the settlement, all suits have been dismissed with prejudice except a dissolution suit which was brought by the selling shareholder. That suit has been rendered inactive in connection with the overall settlement and is to

be dismissed with prejudice upon EPIC's exercise of its option to purchase the remaining 29,000 shares. In the opinion of counsel and management the dissolution suit is, and remains, without merit or substance regardless of the purchase of the remaining shares.

Office Lease

On March 1, 1981, the corporation entered into a lease for new office space. The lease is for a period of five years and one month with minimum aggregate rentals of \$1,068,699.89 payable in monthly installments of \$17,519.67. The lease contains an option to renew for an additional five year period with monthly payments of \$19,541.00 and clauses for escalations, payment of real estate taxes, and operating expense of the property. The vacated office space has been sublet to a tenant for five years at the rate of \$16,172.00 per month versus an approximate cost of \$12,465.00 per month.

CASH IN BANKS:

2. As of the balance sheet date, \$371,535 was in restricted accounts. \$335,355 of this amount is reflected in accrued interest payable which relates to capitalized leases and was subsequently paid. Included is \$1,329,800 of escrowed funds which are to be applied to the Escrow Funds Liability for Mortgages. There is also a compensating balance requirement of \$2,718,645 on loans and restricted funds of \$36,180. This cash is classified as current due to the matching principle because the related liabilities are also classified as current. 1979—\$206,258 was restricted and \$349,179 escrowed.

RECEIVABLES:

3. Accounts Receivable consists of the following: Agency Receivable from Associated Partnerships \$5,148,180; Receivables from unfunded settlements of \$410,733 which were received subsequent to year end; Accrued Interest on Notes Receivable, \$90,698 and other receivables of \$148,015. The majority of agency receivables are pledged to secure loans. 1979—\$1,736,835 receivable from associated partnerships and \$537,126 from unfunded settlements.

4. Secured notes amount to \$22,360,881 and unsecured are \$112,142 which is net of an allowance for doubtful collection amounting to \$21,401. The majority of the notes are secured by partnership property and are pledged as security on loans. The notes bear interest of 8 to 21 percent. 1979—secured \$6,512,913, unsecured \$68,220.

PREPAID EXPENSES AND INVESTMENT:

5. Prepaid Expenses includes the prepayment of loan origination fees, insurance, commissions and others. 1979—Gold coins which have been sold were classified as current investment.

PARTNERSHIP INVESTMENTS:

6. It is the policy of EPIC to suspend the equity method of accounting during the normal syndication period, which is deemed to be six months. The equity method of accounting for partnership investments is applied during the syndication period on their intended percentage of ownership. During the syndication period, EPIC's advances to the partnership are recorded as receivables. Subsequent to this period the receivables are classified as Current Partnership Investments as it is their intent to dispose of these investments in the ordinary course of business. The non-current Partnership Investments represent EPIC's equity ownership of associated partnerships which is not intended to be sold. It is corporate policy to only recognize the partnership's disposition gains after a substantial portion of the partnership's assets have been sold. Partnership losses are recorded as they occur. An allowance to provide for possible future partnership losses calculated on the equity basis of the non-current portion at the balance sheet date is reflected to reduce the investments to estimated net realizable value.

FIXED ASSETS:

7. Depreciation Policies: Office Furniture and Equipment is being depreciated over a seven year period, Automobiles over three years, Leasehold Improvements over five years, and the Consolidated Partnership Model Homes over thirty years. All assets are being depreciated by the straight line method.

Depreciation	Cost	
	1980	1979
Office Furniture and Equipment	\$ 62,003	\$ 53,038
Vehicles	31,471	31,471
Leasehold Improvements	65,792	62,432
Model Homes, including land	<u>1,780,010</u>	<u>761,285</u>
	\$1,939,276	\$908,226
Less: Accumulated Depreciation	<u>171,383</u>	<u>120,335</u>
Book Value	<u>\$1,767,893</u>	<u>\$787,891</u>

Office Furniture and Equipment and Vehicles not reflected on the Balance Sheet are being leased on a month-to-month basis from a related party. The Model Homes are stated at the original purchase price to the

partnership from the builder.

PAYABLES TO LIMITED PARTNERS:

8. During 1979, an offer was tendered to the limited partners of five associated limited partnerships. The offers were accepted by most of the limited partners which resulted in EPIC receiving the ownership of their partnership interests and, therefore, the majority ownership of five associated partnerships of which three were liquidated during 1980. This transaction was effectuated by EPIC's obligation to pay the limited partners either by cash or subordinated debenture bonds. The bonds payable are reflected in the Notes Payable balance. The bonds bear annual interest of 15.03 to 24.17 percent which is currently payable and/or accrued to maturity. The bonds mature December 31, 1983, and June 30, 1984. As of the balance sheet date, the maturity value was \$515,995, offset by \$135,355 of unamortized discount, which results in a book carrying value of \$380,640. The discount is being amortized on a straight line basis as interest expense over the life of the bonds at \$43,878 per annum.

PAYABLES TO ASSOCIATED PARTNERSHIPS:

9. EPIC serves as agent for associated partnerships. The Special Payable consists of Security Deposits and Completion Escrows made by the builder/lessees to the partnership lessors. The Accounts Payable—Partnerships is the net of cash received and disbursed on behalf of the associated partnerships. Refer to Note 3 for receivables from partnerships.

NOTES PAYABLE:

10.	Interest Rates	Balance	
		1980	1979
Unsecured Credit Lines	18% to 2% over prime	\$ 1,127,000	\$ 275,000
Warehousing Lines	21% to 5% over prime	19,700,246	6,173,286
Associated Partnerships			
Model Homes		1,440,850	569,490
Subordinated Debentures	15.03% to 24.17%	380,640	336,763
Other Various Notes	10% to 1% over prime	<u>1,111,958</u>	<u>1,006,840</u>
Total		\$23,760,694	\$8,361,379
Less Non-Current Portion	None to 15.5%	<u>1,983,740</u>	<u>867,788</u>
Current Notes Payable		<u>\$21,776,954</u>	<u>\$7,493,591</u>

INCOME TAXES:

11. Income Taxes Payable reflects the amount which could be due based on the financial profit, whereas the deferred income taxes are the computed taxes based on the financial statement retained earnings at tax rates prevailing during the years earned, reduced by the current taxes payable. The principal difference

between tax basis income and financial basis is due to timing differences in recognition of income. The tax return basis does not recognize income as taxable when the funding of settlements was subsequent to year end. (Refer to Note 3.) Credits against income have been netted against the income tax expense of the year(s) affected.

ESCROWED FUNDS:

12. EPIC Mortgage as servicing agent received tax, insurance and homeowner dues escrow payments which are held for the appropriate payment therefrom or forwarding to the permanent lender(s). (Refer to Note 2 for Funding.)

DEFERRED CREDITS:

13. Deferred Credits consist of unrealized income for partnership organization fees on unsyndicated portions of limited partnership equity and commitment fees on unsettled loans.

CAPITAL STOCK:

14. The authorized stock consists of 500,000 common shares with a \$.01 stated value. An officer owns the majority of the 107,500 common shares outstanding as of December 31, 1980.

INCOME:

15. Partnerships pay interest to EPIC for funds advanced on their behalf to purchase rental properties. The interest rate is equivalent to the estimated cash flow percentage in the offering memorandums.

16. Partnership Organization Fees are paid by the limited partners for services performed by EPIC in creating the investments and partnerships. Partnership Organization Fees have been netted against the related out-of-house costs incurred in the syndication of partnership interests. The builder's fees are paid by the selling builders for EPIC arranging the sale and lease-back of their property.

17. The Interest Income and Expenses pertaining to the financing arrangement of the capitalized lease referred to in Note One have been combined to reflect the net earnings thereon.

18. Loan Origination Fees are the fees charged to secure mortgages for the partnerships. This fee has been offset by the Loan Origination Fees paid to obtain these mortgages.

States in which EPIC
model homes are located

Not pictured:

Walter M. Levine
Boca Raton, Florida

Gaylord Wilson
New Orleans, Louisiana



Charles S. Kipp, Jr.
EPIC Financial, Inc. Madison, Connecticut



Frederick M. Dower
Washington, D.C.



John Donnelly
Houston, Texas



Walter Jankowski
Chicago, Illinois



BOARD OF DIRECTORS

TOM J. BILLMAN
President

CLAYTON C. McCUITION
Senior Vice President

JAMES B. DEERIN, JR.
Vice President and General Counsel

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President, EPIC Mortgage, Inc.*

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*Vice President for Realty Acquisitions
Vice President for Securities*

EUGENE S. ISAACS
Vice President for Realty Asset Management

BARBARA A. McKINNEY
Corporate Secretary and Deputy General Counsel

JOSEPH CUNNINGHAM
Treasurer

LARRY J. MATHIAS
Controller

ACCOUNTANT

James C. Jones, C.P.A.
Alexandria, Virginia

REGIONAL OFFICES

Boca Raton, Florida
Walter M. Levine

Chicago, Illinois
Walter Jankowski

Dallas, Texas
Lester D. Young

Denver, Colorado
Thomas A. Wood

Houston, Texas
John Donnelly

New Orleans, Louisiana
Gaylord Wilson

Phoenix, Arizona
Sharon L. Metzler

San Diego, California
Joseph A. Lenberg

Washington, D.C.
Frederick M. Dower

CORPORATE OFFICE

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ANNUAL REPORT
EQUITY PROGRAMS
INVESTMENT CORPORATION

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FINANCIAL HIGHLIGHTS

EQUITY PROGRAMS INVESTMENT CORPORATION

	1981	1980	CHANGE
REVENUE	\$16,500,501	\$7,702,405	+114%
OPERATING EXPENSE	\$14,258,126	\$6,348,874	+125%
NET INCOME	\$1,238,061	\$794,496	+56%
ACQUISITIONS	\$131,592,635	\$55,234,848	+128%
MORTGAGES SERVICED	\$212,899,117	\$76,657,421	+178%
PROPERTIES MANAGED	\$269,675,926	\$137,374,794	+96%

EPIC (Equity Programs Investment Corporation) is a financial services company which provides capital to the home building industry by purchasing quality model homes from reputable home builders. These model homes, which are the initial houses built specifically to merchandise the builder's craft, are then leased back to the selling builder.

In 1975, EPIC introduced what was then a sophisticated but little known financing technique, sale-leaseback, to the residential construction industry. The well established sale-leaseback concept is often used to finance aircraft, hotels, rail cars and computers. The founders of EPIC applied this concept to model homes on the dual premise that the builder receives his capital when he needs it the most, while creating a medium for investment because of potential appreciation and tax advantages. Model homes have different appreciation potential from other forms of real estate because their values are not tied to a revenue stream but rather to the market value of comparable dwellings.

EPIC's fundamental activity is to seek out and evaluate potentially good real estate investments in the form of builders' model homes. The Company forms limited partnerships to acquire the homes and is the general managing partner of the partnerships.

EPIC locates quality model home properties, negotiates a standard leaseback with the builder, and arranges for interim and permanent financing. Then EPIC markets the equity investment in the homes, administers the partnership, and arranges for the resale of the partnership properties.

The U.S. housing industry has been anything but normal for nearly three years. 1981 housing starts were the lowest of the past three decades. The much publicized post war "baby boom" children continue to mature into prime home buying age, 25-44, and the number of households is increasing dramatically. Family size is becoming smaller and smaller. Interest rates

have remained out of reach, squeezing many from the marketplace.

All of these pressures are forcing change in the housing market and creating substantial pent up demand which will continue to push housing prices higher, create low rental vacancies, and increase rental rates. These changing market conditions serve to protect the appreciation potential of the EPIC properties and create a beneficial market for future acquisitions.

EPIC's response to the changing housing and financial marketplaces in 1981 was to strengthen its financial position and by doing so, strengthen the position of its builder, lender, and investor clients. The Company's first long-term corporate financing was placed with the Metropolitan Life Insurance Company. EPIC Mortgage, Inc. continued to expand the mortgage backed pass-through program. Further, the Company modified its model home sale-leaseback program to take advantage of tax benefits created by changes in the 1981 tax laws. The tax advantaged format of EPIC's partnerships appeals to a wide spectrum of investors.



OFFICERS

- 1 Joel H. Bernstein
*Vice President,
Securities; President,
ESI Securities, Inc.*
- 2 Clayton C. McCuiston
Senior Vice President
- 3 Walter R. Frazier
*Vice President,
Realty Acquisitions*
- 4 James B. Deerin, Jr.
*Vice President and
General Counsel*
- 5 Tom J. Billman
President
- 6 Leonard Meltz, Jr.
*Vice President, Mortgage
President, EPIC
Mortgage, Inc.*
- 7 Eugene S. Isaacs
*Vice President,
Administration*



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LETTER FROM TOM BILLMAN

1981. What a year! I guess we're all glad it's over. Since it turned out so well for us I'd like to say that we planned it from the beginning. However, in the first part of the year our only goal for EPIC was survival.

Let me explain. In early 1979 we saw the changes coming in the financial and real estate markets and we anticipated problems. We adjusted our policies and our management to weather the difficult times until the situation returned to "normal".

In the spring of 1980, with the short recession caused by credit controls behind us, we all breathed a sigh of relief in anticipation of the standard boom-bust cycle with its traditional return to liquidity. But instead of correcting, the "bad times" lingered on.

Early in 1981 we began to realize that the old days of the standard cycle were gone, perhaps forever. With the arrival of new Federal Reserve Chairman, Paul Volcker, and strictly monetarist policies, the money engine pushing inflation had run out of steam. Simultaneously, deregulation in the financial industry became a reality, and the tax laws changed to reflect the policies of Reaganomics. Times had changed suddenly and completely. So did we.

Looking to 1982 and the future, we began to see the industry from a different perspective. New opportunities.

We knew that we would not be readily able to sell properties from our partnerships' portfolio, therefore we would have to manage them for a longer term in the most effective and efficient way possible. Much to our surprise we found out that not only could we do this, but several other localized companies were doing it already. And profitably.

A vast pool of rental properties exists across the country, and absentee owners need professional and managerial services for which they are willing to pay. Single family property management is about to become a separate and burgeoning business in the real estate industry. We realized that we were uniquely experienced and positioned to exploit this opportunity.

Once we found that we could effectively manage and consequently keep our properties for a term longer than the builder's lease, we began to view each house as a financial asset generating an income stream made up of numerous components such as lease income, tax benefits (improved by the 1981 Economic Recovery Tax Act), as well as appreciation over time. High interest rates can actually work to our advantage if we view the house as an asset having a discounted present value because of high interest rates. If rates do not decrease in the future we get what we bargained for in that we have income, tax benefits and long-term appreciation. However, if interest rates change and become

lower over time, then the present value of the income stream is higher, the house is worth more, and prices must increase. We began to think of a house as a futures contract on an income stream with tax benefits. Our gloomy attitude toward the real estate market improved.

As our mortgage financing capability became evident to the home building community, some of our builders began to ask how we could help them. At first we were surprised that they needed our help. However, when you consider that there are perhaps only two or three national home builders large enough to have the resources, volume or experience to do mortgage pass-throughs, GNMA pools, mortgage backed securities or any of the more arcane financial instruments, it makes sense. We just had not focused on this need. In spite of the distressed status of our industry, most mortgage bankers and savings associations are still operating under the old rules. They can't hedge. They can't change. They won't adapt. Consequently, neither can their builders.

Could we help? At first our response was, "No, we are not mortgage bankers." But the more we examined the question, the more we began to see that yes, we are mortgage bankers, but a new type, one that acts solely as a national wholesaler for home builder financial needs.

Although home builders are each too small to take advantage of mortgage pools, they are in the aggregate an awesome consumer of mortgage credit. From our point of view, the trick is to create a wholesale mortgage company that markets directly to the builder. We can give the building community the opportunity to share in the benefits of the more sophisticated types of financing that they want and need. We're the only company with both builder contacts through our nationwide offices as well as access to the national financial community and Wall Street. Lender consortiums work very well in other industries, why not ours?

One of my college professors once said, "All progress involves change, but not all change is progress." We believe that the financial changes our nation is undergoing are positive even though painful, and that they represent progress. People and companies reflecting that change will share in the progress.

At EPIC we have more willingness to listen to new ideas and seek solutions than any group I've ever seen. Not for the sake of being different or for the sake of change, but because in this environment it's the only way to survive. This willingness to change is finding, and making, the new "normal". The old rules are gone forever.

TOM J. BILLMAN President

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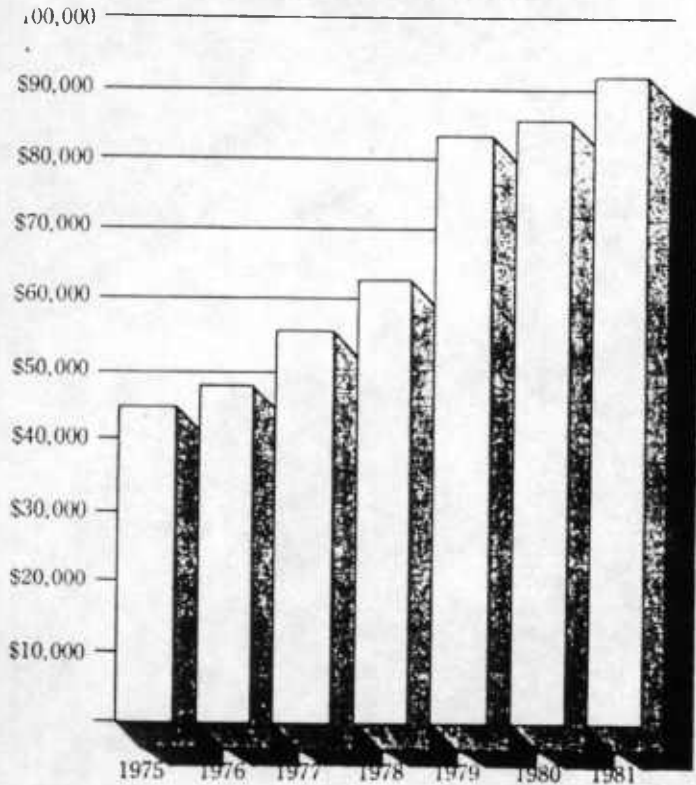


Tim Lindahl *Management Information Systems*

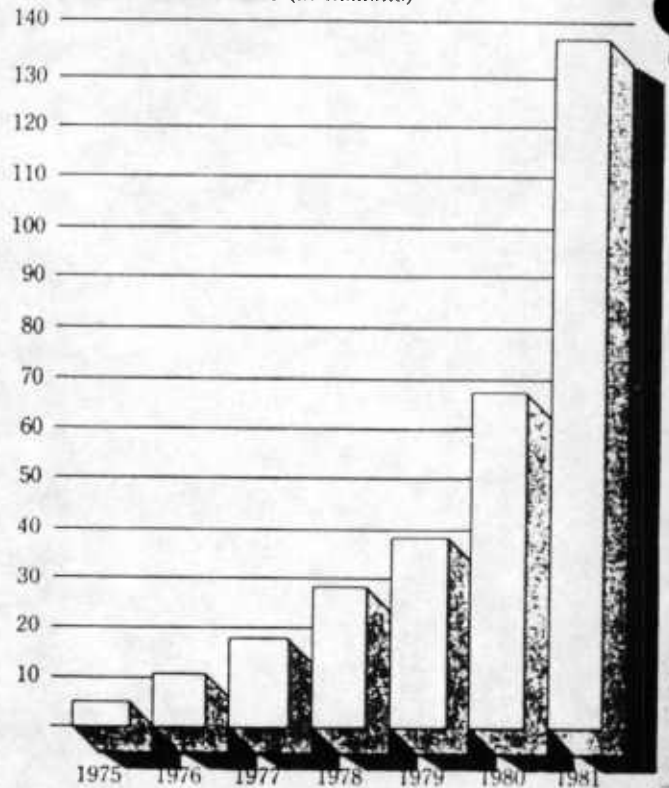
“Our data bank allows us to recover information in a timely manner that abets the needs of our managerial and clerical people. This is always changing as we add new programs and respond to new needs.”

MARKETING STATISTICS

EPIC ANNUAL AVERAGE PURCHASE PRICE OF MODEL HOMES



EPIC ANNUAL PURCHASES OF MODEL HOMES (in millions)

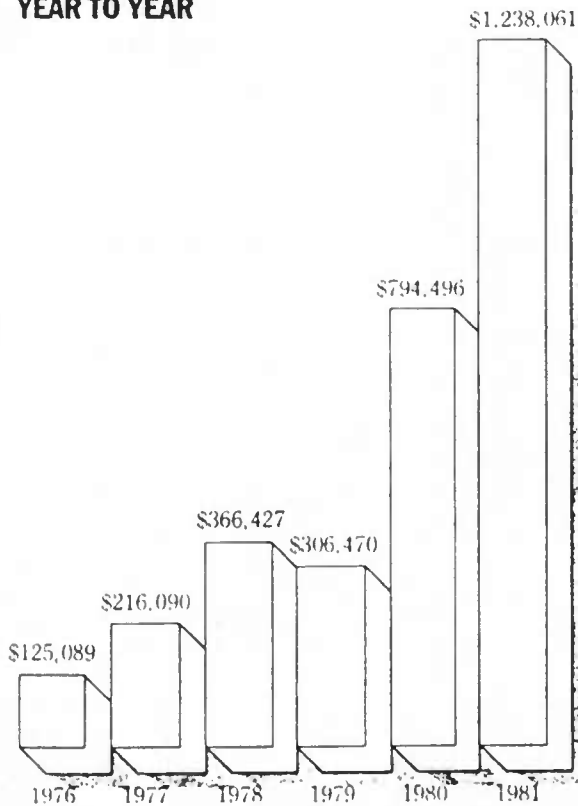




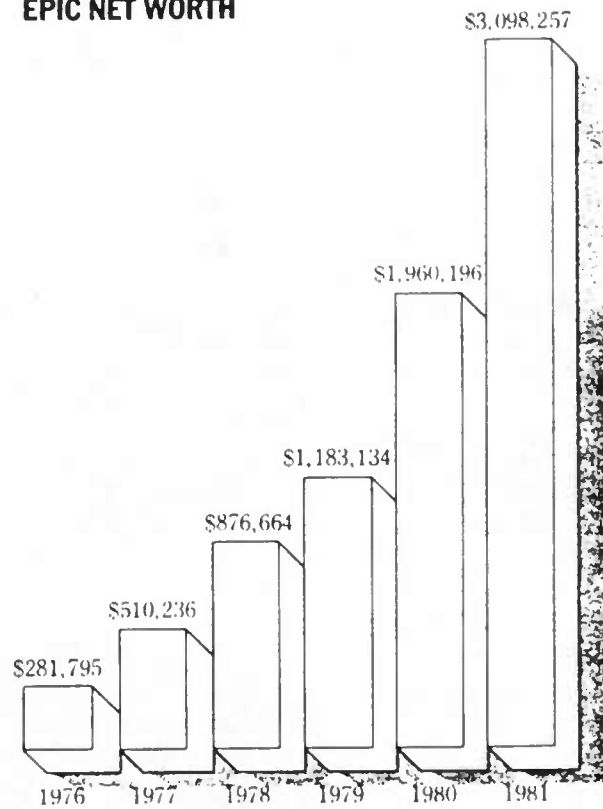
Barbara McKinney *Deputy General Counsel*

“EPIC’s activities intersect many industries and areas of expertise including mortgage financing, securities, real estate, home building, property management, finance and tax. We operate in several jurisdictions, therefore we must not only be vigilant as to the requirements and recent developments in each area, we must also strive to coordinate the strictures of these areas in order to mesh them with our overall goals. Over the years EPIC has gained respect for the manner in which it carries out its responsibilities.”

EPIC EARNINGS YEAR TO YEAR



EPIC NET WORTH





Louise Stone *Investor Relations*

“Our limited partners must be kept abreast of the financial, tax and market conditions of their investment. We communicate quarterly with each of the more than 2200 investors in our 160 partnerships.”

CONSOLIDATED BALANCE SHEET

FIVE YEAR COMPARISON

EPIC AND WHOLLY-OWNED SUBSIDIARIES

ASSETS

Current Assets:	1981	1980	1979	1978	1977
Cash in Banks	\$ 5,405,514	\$ 3,147,935	\$ 1,668,844	\$ 1,335,111	\$ 356,258
Associated Partnership Receivable	15,519,922	5,148,180	1,736,835	2,848,203	876,630
Partnership Investments	—	—	1,517,759	—	—
Notes Receivable	21,559,219	20,986,017	6,371,107	2,946,125	82,231
Accounts Receivable and Prepaids	4,596,810	802,112	808,648	98,188	195,335
Total Current Assets	\$47,081,465	\$30,084,244	\$12,103,193	\$ 7,227,627	\$ 1,510,454
J Assets:					
Net of Depreciation	\$13,295,764	\$ 1,767,893	\$ 787,891	\$ 67,052	\$ 50,330
Partnership Investments— Net of Allowance	73,090	127,428	206,073	226,659	267,534
Capitalized Leases	88,509,552	47,261,018	25,533,057	23,271,211	11,292,093
Notes Payable—Capitalized Leases	(88,509,552)	(47,261,018)	(25,533,057)	(23,271,211)	(11,292,093)
Other Assets	1,398,676	1,744,200	357,765	252,334	316,574
Total Assets	\$61,848,995	\$33,723,765	\$13,454,922	\$ 7,773,672	\$ 2,144,892

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	1981	1980	1979	1978	1977
Accounts and Accrued Payables	\$ 6,695,373	\$ 2,872,716	\$ 1,251,361	\$ 884,896	\$ 207,292
Current Notes Payable	21,063,792	21,776,954	7,493,591	3,997,992	391,337
Associated Partnership Payable	7,839,252	3,757,747	1,670,773	1,070,801	555,632
Allowance for Income Taxes	2,181,937	1,087,114	503,966	417,982	241,643
Total Current Liabilities	\$37,780,354	\$29,494,531	\$10,919,691	\$ 6,371,671	\$ 1,395,904
Non-Current Liabilities:					
Notes Payable	17,256,624	1,983,740	942,788	170,896	89,002
Deferred Income	3,287,505	261,415	365,578	354,441	149,750
Total Liabilities	\$58,324,483	\$31,739,686	\$12,228,057	\$ 6,897,008	\$ 1,634,656
Minority Interests in Consolidated Partnerships	426,255	23,883	43,731	—	—
Stockholders' Equity:					
Paid-in Capital	113,350	113,350	113,350	113,350	113,350
Retained Earnings	2,984,907	1,846,846	1,069,784	763,314	396,886
Total Stockholders' Equity	\$ 3,098,257	\$ 1,960,196	\$ 1,183,134	\$ 876,664	\$ 510,236
Total Liabilities and Stockholders' Equity	\$61,848,995	\$33,723,765	\$13,454,922	\$ 7,773,672	\$ 2,144,892



Jane Goodwin Mortgage Operations

“The Company was the first lender in the country to issue a mortgage-backed security rated by Standard and Poor’s on non-owner occupied residential real estate. Even though the market remains volatile EPIC Mortgage successfully competes for funds on a regular basis because of our reputation for innovation in financial instruments.”

CONSOLIDATED BALANCE SHEET

FIVE YEAR COMPARISON

EPIC ASSOCIATED PARTNERSHIPS

ASSETS

Assets:	1981	1980	1979	1978	1977
Cash in Bank	\$ 381,875	\$ 589,137	\$ 377,078	\$ 211,790	\$ 238,471
Special Receivable—EPIC	5,672,224	2,249,032	986,421	473,209	295,662
Accounts Receivable—EPIC	2,105,236	1,530,233	778,567	597,592	259,970
Accounts Receivable—Other	965,237	1,593,397	394,863	618,514	269,969
Receivable	6,446,744	2,542,935	—	—	—
Allowance	2,792,932	1,505,361	636,057	334,935	143,492
Unpaid Interest	3,529,970	1,203,535	700,418	412,304	290,163
Prepaid Expenses	3,541,590	1,305,413	1,004,389	807,227	677,243
Rental Properties	265,474,381	133,173,249	75,018,404	42,225,906	24,921,985
Less Accumulated Depreciation	(8,489,851)	(4,300,548)	(2,212,702)	(956,806)	(421,584)
Total Assets	\$282,420,338	\$141,391,744	\$ 77,683,495	\$ 44,724,671	\$ 26,675,371

LIABILITIES AND PARTNERS' CAPITAL

Liabilities and Partners' Capital:	1981	1980	1979	1978	1977
Accounts Payable, Accrued Interest, Unearned Rent, Purchase Deposits	\$ 7,725,718	\$ 2,796,137	\$ 1,068,963	\$ 480,761	\$ 244,229
First Trust Mortgages	226,120,353	100,258,209	53,980,299	32,505,395	20,207,061
Second Trust Mortgages	5,785,757	1,296,540	47,142	894,089	267,424
Accounts Payable—EPIC	18,235,707	5,282,484	3,426,561	2,269,703	876,630
Security Deposit	5,122,766	2,034,879	670,148	347,237	207,423
Completion Escrow	1,189,825	482,686	381,597	148,228	89,689
Total Liabilities	\$264,180,126	\$112,150,935	\$ 59,574,710	\$ 36,645,413	\$ 21,892,456
Partners' Capital	18,240,212	29,240,809	18,108,785	8,079,258	4,782,915
Total Liabilities and Partners' Capital	\$282,420,338	\$141,391,744	\$ 77,683,495	\$ 44,724,671	\$ 26,675,371



Larry Mathias *Controller*

“EPIC has grown, not just in numbers, but in the depth of our management capability. EPIC now manages and accounts for 160 separate partnerships. This includes the maintenance of financial records, the preparation of financial statements and tax returns—all the elements required to manage 160 separate businesses.”

REPORT OF INDEPENDENT AUDITOR

JAMES C. JONES
CERTIFIED PUBLIC ACCOUNTANT

BRISTOW CENTER
4306 EVERGREEN LANE
ANNANDALE, VIRGINIA 22003

March 16, 1982

Board of Directors
Equity Programs Investment
Corporation and Its Subsidiaries
Falls Church, Virginia

I have examined the comparative consolidated balance sheet of Equity Programs Investment Corporation, its wholly owned subsidiaries, and twelve consolidated partnerships, as of December 31, 1981 and 1980, and the related comparative consolidated statements of income and changes in financial position for the years then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the aforementioned consolidated financial statements present fairly the financial position of Equity Programs Investment Corporation and its aforementioned subsidiaries and partnerships at December 31, 1981 and 1980, and the results of their operations and the changes in their financial position for the periods then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

JAMES C. JONES

COMPARATIVE CONSOLIDATED INCOME STATEMENT

EQUITY PROGRAMS INVESTMENT CORPORATION AND ITS SUBSIDIARIES

December 31,

Income:	1981	1980
Initial Loan Interest (Note 15)	\$ 39,914	\$ 277,542
Partnership Organization Fees (Note 16)	474,220	331,467
Builder Fees (Notes 1 & 16)	8,960,780	3,998,136
Property Management Fee (Note 1)	972,077	499,554
Interest Income (Notes 4 & 17)	3,910,907	1,129,514
Rent Income (Note 1)	1,613,598	402,424
Miscellaneous	24,670	13,307
Loan Origination Fees (Note 18)	177,031	482,712
Commissions	111,825	16,710
Gains on Partnership Investments	22,739	428,129
Document Preparation Fees & Services	192,800	12,000
Total Income	\$16,500,561	\$7,702,000
Operating Expenses	14,258,126	6,348,000
Net Income From Operations	\$ 2,242,435	\$1,353,531
Less:		
Provision for Income Taxes—Net of Credits	\$ 1,169,038	\$ 596,348
Minority Interest in Consolidated Partnerships (Loss) (Note 1)	(164,664)	(37,313)
NET INCOME	\$ 1,238,061	\$ 794,496
Earnings Per Share of Common Stock	\$ 11.74	\$ 7.39

COMPARATIVE CONSOLIDATED BALANCE SHEET

EQUITY PROGRAMS INVESTMENT CORPORATION AND ITS SUBSIDIARIES

ASSETS	December 31,	
Current Assets:	1981	1980
Cash in Bank and On Hand (Note 2)	\$ 5,405,514	\$ 3,147,935
Accounts Receivable (Note 3)	19,434,819	5,797,626
Notes Receivable (Note 4)	21,559,219	20,986,017
Prepaid Expenses (Note 5)	681,913	152,666
Total Current Assets	\$ 47,081,465	\$ 30,084,244
Fixed Assets, Net of Depreciation (Note 6)	\$ 13,295,764	\$ 1,767,895
Other Assets:		
Capitalized Leases (Note 1)	\$ 88,509,552	\$ 47,261,000
Notes Payable—		
Capitalized Leases (Note 1)	(88,509,552)	(47,261,000)
Notes Receivable (Note 4)	1,236,450	1,487,000
Deferred Charges (Note 7)	43,664	—
Partnership Investments—Net (Note 8)	73,090	127,400
Other Assets	118,562	257,100
Total Other Assets	\$ 1,471,766	\$ 1,871,600
TOTAL ASSETS	\$ 61,848,995	\$ 33,723,740



Joseph Cunningham *Treasurer*

“The placement of EPIC’s first long-term corporate financing with Metropolitan Life Insurance Company was a major step to strengthen our balance sheet and to position the company for continued growth.”

COMPARATIVE CONSOLIDATED BALANCE SHEET (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31,	
	1981	1980
Current Liabilities:		
Accounts Payable—Trade	\$ 1,132,321	\$ 473,541
Special Payable—Partnerships (Note 9)	5,490,111	2,194,185
Accounts Payable—Partnerships (Note 9)	2,349,141	1,563,562
Accrued Salaries and Commissions Payable	1,003,242	521,078
Notes Payable—Current (Note 10)	697,995	2,076,708
Notes Payable—Warehousing Line (Note 10)	20,365,797	19,700,246
Payroll Taxes and Insurance Provision	126,941	9,024
Accrued Interest Payable	1,303,738	531,616
Income Taxes Payable (Note 11)	—	596,348
Income Taxes Deferred (Note 11)	2,181,937	490,766
Escrowed Funds (Note 12)	2,102,427	1,337,457
Loan Commitment Fees Payable	1,026,704	—
Total Current Liabilities	\$ 37,780,354	\$ 29,494,531
Other Liabilities:		
Notes Payable—10 Years (Series A & B) (Note 1)	\$ 4,000,000	\$ —
Notes Payable—Noncurrent (Note 10)	13,256,624	1,983,740
Deferred Credits (Note 13)	3,287,505	261,415
Total Other Liabilities	\$ 20,544,129	\$ 2,245,155
TOTAL LIABILITIES	\$ 58,324,483	\$ 31,739,686
Minority Interest In Consolidated Partnerships (Note 1)	\$ 426,255	\$ 23,883
Stockholders' Equity:		
Capital Stock:		
Common Stock, \$.01 Stated Value, 500,000 Shares Authorized, 107,500 Issued (Notes 1 & 14)	\$ 1,075	\$ 1,075
Contributions in Excess of Stated Value	\$ 112,275	\$ 112,275
Treasury Stock—4,000 Shares at Cost in 1981 (Note 1)	\$ (117,434)	\$ (17,434)
Retained Earnings:		
Balance, January 1,	\$ 1,864,280	\$ 1,069,784
Add: Income for the Year Ended December 31,	1,238,061	794,496
Balance, December 31,	\$ 3,102,341	\$ 1,864,280
Total Stockholders' Equity	\$ 3,098,257	\$ 1,960,196
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 61,848,995	\$ 33,723,765

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction therewith.



Andrea Clark *Property Management*

“EPIC oversees more than 4000 residential properties— with a level of management expertise and experience greater than any other residential investment firm. This day-to-day operational experience provides us the capability to expand as additional properties are added to our portfolio and enables us to meet EPIC’s commitment to serve its tenants and investors.”

COMPARATIVE CONSOLIDATED CHANGES IN FINANCIAL POSITION EQUITY PROGRAMS INVESTMENT CORPORATION AND ITS SUBSIDIARIES

	December 31,	
	1981	1980
FUNDS PROVIDED:		
Net Income	\$ 1,238,061	\$ 794,496
Add (Deduct) Items Not Requiring Current Funds:		
Income/Loss From Affiliated Partnerships	565,713	54,406
Depreciation	399,074	51,049
Amortization of Prepaid Expenses	2,718	1,947
Amortization of Discount on Subordinated Debentures	43,877	43,878
Deferred Income Taxes	1,691,171	(13,200)
Funds Provided From Operations	\$ 3,940,614	\$ 932,576
Cash Surrender Value—		
Life Insurance—Proceeds	—	15,475
Increase in Deferred Credits	3,026,090	—
Decrease in Non-Current Portion of Deferred Charges	—	13,000
Draws Received From Affiliated Partnerships	108,342	251,000
Sale of Treasury Stock	—	100,000
Consolidation of Partnership Trusts Payable	11,354,132	871,360
Net Increase in Other Non-Current Notes Payable	3,874,875	200,714
Minority Interests in Consolidated Partnerships	402,372	—
Elimination of Partnership Equity Upon Consolidation	—	114,740
Notes Payable Issued for Capitalized Leases Acquired	50,000,000	35,000,000
Reduction of Capitalized Leases for Liquidation of Notes Payable	8,751,466	13,272,039
Increase In:		
Accounts Payable—Trade	658,780	133,595
Special Payable—Partnerships	3,295,926	1,207,764
Accounts Payable—Partnerships	536,546	879,210
Accrued Salaries and Commissions	482,164	322,975
Notes Payable—Warehousing Line	665,551	13,526,960
Other Current Notes Payable	—	741,403
Payroll Taxes and Insurance Reserve	109,815	361
Accrued Interest Payable	772,122	262,442
Escrowed Funds	764,970	967,920
Income Taxes Payable	—	596,348
Deferred Commitment Fees	1,026,704	—
Decrease In:		
Non-Current Notes Receivable	250,556	—
Security Deposits	101,042	—
Officers Receivable	37,292	—
Accounts Receivable	116,250	104,460
Notes Receivable—Officer	—	46,500
Partnership Investments	—	1,517,759
TOTAL FUNDS PROVIDED	\$90,275,609	\$ 71,079,992



Roger Richard

Securities Marketing

“During 1981, 40 new partnerships were created. ESI Securities, Inc. markets partnership interests through a national network of broker-dealers.”

	December 31,	
FUNDS APPLIED:	1981	1980
Purchase of Fixed Assets	\$ 110,810	\$ 32,634
Increase in Cash Surrender Value—		
Life Insurance	2,420	3,056
Capitalized Organization Costs	—	2,024
Increase in Deposits	—	131,905
Increase in Current Notes Receivable	573,202	—
Increase in Non-Current Notes Receivable	—	1,108,279
Capitalized Leases Acquired By Issuance of Notes Payable	50,000,000	35,000,000
Reduction of Notes Payable By Liquidation of Capitalized Leases	8,751,466	13,272,039
Purchase of Treasury Stock	100,000	117,434
Capital Contributions to Affiliated Partnerships	370,683	228,725
of Acquisition of Consolidated Partnership Interests Net of Write Down of Cost Over Book Value	—	113,553
Liquidation of Partnership Rental Properties	11,816,135	998,417
Reduction of Minority Interest in Consolidated Partnerships	—	19,848
Reduction in Deferred Credits	—	104,163
Increase In:		
Investments	—	50,000
Notes Receivable	—	14,783,610
Prepaid Expenses	529,247	82,931
Partnership Accounts Receivable	10,371,742	3,411,345
Deferred Charges	43,664	—
Receivable from Employees	29,553	—
Receivable from Affiliated Entities	148,922	—
Accounts Receivable	3,195,125	—
Decrease In:		
Other Current Notes Payable	1,378,713	—
Accounts Payable Investors	—	65,938
Income Taxes Payable	596,348	—
Officer Payable	—	75,000
Total	\$88,018,030	\$69,600,901
Increase in Cash	2,257,579	1,479,091
TOTAL FUNDS APPLIED	\$90,275,609	\$71,079,992

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NOTES TO COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

1. Equity Programs Investment Corporation ("EPIC") was incorporated under the laws of the Commonwealth of Virginia on December 20, 1974. As of the balance sheet date, the following subsidiaries were wholly owned by EPIC and are consolidated in these financial statements: EPIC Mortgage, Inc., EPIC Realty Corporation, EPIC Securities, Inc., EPIC Financial, Inc., ESI Securities, Inc., Model Home Holding Corp., Tunlaw Models, Inc., Aladdin Models, Inc., Moxie Models, Inc., Sirrah Models, Inc. and Dyblof Models, Inc. EPIC is also the managing General Partner of three General Partnerships, the sole General Partner of One hundred and Forty-four Limited Partnerships, a co-general partner of Six Limited Partnerships, and agent for Seven management accounts.

EPIC's business principally involves the purchase and lease-back of builder's model homes and activities related to such purchase and leaseback, including mortgage financing, equity syndication and property management. Homes are purchased by limited partnerships of which EPIC serves as general partner. Most leases are net leases to the acquiring limited partnership. All mortgage financing obtained by the EPIC partnerships during 1981 is non-recourse to the partnership. EPIC began a program to obtain non-recourse financing on behalf of its limited partnerships in 1980. In prior years, significant contingent liability was created for the corporation when recourse mortgage financing was utilized although mortgage loan to value was typically lower in these prior transactions. Also in prior years the limited partners made initial cash capital contributions to the partnerships sufficient to refund the general partner's initial advances for property acquisition and the payment of related syndication fees. The present program involves longer term advances to the partnerships by the general partner but the limited partners are obligated to pay partnership operating expenses during the expected holding period of the properties. Syndication fees are to be recognized as income when the initial contributions to the partnership are funded by the limited partners. These future capital contribution obligations are fully recourse to the limited partners. Additional partnerships are anticipated in the future and are expected to be accomplished within this concept.

EPIC's policy toward advances to prior partnerships is to advance operating funds as required up to the fair market value less the estimated net sales costs of the property. During 1981, EPIC entered into insured non-recourse mortgage refinancing agreements with a lending institution for certain of these prior partnerships in the amount of three million dollars (\$3,000,000). These loans, which do not exceed a loan-to-value ratio of 80%, are used to repay general partner advances and in some cases provide up to one year working capital for the partnership.

During the life of the partnership, EPIC, as general partner, manages the partnership affairs and, ultimately, arranges for disposition of the homes upon termination of the lease. EPIC participates in operating profits and losses of the partnerships to the extent of its ownership which ranges from a 1% to 5% interest. In addition, EPIC shares in 25% to 50% of the difference

between the net selling price of the property and the gross purchase price of the property plus front end capitalized costs, as available after a return to each limited partner of his original capital contribution plus a varying cumulative return on original capital contribution.

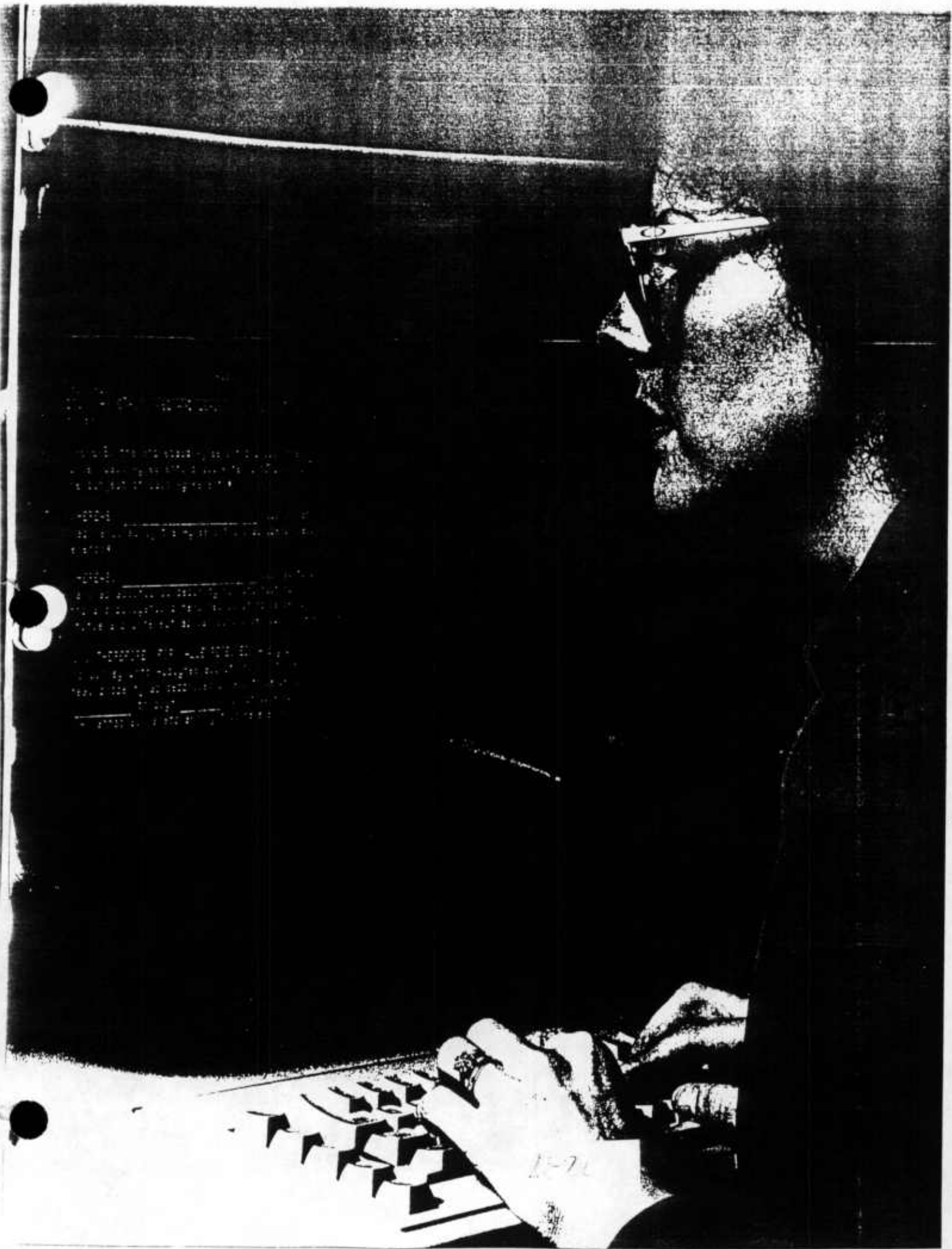
The consolidated financial statements include the accounts of the corporation, all its subsidiaries, and partnerships which EPIC holds approximately fifty percent or more in interest. Partnerships are not consolidated during the syndication period. Material intercompany accounts and transactions have been eliminated. The investments in unconsolidated partnerships are stated at equity in net assets of such partnerships, except during the first six months of syndication.

Certain subsidiaries have been formed to enter into purchase and leaseback financing transactions with U. S. Home Corporation. EPIC has none of the rights of ownership associated with these properties. Its obligations are recourse only to the extent that EPIC must deliver its ownership interests in each subsidiary to the lending institution in order to void its guaranty. EPIC derives interest income from these operations for its administrative efforts. The operations of these subsidiaries are reflected as a financial arrangement in accordance with Statement Number 13 of the Financial Accounting Standards Board. The fair market value of each lease is considered to equal the outstanding loan balance.

In December 1981 EPIC, as a general partner, entered into six limited partnerships with U. S. Home Corporation, as co-general partner. These partnerships purchased 395 single family residential housing units from U. S. Home Corporation for an aggregate purchase price of \$24,193,000. Under the partnership agreements U. S. Home Equity Corporation is obligated to advance certain operating cash flow deficits to the partnerships which obligation is guaranteed by U. S. Home Corporation. The housing units purchased are to be leased to individual tenants for residential use. EPIC was paid a fee of \$1,783,383 of which \$713,980 has been deferred until the limited partnership interests are syndicated.

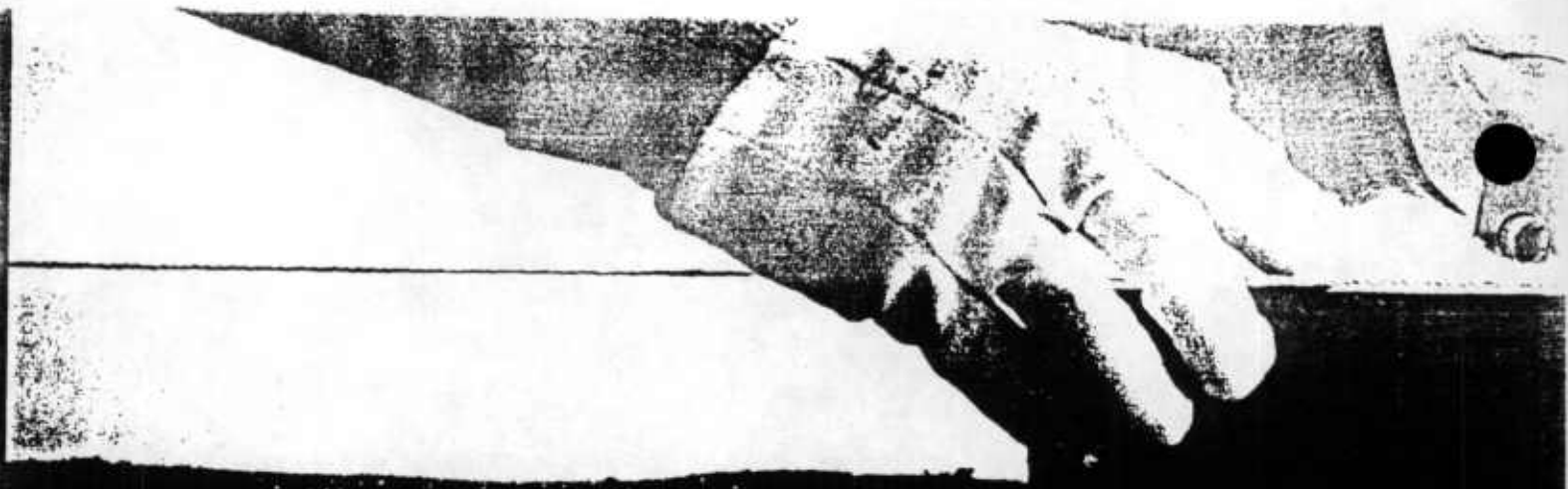
EPIC's policy is to effect the purchase of homes, by its partnerships, prior to syndication of the partnership interests. Consequently, EPIC has varying percentages of ownership in the partnerships at various times. EPIC has also acquired additional ownership in the partnerships as a limited partner by purchasing or exchanging interests in prior partnerships. Certain partnerships, of which EPIC owns up to one hundred percent, are consolidated within the EPIC statement for the current year. The accounting for purchase of previously syndicated partnership interests is treated differently from pre-syndicated interest because of the intent and historical experience of the corporation.

Because of the nature of the business, the assets and liabilities of EPIC partnerships, with EPIC as the sole general partner, are not included in the balance sheet of EPIC, but rather in the financial statements of the individual "partnerships". These accounting principles are based on the "going concern" concept



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NOTES (CONTINUED)

which is predicated on intent and EPIC's past experience of successfully syndicating partnership interest. The fees which EPIC earns from builders are recognized as income when the builder has consummated the purchase and leaseback arrangement with the EPIC partnership(s) but prior to partnership syndication.

The corporation is liable for the organization and administrative expenses of creating the partnerships for which EPIC receives a fee equal to from 2% to 5% of the limited partners' capital contributions. EPIC also is entitled to a property administration fee of (i) 2.5% to 5.0% of gross rental income, (ii) in certain cases the fee is based on the carrying value of the partnership properties or (iii) a monthly fee per unit. In some instances, this property administration fee is subordinated to the partners' varying cumulative annual return on capital contributed and/or to the return of invested capital to the limited partners.

No limited partner is personally liable for any of the debts of the partnerships or any of the losses thereof beyond his capital contributions in cash or notes, plus undistributed profits of the partnerships. If the remaining assets of the partnerships are not sufficient to pay the then outstanding liabilities, the general partner is liable for the debts of the partnership.

EPIC contributes cash equal to 1% of the partnership capital as payment for its 1% interest in the partnership.

RELATED PARTY TRANSACTIONS:

Cavalier Oil Corporation, which is involved in oil and gas exploration and drilling principally in the State of Ohio is controlled by an officer and director of EPIC. During 1980 Cavalier Oil issued one-third of its issued and outstanding stock to EPIC in return for the cancellation of a \$50,000 note due EPIC.

During 1981, EPIC entered into leasing arrangements with a limited partnership which is controlled by the majority stockholders of EPIC. These month to month leases are for the use of office furniture, equipment, and vehicles at what are considered fair market rental rates. It is anticipated that the corporation will enter into additional non-capitalized lease rental commitments with this or other similar entities.

During 1981, certain limited partnerships of which EPIC serves as the General Partner and which include officers or employees of EPIC as limited partners have in some instances not been charged with certain fees (i.e., syndication fees and broker dealer commissions) which are normally charged to the partnerships.

In carrying out obligations under employment agreements with certain officers, the corporation created a trust to guaranty various indemnifications. The indemnity trust was funded by assignment of certain prior office space which is subleased to a tenant at the rate of \$16,172 per month versus an approximate cost of \$12,465 per month. Absent any claims against the trust, all net proceeds are paid to EPIC Realty Corporation as a management fee.

OPTION TO REPURCHASE STOCK:

During 1980 EPIC initiated litigation against certain former officers and employees and a shareholder for breaches of various employment and non-competition agreements and other obligations. The defendants in turn filed defenses and counterclaims. In June, 1981 that litigation was settled. EPIC purchased from the shareholder 4,000 shares of stock for the sum of \$100,000 and has an option to purchase the shareholder's remaining interest of 29,000 shares. These shares are under an escrow option price of \$400,000 which may be exercised at any time prior June 15, 1982. In conjunction with the settlement, all suits have been dismissed with prejudice except a dissolution suit which was brought by the selling shareholder. That suit has been rendered inactive in connection with the overall settlement and is to be dismissed with prejudice upon EPIC's exercise of its option to purchase the remaining 29,000 shares. In the opinion of coun-

sel and management the dissolution suit is, and remains, without merit or substance regardless of the purchase of the remaining shares.

OFFICE LEASE:

On March 1, 1981, the corporation entered into a lease for new office space. The lease is for a period of five years and one month with minimum aggregate rentals of \$1,968,700 payable in monthly installments of \$17,520. The lease contains an option to renew for an additional five year period with monthly payments of \$19,541 and clauses requiring EPIC, as tenant, to pay increases in real estate taxes and operating expenses. In December of 1981 the Corporation entered into an additional lease for office space. The Lease is for a one year period with a minimum aggregate rental of \$24,102, which is payable in monthly installments of \$2,008.50.

SIGNIFICANT LOAN TRANSACTION:

During 1981 EPIC entered into a Four Million Dollar Loan transaction with Metropolitan Life Insurance Company. The purpose was to acquire long-term unsecured working capital and the proceeds thereof are to be used for (i) payment of current indebtedness, (ii) exercise of the option to purchase EPIC stock held by a former employee and (iii) general working capital purposes. The loan is evidenced by two notes designated Series A and Series B. The principal amount of Series A is \$2,800,000, bears interest of 15½% per annum, is due November 24, 1991, and has principal payments beginning in 1985. Series B is for \$1,200,000, bears interest of 14% per annum, is due November 24, 1991, and is convertible at an initial price of \$48 per share to EPIC common stock. Stock is required to be reserved for conversion. Each note contains provisions requiring pledges and security on the occurrence of specified events. Even though the loan is unsecured it may become collateralized by assets of EPIC and control (by pledge or voting rights) of a majority of the shares of common stock of EPIC in the event of default or EPIC fails to meet certain financial tests. These events provide a time for remedy. Either note may be prepaid upon the occurrence of specified events. The associated prepayment penalties thereon diminish over time. The Series A note contains principal curtailment requirements as follows: \$350,000 in 1985 and 1986; \$400,000 in 1987 and 1988; and \$500,000 in 1989 and 1990.

CASH IN BANKS:

2. As of the balance sheet date, \$837,691 was in restricted accounts. \$810,530 of this amount is reflected in accrued interest payable which relates to capitalized leases and was subsequently paid. Included is \$2,413,422 of escrowed funds which are to be applied to the Escrow Funds Liability for Mortgages. There is also a compensating balance requirement of \$1,649,157 on loans.

This escrowed cash is classified as current due to the matching principle because the related liabilities are also classified as current. 1980—\$371,535 was restricted and \$1,329,800 escrowed.

RECEIVABLES:

3. Accounts Receivable consists of the following:

Agency Receivable from associated partnerships \$15,519,922; Receivable from unfunded settlements of \$2,630,550, which were received subsequent to year end; accrued interest on notes receivable \$1,044,068 and other receivables from affiliates of \$240,279. Management considers these notes receivable to be fully collectible and no allowance is provided. The majority of Agency Receivables are pledged to secure loans. 1980—\$5,148,180 receivable from associated partnerships; \$410,733— from unfunded settlements; \$90,697—accrued interest receivable; \$148,016 other affiliated receivables.

4. Secured notes amount to \$22,788,139 and unsecured are \$7,530. Management considers these notes receivables to be fully collectible and no allowance is provided. The majority of the notes are secured by partnership property and are pledged as

security on loans. The notes bear interest of 8 to 21 percent. 1980 secured \$22,360,881, unsecured \$112,142. During 1981, a of \$8,581 was deemed uncollectable and was expensed.

AID EXPENSES:

Expenses includes the prepayment of loan origination s, insurance, commissions and others.

FIXED ASSETS:

6. Depreciation Policies: Office furniture and equipment is being depreciated over a seven year period, automobiles over three years, leasehold improvements over five years, and the consolidated partnership model homes over thirty years. All assets are being depreciated by the straight line method.

Depreciation	Cost	
	1981	1980
Office Furniture and Equipment	\$ 75,449	\$ 62,003
Vehicles	31,471	31,471
Leasehold Improvements	163,157	65,792
Model Homes, Including Land	11,596,144	1,780,010
	\$13,866,221	\$1,939,276
Less: Accumulated Depreciation	570,457	171,383
Book Value	\$13,295,764	\$1,767,893

Office Furniture and Equipment and Vehicles not reflected on the balance sheet are being leased on a month-to-month basis from a related party. The Model Homes are stated at the original purchase price to the partnership from the builder.

DEFERRED CHARGES:

7. Deferred charges represent Realty Commission on vacated office space which is being amortized over the five year life of the lease.

PARTNERSHIP INVESTMENTS:

8. It is the policy of EPIC to suspend the equity method of during the normal syndication period, which is ed to be six months. The equity method of accounting for nership investments is applied during the syndication period their intended percentage of ownership. The non-current Partnership Investments represent EPIC's equity ownership of associated partnerships which is not intended to be sold. It is corporate policy to only recognize the partnership's disposition gains after a substantial portion of the partnership's assets have been sold. Partnership losses are recorded as they occur. An allowance to provide for possible future partnership losses calculated on the equity basis of the non-current portion at the balance sheet date is reflected to reduce the investments to estimated net realizable value.

PAYABLES TO ASSOCIATED PARTNERSHIPS:

9. EPIC serves as agent for associated partnerships. The Special Payable consists of Security Deposits and Completion Escrows made by the builder/lessees to the partnership lessors. The Accounts Payable—Partnerships is the net of cash received and disbursed on behalf of the associated partnerships. Refer to Note 3 for receivables from partnerships.

NOTES PAYABLE:

10.	Interest Rates	Balance	
		1981	1980
Unsecured Notes	12% to 19%	\$ 180,000	\$ 1,127,000
(A) Warehousing Lines	15.75% to 2% Over Prime	20,365,797	19,700,246
Associated Partnerships			
Model Homes		12,832,106	1,440,850
(B) Subordinated			
Debentures	15.03% to 24.17%	424,518	380,610
Other Various Notes	0% to 2% Over Prime	517,995	1,111,958
		\$34,320,416	\$23,760,694
Non-Current Portion	None to 15.5%	13,256,624	1,983,710
Current Notes Payable		\$21,063,792	\$21,776,954

(A) In 1981, the Corporation entered into separate arrangements with a number of banks providing for loan warehousing lines of credit totaling \$41,875,000 at interest rates up to 2 percent above the prime rate. The loans carry commitment fees of up to

2 percent of borrowings. The loans are secured by first mortgages on property. In consideration of the above credit, several banks require compensating balances equal to 10 percent of the commitment and 10 percent of the outstanding usage or pay a fee for deficiencies. The undrawn lines of credit available at December 31, 1981 and 1980 were \$11,125,232 and \$5,655,381, respectively.

(B) During 1979, an offer was tendered to the limited partners of five associated limited partnerships. The offers were accepted by most of the limited partners which resulted in EPIC receiving the ownership of their partnership interests and, therefore, the majority ownership of five associated partnerships of which three were liquidated during 1980. This transaction was effectuated by EPIC's obligation to pay the limited partners either by cash or subordinated debenture bonds. The bonds payable are reflected in the Notes Payable balance. The bonds bear annual interest of 15.03 to 24.17 percent which is currently payable and/or accrued to maturity. The bonds mature December 31, 1983, and June 30, 1984. As of the balance sheet date, the maturity value was \$515,995, offset by \$91,477 of unamortized discount, which results in a book carrying value of \$424,518. The discount is being amortized on a straight line basis as interest expense over the life of the bonds at \$43,878 per annum.

INCOME TAXES:

11. Income Taxes Payable reflects the amount which would be due based on the financial profit, whereas the deferred income taxes are the computed taxes based on the financial statement retained earnings at tax rates prevailing during the years earned, reduced by the current taxes payable. The principal difference between tax basis income and financial basis is due to timing differences in recognition of income and recognition of partnership losses. The tax return basis does not recognize income as taxable when the funding of settlements was subsequent to year end. (Refer to Note 3). Credits against income have been netted against the income tax expense of the year(s) affected.

ESCROWED FUNDS:

12. EPIC Mortgage as servicing agent received tax, insurance and homeowner dues escrow payments which are held for the appropriate payment therefrom or forwarding to the permanent lender(s). (Refer to Note 2 for Funding.)

DEFERRED CREDITS:

13. Deferred Credits consist of unrealized income for partnership organization fees on unsyndicated portions of limited partnership equity, commitment fees on unsettled loans and unrecognized builder fees.

CAPITAL STOCK:

14. The authorized stock consists of 500,000 common shares with a \$.01 stated value. An officer owns the majority of the 107,500 common shares issued as of December 31, 1981.

INCOME:

15. Partnerships pay interest to EPIC for funds advanced on their behalf to purchase rental properties. The interest rate is equivalent to the estimated cash flow percentage in the offering memorandums.

16. Partnership Organization Fees are paid by the limited partners for services performed by EPIC in creating the investments and partnerships. Partnership Organization Fees have been netted against the related out-of-house costs incurred in the syndication of partnership interests. The builder's fees are paid by the selling builders for EPIC arranging the sale and leaseback of their property.

17. The Interest Income and Expenses pertaining to the financing arrangement of the capitalized lease referred to in Note One have been combined to reflect the net earnings thereon.

18. Loan Origination Fees are the fees charged to secure mortgages for the partnerships. This fee has been offset by the Loan Origination Fees paid to obtain these mortgages.

THE ORGANIZATION

EPIC acquires real estate, finances it and raises equity capital through the sale of securities. The Company is organized into six departments to accomplish and manage its business.

The acquisition process begins with the identification of major metropolitan markets which historically have had strong housing starts and better than average rates of appreciation. During 1981, EPIC had eleven strategically placed offices across the country. EPIC's field representatives seek out and evaluate potentially good real estate in the form of builders' model homes. Builders' applications to have models purchased are analyzed and from the point of initial submission to approval and closing by the Realty Acquisitions Department.

Interim and permanent financing for property acquisitions is arranged by EPIC's mortgage banking subsidiary working with lenders across the country. EPIC Mortgage, Inc. places and services short-term, high yielding mortgages with thrift institutions as well as with other nontraditional suppliers of mortgage credit.

EPIC Mortgage services the loans it places and is prepared to handle the financing requirements of the individual purchasers of homes resold from EPIC partnerships. EPIC Mortgage was the first lender in the country to issue a mortgage backed security on non-owner occupied real estate rated by Standard and Poor's. EPIC Mortgage now services a portfolio of \$212 million. During 1981, EPIC Mortgage was authorized to underwrite

FHA, VA and FNMA loans, which enables the Company to handle the resale financing requirements of EPIC homes.

Model homes are purchased and financed on behalf of limited partnerships which are then syndicated to provide investors favorable tax advantages and potential for appreciation. Equity interests in the partnerships are sold to individual investors through securities broker-dealers across the country.

The administrative area of the corporation is divided into two main categories: corporate operations and partnership administration. The former follows traditional organizational lines and includes accounting, personnel, and office services. The partnership administration group has the responsibility of managing EPIC real estate investments and partnerships from the time of acquisition of the property to its ultimate sale to a third party purchaser. Its duties encompass the accounting and reporting for EPIC's 160 partnerships, the property management of over 4,000 EPIC properties, and the administration of the resale of each property.

The legal group provides tax, securities, real estate and mortgage counsel to EPIC's operating departments and to its partnerships, including the preparation of loan documentation. Private placement offering memoranda are prepared by the legal group which is also responsible for registration and compliance with the securities laws of the various states in which the Company operates.

REPRESENTATIVES

M

H

A

L

I

K

J

B

F

G

E

C
D



1825



A Charles S. Kipp, Jr.
Madison, Connecticut
EPC Financial, Inc.



B Frederick M. Dowser
Mid Atlantic
Acquisitions



C Thomas R. Granyville
Orlando, Florida
Acquisitions



D Michael De Mingo
Ft. Lauderdale, Florida
Acquisitions



E Gaylord Wilson
New Orleans, Louisiana
Acquisitions



F Lester D. Young
Dallas, Texas
Acquisitions



F William F. Boone
Dallas, Texas
Acquisitions



G John A. Donnelly
Houston, Texas
Acquisitions



G Thomas H. Bayne
Houston, Texas
Acquisitions



H Walter Jankowski
Chicago, Illinois
Acquisitions



H Kathleen A. Carlson
Chicago, Illinois
Securities



I Thomas A. Wood
Denver, Colorado
Acquisitions



J David P. Edsall
San Diego, California
Acquisitions



L Robert Moynihan
Irvine, California
Securities



M James L. Couch
Seattle, Washington
Acquisitions



EXECUTIVE COMMITTEE

Tom J. Billman

President

Clayton C. McCuiston

Senior Vice President

James B. Deerin, Jr.

*Vice President and General Counsel***OFFICERS**

Tom J. Billman

President

Clayton C. McCuiston

Senior Vice President

James B. Deerin, Jr.

Vice President and General Counsel

Leonard Meltz, Jr.

*Vice President, Mortgage**President, EPIC Mortgage, Inc.*

Joel H. Bernstein

*Vice President, Securities**President, ESI Securities, Inc.*

Walter R. Frazier

Vice President, Realty Acquisitions

Eugene S. Isaacs

Vice President, Administration

Barbara A. McKinney

*Corporate Secretary and**Deputy General Counsel*

Joseph Cunningham

Treasurer

Larry J. Mathias

*Controller***INDEPENDENT AUDITOR**

James C. Jones, C.P.A.

*Annandale, Virginia***NATIONWIDE OFFICES**

Madison, Connecticut

Charles S. Kipp, Jr.

Ft. Lauderdale, Florida

Michael De Minico

Orlando, Florida

Thomas R. Granville

Mid Atlantic

Frederick M. Dower

Chicago, Illinois

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Dallas, Texas

*Lester D. Young**William F. Boone*

Houston, Texas

*John A. Donnelly**Thomas H. Sawyer*

New Orleans, Louisiana

Gaylord Wilson

Denver, Colorado

Thomas A. Wood

Phoenix, Arizona

Sharon L. Metzler

San Diego, California

*Joseph Lenberg**David E. Edsall*

Irvine, California

Robert Moynihan

Seattle, Washington

*James L. Cooch***CORPORATE OFFICES**

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(703) 931-7600

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PERIODIC PERFORMANCE REPORT
 MARYLAND SAVINGS-SHARE INSURANCE CORPORATION/
 DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

Association 10 Community Savings & Loan Report for Period Ended 20 December 31, 1982
 Fiscal Year End 30 March 31 Reporting Period 40 Monthly 45 Quarterly

General Information

Accounting Method CASH 50 ACCRUAL 60 OTHER 70
 Service Corporations (number approved) 80 # 1
 Number of all Employees (full-time equivalent) 90 # 40
 Number of Savings Accounts 100 # 18,908
 Number of Mortgage Accounts 110 # 2,102

Savings and Mortgage Activity (For Current Month/Quarter)

a) Savings Receipts	120	\$	<u>47,084,954</u>	d) Dividends Credited	150	\$	<u>1,236,308</u>
b) Savings Withdrawals	130	\$	<u>35,990,558</u>	e) Mortgage Loans Made	160	\$	<u>27,583,509</u>
c) Net Savings	140	\$	<u>11,094,396</u>	f) Mortgage Loan	170	\$	<u>2,120,689</u>
				Repayment (PIE)			
Slow Consumer Loans (per Division Regulation .49D)	180	\$	<u>-0-</u>				
Delinquent Mortgage Loans (per Division Regulation .01 G)	190	\$	<u>-0-</u>				
Loans-In-Foreclosure	200	\$	<u>-0-</u>				

(Do not double count delinquent accounts as foreclosure or vice-versa)

Total Lines of Credit Unused	210	\$	<u>4,250,000</u>
Earliest Bank Line Expiration Date (month/year)	220		<u>1-83</u>
Mortgage Loan Commitments	230	\$	<u>8,433,250</u>
Other Commitments (Futures, Forwards, etc.)	240	\$	<u>-0-</u>
Savings Accounts in excess of \$100,000 per account (report only the excess over \$100,000 for each account)	250	\$	<u>2,868,793</u>

Total Savings Accounts:

1) With Other Assns.	260	\$	<u>4,100,000</u>	Current Balances of:	
2) From Other Assns.	270	\$	<u>2,000,000</u>	IRA and Keogh	
3) With Banks	280	\$	<u>-0-</u>	Accounts	300
4) From Banks	290	\$	<u>-0-</u>	All Savers Certificates	310
					\$
					<u>1,108,419</u>
					<u>1,017,048</u>

Dividends Paid on Capital Stock from:

Retained Earnings	320	\$	<u>-0-</u>
Current Earnings	330	\$	<u>-0-</u>

Other Adjustments to Retained Earnings	340	\$	<u>-0-</u>
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Savings Hypothecated for Net Worth or Expense Funds:

With MSSIC	350	\$	<u>-0-</u>
With Division	360	\$	<u>-0-</u>

III D 8 (cont'd)



Prepared by 370 Stephen E. Topper
 Date 380 1/10/83 Telephone 390 948-8800
 Approved by 400 Michael Shomper
 Title 410 Vice President

For Internal Use Only

Association Number 420 _____ IIID8 _____

ASSETS

MORTGAGE LOANS:

Residential-Owner Occupied	430	\$	<u>39,752,143</u>
Residential-Non Owner Occupied	440	\$	<u>59,188,717</u>
Construction-Residential	450	\$	<u>1,942,000</u>
Construction-Commercial	460	\$	<u>-0-</u>
Commercial	470	\$	<u>1,342,562</u>
Land and Land Development	480	\$	<u>-0-</u>
Second Mortgage Loans (including wrap-arounds, etc.)	490	\$	<u>-0-</u>
Total Mortgage Loans	500	\$	<u>102,225,422</u>

CONSUMER LOANS:

Open End	510	\$	<u>25</u>
Closed End-Unsecured	520	\$	<u>233,751</u>
Closed End-Secured	530	\$	<u>217,695</u>
Less: Consumer Loan Loss Reserve (Division Regulation .49E)	540	\$	<u>(1,530)</u>
Total Consumer Loans	550	\$	<u>449,941</u>

OTHER LOANS:

Loans on Savings Accounts	560	\$	<u>617,621</u>
Other (i.e. Education, Mobile Homes, etc.)	570	\$	<u>-0-</u>
Total Other Loans	580	\$	<u>617,621</u>
Total Loans	590	\$	<u>103,292,984</u>

INVESTMENTS:

	% Market Value		% Pledged		
Cash and Federal Funds				600	\$ <u>13,729,904</u>
U.S. Govt. Securities 610	<u>100% +</u> %	620	<u>-0-</u> %	630	\$ <u>300,000</u>
Bankers' Acceptances		640	<u>-0-</u> %	650	\$ <u>-0-</u>
Certificates of Deposit		660	<u>-0-</u> %	670	\$ <u>4,130,586</u>
GNMA's	<u>-0-</u> %	690	<u>-0-</u> %	700	\$ <u>-0-</u>
Capital Note (MSSIC)				710	\$ <u>-0-</u>
Other Investments	<u>-0-</u> %	730	<u>-0-</u> %	740	\$ <u>650,271</u>
Total Investments				750	\$ <u>18,810,761</u>

OTHER ASSETS:

MSSIC Capital Deposit	760	\$	<u>1,415,600</u>
MSSIC Central Reserve Fund	770	\$	<u>549,600</u>
MSSIC Special Deposit (as may be required)	780	\$	<u>-0-</u>
Real Estate Owned/Sold on Contract (exclusive of office bldg.)	790	\$	<u>125,189</u>
Fixed Assets (Net of Depreciation)	800	\$	<u>282,335</u>
Deferred Expenses	810	\$	<u>184,089</u>
Deferred Losses	815	\$	<u>-0-</u>
Other Assets: Income Producing	820	\$	<u>-0-</u>
Other Assets: Non-Income Producing	830	\$	<u>1,222,375</u>
Other Assets: Goodwill	840	\$	<u>3,660,906</u>
Total Other Assets	850	\$	<u>7,440,094</u>
Total Assets	860	\$	<u>129,543,839</u>

LIABILITIES

SAVINGS ACCOUNTS:

Passbook and Other Demand Accounts	870	\$	<u>8,944,966</u>
Regular NOW Accounts	880	\$	<u>1,085,954</u>
Variable Rate NOW/Savings Accounts	890	\$	<u>81,266,215</u>
Money Market C/D's (tied to T-Bill Rates)	900	\$	<u>8,782,072</u>
Jumbo Certificates (minimum denomination \$100,000)	910	\$	<u>8,503,021</u>
Other Certificates	920	\$	<u>11,420,821</u>
Total Savings	930	\$	<u>120,003,049</u>
Mortgagor's Escrow Accounts	940	\$	<u>500,542</u>

BORROWED MONEY:

Reverse Repos	950	\$	<u>-0-</u>
Bank - Unsecured	960	\$	<u>-0-</u>
Bank - Secured	970	\$	<u>-0-</u>
Other	980	\$	<u>-0-</u>
Total Borrowed Money	990	\$	<u>-0-</u>

Loans in Process	1000	\$	<u>514,129</u>
Other Liabilities	1010	\$	<u>527,459</u>
Deferred Income	1020	\$	<u>4,553,229</u>
Deferred Fees	1025	\$	<u>46,618</u>
Subordinated Debt	1030	\$	<u>2,178,571</u>
Total Liabilities	1040	\$	<u>7,820,006</u>

128,323,597

NET WORTH:

Retained Earnings - Appropriated (i.e. Restricted Reserve Accounts)	1050	\$	<u>462,083</u>
Retained Earnings - Unappropriated (i.e. Earned Surplus)	1060	\$	<u>(538,379)</u>
Capital Stock	1070	\$	<u>725,000</u>
Paid-in-Surplus (from sale of Capital Stock)	1080	\$	<u>275,000</u>
Current Net Earnings/(Loss) (from line 1330)	1090	\$	<u>296,538</u>
Total Net Worth	1100	\$	<u>1,220,242</u>

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QUAL Total Liabilities and Net Worth	1110	\$	<u>129,543,839</u>
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YEAR TO DATE STATEMENT OF INCOME AND EXPENSES

INCOME:

Interest on Mortgage Loans	1120	\$	<u>4,661,308</u>
Interest on Consumer Loans	1130	\$	<u>26,103</u>
Interest on Other Loans	1140	\$	<u>42,809</u>
Interest on Investments/Securities	1150	\$	<u>1,508,174</u>
Loan/Commitment Fees	1160	\$	<u>1,155,472</u>
Other Operating Income	1170	\$	<u>142,308</u>
Other Non-Operating Income	1180	\$	<u>-0-</u>
Amortized Deferred Income	1185	\$	<u>431,543</u>
Total Income	1190	\$	<u><u>8,167,717</u></u>

EXPENSES (COST OF MONEY):

Interest Paid on Borrowings	1200	\$	<u>68,505</u>
Interest on Mortgagors' Escrow Accounts	1210	\$	<u>31,848</u>
Dividends Paid on Savings (through period ended 12/31)	1220	\$	<u>5,950,029</u>
Dividend Paid on Jumbo C/D's (minimum denomination \$100,000)	1230	\$	<u>285,233</u>
Total Cost of Money	1240	\$	<u><u>6,335,615</u></u>

EXPENSES (GENERAL AND ADMINISTRATIVE):

Compensation and Benefits (Officers, Directors, employees)	1250	\$	<u>498,646</u>
Occupancy	1260	\$	<u>205,803</u>
Advertising	1270	\$	<u>322,802</u>
Other General and Administrative	1280	\$	<u>542,068</u>
Non-Operating Expenses	1290	\$	<u>114,595</u>
Amortized Deferred Losses	1295	\$	<u>-0-</u>
Total General and Administrative Expenses	1300	\$	<u><u>1,683,914</u></u>

Income Taxes Paid (Credit)	1310	\$	<u>2,650</u>
Booked Service Corporation: Net Income/(Loss)	1320	\$	<u>150,000</u>

CURRENT NET EARNINGS/(LOSS)	1330	\$	<u><u>296,538</u></u>
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ADJUSTMENTS TO CURRENT NET EARNINGS

Estimated Service Corporation: Net Income/(Loss) (not included above)	1340	\$	<u>-0-</u>
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(The following should be completed by all associations not on complete accrual accounting basis)

CURRENT NET EARNINGS (from line 1330)	1350	\$	<u>-0-</u>
Estimated Income (all sources) Earned and Not Reported Above	1360	\$	<u>-0-</u>
Estimated General and Administrative Expenses-Incurred and Not Reported Above	1370	\$	<u>-0-</u>
Estimated Interest Expense (all sources)-Incurred and Not Reported Above	1380	\$	<u>-0-</u>
Estimated Dividend Expenses-Incurred and Not Reported Above	1390	\$	<u>-0-</u>
Estimated Income Taxes-Incurred and Not Reported Above	1400	\$	<u>-0-</u>

ADJUSTED CURRENT NET EARNINGS/(LOSS)	1410	\$	<u><u>-0-</u></u>
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LAW OFFICES
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ROCKVILLE, MARYLAND 20850

OF COUNSEL
ROBERT N. LEVIN

January 4, 1983

Charles H. Brown, Jr., Director
Division of Savings and Loan
Associations
The American Building
7th Floor, 231 E. Baltimore Street
Baltimore, Maryland 21202

RECEIVED
DEPT. OF LIC. & REG.
DIV. OF BLDG. SAV & LOAN ASSN

JAN 4 1983

H.D.

Re: Community Savings and Loan, Inc.

Dear Mr. Brown:

Reference is made to the above captioned association. Community Savings and Loan, Inc. ("Community") proposes to acquire, as a service corporation, Equity Programs Investment Corporation ("EPIC"). The activities engaged in by EPIC at the present time are many and varied but, in our judgment, comply with the pre-approved activities list for savings and loan service corporations as set forth in the Code of Maryland Regulations.

We will shortly be filing with you the details of the acquisition. However, we would like to advise you that the principal owners of EPIC are, in fact, donating their interests in the company to Community in return for preferred stock of the association. Since the owners of EPIC are also the owners of Crysopt, Inc., the company which indirectly owns Community, there will be no change in ownership of the Association and no dilution of existing stockholder interest in the association. The use of preferred stock is necessitated by various tax and accounting considerations.

We believe the acquisition will enable Community to be a more profitable association and will give it the means to support growth and serve its market area to an even greater extent than it does at the present time.

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Charles H. Brown, Jr., Director

January 4, 1983

Page Two

Due to the various business plans of both EPIC and Community, it is necessary that the acquisition, if possible, be considered by the Board of Commissioners at its next regularly scheduled meeting on January 13, 1983. As indicated previously, the approval of the Board of Commissioners is necessitated by the service corporation regulations, in that Community would be engaging in new service corporation activities not yet approved for this association.

We would be pleased to discuss the matter with you at your convenience.

Thank you for your consideration of this matter.

Very truly yours,



Robert L. Freedman

RLF/mmo

cc: John D. Faulkner, President
Community Savings and Loan, Inc.

Thomas J. Billman, President
Equity Programs Investment
Corporation

COMMUNITY

SAVINGS & LOAN

January 18, 1983

Mr. Charles Brown, Director
Division of Savings and Loan Associations
231 East Baltimore Street
7th Floor
Baltimore, Maryland 21202

Dear Mr. Brown:

This letter will serve as our notice to the Division of Savings and Loan Associations (the "Division") and the Board of Savings and Loan Commissioners (the "Board") of the intention of Community Savings & Loan Service Corporation ("Community Savings Corporation"), a wholly owned service corporation of Community Savings & Loan, Inc. ("CS&L"), to merge with Equity Programs Investment Corporation ("EPIC"), a Virginia corporation, by means of an exchange of shares of EPIC for shares of preferred stock of CS&L. This notice and request for approval is being provided to you pursuant to COMAR 09.05.01.34. *we need change*

The following is a brief description of the pertinent factors:

THE TRANSACTION

EPIC will be transferred to CS&L by means of a merger of EPIC into Community Service Corporation. The surviving entity (i.e., the service corporation) will be a Maryland corporation with the name changed to Equity Programs Investment Corporation. Except as discussed below, the outstanding shares of EPIC common stock will be exchanged for shares of preferred stock of CS&L with the ratio based upon the book value of the EPIC stock as of 12/31/82. There are three minor EPIC stockholders who in the aggregate own less than 5% of the issued and outstanding stock of EPIC. The EPIC stock owned by those minor stockholders may be purchased for cash by Community Service Corporation or CS&L prior to the merger. We would emphasize that the controlling stockholders of EPIC will receive no cash in the merger but rather are utilizing the merger as a means of contributing EPIC to CS&L without adverse tax consequences.

The end result of the merger will be that EPIC will be 100% owned by CS&L as a service corporation and the existing stockholders of EPIC will in turn hold equivalent shares of preferred stock of CS&L.

1834

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Mr. Charles Brown, Director
January 18, 1983

Page 2

The terms of the preferred shares of CS&L to be exchanged are as follows:

Designation: Series "A," Par Value \$0.10 per Share
Dividends: 8.8% per annum payable from surplus/earnings and non-cumulative
Redemption Price: \$250 per share *figure pulled out of air (arbitrary)*
Redemption: 15 years *from 1983 until 1998*
Exchange Ratio: 5.46 shares of EPIC stock for each share of CS&L preferred stock (this figure is subject to adjustment upon finalization of the 1982 audit of EPIC)

NOTE: Amended Articles of Incorporation and By Laws for CS&L are submitted in appendix "A" for approval which provide for preferred stock.

FINANCIAL PICTURE

Using financial operating results as of 12/31/82 an entity composed of Community Savings and Loan and EPIC, in the form of combination proposed above, would have an asset base of approximately \$200 million, which includes savings of about \$120 million. Combined, GAAP basis, net worth would total to approximately \$6 million and net worth for regulatory purposes would be in excess of \$8.3 million. The combined entity would be generating net after-tax earnings of approximately \$400,000 per month which would enable it to exceed standards for regulatory compliance while maintaining reasonable growth objectives.

Specific financial results and projections on Community and EPIC are provided in the attachments.

OPERATIONS PICTURE

Operations of a successful savings and loan today require a complex matching of assets and liabilities by attracting a flow of deposits in rapidly changing savings environment and prudently investing these funds to generate sufficient revenues to cover the costs of these funds and build hard net worth to support the financial viability of the association.

In the past, Community has been innovative in creating vehicles for attracting a flow of depositors' funds and has

been conservative and prudent in their its investment of those funds. Our future plans anticipate continuing these practices and complementing them as follows:

On the liability side, we expect to be able to increase the Daily Money Accounts through the use of the national securities broker/dealer network of the service corporation and thereby remove our dependency on the highly-competitive local advertising environment. This will provide us a more stable flow of deposits at a lower cost. ESI Securities, Inc. is a wholly owned subsidiary of EPIC acting as a broker/dealer in connection with the sale of EPIC sponsored limited partnership interests. ESI Securities is an NASD licensed broker/dealer.

On the asset side, we will be able to augment Community's local loan activity by providing it access through EPIC's national exposure to a controlled stream of safe, high yielding financial instruments for its retention or sale to other institutions. One of the hardest things for a savings and loan to do in the present market is invest its funds profitably and safely. EPIC Mortgage, Inc. is a wholly owned subsidiary of EPIC and serves as the mortgage banking are of EPIC. EPIC Mortgage is an FHA/VA approved mortgagee and is an approved seller-servicer for both FHLMC and FNMA.

Basically, EPIC will continue to function as it has in the past, providing the Association with significant earnings, profits and growth. EPIC has been successful in times when savings and loans can normally operate profitably, but more importantly, it is able to earn significant profits in times that savings and loans normally experience difficulty in being profitable. This stable growth in earnings and net worth will permit the Association to expand its abilities to serve and protect the interests of its depositors and borrowers.

REGULATORY CONSIDERATIONS

Each of the separate existing operations of EPIC involves an activity specifically permitted by the regulations for service corporations of a Maryland savings and loan association or which may be engaged in upon written approval of the Division.

The following is a list of the present and presently anticipated activities to be engaged in by EPIC, as a service corporation of CS&L:

<u>Activity</u>	<u>COMAR Reference</u>
EPIC Mortgage, Inc., a subsidiary of EPIC, will engage in the origination, purchase, sale and servicing of first mortgage loans, including warehousing and brokerage of such loans.	09.05.01.34C(1)
Purchase and leaseback of builders' model homes, including single family detached homes, townhouses, PUD and condominium units.	09.05.01.34C(7)
Acquisition of single family homes (detached, townhouses, PUD and condominium units) to be held for rental.	09.05.01.34C(7)

The following is a list of operations which are specifically permitted to Federal savings and loan associations and not prohibited by the Division regulations but which require prior written approval of either the Division or the Board pursuant to either COMAR 09.05.01.34C(12) and (13) or the Federal Tie In (COMAR 09.05.01.50):

- all above*
-- Provision of securities brokerage services through ESI Securities, Inc., an existing wholly owned subsidiary of EPIC, which is licensed as an NASD broker/dealer, including wholesale distribution of EPIC limited partnership securities.
- all above*
-- Participation as a general partner in various real estate limited partnerships owning model homes and/or residential properties leased back to builders or to individual rental tenants and all activities attendant thereto.

Prior to the completion of the merger between Community Service Corporation and EPIC, EPIC will enter into a written agreement with the Board that it will permit and pay the cost of an examination of the corporation by the Division or by a certified public accountant, all as required by COMAR 09.05.01.34E(1).

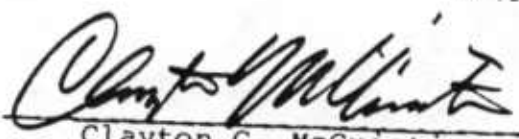
We have attached various exhibits to this letter which expand upon certain of the issues addressed above. If you or

Mr. Charles Brown, Director
January 18, 1983

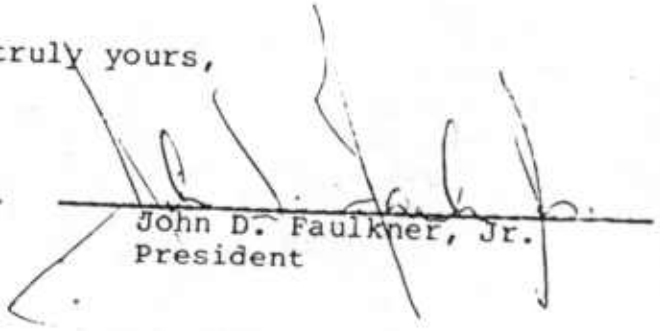
Page 5

the Board should require any further information, please do not
hesitate to contact us.

Very truly yours,



Clayton C. McCuiston
Chairman of the Board



John D. Faulkner, Jr.
President

APPENDIX B - Financial

The merger of EPIC into Community Savings and Loan will immediately bring Community into regulatory compliance on a consolidated basis on all operating ratios. EPIC already provides a wide variety of service corporation functions engaged in or sought after by some of the largest savings institutions in the nation. Instead of a start up operation, it has an eight year track record of sustained growth and earnings. The combination will provide a greater degree of strength and stability in earnings which will be the basis for protecting the safety of depositors' funds.

The ratio of regulatory net worth to savings on a consolidated basis as of 12/31/82 is 6.6%. The comparable ratios for 1983, 1984 and 1985 are projected to be 5.7%, 5.9% and 6.5% respectively.

The ratio of earnings on average assets on a consolidated basis for 1982 and projected for 1983, 1984 and 1985 are 1.4%, 1.7%, 1.5% and 1.56%, respectively.

The following Exhibits are included:

Exhibit B-1 - Community Savings and Loan and EPIC and consolidated balance sheet as of 12/31/82, as of 12/31/83, as of 12/31/84 and as of 12/31/85

Exhibit B-2 - Audited Financial Statements and/or Annual Reports 1981-1975

APPENDIX C - Operations

Community Savings and Loan has actively supported the local demand for residential and commercial lending and provided an attractive investment opportunity for depositors. As with many thrift institutions, it has been limited in growth capacity based on its net worth and earnings opportunities in the current volatile, competitive market environment. Only a significant capital infusion can provide the base for growth in services to the local community, a solid foundation to add safety for depositors funds and an opportunity to participate fully in filling the increasing loan demand that will occur as the economy improves.

This merger of EPIC into Community provides not only significant increase in net worth, but also ongoing operations covering a wide variety of activities presently engaged in by the nation's larger, more successful savings institutions. EPIC has a successful eight year track record of profitable activities in mortgage banking, securities sales, real estate acquisition, and property management.

Exhibit C-1 illustrates the present and proposed activities of Community and EPIC

Exhibit C-2 shows highlights of prior years financial accomplishments and projected operating statistics through 1985.

Exhibit C-3 provides brief information on key EPIC personnel.

Exhibit C-4 presents specific individuals who may be contacted for reference on EPIC's activities with banks, savings institutions, private mortgage companies, builders and securities and investment banking firms.



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

February 28, 1983

Community Savings and Loan
19580 Club House Road
P.O. Box 2185
Galthersburg, Maryland 20879

Attention: Mr. Clayton C. McCuistion
Chairman of the Board
Mr. John D. Faulkner
President

Gentlemen:

This is in reference to your letter dated January 18, 1983, which outlined the intention of Community Savings and Loan to acquire Equity Programs Investment Corporation (EPIC) via a merger with and into its wholly-owned subsidiary, Community Savings and Loan Service Corporation. It is my understanding, based upon an opinion from your counsel, that each of the activities of EPIC complies with the pre-approved activities for a service corporation of a Maryland State-chartered savings and loan.

After spending considerable time with this very complex transaction, I hereby preliminarily approve the merger of Equity Programs Investment Corporation with and into Community Savings and Loan Service Corporation subject to the following conditions:

1. The submission of EPIC's two most recent audit reports, covering the parent and each of the subsidiaries.
2. ✓ An opinion from your auditing firm concerning the accounting and recognition of this investment on the books of Community Savings and Loan. This opinion must place a value on Community's investment in EPIC and discuss the method of "upstreaming" income to the parent.
3. ✓ That any subsidiary of EPIC must comply with all applicable licensing requirements of State or Federal law. Any subsidiary found to be in substantial violation of laws or regulations would have to be divested at no cost to the association.

1841


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Page 2
February 28, 1983

4. ✓ A letter from counsel concerning any conflict of interest as referenced in Section 9-307 and 9-323 of Maryland Financial Institutions Article between any EPIC subsidiary and any officer of the company.
5. ✓ Submission of the final amendments and restatement of the Articles of Incorporation for Community Savings and Loan.
6. ✓ Submission of additional information concerning the proposed issue of preferred stock; including its preference as to dividends, claim on distribution of assets, etc.

If you have any questions concerning this matter, please do not hesitate to contact myself or Bill LeCompte.

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:WSL:sdb

MAR 4 1983

H. D.



March 4, 1983

BY MESSENGER

Mr. Charles H. Brown, Jr., Director
Division of Savings & Loan Associations
231 E. Baltimore Street
Baltimore, Maryland 21202

Dear Mr. Brown:

This letter will respond to certain parts of your letter of February 28, 1983 to Community Savings & Loan, Inc. ("Community"). Your letter relates to the proposed merger of Equity Programs Investment Corporation ("EPIC") into Community Savings & Loan Service Corporation ("CS&L Service Corporation").

First of all, in our original letter to you of January 18, 1983, we pointed out that two of the activities of which EPIC is involved will require your prior written approval with respect to the continuation of these activities as a service corporation. These activities were the provision of securities brokerage services through ESI Securities, Inc., an existing wholly owned subsidiary of EPIC, which is licensed as an NASD broker/dealer, and, secondly, EPIC's participation as a general partner in various real estate limited partnerships which own residential single family properties which are leased back to builders or leased to individual rental tenants and all the activities attendant thereto. I believe that these two activities do in fact require your written approval. However, these activities are not activities which are prohibited by the existing regulations.

With respect to item No. 3 of your letter of February 28, we fully understand that each of the existing and future subsidiaries of EPIC, once it becomes a service corporation of Community, must comply with applicable licensing requirements both under federal and state law, and, we further understand that if any subsidiary is found to be in substantial violation of the laws and regulations, that subsidiary will have to be brought into compliance or divested at no cost to Community.

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Mr. Charles H. Brown, Jr., Director
Division of Savings & Loan Associations
March 4, 1983
Page Two

I am enclosing herewith a true copy of the Amended and Restated Articles of Incorporation for Community which have been presented to and approved by the shareholders of Community at a special meeting of shareholders held on this date.

With respect to item No. 6, the information regarding the preference of the preferred stock as to dividends, claims on distribution of assets, etc., is basically set forth in the Amended and Restated Articles of Incorporation (Article VI). However, I am enclosing as an exhibit to this letter an information sheet which extracts from the articles of incorporation the relevant language and also sets forth certain information regarding the particular shares of Series A preferred stock which will be issued to accomplish the merger.

With respect to item No. 4, as you are aware, and as with any closely held corporation, there have in the past been transactions between EPIC and its stockholders, directors and officers which, had EPIC been a service corporation of Community, would have required your approval and otherwise required compliance with Sections 9-307 and 9-323 of the Maryland Financial Institutions Article. These transactions have been basically immaterial when reviewed in relation to the overall size and operations of EPIC. However, I have reviewed these items with Messrs. Billman and McCuistion and other officers and directors of EPIC, and have explained that once the merger is effective and EPIC becomes a service corporation of Community, any proposed future transactions of this nature will require full compliance with the above referenced sections of the Maryland Code and any applicable rules and regulations promulgated by the Division and/or MSSIC.

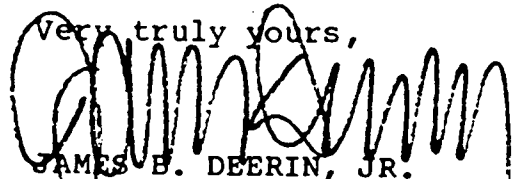
Clay McCuistion, Chairman of the Board of Community, will respond to you directly concerning the other items raised in your letter of February 28.

I would also ask that you provide me with the necessary letter of approval from the Division of Savings & Loan Associations so that I may be in a position to file the Amended and Restated Articles of Incorporation of Community with the State Department of Assessments and Taxation. I would hope that I could have one of the lawyers in my office come to you to pick up that letter and, thereafter, go to the Department of Assessments and Taxation to file the Amended and Restated Articles.

If you should have any questions concerning any of the discussion above, please do not hesitate to give me a call.

Mr. Charles H. Brown, Jr., Director
Division of Savings & Loan Associations
March 4, 1983
Page Three

Thank you for your consideration.

Very truly yours,

JAMES B. DEERIN, JR.
Senior Vice President and
General Counsel

Enclosures

cc: John D. Faulkner, Jr.
Robert Freedman, Esquire
Clayton C. McCuistion
Maurice J. Whalen
Jay FitzGerald, Esquire
Edward F. Schiff, Esquire

PREFERRED STOCK DESCRIPTION

Designation: Series "A," Par Value \$1.00 per Share

Dividends: 8.8% per annum, non-cumulative, payable only from surplus and earnings (See Section 2(b) below)

Redemption: This issue of preferred stock will carry a condition that there shall be no obligation to redeem the same before the expiration of 15 years

Redemption Price: \$250 per share (See discussion below)

Conversion Privilege: None

Voting Rights: None

Pre-emptive rights with respect to other shares of preferred or common stock of Community Savings: None

Compliance with MSSIC and Division Regulations: No dividend may be paid or redemption made if as a result Community would be in violation of Division or MSSIC regulations or Maryland law (See marked sections)

Section 1. The aggregate number of shares of stock which the corporation shall have authority to issue is 11,000,000.

(a) One million (1,000,000) shares of common, voting capital stock, par value \$1.00 per share (hereinafter referred to as the "Common Stock").

(b) ^{Ten} One million ^{10.} (1,000,000) shares of preferred capital stock, par value \$0.10 per share (hereinafter referred to as the "Preferred Stock").

Section 2. The relative rights, preferences and limitations of the shares of Common Stock and Preferred Stock shall be as follows:

(a) Issues in Series. Authority is expressly granted to the Board of Directors at any time and from time to time to issue shares of Preferred Stock in one or more series and for such consideration, not less than the par value thereof, as may be fixed from time to time by the Board of Directors and to fix, subject to provisions hereinafter set forth, before the issuance of any shares of Preferred Stock of a particular series, the designation of such series, the number of shares to comprise such series, the dividend rate per annum payable on the shares of such series, the redemption price or prices of the shares in such series, and any other rights, preferences, and limitations

pertaining to such series. All shares of any one series of shares of Preferred Stock shall be identical. Except as hereinabove provided, the shares of Preferred Stock of all series shall be identical.

(b) Dividends. The holders of the shares of Preferred Stock of any series shall be entitled to receive, as and when declared by the Board of Directors, out of funds legally available for the purpose, non-cumulative preferential dividends at the rate per annum fixed by the Board of Directors for such series, and no more. Such dividends shall be payable in cash quarterly on the first days of March, June, September, and December of each year. If shares of Preferred Stock of more than one series are outstanding, and the stated dividends are not paid in full, the shares of all series shall share ratably in the payment of dividends in accordance with the sum which would be payable on such shares if all dividends were declared and paid in full. So long as any shares of Preferred Stock shall remain outstanding, no dividend shall be declared or paid or any distribution made on the shares of Common Stock or on any other class of shares junior to the shares of Preferred Stock, and no shares of Common Stock or of any other class junior to the shares of Preferred Stock shall be purchased or retired, and no moneys shall be made available for a sinking fund for such purpose unless dividends for all past dividend periods and the then current quarterly dividend shall have been paid or declared (and funds for the payment thereof set apart) on all outstanding shares of Preferred Stock of all series. Payment of dividends on Preferred Stock shall in all events be subordinated to the payment of dividends on savings accounts. Subject to the above provisions, and not otherwise, dividends may be paid from time to time on the shares of Common Stock or other junior issues out of funds legally available for the purpose as and when declared by the Board of Directors. Notwithstanding any other provision hereof to the contrary, no dividend shall be paid if as a result of such payment the corporation would be in violation of the applicable provisions of Maryland law or regulatory requirements of the Maryland Savings-Share Insurance Corporation (MSSIC) or the Maryland Division of Savings and Loan Associations.

(c) Redemption. The corporation may at any time and from time to time at the option of the Board of Directors redeem all or, provided it is not in default in the payment of any dividends on the shares of Preferred Stock then outstanding any part of the shares of Preferred Stock or any part of one or more series thereof by giving the notice hereinafter provided and by paying for each share in cash the price determined by the Board of Directors at or prior to the time of issuance of such shares plus an amount equal to the unpaid dividends, if any. Notice of such redemption shall be given not less than 30 days nor more than 60 days prior to the date fixed for redemption by mail to the holders of record of the shares of Preferred Stock to be redeemed at their respective addresses as the same then appear on the records of the corporation and in such manner as may be prescribed by resolution of the Board of Directors. The Corporation shall at any time prior to the redemption date deposit in trust for the account of the holders of the shares of Preferred Stock called for redemption with a bank or trust company in good standing, to be designated in

the notice of redemption, doing business in the State of Maryland, having a capital, undivided profits, and surplus aggregating at least \$5,000,000, the moneys necessary for such redemption. If such notice of redemption shall have been duly given and such deposit of the moneys necessary for the redemption shall have been made, then all rights with respect to such shares of Preferred Stock called for redemption shall forthwith, on such redemption date, cease and terminate whether or not the certificates for such shares shall have been surrendered for cancellation, except only the right of holders of certificates for such shares of Preferred Stock to receive, out of moneys so deposited in trust, the amount payable upon the redemption thereof, without interest. Any moneys remaining on deposit with such bank or trust company at the expiration of six years after the redemption date shall be returned to the corporation, and, thereafter, holders of certificates for such shares shall look only to the Corporation for the redemption price thereof. If at any time only a part of the outstanding shares of Preferred Stock of any series is to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors, and the shares to be redeemed shall be determined by lot or pro rata or by such other method as may then be required by law or by the rules or regulations of any stock exchange, upon which the shares of Preferred Stock may at the time be listed, as may be authorized by the Board of Directors. The Board of Directors, subject to the foregoing, shall, in each instance, prescribe the manner in which the shares shall be redeemed. Notwithstanding any other provision hereof to the contrary, no shares of Preferred Stock shall be redeemed if as a result of such redemption the corporation would be in violation of the "net worth" applicable requirements of the Maryland Savings-Share Insurance Corporation (MSSIC) or the Maryland Division of Savings and Loan Associations.

(d) Assets. In the event of any liquidation, dissolution, or winding up of the affairs of the corporation the holders of shares of Preferred Stock shall be entitled to be paid in full such amount as shall be determined at or before the time of issuance of such shares by the Board of Directors of the corporation if such liquidation, dissolution, or winding up be involuntary, or, if such liquidation, dissolution, or winding up be voluntary, of an amount equal to the then current redemption price or prices for such shares, plus, in either case, an additional amount equal to any unpaid dividends and dividends to the time of payment. If the amounts payable on liquidation are not paid in full, the shares of all series of the shares of Preferred Stock shall share ratably in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. After the holders of all shares of Preferred Stock have been paid in full, or moneys have been set apart for such purpose, the holders of shares of Preferred Stock shall not be entitled to participate further in the distribution of the assets of the corporation, and the remaining assets and funds of the corporation available for distribution shall belong to and be distributed among the holders of the Common Stock. Nothing herein contained shall be construed to prohibit the retirement of

Preferred Stock by purchase or redemption, and neither the purchase or redemption of the Preferred Stock, nor a merger, consolidation, reorganization of the corporation, nor a sale or transfer of the property or business of the corporation as an entirety, shall be considered a liquidation, dissolution, or winding up of the corporation within the meaning herein contemplated.

(e) Voting. Except as otherwise expressly provided by law and except as hereinafter provided, the holders of the Preferred Stock shall have no voting rights and shall not be entitled to notice of meetings of shareholders, and the exclusive voting powers shall be vested in the holders of the Common Stock.

(f) Shareholders' Consent. So long as any shares of the Preferred Stock of any series are outstanding, the corporation shall not, without the consent of the holders of at least two-thirds of the total number of shares of the Preferred Stock of all series then outstanding, voting as a class (a) create or authorize any shares (other than a series of Preferred Stock) ranking prior to or on a parity with the Preferred Stock or create or authorize any obligation or security convertible into shares; (b) amend, alter, or repeal any of the express terms of the Preferred Stock in a manner prejudicial to the holders thereof; (c) issue any additional shares of any series of the Preferred Stock, unless the stated capital of the corporation represented by its Common Stock and surplus shall in the aggregate be at least equal to the liquidating value of the Preferred Stock to be outstanding immediately after the proposed issue of such additional Preferred Stock.

(g) Dividend Restrictions. So long as any shares of Preferred Stock of any series are outstanding, the corporation shall not pay any dividends on or make any other distribution to the holders of Common Stock if, after giving effect to such payment or distribution, the stated capital of the corporation represented by its Common Stock and surplus shall in the aggregate be less than the liquidating value of its then outstanding shares of Preferred Stock.

(h) No Preemptive Right. No holders of shares of any series of Preferred Stock, as such, shall be entitled as a matter of right to subscribe for or purchase any part of any new or additional issue of shares, or securities convertible into shares of any kind whatsoever, whether now or hereafter authorized, and whether issued for cash, property, services, by way of dividends, or otherwise.

(i) Unissued Shares. The corporation may, at any time and from time to time, issue and dispose of any of the authorized and unissued shares of the stated capital of the corporation for such consideration as may be fixed by the Board of Directors, subject to any provisions of law then applicable, and subject to the provisions of any resolutions of the shareholders of the corporation relating thereto.



DEPT. OF LIC. & REG.
DIV. OF SAVINGS & LOAN ASSOC.
MARCH 10 1983

March 8, 1983

Charles H. Brown, Jr., Director
Maryland Department of Licensing and Regulation
Division of Savings & Loan Associations
231 East Baltimore Street, 7th Floor
Baltimore, Maryland 21202

Attention: William LeCompte

Re: Community Savings & Loan, Inc.

Dear Mr. LeCompte:

In our attempt to receive approval of the Amended and Restated Articles of Incorporation for Community Savings & Loan, Inc., we understand from discussion with you that, while the Director of the Maryland Department of Licensing and Regulation, Division of Savings & Loan Associations has approved such a request, the Chairman of the Board of Building, Savings & Loan Association Commissioners must sign such approval. We have been advised by you that the Chairman will sign such approval on Thursday, March 10, 1983.

If there is any obstacle to obtaining such approval on Thursday, March 10, 1983, or if your understanding of our requests is other than as set forth herein, please advise us so that we may address any contingency which would prohibit approval on Thursday, March 10. Our intent is to file the Amended and Restated Articles as soon as is practicable, and we would appreciate any recommendations which you could give to us to assure us that filing could occur on March 11.

If you have any questions concerning the foregoing, please feel free to contact me.

Very truly yours,

EQUITY PROGRAMS INVESTMENT CORPORATION

Gary W. Swindell
Assistant General Counsel

GWS:cg
cc: Tom J. Billman
James B. Deerin, Jr.
Charles W. Tiedemann

IIID15

3/10 9:00 AM
Spoke to J. Deerin, informed him would not be signed, would require re-approval due to extent of change of March 4th Amend
WS



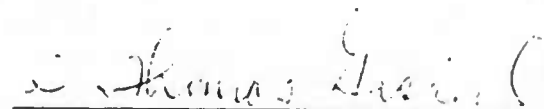
JOHN J. CORBLEY
SECRETARY

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

ARTICLES OF AMENDMENT
and
RESTATEMENT OF THE ARTICLES OF INCORPORATION
of
COMMUNITY SAVINGS & LOAN, INC.

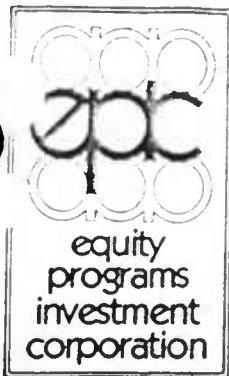
Approved by the Board of Savings and Loan Association
Commissioners in accordance with §9-211 of the Financial
Institutions Article of the Annotated Code of Maryland
(1980 Volume and 1981 Cumulative Supplement).

Witness the Seal of the Board and the hand of its
Chairman this 10th day of March, 1983.


W. Thomas Gisriel, Chairman
Board of Savings and Loan
Association Commissioners

1851

IIID16



RECEIVED
DEPT. OF LIC. & REG.
DIV. OF REAL ESTATE & LOAN ASS.

MAR 10 1983

H.D.

4:30 p.m.

March 10, 1983

Mr. William LeCompte
Division of Savings and Loan Associations
231 East Baltimore Street
7th Floor
Baltimore, Maryland 21202

Dear Mr. LeCompte:

Per your request we are including a listing of transactions involving Tom Billman and myself. We believe that the leasing transactions referred to below would be allowed under the regulations without specific approval due to their arms-length pricing and terms. The transactions in the partnerships would be allowed after notice to the Director, whereas the personal loans would be allowed only upon notice and specific approval by the Director. Both Billman and myself, as signatories hereto, have made a determination and make this as our undertaking to perform no acts in the future (after date of merger) that would not comply totally with the rules of the Division relating to such insider transactions. This undertaking includes ending our involvement in these partnerships as soon as is reasonably feasible through the sale of the properties in the partnerships.

The real estate related activities which are listed below have progressed to these levels over several years. The activities of the partnerships are the same as those of regular EPIC partnerships. However, they include other key EPIC employees pursuant to existing employment agreements. All advances and receivable amounts in these insider partnerships are recoverable from equity in the partnerships or from the assets of the individuals.

	Pro Rata Portion Syndicated to TJB/CCM	All Partnerships
Purchase Price of Properties*	\$17,763,332	\$511,363,995
Percentage of Total	3.47%	100%
EPIC Advances to Partnerships (Downpayment & Operations)	1852 884,644	26,057,899
Percentage of Total Advances	IIID17 3.39%	100%

*In several partnerships, none financed by Community S & L

5201 Leesburg Pike □ Suite 1600 □ Falls Church, Virginia 22041 □ 703/931-7600

William LeCompte
Page 2
March 10, 1983

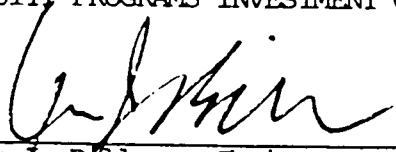
	<u>Pro Rata Portion Syndicated to TJB/CCM</u>	<u>All Partnerships</u>
Notes Receivable:		
Investment in EPIC Partnerships	\$ 680,412	\$ 44,719,453
Percentage of All Investors Notes Receivable	1.52%	100%
Personal Loans to EPIC Officers:		
TJB/CCM	\$ 465,338	
Others	33,097	

Just to get it on the record, there are also existing rental and lease contracts with EPIC and Community Savings and Loan and entities controlled by Mr. Billman and myself (Panda Corporation, Topaz Corporation, Prune Leasing, Ltd.) The total activity at present involves \$775,952 of office equipment, furniture, vehicles and computers, but all rates and terms were set at comparable fair market values at the time these items were put in service. This type of activity will continue and rates on new leases will be set based on competitive market conditions at the time.


We realize that bringing EPIC, as a subsidiary of Community Savings and Loan, into a regulated environment will require changes in the level of our personal involvement, such as is enumerated in this letter. We would emphasize that immediately upon the merger occurring, we will curtail our future involvement in such partnerships and begin to wind down these activities. In addition, we will immediately curtail our personal loans in the amount of \$401,330. These were made pursuant to longstanding employment agreements; however, we feel it best that to the extent we feel it necessary to maintain these loans that we apply to the Division for such approval under the appropriate operating guidelines of the Division.

Very truly yours,

EQUITY PROGRAMS INVESTMENT CORPORATION



Tom J. Billman, Chairman



Clayton C. McCuiston, Vice Chairman

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TJB/CCM:kcr

Epic meeting 2/17/83

Clay McCristini, Dick Deerin, CCH, RKH, Charlie Brown, Bill LeCompte,
John Faulkner, TFH

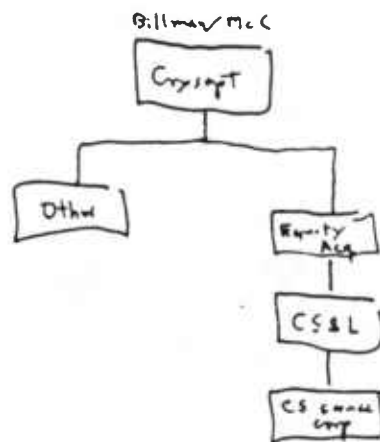
Dir. approval By-Laws, Articles Amended previously

summary by Clay:

CCH:

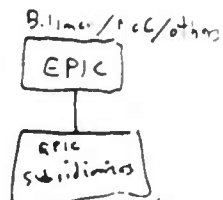
- ① Are activities of Epic suitable for service corp?
- ② Mechanics
- ③ Investment limitations

Organization as of this date:



00010089

this is an affiliate,
but is not in the
same chain



103,000 sh's actual
5,000 Tr. sh's
Net worth - 5,000,000
CS&L 28,500
Billman 55,750
McC 15,000
others 4,250

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IHB181

20,100 shs of preferred stock will be issued ($\$250$ divided into $5,000,000$ net worth)

(delete 20,000 shs & reduce net worth of EPIC by $400,000$)

18,848 shs of preferred stock to be issued ($\$250$ divided into $5,000,000$ minus $400,000$ + Treasury stock(?))

4.276 Epic shares for each preferred sh

minority guys get $\$46/sh$ ~~100,000~~

Activities of Epic

- ① set up LPs that buy model homes; hold property for 4 yrs \rightarrow 2 yrs to build, 2 to private center & then sell;
Epic owns $\frac{1}{2}$ billings & in houses;

00010090

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, FEBRUARY 23, 1983

The regular monthly meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 901 North Howard Street, Baltimore, Maryland on February 23, 1983.

The following Directors were present:

Leonard Bass
Joseph P. Carroll
Michael J. Dietz
Jerome F. Dolivka
John C. Donohue, Sr.

Henry R. Elsnic
John D. Faulkner, Jr.
James D. Laudeman, Jr.
Judith H. Miles
Terry L. Neifeld

Absent and Excused: Frances F. Anderson

Guests: Charles C. Hogg, II, Executive Vice President; Ralph K. Holmes, Senior Vice President; Martin W. Becker, Financial Analyst; Patrick M. McCracken, Administrative Coordinator; Terry F. Hall, Venable, Baetjer and Howard; John J. Pretko and Harry F. White, Jr., Union Trust Company of Maryland.

Mr. Faulkner called the meeting to order at 10:01 A.M. and noted that a quorum was present. Mr. McCracken acted as Recorder for Mr. Hogg as Secretary.

Mr. White reviewed the Investment Report and spoke about the national money supply. Mr. Pretko made several comments concerning the effects of foreign loans made by major banks in the United States.

Mr. Dietz motioned to waive the reading of the minutes of the January 26, 1983 Regular Meeting of Directors and Mr. Laudeman seconded the motion. Upon a vote the motion was passed unanimously.

During a review of the Treasurer's Report for the period ending January 31, 1983 Mr. Hogg indicated that at a future meeting a discussion will

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be held regarding how big (in financial terms) MSSIC should grow. A motion to accept the aforementioned Treasurer's Report was made by Mr. Carroll, seconded by Ms. Miles and passed. Mr. Neifeld voted against the motion.

Mr. Elsnic reviewed the minutes of the February 9, 1983 Membership Committee Meeting and reported that at that meeting the committee voted in favor of a motion to make the following recommendations to the Board:

1. Restrict the issuance of any new mortgage commitments by the staff of First Maryland Savings and Loan, Inc. until otherwise notified by the MSSIC Board of Directors.
2. Evaluate pursuant to the MSSIC By-laws and Rules and Regulations the procedures concerning the possible removal of senior management of First Maryland Savings and Loan.

Action on this recommendation was deferred until later in the meeting.

At the conclusion of the review of the February 9, 1983 Membership Committee Meeting Minutes, Mr. Dietz made a motion to accept these minutes. Mr. Laudeman seconded the motion and the vote in favor was unanimous.

Under Old Business, Mr. Dolivka asked for any developments regarding an opinion or thoughts on advertising from MSSIC's legal counsel.

Mr. Hogg stated that Mr. Hall has prepared an unsigned opinion which would receive further study, and be addressed at next month's Board meeting.

Under New Business, Mr. Hogg reported that Community Savings and Loan, Inc. has requested the Division of Savings and Loan Associations' approval of their restructuring plan. He indicated that the result would make EPIC (the current sister company of Community) a service corporation of Community. He further explained that this restructuring would see the

approximate \$5.4 million EPIC net worth become a part of Community's net worth on a consolidated basis, and serve to further enhance Community's deposit gathering and mortgage making abilities. Mr. Hogg said that this information was a matter of notification to the MSSIC Board of Directors and does not need our Board's approval, but comes under the approval power of the Division of Savings and Loan Associations.

The following associations requested a waiver of the penalty for the late filing of the Periodic Performance Report:

Bay State Savings and Loan Association
Chevy Chase Savings and Loan, Inc.
Citizens Alliance Building Association
Kent Savings and Loan Association
Midstate Savings and Loan Association
Monumental Savings and Loan Association
Northfield Savings and Loan Association
Putty Hill Permanent Building Association
Sykesville Building Association
Universal Savings and Loan Association
Wellham Building and Loan Association
Western Permanent Savings and Loan Association

With the indication that the above listed associations were eligible for a waiver, Mr. Elsnic made the motion that said waiver be granted to said associations. Ms. Miles seconded this motion and the vote was unanimously favorable.

Mr. Hogg stated that Monumental Savings and Loan Association has requested the release of their hypothecation held by the Corporation. He indicated that this association has fulfilled the terms of the Hypothecation Agreement and is therefore eligible for this release. Mr. Dietz made a motion that the hypothecation pledged by Monumental Savings and Loan and held by the Corporation be released. Mr. Carroll seconded the motion and upon a vote the motion passed.

Mr. Hogg began the Report of the Executive Vice President by indicating that he has written a letter to every association whose net worth without

deferred income is at or below 3% as of December 31, 1982. He stated the letter set forth the need for a meeting between himself and the management of the individual member associations for the purpose of discussing that association's plans and projections for the future. Mr. Hogg said these meetings would take place within the next two to three weeks. He also said that he included Custom Savings Association, Fairfax Savings Association and Eastern Savings Association among the associations on his meeting list due to their high visibility via advertising.

Mr. Hogg asked the Board for any input regarding the format, timing, etc. of the Annual Meeting (April 28, 1983). The outcome was the following:

1. Meeting to begin at 6:30 P.M. with notice of a specified earlier registration time.
2. Cocktails at approximately 7:00 P.M.
3. Dinner at approximately 7:30-7:45 P.M. with a guest speaker from either Ohio Deposit Guarantee Fund or North Carolina Savings Guaranty Corporation.

Following a discussion of Mr. Neifeld's request for a written rather than voice vote for the election of those Directors nominated for new terms at the Annual Meeting, the Board considered the recomposition of the nominating committee. Mr. Hall indicated that members of the nominating committee did not need to be Board members.

This matter was concluded by Mr. Elsnic's motion that Mr. Faulkner be given authority to appoint the nominating committee. Mr. Bass seconded the motion and it was passed unanimously.

After a review of proposed changes to Section 3-211(A)(3)(f) - Hypothecations, of the Rules and Regulations, Ms. Miles made a motion to amend this section to read as follows:

"Savings Accounts pledged or hypothecated for or on behalf of a member association to the Corporation or the Corporation and the Division of Savings and Loan Associations, jointly. Any such pledge or hypothecation shall be evidenced by an Hypothecation Agreement in such form, and with such signatories, as shall be satisfactory to the Corporation."

Mr. Neifeld seconded the motion and it passed unanimously.

Mr. Hogg stated that he was planning a series of small luncheon meetings through which he would ultimately meet with most of the Corporation's members. Mr. Faulkner asked Mr. Hogg to include individuals from among all the members of the Board as attendees at one or more of these very worthwhile luncheon meetings.

Mr. Hogg told the Board that Gaines Lansey of Ideal Savings and Loan Association inquired as to the requirements necessary for his association to accept the deposit of Government Funds. Mr. Hogg indicated that following lengthy research on the subject Mr. Hall responded to Mr. Lansey and has indicated he will meet with him if Mr. Lansey desires.

Mr. Hogg indicated that he has a meeting scheduled with Julian Seidel of First Maryland Savings and Loan on Monday, February 29, 1983 at 9:00 A.M., at which time he will give Mr. Seidel the terms of an insurance agreement by and between MSSIC and First Maryland. Addressing the earlier recommendation to the Board by the Membership Committee regarding the evaluation and possible removal of senior management of First Maryland, Mr. Hogg asked that the Board hold action until after his above indicated meeting. The loan/commitment question will be addressed in the agreement.

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During a brief report on the recent Board of Commissioners, Mr. Hogg stated that Messrs. Laudeman and Holmes have been appointed to a committee for the review of commercial lending activities.

Mr. Hogg gave a brief report on recent meetings with representatives of the Federal Home Loan Bank Board and NASSI regarding the Garn-St. Germain Net Worth Subsidy Act. He indicated that MSSIC would be required to indemnify any certificates issued by the Fed to a MSSIC member, and that further we would be required to collateralize our indemnification. He concluded that this avenue of Fed assistance to MSSIC members does not appear to be easily attainable.

Mr. Becker then entered the meeting and presented the net worth comparison update and an outline on appraised equity capital. Mr. Hogg stated that the Accounting Task Force was nearing final recommendations regarding this and many other issues relevant to net worth.

A discussion was held and Mr. Elsnic made a motion to follow staff's recommendation to exercise the Corporation's option to renew our lease arrangements for five years with Baltimore Life Insurance Company for the space which currently consists of the offices of the Corporation. Mr. Dolivka seconded the motion and the vote was unanimous in favor of the motion.

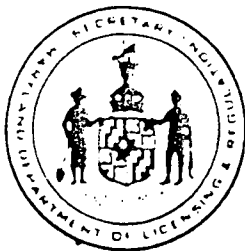
Mr. Hogg stated the recent meeting with MSSIC's line banks regarding the renewal of the Corporation's line of credit went well. He also said that alternatives to those arrangements are being studied.

Mr. Hogg concluded the Report of the Executive Vice President with the following information:

1. The 1982 Annual Report will contain photographs from the Corporation's recent television advertisement.
2. Richard A. Kohr, Jr., has recently passed the CPA test.
3. Martin W. Becker has recently passed two of the four parts of the CPA test.
4. Vickie L. Paytas has submitted her resignation from the staff of the Corporation effective March 25, 1983.

e. Sharon D. Maleski has been hired and will start work with the Corporation on February 28, 1983 as Data Processing Coordinator. There being no further business, Mr. Faulkner asked for a motion to adjourn. Mr. Bass made the motion and the meeting adjourned at 12:20 P.M.

Secretary of the Meeting



FREDERICK L. DEWBERRY
SECRETARY

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

#6
Due 10/23/84

251
45
296 = 10/23/84

September 7, 1984

Board of Directors
Community Savings and Loan, Inc.
(A Stock Corporation)
6500 Rock Spring Drive
Bethesda, Maryland 20817

Gentlemen:

We are forwarding for your review and comment a copy of the report of examination of your association by examiners representing the Maryland Division of Savings and Loan Associations. This report represents an examination of the association's books and records as of October 31, 1983 for compliance with Maryland statutes and regulations and does not constitute an audit of these records.

We request that you carefully review the entire report and specifically direct your attention to the following items of supervisory concern:

1. Comment one reflects that as of the date of the current examination, loans totaling in excess of \$87,000,000.00 were purchased from "EPIC Mortgage, Inc." by the association, representing over ten percent of assets due from any one person, partnership, company, firm or corporation, or any combination of these, that is beneficially owned or controlled, either directly or indirectly.

The Board is advised that the transaction violates the provision of Regulation .30A(1), concentration of loans.

The Board of Directors is required to advise this office of the procedures instituted to bring the association into compliance with the above referenced regulation.

2. Comment two reflects financing of loans through the EPIC Mortgage, Inc. in excess of the permissible percent stated in Regulation .30C(13)(b).

Please advise this office of the corrective action taken.

3. Comments five and six reflect that the association is in violation of Regulation .30D(1) and Section 419.1 of the Financial Institutions Article which provide that over 50% of assets should be upon the

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Board of Directors
Community Savings and Loan, Inc.
Page Two
September 7, 1984

security of improved residential property-homeowner and give priority to first mortgage loans for owner-occupied residences in the State.

4. Comment ten reflects that the association's investment in its service corporation is well above the provision cited in Regulation .34B(2).
5. Comment 11E reflects that the provision of Regulation .43A(2) and (3) are not being complied with (disclosure of officers' or directors' interests).

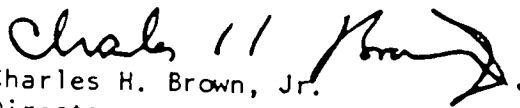
You should also review the other exceptions discussed with management and assure this Division that corrective action has been taken.

The Board's attention is directed to Examiner's Informational Comments A and B which outline the two most recent examination dates and also highlight the association's operating results for the period ended March 31, 1983.

The Board of Directors is requested to hold a meeting to discuss the comments in this letter and report of examination and to advise this division in writing of the specific action taken with respect to these matters.

We would also request that two copies of this response be forwarded to the division within forty-five days and that one copy of the response be forwarded to the Maryland Savings-Share Insurance Corporation.

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:JJB:lib

Enclosures

cc: Maryland Savings-Share Insurance Corp.

COMMUNITY SAVINGS AND LOAN ASSOCIATION

Examiners' Comments

Comment 1:

Community Savings and Loan purchases mortgage loan packages from "EPIC Mortgage, Inc.," a wholly owned subsidiary of Equity Programs Investment Corp. - a service corporation of Community Savings & Loan. These loans, known as "The EPIC Program," consist of first mortgages or deeds of trust on single family homes, townhouses and/or condominium units which are held for investment by the mortgagor and leased back to builders or individual tenants. The mortgagor on all these loans is as follows:

"Equity Programs Investment Corp., as General Partner No. (Assigned specific #)."

As of the date of this examination (October 31, 1983) Community Savings and Loan had purchased one hundred and ninety-seven (197) loans (known as the product) totaling \$331,765,074 and still has sixty-six (66) of these loans totaling \$87,017,098 outstanding on their books.

Regulation .30A(1) states:

A. Concentration of Loans.

(1) Limitation. Not more than 10 percent of the assets of an association may be due from any one person, partnership, company, firm, or corporation, or any combination of these, that is beneficially owned or controlled, either directly or indirectly, by one person, partnership, company, firm, or corporation, or any combination of these.

Based on the following points noted during the course of the examination, the association is in violation of Regulation .30A(1).

- (a) No limited partner is personally liable for any of the debts of the partnerships or any of the losses thereof beyond his capital contributions in cash or notes, plus undistributed profits of the partnerships. If the remaining assets of the partnerships are not sufficient to pay the then outstanding liabilities, the general partner is liable for the debts of the partnership.

EPIC contributes cash equal to 1.0 - 5.0% of the partnership capital as payment for its 1.0 - 5.0% interest in the partnership.

- (b) Though the association obtained an opinion from the firm of "Silver, Freedman & Taff" on November 22, 1982 - which concludes: "For all the foregoing reasons, it is our opinion that for purposes of Regulation .30A the obligations of the limited partnerships in which EPIC serves as general partner need not be aggregated and thus the limitation referred to in that regulation need not be aggregated and thus the limitation would not be exceeded." However, he concludes: "However, we must advise you that since Maryland law contains no explanation or interpretation of the regulation, it is possible that Maryland's Attorney General may determine that because of EPIC's continuous presence, all the limited partnerships may be considered one borrower. Should this occur, then the lending limitation found in the regulation may be exceeded. Moreover, our analysis of this question is based on the facts previously set forth. Should any of these facts later be found to be incorrect or incomplete, the conclusion we reach may need to be modified or supplemented."
- (c) The General Partner finances operating deficits when debt service exceeds financing from operations of partnerships.
- (d) The General Partner will be responsible for all the policy decisions relating to operations of properties.
- (e) If General Partner incurs financial difficulties unrelated to the business of the partnership and is forced into bankruptcy, the partnership and the limited partners could be adversely affected.

- (f) The General Partner may become subject to claims of creditors for liabilities unrelated to the business of partnerships, and such claims could force the General Partner into bankruptcy or receivership which, in turn, could result in the dissolution of the partnership.

Comment 2:

Financing of the "EPIC Program" loans are through EPIC Mortgage, Inc. (Funds supplied by Community Savings & Loan) through non-recourse 95% loan to value ratio (Insured).

Regulation .30C(13)(b) states that on Insured loans secured by Improved residential-non homeowner or Improved commercial property, the loan may not exceed 90% of the market value of the security.

Comment 3:

- A. Loan No. 1683-2 - Rochcorbon, Inc. - Construction Loan - \$3,000,000. A review of the above loan revealed the following:

- (1) Association disbursed \$706,925.61 at settlement which was 128.5% of the land value of subject property.
- (2) Borrower Rochcorbon, Inc. had no income at the time of the loan and a \$10,000.00 net worth. The guarantor - Sopacilf International, Inc. (a Delaware Corp.) - is a new company (6 months old) at time loan was granted. Financial information shows an income for that period of \$85,463, which is not sufficient to carry this loan.

- (3) Sopacilf is also guarantor on Loan No. 1686-5 in the amount of \$3,200,000.00.

- (4) Xavier Decluot is listed as president for:

Rochcorbon, Inc. (Loan No. 1683-2)
Chambord, Inc. (Loan No. 1686-5)
Sopacilf International, Inc. (Guarantor of both loans)

- B. Loan No. 1686-5 (Construction) Chambord, Inc. \$3,200,000.00
The first draw on this loan was made at settlement in the amount of \$1,194,319.00 representing 231% of the appraised land value of subject mortgage.

- (1) Chambord, Inc. had a net worth of only \$10,000.00.
- (2) No income statement was available on Chambord, Inc. to support their ability to meet required payments on this loan.
- (3) Guarantor Sopacilf International, Inc. - Facts as presented in Comment 3(A) indicates that the borrowers do not have sufficient resources to support these loans.

Based on the above information on the borrowers, on what basis were these loans granted?

Comment 4:

Loan No. 1696-4 - Colony Partners, Ltd. - Construction/Permanent Loan - Amount \$6,650,000.00.

This loan was granted for construction/permanent purposes upon the security of unimproved property with loan to value in excess of 80% of the market value of the security. Regulation .30C(11) provides that the aggregate amount of any construction loan shall not exceed 80% of the market value of the security.

Please advise this office of the current status of this loan.

Comment 5:

A review of Community Savings and Loan Association's mortgage portfolio revealed that its loans on Improved Residential property - Homeowners represent only 12.8% of the association's total assets as of the date of the examination.

Regulation .300(1) states that the aggregate outstanding balance of all loans owned by an association upon the security of Improved residential property-homeowner as defined in §C(2) shall be in excess of 50 percent of the association's total assets. As a further limitation, the aggregate outstanding balance of loans upon the security of Improved residential property-homeowner with loan to value ratios in excess of 80 percent which are not insured or guaranteed in accordance with §C(12) may not exceed 10 percent of the association's assets.

Comment 6:

A review of the lending practices relating to mortgage loans during the course of this examination, the following was noted:

- A. One hundred and ninety-seven (197) loans were funded/purchased totaling \$331,765,074 consisting of Residential-Non Homeowner Loans.
- B. Thirty-seven loans (Commercial/Construction) totaling \$144,503,771 were funded.

Based on the above information, it is felt Section 9-419.1 of the Financial Institutions Article is not being complied with.

In its investments under §9-419 of this subtitle, a savings and loan association shall give priority to first mortgages for owner-occupied residences in the State.

Comment 7:

An examination of the books, records and accounting practices revealed the following:

- A. General Ledger No. 1880 - Accounts Receivable. Balance as of examination date \$3,488,450.70.

A review of this account revealed the following due from Prune Leasing Co., a subsidiary of "EPIC Holding Co.," EPIC Holding Company is sole stockholder of Community Savings and Loan:

- (a) \$14,369.42 (For Dodge Van)
- (b) \$251,938.00 (ISC - Supplies/Equipment) Systems Equipment

Prune Leasing is set up to buy furniture, equipment, etc. and lease it back to EPIC companies. To the best of our knowledge, Prune Leasing does not lease to any outside parties. The above amounts are not supported or evidenced by a note and as best as can be determined, the association receives no interest on these items.

- (c) Points due from "Equity Programs Investment Corp." Service Corporation of Community \$2,817,881.76.

This amount represents points due from purchases of "EPIC Program Loans" - Association will not receive these funds until the close of fiscal year. However, the amount is included in current earnings. This method gives EPIC use of said funds.

- B. Officers - Directors Salaries - Bonus - Expenses:

The following officers and directors of Community Savings and Loan Association show no recorded compensation on the books and records of Community Savings & Loan Association. However, it was noted that the following amounts are received by them through "Equity Programs Invest Corp.", a wholly owned service corporation:

	<u>Salary</u>	<u>Bonus</u>	<u>Expenses</u>	<u>Total</u>
(D) James B. Deerin, Jr.	\$120,000.00	\$100,000.00	\$23,510.00	\$243,510.00
Leonard Meltz, Jr.	120,000.00	180,000.00	30,106.00	330,106.00
Joel H. Bernstein	100,000.00	100,000.00	51,815.00	251,815.00
Thomas H. Fellows	75,000.00	5,000.00	21,800.00	101,800.00
(D) Joseph Cunningham	44,000.00	15,000.00	2,628.00	61,628.00
(D) Robert H. Kemp, Jr.	85,000.00	85,000.00	7,635.00	177,635.00

It was further noted that "Chairman of Board" and Treasurer, Director Clayton C. McCulston and "Vice Chairman" and Director Tom Billman receive no salary or bonus from either Community Savings and Loan or its service corporation "Equity Programs Investment Corp."

C. Service Agreement with "Crysopt, Inc.", a Delaware corporation - now "EPIC Holding":

Community entered into a service agreement with the above corporation in April 1983 which calls for the following:

- (1) Community to pay a monthly fee of \$10,000.00. Increased to \$50,000.00 in October 1983. EPIC Holding Company is the sole stockholder of Community Savings & Loan - owned as follows:

Tom J. Billman 80%
Clayton McCulston 20%

D. Federal Income Tax:

It was noted that the corporation tax return (Form 1120) for the period ending February 1983 was filed as follows:

"Crysopt, Inc. and Subsidiaries"

It appears that this makes Community Savings and Loan an equal subsidiary to all of Crysopt, Inc. (Now EPIC Holding Co.) and as such could be assessed for any tax liabilities or problems that may be incurred by "EPIC Holding Co." (Former Crysopt)

Comment 8:

As of October 31, 1983 the association had the following certificates in savings and loans, or banks exceeding the \$100,000.00 limitation provided for in Regulation .37:

John Hanson Savings & Loan	\$5,000,000.00
Dwyer Bank	5,000,000.00
Crocker Bank	2,007,671.70

This was a matter of supervisory concern in the prior report of examination.

Comment 9:

A review of the association's fidelity bond revealed that the present coverage of \$1,510,000.00 is \$150,000.00 less than the \$1,660,000.00 required by Regulation .22, also policy does not state "Equity Investment Program Corp." and "Community Realty Association, Inc.", both service corporations of Community, as additional insured parties.

Comment 10:

As of the date of the current examination, the association's investment in its wholly owned subsidiaries exceed 2% of the association's assets. Therefore, it is in violation of Regulation .34B(2).

A review of the association's records reflected that its investments consisted of the following:

General Ledger No. 1462-01	Investment In EPIC	\$5,366,494.98
1464-07	Investment - Community Realty	1,000.00
1466-02	Loan to subsidiaries	<u>531,342.84</u>
	Sub Total	\$5,898,837.82
	Guaranty of Payments	
	Habricht Models, Inc.	\$ 9,699,531.00
	Tanmis Models, Inc.	<u>15,500,000.00</u>
		\$31,098,368.82

% of Total Assets of \$338,818,121.00 = 9.2%

Comment 11:

A review of the minutes (written record of action of the Board of Directors) revealed the following:

- A. Special meeting of stockholders held March 4, 1983 - Prescribed twenty-day notice not given as required by Section 9-304(a) of the Financial Institutions Article.
- B. The association has not held its annual meeting for 1983 as required in Article 2.02 of its "By-Laws."
- C. The minutes did not reflect the resolutions required by Article 6, Section 2(b) of its "Articles of Amendment and Restatement of the Articles of Incorporation" prior to the payment of dividends on "Preferred Stock" for the periods of March - June and September 1983.
- D. At the Executive Committee meeting held November 1, 1983 the following loan was approved:

Borrower: North Boulevard Centre Associates, Ltd.
Amount: \$3,369,000.00

It was noted that this approval included in its terms the following:

- (a) Additional Interest:
Option to acquire 50% of limited partnership.

For the association to exercise such an option, it would be necessary for Community to request permission from the Division.

- E. It was noted in reviewing the minutes of the directors and of the executive committee that Regulation .43A(2)(3) are not being fully complied with.

Regulation .43A(2) and (3) state the following:

A full disclosure of the business or transaction and the nature of the director's or officer's interest is made to the board of directors, and the disclosure is recorded in the minutes.

The business or transactions are approved in good faith by the board of directors, any interested director abstaining, and the approval is recorded in the minutes.

Comment 12:

At the conclusion of the examination, the examiners provided management with an exception sheet which listed technical deficiencies in the following areas:

- A. Loan File Documentation
- B. Minor Accounting Problems
 - (1) Stale checks
 - (2) Escrow debit balances
 - (3) Initial loan charges (Points)
- C. Minimal delinquencies

The Board is requested to advise this Division of the corrective action taken by management with respect to the items listed on the exception sheet in its response to the Report of Examination.

INFORMATIONAL COMMENTS:

- A. A comparative analysis of the financial condition of the association as of October 31, 1983 and August 31, 1982 revealed the following:

	<u>October 31, 1983</u>	<u>August 31, 1982</u>	<u>Increase</u>	
			<u>Dollar Amount</u>	<u>Per Cent</u>
Total Savings	\$252,651,763.67	\$71,654,559.36	\$180,997,204.31	252.6%
Total Net Worth	7,210,699.36	923,703.75	6,286,995.61	680.6%
Total Mortgage Loans	266,221,889.26	57,179,111.20	209,042,778.06	365.6%
Total Assets	338,818,121.58	80,308,274.19	258,498,847.39	321.9%

- B. A review of the association's earnings for the fiscal year ended March 31, 1983 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	<u>\$11,484,058.81</u>	<u>100.0</u>
2. Taxes (Page 6, Line 4)	89,343.00	0.8
3. Earnings distributed on savings (Page 6, Line 3)	10,374,923.33	90.4
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	1,019,792.48	8.8
5. Net Income distributed (Total of 2, 3 and 4 above)	<u>\$11,484,058.81</u>	<u>100.0</u>

EXAMINERS' COMMENTS

Equity Programs Investment Corporation

Comment 1:

A review of the books and records of the association's wholly owned subsidiary reflected the following:

- A. General Ledger No. 12529 "Receivable from Prune Leasing" - Balance as of examination date \$45,275.55. Prune Leasing is subsidiary of "Equity Holding Ltd." and was established to buy furniture, fixtures and equipment and lease it back to Equity companies such as Community Savings & Loan, EPIC, etc. As best as could be determined, "Prune Leasing" does not lease to any outside parties. The following items were noted on this ledger:

(a) Deposit on 1983 Mercedes	\$5,000.00
(b) Loan to Prune Leasing	38,348.00
(c) Payments by EPIC for Prune	11,064.60
(d) Repayment of advances	?
(e) Real - Computer, Inc.	18,354.00

The nature of these entries appear to establish the fact that "Equity Programs Investment Corp." is in fact financing "Prune Leasing Corp." However, profits from Prune Leasing flow to "Equity Holding Co.", the sole stockholder of Community Savings and Loan Association, Inc.

- B. General Ledger No. 12532 (Receivable from Community Savings & Loan), examiners were informed that the following officers of Community Savings and Loan receive no salary from the association:

- (a) James B. Deerlin, Jr. - Vice President - Secretary
 (b) Thomas H. Fellows - Vice President - Trust Officer

Entries on General Ledger No. 12532 (Receivable from Community Savings and Loan) show payroll allocation for said officers.

- C. General Ledger No. 12541 "Receivable from EPIC Holding" payments to this account were made to parties such as:

- (a) Health clubs
 (b) Gasoline credit cards such as --
 (1) Shell
 (2) Amoco
 (3) Exxon
 (c) Diners Club
 (d) French franc draft

In behalf of EPIC Holding Co. (Sole stockholder of Community) These payments again appear to be interest free advances.

- D. General Ledger Nos. 18500, 18510 and 18530 Receivables from T.J. Billman, J.B. Deerlin and Joel H. Bernstein, officers and directors of Community Savings and Loan Association, in the following amounts:

T. J. Billman	\$ 1,330.00
J. B. Deerlin	9,000.00
Joel H. Bernstein	12,000.00

No notes for these loans were noted, nor is any interest being charged on these advances.

E. Related Party Transactions:

- (1) Cavalier Oil Corporation, which is involved in oil and gas exploration and drilling principally in the State of Ohio, is controlled by an officer and director of EPIC. During 1980 Cavalier Oil issued one-third of its issued and outstanding stock to EPIC in return for the cancellation of a \$50,000 note due EPIC.
- (2) During 1981, EPIC entered into leasing arrangements with a limited partnership which is controlled by the majority stockholders of EPIC. These month to month leases are for the use of office furniture, equipment, and vehicles at what are considered fair market rental rates. It is anticipated that the corporation will enter into additional non-capitalized lease rental commitments with this or other similar entities.
- (3) During 1981, certain limited partnerships of which EPIC serves as the General Partner and which include officers or employees of EPIC as limited partners have in some instances not been charged with certain fees (i.e. syndication fees and broker dealer commissions) which are normally charged to the partnerships.

The above information was noted in a prior management (3/16/82) letter from a previous audit and has been inserted in these comments to illustrate the need for the Division of Savings and Loan Associations to receive from Equity Programs Investment Corporation a reply in detail from them as to their compliance with Financial Institutions Article 9-323(d)(i)(ii)(iii).

Comment 2:

A review of the corporate minutes indicated the following:

A. The following resolutions were noted as of March 2, 1983:

FURTHER RESOLVED, that EPIC hereby waives the requirement in each employee's Stock Option Purchase Agreement that the option shall not be exercised prior to July 1, 1984; and

FURTHER RESOLVED, that the President and the Secretary of EPIC are hereby authorized and directed, upon receipt of the cash payment and promissory note from each employee exercising such option, to execute, acknowledge, attest and deliver to the following persons the number of stock set forth beside each person's name:

<u>Name of Employee</u>	<u>No. of Shares</u>
Tom J. Billman	800
Clayton C. McCuiston	800
Joel H. Bernstein	800
James B. Deerin, Jr.	600
Leonard Meltz, Jr.	400
Walter R. Frazier	200

FURTHER RESOLVED, that the Secretary, or any Assistant Secretary, of EPIC is hereby authorized and directed to file this written record of action among the regularly maintained minutes of the meetings of the Board of Directors.

WITNESS the following signatures as of the 2nd day of March, 1983.

Tom J. Billman, Director

Clayton C. McCuiston, Director

James B. Deerin, Jr., Director

The undersigned being all members of the Board of Directors of Equity Programs Investment Corp.

Additional resolutions pertain to Eugene S. Isaacs (400 shares), Tom J. Billiman (800 shares), Clayton C. McCulstion (800 shares), all dated March 2, 1983.

Section 9-320(3) of the Financial Institutions Article states in part - that the consideration for its capital stock be paid in cash.

B. Guaranty of Payment on Loans:

The following resolution was noted:

NOW, THEREFORE, be it RESOLVED, that EPIC, as general partner for various limited partnerships, enter into such revolving credit and security agreements as may be directed from time to time by the Board of Directors.

Also the following guaranty of payments were noted:

- (a) Habricht Models, Inc. \$ 9,699,531.00 Principal amount
- (b) Tanmis Models, Inc. 15,500,000.00 Principal amount

Equity Programs Investment Corp. owns all of the issued and outstanding stock of the above.

- (c) Equity Programs Investment Corp. guaranteeing repayment of liabilities of Prune Leasing, Limited to Westinghouse Credit Corporation

- (i) Prune Leasing, a limited partnership which is controlled by the majority stockholders of EPIC.

Comment 3:

As of the date of the current examination, Equity Programs Investment Corp. debt exceeds 6% of the assets of the holder of its capital stock (Community Savings and Loan). Therefore, it is in violation of Regulation .34B(1)(c)(1).

Comment 4:

Leasing of Boat from Trans-Ocean Associates Limited Partnership:

A review of the above agreement was made and the following was noted in relationship to this transaction:

A. Trans-Ocean Partnership consists of the following:

- (a) EPIC Realty Services 1% General Partner
- (b) Panda Associates 52.8% Limited Partner
 - (1) T.J. Billiman
 - (2) C.C. McCulstion
- (c) J. B. Deerlin, Jr. 26.4% Limited Partner
- (d) L. Meltz, Jr. 4.95% Limited Partner
- (e) Walter Frazier 9.9% Limited Partner
- (f) Joel H. Bernstein 4.95% Limited Partner

All the above are principals of Equity Programs Investment Corporation. Mr. T. J. Billiman and C. C. McCulstion own controlling interest in Equity Holding Co., sole stockholder of Community Savings and Loan.

- B. EPIC Realty Services appears to be a subsidiary of Equity Holding Co. The following was noted in relationship to EPIC Realty Services:

(a) Memo dated June 8, 1983

RE: \$190,000.00 Loan from ERSI to Trans-Ocean Association
"Please draw up a demand note for the above mentioned loan with an interest rate of 9% per annum. Also enclosed is a blank note form from the Business Bank to keep in your files in case it is needed in the near future."

- C. EPIC Realty Services, Inc., a Delaware corporation:

Mr. James B. Deerin, Jr., signs as Vice President for said corporation.

- D. Review of expenses incurred by Equity Programs Investment Corp. shows the following:

(1) Licensed captain per lease agreement	\$26,000.00 per year
(2) Mate for boat	13,000.00 per year
(3) Monthly lease payment	4,000.00 per year
(4) Lessee shall pay for all docking fees per lease agreement:	
(a) Four months rent on slip in Florida	\$5,342.40
(b) 12 days in Rhode Island	843.00
(c) One year - Annapolis, Maryland	2,500.00

It can safely be assumed that Equity Programs Investment Corp. will incur expenses in excess of \$100,000.00 per year from this boat.

- E. Various items purchased by EPIC will remain with the boat upon expiration of lease such as:

(1) Radio Equipment
(2) Raft

Trans-Ocean Associates should reimburse service corporation for these types of purchases.

- F. Original sales contract for boat (\$200,000.00) was made as follows:

Equity Programs Investment Corp. or assigns.

Comment 5:

During the course of the examination Equity Programs Investment Corp. had use of an airplane. However, examiner did not have access to any records to verify this fact.

If service corporation or Community Savings and Loan does in fact have said plane or its use available to them, please notify the Division of the following:

- A. If leased --

(1) Copy of lease agreement
(2) Expenses to service corp.

- B. Purpose/Need

- C. How is plane titled.

EXAMINERS' COMMENTS

Community Realty Associates, Inc.

Comment 1:

On September 18, 1983 Equity Programs Investment, Inc. (A service corporation of Community Savings and Loan) purchased 35,477 acres of land in Talbot County, Maryland for \$516,000.00. The improvements on this property consisted of a two-story main residence, tenant house and outbuildings.

A review of the file in reference to the purchase of this property revealed the following:

- A. Total cost to complete purchase (including personal property, settlement cost, etc.) totaled \$531,342.84 and was financed as follows:
 - (1) Deed of Trust note, date September 29, 1983 in the amount of \$375,000.00 (76.5% of appraised value)
 - (2) Remainder by promissory note dated September 29, 1983
 - (3) Both of above notes are held by the parent Community Savings & Loan, Inc. Combined total represents 100% of cost of purchase.
- B. Appraisal of property was not made until October 19, 1983 (Amount of \$490,000.00 - 95% of purchase amount)
- C. Title of property taken in name of Community Realty Associates - (Contract of sale was with Equity Programs Investment).
- D. Written record of action of the Board of Directors dated September 26, 1983 states purpose of purchase is for development/investment. However, the service corporation signed the following documents:
 - (1) Declaration of Intent to remain in agricultural use
 - (2) Contract stating: "Subject to buyer's using property for corporate use."

Based on the above information, a more detailed explanation of this purchase and intent should be forwarded to the Division on this entire transaction.

COMMUNITY

SAVINGS & LOAN

November 26, 1984

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HD 10:45

Mr. Charles H. Brown, Jr., Director
Division of Savings and Loan Associations
231 East Baltimore Street
Baltimore, Maryland 21202

Dear Mr. Brown:

This letter will constitute the response of the Board of Directors of Community Savings & Loan, Inc. (the "Association") to the report, dated September 7, 1984, of the examination of the Association's books and records as of October 31, 1983. Our responses are numbered to correspond to the comment numbers of the examiners.

Comment 1

As you know, Equity Programs Investment Corporation ("EPIC"), a Maryland corporation, is a wholly-owned service corporation of the Association. The acquisition by merger of this service corporation was approved by the staff and the Board of Savings and Loan Commissioners after full disclosure of all of its operations. EPIC is in the business of acquiring model homes and other single family homes from major homebuilders throughout the United States. The model homes are leased back to the builders while the "production" homes are leased to individual tenants. Although EPIC negotiates for the purchase of the homes, they are actually acquired in a series of limited partnerships of which EPIC serves as sole general partner with a one percent (1%) nominal interest. The remaining 99% interest is owned by the investor limited partners. The purchase of the homes is financed by a non-recourse first mortgage loan on each home. These loans are originated in the large majority of cases against take out commitments from third party loan investors. By the terms of this first mortgage loan, in the event of a default, the lender can only proceed to foreclose against the specific house to which that particular loan relates and cannot make a claim against the general partner EPIC or any limited partner or against the other homes owned by the partnership.

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Mr. Charles H. Brown, Jr., Director
November 26, 1984
Page Two

At a meeting of the Board of Savings and Loan Commissioners held on February 9, 1984, the Board adopted and approved certain amendments to the regulations, including Regulation .30A(1), in response to recommendations by a special committee formed by the Board to study and make recommendations for changes to bring the Division regulations into line with the real world operations of the savings and loan industry in Maryland.

The proposed change to Regulation .30A(1) would have required that entities be "beneficially owned or controlled, either directly or indirectly" to the extent of a 20% or more ownership interest before aggregation of loans would occur. This amendment to the regulations was approved unanimously by the Board as a part of a package of regulatory changes. However, I now understand that the entire package of amendments after approval was withdrawn without notice after a question of antitrust law was raised, apparently involving an amendment unrelated to the Regulation .30A(1) amendment.

The Association believed in good faith that the amendment to Regulation .30A(1) had been duly and properly made and was entitled to rely thereon.

Furthermore, the board of directors of the Association requested and received from our counsel, Silver, Freedman & Taff, an opinion letter, dated November 22, 1982, which concluded that under the then existing language of Regulation .30A(1) the EPIC limited partnerships "may be treated as separate entities." We provided a full copy of this opinion letter to your examiners. We believe that Mr. Freedman's opinion letter accurately sets forth a legal basis for the Association to treat each EPIC limited partnership as a separate borrower for purposes of Regulation .30A(1).

While certain of the comments made by the examiner in subparagraphs (a) through (f) are factually correct when considered in a vacuum, the examiner failed to note that many of those comments are irrelevant given the nature of the non-recourse debt and the method of operations of the separate partnerships. For example, in the event of the bankruptcy of the general partner the limited partners have the right to appoint a substitute general partner and continue to operate the partnership.

Comment 2

Section 9-419(c), Financial Institutions, of the Maryland Code provides an additional grant of investment authority to Maryland savings and loan institutions as follows:

Mr. Charles H. Hogg, Jr., Director
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"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."

In contrast to Section 9-419(a), the above cited section contains no express limits on the investment authority granted, and in our view the Board has no authority to limit by regulation this specific legislative grant of authority. We have received an opinion letter addressing this questions in more detail from our counsel, Silver, Freedman & Taff, and that letter confirms our reading of the statute.

Federal savings and loan associations are permitted to make first mortgage loans on residential, non-owner occupied properties up to 95% of purchase price or appraised value, provided that the amount of such loan in excess of 80% is covered by a policy of private mortgage insurance (see Section 545.32(d) of the Rules and Regulations of the Federal Savings and Loan System).

All of the loans made by EPIC Mortgage, Inc. to finance the acquisition of model and production homes by EPIC limited partnerships that exceed 80% loan-to-value are insured by policies of private mortgage insurance issued by major, national private mortgage insurance underwriters (i.e., TICOR, MGIC, RMIC and others). Therefore, pursuant to the "Federal tie-in" statute cited above, such loans are specifically permitted to be made by Community Savings & Loan. As a further safety factor, and as mentioned above in the Comment 1 discussion, all of these loans are originated against take out commitments from permanent loan investors.

Secondly, it is our recollection that the Board of Savings and Loan Commissioners considered an unanimously approved a change to Regulation .30C(13)(b) to specifically permit first mortgage loans on non-owner occupied residential properties up to 95% loan-to-value provided that such loans are covered by private mortgage insurance. Although we believe that this regulatory amendment was duly approved by the Board, it has never been published in the Maryland Register.

Comment 3

First of all, the principal amount of the loan to Rochecorbon, Inc. is \$1,850,000 rather than \$3,000,000 as stated in the examination.

Mr. Charles H. Brown, Jr., Director
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Page Four

With respect to the construction loans to Rochcorbon, Inc. and Chambord, Inc., the Association received independent, third party appraisals of the value of these motel facilities on an as completed basis which reflected that the amount of the construction loans would not exceed 80% of the value of the completed projects. In addition, the loans were guaranteed in full and the completion of construction was guaranteed by the corporate parent of the borrowing corporation, Sopaclif International, Inc. Sopaclif had a net worth of \$3,972,735 as of June 30, 1983. Attached hereto is a copy of the financial statement of Sopaclif reflecting such net worth.

Both of these projects were well under way at the time the construction loans were closed. In the case of Rochecorbon, Inc. of the total initial draw of \$706,925, \$635,000 was reimbursement for hard construction costs. In addition, Rochecorbon contributed the land free and clear which had a fair market value of \$560,000. The initial draw of \$1,194,319 to Chambord, Inc. included \$1,078,000 in reimbursable hard costs of construction, and the land was contributed free and clear with a value of \$710,000. The disbursements under these loans were within the standards set by the regulations at all times.

I would point out that both of these projects are now fully completed and in operation. The construction loans have been repaid in full with interest, and have been converted to permanent loans which are presently current as to principal and interest.

Regulation .30C(10) provides that "[T]he aggregate amount of any construction loan may not exceed 80 percent of the market value of the security after completion of the improvements..." As mentioned above, the Association had a third party appraisal of the completed project which confirmed that the construction loans would not exceed 80% of the value of the completed project.

We believe that the Association acted prudently and within the regulations in making these construction loans.

Comment 4

In making the construction/permanent loan to Colony Partners, Ltd. it was apparent that the amount of the construction loan would exceed by a slight amount 80% of the appraised value of the project upon completion. However, the

Mr. Charles H. Brown, Jr., Director
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developers of the project, who were well known to the members of the Loan Committee as competent apartment project developers and operators, believed that the actual value of the project upon completion would be significantly greater than the currently available appraisal provided. Therefore, the Association agreed to make the loan provided that the developer/borrower pledge to the Association as additional collateral security certain promissory notes of a value at least twice the amount that the construction loan exceeded the 80% loan-to-value amount.

At the present time the project is 100% completed and in operation, and a third party appraisal has been prepared indicating that the current fair market value of the project is \$8,300,000, which provides an 80% loan-to-value. The permanent loan is current as to principal and interest. In addition, the Association continues to retain a security interest in approximately \$1,600,000 in receivables of the Borrower.

We believe that the amount of this loan that exceeded 80% of the appraised value was adequately secured and may be treated as a commercial loan with additional collateral security (see Section 545.46 of the Rules and Regulations of the Federal Savings and Loan System) until the point that the new appraisal confirmed the increased value of the project.

Comment 5

With respect to the percentage of "Improved Residential Property - Homeowners" as compared to total assets of the Association, under the "Federal Tie-In" provision (Section 9-419(c), Financial Institutions of the Code) we submit that, since Federal associations have no specific limitation between owner occupied and non-owner occupied residential loans, the Association has the right to make loans without regard to percentages of owner occupied versus non-owner occupied. However, the Board of Directors is continually working towards implementing plans to continue to increase the number of owner occupied loans, but, given the present competitive business environment and the changing role of thrifts within the financial services industry, this regulation seeks to impose on Maryland associations a regulatory burden that is in conflict many times with the realities of profitable operations. For example, in making owner-occupied, first mortgage loans, the Association seeks to make these loans only against take-out commitments from permanent loan investors in the secondary mortgage market to avoid the risk of interest rate swings.

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This policy of acting, in effect, as a mortgage banker precludes taking these loans into portfolio and thereby meeting the strictures of this regulation.

The Association will continue to make good faith attempts to meet this regulation within the overall requirements of operating profitably within the financial services industry environment.

Comment 6

Although comment 6 provides no identification regarding the period of time for which parts A & B are derived from, the Association believes that in its present form of operations, first mortgages on Maryland owner occupied residential property are given major emphasis through our Network of Branches (7 locations) in the State of Maryland and through the offices of our Service Corporation, EPIC Mortgage, Inc. (2 loan production offices).

We believe that because of the inherent makeup of the Association and its real estate related subsidiaries which operate on a national level, that merely looking at the number of non-owner occupied loans or the \$ or dollar amount of certain non-owner occupied categories does not properly reflect the Association's residential owner occupied commitment in the State of Maryland. For example, the Association has dramatically increased its origination of Maryland residential owner occupied loans over the past two years through the activities of our Mortgage Subsidiary and its involvement in the secondary market. During 1982 the Association originated \$5,615,630 of owner occupied residential loans, in 1983 \$22,609,653 and for the first nine months of 1984 alone, the Association has originated approximately \$109,000,000 of Maryland residential owner occupied loans which have or will be sold in the secondary market, thus enabling the Association to continue to fund and increase our participation in this market. One must also realize that the Association's residential loan market in the State of Maryland is highly competitive and consists of many varied financial institutions located in and outside of Maryland. We have enclosed a copy of the Peeke Report as supplemental information as regards the above. Also enclosed for your review is a current quote sheet from our Mortgage Subsidiary detailing our various loan programs and commitments to the residential owner occupied area. In summary, we believe that the approach of simply looking at the levels of loan concentrations in various categories may not be

Mr. Charles H. Brown, Jr., Director
November 26, 1984
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indicative of a savings and loan's commitment to make Maryland residential owner occupied loans, but that other factors such as market place, competition, actual number of physical locations, profitability, and the loan philosophy of an institution (i.e., portfolio lender vs. secondary market) should also be determinants of a savings and loan's commitment to residential owner occupied lending in Maryland.

Comment 7

(A) Comment 7A(a) and (b) describe "accounts receivable" from "Prune Leasing Co." of \$14,369.42 (Dodge Van) and \$251,938.00 (supplies/equipment). These amounts were reflected as accounts receivable through accounting errors. Prune Leasing, Ltd., an affiliate of the Association and a subsidiary of EPIC Holdings, Ltd (parent of the Association) was willing to purchase certain assets as requested by the Association and lease same to the Association for its use. Our policy provides that in the case of the Association's desire to lease rather than purchase such items, Prune Leasing, Ltd. will arrange the purchase and, in fact, with its cash, purchase the items. The Association purchased the referenced items directly and inadvertently recorded these amounts as receivable since it was intending to sell the items to Prune. Prune later purchased the items from the Association. The accounting had subsequently been corrected, and Prune has paid the Association interest at the rate of 14% per annum from the date of the Association's purchase to the date of Prune's purchase. It is not and never was our intention that the Association advance moneys to Prune.

EPIC is a wholly owned service corporation of the Association and as such is reported under the equity method of accounting. Both institutions also use the accrual method of accounting in preparing their financial statements. The above comment infers that the Association is denied interest income through not having access to these funds. Because of the above accounting methods, EPIC's earnings are included in the Association's thus eliminating any negative earnings impact on a consolidated basis.

(B) Although the listed individuals are officers and directors of the Association, they also served at that time as officers and/or directors, and the majority of their time was involved with the operations of, Equity Programs Investment Corporation, a wholly-owned service corporation, and its subsidiaries. Therefore, the bulk of the compensation of these

individuals was paid by the service corporation. Subsequent to the date of the examination the Association's service corporations have been restructured so that each service corporation maintains its own books and records and salaries are paid directly by each. With respect to Messrs. Billman and McCuiston, although they serve as officers and directors of the Association, their compensation was furnished by EPIC Holdings, Ltd., the parent corporation of the Association.

(C) EPIC Holdings, Ltd. (formerly known as Crysopt, Inc.) provides certain management services to all of its various subsidiary corporations, including the Association and, pursuant to written agreements, is compensated for these services by reasonable monthly management fees. This management agreement has been approved by the boards of directors of all of the various subsidiaries, including the Association.

(D) EPIC Holdings, Ltd. (formerly known as Crysopt, Inc.) and its 80% or more owned subsidiaries file a consolidated federal tax return and consolidated state tax returns where permitted. These returns are signed and filed by Arthur Andersen & Co. All companies in the group have elected in writing to file such consolidated returns. The EPIC Holdings, Ltd. group complies with and is subject to all IRC and federal regulations governing such consolidated returns and with all state regulations where applicable. We anticipate no deficiencies being assessed against the groups.

Comment 8

The Association acknowledges the comment as regards its investment in certificates of deposit from John Hanson Savings and Loan which have not been renewed. As regards our investment in certificates of deposit with Dwyer Bank and Crocker Bank, Regulation .31, Section 6, specifically provides for investment in certificates of deposit of commercial banks.

Comment 9

The Association carries adequate coverage as regards its fidelity bond per Regulation .22. The Association has added Community Realty Associates, Inc. as an additional insured. The EPIC companies are covered by their own bonds.

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Comment 10

On March 15, 1983, Equity Programs Investment Corporation, a Virginia corporation, was merged into the then existing sole service corporation of the Association, Community Savings and Loan Service Corporation, a Maryland corporation. Prior to and in connection with that merger, a comprehensive presentation was made to the staffs of the Maryland Division of Savings and Loan Associations (the "Division") and the Maryland Savings-Share Insurance Corporation ("MSSIC"). There was extensive documentation provided to the Division and MSSIC in connection with that presentation as well as discussion by senior management and the controlling shareholders. Both the Division and MSSIC approved the merger.

As a part of the merger to bring EPIC under the Association as a wholly owned service corporation, shares of preferred stock of the Association were distributed with a redemption value of \$5,366,494. It was determined and agreed at that time that the value of these shares would not be considered an "investment" in a service corporation under Regulation .34B until such time as the shares of preferred stock were redeemed by the Association. This interpretation of the regulation was supported from an accounting as well as legal standpoint.

With respect to the "Guaranty of Payment" from EPIC to various of its U.S. Home model home program subsidiaries, including Habicht Models, Inc. and Tanmis Models, Inc., these guarantees were fully disclosed and discussed in connection with the merger presentation to the Division and MSSIC. As background, since 1977 EPIC has had a program with U.S. Home Corporation, the largest homebuilder in the country, to purchase and leaseback its model homes. This program differs from EPIC's normal model home purchase in that it is an off-balance sheet financing transaction rather than a true sale and leaseback. The financing of the U.S. Home transactions is provided by The First National Bank of Chicago, which as a technicality requires that EPIC and the EPIC subsidiary guaranty the loan, although this guaranty can be discharged by EPIC simply delivering the subsidiary's stock to First Chicago. A copy of a typical Guaranty of Payment is attached as an exhibit with the applicable discharge language highlighted. Since this guaranty is merely a technicality rather than a real guaranty of debt, both from an accounting and regulatory standpoint, it should not be counted for regulatory purposes in computing "investment in service corporation" limits. At the time of the presentation of the merger proposal to the Board

Mr. Charles H. Brown, Jr., Director
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and MSSIC this approach and interpretation of the U.S. Home Corporation Model Home Program guarantees were approved.

By removing these items from the calculation, the Association was then in full compliance with the regulation governing investments in service corporations.

Comment 11

A. This comment is noted.

B. The Association intended to hold its 1983 annual meeting as required; however, due to the inability to resolve internal matters, the meeting was not held until August 3, 1984. Future annual meetings will be held on the first Monday of April as required by the bylaws of the Association.

C. The Board of Directors actually approved the payment of the preferred stock dividends; however, this action through an oversight was not reflected in the minute book. Attached as an exhibit hereto is a copy of a resolution of the Board of Directors ratifying such dividends.

D. It was intended that the exercise of the option to acquire 50% of the limited partnership interest in the North Boulevard Centre Associates Project be assigned to and exercised by one of the Association's duly constituted service corporations or some other eligible entity.

E. The Board of Directors of the Association is aware of the requirements of Regulation .43A(2) and (3) and Section 9-323, Financial Institutions, Annotated Code of Maryland, and is committed to complying with the provisions thereof. If there are specific items with which there is concern, the Board of Directors will take such corrective measures as may be required. In addition, attached hereto is a copy of a memorandum to all senior management of the Association and its subsidiaries outlining the requirements of the regulations.

Comment 12

The Association has not received the exception sheet noted in this comment. Upon receipt, we will respond promptly.

The following responses relate to the examiner's comments regarding Equity Programs Investment Corporation and are numbered to correspond thereto:

Comment 1

A. Comment 1A describes certain "accounts receivable" from Prune Leasing totaling \$72,766.60. These amounts were reflected as accounts receivable through accounting errors. Prune Leasing Ltd. was willing to purchase certain assets as requested by EPIC and to lease same to EPIC for its use. Our policy provides that in the case of such lease by EPIC to lease rather than buy, Prune Leasing will arrange the purchase and, in fact, with its cash, purchase the items. EPIC purchased the referenced items directly without Prune's knowledge and recorded these amounts as receivable because it was intending to sell the items to Prune. The accounting was subsequently corrected at the time EPIC advised Prune of the purchase. Prune purchased the item and has subsequently paid to EPIC interest at the rate of 14% per annum from the date of EPIC's purchase to the date of Prune's purchase. It is not, and never was, our intention that EPIC advance moneys to Prune.

B. The bulk of Mr. Deerin's salary was paid by Equity Programs Investment Corporation since at that time the majority of his time was involved with EPIC matters. However, a portion of his compensation was paid by the Association for services rendered in connection with Association business. Mr. Fellows was employed as a vice president and trust officer of the Association.

C. The items listed as C(a)(b)(1)(2)(3), and (c) were recorded as receivables by accounting error. These items were the direct expenses of EPIC, and the accounting has been subsequently corrected.

The French franc draft referenced in item C(d) represents no receivable. EPIC Holdings, Ltd. was unable to wire French francs via the Association. EPIC had a banking arrangement which facilitated such transfer. EPIC Holdings, Ltd. wired funds to EPIC on the exact same day that EPIC wired funds out on behalf of EPIC Holdings. There was no advance and no interest accrued or due. EPIC was involved only as an accommodating intermediary.

D. The listed loans have either been paid in full, including interest, or are now evidenced by written promissory notes bearing a reasonable rate of interest.

E. All of the transactions referenced in this comment occurred long prior to the time that EPIC was merged under the

Association. In fact, many of the transactions took place prior to the date that EPIC Holdings, Ltd. acquired control of the Association. Furthermore, these types of transactions were fully disclosed to the Board and MSSIC during the presentation of the proposed merger of EPIC under the Association. This is particularly true of the equipment leasing activities and "in house" (i.e., employee) limited partnerships.

Comment 2

A. The stock transaction referenced in this comment involved the exercise of certain stock options for the common stock of Equity Programs Investment Corporation which occurred prior to the merger of EPIC under the Association.

B. The guaranties of payment of Habicht Models and Tanmis Models are discussed in Comment 10 above. EPIC acting as general partner of its various limited partnerships does in fact secure various lines of credit on behalf of the limited partnerships. Except with respect to the U.S. Home Corporation transactions, it is not our intention and it has never been our intention that EPIC or any other affiliate guarantee any liabilities of other affiliates. Action is in process to attempt to remove EPIC from the guarantees referenced. No other guarantees have been given, and EPIC will not in the future guarantee Prune's debt.

Comment 3

We assume that this comment is directed towards the amount of debt incurred by the EPIC limited partnerships rather than debt of EPIC itself in its own name. In that case Regulation .34(1)(c)(ii)(cc) excludes from the debt limitation warehousing mortgages being accumulated for purpose of resale. All of the first mortgage debt incurred by the EPIC investment limited partnerships is originated against committed takeouts and would be excluded from the computation.

Secondly, under Regulation .34B(2)(d)(i) excludes from the 28 limitation calculation loans which would otherwise be a permissible investment for the Association. As discussed above, all of the loans made by the Association to the EPIC investment limited partnerships are loans that could be made by the Association (i.e., permissible investments) and, therefore, are excluded.

Comment 4

Trans-Ocean Associates is a limited partnership comprised of the entities and individuals listed in the comment. This partnership acquired a motor yacht and leased it to EPIC Holdings, Ltd. which in turn allocated the use thereof to various of its subsidiaries at rates determined to be arms length based upon the amount of use by each. The yacht was used for entertaining clients and customers of the Association and its service corporations as well as for employee outings on a limited basis.

With respect to the radio equipment and life raft, EPIC has been reimbursed for the cost thereof by EPIC Holdings, Ltd.

As a note, the yacht was subsequently sold to an unaffiliated third party and the partners of Trans-Ocean Associates realized no profit from such sale.

Comment 5

The airplane referenced in comment 5 is available for the business use of EPIC and the Association.

A. The plane is not leased.

(1) N/A

(2) Affiliates are billed for business use of the aircraft at the hourly operating cost plus direct in-flight expenses incurred for food, etc. There is no mark-up in costs.

B. Use by affiliates and charges to affiliates are limited to business use.

C. Air EPIC Ltd., a subsidiary of EPIC Holdings, Ltd., is the owner of the aircraft.

The following response relates to the examiner's comments regarding Community Realty Associates, Inc.

Comment 1

Community Realty Associates, Inc. is a wholly-owned service corporation of the Association. It was formed to acquire the farm and improvements located thereon, to develop and subdivide certain portions of the property, to renovate

Mr. Charles H. Brown, Jr., Director
November 26, 1984
Page Fourteen

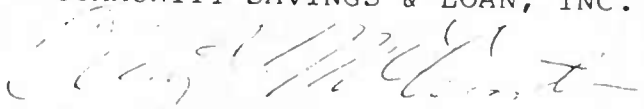
certain of the improvements, either for ultimate sale or rental. At the present time, the property is on the market for sale either as an entirety or in separate parcels.

In summary, it should be kept in mind that the examination date was almost one year prior to the time we received it, and numerous of the items listed were corrected in the interim. Since the date of the examination, the Association has been operated in a prudent, safe, sound and profitable manner to the end that as of the end of October 1984, Community Savings & Loan had total assets of \$609,621,000, total savings of \$446,034,000 and a regulatory net worth of \$24,337,000 (6.40% of savings).

The Board of Directors of this Association and its Executive Committee have met on a number of separate occasions to discuss the various comments contained in your letter of September 7, 1984 and the report of examination. In the event any of our written responses do not address specific concerns, please advise us and we will attempt to promptly provide you with further information or take such other actions as may be required.

Very truly yours,

COMMUNITY SAVINGS & LOAN, INC.


Clayton C. McCuistion
President

Enclosures

cc: Mr. Charles C. Hogg II, President
Maryland Savings-Share Insurance Corporation

Members of the Board of Directors
Community Savings & Loan, Inc.

LIST OF EXHIBITS

- Comment 3 - Financial Statement of Sopaclic International, Inc.
- Comment 6 - Peeke Report and Quote Sheet
- Comment 10 - Typical U.S. Home Model Home Program Guaranty Form
- Comment 11(C) - Board of Directors Resolution Re: Ratification of Payment of Preferred Stock Dividends
- Comment 11(E) - Copy of Memorandum Re: Business, Transactions and Loans with Controlling Persons

Comment 3

- Financial Statement of Sopaclif
International, Inc.

Sopaclic International Inc.

1601 N. Kent Street
Suite 1101
Arlington, VA 22209
Phone: (703) 527-5410

SOPACLIF INTERNATIONAL INC.
A DEVELOPMENT STAGE COMPANY

FINANCIAL STATEMENT

JUNE 30, 1983

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FOR INTERNAL USE ONLY

1892

COMMAST 3

SOPACLIF INTERNATIONAL INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
JUNE 30, 1983

ASSETS

Current Assets

Cash	\$ 3,479
Loans receivable	<u>179,747</u>

Total \$ 183,226

Property and Equipment

Construction in progress	\$1,922,202
Land	1,067,293
Equipment	<u>692,305</u>

Total 3,681,800

Other Assets

Deposits placed on land	\$ 45,000
Organization costs	3,372
Prepaid expenses	<u>59,337</u>

Total 107,709

TOTAL ASSETS

\$3,972,735

SOPACLIF INTERNATIONAL INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
JUNE 30, 1983

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Due to affiliate	\$ 438,407
Notes payable	90,412
Loans payable	222,772
Deferred income taxes	<u>26,381</u>

Total Liabilities \$ 777,972

Commitments

--

Stockholders' Equity

Common stock, \$1.00 par value, authorized 5,000,000 shares, issued 3,109,300 shares	\$3,109,300
Retained earnings Earnings accumulated during development stage	<u>85,463</u>

Total Stockholders' Equity \$3,194,763

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$3,972,735

SOPACLIF INTERNATIONAL INC. AND SUBSIDIARIES
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF EARNINGS
AND ACCUMULATED EARNINGS
FOR THE SIX MONTHS ENDED JUNE 30, 1983

<u>Income</u>		
Interest income		\$ 87,052
<u>Expenses</u>		
General, administrative and operating expenses		<u>22,280</u>
Net income before provision for income taxes		\$ 64,772
<u>Provision for income taxes</u>		
Current	-\$ --	
Deferred	<u>15,900</u>	
Total		\$ <u>15,900</u>
NET INCOME FOR THE PERIOD		\$ 48,872
Earnings accumulated from December 29, 1982 (date of inception) through December 31, 1982		\$ <u>36,591</u>
EARNINGS ACCUMULATED DURING DEVELOPMENT STAGE		\$ <u>85,463</u>

Comment 6

- Peeke Report and Quote Sheet

Memorandum

To: Branch Managers
 From: Joseph Mahoney

Date: October 20, 1984
 Copies to: Distribution

Subject: EPIC MORTGAGE, INC. Effective Rates and Fees October 20, 1984 Quoting Schedule 84-34

The following outlines loan types and applicable interest rates and fees for permanent residential loans to be offered through your branch origination facilities. Rates and fees are firm until further notice. All quotes are for new acquisitions or refinances for owner-occupied properties up to 90% LTV and refinances of investor properties to 80% LTV (no cash-out investor refinances), except as noted.

NOTE: All property must be fee simple (no leaseholds) unless otherwise specified.

NOTE: Composite APR disclosure is required for all ARM loans. Maximum ratios for ARM loans shall be 28% housing/income and 36% debt/income, unless otherwise specified.

ONE YEAR ARM 60 day quote
 Commitment Line #AFC111-036

Note: Note rate, payment rate, qualifying rate, and interest rate caps from note rate selected. Rate may change weekly on Tuesday.

— Up to 95% LTV	To \$150,000	10 3/8%	4 1/2	2% annual, 6 3/4%
				life of loan cap
		10 3/4%	3 3/4	2% annual, 6 1/2%
				life of loan cap
		11%	3 1/4	2% annual, 6 1/4%
				life of loan cap
		11 1/4%	2 1/2	2% annual, 6%
				life of loan cap
Up to 80% LTV	To \$250,000	10 3/8%	4 1/2	2% annual, 6 3/4%
				life of loan cap
		10 3/4%	3 3/4	2% annual, 6 1/4%
				life of loan cap
		11%	3 1/4	2% annual, 6%
				life of loan cap
		11 1/4%	2 1/2	2% annual, 6%
				life of loan cap

MARGIN: 2.75%

CONVERTIBLE FEATURE: Not available

INVESTORS: Yes, to 90% LTV. Additional 1/2 of 1% initial rate and margin. Top 30% mortgage insurance on all loans above 80% LTV. Investor funds limited, register loans with Mary Cast.

October 20, 1984
Quoting Schedule 84-34
Page Two

MORTGAGE INSURANCE: Coverage down to 72% for owner occupied loans above 80% LTV.

UNDERWRITING RATIOS: Not to exceed 25/33%.

BUYDOWNS: Not available.

PROPERTY: Single family FHLMC acceptable, and approved condominiums. Two to four unit structures limited, register with Mary Cast.

REFINANCE: Not Available

NEW THREE YEAR FIXED/ONE YEAR ARM - 60 Day Quote
Commitment Line #AFC113-043

Rate may adjust weekly on Tuesday

Plan A

A one year ARM loan, with the interest and payment rate fixed for the first three years. Plan A includes a 2/1 step buydown.

→ Up to 95% LTV To \$125,000 (\$150,000) Year 1-10 3/8% 2 1/2 + 2.8%
buydown fund
Up to 90% LTV To \$175,000 (\$200,000) Year 2-11 3/8%
Up to 80% LTV To \$250,000 (\$300,000) Year 3-12 3/8%
Margin = 2.875%

Plan B

A one year ARM loan, with the interest and payment rate fixed for the first three years.

→ Up to 95% LTV To \$125,000 (\$150,000) 12 1/8% + 3
Up to 90% LTV To \$175,000 (\$200,000) 12 1/8% + 3
Up to 80% LTV To \$250,000 (\$300,000) 12 1/8% + 3

MARGIN: 2.625%

Note: Dollar amount in parenthesis require an additional 1/4% fee for owner occupied loans and 1/2% fee for second home/investor loans.

INTEREST RATE CAPS: 2% per adjustment (based on year 3 rate for Plan A); 5% life of loan cap

October 20, 1984
Quoting Schedule 84-34
Page Three

CONVERTIBLE: No

INVESTORS/SECOND HOMES: Yes, to 80% LTV and \$200,000, (or to \$250,000 for an additional 1/2 of 1% fee). For all investor loans, an additional 1/2 of 1% in rate, margin, and fee is required.

MORTGAGE INSURANCE: Top 20% coverage on owner occupied loans above 80% LTV to 90% LTV and on all second home and investor loans. Top 25% coverage on owner occupied loans above 90% LTV.

UNDERWRITING RATIOS: 25/33% for owner occupied loans above 90% LTV, for second home/investor loans, and all loans with buydowns. 28/36% for owner occupied loans of 90% LTV or less.

PROPERTY: SFD, fee simple townhouse, or FNMA/FHLMC approved or approvable condos by FNMA. Limited availability of funds for 2 to 4 unit properties and investor loans. No leasehold estates.

REFINANCE: To 90% LTV for owner occupants, 80% for investors. Maximum cashout of 15%. Maximum one refinance loan per borrower.

SECONDARY FINANCING: Loans may not include secondary financing.

BUYDOWNS: Seller subsidies not to exceed FNMA guidelines.

ASSUMABILITY: Loans are due on sale, unless otherwise permitted by loan buyer.

NEW THREE YEAR ARM 60 Day Quote
Commitment Line #AFC133-044
Rate may adjust weekly on Tuesday

→ Up to 95% LTV To \$125,000 (\$150,000) 12 3/8% + 3
Up to 90% LTV To \$175,000 (\$200,000) 12 3/8% + 3
Up to 80% LTV To \$250,000 (\$300,000) 12 3/8% + 3

Note: Dollar amount in parenthesis require an additional 1/4% fee for owner occupied loans and 1/2% for second home/investor loans.

INTEREST RATE CAPS: 2% per adjustment, 6% life of loan.

MARGIN: 2.50%

CONVERTIBLE: No

INVESTOR/SECOND HOMES: Yes, to 80% LTV and \$200,000, (or to \$250,000 for an additional 1/2 of 1% fee). For all investor loans, an additional 1/2 of 1% in rate, margin, and fee is required.

MORTGAGE INSURANCE: Top 20% coverage on owner occupied loans above 80% LTV, to 90% LTV and on all second home and investor loans. Top 25% coverage on owner occupied loans above 90% LTV.

UNDERWRITING RATIOS: 25/33% for owner occupied loans above 90% LTV, for second home/investor loans, and all loans with buydowns. 28/30% for owner occupied loans of 90% LTV or less.

PROPERTY: SFD, fee simple townhouse, or FNMA/FHLMC approved or approvable by FNMA. Limited availability of funds for 2 to 4 unit properties and investor loans. No leasehold estates.

REFINANCE: To 90% LTV for owner occupants, 80% for investors. Maximum cashout of 15%. Maximum one refinance loan per borrower.

SECONDARY FINANCING: Loans may not include secondary financing.

BUYDOWNS: Seller subsidies not to exceed FNMA guidelines. 2/1 or 1% buydown acceptable.

ASSUMABILITY: Loans are assumable subject to review of credit and a fee payable.

15 Year FRM Conforming Loans (60 Day Quote)
*Commitment Line # FFC100-017

→ Up to 95% LTV To \$114,000 13 ^{1/4%} ~~3-8%~~ 3 + PMI

INVESTORS: Yes, To 90% LTV, additional 3/4 of 1% fee.

BUYDOWNS/DISCOUNTS: As per FHLMC standards. Temporary buydowns may include 4/3/2/1, 3/2/1, or 2/1 on Jumbo. Maximum seller contribution of all sales concessions may not exceed 10% of the mortgage amount for 90% LTV and 6% for above 90% LTV.

October 20, 1984
Quoting Schedule 84-34
Page Five

UNDERWRITING RATIOS: 28/36%

PROPERTY: FHLMC acceptable, including leaseholds and approved condominium units.

15 Year FFM Jumbo Loans

Commitment Line #FFC100-038

Loans must close by November 10

Up to 90% LTV To \$150,000 13 5/8% + 2 PMI
Up to 80% LTV To \$250,000 13 5/8% + 2

INVESTORS: Not available

BUYDOWNS: 3/2/1 or 2/1 available (note reduced cost on 15 year amortized loan). Borrower qualified at not more than 2% below note rate. Collect full payment differential between buydown and note rate. Buydowns cost 3x2/1 = 4.85 points, 2/1 = 2.5 points.

UNDERWRITING RATIOS: 28/36%

PROPERTY: Single family attached, detached or FNMA Type A and B.

New 15 year Graduated Payment Mortgage (60 Day Quote)

*Commitment Line FFC200-062

A 15 year amortized fixed rate loan with a 5 year graduated payment period (7.5% increase for 4 years with a lesser increase in year 6). There is no negative amortization.

Up to 95% LTV To \$114,000 13.875% 2 1/2 + PMI

First year payment factor/\$1,000 = \$10.4502

First year effective payment rate = 9.513%

Subsidy Cost = 1.75 points

INVESTORS: Not available

MORTGAGE INSURANCE: Coverage down to 72% for all loans above 80% LTV.

UNDERWRITING RATIOS: Not to exceed 28/36%.

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Page Six

BUYDOWNS: Not available.

PROPERTY: As per FNMA including acceptable leaseholds.

REFINANCE: Not available.

30 Year Conforming FRM Loans (60 day quote)
Unassigned

→ Up to 95% LTV To \$114,000 13% 3 1/2 + 1
13 1/4% 2 1/2 + 1 PMI
13 1/2% 1 1/4 + 1 PMI

INVESTORS: Yes to 90% LTV. Additional 1/4 in rate and 1% fee.
MI to 65% for loans above 80% LTV.

BUYDOWNS: As per FNMA

UNDERWRITING RATIOS: 28/36%

PROPERTY: FNMA acceptable, including leaseholds

30 Year Conforming FRM Loans with 5/3/1 or 4/2 Buydowns
(60 Day Quote)

*Commitment Line FFC100-063

→ Up to 95% LTV To \$114,000 13.5% 2 1/2 + PMI

INVESTORS: Not available.

MORTGAGE INSURANCE: Coverage down to 72% for above 80% LTV
loans.

UNDERWRITING RATIOS: 28/36% (Based on bought down rate)

BUYDOWNS: 5/3/1 at a cost of 8.25 points.
4/2 at a cost of 5.5 points.

PROPERTY: FHLMC acceptable.

REFINANCE: Not available.

1908

October 20, 1984
Quoting Schedule 84-34
Page Seven

30 Year Jumbo FRM Loans (60 Day Quote)
Commitment Line #FFC100-069

→ Up to 80% LTV To \$150,000 13 3/4% + 2
Up to 75% LTV To \$250,000 13 3/4% + 2
Up to 70% LTV To \$300,000 13 3/4% + 2

INVESTORS: Not available

MORTGAGE INSURANCE: Not required

UNDERWRITING RATIOS: 28/30%

BUYDOWNS: Not available

REFINANCE: Not available

PROPERTY: FNMA acceptable. No leaseholds or Type C condos.

30 Year Jumbo FRM Loans (60 Day Quote)
Unassigned

Up to 90% LTV To \$150,000 14% + 3 PMI
Up to 80% LTV To \$250,000 14% + 3

INVESTORS: Not available

BUYDOWNS: 3/2/1 or 2/1 available. Borrower qualified at no more than 2% below note rate.

UNDERWRITING RATIOS: 28/36%

PROPERTY: FNMA acceptable. Condominiums only FNMA Type A or B.

October 20, 1984
Quoting Schedule 84-34
Page Eight

Greenbelt Co-op Loans: (60 Day Quote)
Uncommitted

Loan Types

Three Year ARM	13 1/2%	3 + PMI	300 Margin
Five Year ARM	13 3/4%	3 + PMI	300 Margin
15 Year Fixed	13 7/8%	3 + PMI	
30 Year Amortization/	13 7/8%	3 + PMI	
15 Year Balloon			

Optional Payment Cap: 7 1/2% per adjustment

Lincoln Service Corp. - Servicing Released
Commitment Line # LINCOL-000

Branches have access to Lincoln Service Corp. programs on a servicing released basis provided EMI does not offer the same or similar product on current quoting schedule.

Comment 10

- Typical U.S. Home Model Home Program
Guaranty Form

GUARANTY OF PAYMENT

THIS GUARANTY OF PAYMENT is made as of the 1st day of Nov. 1962, by EQUITY PROGRAMS INVESTMENT CORPORATION, a Virginia corporation ("Guarantor").

WHEREAS, Guarantor owns all of the issued and outstanding capital stock of TANMIS MODELS, INC., a WISCONSIN corporation (the "Borrower");

WHEREAS, Guarantor desires THE FIRST NATIONAL BANK OF CHICAGO (the "Bank") to extend credit to the borrower, and the Bank will agree to extend credit to the borrower only if the Guarantor executes this Guaranty.

NOW, THEREFORE, in consideration of the premises, the credit given, and other good and valuable consideration, the undersigned Guarantor hereby absolutely and unconditionally guarantees prompt payment when due and at all times thereafter of all indebtedness and liability of the Borrower to the Bank pursuant to a certain Loan Agreement of even date herewith between the Borrower and the Bank providing for a loan in the principal amount of \$15,500,000.00 including all renewals, modifications and extensions thereof, (the foregoing hereinafter referred to as the "Indebtedness").

The undersigned hereby waives notice of acceptance of this Guaranty, notice of any and all the Indebtedness, and notice upon the making or granting by the Bank at any time of any and all renewals, extensions or modifications of any of the Indebtedness. The undersigned also waives notice of any default by the Borrower in payment of, or performance under, any of the Indebtedness, as well as presentment, protest, notice of dishonor, and demand for payment of any of the Indebtedness. In addition, the undersigned waives any right to compel the Bank to sue upon, enforce payment for, or take any action in respect of, any or all of the Indebtedness.

The undersigned hereby agrees that, without affecting the liability of the Guarantor, the Bank may from time to time and without notice to the undersigned, grant renewals of, extensions upon, or modifications to the Indebtedness or grant any indulgences or forbearances to the Borrower which, in the absence of the Bank's consent, violate or may be deemed to violate the agreements of the Borrower respecting any or all of the Indebtedness. Similarly, from time to time, without notice to or consent of the undersigned, the Bank may give its consent to any action or non-action of the Borrower which, in the absence of such consent, violates or may be deemed to violate the agreements of the Borrower with respect to any or all of the Indebtedness.

The undersigned further agrees that the Bank is hereby irrevocably authorized and empowered to apply to the Borrower's Indebtedness to the Bank, as it may see fit, any payment or payments made to it by the Borrower.

This Guaranty is made and shall continue as to any and all Indebtedness, without regard to collateral, or security, or guaranties, or other obligors, if any, or to the validity or effectiveness of any and all thereof; and any and all such collateral and security and guaranties and other obligors, if any, may, from time to time, without notice to or consent of the undersigned, be sold, released, surrendered, exchanged, settled, compromised, waived, subordinated or modified, with or without consideration, on such terms or conditions as may be acceptable to the Bank, without in any manner affecting

of imposing the liability of the undersigned. It is agreed that the undersigned's liability hereunder is several and is independent of any other guaranties at any time in effect with respect to all or any part of the Borrower's indebtedness to the Bank, and that the undersigned's liability hereunder may be enforced regardless of the existence of any such other guaranties.

The Guarantor agrees to deliver to the Bank within 90 days after the close of each fiscal year a consolidated audit report prepared by independent certified public accountants, or other accountants acceptable to the Bank, and within 45 days after the close of each quarter of the undersigned's fiscal years, consolidated and consolidating balance sheets as of the end of such period and consolidated and consolidating profit and loss and surplus statements certified as accurate by the undersigned.

This Guaranty shall terminate and be of no further force and effect, if, within 15 days after notice of the Bank's commencing any action to either foreclose the Mortgages or Deeds of Trust securing the Indebtedness or collect the promissory notes evidencing the Indebtedness or enforce this Guaranty, the Borrower shall have executed and delivered to the bank deeds legally sufficient to convey to the Bank the Borrower's entire right, title and interest in and to all of the land and improvements then encumbered by such Mortgages and Deeds of Trust, in satisfaction of the Indebtedness, or the Bank at its option shall have acquired absolute ownership (as opposed to being a pledgee) of the capital stock of Borrower.

Notwithstanding the fact that the Borrower is a single purpose corporation and the Guarantor owns all of the capital stock of Borrower and exercises substantial control over the activities of the Borrower, the Bank recognizes that Borrower is a separate corporation and agrees that it will not attempt to pursue any action against Guarantor with respect to the Indebtedness except under this Guaranty, or except in the event of the fraud or wilful misconduct of the Guarantor.

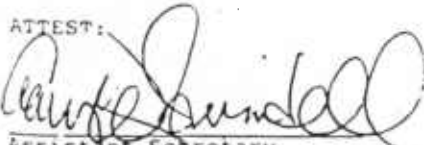
This Guaranty shall also bind the heirs, successors and assigns of the undersigned and shall bind and inure to the Bank, its successors and assigns, and the holder and any subsequent holder of the notes evidencing the Indebtedness.

This Guaranty is to be governed and construed by the laws of the State of Illinois.

Executed as of the date first above written.

EQUITY PROGRAMS INVESTMENT CORPORATION

ATTEST:


Assistant Secretary

BY:


Vice President

Comment 11(C)

- Board of Directors Resolution Re:
Ratification of Payment of Preferred
Stock Dividends

COMMUNITY SAVINGS & LOAN, INC.

Written Record of Action
of the
Board of Directors

We, the undersigned, being all of the members of the Board of Directors of Community Savings & Loan, Inc., a Maryland savings and loan, do hereby take and adopt the following actions and resolutions:

RESOLVED, that the dividends declared and paid by the Association on the issued and outstanding shares of its Series "A" Preferred Stock, through the date hereof, as more fully set forth on Exhibit "A" hereto be, and the same hereby are, ratified and confirmed.

DATED this 20th day of November, 1984.

Tom J. Billman

Clayton C. McCuistion

James B. Deerin, Jr.

Elaine A. Dudash

John D. Faulkner, Jr.

Comment 11(E)

- Copy of Memorandum Re: Business,
Transactions and Loans with
Controlling Persons



memorandum

To: Senior Management Date: 11-28-84
From: Dick Deerin Copies to: G. Swindell
Subject: Transactions and Loans With "Controlling
Persons"

Under the Maryland law and regulations, transactions between Community Savings & Loan and "controlling persons" (as defined) and loans from Community Savings & Loan and controlling persons require certain actions to be taken.

For our purposes "controlling persons" are Tom Billman and Clay McCuistion and EPIC Holdings, Ltd. (including those subsidiaries of EHL which are not part of Community Savings & Loan).

A controlling person may engage in a "business or transaction" with Community Savings and Loan only if (1) there is full disclosure of the business or transaction and the nature of such controlling person's interest to the board of directors of Community, (2) the transaction is approved by the board, and (3) any profits accruing to the controlling person are not at the expense of Community Savings & Loan.

Loans by Community Savings & Loan to a controlling person must be approved by the board of directors, the security for the loan must be appraised, and the Director of the Division must approve the loan.

It is extremely important that each of you be aware of the legal and regulatory framework governing these transactions. To the extent you become aware of transactions or loans in your planning which may fall within the above restrictions, please let me know so the matter can be properly presented to the board of directors for consideration.

If you should have any questions, please feel free to call me.

JBD

To: Tom Billman	Bob Kemp
Joel Bernstein	Kent Levenson
John Carroll	Clay McCuistion
Elaine Dudash	Barbara McKinney
John Faulkner	Larry Mathias
John Frame	Lenny Meltz
Ron Frazier	Jack Riggle
Gene Isaacs	Mike Shomper

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, J.
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

M E M O R A N D U M

TO: Joseph J. Barbera, Chief Examiner
FROM: Charles F. Endres
RE: Community's Response to Supervisory Letter
DATE: December 26, 1984

Comment 1: CONCENTRATION OF LOANS - 10% OF ASSETS.

The association states on Page 2, Paragraph 3 the following:

"The association believed in good faith that the amendment to Regulation .30A(1) had been only and properly made and was entitled to rely thereon."

(Regardless of the above, "Community is still in violation of Regulation .30A(1)".)

Comment 2: LIMITATION OF LOANS - 95% RATIO - NON HOMEOWNER LOANS

Section 9-419C

"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."

Page 3, Paragraph 1 states in part:

--Board has no authority to limit by Regulation, this specific legislature grant of authority--

IIID22

1918

Therefore Community states, pursuant to the Federal Tie-in statute cited above, such loans are specifically permitted to be made by Community Savings and Loan.

Further, Page 3, Paragraph (4) speaks of Board of Savings and Loan Commissioners amending Regulation .30C(13)(6) to specifically permit first mortgage loans on non-owner occupied residential properties up to 95% loan to value provided that such loans are covered by private mortgage insurance -- Association believes this regulatory amendment was only approved by the Board, but it has never been published in The Maryland Register.

If above is acceptable to Division, Comment 2 needs no further reply.

Comment 5: LESS THAN 50% OF ASSETS IN HOMEOWNER LOANS.

Refers to Regulation .30D(1) (Homeowner Loans)

Reply on Page 5, Paragraph 3 refers to "Federal Tie-in" provision -- The association states:

"We submit that, since federal associations have no specific limitation between owner occupied and non-owner occupied residential loans, the association has the right to make loans without regard to per-centages of owner occupied versus non-owner occupied.

Again if Division agrees to this interpretation of 9-419(c) no further action is necessary.

Comment 8: OK JAS

If association is referring to Regulation .30C(1), assets of said commercial banks need to be checked to see if they meet requirements.

Comment 10: INVESTMENT IN SERVICE CORPORATION EXCESSIVE

If facts as presented in association's reply to the Division are deemed correct -- no further action in regards to this comment is necessary.

Comment 11: QUESTION OF APPROVAL FROM DIVISION FOR GRANTING LOAN

(D) Reply does not state if "option" has been assigned to one of the association's duly constituted service corporations or some other eligible entity.

Maryland Sav

Paul

This is a summary of the significant comments and req. On whole, the exam seems to concentrate on the ^{form} of opera as opposed to activities that could result in realized losses. MS.

TO: Paul V. Trice, Jr.
FROM: Martin W. Becker
RE: Community Division
DATE: December 20, 1984

COMMENT 1

The comment alleges that the association has violated Regulation .30A(1) concerning concentration of loans. Specifically this Regulation states:

Not more than 10 percent of the assets of an association may be due from any one person, partnership, company, firm, or coporation, or any combination of these, that is beneficially owned or controlled, either directly or indirectly, by one person, partnership, company, firm, or corporation, or any combination of these.

At issue is:

1. The association claims that the Regulation was amended by the Board of Commissioners on February 9, 1984. This amendment raised the percent limitation to 20%. However, the response indicates that the amendment was withdrawn. The association claims to have relied on the amendment prior to its withdrawal in good faith.
2. The examiners indicate that perhaps all the EPIC limited partnerships should be treated as a loan to one borrower. The association disagrees.

COMMENT 2

The examiners allege a violation of Regulation .30C(13)(b). The Regulation states:

that on insured loans secured by improved residential non homeowner or improved commercial property, the loan may not exceed 90% of the market value of the security."

IIID23

Specifically the association is making non recourse 95% loan-to-value ratio loans.

The association asserts two claims. First, under Section 9-419(a), the association claims a tie-in to FSLIC investment authority. Second, the association recollects that the Board of Commissioners amended .30(13)(b) to specifically permit 95% loan-to-value loans, however, it was never published in the Maryland Register.

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128000

COMMENT 3

Appears supported by the association.

COMMENT 4

Appears supported by the association.

COMMENT 5

The examiners allege that the association is in violation of Regulation .30D(1) which requires at least 50 percent of the association's loans to be residential owner-occupied. The examiners calculate the actual percentage at 12.8%. The association asserts that under the "Federal Tie-In" Section 9-419(c) that no distinction exists therefore they should not be bound. Further, the association indicates that since they are acting as mortgage bankers, compliance with the structure of the regulation is difficult.

COMMENT 6

Appears supported by the association.

COMMENT 7

1. Association admits accounting error and will correct.
2. Examiners indicate a management fee of \$50,000 a month to "Epic Holding". They do not explain if this is unreasonable or not.

COMMENT 8

Examiners point out deposits as follows:

John Hanson	\$5,000,000
Druyer Bank	\$5,000,000
Crocker Bank	\$2,007,671

The association will correct John Hanson excess over \$100,000 but indicates that under Regulation .31 the investment in the banks is permissible.

COMMENT 9

The examiners claim a deficit of \$150,000 in the amount of fidelity bond required. The association disputes any deficit.

COMMENT 9

The examiners allege a violation of Regulation .34B concerning investments in service corporations not exceeding 2% of the association's assets. The examiners compute the total investment percentage at 9.2%. The primary investments are:

Investment in EPIC	\$ 5,366,494	=
Guaranty of Payments	\$25,199,531	=

1921
~~176611~~
9.02%

Paul V. Trice, Jr.
December 20, 1984
Page 2

The association asserts that the Investment in EPIC was approved by both MSSIC and the Division for exclusion of Regulation .34B "until such time as the shares of preferred stock were redeemed by the association. This interpretation of the Regulation was supported from an accounting as well as legal standpoint."

Concerning the "Guaranty of Payments" from EPIC to various of its subsidiaries, again the association asserts MSSIC and the Division have knowledge of this activity. It is asserted that the guaranty is "merely a technicality rather than a real guaranty of debt, both from an accounting and regulatory standpoint" and should be excluded.

The association is in compliance if these two categories are excluded.

COMMENT 12

Minor violations.

1922

MWB/law

~~A76602~~

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, MARCH 23, 1983

The regular monthly meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 901 North Howard Street, Baltimore, Maryland on March 23, 1983.

The following Directors were present:

Frances F. Anderson
Leonard Bass
Joseph P. Carroll
Michael J. Dietz
Jerome F. Dolivka
John C. Donohue, Sr.

Henry R. Elsnic
John D. Faulkner, Jr.
James D. Laudeman, Jr.
Judith H. Miles
Terry L. Neifeld

Others Present: Charles C. Hogg, II, Executive Vice President; Ralph K. Holmes, Senior Vice President; Paul V. Trice, Jr., Vice President; Martin W. Becker, Financial Analyst; Patrick M. McCracken, Administrative Coordinator; Terry F. Hall, Venable, Baetjer and Howard; Charles H. Brown, Jr., Director, Division of Savings and Loan Associations; John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Faulkner called the meeting to order at 9:26 a.m. and noted that a quorum was present. Mr. McCracken acted as Recorder for Mr. Hogg as Secretary.

Mr. Hogg introduced Mr. Craig T. Garrison from the Trust Department of Union Trust Company and indicated that Mr. Garrison is now filling the role of Harry White concerning the MSSIC and CRF portfolio.

Mr. Pretko reviewed the Investment Reports, and following a general economic narrative, he suggested extending the average maturity of MSSIC's investments from six months to seven-eight months. It was the consensus of

the Board that this be done. Messrs. Pretko and Garrison were then excused from the meeting. (Copies of the Investment Reports are attached to the permanent file copy of these minutes.)

Mr. Dietz asked if copies of Mr. Pretko's monthly narrative could be distributed to those Board members interested in receiving them.

Mr. Faulkner requested that Mr. Hogg pursue this request.

Mr. Neifeld noted that his notes from the previous Board Meeting did not indicate that Chevy Chase Savings and Loan, Inc. had been among those granted a waiver of the late filing of the January 1983 PPR. He asked for clarification regarding their appearance in the minutes of that meeting under the aforementioned section.

Mr. Hogg responded that Mr. Neifeld was correct and that a correction to the February 23, 1983 minutes striking Chevy Chase from the waiver section will be noted and waiver of that penalty will be placed on today's meeting agenda.

Mr. Dietz motioned to waive the reading of the minutes of February 23, 1983 Regular Meeting of Directors as amended and Mrs. Anderson seconded the motion. Upon a vote the motion was passed unanimously.

During a review of the Treasurer's Report Mr. Hogg stated that in follow-up to Mr. Neifeld's comments of last month we have moved completely to full accrual.

Mr. Neifeld asked why Special Deposit Fund interest should not be netted out of the MSSIC monthly financial statement. Mr. Hogg suggested that Mrs. Anderson and Messrs. Neifeld, Kohr and he discuss this adjustment following the Board Meeting.

Mr. Hogg indicated that several members (Kent, Hopkins, Westowne, Baltimore American, Ellwood, Northfield and Enterprise) were late in

submitting their Capital Deposit adjustments. He further stated that due to the penalty of 6% for late filing, the total amount of all penalties involved was not significant. The total was \$155.92.

Mr. Elsnic made a motion that a waiver of the penalty for late submission of Capital Deposit Funds for the above mentioned member associations be granted. Mr. Laudeman seconded the motion which was carried unanimously.

Following this Mr. Dietz made a motion to accept the Treasurer's Report to which Mr. Bass added a second. Upon a vote the Treasurer's Report for the period ending February 28, 1983 was unanimously accepted. (A copy of the Treasurer's Report is attached to the permanent file copy of these minutes.)

Mr. Elsnic reviewed the March 9, 1983 Membership Committee Meeting Minutes. During this review he noted that \$6-\$10 million or more of the loan portfolio of First Maryland Savings and Loan, Inc. appears to be for out-of-state properties. He also indicated that it was the recommendation of the Membership Committee to the Board that Chesapeake Savings and Loan Association's conversion to stock be approved subject to the approval of the Director of the Division of Savings and Loan Associations.

Mr. Neifeld motioned that the minutes of the Membership Committee Meeting of March 9, 1983 be accepted. Mrs. Anderson seconded the motion and it was passed unanimously. (A copy of the Membership Committee Minutes is attached to the permanent file copy of these minutes).

Mr. Laudeman made a motion to approve the conversion to stock on the part of Chesapeake Savings and Loan Association subject to the approval of the Director of the Division of Savings and Loan Associations. Mr. Bass seconded the motion. During a discussion of the motion, Mr. Dolivka suggested amending the motion to include a delay in entering into an insurance agreement which he indicated is required under Section 3-211(C)(2) of the MSSIC Rules

and Regulations. Chesapeake's net worth to savings ratio as of 2/28/83 equals 2.02%, which is under the mandatory 3% requirement. Upon a vote the amended motion passed with Ms. Miles abstaining. Mr. Dolivka made note of June 1, 1983 as the date which Chesapeake should exceed a 3% net worth to savings ratio.

Paul Trice reported the following on Ridgeway Savings and Loan Association:

1. He anticipated receiving an executed hypothecation agreement in the amount of \$50,000 on Monday, March 28, 1983.
2. He also anticipated receiving on that same date a contract of sale for their office building located at 9095 Frederick Avenue, Ellicott City, Maryland.
3. He noted that because the sale of this building is a related party transaction, it requires the approval of the Director of the Division of Savings and Loan Associations.
4. He said this transaction should take place within a matter of 30 days and should result in a gain of \$50,000 profit on the sale.
5. He indicated that the combined increase of \$100,000 in net worth should elevate this association's current net worth to savings ratio from its current 1.94% (as of 2/28/83) to approximately 25 basis points above 3%.

In response to questions Mr. Trice indicated that Ridgeway has had one independent appraisal done on their office building and that the contract of sale had no buy back provision. He said that he would ascertain on 3/28/83 the amount of rental which would be charged to the association following the transaction.

Mr. Brown stated that Mr. Farnandis, President of Ridgeway, has asked for a conference to discuss the possible conversion to stock of his association. To this Mr. Trice added that this proposed conversion would be four to six months away and that it was his understanding that Mr. Farnandis intended to carry out the entire conversion himself with no outside assistance.

Mr. Dolivka noted that the entire question of Ridgeway's net worth should be resolved by April 30, 1983.

Hearing no Old Business, Mr. Faulkner moved to New Business.

Under New Business Mr. Hogg indicated that together with the previously noted addition of Chevy Chase Savings and Loan, Inc., the following associations requested a waiver of the penalty for the late filing of the Periodic Performance Report:

Columbian Building Association
Enterprise Building and Loan Association
Liberty Savings and Loan Association
Parkwood Building and Loan Association
Westowne Savings and Loan Association

With the indication that the above listed associations were eligible for a waiver, Ms. Miles made the motion that waivers be granted. Mr. Elsnic seconded the motion and the vote was unanimously favorable.

Following Mr. Hogg's report of the Nominating Committee Meeting (minutes for which had previously been distributed), Mr. Laudeman motioned that the Board accept and thereby approve for nomination the following persons for a four year term as directors beginning in April 1983.

Those nominated were:

Michael J. Dietz
Terry L. Neifeld

Mr. Dolivka seconded the motion and the vote was favorable with Messrs. Dietz and Neifeld abstaining. (A copy of the Minutes of the March 10, 1983 Nominating Committee meeting is attached to the permanent file copy of

these minutes).

Under the report of the Executive Vice President, Mr. Hogg gave the following review of his meetings with the management of the seven members listed.

1. Community Savings and Loan, Inc. - visited on February 17, 1983 and reports that the stock swap with their subsidiary EPIC should bring them into net worth compliance by March 31, 1983.

2. First Maryland Savings and Loan, Inc. - visited on February 28, 1983 and held a subsequent meeting with their counsel and expects them to sign an insurance agreement on March 28, 1983.

3. Chesapeake Savings and Loan Association - visited on March 3, 1983. He said that the Board has acted today to approve this association's conversion to stock and that he anticipated slower but controlled growth.

4. John Hanson Savings and Loan, Inc. - visited on March 4, 1983 and they intend selling \$3 million in additional stock. Thereafter, the association should continue to grow while maintaining a positive spread.

Mr. Dolivka asked what date John Hanson anticipated the sale of this additional stock to take place. Mr. Hogg indicated that he would seek an answer to that question.

5. Friendship Savings and Loan, Inc. - visited on March 18, 1983 and they expect to reach a breakeven point in March or April. They are exploring subordinated debentures. They have a good discounted loan portfolio and they recognize the need to diversify their deposit gathering ability outside of a highly sophisticated savings marketplace. They have enhanced their data processing. In conclusion, Mr. Hogg said that he was now more comfortable with the situation at Friendship, although further growth in net worth is required.

6. Municipal Savings and Loan Association - visited on March 20, 1983 and he said it appears this association is a well organized, well run company which has grown rapidly and does not have a lot of sources of capital. They are preparing a detailed letter to the MSSIC Board.

Mr. Dietz noted that he understood that Municipal's attempt to convert to stock had been defeated by the depositors of the association.

7. Second National Building and Loan, Inc. - visited on March 22, 1983. He said they are doing very well in that their earnings in 1982 were positive and very strong. They are actively exploring the sale of additional stock as well as subordinated debentures. They have submitted a formal request to the Division regarding acceptance of Appraised Equity Capital. They feel somewhat stuck with a 10% passbook in a declining rate environment which is squeezing their profit margin. They would like to reduce this rate in order to relieve the pressure.

Mr. Hogg indicated that he had not yet met with Fairfax, Eastern and Custom because he felt the low net worth associations were a priority.

Mr. Neifeld expressed concern regarding the implementation of insurance agreements in cases where a member's net worth declines to 3% or less. He cited Municipal Savings and Loan Association specifically.

Mr. Hogg responded that he would agree it is time to implement more rapid compliance with the net worth requirements.

Mr. Dolivka added his concern regarding Section 3-211(C)(2) which he read into the record of the meeting:

"(C) If the total net worth of a member association declines to 3.00% of the aggregate withdrawal value of its free share accounts on the last day of its fiscal quarter or any month, the member shall be required by the Board of Directors of the Corporation to enter into an Insurance Agreement."

Mr. Dolivka said that avoidance of the regulation could be a serious mistake and that the Board ought to act in this regard. He suggested setting up definite dates on which compliance with the requirement to exceed 3% or enter into an Insurance Agreement will be effective. He reviewed three dates he had recorded:

First Maryland Savings and Loan, Inc. - 3/28/83

Ridgeway Savings and Loan Association - 4/30/83

Chesapeake Savings and Loan Association - 6/1/83

Mr. Hall commented that one of the problems with this rule concerns the definition of an insurance agreement. Mr. Hall indicated that perhaps the meaning of "an insurance agreement" could be clarified, however, the further defining of the term could prove to be counter-productive as well as limiting. He said it is a problem of practicality. Mr. Hall went on to explain certain standard provisions which may be included in an Insurance Agreement as follows:

- requiring a budget proposal
- limiting the member's ability to merge
- control of capital expenditures and other extraordinary activities
- default provisions
- consent to cease and desist orders
- granting MSSIC the right to negotiate merger

Mr. Hall concluded by stating that 90% of an insurance agreement is standard to the industry.

Mr. Hogg said that staff notifies members of violations, but we have not necessarily quickly entered into insurance agreements.

Mr. Bass commented that there is a need to be more flexible.

Mrs. Anderson said that she believed we could have both flexibility and an insurance agreement.

Mr. Laudeman suggested a possible solution as having all members sign an insurance agreement which triggers at 3%.

Mr. Hogg indicated that North Carolina Savings Guaranty Corporation has an insurance contract which works similarly to Mr. Laudeman's suggestion.

Mr. Faulkner said that FSLIC has a similar plan. He added that everyone agrees with Mr. Dolivka in principle. He said that the staff maintains a open dialogue very closely with the members who are in violation of the net worth requirement. He indicated that he felt that staff in a more normal environment will proceed to implement insurance agreements as they are required.

Mr. Holmes indicated that he would sooner see some type of change in the rule to allow for greater flexibility and a change in the rigidity of 3%.

Mr. Hoqq concluded this discussion by stating that staff will draft some alternatives to the rule and present them to the Board.

Mr. Hogg reviewed the proposed Service Corporations Reporting System and said it will indicate the impact service corporations have on the parent.

Mr. Neifeld inquired as to the number of member savings and loans which currently have service corporations.

Mr. Trice responded that 20-25 MSSIC associations currently have one or more service corporations.

Mr. Hogg asked for the Board's authority to proceed with this reporting system and make it mandatory with the penalties to be the same as the late filing of the PPR. Mr. Neifeld made the motion to authorize the requested action and Mr. Dolivka seconded it. Upon a vote the motion was passed unanimously.

Mr. Faulkner commented that across the country savings and loan associations are gearing up in service corporations and this represents increased risk. Therefore, he noted the preceding action by the Board was very appropriate and important.

Messrs. Hogg and Hall gave a very extensive report regarding the efforts and difficulties encountered thus far in pursuit of a Central Investment Fund for members. They stated that this issue required further study and that they were pursuing it actively.

Mr. Hogg said that we need to find a way to reduce the cost of being a member of MSSIC, because we are now more than ever competing with FSLIC to be the savings insurance company of our members. Mr. Hogg proposed that a committee to study MSSIC premium restructuring be formed. Names suggested included Messrs. Neifeld, Laudeman, Otto and Moore. Mr. Hogg also mentioned that this committee should include an outside person with expertise in actuarial statistics and someone who is familiar with establishing premiums based on risk levels.

Mr. Laudeman motioned that a Premium Restructure Committee be established allowing the selection of members to be that of the Chairman of the Board. Mr. Bass seconded the motion and it was passed unanimously. Mr. Hogg forewarned the Board that this was a technically difficult assignment and that his projected time frame is 60 days before any recommendation will be given to the Board.

At this point Mr. Carroll left the meeting; therefore, he did not participate in any further Board action or discussion.

Mr. Hogg gave a report on his and Mr. Trice's attendance at a recent Board of Directors meeting at Enterprise Savings and Loan Association. The major concern expressed by that association's board dealt with an increase in the Capital Deposit due to savings growth as of 12/31/82 and a fairly drastic decline in savings in January and February of 1983. Following a discussion of this matter it was the consensus of the Board that staff study this further and proceed as it feels is appropriate.

Mr. Hogg commented that one issue which has delayed First Maryland from signing the most recent version of the insurance agreement is a grace period on the default provisions. He said that they have agreed to sign the insurance agreement containing minor revisions on Monday, March 28, 1983. He said he would meet with the association's attorneys on March 24, 1983.

Mr. Holmes stated that most of the points from the Board of Commissioners meeting have already been covered by comments made during this meeting.

Mr. Hogg reviewed the following details concerning the MSSIC line of credit:

- the total line will be in the \$50-\$65 million range
- First Chicago is willing to take 80% of total (Mr. Hogg said he was not entirely comfortable with that idea).
- Riggs is going to stay in
- Union Trust is going to stay in
- Equitable is having problems with pricing but he expects them to stay in
- Maryland National is having a problem with collateral and terms of notes
- Mellon - has expressed a strong interest at lending officers level in entering
- Mercantile - Phil Jones is presenting a \$5 million entry to his lending committee

Mr. Hogg said he has been having talks with Travellers about longer term facilities for \$50 million. He said Travellers will probably want a one year phase in period extending \$25 million until they get used to us.

Mr. Hogg concluded his remarks by indicating that by April 30, 1983 we will enter our bank credit line agreement for at least \$50 million.

Mr. Hogg requested a resolution from the Board authorizing the Executive Vice President or any Assistant Secretary to act on behalf of the Corporation in the completion of the Loan Agreement, as follows:

"RESOLVED, that the Executive Vice President and any Assistant Secretary of Maryland Savings-Share Insurance Corporation (the "Corporation") be, and they are hereby, authorized, empowered and directed, in the name and on behalf of the Corporation, to (i) negotiate, execute, and deliver to the banking institutions listed on the Term Sheet attached hereto as Exhibit A and The First National Bank of Chicago as Agent, a Loan Agreement which shall incorporate substantially the terms set forth on the attached Term Sheet, and such other terms and conditions as such Executive Vice President and Assistant Secretary shall, in their sole discretion, deem appropriate, and (ii) execute and deliver such documents, and take such other action, as shall be necessary for the Corporation to fully perform under the terms of such Loan Agreement and any documents described therein.

FURTHER RESOLVED, that any Assistant Secretary of the Corporation is hereby authorized, empowered and directed to certify to the aforesaid banking institutions and Agent a copy of these resolutions and the specimen signatures of the aforesaid officers of the Corporation and to certify that such banking institutions and Agent may consider such officers to be in office and these resolutions to remain in full force and effect until written notice to the contrary shall be given by the Corporation in the manner provided in the aforesaid Loan Agreement."

The approval of this resolution was motioned by Mr. Dietz, seconded by Mr. Laudeman and upon a vote unanimously approved.

At this point Mr. Donohue left the meeting; therefore, he did not participate in any further Board action or discussion.

Mr. Becker entered the meeting and reviewed the Net Worth Comparison Update. During this review there was a discussion on Atlas Savings and Loan Association being used as a conduit for Jumbo CD's for Sharon/Security Savings and Loan. Another discussion also occurred in reference to Bay State Savings and Loan Association's drop in net worth due to savings growth. Mr. Holmes said he had discussed additional capitalization plans with Bay State.

Mr. Neifeld asked what consideration had been given to the methods and procedures used in accruing interest on those long term certificates which pay simple interest at maturity and also of the potential liability to the Corporation in the event of default. He further inquired as to what effect these types of savings instruments, when considered with the potential dividend liability, might have on the reserves/net worth of those members offering them.

Mr. Faulkner agreed that these areas of concern represented increased risk to the Corporation. To answer Mr. Neifeld's questions Mr. Faulkner asked Mr. Hall to review and develop our legal position regarding accrued interest and asked staff to gather sufficient data to determine the accounting treatment practiced in the industry through a supplement to the PPR.

Mr. Becker was then excused from the meeting.

Mr. Hogg stated that Mr. Hall has prepared a ten page opinion related to the issue of members' advertising.

Mr. Hall reviewed this opinion which he said he had not signed at this point because he did not want to inadvertently restrict or inhibit this Board by signing an opinion. He added that if after consideration of the many points and ramifications of the unsigned document the Board wished him to formalize it with his signature, he would with no reservations.

Some of the material Mr. Hall reviewed regarding the members' advertising was as follows:

1. Current regulations (MSSIC's, the Division's, and Commercial Law) have a common thread which regulates against "False, misleading or deceptive" advertising.
2. MSSIC has four alternatives to violations:
 - a. issue a cease and desist order
 - b. issue a temporary cease and desist order
 - c. expel the member
 - d. bring suit and file an injunction against the member
3. His overview is that the current rules are in a place to deal with the problem.
4. His future view is that:
 - a. anti-trust provisions make control of rate advertising extremely difficult
 - b. guidelines of advertising could be made into regulations but this action may not prove practical re: enforcement and monitoring
5. His summary is that rate control not be contemplated but that regulations similar to the already published guidelines be considered as an alternative.

Mr. Hogg said that he would prefer to operate as staff currently does by contacting the guideline violators and taking appropriate measures.

Mr. Laudeman indicated that the flexible view of guideline violations was to address them in general or in specific instances.

Mr. Hogg stated that he has asked Mr. Beason, President of North Carolina Savings Guaranty Corporation to be the dinner speaker at this

year's MSSIC Annual Meeting. He also indicated that photocopies of the financial statements from Touche Ross & Co. will be mailed to the members with an informational letter concerning the particulars of the Annual Meeting.

Mr. Hogg discussed with the Board a change to the MSSIC By-Laws - Subtitle IV, Section 2-401 through 2-409 inclusive. This section addresses the matter of officers of the corporation and relevant information which applies thereto. Mr. Hogg indicated that this section was not controversial at the December 1, 1982 Special Meeting of Members. He asked for the Board's authority to bring the revision of this subtitle before the Annual Meeting as a matter of additional business. Mr. Laudeman made a motion to that effect to which Ms. Miles added a second. Upon a vote the motion was passed unanimously.

Mr. Hogg related recent events regarding Baltimore Life Insurance Company's desire to use the space currently occupied by the offices of the Corporation and their therefore negative response regarding the Corporation's renewal of its five year lease option. He indicated that following further study and possible non-binding negotiations staff will be forthcoming with recommendations as to action.

Mr. Holmes reviewed the cost of the recent Cole-Rapp Seminars and indicated that it ran slightly over budget. He also expressed his disappointment regarding those persons invited and expected who did not attend nor notify us of their inability to do so.

Mr. Neifeld asked if the dollar figures given as the cost of the Cole-Rapp Seminars included the staff's hours expended in the preparation and execution of the program.

Mr. Holmes stated that they did not; however, he said the time expended was minimal.

Mr. Holmes said that a questionnaire as to the usefulness of the seminars will be sent to the attendees approximately 30 days following the conclusion of the second part of the program.

Mr. Hogg stated that the staff believes the program was worthwhile and looks forward to feedback.

Mr. Hogg indicated that the MSSIC staff will do a complete review of the membership on Thursday, March 31, 1983.

Mr. Neifeld asked for a copy of the minutes in which fee structures for committees of the Corporation was last studied by the Board.

Mr. Hogg answered that staff will research that action and supply Mr. Neifeld with the minutes in which said action took place.

Mr. Hogg distributed baseballs which were provided by Mr. Donohue in recognition of the Corporation's recent contribution to United Cerebral Palsy Foundation.

Mr. Faulkner asked for a motion to adjourn. Mr. Bass made the motion and the meeting adjourned at 12:53 P.M.

Walter Hogg, Jr.
Secretary of the Meeting

CCH/PMM/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, AUGUST 22, 1984

The regular monthly meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 114 East Lexington Street, Baltimore, Maryland on August 22, 1984.

The following Directors were present;

George W. H. Pierson, Chairman

Frances F. Anderson

Leonard Bass

Joseph P. Carroll

Michael J. Dietz

Jerome F. Dolivka

John C. Donohue, Sr.

Henry R. Elsnic

John D. Faulkner, Jr.

James D. Laudeman, Jr.

Terry L. Neifeld

Others Present: Charles C. Hogg, II, President; Paul V. Trice, Jr., Senior Vice President; Martin W. Becker, Senior Financial Analyst; Patrick M. McCracken, Assistant Secretary; Terry F. Hall, Venable, Baetjer and Howard; and John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Pierson called the meeting to order at 9:07 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Mr. Garrison reviewed the investment reports and the general economic narrative. Following a brief discussion Messers. Pretko and Garrison left the meeting. (Copies of the investment reports and the narrative are attached to the permanent file copy of these minutes.)

READING OF MINUTES OF THE BOARD MEETING OF JULY 25, 1984

Mr. Dietz moved to accept the minutes of the previous meeting with Mr.

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Hall's correction on page 11, paragraph 2 changing the last word "correct" to "reasonable". Mr. Faulkner seconded and the motion passed unanimously.

TREASURER'S REPORT

Mrs. Anderson indicated that net income for July is \$1,100,000 and that the year to date income is over \$7 million. She also reported that charitable contributions were made to the following: \$1000-YMCA, \$1000-YWCA, \$1000-Basic Cancer Research, \$1000-Aquarium.

The fixed asset budget was reviewed. Mr. Dolivka questioned if we are finished with the move and its related expenses and further if there would be excess funds remaining. Mr. Hogg explained that the total budgeted will most likely be exhausted.

MEMBERSHIP COMMITTEE REPORT

Mr. Neifeld indicated that items discussed at the Membership Committee meeting included: Merritt Commercial Savings and Loan Association; Old Court Savings and Loan Association; First Progressive Savings and Loan Association; Gibraltar Savings and Loan Association; and the Liquidity Rule revision.

Mr. Neifeld stated that board approval was recommended by the committee with regard to the issuance of subordinated debentures by Community Savings and Loan and First Maryland Savings and Loan. He noted that four (4) conditions were suggested by the committee to be made a part of final approval of these debentures. Those conditions are:

- 1) that at no time could the subordinated debentures represent greater than a 50% portion of the association's MSSIC defined net worth;
- 2) that the content and form of the debentures be reviewed by MSSIC's counsel;
- 3) that a sinking fund be established; and,
- 4) that the debt cannot be retired if the retirement of the debt

would cause the association's net worth to be in violation of the MSSIC 4% net worth requirement.

Mr. Bass moved to accept the Membership Committee Report. Mr. Dolivka seconded and the motion passed unanimously.

EXECUTIVE COMMITTEE REPORT

Mr. Pierson reviewed the details of the 8/20/84 Executive Committee meeting. His review included the following: approval of a \$3 million loan from the Central Reserve Fund to Gibraltar Savings and Loan Association; discussion of the Board of Commissioners action on Regulation .13 which relates to the accounting treatment on loans purchased at a discount; indication that Chevy Chase has applied for FSLIC deposit insurance and requested that the Board of Commissioners approve the purchase of B.F. Saul Mortgage Company by Chevy Chase Savings and Loan; it was also noted that the Board of Commissioners has delayed any action on Chevy Chase's request pending approval by the Federal Home Loan Board of Atlanta; it was also noted that the Community and First Maryland subordinated debenture were approved by the Board of Commissioners with certain conditions; Mr. Pierson said he was disappointed with the By-Law Review Committee; he noted that recommendations were to be made on Directors and Officers Liability Insurance to the Board by this meeting, however, he said the Committee will be meeting on Thursday, August 23, 1984 at 10 a.m. and will bring their recommendations to the September Board of Directors Meeting.

Other items discussed at the Executive Committee Meeting included a legislative update; the MSSIC tax case; and Old Court Savings and Loan Association's violations of MSSIC's Rules and Regulations.

Mr. Carroll questioned if the Executive Committee will control the Central Reserve Fund. Mr. Hogg answered that this power was given to the Executive Committee approximately 3 years ago.

At this juncture, Mr. Dietz noted that the Treasurer's Report had not been formally accepted and moved that it be accepted. Mr. Carroll seconded and the motion carried unanimously.

LEGISLATIVE COMMITTEE REPORT

Mr. Hogg reviewed the report of the Legislative Subcommittee and the six (6) recommendations which resulted from their "summer study".

The recommendations are as follows:

1. The sub-committee recommended approval of SB576 - removal power for the Director of the Division of Savings and Loan Associations.
2. That a bill be sponsored to grant cease and desist powers to the Division Director;
3. That 9-914(c) be moved and made a part of 9-914(a) which would allow the Board of Commissioners to regulate this federal tie-in authority;
4. Regulation of Brokered Deposits;
5. Support to increase funding and resources at the Division of Savings and Loan Associations;
6. That 9-306(B)(1)-Financial Disclosure be changed to reflect that any "person" rather than "member" be given an association's annual statement of financial disclosure.

At the conclusion of this review Mr. Hogg stated that he viewed the results of the legislative "summer study" positively and that he was pleased with the outcome. He said he felt the legislature is dangerously uninformed about our industry, but following this "summer study" the MSSIC industry is stronger.

Mr. Carroll said that he believes any fears the members of the sub-committee may have had with regard to MSSIC and the industry were alleviated as a result of Mr. Hogg's testimony and performance at the various hearings.

AUDIT AND BUDGET COMMITTEE

Mr. Bass reviewed the August 16, 1984 committee meeting and noted the following items:

a) that proposals from 3 auditing firms regarding MSSIC's annual audit will be solicited. This matter to be reviewed at an October committee meeting;

b) a review of the 6 month budget item by item was performed;

c) that some consideration be given to approaching another financial institution other than Union Trust to ascertain cost of managing MSSIC's portfolio; and,

d) that an additional \$50,000 contingency fund for advertising be allocated and not be used without Board approval.

During discussion Mr. Hogg explained that Union Trust charges a flat annual fee of \$28,000 for the various services they perform as part of MSSIC's portfolio management.

Mr. Faulkner moved to accept the report of the Audit and Budget Committee. Mr. Elsnic seconded and the motion passed unanimously.

PREMIUM RESTRUCTURE COMMITTEE

Mr. Trice reported on refinement of a proposed formula for restructure of MSSIC's Capital Deposit. He said the committee has requested an extension for completion of its proposal to at least November 30, 1984. He also noted that an attempt is being made to seek consultation with either Golembe or Kaplan/Smith on a final proposal.

OLD BUSINESS

Mr. Trice reported that staff recommended approval of a 3 month waiver of the lending restriction of Kent Savings and Loan which resulted from their violation of the Liquidity Rule.

Mr. Elsnic moved to approve staff's recommendation. Mr. Faulkner seconded and the vote was unanimously favorable.

Mr. Trice asked for Board ratification of staff's issuance of staff cease-and-desist letters to Merritt Commercial Savings and Loan and Old Court Savings and Loan which require that these associations make no further loan commitments. Mr. Trice further noted that the staff intends to issue the same staff cease-and-desist letter to as many as three other violating member associations.

Mr. Dolivka moved that the Board ratify staff's action in the case of the Merritt Commercial Savings and Loan and Old Court Savings and Loan staff cease and desist letters. Mr. Elsnic seconded the motion.

During discussion Mr. Hall said he views the letters that were sent as a first step in a process. He said the staff should be absolutely certain that the Board will support their action and that he hopes the associations involved will react properly and make every effort to effect compliance.

Following further discussion the motion passed by a majority vote with Messers. Carroll and Faulkner abstaining.

Mr. Pierson noted that in light of later business (subordinated debentures) he wishes to note that Community Savings and Loan and First Maryland Savings and Loan are on the rules violation list.

Mr. Pierson advised the staff to seek approval from the Executive Committee if the staff has any concern regarding future action in the nature of staff cease-and-desist letters.

NEW BUSINESS

Mr. Neifeld withdrew the proposed revision of the Liquidity Regulation, and Mr. Pierson remanded it back to the Membership Committee. Mr. Pierson asked that the minutes reflect that Mr. Faulkner absented himself from the meeting at

this time.

Messrs Deerin, Shomper and Friedman (representatives from Community Savings and Loan) entered the meeting and gave a detailed presentation related to a proposed subordinated debenture offering.

Following the presentation and further discussion, Mr. Pierson asked the representatives of Community Savings and Loan Association if they intend to comply or not comply with the Corporation's Rules and Regulations which they are currently in violation of.

Mr. Deerin said that subject to discussions with the MSSIC staff concerning a correct interpretation of the rule, the association will make every effort to effect compliance promptly.

The representatives from Community Savings and Loan Association were then excused from the meeting.

A motion to approve the \$20 million debenture was then discussed and was made subject to the following:

1. The allowable portion of subordinated debentures for inclusion in computing the association's MSSIC net worth ratio, shall not exceed the aggregate total of its retained earnings, capital stock, paid-in-surplus, deferred fees and hypothecations;
2. The subordinated debenture document(s) be reviewed by counsel for the Corporation as to form and sufficiency;
3. A sinking fund is to be established reflecting equal annual curtailment provisions. The sinking fund shall be deducted from total amount of debentures outstanding and only the net amount of debentures shall be reported on form S/L-200A; OR,
4. The debentures must provide that no prepayment or scheduled payment be made without the Corporation's approval when said scheduled payment

or prepayment would cause the association's net worth ratio to fall below MSSIC's required net worth ratio as specified in 3-211 of the Rules and Regulations; AND,

5. Notwithstanding all of the above, the association would have to be in compliance with all MSSIC regulations for a period of three consecutive months before any of the subordinated debenture would be applicable toward net worth as indicated in #1 above. It was stated that these conditions would be applied as 1,2,3, and 5 or 1,2,4 and 5. Mr. Hogg said staff's preference would be 1,2,4 and 5.

Mr. Laudeman moved that the motion subject to the listed conditions be approved. Mr. Dolivka seconded and the motion carried by a majority vote with Mr. Neifeld opposed.

Following brief discussion Mr. Pierson directed Mr. Hogg to notify First Maryland Savings and Loan Association that their request for approval of a proposed subordinated debenture was not acted on because no specific purchaser was proposed in that regard.

Mr. Hogg noted that the member associations have been notified by memorandum as to the Board stance of recommending disapproval to the Director of branch applications when a member is in non-compliance with MSSIC's Rules and Regulations.

Mr. Pierson said the use of the additional \$50,000 advertising contingency fund will be initiated by the judgement of the Executive Committee.

REPORT OF THE PRESIDENT

Mr. Hogg said at the recent Board of Commissioners Meeting the commissioners voted in favor of submitting on both an emergency and a regular basis a change to the Division's Regulation .13-Discount. This would effectively eliminate the acceleration of the unearned discount on loans purchased at a discount.

During an update on selected associations the following reports were made:

Mr. Trice reported that on or before September 10, 1984, the principals at Old Court Savings and Loan Association and First Progressive Savings and Loan Association will advise the Corporation of their intentions to either merge or recapitalize. Following further detail and discussion Mr. Pierson charged the membership committee with making a strong recommendation related to the merger or recapitalization of First Progressive Savings and Loan Association.

Mr. Hogg reviewed recent liquidity problems at Gibraltar Savings and Loan Association and noted that the staff is monitoring closely and in daily contact with Gibraltar in this regard. Mr. Elsnic said he felt strongly that some of the items counted as liquidity under MSSIC's liquidity rule are not in truth liquidity. He noted that immediately prior to Gibraltar's liquidity problem they were reporting 12.5% Liquidity.

Mr. Hogg reported that Custom Savings Association had a savings decline but a retained earnings increase. He indicated that the change to State Regulation .13 should slow the growth of net worth and more appropriately reflect future earnings at Custom Savings Association.

Mr. Trice reported that a staff cease-and-desist letter was sent to Merritt Commercial Savings and Loan Association and that plans to resolve their stockholders dispute would take effect within 60 days and consist of one of the two major stockholders buying out the other.

Mr. Hogg reported that Chevy Chase Savings and Loan Association has applied for FSLIC Insurance. He said representatives from the association made a presentation to the Board of Commissioners dealing with the issuance of \$34 million in preferred stock for the B.F. Saul Mortgage Company. He indicated that the Board of Commissioners tabled the request pending favorable response from the FHLB or a second appraisal of the mortgage company. Mr. Hogg stated that

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the staff will study the impact of Chevy Chase Savings and Loan Association leaving the MSSIC system.

DIRECTOR'S COMMENTS FOR THE GOOD & WELFARE OF MSSIC

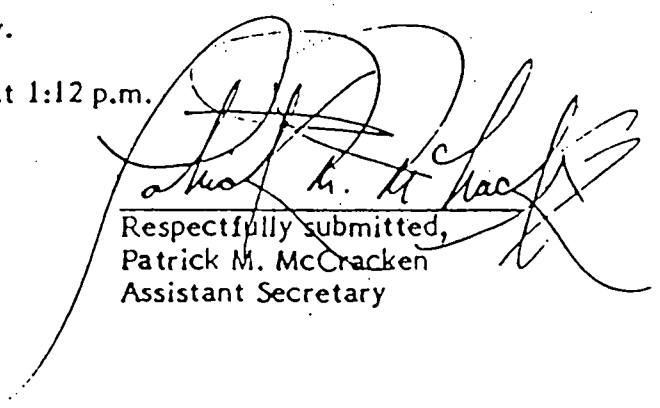
Mr. Laudeman noted that the Corporation should be careful in the wording of letters along with other operational matters.

Mrs. Anderson asked about the status of an up-to-date MSSIC "Charter, By-Laws, Rules and Regulations". Mr. Hogg stated that this is in the final proofreading stage.

Mr. Dietz recommended attendance by all at the Maryland League meeting concerning the FHLB new rule on interest rate risk management.

There being no further business to come before the Board, The Chairman called for a motion to adjourn. Mr. Faulkner so moved, Mr. Elsnic seconded and the motion carried unanimously.

The meeting adjourned at 1:12 p.m.



Respectfully submitted,
Patrick M. McCracken
Assistant Secretary

PMM/lm

COMMUNITY SAVINGS & LOAN, INC.

Written Record of Action
of the
Board of Directors
Without a Formal Meeting


Pursuant to Maryland Corporations and Associations Code §§ 2-408(c) and 2-409(c) (1975) and §§ 3.14 and 5.02 of the Bylaws of Community Savings & Loan, Inc. (the "Corporation"), the undersigned, being all of the directors of the Corporation do hereby take and adopt the following actions and resolutions without a formal meeting, hereby waiving notice of meeting and all requirements therefor:

RESOLVED, that the Corporation is hereby authorized and directed to pay a dividend on its authorized and outstanding common stock in the amount of \$11.03448 per share, an aggregate sum of Eight Million and No/100 Dollars (\$8,000,000.00) to stockholders of record as of December 31, 1984, which dividend shall be paid on February 7, 1985.

FURTHER RESOLVED, that the President or any Vice President of this Corporation be and each hereby is, authorized and directed to take such action or execute such documents or instruments as may be necessary in such officer's sole discretion to carry out the foregoing resolution.

FURTHER RESOLVED, that the Secretary or any Assistant Secretary of the Corporation is hereby authorized and directed to file this Written Record of Action among the regularly maintained Minutes of the Meetings of the Board of Directors of the Corporation.

WITNESS the following signatures this 6th day of February, 1985.




Tom J. Billman, Director



John D. Faulkner, Jr., Director



James B. Deerin, Jr., Director



Clayton C. McCuiston, Director



Elaine A. Dudash, Director

IIID26

Written Record of Action
of the
Board of Directors

Pursuant to Sections 3.14 and 5.02 of the Bylaws of Community Savings & Loan, Inc., a Maryland savings and loan association (the "Association"), we, being all of the members of the Board of Directors of the Association, (there being one vacancy), do hereby take and adopt the following actions and resolutions without a formal meeting, hereby waiving the requirement therefor and notice thereof:

WHEREAS, the Association paid a dividend to the holders of its common stock on May 30, 1984 and June 11, 1984 in the amount of \$9.3275 per share or \$6,762,437.52 in the aggregate; and

WHEREAS, the minutes reflecting the action of the Board of Directors declaring and authorizing the said dividend have been lost; and

WHEREAS, the said dividend was paid from legally available earned surplus of the Association.

NOW, THEREFORE, be it:


RESOLVED, that the Board of Directors hereby declares, approves, ratifies and confirms the payment of the dividend of \$9.3275 per share of common stock to shareholders of record on May 30, 1984, said dividend having been paid in part on May 30, 1984 and in part on June 11, 1984; and

FURTHER RESOLVED, that this resolution shall be filed in the minute book of the Corporation at the appropriate chronological place to replace the lost minutes.


DATED this 23rd day of July, 1985.



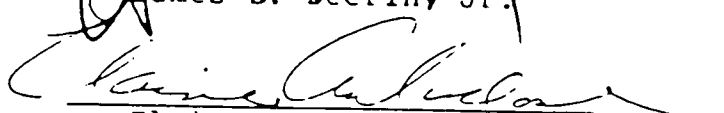
Clayton C. McCristion



James B. Beerin Jr.



Robert N. Kemp, Jr.



Elaine A. Dudash

IIID27

Executive Summary
Agreement
and
Plan of
Reorganization, Corporate Separation, and Recapitalization

On January 31, 1985 Tom Billman, Clay McCuiston and all of the companies and affiliates under their common management and control executed an agreement. They agreed to reorganize and divide the group of companies between them to facilitate expansion, meet with separate goals, improve ability to obtain financing, promote transactions among the companies, allow for eventual public stock offering, and to separate two highly regulated industries (insurance and savings & loans)

Corporations and assets were contributed to Crysopt Corporation and then Crysopt was split off to Billman in exchange for most of his ownership in Epicenter. The following are the assets and corporations contributed to or owned by Crysopt prior to the split:

- Common stock of EPIC Midget Marine Associates, Inc.
- Common stock of Title Insurance Acquisitions, Inc.
- Common stock of District-Realty Title Insurance and subsidiaries
- Common stock of MNR Acquisitions, Inc.
- Common stock of Merrill Natural Resources, Inc.
- Common stock of Batts Wing, Inc.
- Common stock of Batts Neck Corporation and subsidiaries
- Common stock of Fairlane Corporation

- Common stock of Cavalier Oil Corporation
- Cavalier Oil preferred stock owned by Billman and McCuistion
- CS&L subordinated debenture guaranteed by EPIC Holdings and to be paid off by 3/31/91.
- Fourteen million dollars
- Domaines Dourthe Freres wine
- Tradename, trademark and service mark owned by EPIC Holdings, Ltd.
- Administration, financial management and other services from EPIC Holdings, Ltd. per services agreements with affiliates outside of the consolidated group (EFSI, ERSI, CAG).
- Administration, financial management and other services previously performed by Billman from EPIC Holdings, Ltd.
- Certain employees as designated by Billman
- Certain furniture equipment and artwork from EPIC Holdings, Ltd.

The attached organization chart shows the result of the reorganization and separation.

Billman and McCuistion also agreed to recapitalize Epicenter Consolidated, Ltd. to allow ownership by key executives for a small investment and also to allow the organizations to benefit from tax consolidation. The benefit from previously earned value in the company was divided between Billman and McCuistion, and

the key executives will share in the future earned value from the operations they manage.

The recapitalization is described below and is shown on the attached Recapitalization Summary.

Prior to the recapitalization, 10,000 shares of \$1.00/share par value common stock was outstanding - 8,000 shares Billman and 2,000 shares McCuiston, and 72,500 shares of \$.10/share par value "old" preferred stock owned by McCuiston.

The recapitalization process created two new classes of preferred, eliminated existing preferred, changed numbers of authorized shares and split the common stock.

Billman exchanged 7,250 shares of his 8,000 shares of Epicenter common stock for Crysopt when it was split off from Epicenter.

The common stock was converted ten to one into Class A voting preferred stock with a \$72/share liquidation preference. Class A preferred is convertible to common stock at any time. Surrendered shares won't be reissued. There is no dividend preference. Number of authorized shares is 27,500.

The "old" preferred stock converted to Class B preferred stock which carries \$72/share liquidation preference, no dividend preference and no conversion privilege. Number of authorized shares is 72,500.

Number of authorized common shares was changed from 10,000 to 100,000 and par was changed from \$1.00/share to \$.10/share.

The recapitalization and exchange of shares is non taxable, and will be free of capital gains tax per advice of counsel.

Billman, McCuistion and the Board of Directors of Epicenter approved and adopted an Employee Restricted Stock Purchase Plan. Certain employees have been selected and offered the right to purchase Epicenter common stock. Epicenter has entered into subscription agreements and will issue stock upon exercise of the rights granted under the stock purchase plan.

Various and sundry other items are included in the agreement and are outlined below.

- ° McCuistion has an employment agreement with Cavalier Oil for ten years and shares in part of the earnings from the mortgage servicing operations and in part of the proceeds of the sale of any servicing.
- ° Billman has an employment agreement with CS&L as Chairman of the Board and Chief Executive Officer which provides for incentive bonus and all benefits usually provided to the CS&L executive management group.
- ° Billman agrees to sit on various Boards of Directors for three years for a fee of \$453,600 paid at the rate of \$1,050/ month per corporation.
- ° Crysopt Corporation keeps its logotype for its exclusive use.
- ° Crysopt Corporation licenses EPIC Holdings to use trade names, trademarks and service marks for \$120,000 per year. EPIC Holdings sub-licenses to others within the McCuistion consolidated group.
- ° Crysopt Corporation licenses other corporations outside the consolidated group to use tradenames, trademarks and service marks.

Crysopt Corporation receives consulting fees of \$150,000 per year from EPIC Holdings for the administration, financial management and other services previously performed by Billman.

- Crysopt may remain in the office space it occupies and agrees to reimburse EPIC Holdings at cost for rent and other expenses.
- Prior to the closing date, EMI contributed some mortgage servicing to Crysopt in exchange for twenty shares of Crysopt common stock. The stock was subsequently transferred from EMI to CFSI to CS&L to EAI to EHL before the split off.
- Accounts and notes payable generated in the normal course of business between the groups will be paid in the normal course of business. The Billman group may satisfy obligations to the McCuistion group by offsetting and reducing obligations from the McCuistion Group.
- EPIC Holdings agrees to purchase or redeem Billman's CS&L preferred stock at \$250 per share; half by 3/31/89 and half by 3/31/90.
- The McCuistion group plans to do business with District-Realty Title Insurance and agrees to direct all title insurance business that it generates or controls to District for five years:
- The McCuistion group agrees not to operate or obtain a significant interest in a title insurance agency for five years without Billman's permission.
- The McCuistion group can establish or incorporate a title insurance company solely in order to grandfather the

operations with MSSIC or with FSLIC, as long as it generates less than \$50,000 of premium income per year for five years.

- The McCuistion group agrees to maintain its business affiliation with ERSI and First Investors Surety, Limited, and agrees to maintain contracts for five years.
- The McCuistion group affirms the mortgage servicing contracts between EMI and Cavalier, guarantees the accuracy of escrow 'cash' balances, and indemnifies the Billman group from losses related to EMI's servicing performed for Cavalier pursuant to contract.
- There are no restrictions on the lines of business activities the Billman group may conduct. Billman intends to continue ownership and involvement in the savings and loan industry.
- Neither group is responsible for the debts of the other group. This doesn't affect the specific obligations between the two.
- The McCuistion group indemnifies Billman from claims under federal or state securities laws resulting from the recapitalization and issuance of stock.
- EPIC Holdings, Ltd. transfers to Crysopt all interest in the agreement with Industrial Valley Title Insurance and Industrial Valley Bank and Trust Company dated 2/10/84 in connection with the District-Realty Insurance acquisition.
- The McCuistion group agrees to establish and maintain a \$300,000 legal defense fund to pay expenses of litigation against Billman, McCuistion or the Billman group if the

litigation is related to business operations of the Epicenter group either before or after the recapitalization. Contributions to the fund are \$15,000 per month.

- The McCuistion group agrees there are no liabilities due from the Billman group in connection with the Tax Allocation Agreement or Amendment for the period ended 2/28/85. EPIC Holdings represents that all returns are correct and complete and are filed or will be filed for all entities for periods ending 2/28/85. The McCuistion group indemnifies the Billman group from damages resulting from its membership in the consolidated group.
- The parties acknowledge that the financial statements are unaudited, and both warrant to the other that there are no accounts or liabilities from one to the other except as contained in the financial statements. They agree that the financial statements are accurate and prepared according to generally accepted accounting principles.
- Each group indemnifies the other against damages resulting from any misrepresentations or failure to perform, as set forth in the agreement.

A Loan and Security Agreement between Merrill Natural Resources, Epicenter Consolidated, Ltd., and EPIC Holdings, Ltd. was executed on 3/1/85 which includes substantial restrictions. See the separate Executive Summary for a recap of the terms and provisions.

Executive Summary
of
Loan and Security Agreement

In January, 1985 Merrill Natural Resources' board of directors approved a loan commitment and arrangement with Epicenter Consolidated, Ltd. for the purpose of providing working capital. The \$5,750,000 loan was funded on 2/21/85 and was evidenced by a one year unsecured promissory note at 13% interest.

Because of the change in control resulting from the Plan of Reorganization, Corporate Separation, and Recapitalization, the terms of the borrowing were renegotiated. A loan and security agreement was entered into and the maturity date was extended.

The Loan and Security Agreement was executed by Epicenter Consolidated, Ltd., EPIC Holdings, Ltd., and Merrill Natural Resources on 3/1/85. The terms, rights and obligations of the parties are outlined below.

- ° Interest is 13% and is due at the end of each calendar quarter beginning 3/31/85.
- ° Principal is due in three equal annual payments of \$1,916,667 on 3/31/86, 3/31/87 and 3/31/88.
- ° Epicenter agrees to purchase or redeem Billman's CS&L preferred stock at \$250 per share (\$3,495,145); half by 3/31/89 and half by 3/31/90.
- ° Epicenter agrees to pay off the CS&L subordinated debenture by 3/31/91. (\$1,750,000).
- ° Certain provisions apply in the case of prepayment. See the Key Date exhibit for detail.

The stock of Epicenter Consolidated, Ltd. and the common stock of its subsidiaries is pledged as security. McCuiston and other Epicenter shareholders will enter into a Stock Pledge Agreement. The security applies to the debenture as well as to the loan.

- ° All assets now or hereafter owned by Epicenter are pledged as security
- ° As long as the obligations are outstanding (the loan, the preferred stock, or the subordinated debenture), the McCuiston group:
 1. Will not revise the tax policy without Merrill's consent.
 2. Will not repurchase or redeem any stock under the Epicenter Employee Restricted Stock Purchase Plan except per the terms of the McCuiston employment agreement.
 3. Will not increase the redemption price pursuant to the Employee Restricted Stock Purchase Plan without Merrill's consent.
 4. Will not pay dividends on Epicenter common stock or preferred stock unless the obligations are also reduced to the same degree (in addition to regularly scheduled payments).
 5. Will maintain cash balances at the lesser of \$6 million, or the aggregate amount of obligations outstanding under the Loan and Security Agreement. As of 5/1/85, the cash requirement was reduced to the lesser of \$5.1 million or the aggregate amount of outstanding obligations secured by the Loan and Security Agreement. Cash may be reduced for up to 60 days as a result of a

2. Make an unsecured loan to any shareholder, except per the terms of the McCuiston employment agreement.

3. Epicenter agrees to:

1. Pay all lawful uncontested taxes, claims and assessments of Epicenter and subsidiaries.
2. Maintain, protect and adequately insure property.
3. Continue its corporate existence.
4. Establish adequate reserves and provisions for depreciation and amortization.
5. Maintain accounting records in accordance with generally accepted accounting principles.
6. Provide comparative financial reports on a timely basis to Merrill Natural Resources.
7. Provide to Merrill copies of all reports from independent public accountants to Epicenter or subsidiaries.
8. Defend any action or suit affecting collateral or security interest of Merrill, and will notify Merrill within five days. (Merrill may also defend such action or suit).
9. Give Merrill written notice of any filings under bankruptcy, insolvency or similar law, (voluntary or involuntary) or any contemplated action, knowledge, or discussion regarding such filing.

Merrill may add to the collateral any mortgages held by EPIC Associates 82-LXI through 82-LXIX in connection with the sale of real estate by those partnerships, and may transfer such assets in satisfaction of any part of Epicenter's obligations.

- ° Merrill may inspect Epicenter properties, examine accounting records and discuss financial affairs with officers and accountants.
- ° Epicenter waives the right to disqualify the attorney who prepared the loan and security agreement from representing Merrill or Epicenter in matters related to the agreement.
- ° Officers of Epicenter are required to notify Merrill in the case of default, if default is imminent, or if a prohibited transaction has occurred.
- ° Following are events of default per the terms of the agreement:
 1. Interest payment ten days late.
 2. Missed principal payment on note, debenture or other obligation.
 3. Non compliance with conditions and terms of the Loan and Security Agreement or the Plan of Reorganization, Corporate Separation, and Recapitalization.
 4. Epicenter, subsidiaries or partnerships becoming insolvent, bankrupt or unable to pay debts, voluntarily or involuntarily.

1. Engaging in prohibited transactions which could subject Epicenter or a subsidiary to a tax or penalty over \$100,000.
2. If statements and documents provided by Epicenter prove to be false or incorrect in a material respect.
- In the event of default:
 1. Obligations are due and payable on demand.
 2. Voting rights of Epicenter common shareholders pass to Merrill pursuant to the Stock Pledge Agreement.
 3. Voting right and ownership of Epicenter subsidiaries pass to Merrill.
 4. Epicenter agrees to reimburse expenses incurred by Merrill related to the default.
 5. Merrill may perform obligations on behalf of Epicenter (disburse funds, take possession of, retain, and sell collateral, and collect from outside parties).
 6. Proceeds of disposal will be applied in the order of the scheduled payments.
 7. If collateral is sold to an entity controlled by Billman, then the collateral will be divided equally among the Epicenter preferred shareholders and Merrill.
 8. Epicenter may cure any event of default caused by its failure to make payments by bringing all payments current or paying all obligations in full.

Additional Disclosures and Subsequent Events and Transactions

- On January 9, 1985 Epicenter Consolidated, Ltd. paid a \$14,000,000 dividend to shareholders Billman and McCuiston, (80% and 20% ownership, respectively).
- As of May 15, 1985 prepayments of \$1,480,526.61 have been made on the loan from Merrill Natural Resources to Epicenter Consolidated, Ltd. The remaining balance at that date was \$4,269,473.39.
- The Maryland Savings-Share Insurance Corporation (MSSIC) and its member institutions, including CS&L, have been suffering from a severe crisis, the subsequent impact and effects of which you are all aware from your participation in recent meetings and discussions relating to these matters.
- In order to facilitate the application by CS&L for federal insurance and to facilitate further transactions designed to reduce the financial drain on CS&L during the crisis and otherwise minimize the further negative impact of the MSSIC crisis, CFSI sold and transferred ERNI to Community Realty Associates, Inc. (a CS&L sub) on 5/10/85 with further tentative plans to liquidate the ERNI Partners, Ltd. joint venture. Subsequent thereto, pursuant to the same purpose, CS&L sold and transferred CFSI (together with all existing subsidiaries) to EPIC Holdings on 5/13/85.
- Effective 5/22/85 CFSI (together with all existing subsidiaries) was sold and transferred to CS&L by EPIC Holdings.
- Effective 5/22/85 Tom Billman resigned as Chairman of the Board and Chief Executive Officer of CS&L, and as a board member of CS&L and all subsidiaries. He agreed to continue to provide the same advice and services as an independent

consultant to CS&L and subsidiaries for \$453,600 for three years at the rate of \$1,050/month per corporation.

Clayton McCuiston is currently in the process of drafting an employment agreement between Community Savings & Loan, Inc. and himself, to be executed in the near future.

• The following agreements were entered into 5/22/85:

- (1) McCuiston agreed to sell his 4,189.08 shares of Series A Preferred Stock of CS&L, par value \$1.00, redemption value \$250.00 per share, to Crysopt Corporation for \$950,000.00 cash; and
- (2) McCuiston agreed to purchase the 7,500 shares of Class A voting Preferred Stock of Epicenter, par value \$0.10 per share, liquidation preference of \$72.00 per share, originally issued to Billman pursuant to the recapitalization, for \$100,000.00 cash; and
- (3) McCuiston agreed to purchase all shares of stock of Performance, Inc. owned by Billman for \$50,000.00 cash.

EPICENTER CONSOLIDATED, LTD.
 RECAPITALIZATION SUMMARY
 March 1, 1985
 (Numbers of shares)

	BILLMAN	MCCUISTION	OTHERS	TOTAL
COMMON STOCK:				
Pre-recapitalization	8,000	2,000		10,000
Redemption for Crysopt	<u><7,250></u>	<u> </u>		<u><7,250></u>
	750	2,000		2,750
	x 10	x 10		x 10
Conversion to Preferred Class A	<u>7,500</u>	<u>20,000</u>		<u>27,500</u>
	<u><7,500></u>	<u><20,000></u>		<u><27,500></u>
Issue new common	0	0		0
Post-recapitalization	<u> </u>	<u>12,750</u>	<u>59,750</u>	<u>72,500</u>
	<u> </u>	<u>12,750</u>	<u>59,750</u>	<u>72,500</u>
PREFERRED "OLD":				
Pre-recapitalization	0			
Conversion to Preferred Class B	0	72,500		72,500
Post-recapitalization	<u> </u>	<u><72,500></u>		<u><72,500></u>
	<u> </u>	<u> </u>		<u> </u>
PREFERRED CLASS A:				
Pre-recapitalization	0			
Conversion from Common	7,500	20,000		27,500
Post-recapitalization	<u> </u>	<u>20,000</u>		<u>27,500</u>
TOTAL VOTING (COMMON + PREFERRED CLASS A):				
Pre-recapitalization	8,000	2,000		10,000
	80.00%	20.00%		100.00%
Post-recapitalization	7,500	32,750	59,750	100,000
	7.50%	32.75%	59.75%	100.00%

	<u>BILLMAN</u>	<u>MCCUISTION</u>	<u>OTHERS</u>	<u>TOTAL</u>
PREFERRED CLASS B:				
Pre-recapitalization	0	0		0
Conversion of "old" preferred	0	72,500		72,500
Post-recapitalization	0	72,500		72,500
TOTAL PREFERRED (CLASS A + CLASS B):				
Pre-recapitalization	0	72,500		72,500
Post-recapitalization	7,500	92,500		100,000
	7.50%	92.50%		100.00%

KEY DATES

- 1/04/85 Merrill Board of Directors approved a loan commitment and arrangement with Epicenter Consolidated, Ltd. to be funded at a later date.
- 1/31/85 Agreement and Plan of Reorganization, Corporate Separation, and Recapitalization
- 2/21/85 Merrill Natural Resources funded the \$5,750,000 loan to Epicenter Consolidated, Ltd.
- 2/27/85 Amendment to Agreement and Plan of Reorganization, Corporate Separation, and Recapitalization
- 2/28/85 Closing Date - Reorganization and Corporate Separation
- 3/01/85 Recapitalization of Epicenter Consolidated Ltd.
- 3/01/85 Closing Date Loan and Security Agreement - Merrill Natural Resources, Epicenter Consolidated, Ltd., and EPIC Holdings, Ltd.
- 3/01/85 Recapitalization of Epicenter Consolidated, Ltd.
- 3/31/85 First interest payment due per the Loan and Security Agreement. Interest is due at the end of each calendar quarter thereafter
- 3/31/86 First principal payment of \$1,916,667 due per the Loan and Security Agreement. If Loan is paid in full by this date, principal is reduced by \$350,000.
- 3/31/87 Second principal payment of \$1,916,667 due per the Loan and Security Agreement.
- If the loan is paid in full and if the CS&L preferred stock has been redeemed, and if the CS&L debenture has been paid in full by this date, principal is reduced by \$600,000.
- 3/01/88 Third principal payment of \$1,916,667 due per the Loan and Security Agreement.
- If the loan is paid in full any time before this date, the due date for CS&L preferred stock and the CS&L debenture accelerate a corresponding period of time.
- 3/31/89 First half of Billman Series A CS&L preferred stock is due (\$1,747,572).
- 3/31/90 Second half of Billman Series A CS&L preferred stock is due (\$1,747,573).
- 3/31/91 Purchase or redemption of CS&L \$1,750,000 subordinated debenture.

(3/1/85)

Executive Summary
of the
EPICENTER CONSOLIDATED, LTD.
EMPLOYEE RESTRICTED STOCK PURCHASE PLAN

Eligibility: Determined by the Board of Directors

Purchase Price: The Initial Plan Participants' first shares will be purchased at the greater of Book Value as of March 1, 1985 or \$2.00 per share. Future purchases will be at Book Value per audited financial statements.

Upon termination of employment for any reason, shares must be sold to the Corporation at the greater of the price the Participant originally paid or the shares' current Book Value.

Board of Directors may refuse to redeem or repurchase in the event 10% or more of the outstanding shares are presented in any one year.

Corporation maintains a permanent right of first refusal. The stock is subject to substantial restrictions including a prohibition from borrowing against same. The Board may remove restrictions for all or selected participants.

Due to the restrictions applicable to these shares and no risk of loss to the Participants, the shares fall outside of § 83 and there should be no tax due until and unless the shares are redeemed or otherwise sold. Such later tax will be at ordinary income rates.

(3/1/85)

EPICENTER CONSOLIDATED, LTD.

Employee Restricted Stock Purchase Plan

Key Design Elements

Plan Purpose

- Share ownership and future appreciation potential with key executives within the consolidated group of corporations.
- Provide key executives, as a group, with a controlling voting interest in the Company.
- Aid in attracting and retaining key executives.
- Provide opportunities for executives to accumulate a substantial amount of capital on a tax-favored basis.

B. Eligibility

- Key executives as designated by EPICENTER CONSOLIDATED, LTD's ("EPIC") President and approved by a majority vote of the Board of Directors.
- Initially, thirteen executives are expected to hold common stock.

C. Capitalization

- The plan requires the creation of a class of common stock, shares of which will be sold to participants at their current book value. At the time of the Plan's implementation, substantially all of the Corporation's book value will be attributed to the preferred stock, so the purchase price of the common will be minimal.

The common stock will be subordinate to the preferred stock with respect to payments in liquidation or dissolution.

The ownership of the common stock when the plan is implemented will be as follows:

Initial Plan Participants	72,500 Shares
Reserved for Future Participants	<u>27,500 Shares</u>
Total Authorized Common Stock	100,000 Shares

As shares are granted or redeemed under the plan, dilution or anti-dilution will occur, which will affect the relative ownership interests.

The preferred stock, which will be created in the form of two classes upon the company's recapitalization and which will be held entirely by EPIC's original two shareholders, will have the following rights and preferences:

Class A Preferred Stock par value \$1.00 per share
Liquidation Preference \$72.00 per share
No Dividend Preference
Fully participating with the common shares as to dividends on a share for share basis
Non-cumulative
One vote per share
Convertible into common shares on a one for one ratio
Pre-emptive rights to subscribe to additional shares in order to prevent dilution by the issuance of additional shares of common stock in excess of the original 72,500 shares.

Class B Preferred Stock par value \$0.10 per share

Liquidation Preference \$72.00 per share
No Dividend Preference
Fully participating with the common shares as to
dividends on a share for share basis
Non-voting
Non-cumulative
Non-convertible
No pre-emptive rights.

Valuation of Common Shares

Except as to the initial purchase price to be paid by the Initial Plan Participants Common shares will be valued according to their book value per common share, as follows:

EQUITY ATTRIBUTABLE TO COMMON:

Total shareholders' equity (as of last audited financial statements)

less: Preferred Shareholders' Equity (value as of recapitalization date)

equals: Equity Attributable to Common

BOOK VALUE PER COMMON SHARE:

Equity Attributable to Common

Divided by: Number of Common Shares

equals: Book Value Per Common Share

Book value will be adjusted each year, based on audited financial results, as follows:

ANNUAL CHANGE IN BOOK VALUE:

Net income for year
less: dividends paid

equals: Annual change in book value

Right to Purchase Shares

- When new participants are added to the Plan or when the Board determines that an existing participant should be eligible for additional shares, the Board may offer such participants rights to purchase shares at their then-current book value or par value, whichever is higher.
- Participants (current and/or new) have 30 days to exercise their rights to purchase additional shares. They may not transfer such rights, and they must be actively employed by the corporation when they exercise them.

F. Employment Requirements

- Participants must be actively employed by the Corporation to purchase or hold shares under the Plan. The Corporation will maintain insurance in an amount equal to \$100,000 for each one per cent (1.0%) interest of common stock owned by each participant which insurance will be used to redeem common shares in the event of participant termination in the Plan as the result of death or disability.

If a participant's employment terminates for any reason, the participant's shares will be redeemed by the Corporation, as described below.

Redemption (i.e., sale of shares back to the Corporation)

Shares will be redeemed by the Corporation at the greater of the price originally paid by the Participant or current Book Value Per Common Shares (based upon the most recent audited financial statements).

Shares presented for redemption will normally be fully settled within 30 days in cash. However, the Corporation has the right to spread the payments, with interest, over a period of up to ten years if cash flow requirements so dictate.

H. Transferability

If a participant wishes to sell any or all of the shares held by him, the Corporation retains a permanent right of first refusal to purchase them before they may be offered for sale to outsiders.

As a matter of administrative policy, the Corporation intends to exercise its right of first refusal during the first 15 years of the Plan's existence. After that time, and assuming the Corporation has not gone public or been acquired, the Corporation does not intend to exercise its right. However, the right must remain in the Plan's legal documents to preserve the Plan's tax treatment.

Tax Treatment

- No election under § 83(b) of the Internal Revenue Code is necessary or appropriate.
- Due to the nature of the restrictions on the shares and no risk of loss to the participant, no taxable event occurs until redemption or sale or other disposition of the shares, at which time the participant will be taxed at ordinary income rates on the excess of the amount received over the price paid for the shares.

Hypothetical Redemption Price Calculation
as of December 31, 1985
(for illustrative purposes only)

Assumptions:

Consolidated CS&L and subsidiaries after tax GNAP income from 3/1/85 to 12/31/85 \$19,000,000

1985 CS&L Dividend to EHL \$ 6,000,000

All other EHL subsidiaries breakeven from 3/1/85 to 12/31/85

All initial participants purchase all shares offered (72,500 shares x \$2.00 per share = \$145,000)
(\$2.00 price - \$.10 par = \$1.90 paid in capital)

Hypothetical Projection and Calculation:

	<u>TOTAL</u> <u>SHAREHOLDERS</u> <u>EQUITY</u>	<u>COMMON</u> <u>STOCK</u>	<u>PREFERRED</u> <u>STOCK</u>	<u>PAID IN</u> <u>CAPITAL</u>	<u>RETAINED</u> <u>EARNINGS</u>
March 1, 1985	<9,191,483>	7,250	10,000	137,750	<9,346,483>
Estimated Income	19,000,000				19,000,000
Estimated Dividends	<6,000,000>				<6,000,000>
Estimated December 31, 1985	3,808,517	<u>7,250</u>	<u>10,000</u>	<u>137,750</u>	<u>3,653,517</u>

Less:

Preferred shareholder equity
(\$72 preference x 100,000
shares)

<7,200,000>

Estimated Adjusted Book Value
for Redemption Calculation <3,391,483>

Estimated Number of Shares
of Outstanding Epicenter
Common Stock at 12/31/85

72,500

Estimated Book Value per Share
of Epicenter Common Stock

The redemption price is the higher of the initial per share, \$2.00, or the estimated book value per share of common stock (\$46.78).

Based on the given set of hypothetical assumptions and calculations, \$2.00 would be the redemption price per share.

ARTHUR ANDERSEN & CO.

1666 K STREET, N.W.
WASHINGTON, D.C. 20006
(202) 862-0100

May 20, 1985

Epicenter Consolidated, Ltd.
Board of Directors
Suite 901
5113 Leesburg Pike
Falls Church, Virginia 22041

Re: Epicenter Consolidated, Ltd.
Sale of Stock to Employees

Gentlemen:

You have asked our opinion as to whether the sale of common stock of Epicenter Consolidated, Ltd. (Center) to certain employees of Center (or employees of its subsidiaries) will be considered current compensation to the employees for federal income tax purposes. We express no opinion on non-income tax issues, such as security law matters. The following facts have been provided to us by you.

Facts

Tom Billman and Clay McQuistion owned 80% and 20% of Center respectively. Pursuant to a corporate reorganization of Center that was structured to qualify as a split-off under §355 and §368 of the Internal Revenue Code ("IRC"), Billman and McQuistion own Center 7-1/2% and 92-1/2% respectively. Center is the parent company of the new consolidated group. Immediately after the reorganization, Center was recapitalized pursuant to IRC §368. Under the recapitalization, a class of common stock was created and will be sold to participants of the Center Employee Restricted Stock Purchase Plan ("Plan"). The common stock, as mentioned above, is subordinate to the preferred stock with respect to liquidation. Under the Plan, certain key executives will be given the opportunity to purchase common shares in Center at the greater of current net book value or \$2.00 per share.

The common stock will be subject to certain permanent restrictions as to transferability. Such shares will only be transferable subject to a right of first refusal by Center. Shares may be held by a participant only during the participant's active employment with the corporation. Upon termination of employment, all shares must be presented to Center for

redemption. At all times, the redemption amount will equal the greater of the book value per share at date of redemption or the original issue price of the shares being redeemed.

OPINION

Based upon the foregoing facts and an examination of the relevant tax law, the sale of Center common stock to employees at the greater of current net book value or \$2.00 per share will not be considered current compensation. This is based upon our conclusion that no transfer will be deemed to have occurred for purposes of U.S. taxation because the shares are subject to a permanent requirement that they be sold back to Center and the redemption agreement has been structured to preclude the participants from assuming any significant risk of loss or decline in the value of the common stock purchased. The employees will recognize ordinary income at the time they dispose of their shares equal to the difference between the fair market value of what they receive and the issue price of the shares sold or redeemed.

DISCUSSION

Section 61(a) of the Internal Revenue Code provides that gross income means all income...including compensation for services. Treasury Reg. 1.61-2(d) provides rules for compensation paid in a form other than in cash. If property is transferred by an employer to an employee for an amount less than the fair market value of the property transferred, the difference between the amount paid for the property and its fair market value at the time of the transfer is compensation and shall be included in the gross income of the employee. Likewise, IRC §83 provides that where property is transferred to an employee with respect to services performed, the difference between the price paid by the employee for the property and the fair market value of the property shall be income to the employee. In determining the proper tax treatment attributable to situations in which property is transferred in connection with services, Treasury Reg. 1.61-1(b) holds that IRC §83 shall have precedent over IRC §61. Treasury Reg. 1.61-1(b) states in part:

"...To the extent that another section of the Code or the regulations thereunder provides specific treatment for any item of income, such other provision shall apply notwithstanding §61 and the regulations thereunder..."

IRC §83 provides specific treatment for property transferred in connection with services and therefore arguably overrides IRC §61. Furthermore Reg. 1.61-2(d)(6) provides that the rules under §61 do not apply if §83 applies to a transfer of property. As discussed below, §83 applies to this transaction although its rules determine that no transfer of property will be deemed to occur.

IRC §83 provides that where property is transferred in connection with the performance of services, the person receiving such property must include in income the excess of the fair market value of the property received over the amount paid. Such inclusion is required in the year in which the transferee receives beneficial interest in the property without substantial risk of forfeiture. If there is no deemed transfer of property, income is not recognized under IRC §83.

"Transfer" is a term specifically defined for purposes of IRC §83 by Treasury Reg. §1.83-3(a). Treasury Reg. §1.83-3(a)(3) states that no transfer may be deemed to exist "...where property is transferred under conditions that require its return upon the happening of an event which is certain to occur such as the termination of employment." In such a case, the determination as to whether a transfer has occurred is based upon all facts and circumstances. One factor which indicates that no transfer has occurred is a transaction under which the transferee assumes no risk of loss. In order to be considered at risk of loss, Treasury Reg §1.83-3(a)(6) requires the transferee to be at risk that the value of the property, in this case the common stock, will decline.

In the present case the common shareholders will be subject to a permanent requirement to return their shares to Center upon either the termination of employment or death. If it can be demonstrated that the Center shares will be issued for an amount equal to or greater than their fair market value, and that the purchasers are guaranteed a return of the issue price, it may be argued that no risk of loss was conveyed and that no transfer occurred. This position is illustrated by Example (5) of Treasury Reg §1.83-3(a)(7):

"Example (5). On July 4, 1971, X corporation purports to transfer to G an employee, 100 shares of X stock. The stock is subject to the sole restriction that upon termination of employment G must sell the stock to X for the greater of its fair market value at such time or \$100, the amount G paid for the stock. On July 4, 1971 the X stock has a fair market value of \$100. Therefore, G does not incur the risk of a beneficial owner that the value of the stock at the time of transfer (\$100) will decline substantially. Under these facts and circumstances, no transfer has occurred."

The regulations provide that a risk of loss in this circumstance is not limited to the loss of an amount paid for the property. Presumably, if there is a bargain inherent in the property at time of grant, and that bargain can be lost due to a decline in value, the employee has the risk of loss of a beneficial owner. Consequently, to determine if the employees bear a risk of loss, the relationship between the fair market value of the shares at time of issue and the issue price must be determined. Because the shares

ARTHUR ANDERSEN & CO.

Epicenter Consolidated, Ltd.

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May 20, 1985

are subject to certain permanent restrictions as to transferability, IRC § 83 guidelines for determining fair market value may be applicable.

The transferability restrictions imposed upon the common shares result in a permanent right of first refusal to Center at a price determined by formula. These restrictions will be considered nonlapsing restrictions pursuant to Treasury Reg. §1.83-3(h). As property subject to nonlapsing restrictions, Treasury Reg. §1.83-5(a) provides guidelines for valuing the common shares. This regulation provides that the price determined under the formula used in connection with the nonlapsing restrictions shall be presumed to be the fair market value of the restricted property for all purposes of IRC §83. Thus, since the nonlapsing restriction on Center common shares provides that the redemption amount shall equal the greater of net book value or issue price, the greater of net book value of the shares at issuance or \$2.00 per share will be presumed to be their fair market value at that time. This presumption is rebuttable by the Commissioner of the Internal Revenue Service, but the burden of proof is his.

In Center's situation, earnings projections and an anticipated appraisal valuation may be factors which could assist the Commissioner in rebutting the fair market value presumption of Reg. §1.83-5(a). However, the uncertainty of the future earnings could prevent him from establishing a future book value as a more accurate measure of fair market value than the current book value. Furthermore, the independent negotiations between Billman and McQuiston in valuing Center for the split-off may provide the best indication of fair market value. It should be noted that the preferred stock liquidation preference approximated the value of Center in those negotiations.

As a result, Treasury Reg. §1.83-5 will create the presumption that the fair market value of the common shares at issuance will equal the greater of their net book value at that time or \$2.00. Consequently, the employees will be assured of receiving an amount equal to the fair market value of the shares (at time of issuance) when they dispose of Center stock. Treasury Reg. §1.83-3(a)(6) will therefore hold that the common shareholders bear no risk of loss because their redemption proceeds will always equal or exceed the fair market value of the shares when purchased. Because a nonlapse restriction exists and no risk of loss is incurred, the employees of Center do not acquire a beneficial ownership in Center common stock. Consequently, no transfer should be deemed to have occurred pursuant to Treasury Reg. §1.83-3(a). Because no transfer should be deemed to have occurred, no income should be currently recognized pursuant to IRC §83.

The Plan also provides that no IRC §83(b) election is available to the employees or should be made. A §83(b) election allows an employee to have restricted property taxed to him in the year of transfer. This permits the recipient to have further appreciation of the received property taxed at capital gain rates. However, this election is not available since no

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Epicenter Consolidated, Ltd.

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May 20, 1985

transfer occurred. If the employees do not in fact attempt an election under IRC §83(b), no income should result in the year the Center stock is sold to them.

Consequently, the employees will recognize ordinary income at the time they dispose of their shares. The ordinary income recognized by them at that time will equal the difference between the cash and fair market value of other assets received when they dispose of the stock and the issue price of the shares sold or redeemed. Similarly, Center will receive an ordinary compensation deduction at the same time and in the same amount as the compensation recognized by the employees. Center should also withhold employment taxes on the compensation at that time.

The opinions expressed herein are based on facts and assumptions you have provided to us, and you have represented that we have been provided all the facts necessary for us to form our opinions. Any alterations in these facts and assumptions may adversely affect our opinions.

The opinions presented here are based on issues on which a scarcity of judicial and administrative authority exists. These opinions are not binding on the Internal Revenue Service and there is no assurance that the Internal Revenue Service or a judicial body will be in accord with our opinions. These opinions should not be taken as an assurance of the ultimate tax treatment.

Our opinions are based solely upon the provisions of the existing Treasury regulations. There can be no assurance that amended regulations or new rulings and cases that could have the effect of causing current recognition of income will not be adopted. We have no responsibility to update these opinions for events, transactions or circumstances occurring after their date of issuance. These opinions are solely for your benefit and are not intended to be relied upon by anyone other than you. We have consented for you to provide a copy of these opinions to the employees. However, each of the employees receiving stock should consult and rely upon the advice of his/her own counsel, accountant or other advisor.

Very truly yours,

Arthur Andersen + Co.

Community Savings & Loan
Written Record of Action
of the
Board of Directors
Without a Formal Meeting

Pursuant to Section 3.14 and 5.02 of the Bylaws of Community Savings & Loan, Inc. (the "Association"), the undersigned being all of the Directors of the Association, do hereby take and adopt the following actions and resolutions without a formal meeting, hereby waiving notice of meeting and all requirements therefor:

WHEREAS, all of the payments of dividends by the Association ratified herein were made in compliance with Maryland Division of Savings and Loan Association and MSSIC regulations and Maryland law.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$23,022.42 on the Series A Preferred Stock, par value \$1.00 per share, for the period March 14, 1983 through March 31, 1983, such dividend paid on April 7, 1983; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$106,312.10 on the Series A Preferred Stock, par value \$1.00 per share, for the period April 1, 1983 through June 30, 1983, such dividend paid on July 1, 1983; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$106,312.10 on the Series A Preferred Stock, par value \$1.00 per share, for the period July 1, 1983 through September 30, 1983, such dividend paid on September 30, 1983; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$106,312.10 on the Series A Preferred Stock, par value \$1.00 per share, for the period October 1, 1983 through December 31, 1983, such dividend paid on January 3, 1984; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$106,312.10 on the Series A Preferred Stock, par value \$1.00 per share, for the period January 1, 1984 through March 31, 1984, such dividend paid on April 3, 1984; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$106,312.10 on the Series A Preferred Stock, par value \$1.00 per share, for the period April 1, 1984 through June 30, 1984, such dividend paid on July 2, 1984; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$104,962.29 on the Series A Preferred Stock, par value \$1.00 per share, for the period July 1, 1984 through September 30, 1984, such dividend paid on October 1, 1984; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$104,962.29 on the Series A Preferred Stock, par value \$1.00 per share, for the period October 1, 1984 through December 31, 1984, such dividend paid on January 2, 1985; and

FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$104,962.29 on the Series A Preferred Stock, par value \$1.00 per share, for the period January 1, 1985 through March 31, 1985, such dividend paid on April 8, 1985; and

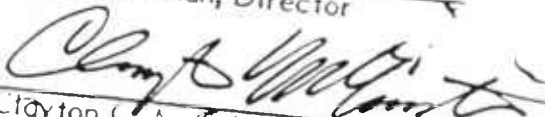
FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$46,947.60 on the Series C Preferred Stock, par value \$1.00 per share, for the period October 23, 1984 through December 31, 1984, such dividend paid on April 11, 1985; and

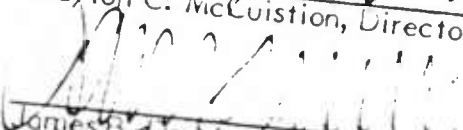
FURTHER RESOLVED, that the Board of Directors hereby ratifies and confirms a dividend payment of \$61,200 on the Series C Preferred Stock, par value \$1.00 per share, for the period January 1, 1985 through March 31, 1985, such dividend paid on April 10, 1985; and

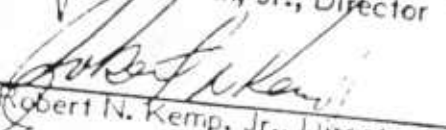
FURTHER RESOLVED, that the Secretary or any Assistant Secretary of the Association is hereby authorized and directed to file this Written Record of Action among the regularly maintained minutes of the meetings of the Board of Directors of the Association.

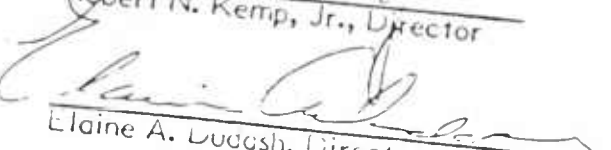
WITNESS, the following signatures this 1st day of May, 1985.


Toni J. Billman, Director


Clayton C. McCuiston, Director


James B. Deerin, Jr., Director


Robert N. Kemp, Jr., Director


Elaine A. Dugosh, Director

COMMUNITY SAVINGS & LOAN, INC.

Written Record of Action
of the
Board of Directors

We, the undersigned, being all of the members of the Board of Directors of Community Savings & Loan, Inc., a Maryland savings and loan (the "Association"), do hereby take and adopt the following actions and resolutions:

RESOLVED, that the Board of Directors hereby declares and authorizes for payment a dividend of \$104,962.29 on the Series "A" Preferred Stock, par value \$1.00 per share, effective December 31, 1984 for the period October 1, 1984 through December 31, 1984, such dividend to be paid on January 5, 1985.

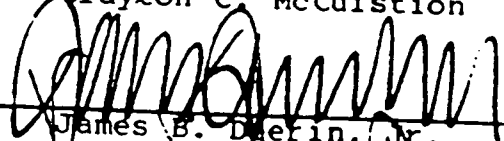
DATED this 31st day of December, 1984.



Tom J. Billman



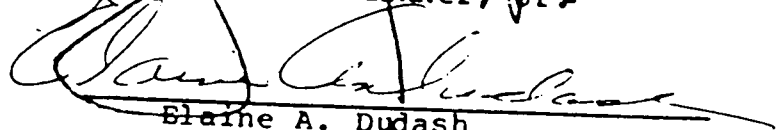
Clayton C. McCuiston



James B. Dierin, Jr.



John D. Faulkner, Jr.



Elaine A. Dudash

IIID30

1984

EXHIBIT A

jbc/acw/:

COMMUNITY SAVINGS & LOAN, INC.

Minutes of a Meeting
of the
Executive Committee
of the
Board of Directors

A meeting of the Executive Committee of the Board of Directors of Community Savings & Loan, Inc. was held commencing at 9:00 AM on April 25, 1985, at Suite 900, 5113 Leesburg Pike, Falls Church, Virginia.

The following members of the Executive Committee were present: Clayton C. McCuistion, Tom J. Billman, Michael L. Shomper, Leonard Meltz, Jr., James B. Deerin, Jr. and Barbara A. McKinney.

Mr. Shomper presented a discussion of the impact of the Ohio situation on savings. He said that it appears that retail accounts are stabilized; however, jumbo certificates of deposit are beginning to run off at a fairly rapid rate. Attached hereto as Exhibit "A" is a summary of savings activity. Mr. Shomper indicated that the Association has approximately \$67,000,000 in liquidity comprised of \$16,000,000 in cash, \$31,000,000 in borrowing capacity and \$20,000,000 in collateralized borrowing ability at the Federal Reserve Bank. The future area of concern will be in the jumbo CD area with \$18,000,000 in certificates of deposits due to mature in May and \$22,000,000 in June. Mr. Shomper said he is projecting another \$20,000,000 loss in savings during May and June due to these run offs.

The Committee directed Messrs. Meltz and McCuistion contact Bob Irwin of Mirada/Trafalgar Mortgage to discuss bringing him on as a consultant to create a money desk within the Association to generate deposits.

The Committee also directed Mr. McCuistion to set up an entire system of accounts outside of the Association to fund the various service corporations in the event of a problem.

Mr. Billman stressed that it is extremely important to maintain information on a confidential basis and to proceed in a "business as usual" manner. In this regard, it is important that accounts (including certificates of deposit) of senior management continue to be maintained in the Association to avoid causing unnecessary concern. As a protection to those members of management, the Committee directed that Mr. Shomper identify all management accounts and prepare a contingency plan to insure that those accounts are available to such executives prior to any problem occurring.

The Committee next discussed the question of how to maintain the operations of the various service corporations in the event of a problem similar to Ohio under which the state or federal regulators were to shut down the Association. The Committee determined that the best interests of the Association and its depositors would be served by removing the service corporation structure from under the Association at such time as a problem developed which action would allow the continued operations while leaving the Association with the same assets. The Committee recognizes that all of the members of the Executive Committee may be deemed "controlling persons" under Section 9-323, Financial Institutions Article of the Maryland Code by virtue of their respective ownership interests in EPIC Holdings, Ltd. After discussion and upon motion duly made, seconded and unanimously adopted, it was:

RESOLVED, that this Association shall grant an option to EPIC Holdings, Ltd., a Delaware corporation, to acquire all of the issued and outstanding stock of Community Financial Services, Inc. ("CFSI"), a wholly owned subsidiary of the Association, for a price equal to the consolidated net worth of CFSI (including its subsidiaries), such price to be paid by a promissory note due in two (2) years, bearing interest at 10% per annum, payable interest only quarterly; and

FURTHER RESOLVED, that the Executive Committee finds that (i) full disclosure of the transaction and the nature of Messrs. Billman, McCuistion, Meltz, Deerin, Shomper and Ms. McKinney's interest in EPIC Holdings, Ltd. has been made, (ii) the profits of EPIC Holdings, Ltd. from this transaction are not at the expense of the Association and do not prejudice its best interests, and (iii) the grant of the option is necessary to permit the continuation of the orderly operations of CFSI and its subsidiaries; and

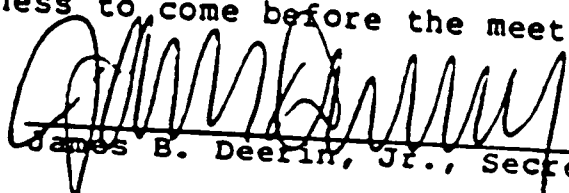
FURTHER RESOLVED, that the president or any vice president of the Association be, and each hereby is, authorized to execute and deliver in the name and on behalf of this Association such documents and agreements and to take such other actions as may be necessary to carry out this resolution, such documents and agreements to contain such terms and provisions as the officer so executing shall agree in his or her sole discretion.

Mr. Shomper presented to the Committee various financial and budget materials attached hereto as Exhibit "B." The Committee members determined to review these materials prior to the next Committee meeting and to discuss the same at that time, if there are any questions.

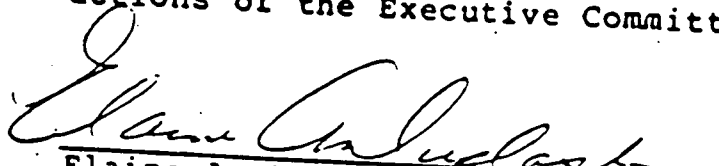
The question came up for discussion as to whether the Association should make certain oil and gas related loans. The Committee determined that the Association not participate in any program to make such loans.

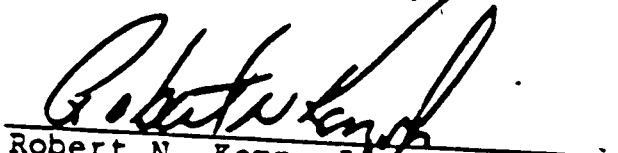
Mr. Shomper indicated that due to the shrinkage of savings occurring during the past 45 days, that the Association is out of compliance in the construction loan category. The Committee directed that existing efforts to sell construction loans or participation therein be continued.

There being no further business to come before the meeting, it was adjourned.


James B. Deerin, Jr., Secretary

The undersigned directors hereby ratify and approve the actions of the Executive Committee as set forth above.


Elaine A. Dudash


Robert N. Kemp, Jr.

Consolidated, Ltd. ("Epicenter"), Epic Holdings, Ltd. ("Holdings") and Crysopt Corp. ("Crysopt") from dissipating or transferring their assets during the pendency of this action.

3. I hereby certify that I have read the Complaint filed by MDIF and CSL in this action and that the factual allegations contained in paragraphs 3-4, 6-44, 48-50, 52-54, 56-57, 59-62, 64-65, 67-69, 71-72, 74-77 and 79-80 of that Complaint are true.

4. The facts contained in paragraphs 5-11 of this affidavit are based on personal knowledge, on documents of CSL and Equity Programs Investment Corporation ("EPIC") and their affiliated companies which I and other representatives of MDIF have reviewed in the course of MDIF's investigation into the activities of the defendants involving CSL and EPIC, and on interviews conducted during the course of MDIF's investigation.

5. As part of the reorganization described in paragraphs 6, 7, and 16 of the Complaint, by which Billman redeemed his stock in Epicenter, CSL's ultimate parent, in exchange for assets with a book value of over \$30 million, Billman caused defendants Holdings and Epicenter

to agree to create a "legal defense fund" of up to \$300,000 for the defense of Billman or Crysopt in any action against them. In addition, on September 4, 1985 Billman and McCuistion joined with other directors of EPIC and two of its affiliates in causing a retainer of \$850,000 to be paid to a law firm for possible defense work. That retainer was subsequently returned at the insistence of MDIF.

6. At a meeting of the Executive Committee of CSL's Board of Directors on April 25, 1985, approximately three weeks before Governor Hughes froze deposits at CSL, and during which the possibility that regulatory authorities would close the bank was discussed, defendant Billman initially directed CSL's senior management to maintain their accounts and certificates of deposit in CSL "to avoid causing unnecessary concern," presumably among bank staff and the public. (See Minutes of April 25, 1985 Executive Committee Meeting, attached hereto as Exhibit A.) At that same meeting, however, Billman also assured senior management that they would be able to withdraw their funds if problems arose. Senior management personnel in fact did withdraw large sums from their personal accounts at CSL between the Executive Committee meeting and the Governor's freeze

order of May 14, 1985, including withdrawals by McCuistion of \$578,448 and by Billman of \$239,809.

7. In addition to the funds withdrawn by Billman and McCuistion from their personal accounts, six companies owned or controlled by Billman and McCuistion also withdrew an aggregate of over \$2.5 million from their accounts at CSL between April 23, 1985 and the May 14 freeze order. Those companies also made substantial withdrawals during the period January 1 - April 22, 1985.

8. On April 29, 1985, the Executive Committee of the Board of Directors of CSL granted an option to CSL's parent, defendant Holdings, to acquire CSL's subsidiary Community Financial Services, Inc. ("CFSI"), which owned virtually all of the EPIC-related corporations. The minutes of this meeting expressly state that the purpose of the transaction was "to maintain the operations of the various service corporations in the event of a problem similar to Ohio under which the state or federal regulators were to shut down the Association." CFSI's stock was in fact conveyed to Holdings on May 13, 1985. That stock was reconveyed to CSL on May 22, 1985. Copies of the Executive Committee minutes authorizing the transfer to Holdings and of

the minutes of CSL's Board of Directors implementing the reconveyance are attached as Exhibits A and B.

9. On August 22, 1985, approximately two weeks before the appointment of MDIF as Conservator for CSL, EPIC Acquisitions, Inc., a subsidiary of CSL's parent, defendant Holdings, approved the purchase of 51% of the stock of Equity Programs Investment Corp. from CFSI. This transaction removed EPIC from its position as an indirect subsidiary of CSL to a position above CSL in the corporate chain -- apparently for the purpose of shielding EPIC from any attempt to marshal CSL's assets for the benefits of its depositors and creditors. This transaction was reversed on September 6, 1985.

10. On August 30, 1985, the defendants caused a number of EPIC limited partnerships which had acquired property, but which had not yet been syndicated, to transfer their assets to three EPIC limited partnerships whose limited partners, including Billman and McCuistion, were all affiliated with EPIC (the "in-house limited partnerships"). Furthermore, on September 5, 1985 -- the day on which MDIF was appointed Conservator -- certain of the defendants, including McCuistion, caused EhL Management Corp. ("EMC") to be substituted for EPIC as the general partner of those three in-house limited

partnerships. The apparent purpose of this substitution was to prevent the conservator from gaining control over the in-house limited partnerships and their newly acquired assets since EMC is a subsidiary of CSL's parent company and is thus not under CSL's control. Subsequent to the appointment of MDIF as Conservator, EMC agreed to return control of the in-house limited partnerships to a subsidiary of CSL contingent upon an overall workout of the bankruptcy proceedings of the other limited partnerships.

11. MDIF was appointed as Conservator for CSL on September 5, 1985, and defendants were given notice of the request for the appointment before that request was made. After receipt of that notice, however, without informing MDIF, the defendants caused 341 of the EPIC limited partnerships (not including any of the in-house partnerships) to file bankruptcy petitions pursuant to Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia with the apparent purpose, and the effect, of limiting the options and authority of the conservator.

W. Bruce McPherson
W. Bruce McPherson

Subscribed and sworn to before
me this 22nd day of November, 1985.

Margaret A. Vawter
Notary Public

My Commission Expires: June 1, 1986



The State of Maryland
Executive Department

PROCLAMATION

- WHEREAS, Public confidence in the security of deposits in privately-insured savings and loan associations has been severely undermined by the recent financial crisis in Ohio;
- WHEREAS, The crisis in Ohio and the subsequent closing there of privately-insured savings and loan associations have led to heightened sensitivity in this State concerning the fiscal integrity and financial stability of privately-insured savings and loan associations;
- WHEREAS, Severe management problems at Old Court Savings and Loan, Inc., a privately-insured savings and loan association, led to the replacement of Old Court's chief executive officer and the placement of Old Court under a Maryland Savings-Share Insurance Corporation management agreement;
- WHEREAS, As a result of those events, Old Court began to experience extraordinary withdrawals by alarmed depositors, resulting in long congested lines affecting the orderly business operations of Old Court and threatening the public peace, all of which continued unabated until the involuntary imposition of a court-ordered conservatorship and the limitation on withdrawals in the amount of \$1,000 per account per 30-day period;
- WHEREAS, Public confidence continued to erode and led to similar events at yet a second savings and loan association, Merritt Commercial Savings and Loan, Inc., another privately-insured association, which events also continued unabated until the voluntary acceptance of a court-ordered conservatorship and identical limitations on withdrawals;
- WHEREAS, This erosion of public confidence has now spread throughout the State to other privately-insured savings and loan associations, resulting in threats to the stability of these institutions and of the Maryland Savings-Share Insurance Corporation;
- WHEREAS, If these circumstances are allowed to continue unabated, there is an immediate danger that public safety will be imperiled;
- WHEREAS, A state of public crisis and emergency, threatening the public safety, health, and welfare, exists within the State of Maryland;
- NOW, THEREFORE, I, HARRY HUGHES, GOVERNOR OF THE STATE OF MARYLAND, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY THE CONSTITUTION AND LAWS OF MARYLAND, INCLUDING BUT NOT LIMITED TO ARTICLE 41, §§ 15B AND 15B-2, HEREBY PROCLAIM THAT A STATE OF PUBLIC CRISIS AND EMERGENCY EXISTS WITHIN THE STATE OF MARYLAND; AND, IN ORDER TO PROTECT THE PUBLIC

1935

SAFETY, HEALTH, AND WELFARE AND TO BRING THE PUBLIC CRISIS AND EMERGENCY UNDER CONTROL, HEREBY ORDER THAT, UNTIL THIS PROCLAMATION IS MODIFIED OR TERMINATED, THE WITHDRAWAL OF ANY AND ALL SAVINGS ACCOUNTS AND OTHER DEPOSITS IN ANY AND ALL SAVINGS AND LOAN ASSOCIATIONS THAT ARE INSURED BY THE MARYLAND SAVINGS-SHARE INSURANCE CORPORATION AND ARE NOT PRESENTLY OR HEREAFTER IN A COURT-ORDERED CONSERVATORSHIP BE LIMITED AS FOLLOWS: A SAVINGS ACCOUNT HOLDER OR OTHER DEPOSITOR MAY WITHDRAW FROM EACH SAVINGS OR OTHER ACCOUNT IN AMOUNTS NOT TO EXCEED IN THE AGGREGATE \$1,000 PER ACCOUNT PER EACH 30 CONSECUTIVE DAY PERIOD COMMENCING FROM THE DATE OF THIS PROCLAMATION; PROVIDED THAT ANY NEW SAVINGS ACCOUNTS OR DEPOSITS MADE AFTER THE DATE OF THIS PROCLAMATION IN EXISTING ACCOUNTS SHALL NOT BE SUBJECT TO THIS \$1,000 LIMITATION ON WITHDRAWALS; AND PROVIDED FURTHER THAT THE STOCKHOLDERS OF ANY ASSOCIATION, ANY CONTROLLING PERSON OF ANY STOCKHOLDER, AND ANY SPOUSE OR MEMBER OF THE IMMEDIATE FAMILY OF ANY SUCH STOCKHOLDER OR CONTROLLING PERSON MAY MAKE NO WITHDRAWALS.



GIVEN Under My Hand and the Great Seal of the State of Maryland, in the City of Annapolis, this 14th day of May, 1985. 4:47 P.M.

Effective from date
Harry Hughes
Harry Hughes
Governor

ATTEST:

Mary Pat MacDonal
Mary Pat MacDonal
Notary Public

My Commission Expires: 7/1/86



COMMUNITY
SAVINGS & LOAN

August 19, 1985

Governor Harry Hughes
The State House
Annapolis, Maryland

Dear Governor Hughes:

Community Savings & Loan has over the past few days experienced heavy withdrawals due in large part to recent publicity surrounding the FSLSB requirement that Community divest the EPIC Companies prior to approval for FSLIC insurance of accounts.

On Saturday and again today there have been lines of depositors seeking withdrawals at all of our branches. At times, there have been disturbances in these lines.

We are actively pursuing negotiations with a number of interested parties, including the private mortgage insurance companies, to arrive at a plan to accomplish the divestiture of the EPIC Companies. However, these negotiations cannot succeed in an atmosphere of public panic which is the natural result of the continuing media coverage of the lines at our branches.

Therefore, in order to protect all of the depositors of Community and in order to preserve the public safety and welfare, we hereby request that you issue an executive order which would prohibit withdrawals from Community for a period of twenty (20) days. This will hopefully give us the time to arrive at a solution.

Very truly yours,



CLAYTON C. MCCUISTON
Chairman of the Board and
President

450787

Community Office: 6500 Rock Spring Drive, Beltsville, Maryland 20717 (301) 411-6555

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1987

THE WALL STREET JOURNAL

EPIC Mess

Realty Firm's Plight May Cause Much Pain, Alter Thrift Industry

Risky Tactics That Included 100% Debt Stir Worries By Regulators of Lenders

Threat to Mortgage Insurers

Until two weeks ago, Equity Programs Investment Corp. was a small, rapidly growing but little-noticed real-estate and financial-services firm.

From its Oriental-art-embellished headquarters in the Washington, D.C., suburb of Falls Church, Va., EPIC oversaw a 55-office, nationwide network that sold real-estate tax shelters, securities and homes. When EPIC needed cash, it got it from Community Savings & Loan Association of Bethesda, Md., a small, privately insured thrift that EPIC bought in 1982 and later restructured to become EPIC's parent company.

But EPIC is obscure no more. Earlier this month, it announced that it had missed

This article was prepared by Wall Street Journal staff reporters David B. Hilster and Joanne Lipman in New York, Monica Langley in Washington and Steve Scalet in Philadelphia.

an estimated \$13 million of principal and interest payments owed to scores of other thrifts to whom it had sold \$1.4 billion of mortgages and mortgage-backed securities. And the spotlight's glare reveals EPIC as a purveyor of some of the riskiest real-estate syndications available. If EPIC ultimately defaults on these and future payments, investors, creditors and insurers could lose hundreds of millions of dollars. EPIC's plight also raises troubling questions about the soundness of some real-estate tax shelters and the regulation of thrifts.

Unusual Risks

However, EPIC's high-flying syndications were excessive even in an industry built on risk, syndication experts say. "I don't even consider them to be even remotely in the same business as we are," says Mitchell Hochberg, senior vice president of VMS Realty Inc., a major syndicator. And although EPIC says it hopes a syndicator may buy it and help out it out, other syndicators may not be willing partners. Says Mr. Hochberg: "It's so far a stream of what all of us do that it seems hard to believe that there's anything that we'd be interested in."

The most disturbing aspect of EPIC's plight, moreover, is that there doesn't seem to be anything illegal about the way the company's partnerships were set up. That fact worries thrift-institution regulators, who fear that other thrifts may be gambling on even higher risk real-estate deals.

We are spending more time in these institutions trying to figure out what they're doing," says Carol Dunbar, vice president of the Federal Reserve Bank of Atlanta. "It's hard to figure out what

who bend or violate the rules and jump into real-estate ventures that aren't typical or safe."

Many at Risk

Potential losers in the EPIC game abound. About 6,500 individual investors all across the country have \$173 million locked up in 351 EPIC syndications. At least 10 U.S. mortgage insurers and 10 reinsurance companies in Europe and the U.S. may face some \$400 million in claims. Community S&L stands to lose the \$65 million that it lent to EPIC. The other thrifts might have to write down EPIC-related mortgage securities. And the 20,500 houses owned by EPIC partnerships could soon be put on sale at knockdown prices.

At the root of the crisis are EPIC's real-estate syndications, partnerships that borrowed money to buy rental houses. Through clever structuring, the partnerships attracted well-off investors, such as dentists and lawyers, with visions of \$2 in tax deductions—for up to five years in a row—for every \$1 invested.

EPIC also packaged the loans into mortgage securities, which were insured by private companies. It sold the securities to thrifts and other institutional investors, who got the monthly mortgage payments.

On the surface, EPIC's shelters were straightforward enough. Hundreds of syndicators have raised billions of dollars using the same basic method. But scratch the surface, and some major—and potentially dangerous—differences appear.

Huge Debts

One big difference: EPIC partnerships bought houses—primarily model homes and unsold remnants of housing developments—rather than money-makers such as apartment buildings or shopping centers. Real-estate experts say rental homes are typically a money-losing investment in any case; houses are larger and more costly than apartments but don't usually command proportionately more rent.

Moreover, model homes, contends Peter Morris, the chairman of VMS Realty, are among "the most expensive, uneconomic, speculative" types of real estate. He says that a model home's value declines because "everybody in the world looks through it," and "it's built with trills that aren't economic, like gold-plated toilet paper rollers."

Another major offense is debt. EPIC partnerships borrowed enormous amounts—often over 95% and sometimes, in effect, over 100% of the price they paid for homes. Although other syndicators

Please Turn to Page 4, Column 1

EPIC Mess: Real-Estate Firm's Plight May Cause Much Pain and Even Alter the Mortgage Business

Continued From First Page

Sometimes borrow heavily. They unlike EPIC usually use the loans to improve or create new property.

Because of the way EPIC partnerships were set up, they didn't generate enough income to make mortgage payments. So from the outset, most planned to make up the difference by constantly bringing in new investors or borrowing money from Community or both. If partnership sales or Community loans halted, hundreds of partnerships would collapse.

That possibility emerged early this month. Following runs by depositors on some Maryland thrifts in May, Community and other state thrifts had been ordered to apply for federal deposit insurance. But federal regulators, uneasy about EPIC's speculative operations, told Community that it couldn't obtain federal insurance unless it got rid of EPIC immediately. EPIC, with its future uncertain, had no choice but to stop borrowing from Community and to quit selling syndications. It soon missed payments on the \$1.4 billion of mortgages.

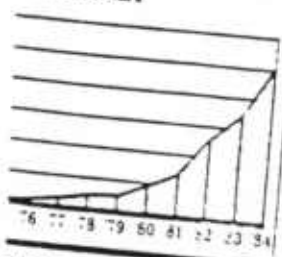
EPIC says it has until Sept. 20 to start making the missed payments. If it doesn't, the properties' trustees could foreclose or the real-estate partnerships might enter bankruptcy proceedings. Either way, the investors, if the partnerships are liquidated, could end up paying taxes on income that they never received.

A federal bailout of EPIC appears unlikely. The state of Maryland may have to buy off Community's depositors, but the fate of EPIC and the partnerships that it organized is uncertain. EPIC and its investment bankers have been trying to sell the company, but the state of Maryland and private mortgage insurers seem unwilling to aid a sale by contributing capital to EPIC or assuming some of its liabilities.

Meanwhile, the repercussions are already rattling the thrift, real-estate syndication and mortgage-insurance industries. Mortgage insurance companies, which cover mortgages with low down payments—usually 20%—may become harder to come by as some observers expect mortgage insurers suffer a capital squeeze due to losses on EPIC mortgages. In addition, state-chartered ones, particularly risky real-estate projects. The Federal Reserve Board says it is hiring more examiners, largely to monitor real-estate investments.

In the turmoil, many EPIC employees seem genuinely baffled by their fates, and some are furious. "There's a chance we'll ever get back to where we were two weeks ago," says one EPIC employee who asked not to be identified.

EPIC's Home Purchases
Billions of dollars



together. We're basically stopped the water. We have no cash flow in from any EPIC operations. Daily, EPIC declines to comment.

Tax shelter syndications have fallen out of favor in the past year, as Congress and the Internal Revenue Service have tried hard to stymie them. But EPIC didn't change its formula. We've been very optimistic about not getting into things we don't know well, one EPIC employee says proudly.

Indeed, according to prospectuses, EPIC syndications often borrowed more than 95%—and sometimes over 99%—of the purchase price of the homes. But real-estate experts say most of the syndicators actually borrowed more than 100% of the purchase price, a fact obscured by some financial gymnastics.

Builder Rebates

According to prospectuses, EPIC received from builders rebates of up to one-fourth of the purchase price of the homes after the company had bought the houses and had lined up mortgages based on the pre-rebate price. Thus, some mortgages exceeded the net price to EPIC. In a recent syndication, for example, the \$3.54 million purchase price for 45 homes was financed by a \$3.52 million mortgage. But the builder rebated to EPIC \$692,000—making the net purchase price about \$2.8 million, substantially less than the \$3.52 million loan.

EPIC defends this practice. It contends that it always paid market prices for properties and terms the rebate simply a financing subsidy, similar to the below-market financing that builders sometimes give home buyers. When a builder subsidizes financing, "he doesn't lower the price also," an EPIC employee says.

In any case, such enormous debt "is quite uncommon," says Arnold G. Rudoff, director of partnership analysis for Price Waterhouse, a major accounting firm. Financial advisers frown on syndications that borrow more than 90% of the purchase price. Mortgage insurers aren't allowed to insure loans for more than 95% of a property's value. Such high debt levels, Mr. Rudoff says, "usually spell risk, because you've got to pay somebody at some point—and those are fixed payments whether you've got it [the money] or not."

Inadequate Cash

But, as the recent missed payments have shown, EPIC didn't have the money. In fact, its partnerships were structured so that they never generated enough cash to make debt payments, and the prospectuses said so.

Instead, EPIC syndications relied on two other sources of funds to pay off debt. The first was loans from Community. Federal examiners have said Community has about \$13 million of loans to EPIC, although EPIC says the figure is lower. The second, and by far more important, was that EPIC raised money for mortgage payment was by bringing in more investors. For the partnerships to survive, a constant stream of new investors had to be found. Their money didn't buy real estate but was used to make mortgage payments.

By this summer, EPIC was selling more than \$1 million of new partnerships every week, EPIC employees say. Says Mr. Morris of NBS: "You've got a debt that's an inspiration. This isn't a normal debt."

Apparently because the need for new investors was so urgent, EPIC tried hard to make sure it could get them. In fact, it introduced "incentive" syndications, which sold new tranches of the syndication every few months rather than to selling the full amount at once. It also began to pay out principal to investors as the syndication matured. But this tactic, says Mr. Morris, "didn't work."

Insurance Problem

The process ground to a halt earlier this month when Community was told it couldn't get federal deposit insurance until it got rid of EPIC immediately. Soon, EPIC says, mortgage insurers indicated that they might lose some \$400 million, and they refused to insure any more EPIC mortgages. That, combined with EPIC's uncertain future, forced it to stop selling syndications. "We don't know whether EPIC is going to exist from day to day," one EPIC employee says. "You can't put that in an offering circular."

The thrifts and institutional investors that hold EPIC's mortgage-backed securities were the first to feel the effects of EPIC's missed payments. Payments had been made to a mortgage servicer—in this case, EPIC Mortgage Inc.—which passed them on to securities holders.

But unlike some mortgage securities, the EPIC securities don't guarantee payment to investors. If EPIC doesn't make its payments on the \$1.4 billion in mortgages by late September, the only recourse for securities holders is to foreclose on the 20,500 homes owned by EPIC partnerships.

EPIC says it bought the homes for \$1.5 billion, before builder rebates. But many of the homes, which EPIC says average 100-150 square feet, are in areas with weak housing markets, including Houston, Dallas, Washington state and Colorado. Furthermore, real-estate people say the builder rebates allowed EPIC to overpay for the houses in the first place.

Possible Losses

So, in a huge liquidation sale, the houses could well fetch much less than \$1.5 billion. Mortgage insurance is intended to cover roughly 90% to 95% of a loan's unpaid principal. If the houses are sold for less than those amounts, holders of the securities would sustain losses.

This possibility has alarmed regulators to the danger that other thrifts may be taking undue risks. Norman Rindgen, the Bank Board's general counsel, says state-chartered thrifts are more likely to pursue unusual, real-estate activities. "If you're not sure you can't do it, you're more likely to do it," he says.

Bank Board Chairman Roy W. Green has long warned that state-chartered thrifts are expanding into too many untested and risky real-estate deals. In January, he pushed through regulations that require state-chartered thrifts to get Bank Board approval for direct investments in real estate greater than 10% of their assets. The new rule angered many state thrifts, especially those in California, where they can invest up to 100% of their assets in real-estate development and investment on their own behalf.

But Bank Board officials note that most state failures this year, including those of Beverly Hills S&L and 21st Savings in San Francisco, were largely due to bad judgment in real-estate activities.

Potential Squeeze

The mortgage-insurance industry, which last year insured about one-third of the \$100 million of mortgages issued in the U.S., could find its capacity to write new policies squeezed in several ways.

Crises in EPIC mortgages could cut sharply into capital, and thereby slow or stop new business. The industry also could be hit by a new wave of state-chartered thrifts that are being established in California, where they can invest up to 100% of their assets in real-estate development and investment on their own behalf.

It would have a primary emphasis on capital... follows the mortgage insurance industry for Moody's investment service.

Analysts say that at least the major... Tabor Mortgage Insurance... The two other... with significant exposure are... Republic International Corp. of Chicago... with \$100 million, and MGIC Investment Corp. of Milwaukee, with as much as \$65 million before reinsurance.

It's unclear why the three companies wrote such large amounts of insurance for EPIC, given the disclosure in EPIC prospectuses of the risky nature of the mortgages and the dependence of large groups of mortgages on cash contributions from a single company.

"We got into it (EPIC) because we believed that those partnerships were self-sustaining," says John J. McCormack, the president of MGIC Investment. "We still need to go back and see if there were any changes between 1939 when MGIC first insured EPIC mortgages and 1955." The other insurers decline comment.

Some insurance executives believe that Tabor may have become involved with EPIC because two EPIC executives, Leonard Meltz Jr. and Margaret A. Bechtley, had worked for Tabor immediately before joining EPIC. They both decline comment.

If the mortgage insurers understood that all 20,000 mortgages and the securities they backed could go bad at once, "obviously they violated the very principle of insurance, which is to make sure that each property is an independent risk," Mr. Watson of Moody's says.

Insurance executives say, however, that underwriting standards often are relaxed because of stiff competition for business. "Until about 18 months ago, lenders and insurers were so competitive we weren't looking at the risks we were taking," says James Hayward, the president of Investors Mortgage Insurance Co. of Boston. But he adds that when he joined the Boston company in 1953, he ended its insurance for EPIC. "I was just nervous because a single-family home just isn't good rental," he says.

In any case, EPIC's real difficulty won't be able to pay... a foreclosure on its... the most likely scenario... all EPIC partnerships... EPIC sources say.

Lingering Hopes

However, EPIC is still hoping for a government bailout or for a sale to a syndicator or financial-services system. Its investment banker, Dean Walter Bestwick Inc., is negotiating with "a lot of syndicators" and others. EPIC says Integrated Resources Inc., one of the largest syndicators, says EPIC was offered to it several weeks ago but a very small offer. "It though integrated planned to study EPIC. It changed its mind a few days before when the crisis hit.

Besides, "we looked at the way they're doing in an attempt to get some of our own," says Arthur J. ... grand's president... found out a way to... we had staff and... 129

... something that doesn't rely that heavily on mortgage insurance—because that's not what I think that's going to be in the future anymore." EPIC says future plans might include concentrating on some of its existing businesses, such as property management and home sales. But for now, EPIC's people appear to see themselves as victims of a system that took their healthy business away. Even though their syndications relied on recruiting new investors to pay off old debt, these employees scoffed at press suggestions of a "pyramid" scam or "Ponzi" scheme. insists one EPIC employee: "Until two years ago, this was a successful company."

THE WALL STREET JOURNAL

Equity Programs Crisis Complicated By Reorganization

By STEVE SWARTZ and MONICA LUNDLEY
Staff Reporters of The Wall Street Journal

One of the most complicated and confusing aspects of the crisis at Equity Programs Investment Corp. is the reorganization of Equity Programs' parent, EPIC Holdings Ltd., that took place last February.

Federal officials have questioned that reorganization, which resulted in a \$40 million decrease in the equity of the company. A Reagan administration official says two principals of EPIC Holdings, Tom J. Billman and Clayton C. McCustion, took a total of \$21 million in dividends out of the company.

In the reorganization, the two principals set up a separate shareholder class for their shares, and then declared dividends only for that class, the official said. One principal received \$10 million, and the other \$11 million.

Federal officials said the dividends were found when a huge discrepancy was noticed in the monthly financial statements from the end of January to the end of February.

Regulatory officials also detected another \$19 million was missing, because it wasn't accounted for on the books at the end of February. "All of a sudden, the equity in EPIC (Holdings) dropped \$40 million," the administration official said. "We found that \$21 million went to two principals as dividends, but no one knows what happened to another \$19 million. It just seems to have disappeared."

Government officials are concerned about the timing and reason for the dividends, which left the company in a weaker financial condition and jeopardized its cash flow, the administration official said.

Mr. Billman says a reorganization took place, but he denies that he and Mr. McCustion took \$21 million of dividends.

"That's factually incorrect," Mr. Billman says. Instead, he says, he exchanged his majority interest in EPIC Holdings for sole ownership of about 20 of the holding company's 65 units. "What I did was take companies which we had built up which had nothing to do with EPIC and Community," he says.

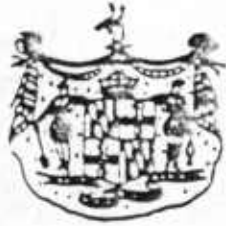
Mr. Billman says he has "no idea" what officials are talking about in referring to dividends taken out of EPIC Holdings.

Mr. McCustion also denies having taken the dividends, but he declined to elaborate.

Mr. Billman says that in February, he turned over his stake in EPIC Holdings to a group of other corporate officers headed by his college roommate, Mr. McCustion. In return, Mr. Billman assumed full ownership of about 20 other EPIC Holdings units. He now runs those companies from an office he rents at EPIC Holdings' Falls Church, Va., headquarters.

Indeed, Mr. Billman, a Virginia home builder who founded Equity Programs 10 years ago, is a veritable collector of companies.

He says that some of the companies he set up at EPIC Holdings "really don't do anything except hold an asset." One such company, Lun Corp., was started last year and is now in liquidation.



The State of Maryland
Executive Department

EXECUTIVE ORDER
01.01.1985.22

Community Savings and Loan Association - Temporary Cessation of Withdrawals

WHEREAS, Chapter 1 of the Laws of the 1985 Extraordinary Session of the General Assembly provides broad authority to the Governor to affectively manage any emergency situation in a savings and loan association;

WHEREAS, An emergency exists with respect to Community Savings and Loan Association, in that the welfare of depositors is threatened by an actual or impending impairment of liquidity;

WHEREAS, The emergency with respect to Community Savings and Loan Association cannot be managed solely under the terms and conditions set forth in Executive Order 01.01.1985.11 (May 21, 1985), as amended;

NOW, THEREFORE, I, HARRY HUGHES, GOVERNOR OF THE STATE OF MARYLAND, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY THE CONSTITUTION AND LAWS OF MARYLAND, INCLUDING BUT NOT LIMITED TO ARTICLE 41, §§15B, 15B-2, AND 15B-3, HEREBY PROCLAIM THAT A STATE OF PUBLIC CRISIS AND EMERGENCY EXISTS WITHIN THE STATE OF MARYLAND AND HEREBY ORDER THAT:

(a) (1) In this Order, the following words have the meanings indicated.

(2) "Account" means any depositary account, however styled, established by any depositor, including but not limited to statement savings and passbook savings accounts, business savings accounts, certificates of deposit, any form of negotiable order of withdrawal (NOW) accounts, and time open accounts evidenced by any form of account agreement, and any form of loan account, including but not limited to any type of loan, loan commitment, line of credit or letter of credit, or any escrow account established in connection with any of the foregoing.

(3) "Community" means Community Savings and Loan Association.

(4) "Withdrawal" means any outflow of funds by any means whatsoever, including but not limited to withdrawal by check, draft, note, negotiable order of withdrawal, money order, travelers check, paper originated internal debit item to a depositor's account (such as an automatic loan payment), repurchase agreement, electronic payment (such as direct debit, automatic teller machine transaction through a proprietary machine or any network of machines of which Community may be a member, intra-institutional

withdrawal or transfer, or domestic or international wire transfer), and an institutional contractual obligation involving an account and the withdrawal of funds, including but not limited to outflow under lines of credit, letters of credit, or any type of loan or loan commitment.

(b) Effective immediately and for a 20 consecutive day period commencing from the date of this Order, no withdrawal of any kind or nature shall be permitted from any depositor's account at Community.

(c) Notwithstanding any provisions of the Uniform Commercial Code, the midnight deadline, or the time within which negotiable orders of withdrawal drawn upon a savings and loan association may be dishonored, is extended to the close of the third business day following presentment. Any withdrawal not finally settled by Community prior to the date of this Order shall be dishonored without any liability on the part of Community for doing so in compliance with this Order, and any financial institution or other payor that has imposed a fee because of Community dishonoring of a negotiable instrument as a result of this Order shall waive the fee.

(d) Notwithstanding the provisions of paragraph (b) of this Order, subject to review by the Acting Fund Director of the State of Maryland Deposit Insurance Fund Corporation, the management at Community shall have the discretion to allow withdrawals from any account for the purpose of funding construction loans or other real estate loans under commitments existing on the date of this Order or for any other purpose, provided that in each case, in the best judgment of the management at Community such withdrawals will protect or enhance the value of any asset of Community will protect or facilitate the collection of any loan made by Community or will otherwise be in the best interests of Community.

GIVEN Under My Hand and the Great Seal of the State of Maryland, in the City of Annapolis, this 19th day of August, 1985. Effective immediately.



Harry Hughes
Harry Hughes
Governor

ATTEST:

Mary Pat MacDonald
Mary Pat MacDonald
Notary Public

My Commission Expires 7/1/86

BOARD OF SAVINGS & LOAN
ASSOCIATION COMMISSIONERS
The Brokerage
34 Market Place, Suite 800
Baltimore, Maryland 21202-4076

and

FREDERICK L. DEWBERRY, Acting
Fund Director, Maryland Deposit
Insurance Fund Corporation
114 East Lexington Street
Suite 602
Baltimore, Maryland 21202

Plaintiffs,

v.

COMMUNITY SAVINGS & LOAN, INC.
6500 Rock Spring Drive
Bethesda, Maryland 20871

Defendant

SERVE ON:

IN THE

CIRCUIT COURT

FOR

MONTGOMERY COUNTY

No.

9276 CIVIL

**COMPLAINT AND PETITION
FOR APPOINTMENT OF A CONSERVATOR**

The Board of Savings & Loan Association Commissioners and Frederick L. Dewberry, Acting Fund Director, Maryland Deposit Insurance Fund Corporation, by their attorneys Stephen H. Sach Attorney General of Maryland, Dennis M. Sweeney, Deputy Attorney General, Diana G. Motz, John K. Anderson, Bruce P. Martin and J Acton, Assistant Attorneys General, allege as follows:

1. This action is brought pursuant to the provisions Financial Institutions Article, Maryland Annotated Code, §1

117(c) (Chs. 6 and 9, Laws of Maryland 1985 Sp. Sess.) for the purpose of obtaining the immediate appointment of a conservator of the assets of the Community Savings & Loan, Inc. ("Community Savings & Loan") in the interest of its depositors, creditors, and shareholders.

2. Plaintiff, Frederick L. Dewberry, is the Acting Director for the State of Maryland Deposit Insurance Fund Corporation which was established by the Maryland General Assembly during its 1985 special session. The State of Maryland Deposit Insurance Fund Corporation (the "Fund") is created in the Department of Licensing and Regulation. Section 10-117(c)(1) of the Financial Institutions Article authorizes the Fund director to "exercise all of the powers of the Board of Savings and Loan Commissioners ... to institute proceedings for the appointment of a conservator or a receiver", if the fund director determines "that an association is being operated in an unsafe and unsound manner, or that there is not a substantial likelihood that the major association will qualify for federal insurance, and it is in the public interest". A "major association" is defined in §10-101(h) of the Financial Institutions Article as "a major association with total assets of \$40,000,000 or more".

The Board of Savings and Loan Association Commissioner is authorized pursuant to §9-701 of the Financial Institutions Article, to "institute proceedings in an equity court in the county where the principal office of the savings and loan association is located for the appointment of a conservator" if:

"(1) The savings and loan association fails to comply with a final order of the Division Director or Board of Commissioners; or

(2) The Board of Commissioners considers that the appointment of a conservator is in the public interest."

3. Community Savings and Loan, Inc., is a capital stock corporation organized and incorporated under the laws of Maryland. Its principal office is located at 6500 Rock Spring Drive, Bethesda, Maryland 20817. Community is wholly-owned by EPIC Holdings, Ltd., a holding company which in turn is owned by another holding company, Epicenter Consolidated, Ltd. Epicenter Consolidated, Ltd. is owned and controlled by Clayton McCuistion, Community's president. Community is a major association within the meaning of §10-101(h), having total assets of approximately \$450,000,000 and approximately 30,000 depositors.

4. At an emergency meeting on September 5, 1985, the Board of Savings and Loan Commissioners, after reviewing the current status of Community Savings and Loan, Inc., voted to seek the appointment of a conservator as in the public interest. A copy of the Board's resolution is attached as Exhibit A.

5. The Acting Fund Director has determined that Community will not qualify for federal insurance, and that the appointment of a conservator for Community is in the public interest.

COMMUNITY HAS SEVERE LIQUIDITY PROBLEMS

6. Community is operating in an impaired condition and faces a liquidity crisis which has caused it to fail to meet obligations.

A. Community's Losses and Lack of Depositor Confidence

7. During 1983 and 1984 Community experienced a period of rapid growth. By December 31, 1984 total assets were \$543,247,000, a 65.2% increase over the December 31, 1983 total asset figure of \$328,818,151, which was a 164.3% increase over the December 31, 1982 total asset figure.

8. Community has been unable to sustain growth during 1985 and, in fact, has experienced huge losses. From January 1, to April 30, 1985, Community has incurred a net operating loss of \$3,866,455 and an asset decrease of 16.1%, a rate of 48.3% on an annual basis.

9. During May and June, 1985, Community suffered \$4,003,075 in additional operating losses for a total loss for the six month period January to June 30, 1985, of \$7,869,530.

10. Community has experienced massive withdrawals of deposits during 1985. From January 1, to April 30, 1985 Community lost \$83,401,522 in savings withdrawals.

11. During May, 1985, \$43,063,176 in deposits were with-

drawn from Community.

12. In June, 1985, the first full month in which Governor's Executive Order restricting withdrawals to \$1,000 in force, Community lost \$6,467,684 in savings outflow.

13. In July, 1985, \$8,912,071 in deposits were withdrawn from Community.

14. From July 31, 1985, until August 29, 1985, when Governor banned all withdrawals from Community, \$3,557,000 savings were withdrawn by depositors.

15. Thus, since the first of January, 1985, Community has suffered a loss of deposits of \$138,933,744.

16. On Thursday, August 15, 1985, the Washington Post, Baltimore Sun, Wall Street Journal, as well as other newspapers and television stations in the Baltimore and Washington Metropolitan areas, carried extensive news coverage of problems at Community Savings and Loan, particularly those related to the need to divest Community's EPIC subsidiaries to obtain mandated federal insurance. On Saturday, August 17, 1985, the Washington Post's front page lead article was headlined: "Maryland Savings & Loan Unit May Default: Community Savings Subsidiary in Arrears By Up to \$1 Billion". Similar news reports appeared in other newspapers and on television.

17. This publicity devastated what depositor confidence remained in Community after three months of withdrawal limitations imposed by the Governor and an emergency special session of the General Assembly called to address what has become known as Maryland's "Savings and Loan crisis". Lines of people intent on

withdrawing their deposits appeared at all nine Community offices and long lines continued all day on Saturday, August 18 and Monday, August 19, 1985.

18. In a letter dated August 19, 1985, Clayton McCuistion, Chairman of the Board and President of Community Bank, asked Governor Harry Hughes to "issue an executive order which would prohibit withdrawals from Community for a period of twenty (20) days". McCuistion requested such protection because Community has "experienced heavy withdrawals due in large part to recent publicity surrounding the FHLBB requirement that Community divest the EPIC Companies prior to approval for FISLIC insurance ...". McCuistion's August 19 letter also cited the lines of depositors seeking withdrawals and claimed that "there have been disturbances in these lines". McCuistion's letter also made reference to the "atmosphere of public panic" and the need "to protect all of the depositors of Community and ... to preserve the public safety and welfare ...".

19. On that same day, August 19, 1985, Governor Hughes issued Executive Order 01.01.1985, which banned all withdrawals from Community for twenty (20) days. The Governor ordered the temporary cessation of withdrawals because of the "emergency" at Community "in that the welfare of depositors is threatened by an actual or impending impairment of liquidity".

B. Borrowing to Maintain Liquidity, Loss of Fee Income, Missed Payments

20. The savings outflows detailed in ¶¶13-18 have caused a severe liquidity crisis. Prior to August 20, 1985, Community operated on a "no cash basis". At the end of each business day,

the daily activity was determined and Community calculated it needed to borrow from the Federal Reserve discount window bring its negative cash position back to a zero balance.

21. From May 13, 1985 through July 15, 1985, daily Federal reserve borrowings have ranged from \$3,200,000 to \$26,961,000.

22. Community has had to severely curtail its lending activity because its liquidity was only sufficient to meet savings activity. As of April 30, 1985, fee income related to lending totaled only \$152,000, an annual rate of \$456,000. During fiscal year 1984, the fee income was \$7,440,000.

23. As a result of the liquidity crisis Community and its holding companies has experienced, Community's subsidiary, Equity Programs Investment Corp. (EPIC) announced on August 16, 1985 that it had missed an estimated \$18 million of principal and interest payments owed on \$1.4 billion of mortgages and mortgage backed securities.

24. While EPIC claims to have until September 20, 1985 to make the payments before it is in final default, the EPIC announcement and its apparent inability to meet its major obligations has shaken the financial community's confidence in EPIC, its affiliated companies and its parent, Community. The extent of the impact of this development can be gauged from a front page story on Friday, August 30, 1985, in the Wall Street Journal under the heading "EPIC Mess" in which the Journal concluded that EPIC's default could result in hundreds of millions of dollars loss to investors, creditors, and insurers and adverse financial repercussions in the savings and loans real

estate syndication and mortgage insurance systems. A copy of article is attached as Exhibit B.

26. EPIC or related subsidiaries of Community have all been sued in the federal courts in Virginia and North Carolina concerning the projected default by various banks and mortgage insurance companies.

II

COMMUNITY UNABLE TO OBTAIN FEDERAL INSURANCE

26. On August 8, 1985, S. G. Frank Haas, III, the Director of the FHLBB Office of District Banks, wrote Community's attorney and outlined the "minimum steps" Community would need to take in order to "remov(e) the serious impediments to the consideration of [FSLIC] insurance of accounts for Community Savings".

27. According to the FHLBB letter, Community would

required to replace \$52.1 million in the "EPIC Product" second mortgages to EPIC with "cash or other assets acceptable to FSLIC".

28. The FHLBB has also required Community to sell investments in subsidiary companies. Community currently has \$77.6 million so invested, \$24.4 million of which involves the EPIC Product.

29. To qualify for FSLIC insurance Community would need to establish loan loss reserves sufficient to cover losses estimated at \$11.3 million.

30. The FHLBB estimated that in order for Community to qualify for conditional approval for FSLIC insurance a "capital infusion ... [of] approximately \$108.5 million as of June 1985" would be required to raise Community's net worth to the necessary 5% level. Additional operating losses since July 1985 have significantly increased the amount of capital necessary to meet FSLIC requirements.

31. The Fund director has determined that there is no substantial likelihood that Community will meet FSLIC requirements by December 31, 1985.

32. Section 10-117(c)(1) of the Financial Institutions Reorganization Act provides "If, at any time, the Fund Director determines ... that there is not a substantial likelihood that a major association will qualify for Federal insurance and that it is in the public interest", he may seek the appointment of a conservator. The Fund Director has determined that Community's liquidity is severely impaired, and there is no likelihood that Community will

qualify for Federal insurance. The Fund Director has there-
determined that it is in the public interest for a conservator
be appointed to manage Community Savings and Loan.

WHEREFORE, Plaintiff prays this Honorable Court to pass
Order:

1. Appointing Frederick L. Dewberry, Acting Fund Director
Maryland Deposit Insurance Fund, or his duly authorized
representative as conservator of the Defendant Association;
2. Authorizing the conservator to exercise all powers,
rights, and privileges of the officers, directors, and members of
the Defendant Association and to conduct the operations of the
Defendant Association.
3. Providing that all contracts with the Defendant
Association requiring payment to the Defendant Association shall
remain in full force and effect and such required payments shall
continue to be made.
4. Providing that after the date of the Order, any new
savings accounts or deposits made in existing savings accounts in
Defendant Association:
 - a. shall be segregated and accounted for separately;
 - b. shall not be subject to any offset; and
 - c. shall not be used to liquidate any indebtedness
existing on the date of the order nor incurred to liquidate any
indebtedness existing on the date of the order.
5. Making provisions for the continuation of relations with
The Federal Reserve Bank in accordance with its requirements.
6. Requiring that the Defendant Association bear the

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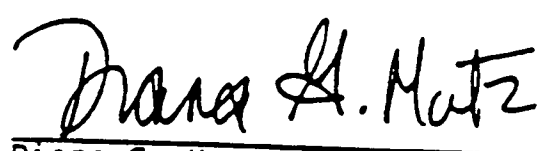
expenses of operation during this conservatorship.

Respectfully submitted,

STEPHEN H. SACHS
Attorney General of Maryland



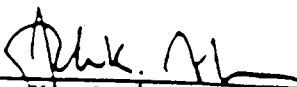
Dennis M. Sweeney
Deputy Attorney General




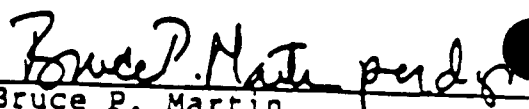
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Attorneys for Plaintiffs

Resolution of the Board of Commissioners

After a special meeting of the Board of Savings & Loan Association Commissioners ("Board of Commissioners") and upon the presentation of certain facts and information concerning the operations of Community Savings & Loan, Inc., it is hereby resolved by the Board of Commissioners that:

1. Proceedings be instituted for the appointment of a conservator because such appointment is in the public interest; and

2. The conservator shall have the approval of the Board of Commissioners to remove any director, officer, or employee of Community Savings & Loan, Inc.

Approved and adopted by the Board of Commissioners this 5th day of September, 1985, as certified by the undersigned.

William LeCompte
William LeCompte, Deputy Director
Division of Savings & Loan Association

BOARD OF SAVINGS & LOAN
ASSOCIATION COMMISSIONERS
The Brokerage
34 Market Place, Suite 800
Baltimore, Maryland 21202

and

Maryland Deposit Insurance
Fund Corporation
114 East Lexington Street
Suite 602
Baltimore, Maryland 21202

Plaintiff

v.

COMMUNITY SAVINGS AND
LOAN, INC.
6500 Rock Spring Drive
Bethesda, Maryland 20817

Defendant

* IN THE
* CIRCIUT COURT
* FOR
* MONTGOMERY COUNTY
* NO.

ORDER

Upon the foregoing Complaint and Petition for
and the consent of the Defendant
Appointment of a Conservator and exhibits thereto, it is
this 5th day of September, 1985, ORDERED as follows:

1. Maryland Deposit Insurance Fund is hereby appointed as conservator for Community Savings and Loan, Inc.
2. Except as otherwise provided herein, the conservator shall exercise all powers, rights and privileges of the officers, directors, and members of the Defendant Association and its subsidiaries, and shall conduct the operations of the Defendant Association and its subsidiaries. The conservator shall have exclusive power to vote the stock of all subsidiaries of Community, including, but not limited to, Community Financial Services, Inc.,

Equity Programs Investment Corporation, and EPIC Mortgage Incorporated.

3. All contracts with the Defendant Association requiring payment to the Defendant Association shall remain in full force and effect and such required payments shall continue to be made.

4. Effective immediately and for a period of ^{forty-five} ~~thirty~~ days from the date of this Order, no withdrawal of any kind or nature shall be permitted from any depositor's account at Community Savings and Loan, Inc. ("Community"). As used in this Order, "account" shall mean any depository account established by any depositor, including but not limited to statement savings and passbooks, savings accounts, business savings accounts, certificates of deposit, any form of negotiable order of withdrawal (NOW) accounts, and time open accounts evidenced by any form of account agreement, whether or not any of the same are so titled or identified as to show the depositor as trustee, committee, guardian, or in any other capacity as fiduciary for another, and any form of loan account, including but not limited to any type of loan, loan commitment, line of credit or letter of credit, or any escrow account established in connection with any of the foregoing. As used in this Order, "withdrawal" shall mean any outflow of funds by any means whatsoever, including but not limited to withdrawal by check, draft, note, negotiable order of withdrawal, money order, travelers check, paper originated internal debit item

to a depositor's account (such as an automatic loan payment), repurchase agreement, electronic payment (such as direct debit, automatic teller machine transaction through a proprietary machine or any network of machines of which Community may be a member, intra-institutional withdrawal or transfer, or domestic or international wire transfer), and an institutional contractual obligation involving an account and the withdrawal of funds, including but not limited to outflow under lines of credit, letter of credit, or any type of loan or loan commitment. ~~Notwithstanding any provisions of the Uniform Commercial Code, the midnight deadline or the time within which negotiable orders of withdrawal upon a savings and loan association may be dishonored, is extended to the close of the third business day following presentment. Any withdrawal not finally settled by Community prior to the date of this Order and any financial institution or other payor that has imposed a fee because of Community's dishonoring of a negotiable instrument as a result of this Order shall waive the fee.~~

5. The prohibition upon withdrawal contained in paragraph 4 of this order shall not be deemed to apply to:

- (a) Direct deposits by third parties including payments from the Department of Treasury and Social Security; and
- (b) Accounts in Community in which a depositor has incurred a debt to Community before 4:47 p.m. May 14, 1985, provided that

the withdrawal is applied exclusively to the satisfaction, in whole or in part, of the debt to Community.

6. Notwithstanding any other provisions of this order, the Conservator shall have the discretion to allow withdrawals from any account for the purpose of funding construction loans or other real estate loan commitments of Community under commitments existing on or before the date of this order or for any other purpose provided that in each case, in the best judgment of the Conservator such withdrawals will protect or enhance the value of any asset of Community, will protect or facilitate the collection of any loan made by Community, or will otherwise be in the best interests of the Conservatorship.

~~7. Effective immediately and for a period of 90 days from the date of this Order, all depositors' accounts (as defined in Paragraph 4) currently accruing interest shall accrue such interest at the rate of 5-1/2% per annum, except that with respect to certificates of deposit that mature or have matured after the date of this Order, this Paragraph 7 shall take effect only on the maturity of the certificate of deposit, at which time the certificate shall automatically roll-over into successive 90-day certificates of deposit accruing interest at the rate of 5-1/2% per annum.~~

8. Effective immediately and for a period of ~~90~~ ⁶⁰ days from the date of this Order Community shall be prohibited from transferring dividends accrued and to be

60 days

To be determined at a later time. EOP

paid on any account of any depositor at Community to other deposit account at Community, whether existing or to be created, and Community shall accrue and pay all such dividends to the principal of the account on which such dividends are earned, thereby compounding such dividends by adding them to the principal of the account and having the new amount itself bear dividends at the rate then paid on the account. As used in this Order, "account" shall mean any depository account established by any depositor, including but not limited to statement savings and passbook savings accounts, business savings accounts, certificates of deposit, any form of negotiable order of withdrawal (NOW) accounts, and any time open accounts evidenced by any form of account agreement.

9. Until further order of court, and except as provided in paragraph 5 Community shall not permit any additional funds to be deposited in any depositor's account, other than to special loan related escrow accounts such as for insurance and taxes.

10. This Order shall in no way be construed to affect any right which the owner of any account at Community may ultimately have under Chapter 6 of the May, 1985 Special Session of the General Assembly with respect to the creation and effect of the State of Maryland Deposit Insurance Fund Corporation and with respect to Section 10-116 of the Financial Institutions Article, which states: "It is the policy of this state that funds will be appropriated to the

Fund to the extent necessary to protect holders of savings accounts in member associations".

11. In addition to the powers, rights and privileges accorded said conservator by law and by this Order, it shall be authorized and is directed to:

a. Determine from time to time whether the Defendant Association may accept and pay in the regular course of business, or otherwise, negotiable orders of withdrawal, counter checks, cashiers checks, drafts drawn on correspondents and automated clearing house debits or any of the, specifically stated, and shall so advise the Defendant Association's correspondents and the Federal Reserve Bank of Richmond of its determination in writing at least twenty-four (24) hours before the effective date thereof;

b. Determine from time to time whether the Defendant Association may wire transfer of funds for general or for specifically stated purposes and so advise the said Federal Reserve Bank;

c. Determine whether or not the Defendant Association may pledge additional assets and borrow from said

Federal Reserve Bank or the Defendant Association's correspondents and so advise each of them;

d. Receive new deposits subject to the terms of this Order, including direct deposits of Treasury, Social Security, and other payments;

e. Pay the said Federal Reserve Bank or a correspondent for cash to fund withdrawal;

f. Roll over repurchase agreements;

g. Pay employees and necessary day-to-day operating expenses of the Defendant Association; and

h. Make all management and operational decisions necessary for the safe and sound operations of the Defendant Association subject to the terms of the Order and further Order of this Court; and it is further

12. The Federal Reserve Bank of Richmond and the Defendant Association's correspondents may rely on any advice received from the conservator.

13. The conservator may suspend the compensation or remuneration of whatever kind of any Director, officer, or employee of Community and its subsidiaries for one period not to exceed twenty (20) consecutive days. Any suspension

imposed under this authority shall be promptly reviewed by the Court. Any further suspension sought by the conservator shall be pursuant to further order of the Court.

14. The Defendant Association shall bear, and the conservator is hereby authorized to pay, the expenses of operating during this conservatorship.

15. This Order, shall be reviewed by this Court from time to time, so that if the present liquidity problems are alleviated to any extent, appropriate modifications may be sought.

16. The Conservatorship shall continue subject to further order of this Court.



JUDGE

June: 11:10 P.M.

2024

STATE OF MARYLAND
DEPOSIT INSURANCE FUND
CORPORATION, as Conservator for
Community Savings & Loan, Inc.
114 E. Lexington Street
Baltimore, Maryland 21202

- and -

COMMUNITY SAVINGS & LOAN, INC.
6500 Rock Spring Drive
Bethesda, Maryland 20871

Plaintiffs,

v.

TOM J. BILLMAN
7717 Georgetown Pike
McLean, Virginia 22101

CLAYTON C. McCUISTION
1208 Aldebaran Drive
McLean, Virginia 22102

BARBARA A. McKINNEY
5218 Marvell Lane
Fairfax, Virginia 22032

JAMES B. DEERIN, JR.
203 Primrose Street
Chevy Chase, Maryland 20815

LEONARD MELTZ, JR.
628 S. Lee Street
Alexandria, Virginia 22314

JOSEPH C. CUNNINGHAM
15304 Bitterroot Way
Rockville, Maryland 20853

JOHN D. FAULKNER, JR.
15905 Perkins Lane
Bowie, Maryland 20716

EPICENTER CONSOLIDATED, LTD.
5113 Leesburg Pike
Suite 901
Falls Church, Virginia 22041

IN THE
CIRCUIT COURT
FOR
MONTGOMERY COUNTY

No. 11073

Feb. 11-22-85

2025

EPIC HOLDINGS, LTD. :
5113 Leesburg Pike :
Suite 901 :
Falls Church, Virginia 22041 :

-and-

CRYSOPT CORPORATION :
3101 Park Center Drive :
Suite 1450 :
Alexandria, Virginia 22302 :

Defendants. :

COMPLAINT

Plaintiffs State of Maryland Deposit Insurance Fund Corporation, as Conservator for Community Savings & Loan, Inc. ("MDIF") and Community Savings & Loan, Inc. ("CSL"), sue defendants Tom J. Billman ("Billman"), Clayton C. McCuistion ("McCuistion"), Barbara A. McKinney ("McKinney"), James B. Deerin, Jr. ("Deerin"), Leonard Meltz, Jr. ("Meltz"), Joseph C. Cunningham ("Cunningham"), John D. Faulkner ("Faulkner"), Epicenter Consolidated, Ltd. ("Epicenter"), EPIC Holdings, Ltd. ("Holdings"), and Crysopt Corporation ("Crysopt").

As set out more fully below, plaintiffs bring Count I of this action against the defendants for violating their fiduciary duties to CSL, its savings share account holders and creditors by the careless manner and the reckless manner in which they operated

CSL. The defendants violated their duties of loyalty and care by using CSL as a means for expanding the operations of Equity Programs Investment Corporation ("EPIC") (and various corporations related to EPIC and numerous partnerships in which EPIC was a general partner) in large measure for personal gain, in the form of the extraordinary payments they and companies they owned and controlled received in the form of fees, salaries, bonuses, commissions, dividends and otherwise. In the process, in violation of prudent banking standards and applicable regulations, they caused CSL to invest, loan and advance increasing amounts of money to the EPIC operations and exposed CSL to increasing risks and hazards. Counts II through V of this action concern specific transactions that involve fraudulent conveyances, waste of corporate assets and usurpation of corporate opportunities by the defendants. Plaintiffs' damages will be at least \$50,000,000 and may exceed \$100,000,000.

JURISDICTION

1. This Court has jurisdiction of this suit under Section 1-501, Courts and Judicial Proceedings Article, Annotated Code of Maryland.

2. Venue lies in this Court pursuant to Section 6-202(11), Courts and Judicial Proceedings Article, Annotated Code of Maryland.

THE PARTIES

3. MDIF is an agency of the State of Maryland, established pursuant to Sections 10-101 through 10-119, Financial Institutions Article, Annotated Code of Maryland. It has been since May 18, 1985, the insurer of the savings share accounts in CSL, up to \$100,000 per account for payments made prior to that date, and \$100,000 per savings share account holder for payments made after that date. On September 5, 1985, by order of the Circuit Court for Montgomery County, it was appointed conservator for CSL. As such, the powers otherwise resident in the directors, officers and shareholders of CSL are vested in MDIF. MDIF brings this suit in the right of CSL and on behalf of CSL in order to obtain redress for the injury caused to CSL as an entity (including the interests of its savings share account holders and creditors in it as an entity) by the acts and omissions of the defendants complained of herein. MDIF reserves the right to file suit in any other capacity, including its capacity as insurer of savings share accounts at CSL.

4. CSL is a capital stock savings and loan association chartered under the laws of the State of Maryland. All of the issued and outstanding common stock of CSL is owned by Holdings. As of the appointment of the Conservator, CSL also had outstanding some 27,000 savings share accounts that represent payments from the public of approximately \$339,000,000. CSL brings this suit for injury done to itself as an entity (including the interests of its savings share account holders and creditors in it as an entity).

5. In this Complaint, Billman, McCuistion, McKinney, Deerin and Meltz are referred to as the "individual controlling defendants," with respect to CSL, and the individual controlling defendants plus Epicenter and Holdings are referred to as the "controlling defendants."

6. Billman, in concert with the other individual controlling defendants, controlled CSL from October 1982 until at least February 1985 through his ownership of 80% of the stock of the parent holding company of CSL. Billman owned 80% of the stock of Holdings (McCuistion owned the remaining 20%) from its formation in January 1982 until December 1984, when Billman and

McCuistion contributed their stock in Holdings to another holding company, defendant Epicenter, which became Holdings' new parent. (Plaintiffs refer to the ultimate parent holding company of CSL, whether Holdings or Epicenter, from time to time herein as the "Holding Company.") From and after February 1985 and through the appointment of the Conservator, Billman continued to exercise a controlling influence over the business and affairs of CSL.

7. Billman owned 80% of the stock of Epicenter from December 1984 until February 1985, when he caused Epicenter to redeem his 80% stock interest for Epicenter assets with a book value of \$31.8 million, including \$14 million in cash. During the principal part of the time period pertinent to this Complaint, Billman was an officer or director of numerous companies in the Holding Company structure. Billman was one of three members of the Board of Directors of the Holding Company (McCuistion and McKinney were the other two) from January 1982 until August 1985. Billman was President of the Holding Company from January 1982 until February 1985. Billman was a member of the Board of Directors of CSL from October 8, 1982, until August 1985 and was its Chairman for most of that time. Billman was also a

member of the Board of Directors, and the principal individual controlling person, of Equity Programs Investment Corporation ("EPIC") from its formation in 1974 until August 1985.

8. McCuistion owned 20% of the stock of Holdings from its formation in January 1982 until December 1984, when McCuistion and Billman transferred their stock in Holdings to Epicenter. McCuistion owned 20% of the stock of Epicenter from that time until February 1985. He owned 100% of the voting stock from February 1985 until June 28, 1985, when certain employee stock options were exercised. Since that time, he has owned some 42% of the voting stock of Epicenter. McCuistion was one of three members of the Board of Directors of the Holding Company from January 1982 until Billman left the Board in August 1985; since that time, McCuistion and McKinney were (until McKinney's resignation after the conservatorship of CSL) the sole members of that Board. McCuistion was also a Vice President and/or Treasurer of the Holding Company from January 1982 until February 1985, when he became President. He was a member of the Board of Directors of CSL from October 8, 1982 until his resignation after the appointment of the Conservator, and during that time served continuously

as the Board's Vice Chairman or Chairman. He was also Treasurer, Executive Vice President or President of CSL throughout the same period. McCuiston has been a member of the Board of Directors of EPIC from the date it was formed until his resignation after the conservatorship. He also served as an officer and director of numerous other companies in the Holding Company structure.

9. McKinney was a member of the Board of Directors and Vice President and/or Secretary of the Holding Company from January 1982 until her resignation after the conservatorship of CSL. McKinney was an officer and/or director of numerous other companies in the Holding Company structure. She was a member of the Executive Committee of CSL's Board of Directors from August 3, 1983, until the appointment of the Conservator. McKinney and Billman are the sole directors of Crysopt, which is the holding company for assets having a book value of \$31.8 million that were transferred to Billman in February 1985 in redemption of his 80% stock interest in Epicenter.

10. Deerin was a member of CSL's Board of Directors and of the Board's Executive Committee from October 8, 1982, until his resignation after the

conservatorship and was a Vice President, General Counsel and Secretary of CSL throughout most of that period. Deerin was also a Vice President and member of the Board of Directors of EPIC from the early 1980's until his resignation after the conservatorship. Deerin, in addition, served as an officer and/or director of numerous other companies in the Holding Company structure.

11. Meltz was a member of the CSL Board of Directors from October 8, 1982 to March 16, 1983, and a member of the Board's Executive Committee from August 3, 1983 until after the appointment of the Conservator. He was a Vice President of CSL from October 8, 1982 to August 3, 1984, when he became Executive Vice President and Chief Operating Officer, positions he held until after the appointment of the Conservator. Meltz was an officer or director of numerous companies in the Holding Company structure throughout the relevant time period, including President and sole director of Community Financial Services, Inc., director of EPIC Mortgage, Inc. and a Vice President and director of EPIC.

12. Cunningham was a director of CSL from October 8, 1982 to August 3, 1984. He was also the Treasurer of a number of subsidiaries of CSL.

13. Faulkner was President of CSL from prior to October 1982 until approximately June 1984. He was also a member of the Board of Directors of CSL and of the Board's Executive Committee from October 8, 1982 until March 7, 1985.

14. Epicenter is a holding company incorporated in Delaware on December 6, 1984. Continuously since December 1984, it has owned all of the voting stock of Holdings and has indirectly owned all or substantially all of the voting stock of CSL.

15. Holdings is a holding company incorporated in Delaware on January 29, 1982 (under another name). Holdings acquired indirect control of CSL in October 1982 when it acquired (through Equity Acquisitions, Inc. a holding company incorporated by Holdings in Maryland for the purpose of acquiring CSL) 85% of CSL's voting stock. By mid 1983, Holdings had acquired indirect ownership of more than 99% of CSL's voting stock. Since February 1985, Holdings has directly owned 100% of the voting stock of CSL.

16. Crysopt, a Delaware corporation wholly owned by Billman, is the holding company for the corporate assets acquired by Billman from Epicenter in February 1985.

17. This Complaint is based on plaintiffs' investigations to date. It may not name all individuals, corporations and other entities responsibly involved with the named defendants in transactions that caused injury to CSL and its savings share account holders and creditors. After further investigation and discovery, plaintiffs respectfully reserve the right, with leave of Court if appropriate, to amend this Complaint to include additional claims, additional factual allegations and, if appropriate, other parties as defendants.

FACTUAL BACKGROUND

18. EPIC was originally incorporated in Virginia in 1974 and became a Maryland corporation in 1983. Billman and/or McCuistion have, directly or indirectly, been the controlling shareholders of EPIC from 1974 to the present. EPIC's business was the sponsorship and promotion of tax shelter real estate limited partnerships. The purpose of the limited partnerships was to acquire single-family homes, principally in tract developments or in low-rise condominium buildings (collectively, "houses"), to hold them for a period of time, and then to resell them. Typically, EPIC is the sole general partner in the limited partnerships

and holds a 1% interest; individual investors are the limited partners. The limited partners in a particular partnership are obligated to contribute fixed amounts of capital to the partnership. EPIC established more than 350 of these limited partnerships. EPIC also established some 19 other partnerships in which it or an affiliated entity was the general partner and the limited partners were not third-party investors but EPIC, affiliated entities or officers and directors of such entities (the "in-house partnerships"). (Plaintiffs refer to both categories of limited partnerships, collectively, as the "EPIC limited partnerships.")

19. The EPIC limited partnerships presently in existence own, collectively, approximately 20,000 houses (approximately 4,400 of these houses are owned by in-house partnerships). The EPIC limited partnerships are highly leveraged, with the partnerships typically obtaining mortgage loans for 95% of the appraised value of the houses purchased (except for "model homes"). Because the limited partnerships (and EPIC) generally received substantial discounts and rebates from the sellers of the houses, who were generally builders and developers of tract housing projects or low-rise

condominium projects, the houses were generally mortgaged for more than the actual discounted purchase price. The mortgages on the houses were generally sold to financial institutions, either as individual mortgages or as parts of "pools" of mortgages against which mortgage-backed certificates were issued, often (starting after October 1982) after being made and temporarily held, or "warehoused," by CSL.

20. In the early stages of EPIC's operations, the houses acquired by the EPIC limited partnerships were primarily "model homes," used as showplaces for prospective home buyers, which were leased back to the builders or developers for such use until the project sold out. However, as EPIC's operations grew, the individual controlling defendants caused the EPIC limited partnerships to acquire an increasing proportion of "unsold homes" in developments, which were to be leased to tenant occupants. In some instances, the individual controlling defendants caused the EPIC limited partnerships to acquire all of the houses in a development.

21. Commencing in about 1980, the expectation of profit held out to the limited partners in the EPIC limited partnerships, in addition to the tax write-offs,

was primarily the prospect of eventual resale of the houses at a capital gain. The cash flow of the EPIC limited partnerships from renting the houses was generally not sufficient, after payment of various fees, real property taxes and insurance, to make the required payments of principal and interest on the first mortgages. To make up this shortfall, the limited partnerships had available as sources of cash primarily the excess of the mortgage loans over the discounted purchase prices of the houses and cash from payments by the limited partners. After the cash from those sources was exhausted, the limited partnerships were dependent upon cash contributions by EPIC as the general partner. The individual controlling defendants, after they acquired control of CSL, caused the resources of CSL to be made available, directly or indirectly, to EPIC to assist in funding the shortfalls.

22. In the early 1980's, Billman, McCuistion and others of the individual controlling defendants determined that it would be useful for their EPIC operations if those operations had available the resources of a savings and loan association. Accordingly, they caused Holdings to be formed in January 1982 for the purpose of acquiring a savings and loan association

and, later that year, identified CSL as a candidate for acquisition. In October 1982, Holdings created a Maryland holding company subsidiary, Equity Acquisitions, Inc., for the purpose of acquiring control of CSL. Equity Acquisitions, Inc., acquired some 85% of the voting stock of CSL in October 1982, increased that amount to some 99.4% by March 1, 1983, and purchased the remaining minority interest by early 1985. The total cost of acquiring the entirety of the voting stock in CSL was approximately \$2.6 million. Billman and/or McCuiston have been the indirect controlling shareholders of CSL from October 1982 to the present.

23. In March 1983, Billman, McCuiston and others of the individual controlling defendants caused EPIC to become a subsidiary of CSL by merging EPIC into an inactive subsidiary of CSL. At that time, EPIC had a number of subsidiaries, which became indirect subsidiaries of CSL, that performed activities relating to the promotion of the EPIC limited partnerships, and, thereafter, the controlling defendants caused other indirect subsidiaries of CSL to be formed to perform additional services relating to the EPIC limited partnerships. Among the indirect subsidiaries of CSL were EPIC Mortgage, Inc., which originated mortgages

for the houses purchased by the EPIC limited partnerships and performed the mortgage-servicing functions on those mortgages; ESI Securities, Inc., which acted as underwriter for the limited partnership interests in the EPIC limited partnerships; and EPIC Real Estate Network, Inc., which acted as a real estate broker in attempting to sell houses owned by the EPIC limited partnerships to individual investors.

24. In addition to those companies that were subsidiaries of CSL or of EPIC whose businesses were related to that of EPIC, certain of the individual controlling defendants personally owned a number of corporations whose sources of revenues were dependent in whole or in part upon the operations of the EPIC limited partnerships, EPIC and EPIC-related subsidiaries of CSL. These companies are referred to herein as the "personal" companies. Since these companies were owned directly by certain of the individual controlling defendants, these companies' revenues, income and profits inured directly to the benefit of those defendants and were not available for the protection of CSL as an entity. The income of these personal companies was a function of the total number of houses owned by the EPIC limited partnerships and/or the number of houses purchased by

new EPIC limited partnerships. The profitability of these personal companies increased as the numbers of these houses increased and was unrelated to the profitability of CSL and its subsidiaries. In 1985, for example, the personal companies were highly profitable, while CSL incurred losses.

25. Principal among these personal companies was EPIC Realty Services, Inc. ("ERSI"), a Delaware corporation owned 80% by Billman and McCuistion. ERSI's principal business was to serve as property manager. It served in that capacity for nearly all of the 20,000 houses owned by the EPIC limited partnerships, for which it collected a monthly fee. In addition, ERSI served as rental agent for nearly all of those houses. ERSI's income increased as the total number of houses owned by the EPIC limited partnerships increased, and, in 1984, it collected more than \$10 million in management and leasing fees from the EPIC limited partnerships.

26. Other personal companies included Continental Appraisal Group, Inc. ("CAG"), a Virginia corporation owned by Billman, McCuistion, Deerin, Meltz and others. CAG arranged for an appraisal to be made on each house purchased by an EPIC limited partnership. Its fee income increased with each house purchased by the EPIC limited

partnerships. Its fee income (from which it paid third-party appraisers) was some \$2.7 million in a recent 12-month period. Another such personal company was First Investors Surety Limited ("First Investors"), a Bermuda corporation 80% owned by Billman and McCuistion. First Investors arranged for casualty insurance for houses owned by the EPIC limited partnerships. Its fee income increased as the total number of houses owned by the EPIC limited partnerships increased. First Investors placed the insurance with third parties, but retained most of the insurance payments made to it by the EPIC limited partnerships as profits.

THE GENERAL PATTERN OF CONDUCT COMPLAINED OF

27. Beginning shortly after its acquisition, the controlling defendants used CSL and its financial resources to promote, increase and aggrandize the operations of EPIC, in a manner violative of their duties of care and loyalty to CSL as an entity (including the interests of its savings share account holders and creditors in it as an entity). The controlling defendants sought to increase the business volume of EPIC by creating an increasing number of limited partnerships that would acquire an ever-increasing number of houses. These activities also were intended to aggrandize, and had

the effect of aggrandizing, the wealth of the individual controlling defendants.

28. These increased activities caused, and had the objective of causing, the operations of EPIC to generate substantial additional fee income to the personal companies of certain of the individual defendants, thus enriching those individual defendants.

29. In addition, the increased level of activity by EPIC and the various EPIC-related companies that were subsidiaries of CSL, a level of activity generated with the involvement of CSL, was relied upon by the individual defendants for the payment of salaries, bonuses and perquisites to them from the various subsidiaries, in increasing amounts.

30. EPIC's increased activities also caused, and had the objective of causing, CSL and its consolidated subsidiaries to report greatly increased net income and assets, even though their financial condition was becoming more precarious. In connection with reporting the ostensibly increased net income, the individual defendants caused CSL to declare substantial cash dividends. CSL paid dividends on its common stock of \$6.8 million in May and June 1984, of \$8.0 million in

February 1985, and of shares of common stock of Crysopt in kind on February 27, 1985. In addition, CSL paid dividends of \$976,000 on its Series A and Series C preferred stock for the period March 14, 1983 through March 31, 1985.

31. Under tax-consolidation agreements between CSL and its subsidiaries, on the one hand, and the Holding Company, on the other, that were imposed on CSL and its subsidiaries by the individual controlling defendants, CSL and its subsidiaries were required to make upstream payments to the Holding Company of cash for federal and state income taxes that exceeded the amounts of taxes actually payable to the taxing authorities. Among other things, these agreements required CSL and its subsidiaries currently to pay upstream the amount of "deferred taxes," which are amounts equal to the taxes that would be paid on the income reported according to the books of CSL and its subsidiaries because of the accounting practices followed by them but which did not constitute current taxable income under the tax laws and regulations. These upstream cash payments amounted to at least \$5.3 million in 1983 and \$7.8 million in 1984 and continued in 1985. In addition, the individual controlling defendants caused CSL and its

subsidiaries to make payments to the Holding Company of cash for federal and state income taxes for 1985 and caused the Holding Company to retain those payments notwithstanding that CSL and most of its subsidiaries will suffer losses for the current tax year and will not, on a separate return basis, be required to pay any income taxes for such period.

32. The upstream cash dividends on the CSL common stock referred to in paragraph 30 and the upstream cash payments referred to in paragraph 31 were later used by Billman and McCuistion to make substantial cash payments to themselves by way of dividends on and redemptions of their Holding Company stock.

33. In furtherance of the objective of enriching themselves personally in these ways, during the years 1983 and 1984 and through August 31, 1985, the individual controlling defendants caused the operations of EPIC to expand to the following extent:

	<u>No. of EPIC LPs Syndicated</u>	<u>No. of Homes Purchased by EPIC LPs</u>	<u>Face Amount of First Mortgages on Homes Purchased by EPIC LPs</u> ¹
1982	20	3,050	\$274,000,000
1983	56	4,641	\$314,000,000
1984	96	6,947	\$464,000,000
1985 (8 months)	49 ²	2,459	\$164,000,000

34. In order to increase the size of the operations of EPIC, with the consequence of enriching and personally benefiting the individual controlling defendants, the controlling defendants used the assets of CSL, including the funds provided by its savings share account holders, to promote EPIC's operations. CSL's total advances to and investments in EPIC, EPIC-related subsidiaries and the EPIC limited partnerships (excluding first mortgage loans) were some \$35 million as of July 31, 1984 and increased to more than \$100 million as of August 31, 1985.

35. During the years 1983 and 1984 and through the appointment of the Conservator in 1985, in order to fuel the operations of EPIC and to fund, directly or indirectly, the cash shortfalls in the operation

¹ Figures are not cumulative.

² Number formed in 1985.

of the EPIC limited partnerships, the controlling defendants caused CSL and its subsidiaries to advance money to the EPIC limited partnerships on second mortgages, often unrecorded, and on open advances. On August 31, 1985, the principal amount of these "second mortgages" stood at \$26.4 million and of these open advances stood at more than \$60 million.

36. During the period commencing with Billman and McCuistion's acquisition of CSL, in the controlling defendants' effort to expand the operations of EPIC, and in light of the availability of CSL's resources, the controlling defendants took steps that made the operations of EPIC more hazardous, and they exposed CSL to those hazards.

37. Among other things, the controlling defendants:

(a) shifted the concentration of house purchases by the EPIC limited partnerships from a concentration on model homes to a concentration on houses that had not been sold by the builders and developers to owner/occupants and that were purchased by the limited partnerships to rent to tenants;

(b) caused the EPIC limited partnerships to raise limited-partner capital not on the basis of subscriptions by the original limited partners extending over a lengthy period of time but on the basis of subscriptions payable over a period of less than a year, simply funding the operating shortfall for that period of time, in the expectation of later financing the continuing shortfall by selling additional limited partnership interests;

(c) caused the activities of EPIC in originating limited partnerships and acquiring houses to be accelerated and to become more and more geographically concentrated;

(d) as old limited partnerships matured, caused their houses to be sold at a stated profit to new limited partnerships sponsored by EPIC, the houses so resold continuing to be leased to tenants as occupants; new first mortgages were placed on the houses based on the new selling price, thereby increasing the cash-flow requirements necessary to carry the burden of debt on the houses.

38. These practices, combined with the controlling defendants' efforts to increase and aggrandize the scope

of EPIC's activities, caused an increasing amount of the resources of CSL and its subsidiaries to be devoted to, and exposed to the risks and hazards of, the operations of EPIC.

39. It was a part of this course of conduct of the controlling defendants that they caused CSL to pay dividends to the Holding Company that were not in the interests of CSL as an entity. Dividends paid by CSL to the Holding Company on CSL's common stock in 1984 and the early months of 1985 approached \$15 million, despite the fact that those of the individual controlling defendants who acquired CSL paid only approximately \$2.6 million to acquire the entirety of CSL. In addition, in 1983 and 1984, so-called "tax allocation" payments by CSL and its subsidiaries to the Holding Company in excess of the taxes actually payable to taxing authorities in those years amounted to some \$13.1 million. These payments continued in 1985.

40. As a part of this course of conduct, the controlling defendants caused CSL and its subsidiaries to pay the Holding Company management fees that were not in the interests of CSL as an entity. In 1984, for example, the controlling defendants caused CSL and its subsidiaries to pay nearly \$2.0 million to the Holding

Company for management fees. These payments were unreasonable and excessive in light of the existing fiduciary responsibilities of the controlling defendants to CSL. Moreover, the controlling defendants failed to provide certain of the management services for which CSL and its subsidiaries paid management fees to the Holding Company.

41. The monies accumulated in the Holding Company through the upstream dividends, excessive tax allocation payments and management fees were used by Billman and McCuiston to make cash payments to themselves of \$28 million in early 1985. Of this total, the Holding Company paid \$14 million to them in dividends and paid an additional \$14 million incident to the redemption of Billman's stock in the Holding Company.

42. Apart from the benefits inuring to certain of them from EPIC's operations fueled by CSL through the personal companies, the individual controlling defendants paid themselves extraordinary incomes in salaries, bonuses, commissions and dividends from CSL, its subsidiaries, the Holding Company and its other subsidiaries. These payments were not in the interests of CSL as an entity.

43. The controlling defendants took elaborate precautions to protect their own economic interests and ignored the interests of CSL as an entity in numerous respects. For example, the controlling defendants devised a plan to withdraw funds from their personal savings share accounts at CSL prior to the effective date of any Executive Order restricting withdrawal from those accounts. Pursuant to that plan, the individual controlling defendants withdrew more than \$1.5 million from their personal accounts in the three weeks prior to the Governor's May 14, 1985 freeze order. McCuiston withdrew \$578,000, Deerin \$381,000, Billman \$239,000, McKinney \$202,000 and Meltz \$117,000. In addition, Billman and McCuiston withdrew more than \$2.5 million from accounts of their personal companies at CSL during the same period.

44. In connection with the course of conduct complained of herein, the controlling defendants caused CSL to engage in numerous unsafe and unsound practices that were not in the interests of CSL as an entity. These practices included, among others, the excessive concentration of loans and advances to what was in substance a single enterprise controlled by a single entity; the making of first-mortgage loans for amounts

in excess of the value of the mortgaged property; the making of an excessive amount of mortgage loans on dwelling houses not owned by the occupants; the making of an excessive concentration of loans and investments in an area outside of the immediate deposit-taking area of the association; the making of second-mortgage loans where the equity in the property was exhausted by the first mortgage; the making of mortgage loans on rental property where the rental stream after expenses and real estate taxes was insufficient to carry the amortization of the mortgage; the making of unsecured advances to subsidiaries and affiliated limited partnerships engaged in risky businesses; the payment of dividends excessive in amount, given the condition and risks of the association and its operations; the payment of excessive salaries, fees, bonuses and perquisites; and the payment of excessive amounts to controlling stockholders under tax allocation agreements.

COUNT I

(Breaches of Duty, Including Duties
of Loyalty and Care)

45. Plaintiffs reallege and incorporate herein by reference paragraphs 1 through 44 of the Complaint.

46. The acts of the controlling defendants enumerated herein were part of a course of conduct that was wrongful on the part of the controlling defendants to CSL as an entity (including the interests of its savings share account holders and creditors in it as an entity) and was a violation of the fiduciary duties of care and loyalty owed, by the defendants who were in control of CSL, to CSL as an entity (including the interests of its savings share account holders and creditors in it as an entity).

47. The wrongfulness of the conduct of the controlling defendants towards CSL as an entity is evidenced, in part, by the fact that the actions of the controlling defendants caused CSL to violate numerous provisions of the Maryland laws and regulations governing the activities of Maryland-chartered savings and loan associations. For example, defendants caused CSL to violate (i) the prohibition against an association's lending more than 10% of its assets to any one borrower (COMAR 9.05.01.30A(1)); (ii) the prohibition against an association's investing more than 2% of its assets in its subsidiaries (COMAR 9.05.01.34D(2)); (iii) the prohibition against an association's subsidiaries' borrowing an amount equal to more than 6% of the

association's assets (COMAR 9.05.01.34B(1)(c)(1)(i)); (iv) the requirement that more than 50% of an association's loans be for owner-occupied residential housing (COMAR 9.05.01.30D(1)); (v) the prohibition against an association making insured loans on nonowner occupied residential property in excess of 90% of the value (COMAR 9.05.01.30C(13)(b)); and (vi) the requirement that an association give priority to first mortgages on owner-occupied residences in Maryland (Section 9-419.1, Financial Institutions Article, Annotated Code of Maryland).

48. This course of conduct, and these wrongs, violations of law and regulations and breaches of duty caused loss to CSL, and were the cause or a contributing cause of CSL's insolvency.

49. The individual defendants Cunningham and Faulkner, directors of CSL, failed through negligence or nonfeasance to prevent and restrain the controlling defendants from the course of conduct complained of herein, and in some cases joined in, approved, permitted or knowingly participated in actions that were part of this course of conduct, thus violated the duty of care owed by them to CSL, and thus are liable with the controlling defendants for the consequences to CSL of the acts of the controlling defendants.

50. The corporate defendant Crysopt was among the means and instrumentalities by which the controlling defendants engaged in the course of conduct complained of herein, knowingly participated in the breaches of duty by the controlling defendants, and knowingly received the fruits and proceeds of those breaches of duty. It is thus liable with the controlling defendants for the entirety of the damage caused to CSL as an entity (including the interests of its savings share account holders and creditors in it as an entity) by reason of the acts complained of herein.

COUNT II

(Unlawful Payment and Receipt of
Dividends; Fraudulent Conveyances)

51. Plaintiffs reallege and incorporate herein by reference paragraphs 1 through 44 of this Complaint.

52. The controlling defendants caused CSL to pay dividends (i) on its common stock of \$6.8 million in cash on May 30 and June 11, 1984, of \$8.0 million in cash on February 6, 1985, and of shares of Crysopt common stock in kind on February 27, 1985, (ii) on its Series A preferred stock (owned by Billman, McCuistion, Deerin, Meltz and others) of \$868,000 for the period

March 14, 1983 through March 31, 1985 and (iii) on its Series C preferred stock (owned by Fourteenth Skyline Associates) of \$108,000 for the period October 23, 1984 through March 31, 1985.

53. These dividend payments were unlawful under Sections 15-205 and 206, Commercial Law Article, Annotated Code of Maryland, in that they were conveyances made without fair consideration, and (as to Section 15-205) after each and every such dividend payment, CSL had an unreasonably small capital for the business in which it was engaged, and (as to Section 15-206) one or more of the controlling defendants knew at the times the dividend payments were made (and CSL was charged with the knowledge) that CSL would incur debts beyond its ability to pay them as they matured.

54. If CSL's assets at the time each dividend was paid had been properly evaluated and fairly valued, as the controlling defendants were under an obligation to do, the payment of such dividends would have been unlawful under Section 2-309, Corporations and Associations Article, Annotated Code of Maryland, in that the same would have been made while CSL was insolvent or when its stated capital was impaired, or would have caused it to be insolvent or to have its stated capital impaired.

55. The actions of the controlling defendants in causing CSL to make the upstream dividend payments were a breach of their fiduciary duties to CSL.

56. The individual defendants Cunningham and Faulkner, directors of CSL, approved certain of the actions complained of herein, thus violated the duty of care owed by them to CSL, and thus are liable with the controlling defendants for the consequences to CSL of the acts of the controlling defendants.

57. The upstream payment of these dividends was a contributing cause of the insolvency of CSL.

COUNT III

(Fraudulent Conveyances; Waste of Corporate Assets)

58. Plaintiffs reallege and incorporate herein by reference paragraphs 1 through 44 of this Complaint.

59. The upstream payments of "deferred taxes," referred to in paragraph 31, that the controlling defendants caused CSL and its subsidiaries to make to Holdings, which payments amounted to at least \$5.3 million in 1983 and \$7.8 million in 1984, were payments that by definition were not required to be paid by their recipients to the taxing authorities.

60. These payments constituted a waste of corporate assets in which the controlling defendants participated by way of causing such payments and Holdings participated by way of receiving such payments.

61. The payments constituted a conversion of the property of CSL and its subsidiaries in which Holdings participated by way of receiving such payments.

62. The contract to make the upstream payments of deferred taxes, and the making thereof, were unlawful under Sections 15-205 and 206, Commercial Law Article, Annotated Code of Maryland, in that they were conveyances of assets by CSL and its subsidiaries without fair consideration, and (as to Section 15-205) after such upstream conveyances, CSL and its subsidiaries each had an unreasonably small capital for the business in which it was engaged, and (as to Section 15-206) one or more of the controlling defendants knew at the times the conveyances were made (and CSL was charged with the knowledge) that CSL and its subsidiaries would incur debts beyond its ability to pay those debts as they matured.

63. The actions of the controlling defendants in causing CSL and its subsidiaries to make upstream

payments of deferred taxes was a breach of their fiduciary duties to CSL and its subsidiaries.

64. The individual defendants Cunningham and Faulkner, directors of CSL, approved certain of the actions complained of herein, thus violated the duty of care owed by them to CSL, and thus are liable with the controlling defendants for the consequences to CSL of the acts of the controlling defendants.

65. The upstream payments of deferred taxes were contributing causes of the insolvency of CSL.

COUNT IV

(Fraudulent Conveyance; Waste of Corporate Assets)

66. Plaintiffs reallege and incorporate herein by reference paragraphs 1 through 44 of this Complaint.

67. In January 1983, the controlling defendants established Prune Leasing, Ltd. ("Prune"), as a direct subsidiary of Holdings. Prune thereafter leased automobiles, office furniture and equipment to entities in the Holding Company structure. In October 1984, the controlling defendants established Plum Leasing Corporation ("Plum"), as another direct subsidiary of Holdings, and caused Prune to transfer certain assets

to Plum. (Following the transfer, Prune leased automobiles, office furniture and equipment to CSL and its subsidiaries and Plum leased similar assets to other entities in the Holding Company structure.) In November 1984, the controlling defendants caused CSL to purchase Prune and Plum from Holdings for some \$4.1 million (CSL paid \$417,000 in cash and assumed some \$3.7 million in debt owing to Holdings) and, shortly thereafter, caused CSL to loan an aggregate amount of \$5.0 million to Prune and Plum and caused those companies to pay some \$3.7 million of that amount to discharge certain indebtedness to Holdings.

68. CSL's purchase of Prune and Plum and its loan to Prune and Plum were unlawful under Sections 15-205 and 206, Commercial Law Article, Annotated Code of Maryland, in that CSL did not receive fair consideration for the payments involved, and (as to Section 15-205) after each of the payments, CSL had an unreasonably small amount of capital for the business in which it was engaged, and (as to Section 15-206) one or more of the controlling defendants knew at the times the payments were made (and CSL was charged with the knowledge) that CSL would incur debts beyond its ability to pay them as they matured.

69. The entirety of the transaction whereby the controlling defendants caused CSL to purchase Prune and Plum, caused CSL to make a loan to Prune and Plum, and caused the majority of the proceeds thereof to be paid to discharge indebtedness owed to Holdings, constituted a waste of corporate assets by CSL, caused by the individual controlling defendants, for the enrichment of Holdings.

70. The actions of the controlling defendants in causing CSL to participate in the transactions described in paragraph 69 were a breach of their fiduciary duties to CSL.

71. Defendant Faulkner, a director of CSL, approved the actions complained of herein, thus violated the duty of care owed by him to CSL, and thus is liable with the controlling defendants for the consequences to CSL of the acts of the controlling defendants.

72. The entirety of the transaction described in paragraph 69 was a contributing cause of the insolvency of CSL.

COUNT V

(Usurpation of Corporate
Opportunity; Fraudulent Conveyance)

73. Plaintiffs reallege and incorporate herein by reference paragraphs 1 through 44 of this Complaint.

74. In late 1984, the controlling defendants caused EPIC to enter into agreements with the Charles H. Smith Company or related entities under which EPIC agreed to lease for 15 years 100,000 to 200,000 square feet of office space at Skyline Place, an office complex in Fairfax, Virginia that was being developed by the Charles H. Smith Company, and the Smith interests agreed to sell to EPIC a one-third ownership interest in one of the office buildings (Building 6) at Skyline Place. Building 6 was owned by a limited partnership, Fourteenth Skyline Associates, in which Robert H. Smith and John D. Benn, Jr. were the general partners. The controlling defendants caused EPIC to form a limited partnership, EPIC Skyline Associates, that became a limited partner in Fourteenth Skyline Associates. The controlling defendants agreed that EPIC Skyline Associates would make an initial capital contribution to Fourteenth Skyline Associates in the amount of \$2.448 million. The controlling defendants agreed that they would cause

CSL to create a new series of preferred stock, Series C (paying an annual dividend of \$10 per share), and to issue 2,448 shares of Series C preferred stock to Fourteenth Skyline Associates for \$2.448 million. The controlling defendants caused CSL to loan \$2.448 million to EPIC Skyline Associates and to issue the Series C preferred stock to Fourteenth Skyline Associates upon payment by Fourteenth Skyline Associates of \$2.448 million to CSL. The controlling defendants caused EPIC, as the then general partner of EPIC Skyline Associates, to offer limited partnership interests in EPIC Skyline Associates to themselves and other officers and directors of the Holding Company and its subsidiaries.

75. On information and belief, the value of the ownership interest in Building 6 at Skyline Place that was available to CSL and EPIC, its subsidiary, was and is substantially in excess of the amount paid for it and the opportunity to acquire this interest represented a valuable asset of CSL and its subsidiary EPIC.

76. The transaction whereby the controlling defendants caused EPIC to offer limited partnership interests in EPIC Skyline Associates, and hence indirect ownership interests in Building 6, to themselves and

other officers and directors of the Holding Company and its subsidiaries, created by the commitment of EPIC to undertake substantial obligations as lessee, amounted to the appropriation to themselves by the controlling defendants and the other officers and directors of the Holding Company and its subsidiaries referred to herein of a valuable asset of CSL and its subsidiary EPIC.

77. The sale by EPIC of interests in EPIC Skyline Associates and in Building 6 at Skyline Place was unlawful under Sections 15-205 and 206, Commercial Law Article, Annotated Code of Maryland, in that CSL and its subsidiary EPIC did not receive fair consideration for the sale, and (as to Section 15-205) after such sale, CSL and its subsidiary EPIC each had an unreasonably small capital for the businesses in which they were engaged, and (as to Section 15-206) one or more of the controlling defendants knew at the time the interests were sold (and CSL was charged with the knowledge) that CSL and its subsidiary EPIC would incur debts beyond their ability to pay them as they matured.

78. The actions of the controlling defendants in causing EPIC to sell limited partnership interests in EPIC Skyline Associates were a breach of their fiduciary duties to CSL and its subsidiary EPIC.

79. Defendant Faulkner, a director of CSL, approved the action complained of herein, thus violated the duty of care owed by him to CSL, and thus is liable with the controlling defendants for the consequences to CSL of the acts of the controlling defendants.

80. The sale of interests in EPIC Skyline Associates was a contributing cause of CSL's insolvency.

CONCLUSION AND DEMAND AND PRAYER FOR RELIEF

WHEREFORE, plaintiffs demand and pray:

(a) With respect to each of Counts I through V, judgment for damages against the defendants, severally, for the entirety of the damages sustained by CSL as a result of the course of action, wrongful acts, violations of statute and regulations, and other breaches of duty complained of therein, being in an amount equal to the amount necessary to restore CSL to solvency and to provide it with the minimum capital and surplus required for it to conduct operations as a savings and loan association, which amount will be at least \$50,000,000 and could be more than \$100,000,000, such damages to be paid to CSL;

(b) With respect to each of Counts II through V, judgment against the controlling defendants and against defendants Faulkner and Cunningham to the extent indicated in those Counts, severally, to the extent that, as to the transactions described in each such Count, CSL and/or its subsidiaries did not receive fair consideration for the cash, other assets or interests that said defendants caused them to convey and, following each such transaction, they had an unreasonably small amount of capital for the businesses in which they were engaged.

(c) With respect to each of Counts II through V, judgment imposing a constructive trust on the cash, other assets and interests received by the controlling defendants, requiring an accounting by the controlling defendants for all such cash, other assets and interests received by them and requiring the controlling defendants to pay over to plaintiffs the entirety of the amounts wrongfully received by them.

(d) With respect to Count II, judgment against the controlling defendants and against defendants Faulkner and Cunningham to the extent indicated in that Count, severally, to the extent that the payment of each dividend by CSL would have been unlawful, if CSL's assets had been properly evaluated and fairly valued at the time such dividend was paid.

(e) With respect to Count III, judgment against Holdings for restitution of the entirety of the "deferred taxes" paid to Holdings by CSL and its subsidiaries.

(f) With respect to Count IV, judgment against the controlling defendants and defendant Faulkner, severally, to the extent that the entirety of the transaction described in paragraph 67 constituted a waste of the corporate assets of CSL.

(g) With respect to Counts II through IV, judgment against Holdings to the extent that as to the transactions described in each such Count CSL and/or its subsidiaries did not receive fair consideration for the cash, assets or interests that they conveyed to Holdings and, following each such transaction, they had an unreasonably small amount of capital for the businesses in which they were engaged.

(h) For attorneys' fees, costs and disbursements incurred in connection herewith by plaintiffs; and

(i) For such other, further and different relief as may appear just and proper.

Respectfully submitted,

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on behalf of Plaintiffs

STATE OF MARYLAND DEPOSIT
INSURANCE FUND CORP., et al.,

Plaintiffs,

v.

TOM J. BILLMAN, et al.,

Defendants.

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) IN THE CIRCUIT COURT
) FOR MONTGOMERY COUNTY

) No. _____
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PLAINTIFFS' MOTION FOR AN INTERLOCUTORY
INJUNCTION AND FOR AN ATTACHMENT

Plaintiffs State of Maryland Deposit Insurance Fund Corporation, as Conservator for Community Savings & Loan, Inc. ("MDIF") and Community Savings & Loan, Inc. ("CSL") hereby move this Court for an order restraining defendants Tom J. Billman ("Billman"), Clayton C. McCuistion ("McCuistion"), Epicenter Consolidated, Ltd. ("Epicenter"), EPIC Holdings, Ltd. ("Holdings") and Crysopt Corp. ("Crysopt"), as well as their agents, attorneys, employees, representatives, and all persons or entities under their direct or indirect control, from dissipating, alienating, pledging, removing, transferring, or otherwise impairing any assets in which they have any interest during the pendency of this action, except as set forth in subparagraphs (1)-(4) below.

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(1) Defendants Billman and McCuistion may transfer assets for ordinary and necessary personal living expenses.

(2) Defendants Billman, McCuistion, Epicenter, Holdings and Crysopt may transfer assets in the ordinary course of business necessary to meet ordinary and necessary business expenses.

(3) Each defendant who is subject to the Order may transfer assets necessary to pay his reasonable legal expenses.

(4) Any defendant who is subject to the Order who wishes to make a transfer not authorized by paragraphs (1) through (3) may request the Court, upon notice to MDIF, for permission to make such transfer. If MDIF does not oppose the proposed transfer, it may be made without further order of the Court. If MDIF does intend to oppose the transfer, it shall file a written opposition with the Court within seven days of the receipt of notice of the proposed transfer, and the transfer will not be made unless authorized by the Court after a hearing which will be scheduled promptly. The defendants may also request the Court for expedited consideration of a request to make a transfer if they deem it necessary.

MDIF and CSL further move for the issuance of writs of attachment under Section 3-303(b), Md. Courts & Judicial Proceedings Code Ann., attaching all property of defendants Billman and McCuistion that is located in Maryland.

As grounds for this motion, MDIF and CSL rely on Plaintiffs' Memorandum in Support of Motion for a Preliminary Injunction and for an Attachment, as well as the Affidavit of W. Bruce McPherson, which are submitted herewith, together with proposed forms of order.

Respectfully submitted,

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Conservator of Community Savings &
Loan, Inc., on behalf of Plaintiffs

STATE OF MARYLAND DEPOSIT
INSURANCE FUND CORP., et al.,

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PLAINTIFFS' MEMORANDUM IN SUPPORT OF MOTION
FOR AN INTERLOCUTORY INJUNCTION AND FOR AN ATTACHMENT

Plaintiffs State of Maryland Deposit Insurance Fund Corporation, as Conservator for Community Savings & Loan, Inc. ("MDIF") and Community Savings & Loan, Inc. ("CSL") file this memorandum, together with the Affidavit of W. Bruce McPherson, in support of their motion (i) to enjoin defendants Tom J. Billman ("Billman"), Clayton C. McCuistion ("McCuistion"), Epicenter Consolidated, Ltd. ("Epicenter"), EPIC Holdings, Ltd. ("Holdings"), and Crysopt Corp. ("Crysopt") from dissipating or transferring their assets prior to judgment without notice to MDIF and, if MDIF objects to the proposed transfer, without the Court's permission, and (ii) to attach the assets of defendants Billman and McCuistion that are located in Maryland.

INTRODUCTION

Plaintiffs instituted this action to recover damages in excess of \$50 million caused by the defendants' actions which have imperiled the accounts of savings share account holders (depositors) of CSL, a Maryland savings and loan association. As set forth in detail below, defendants Billman and McCuistion acquired CSL in 1982. They thereafter used it to aid them in a complex scheme involving promotion of real estate tax shelters by a series of over 350 limited partnerships of which Equity Programs Investment Corp. ("EPIC") was general partner. Billman and McCuistion thereafter treated CSL as their own personal preserve for use in propping up their faltering tax shelter empire, all without regard to the rights and interests of CSL and its depositors. In August of this year, the system of real estate limited partnerships created by the defendants collapsed. On September 5, 1985, MDIF was appointed Conservator for CSL, and most of the EPIC real estate limited partnerships filed petitions under the Bankruptcy Code.

Following its appointment as Conservator, MDIF commenced, and is continuing to conduct, an investigation into the defendants' activities regarding CSL. The investigation to date has revealed the following:

First: the defendants have committed numerous breaches of fiduciary duty and have violated their duties of loyalty and care by using CSL to expand and fund the EPIC real estate tax shelter operations and by extracting extraordinary payments from CSL and its subsidiaries and from the operations of EPIC for their personal enrichment. In addition, the defendants have violated a number of regulations governing savings and loan associations (banking regulations) and have engaged in transactions involving fraudulent conveyances, waste of corporate assets and usurpation of corporate opportunities. These acts have caused damages to CSL of at least \$50,000,000, and total damages may exceed \$100,000,000.

Second: defendants Billman and McCuistion have engaged in a pattern of financial manipulations, including extraordinary transfers of funds and assets, which evidence a propensity to evade the legal consequences of their actions and to remove assets from the control of CSL.

Since May 17, 1985, MDIF, which is an agency

of the State of Maryland, has insured deposits in CSL.¹ To the extent that CSL's remaining assets are not sufficient to satisfy the claims of its depositors, therefore, MDIF will be required to make up the difference. MDIF, as conservator, instituted this action on behalf of CSL to recover for the injuries defendants have caused to CSL as an entity. Given the marked tendency of defendants Billman and McCuistion to manipulate assets under their control, however, there is a distinct danger that they will attempt to secrete those assets, leaving nothing to satisfy any judgment which MDIF may eventually obtain.

Accordingly, MDIF requests that this Court take the following steps to insure that the defendants' assets will be available to satisfy a judgment:

(a) Issue an injunction restraining defendants Billman and McCuistion, and the three corporate defendants under their control, from removing, transferring, alienating, pledging or otherwise impairing any assets in which they have any interest, including assets held by any entity they control, except on notice to MDIF

¹ MDIF insures accounts in CSL up to \$100,000 per account for deposits made prior to May 18, 1985, and up to \$100,000 per depositor for deposits made after that date.

and, if MDIF objects to the proposed transfer, with the approval of the Court (subject to exceptions for ordinary and necessary personal and business expenses).

(b) Issue writs of attachment under section 3-303(b), Md. Courts and Judicial Proceedings Code Ann., attaching all property of defendants Billman and McCuistion located in Maryland.

STATEMENT OF FACTS

The facts regarding the defendants' actions and the damages they have caused CSL are set forth in detail in MDIF's Complaint.² MDIF does not intend to repeat all of its allegations in detail here, and it refers the Court to the Complaint for a full explanation of the facts. The most important facts and the bases for MDIF's claims are summarized below for the Court's convenience.

I. BACKGROUND INFORMATION

Commencing in 1974, the real estate activities of Billman and McCuistion centered around EPIC. EPIC

² As stated in ¶ 17 of the Complaint, the Complaint is based on MDIF's investigations to date, and MDIF reserves the right, with leave of Court if appropriate, to amend the Complaint to assert additional claims or facts or to name additional parties as appropriate.

sponsored and promoted tax shelter real estate limited partnerships which acquired single-family homes with the intention of renting them and eventually reselling them. Typically, EPIC is the sole general partner in the limited partnerships and holds a 1% interest, and independent individual investors are the limited partners. EPIC established over 350 of these limited partnerships, as well as approximately 19 others in which the limited partners were affiliated with EPIC. Complaint, ¶ 18.

The limited partnerships, which own approximately 20,000 houses across the United States, are highly leveraged, typically obtaining mortgage loans for 95% of the appraised value of the houses. These mortgages were generally sold to financial institutions, often as "pools" of mortgages against which certificates were issued, while the houses were rented to tenants. Complaint, ¶¶ 19, 20. The cash flow of the limited partnerships from the rentals was generally not sufficient, however, to make the required payments of principal and interest on the mortgages, and this shortfall played a major role in the eventual collapse of the EPIC system. Complaint, ¶ 21.

In the early 1980's, Billman and McCuistion, along with others of the defendants, determined that

it would be useful if EPIC had access to the resources of a savings and loan association. Accordingly, they acquired 85% of CSL's stock in October 1982, acquired over 99% in early 1983, and by early 1985 had acquired the remainder of that stock, at a total cost of \$2.6 million. Complaint, ¶ 22. In March 1983, they caused EPIC to become a subsidiary of CSL. They also created a number of indirect subsidiaries of CSL which, together with pre-existing subsidiaries of EPIC, performed, or purported to perform, services for the EPIC limited partnerships. Complaint, ¶ 23.

In addition to these indirect subsidiaries of CSL, Billman and McCuistion also owned (sometimes with others) a number of independent companies (the "personal companies") which performed, or purported to perform, services for the EPIC limited partnerships. The assets of these companies were not available to CSL. The income of the personal companies was directly related to the number of houses owned in the EPIC system, giving Billman and McCuistion an incentive to continue to expand that system. Complaint, ¶ 24. One of the most important personal companies was EPIC Realty Services, Inc. ("ERSI"), which is owned 80% by Billman and McCuistion. ERSI served as property manager and rental agent for

nearly all of the 20,000 houses, for which it collected fees which exceeded \$10 million in 1984. Complaint, ¶ 25. Other personal companies owned, at least in part, by Billman and McCuistion contracted for or made appraisals on houses purchased by the EPIC limited partnerships and arranged for casualty insurance for those houses. Complaint, ¶ 26.

II. THE PATTERN OF IMPROPER CONDUCT

Upon acquiring control of CSL in 1982, the defendants used CSL and its financial resources to promote, increase and aggrandize the operations of EPIC in violation of banking laws and their duties of care and loyalty to CSL. During this period, the defendants increased the business volume of EPIC by creating an increasing number of limited partnerships that acquired an ever-increasing number of houses. Complaint, ¶ 27. In connection with this expansion of EPIC's business, the defendants took numerous actions which both enriched themselves personally and hazarded, and in some cases removed, CSL's assets, contributing to its current insolvency. Those actions, which are described in detail in paragraphs 27-44 of the Complaint, are summarized below:

(a) The defendants caused CSL to pay substantial dividends totalling over \$15 million in 1984-85 at a time when its financial condition was becoming more precarious. Complaint, ¶ 30.

(b) The defendants caused CSL and its subsidiaries to make cash payments of over \$13 million in 1983-84 to CSL's parent companies.³ These payments were ostensibly for income taxes, but they exceeded the amount of taxes actually owed. The payments continued in 1985, notwithstanding the fact CSL will not owe any income taxes at all for that year. Complaint, ¶ 31.

(c) Billman and McCuistion used CSL's assets and deposits to fund and promote EPIC's expanding and increasingly precarious operations. In particular, the defendants used CSL's assets to fund the shortfall, referred to above, between the rental income and capital contributions of the EPIC limited partnerships and the amounts due on the mortgages on the houses owned by those partnerships. As of August 31, 1985, there was over \$60 million outstanding on open advances made by

³ Following the acquisition of control of CSL by Billman and McCuistion in 1982, CSL was owned by defendant Holdings, which, in turn, was wholly owned by Billman and McCuistion. In December 1984, Billman and McCuistion contributed their stock in Holdings to defendant Epicenter, which became Holdings' parent. Complaint, ¶ 6.

CSL and its subsidiaries for these purposes, as well as \$26.4 million advanced on second mortgages on the houses. Complaint, ¶¶ 34, 35.

(d) The defendants took numerous actions with EPIC which increased the risks of its business and thus increased the risks to CSL. Complaint, ¶¶ 36, 37.

(e) The increased level of activity by EPIC generated substantial fee income to the defendants' personal companies and was also relied upon by the defendants as a basis for unreasonable and excessive salaries, bonuses and perquisites from CSL and its affiliates. Complaint, ¶¶ 28, 29, 40.

(f) The defendants caused CSL and its subsidiaries to pay unreasonable and excessive management fees to CSL's parent company which inured to the benefit of Billman and McCuistion. Complaint, ¶ 40.

III. MDIF'S CLAIMS FOR RECOVERY

Count I of the Complaint alleges that the foregoing acts of the defendants constituted breaches of the defendants' fiduciary duties of loyalty and care and that they violated a number of provisions of the Maryland

laws and regulations governing Maryland-chartered savings and loan associations. These acts hazarded CSL and were the cause or contributing causes of its insolvency. In addition, Counts II through V allege additional causes of action based on specific transactions, as follows:

Count II: The defendants caused CSL to pay dividends of approximately \$15 million during the period 1984-85 which left CSL, at most, with an unreasonably small amount of capital to carry on the increasingly risky business in which it was engaged, in violation of the relevant Maryland statutes and in breach of their fiduciary duties to CSL.

Count III: The defendants caused CSL to make, under the guise of a tax allocation agreement, payments to its parent company for amounts in excess of current taxes, which payments were fraudulent conveyances of CSL's assets, a waste of its corporate assets and a breach of the defendants' fiduciary duties to CSL.

Count IV: The defendants caused CSL to purchase other affiliates of its parent company and to make a \$5 million loan to those affiliates to discharge their indebtedness to the parent. These transactions constituted fraudulent conveyances, a waste of CSL's

assets, and a breach of the defendants' fiduciary duties to CSL.

Count V: The defendants usurped a corporate opportunity of CSL by forming a limited partnership to purchase an interest at a favorable price in a building in which EPIC had a long-term lease, thereby depriving CSL or its subsidiaries of the opportunity to invest in the building on favorable terms and breaching their fiduciary duties to CSL and its subsidiaries.

IV. ACTS BY BILLMAN AND McCUISTION
CONSTITUTING MANIPULATION OF ASSETS

The activities of defendants Billman and McCuistion have not been limited to enriching themselves and depleting the resources of CSL to shore up the EPIC tax shelter promotion empire. Rather, Billman and McCuistion have also engaged over the last eleven months in a persistent and increasing pattern of transactions designed to shift assets among themselves and the various entities they control and to alter the relationships among their various affiliates to insure that they, not CSL, retain control of those assets, and that their assets will not be available to satisfy claims arising from their management of CSL. Their activities have included the following:

A. The Payment of Extraordinary "Upstream"
Payments by CSL to Its Parents

As discussed earlier, Billman and McCuistion, together with the other defendants, caused CSL to make large payments to its parent companies, consisting of dividends of over \$15 million in 1984-85, including a dividend of \$8 million as late as February 1985, and payments, ostensibly for taxes, of over \$13 million in 1984-85, at a time when CSL's financial position was becoming increasingly precarious. Complaint, ¶¶ 30, 31.

B. The Cash Payments to Billman and McCuistion
and the Reorganization of the Corporate
Structure in the Winter of 1984-85

Prior to December 1984, Billman and McCuistion owned, respectively, 80% and 20% of defendant Holdings, which had become CSL's parent in October 1982. In December 1984, Billman and McCuistion contributed their stock in Holdings to defendant Epicenter, which thereby became CSL's ultimate parent. In January 1985, Epicenter paid dividends to Billman and McCuistion totalling \$14 million. Subsequently, in February 1985, Billman caused Epicenter to redeem his 80% stock interest in exchange for assets with a book value of \$31.8 million,

including \$14 million in cash, which apparently represented a portion of the extraordinary payments by CSL referred to above. These assets are now held by defendant Crysopt, which is a holding company wholly owned by Billman. Complaint, ¶¶ 6, 7, 16, 41.

C. The Creation of Large Funds to Pay
Certain Defendants' Legal Fees

As part of the reorganization described above, Billman caused defendants Holdings and Epicenter to agree to create a "legal defense fund" of \$300,000 for the defense of Billman or Crysopt in any action against them. (In addition, on September 4, 1985, presumably in anticipation of the Conservatorship, Billman and McCuistion joined with other directors of EPIC and two of its affiliates in causing a retainer of \$850,000 to be paid to a law firm for possible defense work. That retainer was subsequently returned at the insistence of MDIF.) McPherson Aff., ¶ 5.

D. The Withdrawal of Personal Funds from
CSL Immediately Prior to the Governor's
Freeze Order

At a meeting of the Executive Committee of CSL's Board of Directors on April 25, 1985, approximately three weeks before Governor Hughes froze deposits at

CSL, and during which the possibility that regulatory authorities would close the bank was discussed, Billman initially directed CSL's senior management to maintain their accounts and certificates of deposit in CSL "to avoid causing unnecessary concern," presumably among bank staff and the public. (See Minutes of April 25, 1985 Executive Committee Meeting, attached as Exhibit A to the McPherson Aff.) At that same meeting, however, Billman also assured senior management that they would be able to withdraw their funds if problems arose. Senior management personnel in fact did withdraw large sums from their personal accounts at CSL between the Executive Committee meeting and the Governor's freeze order of May 14, 1985, including withdrawals by McCuistion of \$578,448 and by Billman of \$239,809. McPherson Aff., ¶ 6.

E. The Withdrawal of Funds by the Personal Companies Prior to the Freeze Order

In addition to the funds withdrawn by Billman and McCuistion from their personal accounts, companies owned or controlled by Billman and McCuistion also withdrew a total of over \$2.5 million from their accounts at CSL between April 23, 1985 and the May 14 freeze order. These companies also made substantial withdrawals

during the period January 1 - April 22, 1985. McPherson Aff. ¶ 7.

F. The Sale of CSL's Subsidiaries
in May 1985 Immediately Prior to
the Governor's Freeze Order

On April 25, 1985, the Executive Committee of CSL's Board of Directors granted an option to CSL's parent, defendant Holdings, to acquire CSL's subsidiary Community Financial Services, Inc. ("CFSI"), which owned virtually all of the EPIC-related corporations. The minutes of this meeting expressly state that the purpose of the transaction was "to maintain the operations of the various service corporations in the event of a problem similar to Ohio under which the state or federal regulators were to shut down the Association." CFSI's stock was in fact conveyed to Holdings on May 13, 1985. That stock was reconveyed to CSL on May 22, 1985. McPherson Aff., ¶ 8. (Copies of the Executive Committee minutes authorizing the transfer to Holdings and of the minutes of CSL's Board of Directors implementing the reconveyance are attached as Exhibits B and C to the McPherson Aff.)

G. The Sale of 51% of EPIC

On August 22, 1985 -- at the time of the collapse of the EPIC structure and just days before the appointment of MDIF as Conservator, EPIC Acquisitions, Inc., a subsidiary of CSL's parent, defendant Holdings, approved the purchase of 51% of the stock of Equity Programs Investment Corp. from CFSI. This transaction removed EPIC from its position as an indirect subsidiary of CSL to a position above CSL in the corporate chain -- apparently for the purpose of shielding EPIC from any attempt to marshal CSL's assets for the benefit of its depositors and creditors. This transaction was reversed on September 6, 1985. McPherson Aff., ¶ 9.

H. The Transfer of Assets to "In-House" Limited Partnerships on the Eve of the Conservatorship and the Replacement of EPIC as General Partner

During the period immediately preceding the appointment of MDIF as Conservator, the defendants engaged in a number of other transactions which may have been legally effective but which indicate a propensity to manipulate assets to avoid claims or control by others. As discussed above, the EPIC empire included a large number of limited partnerships, for which EPIC usually served as general partner, which were usually syndicated

to independent limited partners, although a small number of "in-house" limited partnerships were established whose limited partners were entities, officers or directors affiliated with EPIC. On August 30, 1985, the defendants caused a number of EPIC limited partnerships which had acquired property but which had not yet been syndicated to transfer their assets to three of the in-house limited partnerships, whose limited partners included Billman and McCuistion. Furthermore, on September 5, 1985 -- the day on which MDIF was appointed Conservator -- certain of the defendants, including McCuistion, caused Ehl Management Corp. ("EMC") to be substituted for EPIC as the general partner of those three in-house limited partnerships. The apparent purpose of this substitution was to prevent the Conservator from gaining control over the in-house limited partnerships and their newly acquired assets since EMC is a subsidiary of CSL's parent company and is thus not under CSL's control. Subsequent to the appointment of MDIF as Conservator, EMC agreed to return control of the in-house limited partnerships to a subsidiary of CSL contingent upon an overall workout of the bankruptcy proceedings of the other limited partnerships. McPherson Aff., ¶ 10.

I. The Institution of Bankruptcy
Proceedings Without Notice to MDIF

As noted above, MDIF was appointed as Conservator for CSL on September 5, 1985. Defendants were given notice of the request for the appointment before that request was made. After receipt of that notice, without informing MDIF, the defendants caused 341 of the EPIC limited partnerships (not including any of the in-house partnerships) to file bankruptcy petitions pursuant to Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia with the apparent purpose, and the effect, of limiting the options and authority of the Conservator. McPherson Aff., ¶ 11.

The foregoing facts amply demonstrate the propensity of Billman and McCuiston to manipulate assets to take them "out of the line of fire" and to make enforcement of their obligations difficult -- a propensity which has become increasingly evident in recent months as CSL's troubles increased and as regulatory authorities moved to protect CSL and its depositors. An interlocutory injunction is necessary to insure that similar manipulations do not frustrate MDIF's ability to recover for the damages these defendants have caused.

ARGUMENT

I. INJUNCTIVE RELIEF AGAINST THE TRANSFER
OR DISSIPATION OF ASSETS IS APPROPRIATE

As numerous decisions have recognized, where, as here, there is a danger that the defendant will dissipate its assets prior to judgment, interlocutory relief preventing such dissipation is appropriate. For example, in USACO Coal Co. v. Corbomin Energy, Inc., 689 F.2d 94 (6th Cir. 1982), the Sixth Circuit upheld the grant of a preliminary injunction enjoining the defendants from "directly or indirectly transferring, selling, assigning, dissipating, concealing, encumbering, impairing or otherwise disposing of [the defendants'] assets." 689 F.2d at 96. The court noted that the injunction was based on the district court's conclusion that there was "a substantial likelihood that plaintiffs would ultimately prevail on a claim for restitution based on the allegation of a breach of fiduciary duty," and that the order was necessary to protect "against the probability that the defendants would transfer their only assets within the United States to foreign accounts." Id. at 96.

Other courts have endorsed similar orders, especially where the relief is sought by a governmental agency seeking to protect the public interest. United States v. First National City Bank, 379 U.S. 378, 385 (1965); Securities & Exchange Comm'n v. Manor Nursing Centers, Inc., 458 F.2d 1082, 1105-06 (2d Cir. 1972); Securities and Exchange Comm'n v. Scott, Gorman Municipals, Inc., 407 F. Supp. 1383, 1388 (S.D.N.Y. 1975); Illinois v. Community Hospital of Evanston, 64 Ill. Dec. 648, 108 Ill. App. 3d 1051, 440 N.E.2d 200, 206 (1982). See also Meyers v. Moody, 723 F.2d 388 (5th Cir. 1984); Rosinia v. Gusmano, 90 Ill. App. 2d 882, 46 Ill. Dec. 299, 414 N.E.2d 21 (1980); The Texas Society, Daughters of the American Revolution, Inc. v. Fort Bend Chapter, The National Society, Daughters of the American Revolution, 590 S.W.2d 156 (Tex. Civ. App. 1979).

II. THE STANDARDS FOR GRANTING INTERLOCUTORY INJUNCTIVE RELIEF

Under Maryland law, the courts consider the following four factors in determining whether to grant preliminary interlocutory injunctive relief:

- (1) the likelihood that the plaintiff will succeed on the merits;
- (2) the "balance of convenience" determined by whether greater injury would be done

to the defendant by granting the injunction than would result from its refusal;
(3) whether the plaintiff will suffer irreparable injury unless the injunction is granted; and (4) the public interest.

Department of Transportation v. Armacost, 299 Md. 392, 404-05, 474 A.2d 191 (1984). All four factors are satisfied in this case.

A. MDIF Is Likely To Succeed on the Merits of Its Complaint

This Court should not hesitate to find that MDIF has a strong likelihood of success on the merits. It is beyond dispute that, under the stewardship of Billman and McCuistion, CSL has become insolvent and that the EPIC tax shelter promotion empire has crumbled. While MDIF's investigation into the defendants' tangled affairs is not yet complete, the investigation to date, as set forth in the Complaint, has unearthed a series of wrongful acts by the defendants, including the use of tens of millions of dollars of CSL's funds to shore up the finances of the EPIC limited partnerships, large payments of money by CSL to its parent companies (and ultimately to Billman and McCuistion), the payment of excessive fees and benefits to Billman and McCuistion and companies affiliated with them, and other breaches of fiduciary duty, fraudulent conveyances and violations of state

banking laws and regulations. While defendants may dispute specific factual allegations or the precise amount of the damages they have caused, the conclusion that they were engaged in a conscious plan to use CSL's assets for their personal benefit and for the benefit of the EPIC limited partnership real estate investments without due regard to the interests of CSL or its depositors is inescapable and clearly warrants the granting of interlocutory relief.

B. The Balance of Convenience
Favors Injunctive Relief

The balance of convenience in this case is equally clear. CSL faces an uncertain future unless it can recover its lost assets, while thousands of its depositors continue to face the difficulty of being unable to reach their savings. By contrast, Billman and McCuistion will suffer minimal inconvenience if MDIF's request is granted since the proposed order contains an exception for ordinary and necessary business and living expenses, and since they will be free to petition the Court for permission to make greater expenditures if they believe they are necessary. In view of the tremendous hardships which their mismanagement of CSL has created, the balance of convenience favors the relief sought.

C. MDIF and CSL and Its Depositors Will Suffer Irreparable Harm Unless an Injunction Is Granted

There is a clear threat of irreparable harm if injunctive relief is not granted. Unless CSL can obtain a sufficient recovery to pay off its depositors, either the depositors or MDIF will be left to suffer the consequences of the defendants' misdeeds. The activities of Billman and McCuistion to date, however -- such as their withdrawal of funds on the eve of the freeze order, the numerous reorganizations of the EPIC/CSL corporate structure to avoid the impact of impending regulatory actions, and the payment of extraordinarily large dividends and payments for taxes which were not owed, much of which eventually went to Billman and McCuistion through dividends and the redemption of Billman's Epicenter stock -- all demonstrate a marked willingness to engage in manipulations for the purpose of making enforcement of their obligations difficult. Given their record at CSL, there is no reason to assume that Billman and McCuistion will allow the assets they have extracted from CSL to remain available to pay CSL's obligations. Thus, an interlocutory injunction should issue to protect against the irreparable harm which would occur if those individuals were allowed to continue their past practices and thus escape paying any judgment which MDIF may obtain.

D. The Public Interest Supports
MDIF's Request for Relief

The preceding discussion firmly establishes the public interest in granting the relief sought. The defendants' actions have fueled one of the most severe financial crises in Maryland in years, and the public interest in recovering the assets of CSL to ease that crisis is obvious. To allow defendants with a demonstrable history of moving assets further and further away from CSL the freedom to continue that practice would thwart the public interest. MDIF's request for interlocutory injunctive relief should therefore be granted.

IV. THIS COURT SHOULD GRANT A WRIT
OF ATTACHMENT ON THE PROPERTY OF
BILLMAN AND McCUISTION

In addition to the injunctive relief discussed above, MDIF also requests that the Court issue writs of attachment attaching the property of Billman and McCuistion which is located in Maryland. This request is made pursuant to section 3-303(b), Md. Courts and Judicial Proceedings Code Ann., which provides that an attachment may issue against a nonresident individual over whom the court may exercise personal jurisdiction

under the state long-arm statute. MDIF does not believe that there is or can be any dispute that Billman and McCuistion are residents of Virginia or that they are subject to this Court's jurisdiction due to their activities involving CSL. Furthermore, when the attachment is based on the fact of nonresidence, the statute does not require a showing of any effort to conceal, dispose of or remove assets. Thus, an attachment is clearly in order.

CONCLUSION

This Court should grant plaintiffs' Motion for a Preliminary Injunction and for an Attachment.

Respectfully submitted,

ARNOLD & PORTER

By: 

Alexander E. Bennett
1200 New Hampshire Avenue, N.W.
Washington, D.C. 20036
(202) 872-6663

TYDINGS & ROSENBERG

By: J. Hardin Marion / AEB

J. Hardin Marion
201 N. Charles Street
Baltimore, Maryland 21201
(301) 752-6100

Special Counsel to the Maryland
Deposit Insurance Fund Corporation,
Conservator of Community Savings &
Loan, Inc., on behalf of Plaintiffs

STATE OF MARYLAND DEPOSIT INSURANCE FUND CORP., <u>et al.</u> ,)	IN THE CIRCUIT COURT FOR MONTGOMERY COUNTY
Plaintiffs,)	No. _____
v.)	
TOM J. BILLMAN, <u>et al.</u> ,)	
Defendants.)	

AFFIDAVIT OF
W. BRUCE McPHERSON

I, W. Bruce McPherson, being duly sworn, depose and say as follows:

1. I am President of McPherson & Company, Inc., which serves as agent for the Maryland Deposit Insurance Fund ("MDIF") in carrying out its powers and responsibilities as Conservator for Community Savings & Loan, Inc. ("CSL"). In that capacity, I have responsibility for the day-to-day operations of CSL and its subsidiaries and for carrying out MDIF's responsibilities as Conservator.

2. This affidavit is submitted in support of the motion of MDIF and CSL for an interlocutory injunction restraining defendants Tom J. Billman ("Billman"), Clayton C. McCuistion ("McCuistion"), Epicenter

Consolidated, Ltd. ("Epicenter"), Epic Holdings, Ltd. ("Holdings") and Crysopt Corp. ("Crysopt") from dissipating or transferring their assets during the pendency of this action.

3. I hereby certify that I have read the Complaint filed by MDIF and CSL in this action and that the factual allegations contained in paragraphs 3-4, 6-44, 48-50, 52-54, 56-57, 59-62, 64-65, 67-69, 71-72, 74-77 and 79-80 of that Complaint are true.

4. The facts contained in paragraphs 5-11 of this affidavit are based on personal knowledge, on documents of CSL and Equity Programs Investment Corporation ("EPIC") and their affiliated companies which I and other representatives of MDIF have reviewed in the course of MDIF's investigation into the activities of the defendants involving CSL and EPIC, and on interviews conducted during the course of MDIF's investigation.

5. As part of the reorganization described in paragraphs 6, 7, and 16 of the Complaint, by which Billman redeemed his stock in Epicenter, CSL's ultimate parent, in exchange for assets with a book value of over \$30 million, Billman caused defendants Holdings and Epicenter

to agree to create a "legal defense fund" of up to \$300,000 for the defense of Billman or Crysopt in any action against them. In addition, on September 4, 1985 Billman and McCuistion joined with other directors of EPIC and two of its affiliates in causing a retainer of \$850,000 to be paid to a law firm for possible defense work. That retainer was subsequently returned at the insistence of MDIF.

6. At a meeting of the Executive Committee of CSL's Board of Directors on April 25, 1985, approximately three weeks before Governor Hughes froze deposits at CSL, and during which the possibility that regulatory authorities would close the bank was discussed, defendant Billman initially directed CSL's senior management to maintain their accounts and certificates of deposit in CSL "to avoid causing unnecessary concern," presumably among bank staff and the public. (See Minutes of April 25, 1985 Executive Committee Meeting, attached hereto as Exhibit A.) At that same meeting, however, Billman also assured senior management that they would be able to withdraw their funds if problems arose. Senior management personnel in fact did withdraw large sums from their personal accounts at CSL between the Executive Committee meeting and the Governor's freeze

order of May 14, 1985, including withdrawals by McCuistion of \$578,448 and by Billman of \$239,809.

7. In addition to the funds withdrawn by Billman and McCuistion from their personal accounts, six companies owned or controlled by Billman and McCuistion also withdrew an aggregate of over \$2.5 million from their accounts at CSL between April 23, 1985 and the May 14 freeze order. Those companies also made substantial withdrawals during the period January 1 - April 22, 1985.

8. On April 29, 1985, the Executive Committee of the Board of Directors of CSL granted an option to CSL's parent, defendant Holdings, to acquire CSL's subsidiary Community Financial Services, Inc. ("CFSI"), which owned virtually all of the EPIC-related corporations. The minutes of this meeting expressly state that the purpose of the transaction was "to maintain the operations of the various service corporations in the event of a problem similar to Ohio under which the state or federal regulators were to shut down the Association." CFSI's stock was in fact conveyed to Holdings on May 13, 1985. That stock was reconveyed to CSL on May 22, 1985. Copies of the Executive Committee minutes authorizing the transfer to Holdings and of

the minutes of CSL's Board of Directors implementing the reconveyance are attached as Exhibits A and B.

9. On August 22, 1985, approximately two weeks before the appointment of MDIF as Conservator for CSL, EPIC Acquisitions, Inc., a subsidiary of CSL's parent, defendant Holdings, approved the purchase of 51% of the stock of Equity Programs Investment Corp. from CFSI. This transaction removed EPIC from its position as an indirect subsidiary of CSL to a position above CSL in the corporate chain -- apparently for the purpose of shielding EPIC from any attempt to marshal CSL's assets for the benefits of its depositors and creditors. This transaction was reversed on September 6, 1985.

10. On August 30, 1985, the defendants caused a number of EPIC limited partnerships which had acquired property, but which had not yet been syndicated, to transfer their assets to three EPIC limited partnerships whose limited partners, including Billman and McCuistion, were all affiliated with EPIC (the "in-house limited partnerships"). Furthermore, on September 5, 1985 -- the day on which MDIF was appointed Conservator -- certain of the defendants, including McCuistion, caused EhL Management Corp. ("EMC") to be substituted for EPIC as the general partner of those three in-house limited

partnerships. The apparent purpose of this substitution was to prevent the conservator from gaining control over the in-house limited partnerships and their newly acquired assets since EMC is a subsidiary of CSL's parent company and is thus not under CSL's control. Subsequent to the appointment of MDIF as Conservator, EMC agreed to return control of the in-house limited partnerships to a subsidiary of CSL contingent upon an overall workout of the bankruptcy proceedings of the other limited partnerships.

11. MDIF was appointed as Conservator for CSL on September 5, 1985, and defendants were given notice of the request for the appointment before that request was made. After receipt of that notice, however, without informing MDIF, the defendants caused 341 of the EPIC limited partnerships (not including any of the in-house partnerships) to file bankruptcy petitions pursuant to Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia with the apparent purpose, and the effect, of limiting the options and authority of the conservator.

W. Bruce McPherson
W. Bruce McPherson

Subscribed and sworn to before
me this 22nd day of November, 1985.

Margaret A. Vawter
Notary Public

My Commission Expires: June 1, 1986

EXHIBIT A

jbd/aqw/j

COMMUNITY SAVINGS & LOAN, INC.

Minutes of a Meeting
of the
Executive Committee
of the
Board of Directors

A meeting of the Executive Committee of the Board of Directors of Community Savings & Loan, Inc. was held commencing at 9:00 AM on April 25, 1985, at Suite 900, 5113 Leesburg Pike, Falls Church, Virginia.

The following members of the Executive Committee were present: Clayton C. McCuistion, Tom J. Billman, Michael L. Shomper, Leonard Meltz, Jr., James B. Deerin, Jr. and Barbara A. McKinney.

Mr. Shomper presented a discussion of the impact of the Ohio situation on savings. He said that it appears that retail accounts are stabilized; however, jumbo certificates of deposit are beginning to run off at a fairly rapid rate. Attached hereto as Exhibit "A" is a summary of savings activity. Mr. Shomper indicated that the Association has approximately \$67,000,000 in liquidity comprised of \$16,000,000 in cash, \$31,000,000 in borrowing capacity and \$20,000,000 in collateralized borrowing ability at the Federal Reserve Bank. The future area of concern will be in the jumbo CD area with \$18,000,000 in certificates of deposits due to mature in May and \$22,000,000 in June. Mr. Shomper said he is projecting another \$20,000,000 loss in savings during May and June due to these run offs.

The Committee directed Messrs. Meltz and McCuistion contact Bob Irwin of Mirada/Trafalgar Mortgage to discuss bringing him on as a consultant to create a money desk within the Association to generate deposits.

The Committee also directed Mr. McCuistion to set up an entire system of accounts outside of the Association to funds the various service corporations in the event of a problem.

Mr. Billman stressed that it is extremely important to maintain information on a confidential basis and to proceed in a "business as usual" manner. In this regard, it is important that accounts (including certificates of deposit) of senior management continue to be maintained in the Association to avoid causing unnecessary concern. As a protection to those members of management, the Committee directed that Mr. Shomper identify all management accounts and prepare a contingency plan to insure that those accounts are available to such executives prior to any problem occurring.

The Committee next discussed the question of how to maintain the operations of the various service corporations in the event of a problem similar to Ohio under which the state or federal regulators were to shut down the Association. The Committee determined that the best interests of the Association and its depositors would be served by removing the service corporation structure from under the Association at such time as a problem developed which action would allow the continued operations while leaving the Association with the same assets. The Committee recognizes that all of the members of the Executive Committee may be deemed "controlling persons" under Section 9-323, Financial Institutions Article of the Maryland Code by virtue of their respective ownership interests in EPIC Holdings, Ltd. After discussion and upon motion duly made, seconded and unanimously adopted, it was:

RESOLVED, that this Association shall grant an option to EPIC Holdings, Ltd., a Delaware corporation, to acquire all of the issued and outstanding stock of Community Financial Services, Inc. ("CFSI"), a wholly owned subsidiary of the Association, for a price equal to the consolidated net worth of CFSI (including its subsidiaries), such price to be paid by a promissory note due in two (2) years, bearing interest at 10% per annum, payable interest only quarterly; and

FURTHER RESOLVED, that the Executive Committee finds that (i) full disclosure of the transaction and the nature of Messrs. Billman, McCuiston, Meltz, Deerin, Shomper and Ms. McKinney's interest in EPIC Holdings, Ltd. has been made, (ii) the profits of EPIC Holdings, Ltd. from this transaction are not at the expense of the Association and do not prejudice its best interests, and (iii) the grant of the option is necessary to permit the continuation of the orderly operations of CFSI and its subsidiaries; and

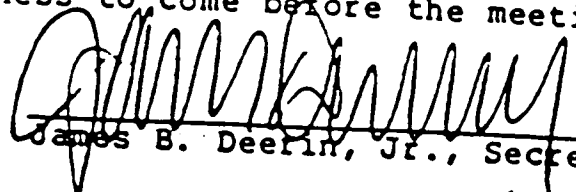
FURTHER RESOLVED, that the president or any vice president of the Association be, and each hereby is, authorized to execute and deliver in the name and on behalf of this Association such documents and agreements and to take such other actions as may be necessary to carry out this resolution, such documents and agreements to contain such terms and provisions as the officer so executing shall agree in his or her sole discretion.

Mr. Shomper presented to the Committee various financial and budget materials attached hereto as Exhibit "B." The Committee members determined to review these materials prior to the next Committee meeting and to discuss the same at that time, if there are any questions.

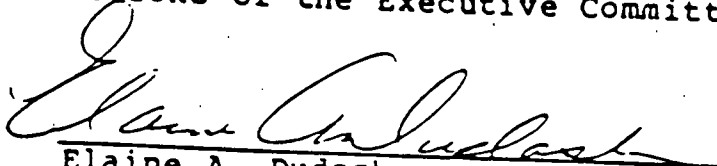
The question came up for discussion as to whether the Association should make certain oil and gas related loans. The Committee determined that the Association not participate in any program to make such loans.

Mr. Shomper indicated that due to the shrinkage of savings occurring during the past 45 days, that the Association is out of compliance in the construction loan category. The Committee directed that existing efforts to sell construction loans or participation therein be continued.

There being no further business to come before the meeting, it was adjourned.


James B. Deerin, Jr., Secretary

The undersigned directors hereby ratify and approve the actions of the Executive Committee as set forth above.


Elaine A. Dudash

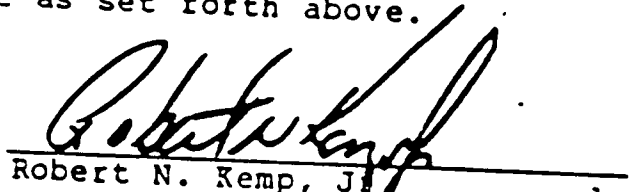

Robert N. Kemp, Jr.

EXHIBIT B

jbd/agw/
"csl-wra

COMMUNITY SAVINGS & LOAN, INC.

Written Record of Action
of the
Board of Directors

We, the undersigned, being all of the members of the Board of Directors of Community Savings & Loan, Inc., a Maryland savings and loan association (the "Association"), do hereby take and adopt the following actions and resolutions without a formal meeting, hereby waiving all requirement therefor and notice thereof:

WHEREAS, this Board heretofore authorized the conveyance of the Community Financial Services, Inc. ("CFSI") structure, except for EPIC Residential Network, Inc., to EPIC Holdings, Ltd. ("EHL") as a precautionary measure in light of the threat to the MSSIC savings and loan system caused by the losses experienced by Old Court Savings and Loan and Merritt Savings and the subsequent heavy deposit withdrawals experienced by all MSSIC insured institutions; and

WHEREAS, the stock of CFSI was conveyed to EHL on May 13, 1985 as a protective measure in response to the crisis; and

WHEREAS, the subsequent actions of Governor Harry Hughes in implementing certain emergency executive orders limiting withdrawals and emergency legislation recently enacted by the Maryland legislature have alleviated the perceived crisis which justified the transfer of CFSI to EHL; and

WHEREAS, under the terms of the Agreement, dated April 25, 1985, between this Association and EHL, the stock of CFSI can be reacquired by the Association by cancellation of the note given as consideration for the conveyance; and

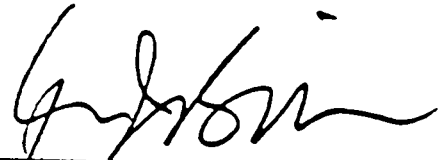
WHEREAS, this Board has determined that it is in the best interest of the Association to reacquire the stock of CFSI.

NOW, THEREFORE, be it:

RESOLVED, that this Association shall exercise its right to reacquire all of the issued and outstanding shares of CFSI in return for cancellation of the Purchase Money Note, effective as of May 22, 1985; and

FURTHER RESOLVED, that the president or any vice president of this Association be, and each hereby is, authorized to execute and deliver in the name and on behalf of this Association any and all instruments and documents, including without limitation cancellation of the Purchase Money Note, and to take all actions required in order to reacquire the CFSI shares and to carry out this resolution.

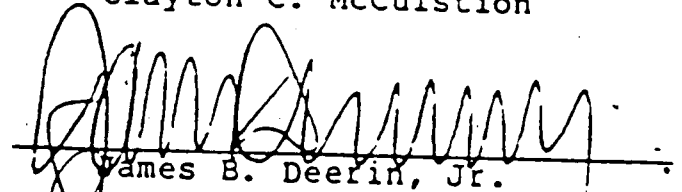
DATED this 22nd day of May, 1985.



Tom J. Billman



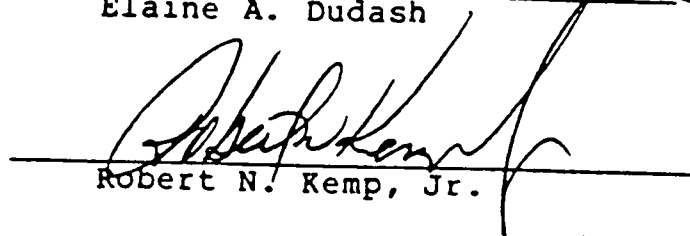
Clayton C. McCuistion



James B. Deerin, Jr.



Elaine A. Dudash



Robert N. Kemp, Jr.

(1) Defendants Billman and McCuistion may transfer assets for ordinary and necessary personal living expenses.

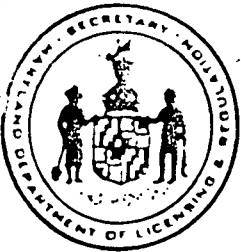
(2) Defendants Billman, McCuistion, Epicenter, Holdings and Crysopt may transfer assets in the ordinary course of business necessary to meet ordinary and necessary business expenses.

(3) Each defendant subject to this Order may transfer assets necessary to pay his reasonable legal expenses.

(4) Any defendant subject to this Order who wishes to make a transfer of assets not authorized by paragraphs (1) through (3) of this Order may request the Court, upon notice to MDIF, for permission to make such transfer. If MDIF does not oppose the proposed transfer, it may be made without further order of the Court. If MDIF does intend to oppose the transfer, it shall file a written opposition with the Court within seven days of its receipt of notice of the proposed transfer, and the transfer will not be made unless authorized by the Court after a hearing which will be scheduled promptly. The defendants may also request

the Court for expedited consideration of a request to
make a transfer if they deem it necessary.

DATED: _____



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

8/31/83

April 13, 1984

The Board of Directors
First Maryland Savings & Loan Association
1109 Spring Street
Silver Spring, Maryland 20910

Gentlemen:

We are forwarding for your review and comment a copy of the report of examination of your association by examiners representing the Maryland Division of Savings and Loan Associations. This report represents an examination of the association's books and records as of August 31, 1983 for compliance with Maryland statutes and regulations and does not constitute an audit of these records. It should be noted; however, that our examination was not completed until November 21, 1983. There has been a delay in getting this report to you because of my recent illness which created a backlog of work making it impossible to get the report out prior to this time.

Although our comments and criticisms are too numerous to reference in this supervisory letter, many are of a serious nature and reflect quite unfavorably on the management of the association and on its Board of Directors based upon the numerous violations of Section 9-419 of the Financial Institutions Article of the Annotated Code of Maryland as well as the Rules and Regulations of the Board of Commissioners. I feel it is incumbent upon me to remind each Director of his fiduciary responsibility as a member of the Board of the Association.

The Board of Directors is directed to discuss the comments in this letter and the report of examination and to advise this division in writing of the specific corrective action taken with respect to these matters.

2116

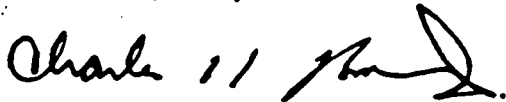
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The Board of Directors
First Maryland Savings
and Loan Association
April 13, 1984
Page Two

This division will be making another examination in the near future and it is expected that the many deficiency comments and criticisms will be corrected prior to our beginning the next examination.

Two copies of your response to this examination must be forwarded to the Division within forty-five days and one copy should be forwarded to the Maryland Savings-Share Insurance Corporation. It is quite possible that after our review of your response, we may wish to meet with the entire Board of Directors of the Association.

Very truly yours,



Charles H. Brown, Jr.
Director

CHB:JJB:lib

Enclosure

cc: Maryland Savings-Share Insurance Corporation

2117

EXAMINERS' COMMENTS

First Maryland Savings and Loan Association

Comment 1:

An examination of the files of the mortgage loans granted during the period June 1, 1982 through August 31, 1983 revealed the following:

A. Loan No. 858 - Crest-In-The-Park General Partnership:

This loan was a refinance of loan No. 799 which was three months delinquent when refinancing occurred on July 30, 1982. On March 16, 1983 the association granted an increase on the above loan in the amount of \$250,000.00, at which time the loan was seven months in arrears.

The file did not contain an appraisal report as required by Regulation .23B when the loan was granted, nor when the loan was increased and extended. Furthermore, no title update was in file as required by Regulation .23C, when the loan was increased from \$575,000.00 to \$825,000.00 on March 16, 1983.

Per loan committee minutes dated March 10, 1983, general partner Carlos Pustelnik (Buenos, Aires) was to invest an additional \$150,000.00. However, no evidence could be located that these funds were invested.

B. Loan No. 859 Crest-In-The-Park General Partnership is a second mortgage: File did not contain appraisal as required by Regulation .23B, loan application as required by Regulation .23A, nor insurance policy as required by Regulation .23D. Furthermore, the title policy lists lots 809 and 810 as the subject property, when it should state lots 810 and 811.

C. Loan 868 Health and Happiness - 429 Kenyon Avenue:

This loan was granted October 13, 1982 in the amount of \$550,000.00. Property was purchased from First Maryland Savings and Loan, which acquired said property upon foreclosure from previous borrower, for \$200,000.00. Purpose of loan was stated as "Acquisition, Construction (Rehab) Financing."

There was no appraisal in the file as required by Regulation .23B.

A review of the loan file further indicates:

1. As of April 22, 1983, all funds were disbursed; however, work on the project was not completed.
2. Letter dated August 23, 1983 revealed that the estimated cost of completion is \$197,467.87.
3. Loan is six months delinquent as of the examination date.
4. Loan committee minutes dated August 24, 1983 approved the funding to complete this project.

The association should provide the Division with an explanation as to:

1. Why all funds were disbursed when work was not completed; and
11. Current appraisal of the property.

D. Loan No. 869 - First Maryland Financial Corporation - Amount \$94,000.00 1209 34th Street, Washington, D.C.:

This loan was granted approximately October, 1982 to bring first mortgage No. 820 (which was granted March 22, 1982) into compliance with its original terms regarding the original loan amount.

2118

Comment 1: (Con't)

Proceeds of this loan were applied as follows:

1. \$61,500.00 applied to loan No. 820 (10/20/82), representing the amount by which loan No. 820 had been overdisbursed;
11. \$32,500.00 deposited into First Maryland Financial Service Corporation NOW account No. 068-98851-1 (10/19/82), representing additional loan proceeds.

Since the original purpose of loan No. 820 was to provide funds for rehabilitation of this property and since no funds remain in the loans-in-process account, an explanation as to why the \$32,500.00 was placed in the NOW account should be supplied to the Division.

It was further noted that all papers pertaining to loan No. 869 were dated April 1, 1982, whereas this loan was granted October, 1982. File did not contain the title certificate as required by Regulation .23C, nor the original mortgage instrument as required by Regulation .29A(2)(f).

- E. Loan No. 882 Gardens Condo Partnership - Gullford Condos - 230 Stony Run Road, Baltimore, Maryland 21210:

This loan was a refinance of loan No. 727 (dated 11/13/80) which was ten months delinquent when refinanced.

Loan committee minutes of 10/28/82 approval stated:

"Approve 1 year extension of loan No. 727 not to exceed loan-to-value ratio of 65%". However, loan was refinanced and the new loan-to-value ratio based on 16 remaining units was 68.5%.

- F. Loan No. 899 (2nd mortgage), 1733 "P" Street, N.W., Washington, D.C., amount \$150,000.00:

Stated purpose of first mortgage loan No. 685, granted September 10, 1980 in the amount of \$130,000.00, was for "purchase/construction rehabilitation"; however, all funds were disbursed on September 25, 1980 (check #8652).

Loan No. 685 was four months delinquent and was brought current by funds disbursed from draw No. 2 on loan No. 899.

File did not contain an appraisal as required by Regulation .23B.

- G. Loan No. 932 General Highway Joint Venture - General Highway/Bestgate Road, Annapolis, Maryland, amount \$1,000,000.00 (2nd mortgage):

Above loan was granted as an acquisition/development loan with loan-to-value ratio in excess of 75% of the market value of the security.

Regulation .30C(8) provides that the aggregate amount loaned upon the security of land development loans shall not exceed 75% of the market value of the security.

- H. Loan file Nos. 859, 882, 2709-5 and 2736-7 did not contain applications as required by Regulation .23A.

Loan file No. 2790-1 did not contain the financial statement or tax returns as required by Regulation .23A(2)(c).

- I. Loan file Nos. 866, 923, 936, 937 and 2874-8 did not contain appraisal reports as required by Regulation .23B.

- J. Loan file Nos. 2736-7, 2790-1 and 2889-0 did not contain title certifications as required by Regulation .23C.

- K. Loan file Nos. 2736-7, 2790-1, 2811-7 and 2889-0 did not contain the original deed of trust and deed of trust notes as required by Regulation .29A(2)(f).

Comment 1: (Con't)

- L. Loan file Nos. 939, 2736-7, 2737-0, 2874-8 and 2889-0 did not contain the original of the current insurance policies as required by Regulation .230.
- M. Loan file Nos. 939, 942, 947, 2736-7 and 2790-1 did not contain a memorandum of settlement as required by Regulation .29A(2)(c) and Financial Institutions Article 9-424(b).
- N. Loan No. 942 has all documents in the name of First Maryland Financial Service Corporation, while the loan appears on the books of First Maryland Savings and Loan. The necessary corrections should be made.

Comment 2:

A review of the delinquent mortgage loans revealed the following:

- A. An analysis of the subsidiary mortgage loan records reflected the existence of thirty-seven delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$5,062,675.48 as of the date of the current examination, representing a delinquency ratio of 3.1% of the total mortgage loan balances outstanding.

During the period of the current examination, the total outstanding balance of the delinquent accounts increased from \$3,712,035.45 to \$5,062,675.48, an increase of \$1,350,640.03 or 36.4%.

Delinquent and unpaid interest on the loans subject to comment totaled \$600,491.79, or an average of \$16,229.51 per loan subject to comment.

A review of the loans subject to comment scheduled on Page 9 of this report reflected that loan Nos. 637, 692 and 2449-6, which were subject to comment in the prior report of examination, had not been amortized during the fifteen month period immediately preceding the date of the current examination.

- B. Loan No. 803 - Joseph Tashof - Lots 801 and 802 Massachusetts Avenue, and Lots 830, 831, 832 "L" Street, Washington, O.C.:

This loan was a second mortgage granted December 18, 1981 for \$350,000.00. The following events have been noted in reference to this loan:

1. In order to prevent foreclosure by the first mortgagees, the association paid the sum of \$100,007.78 to the first mortgagees. This \$100,007.78 payment consisted of the following:
 - a. \$98,360.98 for past due interest on the first mortgages;
 - b. \$1,646.80 for costs incurred by the first mortgagees as a result of initiating foreclosure proceedings.
2. Subsequently, the association advanced \$951,254.70 to purchase the two 1st mortgages held by others on the subject properties.
This leaves an outstanding loan balance as of November, 1983 totaling \$1,402,212.48, owed to First Maryland Savings and Loan. This \$1,402,212.48 balance consists of the various amounts stated above, plus a \$950.00 appraisal fee.
3. Association signed an agreement with Mr. Tashof (per loan committee 10/12/83) to delay foreclosure for 6 months.
4. Per Washington Post article dated August 8, 1983, Mr. Tashof was under investigation by the Securities and Exchange Commission.
5. Appraisal dated July 11, 1983 in the amount of \$1,600,000.00 contained the following statement:

Considering the current uncertainty of financial markets, the levels of cost relative to [the] new construction redeveloping stage of the subject neighborhood; it is my considered opinion, that the highest and best use of the site is the continued use

Comment 2: (Con't)

as a parking lot, on an interim basis, until such time as a definite neighborhood trend is established, and a more profitable use is more readily identifiable and economically feasible.

6. Loan is sixteen months delinquent as of date of examination, August 31, 1983; delinquent interest due totals \$130,583.70.

7. No funds remain in the Loan-in-Process account.

C. This review of loans subject to comment further disclosed that six loans showed a cumulative deficiency in the expense account as follows:

Loan Nos.:	2484-9	\$7,158.70
"	2542-4	10,251.78
"	2543-7	2,572.50
"	2544-0	12,110.83
"	2557-2	12,172.53
"	2560-2	8,600.13

All of the above loans are second mortgage loans, and the deficiency occurred due to the fact that the association has advanced funds to keep the first mortgage loan current; these advances were charged against the mortgage expense account. The unpaid balances of all six of these loans now exceed the original loan amounts.

D. It was further noted that the following loans are now past the maturity dates:

Type	Loan No.	Maturity Date	Original Amount	Balance 9/30/83
Construction	637	2/17/81	\$48,000.00	\$45,510.00
"	800	9/30/83	750,000.00	408,000.00
"	859	7/30/83	340,000.00	340,000.00
"	862	6/21/83	2,500,000.00	1,463,123.11
"	865	9/24/83	1,290,000.00	1,290,000.00
"	869	9/22/83	94,000.00	94,000.00
"	(2nd Mtg.)			
"	887	9/21/83	1,460,000.00	1,460,000.00
Land	692	9/29/81	192,000.00	157,000.00
"	864	9/24/83	450,000.00	312,232.96
"	866	9/24/83	210,000.00	210,000.00
Commercial (Off-Line)	803	6/18/83	SEE COMMENT 2 (B)	
"	822	9/11/83	250,000.00	250,000.00
"	846	9/29/83	360,000.00	440,000.00
"	855	6/21/83	427,000.00	427,000.00

E. The following loans have been over-disbursed by the following amounts:

Loan Nos.:	830	\$66,434.65
"	892	2,087.13
"	900	3,394.19

F. Loan No. 831 was granted May 10, 1982 in the amount of \$450,000.00:

i.	January 25, 1983	Additional	\$100,000.00 granted
ii.	September 9, 1983	"	\$250,000.00 granted

Total outstanding as of November 15, 1983 is \$800,000.00. Mortgage is delinquent eight months. No appraisal was noted in file when either of the above advances were granted. Only \$157,100.00 of these funds remain in the loan-in-process account. Also, no title update was obtained when loan was increased by \$250,000.00, on September 9, 1983.

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Comment 3:

The association could not provide evidence that it has complied with Commercial Law Article 12-109.1(b) which states:

"If there is periodically an overage in the escrow account the borrower shall be given at least annually the option of receiving a refund of the overage, applying the overage to the payment of principal and interest."

Comment 3: (Con't)

of leaving the overage in the escrow account. A refund of the overage shall be made within 60 days of the receipt of the request by the lender. If the borrower fails to notify the lender of his intent within 60 days from the date the lender mailed notice of an overage, the lender shall return any overage to the borrower promptly."

Comment 4:

An examination of the books, records and accounting practices revealed the following:

- A. The total of the subsidiary "demand loans" account exceeded the control account No. 1081.00 in the general ledger by \$29,409.62 as of September 30, 1983.
- B. The total of the subsidiary "term loan" accounts was \$1,140,991.80 less than the control account No. 1082.00 in the general ledger as of September 30, 1983.
- C. The association at the time of examination recorded in general ledger No. 1040.10, \$10,217,000.00 in GNMA Repo's. No record of the interest rate that the association is paying was available. Interest is paid per invoice rendered.
- D. The total of the subsidiary "letter of credit" accounts was \$54,705.00 less than the control account No. 2415.00 in the general ledger.
- E. The association does not maintain adequate subsidiary records for general ledger No. 2640.00 (Deferred Loan Fees) indicating loan number, total amount to be deferred, etc.
- F. Association could not provide the reason or purpose for which the following general ledger accounts were established:
General Ledger No. 2690.00 Reserve Account - Crofton \$18,881.74
General Ledger No. 2690.10 Reserva Account - Rockville \$47,463.95
Entries to these accounts did not contain adequate explanations.

Comment 5:

On June 16, 1983, the Division received a letter dated June 15, 1983 in which First Maryland Savings and Loan requested that they be authorized to invest up to \$1 million in certificates of deposit with State Savings and Loan in Stockton, California.

On July 26, 1983, First Maryland was notified by letter that its request had been denied. The letter states in part:

"Regulation .37 prohibits deposits in any one association that are not insured by one of the insuring corporations as set forth in the regulation. Additionally, the Board is concerned over your low net worth and delinquencies. Considering the losses some associations will sustain in connection with the Penn Square Bank, the Board is of the opinion a deposit in such amount is an unsafe and unsound investment. Accordingly, your request was denied."

A review of the association's investments revealed that on June 10, 1983, a \$1 million certificate at State Savings and Loan was part of its portfolio - in violation of Regulation .37 and the Board's directive. It is evident that the association had made this investment prior to drafting the letter requesting approval of same.

Comment 6:

A review of the minutes of the meetings of the Board of Directors revealed the following:

- A. The minutes did not reflect the dividend resolution prior to the payment of dividends as required by Section 9-404(b) of the Financial Institutions Article.
- B. No approval authorizing the attorney's retainer fee was noted in the minutes:

Comment 6: (Con't)

The Officer, Director, and Attorney's schedule prepared by the association states: "Attorney's retainer fee \$500.00 per month."

General ledger No. 4710.00 (Attorney Expense) indicates that Attorney Edward Oacy is receiving \$1,500.00 per month.

- C. At a special meeting of stockholders held July 8, 1983, Director Robert Corletta's 5666 shares were recorded as "represented at meeting" and voted as in person. Per attendance recorded, Mr. Corletta was not present at this meeting.

Comment 7:

The prescribed twenty day notice of the special meeting of stockholders held July 8, 1983 was not given to the members of the association as required by Section 9-304 of the Financial Institutions Article.

Comment 8:

A review of the association's fidelity bond revealed that the present coverage of \$985,000.00 is \$225,000.00 less than the \$1,210,000.00 required by Regulation .22.

Comment 9:

A review of the association's net worth revealed the following:

- A. As of August 31, 1983, the association's reserves as defined in Regulation .40-1A were 2.1% of its savings liability. Regulation .40-1B states:

"In order to maintain the safety and soundness of an association and to assure that the public interest is protected in accordance with Section 9-327 of the Financial Institutions Article, an association shall maintain reserves at all times which exceed 3 percent of its savings liability."

- B. During the period of January 1, 1983 through March 22, 1983, the association made entries to a net worth reserve account (general ledger No. 2812.00, Auditor's Adjustment - Previous Year) which resulted in reducing fiscal year end 1982's net worth in the amount of \$411,897.22.

All entries were simply headed "Auditor's 9/30/82 Adjusting Entry". Adequate explanations for these entries could not be provided by the association.

- C. A variance of \$5,785.16 was noted in total net worth between the period of September 30, 1982 and the examination date of August 31, 1983. No explanation could be given for this variance.

Comment 10:

The abandoned property report (Form APO-1) for June 30, 1982 was filed October 5, 1982. On August 10, 1983, the following letter was received from the Comptroller of the Treasury, Ref: Delivery of unclaimed funds to the State of Maryland. This letter read in part:

"Make your remittance check payable to the Comptroller of the Treasury within the next 20 days as required pursuant to Section 17-312 of Maryland's Uniform Disposition of Abandoned Property Act.

Any holder who fails to pay Abandoned Property within 20 days shall pay a penalty equal to 25% of the value of the property."

2123

As of October 13, 1983, no evidence of remittance being made for abandoned property for the period ending June 30, 1982 could be provided by the association, thereby possibly subjecting them to a penalty as stated above.

Comment 11:

A review of real estate owned revealed the following:

Comment 11: (Con't)

- A. The following properties have been on the association's records as "Real Estate Owned" since the prior report of examination:

1. Vesuvius - 195 Ritchie Highway - Severna Park, Maryland

This property is being carried on the books for the amount of \$390,499.08 with a valuation reserve of \$75,000.00.

The sale of this property has been discussed with numerous parties without any positive results.

2. Surles - 1408 Crowell Road - Vienna, Virginia

Amount - \$250,000.00

Property was rented with an option to purchase; however, tenant presently is in financial difficulty.

It is recommended that current appraisals be made on these properties and that the necessary valuation reserve amounts be established.

- B. During the period of the examination (June 1, 1982 through August 31, 1983) the following properties also were transferred to Real Estate Owned:

1. 414 Larchmont Avenue - Capital Heights, Maryland \$56,249.50
2. 1208 Everts Street, N.E., Washington, D.C. \$152,793.98
3. 6304 Foote Street, Seat Pleasant, Maryland \$45,946.49

No appraisals were made at the time that the above properties were transferred to "Real Estate Owned"; therefore, it is further recommended that current appraisals be obtained and, if necessary, that loss reserve accounts be established.

- C. On April 4, 1983, the property located at 400 Broadwood Drive, Rockville, Maryland was transferred to Real Estate Owned for the amount of \$89,072.77. On May 5, 1983, the association sold this property and suffered a loss of \$25,189.70. (Balance at time of sale was \$92,689.20)

The following was noted in reference to this sale:

1. Purchase of the property was due to the association's failure to service properly;
2. Appraisal of February 26, 1983 was in the amount of \$79,900.00, with the following comments and conditions of appraisal: "No conditions, repairs or requirements necessary."
3. Property sold for \$67,500.00 (4/15/83);
 - a. Sales price was only 84.5% of appraised value;
 - b. A 100% loan was granted by First Maryland Savings and Loan;
 - c. The interest rate on the loan was 9.5%;
 - d. Sale was to Deede Blum, an employee of First Maryland Savings and Loan;
 - e. Loan contained a "call clause" (30 year amortization - 5 year call), in violation of Regulation .30C(2)(c)(d).

- D. The property located at 6304 Foote Street, Seat Pleasant, Maryland, was repurchased from the Federal Home Loan Mortgage Corporation, due to several servicing violations. Per association's letter dated December 13, 1982, the association anticipates a loss of several thousand dollars in connection with the repurchase.

Comment 12:

A review of loans foreclosed revealed the following:

- A. On June 8, 1983, the association foreclosed on a second mortgage loan on 15017 Goodmeadow Court, Galthersburg, Maryland, which it serviced for City Federal Savings and Loan Association, Piscataway, New Jersey.

2124

Comment 12: (Con't)

As of August 31, 1983, the sale had not been ratified. However, the following was noted:

1. Association advanced funds to bring first mortgage current to prevent foreclosure, a direct violation of sales and servicing agreement;
 2. First Maryland Savings and Loan had to repurchase the property;
 3. No current appraisal has been obtained on the property;
 4. Property will be classified as "Real Estate Owned" on the books of the association when sale is ratified.
- B. On September 2, 1983, the association foreclosed on the following second mortgages (sales not ratified):

<u>Property</u>	<u>Original Mortgage Amount</u>	<u>Adjusted Book Value (Does not include foreclosure cost)</u>
1. 1627 Irving Street, N.W. Washington, D.C.	\$60,000.00	\$69,330.00
2. 200 11th Street, N.E. Washington, D.C.	60,000.00	74,060.00

Both properties were bought in by First Maryland Savings and Loan. However, no current appraisals have been obtained since both loans are second mortgages, and both loans now exceed original loan amounts before foreclosure cost is added. There is a possibility that the establishment of valuation reserve accounts may be necessary.

Comment 13:

The following loans had terms modified or amounts increased; however, the following was missing from the loan files:

A. Loan 792 B - Rogers at Northern Joint Venture

Property - .8591 Acres of land; Amount - \$110,000.00;

Location - Rogers Avenue at Northern Parkway;

Project - "Mount Washington Hills Condominium."

Loan No. 792 B is a second trust loan, per the loan committee. First Maryland Savings and Loan has a first trust (Loan No. 792 A dated 10/19/81) in the original amount of \$1,100,000.00; per loan committee minutes dated June 8, 1983, both loans were extended to December 31, 1983.

Loan file did not contain:

- i. appraisal - at time loan No. 792 B was granted;
- ii. updated title policy;
- iii. extension agreement.

B. Loan No. 845 - 100-301 New York Avenue Partnership

Property - 100 New York Avenue, N.E.; Amount - \$525,000.00.

Loan amount was increased by \$52,500.00 on August 29, 1983.

The following was noted on this loan:

- i. No appraisal was obtained at time loan was increased;
- ii. No title update was obtained;
- iii. Additional funds were to be held in an interest reserve account.

Comment 14:

A review of the action taken to correct the exceptions set forth in the prior report of examination revealed the following:

Comment 1A:

Loan No. 793 - 4434 McArthur Blvd.

1. Per draw schedule, \$35,000.00 was allocated to interest reserve.
As of August 31, 1983, \$40,422.89 was disbursed from this reserve account.
2. As of August 31, 1983, construction has not been started; however, per draw schedule, \$220,000.00 was allocated for construction. The balance remaining in "L.I.P." as of September 6, 1983 is only \$198,118.47.
3. Appraisal of May 26, 1983 states value of subject property to be \$710,000.00. The association's letter of October 19, 1983 states \$900,000.00 to be the ultimate cost of land and improvements, and states that First Maryland will provide construction and permanent financing for this project.

Based on the fact that First Maryland Savings and Loan has outstanding loans on this property of \$400,000.00, and if the appraisal of May 26, 1983 is proper, it appears that a loan-to-value ratio of 80% (maximum allowable) may be insufficient to supply funds to complete this project.

Comment 1E:

Loan No. 800 - Almor Joint Venture - Lots 15-26, Parcel E, Block 16, known as North Kensington, Kensington, Maryland.

Amount - \$750,000.00

The balance as of August 31, 1983 was \$570,000.00; the balance in "L.I.P." was \$50,062.75.

First Maryland Savings and Loan purchased loan No. 800 from First American Bank of Maryland. Per modification of note and deed of trust dated December 11, 1981, the maturity date of loan was extended to December 12, 1982, as of August 31, 1983. The loan therefore exceeds the original maturity date.

Furthermore, the following documents are missing from the file:

- a. Title insurance policy;
- b. Joint venture agreement;
- c. Draw schedule;
- d. Inspection reports;
- e. Settlement sheet;
- f. Current appraisal. File contains an appraisal dated October 30, 1980 by Wilson S. Kidwell, stating appraised value to be \$1,146,000.00 (based upon 100% completion of 12 townhouses).

INFORMATIONAL COMMENTS:

A. A comparative analysis of the financial condition of the association as of August 31, 1983 and May 31, 1982 revealed the following:

	<u>August 31, 1983</u>	<u>May 31, 1982</u>	<u>Increase (Decrease)</u>	
			<u>Dollar Amount</u>	<u>Per Cent</u>
1. Total Savings	\$132,089,140.88	\$54,390,898.52	\$77,698,242.36	142.9
2. Total Net Worth	1,479,982.42	925,121.98	554,860.44	60.0
3. Total Mortgage Loans	164,353,066.11	54,061,447.33	110,291,618.78	204.0
4. Total Assets	181,671,698.17	64,050,281.33	117,621,416.84	183.6

B. A review of the association's earnings for the calendar/fiscal year ended September 30, 1982 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	\$5,994,211.25 ✓	100.0
2. Taxes (Page 6, Line 4)	38,800.00 ✓	0.6
3. Earnings distributed on savings (Page 6, Line 3)	5,836,936.97 ✓	97.4
4. Net Income available for reserves and surplus (Page 6, Line 2 and Line 6) and (Page 6, Line 7)	118,474.28 ✓	2.0
5. Net income distributed (Total of 2, 3 and 4 above)	\$5,994,211.25 ✓	100.0

First Maryland Financial Service Corporation

Comment 1:

An examination of the files of the mortgages granted during the period June 1, 1982 - August 31, 1983 revealed the following:

A. Loan - John T. O'Neill

Unit #8, Pinewood Court \$6,000.00
600-602 65th Avenue, North (2nd Mortgage)
Myrtle Beach, South Carolina 29577

Loan was 91.6% of appraised value of the security.

B. Loan - Seaside Eight Associates

308 - 71st Avenue, North \$7,220.00
Unit "S" (2nd Mortgage)
Myrtle Beach, South Carolina 29577

Loan was 96.1% of appraised value of the security.

Regulation .34D(2) states:

"A service corporation, or subsidiary thereof, may not grant a loan in an amount which when considered in connection with any prior loan on the security exceeds 90 percent of the appraised value of the security."

Comment 2:

An examination of the books, records and accounting practices revealed the following:

A. Loan to S. Schectel, general ledger No. 1040.02 in the amount of \$14,000.00, was paid in full as of September 1, 1983; however, the trial balance does not reflect this loan as being paid.

B. Total of notes in subsidiary records was \$65,996.49 more than the control account No. 1040.03 (Loans Receivable - Green Street Joint Venture) in the general ledger. Furthermore:

- I. No interest payments are being received on these notes;
- II. The interest rate was not specified on notes dated July 15, 1983 and June 8, 1983.

C. General ledger No. 1040.04 (Loan - Leonard Tempchin): interest unpaid for quarters ending June, 1983 and September, 1983.

D. General ledger No. 1040.05 (Greenwood Associates), \$107,000.00:

There are two original notes in the file, for notes numbered one through nine. On these notes, the following was noted:

- I. There are two notes No. 5 - one states amount of \$5,000.00, rate 12%; second note No. 5 states amount of \$2,000.00, rate 11%.
- II. For notes Nos. 6 through 9, the interest rate is not stated on one copy but is stated on the other copy.
- III. The interest rate is not stated on note No. 10.
- IV. Julian Seldel signs notes for "Greenwood Associates."
- V. A balance of \$23,000.00 exists between notes and general ledger.

First Maryland Financial Service Corporation

Comment 2: (Con't)

- E. General ledger No. 1040.06, loan to Michael Rubin, was evidenced by a note dated June 30, 1983 with principal of \$3,000.00. This note was renewed on July 29, 1983, with new principal of \$2,000.00. The variance of \$1,000.00 on general ledger No. 1040.06 represents the \$1,000.00 payment received but not recorded by the service corporation when note was renewed on July 29, 1983. Also, the purpose of the loan is not stated on the application.
- F. General ledger No. 2240.04 (Mortgage Payable - FMSL) shows a balance of \$147,500.00. However, the mortgage records of First Maryland Savings and Loan indicate that the actual outstanding balance of the mortgage is \$180,000.00, a variance of \$32,500.00.
- G. The following was noted in regard to general ledger account No. 2240.05 (Mortgage Payable - Michael Brown), Amount \$64,979.00:
This account should not appear on the service corporation's books--it will be removed by auditors' adjusting entry. This account was originally set up with an offsetting credit, to book this loan on a memorandum basis.
- H. The total of the subsidiary notes was \$78,551.00 less than the control account No. 2200.05 (Notes Payable - FMSL) on the general ledger as of August 31, 1983. Furthermore:
- I. Many of the notes do not specify an interest rate;
 - II. Notes payable per First Maryland Financial Service Corporation's books and notes receivable per the books of First Maryland Savings and Loan (Parent) cannot be reconciled.

First Maryland L.P.

RESPONSE REVIEW FORM

Report
Date: 8/31/83.
Response Review
Date:

Response
Date: 6/19/84
Reviewer:

Unresolved Comments: (include inadequate responses, no responses, and other items)

Supervisory Review:

Initials:
Date:

Disposition of Unresolved Items:

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

#12

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

6/18/84 - JJB to Mr. Seidel

June 7, 1984

Mr. Julian M. Seidel
President
First Maryland Savings & Loan, Inc. ✓ *file*
1109 Spring Street, Suite 800
Silver Spring, Maryland 20910

Dear Mr. Seidel:

In response to your letter of June 1, 1984, you are hereby granted an additional ten days to respond to the recent examination report covering First Maryland Savings & Loan, Inc.

Very truly yours,

Charles H. Brown, Jr.
Charles H. Brown, Jr.
Director

CHB:kg

2131



FIRST
MARYLAND

SAVINGS & LOAN
A STOCK CORPORATION

1109 SPRING STREET, SUITE 800
SILVER SPRING, MARYLAND 20910

(301) 588-6000

(301) 585-7676

June 1, 1984

RECEIVED
DEPT. OF EC. & RES.
DIV. OF SAV. & LOAN ASSOC.

JUN 4 1984

Mr. Charles H. Brown
Director
Department of Licensing & Regulation
Division of Savings & Loan Association
231 East Baltimore Street
7th Floor
Baltimore, Maryland 21202

Re: Responses to Examination

Dear Mr. Brown:

Pursuant to the examination performed by Division on First Maryland Savings & Loan, Inc. loans, we are almost finished with our responses to your examination. We are respectfully requesting an additional ten (10) days to finish up our responses for you.

I would greatly appreciate a favorable response to this request.

Should you have any questions or comments regarding this request please do not hesitate to contact me.

Yours truly,

A handwritten signature in cursive script, appearing to read 'Julian M. Seidel', written over a horizontal line.

Julian M. Seidel
President

2132

 **FIRST
MARYLAND**
SAVINGS & LOAN
A STOCK CORPORATION

1109 SPRING STREET, SUITE 800
SILVER SPRING, MARYLAND 20910

(301) 588-6000

(301) 585-7676

June 12, 1984

RECEIVED
DEPT. OF LIC. & REG.
DIV. OF SAV. & LOAN ASSNS.

JUN 19 1984

H.D.

Mr. Charles H. Brown
Director
Department of Licensing & Regulation
Division of Savings & Loan Associations
231 East Baltimore Street, 7th Floor
Baltimore, Maryland 21202

Re: Report of Examination

Dear Mr. Brown:

Pursuant to your letter of April 13, 1984, we are hereby responding to the report of examination of First Maryland Savings & Loan, Inc. as of the close of business on August 31, 1983. The report of examination has been presented to and discussed by the Board of Directors for the Association. The Board of Directors has met with the management of the Association to assess the current status of the items specified in the report and, where necessary, established procedures designed to prevent a reoccurrence of those items which identified deficiencies. With respect to the specific comments contained in the report of examination, please be advised as follows:

✓ Comment IA: Loan #858 to the Crest-in-the-Park General Partnership was refinanced using the best business judgment of management when it became apparent that further financing was necessary both in terms of the term of the loan and amount necessary for the project. In order to remove any doubt regarding the value of the property, an updated appraisal report was ordered on May 2, 1984 although the file does contain an appraisal which is attached hereto as Exhibit "A". An endorsement to the title insurance policy was in fact obtained on March 18, 1983, a copy of which is attached hereto as Exhibit "B". The investment of the additional \$150,000.00 in the project by the General Partner has been made in the form of expenditures for the project made directly by him.

✓ Comment IB: Loan #859 to the Crest-In-the-Park General Partnership now has in its file an appraisal dated January 20, 1984, a copy of which is attached hereto as Exhibit "C" as well as a loan application which is attached hereto as Exhibit "D" and confirmation of hazard insurance as shown on attached Exhibit "E".

Mr. Charles H. Brown
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June 12, 1984

Comment 2C: The interest payments for the Tempchin loan are now current.

Comment 2D: Notes #1 - 10 for Greenwood Associates have been paid In full. Mr. Seidel has been signing notes in his capacity as General Partner for the Partnership. Any variance between the notes themselves and amounts due as shown on the general ledger are the result of the failure of the accounting department to receive copies of the paid notes as they are paid in full. This situation has been corrected.

Comment 2E: The deficiencies noted in the examination have been corrected.

Comment 2F: We are still attempting to reconcile the difference noted in this comment.

Comment 2G: This item has been corrected.

Comment 2H: The differential between the notes and the general Ledger was created by a failure to notify the accounting department of payments on the notes and the marking of the notes as paid in full. This situation has been corrected. All notes executed in the future shall specify an interest rate or that the note is non-interest bearing, whichever is appropriate. A reconciliation is being performed of all notes between the Corporation and First Maryland Savings & Loan, Inc.

We trust you will find the foregoing responses to be satisfactory and that you will not hesitate to contact us in the event that you have further questions or comments regarding these items.

Yours truly,

Julian M. Seidel
President

cc: MSSIC

Mr. Charles H. Brown Page Two June 12, 1984

The title insurance policy for the property is being amended to show the proper lots.

✓ Comment IC: Loan #868 to Health & Happiness for 429 Kenyon Avenue was accelerated and the property was placed in foreclosure on November 11, 1983. The Association took over the property on or about January 5, 1984 and has entered in to a contract for completion of the property, a copy of which is attached hereto as Exhibit "G". The property should be complete by the end of the month of June, 1984. An updated appraisal of the property was made as of February 1, 1984, a copy of which is attached hereto as Exhibit "H". The question regarding the disbursement of all of the funds of the loan prior to completion of the project appears to have been the result of the incompetencies of the general contractor and poor supervision by previous Association employees. This problem has been cured with the hiring of a Construction Loan Department Head with many years of construction loan administration experience and the retaining of an outside engineering consultant who personally inspects and evaluates the progress of each construction project. Funds are not advanced on construction loans without a detailed inspection report.

✓ Comment ID: Loan #869 to First Maryland Financial Services Corporation for property at 1209 34th Street in Washington, D. C. is, in fact, a rehabilitation loan. The loan proceeds of \$32,500.00 which were deposited in a First Maryland Financial Services Corporation NOW account are being disbursed on an as needed basis as shown in Exhibit "I" attached hereto. The loan proceeds were placed in the NOW account to provide the Service Corporation with immediate access to rehabilitation funds on an interest bearing basis. An inquiry has been made of the closing attorney regarding the location of the title insurance policy and the original mortgage instrument.

✓ Comment IE: Loan #882 to Gardens Condo Partnership was refinanced based on the Associations determination that the borrowers were sound and that the ultimate sale of all of the condominium units was merely a matter of time. The project is proceeding at a steady, if slow, pace and the loan should be paid off in full within the next six months, if not sooner. The appraisals obtained for this project which are attached hereto as Exhibit "J" reveal that the loan to value ratio at the time of refinancing was actually 52.4%, well below the approved ratio of 65%.

✓ Comment IF: Loan #899, a second mortgage loan on 1733 P Street in Washington, D. C. is the restoration loan for the property while loan #685 was the acquisition loan for the property. The file does contain appraisals dated January 19, 1979 and June 17, 1980. This loan is being accelerated pursuant to Loan Committee action taken May 16, 1984 and the file shall be updated in all respects.

Mr. Charles H. Brown
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June 12, 1984

✓ Comment IG: Loan #932 to the General Highway Joint Venture is a closely regulated and supervised gradual disbursement loan. Although the total approved loan may exceed 75% of the appraised value at the time of making the loan, the Association was aware the disbursements under the loan would be made slowly over a period of five years and that the appreciation in value of the property would more than support the 75% loan to value ratio. To date disbursements pursuant to this loan have not exceeded \$305,000.00.

Comment IH: Please be advised with the respect to the following loans:

- ✓
- a) Loan #859 - The application has been obtained in accordance with paragraph IB above.
 - b) Loan #882 - This loan was a refinance and the custom was not to obtain applications for refinances at that time. This custom has been changed to require applications for all loans.
 - c) Loan #2790-1 - The loan application is in the file.
 - d) Loan #2736-7 - The Borrowers financial information sheet is in the file which customarily satisfied the requirement for an application. This custom has been changed to require applications for all loans.
 - e) Loan #2790-1 - This loan is being completely redocumented to replace what appears to be an entire set of missing documents.

Comment II: Appraisal reports for loans #866, 923, 936, 937 were in the files and attached hereto as Exhibits "K", "L", and "M" respectfully. The appraisal report for loan #2874-8 has been ordered and pictures have been taken.

Comment IJ: Title certifications for loans #2736-7, 2889-0 are in the file and are attached hereto as Exhibits "N" and "O" respectively. The title certification for #2790-1 has been ordered as set forth above.

Comment IK: The Deeds of Trust and Deed of Trust Notes for loans #2736-7 and 2880-0 are in the file and are attached hereto as Exhibits "P" and "Q" respectively. The documents for #2790-1 are being reexecuted as set forth above and an inquiry is being made in to the location of the recorded Deed of Trust for loan #2811-7. The Note for 2811-7 is in the file and is attached hereto as Exhibit "R".

Comment IL: At the time of examination loan #939 was strictly a Tand Loan for which no insurance policy was necessary. An Insurance policy was obtained subsequently as shown in the certificate of insurance attached hereto as Exhibit "S". Loan #2736-7 is a second Deed of Trust wrap-around loan with the current Insurance policy being with the holder of the first Deed of Trust. The insurance

Mr. Charles H. Brown
Page Four
June 12, 1984

policy for loan #2737-0 is in the file as shown in Exhibit "T" attached hereto. An insurance policy was originally not required for loan #2874-8 since insurance premiums were not being escrowed. This policy has been changed and an insurance policy is being obtained for the file, as is the case for loan #2889-0.

Comment 1M: Settlement statements for loans #939, 942, 947, and 2736-7 are in the files and are attached hereto as Exhibits "U", "V", "W" and "X" respectively. The settlement sheet for loan #2790-1 is being prepared for execution along with the other documents as set forth above.

Comment 1N: Loan #942 was assigned to First Maryland Savings & Loan, Inc. as shown on the last page of the note, a copy of which is attached hereto as Exhibit "Y".

Comment 2A: Loans #637, 692 and 2449-6 which were subject to comment in the prior report of examination have not been amortized since the prior report of examination since these loans were in default and have subsequently been submitted to foreclosure proceedings. All interest reserves and other potential sources of payment were exhausted prior to the commencement of foreclosure proceedings.

Comment 2B: With respect to loan #803 to Joseph Tashof, please be advised as follows:

1) Mr. Tashof filed a petition in bankruptcy in January of 1984 thereby staying foreclosure by us on the real property securing the loan. Following the filing of the bankruptcy the unsecured creditors joined forces in an attempt to prevent the Association from selling the property and obtaining a full payment of all loans charges. The creditors are seeking invalidation of the Association's second deed of trust based upon legal technicalities and have convinced the bankruptcy judge to further stay any foreclosure by us until the courts of the District of Columbia can rule upon the question. In the interim, the bankruptcy judge is also permitting a private sale of the property to go forward by which the Association will be paid in full on its first deed of trust at closing on July 5, 1984, with the balance of the proceeds, which are sufficient to pay the Association in full, to be held pending the decision from the District of Columbia. The Association is also seeking some recovery on these loans from the title insurance company for technical errors being alleged by the unsecured creditors.

2) Despite the various difficulties with this loan, the real property serving as collateral for the loan continues to increase in value as demonstrated by the contract which has been obtained and

Mr. Charles H. Brown
Page Five
June 12, 1984

increasing interest by third parties in this property as well as adjacent property. The Association remains fully and adequately secured despite the necessity of purchasing the first lien and expending additional sums for legal action. The Association has not been affected by any of the activities of Mr. Tashof nor by any prior development limitations of the area in which the real property is situated.

Comment 2C: The deficiencies in the expense accounts for loans #2484-9, 2542-4, 2543-7, 2544-0, 2557-2, 2560-2 were the result of expenses made directly in connection with foreclosures.

Comment 2D: With respect to loans being past their maturity dates, please be advised as follows:

- 1) Loan #637 has been foreclosed.
- 2) Loan #800 is renewable monthly and has not expired.
- 3) Loan #859 has been extended to July 30, 1984.
- 4) Loan #862 is currently undergoing renegotiation by which the Association will obtain additional collateral and guarantees to permit completion of the project.
- 5) Loan #865 has been paid in full.
- 6) Loan #869 has been paid in full.
- 7) Loan #887 has been paid in full.
- 8) Loan #692 has been paid in full.
- 9) Loan #864 has a maturity date of September 24, 1984.
- 10) Loan #866 has a maturity date of September 24, 1984.
- 11) Loan #803 is in foreclosure.
- 12) Loan #822 was converted to permanent December 12, 1983.
- 13) Loan #846 is paid in full.
- 14) Loan #855 has a maturity date of June 21, 1984.

Comment 2E: Any problems regarding the over disbursement of loans has been corrected by the hiring of the Construction Loan Department Head and the retaining of the engineering consultant as discussed above. With respect to specific loans, #830 and #900 have been paid in full. The over-disbursement of loan #892 was an accounting error which has been corrected.

Comment 2F: The Association has executed contracts for the completion of the project for which loan #831 was made and completion is scheduled for June 30, 1984. All work being conducted on the project is under the direct supervision of the Construction Loan Department. At the time the additional advances set forth in the examination were made, the concern of the Association was rendering the property marketable in a fashion best calculated to return to the Association all of the outstanding amounts due under the loans. An appraisal was not obtained at that time since the academic market value of the property was moot. Title endorsements for the \$100,000.00 loan are attached hereto as Exhibits "Y-1" and "Y-2". An endorsement

Mr. Charles H. Brown
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June 12, 1984

to the title policy has been ordered for the increased amount of \$250,000.00.

✓
Comment 3: During fiscal year 1981 and in prior fiscal years the escrow analysis was being done by hand and Borrower's were notified of the status of their escrow account at least annually. During fiscal year 1982, the Association began using Data Systems Corporation for the data processing of its escrow accounts, but because of programming errors Data Systems Corporation could not provide the Association with a reliable escrow analysis. In August of 1983 the Association converted its real estate loan portfolio to a data processing package with American Automated which is capable of producing a loan file analysis of the escrow accounts for each loan. We are now processing the loan escrow analysis system for the first time and compliance with Commercial Law Article 12-109.1(b) will be strictly adhered to from this point forward.

Comment 4A: The demand loans account was, until recently, handled by one employee of the Association who is no longer with us. The demand loans account has been scheduled for reconciliation.

Comment 4B: The term loans account was, until recently, handled by one employee of the Association who is no longer with us. The term loans account has been scheduled for reconciliation.

Comment 4C: These GNMA repo's were the result of a relationship with Prudential Bache, which relationship has been terminated. All GNMA repo's and similar transactions now have predetermined interest rates as opposed to invoice interest rates.

Comment 4D: The differential in the letter of credit account was primarily the result of certain letters of credit which were created from funds drawn from loans in process, but the paperwork flow was not such that the transaction was posted properly. This situation has now been corrected and should not reoccur in the future.

Comment 4E: The Association is now using its computers to maintain an accurate and current status of deferred loan fees, which information is available upon demand.

Comment 4F: General ledger account numbers 2690.00 and 2690.10 were created by an outside auditor which is no longer retained by the Association. There is no information within the Association which explains these accounts, nor have we been able to obtain that information from our prior auditor.

Mr. Charles H. Brown
Page Seven
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Comment 6A: The Board of Directors adopted a dividend resolution as required by Section 9-404(b) of the Financial Institutions Article, a copy of which is attached hereto as "Exhibit Z".

Comment 6B: Although the firm of Dacy, Richin, Myers & Suissa, Attorneys at Law, is receiving \$1,500.00 per month as a retainer, \$1,000.00 of the retainer is paid by First Maryland Savings & Loan, Inc. and \$500.00 per month is paid by its subsidiary First Maryland Financial Services Corporation. This should clear up the confusion regarding authorized fees from each entity.

Comment 6C: The notation regarding Mr. Corletta's voting in person was a clerical error and has been corrected.

Comment 7: Notice of the special meeting of stockholders held July 8, 1983 was given to the stockholders and was published in the Washington Post and the Montgomery Sentinel as shown on the copies of such notices attached hereto as "Exhibit Z-1".

Comment 8: The Association's fidelity bond has been increased to \$1,285,000.00 as shown on the copy of the endorsement to the blanket bond policy attached hereto as "Exhibit Z-2".

Comment 9A: No response required.

Comment 9B: The auditor's adjustments were made by the Association's previous auditor who is no longer retained by the Association. We have been unable to obtain a full explanation from the prior auditor of the adjusting entries and we are consulting with our current auditor to determine whether or not an additional adjustment is necessary.

Comment 9C: Our review of the Association's net worth between the period of September 30, 1982 and August 31, 1983 does not indicate the variance described in this comment.

Comment 10: The remittance for abandoned property was made as shown in "Exhibit Z-3" attached hereto.

Comment 11A: (1) The Vesuvius property is a former restaurant property in the middle of a residential area. The Service Corporation for the Association has met with no fewer than twelve (12) prospective purchasers or joint venturers for this property in an attempt to remove it from our books or place it on an income

Mr. Charles H. Brown
Page Eight
June 12, 1984

producing basis. None of the entities with which the Association has dealt has offered to put any cash into the property. The Association has continued to secure the property and has applied for a building permit in order to attempt to obtain commercial zoning which is a necessity for obtaining a decent sales price. The improvements are basically a concrete block shell which is in need of significant roof replacement and does not present a very good image. Obtaining an appraisal on this property prior to obtaining a rezoning would be a waste of effort and funds.

(2) The Surlis property was appraised in April of 1982 and has been reappraised in March of 1984. The Association has yet to receive the written appraisal. Upon the receipt of the written appraisal the Association shall establish whether or not additional reserves need to be established.

✓ Comment IIB: (1) The appraisal on 414 Larchmont Avenue was ordered in April 18, 1984. We have yet to receive the written appraisal. All renovations on this property are now completed.

(2) The appraisal for 1208 Evarts Street was not ordered until the rent increase application was approved for the property which had a direct impact upon the appraised value. The appraisal has been completed but has not been delivered to the Association.

(3) The appraisal on 1307 Foote Street has been ordered but has not been delivered to the Association.

✓ Comment IIC: The sale of the property at 400 Broadwood Drive, Rockville, Maryland was sold with the understanding that any difference between the amount invested in the property and the sales price would be made up on an insurance claim filed with the private mortgage insurance carrier. Investigation reveals that no reimbursement was actually realized from the private mortgage insurance claim as a result of the denial of the claim by the carrier. The sales price of the property was negotiated at arms length with an employee of the Association following several proposals and counter proposals. At the time of such negotiations the property had been vacant for eight months and the purchase and sale needed special tailoring in order to remove this non-income producing property from the Association's books. The sale to the employee removed the necessity of paying a real estate sales commission to a realtor and also provided the Association with an owner and Borrower who would upgrade the property which ultimately would serve as collateral for the loan to the employee.

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June 12, 1984

✓ Comment 11D: The Association has recovered 30% of its exposure on this property as a result of a claim filed against the private mortgage insurance. Any losses which might be experienced by the Association should be minimal.

✓ Comment 12A: The sale for the property at 15017 Good Meadow Court, Gaithersburg, Maryland was ratified in November of 1983. The Association did, in fact, advance funds to bring the first mortgage current to prevent the foreclosure of this property, but such advance was made only after consent was obtained from the first trust holder. Unfortunately this consent was obtained over the telephone and the first trust holder retracted its consent at a later date. A current appraisal has been ordered for the property.

Comment 12B: (1) The property at 16207 Irving Street, N.W. has been sold.

✓ (2) The appraisal for the property at 200 11th Street, N.E. was deferred until repair work had been completed. The appraisal obtained in April 1984 demonstrated a value of \$75,000.00. There is, however, an offer pending to purchase the property from the Association for \$102,000.00. No reserve account appears to be necessary at this time.

✓ Comment 13A: An appraisal was not necessary at the time loan #792B was granted because the second trust loan was made more on the basis of personal collateral delivered by the Borrower than on the real estate securing the first trust loan. For the same reason no updated title insurance policy was ordered. It was also the custom at that time not to obtain extension agreements but to merely obtain approval of the extension by letter. Our house counsel is currently preparing a form extension agreement to be used in such situations.

Comment 13B: No additional appraisal was obtained for #845 when the loan amount was increased by \$52,500.00 in that the property had been appraised previously at \$770,000.00 which permitted such an increase without exceeding a loan to value ratio of 75%. The establishment of an interest reserve account is not an indication of lack of faith in the loan so much a protective measure designed to encourage the Borrower to plan for debt service and contingencies. Regarding this loan, the Borrower had a contract for sale of the property in hand at the time of the increase in the loan giving the Association additional reason for advancing more funds. The title policy is attached hereto as "Exhibit Z-3".

Mr. Charles H. Brown
Page Ten
June 12, 1984

Comment 14: With respect to corrective action on exceptions set forth in the prior report of examination, please be advised as follows:

(a) Loan #793 - This loan was originally a residential loan which is now been converted to a loan for the construction a medical office building. Construction has been delayed in the attempt to pre-sell or pre-lease the space in the building. Contract negotiations are under way by which the majority of the building would be pre-sold or pre-leased which would result in a total sales price of approxlmately \$900,000.00. The contracts which are pending indicate an appraised value of at least \$800,000.00. The actual cost of construction and the cost of the land should not exceed \$568,000.00. Disbursements to date have been made for interest payments and to pay for some "soft" costs such as legal fees for obtaining proper zoning, architects fees, engineers fees, and direct marketing costs. The development of the project is currently being handled by First Maryland Financial Services Corporation, the Association's subsidiary.

(b) Loan #800 - This loan has been paid in full. The somewhat informal loan extenslons were granted by the Association with the knowledge that the project would in fact be concluded at no risk to the Association. The loan was actually renewable monthly by its terms and had been substantially curtailed pending an FHA refinance. Although the parties involved had specific recollection of the execution of documents listed by you as missing for the file, we were unsuccessful in locating these documents.

We trust you will find the foregoing responses to be satisfactory and that you will not hesitate to contact us in the event that you have further questions or comments regarding these items.

Yours truly,

Julian M. Seidel
President

cc: MSSIC



FIRST
MARYLAND
SAVINGS & LOAN
A STOCK CORPORATION

(301) 588-6000

(301) 585-7676

March 23, 1983

RECEIVED
DEPT. OF LIC. & REG.
DIV. OF BLDG. SAV. & LOAN ASSN.

MAR 24 1983

H.D.

Mr. Charles H. Brown, Jr., Director
Division of Building, Savings & Loan
Associations
One South Calvert Street
Baltimore, Maryland 21202

Dear Mr. Brown:

Enclosed is our response with reference to the Division examination of the books and records of the Association and its' subsidiaries. The problems noted in the report are directly attributable to rapid growth and understaffing.

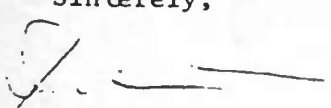
Shortly after recognizing the seriousness of the problems we were encountering, we increased our loan closing and accounting staff. The examiners, acknowledged, during their investigation, that the problems were faced directly and the result of these changes were being acknowledged.

Other advances have been the present process of consolidating offices, the establishment of an internal Audit committee and constant reviews to see if additional Board committees are needed.

With our response, we have also included documents either requested in the examiner's report or mentioned in said report.

Please call me if you have any questions about these contents.

Sincerely,


Julian M. Seidel
Chairman

JMS:gm
encs.

2144

RESPONSE - FIRST MARYLAND SAVINGS & LOAN

COMMENT NO. 1: (SEE NOTES)

A. Loan No. 793. 4434 McArthur Blvd.

(Amount \$400,000)

This loan was not made to stop foreclosure. This loan was made to Michael Frosh because the Association was involved with him in another project (three townhouses) across the street from this site which proved to be very profitable for the service corporation. The area is located just northwest of Georgetown, near the Rockefeller estate, a prime location in Washington, D.C. The commitment required Frosh to obtain an investor for \$35,000 before we would fund the loan. An investment of \$35,000, in the form of cash equity, was secured and the loan was closed. Although the original commitment was ~~not made to prevent foreclosure, after the \$35,000 investment and before closing, foreclosure proceedings were started.~~

It was decided not to build the residential condominium after the closing of the loan because of the changing market conditions for condominiums in the District of Columbia.

Instead, investigation revealed that a medical clinic could be built under the zoning; however, a Board of Zoning Adjustment approval was required. An architect, GMR Associates, was hired for the zoning change. Since First Maryland Service Corporation was a partner in the venture, it informed the architect that it would be responsible for the

(ASSUME AMG, WJY)

1/11/82
12/9/82
\$125,000.00

NO BEARING ON
why this loan was made
DATE 11/16/81
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15/00005

bills. The loan had been recorded and any funds advanced by the service corporation will come out of the refinancing or sale.

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ASB
11/1/83
PA

The architect processed the zoning which took time, as it does in Washington, D.C. We now have received approval of the medical clinic zoning, we have a preliminary plan on the building and we now are going into architectural drawings. A final appraisal of the cost to build is being prepared. At this point in time it is anticipated that the total development cost of the project, including land, interest and construction will be roughly \$120 to \$130 a foot. The sellout of the project should be between \$160 and \$175 a foot. We are in the midst of starting to market the property, and construction is expected to start in July, 1983.

USFD

(a) why delay (22 marks)
AS
11/1/83

(SEE notes) B. Loan No. 830. Liberty Towers. The appraisal in the file was subject to a complete remodeling. Every unit was inspected by Don Hupp of this office before we closed the loan and, according to his report, every unit was completed. Therefore, no development funds or remodeling funds were set aside. The current insurance policy and the original deed of trust are in the file and, by separate cover, we are providing copies.

ASB
11/1/83
PA

C. Loan No. 832. Asher Development III, Inc.

This is a "wrap" loan, a permitted investment, that was provided to warehouse individual loans in a condominium conversion in which all units have been sold to others. All of

11/1/83
ASB
11/1/83
PA

the original notes securing this loan are in our possession so we are secured by the individual notes, the deeds of trust and the property and also by the personal guaranty of the developer. The loan is less than 75% of the value of the notes (secured by deeds of trust) which we have as security.

The loan was for \$1,750,000 but \$350,000 was held back at closing of which \$100,000 was subsequently disbursed and \$250,000 is to be disbursed in August, 1983. The recorded deed of trust is in our possession and Colorado counsel has advised us that the title policy is forthcoming. Copies of both will be sent by separate cover.

(SEE NOTES) D. Loan Nos. 847 through 854. Knickerbocker Associates.

This project was a condominium conversion of 19 units, of which 6 units were sold to the tenants. This loan was a work out loan which was necessitated by deterioration of the D.C. condominium market. We worked out this loan and a subsequent sale to investors to preserve our previous loans and investment. The overfunding on this loan, if any, was caused by the necessity to finish the project so it could be sold to these investors.

The remaining 13 units were sold to 4 different partnerships so it would not fall within the Rent Control Act of the District of Columbia. The loan rate was set so that the tax shelter aspects of the property would be saleable to the investors. For structuring this was set up, the

Association is receiving a 40% interest in any appreciation of the project. This loan is current and is remaining current because of the syndication requires the investors to contribute such monies as necessary in order to keep the loan current. The investors are so contractually obligated for at least five years. We see no problem with this loan.

00381-15
APPROV
Whitcomb's
coning

The title policy is in our files as are current financial statements.

E. Loan No. 800. Almor Jt. Venture.

> 05

This loan was brokered to First American Bank by the Service Corporation and First Maryland gave them a permanent loan commitment. The developers became depositors with First Maryland Savings & Loan with deposits in excess of \$200,000 and they are still depositors in excess of that amount. When the loan was purchased from First American, in October, 1981, the October, 1980 appraisal was used because we were acting under the existing appraisal at that time.

The loan is current - any appearance of a delinquency problem was caused by the owners's desire to give us checks instead of having their interest reserves charged, based on advice by their tax counsel. These townhouses are now being processed through the FHA and our loan will be paid off from the refinancing.

F. Loan No. 804. Willowdale Associates.

This loan was submitted to Division for approval and, as part of the request for approval, a complete appraisal

package was submitted. With respect to the items noted in the Examiners' report, we have the following comments. Item 1^{OK} concerns taxes subsequent to 6/30/81. These taxes are not yet due. ~~Item 2 concerns a judgment which has been satisfied and the lien has been released.~~ Item 12, concerns mortgages held by Key Federal Savings and Loan. However, these mortgages are on single family dwellings, as to which we took a subordinate position as additional security for the loan. Principal security for the land loan is on 14 acres of apartment land and 110 townhouse lots which are not affected by the key Federal mortgages.

The appraisal is in the file, and a copy is being forwarded under separate cover. This loan is current and has been curtailed.

SEE NOTES G. Loan No. 807. Greenberg & Companies, Greencourt N.W.

This was supposed to be a development loan, but the original borrower has now sold the loan and the Association permitted assumption of the loan. The purchasers are in the process of rehabbing the property. The Association has received a letter of credit guaranteeing the top of the loan in addition to the personal signatures of the buying group whose net worth is \$35,000,000.

H. Loan No. 2714. Chamber Place Associates, Limited Partnership, Chamber of Commerce Building.

The \$1,800,000 loan was based on a \$2,000,000 project which included about \$85,000 in development costs and fees. The developer invested \$200,000, individually, and subsequently an additional \$125,000. The \$200,000 should have been restricted to a special account to pay for the necessary work but the developer's reputation and track record is excellent. The \$200,000 investment by the Service Corporation is secured by the property. If the Service Corporation's investment had not been secured, then the \$1,600,000 would have been a conforming loan and the \$200,000 would just be an investment. By securing the investment by the property caused us to violate the regulations inadvertently.

125
I. Loan No. 820. The construction and rehabilitation portions of this loan were not recorded at the same time but they have now been recorded and this problem has been corrected.

COMMENT NO. 2:

All documents requested are being copied and will be forwarded under separate cover.

COMMENT NO. 3:

All documents have been received, are being copied and will be forwarded under separate cover.

COMMENT NO. 4:

Many of the problems noted were due to understaffing. We have hired additional and experienced professional personnel to implement procedure and also to make sure that all the

loans are prepared properly with all necessary documentation. An internal audit has reviewed the files and is satisfied that proper underwriting is being followed.

7
WH
Should we
re-issue
R?

COMMENT NO. 5: Loan Commitments.

Loan commitments have been kept to a minimum - based on our liquidity position and cash flow analysis at that time, which we have presented to MSSIC. The July 19, 1982 agreement was based on MSSIC's analysis of our cash flow and we did minimize our commitments based on the cash flow.

As to the Ironhorse loan, there is a letter in the file to the effect that we would not fund more than \$1,900,000 in our participation with the Bank of Winter Park, which is acknowledged by the Bank of Winter Park. Based on the loan commitment, we were to participate in letters of credit which is not now necessary because both letters of credit have been cancelled.

copy of letter

copy of letter

COMMENT NO. 6:

<u>No.</u>			<u>Date of Loan</u>	<u>Net Worth</u>	<u>Maximum Outstanding</u>
827	Lee Landing	1,643,500	4/29/82	1,152,000	900,000
832	Asher Development	1,750,000	5/03/82	1,604,000	1,500,000
834	Mitchel & Best	1,600,000	4/30/82	1,152,000	
2714	Chamber of Commerce	1,600,000	6/15/82	1,666,000	
	Chesapeake Station	1,700,000			
863	Key Fed. S. & L	1,600,090	6/16/82	1,666,000	

COMMENT NO. 7: (Discuss later) -

COMMENT NO. 8:

The Service Department has been reorganized and one person has been assigned to handle delinquent accounts. Th

results of that have been very satisfactory, and we anticipate a substantial reduction in our delinquencies. In the case of loans to the service company, we are bringing them current.

Loan 2418-2 has been paid in full.

Loan 692, Heritage Development.

The second trust holder bought out the interest of the first trust holder and the project is being completed.

COMMENT NO. 9: Tradewinds Joint Venture.

This is correct. At the time, the Association had a very large cash balance in excess of its projected needs and we therefore put the money to work in this loan; nonetheless, we recognize that Division approval should have been obtained.

COMMENT NO. 10:

Real Estate owned:

An appraisal of the Vesuvius property was done and a \$75,000 reserve has been established.

COMMENT NO. 11:

Between May and August, 1982, the Association purchased \$100,000 certificates from Washington Federal and Mt. Vernon Federal plus \$200,000 from Standard Federal. All certificates have been repaid and no others exist today.

COMMENT NO. 12:

As a result of conversations with the examiners, this procedure is now being followed.

COMMENT NO. 13:

The

DWS ASSN
2:10 PM
2:11 PM
?

cm

015

the payment of dividends as set forth in the savings instruments until otherwise determined by the Board. This resolution was passed some time ago.

copy of
resolution
submitted
7

COMMENT NO. 14:

The certificate of insurance is being sent by separate cover.

still
need

COMMENT NO. 15: (S.C. NOTES)

We were unable to confirm the number submitted in the division report.

COMMENT NO. 16:

The abandoned property report has in fact been filed since a printout of dormant accounts is prepared automatically. The last report filed with the State is dated October 5, 1982 and a copy is being sent by separate cover.

NEED - copy

COMMENT NO. 17:

All the general ledger accounts have been analyzed and are in balance with the subsidiary accounts.

COMMENT NO. 18:

The revised questionnaire is being sent by separate cover.

COMMENT NO. 19:

Counsel has advised that the necessary documentation has been forwarded to Division for its approval.

First Maryland Financial Service Corporation.

EXHIBIT NO. 1:

SEC

147,000.00
DISBURSED (457 ADDRESS)
1000 APPROVED 136,000.00
1000 APPROVED (457 ADDRESS)

A. 1209 34th Street was property purchased by the Service Corporation for rehabilitation and for rental or sale. The property was rehabilitated and is now rented. Mr. Calcara is in the rehabilitation business. We felt his contract was reasonable but from now on we are bidding out these contracts. The deed of trust has been recorded and insurance obtained. Copies are being forwarded under separate cover.

NEED

B. Battery Lane.

The rate of 14% was given in contemplation of rates declining because the interest rate would not have become effective until settlement, which was scheduled for late 1982 or early 1983. In addition, the Service Corporation had the right to receive an additional \$5,000 per unit payment on this particular loan.

14 months
2/1/83

SEE NOTES

The status of the contract at the present time is that the developer has not gone to settlement because he was involved in another large project which has not had any sales. The Service Corporation gave him notice that he is in default of the contract and has to forfeit his \$25,000 deposit. In the meantime, the Service Corporation has received an offer from another builder to buy the property for \$675,000. This offer is now being reviewed. The property has a preliminary plan now for 32 condominium units.

C. 2326 Wisconsin Avenue.

Approval from Division for First Investment Corporation has been requested. Market studies and cost

projections have been done on this property and architectural plans have also been completed. A contract is being negotiated to sell a completed project to investors who will be putting up \$750,000 in a non-refundable deposit.

??
A
copy
contract
2/1

D. Henrietta.

We are obtaining a new appraisal. We are also having a preliminary architectural plan done. We have approval from the city for 39 apartment units or condominium units that we obtained through the Board of Zoning Adjustment. This building is to be developed and sold as investment property in a syndication.

NEED
←
SEC notes

E. 934 N Street was purchased as an investment by the Service Corporation. It was fully occupied. We have since obtained a 100% increase in the rents. We are now putting our investor package together and will be selling this property.

5/11

F. Green Street Jt. Venture.

Many studies have been done on this property, which was under condemnation by the University of Maryland. For the last six to eight months, a group from the University of Maryland Hospital has been evaluating it to determine whether to convert it to a medical outpatient clinic. At the same time, the Service Corporation is investigating leasing the property to others or attempting to rehab it.

??
5/11
1/15/11
1/15/11
1/15/11

G. Loan 840. Greenwood Associates.

This property is now completely repaired and all existing code violations have been corrected. It is now 100%

occupied. We have a rental management company, William J. Davis, managing the property. We receive monthly statements and this property is being prepared for sale.

H. 1221 33rd Street.

This is another property that was bought to rehab for sale or rental. The property has just been completed and is on the market for sale.

COMMENT NO. 2:

\$4,711.95 was intended as temporary with the Service Corporation being reimbursed immediately. It was overlooked but reimbursement did take place prior to fiscal year end with interest.

COMMENT NO. 3:

We have set up a commercial loan department with a commercial banker heading it up. He has established all of the forms and guidelines and procedures. We have a very experienced secretary who handles the billing and all the applications and documentation and all our unsecured loans are being processed through that department. The department is located at our Rockville branch.

COMMENT NO. 3:

Based on our inexperience in closing these types of loans, examination of these 15 unsecured loans revealed problems which we do not anticipate being repeated. We have hired competent personnel experienced in making consumer and commercial loans, both secured and unsecured, to establish

	Initials	Date
Prepared By		
Approved By		

First Maryland Savings & Loan, Inc.
 1109 Spring Street # 801 Silver Spring, MD 20910

National
 45-402 Eye Ease
 45-902 70/20 Buff
 Made in USA

underwriting guidelines and procedures. These guidelines and procedures are now being followed.

Has to be further explained by Michael Hollins.

Chesapeake Mortgage Corporation

The operation of Chesapeake Mortgage Company was discontinued prior to the examination.

The questions regarding its operations which have been raised by the examination have been referred to the Association's auditor for investigation and review by the Association's Internal Audit Committee and its Board of Directors.

COMMENT NO. 4:

On Comment 4 a meeting was held between our outside auditors, Ackman & Company, and our Comptroller and bookkeeping department to bring the Service Corporation's records up to date and to make sure everything was in its right account. This has been done. All accounts have been analyzed, reconciled and further, a full time bookkeeper has been employed and reports directly to the Comptroller.



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

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

WILLIAM S. LECOMPTE, JR.
DEPUTY DIRECTOR

April 16, 1985

Board of Directors
First Maryland Savings & Loan, Inc.
(A Stock Corporation)
2500 Davidsonville Road
Crofton, Maryland 21114

Gentlemen:

We are forwarding for your review and comment a copy of the report of examination of your association by examiners representing the Maryland Division of Savings and Loan Associations. This report represents an examination of the association's books and records as of August 31, 1984 for compliance with Maryland statutes and regulations and does not constitute an audit of these records.

We request that you carefully review the entire report and specifically direct your attention to the following items of supervisory concern:

- A. Comment 2 reflects a drastic increase in delinquent loans since the preceding examination. Delinquent loans scheduled on page 9 of the examination report are in excess of \$2,500,000.00. In addition, delinquent and unpaid interest on these loans is in excess of \$1,200,000.00.

Also noted by the examiners is the existence of thirty (30) delinquent consumer and commercial accounts, with outstanding unpaid balance in excess of \$1,500,000.00.

Please advise this office of the current status of each of these delinquent accounts in your response to this letter.

- B. Comment 6 cites numerous deficiencies in loan underwriting procedures and internal control with respect to consumer and commercial loans, including violations of Regulations .49 and .51, as well as Sections

IIIE2

Board of Directors
First Maryland Savings & Loan, Inc.
Page Two
April 16, 1985

9-307 and 9-323 of the Financial Institutions Article.

- C. Comment 11 cites violations of Regulation .18H, with respect to brokered savings deposits.
- The Division considers it essential that the documentation requirements of the cited regulation be strictly adhered to, because of the sensitive nature of brokered savings.

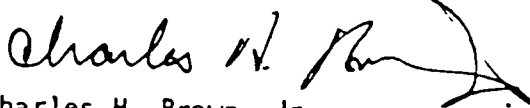
You should also review the other exceptions discussed with management and assure this Division that corrective action has been taken.

The Board's attention is directed to Examiner's Informational Comments A and B which outline the two most recent examination dates and also highlight the association's operating results for the period ended September 30, 1983.

The Board of Directors is requested to hold a meeting to discuss the comments in this letter and report of examination and to advise this division in writing of the specific action taken with respect to these matters.

We would also request that two copies of this response be forwarded to the division within forty-five days and that one copy of the response be forwarded to the Maryland Savings-Share Insurance Corporation.

Very truly yours,



Charles H. Brown, Jr.
Director

CHB:JJB:lib

Enclosures

cc: Maryland Savings-Share Insurance Corporation

EXAMINERS' COMMENTS

First Maryland Savings and Loan

Comment 1:

An examination of the files of the mortgage loans granted during the period of September 1, 1983 through August 31, 1984 revealed the following:

- A. Loan file Nos. 1027, 1031, 1034, 3104-9 and 3130-8 did not contain the original mortgage instrument as required by Regulation .29A(2)(f).
- B. Loan file Nos. 988, 1017, 1035, 2931-0, 3043-5 and 3179-4 did not contain the original of the current insurance policies as required by Regulation .23D.
- C. Loan file Nos. 1012 and 1035 did not contain applications as required by Regulation .23A.
- D. Loan file Nos. 1017, 1034, 1035 and 3319 did not contain appraisal reports as required by Regulation .23B.
- E. Loan file Nos. 984, 988, 1012, 1017, 1027, 1031, 1034, 1035, 3043-5 and 3179-4 did not contain a certification of title as required by Regulation .23C.
- F. Loan file Nos. 988, 1029, 1031 and 1035 did not contain a memorandum of settlement as required by Financial Institutions Article, Section 9-424(b), and Regulation .29A(2)(c).
- G. Loan file No. 3179-4 did not contain evidence of a blanket insurance policy, as required by Regulation .29A(2)(d).

Comment 2:

An analysis of the subsidiary mortgage loan records reflected the existence of fifty-six delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$12,522,453.63 as of the date of the current examination, representing a delinquency ratio of 4.8% of the total mortgage loan balances outstanding.

During the period of the current examination, the total outstanding balance of delinquent accounts increased from \$5,062,675.48 to \$12,522,453.63. The delinquent and unpaid interest on the loans subject to comment totaled \$1,205,010.49.

A review of the loans subject to comment scheduled on page 9 of this report reflected that loan Nos. 516-3, 733-6, 784-4, 786-0, 803, 2530-1, 2558-9, 2577-0, 2593-2, 2595-8, 2597-4, 2628-7, 2630-0, 2723-1, and 2724-4 had not been amortized during the twelve month period immediately preceding the date of the current examination.

An analysis of the subsidiary consumer and commercial loan records reflected the existence of thirty delinquent accounts. The outstanding balance of these accounts totaled \$1,515,447.63, representing a delinquency ratio of 7.9% of the total consumer/commercial loan balances outstanding.

First Maryland Savings and Loan

Comment 3:

Loan Nos. 2952-7, 3043-5, and 3112-0 were granted upon the security of improved residential property--homeowner with loan-to-appraisal ratio in excess of 90% of the market value of the security. Regulation .30C(2)(b) provides that the aggregate amount of any loan made upon the security of improved residential property--homeowner shall not exceed 90% of the market value of the security.

Comment 4:

The association granted during the period of September 1, 1983 through August 31, 1984 approximately seven mortgage loans under a program entitled "Home Equity--Loans". These loans represent a "second deed of trust" against improved residential property--homeowner. The terms of these loans read as follows:

Type: Home Equity Loan
Loan Amount: As stated
Interest rate: Prime plus + 2% (Adjusted Monthly)
Payment: Interest only
Term: Due In Full In 10 years

Regulation .30C(2)(c) provides that for loans secured by improved residential property--homeowner, the loan shall amortize on at least a monthly basis and the amortization period and the loan term shall be the same; also, loan shall fully amortize within its term.

Comment 5:

An examination of the records supporting free share loans revealed the following:

Regulation Z (Federal Truth-in-Lending) requires a disclosure on "Demand Note Loans" based on an annual finance period of twelve months.

First Maryland Savings and Loan disclosure statements were based on a semi-annual period, which is in violation of the above regulation.

Comment 6:

An examination of the files of consumer/commercial loans granted by the association revealed the following:

A. Commercial secured and unsecured loans are granted under authority of Regulation .51A which allows an association to "invest in any investments permitted to a banking institution in this state provided that the savings and loan association meets the conditions required of a banking institution."

(1) A review of commercial loans revealed one loan in excess of the banking limitation of 15% of the net worth of the association as of August 31, 1984. The maximum single loan may not exceed \$1,661,850.57. Loan No. 396-8 to Richard Meyer was in the amount of \$2,000,000.00.

First Maryland Savings and Loan

Comment 6: (Cont.)

(2) Loans to one borrower or group of borrowers revealed the following totals in excess of 15% of the \$11,079,003.80 net worth as of August 31, 1984:

(a) Sterling Webster and Rocco Lassiter:

O. W. L., II	\$1,100,000.00
Webster	206,666.67
Webster	42,500.00
Webster	192,500.00
Lassiter	<u>206,666.66</u>

TOTAL: \$1,748,333.33

(b) C. Graham Perkins, John Sletten, G and L Leasing:

G and L Leasing (26 Loans) \$ 929,735.12
(Per letter of
September 28,
1984)

G and L Leasing (No. 376-6)	587,987.43
Perkins (No. 228-2)	200,000.00
Perkins (No. 349-6)	130,000.00
John Sletten (No. 421-7)	2,000.00
Greystone Associates (No. 456-5)	<u>18,000.00</u>

TOTAL: \$1,867,722.55

(c) Carl Fibkins and related companies:

Harbourtown Mortgage and Investments	\$ 350,000.00
Caml, Inc.	53,550.00
Fairhaven	783,000.00
Cambridge Mortgage Corp.	98,000.00
Cambridge Mortgage Corp. (Warehousing Line)	<u>3,000,000.00</u>

TOTAL: \$4,284,550.00

(3) The association issued letters of credit which are commitments to advance funds if requested. Such commitments, if funded, are in violation of the 15% of net worth requirement mentioned above:

No. 6 Resolution (R. Spinella, et al.)	\$2,208,162.00
No. 82 Eastside Associates (R. Spinella, et al.)	<u>452,500.00</u>

TOTAL: \$2,660,662.00

Comment 6: (Cont.)

B. The files for letters of credit were reviewed with the following results:

- (1) Many files contain insufficient information: No application, no credit or financial information, no settlement sheet as required by Section 9-424(b) of the Financial Institutions Article, and no promissory notes. Many files contained only a copy of the "Letter of Credit" issued.
- (2) Record keeping is not centralized. Some records are at Silver Spring and some are at the Rockville office. It is strongly recommended that all letters of credit be handled and issued through one office.
- (3) Some of the "Letters of Credit" are on the general ledger and some are not. When a letter of credit is issued, even though no funds have been disbursed, an asset account for letters of credit should be debited in the maximum amount and the same amount should be credited to an offsetting liability account for funds to be disbursed.
- (4) The association has issued letters of credit on behalf of Ronald Freudenheim, Vice President of First Maryland Financial Service Corporation, a wholly-owned subsidiary of First Maryland. Such loans require the same approval of the Board of Directors and of the Division Director as set forth in the Financial Institutions Article, Section 9-307(b)(2).

C. General comments on commercial and consumer loans:

- (1) The association does not maintain each loan in a separate file. This makes it difficult to find what information in a file applies to which loan, where there is more than one loan in a file. Also, when a loan is paid in full, sometimes the papers relating to that loan will remain in the file when they should be removed, further complicating the files.

Therefore, First Maryland should establish a separate folder for each loan. Each file should contain all required documentation. Each loan also requires a separate loan card.
- (2) Loan files do not always indicate the assigned loan numbers. In some cases, the incorrect loan number was on a file and did not cross check with accounting records.
- (3) Consumer loans granted pursuant to Regulation .49 and commercial loans granted pursuant to Regulation .51A are all filed together alphabetically. They are also not distinguished in the general ledger. General ledger Nos. 1080, 1081, and 1082 are all listed as consumer loans, the only difference being time, term, or demand loans. All three controls contain both consumer and commercial loans. Such loans should be separated in the general ledger and in the loan file system.
- (4) The association does not maintain a list of loans to one person or group of persons to monitor possible violations of lending limitations in the regulations for consumer and/or commercial lending.

First Maryland Savings and Loan

Comment 6: (Cont.)

- (5) The association does not maintain a list that shows how much of a line of credit or loan commitment remains unused. Only actual outstanding loan balances could be furnished to the examiners. This is particularly important for "First Reserve" lines of credit (on checking) and to those for large companies. The association must report such unused lines of credit as loan commitments on the monthly S/L 200 Report to the Division. Also, it is important for the association to know its potential funding commitments.
- (6) Some commercial loans were charged points and/or other fees such as legal fees, lien search, appraisal, etc. Section 9-424(b) of the Financial Institutions Article requires that all loans receive a memorandum of settlement.
- (7) The association does not have any listing of loans readily available that contains all of the following information:
- Name of Borrower
 - Loan Number
 - Original amount of loan
 - Current unpaid balance of the loan
- (8) The association has made loans secured by stock in various companies listed on the exchanges and the over-the-counter markets. The association will allow a loan of 80% (and sometimes more) of the market value of the stock. Such loans are granted pursuant to Regulation .51A which requires the association to meet the same requirements as a banking institution.
- Such loans must conform to Federal Reserve margin requirements which basically allow loans of only 50% of market value.
- Furthermore, if the loan to security value ratio ever falls below 50%, the association must require additional collateral or the loan principal must be paid down to an acceptable ratio. Currently, no such review is done.
- (9) A review of manually maintained loan cards revealed the following:
- (a) Time loan No. 289-9 to Heritage International Bank had received wire payments of \$943.41 on August 29, 1984 for payment of interest, and \$21,054.46 on September 11, 1984 of which \$20,000.00 was for principal and \$1,054.46 for interest. As of September 28, 1984, the \$943.41 and \$1,054.46 received for interest had not been posted to the subsidiary loan card.
- For purposes of internal control, it is important that all receipts and disbursements be posted to both the general ledger and the subsidiary loan card in a timely manner.
- (b) The subsidiary loan card for time loan No. 43-7 to A. Garcia indicates that on September 17, 1984, interest of \$1,061.67 was billed to the customer and was unpaid as of September 28, 1984, the day of the examiner's review. However, a review of the bill file revealed that the \$1,061.67 was paid on September 21, 1984, at which time the payment should have been posted to the subsidiary loan card.
- (10) The association granted the following unsecured loans in violation of FI 9-307(b)(2)(iii), which prohibits the granting of any unsecured

First Maryland Savings and Loan

Comment 6: (Cont.)

loan to any officer or director, any member of the immediate family of an officer or director, or any corporation or business in which an interest of 10 percent or more is owned by an officer or director or member of the immediate family of an officer or director. These loans are as follows:

<u>Name</u>	<u>Title</u>	<u>Line of Credit Limit or Original Loan Amount</u>
James J. Smat	Vice President	\$5,000.00
James Porter	Vice President	6,000.00
Ronald Freudenheim	Vice President	5,000.00
Raj Boveja (#350-8)	Internal Auditor	10,000.00
Vermont Avenue Limited Partnership:		43,025.00
--Frank Calcara	Director	
--Julian Seidel	President	
--James Porter	Vice President	
--Ronald Freudenheim	Vice President	
--Michael Fincl	Director	

- (11) All loans involving officers, directors, controlling persons and their families must be approved in accordance with Sections 9-307 and 9-323 of the Financial Institutions Article and Regulation .43. Such approvals must be maintained in the loan file.

This would include line of credit approvals for checking accounts, letters of credit, and any other loan or potential loans by the association.

It was noted that there were no such approvals in file for the following loans:

<u>Name</u>	<u>Title</u>	<u>Original Loan Amount</u>
Linda Smat (auto loan)	Wife of V.P. J. Smat	\$10,500.00
Vermont Avenue Limited Partnership (mortgage):		801,200.00
--Frank Calcara	Director	
--Julian Seidel	President	
--James Porter	Vice President	
--Ronald Freudenheim	Vice President	
--Michael Fincl	Director	

Furthermore, there was no evidence that the above loans were approved by a two-thirds vote of the board of directors, with any interested director taking no part in the vote.

- (12) It was noted that not all loans are charged interest in accordance with regulations and good business practices. Consumer loans are required to pay interest monthly, in accordance with Regulation .49A(1).

On all other loans, good business practice dictates that interest be collected no less than quarterly.

First Maryland Savings and Loan

Comment 6: (Cont.)

- (13) As of the date of the examination, 34,833 of a total 74,833 shares of stock in Pioneer Federal Savings and Loan have not been received by the association. The shares are pledged as security on the loans of Sterling Webster.
- (14) As of the date of this examination, 1,333 of a total 41,333 shares of stock in Pioneer Federal Savings and Loan have not been received by the association. The shares of stock are pledged as security for the loan of Rocco Lassiter.
- (15) Many loans, particularly commercial loans, did not contain completed applications with current financial statements in the file.

Renewals of loans did not always contain updated information on the borrower.

All loans and renewals of loans should contain current financial information to ascertain the borrowers' ability to repay the loan.

- (16) Since the association is granting commercial and non-consumer loans under the banking powers tie-in under Regulation .51, the association must establish a separate reserve for losses on these loans that complies with banking requirements. No such reserve has been set up as of the examination date.
- (17) Regulation .49D requires that the association classify all slow consumer loans.

Regulation .49E requires that the association set up a reserve for losses account for delinquent consumer loans. No such reserve account has been set up as of the examination date.

Comment 7:

An examination of the books, records and accounting practices revealed the following:

- A. Loan No. 3162-2 in the amount of \$150,000.00 is not on control account No. 1010-51 as of the date of the current examination.
- B. The total of the subsidiary mortgage loan accounts was \$2,321.92 less than the control account No. 1052.20 (Wrap Participation Sold). This amount has been carried as a reconciliation item since June, 1984.
- C. The total of the subsidiary mortgage loan accounts exceeded the control account No. 1060.00 (Loans Purchased-Serviced by Others) by \$90,000.00.
- D. The total of the subsidiary commercial loan accounts exceeded the control account No. 1082.00 (Commercial Loan--Term) by \$1,212.84.
- E. General ledger control account No. 1040.00 (GNMA Passthrough Certificates) exceeded the subsidiary account by \$835,133.72.
- F. The total of the subsidiary investment account was \$1,059,864.27 less than the control account No. 1040.01 in the general ledger.
- G. Investments and note loans between First Maryland Savings and Loan Association and its wholly owned subsidiaries were reviewed. The following was noted:

First Maryland Savings and Loan

Comment 7: (Cont.)

<u>(1) Control Accounts on the Parent's General Ledger</u>	<u>Variance</u>
No. 1461.00 (Loans to Service Corporation)	\$739,590.04
" 1810.70 (Accounts Receivable FMFSC)	367,972.59
" 1469.50 (Equity Olde Line)	16,741.00

These loans exceed by the amounts listed above those shown on the service corporation's records.

- (2) Control account No. 1076.00 Accrued Interest Receivable-FMFSC is \$31,260.86 less than that on the service corporation's records.
- H. General ledger No. 1815.00 (Returned-Checks) listed as an asset account is carrying a credit balance of (\$297,771.47).
Items in this account should be reviewed and properly classified.
- I. General ledger account No. 2415.00 (Letter of Credit-Reserve) had not been reconciled since June 30, 1984.
- J. General ledger account No. 2440.00 (Mortgage Unapplied) has increased \$1,406,329.71 during the period from April 1, 1984 through August 31, 1984. This account should be reviewed and timely adjustments should be made.
- K. The following liability accounts were carrying the following negative balances:

General Ledger No. 2440.10 (Savings Unapplied)	(\$2,927,811.15)
" 2440.20 (N.O.W. Unapplied)	(1,021,828.62)
" 2440.21 (Unapplied Rejected Items)	(658,790.32)

From a brief review, these accounts seem to represent withdrawal items not properly classified.

An immediate review should be made on these accounts and proper adjustments should be recorded.

- L. General ledger account No. 2690.00 is entitled "Reserve Account" and has a balance of \$19,604.00. A review of this account indicates that it represents certificate of deposit accounts and has no connection to the association's reserve accounts. This account should be reclassified.
- M. An analysis of the general ledger account entitled "Miscellaneous Income" revealed that \$16,668.72 in outstanding checks was taken into income. This amount should have been remitted to the Abandoned Property Division as provided for under Commercial Law Article, Title 17 (Disposition of Abandoned Property).
- N. The reconciliation of the checking account with Citizens Bank and Trust contained numerous outstanding items as far back as July, 1983. Timely disposition of all reconciling items should be made.

Comment 8:

A review of the association's fidelity bond revealed that the present coverage of \$1,493,500.00 is \$166,500.00 less than the \$1,660,000.00 required by Regulation .22.

Comment 9:

No evidence of the Abandoned Property Report being filed for the period ended June 30, 1983 was available for review. This report is required by Title 17 of the Commercial Law Article, Section 114.

First Maryland Savings and Loan

Comment 10:

A review of the MRD K-8 (Franchise Tax on Federal, Domestic and Foreign Savings and Loan Associations) for the year ending December 31, 1983 revealed that the tax paid was \$3,140.00 less than what was actually due.

Comment 11:

First Maryland Savings and Loan accepts brokered savings in the form of Jumbo Certificates.

A review of records provided to the examiner in connection with brokered savings deposits revealed the following:

- A. First Maryland does not have written agreements for services to be performed by the broker and commissions or fees to be paid, as required by Regulation .18H(2)(a).
- B. There is no separate ledger control or other record that shows the aggregate outstanding balances of all accounts that were opened or increased as a result of any services of a broker, as required by Regulation .18H(2)(c).
- C. The association should maintain a record identifying each account that is opened or increased as a result of any services of a broker. This record is not being maintained, as required by Regulation .18H(2)(b).
- D. The association shall maintain an itemized record of each payment of any commission or fee to any broker, identifying each account and stating the amount of it in respect to which the commission or fee is paid. This record is not being maintained, as required by Regulation .18H(2)(d).

Comment 12:

A review of the S/L 200A reports submitted to the Division for the period of September 1, 1983 through August 31, 1984 revealed the association reporting as "Not Available" on line number 230 "Mortgage Loan Commitments" for nine of the last twelve reports. Please inform the Division why these mortgage loan commitment figures are not available.

Comment 13:

A review of the Real Estate Owned account, general ledger No. 1310.00, revealed the following:

<u>Property</u>	<u>REO Balance 8/31/84</u>	<u>Appraised Value</u>	<u>Appraisal Date</u>
1408 Crowell Road	\$250,000.00	\$252,000.00	3/84
1208 Everts Road	258,278.55	None Available	
119 Bates Street	82,794.61	65,000.00	8/84
15017 Good Meadow Court	140,158.09	127,000.00	6/84
706 Rock Creek Church	107,692.98	85,000.00	1/84
429 Kenyon Street	735,910.08	None Available	
729 Longfellow, N.W.	55,986.16	37,000.00	8/84
756 Newton Place, N.W.	63,732.78	54,000.00	12/83
901 3rd Street, N.W. and 300 I Street, N.E.	336,423.62	None Available	

It is recommended that the above properties and appraisals be reviewed, and if necessary, loss reserve amounts be established.

First Maryland Savings and Loan

Comment 14:

As of February 25, 1985, the Division has not received the following items which were requested by the examiners:

1. Management Questionnaire;
2. Summary of Mortgages by Area;
3. Loan Commitments Schedule.

The association is directed to forward these three items to the Division with the response to these comments.

INFORMATIONAL COMMENTS:

- A. A comparative analysis of the financial condition of the association as of August 31, 1984 and August 31, 1983 revealed the following:

	<u>August 31, 1984</u>	<u>August 31, 1983</u>	<u>Increase</u>	
			<u>Dollar Amount</u>	<u>Per Cent</u>
Total Savings	\$237,426,386.74	\$132,089,140.88	\$105,337,245.86	79.8
Total Net Worth	4,620,556.50	1,479,982.42	3,140,574.08	212.2
Total Mortgage Loans	259,237,150.19	164,353,066.11	94,884,084.08	57.7
Total Assets	312,074,450.64	181,671,698.17	130,402,752.47	71.8

- B. A review of the association's earnings for the fiscal year ended September 30, 1983 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	<u>\$12,632,282.78</u>	<u>100.0</u>
2. Taxes (Page 6, Line 4)	439,177.59	3.5
3. Earnings distributed on savings (Page 6, Line 3)	10,782,642.79	85.3
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	1,410,462.40	11.2
5. Net income distributed (Total of 2, 3 & 4 above)	<u>\$12,632,282.78</u>	<u>100.0</u>

EXAMINERS' COMMENTS

First Maryland Financial Services Corporation

Comment 1:

First Maryland Financial Services Corporation, a wholly-owned subsidiary of First Maryland Savings and Loan Association, purchased 34 apartment units, representing 34 shares of the capital stock of the "Saxony Co-operative Apartments, Inc." The association granted a first mortgage against each of these units. A review of this transaction revealed the following:

- A. The service corporation does not reflect the entire purchase price of the units as an asset on their records, but rather reflects only the actual cash disbursed at time of settlement.
- B. The outstanding mortgages, representing the balance of the purchase price, is not shown as a liability on the books and records of the service corporation.

Comment 2:

Because of the interpretation of "Internal Revenue Law", the service corporation was limited to the purchase of only 20 units in the "Saxony Co-operative Apartments, Inc." Mr. Julian Seidel, President and Chairman of the Board of First Maryland Savings and Loan, agreed to purchase 14 of the above units as trustee for First Maryland Financial Services Corporation.

The following agreements in regard to the above transaction were not witnessed and notarized:

- (1) Agreement dated July 9, 1984 between First Maryland Financial Services Corporation and Mr. Julian Seidel;
- (2) Assignment of proprietary lease.

9/4/84

11/1/84

STATE OF MARYLAND



DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

231 EAST BALTIMORE STREET
BALTIMORE, MARYLAND 21202
7TH FLOOR

REPORT OF EXAMINATION
OF

FIRST MARYLAND SAVINGS + LOAN, INC.
Name of Association

1109 SPRING STREET
Street and Number

SILVER SPRING MARYLAND 20910
City State Zip Code

As of Close of Business

AUGUST 31, 1984
Month, Day and Year

THIS EXAMINATION AND REPORT HAS BEEN PREPARED BY THE DIVISION OF BUILDING SAVINGS AND LOAN ASSOCIATIONS OF THE STATE OF MARYLAND FOR ITS OFFICIAL USE; A COPY IS LOANED TO THE DIRECTORS AND OFFICERS OF THE ASSOCIATION (AND THE MARYLAND SAVINGS - SHARE INSURANCE CORPORATION WHERE APPLICABLE) FOR THEIR CONFIDENTIAL INFORMATION AND IS NOT TO BE PUBLISHED IN WHOLE OR IN PART.

PART 2 of 8
PAGES 1 TO 20 D

REVIEWED BY:	<i>R.Y. - 1-10-85</i>
TYPED BY:	<i>[Signature]</i>
CHECKED BY:	<i>[Signature]</i>
RE-CHECKED BY:	

FORM DLR/BSL/11/10-83/84-120

SUPERVISORY LETTER MAILED 4/16/85
ASSOCIATION REPLY REC'D _____

NAME OF ASSOCIATION FIRST MICHIGAN SAVINGS AND LOAN ASSN

As of Date AUGUST 31, 1984

Examiners			
JESSIE FINE	19	30	
THOMAS J. BURGESS	24	24	
LINDA EMERLEWICK	33	33	
JESSIE FINE	21	33	
Total	97	110	TOT.

This association post its books Daily
(daily, weekly, monthly, quarterly)

Does association obtain yearly independent certified audits? YES

On Line? NCR

First-aid-aid-stroke team
 MAN DAYS

DATE	LINEA CHARACTER	DUR. HOURS	TAM BUDGET	MAN DAYS
9/22	✓	1	1	1
9/23	✓	1	1	1
9/24	✓	1	1	1
9/25	✓	1	1	1
9/26	✓	1	1	1
9/27	✓	1	1	1
9/28	✓	1	1	1
9/29	✓	1	1	1
9/30	✓	1	1	1
10/1	✓	1	1	1
10/2	✓	1	1	1
10/3	✓	1	1	1
10/4	✓	1	1	1
10/5	✓	1	1	1
10/6	✓	1	1	1
10/7	✓	1	1	1
10/8	✓	1	1	1
10/9	✓	1	1	1
10/10	✓	1	1	1
10/11	✓	1	1	1
10/12	✓	1	1	1
10/13	✓	1	1	1
10/14	✓	1	1	1
10/15	✓	1	1	1
10/16	✓	1	1	1
10/17	✓	1	1	1
10/18	✓	1	1	1
10/19	✓	1	1	1
10/20	✓	1	1	1
10/21	✓	1	1	1
10/22	✓	1	1	1
10/23	✓	1	1	1
10/24	✓	1	1	1
10/25	✓	1	1	1
10/26	✓	1	1	1
10/27	✓	1	1	1
10/28	✓	1	1	1
10/29	✓	1	1	1
10/30	✓	1	1	1
10/31	✓	1	1	1
11/1	✓	1	1	1
11/2	✓	1	1	1
11/3	✓	1	1	1
11/4	✓	1	1	1
11/5	✓	1	1	1
11/6	✓	1	1	1
11/7	✓	1	1	1
11/8	✓	1	1	1
11/9	✓	1	1	1
11/10	✓	1	1	1
11/11	✓	1	1	1
11/12	✓	1	1	1
11/13	✓	1	1	1
11/14	✓	1	1	1
11/15	✓	1	1	1
11/16	✓	1	1	1
11/17	✓	1	1	1
11/18	✓	1	1	1
11/19	✓	1	1	1
11/20	✓	1	1	1
11/21	✓	1	1	1
11/22	✓	1	1	1
11/23	✓	1	1	1
11/24	✓	1	1	1
11/25	✓	1	1	1
11/26	✓	1	1	1
11/27	✓	1	1	1
11/28	✓	1	1	1
11/29	✓	1	1	1
11/30	✓	1	1	1
12/1	✓	1	1	1
12/2	✓	1	1	1
12/3	✓	1	1	1
12/4	✓	1	1	1
12/5	✓	1	1	1
12/6	✓	1	1	1
12/7	✓	1	1	1
12/8	✓	1	1	1
12/9	✓	1	1	1
12/10	✓	1	1	1
12/11	✓	1	1	1
12/12	✓	1	1	1
12/13	✓	1	1	1
12/14	✓	1	1	1
12/15	✓	1	1	1
12/16	✓	1	1	1
12/17	✓	1	1	1
12/18	✓	1	1	1
12/19	✓	1	1	1
12/20	✓	1	1	1
12/21	✓	1	1	1
12/22	✓	1	1	1
12/23	✓	1	1	1
12/24	✓	1	1	1
12/25	✓	1	1	1
12/26	✓	1	1	1
12/27	✓	1	1	1
12/28	✓	1	1	1
12/29	✓	1	1	1
12/30	✓	1	1	1
12/31	✓	1	1	1

1-33 ✓ 33
 2-34 ✓ 33
 1-24 ✓ 24
 1-20 ✓ 20
 106 110
 4
 110

MAN-DAYS at ESSENTIAL

ASSOCIATION: FIRST MARYLAND STATE - LOCAL 500
SILVER SPRING, MARYLAND

NAME OF EXAMINERS AND MAN DAYS ON EXAMINATION:

DAY	E.I.C. Linda Chemist	EXMR. Buck ENGINE	EXMR. DUDGER	EXMR. FINE	EXMR.
7/10 M					
7/10 T	✓	✓			
7/11 W	✓	✓			
7/12 T	✓	✓			
7/13 F	✓ (4)	✓ (4)			(1)
7/14 M	OUT	✓			(2)
7/15 T	✓	✓			
7/16 W	✓	✓			
7/17 T	✓ (2)	✓ (4)			
7/18 F	✓ (7)	✓ (9)			(7)
7/19 M	✓	✓			(15)
7/20 T	✓	✓			
7/21 W	✓	✓			
7/22 T	✓	✓			
7/23 F	✓ (12)	✓ (5)	✓ (5)	✓ (5)	(23)
7/24 M					(15)
7/25 T	✓	✓			
7/26 W	✓	✓			
7/27 T	✓	✓			
7/28 F	✓ (5)	✓ (2)	✓ (5)	✓ (4)	(16)
7/29 M	✓	✓	✓ (10)	✓ (9)	(51)
7/30 T	✓	✓			
7/31 W	✓	✓			
8/1 T	✓	✓			
8/2 F	✓ (5)	✓ (2)	✓ (4)	✓ (5)	(16)
8/3 M	✓	✓	✓ (14)	✓ (14)	(47)
8/4 T	✓	✓	✓	✓	
8/5 W	✓	✓	✓	✓	
8/6 T	✓	✓	✓	✓	
8/7 F	✓	✓ (3)	✓ (3)	✓ (3)	(13)
8/8 M	✓ (20)	✓ (20)	✓ (7)	✓ (7)	(50)
8/9 T	✓	✓	✓	✓	
8/10 W	✓	✓	✓	✓	
8/11 T	✓	✓	✓	✓	
8/12 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
8/13 M	✓	✓	✓	✓	(26)
8/14 T	✓	✓	✓	✓	
8/15 W	✓	✓	✓	✓	
8/16 T	✓	✓	✓	✓	
8/17 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
8/18 M	✓	✓	✓	✓	(26)
8/19 T	✓	✓	✓	✓	
8/20 W	✓	✓	✓	✓	
8/21 T	✓	✓	✓	✓	
8/22 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
8/23 M	✓	✓	✓	✓	(26)
8/24 T	✓	✓	✓	✓	
8/25 W	✓	✓	✓	✓	
8/26 T	✓	✓	✓	✓	
8/27 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
8/28 M	✓	✓	✓	✓	(26)
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8/30 W	✓	✓	✓	✓	
8/31 T	✓	✓	✓	✓	
9/1 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
9/2 M	✓	✓	✓	✓	(26)
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9/4 W	✓	✓	✓	✓	
9/5 T	✓	✓	✓	✓	
9/6 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
9/7 M	✓	✓	✓	✓	(26)
9/8 T	✓	✓	✓	✓	
9/9 W	✓	✓	✓	✓	
9/10 T	✓	✓	✓	✓	
9/11 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
9/12 M	✓	✓	✓	✓	(26)
9/13 T	✓	✓	✓	✓	
9/14 W	✓	✓	✓	✓	
9/15 T	✓	✓	✓	✓	
9/16 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
9/17 M	✓	✓	✓	✓	(26)
9/18 T	✓	✓	✓	✓	
9/19 W	✓	✓	✓	✓	
9/20 T	✓	✓	✓	✓	
9/21 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
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9/24 W	✓	✓	✓	✓	
9/25 T	✓	✓	✓	✓	
9/26 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
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9/29 W	✓	✓	✓	✓	
9/30 T	✓	✓	✓	✓	
10/1 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
10/2 M	✓	✓	✓	✓	(26)
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10/4 W	✓	✓	✓	✓	
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10/6 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
10/7 M	✓	✓	✓	✓	(26)
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10/9 W	✓	✓	✓	✓	
10/10 T	✓	✓	✓	✓	
10/11 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
10/12 M	✓	✓	✓	✓	(26)
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10/14 W	✓	✓	✓	✓	
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10/16 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
10/17 M	✓	✓	✓	✓	(26)
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10/19 W	✓	✓	✓	✓	
10/20 T	✓	✓	✓	✓	
10/21 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
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10/23 T	✓	✓	✓	✓	
10/24 W	✓	✓	✓	✓	
10/25 T	✓	✓	✓	✓	
10/26 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
10/27 M	✓	✓	✓	✓	(26)
10/28 T	✓	✓	✓	✓	
10/29 W	✓	✓	✓	✓	
10/30 T	✓	✓	✓	✓	
10/31 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
11/1 M	✓	✓	✓	✓	(26)
11/2 T	✓	✓	✓	✓	
11/3 W	✓	✓	✓	✓	
11/4 T	✓	✓	✓	✓	
11/5 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
11/6 M	✓	✓	✓	✓	(26)
11/7 T	✓	✓	✓	✓	
11/8 W	✓	✓	✓	✓	
11/9 T	✓	✓	✓	✓	
11/10 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
11/11 M	✓	✓	✓	✓	(26)
11/12 T	✓	✓	✓	✓	
11/13 W	✓	✓	✓	✓	
11/14 T	✓	✓	✓	✓	
11/15 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
11/16 M	✓	✓	✓	✓	(26)
11/17 T	✓	✓	✓	✓	
11/18 W	✓	✓	✓	✓	
11/19 T	✓	✓	✓	✓	
11/20 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
11/21 M	✓	✓	✓	✓	(26)
11/22 T	✓	✓	✓	✓	
11/23 W	✓	✓	✓	✓	
11/24 T	✓	✓	✓	✓	
11/25 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
11/26 M	✓	✓	✓	✓	(26)
11/27 T	✓	✓	✓	✓	
11/28 W	✓	✓	✓	✓	
11/29 T	✓	✓	✓	✓	
11/30 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/1 M	✓	✓	✓	✓	(26)
12/2 T	✓	✓	✓	✓	
12/3 W	✓	✓	✓	✓	
12/4 T	✓	✓	✓	✓	
12/5 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/6 M	✓	✓	✓	✓	(26)
12/7 T	✓	✓	✓	✓	
12/8 W	✓	✓	✓	✓	
12/9 T	✓	✓	✓	✓	
12/10 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/11 M	✓	✓	✓	✓	(26)
12/12 T	✓	✓	✓	✓	
12/13 W	✓	✓	✓	✓	
12/14 T	✓	✓	✓	✓	
12/15 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/16 M	✓	✓	✓	✓	(26)
12/17 T	✓	✓	✓	✓	
12/18 W	✓	✓	✓	✓	
12/19 T	✓	✓	✓	✓	
12/20 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/21 M	✓	✓	✓	✓	(26)
12/22 T	✓	✓	✓	✓	
12/23 W	✓	✓	✓	✓	
12/24 T	✓	✓	✓	✓	
12/25 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/26 M	✓	✓	✓	✓	(26)
12/27 T	✓	✓	✓	✓	
12/28 W	✓	✓	✓	✓	
12/29 T	✓	✓	✓	✓	
12/30 F	✓ (5)	✓ (4)	✓ (5)	✓ (3)	(17)
12/31 M	✓	✓	✓	✓	(26)

Savings Accounts Insured by
MSSIC

EXAMINATION AS OF
AUGUST 31, 1984

Current Policy or Certificate No.

Association **F.P.A. SAVINGS AND LOAN ASSOCIATION**

Address **1109 SPANGLER ST SILVER SPRING, MARYLAND 20910**

Address of Branches

- 1) 6001 MARLBOROUGH ROAD ROCKVILLE, MD 20852 (3) 12581 GREENBUSH RD, LANHAM, MD 2072
- 2) 2001 GARDENVIEW RD, CROFTON, MD 21114 (4) 8307 MAIN STREET, ELLICOTT CITY, MD 21114

Free Share of Savings Accounts

No. **27,898** \$ **237,426,386.74**

Mortgage Loans

No. **908** \$ **259,237,153.19**

Date Chartered	Stock	SP 10-20-80 30	THIRD MONTH IN QUARTER	8% EACH QUARTER
Stock in Market	Years End	Annual Meeting	Dividend Rate and Period	

OFFICERS AND DIRECTORS

Name	Address	City	Officer	Director
1) JAMES SELBY	702 SHILOHWOOD COURT	POTOMAC	PRESIDENT AND CHAIRMAN OF THE BOARD	(X)
2) EDWARD A. DACY	3720 BELLEVUE AVENUE	SILVER SPRING	TREASURER	(X)
3) ROBERT COLLETTA	129 SPANGLER AVENUE	ANNAPOLIS	SECRETARY	(X)
4) LINDA PETERS	11721 HERBERT DRIVE	SILVER SPRING	ASST. SECRETARY, EXEC. ASST. TO PRES. FOR PERSONNEL	
5) JAMES FOSTER	7419 TIGERLICK ROAD	FARM CHURCH, VA.	SENIOR VICE PRESIDENT REAL ESTATE	
6) JAMES HILLMAN	5429 CEDAR LANE	CANVANA	VICE PRESIDENT, OPERATIONS	
7) DAVID SOLE	1022 WOODSIDE PARKWAY	SILVER SPRING	VICE PRESIDENT-REALESTATE / COMPLAINTS	
MAR WELLMUTH	4508 WISSEMAN LANE	LANHAM	DIRECTOR ASST./LIABILITY MGT.	
8) DAVID SOY	11502 PLAZA PLACE	ROCKVILLE	ASST. VICE PRESIDENT	
9) MICHAEL SANTANA	4739 N. 1ST STREET	ARLINGTON, VA.	ASST VICE PRESIDENT, LOAN SERVICING	
10) JAY SMIT	1744 KENNEDY FOREST LANE	CHEVY CHASE	VICE PRESIDENT, COMMERCIAL LENDING	
11) PAUL SWEETMAN	PO BOX 3682	SILVER SPRING	CREDIT CLERK	
12) FRANK T. CARROLL	7212 MID BELMONTOWN ROAD	BETHESDA		(X)
13) MICHAEL FINCH	11242 CRIMME LANE	ROCKVILLE		(X)
14) KEITH W. LITTLE	1121 UNIVERSITY BLVD W.	SILVER SPRING		(X)

Counsel

Name **EDWARD A. DACY**
Address **9720 GEORGIA AVE SILVER SPRING MD 20910**

Accountant

Name **BEKIN, SEGWIN, KARAM AND RAMOS**
Address **8030 FENTON STREET, SUITE 1114 SILVER SPRING MARYLAND 20910**

Period of Examination
From **SEP 4 1984** To **OCT 31 1984**

Examiner-in-Charge
ENCAS, CHARLES F.

COMPARATIVE PERCENTAGE SUMMARY
CURRENT EXAMINATION

Date AUGUST 31 1984

PREVIOUS EXAMINATION

Date AUGUST 31 1983

	Amount	% to Total Assets	Amount	% to Total Assets
Total Assets	\$ 312,074,450.64		\$ 171,671,697.17	
1. Reserve for Bad Debts	1,049,669.43	0.3	637,138.96	0.4
2a. P.A.S. in surplus	1,922,132.73	0.6	420,598.11	0.2
3. Undivided profits and surplus	1,023,782.34	0.3	71,735.35	0.04
3a. CAPITAL STOCK	564,979.00	1.8	350,519.00	0.2
4. First mortgage loans	\$ 359,817,580.17	11.0	\$ 161,570,712.48	88.9
5. Ground rents owned	0	0	0	0
6. Liquid Assets				
(a) Cash	\$ 7,897,747.04		\$ 6,001,046.88	
(b) Investments (Securities)	1,692,514.75		12,423.42	
(c) M.S.S.L. deposit and cash	6,071,500.00		2,990,900.00	
Total Liquid Assets	\$ 15,661,761.79	5.0	\$ 8,995,570.30	5.0
7. Slow Assets				
(a) Slow mortgage loans	1,815,417.63	0.6	5,062,475.17	2.9
(b) Real Estate Owned	2,991,019.02	1.0	1,102,909.75	0.6
(c) Office Building & Improvements (net)	288,444.91	0.1	620,877.62	0.4
(d) Leasehold Improvements (net)	213,766.48	0.1	213,766.19	0.1
(e) Furniture & Fixtures (net)	637,382.50	0.2	321,600.04	0.2
(f)	0	0	0	0
Total Slow Assets	\$ 18,198,644.07	5.8	\$ 7,417,491.77	4.1
8. Borrowed Money	\$ 17,685,896.60	5.6	\$ 10,217,000.00	5.6

Year Ended September 30, 1983

Year Ended September 30, 1982

	Amount	Ratio	Amount	Ratio
9. Operating ratios				
(a) Gross operating income (Item 9, Page 4)	\$ 15,059,260.50		\$ 7,217,294.32	
Total operating expense (Item 25, Page 4 and Item 29, Page 5)	\$ 2,734,279.34		\$ 1,355,449.80	
(c) % Operating expense to gross operating income		18.3		18.5
(d) Net operating income (Item V, Page 5)	\$ 12,324,980.74		\$ 5,861,844.47	
(e) Dividends (page 6)	\$ 10,792,642.79	87.5	\$ 5,736,716.97	97.9
(f) % Dividends to net operating income		87.4		97.9
(g) Total assets at end of fiscal year	\$ 180,436,175.32		\$ 78,408,355.77	
(h) % Operating expense to total assets		1.5		1.7
(i) Share liability at end of fiscal year	\$ 138,910,277.77	77.0	\$ 66,326,127.32	84.5
(j) % Net income to share liability		8.9		9.0
(k) Reserve for Bad Debts	\$ 637,138.96	0.5	\$ 637,138.96	0.8
(l) % Reserve for Bad Debts to Share Liability		0.4		0.9
(m) Total Net Worth	\$ 3,290,444.22	2.1	\$ 1,474,196.26	2.2
(n) % Total Net Worth to Share Liability		2.0		2.2

STATEMENT OF CONDITION

Exhibit A

Name of Institution FIRST MARYLAND SAVINGS AND LOAN, INC
 as of AUGUST 31, 1984

ASSETS

1. First mortgage loans		
a. First mortgage direct production loans	\$ 132,737,706.33	
b. First mortgage <u>LAND</u>	28,999,239.38	
c. F.H.A. mortgage loans	13,259,115.40	
d. G.I. mortgage loans	2,292,959.97	
e. First mortgage <u>Construction</u>	74,258,201.32	
f. Participation loans	2,587,123.11	
g. Accrued interest receivable on first mortgage loans	4,064,973.45	
h. Advances for taxes, insurance, etc., on first mortgage loans	42,791.63	\$ 259,257,150.19
2. Subordinated Loans		
a. Second Mortgages	\$ 7,442,502.23	
b. Accrued interest receivable on second mortgages		7,442,502.23
c. Advances for taxes, insurance, etc., on second mortgages		
3. Free Share Account Loans		
a. Loans secured by accounts of this association	\$ 829,081.05	
b. Accrued interest receivable on free share account loans		829,081.05
4. Other loans		
a. Loans on all other security	\$ 18,664,585.12	
b. Unsecured loans	201,373.55	
c. Accrued interest receivable on other loans		18,865,958.67
5. Real Estate Sold on Contract		
a. Real estate sold on contract	\$	
b. Accrued interest receivable on real estate sold on contract		
c. Advances for taxes, insurance, etc., on real estate sold on contract		
6. Real estate owned (exclusive of office bldg.)		
7. Ground Rents Owned		299,099.02
8. Investments		
a. State Home Loan Bank <u>F.H.M.A. - PC</u>	\$ 1,656,951.72	
b. Federal Home Loan Bank Securities		
c. U.S. Government obligations		
d. Other investment securities <u>(ACCUMULATED INTEREST)</u>	35,563.03	1,692,514.75
9. M.S.S.L.C. Deposit		6,071,500.00
Investment - Service Corporation		4,973,916.47
Cash		
a. Cash on hand	\$ 185,641.91	
b. Cash in banks	3,512,105.13	
c. <u>Foreign Funds</u>	3,000,000.00	
d. <u>Time Deposits and Certificates of Deposits</u>	1,200,000.00	7,897,747.04
12. Office Building (if owned)		
a. Office building and improvements	\$ 336,132.30	
b. Less allowance for depreciation	47,637.49	288,494.81
13. Leasehold Improvements		
a. Leasehold improvements	\$ 321,674.36	
b. Less allowance for amortization	107,907.88	213,766.48
14. Furniture, etc.		
a. Furniture, fixtures and equipment	\$ 219,763.44	
b. Less allowances for depreciation	182,380.94	67,382.50
15. Deferred charges		306,520.57
16. Other assets (Schedule II, Page 14)		126,716.26
17.		
18. <u>Branch Cost</u>		195,100.60
TOTAL ASSETS		\$ 212,074,450.64

CAPITAL AND LIABILITIES

20. Free accounts:			
a. Installment share dues credited	_____	\$	_____
(Deduct—Delinquent dues (if earned))	_____		_____
Subtotal	_____	\$	_____
Add—Dividends (unless included in 20-a)	_____		_____
Net free installment shares	_____		_____
b. Savings shares and accounts (payments and dividends)	_____	\$	_____
c. Variable Dividend Certificates	_____		23,081,517.76 ✓
d. Single-payment shares (payments and dividends)	_____		182,309,634.24 ✓
e. Matured shares (payments and dividends)	_____		2,492,376.97 ✓
f. Hypothecated Share Accounts—Mortgage Loans	_____		_____
g. Plotted Share Accounts—Free Share Account Loans	_____		_____
h. Income Shares	_____		_____
i. <u>Now accounts</u>	_____		_____
Total Share Accounts	_____		34,527,545.1 ✓
21. Other Accounts			237,426,386.74 ✓
Christmas Clubs	_____	\$	_____
Vacation Clubs	_____		_____
Total Other Accounts	_____		_____
22. <u>Accounts from Federal Home Loan Bank</u>	<u>Subordinated Debentures</u>		3,550,000.00 ✓
23. Borrowed money			
a. From banks (Schedule 8, Page 14)	_____	\$	6,500,000.00 ✓
b. From others (Schedule 8, Page 14)	_____		11,185,896.60 ✓
24. Mortgage on real estate owned	_____		17,675,896.60 ✓
25. Interest accrued on items 22, 23 and 24	_____		_____
26. Dividends declared, unpaid and uncredited	_____		_____
27. Taxes accrued and unpaid on real estate owned	_____		1,070,535.15 ✓
28. Accounts payable	_____		_____
29. Loans in process	_____		1,078,446.76 ✓
30. Advance payments			40,690,505.05 ✓
a. Advance payments by borrowers for taxes and insurance (if carried separately)	_____	\$	812,636.31 ✓
b. <u>FROM FUTURE LOANS</u>	_____		29,155.95 ✓
c. <u>FROM FUTURE LOANS</u>	_____		15,506.09 ✓
31. Other liabilities (Schedule 7, Page 14)			257,298.35 ✓
a. <u>Interest credits to future operations:</u>			104,227.91 ✓
For unearned profit on real estate sold	_____	\$	13,177.71 ✓
For income collected in advance	_____		562,364.69 ✓
For income taxes	_____		919,616.90 ✓
<u>DISCOUNT ON GUAR ANNA EXHIBIT</u>	_____		479,258.16 ✓
32. Specific reserves:			1,974,417.46 ✓
a. For uncollected interest	_____	\$	558,381.27 ✓
b. For subordinated liens	_____		_____
c.	_____		_____
33. General reserves			558,381.27 ✓
a. Reserve for bad debts	_____	\$	1,049,662.43 ✓
b. Federal insurance reserve (if insured)	_____		_____
c.	_____		_____
d.	_____		_____
e.	_____		_____
34. Surplus	_____		1,049,662.43 ✓
35. Undivided profits	_____		_____
36. Reserve for estimated dividend requirements	_____		1,083,782.34 ✓
37. Current earnings (if interim statement) <u>11</u> months ended <u>AUG 31, 1924</u>	_____		2,456,738.05 ✓
38. CAPITAL STOCK	_____		564,979.00 ✓
39. <u>PAID IN CAPITAL IN EXCESS OF PAR VALUE</u>	_____		1,922,132.73 ✓
TOTAL CAPITAL AND LIABILITIES	_____		212,074,450.64 ✓

STATEMENT OF OPERATIONS

Exhibit B

NAME OF INSTITUTION FIRST MARYLAND SAVINGS AND LOAN

Current Period From OCT 1 1983 To AUGUST 31 1984 Year From OCTOBER 1 1982 To SEPTEMBER 30 1983 Year From OCTOBER 1 1981 To SEPTEMBER 30 1982

I. GROSS OPERATING INCOME

1. Interest			
a. On mortgage loans—primary cash collections	\$ 20,756,036.55	\$ 12,587,754.20	\$ 5,182,422.17
b. On mortgage loans—all other			
c. On loans on shares, passbooks and			
d. On certificates of deposit <u>STOCKS, BONDS, MUTUAL FUNDS</u>	54,611.99	34,369.37	82,145.35
e. On investments and bank deposits	517,144.79	306,303.71	64,547.53
f. On passbook <u>COMMERCIAL</u> loans	970,946.06	152,888.37	754,751.12
g. Unsecured loans <u>LOANS TO FALCO</u>	264,402.42	169,369.76	77,478.27
h. Other STOCK LOANS	23,777.12	15,102.48	15,371.20
2. Discount on loans (current installment and amortization only)			
3. Appraisal fees, legal fees and initial service charges	3,238,535.91	1,717,548.23	122,446
4. Other fees and fines	199,537.75	65,585.06	984,350.02
5. Real estate operations—Net income or (loss) from R.E.O. (Details on page 5)	< 183,343.41 >	< 84,769.21 >	< 20,885.70 >
6. Gross income from office building	5,250.00		2,950.00
7. Dividends			
a. On stock in Federal Home Loan Bank			
b. Other dividends <u>MSSIC / ARE</u>	97,380.91	44,969.49	22,647.33
8. Miscellaneous operating income	392,637.09	54,893.84	99,340.60
9. Gross operating income	\$ 26,346,934.18	\$ 15,059,260.50	\$ 7,317,274.23
II. LESS—OPERATING EXPENSE:			
10. Salaries, etc.			
a. Compensation to directors, officers, employees, etc.	\$ 1,270,655.43	\$ 741,218.59	\$ 522,006.68
b. Collection expense (agents, etc.)	96,047.99	52,430.34	21,662.97
c. Consulting fees	116,420.34	50,283.85	2,866.00
11. Legal services—retainer, traveling expense and special services	222,664.74	81,323.69	69,320.45
12. Telephone accounts of directors, officers and employees	119,511.55	68,253.58	22,252.18
13. Light, heat, etc.	148,738.00	93,706.77	62,046.66
14. Office building expenses (if owned):			
a. Repairs, taxes and maintenance of office building (including depreciation)	23,402.63	21,296.93	17,511.29
b. <u>HOUSEHOLD IMP./MAINTENANCE, ETC.</u>	58,540.16	43,294.95	18,662.07
15. Furniture, fixture and equipment, including depreciation	440,439.56	234,690.58	155,688.52
16. Advertising	249,914.88	145,122.59	121,400.45
17. Stationery, printing and office supplies	111,834.72	71,037.15	77,467.04
18. Telegraph, telephone, postage & express	118,422.15	62,053.28	40,957.30
19. Insurance and bond premiums	34,519.34	17,948.97	9,714.83
20. <u>BACKLOG MANAGEMENT FEES</u> Federal insurance premium (if insured)	312,749.86	149,343.97	
21. Audit and supervisory examination	113,944.04	85,113.16	31,712.26
22. Taxes (other than real estate taxes)	104,397.59	63,689.30	42,330.32
23. Organization dues	22,893.01	17,631.65	4,789.15
24. Other operating expense	332,686.31	145,246.46	78,015.71
25. Total operating expense	\$ 3,897,784.80	\$ 2,143,834.20	\$ 1,258,441.82
III. Net Operating Income Before Interest and Other Charges	\$ 22,449,149.38	\$ 12,915,426.30	\$ 6,058,832.35

STATEMENT OF OPERATIONS (Continued)

Exhibit B (Continued)

	Current Period From OCTOBER 1, 1982 To AUGUST 31, 1983	Year From OCTOBER 1, 1982 To SEPT. 30, 1983	Year From OCTOBER 1, 1981 To SEPTEMBER 30, 1982
Net Operating Income Before Interest and Other Charges	\$ 22,449,149.38	\$ 12,915,426.30	\$ 6,058,852.35
IV. LESS-INTEREST CHARGES:			
20. Dividends from Investment <u>BANKS / DEBITABLE</u>	\$ 272,215.07		\$ 5,234.22
21. On borrowed money <u>REPO AGREEMENTS</u>	944,733.28	561,798.28	72,439.55
22. <u>INTEREST ON ESCROW ACCOUNTS</u>	26,168.79	28,647.24	19,554.15
23. Total Interest	\$ 1,243,117.14	\$ 590,443.54	\$ 97,227.92
V. Net Operating Income	\$ 21,206,032.24	\$ 12,324,982.76	\$ 5,961,624.43
VI. ADD-NON-OPERATING INCOME:			
10. Dividends retained on withdrawals	\$ 72,288.82	\$ 16,431.12	\$ 9,333.10
11. Profit on sale of real estate		55,198.25	
12. Profit on sale of investments	.13	285,637.97	45,727.81
13. <u>PROPERTY OPERATING EXPENSES</u>	168,040.89	21,675.38	49,883.06
14. Other non-operating income <u>EQUITY EARNINGS OF SERVICE CORP</u>	236,500.00		20,490.00
15. Total non-operating income	\$ 476,849.84	\$ 378,942.62	\$ 125,423.97
VII. Net Income After Interest and Before Charges	\$ 21,682,882.08	\$ 12,703,925.38	\$ 6,087,119.40
VIII. LESS-NON-OPERATING CHARGES (do not use lines herein for items charged direct to reserves):			
16. Pre-closure costs and back taxes on real estate acquired (unless capitalized or charged to reserves)	\$ 45,847.22	\$ 6,847.03	\$ 9,907.15
17. Loss on sale of real estate		25,189.70	
18. Loss on sale of investments		35,951.46	
19. Other non-operating charges <u>BAD CHECKS EIT(1A)</u>	5,704.27	3,752.41	1,000.00
20. Total non-operating charges	\$ 51,551.49	\$ 71,640.60	\$ 92,907.15
IX. Net Income for Period	\$ 21,631,330.59	\$ 12,632,284.78	\$ 5,994,212.25

REAL ESTATE OPERATION (Details)

REAL ESTATE INCOME:			
1. Real Estate Rents	\$ 37,760.94	\$ 9,000.00	\$ -
2. _____			
3. Total Real Estate Income	\$ 37,760.94	\$ 9,000.00	\$ -
II. LESS-REAL ESTATE OPERATING EXPENSES:			
4. Taxes			
5. Insurance			
6. Repairs and Maintenance			
7. Commissions			
8. Depreciation			
9. Other Miscellaneous real estate expenses		93,769.21	20,885.70
10. _____			
11. Total Real Estate Expenses	\$ 221,104.35	\$ 93,769.21	\$ 20,885.70
12. Net profit on Real Estate Operations	\$ 156,656.59	\$ 85,230.79	\$ 79,114.30
13. Net loss on Real Estate Operations (Note—insert net income or loss in connection with real estate on page 4 as indicated.)	\$ 183,343.41	\$ 84,769.21	\$ 20,885.70

DISTRIBUTION OF NET INCOME AND
RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

	Current Period From <u>OCT 1, 1983</u> ✓ To <u>AUG 31, 1984</u>	Year From <u>OCT 1, 1982</u> To <u>SEP 30, 1983</u>	Year From <u>OCT 1, 1981</u> To <u>SEP 30, 1982</u> ✓
Distribution of Net Income			
1. Net income for period (Item IX, Exh. B)	\$ 2,631,340.59	\$ 2,632,282.75	\$ 5,994,211.35
Distribution			
2. Transfer to reserves			
a. Federal insurance reserve	\$ _____	\$ _____	\$ _____
b. Reserve for bad debts	_____	_____	_____
c. Surplus	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
3. Earnings distributed on sav. capital:			
a. Dividends on savings	1,004,366.99 ✓	683,723.02	600,573.30 ✓
b. Int. on deposits, invest., cert., etc.	14,422,387.77 ✓	6,995,847.39	2,145,678.73 ✓
c. Res. for div. on Var. Div. Certs.	_____	_____	_____
d. <u>NEW ACCOUNTS / CHECK FUNDS</u>	3,008,506.89 ✓	3,203,072.38	3,090,684.94 ✓
4. Other			
a. Federal income tax	718,067.89 ✓	418,740.20	21,305.00 ✓
b. <u>MARYLAND INC - TAX</u>	20,472.20 ✓	20,437.39	17,495.00 ✓
c. _____	_____	_____	_____
5. Total Distribution of Net Income	\$ 19,174,401.74 ✓	\$ 11,221,820.38	\$ 5,875,736.97 ✓
6. Net Income After Distribution	\$ 716,938.85 ✓	\$ 1,410,462.40	\$ -0- ✓
7. Net income Undistributed	\$ 2,456,938.85	_____	118,474.28 *
Reconciliation of Undivided Profits			
8. Balance—beginning of period	\$ 1,658,126.90	\$ 258,493.10	\$ 258,493.10 ✓
9. Net Income After Distribution (line 6)	\$ _____	\$ 1,410,462.40	\$ _____
10. Other additions:			
a. <u>NET Income FYE 1982 (YE 9-900)</u>	_____	536,157.66	_____
b. <u>AUDITED ADJUSTMENTS</u>	1,172,186.15	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
11. Subtotal	\$ 2,860,313.05	\$ 1,688,126.90	\$ 258,493.10 ✓
12. Deductions:			
a. <u>AUDITED ADJUSTMENTS (W/ N.F.O.I.S.)</u>	1,712,492.28	_____	_____
b. _____	_____	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
13. Total deductions	\$ _____	\$ _____	\$ _____
Balance at end of period	\$ 177,814.33	\$ 1,688,126.90	\$ 258,493.10 ✓
14. Dividend or interest rate for period	8.5 ✓	8.5 ✓	8.5 ✓

RECONCILEMENT OF RESERVES

Exhibit D

Current Period From October 1, 1983 To August 31, 1984 Year From October 1, 1982 To SEPTEMBER 30, 1983 Year From October 1, 1981 To September 30, 1982

Reserve for bad debts

	Current Period	Year	Year
1. Balance at beginning of period	\$ <u>637,138.96</u>	\$ <u>637,138.96</u>	\$ <u>637,138.96</u>
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
3. Total additions	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ <u>637,138.96</u>	\$ <u>637,138.96</u>	\$ <u>637,138.96</u>
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
(e) _____	_____	_____	_____
(f) _____	_____	_____	_____
(g) _____	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
Balance at end of period	\$ <u>637,138.96</u>	\$ <u>637,138.96</u>	\$ <u>637,138.96</u>

Reserve

1. Balance at beginning of period	\$ <u>205,968.01</u>	\$ <u>205,968.01</u>	\$ <u>205,968.01</u>
2. Additions during period	_____	_____	_____
3. Totals of items 1 and 2	\$ <u>205,968.01</u>	\$ <u>205,968.01</u>	\$ <u>205,968.01</u>
4. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
5. Total deductions	\$ _____	\$ _____	\$ _____
6. Balance at end of period	\$ <u>205,968.01</u>	\$ <u>205,968.01</u>	\$ <u>205,968.01</u>

RECONCILEMENT OF RESERVES

Exhibit D (Continued)

	Current Period		
	From <u>October 1, 1983</u> To <u>August 31, 1984</u>	Year From <u>October 1, 1982</u> To <u>September 30, 1983</u>	Year From <u>October 1, 1981</u> To <u>September 30, 1982</u>
CAPITAL Surplus			
1. Balance at beginning of period	\$ 350,510.00	\$ 350,510.00	\$ 242,860.00
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b) <u>STOCK PURCHASES (5-28-82)</u>	\$ _____	\$ _____	\$ 100,800.00
(c) " " (6-19-82)	\$ _____	\$ _____	\$ 7,050.00
(d) <u>STOCK PURCHASES</u>	\$ 214,469.00	\$ _____	\$ _____
(e) _____	\$ _____	\$ _____	\$ _____
3. Total additions	\$ _____	\$ _____	\$ 107,850.00
4. Totals of items 1 and 3	\$ 564,979.00	\$ 350,510.00	\$ 350,510.00
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	\$ _____	\$ _____	\$ _____
(c) _____	\$ _____	\$ _____	\$ _____
(d) _____	\$ _____	\$ _____	\$ _____
(e) _____	\$ _____	\$ _____	\$ _____
(f) _____	\$ _____	\$ _____	\$ _____
(g) _____	\$ _____	\$ _____	\$ _____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ 564,979.00	\$ 350,510.00	\$ 350,510.00

PAID-IN CAPITAL IN EXCESS OF PAR VALUE
Reserve

Balance at beginning of period	\$ 420,598.11	\$ 420,598.11	\$ 97,648.11
2. Additions during period:			
(a) <u>STOCK PURCHASES (5-28-82)</u>	\$ _____	\$ _____	\$ 701,800.00
(b) " " (6-19-82)	\$ _____	\$ _____	\$ 21,150.00
(c) <u>STOCK PURCHASES</u>	\$ 1,501,534.63	\$ _____	\$ _____
3. Total Additions	\$ _____	\$ _____	\$ 722,950.00
4. Totals of items 1 and 3	\$ 1,922,132.74	\$ 420,598.11	\$ 420,598.11
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	\$ _____	\$ _____	\$ _____
(c) _____	\$ _____	\$ _____	\$ _____
(d) _____	\$ _____	\$ _____	\$ _____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ 1,922,132.74	\$ 420,598.11	\$ 420,598.11

RECONCILEMENT OF RESERVES

Exhibit D (Continued)

	Current Period		Year	
	From <u>8/1, 1983</u> To <u>Aug 31, 1984</u>		From <u>N/A</u> To <u></u>	From <u>N/A</u> To <u></u>
<u>RESERVE FOR LOSSES - RFO</u>				
Surplus				
1. Balance at beginning of period	\$ <u>.00</u>	\$ _____	\$ _____	\$ _____
2. Additions during period:				
(a) From net profit	\$ _____	\$ _____	\$ _____	\$ _____
(b) <u>5/8 403 THOUS FROM RESERVE</u>	\$ <u>190,811.00</u>	\$ _____	\$ _____	\$ _____
(c) _____	\$ _____	\$ _____	\$ _____	\$ _____
(d) _____	\$ _____	\$ _____	\$ _____	\$ _____
(e) _____	\$ _____	\$ _____	\$ _____	\$ _____
3. Total additions	\$ <u>190,811.00</u>	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ <u>190,811.00</u>	\$ _____	\$ _____	\$ _____
5. Deductions during period:				
(a) _____	\$ _____	\$ _____	\$ _____	\$ _____
(b) _____	\$ _____	\$ _____	\$ _____	\$ _____
(c) _____	\$ _____	\$ _____	\$ _____	\$ _____
(d) _____	\$ _____	\$ _____	\$ _____	\$ _____
(e) _____	\$ _____	\$ _____	\$ _____	\$ _____
(f) _____	\$ _____	\$ _____	\$ _____	\$ _____
(g) _____	\$ _____	\$ _____	\$ _____	\$ _____
6. Total deductions	\$ <u>.00</u>	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ <u>190,811.00</u>	\$ <u>N/A</u>	\$ <u>N/A</u>	\$ _____

<u>RESERVE FOR LOSS ADJUSTMENTS</u>				
Surplus				
1. Balance at beginning of period	\$ <u>.00</u>	\$ _____	\$ _____	\$ _____
2. Additions during period:				
(a) <u>ADJUSTMENTS</u>	\$ <u>537,702.47</u>	\$ _____	\$ _____	\$ _____
(b) _____	\$ _____	\$ _____	\$ _____	\$ _____
(c) _____	\$ _____	\$ _____	\$ _____	\$ _____
3. Total Additions	\$ <u>537,702.47</u>	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ <u>537,702.47</u>	\$ _____	\$ _____	\$ _____
5. Deductions during period:				
(a) <u>ADJUSTMENTS</u>	\$ <u>315,990.00</u>	\$ _____	\$ _____	\$ _____
(b) _____	\$ _____	\$ _____	\$ _____	\$ _____
(c) _____	\$ _____	\$ _____	\$ _____	\$ _____
(d) _____	\$ _____	\$ _____	\$ _____	\$ _____
6. Total deductions	\$ <u>315,990.00</u>	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ <u>221,712.47</u>	\$ _____	\$ _____	\$ _____

LOANS SUBJECT TO COMMENT AS OF - AUG 31, 1957

1A - Single Family Dwelling
 1B - 2-4 Family Dwelling
 1C - Home A/B Business
 2 - Appliances
 3 - Furniture
 4 - Automobiles
 5 - Other Personal Property

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Delin. (Exp. Area) (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total (1) (3) (4)	No. Payments Made (5)	Total Paid Last Exam.	Comments
2555-B	M. HOFFER 37 6543 1/2 W. 5th St. N.W.			159,500.00	0.00	122,523.22	72,236.46	194,759.68	None		
796-0	A. WEAVER 1487 1/2 1st St. N.W.			93,125.00	15.00	43,222.34	1,401.69	44,623.93	None		
2678-7	F. RIGGS 89 OFFICIAL BLDG. WASHINGTON, D.C.			65,700.00	176.24	67,819.00	22,606.21	90,425.21	None		
2593-2	F. WOOD 1816 1/2 1st St. N.W.			58,600.00	345.53	58,501.00	15,048.96	73,549.96	None		
2557-4	M. HOFFER 37 6543 1/2 W. 5th St. N.W.	200		80,750.00	708.85	82,947.00	22,299.62	105,246.62	None		
2577-0	T. WATSON 1553 BENTLEY AVE. WASHINGTON, D.C.			37,500.00	1,581.00	37,500.00	9,482.50	46,982.50	None		
2510-7	V. WITEN 1416 1/2 1st St. N.W.			21,150.00		21,447.00	2,914.57	24,361.57	4		
516-3	A. MARLOW 2 1/2 1st St. N.W.			61,000.00	343.92	58,370.00	5,799.17	64,169.17	None		
2724-4	E. WATSON 1127 BENTLEY AVE. WASHINGTON, D.C.			3,200.00	211.00	3,200.00	1,606.67	4,806.67	None		
2530-4	A. MARLOW 2 1/2 1st St. N.W.	600		58,000.00	0.37	58,539.00	20,087.55	78,626.55	None		
2621-2	W. WATSON 1720 1st St. N.W.	200		15,500.00		15,400.00	2,937.71	18,337.71	2		
2625-9	C. WATSON 1720 1st St. N.W.			27,500.00		29,020.23	2,647.10	31,667.33	7		
2626-5	W. WATSON 1720 1st St. N.W.	200		34,500.00	241.61	34,477.00	6,549.77	41,026.77	2		
355-0	E. WATSON 1127 BENTLEY AVE. WASHINGTON, D.C.			5,000.00	344.60	4,722.00	1,681.44	6,403.44	3		
2718	R. CURA 1820 BENTLEY AVE. WASHINGTON, D.C.			5,400.00		5,000.00	4,009.74	9,009.74	6		
2558-7	C. WATSON 1720 1st St. N.W.	200		11,125.00	77.94	11,110.00	5,267.77	16,377.77	None		
355-0	T. WATSON 1553 BENTLEY AVE. WASHINGTON, D.C.			45,000.00	244.20	45,275.00	2,021.49	47,306.49	1		
2427-7	A. WATSON 1127 BENTLEY AVE. WASHINGTON, D.C.			58,700.00		58,272.00	2,711.00	60,983.00	5		
2630-0	A. WATSON 1127 BENTLEY AVE. WASHINGTON, D.C.			27,000.00		26,000.00	2,951.90	28,951.90	None		

LEGEND
 1A-Single Family Dwelling
 1B-2-4 Family Dwelling
 1C-Home & Business
 2-App. w. 3 or more families
 3-App. w. 2 or more families
 4-App. w. 1 or more families
 5-App. w. 1 or more families
 6-App. w. 1 or more families
 7-App. w. 1 or more families
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 99-App. w. 1 or more families
 100-App. w. 1 or more families

LOANS SUBJECT TO COMMENT AS OF - 10-31-1984

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid Interest (4)	Total Debt (5) (3) + (4)	No. Payments 12 Months	Total Debt Last Exam.	Comments
2841-8	105 WATSON ST WATERBURY, CT	1A		50,000.00	7,320.64	42,679.36	60,290.13	102,969.49	3		
2780-7	5 GARDNER ST WATERBURY, CT	1A		40,000.00		39,910.17	2474.51	42,384.68	7		
2765-5	6 WINDYBROOK RD WATERBURY, CT	1A		70,000.00		69,810.00	9307.99	79,117.99	2		
2723-1	E. KASSOFF 2109 BRACKLEMAN TERR. WATERBURY, CT	1A		50,000.00		50,000.00	18,625.00	68,625.00	NONE		
2811-7	C. K. W.S. 303 6TH ST. - WALK AC.	1A		143,000.00	200.82	142,661.80	142,710.47	285,372.27	2		
472-N	10 E. SUMMIT TRL WATERBURY, CT	1A		145,000.00		138,228.04	9,100.12	147,328.16	4		ANNUAL FINANCIAL STATEMENTS
2534-3	C. BRICKER 2109 BRACKLEMAN TERR. WATERBURY, CT	1A		85,000.00		79,990.46	7,070.26	87,060.72	6		
2563-1	ALY BEE DRIVE WATERBURY, CT	1A		64,000.00		53,777.19	5,650.94	59,428.13	3		
2900-4	RENNY A. WATKINS 423 W. ST. N.W. WASHINGTON, D.C.	1A		135,000.00		134,059.07	9,102.99	143,162.06	6		
2711-8	D. CRICK 7. COMBARD WASHINGTON, D.C.	1A		60,000.00		60,000.00	5599.99	65,599.99	5		ANNUAL FINANCIAL STATEMENTS
3070	C. A. WATKINS 141 W. ST. N.W. WASHINGTON, D.C.	1A		34,750.00		34,228.44	1,953.48	36,181.92	7		
244-1	2505 BRACKLEMAN TERR. WATERBURY, CT	1A		44,300.00	2,027.50	42,272.50	1,869.22	44,141.72	6		
2677-9	14 W. WINDYBROOK RD WATERBURY, CT	1A		44,000.00	2,926.65	41,073.35	4,544.72	45,618.07	4		
3026-0	208 WINDYBROOK RD WATERBURY, CT	1A		208,450.00	1,511.13	206,938.87	24,160.50	231,100.00	4		
733-6	2122 WINDYBROOK RD WATERBURY, CT	1A		62,500.00		2,722.00	23.50	2,745.50	NONE		
2738-5	105 WATSON ST WATERBURY, CT	1A		300,000.00		302,272.64	26,448.81	328,721.45	5		
2756-1	410 WINDYBROOK RD WATERBURY, CT	1A		140,000.00		140,390.24	2,663.14	143,053.38	7		
2903-5	2109 BRACKLEMAN TERR. WATERBURY, CT	1A		938,000.00		936,404.98	50,254.10	986,659.08	7		
2900-8	2109 BRACKLEMAN TERR. WATERBURY, CT	1A		50,000.00		49,902.30	2,674.64	52,576.94	7		

LOANS SUBJECT TO COMMENT AS OF - AUG 31, 1977

LEGEND
 1A - Single Family Dwelling
 1B - 2-4 Family Dwelling
 1C - Home & Business
 2 - Autos, w/ 3 to more families
 3 - Commercial
 4 - Farm
 5 - not completed
 6 - Paid in full
 7 - In default
 8 - In liquidation
 9 - In foreclosure
 10 - In bankruptcy

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Paid Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total (3) & (4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments
2571-7	E. ROBERTSON 2000 W. 11th St. TAMPA, FL 33606			40,000.00		40,000.00	2,540.00	42,540.00	9		
2022-5	TRAVELERS AGENCY PT. WINDS FL.			554,200.00		554,200.00	30,000.00	584,200.00	6		
780-V	C. SMITH			7208.87		7208.87	1480.87	8689.74	None		Pay off in 1977
2559-2	R. ROBERTSON 4000 W. 11th St. TAMPA, FL 33606			50,000.00		49,940.83	6,324.56	56,265.39	4		
				429,219.87	19,460.70	409,759.17	98,801.47	508,560.64			

(4)

LEGEND
 1A - Single Family Dwelling
 1B - 2-4 Family Dwelling
 1C - Home & Business
 2 - Auto, w. 3 or more families
 3 - Business - Commercial
 4 - Other

CONSTRAINTS

LOANS SUBJECT TO COMMENT AS OF - **Aug 31, 1974**

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Dist. Exp. Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total Exp. (3 & 4)	No. Payments Made 12 Months	Total Debt Loan Frame	Comments
859	CRIST IN THE PARK	C	7-30-74	30,000.00	N/A	194,203.35	12,375.45	206,578.80	8		
872	ISLAND ASSOCIATES	C	10-22-82	40,000.00	N/A	40,000.00	80,500.00	120,500.00	7		
891	610 WINDY GARDENS	C	12-15-82	176,120.00	N/A	176,120.00	84,687.49	260,807.49	9		Loan now past maturity date
898	BACK CREEK LTD	C	12-29-82	145,000.00	N/A	145,000.00	100,504.13	245,504.13	7		
899	MORGANWOOD / TWO TRAIL	C	10-20-83	152,000.00	N/A	152,000.00	19,754.16	171,754.16	7		
914	BACK GARDENS	C	-	321,000.00	N/A	321,000.00	18,366.52	339,366.52	7		
921	DAF PATRONS	C	-	505,000.00	N/A	505,000.00	14,917.63	519,917.63	6		
952	SUMNER AND WINTER	C	7-27-83	200,000.00	N/A	200,000.00	16,727.84	216,727.84	6		
755	WKB DEVELOPMENT	C	8-26-83	198,000.00	N/A	198,000.00	10,701.98	208,701.98	7		
803	TASHAF	S	12-18-83	459,721.39	N/A	459,721.39	24,426.18	484,147.57	None		
999	MORGANWOOD/BACK	C	-	126,700.00	N/A	126,700.00	4,064.13	130,764.13	9		
695	MORGANWOOD/BACK	3	9-1-81	130,000.00	N/A	130,000.00	9,700.66	139,700.66	7		
255	LEWIS COLUMBIA	3	-	427,000.00	N/A	427,000.00	28,775.20	455,775.20	7		Over-schedule
885	HOSPITALITY HOUSE	3	12-8-82	1325,000.00	N/A	1,325,000.00	52,207.41	1,377,207.41	1		
	REPT (over principal)			2,851,201.79		2,851,201.79	708,071.05	3,559,272.84			
	OUTSIDE MORTGAGE		11-15-83								
	RECAPITALIZED		7-16-83								
			12-29-83								

1A-Single Family Dwelling
 1B-2-4 Family Dwelling
 1C-Home & Business
 2-Agency or other facilities
 3-Business-Commercial
 4-Other

A-Unimproved
 P-Purchase
 R-Refinance
 RO-Refinance (Other)
 C-Construction

LEGEND

Outstanding loans as of 1/1/84

LOANS SUBJECT TO COMMENT AS OF - 1/31/84

Page 1 of 2

Schedule No. 1

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Unpaid Principal (2)	Unpaid Interest (3)	Total Debt (4)	No. of Months (5)	Total Debt Last Exam.	Comments
230-S	RIDA LAND		2/27/84	150,000.00	150,000.00	9,000.00	159,000.00	All (S)		line of credit
129-Z	Hawthorn Hwy, 10000		11/29/83	350,000	350,000	11,876.11	361,876.11	3+		line of credit
160-7	Hugh T Pace Property		11/18/84	100,000.	95,816.	3797.05	99,809.06	3+		line of credit
176-6	1331 Vermont street, partially		8/16/83	43,025.	73,025.	-0-	43,025.00	8 DUE		renov principal paid of 11,000. by 2/1/84
330-6	Craig Brighton		6/11/84	10,000.	10,000.	400.00	10,400.00	All		line of credit
303	Howehead + 8 Tompkins		9/12/85	10,000	10,500.	631.37	11,131.37	4+		line of credit
630	Liberty Towne 10, Partway		1/10/84	50,000.	14,316.35	954.08	15,270.25	All		Principal not returned at first due then principal and interest paid the 10000
303-6	Homebased Parking Gap		6/13/83	70,000.	70,000.00	3809.17	73,809.17	6		
228-2	MUSICA + BOYLIV. BE		5/24/84	40,000.	40,000.	1531.67	41,531.67	All		
349-6	C. Gash Parkers		3/23/84	200,000	200,000.	10,655.83	210,655.83	All		
1-2	Donald Wilke		4/29/84	130,000	130,000	3235.00	133,235.00	All		
34-2	Ronald Freudenheim		8/2-4/83	25,000.	25,000.	5814.58	30,814.58	All		
170-9	Megan hand		2/26/83	3000.	5000.	233.33	5,233.33	3/3		loan paid due date.
45-6	David Ruggins		1/17/84	100,000.	98,300.	1353.17	97,653.17	3+		line of credit
219-2	James SMT		4/14/83	75,000	65,000.	3350.92	69,350.92	4		line of credit
184-3	Fred Vieira		3/12/84	5000	5000.	203.47	5203.47	3+		line of credit
			2/18/84	25,000	25000.	585.24	25,585.24	4*		line of credit
					1338,10.75	57,422.96	1,395,642.21			

LEGEND

- 1A - Single Family Dwelling
- 1B - 2-4 Family Dwelling
- 1C - Home & Business
- 2 - Autos - 3 or more families
- 3 - Business - Commercial
- 4 - Other
- 5 - Unimproved
- 6 - Performance
- 7 - Other
- 8 - Other
- 9 - Other

Delinquent loans/g/e include 1090, 1081, and 1082

LOANS SUBJECT TO COMMENT AS OF - 9/21/84

Loan No.	Name of Borrower(s) Business - Property	Exe	Date of Loan	Original Amount (1)	Unpaid (1)	Unpaid (1) (2)	Unpaid (1) (3)	Unpaid (1) (4)	Total (1) (5)	No. Pay- ments Made to Date	Total Debt Last Exam.	Comments
196	JAMES ASH		2/27/84	4,200.00			3879.35	282.96	4,159.31	4+		
88	Louis Bartra		12/15/82	7000.00			5129.59	280.49	5410.08	3+		
2606	Yves LaFrance		4/24/84	33,000.00			33,000.00	1940.58	34,940.58	411 (17)		
639	Maclean Assoc.		11/24/82	57,500.00			45,288.24	2,226.67	47,514.91	3+		
2316	Charles Maramal		4/20/82	19,000.00			8,514.86	1,029.35	9,544.21	8+		Discharged in bankruptcy 8/12/84
1789	Janel Richie		11/14/83	8,113.65			7603.16	575.73	8178.89	5+		
910	Penelope Sappom		11/18/82	8,000.00			6150.88	415.78	6566.66	4+		
2057	William Stekas		2/29/84	24,900.			23,772.42	1,322.01	25,094.43	4+		
1731	U.S. Finance, N.A.		1/24/84	5,125.00			5045.59	422.71	5468.30	8+		
1742	U.S. Finance, N.A.		1/24/84	16,000.00			15,755.92	1319.99	17,075.91	8+		
1146	Hershel Northby		10/24/83	3,000.00			1,315.41	76.29	1,391.70	3+		
460	Peter Glens		2/16/83	10,000.00			5,000.00	650.00	5,650.00	9		
	Antonio Verroni		1/6/83	25,000.00			18,920.96	539.70	24,460.66	17		
							179,283.33	15,974.26	195,257.59			
							1,515,447.43	73,372.85	1,588,820.28			Total

Schedule No. 1

Page 2 of 2

REAL ESTATE OWNED AS OF - -

Schedule No. 2

	No.	Book Value	Appraised Value
Balance last examination		\$ _____	\$ _____
Acquired since last examination		_____	_____
Additions since last examination		_____	_____
Total		\$ _____	\$ _____
Sold since last examination		_____	_____
Charge offs since last examination		_____	_____
Balance (current examination date)		\$ _____	\$ _____
*Book Value		\$ _____	
Sales Price		\$ _____	
Profit or (Loss)		\$ _____	
Year Ended	19 _____		
Gross Income		\$ _____	
Less Expense		_____	
Net Income or (Loss)		\$ _____	
Total Taxes Due and Unpaid on R.E.O.		\$ _____	

SUMMARY OF PROPERTIES WITH POOR INCOME AND/OR SALES PROSPECTS

Item	Parcela	Book Value	Net Income
Large or Obsolete Homes	_____	\$ _____	_____
Combination Home and Business	_____	_____	_____
Apartments	_____	_____	_____
Business	_____	_____	_____
Farms	_____	_____	_____
Unimproved	_____	_____	_____
Total Above Classes	_____	\$ _____	_____
% of R. E. O.	_____ %	\$ _____	_____
Held more than five years	_____ %	\$ _____	_____

INSURANCE COVERAGE - REAL ESTATE OWNED

Type	Carrier	Exp. Date	Amount
Fire & Ext. Cov.			\$ _____
Contents			\$ _____
Comprehensive-Glass			\$ _____
Owners, Landlords and Tenants Liability			\$ _____
			\$ _____
			\$ _____

n/a

2192

OFFICE BUILDING

Year Ended _____

Asset value before depreciation

Land _____ \$ _____
 Building _____ \$ _____
 Total _____ \$ _____

Less: Allowance for depreciation _____ \$ _____
 Book Value _____ \$ _____

Adjusted value _____ \$ _____

Land _____ \$ _____
 Building _____ \$ _____
 Total _____ \$ _____

Insurance earned _____ \$ _____

Type _____ \$ _____
 _____ \$ _____
 _____ \$ _____

Cost of occupancy:

Annual depreciation _____ \$ _____
 Repairs, taxes and maintenance _____ \$ _____
 Total cost _____ \$ _____
 Total income from other than association _____ \$ _____
 Net occupancy cost _____ \$ _____

INSURANCE COVERAGE

Type	Carrier	Exp. Date	Amount
Fire & Ext. Cov.	_____	_____	\$ _____
Contents	_____	_____	\$ _____
Comprehensive-Glass	_____	_____	\$ _____
Owners, Landlords and Tenants Liability	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

✓
 2194
 N/A

- (1) ...
- (2) ...
- (3) ...
- (4) ...

OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES

Name	Office Title	Director	Meetings Attended Last Examination	Time Devoted	Annual Salary Y. T. 1974	Annual Fees Y. T. 1974	*Holders of AS OF 3/31/74		Total Fee Share Available AS OF
							Type	Amount	
LEONARD SIEGEL	PRESIDENT AND CHAIRMAN OF BOARD	X	16	FULL		(1)			
LEONARD A. ROSEY	VICE PRESIDENT	X	12	PART		(2)			
ROBERT COBURN	SECRETARY	X	12	PART		(2)			
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	27,000.00			119,000.00	119,000.00
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	60,000.00			367,000.54	367,000.54
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	42,000.00			119,709.54	119,709.54
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	27,000.00			99,171.59	99,171.59
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	60,000.00			12,227.27	12,227.27
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	42,000.00			6,800.00	6,800.00
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	27,000.00			165,971.03	165,971.03
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	27,000.00			75,053.16	75,053.16
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	27,000.00			5,000.00	5,000.00
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	42,000.00			129,000.00	129,000.00
LEONARD A. ROSEY	VICE PRESIDENT AND CHAIRMAN OF BOARD			FULL	27,000.00			241,792.15	241,792.15

Amount	Name of Share and Home Office	Expiration Date
6,800.00	...	2-15-75

Meetings held since last examination: 14 Date of last annual meeting of members: 1974

Number of directors designated in by-laws: 5 - 15

*Designate Attorney, Share Accountant, Treasurer, Secretary, Trustee, Assessor, etc.

Schedule No. 6

OTHER ASSETS: (Item 16, Exhibit A)

OTHER ASSETS
 159,362.59
 Notice Receivable 20,453.34
 A/R: Walter Massey Assoc 6,500.00
 A/R: EMFSC 367,972.52
 DEPOSITS, MISSED CHECKS 34,625.00
 A/R 1st mo securities 700.00
 RETURNED CHECKS <324,288.74>
 LOANS PENDING TIC 11,716.91
 FEDERAL INCOME TAX CREDIT 139,268.00
 MISC ACCOUNTS RECEIVABLE 2,406.57

426,716.26
 Schedule No. 7

OTHER LIABILITIES: (Item 31, Exhibit A)

INTEREST SUBSIDY COMM LOANS 52,812.14
 MO WITHHOLDING TAX 680
 VA WITHHOLDING TAX 812.70
 DE WITHHOLDING TAX 1,526.95
 RESERVE ACCOUNT 17,607.00
 OTHER ACCOUNTS PAYABLE 56,284.93
 LISE PAYABLE 134.85
 ATM HOLDING ACCT <26,294.36>

104,857.91
 Schedule No. 8

BORROWED MONEY: (Item 23, Exhibit A)

To Whom Owed	Amount	Rate	Due Date	COLLATERAL Description	Unpaid Principal
CAL. AMERICAN SAVINGS	3,000,000.00	Prime + 1%	Open	VARIOUS MTS	3,000,000.00
STANDARD FEDERAL SL	3,500,000.00	Prime + 1.5%	Open	VARIOUS MTS	3,500,000.00
HAMILTON BANK	10,135,296.60	Variable - LIBOR		11 CDMA POOLS	10,135,296.60
HAMILTON BANK	500,000.00	11.8%	9-19-84	FALMC 181889	500,000.00
HAMILTON BANK	275,000.00	11.8%	9-19-84	FUMA-PC 580	275,000.00
HAMILTON BANK	275,000.00	11.8%	9-19-84	FUMA PC 580	275,000.00

17,685,296.60
 Schedule No. 9

SUMMARY OF CERTIFICATES OF DEPOSIT, SAVINGS ACCOUNTS, OTHER SECURITIES, ETC.

Description	Amount	Rate	Due Date
CERTIFICATES OF DEPOSIT (10)	1,000,000.00	13%	9-16-84 (610 non-acc)
	100,000.00	10.5%	3-7-85 (STANDARD FEDERAL)
	100,000.00	12.25%	12-1-85 (AMERICAN SAVINGS)
	1,200,000.00		

EXAMINERS' COMMENTS
FIRST MARYLAND SAVINGS BANK

COMMENT 1

AN EXAMINATION OF THE FILES OF THE MORTGAGE LOANS GRANTED DURING THE PERIOD OF SEPTEMBER 1, 1983 THRU AUGUST 31, 1984 REVEALED THE FOLLOWING:

(A) LOAN FILES NOS 1027, 1031, 1034, 3104.9 AND 3130.8 DID NOT CONTAIN THE ORIGINAL MORTGAGE INSTRUMENT AS REQUIRED BY REGULATION .29 A(2)(f)

(B) LOAN FILE NOS 988, 1017, 1035, 2931.0, 3043.5 AND 3179.4 - DID NOT CONTAIN THE ORIGINAL OF THE CURRENT INSURANCE POLICIES AS REQUIRED BY REGULATION .23 D

(C) LOAN FILE NOS 1012 AND 1035 DID NOT CONTAIN APPLICATIONS AS REQUIRED BY REGULATION .23 A

(D) LOAN FILE NOS 1017, 1034, 1035 AND 3319 DID NOT CONTAIN APPRAISAL REPORTS AS REQUIRED BY REGULATION .23 B

(E) LOAN FILE NOS 984, 988, 1012, 1017, 1027, 1031, 1034, 1035, 3043.5 AND 3179.4 DID NOT CONTAIN A CERTIFICATION OF TITLE AS REQUIRED BY REGULATION .23 C

(F) LOAN FILE NOS 988, 1029, 1031 AND 1035 DID NOT CONTAIN A MEMORANDUM OF SETTLEMENT AS REQUIRED BY FINANCIAL INSTITUTION 9-424 (b) AND REGULATION .29 A(2)(c)

(G) LOAN FILE NO 3179.4 DID NOT CONTAIN EVIDENCE OF AN BLANKET INSURANCE POLICY AS REQUIRED BY REGULATION .29 A(2)(d)

COMMENT 2: AN ANALYSIS OF THE SUBSIDIARY MORTGAGE LOAN RECORDS REFLECTED THE EXISTANCE OF FIFTY SIX DELINQUENT ACCOUNTS AS DETERMINED BY THE DEFINITION SET FORTH IN REGULATION .01 G. THE OUTSTANDING BALANCE OF THESE ACCOUNTS TOTALLED \$12,522,453.63 AS OF THE DATE OF THE CURRENT EXAMINATION, REPRESENTING A DELINQUENCY RATIO OF 4.83% OF THE TOTAL MORTGAGE LOAN BALANCES OUTSTANDING.

DURING THE PERIOD OF THE CURRENT EXAMINATION, THE

EXAMINERS' COMMENTS
FIRST-MARYLAND SAVINGS AND LOAN

COMMENT 2 (CONTINUED)

TOTAL OUTSTANDING BALANCE OF DELINQUENT ACCOUNTS INCREASED FROM \$5,062,675.48 TO \$12,552,453.63.

THE DELINQUENT AND UNPAID INTEREST ON THE LOANS SUBJECT TO COMMENT TOTALLED \$1,205,010.49.

A REVIEW OF THE LOANS SUBJECT TO COMMENT SCHEDULED ON PAGE 9 OF THIS REPORT REFLECT THAT LOAN NOS 516-3, 733-6, 784-4, 786-0, 803, 2530-1, 2558-9, 2577-0, 2593-2, 2595-8, 2597-4, 2628-7, 2630-0, 2723-1, AND 2724-4 HAD NOT BEEN AMORTIZED DURING THE TWELVE MONTH PERIOD IMMEDIATELY PRECEDING THE DATE OF THE CURRENT EXAMINATION.

(B) AN ANALYSIS OF THE SUBSIDIARY CONSUMER AND COMMERCIAL LOAN RECORDS REFLECTED THE EXISTENCE OF THIRTY DELINQUENT ACCOUNTS. THE OUTSTANDING BALANCE OF THESE ACCOUNTS TOTALLED \$1,515,447.63, REPRESENTING A DELINQUENCY RATIO OF 7.9% OF THE TOTAL CONSUMER/COMMERCIAL LOAN BALANCES OUTSTANDING.

COMMENT 3: LOAN NOS 2952-7, 3043-5, AND 3112-0 WERE GRANTED UPON THE SECURITY OF IMPROVED RESIDENTIAL PROPERTY WITH LOAN-TO-APPRAISAL RATIO IN EXCESS OF 90% OF THE MARKET VALUE OF THE SECURITY. REGULATION .30 C(1)(b) PROVIDES THAT THE AGGREGATE AMOUNT OF ANY LOAN MADE UPON THE SECURITY OF IMPROVED RESIDENTIAL PROPERTY - HOME OWNERS SHALL NOT EXCEED 90% OF THE MARKET VALUE OF THE SECURITY.

COMMENT 4: THE ASSOCIATION GRANTED DURING THE PERIOD OF SEPTEMBER 1, 1983 AND AUGUST 31, 1984 APPROXIMATELY SEVEN MORTGAGE LOANS UNDER A PROGRAM ESTABLISHED "HOME EQUITY" - LOANS. THESE LOANS REPRESENT A "SECOND DEED OF TRUST" AGAINST IMPROVED RESIDENTIAL PROPERTY - HOME OWNERS - THE TERMS OF

EXAMINERS' COMMENTS

COMMENT 4 (CONTINUED)

THESE LOANS READ AS FOLLOWS:

TYPE: HOME EQUITY LOAN

LOAN AMOUNT: AS STATED

INTEREST RATE: PRIME PLUS 2% (ADJUSTED MONTHLY)

PAYMENT: INTEREST ONLY

TERM: DUE IN FULL IN 10 YRS

REGULATION 30 C(2)(C) PROVIDES ON LOANS SECURED BY IMPROVED RESIDENTIAL PROPERTY - HOMEOWNERS, THE LOAN SHALL AMORTIZE ON AT LEAST A MONTHLY BASIS AND THE AMORTIZATION PERIOD AND THE LOAN TERM SHALL BE THE SAME. THE LOAN SHALL FULLY AMORTIZE WITHIN ITS TERM.

COMMENT 5: AN EXAMINATION OF THE RECORDS SUPPORTING FREE SHARE LOANS REVEALED THE FOLLOWING:

(A) REGULATION Z OF THE FEDERAL TRUTH-IN-LENDING ACT REQUIRES A DISCLOSURE ON DEMAND NOTE LOANS BASED ON AN ANNUAL FINANCE PERIOD OF TWELVE MONTHS FIRST-MANLY AND SAVINGS AND LOAN DISCLOSURE STATEMENTS WERE BASED ON A SEMI-ANNUAL PERIOD, THIS IN VIOLATION OF THE ABOVE.

COMMENT 6: AN EXAMINATION OF THE FILES OF CONSUMER COMMERCIAL LOANS GRANTED BY ASSOCIATION REVEALED THE FOLLOWING:

(A) COMMERCIAL SECURED AND UN SECURED LOANS ARE GRANTED UNDER AUTHORITY OF REGULATION 51A WHICH ALLOWS A ASSOCIATION TO "INVEST IN ANY INVESTMENTS PERMITTED TO A BANKING INSTITUTION IN THIS STATE PROVIDED THAT THE SAVINGS AND LOAN ASSOCIATION MEETS THE CONDITIONS REQUIRED OF AN BANKING INSTITUTION

(1) A REVIEW OF COMMERCIAL LOANS REVEALED ONE LOAN IN EXCESS OF 15% OF THE NET-WORTH OF THE ASSN AS OF AUGUST 31, 1984. THE MAXIMUM SINGLE LOAN MAY NOT EXCEED 14.615%

EXAMINERS' COMMENTS
FIRST MARYLAND SAVINGS - Loan

Comment 6 (continued)

Loan No 396-8 To RICHARD MEYER was in the amount of \$2,000,000.00

(2) Loans to one borrower or group of borrowers exceeded the following totals in excess of 15% of the \$11,079,003.80 net worth as of August 31, 1984

(a) STEPHEN WEBSTER AND ROCCO LASSITER

O.W.L. II	\$1,100,000.00	
WEBSTER	206,666.67	
WEBSTER	42,500.00	
WEBSTER	192,500.00	
LAZZITERI	206,666.66	
		Total \$1,748,333.33

(b) C. GRAHAM PEAKINS, JOHN SLETTER, GAND L LEASING

G/L LEASING (26 Loans)	\$929,735.12	
<small>PKA letter of SAT 25, 1984</small>		
GAND L LEASING (NO 376-6)	587,987.43	
PEAKINS (NO 228-2)	200,000.00	
PEAKINS (NO 349-6)	130,000.00	
John Sletter (NO 421-7)	2,000.00	
GREYSIDE ASSOCIATES (NO 456-5)	18,000.00	
		Total 1,867,722.45

(c) CASH FIBERLINE AND RELATED COMPANIES

HARBORVIEW MORTGAGE AND INVESTMENTS	350,000.00	
CAMI, INC.	53,550.00	
FRANKFORD	783,000.00	
CAMBRIDGE MORTGAGE COOP	98,000.00	
CAMBRIDGE MFG. COOP (Warehousing line)	3,000,000.00	
		Total 4,284,500.00

(3) The Association has issued letters of credit which are commitments to advance funds if requested. Such commitments if funded are in violation of the 15% if not with requirement mentioned above

NO 6 RESOLUTION BENTLEY (R SPINELLA, ETAL)	\$2,208,162.00	
NO 82 FOSTER ASSOCIATES (R SPINELLA, ETAL)	452,500.00	
		Total \$2,660,662.00

17953 Total \$2,660,662.00

EXAMINERS' COMMENTS
FIRST MARYLAND SAVINGS AND LOAN

Comment 6 (Continued)

(B) The Files for Letters of Credit were reviewed with the following results:

(1) Many files contain insufficient information. - No application, no credit or financial information, no settlement sheet (as required by Financial Institution Article 9-424(b) and no promissory notes. Many files contained only a copy of the "Letter of Credit" issued.

(2) Record keeping is not centralized. Some records are at Silver Spring and some at the Rockville office. It is strongly recommended that all letters of credit be handled and issued through one office.

(3) Some of the "Letters of Credit" are on the General Ledger and some are not. When a letter of credit is issued, even though no funds have been disbursed an asset account for letters of credit should be debited in the ledger for the amount and the same amount should be credited to an offsetting liability account for funds to be disbursed - as funds are disbursed the liability account should be debited. This is similar to the procedure for "Loans in Process" on construction mortgage loans.

(4) The Association has issued letters of credit on behalf of RONALD FREUDENHEIM, vice president of FIRST MARYLAND FINANCIAL SERVICES CORPORATION, a wholly owned subsidiary of First Maryland. Such loans require the same approval of the Board of Directors and of the Division Director as set forth in Financial Institution Article 9-307 (b)(2).

(C) General Comments on Commercial and Consumer Loans:
SEE NOS 1 THRU 17 (PAGES 6 THRU 10)

COMMENT 6 (C)

General Comments on Commercial + Consumer Loans

- 1) The association does not maintain each loan in a separate file. This makes it difficult to find what information in a file applies to which loan ~~is able~~ where there is more than one loan. Also when a loan is paid in full, sometimes the papers relating to that loan will remain in the file when they should be removed, further complicating the files.
Therefore, 1st Hd ^{should} ~~be directed to~~ establish a separate folder for each loan. Each file should contain all required documentation. Each loan also requires a separate loan card.
- 2) Loan files do not always indicate the assigned loan number, and in some cases the incorrect loan number was on a file and did not cross check with accounting records.
- 3) Consumer loans granted pursuant to regulation 49 and commercial loans granted pursuant to regulation 51A are all filed together alphabetically. They are also not distinguished in the general ledger. General ledger nos. 1080, 1081 and 1082 are all listed as Consumer Loans, the only difference being time, terms, or demand loans. All three controls contain both consumer and commercial loans. Such loans ~~must~~ be separated in the general ledger and in the loan file system.
- 4) The association does not maintain a list of loans to one person or group of persons so as to monitor possible violations of lending limitations in the regulations for consumer and/or commercial lending.
- 5) The association does not maintain a list that will show how much of a line of credit or loan commitment remains unused. Only actual outstanding loan balances could be furnished to the examiner. This is particularly important for 1st Reserve lines of credit (loan checking) and to those for large companies. The exam must report such unused lines as loan commitments in the monthly SL-200 to the Division. Also it is important for the exam to know its potential funding commitments.

⑥ Some commercial loans were charged points and/or other fees such as legal fees, loan search, appraisal, etc. Section 9.121(b) of the Financial Institutions Article of the Charter requires a memorandum of settlement.

⑦ The association does not have any listing of loans readily available that contains all of the following information:

- Name of borrower
- Loan number
- Original amount of loan
- Current unpaid balance of the loan

⑧ The association has made loans secured by stocks in various companies listed on the exchanges and the over-the-counter markets. The loans will allow a loan of 80% (and sometimes more) of the market value of the stock. Such loans are granted pursuant to regulation 51A which requires the loan to meet the same requirements as a banking institution.

Such loans must conform to Federal Reserve Margin requirements which basically allow loans of only 50% of market value.

Furthermore if the loan to security value ratio ever falls below 50%, the association must require additional collateral on the loan principal must be paid down to an acceptable ratio. Currently no such review is done.

⑨ A review of manually maintained loans cards revealed the following:

① Time loan # 289-9 to Heritage International Bank had received wire payments of \$943.41 on 8/28/84 for payment of interest and \$3,054.46 on 9/11/84 for \$20,000. loan for principal and \$1054.46 for interest. As of 9/22/84 the \$943.41 and \$1054.46 received for interest had not been posted to the subsidiary loan card.

For purposes of internal control it is important that all receipts and disbursements be posted to both

the general ledger and the subsidiary in a timely manner.

⑨ The subsidiary loan card for time loan No 43-7 to A. Garcia indicates that on 9/17/84 interest of \$1061.67 was billed to the customer and was unpaid as of 9/28/84 the day reviewed by the examiner. However a chance review of the bill file revealed that the \$1061.67 was paid on 9/21/84.

⑩ The following loans were granted to officers, directors or members of their immediate families as defined in FIA 9-307(a)(1). There is no evidence in the file of each loan that each of the following occurred prior to making the loans required by FIA 9-307(b)(2)

- ① The loan was approved by a two-thirds vote of the board of directors
- ② Approved by the Division Director

The loans are as follows:

Name	Relationship	Loan Type	Amount
RAJ BOVEJA	Internal Auditor	loan of credit limit on loan account	
LINDA SMAT	wife of V.P. JAY SMAT	car loan	10000
JAMES J. SMAT	V.P.		10500
JAMES PORTER	VP		5000
RONALD FREUDENHEIM	VP		4000
			5000

Some of the above loans are also consumer loans and violate regulation 49G(1)

A loan to 1331 Vermont Ave Ltd partnership for \$43,025 involved officers Cakem, Seidel, Porter, Fisci of Freudenheim. No Division approval is in file. It also appears that there is a mortgage loan for \$201,200 to the partnership that may not be approved by the Division.

11 All loans involving officers, directors, controlling persons and families must be approved in accordance with sections 9-307 and 9-323 of the Financial Institutions Article and regulations 43. Such approvals must be maintained in the loan file.

This would include line of credit approvals for checking accounts, letters of credit, and any other form of potential loans by the associations.

12 It was noted that not all loans are charged interest in accordance with the regulations and good business practice. Consumer loans are required to pay interest monthly in accordance with regulation 49A(1).

On all other loans good business practice dictates that interest be collected no less than quarterly.

13 34,833 of a total 74,833 shares of stock in Pioneer Federal S+L have not been received by the assn. The shares are pledged as security on the loans of Stanley Walster.

14 1,333 of a total 41333 shares of stock in Pioneer Federal S+L have not been received by the assn. The shares of stock are pledged as security for the loans of Loco Hunter.

15 Many loans particularly commercial loans did not contain completed application with current financial statements in the file.

Renewals of loans did not always contain updated information on the borrower.

All loans and renewals of loans shall contain current financial information to ascertain the borrower's ability to repay the loans from income.

(5) Since the exam is granting commercial and non-commercial under the banking powers the in under regulation 51. The exam must set aside a separate reserve for loans on these loans that complies with banking requirements. No such reserve has been set up as of the examination date.

(7) The reserve for losses account in connection with consumer loans has not been set up or monitored in accordance with regulation 49 D and E.

Comment 7:

AN EXAMINATION OF THE BOOKS, RECORDS AND ACCOUNTING PRACTICES REVEALED THE FOLLOWING:

(A) LOAN NO. 3162-2 IN THE AMOUNT OF \$50,000.00 NOT ON CONTROL ACCOUNT NO 1010-51 AS OF DATE OF EXAMINATION.

(B) TOTAL OF THE SUBSIDIARY MORTGAGE LOAN ACCOUNTS WAS \$2,321.92 LESS THAN THE CONTROL ACCOUNT NO 1052-20 (WAP PARTICIPATION SOLD) THIS AMOUNT HAS BEEN CHARGED AS A RECEIVABLE SINCE JUNE, 1984.

(C) TOTAL OF THE SUBSIDIARY MORTGAGE LOAN ACCOUNTS EXCEEDED THE CONTROL ACCOUNT NO 1060-00 (LOANS PURCHASED SERVICES BY OTHER) IN THE GENERAL LEDGER BY \$90,000.00.

(D) TOTAL OF THE SUBSIDIARY COMMERCIAL LOAN ACCOUNTS EXCEEDED THE CONTROL ACCOUNT NO 1082-00 (TRUCK) IN THE GENERAL LEDGER BY \$1,212.84.

(E) THE FOLLOWING INVESTMENT CONTROL ACCOUNTS EXCEEDED THE SUBSIDIARY ACCOUNTS AS FOLLOWS:
GENERAL LEDGER NO 1040-00 AMOUNT \$835,133.72

(F) THE TOTAL OF THE SUBSIDIARY INVESTMENT ACCOUNTS WAS \$1,059,847.27 LESS THAN THE CONTROL ACCOUNT NO 1040-01 IN THE GENERAL LEDGER.

EXAMINERS' COMMENTS
FIRST MARYLAND SAVINGS BANK

COMMENT 7 (CONTINUED)

(G) INVESTMENTS AND NOTE LOANS BETWEEN FIRST MARYLAND SAVINGS AND LOAN ASSOCIATED AND ITS WHOLLY OWNED SUBSIDIARIES WERE REVIEWED. THE FOLLOWING WAS NOTED:

- (1) CONTROL ACCOUNTS ON THE PARENTS GENERAL LEDGER
- | | |
|-------------------------------------|---------------|
| NOS 1761.00 (LOANS TO STATE EMP) | \$ 739,590.04 |
| 1810.70 (ACCOUNTS RECEIVABLE EMFSC) | 367,972.59 |
| 1469.50 (EQUITY OBLIGATION) | 16,771.00 |

EXCEEDED BY THE AMOUNTS LISTED ABOVE THOSE SHOWN ON THE SUBSIDIARY RECORDS

(2) CONTROL ACCOUNT NO 1076.00 ACCOUNT INTEREST RECEIVABLE EMFSC IS \$ 31,260.86 LESS THAN THAT ON THE SUBSIDIARY RECORDS.

(H.) GENERAL LEDGER NO 1815.00 (RETURNED CHECKS) LISTED AS AN ASSET ACCOUNT IS CARRY A CREDIT BALANCE OF \$ 297,771.47.

ITEMS IN THIS ACCOUNT SHOULD BE REVIEWED AND PROPERLY CLASSIFIED.

(I) GENERAL LEDGER ACCOUNT NO 2415.00 (LETTER OF CREDIT, RESERVE) HAS NOT BEEN RECONCILED SINCE JUNE 30, 1984

(J.) GENERAL LEDGER ACCOUNT NO 2443.00 (MORTGAGE UNAPPLIED) HAS INCREASED \$ 1,406,329.71 DURING THE PERIOD FROM APRIL 1, 1984 THRU AUGUST 31, 1984 - THIS ACCOUNT SHOULD BE REVIEWED AND TIMELY ADJUSTMENTS SHOULD BE MADE

(K) THE FOLLOWING LIABILITY ACCOUNT WERE CARRYING THE FOLLOWING NEGATIVE BALANCES

- | | |
|--|---------------------|
| General Ledger NOS 2440.10 (SAVINGS UNAPPLIED) | < \$ 2,927,211.15 > |
| 2440.70 (N.O.W UNAPPLIED) | < 1,021,938.62 > |
| 2440.21 (UNAPPLIED RESERVE) | < 658,793.36 > |
- ITEMS

EXAMINERS' COMMENTS
FIRST-MONEY AND SAVINGS FUND

Comment: 7K (CONTINUED)

From a BANK REVIEW these accounts seem to represent
with DRAWD ITEMS NOT - PROPERLY CLASSIFIED.

A TIMELY REVIEW SHOULD BE MADE ON THESE
ACCOUNTS AND PROPER ADJUSTMENTS SHOULD BE RECORDED

(L) GENERAL LEDGER ACCOUNT NO 2690'00 IS ENTITLED
"RESERVE ACCOUNT" AND HAS A BALANCE OF \$19,604.00
A REVIEW OF THIS ACCOUNT INDICATES IT REPRESENTS
CERTIFICATE OF DEPOSIT ACCOUNTS AND HAS NO CONNECTION TO
THE ASSOCIATION'S RESERVE ACCOUNTS - THIS ACCOUNT
SHOULD BE RECLASSIFIED

(M.) AN ANALYSIS OF THE GENERAL LEDGER ACCOUNT ENTITLED
"MISCELLANEOUS INCOME REVEALED THE FOLLOWING

(1) \$16,668.72 IN OUTSTANDING CHECKS
TAKEN INTO INCOME. THIS AMOUNT SHOULD HAVE
BEEN REMITTED TO THE ABANDONED PROPERTY OFFICE
AS PROVIDED FOR UNDER COMMERCIAL LAW ARTICLE
TITLE 17 (DISPOSITION OF ABANDONED PROPERTY)

(2) CONTAINED ITEMS UNRELATED TO THE NATURE
OF THE ACCOUNT, SUCH AS EQUITY FEES EARNED, ETC

(N) THE RECONCILIATION OF THE CHECKING ACCOUNT WITH
CITIZENS BANK AND TRUST CONTAINED NUMEROUS OUTSTANDING
ITEMS AS FAR BACK AS JULY 1983. TIMELY DISPOSITION OF
ALL RECONCILING ITEMS SHOULD BE MADE.

Comment 8: FIDUCIARY FUNDS INVESTED BY THE ASSOCIATION
WERE "UNSECURED". THIS IS IN DIRECT VIOLATION OF
REGULATION .31

17961

EXAMINERS' COMMENTS
FIRST MARYLAND SAVINGS - LOW

Comment 9: A REVIEW OF THE ASSOCIATION'S FIDELITY
 RECORD REVEALED THAT THE PRESENT COVERAGE OF \$1,493,500.00
 IS \$166,500.00 LESS THAN THE \$1,660,000.00 REQUIRED BY
 REGULATION .22

Comment 10:

NO EVIDENCE OF THE ABANDONED PROPERTY REPORT
 FOR THE PERIOD ENDING JUNE 30, 1983 AS REQUIRED BY
 TITLE 17 OF THE COMMERCIAL LAW ARTICLE SECTION 114
 COULD BE FURNISHED BY THE ASSOCIATION.

Comment 11: A REVIEW OF THE MRO-K-8 FRANCHISE TAX AND FEDERAL,
 DOMESTIC AND FOREIGN SAVINGS AND TRUST ASSOCIATIONS, FOR THE YEAR
 ENDING DECEMBER 31, 1983 REVEALED THAT TAX WAS \$3140 LESS
 THAN WHAT WAS ACTUALLY DUE

Comment 12: Booked Savings

FIRST MARYLAND SAVINGS AND LOW RECEIVES BOOKED SAVINGS
 IN THE FORM OF JUMBO CERTIFICATES

A REVIEW OF RECORDS PROVIDED THE EXAMINER IN CONNECTION
 WITH BANKER SAVINGS DEPOSITS REVEALED THE FOLLOWING:

(A) FIRST MARYLAND DOES NOT HAVE WRITTEN AGREEMENTS
 FOR SERVICES TO BE PERFORMED BY THE BROKER AND COMMISSIONS
 OR FEES TO BE PAID AS REQUIRED BY REGULATION 18 H (2)(a)

(B) THERE IS NO SEPARATE LEDGER CONTROL OR OTHER
 RECORD THAT SHOWS AT ALL TIMES THE AGGREGATE OUTSTANDING
 BALANCES OF ALL ACCOUNTS THAT WERE OPENED OR INCREASED
 AS A RESULT OF ANY SERVICES OF A BROKER AS
 REQUIRED BY REGULATION 18 H (2)(c)

(C) AN ITEMIZED RECORD OF EACH PAYMENT OF ANY

COMMENT 12 (C) CONTINUED

Commission or fee to any broker, identifying each account and stating the amount of it in respect to which the commission or fee is paid is not maintained as required by Regulation 18 H (2) (b) (d)

COMMENT 13 A REVIEW OF THE S/L 200A REPORTS SUBMITTED TO THE DIVISION FOR THE PERIOD OF SEPTEMBER 1, 1983 THRU AUGUST 31, 1984 REVEALS THE ASSOCIATION REPORTING AS "NOT AVAILABLE" ON LINE NUMBERS 230 "MORTGAGE LOAN COMMITMENTS FOR NINE OF THE LAST TWELVE REPORTS.

COMMENT 14

A REVIEW OF THE REAL ESTATE OWNED ACCOUNT, GENERAL LEDGER NO 1310.00 REVEALS THE FOLLOWING:

PROPERTY	REQ BALANCE - 8/31/84	APPRAISED VALUE AMOUNT - DATE
409 CROWELL RD	\$259,000.00	
208 EVARTE RD	258,278.55	\$252,000.00 - 3/84
119 BATES ST	82,794.61	NONE AVAILABLE
15017 GOOD MEADOW CT	140,158.09	65,000.00 - 8/84
706 ROCK CREEK CHURCH	107,692.98	127,000.00 - 6/84
429 KEWYON STREET	735,910.08	85,000.00 - 1/84
729 LONG FELLOW, NW	55,996.16	NONE AVAILABLE
756 NEWTON PLACE, NW	63,732.78	37,000.00 8/84
901 3RD STREET NW AND		54,000.00 12/83
300 I STREET NE	336,423.62	NONE AVAILABLE

IT IS RECOMMEND THAT THE ABOVE PROPERTIES AND APPRAISALS BE REVIEWED AND, IF NECESSARY LOSS RESERVE AMOUNTS BE ESTABLISHED.

17953

EXAMINERS' COMMENTS
FIRST MARYLAND SAVINGS BANK

17/8/84

COMMENT 12 (C) CONTINUED

COMMISSION OR FEE TO ANY BROKER, IDENTIFYING EACH ACCOUNT AND STATING THE AMOUNT OF IT IN RESPECT TO WHICH FEE THE COMMISSION OR FEE IS PAID IS NOT MAINTAINED AS REQUIRED BY REGULATION 18 H. (2) (b) (d)

COMMENT 13 A REVIEW OF THE S/L 200A REPORTS SUBMITTED TO THE DIVISION FOR THE PERIOD OF SEPTEMBER 1, 1983 THRU AUGUST 31, 1984 REVEALS THE ASSOCIATION REPORTING AS "NOT AVAILABLE" ON LINE NUMBERS 230 "MORTGAGE LEND COMMITMENTS FOR NINE OF THE LAST TWELVE REPORTS.

2211 17964

EXAMINERS' COMMENTS
FIRST MARYLAND FINANCIAL SERVICES

Comment 1: First Maryland Financial Services, a wholly owned subsidiary of First Maryland Savings and Loan Association purchased 34 Apartment Units representing 24 shares of the Capital Stock of the 'Saxony Co-operative Apartments, Inc.' The Association Granted a First Mortgage against each of these Units. A Review of this Transaction Revealed the Following:

- (A) The Service Corporation Does Not Reflect the Entire Purchase Price of the Units as an Asset on Their Records, but Rather Reflects Only the Actual Cash Disbursed at Time of Settlement.
- (B) The Outstanding Mortgages, Representing the Balance of the Purchase Price is Not Shown as a Liability on the Books and Records of the Service.

Comment 2 Because of the Interpretation of 'Internal Revenue Law' the Service Corp was limited to the purchase of only 20 units in the 'Saxony Co-operative Apartments Inc' - Mr Julian Seidel, President and Chairman of the Board of First Maryland Savings and Loan Agreed to purchase 14 of the above units as trustee for First Maryland Financial Services.

The following Agreements in regard to this above transaction were not witnessed and notarized:

- (1) Agreement dated July 9, 1964 between First Maryland Financial Services Corporation and Mr Julian Seidel
- (2) Assignment of Proprietary Lease

17977

MELNICOVE, KAUFMAN, WEINER & SMOUSE, P. A.

36 SOUTH CHARLES STREET

SIXTH FLOOR

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(WRITER'S DIRECT DIAL NO.)

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OF COUNSEL
KENNETH H. EKIN
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BERNARD S. MELNICOVE
(1911-1971)

December 12, 1985

Carl R. Gold, Esquire
Office of Special Counsel
Suite 1513
301 West Preston Street
Baltimore, Maryland 21201

Re: First Maryland Savings & Loan

Dear Carl:

The purpose of this letter is to provide the answers which you requested in your letter of November 14, 1985.

I. Line of Credit to Julian Seidel.

You have asked for an explanation of the security for Loan 628-6, the line of credit to Julian Seidel. The line of credit was not established until after the exchange of correspondence between David P. Cole, Vice President and General Counsel of the Association, and Charles H. Brown, Director of the Division of Savings and Loan Associations, on the question whether it was necessary for the line of credit to be secured. Copies of that correspondence, dated December 19, 24 and 27, 1984, are contained in the file previously furnished to you.

The file also shows that, prior to funding the line of credit, Mr. Seidel executed an Assignment and Security Agreement, dated February 1, 1985. The Agreement recites that the line of credit is to be in the amount of \$69,750.00, not the \$300,000 originally

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Carl R. Gold, Esquire
December 12, 1985
Page Two

anticipated, and that it will be fully secured by four designated notes aggregating that sum. The Agreement goes on to state that the notes are assigned to First Maryland "as security for repayment;" that the Association is granted "a security interest in all compensation of any kind whatsoever which may be payable to Borrower pursuant to the contracts attached hereto;" that the assignment "is irrevocable;" and that it is to remain in full force and effect "until and unless such obligation is released in writing by Bank." I am informed that the four designated notes were purchased by Mr. Seidel from Stephen Madeoy at their full face value. The file also indicates that Mr. Seidel signed a demand note on February 1st, in the full amount of the line of credit.

The file also reveals that, on February 1st, in a further effort to assure that the documentation was complete, a First Maryland employee, Nancy Jacobs, forwarded the four designated notes to another First Maryland employee, Gloria Meyers, with the request that Mr. Seidel sign an endorsement which had been placed on the reverse side of each. Mr. Seidel complied with the request.

While it is true that the typed endorsements inadvertently used the words, "without recourse," this inadvertence was meaningless under the circumstances. Mr. Seidel was personally obligated on the line of credit by virtue of the demand note which he had executed in favor of the Association, and the four designated notes were assigned to the Association, for the express purpose of securing the line of credit, under the detailed provisions of the Assignment and Security Agreement. Mr. Seidel indisputably intended to be personally liable on the line of credit and to have the notes be security for the credit extended, and the instruments simultaneously executed by him undeniably had that effect. When the language of the endorsements was called to the Association's attention, in the course of the FSLIC audit, Mr. Seidel acknowledged the inadvertence and offered immediately to correct the language.

The records of the Association indicate that Mr. Seidel drew down a total of \$65,000 on the line

Carl R. Gold, Esquire
December 12, 1985
Page Three

of credit. He drew \$25,000 on February 5th, \$20,000 on March 5th, and \$20,000 on March 15th.

II. Notification and/or Division Approval

You have also asked for information as to any evidence of the Division of Savings and Loan approval of the other eight loans which were listed in the paragraph numbered 4 of your letter of October 14, 1985, defining the documents sought pursuant to your Subpoena Duces Tecum No. 85-016.

(A) Loans for Which No Division Approval Was Necessary.

It is apparent from the records that no approval was necessary for five of the loans which were listed in your letter. At the times of the loans, the Division's regulations provided that "An association may grant a loan to any of its officers, directors, or employees in accordance with the specific requirements of Financial Institutions Article, §9-307, Annotated Code of Maryland." Regs., 08.95.01.43. In turn, §9-307 provided that a savings and loan association was prohibited, without Division approval, from making a loan to any officer or director or to any corporation or business in which any officer or director had an interest of 10% or more. The following loans were in full conformity with those provisions:

(1) East 86th Street. First Maryland made an acquisition and rehabilitation loan to a group of syndicators known as APM. After completion of the rehabilitation, the loan was converted to a permanent loan with the major portion being taken by Cal America of Anaheim, California. Thereafter, APM syndicated the project and sold limited partnership interests to the general public. Forty shares, each representing 2.5% of the project, were sold.

One share, amounting to 2.5%, was purchased by Directors Associates, the limited partnership comprised of the officers and directors of

Carl R. Gold, Esquire
December 12, 1985
Page Four

the Association. This share was purchased in the same manner, and under the same terms, as shares purchased by other investors. Director Associates signed a note for its interest and made capital contributions as required. None of the Association's funds were used for this investment by Directors Associates.

The East 86th Street loan by the Association was not to any officer or director or to any business entity in which any officer or director then had an interest. Even after an interest had been acquired through Directors Associates, no officer or director had an interest of 10%. It was not appropriate, therefore, for Division approval to be sought.

(2) Liberty Tower. First Maryland had made this loan in connection with an apartment condominium project in Oklahoma. The principal of the borrowing entity was James Hardy. When the project failed, the Association saved it from bankruptcy by having it taken over by a syndicator. The syndicator solicited limited partnership investments from outside third parties. I understand that two directors of the Association purchased the last 3% of these limited partnership shares, 1.5% each, to close the syndication. The 1-1/2% purchases were under the same terms as were offered to all other purchasers. No funds of the Association were used in connection with the purchases by the officers and directors.

(3) Indiana Avenue. The Association made an acquisition and rehabilitation loan to a construction company and to a limited partnership comprised of the Association's service corporation and four limited partners who were directors of the Association. The directors' interests in this limited partnership aggregated approximately 1% of the project.

The project was then syndicated through the creation of another limited partnership. This syndication was the first by First Maryland Securities Company, a subsidiary of the Association.

Carl R. Gold, Esquire
December 12, 1985
Page Five

In order to complete this syndication, four officers and directors of the Association each purchased 4.9%. These interests were purchased under the same terms as the interests purchased by outsiders. No funds of the Association were used in connection with the purchases by the officers and directors.

(4) 5006 Battery Lane. This was an 80% house loan to outsiders who had purchased the property for investment. Six months or so after the loan had been made, when the partners split up, Mr. Seidel was one of two persons who bought them out. The original partners remained liable on the loan. Since Mr. Seidel had no interest in the transaction at the time when the loan was made, and only purchased an interest after the original borrowers were at odds with each other, the Association loan was not made to any officer or director or to any entity in which an officer or director had an interest.

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per Arnold
weiner
CRG*

(5) Palmer Highway. In September, 1983, the Association made a \$400,000 loan to the Palmer Highway Limited Partnership. The general partners were Herbert Ezrin and Laurence Levitan, two lawyers who were partners in the firm of Levitan, Ezrin, West and Kerxton. Among the limited partners were a number of the members of that law firm, including Alan Kerxton. Mr. Kerxton had a 2.5% interest in the limited partnership. On October 20, 1984, Mr. Kerxton became a director of the Association. In December, 1984, the Association increased the loan to the limited partnership by another \$100,000. The communications for the increase were between Messrs. Ezrin and Seidel. Mr. Kerxton became an officer in February, 1985. There was no need to secure Division approval for the increase in the loan because Mr. Kerxton's limited partnership interest in the borrowing entity was only 2.5%.

(B) Other Loans.

There were two other loans which do not appear to fit into the preceding category. They are:

Carl R. Gold, Esquire
December 12, 1985
Page Six

(1) Director Associates. The Association had foreclosed upon three properties in October and November, 1982 and in October, 1983. The properties were not readily salable and the Association had the burden of carrying the real estate on its books and paying the expenses inherent in ownership. The directors of the Association formed Director Associates Limited Partnership for the purpose of taking these properties off the hands of the Association at prices higher than outside third persons would be willing to pay. The Association made a loan to Directors Associates so that the transaction could be accomplished. The general partner of Director Associates, Frank Calcara, had a net worth of approximately \$4 million. The purchase prices of the properties were higher than the values set forth in the appraisals. Mr. LeCompte may have one or more memoranda of his discussions with Mr. Cole.

In September, 1984, before engaging in the transaction, Mr. Cole discussed it with Mr. William LeCompte of the Division, and an exchange of correspondence followed. I believe that we have already furnished you with copies of letters between Messrs. Cole and LeCompte dated October 10 and 19, 1984. Mr. Cole informs me that there was a third letter which he wrote to Mr. LeCompte, but we have been unable to locate the file copy among the records of First Maryland. Mr. Cole has also informed me that he had a total of three or four telephone conversations with Mr. LeCompte; that Mr. LeCompte informed him that, since the loan was "to facilitate" the business of the Association, it was acceptable to the Division. Mr. LeCompte was satisfied with the properties being 100% financed, so long as the loan was at a reasonable rate and was to a limited partnership in which the general partner had substantial net worth.

(2) Patten Investments. The Association granted a \$15,000 line of credit to Patten Associates. The borrower was a limited partnership of which Mr. Cole, an officer of the Association, was

Carl R. Gold, Esquire
December 12, 1985
Page Seven

general partner. A total of \$12,900 was drawn down against the line. Patten Associates also had a savings account at the Association, and interest payments have been made against the loan from the savings account. I understand that, owing to the small amount involved in this transaction, Division notification may have been overlooked.

I believe that this letter addresses the questions which were raised by you in your communication of November 14th. Please let me know if there is any other information which you might want.

Very truly yours,



Arnold M. Weiner

AMW:po
4630.024

MELNICOVE, KAUFMAN, WEINER & SMOUSE, P. A.

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BERNARD S. MELNICOVE
(1911-1971)

January 3, 1986

Carl Gold, Esquire
Office of the Special Counsel
Suite 1513
301 W. Preston Street
Baltimore, Maryland 21201

RECEIVED

JAN 4 1986

OFFICE OF
THE SPECIAL COUNSEL

Re: First Maryland Savings & Loan

Dear Carl:

This letter will follow up on our meeting of December 20, 1985 and our several telephone conversations since that time.

During our conversation of December 23, we furnished you with information which addressed most of the questions which you had raised during our meeting. Since that conversation, we have spoken several times about the two matters on which I was still waiting to obtain information: the Indiana Avenue Limited Partnership and the purchase of notes by Julian Seidel from Steven Madeoy. I regret that it has taken me so long to obtain complete information about these two matters but because I know you are operating under a tight deadline, I would at least like to bring you up to date on the information I have obtained.

You earlier requested that we furnish you with evidence of the full consideration paid by Mr. Seidel for the notes assigned by Mr. Madeoy. At our meeting on December 20th, I supplied you with copies of four checks, all payable to Michael J. Friedman,

Carl Gold, Esquire
January 3, 1986
Page Two

Esq., aggregating \$74,000. Mr. Friedman acted as the settlement attorney in connection with the assignment of the notes. Mr. Friedman has indicated that he will send us a letter confirming this fact and describing the transaction. I will send you a copy of the letter as soon as we have received it.

With regard to the 601 Indiana Avenue Limited Partnership, this project originated and was structured in the following way: The project was conceived by Robert Gueli of the Duro Construction Corporation and Ronald Freudenheim of First Maryland Financial Services Corporation. The objectives of the project were to earn loan fees and interest for First Maryland as well as a return on First Maryland's equity participation in the project. The project also provided the first securities syndication project for First Maryland Securities, Ltd. The plans for the project anticipated that persons affiliated with First Maryland would have only a minimal ownership interest, which would be derived indirectly from their association with one of the project's general partners. These general partners were to be Duro Construction Corporation, which held a one percent interest; and Maryland-WSC Limited Partnership, which also owned only a one percent interest. Maryland-WSC Limited Partnership was composed of Old Line Associates, which is a subsidiary of First Maryland, and four individuals also associated with First Maryland; Ron Freudenheim; Julian Seidel; James Porter; and Gloria Meyers. In the aggregate, Old Line and the individuals thus were to own only a one percent interest in 601 Indiana Avenue.

After the necessary work had been done to begin offering the syndication to investors, copies of the private placement memorandum, which offered to sell limited partnership interest constituting the remaining 98 percent of the partnership, were circulated to qualified individuals unrelated to First Maryland. Although there was a substantial positive response, it was not sufficient to complete the syndication and allow the project to proceed. After the offering to the unrelated parties, subscriptions for

Carl Gold, Esquire
January 3, 1986
Page Three

the previously unsold interests were offered to members of the board of directors and employees of First Maryland or its affiliates. These interests were offered on precisely the same terms as had been offered to the unaffiliated parties. In order to allow the syndication to be completed, interests were purchased by Frank Calcara, Julian Seidel, Cyrus Katzen, Edward Dacy, Robert Corletta and James Porter. Mr. Calcara and Mr. Seidel each purchased an interest equal to 4.9 percent. Mr. Katzen, a director of the securities subsidiary, purchased an interest of 9.8 percent. Mr. Dacy shared a 4.9 percent interest with an unrelated party, John Manougian. Finally, Mr. Corletta and Mr. Porter shared a single 4.9 percent interest. The sales of these interests allowed the project to proceed as had been represented to investors in the private placement memorandum. It also allowed the securities subsidiary of First Maryland to collect the fees it had earned by virtue of preparing the syndication documents and to begin to become established as a viable securities broker-dealer.

Once the syndication was completed, the project received an original acquisition and development loan at a 14 percent annual rate of interest from First Maryland in the amount of \$4,600,000. In accordance with the original intention at the time the project was conceived, this loan was subsequently converted to permanent financing. The terms and conditions of this loan, including its annual interest rate, were comparable in all respects to loans generally available at the time for projects of this type. Moreover, First Maryland earned \$92,000 in loan fees by virtue of funding the project. Thus, participation in the project was highly beneficial to First Maryland and its depositors. The ownership of small interests in the project by individuals who were affiliated with First Maryland did not prejudice the association in any way; to the contrary, the investment in the publicly offered shares, at the same prices paid by the public, was for the purpose, and had the effect, of allowing First Maryland to engage in a highly attractive business arrangement.

MELNICOVE. KAUFMAN. WEINER & SMOUSE. P. A.

Carl Gold, Esquire
January 3, 1986
Page Four

We would be pleased to discuss these or related matters with you at any time, and I hope you will call me if you have additional outstanding questions.

Sincerely yours,



ETHAN L. BAUMAN

ELB:ps

2366f

MELNICOVE, KAUFMAN, WEINER & SMOUSE, P. A.

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BERNARD S. MELNICOVE
 (1911-1971)

332-8561

January 3, 1986

Michael J. Friedman, Esquire
 P. O. Box 2251
 Rockville, Maryland 20852

Re: First Maryland Savings & Loan

Dear Mr. Friedman:

As I mentioned to you in our recent conversations, the Office of Special Counsel has requested us to supply information with respect to the consideration paid by Julian Seidel for the notes which were executed by various borrowers, made payable to Steven Madeoy and assigned to Julian Seidel by Mr. Madeoy.

We have already supplied the Special Counsel with copies of four checks from Mr. Seidel made payable to you. Copies of those checks are also enclosed herewith. Our understanding is that the checks were made payable to you because you acted as settlement attorney in the transactions.

I should appreciate it if you would send us a letter at your earliest convenience in which you confirm the receipt of the funds and in which you outline the transactions. I understand that

Michael J. Friedman, Esquire
January 3, 1986
Page Two

you have drafted such a letter but I have not as
yet received it.

Very truly yours,

Ethan L. Bauman

ELB:po

Enclosures

CC: Carl Gold, Esquire ✓
Office of Special Counsel

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

January 2, 1985



Mr. David P. Cole
Vice President
First Maryland Savings & Loan
1109 Spring Street, Suite 800
Silver Spring, Maryland 20910

Dear Mr. Cole:

I have your letter of December 27th regarding the proposed loan to Mr. Seidel. I did not deny your request on the basis of federal tie-in provisions or the commercial tie-in provisions but on the basis of Section 9-307 of the Financial Institutions Article concerning the conflict of interest to officers and directors. The Code requires that loans to officers and directors be secured by collateral appraised by a disinterested appraiser and that the appraisal be approved by the Division Director.

I sent you a copy of an opinion from our counsel regarding loans to officers and directors. As counsel indicated, regardless of the regulation the conflict of interest statute, Section 9-307 of the FIA, applies to a loan to Mr. Seidel. The deregulation does not supersede the conflict section of the Code and there are requirements under Section 9-307 regarding the appraisal of collateral which would restrict the association from making an unsecured insider loan. I believe our counsel's opinion expressed in his letter of September 14, 1984 covers your situation.

I regret, therefore, I cannot approve the request.

Very truly yours,

Charles H. Brown, Jr.
Charles H. Brown, Jr.
Director

CHB:kg

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A43430

HARRY HUGHES
GOVERNOR



FREDERICK L. DEWBERRY
SECRETARY

STATE OF MARYLAND

CHARLES H. BROWN
DIRECTOR

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROKERAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4076
301/659-6330

WILLIAM S. LECOMPTI
DEPUTY DIRECTOR

December 24, 1984

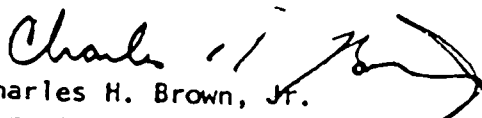
Mr. David P. Cole
Vice President
First Maryland Savings & Loan
1109 Spring Street, Suite 800
Silver Spring, Maryland 20910

Dear Mr. Cole:

This is in response to your letter of December 19, 1984, wherein you advised the Board of Directors of the association approved a commercial loan in the form of an unsecured line of credit to Julian Seidel in the amount of \$300,000.

There has been some question whether our State-chartered associations can make unsecured loans to officers, directors and controlling persons in view of the prohibitions set forth in §§9-307(a)(2) and 9-323 of the Financial Institutions Article. This matter was referred to our counsel, John C. Cooper III, Assistant Attorney General. It is counsel's opinion that the prohibitions on unsecured insider loans as set forth in the Financial Institutions Article remain effective and that the federal tie-in provisions do not supersede the prohibitions. Copy of Mr. Cooper's letter dated September 14, 1984 to the undersigned is enclosed for your information. Based upon advice of counsel, I cannot approve the loan requested to Mr. Seidel.

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:kg
Enclosure

2228

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IIIE5



301/588-6000

1109 SPRING STREET, SUITE 800
SILVER SPRING, MARYLAND 20910

301/585-7676

December 27, 1984

Mr. Charles H. Brown, Jr.
Director
Department of Licensing and Regulation
Division of Building Savings and Loan Associations
American Building, Seventh Floor
231 East Baltimore Street
Baltimore, Maryland 21202

Re: Officer/Director Loans

Dear Mr. Brown:

Regarding your letter of December 24, 1984 wherein you found it necessary to disapprove our request to make an unsecured loan to Mr. Seidel, we would like to offer the following additional information, and hereby resubmit our request.

The proposed unsecured loan is in the nature of a commercial loan to be made by our commercial loan department. It is our understanding that Regulation 09.05.01.51 pertaining to commercial lending provides that:

An Association may invest in any investments permitted to a banking institution in this State provided that the Savings and Loan Association meets the conditions required of an investing banking institution.

It is, therefore, the commercial banking "tie-In" upon which we rely in making the unsecured loan to Mr. Seidel, not the Federal "tie-In". Reference to Title 3 of the Financial Institutions Chapter of the Annotated Code of Maryland provides that:

- (c) Required approval.- (1) A loan to a director, officer, or employee of a banking institution may be made only if the loan has been approved by a resolution adopted at and recorded in the minutes of a meeting of:
- (i) The board of directors of the banking institution; or
 - (ii) The executive committee of the banking institution, if that committee is authorized to make loans.
- (2) If a loan is approved by an executive committee, the loan approval shall be reported to the board of directors at its next meeting.

Mr. Charles Brown, Jr.
December 27, 1984
Page Two

- (d) Periodic review; renewals and extensions.- (1) A loan made under this section shall be reviewed every six (6) months by the board of directors.
- (2) The loan may not be renewed or extended unless the renewal or extension has been approved by a resolution adopted at a meeting of the board of directors and recorded in the minutes of the meeting.
- (e) Maximum of loans. - All loans to a director, officer, or employee of a banking institution are subject to the limitations imposed by 3-601 of this article.

Maryland Code Annotated 5-512 (Cum. Supp. 1984)

The distinction to be made here is that between the traditional real estate secured loans made by Savings and Loan Associations prior to deregulation, and the unsecured commercial loans now permitted to Savings and Loan Associations by deregulation and the commercial banking "tie-in". The considerations for underwriting each of the different types of loans are obviously different and would require a different action by the individual boards of directors. We feel that our board of directors and our commercial loan department are competent in underwriting and administering Mr. Seidel's loan and we would appreciate your approval of the loan to the extent required by law.

Please do not hesitate to contact us in the event you would like to discuss this matter further or to jointly analyze the current law.

Very respectfully,


David B. Cole
Vice President

DPC:lm

 **FIRST
MARYLAND**
SAVINGS & LOAN
A STOCK CORPORATION

1109 SPRING STREET, SUITE 800
SILVER SPRING, MARYLAND 20910

588-6000

301/585-7676

December 19, 1984

Mr. Charles H. Brown, Jr.
Director
Department of Licensing and Regulation
Division of Building Savings and Loan Associations
American Building, Seventh Floor
1 East Baltimore Street
Baltimore, Maryland 21202


Officer/Director Loan

Mr. Brown:

You are advised that in accordance with Regulation 09.05.01.51 and Section 5-512 of the Annotated Code of Maryland, the Board of Directors, by resolution adopted at and recorded in the minutes of a meeting on November 20, 1984 (Mr. Seidel abstaining), approved a Commercial Loan in the form of a unsecured line of credit to Mr. Brian M. Seidel in the principal amount of \$300,000.00 bearing interest at one (1%) percent per annum over the prime lending rate of Maryland National Bank. This loan shall be reviewed every six (6) months by the Board of Directors as required by law.

Please do not hesitate to contact us in the event you have questions or comments regarding this matter.

Respectfully,


David P. Cole
President

dlm

2231

IIIE7

A43462

OFFICES OF

STEPHEN M. SACHS
ATTORNEY GENERAL



FRANCIS X. PUGH
ASSISTANT ATTORNEY GENERAL
Counsel to the
Department of Licensing and Regulation

ELEANOR M. CAREY
PAUL F. STRAIN
DEPUTY ATTORNEYS GENERAL

THE ATTORNEY GENERAL
Department of Licensing and Regulation
501 St. Paul Place
14th Floor
BALTIMORE MARYLAND 21202 2272
301/659-6220

ROBERT deV. FRIERSON
ASSISTANT ATTORNEY GENERAL
DEPUTY COUNSEL
PAUL W. GRIMM
ASSISTANT ATTORNEY GENERAL
CHIEF, LITIGATION AND ADMINISTRATION

September 14, 1984

SEP 17 1984

Charles H. Brown, Jr., Director
Division of Savings and Loan Associations
231 E. Baltimore Street - 7th Floor
Baltimore, Maryland 21202

Re: Unsecured loans to officers, directors
and "controlling persons"

Dear Mr. Brown:

You request advice of counsel as to whether the 1983 addition of §9-419(c) to the Financial Institutions Article of the Code, providing that state associations are not prohibited from "making any investment that is permissible for a federal savings and loan associations", supercedes the prohibitions on unsecured loans to association officers, directors and "controlling persons" established by §§9-307(a)(2) and 9-323 of the Financial Institutions Article, in light of the more permissive treatment allowed federal associations under Federal Home Loan Bank Board regulations 12 CFR §563.41 - .45. It is my opinion that the specific restrictions on these insider loans of §§9-307(a)(2) and 9-323 remain valid and are not affected by the later §9-419(c). Assistant Attorneys General Robert Frierson and Michael Brockmeyer furnished you with an analysis of this area in their advice of counsel letter dated August 3, 1984. This concluded that the enabling act authority given the Board of Savings and Loan Commissioners to regulate the 20 specific types of investment granted by §9-419(a) was not superceded by the 1983 enactment of §9-419(c) as to the same types of investment when covered by different federal regulatory guidelines for federal associations. The federal tie-in question was discussed as follows:

We have carefully considered an interpretation of this subsection whereby the Board's express authority under section 9-419(a) would be displaced by or subordinated to a parallel system of federal regulatory

A43443

2232

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.*

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 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. Maquire 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

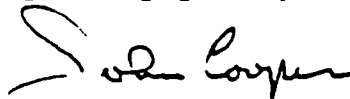
* For example, section 9-420 provides "[n]otwithstanding any other provision of law and subject to the approval of the Board of Commissioners, a savings and loan association may raise capital under the same conditions and to the same extent as a federal association as if the powers were specifically enumerated in this title."

Charles H. Brown, Jr.
September 14, 1984
Page 3

antitrust considerations discussed in Part II below, the Board retains full statutory authority to impose standards differing from federal guidelines on all types of investments enumerated in section 9-419(a) other than investment in deposits insured by the FSLIC or FDIC

Consistent with the August 3 advice of counsel letter, you are advised that prohibitions on unsecured insider loans of §§9-307(a)(2) and 9-323 of the Financial Institutions Article remain effective.

Very truly yours,



John C. Cooper, III
Assistant Attorney General

JCC:pjm

ADVICE OF COUNSEL; NOT AN OPINION OF THE ATTORNEY GENERAL

2234

A43117



FIRST MARYLAND SAVINGS & LOAN
A STOCK CORPORATION

1109 SPRING STREET, SUITE 800
SILVER SPRING, MARYLAND 20910

88-6000

301/585-7676

December 19, 1984

Mr. Charles H. Brown, Jr.
Director
Department of Licensing and Regulation
Division of Building Savings and Loan Associations
American Building, Seventh Floor
1 East Baltimore Street
Baltimore, Maryland 21202

Officer/Director Loan

Mr. Brown:

Be advised that in accordance with Regulation 09.05.01.51 and Section 5-512 of the Annotated Code of Maryland, the Board of Directors, by resolution adopted at and recorded in the minutes of a meeting on November 20, 1984 (Mr. Seidel abstaining), approved a Commercial Loan in the form of a unsecured line of credit to Mr. Brian M. Seidel in the principal amount of \$300,000.00 bearing interest at one (1%) percent per annum over the prime lending rate of Maryland National Bank. This loan shall be reviewed every six (6) months by the Board of Directors as required by law.

Please do not hesitate to contact us in the event you have questions or comments regarding this matter.

Sincerely,
truly,

David P. Cole
President

dlm

A43446

2235

NOTE

US \$ 15,750.00

Washington, D.C.

December 7, 1984

FOR VALUE RECEIVED, the undersigned ("Borrower") promise(s) to pay...

STEVEN F. MADROY
Fifteen Thousand Seven Hundred Fifty (\$15,750.00) or order, the principal sum of
interest on the unpaid principal balance from the date of this Note, until paid, at the rate of...

Eighteen percent per annum. Principal and interest shall be payable at 8720 Georgia Avenue
Suite 1010, Silver Spring, Maryland 20910, or such other place as the Note holder may
designate, in consecutive monthly installments of Two Hundred Thirty-six and 25/100
Dollars (US \$ 236.25), on the 1st
day of each month beginning February 1, 1985. Such monthly installments

shall continue until the entire indebtedness evidenced by this Note is fully paid, except that any remaining indebted-
ness, if not sooner paid, shall be due and payable on December 7, 1985.

If any monthly installment under this Note is not paid when due and remains unpaid after a date specified by a
notice to Borrower, the entire principal amount outstanding and accrued interest thereon shall at once become due
and payable at the option of the Note holder. The date specified shall not be less than thirty days from the date
such notice is mailed. The Note holder may exercise this option to accelerate during any default by Borrower
regardless of any prior forbearance. If suit is brought to collect this Note, the Note holder shall be entitled to collect
all reasonable costs and expenses of suit, including, but not limited to, reasonable attorney's fees.

Borrower shall pay to the Note holder a late charge of ten (10) percent of any monthly
installment not received by the Note holder within five (5) days after the installment is due.

Borrower may prepay the principal amount outstanding in whole or in part. The Note holder may require that
any partial prepayments (i) be made on the date monthly installments are due and (ii) be in the amount of that
part of one or more monthly installments which would be applicable to principal. Any partial prepayment shall be
applied against the principal amount outstanding and shall not postpone the due date of any subsequent monthly
installments or change the amount of such installments, unless the Note holder shall otherwise agree in writing.

Presentment, notice of dishonor, and protest are hereby waived by all makers, sureties, guarantors and endorsers
hereof. This Note shall be the joint and several obligation of all makers, sureties, guarantors and endorsers, and
shall be binding upon them and their successors and assigns.

Any notice to Borrower provided for in this Note shall be given by mailing such notice by certified mail
addressed to Borrower at the Property Address stated below, or to such other address as Borrower may designate by
notice to the Note holder. Any notice to the Note holder shall be given by mailing such notice by certified mail,
return receipt requested, to the Note holder at the address stated in the first paragraph of this Note, or at such other
address as may have been designated by notice to Borrower.

The indebtedness evidenced by this Note is secured by a Deed of Trust, dated December 7, 1984,
and reference is made to the Deed of Trust for rights as to acceleration of the indebtedness
evidenced by this Note.

ADDITIONAL PROVISIONS ARE SET FORTH ON THE REVERSE SIDE HEREOF AND ARE INCORPORATED
HEREIN.

Rev. Claude A. Stone (Seal)
CLAUDE A. STONE

Elizabeth J. Stone (Seal)
ELIZABETH J. STONE

210.62nd Street, N.E.

Washington, D.C.
Property Address

(Execute Original Only)

It is warranted and stipulated that the loan hereby secured is transacted solely for the purpose of carrying on or acquiring a business or commercial investment within the meaning of the Truth in Lending Act and as provided in the D.C. Code §28-3301

THE PRINCIPAL BALANCE OF THIS TRUST SHALL BECOME DUE AND PAYABLE IN FULL IF ALL OR ANY PART OF THE PROPERTY IS TRANSFERRED BY THE MAKER HEREOF. UPON NON-PAYMENT OF ANY INSTALLMENT WHEN DUE AND PAYABLE, BY MATURITY, ACCELERATION, OR OTHERWISE, SAID INSTALLMENTS SHALL BECOME DUE AND PAYABLE WITH INTEREST PLUS AN ADDITIONAL TWO PER CENT (2%) PER MONTH FEE, OR FRACTION THEREOF ON THE UNPAID BALANCE WITHOUT NOTICE AT THE OPTION OF THE NOTEHOLDER UNTIL PAYMENT HAS BEEN MADE IN FULL.

Any default in insurance, taxes or any existing indebtedness will accelerate the balance of the indebtedness due the same as if default were made in this indebtedness

If this note is in default and is referred to an attorney for collection, Borrower agrees to pay attorneys fees in the amount of Twenty Percent (20%) of the amount due plus court costs.

There is a Twenty (\$20.00) dollar return check fee.

Ray Claude A. Stone

CLAUDE A. STONE

Elizabeth J. Stone

ELIZABETH J. STONE

PAY TO THE ORDER OF JULIAN SEIDEL with recourse

with recourse

Steven F. Madeoy

STEVEN F. MADEOY

PAY TO THE ORDER OF FIRST MARYLAND SAVINGS AND LOAN, INC. WITHOUT RECOURSE

Julian Seidel
Julian Seidel

2237

433455

NOTE

US \$ 15,000.00

Washington, D.C.

October 24, 1984

FOR VALUE RECEIVED, the undersigned ("Borrower") promise(s) to pay... STEVEN F. MADEJOY... Fifteen Thousand and 00/100 (\$15,000.00) or order, the principal sum of... Dollars, with interest on the unpaid principal balance from the date of this Note, until paid, at the rate of... Eighteen and 00/100 (18.00%) percent per annum. Principal and interest shall be payable at 8720 Georgia Avenue Suite 1010, Silver Spring, Maryland 20910, or such other place as the Note holder may designate, in consecutive monthly installments of... Two Hundred Twenty-five and 00/100 Dollars (US \$ 225.00), on the 1st day of each month beginning December 1, 1984... Such monthly installments shall continue until the entire indebtedness evidenced by this Note is fully paid, except that any remaining indebtedness, if not sooner paid, shall be due and payable on December 1, 1985.

If any monthly installment under this Note is not paid when due and remains unpaid after a date specified by a notice to Borrower, the entire principal amount outstanding and accrued interest thereon shall at once become due and payable at the option of the Note holder. The date specified shall not be less than thirty days from the date such notice is mailed. The Note holder may exercise this option to accelerate during any default by Borrower regardless of any prior forbearance. If suit is brought to collect this Note, the Note holder shall be entitled to collect all reasonable costs and expenses of suit, including, but not limited to, reasonable attorney's fees.

Borrower shall pay to the Note holder a late charge of... ten (10) percent of any monthly installment not received by the Note holder within... five (5) days after the installment is due.

Borrower may prepay the principal amount outstanding in whole or in part. The Note holder may require that any partial prepayments (i) be made on the date monthly installments are due and (ii) be in the amount of that part of one or more monthly installments which would be applicable to principal. Any partial prepayment shall be applied against the principal amount outstanding and shall not postpone the due date of any subsequent monthly installments or change the amount of such installments, unless the Note holder shall otherwise agree in writing.

Presentment, notice of dishonor, and protest are hereby waived by all makers, sureties, guarantors and endorsers hereof. This Note shall be the joint and several obligation of all makers, sureties, guarantors and endorsers, and shall be binding upon them and their successors and assigns.

Any notice to Borrower provided for in this Note shall be given by mailing such notice by certified mail addressed to Borrower at the Property Address stated below, or to such other address as Borrower may designate by notice to the Note holder. Any notice to the Note holder shall be given by mailing such notice by certified mail, return receipt requested, to the Note holder at the address stated in the first paragraph of this Note, or at such other address as may have been designated by notice to Borrower.

The indebtedness evidenced by this Note is secured by a Deed of Trust, dated... October 24, 1984... and reference is made to the Deed of Trust for rights as to acceleration of the indebtedness evidenced by this Note.

ADDITIONAL PROVISIONS ARE SET FORTH ON THE REVERSE SIDE HEREOF AND ARE INCORPORATED HEREIN.

Charles L. Henry (Seal) Charles L. Henry

Shirley Henry (Seal) Shirley Henry

4203 Offut Drive Suitland, MD 20746 Property Address

(Execute Original Only)

13450

NOTE

US \$... 19,000.00

Washington, D.C.

October 23,, 1984.

FOR VALUE RECEIVED, the undersigned ("Borrower") promise(s) to pay.....
 STEVEN F. MADEOX, or order, the principal sum of
 Nineteen Thousand and 00/100~~----~~ (\$19,000.00) ~~-----~~ Dollars, with
 interest on the unpaid principal balance from the date of this Note, until paid, at the rate of .. Eighteen and ..
 ..00/100- (18.00%) percent per annum. Principal and interest shall be payable at .. 8720 Georgia Avenue
 Suite 1010, Silver Spring, Maryland 20910, or such other place as the Note holder may
 designate, in consecutive monthly installments of Two Hundred Eighty-five and 00/100~~----~~
 Dollars (US \$..... 285.00,) on the... 1st.....
 day of each month beginning December 1....., 19.. 84 Such monthly installments
 shall continue until the entire indebtedness evidenced by this Note is fully paid, except that any remaining indebted-
 ness, if not sooner paid, shall be due and payable on... December 1.. 1985.....

If any monthly installment under this Note is not paid when due and remains unpaid after a date specified by a
 notice to Borrower, the entire principal amount outstanding and accrued interest thereon shall at once become due
 and payable at the option of the Note holder. The date specified shall not be less than thirty days from the date
 such notice is mailed. The Note holder may exercise this option to accelerate during any default by Borrower
 regardless of any prior forbearance. If suit is brought to collect this Note, the Note holder shall be entitled to collect
 all reasonable costs and expenses of suit, including, but not limited to, reasonable attorney's fees.

Borrower shall pay to the Note holder a late charge of ten (10) percent of any monthly
 installment not received by the Note holder within five (5) days after the installment is due.

Borrower may prepay the principal amount outstanding in whole or in part. The Note holder may require that
 any partial prepayments (i) be made on the date monthly installments are due and (ii) be in the amount of that
 part of one or more monthly installments which would be applicable to principal. Any partial prepayment shall be
 applied against the principal amount outstanding and shall not postpone the due date of any subsequent monthly
 installments or change the amount of such installments, unless the Note holder shall otherwise agree in writing.

Presentment, notice of dishonor, and protest are hereby waived by all makers, sureties, guarantors and endorsers
 hereof. This Note shall be the joint and several obligation of all makers, sureties, guarantors and endorsers, and
 shall be binding upon them and their successors and assigns.

Any notice to Borrower provided for in this Note shall be given by mailing such notice by certified mail
 addressed to Borrower at the Property Address stated below, or to such other address as Borrower may designate by
 notice to the Note holder. Any notice to the Note holder shall be given by mailing such notice by certified mail,
 return receipt requested, to the Note holder at the address stated in the first paragraph of this Note, or at such other
 address as may have been designated by notice to Borrower.

The indebtedness evidenced by this Note is secured by a Deed of Trust, dated October 23, 1984....
, and reference is made to the Deed of Trust for rights as to acceleration of the indebtedness
 evidenced by this Note.

ADDITIONAL PROVISIONS ARE SET FORTH ON THE REVERSE SIDE HEREOF AND ARE INCORPORATED
 HEREIN.

Thomas Gee (Seal)
 Thomas Gee

Margaret Gee (Seal)
 Margaret Gee

..... 4014 14th Street, N.W.

..... Washington, D.C.
 Property Address

..... (Seal)
 (Execute Original Only)

NOTE

US \$ 20,000.00

Rockville, Maryland
City

November 29, 1984

FOR VALUE RECEIVED, the undersigned ("Borrower") promise(s) to pay... STEVEN F. MADEJOY TWENTY THOUSAND AND 00/100... or order, the principal sum of (\$20,000.00) Dollars, with interest on the unpaid principal balance from the date of this Note, until paid, at the rate of Eighteen and 00/100 percent per annum. Principal and interest shall be payable at 8720 Georgia Avenue Suite 1010, Silver Spring, Maryland 20910, or such other place as the Note holder may designate, in consecutive monthly installments of Three Hundred and 00/100 Dollars (US \$ 300.00), on the 1st day of each month beginning January 1, 1985. Such monthly installments shall continue until the entire indebtedness evidenced by this Note is fully paid, except that any remaining indebtedness, if not sooner paid, shall be due and payable on January 1, 1986.

If any monthly installment under this Note is not paid when due and remains unpaid after a date specified by a notice to Borrower, the entire principal amount outstanding and accrued interest thereon shall at once become due and payable at the option of the Note holder. The date specified shall not be less than thirty days from the date such notice is mailed. The Note holder may exercise this option to accelerate during any default by Borrower regardless of any prior forbearance. If suit is brought to collect this Note, the Note holder shall be entitled to collect all reasonable costs and expenses of suit, including, but not limited to, reasonable attorney's fees.

Borrower shall pay to the Note holder a late charge of ten (10) percent of any monthly installment not received by the Note holder within five (5) days after the installment is due.

Borrower may prepay the principal amount outstanding in whole or in part. The Note holder may require that any partial prepayments (i) be made on the date monthly installments are due and (ii) be in the amount of that part of one or more monthly installments which would be applicable to principal. Any partial prepayment shall be applied against the principal amount outstanding and shall not postpone the due date of any subsequent monthly installments or change the amount of such installments, unless the Note holder shall otherwise agree in writing.

Presentment, notice of dishonor, and protest are hereby waived by all makers, sureties, guarantors and endorsers hereof. This Note shall be the joint and several obligation of all makers, sureties, guarantors and endorsers, and shall be binding upon them and their successors and assigns.

Any notice to Borrower provided for in this Note shall be given by mailing such notice by certified mail addressed to Borrower at the Property Address stated below, or to such other address as Borrower may designate by notice to the Note holder. Any notice to the Note holder shall be given by mailing such notice by certified mail, return receipt requested, to the Note holder at the address stated in the first paragraph of this Note, or at such other address as may have been designated by notice to Borrower.

The indebtedness evidenced by this Note is secured by a Deed of Trust, dated November 29, 1984, and reference is made to the Deed of Trust for rights as to acceleration of the indebtedness evidenced by this Note.

ADDITIONAL PROVISIONS ARE SET FORTH ON THE REVERSE SIDE HEREOF AND ARE INCORPORATED HEREIN.

Preston Bruce, Jr. (Seal)

Kellene U. Bruce (Seal)

10341 Maypole Way
Columbia, Maryland 21044
Property Address

(Execute Original Only)

2240

A43460


is warranted and stipulated that the loan hereby secured is transferred solely for the purpose of carrying on or acquiring a business or commercial investment within the meaning of the Truth in Lending Act and as provided Section 12-103 of the Code of Maryland.

THE PRINCIPAL BALANCE OF THIS TRUST SHALL BECOME DUE AND PAYABLE IN FULL ALL OR ANY PART OF THE PROPERTY IS TRANSFERRED BY THE MAKER HEREOF.
UPON NON-PAYMENT OF ANY INSTALLMENT WHEN DUE AND PAYABLE, BY MATURITY, ACCELERATION, OR OTHERWISE, SAID INSTALLMENTS SHALL BECOME DUE AND PAYABLE WITH INTEREST PLUS AN ADDITIONAL TWO PER CENT (2%) PER MONTH OR FRACTION THEREOF, ON THE UNPAID BALANCE WITHOUT NOTICE AT THE OPTION OF THE NOTEHOLDER UNTIL PAYMENT HAS BEEN MADE IN FULL.

Any default in insurance, taxes or any existing indebtedness will accelerate the balance of the indebtedness due the same as if default were made in this indebtedness.

If this note is in default and is referred to an attorney for collection the Borrower agrees to pay attorney's fees in the amount of Twenty percent (20%) of the amount due plus court costs.

There is a \$20.00 (twenty and no/00) return check fee.



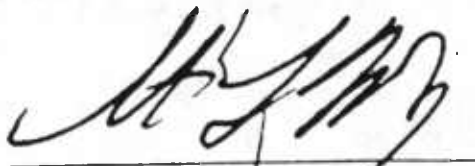
Preston Bruce, Jr.



Kellene U. Bruce

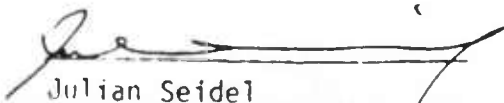
PAY TO THE ORDER OF JULIAN SEIDEL, WITH RECOURSE

with recourse



STEVEN F. MADEOY

PAY TO THE ORDER OF FIRST MARYLAND SAVINGS AND LOAN, INC. WITHOUT RECOURSE



Julian Seidel

2241

ASSIGNMENT AND SECURITY AGREEMENT

THIS ASSIGNMENT AND SECURITY AGREEMENT is made this /sr day of February, 1985 by and between First Maryland Savings and Loan (hereinafter "Bank") and Julian M. Seidel (hereafter "Borrower").

R E C I T A L S:

A. The Borrower has requested a line of credit from the Bank in the amount of \$69,750.00.

B. The Bank has agreed to loan that sum to the Borrower upon the condition that repayment of the loan be secured by an assignment from the Borrower to the Bank of certain monies due or to become due to the Borrower from:

<u>NAME OF DEBTOR</u>	<u>AMOUNT</u>	<u>NOTE DATE</u>	<u>RATE</u>	<u>MATURITY DATE</u>
Henry, Charles & Shirley	\$15,000	10/24/84	18%	12/1/85
Gee, Thomas & Margaret	19,000	10/23/84	18%	12/1/85
Bruce, Preston & Kellene	20,000	11/29/84	18%	1/1/86
Stone, Claude & Elizabeth	15,750	12/7/84	18%	12/7/85

NOW THEREFORE, in consideration of the loan made by Bank to Borrower and other valuable consideration received by Borrower, the parties hereto agree as follows:

1. The above recitations are true and correct and are incorporated herein as if recited in their entirety.
2. For valuable consideration, and as security for repayment by the Borrower to the Bank of the loan, including all extensions, renewals or changes in the form thereof, together with interest thereon, and any other obligations of Borrower to Bank as set forth therein. Borrower hereby assigns to Bank and grants to Bank a security interest in all compensation of any kind whatsoever, which may be payable to Borrower pursuant to the contracts attached hereto.
3. Borrower will not modify any of the terms and provisions of the contracts and agreements described in Paragraph (2) hereof.
4. Borrower shall execute any and all documents necessary or appropriate in order to transfer to Bank all of the interest herein assigned, including but not limited to, the signing of financing statements if requested by Bank.
5. This Assignment and Security Agreement is irrevocable and shall remain in full force of the Note and all obligations thereunder, or until and unless such obligation is released in writing by Bank.
6. This Agreement shall be binding on the parties hereto, their successors, assigns, heirs and personal representatives.

IN WITNESS WHEREOF, this Assignment and Security Agreement has been duly executed as of the day and year first written above.

Gloria Meyers
WITNESS

Julian M. Seidel
2242

Maryland Savings-Share Insurance Corporation

TO: Board of Directors

FROM: Ann Franetovich X
Financial Analyst

DATE: April 19, 1985

The following associations have not filed an S/L 200 for the period ended March 31, 1985:

Back and Middle River
Kent
Lansdowne
Madison Square
Mariners
Old Court
Regal
Slovan
Republic
Spartan
Wellham

Up-to-date Rules Violations Reports and MSSIC Net Worth Comparison Report will be distributed at the meeting of the Board of Directors.

AF/lsk

IIIE11

2243

00012361

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
CHESAPEAKE	3.73	3.73	3.76	3.82	3.84	3.89	4.16
BALTIMORE AMERICAN	3.64	3.67	4.00	4.30	4.43	5.41	4.34
CUSTOM	3.61	3.41	3.70	3.95	3.76	3.55	3.56
GIBBALTAR	3.58	3.47	3.59	4.31	4.04	3.93	4.28
FIRST MARYLAND	3.47	3.26	3.31	3.45	3.37	3.67	4.02
MUNICIPAL	3.23	3.12	3.17	3.15	3.17	3.13	3.20
CHEVY CHASE	2.80	2.75	2.75	2.99	2.98	2.96	2.98
LIBERTY	0.53	0.66	0.21	0.14	-0.19	-0.12	0.96
OLD COURT	*	3.45	3.73	4.43	4.24	4.24	4.33

LIQUIDITY RULE (6.00%)

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
JOHN HANSON	5.94	18.02	15.89	12.75	6.63	9.63	6.33
FIRST MARYLAND	5.59	6.94	7.85	7.79	6.90	8.25	4.88
SECOND NATIONAL	3.70	3.22	1.62	4.96	10.97	8.42	6.63
MERRITT	3.07	6.94	8.66	6.49	6.20	2.38	2.72
RIDGEWAY	1.63	6.00	10.90	10.41	3.31	2.57	2.90
REGAL	*	4.55	2.58	7.05	12.69	12.81	13.67

DELINQUENCY (4.00%)

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
CHESAPEAKE	4.11	3.02	1.95	2.51	1.34	2.07	1.43
ADMIRAL-BUILDERS	4.66	0.61	1.15	1.05	1.49	1.51	1.29
VANGUARD	5.31	1.77	4.96	5.63	5.17	5.67	4.90
BALTIMORE AMERICAN	5.50	2.54	4.29	3.07	1.90	2.91	2.89
MARYLAND PERMANENT	5.92			7.01			8.11
LIBERTY	6.03	6.41	6.46	7.84	7.65	7.57	11.35
NORTHFIELD	6.06	5.67	6.82	6.14	6.50	6.79	6.59
HOPKINS	8.56	9.43	8.94	6.07	6.50	7.22	8.20
IDEAL SAVINGS	8.80	9.21	5.59	5.58	5.80	5.66	5.58

BORROWING POLICY (15.00%)

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
SECOND NATIONAL	16.42	11.62	15.96	14.55	7.69	9.80	10.65
COMMUNITY	16.74	5.98	7.49	6.13	6.37	10.26	10.65

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
OLD COURT	*	66.39	69.30	69.80	68.21	72.14	70.89
SEVERN	41.66	44.93	47.53	50.65	44.27	47.54	44.92
JOHN HANSON	41.77	40.41	37.01	37.95	36.41	36.43	37.66
COMMUNITY	41.98	39.78	46.67	47.98	45.80	44.04	44.35
LIBERTY	43.29	43.63	44.71	45.27	40.71	40.42	34.34
GIBBALTAR	44.09	38.99	40.77	41.45	43.34	45.06	44.61
MUNICIPAL	52.82	44.84	53.89	48.52	42.58	39.76	40.64
MERRITT	57.44	45.37	42.41	51.95	54.13	66.61	67.96
FIRST MARYLAND	69.04	64.55	66.56	68.63	64.78	62.96	71.24

CONSTRUCTION RULE (25.00%)

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
OLD COURT	*	28.64	30.79	31.33	29.32	33.42	36.17
SEVERN	27.21	28.60	31.01	32.84	29.94	32.31	29.52
MUNICIPAL	31.51	28.32	36.83	29.89	26.60	23.88	23.99
COMMUNITY	32.50	28.82	33.35	30.64	32.22	39.41	39.63
MERRITT	34.16	20.55	17.07	24.91	27.28	35.99	37.34
FIRST MARYLAND	45.03	41.97	43.42	45.61	42.44	40.32	43.62

COMMITMENT AND L.I.P. (25.00%)

	MARCH 1985	FEBRUARY 1985	JANUARY 1985	DECEMBER 1984	NOVEMBER 1984	OCTOBER 1984	SEPTEMBER 1984
POIOMAC	27.77	12.67	5.68	5.90	1.91	97.59	0.00
MERRITT	30.35	33.07	32.63	29.66	24.65	28.52	24.63

Prepared: April 18, 1985
 By: Ann Franetovich

* Indicates association has not filed an SL200 for that period.

STATUS REPORT
AS OF APRIL 19, 1985
FOR THE PERIOD ENDING MARCH 31, 1985

NET WORTH RULE (3.75%)

CHESAPEAKE	Staff has notified association of violation.
BALTIMORE AMERICAN	Staff has notified association of violation.
CUSTOM	Association anticipates reaching a level of 3.75% by April 30, 1985.
GIBRALTAR	The association's attorney has advised that the association is proceeding with the proposal for a stock offering to raise capital.
FIRST MARYLAND	Association is in the process of developing a preferred stock offering. Anticipate this to be consummated in the next 3 months or more.
MUNICIPAL	Staff has sent a letter requesting a plan for compliance to be submitted by April 30, 1985. Association has indicated a plan will be submitted May 13, 1985.
CHEVY CHASE	Currently under Insurance Agreement; Board action on non-cash capital contribution proposes allowance of \$28 million, but no use of MSSIC debentures and accretion/amortization of discount and goodwill from acquisition of GSSL to be on match (equal term) basis.
LIBERTY	Insurance agreement executed February 22, 1985 and subsequently delivered to MSSIC.
OLD COURT	Association has not filed an S/L 200A for the period ended March 31, 1985.

LIQUIDITY RULE (6.00%)

2246

JOHN HANSON	First month violation. Staff will monitor.
FIRST MARYLAND	First month violation. Staff will monitor.

00012364

SECOND NATIONAL

Association has adopted a restricted policy with respect to the acceptance of commercial loan applications.

MERRITT

First month violation. Staff will monitor.

RIDGEWAY

First month violation. Staff will monitor.

REGAL

Association has not filed an S/L 200A for the period ended March 31, 1985.

DELINQUENCY (4.00%)

General Note: Except for specifics noted below most associations listed for the month of November have been filing schedules. Staff will follow-up on those who are not currently filing.

ADMIRAL-BUILDERS

BALTIMORE AMERICAN

Staff to request a schedule of delinquencies from each association.

MARYLAND PERMANENT

CHESAPEAKE

BORROWING POLICY (15.00%)

SECOND NATIONAL

Association reports that as of April 10, 1985, borrowings have been reduced to 15.8% of savings.

COMMUNITY

Staff to notify association of violation.

LENDING (40.0%)

OLD COURT

Association has not filed an S/L 200A for the period ended March 31, 1985.

SEVERN

Details of allowable exemptions reflect ratio of 31.19%.

JOHN HANSON

Staff to request details of allowable exemptions.

COMMUNITY

Staff to request details of allowable exemptions.

LIBERTY

Association reports \$700,000 loan being carried out in these loan totals when it is actually Real Estate Owned. Association is waiting for advice of counsel and accountants on the handling of the matter. Adjustment reflects ratio of 41.54%.

GIBRALTAR	Details of allowable exemptions reflect ratio of 41.49%.
MUNICIPAL	Staff to request details of allowable exemptions.
MERRITT	Staff currently attempting to complete a review of all matters pertaining to rule and law violations. Anticipate a meeting to be held with principals prior to April 24, 1985.
FIRST MARYLAND	Plan received and found acceptable by MSSIC Staff. Association anticipates compliance by September 30, 1985. Staff will monitor for significant improvement at 60 day intervals.
<u>CONSTRUCTION RULE (25.00%)</u>	
OLD COURT	Association has not filed an S/L 200A for the period ended March 31, 1985.
SEVERN	Details of allowable exemptions reflect ratio of 16.75%.
MUNICIPAL	Staff to request details of allowable exemptions.
COMMUNITY	Staff to request details of allowable exemptions.
MERRITT	Staff currently attempting to to complete review of all matters pertaining to rule and law violations. Anticipate a meeting to be held with principals prior to April 24, 1985.
FIRST MARYLAND	Plan received and found acceptable by MSSIC Staff. Association anticipates compliance by September 30, 1985. Staff will monitor for significant improvement at 60 day intervals.
<u>COMMITMENT & L.I.P. (25.00%)</u>	
POTOMAC	Staff to notify association of violation.
MERRITT	Staff currently attempting to complete review of all matters pertaining to rule and law violations. Anticipate a meeting to be held with principals prior to Arpil 24, 1985.

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

SPECIAL MEETING OF DIRECTORS

MONDAY, APRIL 18, 1983

A special meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation was held on April 18, 1983. The meeting was conducted by conference telephone equipment that enabled all Directors participating in the meeting to hear and speak to each other at the same time.

The following Directors participated:

Leonard Bass
Joseph P. Carroll
Michael J. Dietz
Jerome F. Dolivka
John C. Donohue, Sr.

Henry R. Elsnic
John D. Faulkner, Jr.
James D. Laudeman, Jr.
Judith H. Miles
Terry L. Neifeld

Not participating:

Frances F. Anderson

Others Participating: Ralph K. Holmes, Senior Vice President; Patrick M. McCracken, Administrative Coordinator.

Mr. Faulkner called the meeting to order at 10:28 A.M. Mr. McCracken acted as Recorder.

Mr. Holmes indicated that the purpose of this special meeting is to consider and act on the issuance of MSSIC savings insurance for United Savings Association.

He detailed the following information:

1. On Thursday, April 14, 1983 the Board of Savings and Loan Association Commissioners approved the application to organize United Savings Association subject to the approval of MSSIC to provide savings insurance.

2. The following is the list of Board Members of United Savings Association, their personal net worth and the percentage of stock they are to purchase:

<u>Director</u>	<u>Personal Net Worth</u>	<u>% of Stock Owned</u>
Harry Leavy, Chairman	\$1,176,000	7.5
Michelle Leavy, Director	\$3,835,000	2.5
Stuart Kaufman Katz Supermarkets	\$ 870,000	2.5
Melville Levinson Lamps Unlimited, etc.	\$ 464,500	1.3
Richard Dubin Dubin Developers, etc.	Unknown	2.5
Stephen R. Grayson Attorney, Real Estate	\$4,750,000	5.0
Sallee Rigler WRC Talk Show Host	\$ 445,000	Unknown

3. Police records, personal investigations and credit records are clear on all organizers.

4. Mr. Holmes indicated that he visited the location to be occupied by United Savings Association at Twinbrook Office Center, S.E. corner of Halpine Road and Rockville Pike, Montgomery County. He said it was in a five-story office complex adjacent to a multi-story Holiday Inn, near Metro stop. He also said that United will have what appears to be a choice location of approximately 1600-1800 square feet on the front corner of the office complex. He added there appears to be no provision for drive-up facilities.

5. Mr. Leavy is the former president of United Federal Savings and Loan Association. Therefore, he does have some savings and loan experience.

6. The association will be capitalized by \$2 million in stock and begin operation with \$1 million in savings.

2250

Mr. Elsnic stated that it was the recommendation of the Membership Committee from its April 13, 1983 meeting that the Board approve the issuance of MSSIC savings insurance for United Savings Association.

Mr. Neifeld asked if the directors previously listed and their given percentages of stock to be purchased, which totaled only about 20% of the whole, were the major purchasers of the stock.

Mr. Holmes answered that approximately 20% of the stock would be in the hands of the directors of United Savings Association.

Mr. Dietz asked for clarification as to the \$2 million in stock and \$1 million in savings. Mr. Dietz added that he was concerned about undercapitalization occurring due to accelerated growth such as had been the case with Bay State Savings and Loan Association, Inc.

Mr. Holmes reviewed the beginning dollar figures in both cases which he explained stood United Savings Association in good stead as regards potential accelerated growth.

Mr. Neifeld asked if this association would be a private or public stock company in the SEC sense.

Mr. Holmes answered that it would be private and he added that we will get a complete list of all the stockholders, which he indicated was the staff's current procedure in these cases.

Mr. Laudeman restated the previously mentioned concerns as to any one individual owning more than 10% of the stock of this association.

Mr. Neifeld asked what attracted this association to MSSIC rather than FSLIC.

Mr. Holmes answered that he believes they perceived faster approval from MSSIC and that they perceive MSSIC to currently be a less regulated environment. He added that these perceptions together with all the authority which parallels

the federal associations is also seen as a benefit on their part.

Mr. Elsnic asked if the organizers of this association had submitted a pro-forma for the next six to twelve months through which the MSSIC staff could monitor their performance.

Mr. Holmes indicated that it was not in his packet but that the staff would obtain a copy of the pro-forma.

Some general discussion took place regarding Mr. Richard Dubin, President of Dubin Construction Co., etc. and the fact that he was involved in part of the building of Ridgely's Delight and other projects.

Asking if there were any further questions and hearing none, Mr. Faulkner asked for a motion.

Mr. Bass made a motion to approve United Savings Association as a member of Maryland Savings-Share Insurance Corporation and therefore also the approval to issue MSSIC savings insurance to that association.

Ms. Miles seconded the motion.

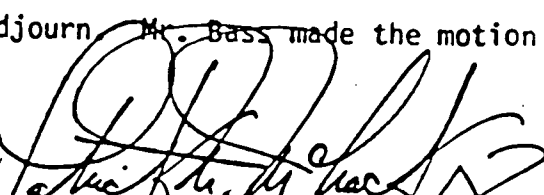
Mr. Faulkner asked any Board member who objected or who desired to abstain to speak. Hearing no objections or abstentions, Mr. Faulkner stated that the Chair can then assume that the Board has cast a unanimously favorable vote to issue MSSIC savings insurance to United Savings Association.

Ms. Miles asked about the disposition of First Maryland Savings and Loan, Inc.'s net worth violation.

Mr. McCracken stated that an executed insurance agreement (by and between MSSIC and First Maryland) was delivered to the offices of the Corporation on Friday, April 15, 1983.

The business of this special meeting of the Board having been concluded Mr. Faulkner called for a motion to adjourn. Mr. Bass made the motion and the meeting adjourned at 10:44 P.M.

2252


Patrick M. McCracken, Recorder

Maryland Savings-Share Insurance Corporation

TO: Board of Directors
FROM: Ann Franetovich *af*
RE: Violations Status Report
DATE: October 29, 1984

Enclosed please find the Violations Status Report for the period ending September 30, 1984, as promised at the last Board of Directors meeting.

AF/lsm

2253

IIIE13

00011444

STATUS REPORT

AS OF September 30, 1984

NET WORTH RULE (SECTION 3-211)

KENT	Submitted plan. Proposes to achieve level of 3.9% by 12/31/84. Plan will require 3 month waiver of liquidity rule to ensure attainment of net worth level. Plan approved August Board meeting.
RIDGEWAY	Proposed stock conversion. Awaiting Division approval.
EASTERN SAVINGS	Staff issued cease-and-desist letter, re: advertising. Association has requested meeting with staff on 10/23/84 at 1:30 p.m. Staff will follow-up and advise.
MUNICIPAL	Under Insurance Agreement with plan approved by the Board of Directors. The plan indicated 3.00% net worth by 12/31/84. Association is ahead of projections; now over 3.00%.
CHEVY CHASE	Currently under Insurance Agreement; status of second Insurance Agreement not yet determined; Association proposes recapitalization through stock swap with Mortgage Servicing Corporation. Stock swap proposal conditionally approved by the Division and is to be presented to MSSIC Board.
LIBERTY	Currently under approved Insurance Agreement through 12/21/84.
CUSTOM	Staff issued cease-and-desist letter, re: advertising. Association response: 1) reduce interest rate, 2) reduce scope and extent of advertising, 3) change emphasis of advertising. Association submitted plan on 10/12/84 which reflects they will achieve 3.75%+ by 7/31/85. Staff to pursue plan for more timely compliance.
UNIVERSAL	Staff to notify of violation and require plan for compliance.

LENDING (40.0%)

COMMUNITY

Plan received. Association to effect compliance by 1/31/85.

FAIRFAX

Staff to send letter requesting compliance.

FIRST MARYLAND

Plan to be developed by Kaplan, Smith Associates.

GIBRALTAR

Details of allowable exemptions reflect ratio of 40.42%. Anticipate compliance in October.

MUNICIPAL

Details of allowable exemptions reflect ratio of 40.13% Anticipate compliance in October.

OLD COURT

Association reports not making commitments. Staff has requested updated list to determine progress toward coming into compliance. Association also reports attempting to sell participations or whole loans in these categories.

SHARON

Letter requesting details on exemptions sent 10/18/84. Response due 11/5/84.

SEVERN

Allowable exemptions exist in amount sufficient to effect compliance. Adjusted categories reflect ratio of 34.55%.

LIQUIDITY RULE (6.00%)

MADISON & BRADFORD

Received plan. Association will restrict lending further by increasing interest rates on loans. If savings flows remain stable anticipate compliance by 4/30/85.

MUNICIPAL

Staff met with management. Anticipate liquidity to be corrected within 30-60 days.

FIRST MARYLAND

Letter issued 10/18/84.

CHESAPEAKE SAVINGS

CITIZENS ALLIANCE

GIBRALTAR

HULL STREET

LOCUST POINT

PARKVILLE

PUTTY HILL

RIDGEWAY

SLAVIE

SYKESVILLE

WEEKLY

Letter issued 10/23/84.

00011446

2255

CONSTRUCTION RULE (25.00%)

COMMUNITY

Plan received. Association to effect compliance by 1/31/85.

COWENTON

Letter issued requesting details on exemptions.

FIRST MARYLAND

Plan to be developed by Kaplan, Smith Associates.

OLD COURT

(See Lending)

SEVERN

Allowable exemptions exist in amount sufficient to effect compliance.

COMMITMENT and L.I.P. (25.00%)

MUNICIPAL

Staff met with management. Error in reporting. Failed to deduct participations sold, etc. Anticipate compliance when corrected.

BORROWING POLICY (15.00%)

FIRST PROGRESSIVE/
OLD COURT

Membership and Board previously advised.

MARYLAND PERMANENT

Letter issued 10/23/84.

DELINQUENCY (4.00%)

General Note: Except for specifics noted below most associations listed for the month of September have been filing schedules. Will follow-up on those who are not currently filing.

NORTHFIELD
CITIZENS ALLIANCE

Letter requesting delinquency schedule sent 10/23/84.

*** MERRITT
LANSDOWNE
LAZARETTO
ARBUTUS

Have not submitted SL/200.

00011447

2256

	<u>March</u> <u>1984</u>	<u>April</u> <u>1984</u>	<u>May</u> <u>1984</u>	<u>June</u> <u>1984</u>	<u>July</u> <u>1984</u>	<u>August</u> <u>1984</u>	<u>September</u> <u>1984</u>
<u>Liquidity Rule (6.00%)</u> <u>Rule 3-210</u>							
Madison and Bradford Municipal	3.73	3.32	4.28	6.23	1.68	1.68	2.23
First Maryland Purty Hill	4.89	7.11	6.90	5.46	2.90	4.44	5.04
Edgeway	8.15	6.37	9.24	8.14	5.65	4.93	4.88
Wesville	9.86	7.97	8.21	10.85	6.86	.41	1.05
Hill Street	12.24	13.46	9.92	7.20	7.44	5.80	2.90
Locust Point	9.77	11.12	9.87	7.26	6.97	3.36	5.12
Chesapeake	5.04			.73			2.80
Citizens Alliance	4.94		6.42	3.61	6.35	7.54	2.75
Gibraltar	6.33	3.45		6.98			4.82
Parkville	12.28	13.87	12.55	11.12	9.06	7.17	2.95
Weekly	16.94	9.55	10.58	12.55	9.02	7.75	4.30
Slavie	10.49	14.66	17.17	8.20	9.12	6.02	4.10
	12.04	10.86	10.60	14.49	6.42	6.23	4.15
	10.57			9.19			4.50
<u>Construction (25.00%)</u> <u>Rule 217(A1)</u>							
Community	28.55	28.06	36.20	39.95	42.52	38.97	39.63
First Maryland Old Court	34.98	39.97	38.39	43.76	44.95	42.38	43.62
Wern	34.90	34.42	34.20	36.27	36.68	36.37	36.17
Cowenton	27.71	26.88	29.17	25.89	27.91	30.40	29.52
	10.65	18.34	22.81	22.26	23.70	23.73	26.89
<u>Commitment and LIP (25.00%)</u> <u>Rule 3-217(B)</u>							
Municipal	41.65	35.17	36.76	36.51	34.02	32.19	25.05

	<u>March</u> <u>'84</u>	<u>April</u> <u>'84</u>	<u>May</u> <u>'84</u>	<u>June</u> <u>'84</u>	<u>July</u> <u>'84</u>	<u>August</u> <u>'84</u>	<u>September</u> <u>'84</u>
Baltimore Savings	2.83	2.61	5.27	5.19	5.49	4.87	4.72
First Progressive	6.63	10.52	9.97	7.55	9.00	11.98	9.11
Hopkins	8.04	7.88	7.34	9.59	8.94	10.21	8.20
Ideal Savings	6.74	6.73	6.26	5.72	5.68	5.60	5.58
Liberty	17.32	14.90	13.62	13.45	12.08	10.46	11.35
Northfield	10.56	7.99	8.91	9.53	9.55	9.25	6.59
Sharon	7.61	7.09	4.05	4.45	4.69	1.17	4.10
Vanguard	4.62	5.19	4.60	3.81	5.10	5.39	4.90
Bay State	.56	.74	3.89	5.68	5.44	5.51	5.75
Citizens Alliance	11.95			8.94			7.27
Woodmoor	3.90			4.94			4.70
Ashburton	7.46	2.68	.56	1.14	4.46	.55	4.57

Borrowing Policy (15.00%)
Policy Statement #2

First Progressive	84.66	136.55	119.17	114.34	110.14	114.90	124.12
Old Court	22.70	23.63	22.10	22.52	20.50	17.86	16.20
Maryland Permanent	14.46			15.11			15.13

<u>Net Worth Rule</u> <u>3-211</u>	<u>March</u> <u>1984</u>	<u>April</u> <u>1984</u>	<u>May</u> <u>1984</u>	<u>June</u> <u>1984</u>	<u>July</u> <u>1984</u>	<u>August</u> <u>1984</u>	<u>September</u> <u>1984</u>
Custom	4.08	3.82	3.65	3.70	4.13	3.71	3.56
Kent	3.55	3.63	3.60	3.30	3.52	3.62	3.62
Ridgeway	2.98	3.03	3.04	3.45	3.46	3.40	3.00
Eastern Savings	3.03	3.03	3.03	3.37	3.43	3.35	3.47
Municipal	2.56	2.63	2.70	2.75	3.01	3.13	3.20
Chevy Chase	2.66	2.69	2.68	2.69	2.73	2.67	2.98
First Progressive	1.69	1.92	1.94	.31	(3.56)	(4.64)	(3.58)
Liberty	1.38	1.57	1.44	1.37	1.09	1.05	.96
Universal	3.87	3.88	3.98	3.95	4.10	3.78	3.64

Lending (40.00%)
Rule 3-217(A)

Community	39.06	34.55	47.19	53.84	53.60	47.63	44.35
Fairfax	35.84	36.14	42.87	44.29	41.84	44.38	46.61
First Maryland	63.99	70.46	68.61	68.40	71.71	70.00	71.24
Municipal	44.89	44.31	43.02	43.19	44.89	45.89	40.64
Old Court	63.53	64.42	70.26	73.43	71.11	70.57	70.89
Aaron	49.58	50.70	52.75	50.57	45.08	41.79	40.40
Gibraltar	27.07	31.25	36.12	36.18	41.28	42.33	44.61
Severn	27.71	26.88	30.06	26.90	28.88	46.04	44.92

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

MAY 11, 1983

The regular monthly meeting of the Membership Committee of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 901 North Howard Street, Baltimore, Maryland, on May 11, 1983 at 1:30 P.M.

Members present:

Henry R. Elsnic, Chairman
William F. Brooks, Jr.
Jerome F. Dolivka

Frances P. Anderson
David P. Wallace
John D. Faulkner, Jr.

Others present: Charles C. Hogg, II, Executive Vice President; Ralph K. Holmes, Senior Vice President; Paul V. Trice, Jr., Vice President; Martin W. Becker, Financial Analyst; William F. Mahon, Review Analyst.

Mr. Elsnic called the meeting to order. Mr. Becker acted as Recorder. After reviewing the minutes of the prior meeting, Mr. Dolivka requested that the paragraphs pertaining to the adoption of a written policy statement intended to clarify Section 3-211 (C) (2) of the MSSIC Rules and Regulations be amended as follows:

1. The Board of Directors intends to require that any member that has a total net worth ratio that declines below 3% of the aggregate withdrawal value of its savings accounts shall expeditiously enter into an insurance agreement.

2. The Board of Directors may recognize that the circumstances that result in a member association's net worth ratio declining below 3% may be of a temporary nature due to the planned additional infusion of capital or other corrective actions and

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therefore the content of the insurance agreement may be of a less severe nature in regard to the invoking of sanctions.

3. The Board of Directors may allow staff, in certain circumstances, flexibility in negotiating the contents, timetable for corrective action and extent of sanctions to be included in the insurance agreements created.

A motion was made, seconded and unanimously passed to accept the minutes with the aforementioned amendments.

COMMITTEE MEMBERS' COMMENTS

Mr. Elsnic asked for clarification concerning the Board's response to the Committee's recommendation from the April 13, 1983 Membership Committee Meeting concerning the adoption of a written policy statement in regard to Section 3-211(C)(2) of the MSSIC Rules and Regulations. Mr. Hogg responded that the recommendation was read and discussed, but that no formal adoption of the policy statement was made at the April 27, 1983 Board of Directors Meeting.

Mr. Dolivka commented that he was distressed to see a recent television advertisement for Chevy Chase Savings and Loan, Inc. and Government Services Savings and Loan, Inc. in which, in his opinion, the two savings and loans were actually advertising as one merged association. Mr. Hogg indicated that he has a meeting with Mr. Saul of Chevy Chase to discuss several matters and that he would discuss this matter at that time.

Mr. Elsnic inquired about Chevy Chase Savings and Loan's projections through the end of 1983 concerning improving the association's net worth ratio. Mr. Hogg responded that as part of his meeting with Mr. Saul that they intended to discuss this

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matter. Mr. Hogg indicated he would update the Committee on Chevy Chase's plans to improve that association's net worth ratio at the next Committee meeting.

MEMBERSHIP REPORTS

Mr. Trice reported that First Maryland Savings and Loan, Inc. has entered into an Insurance Agreement. He reported that under the terms of the Insurance Agreement the association will be required to submit to MSSIC various financial reports, including a detailed income and expense budget. He also advised that the controller had resigned and certain extensions have been granted as a result thereof. In addition, the association and subsidiaries are required to submit for approval any loan commitment proposals, except for mortgage loans secured by single-family residential property, which are FNMA/PHLMA/PHA/VA conforming loans or are insured by a Maryland licensed mortgage guaranty insurance corporation. Mr. Trice indicated he will personally be reviewing loans for approval or disapproval. He also discussed the current status of the association's efforts to resolve their delinquent loans and indicated that some progress, but slowly, is being made. He further indicated that the association had submitted to MSSIC and the Director of the Division of Savings and Loan Associations a proposal for the approval of a \$2 million subordinated debt. Mr. Faulkner indicated that it is his understanding that there have been several personnel changes at the association which he finds interesting and of potential concern. Mr. Hogg advised that staff was aware of this and is making an effort to monitor same. Mr. Hogg indicated that he has also been in touch with individuals in Colorado and Florida to evaluate certain of the association's

loans in these states and that the initial response is that the loans appear to be acceptable.

Several members requested that a copy of the First Maryland Insurance Agreement be made available for their review. Mr. Faulkner indicated that he felt that in future insurance agreements that a provision should be included that allows MSSIC to prohibit any loan commitments to be made. Mr. Faulkner indicated that in the monitoring of First Maryland, staff should obtain information concerning the status and exposure of all major delinquent loans. In addition, staff should determine the reasons for the personnel changes at the association and obtain a definitive plan of action by the association's management in resolving their delinquent loans. Mr. Trice indicated that he is currently in the process of obtaining this information.

Mr. Holmes presented an update report on the current status of the delinquencies at Sharon/Security Savings and Loan. Mr. Holmes indicated that the March level of delinquencies at Security is \$5.7 million and that this is basically the same amount as in February. He indicated that the delinquency problems at Security are primarily from the Candlewood Project, the Ocean Time Project and those condominium loans in Florida. Mr. Holmes indicated that the March level of delinquencies at Sharon is \$6.5 million and that this is slightly less than the February level of delinquencies. He indicated that the delinquency problems at Sharon are basically smaller commercial and construction loans. Mr. Holmes reported extensively on the details of the major delinquencies of both Sharon and Security, and indicated that he would continue to update the Committee on the progress in

levels.

Mr. Trice reported that at the April Shareholders' Meeting of Hopkins Savings and Loan Association a proposal to convert from a mutual to stock association was approved. He indicated that a minority group within the association is seeking certification of the vote in an effort to deny the conversion. Mr. Trice reported that he has informed the association that the conversion to stock or additional capital in some other form must be completed by May 31, 1983 or he will proceed with an insurance agreement.

Mr. Mahon reported that the delinquency level at Hopkins is 11.08% but that the delinquency situation is not as bad as the figure implies. He indicated that many of the delinquent loans have low loan to value ratios. In addition, many of the delinquent loans have had partial payments made during the year. Mr. Mahon indicated he will continue to monitor the association's delinquencies.

Mr. Trice reported that there appears to be a deficiency in the legal form of the subordinated debentures issued by Liberty Savings and Loan Association and that he has sent the management of the association a recently developed standardized subordinated debenture form to be used in future issuances. In addition, Mr. Trice indicated he has scheduled with Perry McAtee of Liberty an on-site review of various delinquent and REO properties held by Liberty.

Mr. Mahon reported that he and Sharon Maleski recently reviewed Business Men's Building Association. He indicated that the association uses the cash basis reporting system and that this tends to result in accounting aberrations in the S/L-200A report.

Mr. Mahon reported while the association's year to date loss is \$14,000, he expects the association to show a profit for their fiscal year end and that he has no major concerns about the association at this time.

Mr. Holmes reported that management of Municipal Savings and Loan Association has submitted a response to staff's request for a plan to resolve the association's net worth deficiency. Mr. Holmes indicated that the response is insufficient and therefore has scheduled a meeting with management to discuss the net worth situation.

A motion was made, seconded and unanimously passed that the Committee instruct staff to enter into an insurance agreement with Municipal Savings and Loan within 30 days if sufficient capital is not raised to exceed the 3.00% net worth ratio level.

Mr. Trice reported that he has notified Merritt Savings and Loan, Inc. that the equity of \$3 million from its subsidiary, Institutional Service Corporation, will no longer be counted towards the association's net worth due to the association's failure to provide certified financial statements to substantiate to our satisfaction the value of that equity. In addition, Mr. Trice reported that an amount of \$1,450,000 reported as deferred loan fees on the S/L-200A report is inappropriately classified and will be disallowed in future net worth ratio computations. Mr. Trice indicated that as a result of these items being disallowed for net worth computation, he anticipates that Merritt's ratio will be below 3.00%. Therefore, he will request either additional capital or will pursue an insurance agreement with this association.

Mr. Holmes reported that Arthur L. Silber, formerly of John Hanson Saving and Loan, Inc., will become the Executive Vice President of Chesapeake Savings and Loan Association on May 27, 1983.

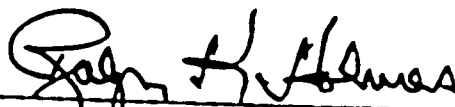
Mr. Holmes reported that Maryland Capital Savings and Loan Association has filed a branch application for a location in Frederick, Maryland.

Mr. Trice distributed copies of a proposed Preliminary Insurance Agreement which would require an association to present to MSSIC an affirmative plan for correcting the association's net worth ratio by a specified date or be required to enter into a standard Insurance Agreement.

Mr. Mahon presented the net worth status report.

Mr. Hogg commented that Friendship Savings and Loan is preparing a proposal to present to MSSIC for the purchase by MSSIC of subordinated debentures.

The meeting adjourned at 4:17 p.m.


Secretary of the Meeting

RKH/MWB/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, FEBRUARY 8, 1984

The regular monthly meeting of the Membership Committee of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 901 North Howard Street, Baltimore, Maryland, on February 8, 1984 at 1:00 P.M.

Members present:

Henry R. Elsnic, Chairman
William F. Brooks, Jr.
Michael J. Dietz
Jerome F. Dolivka

John D. Faulkner, Jr.
Frank L. Hewitt, III
James D. Laudeman
David F. Wallace

Others present: Charles C. Hogg, II, President; Ralph K. Holmes, Senior Vice President; Paul V. Trice, Jr., Vice President; Martin W. Becker, Financial Analyst.

Mr. Elsnic called the meeting to order. The minutes of the January 11, 1984 meeting were accepted as submitted.

COMMITTEE MEMBERS' COMMENTS

Mr. Hewitt commented that the monthly spread sheets indicate a violation in construction loan concentration for Severn Savings Association. Mr. Holmes indicated this would be evaluated.

MEMBERSHIP REPORTS

Mr. Hogg reported that a series of articles concerning First Maryland Savings and Loan, Inc. have appeared in the Washington Times. In addition, an unrelated article has appeared in the February edition of Regardie's magazine.

Mr. Hogg indicated that a reporter from the Washington Times interviewed him and the Director of the Division of Savings and Loan Associations, Mr. Charles Brown, separately. The reporter had apparently received copies of confidential letters and documents from a source within First Maryland. The

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reporter's articles focused on First Maryland's violation of the MSSIC loan concentration rule, Section 3-217, as well as alleged improprieties on the part of the Chairman of First Maryland, Julian Seidel, in the operation of the savings and loan.

Mr. Hogg reported that while some of the information contained in the articles was correct, other information was either inaccurate or taken out of context. Mr. Trice and Mr. Enders, a Division examiner, jointly visited First Maryland for the purpose of ascertaining the accuracy of information contained in the articles.

Mr. Hogg concluded that the articles do not appear to have caused a public confidence problem in either First Maryland or MSSIC.

On a separate issue, Mr. Trice reported that as a result of the sale of capital stock in the amount of \$1.503 million, First Maryland has advised that their net worth ratio is in excess of 4% and, therefore, believe they are released from their Insurance Agreement with MSSIC.

Mr. Trice indicated that prior to the Corporation's acknowledgement of a release of the Insurance Agreement, he has requested, in writing, that management of First Maryland provide the following:

1. A written request for the release of the Insurance Agreement;
2. A consolidated basis prepared S/L-200A report accompanied by an affidavit supporting the accuracy of the report, and the attainment of a 4% net worth level;
3. Information concerning the purchasers of \$1.503 million in stock;
4. A written statement concerning any contingencies affecting the maintenance of a 4% net worth level; and
5. A written statement concerning any consideration given by First Maryland or its subsidiaries for the purchase of stock.

Mr. Trice indicated that he does not feel that the inclusion in First Maryland's calculation of total net worth of a \$1 million subordinated debenture, which was, in essence, financed through an unsecured loan, to the purchaser, by a subsidiary of the savings and loan, is a proper element of net worth as this item has been traditionally reviewed.

A lengthy discussion ensued concerning non-cash issues and intercompany financing of subordinated debentures and capital stock.

A motion was then made, seconded and duly passed that the Committee recommend to the Board of Directors that the Board re-examine the issue of non-cash subordinated debentures or capital stock and the intercompany financing of these issues. It was also moved and passed that Mr. Trice meet with Mr. Laudeman for the purpose of discussing Mr. Trice's proposals in this regard; that counsel for the Corporation review the draft as may be prepared by Messrs. Trice and Laudeman and that this them be placed on the Board's agenda with a copy of the amended proposal included in the Board notice of its next meeting.

Mr. Hogg reported that a meeting was held between members of staff, the Division of Savings and Loan Associations and others concerning the advertising and dividend crediting policies of Custom Savings Association. Mr. Hogg indicated that it is the concensus of staff that Custom may have engaged in potentially deceptive practices in the method in which several variable rate savings plans are operated. Mr. Hogg indicated that a joint meeting is scheduled for February 10, 1984 between MSSIC and the Division with the management of Custom for the purpose of implementing/advising of the following:

1. Cease paying significantly lower interest rates on variable rate accounts on Friday through Sunday and Holidays;
2. Provide adequate truth-in-savings statements;

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3. Cease referring all inquiries to MSSIC and provide adequate steps for answering/addressing related inquiries within the association;
4. Provide adequate counter financial statements;
5. Provide accurate and more easily accessible information to the current and potential depositors of the association; and
6. Be prepared to infuse capital into the association, if necessary.

Mr. Hogg reported that he is prepared to recommend that the Board of Directors issue a cease-and-desist order if the management of Custom does not comply with his directives.

Mr. Trice reported that a new Preliminary Insurance Agreement is in place with Municipal Savings and Loan Association.

Mr. Trice presented an updated report on the status of the Insurance Agreement with Liberty Savings and Loan Association. He indicated that two substantial changes in the terms of the Agreement are currently under consideration. One change involves the identification of six problem loans that currently exist and the future recognition of losses thereon the calculation of net worth. These loans will require approval by MSSIC should the charge-off of losses thereon be significant and cause the association to default on the Agreement if as a result thereof the net worth ratio falls below .5%. An additional item noted by Mr. Trice is that the terms for evaluating adjusted net worth should be terminated on 12/31/84 or some other specified date. The consensus of the Committee was for Mr. Trice to proceed with these negotiations as described above.

Mr. Holmes reported that Mr. Mahon visited First Progressive Savings and Loan Association for the purpose of determining whether significant comments made in the latest Division Examination had been corrected. The results of Mr. Mahon's visit indicated that significant progress has been made in establishing those missing appraisals, title policies, settlement sheets, etc. to the files.

Mr. Becker reported that he has reviewed a preliminary audit report for the period ending 12/31/82 for First Progressive. The results of his review indicated that a write-down of approximately \$360,000 will be made to the net worth currently reported on the S/L-200A report of the association.

Mr. Holmes reported that Mr. Levitt is currently exploring the merger of First Progressive with and into Old Court Savings and Loan, Inc.

Mr. Holmes reported on reviews that Mr. Mahon conducted of Maryland Capital Savings and Loan Association and Baltimore Savings and Loan Association.

Concerning Maryland Capital, Mr. Holmes indicated that the association has been growing rapidly since it was purchased by Commercial Credit in late 1982. The association is expanding its branch network through the conversion of pre-existing Commercial Credit offices.

Mr. Mahon's report indicates that Maryland Capital is primarily involved in purchasing second mortgage loan packages from Commercial Credit with buy back provisions on any bad loans. The association is operating profitably with a net interest margin of 4.57% and a ROA of .90% for the year ending 12/31/83.

Concerning Baltimore Savings and Loan Association, Mr. Holmes indicated that the association is a Baltimore City based savings and loan. Deposits are primarily obtained through friends, relatives and referrals. The association is operating profitably with ROA of 4.06%. The association has a high delinquency level with a ratio of 4.66%, but has had good success in recovering all principal and interest.

Mr. Becker updated the Committee on the status of those associations under 4.00% net worth to savings.

Mr. Holmes reported that John Hanson Savings and Loan, Inc. is in the process of attempting to merge with a savings and loan based in Delaware. Mr. Holmes indicated that the Division is currently evaluating the legality of such a

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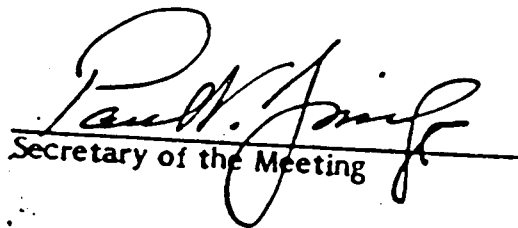
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merger. John Hanson has also filed for approval to merge Westowne Savings and Loan Association with and into John Hanson.

Mr. Dolivka questioned whether a merger of any association with and into John Hanson should be permitted on the basis of the last examination report of the Division which reflects several major accounting and other record deficiencies. He suggested that the Corporation's approval of any merger of another association with and into John Hanson be withheld until the Corporation has determined that adequate accounting and other controls have been restored, are being maintained and that a proper reconciliation of those variances cited in the last Division report of examination has been affected.

Mr. Becker reported that due to the increasing impact of brokered deposits on the savings and loan industry, he is surveying the MSSIC industry through a questionnaire on the subject.

There being no further business, the meeting adjourned at 4:05 P.M.


Secretary of the Meeting

PVT/pat

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

MONDAY, JULY 16, 1984

The regular monthly meeting of the Membership Committee of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 114 East Lexington Street, Baltimore, Maryland, on June 13, 1984 at 1:00 P.M.

Members present:

Terry L. Neifeld, Chairman

John D. Faulkner, Jr.

William F. Brooks, Jr.

James L. Otto

Michael J. Dietz

George W. H. Pierson

Henry R. Elsnic

Absent and excused: Jerome F. Dolivka

Others present: Charles C. Hogg II, President; Paul V. Trice, Jr., Senior Vice President; Martin W. Becker, Senior Financial Analyst; Ann Franetovich, Financial Analyst and John D. Hall, Financial Analyst.

Mr. Hall was introduced to the Committee as Financial Analyst recently hired by MSSIC.

Upon review, a motion was made, seconded and duly passed that the minutes of the June 13, 1984 meeting be accepted as submitted.

MEMBERS' COMMENTS

Mr. Elsnic commented that the computer sheets indicate that Old Court Savings and Loan, Inc. is making substantial profits. He inquired as to how this was being accomplished. It was reported that the association is reporting substantial fee income as well as service corporation profits. In addition, it was reported that Old Court is not reflecting the taxes to be paid on these profits on the S/L-200A. Mr. Becker reported that a discussion with the controller of Old

Court indicates that \$3 to \$4 million in taxes are anticipated to be paid.

Comments about Old Court's tax position led to a discussion about the need for associations to report either accrued or estimated taxes on the S/L-200A. Mr. Neifeld directed staff to notify the membership that a provision for taxes on the S/L-200A is required to more accurately reflect the financial position of the associations, especially those associations with low net worth. Mr. Becker indicated he would notify the membership on this matter.

The Committee members were presented copies of the Violations Status Report prepared by Sharon Maleski. After reviewing the report, several members indicated that they felt the Merritt Savings and Loan, Inc.'s response to these violations, that is, the association's management "takes exception to the rule" is unacceptable. In addition, several members were very disturbed at the extent to which Old Court Savings and Loan, Inc. is in violation of the MSSIC lending regulation. After considerable discussion, Mr. Pierson instructed Mr. Trice to notify both Merritt Savings and Loan and Old Court Savings and Loan of the concerns of the Committee and the need to submit a bona-fide plan of corrective action specifying both the method and time in effecting compliance. Mr. Pierson stated that a satisfactory response is to be received by the July 25th Board of Directors meeting or he would recommend a cease and desist order be issued.

Mr. Faulkner asked to be excused for the next discussion on Community Savings and Loan, Inc. Mr. Trice then reported that he had received a letter from Community Savings and Loan indicating that the association uses the net method in accordance with generally accepted account principles to compute outstanding loan amounts. The association's position is that they are in compliance of the construction loan regulation when the loans are netted against the undisbursed portion.

Considerable discussion ensued about the issue of netting loans in process

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against the gross loan amount. The Committee determined that for the purpose of testing for compliance in the various lending regulations, that the gross amount of the loan shall be considered and not the net amount. The staff was instructed to notify all violators of the Corporation's position in measuring compliance of loan regulations. Mr. Trice indicated he would do so.

In another letter submitted by Community Savings and Loan, Inc., Mr. Trice reported that the association's management intends to achieve compliance with the MSSIC commitment and loan in process regulation through the liquidation of a portion of the associaton's loan portfolio.

A motion was made, seconded and duly passed to accept Community's plan for achieving compliance with Section 3-217(B) of the MSSIC Rules and Regulations concerning outstanding commitments and loans in process. Mr. Faulkner was then re-called to the meeting.

The next topic of discussion on the Violations Status Report was liquidity violations. Inasmuch as Madison and Bradford Savings and Loan was to be discussed, Mr. Elsnic asked to be excused from the meeting during the disucssion.

Mr. Neifeld inquired about the status of any waivers granted to Madison and Bradford Savings and Loan. Mr. Trice indicated that staff would research the matter and report its findings to the Committee. Mr. Elsnic re-entered the room.

REPORTS BY STAFF

Mr. Hogg reported that a meeting was held between representatives of MSSIC, the Division of Savings and Loan Associations, Old Court Savings and Loan, Inc., and First Progressive Savings and Loan, Inc., to discuss the proposed merger. Mr. Hogg reported that he had presented to Mr. Levitt, the terms of an agreement to be required for the merged association. At the meeting, Mr. Levitt agreed to comply with all requirements presented by Mr. Hogg.

Mr. Hall updated the Committee on the status of First Progressive's

investment portfolio. Mr. Hall reported that the spreads between the yields of various investments and the rate at which they are under a reverse repurchase agreement has narrowed to near breakeven. This is due to rising interest rates and with further increases in rates, the reverse repurchase spread could become negative. Mr. Hall reported that the unrealized loss in the long term government bonds has risen to \$9.9 million. Mr. Hall indicated that while the association is not purchasing additional investments for their portfolio, the association is speculating in the futures market. Mr. Hogg indicated he would see that this practice is stopped.

Mr. Trice updated the Committee on the status of Municipal Savings and Loan, Inc., progress towards achieving net worth compliance as stated in the preliminary insurance agreement. He indicated that the association's net worth is up to 2.75%.

Mr. Trice reported that an association to be known as Kinsley Savings and Loan Association has applied for membership in MSSIC. Mr. Neifeld inquired as to principals involved and as to any reasons for denying membership. Mr. Trice indicated that he was not aware of any reason for denying membership and presented the Committee with a 3 year pro-forma supplied by the applicants. Mr. Dietz asked Mr. Trice to research the amount of stock to be purchased by the applicants.

A motion was made, seconded and duly passed to recommend to the Board of Directors that the application of Kinsley Savings and Loan Association be accepted for MSSIC membership subject to the approval by the Director of the Division of Savings and Loan Associations. Mr. Elsnic abstained from voting on this motion.

Mr. Trice reported that he and Mr. Hogg had been acting as intermediaries in an attempt to resolve a dispute that has arisen between two stockholders of

Gibraltar Savings and Loan. Mr. Hershon, a stockholder of Gibraltar, is suing the Board of Directors of Gibraltar and the association in a minority stockholders' derivative suit. The dispute essentially focusses on a \$2 million loan made to a computer software company that is collateralized by the stock of the software company, and was formally managed by Mr. Hershon. Difficulties experienced in completing the development of various financial software products have led to question the company's survivability and therefore, the collectability of the \$2 million loan. It was reported that there is a possibility that through the infusion of additional \$500,000 loan, that the company may survive. Mr. Trice reported that the dispute between Mr. Goldstein and Mr. Herson is likely to be litigated. Mr. Trice indicated that an additional hypothecation of savings accounts reported in May in the amount of \$300,000 should be deducted.

Mr. Trice commented that, in his opinion, the association needs to add two to three additional upper management people. Mr. Trice concluded his remarks by indicating he will continue to monitor the situation at Gibraltar.

Mr. Trice reported that First Maryland Savings and Loan has requested a release from their insurance agreement with MSSIC. Mr. Trice indicates while the associaton is technically eligible for release, he is requesting before release, information from the association's accountants concerning any material differences between the audit report and S/L-200A net worth amount.

Mr. Trice reported that upon receipt of the June S/L-200A from Liberty Savings and Loan, a new preliminary insurance agreement will be due for renegotiation. After considerable discussion, the Committee determined that an insurance agreement be structured as opposed to a "preliminary" insurance agreement. A motion was made, seconded and duly passed to recommend that the Board of Directors enter into an insurance agreement with Liberty Savings and Loan with the condition that the true net worth ratio increase four basis points

per month for the next six months.

Mr. Trice reported that Merritt Savings and Loan has pending two branch applications which are still open to comment by the MSSIC Board of Directors. It was Mr. Trice's recommendation that unless the management of the association provides sufficient cost information on the proposed office building, that the Board of Directors recommend to the Division of Savings and Loan Associations the denial of sending applications to establish branch offices. Mr. Trice indicated that he is meeting with representatives of Merritt Savings and Loan to discuss the building as well as the various violations. It was noted that a representative of MSSIC will attend an exit interview to be held at Merritt Savings and Loan on July 19th.

After discussion, it was the concensus of the Committee that Mr. Trice express to the management of Merritt, the Committee's concerns and intent to recommend denial of the proposed branches if satisfactory responses are not obtained to the various issues.

Mr. Becker reported that he had visited Custom Savings Association for the purpose of determining the portion of the association's net worth that represents economic earnings and the portion that represents favorable regulatory accounting recognition. Mr. Becker reported that nearly all of the association's investments are "Freddie Mac" securities. The association's policy is to purchase mortgage securities that have demonstrated a history of accelerated prepayments thereby increasing the effective yield. Mr. Becker reported that the association determines monthly what the true yield is on its investment portfolio and then decides what to pay on its various variable savings programs. The association's investment yield as of May 31, 1984 was 13.42% and the cost of savings was 11.49%. The reason for investing exclusively in discounted mortgage securities is due to the association's ability to recognize 3% of the face amount of the of the

securities upon purchase. This income while recognized as net worth, is not economically earned. As of May 31, 1984 approximately \$4.5 million of the association's \$5.3 million in net worth represents accelerated regulatory income recognition. After discussion, the consensus of the Committee was for the staff to pursue with the Board of Commissioners an emergency repeal of the regulation allowing 3 points to be recognized on discounted securities purchased.

Mr. Neifeld reported on two Membership sub-committee meetings held recently. Issues discussed included insurance deposit limits, brokered deposits, Jumbo C.D.'s, and cross deposits. Mr. Neifeld reported that the sub-committee recommends that the Corporation adopt regulations on Brokered Deposits and Jumbo C.D.'s. The Committee discussed the sub-committee's recommendation on Brokered Deposits and agreed they were appropriate. A motion was then made, seconded and duly passed that the Committee recommends the Board of Directors adopt a regulation requiring the following:

1. Any association whose MSSIC Net Worth Ratio is 4% or above, shall be limited to 10% of its savings comprising brokered deposits with no more than 1% of total savings originating from any one deposit broker.

2. Any association whose MSSIC Net Worth Ratio is below 4% shall be limited to 5% of its savings comprising brokered deposits with no more than .5% of its total savings originating from any one deposit broker. The vote on this motion was unanimous.

Messrs. Brooks and Faulkner discussed the sub-committee recommendations on Jumbo C.D.'s. Both members questioned whether the issue of Jumbo C.D.'s poses a significant enough concern to the MSSIC industry to warrant regulation. A motion was made, seconded and duly passed that the Committee recommend the Board of Directors adopt the following:

1. Any association whose MSSIC Net Worth Ratio is 4% or above, shall be

limited to 20% of its savings comprising Jumbo C.D.'s.

2. Any association whose MSSIC Net Worth Ratio is below 4% shall be limited to 10% of its savings comprising Jumbo C.D.'s. A Jumbo shall be defined as certificate of deposit in the amount of \$100,000. In addition, brokered deposits shall be included in determining the Jumbo C.D. limitations. The vote on this motion was 3 for, 1 against (Mr. Brooks), and one abstention (Mr. Faulkner).

Mr. Neifeld concluded the sub-committee report by indicating that the results of the cross deposits survey and insurance of deposits limitation are still being processed.

Mr. Becker provided the Committee with a cost of savings report.

There being no further business, the meeting adjourned at 5:15 P.M.

Martin W. Becker

Respectively submitted
Martin W. Becker
Senior Financial Analyst

MWB/nc

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, SEPTEMBER 26, 1984

The regular monthly meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 114 East Lexington Street, Baltimore, Maryland on September 26, 1984.

The following Directors were present:

George W. H. Pierson, Chairman

Frances F. Anderson

Leonard Bass

Joseph P. Carroll

Michael J. Dietz

Jerome F. Dolivka

John C. Donohue, Sr.

Henry R. Elsnic

John D. Faulkner, Jr.

James D. Laudeman, Jr.

Terry L. Neifeld

Others Present: Charles C. Hogg, II, President; Paul V. Trice, Jr., Senior Vice President; Martin W. Becker, Senior Financial Analyst; Patrick M. McCracken, Assistant Secretary; Terry F. Hall, Venable, Baetjer and Howard; John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland; and Charles H. Brown, Jr., Director, Division of Savings and Loan Associations.

Mr. Pierson called the meeting to order at 9:06 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Mr. Garrison reviewed the investment reports and the general economic narrative. Following a brief discussion Messers. Pretko and Garrison left the meeting. (Copies of the investment reports and the narrative are attached to the permanent file copy of these minutes.)

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READING OF MINUTES OF THE BOARD MEETING OF AUGUST 22, 1984

Mr. Dietz moved to approve the minutes of the previous meeting and Mr. Carroll seconded. Mr. Neifeld put forth an amendment to page 5, to reflect that Kent requested a waiver allowing them to be in violation of the Lending Restriction under the Liquidity Rule in order to generate income to increase net worth and avoid violation of the 3.75% Net Worth Rule. Mr. Carroll stated that in light of a procedural question regarding the necessity in detail of the Board Minutes he wished to withdraw his second. Mr. Dietz restated his motion to include the amendment and Mr. Neifeld seconded. The vote was unanimously favorable.

TREASURER'S REPORT

Mrs. Anderson indicated that net income for the period ending August 31, 1984 is \$1,200,000 before taxes and that reserves have increased by \$5,000,000. Reserves and retained earnings are \$19,000,000 which is used to compute the 3.17% reserve to total insured savings ratio. She also noted that capital deposits increased by \$17,000,000. Mr. Hogg noted that even though earnings are up, if MSSIC loses the tax case and is unsuccessful in the legislature, the Corporation would have to pay \$16,000,000 in disputed taxes. Mr. Faulkner motioned to accept the treasurer's report and Mr. Bass seconded. The motion passed unanimously.

EXECUTIVE COMMITTEE REPORT

Mr. Pierson reviewed the details of the 9/21/84 Executive Committee meeting. He stated that the committee's discussion of Old Court and First Progressive resulted in unanimous committee approval of MSSIC taking action to ensure that First Progressive and Old Court merge before 10/31/84. The action recommended by the committee consisted of 3 alternatives:

- a. that First Progressive and Old Court must merge by 10/31/84 or,
- b. that the officers and directors of First Progressive immediately

infuse capital sufficient to bring the association to 3% net worth or greater,
c. the final alternative, to be effected failing the first two, to seek conservatorship of the association in whatever way necessary. Mr. Pierson reviewed a letter from Mr. Levitt (First Progressive Savings and Loan) which virtually agreed to the three points of action recommended by the Executive Committee.

Mr. Pierson noted that the By-Law Review Committee recommended the indemnification tie-in for Officers' Liability Insurance.

Mr. Pierson updated the Gibraltar liquidity situation noting that \$2,000,000 has been repaid to MSSIC with the remaining \$1,000,000 to be repaid in the near future.

It was noted that MSSIC will be hiring another financial analyst to assist in monitoring member associations.

The Chairman noted he was pleased that Charles Brown of the Division was attending the meeting and noted the Division will be moving its offices into the Brokerage building.

Mr. Elsnic moved to accept the Executive Committee report. Mr. Faulkner seconded and the motion was passed unanimously.

MEMBERSHIP COMMITTEE REPORT

Mr. Neifeld noted:

1) Mr. Brooks' concern over the Division's tardiness in producing their examinations. Following discussion of MSSIC's possible liability due to delayed division examinations, Mr. Trice was asked to request that counsel give an opinion with reference to suing the Division for negligence resulting in a failure or loss to MSSIC.

2) The committee requested staff to acquire pro-forma statements from Old Court which reflect its post merger financial plans.

3) Gibraltar's liquidity outflow has stopped and staff will continue to monitor the association.

4) A staff cease-and-desist letter has been issued to First Maryland Savings and Loan due to their lending limit rule violations and they are to furnish a plan for compliance with MSSIC's Rules and Regulations.

5) Community Savings and Loan Association has withdrawn their application for issuance of a subordinated debenture.

6) Madison and Bradford is in violation of the liquidity rule and is to submit a plan for compliance.

Mr. Dolivka motioned to accept the Membership Committee Minutes. Mr. Bass seconded and the motion was unanimously approved.

BY-LAW REVIEW COMMITTEE REPORT

Mr. Hogg noted that the By-Law Review Committee approved and recommended the change to Section 2-208 (Indemnification) as recommended by counsel.

He also noted that the committee started its review of the 10th draft of the MSSIC By-Law Revision.

Mr. Laudeman motioned to accept the By-Law Review Committee Report. Mr. Bass seconded and the motion was unanimously approved.

OLD BUSINESS

Mr. Charles Caplan from Center Savings and Loan entered the meeting to express his views on proposed Regulation 3-706 - Brokered Deposits. Mr. Caplan said he agrees with the proposed regulation in principal, but he feels a distinction should be made between short and long term brokered deposits. He said his association has brokered deposits all of 5 year terms or greater. He noted that none of these certificates mature at the same time. He explained that compliance with this regulation by his association could cause a severe problem.

Following questions and further discussion Mr. Caplan concluded his presentation with a request for a waiver of compliance with the Brokered Deposit Regulation until such time as his association grows to the level necessary to effect his compliance with the regulation by freezing his level of long term brokered deposit at \$2,000,000. At this point Mr. Caplan left the meeting.

Mr. Neifeld motioned to approve Regulation 3-706. Mr. Dietz seconded and the motion carried unanimously.

Following further discussion of Center Savings and Loan Association's request for a waiver, Mr. Laudeman moved that staff review Center's situation carefully and that further action be deferred pending that review. Mr. Carroll seconded and the motion carried unanimously.

Mr. Hogg noted, with reference to rule violations, the new and more informative format for monitoring the associations. The Chairman asked for any comments with reference to the new format, or any comments with reference to any association. Mr. Dietz said that the format is very good and it should keep the Board well informed.

NEW BUSINESS

Mr. Hogg discussed Regulation .13 - (Loans purchased at a discount). He said the Board of Commissioners adopted the proposed regulation which deals with the ability of associations to take in 3 points up front on loans purchased at a discount. Mr. Hogg said that staff recommends that the Board adopt Rule 3-224 as previously distributed with some minor wording changes. (A copy of the revised proposal is attached to the permanent file copy of these minutes).

Mr. Faulkner motioned to approve regulation 3-224 as revised. Mr. Elsnic seconded.

Mr. Laudeman questioned if the regulation was thoroughly reviewed. Terry Hall stated that he feels MSSIC is adequately protected.

A vote was taken and the motion was unanimously approved.

With reference to the proposed merger of First Progressive Savings and Loan and Old Court Savings and Loan, Mr. Trice read the letter from Mr. Levitt confirming compliance with conditions set forth by the Membership Committee. (A copy of this letter is attached to the permanent file copy of these minutes).

Mr. Laudeman motioned:

1. That First Progressive Savings and Loan Association and Old Court Savings and Loan Association must merge by 10/31/84; and
2. If not merged by 10/31/84 they are to infuse capital sufficient to bring First Progressive's net worth level up to 3% on 10/31/84; and,
3. If neither (1) or (2), above, are effected, that MSSIC will take whatever action deemed necessary, including petitioning for conservatorship.

Mr. Carroll seconded the motion and it was unanimously approved.

During discussion of the proposed change to By-Law Section 2-208 - Indemnification. Mr. Pierson questioned if Mr. Terry Hall recommended adoption of this regulation and if this is the broadest possible coverage for the Board, Membership Committee and Officers. Mr. Terry Hall said in terms of indemnification this is the broadest possible coverage and he did recommend its adoption. Mr. Hogg stated that the premiums solicited thus far for an additional \$25 million in coverage are very high. Mr. Pierson asked Mr. Donohue to have an Insurance Coverage Committee Meeting prior to the next Board Meeting so that a final report on the cost of a \$50 million policy can be acted upon.

Following this discussion Mr. Bass moved to adopt the proposed change to By-Law Section 2-208, Mr. Dolivka seconded and the motion carried unanimously.

Mr. Hogg said that new bank signature cards must be signed for the

Corporation's four checking accounts. The accounts and signatures proposed include the following:

Maryland National Bank

Account #610 -8162

Authorized Signatures

Charles C. Hogg, II

Paul V. Trice, Jr.

Patrick M. McCracken

Union Trust Bank

Account #206-10622

Authorized Signatures

Charles C. Hogg, II

Paul V. Trice, Jr.

Patrick M. McCracken

#201-17834

First National of Chicago

Account #59 04137 35

Authorized Signatures

Charles C. Hogg, II

Paul V. Trice, Jr.

Patrick M. McCracken

Richard A. Kohr, Jr.

Mr. Hogg noted that Mr. Kohr's name would be included on the First National of Chicago account for line of credit purposes.

Mr. Elsnic moved to approve the noted authorized signers of the above specified corporate checking accounts and Mr. Donohue seconded. Following a vote the motion passed unanimously.

Mr. Dietz motioned to allow staff to restrict advertising by sending staff cease-and-desist letters as a sanction under the net worth rule in the event of violations thereof by member associations. Mrs. Anderson seconded the motion and it carried unanimously.

REPORT OF THE PRESIDENT

Mr. Hogg reported that at the Board of Commissioners meeting several Assistant Attorney Generals and Attorney Deputies were in attendance. He said they raised the issue that most if not all of the Division's regulations could be in violation of anti-trust. He said the Attorney General's office is looking at the issue and reviewing the Division's regulations point by point. Mr. Hogg said that the Board of Commissioners tabled approval of the Charter of Sterling Savings and Loan Association. He added that a request for deposit insurance will be brought to the next meeting of the Membership Committee by Sterling Savings and Loan Association. Mr. Hogg concluded his report on the Board of Commissioners meeting by noting that they requested that Martin Becker give a presentation at their next meeting related to Liberty Savings and Loan Association and Old Court Savings and Loan Association.

Mr. Hogg reported that Merritt Commercial Savings and Loan Association intends to submit quarterly updates on their plan for compliance with MSSIC's Lending Regulations. He said that Merritt has extended employment contracts to its middle management and that the association reports being close to securing some significant leases/tenants for the proposed Merritt Tower.

Mr. Hogg said that the staff will put a system in place to notify the Director of the Division of Savings and Loan Associations of MSSIC's concerns regarding branch applications by members in violation of MSSIC's rules.

Mr. Hogg reported that Bill 6119 which deals with MSSIC's tax status was introduced to the U.S. Congress. He noted that if it doesn't pass during this session of Congress, we will work to get it reintroduced in January.

Mr. Hogg reported on a new accounting issue (acquisition, development, construction loans). He said the issue could possibly result in the reclassification of "A.D.C.'s" to investments and may also significantly impact fees, interest and

other income from these loan types and result in a restatement/reduction in net worth of some members.

DIRECTOR'S COMMENTS FOR THE GOOD & WELFARE OF MSSIC

Mr. Brown further discussed the decision process regarding branch applications by member associations. Mr. Pierson extended MSSIC's full cooperation and assistance, including the Board, the staff and legal counsel in the effort to communicate the Corporation's concerns regarding members in violation of the rules which are seeking branching approval.

Mr. Bass indicated that some of the national auditing firms seem to have been giving less than accurate opinions lately. He cited some financial problems that have occurred in larger financial institutions in the country which apparently received favorable audits. He stated that due to this fact audit reports may be of dubious value.

There being no further business to come before the Board, The Chairman called for a motion to adjourn. Mr. Neifeld so moved, Mrs. Anderson seconded and the motion carried unanimously.

The meeting adjourned at 11:55 a.m.

Respectfully submitted,
Patrick M. McCracken
Assistant Secretary

PMM/lm

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, NOVEMBER 28, 1984

The regular monthly meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 114 East Lexington Street, Baltimore, Maryland on November 28, 1984.

The following Directors were present:

George W. H. Pierson, Chairman

Frances F. Anderson

Leonard Bass

Joseph P. Carroll

Michael J. Dietz

Jerome F. Dolivka

John C. Donohue, Sr.

Henry R. Elsnic

John D. Faulkner, Jr.

James D. Laudeman, Jr.

Terry L. Neifeld

Others Present: Charles C. Hogg, II, President; Paul V. Trice, Jr., Senior Vice President; Martin W. Becker, Senior Financial Analyst; Patrick M. McCracken, Assistant Secretary; Terry F. Hall, Venable, Baetjer and Howard; John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland; and Charles H. Brown, Jr., Director, Division of Savings and Loan Associations.

Mr. Pierson called the meeting to order at 9:17 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Mr. Garrison reviewed the investment reports and the general economic narrative. Following a brief discussion Messers. Pretko and Garrison left the meeting. (Copies of the investment reports and the narrative are attached to the permanent file copy of these minutes.)

READING OF MINUTES OF THE BOARD MEETING OF OCTOBER 24, 1984

Mr. Laudeman moved to approve the minutes of the previous meeting and Mr. Elsnic seconded. The motion was unanimously approved.

TREASURER'S REPORT

Mrs. Anderson indicated that net income for the period ending October 31, 1984 is \$1,300,000 before taxes. Contributions for the Kennedy Institute and the United Way were \$1,750 and \$1,218 respectively. Mr. Neifeld questioned when the relocation expenses were to end. Mr. Hogg noted that they have ended. Mr. Hogg also indicated that he would look into the travel and entertainment expenses and report back to the Board. Mr. Bass moved to accept the Treasurer's Report. Mr. Faulkner seconded and the motion was unanimously approved.

EXECUTIVE COMMITTEE REPORT

Mr. Pierson reviewed the details of the Executive Committee meeting:

- 1) He noted three associations requested a waiver of the broker deposit regulation and that this will be discussed later under new business.
- 2) Mr. Hogg reported on the Central Reserve Fund which will also be discussed later.
- 3) Mr. Dietz discussed a program for Asset-Liability Management which will be discussed later.
- 4) The Executive Committee will be the planning committee for the annual meeting.
- 5) The Executive Committee recommended to change the Board meeting for December to the 19th instead of the 26th.
- 6) Fairfax request for approval of subordinated debenture issuance received the committee's favorable recommendation to the Board.
- 7) Consideration was given to engage an outside consultant to study/develop a risk sensitive premium structure (capital deposit).

8) Various personnel matters were also discussed.

Mr. Elsnic moved to accept the Executive Committee Report, Mr. Laudeman seconded and the motion was approved unanimously.

MEMBERSHIP COMMITTEE REPORT

Mr. Neifeld noted the following from the Membership Committee meeting held on the 14th of November:

- 1) Mr. Dietz questioned Merritt's net worth.
- 2) Mr. Brooks and Mr. Dietz questioned approval of branch applications by the Division Director.
- 3) He noted the changes in the Board of Directors at Ridgeway on which we should be getting information.
- 4) Gibraltar repaid the remaining \$1 million owed to MSSIC.
- 5) The progress toward rule compliance by various associations (Custom, Ridgeway, Southern Permanent, Gibraltar, Eastern) were discussed.
- 6) Consideration of reworking the current MSSIC net worth rule was deferred.

Mr. Dolivka moved to approve the Membership Committee Report. Mr. Faulkner seconded and the motion was approved unanimously.

BY-LAW REVIEW COMMITTEE REPORT

Mr. Hogg reported that the By-Law Review Committee reviewed all sections except Subtitle 7. He noted that at the next meeting they will consider whether Subtitle 7 should be removed from the By-Laws and made part of the Rules and Regulations or just revised.

Mr. Dietz moved to accept the By-Law Review Committee Report. Mr. Carroll seconded and the motion was approved unanimously.

CHEVY CHASE IMPACT STUDY COMMITTEE REPORT

Mr. Hogg noted the committee met and reviewed the Chevy Chase Savings

and Loan Association's requests. He indicated that the committee recommends retaining Touche Ross & Co. and Trident Financial as consulting firms to assist in the regulatory interpretation of the related accounting issues. The committee is waiting for responses which are expected to be in MSSIC offices by the first week of December.

Mr. Pierson advised that we have agreed to have a response to Chevy Chase by the December 19th Board Meeting. Mr. Hogg stated that consulting fees to Trident and Touche Ross and Company will be \$10,000 and \$4500 respectively, plus the 30 hours of free managing partner time from Touche Ross and Company.

Mr. Carroll moved to accept the Chevy Chase Impact Study Committee Report. Mr. Bass seconded and the motion was unanimously approved.

SALARY, COMPENSATION AND BENEFITS COMMITTEE REPORT

Mr. Elsnic noted the committee met on November 5. Staff salaries were discussed. It was noted that salary increases should be reviewed on an anniversary date basis, and that the committee asked for job descriptions for all staff positions.

Mr. Dietz moved to accept the Committee's report. Mr. Faulkner seconded and the motion passed unanimously.

OLD BUSINESS

With reference to proposals for consulting for the Premium Restructure Committee, Mr. Pierson noted the Premium Restructure Committee should meet and discuss the Central Reserve Fund and the details of retaining a consultant. He asked the committee to have information for the December 19 Board meeting.

During discussion of habitual rule violators, Mr. Neifeld questioned the target date for the completion of First Maryland's plan for compliance.

Mr. Trice stated that Kaplan, Smith & Co. has been delayed in the completion of First Maryland's plan, apparently, because of their involvement in

MSSIC's tax case, as well as other businesses requiring higher priority.

Mr. Trice answered Mr. Bass regarding Custom's net worth by reviewing Board's vote on a Formal Cease and Desist Order and the fact that it did not carry by the required 75% margin. Mr. Pierson requested Mr. Trice to obtain, before the end of the meeting, figures on Custom's savings total.

Mr. Dietz noted that Merritt continues to have a steady decline in Liquidity with Construction, L.I.P. & Commitment, and Lending increasing, and Net Worth declining. He said he feels sanctions should be imposed. Mr. Pierson noted this will be discussed under the President's Report and will be taken up at that time.

Mr. Hogg said that the staff hopes to have its recommendation regarding the revised Liquidity Regulation by the December 17 Executive Committee Meeting.

Mr. Dolivka questioned the status of the preliminary draft from the Accounting Task Force. Mr. Terry Hall noted he has not completed it but that it will be finished by the December Board Meeting.

NEW BUSINESS

Mr. Hogg reported that three associations have requested a waiver of the Brokered Deposit Rule 3-706, (Center Savings, Baltimore American, and First Maryland). He said staff recommends that the Board grant a waiver for Center Savings and Loan Association for 1 year to October 1985.

Mr. Elsnic moved to grant waiver as previously defined to Center Savings and Loan Association. Mr. Dietz seconded and the motion carried unanimously.

Mr. Hogg reported First Maryland presently has Brokered Deposits of 24% of savings and that they have indicated they will make every effort to comply by October 1985.

Mr. Carroll moved to grant the waiver to First Maryland effective through October 1985, Mrs. Anderson seconded and the motion carried unanimously.

Mrs. Anderson excused herself from the meeting at this juncture while Baltimore American's waiver was discussed. Mr. Hogg said 15% of this association's savings are in Brokered Deposits and that they are requesting a waiver until May, 1985 at which time they expect to be in compliance with the regulation.

Mr. Dolivka moved to grant the waiver to Baltimore American Savings and Loan Association effective through May, 1985, Mr. Elsnic seconded and the motion received majority approval in Mrs. Anderson's absence. Mrs. Anderson returned to the meeting.

It was the concensus of the Board that the next Board Meeting will be held December 19, 1984 and the Executive Committee will meet on December 17, 1984.

Mr. Hogg on a request for approval of issuance of subordinated debenture from Fairfax Savings and Loan Association. He detailed that it is proposed to be a reported \$1.057 million, 10%, 10 year subordinated debenture.

Mr. Hogg said the staff recommends approval.

Following discussion, Mr. Neifeld moved to grant the request, Mr. Bass seconded.

Mr. Pierson questioned the difference between the Fairfax Debenture and the Community Debenture. Mr. Hogg noted that the Community Debenture would have created additional net worth where Fairfax Debenture is just a reclassification of net worth.

Upon a vote the motion was unanimously approved.

Mr. Dietz proposed a Study Commission on Asset-Liability Management. He recommended three members of the Accounting Task Force namely, Martin Becker, William Anderson and Gary Loraditch as the composition of the Study Commission. He said they could review possible reporting requirements with

regard to this area of concern.

Mr. Dietz formally moved the establishment of this Study Commission as previously described.

Mr. Faulkner seconded and the motion was unanimously approved.

REPORT OF THE PRESIDENT

Mr. Hogg reported that the Board of Commissioners meeting was brief, and relatively uneventful. He noted Mr. Charles Brown, Director of the Division of Savings and Loan Associations reached a milestone of 65 years of age. He also noted that the Division will move to the Brokerage in the Inner Harbor on November 30, 1984.

The following was discussed during an update on selected associations:

- 1) Old Court/First Progressive merged on 11/1/84.
- 2) Custom expects to reduce there total savings by \$2 1/2 million by the end of November and \$10 million by the end of December. Mr. Pierson requested that the staff obtain written evidence from Custom Savings Association which states that they plan to enhance net worth by reducing savings. Mr. Pierson further directed the staff to ask Custom to comply by April, 1985.
- 3) Merritt's stockholder dispute will be settled today by way of Mr. Klein's purchase of controlling interest in the association's stock. Following discussion, Mr. Pierson stated that it is imperative that a meeting be set with Mr. Klein and Merritt's new Board of Directors at MSSIC's offices to discuss how violations will be corrected and their plans regarding various office buildings they are currently constructing. He said that he, members of MSSIC's staff, and at least one other member of the MSSIC Board will be in attendance at this meeting.

Mr. Donohue moved to direct the action described by Mr. Pierson be taken. Mr. Neifeld seconded and the motion was unanimously approved.

Mr. Trice said a meeting with representatives of Liberty Savings and Loan regarding there fidelity bond is scheduled for tomorrow.

Mr. Hogg reported that the staff meeting with MSSIC's line banks went well.

During a personnel update, Mr. Hogg indicated that Dean Degiondomenico joined the MSSIC staff on Monday, November 26th, and, that he will help coordinate the review process. He further reported that Adrienne Koutrelakos will join the MSSIC staff on Monday, December 3rd as a Financial Analyst. He also noted that the staff is completing a form with reference to job functions.

Mr. Hogg concluded his remarks by stating that the budget will be concluded this month.

Mr. Brown discussed member branch applications and the approval procedures which he is required to follow under the code.

Mr. Brown concluded this discussion by stating that if the Corporation is opposed to a branch approval of one of its members, it should submit a protest and request a hearing. In response to Mr. Brown's comments, Mr. Pierson asked the staff to be certain that prior communication with the general membership makes it very clear that the Corporation intends to object to branch applications filed by members who are in violation of one or more of MSSIC's Rules and Regulations, and that MSSIC may formally request and attend a hearing on such an application in opposition.

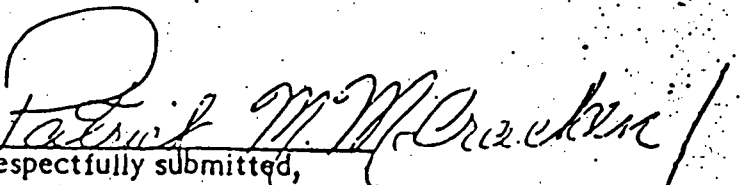
Mr. Pierson said that from November 28, 1984 forward the Board or Membership Committee will make the final determination on requesting a formal hearing on specific branch applications.

Following a request by Mr. Pierson for a resolution to express sympathy to

the family of Simon Butt (Director, Baltimore County Savings and Loan Association) at his passing.

Mr. Neifeld thus moved, Mr. Elsnic seconded and the vote was unanimously favorable.

At 12:05 p.m. the Board retired into executive session and all non-members of the Board of Directors were excused from the meeting.


Respectfully submitted,
Patrick M. McCracken
Assistant Secretary

PMM/lm

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, NOVEMBER 14, 1984

The regular monthly meeting of the Membership Committee of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 114 East Lexington Street, Baltimore, Maryland, on November 14, 1984 at 9:00 A.M.

Members present:

Terry L. Neifeld, Chairman

Henry R. Elsnic

William F. Brooks, Jr.

John D. Faulkner, Jr.

Michael J. Dietz

James L. Otto

Jerome F. Dolivka

George W. H. Pierson, Ex-Officio

Others present: Charles C. Hogg II, President; Paul V. Trice, Jr., Senior Vice President; Patrick M. McCracken, Assistant Secretary; Martin W. Becker, Senior Financial Analyst.

A motion was made, seconded and duly passed to accept the minutes of the October 10, 1984 and October 22, 1984 meeting as submitted.

MEMBERS' COMMENTS

Mr. Dietz expressed concern over the drop in Merritt Savings and Loan's net worth ratio. He emphasized that the Corporation should oppose any new branches for savings especially now that Merritt Savings and Loan is in violation of both the net worth rule and liquidity rule in addition to the continuing violation of the lending rules.

Mr. Hogg advised that he and Mr. Trice have scheduled a meeting with Merritt's Board of Directors on Friday.

Mr. Brooks inquired about the status of First Maryland Savings and Loan's

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pending branch applications. It was reported that a branch application for one site in a metro station was approved by Mr. Brown of the Division of Savings and Loan Association. Mr. Brooks related that he strongly believes that the Corporation should take a firmer position in conveying to the Division the opposition of the approval of branches to MSSIC associations in violation of the Rules and Regulations.

Mr. Otto suggested that if MSSIC is not given adequate hearings and the Division continues to override our requests we should adopt our own rules and regulations on branching. Mr. Hogg stated that he feels Mr. Brown is sensitive to the Corporation's position on branching by rule violators.

REPORTS BY STAFF

CHEVY CHASE:

Mr. Hogg noted that a committee consisting of members of the staff, Mr. Faulkner, Mr. Dietz and Mrs. Anderson met with representatives from Touche Ross and Trident to discuss the proposed impact study of the proposals submitted by Chevy Chase Savings and Loan. Both Touche Ross & Co. and Trident Financial Corp. have been retained for the project and intend to submit their reports in the first week of December.

MERRITT:

Mr. Trice mentioned he and Mr. Hogg will be meeting with Merritt's Board to discuss net worth, liquidity, and the status of the Merritt Tower.

LIBERTY:

Mr. Trice noted that MSSIC is in the process of completing an analysis of various options available in deciding whether to proceed with a new insurance agreement. He mentioned that Ohio Casualty will cancel Liberty's fidelity bond as of 12/3/84. The association is attempting to obtain another bond.

OLD COURT/FIRST PROGRESSIVE:

Mr. Trice reported that the merger was consummated on 11/1/84. He noted that the audit on First Progressive will be from 1/1/84 to the date of merger. Glass and Associates is conducting the auditing. The division exam of First Progressive will also be completed and sent to MSSIC. The hypothecation of savings will be transferred from First Progressive to Old Court. Mr. Trice reported that a meeting was held between Messers. Levitt, Cardin, representatives of both MSSIC and the Division, to discuss the Division examination.

CUSTOM:

Mr. Trice reported he met with Custom on two occasions to discuss infusing additional capital. Management has indicated it will not raise additional capital but will freeze and reduce the savings level. The association indicated it will continue to advertise, as necessary, to maintain its presence in the market. Several members indicated their strong opposition to the plan to continue advertising.

Mr. Dietz wanted to go on record that he is opposed to the plan submitted by Custom and feels that the association should be required to cease all advertising for savings.

BALTIMORE AMERICAN/LANSDOWNE:

The Board of Directors of the association reported that certain problems have yet to be resolved and therefore a delay in the merger exists. The Committee was advised that no action be taken until the resolution of these problems.

RIDGEWAY:

There has been a change to Ridgeway's Board of Directors. Staff has requested the association to provide us with biographical information on the new Board.

SOUTHERN PERMANENT:

Mr. Trice noted they had previously converted to stock. They also have a new Board of Directors and staff has requested biographical information on them along with a general business plan for the next 12 months.

GIBRALTAR:

There are still a number of issues to be resolved concerning the pending branch application. Gibraltar's attorney has agreed that the association should and will enter into an agreement not to open this pending branch or any new branch until the issues are resolved. They are to repay the remaining \$1 million to MSSIC today.

EASTERN:

Messers. Trice and Hogg met with representatives of Eastern Savings and Loan to discuss the net worth deficiency. An agreement was reached that the association would comply with the 3.75% level within five months or Mr. Goldsmith will infuse capital.

Mr. Pierson commended several members on their contributions in resolving several problem issues that currently exist.

Mr. Pierson requested Mr. Brooks in particular to maintain his monitoring of Merritt Savings and Loan.

Mr. Pierson also requested Mr. Dietz to continue his observations on the advertising situation of Custom.

Mr. Pierson indicated that should the objectives of MSSIC concerning branch approvals by the state prove to be unsatisfactory, that Mr. Otto's suggestion concerning adopting our own rules and regulations be implemented.

It was noted that MSSIC should consider attending any branch application hearings that the Corporation is in opposition to.

REQUEST FOR APPROVAL:

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FAIRFAX:

Request to issue subordinated debentures has been made by the association. After review and discussion, a motion was made, seconded and duly passed to recommend to the Board of Directors to approve the proposed issuance of subordinated debentures.

NET WORTH RULE:

Mr. Otto recommended the Committee revise the existing net worth rule in terms of primary and secondary types of net worth. Mr. Faulkner noted that the Corporation would do better to utilize and implement existing sanctions and remedies against current rule violators, rather than consider changing the rule at this time. After discussion, the Committee decided to defer any action on changing the current net worth rule.

The meeting was adjourned at 12:05 p.m.

Martin W. Becker
Respectfully Submitted
Martin W. Becker
Senior Financial Analyst

MWB/lsm

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, DECEMBER 12, 1984

The regular monthly meeting of the Membership Committee of the Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation at 114 East Lexington Street, Baltimore, Maryland on Wednesday, December 12, 1984.

at 9:00 a.m.

Members present:

Henry F. Elsnic (Chairman)

John D. Faulkner, Jr.

William F. Brooks, Jr.

Terry L. Neifeld

Michael J. Dietz

James T. Otto, Sr.

Jerome F. Dolivka

George W. H. Pierson (Ex- Officio)

Others present: Paul V. Trice, Jr., Senior Vice President; Patrick M. McCracken, Assistant Secretary; Ann Franetovich, Financial Analyst, Lesley A. Wernsdorfer, secretary.

The meeting was called to order at 9:10.

Mr. Elsnic stated that he was asked to temporarily chair the Membership Committee due to Mr. Neifeld's resignation.

Mr. Neifeld noted that capitol on pages 3 and 4 of the November 14 minutes should be changed to capital. He then moved to approve the minutes. Mr. Dietz seconded the motion. The motion was unanimously approved.

COMMITTEE MEMBERS' COMMENTS

In response to Mr. Dietz's question, Mr. Trice noted that a meeting will be held on Monday, December 17, 1984, between the new Board of Directors of

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Merritt Commercial Savings and Loan, Inc., Mr. Pierson, and members of the MSSIC staff.

Mr. Dietz asked about the status of Liberty Savings and Loan Association. Mr. Trice noted that an extension of their fidelity bond through the expiration date (April of 1985), appears likely.

Mr. Dietz requested that the MSSIC staff communicate to the Division of Savings and Loan Associations our desire to know the Division's examination schedule and specific dates of exit interviews, in order to attend when we deem it appropriate or desirable.

Mr. Faulkner asked the MSSIC staff to contact Mr. LeCompte of the Division of Savings and Loan Associations and stress the importance of his attendance at MSSIC Membership Committee meetings.

Mr. Trice answered Mr. Neifeld's question regarding the liquidity rule by indicating that the MSSIC staff's final recommendation is forthcoming.

REPORTS BY STAFF

Chevy Chase. It was indicated that the Chevy Chase subcommittee will meet today at 2:00 p.m. A report will be given at the December Board meeting.

Merritt. During a discussion the following items were noted:

1. The Association indicated that it will comply with the liquidity rule by the end of December.
2. The Association continues to comply with their previously submitted and accepted plans regarding lending rule violations.
3. The net worth position of the Association will be discussed further at the previously mentioned December 17, 1984 meeting.

Mr. Otto requested that the MSSIC staff do a review of King's Landing Town Homes in Delaware. Mr. Brooks suggested that Heron Harbor in Ocean City be

included in the review.

Custom. Mr. Trice reviewed their compliance with their plan for reduction in savings level, noting that savings reported continues to decline below that level reported as of October 31, 1984.

Southern Permanent. Mr. Trice distributed and reviewed the December 10, 1984, review memorandum from Mr. Digiondomenico and Ms. Koutrelakos (copy attached). During discussion, it was noted that the Association has violated several of the Corporation's rules and regulations and that the staff has been in contact with Weinberg and Green (counsel to Southern Permanent). It was further noted that MSSIC should receive a hypothecation from Southern Permanent by Friday, December 14, 1984. At the conclusion of the discussion, Mr. Trice was directed to write a staff cease-and-desist letter to Southern Permanent regarding the various violations. Mr. Otto suggested that the word expulsion be used in the letter as remedy to an apparent lack of and total disregard for compliance. Mr. Brooks emphasized the importance of prompt attention on this matter. Mr. Trice agreed that the letter would be delivered within 48 hours.

Potomac. Mr. McCracken reported on his recent review of Potomac Savings and Loan Association. Following this report, it was noted that a written summary will be forwarded to the Membership Committee, and a copy of that summary will be attached to the permanent file copy of these minutes. Mr. Elsnic requested that the staff maintain a close monitor of Potomac Savings and Loan Association.

Presidential. Messrs. Cleveland, Ege, and Bevan entered the meeting and gave a short presentation regarding the following:

1. Why the investors are interested in forming a savings and loan.
2. Why the investors are interested in Bethesda; and
3. Why the investors are interested in MSSIC.

During a brief question and answer period, Mr. Elsnic stressed the need for members to maintain full compliance with MSSIC rules and regulations.

The representatives of Presidential Savings Association were then excused from the meeting.

A motion was made to recommend to the Board of Directors the approval of the application for MSSIC insurance of Presidential Savings Association, subject to the approval of Charles H. Brown, Jr., Director of the Division of Savings and Loan Associations. The motion was seconded and duly passed.

Liberty: Following a lengthy review and discussion of a new insurance agreement for Liberty Saving and Loan, Mr. Otto moved that MSSIC enter into an insurance agreement with Liberty including as a part thereof the following net worth to savings ratios:

1. A net worth to savings ratio of .50% as of January 31, 1985;
2. A net worth to savings ratio of .75% as of February 28, 1985;
3. A net worth to savings ratio of 1.00% as of March 31, 1985;
4. An increase of no less than .05% on previous savings base at the end of each month thereafter;
5. All net (exclusive of dividends) new savings growth be supported by a 3% net worth ratio on an averaging period of 2 to 3 months.

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Mr. Dietz seconded the motion. The motion passed by majority approval with Messrs. Faulkner and Dolivka opposing.

Mr. Brooks moved that Mr. Hogg be directed to immediately seek a merger partner for an assisted merger with Liberty. The motion failed for lack of a second.

Old Court. A request from Old Court to allow the First Progressive hypothecation (\$609,428.02) to be converted into a subordinated debenture was discussed. Mr. Brooks moved to deny that request. Mr. Neifeld seconded the motion, and it was unanimously approved.

Mr. Brooks then moved that a copy of the letter of commitment from Old Court Savings and Loan, Inc., regarding the Levittown, Florida transaction, be acquired and presented to the MSSIC Board of Directors for analysis. Mr. Neifeld seconded the motion, and the motion was passed unanimously.

Mr. Otto moved that Old Court be required to submit daily reports in areas deemed appropriate by the MSSIC staff. Mr. Dietz seconded, but a vote was not taken.

Mr. Otto recommended that the Board consider requiring a MSSIC staff member to attend all Old Court Savings and Loan, Inc. Board and committee meetings. Mr. Dietz seconded the motion. The motion carried by majority vote with Messrs. Dolivka and Faulkner opposing and Mr. Brooks abstaining.

Mr. Brooks moved that in view of the violations of the lending rules, and the further apparent violation of the staff cease-and-desist letter (August 13, 1984), the Membership Committee recommend, subject to the confirmation of the violation, that the Board of Directors issue a Cease-and-Desist Order to Old Court Savings and Loan, Inc. Mr. Dolivka seconded the motion. It was then passed unanimously.

RULE VIOLATIONS STATUS REPORT

Mr. Trice stated that the First Maryland plan prepared by Kaplan Smith and Associates should be received by December 31, 1984.

Following discussion, Mr. Brooks moved that the Corporation file a formal protest with the Division of Savings and Loan Associations regarding the branch application of Gibraltar Building and Loan Association due to that associations violation of MSSIC rules and regulations. Mr. Dietz seconded, and the motion passed by a majority vote with Mr. Faulkner opposing.

Mr. Trice indicated that he wished to report on a matter which involved EPIC Holdings and the principals of Community Savings and Loan. Accordingly, and in accordance with Section 2-803 of the By-Laws, Mr. Faulkner left the room at this juncture. Mr. Trice reported that Mr. D. B. Berlin had advised that he is considering filing application for de novo charter membership in MSSIC. Mr. Trice further noted that the proposed majority stockholders of this proposed de novo charter are Messrs. C. McCuiston and T. Billman who are presently the majority owners of EPIC Holdings and Community.

Following discussion, the Committee agreed that a prompt review of multiple majority ownership of member associations is in order and recommends that the Board consider a prompt review of same including, but not limited to, counsel's review, BHC Acts, FHLBB Savings and Loan Holding Company Regulations, and any other regulatory or insurance material and restrictions on "controlling parties.

Mr. Faulkner rejoined the meeting shortly after Mr. Trice's comments.

Mr. Otto moved that the Committee recommend to the MSSIC Board that a temporary moratorium be placed on new members, until staff completes its review and determination of appropriate current membership requirements. Mr.

Dolivka seconded the motion. It was then passed by majority vote with Mr. Dietz and Mr. Neifeld abstaining.

There being no further business to come before the Membership Committee, the Chairman called for a motion to adjourn. Mr. Neifeld so moved, and Mr. Dietz seconded. The motion carried unanimously.

The meeting adjourned at 1:09 p.m.

Respectfully Submitted,



Patrick M. McCracken

Assistant Secretary

PMM/law

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deletion of Item 5 of the agreement.

3. Subsequent to December's Membership Committee meeting, it was determined that the Corporation has no legal right to retain the hypothecation of First Progressive, subject to the satisfactory achievement of certain conditions. However, the principals have agreed to convert the hypothecation to subordinated debentures at Old Court Savings and Loan. The Board approved the issuance of the subordinated debenture by the association.

4. The Board did not approve the Membership Committee's recommendation that a MSSIC Staff member should attend all Old Court Saving and Loan's Board and Committee meetings due to the many pending staff projects.

5. The Board did not approve the Membership Committee's recommendation that a temporary moratorium be placed on all new applications for membership.

6. The Board did not approve the Membership Committee's recommendation that a formal protest should be filed against Gibraltar Building and Loan's branch application.

Mr. Dietz inquired about the status of Old Court Savings and Loan and Liberty Savings and Loan since these were not listed on the Agenda. Mr. Trice noted that Liberty was agreeable to the conditions of the Insurance Agreement except for the fifth item concerning a required 3% net worth on all new savings. He further noted that the Association requested an extension of three months to achieve the net worth percentile requirements set forth in the terms of the currently proposed Insurance Agreement passed by the Board in December. After discussion, the Committee voted 3 to 3 to recommend approval to amend Liberty's agreement to provide for the extension. Mr. Elsnic cast his vote opposing the amendment to break the tie. He noted that his vote represented his feeling that an amendment to the Insurance Agreement was not in the purview of the Committee and that it is only the Board's prerogative to make such an amendment.

Mr. Trice noted that the affect of First Progressive on Old Court has not yet been determined. Information concerning lending limitations and liquidity should be received by the end of the month. Mr. Brooks asked how Old Court's activities can be curbed until this information has been received. Mr. Pierson then noted if the Committee feels that something should be done about an association's, violations, etc., representatives of the associaton should be requested to appear before the Committee so that the problems and possible solutions could be discussed. When a possible solution has been found, the Committee should then recommend to the Board what action it deems necessary.

After discussion concerning Old Court, Mr. Elsnic noted that he and Mr. Pierson thought it appropriate to hold a meeting specifically to review the audit reports and Division Examination reports and response for First Progressive and Old Court. The meeting will be held January 30, 1985 at 11:00 a.m. If the Committee then has questions concerning the operation of Old Court, the management of the Association should be called on to appear at the February Membership Committee meeting. After a brief discussion, it was decided that the examiner, who conducted Old Court's most recent Examination and his or her supervisor would also be invited to attend the meeting.

Mr. Brooks asked how the the segment on 60 Minutes affected the Corporation and member associations. Mr. Hogg reported that MSSIC received approximately 180 phone calls on Monday and approximately 99 requests for Annual Reports, Question and Answer Brochures, and Open Letters. He further noted that he and Mr. Pierson had explored possibilities of updating the full page ad, responding directly to Harry Reasoner, or utilizing a local newspaper article. It was decided that any response by MSSIC to Mr. Reasoner's report might generate more concern than the segment itself. Beginning with Mr. Pierson, each member of the Committee reported on the affects of the article on withdrawals

or deposits. The affects seem minimal.

At this point, Mr. Elsnic called for a break and stated that upon returning, representatives from Summit Savings Association would give a presentation concerning their proposed association and their application for membership and insurance (see attachment).

After a brief question and answer period, the gentlemen were excused from the meeting. Mr. Brooks then moved that Summit Savings Association be accepted subject to the following items:

1. Division approval.
2. Selection of managing officer satisfactory to MSSIC.
3. Complete disclosure of stock subscriptions which disclosure shall not contain any "controlling" person purchaser deemed undesirable by MSSIC.

REPORTS BY STAFF

CHEVY CHASE:

Mr. Hogg reported that he had received Trident Financial Corporation's preliminary report. He indicated that he would forward a list of questions to Ted Rogers of Chevy Chase that are needed by Trident to complete their analysis. Mr. Trice noted that the 38 million dollar valuation had been reported by the association on their November 30, 1984 report to MSSIC. Mr. Trice indicated that he would write to Mr. Jackman advising him that the 38 million dollars cannot be included and that he must file an amended report. Mr. Dolivka noted that if Chevy Chase does not come closer to compliance by the February Membership Committee meeting, he would move to impose sanctions against advertising for savings upon Chevy Chase Savings and Loan and its subsidiaries, including Government Services. After discussion, the Committee requested Staff to obtain an opinion of counsel as to the applicability of sanctions on an association's subsidiaries.

MERRITT:

Mr. Otto asked about what progress had been made on research on Heron Harbor and King's Landing. Mr. Trice noted that Heron Harbor is a part of the review concerning donated net worth. He further noted that nothing could be found on King's Landing. Mr. Brooks then informed the Committee that the name of the project is King's Grant. A discussion concerning Merritt's November Periodic Performance Report followed.

CUSTOM:

Mr. Trice reported that it appears that Custom continues to reduce its level of savings and is apparently in compliance with the business plan imposed upon them. As of November 30, 1984, the association reports that net worth is at 3.75%.

SOUTHERN PERMANENT.

Mr. Trice noted that he and Mr. Hogg met with two of the main principals of Southern Permanent. They have pledged \$100,000 as a hypothecation and have agreed not to accept any more brokered deposits.

FIRST MARYLAND.

Mr. Becker noted that he believed First Maryland's plan contained technical and strategical errors. The institution plans dramatic growth. The net worth is anticipated to be supported by fee income although it is questionable whether there will be sufficient loan origination fees available. Mr. Trice agreed that a revision of the plan was in order. It was the consensus of the Committee that a formal Cease-and-Desist Order be issued by the Board of Directors and therefore a motion was made, seconded, and duly passed that the Committee recommend that the Board issue a formal Cease-and-Desist Order that First Maryland cease and desist further committing for loans classified under Section 3-217 until such time as the association is in compliance with this rule. The motion passed 5 to 1.

with Mr. Dolivka opposing the motion because he supports Staff's recommendation that a firm date should be given for submission of an acceptable plan before the issuance of a Cease-and-Desist Order.

RULE VIOLATIONS.

Mr. Neifeld noted that Kent Savings and Loan is apparently not achieving their projected level in net worth and asked if they had been contacted. Mr. Trice noted that the Staff is aware of the violation and lack of progress as projected but the association has not yet been contacted.

Mr. Trice noted also that Ridgeway claims that the conversion to stock will bring them into compliance with the net worth rule, but until the conversion is approved, he would like them to develop and submit a business plan to bring them into compliance with this rule (3-211) and also to effect compliance with Section 3-210.

Mr. Otto inquired about the findings of the review of the liquidity rule. Mr. Trice noted the proposed rule would require significant additional liquidity for many associations that are currently maintaining high levels of liquidity. He recommended that the staff research the options for further changes.

There being no further business, the meeting was adjourned at 12:45.

Martin W. Becker

Respectfully Submitted
Martin W. Becker
Senior Financial Analyst

MWB/law

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, FEBRUARY 13, 1985

The regular monthly meeting of the Membership Committee of the Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation at 114 East Lexington Street, Baltimore, Maryland on Wednesday, February 13, 1985 at 9:00 a.m.

Members present:

Henry F. Elsnic (Chairman)

Terry L. Neifeld

William F. Brooks, Jr.

George W. H. Pierson

John D. Faulkner, Jr.

*Dietz
Otto*

Others present: Charles C. Hogg, II, President, Paul V. Trice, Jr., Senior Vice President; Patrick M. McCracken, Assistant Secretary; Martin W. Becker, Senior Financial Analyst; Ann Franetovich, Financial Analyst, Lesley A. Wernsdorfer, secretary.

Absent and excused:

Michael J. Dietz

James L. Otto, Sr.

Jerome F. Dolivka

COMMITTEE MEMBERS' COMMENTS

Mr. Elsnic noted that the Board of Directors acted favorably upon the Membership Committee's recommendation to accept Summit Savings Association for membership in and insurance of accounts by MSSIC. He further noted that the Board acted favorably upon the Membership Committee's recommendation to issue a formal Cease-and-Desist Order to First Maryland Savings and Loan, Inc. under Rule 3-217. The Board further said that First Maryland would be given 30 days

from the date of the notice to submit an acceptable business plan. If, by the end of 30 days, an acceptable plan has not been submitted, a hearing will be held. In accordance with the applicable rule, the Cease-and-Desist Order will become effective on the thirty first day following the hearing. Following a lengthy discussion concerning the Cease-and-Desist process, Mr. Faulkner suggested that Mr. Pierson consider directing the By-Law Review Committee to review the content and language of Section 3-222.

After some discussion, Mr. Brooks moved that it should be the policy of the Committee and the Secretary of the Meeting to see that the minutes reflect to whom a task is delegated (i.e. the Staff, the Board of Directors, or one of the Committees, or Counsel for MSSIC) and the desired date for completion of the task. Mr. Faulkner seconded, and the motion passed unanimously.

Mr. Faulkner moved to accept the minutes of the Regular Membership Committee meeting held on January 9, 1985. Mr. Brooks seconded, and the motion passed unanimously.

Mr. Brooks noted that he had several questions and comments on the minutes of the Special Membership Committee meeting held on January 30, 1985 meeting. After considerable discussion, Mr Brooks moved that the Staff review Old Court's files concerning overdrafts of NOW Accounts to directors, officers, and related parties to see if they still exist. He indicated that the Board should be notified by its next regular meeting on February 27, 1985. Mr. Faulkner seconded, and the motion passed unanimously.

Following a discussion concerning the availability of Examination Reports, Mr. Brooks suggested that instead of burdening the Staff further with the review and report of each Examination Report, perhaps each member of the Membership Committee should be charged with the review of a "problem" association. Messrs. Elsnic and Pierson indicated that they would discuss the issue. Mr. Elsnic noted

that any member of the Committee may review the contents of an examination at the Offices of the Corporation at any time.

Mr. Neifeld moved to approve the minutes of the Special Membership Committee meeting held on January 30, 1985 meeting. Mr. Brooks seconded, and the motion passed unanimously.

REPORTS BY STAFF

Mr. Elsnic noted that Mr. Trice would like to add Item 3(g) to the Agenda. This item would be a discussion of Kinsley Savings Association. He further noted that because Mr. Hogg would the give reports on Chevy Chase, Old Court, and Second National upon his return from attending a legislative meeting in Annapolis.

Merritt. Mr. Trice noted that several members of the Staff are reviewing the files concerning the donated land (Heron Harbor) and whether the valuation is fair. Touche Ross has said that the donated land can be used to increase net worth, but they have not stated a position on the value of the land. Mr. Becker noted that by accounting standards the valuation can be allowed, but by insurance standards there may still be some question.

After further discussion, Mr. Brooks moved to recommend that the Board of Directors issue a formal Cease-and-Desist Order requiring Merritt to stop all activity under Rule 3-217 of the Corporation's Rules and Regulations. Mr. Neifeld seconded. After considerable discussion, the motion passed unanimously.

First Maryland. Mr. Trice noted that all items concerning First Maryland had been covered earlier in the meeting.

Kent. Mr. Trice noted that Kent is in compliance with the Liquidity Rule, but the Association has not achieved its projected net worth levels. In answer to Mr. Brooks' question, Mr. Trice noted that the Staff would be reviewing the reasons for the Association's inability to meet its net worth projections.

Kinsley. Mr. Trice noted that Kinsley Savings Association had received

preliminary approval from MSSIC and the Division of Savings and Loan Associations. Recently, Mr. Allan Housley notified him that there have been several changes in the stock subscriptions of which MSSIC should be made aware. As a result of the change in circumstances, Mr. Trice stated that at the meeting of the Board of Directors on February 27, 1985, he will recommend that the application be given back to the Membership Committee for re-consideration.

RULE VIOLATIONS STATUS REPORT

Universal. Mr. Trice noted that Universal has applied for relocation of its branch office and that this relocation will cause a decrease in the Association's net worth. Mr. Brown, Director of the Division of Savings and Loan Associations, gave preliminary approval for the relocation subject to a \$50,000 hypothecation on which MSSIC should be a party.

Municipal. Mr. Trice noted that the Association is meeting the conditions of its insurance agreement.

Southern Permanent. Mr. Trice noted that a detailed business plan should be submitted in the near future. He further noted that it could be in by the February 27th Board meeting.

Liberty. Mr. Trice noted the the insurance agreement is being reviewed by Liberty's counsel and should be executed on or about February 22, 1985.

Bay State. Mr. Faulkner requested that the Staff review the delinquencies of Bay State and report on this at the next meeting.

Mr. Trice noted that the Board is to take action on the proposed Staff liquidity recommendations at the February 27th meeting.

Following a short recess, Mr. Hogg entered the meeting and gave reports on the following associations:

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Chevy Chase. Mr. Hogg noted that Trident Financial's comments have been forwarded to Ted Rogers. He further noted that as soon as the 37 issues have been resolved, a complete evaluation of the acquisition of B. F. Saul Mortgage Company will be given to the Board of Directors of MSSIC.

Second National. Mr. Hogg noted that due to recent news items concerning state chartered savings and loan associations and their insurers ("non-FSLIC") Second National has experienced some savings withdrawals. He reported that the withdrawals do not appear to necessitate borrowing from MSSIC.

Old Court. Mr. Hogg noted that the Corporation has received the audit report and that this report has raised some questions. He further noted that Messrs. McCracken and Becker continue to review the Association's operations and will present their findings shortly. Mr. Elsnic requested that Counsel for MSSIC review the issue of overdrafts of NOW Accounts at Old Court as referenced in the Division Examination Report. It was also requested that a review of this information be provided by the February 27, 1985 Board of Directors meeting. After this discussion, Mr. Neifeld noted that he would like to revive Mr. Otto's motion from the January 30, 1985 meeting. This motion called for the Corporation to send in an independent CPA firm to review the Old Court operation from August 1, 1984 through January 31, 1985. Mr. Faulkner noted that he generally supported the motion, but because the Staff has said that details will be available at the February 27, 1985 Board meeting, he would rather wait until then to vote. Mr. Brooks seconded for purposes of discussion. The motion failed with Messrs. Brooks and Faulkner opposing.

Mr. Brooks moved to recommend to the Board at its February 27, 1985 meeting that Touche Ross be engaged to review the audit statements of Old Court and First Progressive. Mr. Faulkner seconded, and the motion passed unanimously.

In closing, Mr. Pierson noted that Mr. Brooks had been very complimentary

to Messrs. Hogg and Sandler concerning the help that they gave Second National during the recent problem.

There being no further business to come before the Membership Committee, the meeting was adjourned at 11:55 a.m.

Martin W. Becker /law

Respectfully Submitted,
Martin W. Becker
Secretary to the Meeting

MWB/law

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, MARCH 13, 1985

The regular monthly meeting of the Membership Committee of Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 114 East Lexington Street, Baltimore, Maryland, on March 13, 1985 at 9:00 a.m.

Members present:

Henry R. Elsnic, Chairman

John D. Faulkner, Jr.

William F. Brooks, Jr.

Terry L. Neifeld

Michael J. Dietz

James L. Otto

Jerome F. Dolivka

George W. H. Pierson, Ex-Officio

Others present: Charles C. Hogg II, President; Paul V. Trice, Jr., Senior Vice President; Patrick M. McCracken, Assistant Secretary; Ann Franetovich, Financial Analyst; Lesley A. Wernsdorfer, secretary; and Terry F. Hall, Venable, Baetjer and Howard.

The Chairman called the meeting to order at 9:05 and acknowledged that a quorum was present. Mr. Deitz moved to approve the minutes from the February 13, 1985 Membership Committee meeting. Mr. Faulkner seconded, and the motion passed unanimously.

MEMBERS' COMMENTS

Mr. Elsnic noted that the Membership Committee's recommendation to the Board of Directors that Merritt Commercial Savings and Loan, Inc. be issued a Cease-and-Desist Order concerning activities under Rule 3-217 did not pass because of previous commitments that Mr. Pierson had made with the association concerning its timetable.

Mr. Elsnic further noted that he had concerns about the continuing growth at

Custom. Mr. Trice noted that he is aware of the situation and that Custom will be back in compliance within 90 days.

Mr. Elsnic asked that the Staff review Admiral Builders' decrease in net worth.

Mr. Neifeld inquired about the significant increase in dividends at Gibraltar and Hopkins. Mr. Trice noted that there would be a report at the April Membership Committee meeting. Mr. Neifeld further questioned why Monumental's dividends decreased.

Mr. Brooks inquired about the progress on the participation of members of the Membership Committee in reviewing "problem" associations. Mr. Elsnic noted that he had talked to Mr. Pierson and that he had come up with a list of assignments. Mr. Hogg noted that further discussions with Mr. Pierson brought to surface some problems that may arise and further discussion and arrangements were necessary.

Mr. Brooks requested that he and Mr. Otto receive the minutes from the Membership Committee at the same time that they are mailed to the Board of Directors.

REPORTS BY STAFF

Chevy Chase

Mr. Hogg reported that Chevy Chase's responses to Trident Financial and Touche Ross' issues had been received at the offices of the Corporation and had been forwarded to Trident and Touche Ross. An analysis of the responses will be completed by the March 27 Board meeting.

Merritt Commercial:

Mr. Trice reported that Merritt may, in his opinion, be in violation of certain statutes and other generally accepted safety and soundness standards. He suggests that the Membership Committee expand its recommendation for a Cease-

and-Desist Order to include such other violations. Mr. Neifeld moved to do so, and Mr. Faulkner seconded. After lengthy discussion, the motion passed unanimously.

Old Court:

At this point, Mr. Faulkner left the meeting.

Mr. Hogg noted that the terms of the Cease-and-Desist Order had been presented to the management of Old Court. At the conclusion of the discussion on Old Court, Mr. Faulkner re-entered the meeting.

Second National:

Mr. Hogg noted that he had received a letter from the Vice President and the Controller stating that the association's liquidity rule violation had been corrected.

First Maryland:

Mr. Trice noted that a plan had been submitted and is generally acceptable although there are a few details to be refined. Once that has been accomplished, the hearing will more than likely be cancelled.

Kent:

Mr. Trice noted that he and Miss Franetovich met with Mr. Skipp and Ms. Nuttle at Kent to discuss the association's continuing net worth violation. It was discovered that the association had been sending its general ledger to a computer company during the past year and since then, Ms. Nuttle had difficulty balancing the ledger. Additionally, the association had experienced various problems with the investment firm, Baker Watts. They have, however, retained Wooden and Benson, C.P.A. to perform the annual audit and reconstruct the general ledger which will be returned to the association's control.

Bay State:

Miss Franetovich reported that 90% of the association's delinquent loans are

from National Mortgage Funding Corporation and that some progress is being achieved in effecting a reduction in delinquencies.

Republic:

Mr. Trice reported that the association has submitted its business plan and that the plan seems to be acceptable. He noted that in establishing its branch office, the association's net worth may be inadequate to support any significant growth. He advised that this concern had been orally communicated to the Director of the Division.

RULE VIOLATIONS

There were no further reports of rule violations.

KINSLEY SAVINGS ASSOCIATION

Mr. Trice noted that the Membership Committee recommended in July of 1984 that Kinsley Savings Association be accepted as a member of MSSIC. Because of recent changes in the principals of Kinsley, the Staff recommended to the Board that it remand the application to the Membership Committee. The Board resolved to do so, and the Membership Committee is charged with further review of the application. The Committee agreed that the application should be reviewed further.

OPINION OF COUNSEL - OVERDRAFTS OF OFFICERS, DIRECTORS, ETC.

Mr. Terry F. Hall noted that for violations under Section 9-307 and 9-323(A) of the Financial Institutions Article and Section 3-214 of the Corporation's Rules and Regulations, the Corporation has the right to issue Cease-and-Desist Orders or expel a member.

DISCUSSION OF OHIO DEPOSIT GUARANTEE FUND

Mr. Hogg noted that a package of clippings had been provided for the Membership Committee. He reviewed the problem and how it began. Further, he noted the steps the State of Ohio was taking to help OGDF and its member

associations. Mr. Pierson then expressed his concern over the situation and noted that MSSIC must be very careful of its actions to ensure that a similar problem does not occur in Maryland.

There being no further business, the meeting was adjourned at 12:14 p.m.

Patrick M. McCracken/law
Respectfully Submitted,
Patrick M. McCracken
Secretary of the Meeting

PMM/law

EXECUTIVE SESSION
February 9, 1984

Board of Savings and Loan Association Commissioners

Mr. Charles Hogg of MSSIC attended the Executive Session of the Board meeting and Mr. Charles Kresslein, President of the Maryland Savings and Loan League, attended that portion of the Executive Session dealing with current legislation before the Maryland Legislature.

Mr. Kresslein stated to the Board that there is a bill introduced in the House that would put into statute the qualifications a person to serve as a member of the Board of Directors of MSSIC. It would require that the member institution which he represents would have to have 4% net worth for him to be able to be elected to the Board. Mr. Kresslein further stated that he has been lobbied as to what his position will be and he indicated that he did not have a position. He has also consented to meet with the sponsor of the bill, Mr. Scannello of Anne Arundel County, who has introduced the bill by request. He does not understand MSSIC, the business or its problems.

Mr. Kresslein stated that a Washington Times Reporter (Willis Witter) had contacted him and stated that there will be an editorial in the Washington Times concerning this matter. Mr. Witter is also aware of the departmental bill that has been introduced for removal of an officer or director and is going to suggest to Senator Connell that it be amended. He is going to suggest to Senator Connell that every State-chartered savings and loan association must make available to the general public at least on a quarterly basis the financial condition of every institution. Mr. Gisriel stated that when Mr. Witter spoke to him, he stated that he can go to the Federal Home Loan Bank for information but he cannot get any information on State-chartered institutions. Mr. LeCompte stated that the Federal Home Loan Bank does not give out their monthly reports under the Freedom Information Act. They do process and edit reports and prepare financial data, which he understood is usually six months or so old before it is finally released.

Mr. Gisriel stated that the Washington Times appeared concerned about what we are doing to enforce our regulations, specifically the 50% of assets required to be in home mortgages. Mr. Gisriel asked if we were sending out letters to which Mr. Brown replied that the agency was sending letters. Mr. Gisriel then asked Mr. Brown to report on what was being done about First Maryland. Mr. Brown stated that last week we sent our examiners into First Maryland in light of some comments that appeared in the Washington Times. In reviewing the monthly reports you cannot determine in all cases whether an association has 50% of their assets in Homeowner loans. For example, GNMA, FNMA, and second mortgages are all forms of homeowner financing. We do disagree with the figures that are reported. When the examination is completed, we will take appropriate action.

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Mr. Kresslein stated that he thinks from the prospective of the legislature, it is incumbent upon this Board to make a determination as to whether or not as a State agency it is going to support or oppose H.B. 1130 (the MSSIC bill on qualifications of Board members). There is a possibility that Mr. Hogg and himself may not be allowed by their Boards to take a position on this matter. Mr. Kresslein stated that the legislature does not look favorably on a Director of a State agency stating that he does not have a position.

Mr. Brown stated that each Monday morning there is a legislative meeting at the Department of Licensing and Regulation with Secretary Corbley. Compendiums are prepared by the agency heads on each bill and at this meeting we are given instructions as to whether or not we testify, or whether the compendium will suffice.

The Board asked Mr. Hogg what was behind this bill. Mr. Hogg stated that he had not yet seen the bill, however, he understood that it picked a concept that was a proposed by-law amendment at MSSIC annual meeting last year. The concept, as discussed, is required net worth of a member association in order to have a representative on the Board.

Mr. FitzGerald stated he did not know how extensive this bill was, but he questioned who are we to tell MSSIC who should be on their Board. Mr. Balder stated that he feels the Board should be prepared to address it. Mr. Brown stated that if the bill goes through, you are disqualifying people from sitting on that board who have a lot of expertise.

Mr. Kresslein stated that with respect to the MSSIC bill, he has a strong feeling that the committee chairman will want to hear from the Director of this agency. At this point, the Board was informed of what transpired at MSSIC's most recent annual meeting and the subsequent ruling by the Attorney General's Office with respect to a proposed change to the by-laws which was the essence of H.B. 1130.

Eastern Savings Association

Mr. Gisriel stated that he is very concerned about Eastern's ad because it is somewhat misleading and unclear. Mr. Brown stated that the Division had the association change their disclosure statement and discontinue the word "free" in their ads. Their Truth-in Savings statements are now quite clear in what they are doing. The plan follows the requirement of our Regulation on gifts in lieu of dividends.

Chevy Chase Savings and Loan, Inc.

Mr. Gisriel noted that Chevy Chase Savings and Loan has 2.8% in reserves. Mr. Stocksdale stated that Mr. Saul of Chevy Chase addressed the Board about five months ago and he stated that his policy was going to be one of controlled growth. Mr. Stocksdale stated that Mr. Saul stated he was going to control his savings growth to about \$11 million a month, so he could build up his reserves. Since that time he has grown roughly \$20 million or more a month. Mr. Gisriel requested that staff write a letter to Mr. Saul informing him of the Board's continued concern in this matter.

Hopkins Savings and Loan Association

Mr. Stocksdale stated that he believed the certificate request of Hopkins (dated January 11, 1984) was a violation of Regulation .18F regarding limits on promotional gifts. A lengthy general discussion ensued among the board members with respect to various advertisements offering initial higher interest rates or gifts such as TV sets. Various Commissioners expressed different concerns and viewpoints about what could be offered and advertised by our associations. The Board did agree that the disclosures of the functioning of each account had to be complete and clear. It was decided with respect to Hopkins that the approval would be subject to submission of the advertisement copy and disclosure statement.

* * * * *

Mr. Brown informed the Board that Secretary Corbley had recommended to the Governor that Nancy Erwin be reappointed to the Board of Savings and Loan Association Commissioners.

Friendship Savings & Loan

EXAMINERS' COMMENTS

Comment 1:

During the period of October 7, 1983 and December 9, 1983 seventeen (17) loans were made to investors for the purchase of condominium units in a development known as "Hunting Ridge." These loans were structured as follows:

- A. Two notes were signed by each mortgagor. One note was signed for 90% of the loan to value ratio and a second note called a "Commercial Loan" was signed for the balance of the purchase price of the unit.

In each case both notes were secured by a single deed of trust showing a single loan total and secured by the same property.

It was further noted that the association required the builder to deposit 10% of the purchase price of each unit sold in a reserve account - which will be retained by the association as additional income in the future.

In all of the above loans the loan to value ratio allowed by Regulation .30C(3)(b) which states:

(3) Loans Secured by Improved Residential Property-Non-homeowner.

- (b) The aggregate amount of any loan upon the security of improved residential property--non-homeowner may not exceed 80 percent of the market value of the security, and its term may not exceed 30 years, except as otherwise provided in these regulations.

Is in violation of this Regulation.

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Comment 2:

Regulation .30B(1) states:

B. Maximum Single Loan.

- (1) Limitation. An association may not make any one loan that exceeds 100 percent of the net worth of the association as of the date the loan is made.

From the period of July 1, 1982 through March 31, 1984 the association purchased thirteen (13) loans which exceeded the limitation stated in the above regulation as of the date the purchase.

Comment 3:

On December 29, 1983 and January 4, 1984 Friendship Savings and Loan Association granted warehousing loan Nos. 10-0002 and 10-0003 for the following amounts: \$5,920,000.00 and \$5,633,000.00 to USGA, Inc.

The following was noted as regards to the above transaction:

- A. USGA, Inc. granted "First Victoria Limited Partnership" mortgage loans on property at "800" Apartments
800 South 4th Street
Louisville, Kentucky

(1) Mortgage dated 12-30-83 in the amount of \$4,184,000.00 (1st Mtg.)

(2) Mortgage dated 12-30-83 in the amount of \$1,736,000.00 (2nd Mtg.)

- (2) The total amount of the above two mortgages was the exact amount needed to pay off loan No. 47035 held by Friendship Savings and Loan Association (Purchased by Friendship Savings and Loan at a discount).

- (3) First Victoria Limited Partnership consists of

General Partner:	First Victoria Corporation	5%
	(Anthony C. Koonos/E. Mitchell Fry, Jr.)	
Limited Partners:	North Park Corporation	90%
	Friendship Services, Inc.	5%

(Both wholly owned subsidiaries of Friendship Savings & Loan)

- (4) Warehouse loan No. 10-0002 in the amount of \$5,920,000.00 equaled

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the exact amount granted by USGA, Inc. to First Victoria Limited Partnership.

- (5) Friendship through this transaction was able to bring into current income approximately \$1.1 million which represented "Deferred Discount" on the original purchase.
- (6) North Park Corporation (a wholly owned subsidiary of Friendship Savings and Loan) granted a 3rd mortgage in the amount of \$1,500,000.00 -- Total outstanding loans on this property now represent 100% of loan to value ratio of this property.
- (7) It was noted that the appraised value of this property increased from \$5,250,000.00 in April 1983 to \$7,400,000.00 on December 29, 1983, an increase of 41% (\$2,150,000.00).

B. USGA granted "Northgate Limited Partnership" the following mortgages:
Property at Northgate Apartments
St. Petersburg, Florida

- (1) Mortgage dated 1-4-84 in the amount of \$5,633,000.00 (First Mortgage)
Mortgage dated 1-4-84 in the amount of \$1,922,000.00
- (2) On January 9, 1984 Friendship loan No. 47217 on the above property was paid in full from the proceeds of the first mortgage granted by USGA, Inc.
- (3) Northgate Limited Partnership consists of
 - General Partners: First Victoria Corporation 5%
 - (Anthony C. Koonen/E. Mitchell Fry, Jr.)
 - Limited Partner: Northpark Corporation 95%
 - (A wholly owned subsidiary of Friendship S & L)
- (4) Warehouse loan No. 10-0003 granted by Friendship equaled the amount of first mortgage loan granted by USGA, Inc.
- (5) Friendship through this transaction was able to bring into current income for fiscal year ended March 1984 approximately \$1.4 million, which represented "Deferred Discount" on the original purchase.

Since in both of the above loans Friendship Savings and Loan supplied the funds - in which USGA, Inc. used to grant the mortgage loans to

- (A) First Victoria Limited Partnership
- and
- (B) Northgate Limited Partnership

Through warehouse loan Nos. 10-0002 and 10-0003 the approximately \$2.5 million of "Deferred Discounts" taken into current income for fiscal year end March 31, 1984 is questionable.

Comment 4:

As of the date of this examination Friendship Savings and Loan has elected to use the "Tie-in investment authority" pursuant to Financial Institutions Article 9-419C, to date Friendship has used the Tie-in authority to originate the following investments:

1. Real Estate Warehousing Lines of Credit.
2. Letters of Credit
3. Lines of Credit
4. Easyline - Revolving Line of Credit
5. 100% Loan-To-Value (with Board approval) *(must comply with .50 Reg)*
6. Percentage of Assets - Multifamily
7. Lien Priority

However, the association has not complied with Regulation .51(B) and (C).

Further, the association has granted loans or commitments to make loans in excess of ninety percent (90%) of loan to value ratios by using the "Federal Tie-in authority." This is in violation of Regulation .51(E) which states:

"The provision of this regulation may not apply to investments in real property made pursuant to Regulation .30."

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Comment 5:

The association has purchased several packages of mortgage loans; however, a review of these loans reveal that the association does not have a sufficient policy to assure that they are in compliance with Regulation .288(2)(3) which states:

Associations shall comply with the following in their mortgage lending activities:

- (2) Loan underwriting requirements contained in Regulation .23
- (3) Loan file documentation requirements of Regulation .29

A policy should be established to assure compliance with the above regulations on all future purchases.

Comment 6:

Regulation .30D(1) states:

D. Permissible Percentage of Category. The composition of an association's mortgage loan portfolio is subject to the following conditions and limitations:

- (1) Improved Residential Property -- Homeowner. The aggregate outstanding balance of all loans owned by an association upon the security of improved residential property--homeowner as defined in §C(2) shall be in excess of 50 percent of the association's total assets. As a further limitation, the aggregate outstanding balance of loans upon the security of improved residential property--homeowner with loan to value ratios in excess of 80 percent which are not insured or guaranteed in accordance with §C(12) may not exceed 10 percent of the association's assets.

As of the date of this examination the association is not in compliance with the above.

Comment 7:

As of March 31, 1984, the association had the following certificates in savings and loans or banks exceeding the \$100,000.00 limitation provided for in Regulation .37A(1)(b)(111):

Dominion Federal Savings and Loan	\$2,100,000.00
Southern California Savings and Loan	500,000.00

Comment 8:

A review of the association's fidelity bond revealed that the present coverage of \$1,510,000.00 is \$75,000.00 less than the required \$1,585,000.00 by Regulation .22. Also policy does not name "North Park Corporation," a wholly owned service corporation of Friendship Savings and Loan, as additional insured party.

Further, the fidelity bond does not comply with Regulation .22D which states:

CUA No 127

D. General Cancellation Clause. The bond shall contain a provision that the bonding or surety company will give notice in writing at least 30 days before cancellation of the bond, to the Director of the bonding or surety company's intention to cancel the bond.

Comment 9:

As of the date of the examination, March 31, 1984, Friendship Savings and Loan had but four (4) directors.

Financial Institutions Article 9-302(b) states:

(b) A savings and loan association shall have at least 5 directors as its charter or bylaws provide.

Further, two of the four directors are not residents of this state.

Financial Institutions Article 9-302(e)(2)(3) states:

(2) At least two thirds of the directors shall be residents of this state.

(3) Each non resident director shall be approved by the Board of Commissioners as qualified to serve.

Comment 10:

Advertising:

As of October 1, 1983, the association changed marketing representatives. Since that date the association has failed to maintain a chronological file of all forms of advertising used by it during the preceding 18 months as required by Regulation .18A

Comment 11:

Dormant Accounts:

No evidence of the Abandoned Property Report for the period ending June 30, 1983 as required by Title 17 of the Commercial Law Article section 114 being filed could be furnished by the association.

Friendship Service Corporation

EXAMINERS' COMMENTS

Comment i:

Friendship Service Corporation purchased from Friendship Group, Inc. on May 14, 1982, a note in the amount of \$143,154.56, although this note is secured by 64,800 shares of First Maryland Savings and Loan stock (valued by Friendship Service Corp. at \$400,000.00). No principal or interest payments have ever been received toward payment of said note.

Please advise the Division of what action the service corporation intends to take to rectify the default existing in regards to this investment.

North Park Corporation

EXAMINERS' COMMENTS

Comment 1:

It was noted that prior written authorization was not requested by Friendship Savings and Loan Association to implement and use "North Park Corporation" as a wholly owned service corporation as required by Regulation .34B(1)(d).

Comment 2:

The following loans were granted in violation of Regulation .34D(2) which states:

"A service corporation, or subsidiary thereof, may not grant a loan in an amount which when considered in connection with any prior loan on the security exceeds 90% of the appraised value of the security."

<u>Loan:</u>	<u>Loan to Value Ratio</u>
First Victoria Limited Partnership	96%
Northgate Village Limited Partnership	98%

The association's Board of Directors was informed by management that the above type loans could be made in accordance with the Federal Tie-in authority. However, each loan granted under this authority must be prior approved by the Board.

REGULATION .50

North Park Corporation

EXAMINERS' COMMENTS

Comment 1:

It was noted that prior written authorization was not requested by Friendship Savings and Loan Association to implement and use "North Park Corporation" as a wholly owned service corporation as required by Regulation .34B(1)(d).

Comment 2:

The following loans were granted in violation of Regulation .34D(2) which states:

"A service corporation, or subsidiary thereof, may not grant a loan in an amount which when considered in connection with any prior loan on the security exceeds 90% of the appraised value of the security."

<u>Loan:</u>	<u>Loan to Value Ratio</u>
First Victoria Limited Partnership	96%
Northgate Village Limited Partnership	98%

The association's Board of Directors was informed by management that the above type loans could be made in accordance with the Federal Tie-in authority. However, each loan granted under this authority must be prior approved by the Board.

Reg 5^c

Friendship Financial Corporation

EXAMINERS' COMMENTS

Comment 1:

It was noted that prior written authorization was not requested by Friendship Savings and Loan Association to implement and use "Friendship Financial Corporation" as a wholly owned service corporation as required by Regulation .34B(1)(d).

Comment 2:

Loan No. 30001 "Avery-Flaherty Properties, Inc" in the amount of \$220,500.00 was a second mortgage; however, the "Title Certificate" does not show the recording of the first trust, nor does it state that this loan is a second trust -- when in fact Friendship Savings and Loan's books show an existing mortgage loan (Loan No. 20068) in the amount of \$532,000.00 still outstanding.

Friendship Insurance Corporation

EXAMINERS' COMMENTS

Comment 1:

It was noted that prior written authorization was not requested by Friendship Savings and Loan Association to implement and use "Friendship Insurance Corporation" as a wholly owned service corporation as required by Regulation .34B(1)(d).

Division of Savings and Loan Associations

Examiner's Comment Index

Instructions: Indicate workpaper page number for each comment. For comments containing several parts, please indicate specific workpaper page number for each individual part of the comment.

Comment Number	Type of Exception	Workpaper Page Number	Examiner Initials
1	TRUSTEE LOANS (a) HUNTING RIDGE COOP. (IN EXCESS of 80%) REG. 30 C(3)(6)	w/p 20 and 69	
2	LOANS IN EXCESS of NET-WORTH (a) HUD PURCHASES	w/p 75	
3	WAREHOUSE LOANS (DISCOUNT BROUGHT INTO) CURRENT INCOME	w/p 20	
4	LEADING UNDER F.T.A 419 C AND FEDERAL TIE IN AUTHORITY	w/p 76	
5	LOAN DOCUMENTATION (PURCHASE LOANS)	w/p 23-29	
6	HUMANITARIAN LOANS (LESS THAN 51% REG 300)	w/p 63	
7	CERTIFICATES of DEPOSIT IN EXCESS of \$100,000.00	w/p 32	
8	BLANKET BOND	w/p 59	
9	DIRECTORS (LACK of) Only 4 Directors 2 from out of state	w/p 55	
10	ADVERTISING	w/p 52	
11	DORMANT ACCOUNTS		
	2342	17780	

COMMENT 1.

DURING THE PERIOD OF OCTOBER 7, 1982 AND NOVEMBER 9, 1983 SEVENTEEN (17) LOANS WERE MADE TO INDIVIDUALS FOR THE PURCHASE OF CONDOMINIUM UNITS IN A DEVELOPMENT KNOWN AS "HUNTING RIDGE".

THESE LOANS WERE STRUCTURED AS FOLLOWS:

(A) TWO NOTES WERE SIGNED BY EACH MORTGAGOR. ONE NOTE WAS SIGNED FOR 90% OF THE LOAN TO VALUE RATIO AND A SECOND NOTE CALLED A "COMMERCIAL LOAN" WAS SIGNED FOR THE BALANCE OF THE PURCHASE PRICE OF THE UNIT.

IN EACH CASE BOTH NOTES WERE SECURED BY A SINGLE DEED OF TRUST SHOWING A SINGLE LOAN TOTAL AND SECURED BY THE SAME PROPERTY.

IT WAS FURTHER NOTED THAT THE ASSOCIATION REQUIRED THE BUILDER TO DEPOSIT 10% OF THE PURCHASE PRICE OF EACH UNIT SOLD IN A RESERVE ACCOUNT - WHICH WILL BE RETAINED BY THE ASSOCIATION AS ADDITIONAL INCOME IN THE FUTURE.

IN ALL OF THE ABOVE LOANS THE LOAN TO VALUE RATIO ALLOWED BY REGULATION .30 C (3) (b) WHICH STATES

(3) Loans Secured by Improved Residential Property—Non-homeowner.

(b) The aggregate amount of any loan upon the security of improved residential property—non-homeowner may not exceed 80 percent of the market value of the security, and its term may not exceed 30 years, except as otherwise provided in these regulations.

IS IN VIOLATION OF THIS REGULATION.

COMMENT 2: REGULATION .30 B (1) STATES

B. Maximum Single Loan.

(1) Limitation. An association may not make any one loan that exceeds 100 percent of the net worth of the association as of the date the loan is made.

FROM THE PERIOD OF JULY 1, 1982 THROUGH MARCH 31, 1984 THE ASSOCIATION PURCHASED THIRTEEN (13) LOANS WHICH EXCEEDED THE LIMITATION STATED IN THE ABOVE REGULATION AS OF THE DATE THE PURCHASE.

EXAMINERS' COMMENTS

Comment 3

ONLY DEC 29 1983 AND JAN 4 1984
SALES AND LEASE RECORDS OF GREATS WAREHOUSING LEASE NOS
10-0002 AND 10-0003 FOR THE FOLLOWING AMOUNTS \$5,920,000
AND \$5,633,000.00 TO USGA, INC.

THE FOLLOWING WAS NOTED AS REGARDS TO THE ABOVE
TRANSACTION:

(A) USGA, INC. GRANTED FIRST VICTORIA LIMITED PARTNERSHIP
MORTGAGE LOANS PERMIT: "800" APARTMENTS
800 S 4TH ST, LOUISVILLE, KENTUCKY

- (1) MTC DATED 12.30.83 IN THE AMOUNT \$4,184,000.00 (1st MTC)
- MTC DATED 12.30.83 IN THE AMOUNT \$1,736,000.00 (2nd MTC)

(2) THE TOTAL AMOUNT OF THE ABOVE TWO MORTGAGES
WAS THE EXACT AMOUNT NEEDED TO PAY OFF DOWN
NO 47025 HOLD BY FRIENDSHIP SAVINGS AND LOAN ASSN
(PURCHASED BY FRIENDSHIP SAVINGS AT A DISCOUNT.)

- (3) FIRST VICTORIA LIMITED PARTNERSHIP CONSIST OF
GENERAL PARTNER: FIRST VICTORIA CORPORATION 5%
(ANYTHING 0 MONTHS / FINANCED BY SA)
- LIMITED PARTNERS:
NORTH PARK CORPORATION 90%
FRIENDSHIP SERVICES INC 5%

(BOTH WHOLLY OWNED SUBSIDIARIES OF FRIENDSHIP S/L.)

(4) WAREHOUSE LEASE NO 10-0002 IN THE AMOUNT OF
\$5,920,000.00 FINANCED THE EXACT AMOUNT GRANTED BY
USGA, INC. TO FIRST VICTORIA LIMITED PARTNERSHIP

(5) FRIENDSHIP THRU THIS TRANSACTION WAS ABLE TO BRING
INTO CURRENT INCOME APPROX 1.1 MILLION DOLLARS WHICH
REPRESENTED "DEFERRED DISCOUNT" ON THE ORIGINAL PURCHASE

(6) NORTH PARK CORPORATION (A WHOLLY OWNED SUBSIDIARY OF FRIENDSHIP S/L)
GRANTED A 3RD MORTGAGE IN THE AMOUNT OF
\$1,500,000.00 - TOTAL MORTGAGES HELD ON THIS
PROPERTY NOW REPRESENT 100% OF LOAN TO VALUE
RATIO OF THIS PROPERTY.

(7) IT WAS NOTED THAT THE APPRAISED VALUE OF
THIS PROPERTY INCREASED FROM \$5,250,000.00 IN
APRIL 1983 TO \$7,400,000.00 ON DEC 29, 1983

AN INCREASE of 7 1/2% (*2,150,000.00)

(3) USGA GRANTED 'HOMEPAGE LIMITED PARTNERSHIP' THE
PROPERTY: HOMEPAGE APARTMENTS
OF PALM BEACH, FLA

Following MORTGAGES

(1) MORTGAGE DATED 1-4-84 IN THE AMOUNT OF

\$5633,000.00 (FIRST MORTGAGE)

MORTGAGE DATED 1-4-84 IN THE AMOUNT OF

\$1,922,000.00

(2) ON JAN 9, 1984 FRIENDSHIP LOAN NO. 47217 ON THE

ABOVE PROPERTY WAS PAID IN FULL FROM THE PROCEEDS

OF THE FIRST M/G GRANTED BY USGA, INC.

(3) HOMEPAGE LIMITED PARTNERSHIP CONSISTS OF

GENERAL PARTNER: FIRST VICTORIA COOPERATIVE 5%

(ANTHONY C. KOONAS / F. MITCHELL FAY JR)

LIMITED PARTNER: HOMEPAGE COMPANY INC 95%

(A WHOLLY OWNED SUBSIDIARY OF FRIENDSHIP S

(4) WAREHOUSE LOAN NO 10-0003 GRANTED BY

FRIENDSHIP FUNDING THE AMOUNT OF FIRST MORTGAGE LOAN

GRANTED BY USGA, INC.

(5) FRIENDSHIP THRU THIS TRANSACTION WAS ABLE TO BRING

INTO CURRENT INCOME FOR FISCAL YEAR END MARCH 1984

APPROX 1.4 MILLION DOLLARS WHICH REPRESENTS "DEFERRED DISCOUNT"

ON THE ORIGINAL PURCHASE

SINCE IN BOTH OF THE ABOVE LOANS FRIENDSHIP SAVINGS AND

LOAN SUPPLIED THE FUNDS - IN WHICH USGA, INC. USED TO

GRANT THE MORTGAGE LOANS TO

(A) FIRST VICTORIA LIMITED PARTNERSHIP

N/D

(B) HOMEPAGE LIMITED PARTNERSHIP

THE WAREHOUSE LOAN NOS 10-0002 AND 10-0003 THE

APPROX. 2.5 MILLION DOLLARS OF "DEFERRED DISCOUNTS" TAKEN INTO

CURRENT INCOME FOR FISCAL YEAR END MARCH 31, 1984 IS

QUESTIONABLE.

EXAMINERS' COMMENTS

Paragraph 4: AS of THE DATE of This Financial
 FRIENDSHIP SAVINGS AND LOAN HAS ELECTED TO USE
 THE "TIE-IN INVESTMENT AUTHORITY PURSUANT TO
 FINANCIAL INSTITUTIONS ARTICLE 9-419C, TO DATE FRIENDSHIP
 HAS USED THE TIE-IN AUTHORITY TO ORIGINATE THE FOLLOWING
 INVESTMENTS:

1. Real Estate Warehousing Lines of Credit
2. Letter of Credits
3. Lines of Credit
4. Easyline - Revolving Line of Credit
5. 100% Loan-To-Value (with Board approval)
6. Percentage of Assets - Multifamily
7. Lien Priority

However The Association HAS NOT COMPLIED WITH REGULATION .51
 (B) AND (C)

FURTHER THE ASSOCIATION HAS GRANTED LOANS OR COMMITMENTS
 TO MAKE LOANS IN EXCESS OF NINETY PERCENT (90%) OF
 LOAN TO VALUE RATIO BY USING THE "FEDERAL TIE-IN
 AUTHORITY" THIS IS IN VIOLATION TO REGULATION .51
 (E) WHICH STATES

"THE PROVISION OF THIS REGULATION MAY NOT APPLY
 TO INVESTMENTS IN REAL PROPERTY MADE PURSUANT TO
 REGULATION .30

COMMENT 5: THE ASSOCIATION HAS PURCHASED SEVERAL PACKAGES OF
 MORTGAGE LOANS; HOWEVER A REVIEW OF THESE LOANS
 REVEAL THAT THE ASSOCIATION DOES NOT HAVE A SUFFICIENT
 POLICY TO ASSURE THAT THEY ARE IN COMPLIANCE WITH
 REGULATION .28 B(2)(3) WHICH STATES:

ASSOCIATIONS SHALL COMPLY WITH THE FOLLOWING IN
 THEIR MORTGAGE LENDING ACTIVITIES:

(2) LOAN UNDERWRITING REQUIREMENTS CONTAINED IN REGULATION
 .23

(3) LOAN FILE DOCUMENTATION REQUIREMENTS OF
 REGULATION .29

EXAMINERS' COMMENTS

COMMENT 5 (CONTINUED)

A Policy should be established to assure compliance with the above regulations on all future purchases.

COMMENT 6 : REGULATION .30 D(1) STATES

D. Permissible Percentage of Category. The composition of an association's mortgage loan portfolio is subject to the following conditions and limitations:

(1) Improved Residential Property—Homeowner. The aggregate outstanding balance of all loans owned by an association upon the security of improved residential property—homeowner as defined in §C(2) shall be in excess of 50 percent of the association's total assets. As a further limitation, the aggregate outstanding balance of loans upon the security of improved residential property—homeowner with loan to value ratios in excess of 80 percent which are not insured or guaranteed in accordance with §C(12) may not exceed 10 percent of the association's assets.

AS OF THE DATE OF THIS EXAMINATION THE ASSOCIATION IS NOT IN COMPLIANCE WITH THE ABOVE

COMMENT 7 : AS OF MARCH 31, 1984 THE ASSOCIATION HAD THE FOLLOWING CERTIFICATES IN SAVINGS AND LOANS OR BANKS EXCEEDING THE \$100,000.00 LIMITATION PROVIDED FOR IN REGULATION .37 A(1)(b)(iii)

DOMINION SPECIAL SAVINGS AND LOAN	\$2,100,000.00
SOUTHERN CALIFORNIA SAVINGS AND LOAN	500,000.00

COMMENT 8 : A REVIEW OF THE ASSOCIATION'S FIDELITY BOND REVEALED THAT THE PRESENT COVERAGE OF \$650,000.00 IS \$75,000.00 LESS THAN THE REQUIRED \$725,000.00 BY REGULATION .22 ALSO POLICY DOES NOT NORTH PARK CORPORATION A WHOLLY OWNED SERVICE CORPORATION OF FRIENDSHIP SAVINGS AND NOW AS ADDITIONAL INSURED PARTY.

FURTHER THE FIDELITY BOND DOES NOT COMPLY WITH REGULATION .22 D WHICH STATES

D. General Cancellation Clause. The bond shall contain a provision that the bonding or surety company will give notice in writing at least 30 days before cancellation of the bond, to the Director of the bonding or surety company's intention to cancel the bond.

EXAMINERS' COMMENTS

Comment 9

AS OF THE DATE OF THE EXAMINATION MARCH 31, 1984 FRIENDSHIP SAVINGS AND LOAN HAD BUT FOUR (4) DIRECTORS

FINANCIAL INSTITUTIONS ARTICLE 9-302 (b) STATES:

(b) Number. - A savings and loan association shall have at least 5 directors as its charter or bylaws provide.

FURTHER TWO OF THE FOUR DIRECTORS ARE NOT RESIDENTS OF THIS STATE

FINANCIAL INSTITUTION ARTICLE 9-302 (c) (2) (3) STATES

(2) AT LEAST TWO THIRDS OF THE DIRECTORS SHALL BE RESIDENTS OF THIS STATE

(3) EACH NON RESIDENT DIRECTOR SHALL BE APPROVED BY THE BOARD OF COMMISSIONERS AS QUALIFIED TO SERVE

Comment 10: ADVERTISING:

AS OF OCT. 1, 1983 THE ASSOCIATION CHANGED MARKETING REPRESENTATIVES - SINCE THAT DATE THE ASSOCIATION HAS FAILED TO MAINTAIN A CHRONOLOGICAL FILE OF ALL FORMS OF ADVERTISING USE BY IT DURING THE PRECEDING 18 MONTHS AS REQUIRED BY REGULATION .18 A

Comment 11: DORMANT ACCOUNTS

NO EVIDENCE OF THE ABANDONED PROPERTY REPORT FOR THE PERIOD ENDING JUNE 30, 1983 AS REQUIRED BY TITLE - 17 OF THE COMMERCIAL LAW ARTICLE SECTION 114 BEING FILED COULD BE FURNISHED BY THE ASSOCIATION.

17787

EXAMINERS' COMMENTS

FRIENDSHIP SERVICE CORP.

Comment 1

FRIENDSHIP SERVICE CORPORATION PURCHASED FROM FRIENDSHIP GROUP INC ON MAY 14, 1982 A NOTE IN THE AMOUNT OF \$143,154.56, ALTHOUGH THIS NOTE IS SECURED BY 64,800 SHARES OF FIRST MARYLAND SAVINGS AND LOAN STOCKS (VALUED BY FRIENDSHIP SERVICE CORP AT \$400,000.00) NO PRINCIPAL OR INTEREST PAYMENTS HAVE EVER BEEN RECEIVED TOWARD PAYMENT OF SAID NOTE.

PLEASE ADVISE THE DIVISION OF WHAT ACTION THE SERVICE CORPORATION INTENDS TO TAKE TO RECTIFY THE DEFICIENCY EXISTING IN REGARDS TO THIS INSTANT

17788

EXAMINERS' COMMENTS

8 of 9

NORTH PARK CORPORATION

Comment 1 - IT WAS NOTED THAT PRIOR WRITTEN AUTHORIZATION WAS NOT REQUESTED BY FRIENDSHIP SAVINGS AND ASSOCIATION TO IMPLEMENT AND USE "NORTH PARK CORPORATION" AS A WHOLLY OWNED SECURED A/C AS REQUIRED BY REG. 34 B(1)(d)

Comment (2) The following loans were granted in violation of Regulation .34 D(2) which states:

"A SECURED CORPORATION, OR SUBSIDIARY THERE OF, MAY NOT GRANT A LOAN IN AN AMOUNT WHICH WHEN CONSIDERED IN CONNECTION WITH ANY PRIOR LOAN ON THE SECURITY EXCEEDS 90% OF THE APPRAISED VALUE OF THE SECURITY

LOAN:	Loan to value ratio
FIRST VICTORIA LIMITED PARTNERSHIP	96%
NORTHGATE VILLAGE LIMITED PARTNERSHIP	98%

The ASSOCIATES BOARD OF DIRECTORS WAS INFORMED BY MANAGEMENT THAT THE ABOVE TYPE LOANS COULD BE MADE IN ACCORDANCE WITH THE FEDERAL TIE-IN AUTHORITY - HOWEVER EACH LOAN GRANTED UNDER THIS AUTHORITY MUST BE PRIOR APPROVED BY THE BOARD.

17789

EXAMINERS' COMMENTS

9/10

FRIENDSHIP FINANCIAL COOP.

Comment 1:

IT WAS NOTED THAT PRIOR WRITTEN AUTHORIZATION WAS NOT REQUESTED BY FRIENDSHIP SAVINGS AND LOAN ASSOCIATION TO IMPLEMENT AND USE "FRIENDSHIP FINANCIAL COOP" AS A WHOLLY OWNED SERVICE COOP AS REQUIRED BY REGULATION .34 B(1)(d)

Comment 2

LOAN NO 30001 "AUCAY-FLAMINITY PROPERTIES, INC IN THE AMOUNT OF \$220,500.00 WAS A SECOND MORTGAGE, HOWEVER THE "TITLE CERTIFICATE" DOES NOT SHOW THE RECORDING OF THE FIRST TRUST, NOR DOES IT STATE THAT THIS LOAN IS A SECOND TRUST - WHEN IN FACT FRIENDSHIP'S SAVINGS AND LOAN BOOKS SHOW A EXISTING MORTGAGE LOAN (LOAN NO 20068) IN THE AMOUNT OF \$532,000.00 STILL OUTSTANDING

FRIENDSHIP INSURANCE COOP

Comment 1:

IT WAS NOTED THAT PRIOR WRITTEN AUTHORIZATION WAS NOT REQUESTED BY FRIENDSHIP SAVINGS AND LOAN ASSOCIATION TO IMPLEMENT AND USE "FRIENDSHIP INSURANCE COOP" AS A WHOLLY OWNED SERVICE CORPORATION AS REQUIRED BY REGULATION .34 B(1)(d)

17790



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE RIDGEHAGE - SUITE 800
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4076
301/659-6330

WILLIAM S. LECOMTE,
DEPUTY DIRECTOR

ORDER NO. 607

Subject: Application submitted by Friendship Savings and Loan for permission to establish and maintain a branch office at 18206 Contour Road, Gaithersburg, Maryland 20879.

Application having been filed with the Director of the Division of Savings and Loan Associations for the State of Maryland by Friendship Savings and Loan, 7625 Wisconsin Avenue, Bethesda, Maryland 20814, to establish and maintain a branch office at 18206 Contour Road, Gaithersburg, Maryland 20879.

AND notice of such filing having been duly published in accordance with Section 256P(b) of Article 41 of the Annotated Code of Maryland and Section 9-309(c) of the Financial Institutions Article of the Annotated Code of Maryland.

AND no protests having been received, it is the finding of the Director of the Division of Savings and Loan Associations for the State of Maryland that the establishment and maintenance of a branch office at 18206 Contour Road, Gaithersburg, Maryland 20814, by Friendship Savings and Loan will promote the public interest, convenience, and advantage and will be efficiently operated in accordance with the provisions of the Subtitle and is hereby approved.

IIIF2

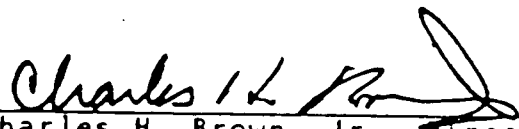
2354

A28353

PROVIDED further that:

1. If this branch office is not opened and operating within six months from the date hereof, this approval shall become null and void unless an extension is requested and granted.
2. The Division is notified in writing of the opening of this branch office at least five days prior to its opening.

Witness the Seal of the Division of Savings and Loan Associations and the hand of its Director this eleventh day of December, 1984.


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

2355

A28354

MEMORANDUM

TO: The Board of Directors, Friendship Savings and Loan
FROM: Anthony C. Kooner
RE: Purchase of Deep Discount Mortgage-Backed Securities from
USGA, INC.
DATE: November 16, 1983

PROPOSED that the Board of Directors approve the purchase of the following Mortgage-Backed Securities from USGA, Inc. at the following prices:

	<u>FACE AMOUNT OF NOTE</u>	<u>PURCHASE PRICE</u>
911. John's Creek Hampton, Virginia	\$ 1,824,920.	\$ 1,290,406.
942. Charisma Jamestown, Virginia	1,901,489.	1,391,609.
973. Wythe Creek Poquoson, Virginia	1,094,540.	766,628.
124. Wickshire Jacksonville, Florida	1,943,656.	1,364,175.
15. Kenwood Hills Broken Arrow, Oklahoma	1,467,621.	1,017,583.
726. Western Hills Apartments Westland, Michigan	2,259,556.	1,529,525.
17. Devonshire Village Wichita, Kansas	3,227,082.	2,482,319.
18. Penthouse Garden Pass Christian, Mississippi	<u>1,325,319.</u>	<u>982,266.</u>
	15,044,183.	\$ 10,824,511.

The above-mentioned purchases will result in an average yield of 15.5%. IIIF3

2356

-A47898

The purpose of these purchases are similar to previous HUD purchases:

(1) maximum yield; (2) monthly income; (3) minimum risk, and; (4) high

MEMORANDUM

TO: The Board of Directors
Friendship Savings and Loan

Page Two

probability of early loan repayment. Further, we are currently in the process of attempting to negotiate the equity for the Western Hills Apartments in Westland, Michigan, and are in the process of trying to sell the mortgage at a profit on Wickshire in Jacksonville, Florida. The owners of the other projects have all indicated an interest to sell, or to refinance.

A space is provided below for you to say yes, no, or to abstain from this proposal. Please initial in the appropriate place.

	<u>YES</u>	<u>NO</u>	<u>ABSTAIN</u>
E. Mitchell Fry	<u>EM</u>	_____	_____
Anthony C. Koones	<u>AK</u>	_____	_____
Joan N. Spermo	<u>JS</u>	_____	_____
W. Robert Wolfe	<u>WR</u>	_____	_____

/b

Friendship Savings & Loan



December 20, 1983

Mr. Glenn J. Reinardy
Senior Vice President
USGA, Inc.
280 Tokeneke Road
Darien, Connecticut 06820

Dear Glenn:

The \$10,982,135.38 to be paid by Friendship Savings and Loan to USGA, Inc. for the purchase of the following HUD project loans, namely: John's Creek, Charisma, Wythe Creek, Wickshire, Kenwood Hills, Western Hills, Devonshire Village, and Penthouse Garden, shall be distributed as follows:


- a) \$10,299,664.83 shall be payable to HUD;
- b) \$94,026.00 shall be payable to USGA, Inc.;
- c) \$227,104.62 shall be payable to USGA, Inc. for escrows; and
- d) the remaining balance of \$361,339.93 shall be payable to Friendship Group, Inc. by wire as follows:

The Riggs National Bank of
Washington, D.C.
Washington, D.C.
for account of Friendship Group, Inc.
Account No. 25-08-710-699

Phone Advice: Barbara Currier (654-7720)

These fees shall be paid in immediately available funds on the date the loans are purchased from HUD.

Sincerely,


E. Mitchell Fry, Jr.
President

EMFjr/b

-A47896

IIIF4

2357A



MEMORANDUM

TO: The Board of Directors, Friendship Savings and Loan
RE: Purchase of Deep Discount Mortgage Backed Securities from
USGA, Inc. and Reilly Mortgage Group
DATE: July 27, 1983

PROPOSED, that the Board of Directors approve the purchase of the following Mortgage Backed Securities from USGA, Inc. at the following prices:

1. Evangeline Chateau	\$ 1,622,118.41
2. Sabrill Square	4,028,856.84
3. Interlude Apartments	1,684,976.67
4. River Wood Apartments	3,047,676.17
5. Florence Villa	<u>1,009,141.25</u>
	\$11,392,769.34

PROPOSED, that the Board of Directors approve the purchase of the following HUD Project Mortgage in a joint venture with Reilly Mortgage Group at the following price:

1. River Gate II	<u>\$ 1,728,918.65</u>
------------------	------------------------

TOTAL PURCHASES:	<u>\$13,121,687.99</u>
------------------	------------------------

The above-mentioned purchases will result in an average yield of over 15.0%.

The purpose of these purchases are similar to the previous HUD purchases: (1) maximum yield; (2) monthly income; (3) minimum risk; and (4) high probability of early loan repayment. In addition, the loans on the Interlude Apartments and the River Wood Apartments have already been recast so that at the end of seven (7) years, the interest rate is marked to market.

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A47936

MEMORANDUM TO:
The Board of Directors
Friendship Savings & Loan
July 27, 1983

Page Two

Further, Sabrill Square is under contract contingent upon economic feasibility approval. We have started negotiations with the present owners of Florence Villa and River Gate II to resell these mortgages to the existing owners at a substantial profit to Friendship.

A space is provided below for you to vote on these proposals.
Please initial in the appropriate space.

	<u>YES</u>	<u>NO</u>	<u>ABSTAIN</u>
E. Mitchell Fry, Jr.	_____	_____	_____
Anthony C. Koones	_____	_____	_____
Joan N. Spermo	_____	_____	_____
Linda J. Fillingham	_____	_____	_____
W. Robert Wolfe	_____	_____	_____

Friendship Savings & Loan

August 1, 1983

Mr. Glenn J. Reinardy
Senior Vice President
USGA, Inc.
280 Tokeneke Road
Darien, Connecticut 06820

Dear Glenn:

The \$11,249,217.00 to be paid by Friendship Savings and Loan to USGA, Inc. for the purchase of the following HUD project loans, namely: Sabrill Square, Evangeline Chateau, Florence Villa, Lorlyn Apartments, and Interlude Apartments, shall be distributed as follows:

- a) \$10,597,004.86 shall be payable to HUD;
- b) \$58,279.00 shall be payable to USGA, Inc., and;
- c) the remaining balance of \$593,933.14 shall be payable to Friendship Group, Inc. by wire as follows:

Riggs National Bank of Washington, D.C.
Washington, D.C.
for account of Friendship Group, Inc.
Account No. 25-08-710-699

Phone Advice: Barbara Currier (654-7720)

These fees shall be paid in immediately available funds on the date the loans are purchased from HUD.

Sincerely,

E. Mitchell Fry, Jr.
President

EMFjr/b

IIIF6

2360

A47933



M E M O R A N D U M

TO: Board of Directors of Friendship Savings & Loan
 FROM: Anthony C. Kooner *AK*
 RE: Purchase of Deep Discount Mortgages from USGI, Inc. and
 Reilly Mortgage Group
 DATE: July 30, 1984

PROPOSED that the Board of Directors approve the purchase of the following mortgages from USGI, Inc. and Reilly Mortgage Group at the following prices:

<u>PROJECT NO.</u>	<u>PROJECT NAME/LOCATION</u>	<u>FACE AMOUNT OF NOTE</u>	<u>PURCHASE PRICE</u>
48	North Hill Village Apts. Novi, MI	5,290,357.00	3,412,381.
78	Southgate Towers St. Petersburg, FL	1,063,443.00	664,652.
95	Coventry Manor Independence, MO	1,877,314.00	1,262,056.
114	Forum Arms Halton City, TX	1,192,778.00	712,707.
74	McDonnell Square Gardens Biloxi, MS	1,596,863.00	1,021,992.
102	Tiffanv Square Knoxville, TN	2,765,257.00	1,783,632.
122	Southwinds Moore, OK	2,267,027.00	1,507,607.
81	Village in the Park Schaumburg, IL	<u>6,453,783.00</u>	<u>4,582,283.</u>
		<u>22,506,822.00</u>	<u>14,947,310.</u>

Handwritten notes:
 \$6,051,796.⁰⁰
 104,656.⁹¹
 \$6,156,452

IIIF7

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A47920

MEMORANDUM
July 30, 1984

Page Two

The above-mentioned purchases will result in an average yield of 18%.

The purpose of these purchases are similar to previous HUD purchases (1) maximum yield; (2) monthly income; (3) minimum risk, and; (4) high probability of early loan repayment. The owners of all of the projects have indicated an interest in selling, or refinancing, in the next two to five years.

A space is provided below for you to say yes, no, or to abstain from this proposal. Please initial in the appropriate place.

	<u>YES</u>	<u>NO</u>	<u>ABSTAIN</u>
E. Mitchell Fry, Jr.	<u>EMF</u>	_____	_____
Anthony C. Kooner	<u>AK</u>	_____	_____
Joan Neale Spermo	<u>JNS</u>	_____	_____
W. Robert Wolfe	<u>WRW</u>	_____	_____

?B

2362

A47921

Friendship Financial Corporation

7625 Wisconsin Avenue Bethesda, Maryland 20814 Telephone 301-652-6800

Re: August 24, 1984

HAND DELIVERED

Mr. James R. Kozuch
Executive Vice President
Reilly Mortgage Group
2300 M Street, N.W.
Suite 700
Washington, D.C. 20037

Dear Jim:

In relation to the closing on August 28, 1984 of the mortgages purchased in the July 30, 1984 HUD Auction, you are due \$6,156,452.94. This is to be distributed as follows: (1) \$5,823,186.65 to HUD, and; (2) \$87,874.42 to Reilly for tax escrows.

The remaining funds of \$245,391.87 should be remitted to Friendship Group, Inc. by wire as follows:

The Riggs National Bank of Washington, D.C.
Washington, D.C.
For The Account of Friendship Group, Inc.
Account No. 125-08710699
Phone Advice: Barbara Carrier
Phone No. 652-6800

It is my understanding that we will borrow the \$6,156,452.94 from Reilly Mortgage Group at the broker's call rate.

If you should have any questions, please call me.

Sincerely,



Anthony C. Koones
President

ACK/b

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A47919

Friendship Financial Corporation

7625 Wisconsin Avenue Bethesda, Maryland 20814 Telephone 301-652-6800

August 24, 1984

VIA FEDERAL EXPRESS

Ms. Elizabeth Harrington Howes
Vice President
USGI, Inc.
280 Tokeneke Road
Darien, Connecticut 06820

Dear Beth:

In relation to the closing on August 29, 1984 of mortgages purchased in the July 30, 1984 HUD Auction, you will be wired \$9,057,017.63 on Tuesday, August 28, 1984. These funds should be invested overnight and distributed on August 29th. These funds are to be distributed as follows:
1) \$8,601,872.08 to HUD; 2) \$81,202.24 to USGI, Inc. for escrows, and;
3) \$81,768.00 to USGI, Inc. as mortgage purchase fee.

The remaining balance of \$292,175.31 should be remitted to Friendship Group, Inc. by wire as follows:

The Riggs National Bank of Washington, D.C.
Washington, D.C.
For The Account of Friendship Group, Inc.
Account No. 125-08710699
Phone Advice: Barbara J. Currier
Phone No. 652-6800

If you should have any questions, please do not hesitate to contact me.

Sincerely,



Anthony C. Koones
President

ACK/b

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A47914

MORTGAGE PURCHASE AGREEMENT

AGREEMENT made this 30th day of July, 1984, by and between USGI, Inc., a Connecticut corporation ("USGI") and Friendship Savings and Loan Association, a Maryland stock corporation (the "Purchaser").

PRELIMINARY STATEMENT

A. USGI shall bid, pursuant to this agreement, for certain project mortgage loans insured by the Federal Housing Administration ("FHA") and offered by the U.S. Department of Housing and Urban Development ("HUD") at a project auction to be held on July 30, 1984 (the "Auction") pursuant to an announcement entitled HUD-FHA Project Mortgage Auction July 30, 1984 (the "Auction Booklet"), said mortgage loans being identified and described in Exhibit A attached hereto and by this reference made a part hereof (hereinafter referred to as the "Mortgage Loan" and sometimes "Loan");

B. Purchaser desires to purchase mortgage backed securities ("MBS") (which securities are hereafter referred to as "USGI/MBS") issued by USGI, and backed by the Mortgage Loans on which USGI is the successful bidder at the Auction and which USGI subsequently acquires from HUD, in accordance with the terms of this Agreement, such USGI/MBS shall be similar in form to Exhibit B.

NOW, THEREFORE, in consideration of the premises and the mutual promises hereinafter set forth, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Sale and Purchase of Mortgage Loan. USGI shall sell and the Purchaser shall purchase each and every USGI/MBS issued by USGI backed by any Mortgage Loans identified in Exhibit A hereto, subject only to the conditions that: (i) USGI shall have been the successful bidder with respect to the Mortgage Loan at the Auction as confirmed by USGI's receipt of HUD's Notice of Acceptance and Declination ("HUD Mortgage Purchase Contract") duly executed by HUD; (ii) HUD shall have performed all of its obligations pursuant to the HUD Mortgage Purchase Contract; and (iii) HUD shall have sold the Mortgage Loan to USGI. This Agreement shall terminate in the event that any of the foregoing conditions is not satisfied. In the event that this Agreement shall terminate as provided in this paragraph 1, the Mortgagee's Fee (as set forth in paragraph 4 hereof) shall be paid by Purchaser to USGI upon satisfaction of condition "(i)" set forth in this paragraph 1, with respect to each Loan for which USGI

shall be the successful bidder and thereupon this Agreement shall be of no further force and effect and neither Party shall have any recourse against the other.

2. Establishment of Bid Price. Purchaser and USGI agree that at the time a bid on the Mortgage Loans is to be entered at the Auction, Purchaser shall indicate its agreement thereto by providing USGI with telegraphic notice of the agreed bid price and the outstanding principal balance with respect to each Loan described in Exhibit A (or such other notice as counsel for USGI shall deem adequate) (which notice is hereinafter referred to as the "Bid Notice"), the Bid Notice shall thereupon be incorporated herein by reference. Purchaser understands that the bid price ("Bid Price") shall be a percentage of the principal balance of each Mortgage Loan based upon the information with respect to each Mortgage Loan set forth in the Bid Notice. USGI makes no representation or warranty of any kind to Purchaser concerning the accuracy or completeness of information contained in or derived from the Auction Booklet.

3. Purchase Price. Purchaser agrees that the purchase price of the USGI/MBS ("Purchase Price") shall be the amount calculated in accordance with the Exhibit C annexed hereto and shall be paid by Purchaser to USGI on the Closing Date (hereinafter defined) in immediately available funds. Purchaser also agrees that it may pay as consideration for the USGI/MBS an Additional Purchase Price as may be determined by Purchaser to be disbursed as directed by Purchaser in connection with the sale of the USGI/MBS. The Additional Purchase Price shall be determined by Purchaser no later than the date of settlement between USGI and Purchaser and shall be in addition to the Purchase Price. USGI shall have no obligation to sell the USGI/MBS to Purchaser unless the Purchase Price and all other payments due USGI hereunder shall have been paid to USGI as provided herein. Purchaser acknowledges and agrees that (i) Purchaser may be required to pay the Purchase Price prior to physical receipt of the USGI/MBS, (ii) the Purchase Price shall be used by USGI to acquire the Mortgage Loans which shall back the USGI/MBS to be issued by it, and (iii) the Purchase Price shall be delivered to USGI at a time and place to enable USGI to use the Purchase Price to purchase the Mortgage Loans from HUD on the Closing Date.

4. Mortgagee's Fee. In addition to the Purchase Price required to be paid to USGI by Purchaser hereunder, Purchaser agrees to pay to USGI a fee (the "Mortgagee's Fee") for certain Mortgage Loans in the sum noted on Exhibit A.

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A47903

The Mortgagee's Fee shall be paid to USGI in immediately available funds by Purchaser on the date each such loan is purchased from HUD.

5. Closing Date. The closing date shall be no later than September 28, 1984 or such other date as HUD may specify ("Closing Date") and the Parties agree that time shall be of the essence in respect of the Closing Date. The closing of the purchase hereunder shall be held at the HUD Central Office in Washington, D.C., or the offices of USGI in Connecticut on the Closing Date or such other place as may be specified by USGI or HUD.

6. Costs. Other than as provided in paragraph 7 hereof, each Party shall bear its own costs and expenses except that Purchaser shall pay all Title, Recording, and Transfer Taxes and Fees necessary and incidental to the transfer of the Mortgage Loan. Purchaser shall also pay all reasonable legal fees and expenses incurred by USGI in connection with any Mortgage Loan. Such fees to be approved by Purchaser when submitted by USGI.

7. Purchaser's Indemnification. Purchaser hereby indemnifies USGI and agrees to defend and hold USGI harmless against its default hereunder in the following amounts:

(i) A sum equal to the difference between the amount paid by USGI to HUD for the Mortgage (or the Purchase Price of the USGI/MBS if issued), if USGI purchases the Loan with its own funds as the result of an Event of Default and any lower amount for which USGI is able to sell the Mortgage (or USGI/MBS if issued) pursuant to paragraph 10 hereof;

(ii) Actual reasonable administrative fees and expenses incurred by USGI after the occurrence of an Event of Default, including attorney's fees, closing and recording costs;

(iii) The cost of carrying the Mortgage Loan in the event USGI must purchase the loan from HUD using its own funds in lieu of the Purchase Price as the result of an Event of Default (the "Carrying Costs");

(iv) The Mortgagee's Fee; and

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A47904

(v) Mortgage brokerage fees incurred by USGI to sell the Mortgage after the occurrence of an Event of Default.

8. Events of Default. Each of the following shall constitute an Event of Default by Purchaser hereunder:

a. Any representation, warranty or statement made by the Purchaser to USGI in this Agreement or in any other writing furnished by the Purchaser to USGI shall prove to have been false or misleading in any material respect;

b. Any payment due USGI under this Agreement shall not be paid to USGI when due and payable;

c. Purchaser or any guarantor hereof shall become insolvent, make an assignment for the benefit of creditors, file a petition in bankruptcy, be adjudicated insolvent or bankrupt, admit in writing its inability to pay its debts as they mature, petition or apply for, consent to, or acquiesce in the appointment of a trustee or receiver of the Purchaser; or any bankruptcy, reorganization, debt arrangement, debt readjustment or other proceeding under any bankruptcy law, insolvency law, or any dissolution or liquidation proceeding shall be instituted by or against the Purchaser or any guarantor hereof;

d. Failure of the Purchaser for any reason to pay the entire Purchase Price on the Closing Date.

9. Remedies. If any of the events described in Paragraph 8 hereof occur, USGI shall have the option, which may be exercised by written notice to the Purchaser, to take one or more of the following actions, in addition to any and all other remedies which may be available to it at law or in equity;

a. USGI may require the immediate purchase of all USGI/MBS or all Mortgage Loans by Purchaser;

b. USGI may elect to acquire the Loans in the name of USGI for its own account;

c. USGI (if it is the holder of the Loan) may elect to avail itself of any remedy provided under the Mortgage Loan Documents;

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d. USGI may elect to liquidate the Mortgage Loan or sell the USGI/MBS in accordance with the provisions of paragraph 10 hereof.

10. Liquidation of Mortgage Loans in the Event of Default. Upon the occurrence of any Event of Default hereunder, and if USGI elects to sell either the USGI/MBS or the Mortgage Loan pursuant to paragraph 9e hereof, USGI agrees that it shall attempt in good faith to sell the USGI/MBS or the Mortgage Loan to the highest bidder therefor as follows:

a. USGI shall first seek to obtain bids from Merrill Lynch Pierce Fenner & Smith, First Boston Corporation and Salomon Brothers, and USGI shall accept whichever bid received from said companies is the highest bid, unless (b) below shall apply;

b. If after obtaining the foregoing bids, USGI determines that a higher bid, on terms comparable to those bids received pursuant to (a) above, may be available from another source, USGI shall accept such higher bid instead of the bids referred to in (a) above.

At the sole discretion of USGI, bids may be received for the USGI/MBS or the Mortgage or both.

11. Representations and Warranties. The Purchaser represents and warrants to USGI that:

a. The Purchaser has the full legal right, power and authority to enter into this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated herein to be performed by it will not result in a breach or violation of, or a default under, any agreement, law, regulation or decree by which it is bound.

b. To the knowledge of the Purchaser, no material default by the Purchaser or the mortgagor under the Mortgage Loan (or event which, with the giving or notice or the passage of time, would constitute such default) has occurred under any agreement affecting the Purchaser or the Mortgage Loans.

c. No claim, litigation, investigation, legal action or other proceeding relating to the Purchaser or the Mortgage Loans is pending or to the knowledge of the Purchaser is threatened, before any court, commission, administrative body or other authority.

12. Further Covenants.

a. USGI shall as soon as possible following the Closing Date issue USGI/MBS backed by the Mortgage Loans purchased from HUD. With respect to the sale of the USGI/MBS, no representations or warranties shall have been made by USGI except as expressly stated in this Agreement.

b. Purchaser agrees that, except as expressly stated in this Agreement, no representation or warranty of any kind whatsoever has been made to it by USGI with respect to the Mortgage Loans and that it is relying solely upon information it has independently obtained from the mortgagor or from HUD with respect to the Mortgage Loans.

13. General Provisions.

a. Identification of Government Agencies, Statutes, Programs and Forms. Any reference in this Agreement, by name or number, to a government department, agency, statute, regulation, program or form shall include any successor department, agency, statute, regulation, program or form.

b. Addresses and Notices. The address for each Party for all purposes shall be the address set forth on the signature page of this Agreement, or such other address of which the Parties have received written notice. Any notice, demand, or request required or permitted to be given or made hereunder shall be in writing and shall be deemed given or made when delivered in person or sent by first class mail or by telegram or Western Union mailgram to such Party at such address.

c. Title and Captions. All paragraph titles or captions in this Agreement are for convenience only. They shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions hereof.

d. Pronouns and Plurals. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine, or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

e. Further Action. The Parties shall execute and deliver all documents, provide all information and take or forbear from all such action as may be necessary or appropriate to achieve the purposes of this Agreement.

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A47907

f. Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Connecticut.

g. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties and their heirs, executors, administrators, successors, legal representatives, and assigns.

h. Integration. This Agreement constitutes the entire agreement among the Parties pertaining to the subject matter hereof, and supercedes all prior agreements and understandings pertaining thereto. No covenant, representation, warranty or condition not expressed in this Agreement shall affect or be deemed to interpret, change, or restrict the provisions hereof.

i. Trial by Jury. The Parties hereby waive trial by jury in any action, proceeding, or counterclaim brought by any Party against any other Party in any matter arising out of or in any way connected with the subject matter of this Agreement.

j. Amendment. This Agreement may be modified or amended only with the written approval of all Parties.

k. Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Purchaser.

l. Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or of such or any other covenant, agreement, term or condition. Any Party by notice pursuant to Paragraph 13b hereof may, but shall be under no obligation to, waive any of its rights or conditions to its obligations hereunder or any duty, obligation or covenant of any other Party. No waiver shall affect or alter the remainder of this Agreement but each and every covenant, agreement, term and condition hereof shall continue in full force and effect with respect to any other then existing or subsequent breach.

m. Rights and Remedies. The rights and remedies of any of the Parties hereunder shall not be mutually exclusive, and the exercise of one or more of the provisions of this Agreement shall not preclude the exercise of any other provisions. Each of

the Parties confirms that damages at law may be an inadequate remedy for a breach or threatened breach of any provisions hereof. The respective rights and obligations hereunder shall be enforceable by specific performance, injunction, or other equitable remedy, but nothing herein contained is intended or shall limit or affect any rights at law or by statute or otherwise of any Party aggrieved as against the other Parties for a breach or threatened breach of any provision hereof, it being the intention of this paragraph to make clear the agreement of the Parties that the respective rights and obligations of the Parties hereunder shall be enforceable in equity as well as at law or otherwise.

n. Separability. Any provisions of the Mortgage Loan Documents, the National Housing Act, or other applicable law which supercede any provisions hereof shall not affect the validity of the balance of this Agreement, and the remaining provisions shall be enforced as if the invalid provisions were deleted.

o. Counterparts. This Agreement may be executed in counterparts all of which taken together shall constitute one agreement binding on all the Parties notwithstanding that all the Parties are not signatories to the original or the same counterpart. Each Party shall become bound by the Agreement immediately upon affixing its signature hereto, independently of the signature of any other Party.

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p. Authorization and Representations. Each Party represents to the others that it has been duly authorized to execute and deliver this Agreement through the officer signing on its behalf.

q. Joint and Several Obligations. All obligations of the Purchasers (if there be more than one) hereunder shall be joint and several.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first above written.

USGI INC.

280 Tokeneke Road
Darien, Connecticut 06820

By: 

FRIENDSHIP SAVINGS AND
LOAN ASSOCIATION

5550 Friendship Boulevard
Chevy Chase, MD 20815

By: 

EXHIBIT A

FHA Number Auction No.	Project Name/ Location	Auction Booklet Principal Balance	Mortgagee's Fee	Bid Price
HU-0074 065-35110	McDonnell Square Gardens Biloxi, MS	\$ 1,596,863	\$ 9,980	61.0015 <i>AW</i>
HU-0081 071-35050	Village in the Park Schaumburg, IL	6,453,783	40,336	68.0015 <i>AW</i>
HU-0102 087-35024	Tiffay Square Knoxville, TN	2,765,257	17,283	61.5015 <i>AW</i>
HU-0122 117-35049	Southwinds Moore, OK	2,267,027	14,169	66.5015 <i>AW</i>

A47911

EXHIBIT C

PURCHASE PRICE

The Purchase Price shall be calculated by:

- Multiplying the Bid Price (established pursuant to paragraph 2) by the unpaid principal balance of the Mortgage Loan as of the Cut-Off Date, which shall be the date established by the Secretary;
- adding the amount of any mortgage interest that shall have been unpaid as of the Cut-Off Date and accrued at the end of the day immediately preceding the Closing Date;
- subtracting the amount of any mortgage interest prepaid as of the Cut-Off Date and unapplied at the end of the day immediately preceding the Closing Date; and
- subtracting the amount held in cash in the mortgagor's tax escrow and reserve for replacement account.

Fund 401 Juv. - FG - from M.H.				7-27-53 BALANCE	
CHECK NO.	DATE	CHECK ISSUED TO	AMOUNT OF CHECK	DATE OF DEPOSIT	AMOUNT
					100000 -
101	6/5	American Homey Inc	15000 -		85000 -
102	8/5	Perpetual America	10000 -		75000 -
			div.	7-31	4753
103	8/16	American Homey Inc	10000 -		75047.53
					65047.53

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ENTER ALL TRANSACTIONS THAT AFFECT YOUR ACCOUNT BALANCE

DEBITS

CREDITS

ITEM NO OR CODE	DATE	DESCRIPTION OF TRANSACTION	PAYMENT OR WITHDRAWAL	DEPOSIT OR INTEREST	BALANCE
124	2-29	HILT - freight	2000 -		17990 46
	1-31	dividend			25990 46
	2-29	"		2625.36	21865 82
125	3-1	E. Mitchell Fry Jr. consulting	1000 -	17.44	220340 26
126	3-1	Anthony C. Kooner	5000 -		210340 26
127	3-8	HRLP - P/R - 300 - legal	1800 -		205340 26
128	3-8	Perpetual American Bank	10,000 -		193540 26
129	3-13	American Group Inc (Pettit pymt prin. 107,000 int. 7251.86)	114281.86		79258 40
130	3-23	HRLP - A/P + P/R	27000 -		52258 40
131	3-23	EMF (advance April)	5000 -		47258 40
132	3-23	USGA Inc legal	1400 -		45858 40
133	3-23	Fidelity Kumble etc.	1948.41		43909 99
134	3-23	FS&L int to 4-1	8797.47		44008 48
	3-28	from Peter Sterns (loan fee)		104252.10	60213 62
135	3-29	HRLP int due to 3-20 to FSI	4625 39		55588 23
	3-30	dividend		1358.41	56946 64
	3-30	Wire from USGA		50443.00	56130 64
136	4-2	Blue Cross of MD	3220 92		55818 72
137	4-2	Home Life Ins Co	5922 31		55226 41
138	4-2	Anthony C. Kooner	5000 -		54726 41
139	4-2	E. Mitchell Fry, Jr	5000 -		54226 41
	4-2	From Reilly Mtg		283853 48	826080 39

BE SURE TO RECORD AUTOMATIC PAYMENTS / DEPOSITS ON DATE AUTHORIZED

ENTER ALL TRANSACTIONS THAT AFFECT YOUR ACCOUNT BALANCE			DEBITS	CREDITS	BALANCE
ITEM NO. OR CODE	DATE	DESCRIPTION OF TRANSACTION	PAYMENT OR WITHDRAWAL	DEPOSIT OR INTEREST	
106	10-4	ACK Consulting	5000 -	✓	52411 57
	9-30	dividend			47411 57
107	10-20	EMF Consulting	5000 -	✓	411819 48529 76
	10-31	dividend			43529 76
108	11-4	Perpetual American (A/C)	10000 -	✓	42418 43953 94
	11-30	dividend			33953 94
109	12-1	American Group Inc	13000 -	✓	262 57 34216 51
	12-22	yr. USGA (fee for 11-83 HUD Auction)		✓	361,339 93 382,556.44
110	12-28	Anthony C. Koons	10,000 -	✓	372,556.44
111	12-28	Perpetual American	10,000 -	✓	362,556.44
	12-31	dividend			1157 84 363,714 28
112	1-8	E. Mitchell Fry Jr.	10,000 -	✓	353,714 28

	12-30	Commonwealth Land Title Ins. Co. (900 closing)	Commission due		274000	627,714 28
113	1-6	HCC (NEAP Certificate)	359000 -			277,714 28
		to H. Doan				627,714 28
114	1-6	Housing Capital Corp	175000 -			452,714 28
115	1-6	Natl Corp for Housing Partnerships	175000 -			277,714 28
116	1-24	E. Mitchell Fry, Jr. (consulting)	7500 -	✓		270,214 28
117	2-3	E. Mitchell Fry Jr. consulting	10000 -	✓		260,214 28
118	2-3	Anthony C. Koons	5000 -	✓		255,214 28
119	2-3	HRLP loan	3500 -	✓		251,714 28
120	2-3	Home Life Ins. Co.	5097 38	✓		246,616 90
121	2-9	Anthony C. Koons	10000 -	✓		236,616 90
122	2-15	HRLP - int to 2-1-84 @ 9%	8864 44	✓		227,752 46
123	2-18	Odie, Feldman legal	9762 -	✓		217,990 46

BE SURE TO RECORD AUTOMATIC PAYMENTS / DEPOSITS ON DATE AUTHORIZED
(Sidel)

DEPOSIT RECORD

DATE	DESCRIPTION	AMOUNT

DATE	DESCRIPTION	AMOUNT

ADDITIONAL SPACE TO RECORD SAVINGS TRANSACTIONS, AUTOMATIC PAYMENTS AND DEPOSITS IS LOCATED IN BACK.

ENTER ALL TRANSACTIONS THAT AFFECT YOUR ACCOUNT BALANCE			DEBITS		CREDITS		BALANCE
ITEM NO. OR CODE	DATE	DESCRIPTION OF TRANSACTION	(-)- PAYMENT OR WITHDRAWAL	(-)- FEE	(+)- DEPOSIT OR INTEREST		
		Balance forward from <i>Stater</i> checkbook					65097.53
		Wire from USA	4445				70780.35
	8-17	Wire from USA			628196.47		698659.22
		Wire from USA	125775.32				502883.90
102	8-29	Briary Associates (Loan)	50,000		USA		513176.47
		Wire from USA	142737.6				370438.87
103	8-29	Friendship Services Inc	129562.50				397877.72
		Wire from USA	25000				372877.72
104	8-29	Friendship Services Inc	25000		Purchase of H.R. 10		147877.72
		Wire from USA	270000				120877.72
	8-31	dividend on 8-31-83			2502.32		140390.04
		Wire from USA	17998.47				122391.57

BE SURE TO RECORD AUTOMATIC PAYMENTS AND DEPOSITS ON DATE AUTHORIZED.

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FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
for the years ended March 31, 1984 and 1983
AND
REPORT THEREON

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Coopers
& Lybrand

A45231

The Board of Directors
and Stockholders
Friendship Savings and Loan

We have examined the consolidated statements of financial condition of Friendship Savings and Loan (a stock corporation) and subsidiaries as of March 31, 1984 and 1983, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years ended March 31, 1984 and 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, the Company's policy is to prepare its financial statements on the basis of accounting practices prescribed by the regulations of the State of Maryland for State-chartered savings and loans. These practices differ in some respect from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. This report is intended solely for filing with regulatory agencies and is not intended for any other purpose.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Friendship Savings and Loan and subsidiaries as of March 31, 1984 and 1983, and the consolidated results of its operations and the changes in its financial position for the years ended March 31, 1984 and 1983, on the basis of accounting described in Note 1, which basis has been applied in a consistent manner.

Coopers & Lybrand

1800 M Street, N.W.
Washington, D.C. 20036
July 27, 1984 except for
Note 12 as to which the
date is August 14, 1984

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
March 31, 1984 and 1983

	1984	1983*
ASSETS		
Cash	\$ 4,369,926	\$ 1,025,963
U. S. Government obligations, at cost which approximates market (Note 1)	3,262,468	826,445
Other investments, at cost which approxi- mates market (Notes 1 and 2)	5,515,820	4,425,417
Mortgage-backed participation certifi- cates (Notes 1 and 5)	49,409,114	32,831,207
Loans receivable (Notes 1, 3, 11 and 12)	184,911,270	126,463,740
Notes receivable (Note 11)	2,221,804	2,513,418
Real estate, acquired in settlement of loans (Note 1)	480,411	367,436
Accrued interest receivable	2,227,160	1,343,801
Deposits with Maryland Savings-Share Insurance Corporation (Note 4):		
Insurance of savings accounts	3,200,400	2,227,000
Central reserve fund	1,440,400	1,021,600
	<u>257,038,773</u>	<u>173,046,027</u>
Property and equipment, at cost (Note 1):		
Furniture and equipment	684,359	439,615
Leasehold improvements	368,581	259,633
	<u>1,052,940</u>	<u>699,248</u>
Less accumulated depreciation and amortization	(368,703)	(264,409)
	<u>684,237</u>	<u>434,839</u>
Prepaid expenses and other assets (Notes 6 and 7)	457,682	354,048
Deferred loss (Note 1)	3,978,100	1,933,958
Total assets	<u>\$262,158,792</u>	<u>\$175,768,872</u>

*Amounts reclassified for comparative purposes.

The accompanying notes are an integral part
of the financial statements.

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	<u>1984</u>	<u>1983</u>
LIABILITIES		
Savings accounts	\$199,502,386	\$124,002,899
Notes payable and other borrowed money (Note 5)	14,225,244	21,739,004
Advances by borrowers for taxes and insurance	331,337	523,046
Accrued interest payable at maturity on money market certificates	564,275	464,541
Accounts payable and accrued expenses	153,129	188,644
Unearned loan fees (Note 1)	64,320	89,645
Unearned loan discounts (Note 1)	37,645,567	25,324,015
Accrued income taxes (Note 6)	128,073	84,864
Deferred income taxes (Note 6)	<u>280,500</u>	<u>280,500</u>
Total liabilities	<u>252,894,831</u>	<u>172,697,158</u>
Capital notes, subordinated (Note 7)	<u>800,000</u>	<u>800,000</u>
Commitments and contingencies (Notes 9 and 10)		

STOCKHOLDERS' EQUITY

Capital stock, \$1.00 par value; authorized 100,000 shares; issued 52,332 shares in 1984 and 1983	52,332	52,332
Additional paid-in capital	441,481	441,481
Retained income (Note 8):		
Appropriated to general reserve	933,791	933,791
Unappropriated	<u>7,036,357</u>	<u>844,110</u>
Total stockholders' equity	<u>8,463,961</u>	<u>2,271,714</u>
Total liabilities and stockholders' equity	<u>\$262,158,792</u>	<u>\$175,768,872</u>

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)
CONSOLIDATED STATEMENTS OF INCOME
for the years ended March 31, 1984 and 1983

	1984	1983
Income:		
Interest on loans	\$18,175,058	\$ 9,872,331
Interest on investments	1,264,733	1,341,674
Income from mortgage-backed participation certificates	6,319,019	1,260,404
Loan fees and service charges (Note 1)	940,553	496,841
Miscellaneous	109,704	195,196
	26,809,067	13,166,446
Expenses:		
Interest on savings accounts	15,218,514	9,906,109
Salaries and employee benefits	1,194,696	701,599
Advertising	339,537	142,420
Other interest expense	1,759,684	442,535
Professional fees and consulting	657,268	518,270
Other general and administrative expenses	1,198,833	660,730
Amortization of deferred loss (Note 1)	128,254	85,954
	20,496,786	12,457,617
Income before income, taxes and extraordinary item	6,312,281	708,829
Income taxes (Note 6):		
Currently payable	120,034	77,000
Tax effect of loss carryforward	1,798,000	-
	4,394,247	631,829
Extraordinary item:		
Reduction of income taxes arising from carryforward of prior years' operating losses	1,798,000	-
Unappropriated net income	\$ 6,192,247	\$ 631,829
Net income per share (based on average number of shares outstanding)	\$118.33	\$12.07

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The accompanying notes are an integral part of the financial statements.

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
 (a stock corporation)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 for the years ended March 31, 1984 and 1983

	<u>Capital stock</u>	<u>Additional paid-in capital</u>	<u>Retained income (Note 9) Appropriated to general reserve</u>	<u>Unappropriated</u>	<u>Total stockholders' equity</u>
Balance, March 31, 1982	\$52,332	\$441,481	\$933,791	\$ 212,281	\$1,639,885
Net income for the year ended March 31, 1983	-	-	-	<u>631,829</u>	<u>631,829</u>
Balance, March 31, 1983	52,332	441,481	933,791	844,110	2,271,714
Net income for the year ended March 31, 1984	-	-	-	<u>6,192,247</u>	<u>6,192,247</u>
Balance, March 31, 1984	<u>\$52,332</u>	<u>\$441,481</u>	<u>\$933,791</u>	<u>\$7,036,357</u>	<u>\$8,463,961</u>

The accompanying notes are an integral part
of the financial statements.

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FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended March 31, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Funds were obtained from:		
Operations:		
Net income	\$ 6,192,247	\$ 631,829
Items not requiring (not providing) current use of funds:		
Amortization of discounts	(5,745,853)	(2,945,325)
Amortization of deferred loss	128,254	85,954
Depreciation and amortization	<u>104,294</u>	<u>54,008</u>
Funds used in operations	678,942	(2,173,534)
Net increase in savings accounts	75,499,487	64,110,377
Borrowed funds	14,071,225	21,739,004
Loans sold	12,233,322	12,939,485
Loan principal repayments	32,459,114	11,115,209
Notes receivable repayments	291,614	1,380,038
Decrease in investments	-	725,898
Mortgage-backed certificates repayments	751,988	288,132
Sale of property acquired through foreclosure	-	254,295
Decrease in cash	-	98,312
Income taxes payable	43,209	65,602
Increase in unearned loan discounts	18,075,000	21,576,453
Other, net	<u>-</u>	<u>235,603</u>
	<u>\$154,103,901</u>	<u>\$132,354,874</u>
Funds were used for:		
Loans purchased	\$ 54,382,209	\$ 68,130,401
Loan disbursements	48,757,757	31,433,227
Purchase of mortgage-backed certificates	17,333,592	26,935,474
Repayment of borrowed funds	21,584,985	3,370,968
Increase in deposits with Maryland Savings-Share Insurance Corporation	1,392,200	1,842,100
Acquisition of real estate through foreclosure	34,725	367,436
Additions to other real estate	78,250	-
Purchase of furniture and equipment	353,692	275,268
Increase in investments	3,530,324	-
Deferred loss on sale of mortgages	2,172,396	-
Increase in cash	3,343,963	-
Other, net	<u>1,139,808</u>	<u>-</u>
	<u>\$154,103,901</u>	<u>\$132,354,874</u>

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The accompanying notes are an integral part of the financial statements.

A. J.

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES

(a stock corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The Company engages primarily in the acceptance of savings from the public and investment in loans, primarily residential mortgage and construction loans. A summary of the major accounting policies followed by the Company in the preparation of the accompanying financial statements is set forth below.

Principles of consolidation

The accompanying financial statements include the accounts of Friendship Savings and Loan (the Company) and its wholly-owned subsidiaries, Friendship Services, Inc., Friendship Insurance Corp., Friendship Financial, Inc., and North Park Corporation. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting basis

The Company recognizes interest revenue from amortization of loan discounts, loan origination fees, commitment fees, and losses on sale of loans on the basis permitted by regulations of the State of Maryland for State-chartered savings and loans. These regulations permit the recognition of revenue from amortization of loan discounts in a manner which accelerates revenue recognition over the amount that would be permitted under generally accepted accounting principles (GAAP). The regulations also permit recognition of fee income in the year of origination, which exceeds that permitted by GAAP and deferral of loss on the sale of loans, which is not permitted by GAAP. Differences also exist in the method of amortizing deferred commitment fees. The regulations also permit the Company to disclose unamortized loan discounts as unearned revenue in the consolidated statement of financial condition. Therefore, the accompanying financial statements are not intended to present financial position and results of

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

operations in conformity with generally accepted accounting principles.

The Company accounts for its investments in the Northgate, First Victoria and Hunting Ridge Limited Partnerships on the equity basis of accounting.

Loan discounts

For loans purchased at less than their face amount, the related discount is generally recognized as interest revenue to the extent of 3% of the face amount of the loans in the year the loans are purchased. However, in certain cases, management may determine that it is appropriate to recognize less than 3% of the face amount of the loans as revenue in the year of purchase. Remaining amounts of unamortized loan discounts are amortized to income on a straight-line basis over seven years or over the term of the loans, whichever is shorter. However, when discounted loans are sold or paid off, any remaining unamortized loan discount is taken into income in the year of the sale or payoff.

Loan origination fees

Loan origination fees are deferred for any amount in excess of 3% of the face value of the loan. The deferred amounts are amortized into income using the straight-line method over a 10-year period.

Builder commitment fees

Generally, nonrefundable commitment fees which require the Company to fund loans at fixed rates are deferred for any amount in excess of 3% of the loan commitment. The deferred amounts are amortized ratably over the term of the loans closed under the commitment or over seven years, whichever is less.

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Continued

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments

Investment securities are carried at cost, adjusted for amortization of premium and accretion of discount over the term of each security.

Allowance for losses

It is the policy of the Company to provide valuation allowances for estimated losses on loans when a significant and permanent decline in value occurs. Additions to allowances are charged to earnings.

Depreciation and amortization

The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the respective assets, as follows:

Furniture, fixtures and equipment	5 to 15 years
Leasehold improvements	Term of lease

Deferred losses

The Company uses the method of recognizing losses on the sale of loans permitted by the State of Maryland for State-chartered savings and loans. This method allows the Company to defer losses on the sale of loans and amortize the losses over the average remaining life of the loans sold. The average remaining period over which such losses are to be amortized is 21 years.

Real estate

Real estate is carried at lower of cost (fair value for real estate acquired in settlement of loans) or net realizable value.

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Other investments

Other investments consisted of the following:

	March 31, 1984	March 31, 1983
Certificates of deposit	\$2,900,000	\$2,600,000
Limited partnerships	18,500	250,000
Federal funds sold	2,597,320	1,575,417
	\$5,515,820	\$4,425,417

3. Loans receivable

Loans receivable consisted of the following:

	March 31, 1984	March 31, 1983
First mortgage loans	\$152,879,354	\$108,346,249
Second mortgage loans	5,857,314	-
Construction loans	11,064,163	16,737,612
Commercial loans	13,147,000	-
Share loans	607,462	485,579
Other loans	1,355,977	894,300
	\$184,911,270	\$126,463,740

4. Insurance of savings accounts and central reserve fund

Friendship Savings and Loan is a member of, and its savings accounts are insured by, Maryland Savings Share Insurance Corporation (MSSIC). Insurance of accounts is provided by an insurance fund created from deposits of member associations. Friendship Savings and Loan's deposit of \$3,200,400, which earns no interest, is to be increased by annual payments in order to maintain a deposit equal to 2% of the savings accounts. The next annual adjustment will be as of June 30, 1984, based on savings accounts at December 31, 1983.

Continued

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Emergency loans to member associations are provided by MSSIC through a central reserve fund created from deposits of member associations. Friendship Savings and Loan's deposit of \$1,440,400, which earns interest at rates determined by MSSIC, is adjusted annually by a formula designed to maintain a minimum deposit based on savings account balances at the end of the preceding year.

5. Notes payable and other borrowed money

Notes payable and other borrowed money consist of the following:

	March 31,	
	1984	1983
Reverse repurchase agreement bearing interest at 11% in 1984 and 10-1/2% in 1983, maturing in September 1984 and April 1983, collateralized by a mortgage-backed certificate with a remaining outstanding balance of approximately \$17,956,523 and \$18,181,076 at March 31, 1984 and 1983, respectively.	\$ 4,071,225	\$10,887,805
Notes payable bearing interest at 12% in 1984 and 11.0% in 1983, maturing in September 1984 and April 1983, respectively, related to purchase of loans by the Company and collateralized by those loans.	10,000,000	5,648,339

Continued

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FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>March 31,</u>	
	<u>1984</u>	<u>1983</u>
Reverse repurchase agreements bearing interest at rates ranging from 8.875% to 15.25% in 1983, maturing in April and May 1983, collateralized by Governmental National Mortgage Association participation certificates with remaining outstanding balances of \$5,920,441 in 1983.	\$ -	\$ 4,995,000
Long-term obligations under capitalized leases, discounted at the rate of 12.5% per year.	<u>154,019</u>	<u>207,860</u>
	<u>\$14,225,244</u>	<u>\$21,739,004</u>

6. Federal income taxes

Appropriated and unappropriated retained income at March 31, 1984 includes earnings of approximately \$1,313,200 representing bad-debt deductions for which no provision for federal income taxes has been made. If, in the future, this portion of appropriated and unappropriated retained income is used for any purpose other than to absorb bad-debt losses, federal income taxes may be imposed at the then-applicable rates. In the future, if the Company does not meet the federal income tax requirements necessary to permit it to deduct an allowance for bad debts, the Company's effective federal income tax rate could increase to a maximum of 46% under present law.

The deferral of federal income taxes arises principally from the recognition of income on the cash receipts and disbursements method for federal income tax purposes and the recognition of loan discounts and origination fees for tax purposes over a 10-year period.

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FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Included in other assets is a federal income tax refund receivable and interest thereon. The refund results from the carryback of net operating losses from the three months ended March 31, 1980 and from the twelve months ended March 31, 1981 to 1976, 1977, and 1978.

At March 31, 1984, the Company had net operating loss carryovers for income tax purposes of approximately \$578,000 which expire in various amounts through 1998. These losses occurred in prior years resulting primarily from timing differences caused by cash basis tax returns as compared to accrual basis financial statements. The Company also has investment tax credit and new jobs tax credit carryovers of approximately \$45,000 which expire in various amounts through 1998.

7. Capital notes, subordinated

Capital notes of \$600,000 issued in 1977 and \$200,000 issued in 1978 are subordinated to the interest of savings account holders and other creditors. The notes bear interest at the rate of 2-1/4% above the lending bank's prime rate, with an interest ceiling of 10-1/2%, and mature seven years after the date of issue. As of March 31, 1984, the Company had pledged \$653,000 of government securities to a sinking fund for repayment of the notes. Additional securities will be pledged to the sinking fund in annual amounts approximating \$133,000 until the loans are repaid at maturity.

8. Retained income

Friendship Savings and Loan is required by the Division of Maryland Savings and Loan Association regulations and by MSSIC to appropriate a portion of net income, as defined and reported to the regulatory authorities, to a general reserve which may be used only for absorbing losses. This reserve is not related to an amount of losses actually anticipated, and the appropriations thereto have not been charged against income. During 1981, regulations no longer

Continued

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FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

required the segregation of the general reserve from unappropriated retained earnings. During the years ended March 31, 1984 and 1983, the Board of Directors did not authorize any additions to the general reserve. Income appropriated to the general reserve is not available for dividends.

9. Lease commitments

The Company leases office space for its home office banking and administrative operations and for its branch operations. Rental expense for the years ended March 31, 1984 and 1983 was approximately \$361,500 and \$130,200, respectively. Future annual rental payments under the three leases are as follows:

<u>Fiscal year</u>	<u>Minimum rentals</u>
1985	\$ 525,000
1986	525,000
1987	525,000
1988	525,000
1989	525,000
Total payments	<u>\$2,625,000</u>

The leases provide for increased rentals based on increases in real estate taxes and operating expenses. The lease for the Company's home office is for a period of five years, with an option to renew the lease at the end of the lease term.

10. Commitments and contingencies

As of March 31, 1984, the Company has residential mortgage loan commitments outstanding of approximately \$1,305,000 and construction loan commitments of \$528,000. These commitments expire at various times through May 1984, but may be extended at the election of the Company. As of March 31, 1984, loans in process amounted to \$8,370,000.

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FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has been named in litigation involving foreclosure proceedings on certain properties and other matters. Management and legal counsel do not believe that the ultimate outcome of these matters will result in any significant adverse effect on the accompanying financial statements.

11. Transactions with related parties

During the year ended March 31, 1984, the Company recorded income of approximately \$2,800,000 from the payoff of two loans which were originally purchased by the Company at a discount from the U.S. Department of Housing and Urban Development (HUD).

The equity in the two properties, on which the loans were paid off, was then purchased by two limited partnerships in which North Park Corporation, a subsidiary of the Company, has an interest. The purchase was accomplished by fixed mortgage loans from outside unrelated lenders and equity supplied by North Park Corporation.

At March 31, 1984, the Company had the following loans outstanding to subsidiaries or related ventures:

Hunting Ridge	\$ 400,000
Friendship Plaza	3,182,000
North Park Corporation	<u>3,130,000</u>
	<u>\$6,712,000</u>

Additionally, the Company has made mortgage loans to directors, officers and employees amounting to \$970,000 and \$1,122,225 as of March 31, 1984 and 1983, respectively, secured by their personal residences.

12. Regulatory matters

As a State-chartered savings and loan association, the Company is required to comply with regulations issued

Continued

FRIENDSHIP SAVINGS AND LOAN AND SUBSIDIARIES
(a stock corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

by the State of Maryland Department of Licensing and Regulation, Division of Savings and Loan Associations (the Division) and MSSIC. Certain of the regulations prescribe financial ratios to be maintained by State-chartered savings and loan associations and proscribe investments and loans exceeding specified limits.

As of March 31, 1984, the Company had investments in certificates of deposit with two banks, which exceeded regulations of the Division and MSSIC. These certificates of deposit matured on August 13, 1984 and were reinvested in government securities not to exceed the above-noted regulations.