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APPENDIX TO REPORT OF
SPECIAL COUNSEL ON THE
SAVINGS AND LOAN CRISIS

January 1986

APPENDIX TO THE REPORT OF THE SPECIAL COUNSEL
ON THE SAVINGS AND LOAN CRISIS

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SAVINGS AND LOAN STUDY COMMISSION
1410 Commercial Credit Building
Baltimore 2, Maryland

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HARRY B. WOLF, JR.
BALTIMORE

JOHN P. ZEBELEAN, JR.
CATONSVILLE

Savings and Loan Associations of Maryland,
Members of the Maryland General Assembly and
Other Interested Persons

Gentlemen:

Enclosed for your information and study is the first public draft of a bill, prepared by this Commission, affecting building and savings and loan or homestead associations doing business in this State.

On December 21, 1960, at 9:30 A.M., the Commission will hold a public hearing on the proposed bill in the auditorium of the State Roads Commission, 300 W. Preston Street, Baltimore. You are invited to attend this meeting.

Should you desire to be heard at the meeting, you must inform the undersigned in writing no later than Monday, December 19, 1960, of the topic or topics upon which you desire to present your views. In this connection, you are encouraged to join with other persons or associations in selecting a spokesman for your group in order that repetitious presentations may be avoided. Instead of an oral presentation, you may present your views to the Commission in writing by submitting on the date of the hearing twenty (20) copies of any statement you care to make.

Your cooperation in this matter is respectfully requested.

RICHARD W. CASE,
Chairman.

5805-

PROPOSED LEGISLATION
RELATING TO
BUILDING, SAVINGS AND LOAN OR
HOMESTEAD ASSOCIATIONS

161A. POLICY.

It is the declared policy of this State that:

(a) The savings and loan business, otherwise known as the building, savings and loan or homestead business, which is within the scope of this Article, has so expanded in recent years and has become so integrated with the financial institutions of this State and is so important as a method of promoting home ownership and thrift, that such business is affected with a public interest and shall be supervised as a business affecting the economic security and general welfare of the people of this State;

(b) Such business shall be operated only by associations organized and conducted in accordance with the authority provided by this Article;

(c) The number and minimum size of the associations conducting such business shall be controlled in the interest of securely and efficiently serving the needs of the localities in which they operate;

(d) The public interest requires the promotion and fostering of the building, savings and loan or homestead business and the assurance of its financial stability;

(e) Such associations shall be organized for the purpose of accepting free share accounts and making loans to their members;

(f) In order to achieve the aforesaid purposes and policy, it is necessary that all associations shall have only one kind or class of shares or stock and all the holders of such shares or stock shall have equal rights as to voting, earnings, and assets;

(g) In order to further the policies herein expressed, the provisions of this Article applicable to building or homestead associations shall be liberally construed to promote and foster the purposes of such associations.

161B. APPLICATION OF PROVISIONS.

(a) *Existing domestic and foreign associations.* The provisions of this Article shall apply to all existing building, savings and loan or homestead associations, and other similar associations by whatever

name called, organized under the laws of this State; and to all foreign associations duly authorized to do business in this State;

(b) *Federal associations.* Unless Federal laws or regulations provide otherwise, Federal associations and their members shall possess all of the rights, powers, privileges, immunities and exemptions granted by this Article to associations operating hereunder and to the members thereof.

161C. PROHIBITIONS.

(a) *Who may transact business.* No person or group of persons except (1) an association duly incorporated under Sections 161A through 161JJ of this Article, or (2) an association duly incorporated prior to the enactment of the aforesaid Sections and conducted in conformity with the aforesaid Sections, or (3) a Federal association, or (4) a foreign association duly authorized to do business within this State and complying and conducting its business in conformity with the aforesaid Sections, shall transact business within the scope of this sub-title or do business under any name or title, or circulate or use any advertising or make any representation or give any information to any person which indicates or reasonably implies the operation of a business which is within the scope of the provisions of this sub-title.

(b) *Injunction.* Upon application of the Director, with the approval of the Board, a court of competent jurisdiction may issue an injunction to restrain any person or association from violating or continuing to violate any of the provisions of this sub-title.

(c) *Fine.* In addition to the remedy provided in sub-section (b) hereof, any person or association violating any of the provisions of this sub-title shall be deemed guilty of a misdemeanor and upon conviction shall be subject to a fine of not more than one thousand dollars (\$1,000.00) for each offense.

161D. EFFECT ON EXISTING BUILDING OR HOMESTEAD ASSOCIATIONS.

(a) *By-laws, shares, etc.; operation.* Except as provided in sub-section (b) hereof, the by-laws, shares, contracts, and obligations of any existing building or homestead association, shall continue in full force and effect. All such associations shall henceforth be operated and regulated in accordance with the provisions of Sections 161A through 161JJ of this Article.

(b) *Compliance with capitalization provisions.* (1) If the capitalization of any association referred to in sub-section (a) hereof does

not meet the standards and requirements established and provided by Sections 161M and 161P of this Article, such association may, on or before July 1, 1962: (i) comply with such provisions respecting capitalization by filing appropriate articles of amendment with the Board and with the State Department of Assessments and Taxation; or (ii) if said articles of amendment with respect to said capitalization are not so filed, or if any such association fails to conform to the provisions of this Article, such association may, on or before August 1, 1962, file articles of amendment with the Board and with the State Department of Assessments and Taxation amending its charter by relinquishing such portion of its name, powers and purposes as relate to associations existing under this Article so that it shall cease to exist as a building or homestead association, and pursuant to such articles of amendment shall thereafter continue in business as an ordinary business corporation for the purposes and with the powers set forth in such articles of amendment. Any such association which shall fail to file articles of amendment as hereinbefore provided shall be deemed to have entered into a voluntary liquidation, and upon and after August 1, 1962, shall cease to do business and shall continue in existence only for the purposes and with only the powers and duties set forth in Sections 76-78 and 82-83 of this Article; and any director, stockholder or creditor of such association may petition the Circuit Court of Baltimore City or the circuit court for the county in which the principal office of the association is located, to take jurisdiction of the liquidation of such association as provided in Section 79 of this Article.

(2) After August 1, 1962, if any association which has failed to file articles of amendment in accordance with this sub-section shall engage in any activities other than those specified in this sub-section, the Attorney General may, and upon notification by the Board shall, institute proceedings against such association as provided in Section 84 of this Article.

161E. BOARD OF COMMISSIONERS.

(a) *Established.* The Board of Building, Savings and Loan Association Commissioners (referred to herein as the "Board") is hereby created with the powers and duties specified in this sub-title and with such powers as may be necessary and proper to the full and effectual execution of the purposes of this Article relative to building or homestead associations.

(b) *Composition, Appointment, Qualifications and Tenure.* The Board of Building, Savings and Loan Association Commissioners shall

consist of five (5) members who shall be appointed by the Governor with the advice and consent of the Senate. Each of the members shall have been a resident and registered voter of the State of Maryland and engaged as an officer, director or attorney of a building association, the principal place of business of which is located in this State, for at least the five (5) year period next preceding his appointment. At least three (3) of the members shall have been actively engaged as an officer, director or attorney of a building association chartered or incorporated under the laws of the State of Maryland, free share accounts of which are not insured. At least two (2) of said members shall be residents of Baltimore City. At least two (2) of said members shall be residents of the counties of Maryland. However, one (1) of the members shall be selected from the public at large and the requirement that such member shall have been an officer, director or attorney of an association shall not apply. Not more than three (3) of such members shall be of the same political party. The term of office of the members of said Board shall be four (4) years, commencing on the first day of June next ensuing their respective appointments, except as hereinafter provided, and such members shall hold office until their respective successors have been appointed and qualified. Any vacancy on the Board shall be filled by the Governor for the unexpired term created thereby. Initially, two (2) of the members shall be appointed to serve from the first day of June, 1961, through the 31st day of May, 1963, and three (3) of the members shall be appointed to serve from the first day of June, 1961, through the 31st day of May, 1965. All members of the Board shall serve without compensation, but shall be reimbursed for necessary and proper expenses incurred while actually engaged in the performance of their duties as members.

(c) *Seal.* The Board shall have an official seal bearing the inscription "Board of Building, Savings and Loan Association Commissioners of the State of Maryland."

(d) *Oath.* Each member of the Board and the Director and Deputy Director of the Department shall take and subscribe the oath prescribed by the Constitution, to be administered by the clerk, or one of the sworn deputies, of the circuit court of the county or the Superior Court of Baltimore City, according to the residence of each appointee.

(e) *Powers and Duties.* (1) The Board shall elect a chairman, vice-chairman and secretary; shall adopt regulations for the holding and conducting of meetings and for holding hearings concerning all matters within its powers; and shall keep a record of all meetings and trans-

actions. Regular meetings shall be held as provided in the regulations, and special meetings may be called by the chairman or upon request of any three members of the Board.

(2) The Board shall submit, within thirty (30) days after the first formal meeting of the Board, a list to the Governor of the names of five (5) persons qualified as herein set forth and competent in the opinion of the Board to perform the duties and functions of the Director. Thereafter the Board shall submit to the Governor such a list not less than thirty (30) days before the date of the expiration of the term of appointment of the Director, or, in the case of vacancy, within fifteen (15) days of the occurrence of said vacancy.

(3) The Board shall have full power to:

(i) advise and make recommendations to the Director on all and any questions within the scope of authority of the Director;

(ii) submit to the Governor proposed amendments to the building, savings and loan laws of Maryland which it deems desirable;

(iii) establish methods and standards (1) to be used in making examinations of associations, (2) for the valuation of assets of associations and (3) for advertising and promotional activities by associations;

(iv) to make, adopt, modify and amend such rules and regulations as may be reasonable and necessary to carry out the provisions of this Article, and to define any terms used therein as they may relate to or affect associations.

(f) *Disqualification.*—A member of the Board having any interest in or connection with an association as shareholder, director, mortgagor, attorney or otherwise shall not pass on any order or sit in any hearing affecting such association.

161F. OATHS; SUBPOENAS.

(a) *Power to administer and issue.* At any hearing before the Board provided for in Section 161H of this Article, the Board or any member thereof shall have the power to administer oaths. In connection with any such hearing, the Board may issue subpoenas to compel the attendance and testimony of witnesses or the production of documents, either on the Board's own motion or at the request of any intervenor or party, which subpoenas shall extend to all parts of the State and shall be issued and signed by the Director or by any member of the Board. The Board shall have power on motion after due notice, for good cause, to quash or modify any subpoena on the ground that such subpoena is unduly burdensome, unreasonable or oppressive. Subpoenas shall be served personally through the sheriff's office in the

city or county in which service can be made, or by any person of lawful age.

(b) *Failure to comply.* If a person upon whom a subpoena has been properly served fails to obey its command, without reasonable cause, or if a person in attendance before the Board shall, without reasonable cause, refuse to be sworn or examined, or answer a question, or produce a book or paper when ordered to do so, pursuant to subpoena, the Board may, and upon request of any party to proceedings before the Board, shall apply to any judge of the Supreme Bench of Baltimore City or of the circuit court of any county, upon proof by affidavit of the fact, for a rule or order returnable within not less than two (2) nor more than five (5) days, directing such person to show cause before the judge who made the order, or any other judge of the same bench or circuit, why he should not be adjudged guilty of a contempt and punished as contempts are punishable by courts of record; upon the return of such order, the judge, before whom the matter shall come on for a hearing, shall examine under oath such person and such person shall be given an opportunity to be heard in his own defense; and if the judge shall determine that such person has refused, without reasonable cause or legal excuse, to be examined or to answer a legal or pertinent question, or to produce a book, paper or other document which he was ordered to produce; he may forthwith find the offender in contempt of court.

(c) *Required to testify.* No person shall be excused from testifying or from producing any books or papers or documents at any hearing before the Board, when ordered to do so by the Board, upon the ground that the testimony or evidence, books, papers or documents required of him may tend to incriminate him or subject him to penalty or forfeiture; but no person shall be prosecuted, punished or subjected to any penalty or forfeiture for or on account of any act, transaction, matter or thing concerning which he shall, under oath, have, by order of the Board, testified to or produced documentary evidence relative thereto, provided, however, no person shall be exempt from prosecution unless he shall first have asserted his constitutional rights and privileges; and provided, however, that no person so testifying shall be exempt from prosecution or punishment for any perjury committed by him in his testimony.

161G. DEPARTMENT AND DIRECTOR.

(a) *Establishment, Appointment, Qualifications and Tenure.* The Department of Building, Savings and Loan Associations is hereby

established. The head of the Department, with general powers of administration, shall be the Director, who shall be appointed by the Governor as of the first day of July, 1961, and each sixth (6th) year thereafter from the list of five (5) persons submitted to him by the Board pursuant to Section 161E of this Article. Each of the persons named on such list shall have at least five (5) years' experience as an officer, director or attorney of a building association chartered or incorporated under the laws of the State of Maryland or as an employee of the Department and each for at least the five (5) previous years shall have been a resident and registered voter of Maryland. The Director shall hold office for six (6) years and until his successor shall have been duly appointed and qualified. The Governor may remove the Director for official misconduct, incompetency or neglect of duty. Any vacancy in the office of Director shall be filled by the Governor for the unexpired portion of the term from a list of names of qualified persons as aforesaid, to be submitted pursuant to Section 161E hereof. The Director shall devote his entire time to the duties of his office and shall be paid such salary as may be provided for in the budget.

(b) *Bond.* The Director shall give bond to the State of Maryland in the amount of twenty thousand dollars (\$20,000.00) and in such form as the Board may require and conditioned upon proper and faithful discharge of his duties.

(c) *Powers.* The Director shall have general supervision over all associations which are subject to the provisions of this Article by use of the powers conferred upon him by law. The Director may pass such orders as he deems necessary to compel any association: (1) to comply with its charter, constitution and by-laws; (2) to comply with the laws of this State to carry out the purposes of this sub-title; (3) to comply with such regulations as may be adopted pursuant to the provisions of this sub-title. But, no such order shall become effective until the Director shall have first given the directors of such association, or their representatives, an opportunity to be heard at a time and place designated by the Director.

161H. ORDERS; HEARINGS.

(a) *Contents of order; finality without hearing.* Every communication having the effect of an order to any association shall be in writing signed by the Director stating in detail the violation complained of and shall be sent by registered mail to the association affected thereby, addressed to the president thereof at the home office of the association as shown by the latest records on file with the Department, or, at the request of said association, to such person as may be

designated by the association to the Director. Such communication shall include the designation of a time and place for a departmental hearing before the Director, which shall in no event be less than twenty (20) days from the date of the mailing of such order. If, at such time and place, no one appears on behalf of the association, the order shall become final.

(b) *Appeal to and hearing before the Board.* If, after departmental hearing, the Director issues an order relative to the subject matter of such hearing, such order shall be mailed, registered mail, return receipt requested, to the association affected thereby, as provided in sub-section (a) hereof, and such order shall become final unless the association affected thereby shall file with the Board an appeal within twenty (20) days from the date of mailing of such order. Within thirty (30) days after the filing of such appeal, the Board shall hold a hearing. A record may be made by the Board of all testimony and proceedings at such hearing. Within thirty (30) days after such hearing the Board shall determine whether said order shall be sustained, rejected or modified, and the Board shall pass a final order in the matter and shall mail a copy thereof by registered mail as hereinbefore provided for the mailing of orders.

(c) *Appeal from order of the Board.* The association affected or the holders of at least ten per cent (10%) of the value of the free shares of said association shall have the right within thirty (30) days of the date of mailing of any final order of the Board to appeal from such order by filing a petition in the Circuit Court of Baltimore City or in the circuit court for the county in which the principal Maryland office of the association is located. Such petition for appeal shall set forth the action appealed from and the basis for the appeal; copies of the petition shall be served upon the Board and all other parties of record.

(d) *Judicial review.* The court to which the appeal is taken shall hear the matter de novo, without a jury, and the parties may call such witnesses and introduce such evidence as may be proper in the premises. The court may affirm, reverse, or modify the order appealed from, or remand the case to the Board for further proceedings as may be required. An appeal may be taken from the decision of the court hearing said appeal to the Court of Appeals of Maryland by any party to the proceedings in the same manner as other appeals are taken from decrees or orders of courts.

(e) *Stay.* No appeal shall stay the operation of any final order of the Board unless ordered by the court in which the appeal is pending and upon such terms and conditions as the court may prescribe.

161I. DEPUTY DIRECTOR, EMPLOYEES AND EXAMINERS.

(a) *Appointment.* The Director, with the approval of the Board, shall appoint a Deputy Director, examiners and such number of additional employees of the Department of Building, Savings and Loan Associations as may be provided for in the budget. The appointment of all examiners and employees, other than the Deputy Director, shall be from the classified service of the State of Maryland, and in accordance with the rules and practice of the merit system. The Deputy Director shall be appointed and hold office at the will of the Director, and the provisions of Article 64A of this Code, title, "Merit System," shall not apply.

(b) *Merit System.* The Director at his discretion may appoint the Deputy Director from among the classified employees in the Department, and if such appointee is subsequently removed from or ceases to hold his position as Deputy Director, he shall be restored to the merit system status in the position held by him at the time of his appointment as Deputy Director.

(c) *Disqualification.* The Director, Deputy Director and examiners shall not be officers, directors, attorneys, employees or agents of, or in any manner be interested in, any association, except that they may be holders of free share accounts.

(d) *Deputy Director to act for Director, give bond.* In the absence of the Director or upon proper delegation by him, the Deputy Director shall act in the place and stead of the Director and in so acting shall have the same powers and duties as the Director. The Deputy Director shall give bond to the State of Maryland in the same amount and upon the same conditions as that required of the Director.

161J. INFORMATION TO BE CONFIDENTIAL.

The Director and his Deputy, examiners and employees shall keep confidential any information obtained in an examination, except when the public duty of such persons requires them to report upon and to take official action regarding the affairs of the association examined. When the Director by and with the consent of the Board deems it to the interest of the public, he may publish the results of the examination of an association in one or more newspapers of general circulation in the city or counties in which such association is located or doing business. This provision shall not prevent the proper exchange of information relating to building, savings and loan associations, and to their business, with the representatives of building, savings and loan asso-

ciations of this or other states or with the representatives of the Federal Home Loan Bank Board.

161K. CONSERVATORSHIP.

(a) *Director to order discontinuance of illegal practice.* If the Director, as a result of any examination or from any report made to him, shall find that any association is violating the provisions of its articles of incorporation or by-laws, or the laws of this State, or of the United States, or any lawful order of the Director, he shall, by written order, state the alleged violation therein, together with the facts alleged to constitute such violation, and direct discontinuance of such violation and conformance with all requirements of law.

(b) *Conservator.* In the event that any association shall fail or refuse to carry out any final order, and should the Board believe that the public interest may be served by the appointment of a conservator, it is authorized, acting through the Attorney General, to apply to an equity court for the city or county where the association has its principal Maryland office for the appointment of a conservator. Such court is authorized to appoint a conservator if it finds that such association: (1) is in an impaired or insolvent condition; or (2) is in substantial violation of any valid and applicable law or regulation; or (3) is concealing any of its assets, books or records; or (4) is conducting an unsafe or unsound operation. The Director or his Deputy, or examiner, or any other responsible person may be appointed by the court as conservator, and a certified copy of the order of the court making such appointment shall be evidence thereof, and such conservator shall have the power and authority provided in this subtitle and such other power and authority as may be expressed in the orders of the court. Such conservator shall endeavor promptly to remedy the situations complained of in the petition for his appointment and may recommend plans of reorganization, composition or rearrangement of the affairs of such association. Within six (6) months of the date of such appointment, or within such time as the court may order, such association shall be returned to its board of directors and thereafter shall be managed and operated as if no conservator had been appointed, or a receiver shall be appointed as hereinafter provided. If the Director, or his Deputy, or examiner is appointed conservator, he shall receive no additional compensation, but if another person is appointed, then the compensation of the conservator, as determined by the court, shall be paid by the association. A certified copy of the order of the court discharging such conservator and

returning such association to its directors shall be sufficient evidence thereof.

(c) *Powers of conservator.* By order of the appointing court, any conservator appointed shall have all the rights, powers, and privileges possessed by the officers, board of directors, and members of the association.

(d) *Special counsel, expenses.* Unless directed otherwise by order of the appointing court, the conservator shall not retain special counsel, or incur any expenses other than normal operating expenses or liquidate assets except in the ordinary course of operations.

(e) *Removal of any officer, director or employee.* The directors and officers of any association for whom a conservator has been appointed as provided herein shall remain in office and the employees of such association shall remain in their respective positions; however, by order of the appointing court, upon recommendation of the Board, the conservator may remove any director, officer, or employee.

(f) *Operation of association.* By order of the appointing court, while the association is in the charge of a conservator, members of such association shall continue to make payments to the association in accordance with the terms and conditions of their contracts, and the conservator may permit free share account holders to withdraw their accounts from the association pursuant to the provisions of such order. The conservator shall have power to accept free share accounts and additions to free share accounts, but any such amounts received by the conservator may be segregated; if so ordered, such amounts shall not be subject to offset and shall not be used to liquidate any indebtedness of such association existing at the time the conservator was appointed for it or any subsequent indebtedness incurred for the purpose of liquidating the indebtedness of any such association existing at the time such conservator was appointed. All expenses of the association during such conservatorship shall be paid by the association.

161L. RECEIVERSHIP.

(a) *Appointment of receiver.* If irregularities complained of in a final order are not corrected, or if any irregularities complained of in a petition for the appointment of a conservator are not corrected, or in the case of any emergency, the Board, if in its judgment the public interest requires, acting through the Attorney General, may apply to an equity court for the city or county where the association has its principal Maryland office for the appointment of a receiver. Such court is authorized to appoint a receiver if it finds that such

association: (1) is in an impaired or insolvent condition; or (2) is in substantial violation of any valid and applicable law or regulation; or (3) is concealing any of its assets, books or records; or (4) is conducting an unsafe and unsound operation.

(b) *Procedure.* The procedure in such receivership action shall be in all other respects in accordance with the practice in such court, including all rights of appeal and review provided by law.

161M. INCORPORATION AND ORGANIZATION.

(a) *Selection of chairman of incorporators; capital required; general reserve fund.* (1) Any number of persons, not less than five (5), who shall be at least twenty-one years of age and residents of this State, may hereafter associate as incorporators to establish a building or homestead association under this Article upon the terms and conditions and subject to the liabilities prescribed herein. The incorporators shall appoint one of their number as chairman of the incorporators. The incorporators shall pay in cash to such chairman as subscriptions to free share accounts of the proposed association, including that part of the original subscription paid by such chairman, an aggregate amount determined by the location of the principal office of the proposed association as follows: a minimum sum of ten thousand dollars (\$10,000.00) in cities, towns or villages having up to fifteen thousand (15,000) inhabitants; a minimum sum of twenty-five thousand dollars (\$25,000.00) in cities, towns or villages having more than fifteen thousand (15,000) but less than one hundred thousand (100,000) inhabitants; a minimum sum of fifty thousand dollars (\$50,000.00) in cities, towns or villages having more than one hundred thousand (100,000) inhabitants. The number of inhabitants of the city, town or village shall be determined by the Board in accordance with the latest federal census.

(2) The incorporators, in addition to the payment of initial capital herein required, shall also pay or cause to be paid to the chairman of the incorporators in cash a sum equal to five per cent (5%) of the required initial capital, which amount, if the association be incorporated, shall become and be credited to the contingent or general reserve fund of the association for a period of five (5) years or until the reserves of the association reach at least five per cent (5%) of the capital, whichever shall first occur. The incorporators shall also execute and deliver to the Director such assignment, pledge and delivery of accounts in such association in escrow, as the Director in

his discretion may require to guarantee such association against operating deficits and against losses of any kind which exceed other reserves.

(b) *Expense fund for incorporation and organization.* The incorporators shall create an expense fund in an amount not less than one-half ($\frac{1}{2}$) of the minimum amount of free share subscriptions required to be paid in under sub-section (a) (1) hereof, which shall be in addition thereto, from which expense fund the expense of organizing the association and its operating expenses may be paid until such time as its earnings are sufficient to pay its operating expenses in addition to such dividends as may be declared and paid or credited to its free share account holders from its earnings. The incorporators shall deposit to the credit of the chairman of the incorporators in cash the amount of the expense fund. The amounts contributed to the expense fund by the incorporators shall not constitute a liability of the association except as hereinafter provided.

(c) *Chairman of incorporators to procure surety bond.* The chairman of the incorporators shall procure from a surety company qualified to do business in the State of Maryland a surety bond in form approved by the Director in an amount at least equal to the amount subscribed by the incorporators plus the reserve and expense funds. Such bond shall name the Director as obligee and shall be delivered to him. It shall guarantee the safekeeping of the funds subscribed and their delivery to the association after the issuance of the certificate of incorporation. In the event of the failure to complete organization, such bond shall guarantee the return of the amounts collected to the respective subscribers or their assigns, less reasonable expenses which shall be deducted from the expense fund.

(d) *Repayment of contributions made to expense fund.* Contributions made by the incorporators to the expense fund may be repaid pro rata to the contributors from the net earnings of the association after provision for statutory reserves and declaration of dividends of not less than two per cent (2%) on free share accounts. In case of the liquidation of an association before contributions to the expense fund have been repaid, any contributions to the expense fund remaining unexpended, after the payment of expenses of liquidation, all creditors, and the withdrawal value of all free share accounts, shall be repaid to the contributors pro rata. The books of the association shall reflect the expense fund. Contributors to the expense fund shall be paid dividends on the amounts paid in by them and for such purpose such contributions shall in all respects be considered as free share accounts of the association.

(e) *Filing articles; approval or refusal; fees; appeal; refund.* (1) The articles of incorporation shall be executed in triplicate by the persons joining therein before any officer authorized to take acknowledgments, and then filed with the Board for examination. The Board shall thereupon ascertain from the best sources of information at its command, and by such investigations it may deem necessary, whether the character, responsibility and general fitness of the persons named in such articles are such as to command confidence and warrant belief that the business of the proposed association will be honestly and efficiently conducted in accordance with the intent and purposes of this sub-title and whether the public convenience and advantage will be promoted by allowing such proposed association to engage in business. The Board shall publish the fact that such application has been made for at least two (2) successive weeks after its filing, in a newspaper of general circulation in the city, town or county in which the principal office of the proposed association is to be located, and shall give such other notice as may be desirable. After the Board shall have satisfied itself by such investigation whether it is expedient and desirable to permit such proposed association to engage in business, it shall have power to require such changes in said articles as it may deem necessary. It shall within sixty (60) days after the date of the filing of such articles for examination, endorse upon each of the copies thereof over its official signature, the word "approved" or the word "refused" with the date of such endorsement. In case of refusal it shall return one of the copies so endorsed to the chairman of the proposed incorporators. In case of approval, one copy shall be retained by the Board; the remaining copies shall be returned to the chairman aforesaid of which one shall be filed for record in the office of the clerk of the circuit court for the county in which the principal office of the association is to be located, or in the office of the clerk of the Superior Court of Baltimore City, when the principal office of the association is to be located in said city, and one shall be filed with the State Department of Assessments and Taxation. The corporation so formed shall have no legal existence until all copies of the articles of incorporation have been filed for record as herein directed. The fee for filing such articles of incorporation with the Board shall be one hundred dollars (\$100.00), and for filing amendments to the articles of incorporation, ten dollars (\$10.00), all such fees to be collected by the Board.

(2) Any endorsement shall constitute an order within the meaning of Section 161H of this Article and shall be subject to the appeal

provisions of said Section except that the right of appeal hereby granted shall extend to the applicant or any person feeling himself aggrieved by any endorsement.

(3) Upon final refusal to grant the proposed articles of incorporation, the chairman of the incorporators shall refund to the incorporators all funds deposited by them in accordance with this Section, subject to the payment of all expenses. The Director shall release the bond delivered to him in accordance with sub-section (c) hereof upon satisfactory assurance of such payment and refund.

(f) *Forfeiture of charter for non-use.* Any association heretofore formed which shall not actively engage in business by receiving money for free share accounts and making mortgage loans or making a bona fide commitment in writing for a mortgage loan within ninety (90) days after the effective date of this Section, and any association hereafter formed which shall not actively engage in business by receiving money for free share accounts and making mortgage loans or making a bona fide commitment in writing for a mortgage loan within ninety (90) days after the date upon which its legal corporate existence shall begin, shall forfeit its legal corporate existence unless the Board before the expiration of said ninety-day period, upon written application stating reasons for such delay, shall have approved the extension of time within which it may commence business. Upon such forfeiture, the articles of incorporation shall expire, and all action taken in connection with the incorporation thereof, except the payment of all fees, shall become void. Amounts credited on free share accounts less expenditures authorized by law shall be returned pro-rata to the respective holders thereof.

161N. INDICATION OF A BUILDING OR HOMESTEAD ASSOCIATION.

(a) *Name indicating association.* The name of the corporation shall be such as to indicate that it is a building, savings and loan or homestead association. This provision shall be deemed to be complied with if the name contains the words "savings association", "building association", "savings and loan association", "building and loan association", "building and homestead association" or any combination of these words. The name need not be such as to indicate that it is a corporation.

(b) *Conformity.* Only those building, savings and loan or homestead associations which conform to the provisions of this Article shall be entitled to call themselves savings associations, building associa-

tions, savings and loan associations, building and loan associations, building and homestead associations or any combination of said words.

161O. CHARTER AMENDMENT.

Any amendment to the charter pursuant to Sections 10 through 13 of this Article shall be approved by the Board prior to filing with the State Department of Assessments and Taxation.

161P. ONLY ONE CLASS OF STOCK.

Any building, savings and loan or homestead association heretofore or hereafter formed under this Article shall have or issue only one kind or class of shares or stock and all the holders of such shares or stock shall have equal rights as to voting, earnings and assets, and any association heretofore or hereafter formed shall have power of accepting subscriptions to and payments on account of any number of shares or stock without limit and without other corporate action, notwithstanding any limitation on the number of shares or stock authorized by the existing charter of such association.

161Q. MEMBERSHIP AND VOTING RIGHTS.

All shareholders of associations heretofore or hereafter formed under this Article and all borrowers from such associations, and all persons assuming or obligated upon loans made or held by such associations shall be members thereof, and all persons buying the property securing loans made by such associations subject to such loans shall have the privilege of such membership at all meetings of the members of such associations; each borrower and each obligor upon a loan and each owner shall be entitled to one vote as such borrower, obligor or owner. Shareholders, with the exception of borrowers, shall be entitled to one vote for each share owned.

161R. BY-LAWS; COPY AND FILING.

At the written request of the Director, a copy of the by-laws and any amendments thereto of an association, certified to be a true copy pursuant to Section 48 of this Article, shall be filed with the Director within ten (10) days of such request.

161S. FINANCIAL STATEMENT.

The president of every building or homestead association, or if so provided by the by-laws, some other officer thereof, shall prepare or cause to be prepared annually a statement of its financial condition

in a form prescribed or approved by the Director, which shall be submitted at the annual meeting of the shareholders and filed within twenty (20) days thereafter at the principal office of the association in the State. A certified copy of the statement shall be filed with the Director within twenty (20) days after the annual meeting of the shareholders. A statement of condition of the association shall be delivered to any member upon request.

161T. MANAGEMENT; DIRECTORS.

The business and affairs of every association of this State shall be managed by a board of not less than five (5) nor more than fifteen (15) directors. All the directors shall be bona fide residents of this State, except that up to one-third ($\frac{1}{3}$) of the directors of said board may be residents of states adjacent to Maryland, or the District of Columbia. Such non-resident directors shall be approved by the Board as qualified to serve as such directors.

161U. CONSOLIDATION; MERGER.

Any association shall have power to consolidate or merge with any other incorporated association in this State as provided by this Article for corporations having capital stock, upon first securing approval of the Director. Any association of this State shall have the power to partially liquidate, dissolve or reorganize pursuant to the provisions of this Article pertaining to corporations of this State, upon first filing its proposed plan of partial liquidation, dissolution or reorganization with the Director and securing his prior approval to so do. Any document required by this Article to be filed with the State Department of Assessments and Taxation shall be approved by the Director and so certified. Any association aggrieved by any action or non-action of the Director under this Section may appeal therefrom in accordance with the appeal provisions of Section 161H relating to orders.

161V. PROHIBITED TRANSACTIONS.

(a) *Loan to officer, director or employee.* It shall be unlawful for any association to make a loan to any of its officers, directors or employees, or to any corporation or business in which any officer, director or employee, or any member of the family of such officer, director or employee, owns an interest of ten per cent (10%) or more, except upon the security of the home or free share accounts in the association of such officer, director or employee, provided that any

such loan secured by any free share accounts shall not exceed ninety per cent (90%) of the withdrawal value thereof.

(b) *Exception.* An association may make a loan prohibited by sub-section (a) hereof provided the loan is: (1) approved by a two-thirds ($\frac{2}{3}$) vote of the board of directors, any interested director taking no part in such vote, and (2) appraised by a disinterested appraiser appointed by the Director and (3) approved by said Director.

(c) *Purchase at less than face value.* It shall be unlawful for any officer, director or employee of an association to have any interest, direct or indirect, in the purchase at less than its face value of any free share account or evidence thereof issued by such association.

161W. WITHDRAWAL.

(a) *Procedure; limitation or withdrawal.* Any free shareholder may at any time present a written application for withdrawal of all or any part of his free share accounts. No member shall have on file in any one association more than one application at a time. Every application shall request immediate withdrawal of a stated amount in accordance with this Section. Any member may cancel his application at any time in whole or in part in writing. Every association shall pay, or number, date and file in the order of actual receipt every withdrawal application. Withdrawals shall be made in the order of actual receipt of applications, except as provided in this Section. Upon withdrawal, an association shall pay the value of any free share account as determined by the board of directors, but not in excess of the withdrawal value thereof. If an association so elects, it may at any time pay in full each and every application as presented. It shall not, however, pay some in full unless it pays every application on file in full, except by paying all applications on file on the ratable or pro rata plan prescribed in this Section. The board of directors shall, however, have an absolute right to pay upon any application not exceeding two hundred dollars (\$200.00) to any one account holder in any one month in any order. No association shall obligate itself to pay withdrawals on any plan other than as provided in this Section. Free shareholders who have filed written application for withdrawal shall remain free share members as long as their applications remain on file. No dividends shall be declared on that portion of an account which has been noticed for withdrawal, which for dividend purposes is required to be deducted from the latest previous additions to such account, as long as such application is on file.

(b) *Plan of withdrawal; notices; withdrawing account holders not creditors.* The ratable or pro rata plan of withdrawals is as follows: On the first day of each month, each application which has been on file since the first day of the preceding month shall be paid its ratable or pro rata share. At least one-third ($\frac{1}{3}$) of the receipts of the association from its members during the preceding calendar month, exclusive of interest and expense account payments shall be applied on the first day of each month to the payment of applications which have been on file since the first day of the preceding month. Each succeeding month each such application shall receive its ratable or pro rata share of said receipts as aforesaid; each such application shall be deemed refiled the first of each succeeding month unless withdrawn in writing. Such limited payment on the first of each month, and such renumbering, shall take place on the first day of each subsequent month as long as there are applications unpaid. Any association may apply to withdraws an amount larger than one-third ($\frac{1}{3}$) of such receipts as aforesaid, but cannot obligate itself to do so. All notices with respect to an application for withdrawal as aforesaid shall be sent to the applicant by mail at his last address. Unless the applicant shall apply in person or by writing for such withdrawal within thirty (30) days from the date of such notice, no payment on account of such application shall be made, and such application shall be cancelled. Such withdrawing members shall not at any time be deemed creditors of said association, either before or after the notice to withdraw, and said withdrawing members shall have no right of action at law or in equity against said association for the repayment of any amount sought to be withdrawn unless and until a default shall occur in said payments as provided for above, and then only at law, and to the extent of the secured payments due as above, provided.

161X. DEFINITE RATE SECURITIES FORBIDDEN.

No association shall issue, sell, negotiate, or advertise for sale either to members or the public any type of investment security other than free share accounts. No association shall agree to pay a rate of interest that is guaranteed or an amount in dividends that is fixed upon any free share accounts issued by it. This Section shall not be construed, however, to exclude the power of an association to borrow money from banks, or other similar borrowings.

161Y. INVESTMENTS OF ASSOCIATIONS.

(a) *Power to invest.* In addition to the investments permitted to be made by building or homestead associations organized under the

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laws of this State, pursuant to Section 150 of this Article, every association shall have power to invest:

(1) in such real estate as may be or reasonably anticipated to be necessary or convenient for the transaction of its business, and this shall include the power to derive revenue, by rental or otherwise, from any portion of such real estate;

(2) in real estate purchased at auction sale, public or private, judicial or otherwise, upon which the association has lien or claim, legal or equitable;

(3) in real estate accepted by the association in satisfaction of any obligation;

(4) in real estate acquired by the association in exchange for real estate owned by the association;

(5) in real estate acquired by the association in connection with salvaging the value of property owned by the association;

(6) in chattels and equipment necessary to conduct its business.

(b) *Title to and location of property.* Title to all real estate shall be taken and held in the name of the association. The real or leasehold property securing any mortgage authorized by Section 150 of this Article shall be situate in this State or within a fifty (50) mile radius of the principal Maryland office of the association. Such mortgage shall be a first lien upon such real or leasehold property except that such mortgage may be a second lien if the first lien on said property is held by the association.

161Z. PROMOTIONAL ACTIVITIES PROHIBITED.

After the effective date of this Section, an association shall not give for the opening of, or increasing the amount of, any account, any give-away that has a monetary value in excess of two dollars and fifty cents (\$2.50), provided, however, that the Board shall have full power and authority to change this amount by appropriate regulation. The monetary value of any give-away so given shall be the cost thereof to the association and the association shall keep in its records for a period of at least two (2) years suitable evidence of such cost. If the give-away is purchased or obtained by the association together with, in connection with, or at the same time as another item or other items from the same supplier, not identical therewith, such value shall be deemed to be the then current regular selling price or charge of the supplier on separate sales or disposition thereof in the quantity included, and the association shall in such case obtain, and keep in its records for a period of at least two (2) years, a signed statement by

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such supplier of such regular selling price or charge. As used in the foregoing provisions of this Section, the term "give" means to give, to sell or dispose of for less than full monetary value as hereinbefore defined, or with any agreement or undertaking, contingent or otherwise, for repurchase or redemption, whether total or partial, or to offer, promise, or agree to do any of the foregoing. The term "give-away" means any money, property, service, or other thing of value, whether tangible or intangible. The term "account" means free share account of an association of whatsoever class or designation, accounts, share account, investment certificate, share subscription, and credit to the account of the maker thereof other than credit on account of a loan by the association.

161AA. REVIVAL OF CHARTER.

The charter of any building or homestead association of this State, heretofore or hereafter forfeited for non-payment of taxes, or failure to file an annual report with the State Department of Assessments and Taxation, may, at any time, be revived as set forth in Section 86 of this Article, provided that the articles of revival shall first be approved by the Director under such terms and conditions as may be prescribed by regulations of the Board. Any association aggrieved by the action of the Director in declining to approve such articles or in conditioning his approval thereof may appeal from such action in accordance with the appeal provisions of Section 161H relating to orders.

161BB. EXAMINATIONS.

(a) *Right to make.* The Director shall examine, or cause an examination to be made into, the affairs of every association subject to the provisions of this sub-title at least once every three (3) years, and at such other times as the Director may deem necessary. If an association is not audited at least once every three (3) years in a manner satisfactory to the Director, the examination of such association may include an audit. The Director, the Deputy Director, or his examiner shall have free access to all books and papers of an association which relate to its business, and books and papers kept by any officer, agent, or employee, relating to or upon which any record of its business is kept.

(b) *Federal examinations.* The Director in lieu of such examination and audit may accept an examination and audit made or accepted by a federal home loan bank, the Federal Home Loan Bank Board, or by the Federal Savings and Loan Insurance Corporation.

161CC. FREE SHARE ACCOUNTS AS LEGAL INVESTMENTS.

(a) *Fiduciary accounts.* Any association may accept free share accounts in the name of any administrator, custodian, executor, guardian, trustee, or other fiduciary in trust for a named beneficiary or beneficiaries. Any such fiduciary shall have power to vote as a member as if the membership were held absolutely, to open and to make additions to, and to withdraw any such account in whole or in part. The withdrawal value of any such account, and dividends thereon, or other rights relating thereto may be paid or delivered, in whole or in part, to such fiduciary without regard to any notice to the contrary as long as such fiduciary is living. The payment or delivery to any such fiduciary or a receipt or acquittance signed by any such fiduciary to whom any such payment or any such delivery of rights is made shall be a valid and sufficient release and discharge of an association for the payment or delivery so made. Whenever a person holding an account in a fiduciary capacity dies and no written notice of the revocation or termination of the fiduciary relationship shall have been given to an association and it has no notice of any other disposition of the beneficial estate, the withdrawal value of such account, and dividends thereon, or other rights relating thereto may, at the option of the association, be paid or delivered, in whole or in part, to the beneficiary or beneficiaries. Whenever an account shall be opened by any person, describing himself in opening such account as trustee for another and no other or further notice of the existence and terms of a legal and valid trust than such description shall have been given in writing to the association, in the event of the death of the person so described as trustee, the withdrawal value of such account or any part thereof, together with the dividends or interest thereon, may be paid to the person for whom the account was thus stated to have been opened, and such account and all additions thereto shall be the property of such person. The payment or delivery to any such beneficiary, beneficiaries or designated person, or a receipt or acquittance signed by any such beneficiary, beneficiaries or designated person for any such payment or delivery shall be a valid and sufficient release and discharge of an association for the payment or delivery so made. No association paying any such fiduciary or beneficiary in accordance with the provisions of this Section shall thereby be liable for any estate, inheritance or succession taxes which may be due this State.

(b) *Legal investments.* Administrators, executors, custodians, guardians, trustees, and other fiduciaries of every kind and nature, insurance companies, business and manufacturing companies, banks,

credit unions and all other types of financial institutions, charitable, educational, eleemosynary and public corporations and organizations, and municipalities and other public corporations and bodies, and public officials hereby are specifically authorized and empowered to invest funds held by them, without any order of any court, in free share accounts of building or homestead associations which are under state supervision, and in accounts of federal savings and loan associations organized under the laws of the United States and under federal supervision, and such investment shall be deemed and held to be legal investments for such funds. With respect to investments by custodians, building or homestead associations are hereby deemed to be "banks" within the meaning of that term as used in the Uniform Gifts to Minors Act.

(c) *Provisions are supplemental.* The provisions of this Section are supplemental to any and all other laws relating to and declaring what shall be legal investments for the persons, corporations, organizations, and officials referred to in this Section.

161DD. APPORTIONMENT OF PROFITS.

The board of directors of any association shall apportion the profits of the association, at least annually and as much more often as the by-laws may prescribe; and each apportionment shall be made in accordance with the following procedure:

- (1) A proper allocation first shall be made to the reserve fund.
- (2) Additional allocations then may be made to such special reserves as the board of directors may establish or may have established.
- (3) Dividends then may be declared on all free share accounts in accordance with the provisions of this Article and the by-laws of the association.
- (4) The residue of such profits may be held as "undivided profits," subject to use in the same manner as profits generally.

161EE. RESERVES.

(a) *Minimum allocation.* Each association shall have a reserve fund to which the board of directors shall allocate such portion of the association's profits as the board may determine; except that whenever the total amount of such reserve is less than six per cent (6%) of the aggregate withdrawal value of the association's free share accounts, the allocation to such reserve upon each apportionment of profits shall be not less than ten per cent (10%) of the profits being apportioned,

or such lesser portion as will increase such reserve to the required total amount.

(b) *Special reserves.* The board of directors may establish and maintain such special reserves as they may deem advisable, to provide for losses or liabilities; and losses may be charged to such reserves as the board of directors may determine.

161FF. DIVIDENDS.

(a) *Determined by board of directors; restrictions.* Subject to the restrictions set forth in this Article and the association's by-laws, the board of directors from time to time may determine the rate and the amount of dividends to be paid on free share accounts. However, the declaration of dividends on free share accounts shall be subject to the following restrictions: (1) If the total amount of the reserve fund is less than that required in Section 161EE of this Article, no dividends shall be declared until the allocation provided by said Section has first been made; (2) Dividends shall not be paid at any time or under any circumstances from capital or unearned surplus.

(b) *Small accounts.* A dividend need not be allocated to any free share account which has a withdrawal value of less than ten dollars (\$10.00) on the record date with respect to which the dividend is paid.

(c) *Resolution governing dividends.* The board of directors shall determine by resolution the method of calculating the amount of any dividend on free share accounts, and the date on which the same is to be declared or credited; but no payment or credit shall be made more than ten (10) days before the end of any apportionment period.

161GG. EXPENSES AND MEMORANDUM OF SETTLEMENT.

Every association may require borrowing members to pay all reasonable expenses incurred in connection with the making, closing, disbursing, extending, readjusting, releasing or renewing of real estate loans; provided, however, that no expenses or changes shall be made which violate the usury laws of this State. At each and every settlement there shall be furnished to the borrower a memorandum of settlement which shall show in detail each and every change made in connection with said settlement.

161HH. FRANCHISE TAX.

Every federal and domestic building, savings and loan or home-stead association and foreign association admitted to do business in this State shall pay annually for the use of the State, in addition to

any other tax imposed by law, a franchise tax to the amount of one-one hundredths of one per cent ($\frac{1}{100}$ of 1%) of the aggregate withdrawal value of its free shares purchased in the State of Maryland, and shall certify the said amount due to the State to the Comptroller of the Treasury as other state taxes. Such tax shall be payable without interest at any time on or before April 15, of each and every year, commencing on April 15, 1962, and if such tax be not paid as above provided, then the said tax shall thereafter bear interest at the rate of one-half of one per cent ($\frac{1}{2}$ of 1%) for each month or fraction of a month, and if such tax be not paid before the first day of December following, a penalty of five per cent (5%) on the amount thereof shall be added. Provided, however, that if by reason of any law of any foreign jurisdiction an association chartered in this State and doing business in such other jurisdiction is required to pay a franchise tax to said foreign jurisdiction based upon its free shares purchased in the State of Maryland, then the tax imposed by this section shall be reduced to the extent of such additional franchise tax so paid to said foreign jurisdiction.

161II. SEVERABILITY.

If any provision of this sub-title or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect the other provisions or any other application of this sub-title which can be given effect without the invalid provision or application, and to this end, the provisions of this sub-title are declared to be severable.

161JJ. CONFORMITY.

Sections 161A through 161JJ of this Article shall be considered as additions to all existing laws covering or affecting building, savings and loan or homestead associations, or associations using any combination of these names, and shall replace and prevail over such existing laws to the extent that the provisions of these Sections are contradictory or inconsistent, but only to the extent of such contradiction or inconsistency, and such existing laws, subject to the above provisions, shall be and remain in full force and effect as if these Sections had never been enacted.

Senate of Maryland

NO. 254

PRESIDENT AND SENATORS NORTH AND NORTHROP—
Banking, Insurance and Social Security

By the SENATE, February 1, 1961.

Introduced, read first time and referred to the Committee on Banking,
Insurance and Social Security.

By J. WATERS PARRISH, Secretary.

A BILL

ENTITLED

AN ACT to add new Sections 161A-161KK to Article 23 of the Annotated Code of Maryland (1957 Edition), title "Corporations", sub-title "Building or Homestead Associations", to follow immediately after Section 161 thereof, providing generally for the organization, incorporation, operation, conduct, regulation of and supervision over the savings and loan business, which is known generally as the building, savings and loan or homestead business; providing further for the investments, withdrawal of accounts, taxation, membership, promotional activities, management and functions of such businesses, including class and type of securities, and allocation of profits, reserves and dividends; providing for the branching, consolidation, merger, dissolution, and revival of such businesses; making provision for conservators and receivers for such businesses; exempting accounts of such businesses from "Blue Sky Law"; creating a Board of Building, Savings and Loan Association Commissioners, and making provision for the members of such Board and for their qualifications, tenure, powers and duties; creating a Department of Building, Savings and Loan Associations, providing for a Director and for other officers and employees of this Department, and making provision for the appointment, duties, compensation, policy, powers and duties of all such officers and employees of this Department; providing methods for compliance with stock class requirements; providing penalties for failure or refusal to comply with certain provisions of this Act; and relating generally to the organizations and businesses known generally as building, savings and loan or homestead businesses in this State.

- 1 SECTION 1. *Be it enacted by the General Assembly of Maryland,*
- 2 That new Sections 161A-161KK be and they are hereby added to
- 3 Article 23 of the Annotated Code of Maryland (1957 Edition), title
- 4 "Corporations", sub-title "Building or Homestead Associations" to
- 5 follow immediately after Section 161 thereof, and to read as follows:

EXPLANATION: *Italics indicate new matter added to existing law.*
[Brackets] indicate matter stricken from existing law.

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1 161A. POLICY.

2 It is the declared policy of this State that:

3 (a) The savings and loan business, otherwise known as the build-
4 ing, savings and loan or homestead business, which is within the
5 scope of this Article, has so expanded in recent years and has become
6 so integrated with the financial institutions of this State and is so
7 important as a method of promoting home ownership and thrift,
8 that such business is affected with a public interest and shall be
9 supervised as a business affecting the economic security and general
10 welfare of the people of this State;

11 (b) Such business shall be conducted only by associations or-
12 ganized and conducted in accordance with the authority provided by
13 this Article;

14 (c) The number and minimum size of the associations conducting
15 such business shall be controlled in the interest of securely and
16 efficiently serving the needs of the localities in which they operate;

17 (d) The public interest requires the promotion and fostering of
18 the building, savings and loan or homestead business and the assur-
19 ance of its financial stability;

20 (e) Such associations shall be organized for the purpose of ac-
21 cepting free share accounts and making loans to their members;

22 (f) In order to achieve the aforesaid purposes and policy, it is
23 necessary that all associations shall have only one kind or class of
24 shares or stock and that all the holders of such shares or stock shall
25 have equal rights as to voting, earnings, and assets;

26 (g) In order to further the policies herein expressed, the provisions
27 of this Article applicable to associations shall be liberally construed
28 to promote and foster the purposes of such associations.

1 161B. APPLICATION OF PROVISIONS.

2 (a) Definition of "association." As used in this sub-title, the word
3 "association" shall mean building, savings and loan or homestead
4 association or any other similar association by whatever name called.

5 (b) Domestic and foreign associations. The provisions of this
6 Article shall apply to all associations heretofore or hereafter or-
7 ganized under the laws of this State; and to all foreign associations
8 duly authorized to do business in this State;

9 (c) Federal associations. Unless Federal laws or regulations pro-
10 vide otherwise, Federal associations incorporated pursuant to the
11 Homeowners Loan Act of 1933, as amended, and their members shall
12 be subject to the provisions of this sub-title and shall possess all of
13 the rights, powers, privileges, immunities and exemptions granted
14 by this Article to associations operating hereunder and to the mem-
15 bers thereof.

1 161C. PROHIBITIONS.

2 (a) Who may transact business. No person or group of persons
3 except (1) an association duly incorporated under Sections 161A
4 through 161KK of this Article, or (2) an association duly incorpo-
5 rated prior to the enactment of the aforesaid Sections and conducted
6 in conformity with the aforesaid Sections, or (3) a Federal associa-
7 tion, or (4) a foreign association duly authorized to do business
8 within this State and complying and conducting its business in con-
9 formity with the aforesaid Sections, shall transact business within

10 the scope of this sub-title or do business under any name or title,
 11 or circulate or use any advertising or make any representation or
 12 give any information to any person which indicates or reasonably
 13 implies the operation of a building, savings and loan or homestead
 14 business.

15 (b) Injunction. Upon application of the Director, with the ap-
 16 proval of the Board, a court of competent jurisdiction may issue an
 17 injunction to restrain any person or association from violating or
 18 continuing to violate any of the provisions of sub-section (a) hereof.

19 (c) Fine. In addition to the remedy provided in sub-section (b)
 20 hereof, any person or association violating any of the provisions of
 21 sub-section (a) hereof shall be deemed guilty of a misdemeanor and
 22 upon conviction shall be subject to a fine of not more than one thou-
 23 sand dollars (\$1,000.00) for each offense.

1 161D. EFFECT ON EXISTING BUILDING OR HOMESTEAD
 2 ASSOCIATIONS.

3 (a) By-laws, shares, etc.; operation. Except as provided in sub-
 4 sections (b) and (c) hereof, the by-laws, shares, contracts, and ob-
 5 ligations of any existing association shall continue in full force and
 6 effect. All such associations shall henceforth be operated and regu-
 7 lated in accordance with the provisions of Sections 161A through
 8 161KK of this Article.

9 (b) Compliance with stock class provisions. (1) If any associa-
 10 tion referred to in sub-section (a) hereof does not meet the standard
 11 and requirements established and provided by Section 161P of this
 12 Article, such association may, on or before July 1, 1962: (i) comply
 13 with such standards and requirements by filing appropriate articles
 14 of amendment with the Board and with the State Department of
 15 Assessments and Taxation; or (ii) if such articles of amendment are
 16 not so filed, or if any such association otherwise fails to conform to
 17 the provisions of this Article, such association may, on or before
 18 August 1, 1962, file articles of amendment with the Board and with
 19 the State Department of Assessments and Taxation amending its
 20 charter by relinquishing such portion of its name, powers and pur-
 21 poses as relate to associations existing under this Article so that it
 22 shall cease to exist as an association, and pursuant to such articles
 23 of amendment shall thereafter continue in business as an ordinary
 24 business corporation for the purposes and with the powers set forth
 25 in such articles of amendment. Any association which shall fail to
 26 file articles of amendment as hereinbefore provided shall be deemed
 27 to have entered into a voluntary liquidation, and upon and after
 28 August 1, 1962, shall cease to do business and shall continue in exist-
 29 ence only for the purposes and with only the powers and duties set
 30 forth in Sections 76-78 and 82-83 of this Article; and any director,
 31 stockholder or creditor of such association may petition the Circuit
 32 Court of Baltimore City or the circuit court for the county in which
 33 the principal office of the association is located, to take jurisdiction
 34 of the liquidation of such association as provided in Section 79 of
 35 this Article.

36 (2) After August 1, 1962, if any association which has failed to
 37 file articles of amendment in accordance with sub-section (b) (1)
 38 hereof shall engage in any activities other than those specified in
 39 such sub-section, the Attorney General may, and upon notification
 40 by the Board shall, institute proceedings against such association as
 41 provided in Section 84 of this Article.

42 (c) Minimum share requirements. (1) Every association referred
 43 to in sub-section (a) hereof shall have and maintain a minimum
 44 aggregate amount of free share accounts, determined by the location
 45 of the principal office of the association, as follows: ten thousand

46 dollars (\$10,000.00) in cities, towns or villages having up to fifteen
 47 thousand (15,000) inhabitants; twenty-five thousand dollars (\$25,-
 48 000.00) in cities, towns or villages having more than fifteen thousand
 49 (15,000) but less than one hundred thousand (100,000) inhabitants;
 50 fifty thousand dollars (\$50,000.00) in cities, towns or villages having
 51 one hundred thousand (100,000) or more inhabitants. The number
 52 of inhabitants of the city, town or village shall be determined by
 53 the Board in accordance with the latest federal census. Any associa-
 54 tion not complying with the foregoing minimum requirements on
 55 the effective date of this section shall comply within ninety (90)
 56 days from such effective date.

57 (2) If any association fails to comply with the provisions of sub-
 58 section (c) (1) hereof, the Attorney General may, and upon notifica-
 59 tion by the Board shall, institute proceedings against such associa-
 60 tion as provided in Section 84 of this Article.

1 161E. BOARD OF COMMISSIONERS.

2 (a) Established. The Board of Building, Savings and Loan As-
 3 sociation Commissioners (referred to herein as the "Board") is
 4 hereby created with the powers and duties specified in this sub-title
 5 and with such powers as may be necessary and proper to the full
 6 and effectual execution of the purposes of this Article relative to
 7 associations.

8 (b) Composition, Appointment, Qualifications and Tenure. The
 9 Board of Building, Savings and Loan Association Commissioners
 10 shall consist of seven (7) members who shall be appointed by the
 11 Governor with the advice and consent of the Senate. Each of the
 12 members shall have been a resident and registered voter of the State
 13 of Maryland and engaged as an officer, director or attorney of a
 14 building association, the principal place of business of which is
 15 located in this State, for at least the five (5) year period next pre-
 16 ceding his appointment. At least four (4) of the members shall
 17 have been actively engaged as an officer, director or attorney of a
 18 building association chartered or incorporated under the laws of
 19 the State of Maryland, free share accounts of which are not in-
 20 sured. At least two (2) of the members shall have been actively en-
 21 gaged as an officer, director or attorney of an association free share
 22 accounts of which are insured by an instrumentality of the United
 23 States Government. At least three (3) of the members shall be resi-
 24 dents of Baltimore City. At least three (3) of the members shall
 25 be residents of the counties of Maryland. However, one (1) of the
 26 members shall be selected from the public at large and the require-
 27 ment that such member shall have been an officer, director or at-
 28 torney of an association shall not apply. Not more than four (4)
 29 of such members shall be of the same political party. The term of
 30 office of the members of said Board shall be four (4) years, com-
 31 mencing on the first day of June next ensuing their respective ap-
 32 pointments, except as hereinafter provided, and such members shall
 33 hold office until their respective successors have been appointed and
 34 qualified. Any vacancy on the Board shall be filled by the Governor
 35 for the unexpired term created thereby. Initially, three (3) of the
 36 members shall be appointed to serve from the first day of June,
 37 1961, through the 31st day of May, 1963, and four (4) of the mem-
 38 bers shall be appointed to serve from the first day of June, 1961,
 39 through the 31st day of May, 1965. All members of the Board shall
 40 serve without compensation, but shall be reimbursed for necessary
 41 and proper expenses incurred while actually engaged in the per-
 42 formance of their duties as members.

43 (c) Seal. The Board shall have an official seal bearing the in-
 44 scription "Board of Building, Savings and Loan Association Com-
 45 missioners of the State of Maryland."

46 (d) Oath. Each member of the Board and the Director and Deputy
 47 Director of the Department shall take and subscribe the oath pre-
 48 scribed by the Constitution, to be administered by the clerk, or one
 49 of the sworn deputies, of the circuit court of the county or the
 50 Superior Court of Baltimore City, according to the residence of
 51 each appointee.

52 (e) Powers and Duties. (1) The Board shall elect from its mem-
 53 bers a chairman, vice-chairman and secretary; shall adopt regula-
 54 tions for the holding and conducting of meetings and for holding
 55 hearings concerning all matters within its powers; and shall keep
 56 a record of all meetings and transactions. Regular meetings shall
 57 be held as provided in the regulations, and special meetings may be
 58 called by the chairman or upon request of any four (4) members of
 59 the Board.

60 (2) The Board shall submit, within thirty (30) days after the
 61 first formal meeting of the Board, a list to the Governor of the
 62 names of five (5) persons qualified as herein set forth and competent
 63 in the opinion of the Board to perform the duties and functions of
 64 the Director. Thereafter the Board shall submit to the Governor
 65 such a list not less than thirty (30) days before the date of the ex-
 66 piration of the term of appointment of the Director, or, in the case
 67 of vacancy, within fifteen (15) days of the occurrence of said
 68 vacancy.

69 (3) The Board shall have full power to:

70 (i) advise and make recommendations to the Director on all and
 71 any questions within the scope of authority of the Director;

72 (ii) submit to the Governor proposed amendments to the build-
 73 ing, savings and loan association laws of Maryland which it deems
 74 desirable;

75 (iii) establish methods and standards (1) to be used in making
 76 examinations of associations, (2) for the valuation of assets of as-
 77 sociations and (3) for advertising and promotional activities by
 78 associations;

79 (iv) to make, adopt, modify and amend such rules and regulations
 80 as may be reasonable and necessary to carry out the provisions of
 81 this Article, and to define any terms used therein as they may relate
 82 to or affect associations.

83 (f) Disqualification. A member of the Board having any interest
 84 in or connection with an association as shareholder, director, mort-
 85 gagee, attorney or otherwise shall not pass on any order or sit in
 86 any hearing affecting such association.

87 (g) Quorum. A majority of the members of the Board shall con-
 88 stitute a quorum for the holding of meetings and hearings, but no
 89 action shall be taken in the name of the Board without the concu-
 90 rrence of at least four (4) members in attendance.

1 161F. OATHS; SUBPOENAS.

2 (a) Power to administer and issue. At any hearing before the
 3 Board provided for in Section 161H of this Article, the Board or
 4 any member thereof shall have the power to administer oaths. In
 5 connection with any such hearing, the Board may issue subpoenas
 6 to compel the attendance and testimony of witnesses or the pro-
 7 duction of documents, either on the Board's own motion or at the

8 request of any intervenor or party, which subpoenas shall extend to
 9 all parts of the State and shall be issued and signed by the Director
 10 or by any member of the Board. The Board shall have power on
 11 motion after due notice, for good cause, to quash or modify any
 12 subpoena on the ground that such subpoena is unduly burdensome,
 13 unreasonable or oppressive. Subpoenas shall be served personally
 14 through the sheriff's office in the city or county in which service
 15 can be made, or by any person of lawful age.

16 (b) Failure to comply. If a person upon whom a subpoena has
 17 been properly served fails to obey its command, without reasonable
 18 cause, or if a person in attendance before the Board shall, without
 19 reasonable cause, refuse to be sworn or examined, or answer a ques-
 20 tion, or produce a book or paper when ordered to do so, pursuant to
 21 subpoena, the Board may, and upon request of any party to pro-
 22 ceedings before the Board, shall apply to any judge of the Supreme
 23 Bench of Baltimore City or of the circuit court of any county, upon
 24 proof by affidavit of the fact, for a rule or order returnable within
 25 not less than two (2) nor more than five (5) days, directing such
 26 person to show cause before the judge who made the order, or any
 27 other judge of the same bench or circuit, why he should not be ad-
 28 judged guilty of a contempt and punished as contempts are punish-
 29 able by courts of record; upon the return of such order, the judge,
 30 before whom the matter shall come on for a hearing, shall examine
 31 under oath such person and such person shall be given an oppor-
 32 tunity to be heard in his own defense; and if the judge shall de-
 33 termine that such person has refused, without reasonable cause or
 34 legal excuse, to be examined or to answer a legal or pertinent ques-
 35 tion, or to produce a book, paper or other document which he was
 36 ordered to produce, he may forthwith find the offender in contempt
 37 of court.

38 (c) Required to testify. No person shall be excused from testifying
 39 or from producing any books or papers or documents at any hearing
 40 before the Board, when ordered to do so by the Board, upon the
 41 ground that the testimony or evidence, books, papers or documents
 42 required of him may tend to incriminate him or subject him to
 43 penalty or forfeiture; but no person shall be prosecuted, punished
 44 or subjected to any penalty or forfeiture for or on account of any
 45 act, transaction, matter or thing concerning which he shall, under
 46 oath, have, by order of the Board, testified to or produced docu-
 47 mentary evidence relative thereto, provided, however, no person
 48 shall be exempt from prosecution unless he shall first have asserted
 49 his constitutional rights and privileges; and provided, however, that
 50 no person so testifying shall be exempt from prosecution or punish-
 51 ment for any perjury committed by him in his testimony.

1 161G. DEPARTMENT AND DIRECTOR.

2 (a) Establishment, Appointment, Qualifications and Tenure. The
 3 Department of Building, Savings and Loan Associations is hereby
 4 established. The head of the Department, with general powers of
 5 administration, shall be the Director, who shall be appointed by the
 6 Governor as of the first day of July, 1961, and each sixth (6th) year
 7 thereafter from the list of five (5) persons submitted to him by
 8 the Board pursuant to Section 161E of this Article. Each of the
 9 persons named on such list shall have at least five (5) years' ex-
 10 perience as an officer, director or attorney of an association chartered
 11 or incorporated under the laws of the State of Maryland or as an
 12 employee of the Department and each for at least the five (5)
 13 previous years shall have been a resident and registered voter of
 14 Maryland. The Director shall hold office for six (6) years and until
 15 his successor shall have been duly appointed and qualified. The

16 Governor may remove the Director for official misconduct, incom-
 17 petency or neglect of duty. Any vacancy in the office of Director
 18 shall be filled by the Governor for the unexpired portion of the term
 19 from a list of names of qualified persons as aforesaid, to be sub-
 20 mitted pursuant to Section 161E hereof. The Director shall devote
 21 his entire time to the duties of his office and shall be paid such sal-
 22 ary as may be provided for in the budget.

23 (b) Bond. The Director shall give bond to the State of Maryland
 24 in the amount of twenty thousand dollars (\$20,000.00) and in such
 25 form as the Board may require and conditioned upon proper and
 26 faithful discharge of his duties.

27 (c) Powers. The Director shall have general supervision over all
 28 associations which are subject to the provisions of this Article by
 29 use of the powers conferred upon him by law. The Director may
 30 pass such orders as he deems necessary to compel any association:
 31 (1) to comply with its charter, constitution and by-laws; (2) to
 32 comply with the laws of this State to carry out the purposes of this
 33 sub-title; (3) to comply with such regulations as may be adopted
 34 pursuant to the provisions of this sub-title. But, no such order
 35 shall become effective until the Director shall have first given the
 36 directors of such association, or their representatives, an oppor-
 37 tunity to be heard at a time and place designated by the Director.

1 161H. ORDERS; HEARINGS.

2 (a) Director to order discontinuance of illegal practice. If the
 3 Director, as a result of any examination or from any report made
 4 to him, shall find that any association is violating the provisions of
 5 its articles of incorporation or by-laws, or the laws of this State, or
 6 of the United States, or any lawful order of the Director, he shall,
 7 by written order, state the alleged violation therein, together with
 8 the facts alleged to constitute such violation, and direct discon-
 9 tinuance of such violation and conformance with all requirements
 10 of law.

11 (b) Contents of order; finality without hearing. Every communi-
 12 cation having the effect of an order to any association shall be in
 13 writing signed by the Director stating in detail the violation com-
 14 plained of and shall be sent by registered mail to the association
 15 affected thereby, addressed to the president thereof at the home
 16 office of the association as shown by the latest records on file with
 17 the Department, or, at the request of said association, to such per-
 18 son as may be designated by the association to the Director. Such
 19 communication shall include the designation of a time and place
 20 for a departmental hearing before the Director, which shall in no
 21 event be less than twenty (20) days from the date of the mailing
 22 of such order. If, at such time and place, no one appears on behalf
 23 of the association, the order shall become final.

24 (c) Appeal to and hearing before the Board. If, after depart-
 25 mental hearing, the Director issues an order relative to the subject
 26 matter of such hearing, such order shall be mailed, registered mail,
 27 return receipt requested, to the association affected thereby, as pro-
 28 vided in sub-section (a) hereof, and such order shall become final
 29 unless the association affected thereby shall file with the Board an
 30 appeal within twenty (20) days from the date of mailing of such
 31 order. Within thirty (30) days after the filing of such appeal, the
 32 Board shall hold a hearing. A record may be made by the Board of
 33 all testimony and proceedings at such hearing. Within thirty (30)
 34 days after such hearing the Board shall determine whether said
 35 order shall be sustained, rejected or modified, and the Board shall

36 pass a final order in the matter and shall mail a copy thereof by
37 registered mail as hereinbefore provided for the mailing of orders.

38 (d) Appeal from order of the Board. The association affected
39 or the holders of at least ten per cent (10%) of the par value of the
40 free shares of said association shall have the right within thirty (30)
41 days of the date of mailing of any final order of the Board to ap-
42 peal from such order by filing a petition in the Circuit Court of Bal-
43 timore City or in the circuit court for the county in which the prin-
44 cipal Maryland office of the association is located. Such petition for
45 appeal shall set forth the action appealed from and the basis for
46 the appeal; copies of the petition shall be served upon the Director
47 and all other parties of record.

48 (e) Judicial review. The court to which the appeal is taken shall
49 hear the matter de novo, without a jury, and the parties may call
50 such witnesses and introduce such evidence as may be proper in the
51 premises. The court may affirm, reverse, or modify the order ap-
52 pealed from, or remand the case to the Board for further proceedings
53 as may be required. An appeal may be taken from the decision of
54 the court hearing said appeal to the Court of Appeals of Maryland
55 by any party to the proceedings in the same manner as other ap-
56 peals are taken from decrees or orders of courts.

57 (f) Stay. No appeal shall stay the operation of any final order
58 of the Board unless ordered by the court in which the appeal is
59 pending and upon such terms and conditions as the court may pre-
60 scribe.

1 161-I. DEPUTY DIRECTOR, EMPLOYEES AND EXAMINERS.

2 (a) Appointment. The Director, with the approval of the Board,
3 shall appoint a Deputy Director, examiners and such number of
4 additional employees of the Department of Building, Savings and
5 Loan Associations as may be provided for in the budget. The ap-
6 pointment of all examiners and employees, other than the Deputy
7 Director, shall be from the classified service of the State of Mary-
8 land, and in accordance with the rules and practice of the merit
9 system. The Deputy Director shall be appointed and hold office at
10 the will of the Director, and the provisions of Article 64A of this
11 Code, title, "Merit System," shall not apply.

12 (b) Merit System. The Director at his discretion may appoint
13 the Deputy Director from among the classified employees in the
14 Department, and if such appointee is subsequently removed from
15 or ceases to hold his position as Deputy Director, he shall be restored
16 to the merit system status in the position held by him at the time
17 of his appointment as Deputy Director.

18 (c) Disqualification. The Director, Deputy Director and examiners
19 shall not be officers, directors, attorneys, employees or agents of,
20 or in any manner be interested in, any association, except that they
21 may be holders of free share accounts.

22 (d) Deputy Director to act for Director, give bond. In the absence
23 of the Director or upon proper delegation by him, the Deputy Di-
24 rector shall act in the place and stead of the Director and in so
25 acting shall have the same powers and duties as the Director. The
26 Deputy Director shall give bond to the State of Maryland in the same
27 amount and upon the same conditions as that required of the Di-
28 rector.

1 161J. INFORMATION TO BE CONFIDENTIAL.

2 The Director and his Deputy, examiners and employees shall keep
3 confidential any information obtained in an examination, except

4 when the public duty of such persons requires them to report upon
 5 and to take official action regarding the affairs of the association
 6 examined. When the Director by and with the consent of the Board
 9 deems it to the interest of the public, he may publish the results of
 10 the examination of an association in one or more newspapers of
 11 general circulation in the city or counties in which such association
 12 is located or doing business. This provision shall not prevent the
 13 proper exchange of information relating to associations, and to their
 14 business, with the representatives of associations of this or other
 15 states or with the representatives of the Federal Home Loan Bank
 16 Board.

1 161K. CONSERVATORSHIP.

2 (a) Conservator. In the event that any association shall fail or
 3 refuse to carry out any final order, and should the Board believe that
 4 the public interest may be served by the appointment of a conservator,
 5 it is authorized, acting through the Attorney General, to apply to an
 6 equity court for the city or county where the association has its
 7 principal Maryland office for the appointment of a conservator.
 8 Such court is authorized to appoint a conservator if it finds that
 9 such associations: (1) is in an impaired or insolvent condition; or
 10 (2) is in substantial violation of any valid and applicable law or
 11 regulation; or (3) is concealing any of its assets, books or records;
 12 or (4) is conducting an unsafe or unsound operation. The Director
 13 or his Deputy, or examiner, or any other responsible person may be
 14 appointed by the court as conservator, and a certified copy of the
 15 order of the court making such appointment shall be evidence thereof,
 16 and such conservator shall have the power and authority provided
 17 in this sub-title and such other power and authority as may be ex-
 18 pressed in the orders of the court. Such conservator shall endeavor
 19 promptly to remedy the situations complained of in the petition for
 20 his appointment and may recommend plans of reorganization, com-
 21 position or rearrangement of the affairs of such association. Within
 22 six (6) months of the date of such appointment, or within such time
 23 as the court may order, such association shall be returned to its
 24 board of directors and thereafter shall be managed and operated as
 25 if no conservator had been appointed, or a receiver shall be appointed
 26 as hereinafter provided. If the Director, or his Deputy, or examiner
 27 is appointed conservator, he shall receive no additional compensation,
 28 but if another person is appointed, then the compensation of the
 29 conservator, as determined by the court, shall be paid by the associa-
 30 tion. A certified copy of the order of the court discharging such
 31 conservator and returning such association to its directors shall
 32 be sufficient evidence thereof.

33 (b) Powers of conservator. By order of the appointing court, any
 34 conservator appointed shall have all the rights, powers, and privi-
 35 leges possessed by the officers, board of directors, and members of
 36 the association.

37 (c) Special counsel, expenses. Unless directed otherwise by order
 38 of the appointing court, the conservator shall not retain special
 39 counsel, or incur any expenses other than normal operating ex-
 40 penses, or liquidate assets except in the ordinary course of operations.

41 (d) Removal of any officer, director or employee. The directors
 42 and officers of any association for whom a conservator has been
 43 appointed as provided herein shall remain in office and the employees
 44 of such association shall remain in their respective positions; how-
 45 ever, by order of the appointing court, upon recommendation of the
 46 Board, the conservator may remove any director, officer, or employee.

47 (e) Operation of association. By order of the appointing court,
 48 while an association is in the charge of a conservator, members of

49 such association shall continue to make payments to the association
 50 in accordance with the terms and conditions of their contracts, and
 51 the conservator may permit free share account holders to withdraw
 52 their accounts from the association pursuant to the provisions of
 53 such order. The conservator shall have power to accept free share
 54 accounts and additions to free share accounts, but any such amounts
 55 received by the conservator may be segregated; if so ordered, such
 56 amounts shall not be subject to offset and shall not be used to liquidate
 57 any indebtedness of such association existing at the time the con-
 58 servator was appointed for it or any subsequent indebtedness in-
 59 curred for the purpose of liquidating the indebtedness of any such
 60 association existing at the time such conservator was appointed. All
 61 expenses of the association during such conservatorship shall be
 62 paid by the association.

1 161L. RECEIVERSHIP.

2 (a) Appointment of receiver. If irregularities complained of in
 3 a final order are not corrected, or if any irregularities complained of
 4 in a petition for the appointment of a conservator are not corrected,
 5 or in the case of any emergency, the Board, if in its judgment the
 6 public interest requires, acting through the Attorney General, may
 7 apply to an equity court for the city or county where the association
 8 has its principal Maryland office for the appointment of a receiver,
 9 who may be the Director. Such court is authorized to appoint a
 10 receiver if it finds that such association: (1) is in an impaired or
 11 insolvent condition; or (2) is in substantial violation of any valid
 12 and applicable law or regulation; or (3) is concealing any of its
 13 assets, books or records; or (4) is conducting an unsafe and unsound
 14 operation.

15 (b) Procedure. The procedure in such receivership action, shall
 16 be in all other respects in accordance with the practice in such
 17 court, including all rights of appeal and review provided by law.

1 161M. INCORPORATION AND ORGANIZATION.

2 (a) Selection of chairman of incorporators; subscriptions required;
 3 general reserve fund. (1) Any number of persons, not less than five
 4 (5), who shall be at least twenty-one (21) years of age, citizens of
 5 the United States and bona fide residents of this State, may hereafter
 6 associate as incorporators to establish an association under this
 7 Article upon the terms and conditions and subject to the liabilities
 8 prescribed herein. The incorporators shall appoint one of their num-
 9 ber as chairman of the incorporators. The incorporators shall pay
 10 in cash to such chairman as subscriptions to free share accounts of
 11 the proposed association, including that part of the original sub-
 12 scription paid by such chairman, an aggregate amount, determined
 13 by the location of the principal office of the proposed association, as
 14 follows: a minimum sum of ten thousand dollars (\$10,000.00) in
 15 cities, towns or villages having up to fifteen thousand (15,000),
 16 inhabitants; a minimum sum of twenty-five thousand dollars (\$25,-
 17 000.00) in cities, towns or villages having more than fifteen thousand
 18 (15,000) but less than one hundred thousand (100,000) inhabitants;
 19 a minimum sum of fifty thousand dollars (\$50,000.00) in cities,
 20 towns or villages having one hundred thousand (100,000) or more
 21 inhabitants. The number of inhabitants of the city, town or village
 22 shall be determined by the Board in accordance with the latest federal
 23 census. The minimum aggregate amount of free share accounts
 24 hereinbefore provided shall be maintained at all times by any asso-
 25 ciation incorporated hereunder.

26 (2) The incorporators, in addition to the payment of initial sub-
 27 scriptions to free share accounts herein required, shall also pay or

28 cause to be paid to the chairman of the incorporators in cash a sum
29 equal to six per cent (6%) of the required initial subscriptions, which
30 amount, if the association be incorporated, shall become and be
31 credited to the general reserve fund of the association for a period
32 of five (5) years or until said general reserve fund, less the amount
33 required to be paid under this sub-section, reaches at least six per
34 cent (6%) of the withdrawal value of the association's free share
35 accounts, whichever shall first occur. The incorporators shall also
36 execute and deliver to the Director such assignment, pledge and
37 delivery of accounts in such association in escrow, as the Director
38 in his discretion may require to guarantee such association against
39 operating deficits and against losses of any kind which exceed other
40 reserves. This sub-section shall not be construed as applying to asso-
41 ciations in existence at the effective date of this sub-section.

42 (b) Expense fund for incorporation and organization. The in-
43 corporators shall create an expense fund in an amount not less than
44 one-half ($\frac{1}{2}$) of the minimum amount of free share subscriptions
45 required to be paid in under sub-section (a) (1) hereof, which shall
46 be in addition thereto, from which expense fund the expense of or-
47 ganizing the association and its operating expenses may be paid
48 until such time as its earnings are sufficient to pay its operating
49 expenses in addition to such dividends as may be declared and paid
50 or credited to its free share account holders from its earnings. The
51 incorporators shall deposit to the credit of the chairman of the in-
52 corporators in cash the amount of the expense fund. The amounts
53 contributed to the expense fund by the incorporators shall not con-
54 stitute a liability of the association except as hereinafter provided.

55 (c) Chairman of incorporators to procure surety bond. The chair-
56 man of the incorporators shall procure from a surety company quali-
57 fied to do business in the State of Maryland a surety bond in form
58 approved by the Director in an amount at least equal to the amount
59 subscribed by the incorporators plus the reserve and expense funds.
60 Such bonds shall name the Director as obligee and shall be delivered
61 to him. It shall guarantee the safekeeping of the funds subscribed
62 and their delivery to the association after the issuance of the certifi-
63 cate of incorporation. In the event of the failure to complete or-
64 ganization, such bond shall guarantee the return of the amounts
65 collected to the respective subscribers or their assigns, less reasonable
66 expenses which shall be deducted from the expense fund.

67 (d) Repayment of contributions made to expense fund. Contri-
68 butions made by the incorporators to the expense fund may be repaid
69 pro rata to the contributors from the net earnings of the association
70 after provision for statutory reserves and declaration of dividends
71 of not less than two per cent (2%) per annum on free share accounts.
72 In case of the liquidation of an association before contributions to
73 the expense fund remaining unexpended, after the payment of ex-
74 penses of liquidation, all creditors, and the withdrawal value of all
75 free share accounts, shall be repaid to the contributors pro rata. The
76 books of the association shall reflect the expense fund. Contributors
77 to the expense fund shall be paid dividends on the accounts paid in
78 by them and for such purpose such contributions shall in all respects
79 be considered as free share accounts of the association.

80 (e) Filing articles; approval or refusal; fees; appeal; refund.
81 The articles of incorporation shall be executed in duplicate by the
82 persons joining therein before any officer authorized to take ac-
83 knowledgments, and then filed with the Board for examination. The
84 fee for filing such articles of incorporation with the Board shall be
85 one hundred dollars (\$100.00), to be collected by the Board. The
86 Board shall publish the fact that such application has been made for
87 at least two (2) successive weeks after its filing, in a newspaper

88 of general circulation in the city, town or county in which the prin-
 89 cipal office of the proposed association is to be located, and shall set
 90 a time for a public hearing on such application which shall be held
 91 no later than thirty (30) days after the date of the filing of such
 92 articles for examination. At such hearing the Board shall ascertain
 93 from the best sources of information at its command whether the
 94 character, responsibility and general fitness of the persons named
 95 in such articles are such as to command confidence and warrant be-
 96 lief that the business of the proposed association will be honestly
 97 and efficiently conducted in accordance with the intent and purposes
 98 of this sub-title and whether the public interest, convenience and
 99 advantage will be promoted by allowing such proposed association
 100 to engage in business. The Board shall have the power to require
 101 such changes in the articles filed for application as it deems neces-
 102 sary. Within sixty (60) days after the date of the filing of such
 103 articles for examination, and after the public hearing referred to in
 104 this sub-section has been held, the Board shall pass an order approv-
 105 ing or refusing the application, and such order may be subject to
 106 an appeal by the applicant or any person feeling himself aggrieved
 107 by the passage of such order, in accordance with the provisions and
 108 conditions of Section 161H of this sub-title. When the time for
 109 filing an appeal to such an order referred to in this sub-section has
 110 expired, the Board shall endorse upon each copy of the articles filed
 111 for examination, over its official signature, the word "approved"
 112 or the word "refused" with the date of such endorsement. In case of
 113 refusal it shall return one of the copies so endorsed to the chairman
 114 of the proposed incorporators. In case of approval, one copy so en-
 115 dorsed shall be retained by the Board; the remaining copy so en-
 116 dorsed shall be returned to the chairman aforesaid who shall file that
 117 copy with the State Department of Assessments and Taxation in
 118 accordance with the provisions of this Article. The corporation so
 119 formed shall have no legal existence until all copies of the articles of
 120 incorporation have been filed for record as herein directed.

121 (2) Upon final refusal to grant the proposed articles of incorpora-
 122 tion, the chairman of the incorporators shall refund to the incorpo-
 123 rators all funds deposited by them in accordance with this Section,
 124 subject to the payment of all expenses. The Director shall release the
 125 bond delivered to him in accordance with sub-section (c) hereof upon
 126 satisfactory assurance of such payment and refund.

127 (f) Forfeiture of charter for non-use. Any association heretofore
 128 formed which shall not actively engage in business by receiving
 129 money for free share accounts or making mortgage loans within
 130 ninety (90) days after the effective date of this Section, and any
 131 association hereafter formed which shall not actively engage in busi-
 132 ness by receiving money for free share accounts or making mortgage
 133 loans within ninety (90) days after the date upon which its legal
 134 corporate existence shall begin, shall forfeit its corporate charter
 135 for non-use, upon entry of an order, in accordance with Section 161H
 136 of this Article, finding no just cause for failure so actively to engage
 137 in business and directing the association to cease and dissolve its
 138 business. A copy of such order shall, upon finality, be certified to
 139 the State Department of Assessments and Taxation and, from the
 140 time of receipt by said Department, the powers conferred by law
 141 upon the association shall be inoperative, null and void.

1 161N. INDICATION OF A BUILDING OR HOMESTEAD AS-
 2 SOCIATION.

3 (a) Name indicating association. The name of the corporation
 4 shall be such as to indicate that it is a building, savings and loan or
 5 homestead association. This provision shall be deemed to be com-
 6 plied with if the name contains the words "savings association",

7 "building association", "savings and loan association", "building and
8 loan association", "building and homestead association" or any com-
9 bination of these words. The name need not be such as to indicate
10 that it is a corporation.

11 (b) *Conformity.* Only those building, savings and loan or home-
12 stead associations which conform to the provisions of this Article
13 shall be entitled to call themselves savings associations, building as-
14 sociations, savings and loan associations, building and loan associa-
15 tions, building and homestead associations or any combination of
16 said words.

1 **161-O. CHARTER AMENDMENT.**

2 Any amendment to the charter pursuant to Sections 10 through 13
3 of this Article shall be executed and filed with the Board in accord-
4 ance with the procedures set forth in sub-section 161M(d) of this
5 Article for the filing of articles of incorporation, except that the
6 provision requiring newspaper publication of the fact of filing shall
7 not apply. The fee for filing articles of amendment with the Board
8 shall be ten dollars (\$10.00), to be collected by the Board.

1 **161P. ONLY ONE CLASS OF STOCK.**

2 Any association heretofore or hereafter formed under this Article
3 shall have or issue only one kind or class of shares or stock and all
4 the holders of such shares or stock shall have equal rights as to
5 voting, earnings and assets, and any association heretofore or here-
6 after formed shall have power of accepting subscriptions to and pay-
7 ments on account of any number of shares of stock without limit
8 and without other corporate action, notwithstanding any limitation
9 on the number of shares or stock authorized by the existing charter
10 of such association.

1 **161Q. MEMBERSHIP AND VOTING RIGHTS.**

2 All shareholders of associations heretofore or hereafter formed
3 under this Article and all borrowers from such associations, and all
4 persons assuming or obligated upon loans made or held by such as-
5 sociations shall be members thereof, and all persons buying the
6 property securing loans made by such associations subject to such
7 loans shall have the privilege of such membership at all meetings of
8 the members of such associations; each borrower and each obligor
9 upon a loan and each owner shall be entitled to one vote as such
10 borrower, obligor or owner. Shareholders, with the exception of
11 borrowers, shall be entitled to one vote for each fully paid share
12 owned.

1 **161R. BY-LAWS; COPY AND FILING.**

2 At the written request of the Director, a copy of the by-laws and
3 any amendments thereto of an association, certified to be a true
4 copy pursuant to Section 48 of this Article, shall be filed with the
5 Director within ten (10) days of such request.

1 **161S. FINANCIAL STATEMENT.**

2 The president of every association, or if so provided by the by-
3 laws, some other officer thereof, shall prepare or cause to be pre-
4 pared annually a statement of its financial condition in a form
5 prescribed or approved by the Director, which shall be submitted at
6 the annual meeting of the shareholders and filed within twenty (20)
7 days thereafter at the principal office of the association in the State.
8 A certified copy of the statement shall be filed with the Director
9 within twenty (20) days after the annual meeting of the share-

10 holders. A statement of condition of the association shall be delivered
11 to any member upon request.

1 **161T. MANAGEMENT; DIRECTORS.**

2 The business and affairs of every association of this State shall be
3 managed by a board of not less than five (5) nor more than fifteen
4 (15) directors. All the directors shall be citizens of the United
5 States and bona fide residents of this State, except that up to one-
6 third (1/3) of the directors of said board may be residents of states
7 adjacent to Maryland, or the District of Columbia. Such non-resi-
8 dent directors shall be approved by the Board as qualified to serve
9 as such directors.

1 **161U. CONSOLIDATION; MERGER; DISSOLUTION.**

2 (a) Approval by Director. Any association shall have power to
3 consolidate or merge with any other incorporated association in this
4 State as provided by this Article for corporations having capital
5 stock, upon first filing its proposed plan of consolidation or merger
6 with the Director and securing his approval thereof. Any associa-
7 tion of this State shall have the power to partially liquidate, dis-
8 solve or reorganize pursuant to the provisions of this Article per-
9 taining to corporations of this State, upon first filing its proposed
10 plan of partial liquidation, dissolution or reorganization with the Di-
11 rector and securing his prior approval thereof. The Director shall
12 approve any plan of consolidation, merger, liquidation, dissolution
13 or reorganization filed with him if he finds that (1) any resulting
14 association meets all requirements of this Article relating to the
15 formation of new associations; and (2) the plan is fair; and (3)
16 the execution of the plan will promote the public interest, con-
17 venience and advantage. The Director shall publish the fact that a
18 plan has been filed for at least two (2) successive weeks after filing
19 in a newspaper of general circulation in the city, town or county
20 in which the principal office of each association named in the plan
21 is located, and shall give such other notice as may be desirable. Upon
22 approval of any plan aforesaid, the Director shall certify as ap-
23 proved any documents required by this Article to be filed with the
24 State Department of Assessments and Taxation.

25 (b) Appeal. Any applicant or protesting association aggrieved by
26 any action or non-action of the Director under this Section may ap-
27 peal therefrom in accordance with the appeal provisions of Section
28 161H relating to orders.

1 **161V. BRANCH OFFICES.**

2 (a) Approval by Director. No domestic association shall estab-
3 lish, maintain or relocate any branch office without filing an applica-
4 tion therefor with the Director and securing his prior approval
5 thereof. Any application for the establishment, maintenance or re-
6 location of a branch office shall state: (1) the proposed location
7 thereof, (2) the need therefor, (3) the functions to be performed
8 therein, (4) the estimated annual expense thereof, and (5) the mode
9 of payment therefor. Such application shall be approved by the Di-
10 rector if he finds that the proposed establishment, maintenance or
11 relocation of a branch office will promote the public interest, con-
12 venience and advantage and whether such branch office will be
13 efficiently operated in accordance with the policy of this sub-title.
14 The Director shall publish the fact that such an application has
15 been filed for at least two (2) successive weeks after filing in a
16 newspaper of general circulation in the city, town or county in which
17 the proposed branch office is to be located, and shall give such other
18 notice as may be desirable.

19 (b) Appeal. Any applicant or protesting association aggrieved by
 20 any action or non-action of the Director under this Section may ap-
 21 peal therefrom in accordance with the appeal provisions of Section
 22 161H relating to orders.

1 161W. PROHIBITED TRANSACTIONS.

2 (a) Loan to officer, director or employee. It shall be unlawful for
 3 any association to make a loan to any of its officers, directors or
 4 employees, or to any corporation or business in which any officer,
 5 director or employee, or any member of the family of such officer,
 6 director or employee, owns an interest of ten per cent (10%) or
 7 more, except upon the security of the home or free share accounts
 8 in the association of such officer, director or employee, provided that
 9 any such loan secured by any free share accounts shall not exceed
 10 ninety per cent (90%) of the withdrawal value thereof.

11 (b) Exception. An association may make a loan prohibited by
 12 sub-section (a) hereof provided the loan is: (1) approved by a two-
 13 thirds (2/3) vote of the board of directors, any interested director
 14 taking no part in such vote, and (2) appraised by a disinterested ap-
 15 praiser appointed by the Director and (3) approved by said Director.

16 (c) Purchase at less than face value. It shall be unlawful for any
 17 officer, director or employee of an association to have any interest,
 18 direct or indirect, in the purchase at less than its face value of any
 19 free share account or evidence thereof issued by such association.

1 161X. WITHDRAWAL.

2 (a) Procedure; limitation or withdrawal. Any free shareholder
 3 may at any time present a written application for withdrawal of
 4 all or any part of his free share accounts. No member shall have on
 5 file in any one association more than one application at a time. Every
 6 application shall request immediate withdrawal of a stated amount
 7 in accordance with this Section. Any member may cancel his ap-
 8 plication at any time in whole or in part in writing. Every associa-
 9 tion shall pay, or number, date and file in the order of actual receipt
 10 every withdrawal application. Withdrawals shall be made in the
 11 order of actual receipt of applications, except as provided in this
 12 Section. Upon withdrawal, an association shall pay the value of
 13 any free share account as determined by the board of directors, but
 14 not in excess of the withdrawal value thereof. If an association so
 15 elects, it may at any time pay in full each and every application as
 16 presented. It shall not, however, pay some in full unless it pays
 17 every application on file in full, except by paying all applications on
 18 file on the ratable or pro rata plan prescribed in this Section. The
 19 board of directors shall, however, have an absolute right to pay
 20 upon any application not exceeding two hundred dollars (\$200.00)
 21 to any one account holder in any one month in any order. No as-
 22 sociation shall obligate itself to pay withdrawals on any plan other
 23 than as provided in this Section. Free shareholders who have filed
 24 written application for withdrawal shall remain free share mem-
 25 bers as long as their applications remain on file. No dividends shall
 26 be declared on that portion of an account which has been noticed
 27 for withdrawal, which for dividend purposes is required to be de-
 28 ducted from the latest previous additions to such account, as long
 29 as such application is on file.

30 (b) Plan of withdrawal; notices; withdrawing account holders not
 31 creditors. The ratable or pro rata plan of withdrawals is as follows:
 32 On the first day of each month, each application which has been on
 33 file since the first day of the preceding month shall be paid its ratable
 34 or pro rata share. At least one-third (1/3) of the receipts of the

35 association from its members during the preceding calendar month,
 36 exclusive of interest and expense account payments shall be applied
 37 on the first day of each month to the payment of applications which
 38 have been on file since the first day of the preceding month. Each
 39 succeeding month each such application shall receive its ratable or
 40 pro rata share of said receipts as aforesaid; each such application
 41 shall be deemed refiled the first of each succeeding month unless
 42 withdrawn in writing. Such limited payment on the first of each
 43 month, and such renumbering, shall take place on the first day of
 44 each subsequent month as long as there are applications unpaid.
 45 Any association may apply to withdrawals an amount larger than
 46 one-third (1/3) of such receipts as aforesaid, but cannot obligate
 47 itself to do so. All notices with respect to an application for with-
 48 drawal as aforesaid shall be sent to the applicant by mail at his last
 49 address. Unless the applicant shall apply in person or by writing
 50 for such withdrawal within thirty (30) days from the date of such
 51 notice, no payment on account of such application shall be made,
 52 and such application shall be cancelled. Such withdrawing members
 53 shall not at any time be deemed creditors of said association, either
 54 before or after the notice to withdraw, and said withdrawing mem-
 55 bers shall have no right of action at law or in equity against said
 56 association for the repayment of any amount sought to be withdrawn
 57 unless and until a default shall occur in said payments as provided
 58 for above, and then only at law, and to the extent of the secured
 59 payments due as above provided.

1 161Y. DEFINITE RATE SECURITIES FORBIDDEN.

2 No association shall issue, sell, negotiate, or advertise for sale
 3 either to members or the public any type of investment security
 4 other than free share accounts, "Christmas" and/or "vacation club"
 5 funds in account with it. No association shall agree to pay, on any
 6 free share account, a rate or amount, in dividends or other distri-
 7 butions, which is fixed. This Section shall not be construed, how-
 8 ever, to exclude the power of an association to borrow money from
 9 banks, or other similar borrowings.

1 161Z. INVESTMENTS OF ASSOCIATIONS.

2 (a) Power to invest. In addition to the investments permitted to
 3 be made by associations organized under the laws of this State, pur-
 4 suant to Section 150 of this Article, every association shall have
 5 power to invest:

6 (1) in such real estate as may be or reasonably anticipated to be
 7 necessary or convenient for the transaction of its business, and this
 8 shall include the power to derive revenue, by rental or otherwise,
 9 from any portion of such real estate;

10 (2) in real estate purchased at auction sale, public or private,
 11 judicial or otherwise, upon which the association has lien or claim,
 12 legal or equitable;

13 (3) in real estate accepted by the association in satisfaction of any
 14 obligation;

15 (4) in real estate acquired by the association in exchange for real
 16 estate owned by the association;

17 (5) in real estate acquired by the association in connection with
 18 salvaging the value of property owned by the association;

19 (6) in chattels and equipment necessary to conduct its business.

20 (b) Title to and location of property. Title to all real estate shall
 21 be taken and held in the name of the association. The real or lease-

22 hold property securing any mortgage authorized by Section 150 of
 23 this Article shall be situate in this State or within a fifty (50) mile
 24 radius of the principal Maryland office of the association.

25 (c) *Second mortgages.* Any mortgage held by an association shall
 26 be a first lien upon such real or leasehold property except that such
 27 mortgage may be a second lien if the first lien on said property is
 28 held by the association.

1 161AA. PROMOTIONAL ACTIVITIES PROHIBITED.

2 After the effective date of this Section, an association shall not
 3 give for the opening of, maintaining of, or increasing the amount of,
 4 any account, any give-away that has a monetary value in excess
 5 of two dollars and fifty cents (\$2.50), provided, however, that the
 6 Board shall have full power and authority to change this amount by
 7 appropriate regulation. The monetary value of any give-away so
 8 given shall be the cost thereof to the association and the association
 9 shall keep in its records for a period of at least six (6) years suit-
 10 able evidence of such cost. If the give-away is purchased or obtained
 11 by the association together with, in connection with, or at the same
 12 time as another item or other items from the same supplier, not
 13 identical therewith, such value shall be deemed to be the then cur-
 14 rent regular selling price or charge of the supplier on separate sales
 15 or disposition thereof in the quantity included, and the association
 16 shall in such case obtain, and keep in its records for a period of at
 17 least six (6) years, a signed statement by such supplier of such
 18 regular selling price or charge. As used in the foregoing provisions
 19 of this Section, the term "give" means to give, to sell or dispose of
 20 for less than full monetary value as hereinbefore defined, or with
 21 any agreement or undertaking, contingent or otherwise, for repur-
 22 chase or redemption, whether total or partial, or to offer, promise,
 23 or agree to do any of the foregoing. The term "give-away" means
 24 any money, property, service, or other thing of value, whether tang-
 25 ible or intangible. The term "account" means free share account
 26 of an association of whatsoever class or designation, accounts, share
 27 account, investment certificate, share subscription, and credit to the
 28 account of the maker thereof other than credit on account of a loan
 29 by the association.

1 161BB. REVIVAL OF CHARTER.

2 The charter of any association heretofore or hereafter forfeited
 3 for non-payment of taxes, or failure to file an annual report with the
 4 State Department of Assessments and Taxation, may, at any time,
 5 be revived as set forth in Section 85 of this Article, provided that
 6 the articles of revival shall first be approved by the Director under
 7 such terms and conditions as may be prescribed by regulations of
 8 the Board. Any association aggrieved by the action of the Director
 9 in declining to approve such articles or in conditioning his approval
 10 thereof may appeal from such action in accordance with the appeal
 11 provisions of Section 161H relating to orders.

1 161CC. EXAMINATIONS.

2 (a) *Right to make.* The Director shall examine, or cause an ex-
 3 amination to be made into, the affairs of every association subject
 4 to the provisions of this sub-title at least once every three (3) years,
 5 and at such other times as the Director may deem necessary. If an
 6 association is not audited at least once every three (3) years in a
 7 manner satisfactory to the Director, the examination of such asso-
 8 ciation may include an audit. The Director, the Deputy Director,
 9 or his examiner shall have free access to all books and papers of an
 10 association which relate to its business, and books and papers kept

11 by any officer, agent, or employee, relating to or upon which any
12 record of its business is kept.

13 (b) Federal examinations. The Director in lieu of such examina-
14 tion and audit may accept an examination and audit made or accepted
15 by a federal home loan bank, the Federal Home Loan Bank Board,
16 or by the Federal Savings and Loan Insurance Corporation.

1 161DD. APPORTIONMENT OF PROFITS.

2 The board of directors of any association shall apportion the profits
3 of the association, at least annually and as much more often as the
4 by-laws may prescribe; and each apportionment shall be made in
5 accordance with the following procedure:

6 (1) A proper allocation first shall be made to the general reserve
7 fund.

9 serves as the board of directors may establish or may have estab-
8 (2) Additional allocations then may be made to such special re-
10 lished.

11 (3) Dividends then may be declared on all free share accounts in
12 accordance with the provisions of this Article and the by-laws of the
13 association.

14 (4) The residue of such profits may be held as "undivided profits,"
15 subject to use in the same manner as profits generally.

1 161EE. RESERVES.

2 (a) Minimum allocation. Each association shall maintain a general
3 reserve fund which shall be used solely for the purpose of absorbing
4 losses and to which the board of directors shall allocate such portion
5 of the association's profits as the board may determine; except that
6 whenever the total amount of such reserve is less than six per cent
7 (6%) of the aggregate withdrawal value of the association's free
8 share accounts, the allocation to such reserve upon each apportion-
9 ment of profits shall be not less than ten per cent (10%) of the profits
10 being apportioned, or such lesser portion as will increase such reserve
11 to the required total amount.

12 (b) Special reserves. The board of directors may establish and
13 maintain such special reserves as they may deem advisable to which
14 charges may be made as the board of directors may determine.

1 161FF. DIVIDENDS.

2 (a) Determined by board of directors; restrictions. Subject to the
3 restrictions set forth in this Article and the association's by-laws,
4 the board of directors from time to time may determine the rate and
5 the amount of dividends to be paid on free share accounts. However,
6 the declaration of dividends on free share accounts shall be subject
7 to the following restrictions: (1) If the total amount of the general
8 reserve fund is less than that required in Section 161EE of this
9 Article, no dividends shall be declared until the allocation provided
10 by said Section has first been made; (2) Dividends shall not be paid
11 at any time or under any circumstances from capital or unearned
12 surplus.

13 (b) Small accounts. A dividend need not be allocated to any free
14 share account which has a withdrawal value of less than twenty-five
15 dollars (\$25.00) on the record date with respect to which the dividend
16 is paid.

17 (c) Resolution governing dividends. The board of directors shall
18 determine by resolution the method of calculating the amount of any

19 dividend on free share accounts, and the date on which the same is
20 to be declared or credited.

1 161GG. EXPENSES AND MEMORANDUM OF SETTLEMENT.

2 Every association may require borrowing members to pay all rea-
3 sonable expenses incurred in connection with the making, closing,
4 disbursing, extending, readjusting, releasing or renewing of real
5 estate loans. At each and every settlement there shall be furnished
6 to the borrower a memorandum of settlement which shall show in
7 detail each and every charge made in connection with said settlement.
8 Nothing in this sub-title shall be construed as enlarging, changing,
9 modifying or amending the usury laws of this State.

1 161HH. FRANCHISE TAX.

2 Every federal and domestic association and foreign association ad-
3 mitted to do business in this State shall pay annually for the use of
4 the State, in addition to any other tax imposed by law, a franchise tax
5 to the amount of one-one hundredths of one per cent ($1/100$ of 1%)
6 of the aggregate withdrawal value of its free shares purchased in the
7 State of Maryland, said free shares to be totalled as of December 31
8 of each and every year, and shall certify the said amount due to the
9 State to the Comptroller of the Treasury as other state taxes. Such
10 tax shall be payable without interest at any time on or before April
11 15, of each and every year, commencing on April 15, 1962, and if
12 such tax be not paid as above provided, then the said tax shall there-
13 after bear interest at the rate of one-half of one per cent ($1/2$ of 1%)
14 for each month or fraction of a month, and if such tax be not paid
15 before the first day of December following, a penalty of five per cent
16 (5%) on the amount thereof shall be added. Provided, however,
17 that if by reason of any law of any foreign jurisdiction an associa-
18 tion chartered in this State and doing business in such other jurisdic-
19 tion is required to pay a franchise tax to said foreign jurisdiction
20 based upon its free shares purchased in the State of Maryland, then
21 the tax imposed by this section shall be reduced to the extent of such
22 additional franchise tax so paid to said foreign jurisdiction.

1 161-II. EXEMPTION FROM BLUE SKY LAW.

2 The sale of free share accounts of any association doing business
3 in this State is hereby exempted from all provisions of law of this
4 State which provide for the supervision and regulation of the sale
5 of securities, and the sale of any such accounts shall be legal without
6 any action or approval whatsoever on the part of any official au-
7 thorized to license, regulate, and supervise the sale of securities.

1 161JJ. SEVERABILITY.

2 If any provision of this sub-title or the application thereof to any
3 person or circumstance is held invalid, such invalidity shall not
4 affect the other provisions or any other application of this sub-title
5 which can be given effect without the invalid provision or applica-
6 tion, and to this end, the provisions of this sub-title are declared to
7 be severable.

1 161KK. CONFORMITY.

2 Sections 161A through 161KK of this Article shall be considered
3 as additions to all existing laws covering or affecting building, sav-
4 ings and loan or homestead associations, or associations using any
5 combination of these names, and shall replace and prevail over such
6 existing laws to the extent that the provisions of these Sections are
7 contradictory or inconsistent, but only to the extent of such con-
8 tradiction or inconsistency, and such existing laws, subject to the
9 above provisions, shall be and remain in full force and effect as if
10 these Sections had never been enacted.

Senate Bill No. 254

By the President and Senators North and Northrop.

Read and Examined by Proof Reader:

.....
Proof Reader.

.....
Proof Reader.

Sealed with the Great Seal and Presented to the Governor, for his

approval this day of

at o'clock

.....
Secretary.

CHAPTER.....

AN ACT to add new Sections 161A-161KK to Article 23 of the Annotated Code of Maryland (1957 Edition), title "Corporations", subtitle "Building or Homestead Associations", to follow immediately after Section 161 thereof, providing generally for the organization, incorporation, operation, conduct, regulation of and supervision over the savings and loan business, which is known generally as the building, savings and loan or homestead business; providing further for the investments, withdrawal of accounts, taxation, membership, promotional activities, management and functions of such businesses, including class and type of securities, and allocation of profits, reserves and dividends; providing for the branching, consolidation, merger, dissolution, and revival of such businesses; making provision for conservators and receivers for such businesses; exempting accounts of such businesses from "Blue Sky Law"; creating a Board of Building, Savings and Loan Association Commissioners, and making provision for the mem-

EXPLANATION: *Italics indicate new matter added to existing law.*

[Brackets] indicate matter stricken from existing law.

CAPITALS indicate amendments to bill.

~~Strike out~~ indicates matter stricken out of bill.

bers of such Board and for their qualifications, tenure, powers and duties; creating a Department of Building, Savings and Loan Associations, providing for a Director and for other officers and employees of this Department, and making provision for the appointment, duties, compensation, policy, powers and duties of all such officers and employees of this Department; providing methods for compliance with stock class requirements; providing penalties for failure or refusal to comply with certain provisions of this Act; and relating generally to the organizations and businesses known generally as building, savings and loan or homestead businesses in this State.

1 SECTION 1. *Be it enacted by the General Assembly of Maryland,*
 2 *That new Sections 161A-161KK be and they are hereby added to*
 3 *Article 23 of the Annotated Code of Maryland (1957 Edition), title*
 4 *"Corporations", sub-title "Building or Homestead Associations" to*
 5 *follow immediately after Section 161 thereof, and to read as follows:*

1 **161A. POLICY.**

2 *It is the declared policy of this State that:*

3 (a) *The savings and loan business, otherwise known as the build-*
 4 *ing, savings and loan or homestead business, which is within the*
 5 *scope of this Article, has so expanded in recent years and has become*
 6 *so integrated with the financial institutions of this State and is so*
 7 *important as a method of promoting home ownership and thrift,*
 8 *that such business is affected with a public interest and shall be*
 9 *supervised as a business affecting the economic security and general*
 10 *welfare of the people of this State;*

11 (b) *Such business shall be conducted only by associations or-*
 12 *ganized and conducted in accordance with the authority provided by*
 13 *this Article;*

14 (c) *The number and minimum size of the associations conducting*
 15 *such business shall be controlled in the interest of securely and*
 16 *efficiently serving the needs of the localities in which they operate;*

17 (d) *The public interest requires the promotion and fostering of*
 18 *the building, savings and loan or homestead business and the assur-*
 19 *ance of its financial stability;*

20 (e) *Such associations shall be organized for the purpose of ac-*
 21 *cepting free share accounts and making loans to their members;*

22 (f) *In order to achieve the aforesaid purposes and policy, it is*
 23 *necessary that all associations, EXCEPT AS PROVIDED IN SEC-*
 23a *TION 161P OF THIS ARTICLE, shall have only one kind or class of*
 24 *shares or stock and that all the holders of such shares or stock shall*
 25 *have equal rights as to voting, earnings, and assets;*

26 (g) *In order to further the policies herein expressed, the provisions*
 27 *of this Article applicable to associations shall be liberally construed*
 28 *to promote and foster the purposes of such associations.*

1 **161B. APPLICATION OF PROVISIONS.**

2 (a) *Definition of "association." As used in this sub-title, the word*
 3 *"association" shall mean building, savings and loan or homestead*
 4 *association or any other similar association by whatever name called.*

5 (b) *Domestic and foreign associations. The provisions of this*
 6 *Article shall apply to all associations heretofore or hereafter or-*
 7 *ganized under the laws of this State; and to all foreign associations*
 8 *duly authorized to do business in this State;*

9 (c) Federal associations. Unless Federal laws or regulations pro-
 10 vide otherwise, Federal associations incorporated pursuant to the
 11 Homeowners Loan Act of 1933, as amended, and their members shall
 12 be subject to the provisions of this sub-title and shall possess all of
 13 the rights, powers, privileges, immunities and exemptions granted
 14 by this Article to associations operating hereunder and to the mem-
 15 bers thereof.

1 161C. PROHIBITIONS.

2 (a) Who may transact business. No person or group of persons
 3 except (1) an association duly incorporated under Sections 161A
 4 through 161KK of this Article, or (2) an association duly incorpo-
 5 rated prior to the enactment of the aforesaid Sections and conducted
 6 in conformity with the aforesaid Sections, or (3) a Federal associa-
 7 tion, or (4) a foreign association duly authorized to do business
 8 within this State and complying and conducting its business in con-
 9 formity with the aforesaid Sections, shall transact business within
 10 the scope of this sub-title or do business under any name or title,
 11 or circulate or use any advertising or make any representation or
 12 give any information to any person which indicates or reasonably
 13 implies the operation of a building, savings and loan or homestead
 14 business.

15 (b) Injunction. Upon application of the Director, with the ap-
 16 proval of the Board, a court of competent jurisdiction may issue an
 17 injunction to restrain any person or association from violating or
 18 continuing to violate any of the provisions of sub-section (a) hereof.

19 (c) Fine. In addition to the remedy provided in sub-section (b)
 20 hereof, any person or association violating any of the provisions of
 21 sub-section (a) hereof shall be deemed guilty of a misdemeanor and
 22 upon conviction shall be subject to a fine of not more than one thou-
 23 sand dollars (\$1,000.00) for each offense.

1 161D. -EFFECT ON EXISTING BUILDING OR HOMESTEAD
 2 ASSOCIATIONS.

3 (a) By-laws, shares, etc.; operation. Except as provided in sub-
 4 sections (b) and (c) hereof, the by-laws, shares, contracts, and ob-
 5 ligations of any existing association shall continue in full force and
 6 effect. All such associations shall henceforth be operated and regu-
 7 lated in accordance with the provisions of Sections 161A through
 8 161KK of this Article.

9 (b) Compliance with stock class provisions. (1) If any associa-
 10 tion referred to in sub-section (a) hereof does not meet the ~~standard~~
 11 STANDARDS and requirements established and provided by Section
 12 161P of this Article, such association may, on or before ~~July~~ JANU-
 13 ARY 1, 1962: (i) comply with such standards and requirements by
 14 filing appropriate articles of amendment with the Board and with the
 15 State Department of Assessments and Taxation; or (ii) if such articles
 16 of amendment are not so filed, or if any such association otherwise fails
 17 to conform to the provisions of this Article, such association may, on or
 18 before ~~August~~ FEBRUARY 1, 1962, file articles of amendment with
 19 the Board and with the State Department of Assessments and Taxa-
 20 tion amending its charter by relinquishing such portion of its name,
 21 powers and purposes as relate to associations existing under this Ar-
 22 ticle so that it shall cease to exist as an association, and pursuant to
 23 such articles of amendment shall thereafter continue in business as an
 24 ordinary business corporation for the purposes and with the powers
 25 set forth in such articles of amendment. Any association which shall
 26 fail to file articles of amendment as hereinbefore provided shall be
 27 deemed to have entered into a voluntary liquidation, and upon and
 28 after ~~August~~ FEBRUARY 1, 1962, shall cease to do business and

29 shall continue in existence only for the purposes and with only the
30 powers and duties set forth in Sections 76-78 and 82-83 of this Article;
31 and any director, stockholder or creditor of such association may peti-
32 tion the Circuit Court of Baltimore City or the circuit court for the
33 county in which the principal office of the association is located, to
34 take jurisdiction of the liquidation of such association as provided in
35 Section 79 of this Article.

36 (2) After ~~August~~ FEBRUARY 1, 1962, if any association which has
37 failed to file articles of amendment in accordance with sub-section (b)
38 (1) hereof shall engage in any activities other than those specified in
39 such sub-section, the Attorney General may, and upon notification
40 by the Board shall, institute proceedings against such association as
41 provided in Section 84 of this Article.

41a (3) IF ANY ASSOCIATION DESIRES TO FILE ARTICLES
41b OF AMENDMENT AS PROVIDED BY SUB-SECTION (B) (1)
41c (2) HEREOF, IT SHALL FIRST GIVE NOTICE TO ITS DE-
41d POSITORS OF SUCH FACT BY REGISTERED MAIL AND
41e SHALL SUBMIT THEREWITH A PLAN OF REORGANIZATION
41f WHICH SHALL SPECIFY THE CONTRACT RIGHTS WHICH
41g SUCH DEPOSITORS SHALL POSSESS IN THE RESULTING OR-
41h DINARY BUSINESS CORPORATION. WITHIN 30 DAYS FROM
41i THE MAILING OF SUCH NOTICE ANY DEPOSITOR SHALL
41j HAVE THE RIGHT TO EXERCISE HIS PRIVILEGE TO WITH-
41k DRAW HIS DEPOSIT FROM SUCH ASSOCIATION OR TO CON-
41l TINUE AS A SHAREHOLDER IN THE RESULTING ORDINARY
41m BUSINESS CORPORATION. IF SUCH DEPOSITOR ELECTS TO
41n WITHDRAW HIS DEPOSIT, AS PROVIDED FOR HEREIN, THE
41o ASSOCIATION SHALL REPAY SUCH DEPOSIT IN ACCORD-
41p ANCE WITH THE TERMS AND CONDITIONS OF ITS CHARTER
41q AND BY-LAWS.

42 (c) Minimum share requirements. (1) Every association referred
43 to in sub-section (a) hereof shall have and maintain a minimum
44 aggregate amount of free share accounts, determined by the location
45 of the principal office of the association, as follows: ten thousand
46 dollars (\$10,000.00) in cities, towns or villages having up to fifteen
47 thousand (15,000) inhabitants; twenty-five thousand dollars (\$25,-
48 000.00) in cities, towns or villages having more than fifteen thousand
49 (15,000) but less than one hundred thousand (100,000) inhabitants;
50 fifty thousand dollars (\$50,000.00) in cities, towns or villages having
51 one hundred thousand (100,000) or more inhabitants. The number
52 of inhabitants of the city, town or village shall be determined by
53 the Board in accordance with the latest federal census. Any associa-
54 tion not complying with the foregoing minimum requirements on
55 the effective date of this section shall comply within ninety (90)
56 days from such effective date.

57 (2) If any association fails to comply with the provisions of sub-
58 section (c) (1) hereof, the Attorney General may, and upon notifica-
59 tion by the Board shall, institute proceedings against such associa-
60 tion as provided in Section 84 of this Article.

1 161E. BOARD OF COMMISSIONERS.

2 (a) Established. The Board of Building, Savings and Loan As-
3 sociation Commissioners (referred to herein as the "Board") is
4 hereby created with the powers and duties specified in this sub-title
5 and with such powers as may be necessary and proper to the full
6 and effectual execution of the purposes of this Article relative to
7 associations.

8 (b) Composition, Appointment, Qualifications and Tenure. The
9 Board of Building, Savings and Loan Association Commissioners
10 shall consist of seven (7) members who shall be appointed by the

11 Governor with the advice and consent of the Senate. Each of the
 12 members shall have been a resident and registered voter of the State
 13 of Maryland and engaged as an officer, director or attorney of a
 14 building association, the principal place of business of which is
 15 located in this State, for at least the five (5) year period next pre-
 16 ceding his appointment. At least four (4) of the members shall
 17 have been actively engaged as an officer, director or attorney of a
 18 building association chartered or incorporated under the laws of
 19 the State of Maryland, free share accounts of which are not in-
 20 sured. At least two (2) of the members shall have been actively en-
 21 gaged as an officer, director or attorney of an association free share
 22 accounts of which are insured by an instrumentality of the United
 23 States Government. At least three (3) of the members shall be resi-
 24 dents of Baltimore City. At least three (3) of the members shall
 25 be residents of the counties of Maryland. However, one (1) of the
 26 members shall be selected from the public at large and the require-
 27 ment that such member shall have been an officer, director or at-
 28 torney of an association shall not apply. Not more than four (4)
 29 of such members shall be of the same political party. The term of

13 OF MARYLAND AND ENGAGED AS AN OFFICER OR DIRE-
 14 TOR OF A BUILDING ASSOCIATION, THE PRINCIPAL PLACE
 15 OF BUSINESS OF WHICH IS LOCATED IN THIS STATE, FOR
 16 AT LEAST THE FIVE-YEAR PERIOD NEXT PRECEDING HIS
 17 APPOINTMENT. AT LEAST THREE (3) OF THE MEMBERS
 18 SHALL HAVE BEEN ACTIVELY ENGAGED AS OFFICERS OR
 19 DIRECTORS OF A BUILDING ASSOCIATION CHARTERED OR
 20 INCORPORATED UNDER THE LAWS OF THE STATE OF
 21 MARYLAND, FREE SHARE ACCOUNTS OF WHICH ARE NOT
 22 INSURED BY AN INSTRUMENTALITY OF THE UNITED
 23 STATES GOVERNMENT. AT LEAST ONE (1) OF THE MEM-
 24 BERS SHALL HAVE BEEN ACTIVELY ENGAGED AS AN
 25 OFFICER OR DIRECTOR OF AN ASSOCIATION, FREE SHARE
 26 ACCOUNTS OF WHICH ARE INSURED BY AN INSTRUMEN-
 27 TALIITY OF THE UNITED STATES GOVERNMENT. AT LEAST
 28 THREE (3) OF THE MEMBERS SHALL BE RESIDENTS OF
 29 BALTIMORE CITY. AT LEAST THREE (3) OF THE MEMBERS
 29a SHALL BE RESIDENTS OF THE COUNTIES OF MARYLAND.
 29b HOWEVER, THREE (3) OF THE MEMBERS SHALL BE
 29c SELECTED FROM THE PUBLIC AT LARGE, AND THE RE-
 29d QUIREMENT THAT SUCH MEMBER SHALL HAVE BEEN AN
 29e OFFICER OR DIRECTOR OF AN ASSOCIATION SHALL NOT
 29f APPLY. A PRACTICING ATTORNEY MAY BE A MEMBER
 29g OF THE BOARD UNLESS HE IS OR HAS BEEN WITHIN THE
 29h TWELVE-MONTH PERIOD NEXT PRECEDING HIS APPOINT-
 29i MENT REGULARLY EMPLOYED BY AN ASSOCIATION OR
 29j A TITLE COMPANY. THE TERM OF office of the members of
 30 said Board shall be four (4) years, commencing on the first day
 31 of June next ensuing their respective appointments, except as here-
 32 inafter provided, and such members shall hold office until their
 33 respective successors have been appointed and qualified. Any vacancy
 34 on the Board shall be filled by the Governor for the unexpired term
 35 created thereby. Initially, three (3) of the members shall be ap-
 36 pointed to serve from the first day of June, 1961, through the 31st
 37 day of May, 1963, and four (4) of the members shall be appointed
 38 to serve from the first day of June, 1961, through the 31st day of
 39 May, 1965. All members of the Board shall serve without compensa-
 40 tion, but shall be reimbursed for necessary and proper expenses in-
 41 curred while actually engaged in the performance of their duties as
 42 members.

43 (c) Seal. The Board shall have an official seal bearing the in-
 44 scription "Board of Building, Savings and Loan Association Com-
 45 missioners of the State of Maryland."

46 (d) Oath. Each member of the Board and the Director and Deputy
 47 Director of the Department shall take and subscribe the oath pre-
 48 scribed by the Constitution, to be administered by the clerk, or one
 49 of the sworn deputies, of the circuit court of the county or the
 50 Superior Court of Baltimore City, according to the residence of
 51 each appointee.

52 (e) Powers and Duties. (1) The Board shall elect from its mem-
 53 bers a chairman, vice-chairman and secretary; shall adopt regula-
 54 tions for the holding and conducting of meetings and for holding
 55 hearings concerning all matters within its powers; and shall keep
 56 a record of all meetings and transactions. Regular meetings shall
 57 be held as provided in the regulations, and special meetings may be
 58 called by the chairman or upon request of any four (4) members of
 59 the Board.

60 (2) The Board shall submit, within thirty (30) days after the
 61 first formal meeting of the Board, a list to the Governor of the
 62 names of five (5) persons qualified as herein set forth and competent
 63 in the opinion of the Board to perform the duties and functions of
 64 the Director. Thereafter the Board shall submit to the Governor
 65 such a list not less than thirty (30) days before the date of the ex-
 66 piration of the term of appointment of the Director, or, in the case
 67 of vacancy, within fifteen (15) days of the occurrence of said
 68 vacancy.

69 (3) The Board shall have full power to:

70 (i) advise and make recommendations to the Director on all and
 71 any questions within the scope of authority of the Director;

72 (ii) submit to the Governor proposed amendments to the build-
 73 ing, savings and loan association laws of Maryland which it deems
 74 desirable;

75 (iii) establish methods and standards (1) to be used in making
 76 examinations of associations, (2) for the valuation of assets of as-
 77 sociations and (3) for advertising and promotional activities by
 78 associations;

79 (iv) to make, adopt, modify and amend such rules and regulations
 80 as may be reasonable and necessary to carry out the provisions of
 81 this Article, and to define any terms used therein as they may relate
 82 to or affect associations.

83 (f) Disqualification. A member of the Board having any interest
 84 in or connection with an association as shareholder, director, mort-
 85 gator, attorney or otherwise shall not pass on any order or sit in
 86 any hearing affecting such association.

87 (g) Quorum. A majority of the members of the Board shall con-
 88 stitute a quorum for the holding of meetings and hearings, but no
 89 action shall be taken in the name of the Board without the concu-
 90 rrence of at least four (4) members in attendance.

1 161F. OATHS; SUBPOENAS.

2 (a) Power to administer and issue. At any hearing before the
 3 Board provided for in Section 161H of this Article, the Board or
 4 any member thereof shall have the power to administer oaths. In
 5 connection with any such hearing, the Board may issue subpoenas
 6 to compel the attendance and testimony of witnesses or the pro-
 7 duction of documents, either on the Board's own motion or at the
 8 request of any intervenor or party, which subpoenas shall extend to
 9 all parts of the State and shall be issued and signed by the Director
 10 or by any member of the Board. The Board shall have power on
 11 motion after due notice, for good cause, to quash or modify any

12 subpoena on the ground that such subpoena is unduly burdensome,
 13 unreasonable or oppressive. Subpoenas shall be served personally
 14 through the sheriff's office in the city or county in which service
 15 can be made, or by any person of lawful age.

16 (b) Failure to comply. If a person upon whom a subpoena has
 17 been properly served fails to obey its command, without reasonable
 18 cause, or if a person in attendance before the Board shall, without
 19 reasonable cause, refuse to be sworn or examined, or answer a ques-
 20 tion, or produce a book or paper when ordered to do so, pursuant to
 21 subpoena, the Board may, and upon request of any party to pro-
 22 ceedings before the Board, shall apply to any judge of the Supreme
 23 Bench of Baltimore City or of the circuit court of any county, upon
 24 proof by affidavit of the fact, for a rule or order returnable within
 25 not less than two (2) nor more than five (5) days, directing such
 26 person to show cause before the judge who made the order, or any
 27 other judge of the same bench or circuit, why he should not be ad-
 28 judged guilty of a contempt and punished as contempts are punish-
 29 able by courts of record; upon the return of such order, the judge,
 30 before whom the matter shall come on for a hearing, shall examine
 31 under oath such person and such person shall be given an oppor-
 32 tunity to be heard in his own defense; and if the judge shall de-
 33 termine that such person has refused, without reasonable cause or
 34 legal excuse, to be examined or to answer a legal or pertinent ques-
 35 tion, or to produce a book, paper or other document which he was
 36 ordered to produce, he may forthwith find the offender in contempt
 37 of court.

38 (c) Required to testify. No person shall be excused from testifying
 39 or from producing any books or papers or documents at any hearing
 40 before the Board, when ordered to do so by the Board, upon the
 41 ground that the testimony or evidence, books, papers or documents
 42 required of him may tend to incriminate him or subject him to
 43 penalty or forfeiture; but no person shall be prosecuted, punished
 44 or subjected to any penalty or forfeiture for or on account of any
 45 act, transaction, matter or thing concerning which he shall, under
 46 oath, have, by order of the Board, testified to or produced docu-
 47 mentary evidence relative thereto, provided, however, no person
 48 shall be exempt from prosecution unless he shall first have asserted
 49 his constitutional rights and privileges; and provided, however, that
 50 no person so testifying shall be exempt from prosecution or punish-
 51 ment for any perjury committed by him in his testimony.

1 161G. DEPARTMENT AND DIRECTOR.

2 (a) Establishment, Appointment, Qualifications and Tenure. The
 3 Department of Building, Savings and Loan Associations is hereby
 4 established. The head of the Department, with general powers of
 5 administration, shall be the Director, who shall be appointed by the
 6 Governor as of the first day of July, 1961, and each sixth (6th) year
 7 thereafter from the list of five (5) persons submitted to him by
 8 the Board pursuant to Section 161E of this Article. Each of the
 9 persons named on such list shall have at least five (5) years' ex-
 10 perience as an officer, director or attorney of an association chartered
 11 or incorporated under the laws of the State of Maryland or as an
 12 employee of the Department and each for at least the five (5)
 13 previous years shall have been a resident and registered voter of
 14 Maryland. The Director shall hold office for six (6) years and until
 15 his successor shall have been duly appointed and qualified. The
 16 Governor may remove the Director for official misconduct, incom-
 17 petency or neglect of duty. Any vacancy in the office of Director
 18 shall be filled by the Governor for the unexpired portion of the term
 19 from a list of names of qualified persons as aforesaid, to be sub-
 20 mitted pursuant to Section 161E hereof. The Director shall devote

21 his entire time to the duties of his office and shall be paid such sal-
22 ary as may be provided for in the budget.

23 (b) Bond. The Director shall give bond to the State of Maryland
24 in the amount of twenty thousand dollars (\$20,000.00) and in such
25 form as the Board may require and conditioned upon proper and
26 faithful discharge of his duties.

27 (c) Powers. The Director shall have general supervision over all
28 associations which are subject to the provisions of this Article by
29 use of the powers conferred upon him by law. The Director may
30 pass such orders as he deems necessary to compel any association:
31 (1) to comply with its charter, constitution and by-laws; (2) to
32 comply with the laws of this State to carry out the purposes of this
33 sub-title; (3) to comply with such regulations as may be adopted
34 pursuant to the provisions of this sub-title. But, no such order
35 shall become effective until the Director shall have first given the
36 directors of such association, or their representatives, an oppor-
37 tunity to be heard at a time and place designated by the Director.

38 (D) DISQUALIFICATION. THE DIRECTOR DURING HIS
39 TERM OF OFFICE MAY NOT BE AN OFFICER, DIRECTOR,
40 ATTORNEY, EMPLOYEE OR AGENT OF, OR IN ANY MANNER
41 BE INTERESTED IN, ANY ASSOCIATION, EXCEPT THAT HE
42 MAY BE A HOLDER OF FREE SHARE ACCOUNTS.

1 161H. ORDERS; HEARINGS.

2 (a) Director to order discontinuance of illegal practice. If the
3 Director, as a result of any examination or from any report made
4 to him, shall find that any association is violating the provisions of
5 its articles of incorporation or by-laws, or the laws of this State, or
6 of the United States, or any lawful order of the Director, he shall,
7 by written order, state the alleged violation therein, together with
8 the facts alleged to constitute such violation, and direct discon-
9 tinuance of such violation and conformance with all requirements
10 of law.

11 (b) Contents of order; finality without hearing. Every communi-
12 cation having the effect of an order to any association shall be in
13 writing signed by the Director stating in detail the violation com-
14 plained of and shall be sent by registered mail to the association
15 affected thereby, addressed to the president thereof at the home
16 office of the association as shown by the latest records on file with
17 the Department, or, at the request of said association, to such per-
18 son as may be designated by the association to the Director. Such
19 communication shall include the designation of a time and place
20 for a departmental hearing before the Director, which shall in no
21 event be less than twenty (20) days from the date of the mailing
22 of such order. If, at such time and place, no one appears on behalf
23 of the association, the order shall become final.

24 (c) Appeal to and hearing before the Board. If, after depart-
25 mental hearing, the Director issues an order relative to the subject
26 matter of such hearing, such order shall be mailed, registered mail,
27 return receipt requested, to the association affected thereby, as pro-
28 vided in sub-section (a) hereof, and such order shall become final
29 unless the association affected thereby shall file with the Board an
30 appeal within twenty (20) days from the date of mailing of such
31 order. Within thirty (30) days after the filing of such appeal, the
32 Board shall hold a hearing. A record may be made by the Board of
33 all testimony and proceedings at such hearing. Within thirty (30)
34 days after such hearing the Board shall determine whether said
35 order shall be sustained, rejected or modified, and the Board shall
36 pass a final order in the matter and shall mail a copy thereof by
37 registered mail as hereinbefore provided for the mailing of orders.

38 (d) Appeal from order of the Board. The association affected
 39 or the holders of at least ten per cent (10%) of the par value of the
 40 free shares of said association shall have the right within thirty (30)
 41 days of the date of mailing of any final order of the Board to ap-
 42 peal from such order by filing a petition in the Circuit Court of Bal-
 43 timore City or in the circuit court for the county in which the prin-
 44 cipal Maryland office of the association is located. Such petition for
 45 appeal shall set forth the action appealed from and the basis for
 46 the appeal; copies of the petition shall be served upon the Director
 47 and all other parties of record.

48 (e) Judicial review. The court to which the appeal is taken shall
 49 hear the matter de novo, without a jury, and the parties may call
 50 such witnesses and introduce such evidence as may be proper in the
 51 premises. The court may affirm, reverse, or modify the order ap-
 52 pealed from, or remand the case to the Board for further proceedings
 53 as may be required. An appeal may be taken from the decision of
 54 the court hearing said appeal to the Court of Appeals of Maryland
 55 by any party to the proceedings in the same manner as other ap-
 56 peals are taken from decrees or orders of courts.

57 (f) Stay. No appeal shall stay the operation of any final order
 58 of the Board unless ordered by the court in which the appeal is
 59 pending and upon such terms and conditions as the court may pre-
 60 scribe.

1 161-I. DEPUTY DIRECTOR, EMPLOYEES AND EXAMINERS.

2 (a) Appointment. The Director, with the approval of the Board,
 3 shall appoint a Deputy Director, examiners and such number of
 4 additional employees of the Department of Building, Savings and
 5 Loan Associations as may be provided for in the budget. The ap-
 6 pointment of all examiners and employees, other than the Deputy
 7 Director, shall be from the classified service of the State of Mary-
 8 land, and in accordance with the rules and practice of the merit
 9 system. The Deputy Director shall be appointed and hold office at
 10 the will of the Director; and the provisions of Article 64A of this
 11 Code, title, "Merit System," shall not apply.

12 (b) Merit System. The Director at his discretion may appoint
 13 the Deputy Director from among the classified employees in the
 14 Department, and if such appointee is subsequently removed from
 15 or ceases to hold his position as Deputy Director, he shall be restored
 16 to the merit system status in the position held by him at the time
 17 of his appointment as Deputy Director.

18 (c) Disqualification. The Director Deputy Director and examiners
 19 shall not be officers, directors, attorneys, employees or agents of,
 20 or in any manner be interested in, any association, except that they
 21 may be holders of free share accounts.

22 (d) Deputy Director to act for Director, give bond. In the absence
 23 of the Director or upon proper delegation by him, the Deputy Di-
 24 rector shall act in the place and stead of the Director and in so
 25 acting shall have the same powers and duties as the Director. The
 26 Deputy Director shall give bond to the State of Maryland in the same
 27 amount and upon the same conditions as that required of the Di-
 28 rector.

1 161J. INFORMATION TO BE CONFIDENTIAL.

2 The Director and his Deputy, examiners and employees shall keep
 3 confidential any information obtained in an examination, except
 4 when the public duty of such persons requires them to report upon
 5 and to take official action regarding the affairs of the association
 6 examined. When the Director by and with the consent of the Board

9 deems it to the interest of the public, he may publish the results of
 10 the examination of an association in one or more newspapers of
 11 general circulation in the city or counties in which such association
 12 is located or doing business. This provision shall not prevent the
 13 proper exchange of information relating to associations, and to their
 14 business, with the representatives of associations of this or other
 15 states or with the representatives of the Federal Home Loan Bank
 16 Board.

1 161K. CONSERVATORSHIP.

2 (a) Conservator. In the event that any association shall fail or
 3 refuse to carry out any final order, and should the Board believe that
 4 the public interest may be served by the appointment of a conservator,
 5 it is authorized, acting through the Attorney General, to apply to an
 6 equity court for the city or county where the association has its
 7 principal Maryland office for the appointment of a conservator.
 8 Such court is authorized to appoint a conservator if it finds that
 9 such ~~associations~~ ASSOCIATION: (1) is in an impaired or insolvent
 10 condition; or (2) is in substantial violation of any valid and applicable
 11 law or regulation; or (3) is concealing any of its assets, books or rec-
 12 ords; or (4) is conducting an unsafe or unsound operation. The Direc-
 13 tor or his Deputy, or examiner, ~~or any other responsible person may~~
 14 SHALL be appointed by the court as conservator, and a certified copy
 15 of the order of the court making such appointment shall be evidence
 16 thereof, and such conservator shall have the power and authority pro-
 17 vided in this sub-title and such other power and authority as may be
 18 expressed in the orders of the court. Such conservator shall endeavor
 19 promptly to remedy the situations complained of in the petition for
 20 his appointment and may recommend plans of reorganization, com-
 21 position or rearrangement of the affairs of such association. Within
 22 six (6) months of the date of such appointment, or within such time
 23 as the court may order, such association shall be returned to its
 24 board of directors and thereafter shall be managed and operated as
 25 if no conservator had been appointed, or a receiver shall be appointed
 26 as hereinafter provided. If the Director, or his Deputy, or examiner
 27 is appointed conservator, he shall receive no additional compensation,
 28 but if another person is appointed, then the compensation of the
 29 conservator, as determined by the court, shall be paid by the associa-
 30 tion. A certified copy of the order of the court discharging such
 31 conservator and returning such association to its directors shall
 32 be sufficient evidence thereof.

33 (b) Powers of conservator. By order of the appointing court, any
 34 conservator appointed shall have all the rights, powers, and privi-
 35 leges possessed by the officers, board of directors, and members of
 36 the association.

37 (c) Special counsel, expenses. Unless directed otherwise by order
 38 of the appointing court, the conservator shall not retain special
 39 counsel, or incur any expenses other than normal operating ex-
 40 penses, or liquidate assets except in the ordinary course of operations.

41 (d) Removal of any officer, director or employee. The directors
 42 and officers of any association for whom a conservator has been
 43 appointed as provided herein shall remain in office and the employees
 44 of such association shall remain in their respective positions; how-
 45 ever, by order of the appointing court, upon recommendation of the
 46 Board, the conservator may remove any director, officer, or employee.

47 (e) Operation of association. By order of the appointing court,
 48 while an association is in the charge of a conservator, members of
 49 such association shall continue to make payments to the association
 50 in accordance with the terms and conditions of their contracts, and
 51 the conservator may permit free share account holders to withdraw
 52 their accounts from the association pursuant to the provisions of

53 such order. The conservator shall have power to accept free share
 54 accounts and additions to free share accounts, but any such amounts
 55 received by the conservator may be segregated; if so ordered, such
 56 amounts shall not be subject to offset and shall not be used to liquidate
 57 any indebtedness of such association existing at the time the con-
 58 servator was appointed for it or any subsequent indebtedness in-
 59 curred for the purpose of liquidating the indebtedness of any such
 60 association existing at the time such conservator was appointed. All
 61 expenses of the association during such conservatorship shall be
 62 paid by the association.

1 161L. RECEIVERSHIP.

2 (a) Appointment of receiver. If irregularities complained of in
 3 a final order are not corrected, or if any irregularities complained of
 4 in a petition for the appointment of a conservator are not corrected,
 5 or in the case of any emergency, the Board, if in its judgment the
 6 public interest requires, acting through the Attorney General, may
 7 apply to an equity court for the city or county where the association
 8 has its principal Maryland office for the appointment of a receiver,
 9 who may be the Director. Such court is authorized to appoint a
 10 receiver if it finds that such association: (1) is in an impaired or
 11 insolvent condition; or (2) is in substantial violation of any valid
 12 and applicable law or regulation; or (3) is concealing any of its
 13 assets, books or records; or (4) is conducting an unsafe and unsound
 14 operation.

15 (b) Procedure. The procedure in such receivership action, shall
 16 be in all other respects in accordance with the practice in such
 17 court, including all rights of appeal and review provided by law.

1 161M. INCORPORATION AND ORGANIZATION.

2 (a) Selection of chairman of incorporators; subscriptions required;
 3 general reserve fund. (1) Any number of NATURAL persons, not less
 4 than five (5), who shall be at least twenty-one (21) years of age, citi-
 5 zens of the United States and bona fide residents of this State, may
 6 hereafter associate as incorporators to establish an association under
 7 this Article upon the terms and conditions and subject to the liabilities
 8 prescribed herein. The incorporators shall appoint one of their num-
 9 ber as chairman of the incorporators. The incorporators shall pay
 10 in cash to such chairman as subscriptions to free share accounts of
 11 the proposed association, including that part of the original sub-
 12 scription paid by such chairman, an aggregate amount, determined
 13 by the location of the principal office of the proposed association, as
 14 follows: a minimum sum of ten thousand dollars (\$10,000.00) in
 15 cities, towns or villages having up to fifteen thousand (15,000),
 16 inhabitants; a minimum sum of twenty-five thousand dollars (\$25,-
 17 000.00) in cities, towns or villages having more than fifteen thousand
 18 (15,000) but less than one hundred thousand (100,000) inhabitants;
 19 a minimum sum of fifty thousand dollars (\$50,000.00) in cities,
 20 towns or villages having one hundred thousand (100,000) or more
 21 inhabitants. The number of inhabitants of the city, town or village
 22 shall be determined by the Board in accordance with the latest federal
 23 census. The minimum aggregate amount of free share accounts
 24 hereinbefore provided shall be maintained at all times by any asso-
 25 ciation incorporated hereunder.

26 (2) The incorporators, in addition to the payment of initial sub-
 27 scriptions to free share accounts herein required, shall also pay or
 28 cause to be paid to the chairman of the incorporators in cash a sum
 29 equal to six per cent (6%) of the required initial subscriptions, which
 30 amount, if the association be incorporated, shall become and be
 31 credited to the general reserve fund of the association for a period
 32 of five (5) years or until said general reserve fund, less the amount

33 required to be paid under this sub-section, reaches at least six per
 34 cent (6%) of the withdrawal value of the association's free share
 35 accounts, whichever shall first occur. The incorporators shall also
 36 execute and deliver to the Director such assignment, pledge and
 37 delivery of accounts in such association in escrow, as the Director
 38 in his discretion may require to guarantee such association against
 39 operating deficits and against losses of any kind which exceed other
 40 reserves. This sub-section shall not be construed as applying to asso-
 41 ciations in existence at the effective date of this sub-section.

42 (b) Expense fund for incorporation and organization. The in-
 43 corporators shall create an expense fund in an amount not less than
 44 one-half (1/2) of the minimum amount of free share subscriptions
 45 required to be paid in under sub-section (a) (1) hereof, which shall
 46 be in addition thereto, from which expense fund the expense of or-
 47 ganizing the association and its operating expenses may be paid
 48 until such time as its earnings are sufficient to pay its operating
 49 expenses in addition to such dividends as may be declared and paid
 50 or credited to its free share account holders from its earnings. The
 51 incorporators shall deposit to the credit of the chairman of the in-
 52 corporators in cash the amount of the expense fund. The amounts
 53 contributed to the expense fund by the incorporators shall not con-
 54 stitute a liability of the association except as hereinafter provided.

55 (c) Chairman of incorporators to procure surety bond. The chair-
 56 man of the incorporators shall procure from a surety company quali-
 57 fied to do business in the State of Maryland a surety bond in form
 58 approved by the Director in an amount at least equal to the amount
 59 subscribed by the incorporators plus the reserve and expense funds.
 60 Such bonds shall name the Director as obligee and shall be delivered
 61 to him. It shall guarantee the safekeeping of the funds subscribed
 62 and their delivery to the association after the issuance of the certifi-
 63 cate of incorporation. In the event of the failure to complete or-
 64 ganization, such bond shall guarantee the return of the amounts
 65 collected to the respective subscribers or their assigns, less reasonable
 66 expenses which shall be deducted from the expense fund.

67 (d) Repayment of contributions made to expense fund. Contribu-
 68 tions made by the incorporators to the expense fund may be repaid
 69 pro rata to the contributors from the net earnings of the association
 70 after provision for statutory reserves and declaration of dividends
 71 of not less than two per cent (2%) per annum on free share accounts.
 72 In case of the liquidation of an association before contributions to
 73 the expense fund HAVE BEEN REPAID, ANY CONTRIBUTIONS
 74 TO THE EXPENSE FUND remaining unexpended, after the pay-
 75 ment of expenses of liquidation, all creditors, and the withdrawal
 76 value of all free share accounts, shall be repaid to the contributors
 77 pro rata. The books of the association shall reflect the expense fund.
 78 Contributors to the expense fund shall be paid dividends on the
 79 ~~accounts~~ AMOUNTS paid in by them and for such purpose such
 79a contributions shall in all respects be considered as free share ac-
 79b counts of the association.

80 (e) Filing articles; approval or refusal; fees; appeal; refund.
 81 The articles of incorporation shall be executed in duplicate by the
 82 persons joining therein before any officer authorized to take ac-
 83 knowledgments, and then filed with the Board for examination. The
 84 fee for filing such articles of incorporation with the Board shall be
 85 one hundred dollars (\$100.00), to be collected by the Board. The
 86 Board shall publish the fact that such application has been made for
 87 at least two (2) successive weeks after its filing, in a newspaper
 88 of general circulation in the city, town or county in which the prin-
 89 cipal office of the proposed association is to be located, and shall set
 90 a time for a public hearing on such application which shall be held
 91 no later than thirty (30) days after the date of the filing of such

92 articles for examination. At such hearing the Board shall ascertain
 93 from the best sources of information at its command whether the
 94 character, responsibility and general fitness of the persons named
 95 in such articles are such as to command confidence and warrant be-
 96 lief that the business of the proposed association will be honestly
 97 and efficiently conducted in accordance with the intent and purposes
 98 of this sub-title and whether the public interest, convenience and
 99 advantage will be promoted by allowing such proposed association
 100 to engage in business. The Board shall have the power to require
 101 such changes in the articles filed for application as it deems neces-
 102 sary. Within sixty (60) days after the date of the filing of such
 103 articles for examination, and after the public hearing referred to in
 104 this sub-section has been held, the Board shall pass an order approv-
 105 ing or refusing the application, and such order may be subject to
 106 an appeal by the applicant or any person feeling himself aggrieved
 107 by the passage of such order, in accordance with the provisions and
 108 conditions of Section 161H of this sub-title. When the time for
 109 filing an appeal to such an order referred to in this sub-section has
 110 expired, the Board shall endorse upon each copy of the articles filed
 111 for examination, over its official signature, the word "approved"
 112 or the word "refused" with the date of such endorsement. In case of
 113 refusal it shall return one of the copies so endorsed to the chairman
 114 of the proposed incorporators. In case of approval, one copy so en-
 115 dorsed shall be retained by the Board; the remaining copy so en-
 116 dorsed shall be returned to the chairman aforesaid who shall file that
 117 copy with the State Department of Assessments and Taxation in
 118 accordance with the provisions of this Article. The corporation so
 119 formed shall have no legal existence until all copies of the articles of
 120 incorporation have been filed for record as herein directed. IN THE
 120a EVENT OF A REFUSAL BY THE BOARD TO APPROVE AR-
 120b TICLES OF INCORPORATION, THE BOARD SHALL GIVE A
 120c WRITTEN STATEMENT SETTING FORTH THE BASIS FOR
 120d THE REFUSAL.

121 (2) Upon final refusal to grant the proposed articles of incorpora-
 122 tion, the chairman of the incorporators shall refund to the incorpo-
 123 rators all funds deposited by them in accordance with this Section,
 124 subject to the payment of all expenses. The Director shall release the
 125 bond delivered to him in accordance with sub-section (c) hereof upon
 126 satisfactory assurance of such payment and refund.

127 (f) Forfeiture of charter for non-use. Any association heretofore
 128 formed which shall not actively engage in business by receiving
 129 money for free share accounts or making mortgage loans within
 130 ninety (90) days after the effective date of this Section, and any
 131 association hereafter formed which shall not actively engage in busi-
 132 ness by receiving money for free share accounts or making mortgage
 133 loans within ninety (90) days after the date upon which its legal
 134 corporate existence shall begin, shall forfeit its corporate charter
 135 for non-use, upon entry of an order, in accordance with Section 161H
 136 of this Article, finding no just cause for failure so actively to engage
 137 in business and directing the association to cease and dissolve its
 138 business. A copy of such order shall, upon finality, be certified to
 139 the State Department of Assessments and Taxation and, from the
 140 time of receipt by said Department, the powers conferred by law
 141 upon the association shall be inoperative, null and void.

1 161N. INDICATION OF A BUILDING OR HOMESTEAD AS-
 2 SOCIATION.

3 (a) Name indicating association. The name of the corporation
 4 shall be such as to indicate that it is a building, savings and loan or
 5 homestead association. This provision shall be deemed to be com-
 6 plied with if the name contains the words "savings association",
 7 "building association", "savings and loan association", "building and

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8 loan association", "building and homestead association" or any com-
9 bination of these words. The name need not be such as to indicate
10 that it is a corporation.

11 (b) Conformity. Only those building, savings and loan or home-
12 stead associations which conform to the provisions of this Article
13 shall be entitled to call themselves savings associations, building as-
14 sociations, savings and loan associations, building and loan associa-
15 tions, building and homestead associations or any combination of
16 said words.

1 161-O. CHARTER AMENDMENT.

2 Any amendment to the charter pursuant to Sections 10 through 19
3 of this Article shall be executed and filed with the Board in accord-
4 ance with the procedures set forth in sub-section 161M~~(d)~~ (e) of this
5 Article for the filing of articles of incorporation, except that the
6 provision requiring newspaper publication of the fact of filing shall
7 not apply. The fee for filing articles of amendment with the Board
8 shall be ten dollars (\$10.00), to be collected by the Board.

1 161P. ONLY ONE CLASS OF STOCK, CAPITAL.

2 (A) ONLY ONE CLASS OF STOCK. Any association here-
3 tofore or hereafter formed under this Article shall have or issue
4 only one kind or class of shares or stock and all the holders of
5 such shares or stock shall have equal rights as to voting, earn-
6 ings and assets, and any association heretofore or hereafter formed
7 shall have power of accepting subscriptions to and payments on
8 account of any number of shares of OR stock without limit and
9 without other corporate action, notwithstanding any limitation on
10 the number of shares or stock authorized by the existing charter of
11 such association.

12 (B) EXCEPTION. NOTWITHSTANDING THE PROVISIONS
13 OF SUB-SECTION (A) HEREOF, OR OF THE SUBTITLE, IN
14 ADDITION TO FREE SHARE ACCOUNTS, ANY ASSOCIATION
15 ORGANIZED UNDER THE LAWS OF THIS STATE PRIOR TO
16 JANUARY 1, 1961, AND HAVING, AS OF THAT DATE, FREE
17 SHARE ACCOUNTS IN THE MINIMUM AGGREGATE AMOUNT
18 REQUIRED IN SECTION 161M (A) OF THIS ARTICLE, AND
19 AUTHORIZED BY ITS CHARTER TO ISSUE SHARES OR STOCK
20 IN ONE OR MORE CLASSES, NOT IN THE NATURE OF FREE
21 SHARE ACCOUNTS AND NOT IN THE NATURE OF BORROW-
22 ERS' SHARES, MAY MAINTAIN AND ISSUE SUCH SHARES OR
23 STOCK AS MAY HAVE BEEN AUTHORIZED TO BE ISSUED
24 UNDER ITS CHARTER AND MAY CONTINUE AS A BUILDING,
25 SAVINGS AND LOAN BUSINESS, SUBJECT TO THE CONDI-
26 TIONS PRESCRIBED HEREIN. HOWEVER, ALL SUCH SHARES
27 OR STOCK, REGARDLESS OF CLASSIFICATION, ANY CHAR-
28 TER OR BY-LAW PROVISION TO THE CONTRARY NOTWITH-
29 STANDING, SHALL BE GUARANTY STOCK, SO TERMED AND
30 DESIGNATED, AND SHALL BE SUBJECT TO THE RESTRIC-
31 TIONS AND REGULATIONS PROVIDED HEREIN.

32 NO ASSOCIATION SHALL QUALIFY UNDER THIS EXCEP-
33 TION UNLESS IT SHALL HAVE SOLD AND OUTSTANDING
34 ON OR BEFORE OCTOBER 1, 1961, AT LEAST FIFTY THOU-
35 SAND DOLLARS (\$50,000.00) AGGREGATE AMOUNT OF
36 GUARANTY STOCK.

37 (C) GUARANTY STOCK. GUARANTY STOCK SHALL CON-
38 STITUTE A SECONDARY RESERVE OUT OF WHICH LOSSES
39 SHALL BE PAID AFTER ALL OTHER AVAILABLE RESERVES

40 HAVE BEEN EXHAUSTED. SUCH STOCK SHALL: (1) HAVE
41 A PAR VALUE OF ONE DOLLAR (\$1.00) OR SUCH GREATER
42 AMOUNT AS THE ARTICLES OF INCORPORATION MAY PRO-
43 VIDE; (2) BE NON-WITHDRAWABLE, EXCEPT AS PROVIDED
44 IN SUB-SECTION (D) (4) (III) HEREOF, UNTIL ALL CLAIMS
45 AGAINST AND LIABILITIES OF THE ASSOCIATION HAVE
46 BEEN FULLY SATISFIED AND ALL FREE SHARE ACCOUNTS
47 PAID OUT TO THE HOLDERS THEREOF AT THEIR WITH-
48 DRAWAL VALUE; (3) BE ASSESSABLE IN THE HANDS OF
49 THE OWNER THEREOF TO THE PAR VALUE AMOUNT
50 THEREOF FOR THE FULL SATISFACTION OF ALL CLAIMS
51 AGAINST AND LIABILITIES OF THE ASSOCIATION AND FOR
52 THE PAYMENT OF THE WITHDRAWAL VALUE OF FREE
53 SHARE ACCOUNTS TO THE HOLDERS OF SUCH ACCOUNTS;
54 (4) BE ENTITLED TO THE PAYMENT OF DIVIDENDS ONLY
55 AFTER DIVIDENDS HAVE BEEN DECLARED AND PAID AT
56 A RATE, TO BE ESTABLISHED BY THE BOARD BY APPRO-
57 PRIATE REGULATION BUT IN NO EVENT TO BE LESS THAN
58 TWO PER CENT (2%) NOR MORE THAN THREE AND ONE-
59 HALF PER CENT (3½%), ON ALL FREE SHARE ACCOUNTS
60 UNDER THE PROVISIONS OF SECTION 161FF OF THIS
61 ARTICLE; (5) BE ISSUED ONLY UPON CASH PAYMENT TO
62 THE ASSOCIATION OF NOT LESS THAN THE PAR VALUE
63 THEREOF, OR IN CONNECTION WITH A PLAN OF CONSOLI-
64 DATION, MERGER OR REORGANIZATION APPROVED UNDER
65 SECTION 161U OF THIS ARTICLE. ANY CERTIFICATES
66 ISSUED AS EVIDENCE OF OWNERSHIP OF GUARANTY
67 STOCK SHALL BEAR ON THEIR FACES A STATEMENT THAT
68 SUCH SHARES ARE "GUARANTY STOCK".

69 (D) COMPLIANCE. ANY EXISTING ASSOCIATION WHICH
70 QUALIFIED FOR THE EXCEPTION TO SUB-SECTION (A)
71 PROVIDED IN SUB-SECTION (B) HEREOF AND WHICH DE-
72 SIRES AND INTENDS TO CONTINUE IN THE BUILDING, SAV-
73 INGS AND LOAN BUSINESS SHALL, ON OR BEFORE JANU-
74 ARY 1, 1962: (1) REQUIRE THE USE, AT ALL TIMES IN CON-
75 NECTION WITH SUCH NAME, THE PHRASE, IN PAREN-
76 THESES, "STOCK CORPORATION"; (2) AMEND ITS COR-
77 PORATE CHARTER, IF NECESSARY, TO PROVIDE THAT
78 FREE SHARE ACCOUNT HOLDERS SHALL BE ENTITLED TO
79 VOTE ON ALL MATTERS AS TO WHICH GUARANTY STOCK
80 HOLDERS MAY BE ENTITLED TO VOTE, EACH SUCH FREE
81 SHARE ACCOUNT HOLDER TO BE ENTITLED TO THE VOT-
82 ING RIGHTS DEFINED IN SECTION 161Q OF THIS ARTICLE;
83 (3) MAKE SUCH OTHER CHARTER AMENDMENTS AS MAY
84 BE NECESSARY FOR COMPLIANCE WITH THE PROVISIONS
85 AND REQUIREMENTS OF THIS SECTION; (4) SEND BY
86 REGISTERED MAIL TO EACH STOCKHOLDER OF RECORD
87 WHOSE SHARES ARE DESIGNATED TO BE GUARANTY
88 STOCK UNDER THIS SECTION A NOTICE (I) STATING THE
89 INTENTION OF THE ASSOCIATION TO CONTINUE IN THE
90 BUILDING, SAVINGS AND LOAN BUSINESS UNDER THIS
91 SECTION, (II) DESCRIBING THE PLAN UNDER WHICH THE
92 ASSOCIATION INTENDS TO COMPLY WITH THE REQUIRE-
93 MENTS OF THIS SECTION, AND (III) STATING THAT WITH-
94 IN THIRTY (30) DAYS OF THE MAILING OF SUCH NOTICE
95 THE STOCKHOLDER OF RECORD NAMED THEREIN SHALL
96 HAVE THE RIGHT TO REDEEM AT PAR ANY SHARES OWNED
97 BY HIM WHICH ARE DESIGNATED TO BE GUARANTY STOCK
98 UNDER THIS SECTION. IF ANY STOCKHOLDER ELECTS TO
99 REDEEM AS HEREIN PROVIDED, THE ASSOCIATION SHALL
100 MAKE PAYMENT IN ACCORDANCE WITH ANY REASON-
101 ABLE PLAN, BUT SUCH PLAN OF PAYMENT SHALL BE

103 FULLY EXECUTED NO LATER THAN JANUARY 1, 1962; (5)
 104 NO ASSOCIATION ISSUING GUARANTY STOCK SHALL
 105 AFTER THE EFFECTIVE DATE OF THIS ACT USE THE WORD
 106 "ASSOCIATION" AS PART OF ITS NAME.

1 (E) FUTURE ISSUE OF GUARANTY STOCK. (1) ANY EXIST-
 2 ING ASSOCIATION WHICH QUALIFIES FOR THE EXEMP-
 3 TION TO SUB-SECTION (A) PROVIDED IN SUB-SECTION (B)
 4 HEREOF MAY FROM TIME TO TIME ISSUE ADDITIONAL
 5 SHARES OF GUARANTY STOCK, PROVIDED, HOWEVER,
 6 THAT ANY SUCH ISSUE SHALL BE MADE IN ACCORDANCE
 9 WITH A PLAN WHICH SHALL HAVE BEEN FILED WITH
 10 AND APPROVED BY THE DIRECTOR. THE DIRECTOR SHALL
 11 APPROVE ANY SUCH PLAN FILED WITH HIM IF HE FINDS
 12 THAT (I) THE ASSOCIATION HAS COMPLIED WITH THE
 13 PROVISIONS OF SUB-SECTION (D) HEREOF, AND (II) THE
 14 PLAN IS FAIR. ANY APPLICANT OR PROTESTING ASSOCIA-
 15 TION AGGRIEVED BY ANY ACTION OR NON-ACTION OF THE
 16 DIRECTOR UNDER THIS SECTION MAY APPEAL THERE-
 17 FROM IN ACCORDANCE WITH THE APPEAL PROVISIONS OF
 18 SECTION 161H RELATING TO ORDERS.

19 (2) ALL PROSPECTAE AND ADVERTISING MATTER RE-
 20 LATING TO SUBSCRIPTIONS FOR GUARANTY STOCK SHALL
 21 INCLUDE A STATEMENT THAT SHARES OF GUARANTY
 22 STOCK ARE NOT INSURED.

23 (3) NO ASSOCIATION SHALL PAY TO ANY PERSON ANY
 24 COMMISSION FOR OBTAINING ANY SUBSCRIPTION FOR OR
 25 SALE OF SHARES OF GUARANTY STOCK.

26 (4) NO ASSOCIATION SHALL GIVE OR OTHERWISE GRANT
 27 ANYTHING IN THE NATURE OF A STOCK OPTION TO ANY
 28 OFFICER, DIRECTOR, ATTORNEY, EMPLOYEE OR OTHER
 29 PERSON IN CONNECTION WITH OR FOR THE PERFORM-
 30 ANCE OF ANY SERVICES FOR THE ASSOCIATION.

31 (F) LIST OF STOCKHOLDERS. ANY ASSOCIATION WHICH
 32 HAS ISSUED ANY OUTSTANDING GUARANTY STOCK SHALL
 33 ANNUALLY FURNISH THE DIRECTOR A LIST SHOWING
 34 THE NAME, ADDRESS AND NUMBER OF SHARES OWNED
 35 BY EACH OWNER OF GUARANTY STOCK, WHICH LIST
 36 SHALL BE KEPT CONFIDENTIAL BY THE DIRECTOR.

37 (G) ASSESSMENT. (1) ANY ASSOCIATION WHICH QUALI-
 38 FIES FOR THE EXCEPTION TO SUB-SECTION (2) HEREOF
 39 PROVIDED IN SUB-SECTION (B) HEREOF SHALL PREPARE
 40 A LIST SHOWING THE AMOUNT OF GUARANTY STOCK SOLD
 41 OR ISSUED AS OF JANUARY 1, 1961, THE PAR VALUE THERE-
 42 OF AND THE PROCEEDS THEREOF AS REFLECTED IN THE
 43 FINANCIAL RECORDS OF THE ASSOCIATION AS OF JANU-
 44 ARY 1, 1961. THE PROCEEDS FROM THE SALE OF SAID
 45 STOCK SHALL BE SET APART TO THE EXTENT OF THE PAR
 46 VALUE AND SHALL BE MAINTAINED AS A FIXED AND
 47 PERMANENT CAPITAL OF THE ASSOCIATION. ANY PRO-
 48 CEEDS FROM SALE OR ISSUANCE OF SUCH STOCK AFTER
 49 JANUARY 1, 1961, SHALL BECOME PART OF THE FIXED AND
 50 PERMANENT CAPITAL OF THE ASSOCIATION.

51 (2) IF IT APPEARS FROM THE FINANCIAL STATEMENT
 52 OF AN ASSOCIATION, OR THE DIRECTOR HAS REASON TO
 53 BELIEVE, THAT THE CAPITAL OF AN ASSOCIATION IS IM-
 54 PAIRED, THE DIRECTOR MAY EXAMINE THE ASSOCIA-
 55 TION AND ASCERTAIN THE FACTS, AND IF HE FINDS THAT
 56 SUCH DEFICIENCY EXISTS HE SHALL REQUIRE THE ASSO-

57 CIATION TO MAKE GOOD SUCH DEFICIENCY WITHIN 60
 58 DAYS AFTER THE DATE OF REQUEST. THE DIRECTORS
 59 OF EVERY ASSOCIATION UPON WHICH A REQUEST TO
 60 MAKE GOOD A DEFICIENCY IS MADE, SHALL LEVY AN
 61 ASSESSMENT UPON THE GUARANTY STOCK TO REPAIR
 62 THE DEFICIENCY. THE DIRECTORS SHALL CAUSE NOTICE
 63 OF SUCH REQUEST TO BE GIVEN TO EACH STOCKHOLDER
 64 OF SUCH ASSOCIATION SHOWING THE AMOUNT OF THE
 65 ASSESSMENT WHICH THE STOCKHOLDER MUST PAY FOR
 66 THE PURPOSE OF MAKING GOOD SUCH DEFICIENCY.

67 (3) IF ANY STOCKHOLDER REFUSES OR NEGLECTS TO
 68 PAY THE ASSESSMENT SPECIFIED IN THE NOTICE AFORE-
 69 SAID WITHIN 90 DAYS FROM THE DATE OF MAILING OR
 70 SERVICE OF SUCH NOTICE, THE DIRECTORS OF THE ASSO-
 71 CIATION MAY SELL TO THE HIGHEST BIDDER THE SHARES
 72 OF STOCK OF SUCH STOCKHOLDER. BEFORE SUCH SALE
 73 THE DIRECTORS SHALL PUBLISH NOTICE OF THE SALE
 74 FOR 10 DAYS IN A NEWSPAPER OF GENERAL CIRCULATION
 75 PUBLISHED IN THE COUNTY OR CITY OF THIS STATE
 76 WHERE THE PRINCIPAL OFFICE OF THE ASSOCIATION IS
 77 LOCATED, AND SERVE A COPY OF SUCH NOTICE OF SALE
 78 ON THE STOCKHOLDER PERSONALLY OR BY MAILING IT
 79 TO HIS LAST KNOWN ADDRESS 10 DAYS BEFORE THE DAY
 80 FIXED FOR SUCH SALE.

81 (4) FOR THE PURPOSES OF THIS SUB-SECTION: (1) IF
 82 THE VALUE OF THE ASSETS OF AN ASSOCIATION AFTER
 83 DEDUCTING THE AMOUNT OF ITS LIABILITIES, INCLUD-
 84 ING THE VALUE OF ITS OUTSTANDING FREE SHARE AC-
 85 COUNTS, IS LESS THAN THE AGGREGATE PAR VALUE OF
 86 THE ASSOCIATION'S OUTSTANDING GUARANTY STOCK,
 87 THE CAPITAL OF THE ASSOCIATION SHALL BE DEEMED
 88 TO BE IMPAIRED FOR THE PURPOSES OF THIS SECTION;
 89 (2) ALL FEES, CHARGES AND COMMISSIONS RECEIVED BY
 90 AN ASSOCIATION SHALL BE TREATED AS EARNED INCOME
 91 FOR THE YEAR RECEIVED.

92 (5) THE PROVISIONS FOR ASSESSMENT IN THIS SUB-
 93 SECTION SHALL NOT APPLY TO FREE SHARE ACCOUNTS
 94 OF MEMBERS OR BORROWERS.

1 **161Q. MEMBERSHIP AND VOTING RIGHTS.**

2 *All shareholders of associations heretofore or hereafter formed*
 3 *under this Article and all borrowers from such associations, and all*
 4 *persons assuming or obligated upon loans made or held by such as-*
 5 *sociations shall be members thereof, and all persons buying the*
 6 *property securing loans made by such associations subject to such*
 7 *loans shall have the privilege of such membership at all meetings of*
 8 *the members of such associations; each borrower and each obligor*
 9 *upon a loan and each owner shall be entitled to one vote as such*
 10 *borrower, obligor or owner. Shareholders, with the exception of*
 11 *borrowers, shall be entitled to one vote for each fully paid share*
 12 *owned, OR ALTERNATIVELY, SHAREHOLDERS SHALL HAVE*
 13 *ONE VOTE FOR EACH FREE SHAREHOLDER ACCOUNT.*

1 **161R. BY-LAWS; COPY AND FILING.**

2 *At the written request of the Director, a copy of the by-laws and*
 3 *any amendments thereto of an association, certified to be a true*
 4 *copy pursuant to Section 48 of this Article, shall be filed with the*
 5 *Director within ten (10) days of such request.*

1 161S. FINANCIAL STATEMENT.

2 The president of every association, or if so provided by the by-
 3 laws, some other officer thereof, shall prepare or cause to be pre-
 4 pared annually a statement of its financial condition in a form
 5 prescribed or approved by the Director, which shall be submitted at
 6 the annual meeting of the shareholders and filed within twenty (20)
 7 days thereafter at the principal office of the association in the State.
 8 A certified copy of the statement shall be filed with the Director
 9 within twenty (20) days after the annual meeting of the share-
 10 holders. A statement of condition of the association shall be delivered
 11 to any member upon request. A CERTIFIED STATEMENT OF
 12 THE SALARIES, FEES AND EXPENSE ACCOUNTS PAID TO
 13 THE OFFICERS AND DIRECTORS OF THE ASSOCIATION
 14 SHALL BE FILED WITH THE DIRECTOR AT THE SAME TIME
 15 THE STATEMENT OF FINANCIAL CONDITION IS FILED AND
 16 SHALL BE MADE AVAILABLE BY THE DIRECTOR TO ALL
 17 FREE SHARE ACCOUNT HOLDERS UPON REQUEST. EVERY
 18 FREE SHARE ACCOUNT HOLDER SHALL BE SENT NOTICE
 19 BY MAIL OF THE PLACE AND DATE OF THE ANNUAL MEET-
 20 ING AT LEAST TWENTY DAYS PRIOR THERETO.

1 161T. MANAGEMENT; DIRECTORS.

2 The business and affairs of every association of this State shall be
 3 managed by a board of not less than five (5) nor more than fifteen
 4 (15) directors. All the directors shall be citizens of the United
 5 States and TWO-THIRDS (2/3) OF SUCH DIRECTORS SHALL
 6 BE bona fide residents of this State, except that up to one-third
 7 (1/3) of the directors of said board may be residents of states ad-
 8 jacent to Maryland, or the District of Columbia. Such non- NON-
 9 resident directors shall be approved by the Board as qualified to serve
 10 as such directors.

1 161U. CONSOLIDATION; MERGER; DISSOLUTION.

2 (a) Approval by Director. Any association shall have power to
 3 consolidate or merge with any other incorporated association in this
 4 State as provided by this Article for corporations having capital
 5 stock, upon first filing its proposed plan of consolidation or merger
 6 with the Director and securing his approval thereof. Any associa-
 7 tion of this State shall have the power to partially liquidate, dis-
 8 solve or reorganize pursuant to the provisions of this Article per-
 9 taining to corporations of this State, upon first filing its proposed
 10 plan of partial liquidation, dissolution or reorganization with the Di-
 11 rector and securing his prior approval thereof. The Director shall
 12 approve any plan of consolidation, merger, liquidation, dissolution
 13 or reorganization filed with him if he finds that (1) any resulting
 14 association meets all requirements of this Article relating to the
 15 formation of new associations; and (2) the plan is fair; and (3)
 16 the execution of the plan will promote the public interest, con-
 17 venience and advantage. The Director shall publish the fact that a
 18 plan has been filed for at least two (2) successive weeks after filing
 19 in a newspaper of general circulation in the city, town or county
 20 in which the principal office of each association named in the plan
 21 is located, and shall give such other notice as may be desirable. Upon
 22 approval of any plan aforesaid, the Director shall certify as ap-
 23 proved any documents required by this Article to be filed with the
 24 State Department of Assessments and Taxation.

25 (b) Appeal. Any applicant or protesting association aggrieved by
 26 any action or non-action of the Director under this Section may ap-
 27 peal therefrom in accordance with the appeal provisions of Section
 28 161H relating to orders.

1 161V. BRANCH OFFICES.

2 (a) Approval by Director. No domestic FEDERALLY OR STATE
 3 CHARTERED association shall establish, maintain or relocate any
 4 branch office without filing an application therefor with the Director
 5 and securing his prior approval thereof. Any application for the
 6 establishment, maintenance or relocation of a branch office shall
 7 state: (1) the proposed location thereof, (2) the need therefor, (3)
 8 the functions to be performed therein, (4) the estimated annual ex-
 9 pense thereof, and (5) the mode of payment therefor. Such applica-
 10 tion shall be approved by the Director if he finds that the proposed
 11 establishment, maintenance or relocation of a branch office will pro-
 12 mote the public interest, convenience and advantage and whether
 13 such branch office will be efficiently operated in accordance with
 14 the policy of this sub-title. The Director shall publish the fact that
 15 such an application has been filed for at least two (2) successive weeks
 16 after filing in a newspaper of general circulation in the city, town or
 17 county in which the proposed branch office is to be located, and shall
 18 give such other notice as may be desirable. ANY FINANCIAL IN-
 18a STITUTION IN THE AREA IN WHICH A BRANCH OFFICE
 18b IS PROPOSED TO BE LOCATED SHALL HAVE THE RIGHT
 18c TO PROTEST THE PROPOSED APPROVAL BY THE BOARD
 18d AND SHALL HAVE THE RIGHT TO BE HEARD ON SUCH PRO-
 18e TEST.

19 (b) Appeal. Any applicant or protesting association aggrieved by
 20 any action or non-action of the Director under this Section may ap-
 21 peal therefrom in accordance with the appeal provisions of Section
 22 161H relating to orders.

1 161W. PROHIBITED TRANSACTIONS.

2 (a) Loan to officer, director or employee. It shall be unlawful for
 3 any association to make a loan to any of its officers, directors or
 4 employees, or to any corporation or business in which any officer,
 5 director or employee, or any member of the family of such officer,
 6 director or employee, owns an interest of ten per cent (10%) or
 7 more, except upon the security of the home or free share accounts
 8 in the association of such officer, director or employee, provided that
 9 any such loan secured by any free share accounts shall not exceed
 10 ninety per cent (90%) of the withdrawal value thereof.

11 (b) Exception. An association may make a loan prohibited by
 12 sub-section (a) hereof provided the loan is: (1) approved by a two-
 13 thirds (2/3) vote of the board of directors, any interested director
 14 taking no part in such vote, and (2) appraised by a disinterested ap-
 15 praiser appointed by the Director and (3) approved by said Director.

16 (c) Purchase at less than face value. It shall be unlawful for any
 17 officer, director or employee of an association to have any interest,
 18 direct or indirect, in the purchase at less than its face value of any
 19 free share account or evidence thereof issued by such association.

1 161X. WITHDRAWAL.

2 (a) Procedure; limitation ~~of~~ ON withdrawal. Any free shareholder
 3 may at any time present a written application for withdrawal of
 4 all or any part of his free share accounts. No member shall have on
 5 file in any one association more than one application at a time. Every
 6 application shall request immediate withdrawal of a stated amount
 7 in accordance with this Section. Any member may cancel his ap-
 8 plication at any time in whole or in part in writing. Every associa-
 9 tion shall pay, or number, date and file in the order of actual receipt
 10 every withdrawal application. Withdrawals shall be made in the
 11 order of actual receipt of applications, except as provided in this
 12 Section. Upon withdrawal, an association shall pay the value of

13 any free share account as determined by the board of directors, but
 14 not in excess of the withdrawal value thereof. If an association so
 15 elects, it may at any time pay in full each and every application as
 16 presented. It shall not, however, pay some in full unless it pays
 17 every application on file in full, except by paying all applications on
 18 file on the ratable or pro rata plan prescribed in this Section. The
 19 board of directors shall, however, have an absolute right to pay
 20 upon any application not exceeding two hundred dollars (\$200.00)
 21 to any one account holder in any one month in any order. No as-
 22 sociation shall obligate itself to pay withdrawals on any plan other
 23 than as provided in this Section. Free shareholders who have filed
 24 written application for withdrawal shall remain free share mem-
 25 bers as long as their applications remain on file. No dividends shall
 26 be declared on that portion of an account which has been noticed
 27 for withdrawal, which for dividend purposes is required to be de-
 28 ducted from the latest previous additions to such account, as long
 29 as such application is on file.

30 (b) Plan of withdrawal; notices; withdrawing account holders not
 31 creditors. The ratable or pro rata plan of withdrawals is as follows:
 32 On the first day of each month, each application which has been on
 33 file since the first day of the preceding month shall be paid its ratable
 34 or pro rata share. At least one-third ($1/3$) of the receipts of the
 35 association from its members during the preceding calendar month,
 36 exclusive of interest and expense account payments shall be applied
 37 on the first day of each month to the payment of applications which
 38 have been on file since the first day of the preceding month. Each
 39 succeeding month each such application shall receive its ratable or
 40 pro rata share of said receipts as aforesaid; each such application
 41 shall be deemed refiled the first of each succeeding month unless
 42 withdrawn in writing. Such limited payment on the first of each
 43 month, and such renumbering, shall take place on the first day of
 44 each subsequent month as long as there are applications unpaid.
 45 Any association may apply to withdrawals an amount larger than
 46 one-third ($1/3$) of such receipts as aforesaid, but cannot obligate
 47 itself to do so. All notices with respect to an application for with-
 48 drawal as aforesaid shall be sent to the applicant by mail at his last
 49 address. Unless the applicant shall apply in person or by writing
 50 for such withdrawal within thirty (30) days from the date of such
 51 notice, no payment on account of such application shall be made,
 52 and such application shall be cancelled. Such withdrawing members
 53 shall not at any time be deemed creditors of said association, either
 54 before or after the notice to withdraw, and said withdrawing mem-
 55 bers shall have no right of action at law or in equity against said
 56 association for the repayment of any amount sought to be withdrawn
 57 unless and until a default shall occur in said payments as provided
 58 for above, and then only at law, and to the extent of the secured
 59 payments due as above provided.

1 161Y. DEFINITE RATE SECURITIES FORBIDDEN.

2 No association shall issue, sell, negotiate, or advertise for sale
 3 either to members or the public any type of investment security
 4 other than free share accounts, GUARANTY STOCK "Christmas"
 5 and/or "vacation club" funds in account with it. No association shall
 6 agree to pay, on any free share account, a rate or amount, in dividends
 7 or other distributions, which is fixed. This Section shall not be con-
 8 strued, however, to exclude the power of an association to borrow
 9 money from banks, or other similar borrowings.

1 161Z. INVESTMENTS OF ASSOCIATIONS.

2 (a) Power to invest. In addition to the investments permitted to
 3 be made by associations organized under the laws of this State, par-

4 suant to Section 150 of this Article, every association shall have
5 power to invest:

6 (1) in such real estate as may be or reasonably anticipated to be
7 necessary or convenient for the transaction of its business, and this
8 shall include the power to derive revenue, by rental or otherwise,
9 from any portion of such real estate;

10 (2) in real estate purchased at auction sale, public or private,
11 judicial or otherwise, upon which the association has lien or claim,
12 legal or equitable;

13 (3) in real estate accepted by the association in satisfaction of any
14 obligation;

15 (4) in real estate acquired by the association in exchange for real
16 estate owned by the association;

17 (5) in real estate acquired by the association in connection with
18 salvaging the value of property owned by the association;

19 (6) in chattels and equipment necessary to conduct its business.

19a (7) BY MAKING LOANS TO MEMBERS OF COOPERATIVE
19b HOUSING PROJECTS SECURED BY THE ASSIGNMENT OF
19c THEIR INTEREST OR EQUITY IN A UNIT OF SUCH PROJECT,
19d NOTWITHSTANDING THE FACT THAT SUCH PROJECT AS A
19e WHOLE MAY BE SUBJECT TO A PRIOR LIEN, AND NOTWITH-
19f STANDING ANY OTHER PROVISIONS OF THIS ACT.

19g (8) WITH BANKS INSURED BY THE FEDERAL DEPOSIT
19h INSURANCE CORPORATION.

20 (b) Title to and location of property. Title to all real estate shall
21 be taken and held in the name of the association. The real or lease-
22 hold property securing any mortgage authorized by Section 150 of
23 this Article shall be situate in this State or within a fifty (50) mile
24 radius of the principal Maryland office of the association.

25 (c) Second mortgages. Any mortgage held by an association shall
26 be a first lien upon such real or leasehold property except that such
27 mortgage may be a second lien if the first lien on said property is
28 held by the association.

1 161AA. PROMOTIONAL ACTIVITIES PROHIBITED.

2 After the effective date of this Section, an association shall not
3 give for the opening of, maintaining of, or increasing the amount of,
4 any account, any give-away that has a monetary value in excess
5 of two dollars and fifty cents (\$2.50), provided, however, that the
6 Board shall have full power and authority to change this amount by
7 appropriate regulation. The monetary value of any give-away so
8 OF AN AMOUNT TO BE ESTABLISHED BY THE BOARD BY
9 APPROPRIATE REGULATION. THE BOARD SHALL HAVE
10 FULL POWER AND AUTHORITY FROM TIME TO TIME TO
11 TO CHANGE THIS AMOUNT. THE MONETARY VALUE OF
12 ANY GIVE-AWAY SO given shall be the cost thereof to the associa-
13 tion and the association shall keep in its records for a period of at least
14 six (6) years suitable evidence of such cost. If the give-away is pur-
15 chased or obtained by the association together with, in connection
16 with, or at the same time as another item or other items from the same
17 supplier, not identical therewith, such value shall be deemed to be the
18 then current regular selling price or charge of the supplier on separate
19 sales or disposition thereof in the quantity included, and the associa-
20 tion shall in such case obtain, and keep in its records for a period of at
21 least six (6) years, a signed statement by such supplier of such
22 regular selling price or charge. As used in the foregoing provisions

19 of this Section, the term "give" means to give, to sell or dispose of
 20 for less than full monetary value as hereinbefore defined, or with
 21 any agreement or undertaking, contingent or otherwise, for repur-
 22 chase or redemption, whether total or partial, or to offer, promise,
 23 or agree to do any of the foregoing. The term "give-away" means
 24 any money, property, service, or other thing of value, whether tang-
 25 ible or intangible. The term "account" means free share account
 26 of an association of whatsoever class or designation, accounts, share
 27 account, investment certificate, share subscription, and credit to the
 28 account of the maker thereof other than credit on account of a loan
 29 by the association.

1 161BB. REVIVAL OF CHARTER.

2 The charter of any association heretofore or hereafter forfeited
 3 for non-payment of taxes, or failure to file an annual report with the
 4 State Department of Assessments and Taxation, may, at any time,
 5 be revived as set forth in Section 85 of this Article, provided that
 6 the articles of revival shall first be approved by the Director under
 7 such terms and conditions as may be prescribed by regulations of
 8 the Board. Any association aggrieved by the action of the Director
 9 in declining to approve such articles or in conditioning his approval
 10 thereof may appeal from such action in accordance with the appeal
 11 provisions of Section 161H relating to orders.

1 161CC. EXAMINATIONS.

2 (a) Right to make. The Director shall examine, or cause an ex-
 3 amination to be made into, the affairs of every association subject
 4 to the provisions of this sub-title at least once every three (3) years,
 5 and at such other times as the Director may deem necessary. If an
 6 association is not audited at least once every three (3) years in a
 7 manner satisfactory to the Director, the examination of such asso-
 8 ciation may include an audit. IF ANY SUCH AUDIT IS MADE, IT
 9 SHALL BE PERFORMED BY ONE OR MORE CERTIFIED PUB-
 10 LIC ACCOUNTANTS. The Director, the Deputy Director, or his ex-
 11 aminer shall have free access to all books and papers of an association
 12 which relate to its business, and books and papers kept by any officer,
 12a agent, or employee, relating to or upon which any record of its busi-
 12b ness is kept.

13 (b) Federal examinations. The Director in lieu of such examina-
 14 tion and audit may accept an examination and audit made or accepted
 15 by a federal home loan bank, the Federal Home Loan Bank Board,
 16 or by the Federal Savings and Loan Insurance Corporation.

1 161DD. APPORTIONMENT OF PROFITS.

2 The board of directors of any association shall apportion the profits
 3 of the association, at least annually and as much more often as the
 4 by-laws may prescribe; and each apportionment shall be made in
 5 accordance with the following procedure:

6 (1) A proper allocation first shall be made to the general reserve
 7 fund.

8 (2) Additional allocations then may be made to such special re-
 9 serves as the board of directors may establish or may have estab-
 10 lished.

8 (2) ADDITIONAL ALLOCATIONS THEN MAY BE MADE
 9 TO SUCH SPECIAL RESERVES AS THE BOARD OF DIREC-
 10 TORS MAY ESTABLISH OR MAY HAVE ESTABLISHED.

11 (3) Dividends then may be declared on all free share accounts in
 12 accordance with the provisions of this Article and the by-laws of the
 13 association.

14 (4) The residue of such profits may be held as "undivided profits,"
15 subject to use in the same manner as profits generally.

1 161EE. RESERVES.

2 (a) Minimum allocation. Each association shall maintain a general
3 reserve fund which shall be used solely for the purpose of absorbing
4 losses and to which the board of directors shall allocate such portion
5 of the association's profits as the board may determine; except that
6 whenever the total amount of such reserve is less than six per cent
7 (6%) of the aggregate withdrawal value of the association's free
8 share accounts, the allocation to such reserve upon each apportion-
9 ment of profits shall be not less than ten per cent (10%) of the profits
10 being apportioned, or such lesser portion as will increase such reserve
11 to the required total amount.

12 (b) Special reserves. The board of directors may establish and
13 maintain such special reserves as they may deem advisable to which
14 charges may be made as the board of directors may determine.

1 161FF. DIVIDENDS.

2 (a) Determined by board of directors; restrictions. Subject to the
3 restrictions set forth in this Article and the association's by-laws,
4 the board of directors from time to time may determine the rate and
5 the amount of dividends to be paid on free share accounts. However,
6 the declaration of dividends on free share accounts shall be subject
7 to the following restrictions: (1) If the total amount of the general
8 reserve fund is less than that required in Section 161EE of this
9 Article, no dividends shall be declared until the allocation provided
10 by said Section has first been made; (2) Dividends shall not be paid
11 at any time or under any circumstances from capital or unearned
12 surplus.

13 (b) Small accounts. A dividend need not be allocated to any free
14 share account which has a withdrawal value of less than twenty-five
15 dollars (\$25.00) on the record date with respect to which the dividend
16 is paid.

17 (c) Resolution governing dividends. The board of directors shall
18 determine by resolution the method of calculating the amount of any
19 dividend on free share accounts, and the date on which the same is
20 to be declared or credited.

1 161GG. EXPENSES AND MEMORANDUM OF SETTLEMENT.

2 Every association may require borrowing members to pay all rea-
3 sonable expenses incurred in connection with the making, closing,
4 disbursing, extending, readjusting, releasing or renewing of real
5 estate loans. At each and every settlement there shall be furnished
6 to the borrower a memorandum of settlement which shall show in
7 detail each and every charge made in connection with said settlement.
8 Nothing in this sub-title shall be construed as enlarging, changing,
9 modifying or amending the usury laws of this State.

1 161HH. FRANCHISE TAX.

2 Every federal and domestic association and foreign association ad-
3 mitted to do business in this State shall pay annually for the use of
4 the State, in addition to any other tax imposed by law, a franchise tax
5 to the amount of one-one hundredths of one per cent (1/100 of 1%)
6 of the aggregate withdrawal value of its free shares purchased in the
7 State of Maryland, said free shares to be totalled as of December 31
8 of each and every year, and shall certify the said amount due to the
9 State to the Comptroller of the Treasury as other state taxes. Such
10 tax shall be payable without interest at any time on or before April

11 15, of each and every year, commencing on April 15, 1962, and if
 12 such tax be not paid as above provided, then the said tax shall there-
 13 after bear interest at the rate of one-half of one per cent ($\frac{1}{2}$ of 1%)
 14 for each month or fraction of a month, and if such tax be not paid
 15 before the first day of December following, a penalty of five per cent
 16 (5%) on the amount thereof shall be added. Provided, however,
 17 that if by reason of any law of any foreign jurisdiction an associa-
 18 tion chartered in this State and doing business in such other juris-
 19 diction is required to pay a franchise tax to said foreign jurisdiction
 20 based upon its free shares purchased in the State of Maryland, then
 21 the tax imposed by this section shall be reduced to the extent of such
 22 additional franchise tax so paid to said foreign jurisdiction.

1 161-II. EXEMPTION FROM BLUE SKY LAW.

2 The sale of free share accounts of any association doing business
 3 in this State is hereby exempted from all provisions of law of this
 4 State which provide for the supervision and regulation of the sale
 5 of securities, and the sale of any such accounts shall be legal without
 6 any action or approval whatsoever on the part of any official au-
 7 thorized to license, regulate, and supervise the sale of securities.

1 161JJ. SEVERABILITY.

2 If any provision of this sub-title or the application thereof to any
 3 person or circumstance is held invalid, such invalidity shall not
 4 affect the other provisions or any other application of this sub-title
 5 which can be given effect without the invalid provision or applica-
 6 tion, and to this end, the provisions of this sub-title are declared to
 7 be severable.

1 161KK. CONFORMITY.

2 Sections 161A through 161KK of this Article shall be considered
 3 as additions to all existing laws covering or affecting building, sav-
 4 ings and loan or homestead associations, or associations using any
 5 combination of these names, and shall replace and prevail over such
 6 existing laws to the extent that the provisions of these Sections are
 7 contradictory or inconsistent, but only to the extent of such con-
 8 tradiction or inconsistency, and such existing laws, subject to the
 9 above provisions, shall be and remain in full force and effect as if
 10 these Sections had never been enacted.

1 SEC. 2. AND BE IT FURTHER ENACTED, THAT THIS ACT
 2 SHALL TAKE EFFECT ON ~~JULY~~ JUNE 1, 1961.

Approved:

.....
 Governor.

.....
 President of the Senate.

.....
 Speaker of the House of Delegates.

V.F.
copy 1

COMMISSION TO STUDY THE ESTABLISHMENT
OF A STATE SYSTEM OF INSURING DEPOSITS
OF SAVINGS AND LOAN ASSOCIATIONS

Room 809, State Office Building
301 West Preston Street
Baltimore 1, Maryland

February 1, 1962

To His Excellency
J. MILLARD TAWES
Governor of the State of Maryland

To the Honorable,
The General Assembly of Maryland

In response to Joint Resolution No. 22 of the 1961
General Assembly, this Commission was appointed to study the
establishment of a State system of insuring deposits of savings
and loan associations in the State and now submits the following
report.

In the course of its deliberations, the Commission has
met with representatives of the savings and loan industry and
has also conferred with officials of the Co-operative Central
Bank of Massachusetts and the Ohio Deposit Guarantee Fund, the
only organizations which are engaged in a comparable activity.

As a result of its studies, the Commission has reached
the following conclusions:

1. That a system for insuring the free-share accounts
of State chartered savings and loan associations is desirable
and in the public interest.
2. That such insurance should be provided through a
central fund financed by the insured associations as is done
in Massachusetts and Ohio and that the faith and credit of
the State should not be pledged.
3. That all of the sound and well managed Maryland
savings and loan associations should be eligible for member-
ship in the fund, but that their participation therein should
be voluntary.
4. That the supervision of the participating savings
and loan associations by a State regulatory agency is essential.
5. That exemption from Federal income taxation will be
essential to the success of any fund for the purpose of insuring
free share accounts.

As a result of these findings, this Commission recommends
for the consideration of the 1962 General Assembly a bill cre-
ating a non-stock, non-profit corporation for the purpose of
carrying out these objectives. The Commission has drafted a bill
which, in its opinion, will serve this purpose.

David R. Cohan
James O'C. Gentry
John D. Hospelhorn
Marvin Mandel
George V. Parkhurst
F. Douglass Sears
Harry B. Wolf, Jr.
John P. Zebelean
John S. Shriver, Chairman

A56359

DEPARTMENT OF
LEGISLATIVE REFERENCE
CITY HALL
BALTIMORE, MD.

Handwritten signature

A BILL
ENTITLED

AN ACT to add new Sections 161MM to 161XX, inclusive, under the new sub-heading "Maryland Savings-Share Guaranty Fund, Inc.," to Article 23 of the Annotated Code of Maryland (1957 Edition and 1961 Supplement), title "Corporations," sub-title "III. Particular Classes of Corporations," to follow immediately after the sub-heading "Building or Homestead Associations" and immediately after Section 161LL thereof, and to repeal and re-enact with amendments Section 150 of said Article and sub-title (1957 Edition), sub-heading "Building or Homestead Associations," creating the Maryland Savings-Share Guaranty Fund, Inc., as a non-stock, non-profit corporation to promote the elasticity and flexibility of the resources of member associations, to provide for the liquidity of such associations through a central reserve fund, and to insure the free share accounts of such associations; providing generally for the purposes, powers, duties, and operations of this corporation; relating to the confidentiality of certain information obtained under the sub-heading "Building or Homestead Associations" of this Article; providing that homestead or building associations incorporated under the laws of this State may become members of this corporation, make certain transactions with the corporation, and comply with the conditions of membership and credit of the corporation; and relating generally to the insuring of free share accounts in certain savings and loan associations in this State and to the corporation herein created for that purpose.

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That new Sections 161MM to 161XX, inclusive, under the new sub-heading "Maryland Savings-Share Guaranty Fund, Inc.," be and they are hereby added to Article 23 of the Annotated Code of Maryland (1957 Edition and 1961 Supplement), title "Corporations," sub-title "III. Particular Classes of Corporations," to follow immediately after the sub-heading "Building or Homestead Associations" and immediately after Section 161LL thereof, and to read as follows:

MARYLAND SAVINGS-SHARE GUARANTY FUND, INC.

ITALICS

161MM. A non-stock, non-profit corporation is created, which shall be known as the Maryland Savings-Share Guaranty Fund, Inc., and the members of which shall be certain eligible savings and loan associations of this State. Except as otherwise provided in this sub-heading, the Corporation possesses all the powers, privileges, and immunities which now are or hereafter may be conferred on corporations by the general corporation law applicable to corporations organized thereunder. The Board of Directors may adopt and promulgate by-laws, rules, and regulations which conform to the reasonable intent and purposes of this sub-heading. The rules and regulations apply to members of the Corporation and to associations applying for membership therein. The by-laws, rules, and regulations so adopted shall be filed with the Department of Assessments and Taxation.

161NN. (a) The purposes of the Corporation are to promote the elasticity and flexibility of the resources of member associations, to provide for the liquidity of such associations through a central reserve fund, and to insure the free share accounts of such associations.

(b) In furtherance of said purposes the Corporation has the following powers:

(i) To provide for the liquidity of member associations through the creation of a central reserve fund for the purpose of making loans to member associations.

(ii) To insure the free share accounts of member associations through the creation of a central insurance fund.

(iii) To borrow money and otherwise incur indebtedness for any of its purposes; to issue its bonds, debentures, notes, or other evidences of indebtedness, whether secured or unsecured, therefor; and to secure the same by mortgage, pledge, deed of trust, or other lien on its property, rights, and privileges of every kind and nature or any part thereof.

(iv) To lend money to, and to guarantee, endorse, or act as surety on the bonds, notes, contracts, or other obligations of, or otherwise assist financially, any member association; and to establish and regulate the terms and conditions with respect to any such loans or financial assistance and the charges for interest and service connected therewith;

(v) To purchase, receive, hold, lease, or otherwise acquire, and to sell, convey, mortgage, lease, pledge, or otherwise dispose of, upon such terms and conditions as its directors may deem advisable, real and personal property, to the extent permitted under the provisions of either Section 160Z or Section 161Z of this Article (1961 Supplement), as amended from time to time, depending upon which is effective; together with such rights and privileges as may be incidental and appurtenant thereto and the use thereof, including, but not restricted to, any real or personal property acquired by the Corporation from time to time in the satisfaction of debts or enforcement of obligations.

(vi) To invest any of its funds, upon proper authorization thereof by the board of directors, in any of the following:

A. Cash or deposits in checking or savings accounts, or under certificates of deposit in National or State banks and trust companies, to the extent that such accounts are insured by the Federal Deposit Insurance Corporation.

B. Savings and loan association share accounts to the extent that such accounts are insured by the Federal Savings and Loan Insurance Corporation.

C. Interest-bearing bonds, notes, certificates of indebtedness, bills, or other obligations of the United States, any State, or the District of Columbia, or of any commission, instrumentality, agency, authority, or political subdivision thereof having legal authority to issue the same.

D. Interest-bearing bonds, notes, or other interest-bearing obligations of any corporation created or existing under the laws of the United States, any State, or the District of Columbia.

E. Dividend-paying stocks or shares having readily marketable values of any corporation created or existing under the laws of the United States, any State, or the District of Columbia; provided that the Corporation may not invest more than 10% of its total assets in such stocks, nor more than 3% of its total assets in the stock of any one corporation.

F. Loans secured by first mortgages or deeds of trust on unencumbered fee simple real estate or improved leasehold property in this State, to an amount not exceeding 75% of the fair market value of such property. Such loans shall be additionally secured by appropriate fire insurance on the improvements. The limitations hereof shall not apply to loans insured or guaranteed under the Federal Housing Administration program or under the Servicemen's Readjustment Act of 1944, as amended.

G. Ground rents in this State.

H. Collateral loans secured by pledge of any security hereinabove named.

I. Direct loans to member associations under the terms and conditions established therefor by the board of directors.

(vii) To exercise all other corporate powers granted by general law to corporations in this State, which are not inconsistent herewith and which are necessary or appropriate to the purposes hereof.

(c) The earnings shall be accumulated by the Corporation, and no part thereof shall be returned to the member associations.

161-00. (a) All of the corporate powers of the Corporation shall be exercised by a Board of Directors, which initially shall be appointed by the Governor. After a minimum of twenty-five associations have become members of the Corporation, the first annual meeting of the Corporation shall be held, and the member associations of the Corporation shall elect ten directors, each of whom shall be a registered voter of the State of Maryland and shall reside therein. Of the directors elected at the first annual meeting, three shall be elected for terms of two years

each, three shall be elected for terms of three years each, and four shall be elected for terms of four years each; and thereafter all terms shall be for four years each.

(b) In addition to the ten directors elected by the member associations, as provided in sub-section (a) of this section, the Governor of Maryland shall appoint one director of the Corporation for a term of four years, whose term shall commence on the date of the first annual meeting of the Corporation; and thereafter the Governor shall appoint a director from time to time to fill this office of director whenever it becomes vacant. Any director so appointed shall be a registered voter of the State of Maryland who resides in Maryland.

(c) If any vacancy occurs in the membership of any director elected by the members of the Corporation, through death, resignation, or otherwise, the remaining directors shall elect a person to fill the vacancy for the unexpired term. Any vacancy occurring in the term of the director appointed by the Governor shall be filled by the Governor for the unexpired term. Upon the expiration of the term of any director, he shall continue as such until his successor has been elected or appointed, and has qualified.

(d) The Board of Directors shall elect one of its members as Chairman of such Board, shall adopt by-laws for the Corporation, and may appoint such officers and employees as it deems advisable.

(e) Six members of the board of directors are a quorum.

(f) In the election of directors and in voting on any other matter legally to come before a meeting of the Corporation, each member association of the Corporation has one vote, to be cast by a delegate authorized to act by that association. A delegate may not vote on behalf of more than one member association. A majority of the votes so cast shall elect directors or determine any question put to a vote.

(g) Not more than three directors of the Corporation, at any one time, may be directors or officers of member associations which are members of the Federal Savings and Loan Insurance Corporation. If at any time the member association of which a director is a delegate becomes a member of the Federal Savings and Loan Insurance Corporation, and the directors of the Corporation thereby exceed three as provided herein, the term of the delegate of the member association becoming a member of the said Federal Corporation becomes vacant, and the vacancy shall be filled as provided in subsection (c) of this section.

(h) The directors of the Corporation may receive such reasonable compensation as may be determined.

(i) The directors of the Corporation shall fix the amount of the surety bonds of the officers and employees of the Corporation conditioned upon the faithful performance of their duties, as provided in the by-laws of the Corporation.

161PP. The membership of the Corporation consists of those associations the financial affairs, solvency, management, and directorship of which have been certified to the Corporation, as approved for insurance of free share accounts, by the Director, and which have thereupon filed an application for membership accepted by the board of directors, which acceptance shall not be denied except for good cause shown. As provided in section 150 of this Article, as amended from time to time, every savings and loan association of this State as hereinafter defined may become a member of the Corporation and may invest in and pay such assessments, premiums, and other charges as may be required for participation in the Corporation. Membership in the Corporation is for the life of the Corporation, except that any member may withdraw upon written notice given one year in advance, or in the manner provided in the by-laws of the Corporation.

161QQ. The provisions of Sections 160J and 161J of this Article (1961 Supplement, as may be amended from time to time), whichever may have effect, shall be construed and applied so as not to prevent a proper exchange of information relating to associations and their business between the Director and representatives of the Maryland Savings-Share Guaranty Fund, Inc.

161RR. Under no circumstances is the faith or credit of the State of Maryland pledged herein.

161SS. Promptly upon its appointment, and before the acceptance of the membership of any associations, the temporary board of directors shall promulgate such by-laws, rules and regulations as may be necessary and proper to carry out the provisions hereof and as are not inconsistent herewith. Thereafter, the by-laws, rules, and regulations so adopted may be amended or revoked, and amendments and new by-laws, rules, and regulations will become effective only after submission to and obtaining the approval of the Director, whose approval may be denied only if he has reason to believe that the principles and purposes of this sub-heading will be subverted thereby or if the best interests of the public will not be promoted thereby. Unless the Director shall within 30 days after submission notify the Corporation of his disapproval and state the grounds therefor, the amendments, by-laws, rules and/or regulations so submitted shall be deemed approved.

161TT. Neither the Corporation, the member associations, nor those persons owning free share accounts therein, are subject to the provisions of Article 48A of this Code by reason of participation herein.

161UU. No officer or director of the Corporation, whether appointed or elected, is personally liable upon any of its contracts legally entered into on behalf of the Corporation unless the same by its terms shall expressly obligate him or them.

161VV. The life of the Corporation is perpetual.

161WW. As used herein, the following words have the meanings indicated unless the context clearly requires a different meaning:

(1) "Corporation" means the Maryland Savings-Share Guaranty Fund, Inc., created hereby.

(2) "Director" means the Director of the State Department of Assessments and Taxation, as provided in Section 160F of this Article, or it means the Director of the Department of Building, Savings and Loan Associations, as provided in Section 161G of this Article, depending upon which section is effective.

(3) "Directors" means the Board of Directors of the Maryland Savings-Share Guaranty Fund, Inc.

(4) "Association" means association engaged in the savings and loan business as defined in Section 160B of this Article or as defined in section 161B of this Article, as either is amended from time to time, depending upon which section is effective.

161XX. The Corporation is exempt from all special and ordinary taxes and from documentary stamp and transfer taxes imposed by this State or any political subdivision thereof, including the tax imposed under the subtitle "Income Tax" of Article 81 of this Code, as amended from time to time.

END
ITALICS

-8-

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SECTION 2. AND BE IT FURTHER ENACTED, That all applications from associations for membership received by the Corporation prior to February 1, 1963, shall be referred to the Director. The Director shall examine the affairs of all such applicants and as a result thereof if he finds the applicants to meet the qualifications for membership in the Corporation set forth herein under 161PP, he shall so certify them.

The Corporation shall not extend the benefits to be accorded to member associations to any applicant, until:

(1) it has received the report and recommendation as provided herein from the Director as to each application filed prior to February 1, 1963, and has acted thereon; and

(2) it has accepted for membership a minimum of twenty-five (25) associations, having free share accounts in the aggregate total of at least twenty-five million dollars (\$25,000,000.00).

SECTION 3. AND BE IT FURTHER ENACTED, That after the first meeting of the Board of Directors, a certificate shall be filed by the board with the Department of Assessments and Taxation, certifying that the Corporation has commenced business as provided herein; and such certificate shall be conclusive evidence that business was begun.

SECTION 4. AND BE IT FURTHER ENACTED, That if the Corporation fails to insure free share accounts by April 1, 1964, its existence terminates at that time, and without further action by the General Assembly and the Governor of Maryland the provisions of this Act then are null and void.

SECTION 5. AND BE IT FURTHER ENACTED, That if any provision of this Act or the application thereof to any person or circumstances is held invalid, such invalidity does not affect the other provisions or any other application of this Act which can be given effect without the invalid provision or application,

and to this end the provisions of this Act are declared to be severable.

SECTION 6. AND BE IT FURTHER ENACTED, That Section 150 of said Article and sub-title (1957 Edition), sub-heading "Building or Homestead Associations," be and it is hereby repealed and re-enacted with amendments, to read as follows:

150. The payment of the unpaid installments and the premiums on the share or shares so purchased or redeemed, with interest on the money paid therefor, as aforesaid, and all fines and penalties incurred in respect thereof by any member, shall be secured to such corporation, by mortgage on real or leasehold property, or by the hypothecation of stock of such corporation held by such member or by judgment of a court of law or by a justice of the peace, or by a decree of a court of equity all as may be provided in the articles of association or bylaws; but in no case of hypothecation of stock no greater sum of money shall at any time be drawn out by any member than shall have been already paid in by him on all his shares at the time of said hypothecation, and all homestead or building associations organized under the laws of this State are hereby prohibited from investing in any other manner than in cash, fixtures, or loans on hypothecated stock of such associations, judgments or decrees for payment of money received by courts in this State, mortgages on real or leasehold estate situate in this State, ground rents issuing from real estate located in this State, bonds of this State and bonds or other obligations of, or guaranteed as to principal and/or interest by, the United States. And any homestead or building association incorporated under the laws of this State shall, in addition to the foregoing, have full power to become a member of, or stockholder in the federal home loan bank in the district of which the State of Maryland is a part, and to that end to purchase stock in, or securities of, or to deposit money with such federal home loan bank, and to comply with

all conditions of membership or credit in such bank; to borrow money from such bank and to pledge security therefor, including the right to repledge the shares of stock pledged as collateral security without securing the consent of the owner thereof, in accordance with, and to function under the terms of an act of Congress entitled the "Federal Home Loan Bank Act," approved July 22, 1932, or any amendments thereto, including the rules and regulations promulgated thereunder by the federal home loan bank, insofar as said act or amendments thereto, or rules and regulations thereof apply to homestead or building associations.

In addition to the powers hereinbefore enumerated any homestead or building association incorporated under the laws of this State shall have full power and authority to avail itself of any or all of the benefits, advantages and privileges available to homestead and building associations under the provisions of and in accordance with the terms of an act of Congress entitled "An Act to encourage improvement in housing standards and conditions, to provide a system of mutual mortgage insurance, and for other purposes," approved June 27, 1934, and known as the "National Housing Act," and any amendments thereof or that may be made thereto.

ITALICS

Also, any homestead or building association incorporated under the laws of this State has full power to become a member of the Maryland Savings-Share Guaranty Fund, Inc.; and to that end may purchase securities of, may deposit money with or pay assessments, premiums, and charges to the Guaranty Fund; may comply with all conditions of membership or credit in the Guaranty Fund; and may borrow money from the Guaranty Fund and pledge security therefor.

END ITALICS

SECTION 7. AND BE IT FURTHER ENACTED, That this Act shall take effect June 1, 1962.

NOTE:

Include latest S/L 200 Form

Pre-Exam Analysis

Type _____

Date _____ Current Exam as of _____

Prepared By _____ Required: _____

Assn. _____ E.I.C. _____

Assts. _____

Branches _____

Variable _____

Dividends _____

Service Corp. _____

Fiscal Y/E _____ Last Exam as of _____ Exam to Start _____

Latest Audit Report: _____

Received - Copy enclosed ()

Not Received - Examiners obtain copy ()

If association does not have independent audit performed - Examiners check here ()

Areas of concern as reflected by prior exam:

Other areas of concern:

ASSOCIATION: _____

NAME OF EXAMINERS AND MAN DAYS ON EXAMINATION:

DATE	DAY	E.I.C.	EXMR.	EXMR.	EXMR.	EXMR.
	M					
	T					
	W					
	T					
	F					
	M					
	T					
	W					
	T					
	F					
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	W					
	T					
	F					

NAME OF ASSOCIATION _____

As of Date _____

Examiners

Does this association post its books _____
(daily, weekly, monthly, quarterly)

Does this association obtain yearly independent certified audits? _____

Line? _____

Savings Accounts
Insured by

EXAMINATION AS OF

Current Policy
or
Certificate No.

Association _____

Address _____ City _____ State _____ Zip Code _____

Address of Branches

(1) _____

(2) _____

Free Share or Savings Accounts

Mortgage Loans

No. _____ No. _____

Date Chartered	Stock or Mutual	Years End	Annual Meeting	Dividend Rate and Period

OFFICERS AND DIRECTORS

Name _____ Address _____ City _____ Officer _____ Director _____ (x)

(1) _____

(2) _____

(4) _____

(5) _____

(6) _____

(7) _____

(8) _____

(9) _____

(10) _____

(11) _____

(12) _____

(13) _____

(14) _____

(15) _____

Counsel

Accountant

Name _____ Name _____

Address _____ Address _____

Period of Examination	
From	To

Examiner-In-Charge

COMPARATIVE PERCENTAGE SUMMARY
CURRENT EXAMINATION

PREVIOUS EXAMINATION

Date _____ 19__

Date _____ 19__

	<u>Amount</u>	<u>% to Total Assets</u>	<u>Amount</u>	<u>% to Total Assets</u>
1. Total Assets	\$ _____		\$ _____	
2. Reserve for Bad Debts	_____	%	\$ _____	%
3. Undivided profits and surplus	_____	%	\$ _____	%
4. First mortgage loans	\$ _____	%	\$ _____	%
5. Ground rents owned	\$ _____	%	\$ _____	%
6. Liquid Assets:				
(a) Cash	\$ _____		\$ _____	
(b) Investments (Securities)	_____		_____	
(c) M.S.S.I.C. deposit	_____		_____	
Total Liquid Assets	\$ _____	%	\$ _____	%
7. Slow Assets:				
(a) Slow mortgage loans	\$ _____	%	\$ _____	%
(b) Real estate Owned	_____	%	_____	%
(c) Office Building & Improvements (net)	_____	%	_____	%
(d) Leasehold Improvements (net)	_____	%	_____	%
(e) Furniture & Fixtures (net)	_____	%	_____	%
(f) _____	_____	%	_____	%
Total Slow Assets	\$ _____	%	\$ _____	%
8. Borrowed Money	\$ _____	%	\$ _____	%

Year Ended _____

Year Ended _____

	<u>Amounts</u>	<u>Ratios</u>	<u>Amounts</u>	<u>Ratios</u>
9. Operating ratios:				
(a) Gross operating income (Item 9, Page 4)	\$ _____		\$ _____	
(b) Total operating expense (Item 25, Page 4 and Item 29, Page 5)	\$ _____		\$ _____	
(c) % Operating expense to gross operating income		%		%
(d) Net operating income (Item V, Page 5)	\$ _____		\$ _____	
(e) Dividends (page 6)	\$ _____		\$ _____	
(f) % Dividends to net operating income		%		%
(g) Total assets at end of fiscal year	\$ _____		\$ _____	
(h) % Operating expense to total assets		%		%
(i) Share liability at end of fiscal year	\$ _____		\$ _____	
(j) % Net income to share liability		%		%
(k) Reserve for Bad Debts	\$ _____		\$ _____	
(l) % Reserve for Bad Debts to Share Liability		%		%
(m) Total Net Worth	\$ _____		\$ _____	
(n) % Total Net Worth to Share Liability		%		%

STATEMENT OF CONDITION

Exhibit A

Name of Institution _____

as of _____, 19__

ASSETS

1. First mortgage loans:		
a. First mortgage direct reduction loans _____	\$ _____	
b. First mortgage drop share loans _____	_____	
c. F.H.A. mortgage loans _____	_____	
d. G.I. mortgage loans _____	_____	
e. First mortgage straight loans _____	_____	
f. Participation loans _____	_____	
g. Accrued interest receivable on first mortgage loans _____	_____	
h. Advances for taxes, insurance, etc., on first mortgage loans _____	_____	\$ _____
2. Subordinated Liens:		
a. Second Mortgages _____	\$ _____	
b. Accrued interest receivable on second mortgages _____	_____	
c. Advances for taxes, insurance, etc., on second mortgages _____	_____	
3. Free Share Account Loans:		
a. Loans secured by accounts of this association _____	\$ _____	
b. Accrued interest receivable on free share account loans _____	_____	
4. Other loans:		
a. Loans on all other security _____	\$ _____	
b. Unsecured loans _____	_____	
c. Accrued interest receivable on other loans _____	_____	
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 _____		
8. Investments:		
a. Stock in Federal Home Loan Bank _____	\$ _____	
b. Federal Home Loan Bank Securities _____	_____	
c. U.S. Government obligations _____	_____	
d. Other investment securities _____	_____	
9. M.S.S.I.C. Deposit _____		
10. Investment - Service Corporation _____		
11. Cash:		
a. Cash on hand _____	\$ _____	
b. Cash in banks _____	_____	
c. _____	_____	
d. _____	_____	
12. Office Building (if owned):		
a. Office building and improvements _____	\$ _____	
b. Less allowance for depreciation _____	_____	
13. Leasehold Improvements:		
a. Leasehold improvements _____	\$ _____	
b. Less allowance for amortization _____	_____	
14. Furniture, etc.:		
a. Furniture, fixtures and equipment _____	\$ _____	
b. Less allowances for depreciation _____	_____	
15. Deferred charges _____		
16. Other assets (Schedule 6, Page 14) _____		
17. _____		
18. _____		
TOTAL ASSETS _____		\$ _____

STATEMENT OF CONDITION--(Continued)

Exhibit A

CAPITAL AND LIABILITIES

20. Free accounts:			
a. Installment share dues credited _____	\$ _____		
Deduct--Delinquent dues (if carried) _____			
Sub-total _____	\$ _____		
Add--Dividends (unless included in 20-a) _____			
Net free installment shares _____		\$ _____	
b. Savings shares and accounts (payments and dividends) _____			
c. Variable Dividend Certificates _____			
d. Single payment shares (payments and dividends) _____			
e. Matured shares (payments and dividends) _____			
f. Hypothecated Share Accounts--Mortgage Loans _____			
g. Pledged Share Accounts--Free Share Account Loans _____			
h. Income Shares _____			
i. _____			
Total Share Accounts: _____			
21. Other Accounts:			
Christmas Clubs _____	\$ _____		
Vacation Clubs _____			

Total Other Accounts _____			
22. Advances from Federal Home Loan Bank _____			
23. Borrowed money:			
a. From banks (Schedule 8, Page 14) _____	\$ _____		
b. From others (Schedule 8, Page 14) _____			
24. Mortgages on real estate owned _____			
25. Interest accrued on items 22, 23 and 24 _____			
26. Dividends declared, unpaid and uncredited _____			
27. Taxes accrued and unpaid on real estate owned _____			
28. Accounts payable _____			
29. Loans in process _____			
30. Advance payments:			
a. Advance payments by borrowers for taxes and insurance (if carried separately) _____	\$ _____		
b. _____			
c. _____			
31. Other liabilities (Schedule 7, Page 14) _____			
32. Deferred credits to future operations:			
a. For unearned profit on real estate sold _____	\$ _____		
b. For income collected in advance _____			
c. For income Taxes _____			
d. _____			
33. Specific reserves:			
a. For uncollected interest _____	\$ _____		
b. For subordinated liens _____			
c. _____			
34. General reserves:			
a. Reserve for bad debts _____	\$ _____		
b. Federal insurance reserve (if insured) _____			
c. _____			
d. _____			
e. _____			
35. Surplus _____			
36. Undivided profits _____			
37. Reserve for estimated dividend requirements _____			
38. Current earnings (if interim statement) _____ months ended _____ 19 _____			
39. _____			
40. _____			
TOTAL CAPITAL AND LIABILITIES _____		\$ _____	

STATEMENT OF OPERATIONS

Exhibit B

NAME OF INSTITUTION _____

	Current Period		Year		Year	
	From _____	To _____	From _____	To _____	From _____	To _____

I. GROSS OPERATING INCOME:

1. Interest						
a. On mortgage loans—ordinary cash collections _____	\$ _____		\$ _____		\$ _____	
b. On mortgage loans—all other _____	_____		_____		_____	
c. On loans on shares, passbooks and certificates _____	_____		_____		_____	
d. On real estate sold on contract _____	_____		_____		_____	
e. On investments and bank deposits _____	_____		_____		_____	
f. On property improvement loans _____	_____		_____		_____	
g. On ground rents _____	_____		_____		_____	
h. Other _____	_____		_____		_____	
2. Discount on loans (current installment and amortization only) _____	_____		_____		_____	
3. Appraisal fees, legal fees and initial service charges _____	_____		_____		_____	
4. Other fees and fines _____	_____		_____		_____	
5. Real estate operations—Net income or (loss from R.E.O. Details on page 5) _____	_____		_____		_____	
6. Gross income from office building _____	_____		_____		_____	
7. Dividends:						
a. On stock in Federal Home Loan Bank _____	_____		_____		_____	
b. Other dividends _____	_____		_____		_____	
8. Miscellaneous operating income _____	_____		_____		_____	
9. Gross operating income _____	\$ _____		\$ _____		\$ _____	

II. LESS—OPERATING EXPENSE:

10. Salaries, etc.:						
a. Compensation to directors, officers, employees, etc. _____	\$ _____		\$ _____		\$ _____	
b. Collection expense (agents, etc.) _____	_____		_____		_____	
11. Legal services—retainer, traveling expenses and special services _____	_____		_____		_____	
12. Expense accounts of directors, officers and employees _____	_____		_____		_____	
13. Rent, light, heat, etc. _____	_____		_____		_____	
14. Office building expenses (if owned):						
a. Repairs, taxes and maintenance of office building including depreciation _____	_____		_____		_____	
b. _____	_____		_____		_____	
15. Furniture, fixtures and equipment, including depreciation _____	_____		_____		_____	
16. Advertising _____	_____		_____		_____	
17. Stationery, printing and office supplies _____	_____		_____		_____	
18. Telegraph, telephone, postage & express _____	_____		_____		_____	
19. Insurance and bond premiums _____	_____		_____		_____	
20. Federal insurance premium (if insured) _____	_____		_____		_____	
21. Audit and supervisory examination _____	_____		_____		_____	
22. Taxes (other than real estate taxes) _____	_____		_____		_____	
23. Organization dues _____	_____		_____		_____	
24. Other operating expense _____	_____		_____		_____	
5. Total operating expense _____	\$ _____		\$ _____		\$ _____	
Net Operating Income Before Interest and Other Charges _____	\$ _____		\$ _____		\$ _____	

(Carried forward to page 5)

STATEMENT OF OPERATIONS (Continued)

Exhibit B (Continued)

	Current Period	Year	Year
	From _____ To _____	From _____ To _____	From _____ To _____
III. Net Operating Income Before Interest and Other Charges _____ (Carried forward from page 4)	\$ _____	\$ _____	\$ _____
IV. LESS--INTEREST CHARGES:			
26. On advances from Federal Home Loan Bank _____	\$ _____	\$ _____	\$ _____
27. On borrowed money _____	_____	_____	_____
28. _____	_____	_____	_____
29. Total Interest _____	\$ _____	\$ _____	\$ _____
V. Net Operating Income _____	\$ _____	\$ _____	\$ _____
VI. ADD-NON-OPERATING INCOME:			
30. Dividends retained on withdrawals _____	\$ _____	\$ _____	\$ _____
31. Profit on sale of real estate _____	_____	_____	_____
32. Profit on sale of investments _____	_____	_____	_____
33. Mortgage prepayment penalties _____	_____	_____	_____
34. Other non-operating income _____	_____	_____	_____
35. Total non-operating income _____	\$ _____	\$ _____	\$ _____
VII. Net Income After Interest and Before Charges _____	\$ _____	\$ _____	\$ _____
VIII. LESS--NON-OPERATING CHARGES (do not use lines herein for items charged direct to reserves):			
36. Foreclosure costs and back taxes on real estate acquired (unless capitalized or charged to reserves) _____	\$ _____	\$ _____	\$ _____
37. Loss on sale of real estate _____	_____	_____	_____
38. Loss on sale of investments _____	_____	_____	_____
39. Other non-operating charges _____	_____	_____	_____
40. Total non-operating charges _____	\$ _____	\$ _____	\$ _____
IX. Net Income for Period _____	\$ _____	\$ _____	\$ _____

REAL ESTATE OPERATION (Details)

I. REAL ESTATE INCOME:			
1. Real Estate Rents _____	\$ _____	\$ _____	\$ _____
2. _____	_____	_____	_____
3. Total Real Estate Income _____	\$ _____	\$ _____	\$ _____
II. LESS--REAL ESTATE OPERATING EXPENSES:			
4. Taxes _____	\$ _____	\$ _____	\$ _____
5. Insurance _____	_____	_____	_____
6. Repairs and Maintenance _____	_____	_____	_____
7. Commissions _____	_____	_____	_____
8. Depreciation _____	_____	_____	_____
9. Other Miscellaneous real estate expenses _____	_____	_____	_____
10. _____	_____	_____	_____
11. Total Real Estate Expenses _____	\$ _____	\$ _____	\$ _____
12. Net profit on Real Estate Operations _____	\$ _____	\$ _____	\$ _____
13. Net loss on Real Estate Operations _____ (Note--Insert net income or loss in connection with real estate on page 4 as indicated.)	\$ _____	\$ _____	\$ _____

DISTRIBUTION OF NET INCOME AND
RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

	Current Period		Year		Year	
	From _____ To _____	From _____ To _____	From _____ To _____	From _____ To _____	From _____ To _____	From _____ To _____
Distribution of Net Income						
1. Net income for period (Item IX, Exh. B)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Distribution						
2. Transfers 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 _____	_____	_____	_____	_____	_____	_____
b. Int. on deposits, invest., cert. etc. _____	_____	_____	_____	_____	_____	_____
c. Res. for div. on Var. Div. Certs. _____	_____	_____	_____	_____	_____	_____
d. _____	_____	_____	_____	_____	_____	_____
4. Other						
a. Federal income tax _____	_____	_____	_____	_____	_____	_____
b. _____	_____	_____	_____	_____	_____	_____
c. _____	_____	_____	_____	_____	_____	_____
5. Total Distribution of Net Income _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
6. Net Income After Distribution _____	_____	_____	_____	_____	_____	_____
7. Net income Undistributed _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Reconcilement of Undivided Profits						
8. Balance—beginning of period _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
9. Net Income After Distribution (line 6)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
10. Other additions:						
a. _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
b. _____	_____	_____	_____	_____	_____	_____
c. _____	_____	_____	_____	_____	_____	_____
d. _____	_____	_____	_____	_____	_____	_____
e. _____	_____	_____	_____	_____	_____	_____
f. _____	_____	_____	_____	_____	_____	_____
g. _____	_____	_____	_____	_____	_____	_____
11. Subtotal _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
12. Deductions:						
a. _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
b. _____	_____	_____	_____	_____	_____	_____
c. _____	_____	_____	_____	_____	_____	_____
d. _____	_____	_____	_____	_____	_____	_____
e. _____	_____	_____	_____	_____	_____	_____
f. _____	_____	_____	_____	_____	_____	_____
g. _____	_____	_____	_____	_____	_____	_____
13. Total deductions _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Balance at end of period _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
14. Dividend or interest rate for period _____	_____ %	_____ %	_____ %	_____ %	_____ %	_____ %

RECONCILEMENT OF RESERVES

Exhibit D

	Current Period	Year	Year
	From _____	From _____	From _____
	To _____	To _____	To _____

Reserve for bad debts

1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
(d)	_____	_____	_____
3. Total additions	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ _____	\$ _____	\$ _____
5. Deductions during period:			
(a)	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
(d)	_____	_____	_____
(e)	_____	_____	_____
(f)	_____	_____	_____
(g)	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ _____	\$ _____	\$ _____

Reserve

1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period	_____	_____	_____
3. Totals of items 1 and 2	\$ _____	\$ _____	\$ _____
4. Deductions during period:			
(a)	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
Total deductions	\$ _____	\$ _____	\$ _____
6. Balance at end of period	\$ _____	\$ _____	\$ _____

RECONCILEMENT OF RESERVES

Exhibit D (Continued)

	Current Period	Year	Year
	From _____	From _____	From _____
	To _____	To _____	To _____

Surplus

1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
(d)	_____	_____	_____
(e)	_____	_____	_____
3. Total additions	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ _____	\$ _____	\$ _____
5. Deductions during period:			
(a)	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
(d)	_____	_____	_____
(e)	_____	_____	_____
(f)	_____	_____	_____
(g)	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ _____	\$ _____	\$ _____

Reserve

1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period:			
(a)	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
3. Total Additions	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ _____	\$ _____	\$ _____
5. Deductions during period:			
(a)	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
(d)	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ _____	\$ _____	\$ _____

LEGEND

1A--Single Family Dwelling
 1B--2-4 Family Dwelling
 1C--Home & Business
 2--Apts. w/5 or more families
 3--Business--Commercial
 4--Farm.

5--Unimproved
 P--Purchase
 R--Refinance
 RO--Refinance (Other)
 C--Construction

LOANS SUBJECT TO COMMENT AS OF -

Schedule No. 1

Loan No:	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount	Debit Exp. Acct. (2)	Unpaid Principal	Unpaid Interest (4)	Total Debt (2), (3) & (4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments

REAL ESTATE OWNED AS OF - -

Schedule No. 2

	<u>No.</u>	<u>Book Value</u>	<u>Appraised Value</u>
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

<u>Item</u>	<u>Parcela</u>	<u>Book Value</u>	<u>Net Income</u>
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

<u>Type</u>	<u>Carrier</u>	<u>Exp. Date</u>	<u>Amount</u>
Fire & Ext. Cov. _____	_____	_____	\$ _____
Contents _____	_____	_____	\$ _____
Comprehensive-Glass _____	_____	_____	\$ _____
Owners, Landlords and Tenants Liability _____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

OFFICE BUILDING

Year Ended _____

Asset value before depreciation:

Land _____ \$ _____
 Building _____
 Total _____ \$ _____
 Less: Allowance for depreciation _____
 Book Value _____ \$ _____

Assessed value:

Land _____ \$ _____
 Building _____
 Total _____ \$ _____

Insurance carried:

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 _____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES

Schedule No. 5

Name	Officer Title	Director	Meetings Attended Since Last Examination	Time Devoted	Annual Salaries Y/E	Annual Fees Y/E	*Indebtedness As Of		Total Free Share Accounts AS OF
							Type	Amount	

Bond		Expiration Date
Amount	Name of Surety and Home Office	

Meetings held since last examination _____ Date of last annual meeting of members _____

Number of directors designated in by-laws _____

*Designate Mortgage Loan-M; Share Account Loan-S; Unsecured Loan-U; Collateral-C; Trustee Account-T.

Schedule No. 6

OTHER ASSETS: (Item 16, Exhibit A)

Schedule No. 7

OTHER LIABILITIES: (Item 31, Exhibit A)

Schedule No. 8

BORROWED MONEY: (Item 23, Exhibit A)

<u>To Whom Owed</u>	<u>Amount</u>	<u>Rate</u>	<u>Due Date</u>	<u>COLLATERAL</u> <u>Description</u>	<u>Unpaid Principal</u>
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Schedule No. 9

SUMMARY OF CERTIFICATES OF DEPOSIT, SAVINGS ACCOUNTS, OTHER SECURITIES, ETC.

<u>Description</u>	<u>Amount</u>	<u>Rate</u>	<u>Due Date</u>
--------------------	---------------	-------------	-----------------

Private Deposit Insurers - Powers and Responsibilities*

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
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100

	Maryland	North Carolina, and some institutions in other states	Massachusetts	Pennsylvania	Ohio
1. Geographic Area	Maryland	North Carolina, and some institutions in other states	Massachusetts	Pennsylvania	Ohio
2. State Full Faith Credit	No	No	No	No	No
3. Created by State Legislature	Yes Md. Fin. Inst. Code Ann. §§10-101, 102 (1980)	Yes	Yes	Yes. Pa. Stat. Ann. tit. 7 §§6501-6516 (Purdon 1979); Pa. Stat. Ann. tit. §6503 (Purdon 1983)	Yes. Ohio Rev. Code Ann. §1151 (Page 1968 Repl. Vol.)

* The information in this chart is derived from statutes, rules and regulations governing the various private deposit insurance companies. Additionally, information was obtained from interviews with Donald Beason, FIAC President and Chief Executive Officer, Jeremiah Foley, CCB Vice President, Pamela Hathaway, PSAIC Executive Director and Donald R. Hunsche and Charles Mayleban, ODGF Executive Vice President and ODGF Vice President, respectively.

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)
 FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)
 COOPERATIVE CENTRAL BANK (CCB)
 PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)
 OHIO DEPOSIT GUARANTEE FUND (ODGF)

<p>4a. Eligibility for Membership</p>	<p>MSSIC Charter, §§10-106 (applications), 107 (qualifications) Bylaws §2-501;</p>	<p>FIAC Standards and Procedures, Article II §§1-3</p>	<p>Not regulated by CCB</p>	<p>PSAIC Rules and Regulations I §§1-4; Bylaw Amendment, Article V \$1 (5 million dollar deposit limitation)</p>	<p>ODGF Constitution Article VI §1, IX §6(a); ODGF Rules and Regulations I(A)</p>
<p>b. Appeal of Denial</p>	<p>MSSIC Bylaws §2-501</p>	<p>FIAC Standards and Procedures, Article II §4</p>		<p>PSAIC Rules and Regulations I, §5</p>	
<p>5. Regulated, Responsible to State Government</p>	<p>No</p>	<p>Yes, North Carolina's Department of Savings and Loan Association has ultimate supervisory authority</p>	<p>Yes</p>	<p>Yes PSAIC's books are examined by Pennsylvania Department of Banking; according to Hathaway the Department must approve any amendment to PSAIC's bylaws or rules and regulations; and PSAIC submits an annual audited report to the Pennsylvania Department of Banking</p>	<p>Yes Examined annually by the State Division of Savings and Loan; semi-annual unaudited reports are made to the Division; annual audits are shared with the Division; quarterly meetings between ODGF officers and the Division</p>

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)
 FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)
 COOPERATIVE CENTRAL BANK (CCB)
 PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)
 OHIO DEPOSIT GUARANTEE FUND (ODGF)

6. Public Board or Private Board	Private Board, MSSIC Bylaws §§2-106, 2-202	Majority Public Board of Trustees, FIAC Charter Article VI	Majority Private Board, 15 members are chief executive officers of member institutions, 4 public members are appointed by the industry members	Majority Private Board, 8 elected from membership 3 appointed by Governor Bylaws Article II, §2	Private Board of Trustees, ODGF Constitution, Article VIII §1
7. If Private Board, Net Worth Requirements for Institutions Represented on the Board	No	N/A	No	Yes. Ten percent of savings deposits	NO
8. Brokered Deposits	Allowed, MSSIC Rules and Regulations, §3-706	Technically allowed, but never permitted	Allowed, but discouraged by CCB; currently, none exist	Allowed, but no association currently accepts them	Allowed with limitations, ODGF Rules and Regulations II(K)

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC) FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC) COOPERATIVE CENTRAL BANK (CCB) PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC) OHIO DEPOSIT GUARANTEE FUND (ODGF)

9. Insurance Limits Per Account or Depositor	<p>May not exceed, per each separate share account, by more than \$10,000 the amount of insurance available from FSLIC. MSSIC Bylaws §2-702;</p>	<p>\$100,000 for all of a person's or entities' accounts in the aggregate. FIAC Standards and Procedures, Article VII §§1-12; joint accounts are insured separately, Id. §10; IRA's, Pension, and Keogh accounts insured up to \$250,000 per account and per designated beneficiary if such beneficiary's interest can be determined Id. §12</p>	<p>Full coverage per account regardless of balance</p>	<p>Full coverage per account regardless of balance</p>
10. Insider Loan Regulations	<p>No</p>	<p>Yes</p>	<p>Not regulated by CCB. Regulated by State Banking Commissioner</p>	<p>No</p>
a. Totally Prohibited Other than FDIC standards	<p>No</p>	<p>Yes</p>	<p>Not regulated by CCB. Regulated by State Banking Commissioner</p>	<p>No</p>

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
b. Allowed with Disclosure and Approval	Yes Md. Fin. Inst. Code Ann. §§9-307, 9-323 (1980)	N/A	N/A	Yes Regulated by Pennsylvania Department of Banking not PSAIC	Yes ODGF Rules and Regulations II(G) (1)-(5) (holding companies, owners of more than 20% of the voting stock of an association); (J) (service corporations)
11. Sanctions/ Powers	MSSIC Rules and Regu- lations §3-222	FIAC Standards and Procedures Article VI; Article III §(4)	Only as conferred by State Banking Commissioner. A member insti- tution may be "certified" if unsound and unsafe	PSAIC Rules and Regula- tions II, §19	ODGF Rules and Regulations VI (liquidation by superintendent)
a. Cease & Desist					

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
b. Revocation Suspension Insurance	MSSIC Rules and Regu- lations §§3-601-604 (expulsion)	FIAC Standards and Procedures Article VI; Article III §(4)	Only as conferred by State Banking Commissioner A member insti- tution may be "certified" if unsound and unsafe	PSAIC Rules and Regula- tions VI, §§1-4 (expul- sion)	ODGF Rules and Regulations VIII
c. Ouster of Officers & Directors	MSSIC Rules and Regu- lations §3-222(C) (i)-(v)	FIAC Standards and Procedures Article VI; Article III §(4)	Only as conferred by State Banking Commissioner A member insti- tution may be "certified" if unsound and unsafe	PSAIC Rules and Regula- tions II, §19.4(a) to (e). Temporary imme- diate suspension II §19.5	No
d. Expulsion of Member	MSSIC Rules and Regu- lations §§3-601-604	FIAC Standards and Procedures Article VI; Article III §(4)	Only as conferred by State Banking Commissioner A member insti- tution may be "certified" if unsound and unsafe	PSAIC Rules and Regula- tions VI §§1-4; Rules and Regulations II §9	ODGF Rules and Regulations VIII

PENNSYLVANIA SAVINGS
ASSOCIATION INSURANCE
CORPORATION
(PSAIC)

COOPERATIVE
CENTRAL BANK
(CCB)

FINANCIAL INSTITUTIONS
ASSURANCE CORPORATION
(FIAC)

MARYLAND SAVINGS-SHARE
INSURANCE CORPORATION
(MSSIC)

OHIO DEPOSIT
GUARANTEE FUND
(ODGF)

<p>e. Disapproval of Conversions, Mergers, New Branches, Acquisitions</p>	<p>MSSIC Policy Statement No. 1; Rules and Regulations §3-223 - New branches only; See also §3-222 (unsafe and unsound practices); and §3-401 et seq.</p>	<p>FIAC Standards and Procedures, Article III §4; Article V §2</p>	<p>Only as conferred by State Banking Commissioner A member institution may be "certified" if unsound and unsafe</p>	<p>PSAIC Rules and Regulations IV, §3 (not including new branches)</p>	<p>ODGF Rules and Regulations IV (C) (mergers) (D) (reorganizations) New branches not covered by ODGF</p>
<p>f. Operating Agreements, Management Trusts, Insurance Agreements, Business Plans</p>	<p>MSSIC Bylaws §2-708, Rules and Regulations §3-222</p>	<p>FIAC Standards and Procedures, Article III §4</p>	<p>"Financial Assistance Programs" are used</p>	<p>PSAIC Rules and Regulations II, §10(c)</p>	<p>No</p>
<p>g. Advertising Restrictions</p>	<p>MSSIC Rules and Regulations §3-207</p>	<p>FIAC Standards and Procedures Article III §4</p>	<p>"Financial Assistance Programs" are used</p>	<p>PSAIC Rules and Regulations II, §7</p>	<p>ODGF Rules and Regulations I(C); XI</p>

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
h. Increase Liquidity	MSSIC Bylaws §2-708	FIAC Standards and Pro- cedures Article III §§12, 13	"Financial Assis- tance Programs" are used	PSAIC Rules and Regula- tions II §10(b)	ODGF Rules and Regulations II(A)
i. Limit Issuance New Accounts/ Loans	MSSIC Rules and Regu- lations §3-222	FIAC Standards and Pro- cedures Article III §4	"Financial Assis- tance Programs" are used	PSAIC Rules and Regula- tions II §10(c)	No
j. Set Interest Rates	No	Yes	No	Yes Pa. Stat. Ann. tit. 7 §6503(b) 6.1 (Purdon 1983)	ODGF Rules and Regulations X (notification required of increases in interest or dividend)
k. Net Worth	MSSIC Rules and Regu- lations §3-211	FIAC Standards and Pro- cedures Article III §§11, 13	No requirements	Not regulated as a sanction	No provision for use as a sanction

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)
 FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)
 COOPERATIVE CENTRAL BANK (CCB)
 PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)
 OHIO DEPOSIT GUARANTEE FUND (ODGF)

1. Receiver-ship/Conservatorship	Md. Fin. Inst. Code Ann. §§9-701 - 707 (1980) (conservatorship), Id. §§9-708 - 709 (receivership)	FIAC may request from regulatory authority. FIAC Standards and Procedures Article III §7	No	Determined by Penn. Dept. of Banking	No
12. Reporting	MSSIC Rules and Regulations, §3-203, monthly	Monthly, annually. FIAC Standards and Procedures Article III §2	Monthly, annually	PSAIC Rules and Regulations II §3, "as required"; monthly, and annually	Monthly, quarterly; semi annually and annually
a. System/Monthly/Quarterly/Yearly	MSSIC Rules and Regulation §3-203	Annual audit, more if required. FIAC Standards and Procedures Article III §2	Only annual audit required	Annual report is audited PSAIC Rules and Regulations II §3	Audited on a voluntary basis only
b. Audited or Unaudited					

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
c. Violations Notice	Part of the monthly reporting system SL200's	FIAC Standards and procedures, Article III §2 (involves cross filing of state examinations)	No	Part of the monthly reporting system	No
13. Review Process					
a. Timeliness	As needed basis, dependent on staffing	As needed basis	As needed basis to supplement State Commis- sioner's Examination	As needed basis	ODGF Rules and Regulations VI(F) (as needed); VIII
b. Scope	Limited to "as needed" request	No limitations	No limitations	No limitations	ODGF Rules and Regulations VI(F) (as needed); VIII

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC) FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC) COOPERATIVE CENTRAL BANK (CCB) PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC) OHIO DEPOSIT GUARANTEE FUND (ODGF)

<p>14. Residential Mortgage Percentage Requirement</p>	<p>MSSIC Rules and Regulations 3-217</p> <p>a) Commercial and construction loans limited to forty percent of total savings (no more than twenty-five percent construction)</p> <p>b) one project may not use more than five percent of total savings</p>	<p>No</p>	<p>No</p>	<p>No</p>
<p>15. Acquisition, Development & Construction Loans Percentage Limitations</p>	<p>MSSIC Rules and Regulations §3-217, see above</p>	<p>No</p>	<p>Not regulated by CCB</p>	<p>No</p>

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
16. Investor Loans Limitations	MSSIC Policy Statement No. 5 "Recommends" no more than fifty per- cent of total dollars invested in "investor loans"	No	Not regulated by CCB	No	No
17. Risk Related Premiums	No	Yes	No	No	No
18. Assessments of Members	MSSIC Rules and Regu- lations, §§3-210 (liquidity); 3-901 (central reserve) 3-205 (assessments)	FIAC Standards and Procedures Article III §5 (unspecified)	1/27 of one per- cent of deposits, adjusted annually	two percent of savings deposit adjusted depending on growth. PSAIC Rules and Regu- lations Article II §5, Article III §§1, 4	two percent of savings balances adjusted semi- annually. Consti- tution Article V, ODGF Rules and Regulations IIIA
19. Communication/ Interaction with State Division of Savings & Loan Associations	Yes	Yes Extensive	Yes Extensive	Yes Extensive	Yes

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
20. Loans to One Borrower Limits	Yes MSSIC Rules and Regulations §3-217(4) (c) (the aggregate outstanding principal balance of all loans made by an associa- tion...to one borrower which exceed five percent of the asso- ciation's savings accounts shall not exceed in the aggre- gate thirty percent of the association's savings accounts)	No	Not regulated by CCB	Yes ten percent of savings or net worth, whichever is higher	Not regulated by ODGF
21. Net Worth Requirements	MSSIC Bylaws §3-211 - each member shall have at least four percent net worth of aggregate withdrawal value of its free share accounts (may waive for good cause shown)	FIAC Standards and Procedure Article III §11; Determined by the statutes or regu- lations of the state in which the member operates or such other amount as the FIAC Board of Trustees may require.	None	Seven percent of savings	ODGF Rules and Regulations II (B)

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC) FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC) COOPERATIVE CENTRAL BANK (CCB) PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC) OHIO DEPOSIT GUARANTEE FUND (ODGF)

<p>22. Antitrust Concerns Re: Rate Setting</p>	<p>Yes</p>	<p>No</p>	<p>Yes. But institutions under "Financial Assistance Programs" are monitored for adherence to market rates</p>	<p>No</p>	<p>Yes</p>
<p>23. Notification Requirements by Associations if Accused of any Criminal or other Misconduct</p>	<p>MSSIC Rules and Regulations §3-206 (civil and "state action"); § 3-216 ("illegal acts")</p>	<p>FIAC Standards and Procedures Article III §8</p>	<p>CCB personnel unsure whether notification was required</p>	<p>PSAIC Rules and Regulations II §6, "governmental action," and "civil action"</p>	<p>Not required by ODGF</p>
<p>24. Notification/Approval of Change Officers, Directors</p>	<p>No</p>	<p>Yes. FIAC Standards and Procedures Article III §8 (notification): Article II §1 (approval for new members)</p>	<p>No</p>	<p>Yes PSAIC Rules and Regulations II, §16</p>	<p>Not required by ODGF</p>

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC) FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC) COOPERATIVE CENTRAL BANK (CCB) PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC) OHIO DEPOSIT GUARANTEE FUND (ODGF)

<p>25. Notification of Change of Control</p>	<p>No</p>	<p>Yes. FIAC Standards and Procedures Article V §2</p>	<p>No</p>	<p>PSIAC Rules and Regulations IV, §1</p>	<p>ODGF Rules and Regulations IV(C) (mergers) (D) (reorganization)</p>
<p>a. Definition of Control</p>	<p>None, but see Md. Fin. Inst. Code Ann. §§9-307, 9-323 (1980)</p>	<p>FIAC Standards and Procedures Article III §8</p>	<p>No</p>	<p>NO PSIAC regulations</p>	<p>"</p>
<p>26. Disclosure of All Service Corporations, Affiliates, Subsidiaries, Related Entities</p>	<p>MSSIC Rules and Regulations §3-219 (service corporations only)</p>	<p>Yes</p>	<p>Yes Regulated by state law</p>	<p>PSIAC Rules and Regulations II, §17 (service corporations only)</p>	<p>ODGF Rules and Regulations II(G) (disclosure of holding companies owning more than twenty percent of an associations stock); (J) (service corporations)</p>

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
27. Disclosure of Investments/ Loans to Service Corporations, Affiliates, Subsidiaries, Related Entities	MSSIC Rules and Regulations §3-219 (service corporations only)	Yes	Yes. Regulated by state law	PSIAC Rules and Regula- tions II, §17 (service corporations only)	ODGF Rules and Regulations II(G) (1)-(5), (J)
28. Direct Invest- ments, Pur- chases by Associations	Not regulated except if considered unsafe and unsound per MSSIC Rules and Regulations §3-222	Regulated by Beason	Not regulated by CCB	Regulated by Hathaway	Not regulated by ODGF

	MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (MSSIC)	FINANCIAL INSTITUTIONS ASSURANCE CORPORATION (FIAC)	COOPERATIVE CENTRAL BANK (CCB)	PENNSYLVANIA SAVINGS ASSOCIATION INSURANCE CORPORATION (PSAIC)	OHIO DEPOSIT GUARANTEE FUND (ODGF)
29. Rulemaking Power	MSSIC Rules and Regu- lations, §3-801; MSSIC Charter, §10-111.	Yes	No	PSIAC Rules and Regula- tions VIII	ODGF Constitution Article IX, §3; Article X; ODGF by-laws §XI; ODGF Rules and Regula- tions VI (E); XIII
30. Financial Assistance to Members	Yes. Make loans, buy assets, capital contribution to member MSSIC By-laws, §2-707	Yes. Make loans, pur- chase assets, capital contribution to mem- bers FIAC Standards and Procedures Article III §7	Not provided by CCB	Yes, but never used	ODGF Rules and Regulations VI(D)

KEY
ITEM



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Department of Banking & Regulation
Office of the Secretary

COMMITTEE: House Economic Patters Committee SUBJECT: Banking Institutions - Federal Insurance

DLR POSITION: Oppose

EXPLANATION: HB 1579 requires that all banks and savings and loan associations in Maryland be insured by either the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC), as applicable.

COMMENT: Insofar as Maryland banks are concerned, the impact of HB 1579 is negligible. Currently, all banks in the State are insured by the FDIC, although this insurance is not mandatory. On the other hand, HB 1579 would have a drastic impact on the savings and loan industry in Maryland.

By way of background, there are 55 federally-chartered savings and loans in this State with total assets of approximately \$6 billion, whose accounts are already insured by the FSLIC. There are also 150 State-chartered associations doing business in Maryland which are subject to the jurisdiction of the Division of Building, Savings and Loan Associations. Of these 150 associations, 15 are insured by the Federal Savings and Loan Insurance Corporation and 135 are insured by the Maryland Savings-Share Insurance Corporation (MSSIC). The 15 State-chartered, federally-insured associations have approximately \$1 billion in total assets, while the 135 MSSIC-insured associations have approximately \$2 billion in total assets. HB 1579 would require that the 135 MSSIC-insured associations obtain insurance of accounts from the Federal Savings and Loan Insurance Corporation.

Again, by way of background, the Maryland Savings-Share Insurance Corporation was created by the Maryland Legislature in the early 1960's as an alternative to federal insurance of accounts. MSSIC is a well-run corporation and has resources, including their own assets and lines of credit, of approximately \$131 million as insurance against approximately \$2 billion in deposits. This is a very substantial ratio when you consider the nature of the business. Savings and loan associations accept deposits from their customers and reinvest those deposits almost exclusively in first mortgage loans secured by residential property. These loans are generally limited to 80% of the value of the real estate, unless private mortgage insurance is obtained for higher percentage loans. Losses in this type of lending are very rare. No one who has deposited money in a MSSIC-insured association has lost a dime, and this insurance corporation is very capably managed.

The Division of Building, Savings and Loan Associations works hand-in-hand with the insurance corporation in monitoring the affairs

and activities of State-chartered savings and loan associations. The Division conducts an examination of each State-chartered association approximately once every 14 months and shares this information with MSSIC. In 1974, the Division, working with MSSIC, instituted a reporting system which requires associations to submit balance sheets and operating statements on either a monthly or quarterly basis, depending on their asset size. This has proved to be very effective in monitoring the operations of our supervised associations. In 1975, the Division also adopted an audit regulation which requires associations to submit either an internal audit or a certified audit, depending on their asset size. All of this information enables both the Division and MSSIC to stay on top of things in the savings and loan industry in Maryland. In the event any problem areas are uncovered, we have been able to work together with MSSIC in taking effective remedial action.

From the standpoint of the consumer in Maryland, MSSIC insurance of accounts offers a very viable alternative to federal insurance of accounts. Federally-insured banks and savings and loans are subject to the regulations of the Federal Reserve Board, which limits the amount of interest these institutions can pay for their deposits. MSSIC-insured institutions, on the other hand, are not subject to federal rate control and may pay their depositors whatever their earnings permit. For example, federally-insured savings and loan associations are limited to paying their depositors 5% on passbook accounts. Most MSSIC-insured associations pay at least 6%, while some associations pay as high as 7% on passbook accounts. The Maryland consumer has responded well to this rate differential as MSSIC-insured associations have grown at a rate of approximately 25% per year for the last five years, while federally-insured associations have averaged only about 1%.

→ For all of the foregoing reasons, the Department of Licensing and Regulation strongly opposes HB 1579.

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August 3, 1984

Mr. W. Thomas Gisriel, Chairman
Board of Commissioners
Division of Savings and Loan Associations
231 East Baltimore Street
Baltimore, Maryland 21201

Dear Mr. Gisriel:

You have requested advice concerning the effect of a portion of Chapter 678, Laws of Maryland 1983, codified at Md. Fin. Inst. Code Ann. § 9-419(c) (1983), on the authority of the Board of Commissioners of the Division of Savings and Loan Associations ("Board") to regulate investments by state associations. Specifically, you have asked if this subsection precludes the Board from exercising the regulatory authority expressly granted in section 9-419(a) over types of investments enumerated therein when different guidelines for the same types of investments are prescribed for federal associations.

For reasons set forth below, we conclude that section 9-419(c) does not generally supplant the statutory authority of the Board granted in section 9-419(a). State associations--except when investing in deposits of federally-insured institutions--continue to be subject to state rather than federal regulation. 1/ We nevertheless caution, however, that our

1/ Your inquiry raises, and our analysis is confined to, issues relating to the statutory construction of state law. Accordingly, we do not here consider federal preemption issues possibly arising under the Garn-St Germain Depository Institutions Act of 1982.

Mr. W. Thomas Gisriel, Chairman
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conclusion is not totally free from doubt and we would consider clarifying legislation most appropriate.

I

SECTION 9-419(c)

Upon its face, section 9-419(c) appears to constitute nothing more than a statutory-construction guide to resolve a state association's authority to make types of investments not enumerated in section 9-419(a):

This section does not prohibit a State-chartered savings and loan association from making any investment that is permissible for a federal savings and loan association.

However, on closer review there is an unresolved ambiguity: section 9-419(c) appears to be a limitation on prohibitions contained in section 9-419(a), but section 9-419(a) does not prohibit certain types of investments by state associations; it authorizes specific investments.

Only upon reading the session laws in which subsection (c) was enacted, Chapter 678, Laws of Maryland 1983, does a broader legislative intent become discernible. The purpose of Chapter 678 is set forth as follows:

For the purpose of authorizing state-chartered savings and loan associations to invest in deposits of certain insured financial institutions; providing that a State chartered savings and loan association may make any investment permitted a federal savings and loan association; and generally relating to authorized investments of savings and loan associations.

Although indicative of an intent to allow state associations greater investment authority, the precise extent of the authority being granted is unclear. Significantly, when the General Assembly intended to allow state associations to engage in an investment activity (deposits in certain insured financial institutions), it expressed this purpose by clearly "authorizing"

Mr. W. Thomas Gisriel, Chairman
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the activity in the first clause. The second clause -- describing the purpose of section 9-419(c) -- presents a marked contrast. Rather than expressing its purpose as a separate, coordinate authorization for making investments, the legislature chose the less clear "providing" -- suggesting a more limited intent to qualify (i.e. add a proviso to) the immediately preceding authorization.

The legislative history, consisting primarily of the Senate Economic Affairs Committee's "Summary of Committee Report," reveals that section 9-419(c) was added by Committee amendment to H.B. 284. This amendment was simply designed to alleviate concerns that under proposed federal regulations a federal association could invest unlimited amounts in deposits of institutions insured by the FSLIC or FDIC while state associations would be restricted to certain amounts of deposits by a Board regulation. ^{2/} The Committee describes the purpose of its amendment as providing "state-chartered institutions with investment opportunities equal to those of their main competitors, the federally chartered savings and loan associations." In context, the report evidences an extremely close nexus between section 9-419(c) and a state association's ability to compete for investments in deposits; indeed, the report neither discusses nor identifies any additional inequity affecting other types of investments authorized by section 9-419(a). ^{3/}

We have carefully considered an interpretation of this subsection whereby the Board's express authority under section

^{2/} Factually, the report was in error. The specific regulation discussed in the Committee's report was repealed before the amendment was considered. Under current regulations of the Board, state associations are subject to amount limitations for investments in other financial institutions, though different from the limitations discussed in the report.

^{3/} An additional source of legislative history demonstrates the uncertain status of section 9-419(c) as a broad, independent grant of authority. At a veto hearing convened for Chapter 678, commentators advanced alternative--and at times conflicting--interpretations of the Board's authority in light of this subsection. Even comments from proponents of the legislation attempted to characterize the bill as being limited in intent.

Mr. W. Thomas Gisriel, Chairman
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9-419(a) would be displaced by or subordinated to a parallel system of federal regulatory guidelines. This expansive reading of section 9-419(c) is, in our opinion, not required by the plain language or legislative history of this subsection. Especially in the absence of a clearer expression of legislative intent, we are reluctant to conclude on the record before us that the General Assembly intended to effect by simple amendment the virtual abrogation of state control over state associations. We note that, in the past, when the legislature has intended to authorize parity with federal associations, it has done so in quite an unambiguous manner. 4/

Significantly, an expansive reading of section 9-419(c) violates two well-established, cardinal rules of statutory interpretation. Repeals by implication are disfavored under Maryland law, and repeals not express will not be found unless demanded by irreconcilability or repugnancy. See Harden v. Mass Transit Adm., 277 Md. 399 (1976), and cases cited therein. It is also an equally familiar rule that:

where there is, in the same statute, a particular enactment, and also a general one, which, in its most comprehensive sense, would include what is embraced in the former, the particular enactment must be operative, and the general enactment must be taken to affect only such cases within its general language as are not within the provisions of the particular enactment.

Maguire v. State, 192 Md. 615, 623 (1949).

Applying these principles to your inquiry--and mindful of the legislative history of Chapter 678--we conclude that, subject to the antitrust considerations discussed in Part II below, the Board retains full statutory authority to impose standards

4/ For example, section 9-420 provides "[n]otwithstanding any other provision of law and subject to the approval of the Board of Commissioners, a savings and loan association may raise capital under the same conditions and to the same extent as a federal association as if the powers were specifically enumerated in this title."

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differing from federal guidelines on all types of investments enumerated in section 9-419(a) other than investments in deposits insured by the FSLIC or FDIC. With respect to those deposits, we defer to that one part of the legislative history that is clear and unambiguous -- that subsection (c) is designed to overcome competitive limitations that might arise out of investments in certain deposits -- and conclude therefore that a state association may follow federal guidelines when investing in deposits insured by these institutions.

We are, of course, cognizant of a legislative intent during the amendment process -- albeit indistinct -- to expand the lending authority of state associations beyond the types of investments enumerated in section 9-419(a). In this regard, we interpret section 9-419(c) as empowering state associations to make any type of investment not enumerated in section 9-419(a) to the same extent authorized under federal guidelines. But, given the principles described above, we cannot further read section 9-419(c) as also applying to the types of investments specifically enumerated in section (a), other than investments in certain deposits. 5/

In concluding our analysis of section 9-419(c), we reiterate that while our reading is preferred as being more consistent with the legislative history and rules of statutory construction, it is by no means the only reading of this subsection. Clarifying legislation, therefore, is most appropriate. We are persuaded, however, that in the absence of any further legislative enactments our interpretation can be considered as correctly perceiving the legislative intent behind and the effect of Chapter 678.

II

AUTHORITY UNDER SECTION 9-419(a)

Our advice would not be complete without a brief discussion of the limitations imposed on the Board's exercise of authority under section 9-419(a) by antitrust considerations. We discuss

5/ To avoid totally unregulated transactions, we would suggest the Board promulgate an appropriate federal tie-in regulation.

Mr. W. Thomas Gisriel, Chairman
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these considerations against the backdrop of federal guidelines because legislative history reveals that federal associations are considered to be major competitors of state associations.

In enacting the Maryland Antitrust Act, the General Assembly explicitly stated that the purpose of the Act "is to complement the body of federal law governing restraints of trade, unfair competition, and unfair, deceptive, and fraudulent acts or practices in order to protect the public and foster fair and honest intrastate competition." Md. Com. Law Code Ann. § 11-202(a)(1) (1983). The Sherman Act, 15 U.S.C. §§ 1-7 (1975), is the basic source of this federal law. The Supreme Court stated that:

The Sherman Act was designed to be a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality, and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions. But even were that premise open to question, the policy unequivocally laid down by the Act is competition.

Northern Pacific Railway Co. v. United States, 356 U.S. 1, 4 (1958).

Coinciding with the State and national policy in favor of competition is the need for the State to regulate occupations and industries to protect the public against fraudulent or unsafe practices. State regulation protecting the public from such abuses may restrain the free and unfettered competition which is central to the policy of the antitrust laws. Nevertheless, as discussed below, unless the General Assembly has affirmatively stated that competition in a particular industry should be displaced by regulation, it is the duty of regulatory boards not only to protect the public from unsound practices, but equally to promote the public interest in competition in the regulated industry.

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The Supreme Court has recognized that tension may arise between the policy favoring competition and a state's need to impose regulatory regimes that may restrain competition. In the seminal case of Parker v. Brown, 317 U.S. 341 (1943), the Supreme Court attempted to accommodate these conflicting goals. In that case, the Court indicated that the provisions of the Sherman Act would not extend to "[anticompetitive] activities directed by a [state] legislature." 317 U.S. at 350-51 (emphasis added).

As conflicts between the Sherman Act's policy of competition and a state's need to regulate industries have escalated in number in recent years, the Supreme Court has refined its criteria for determining whether actions of state regulators are subject to the Sherman Act. The clearest expression of these criteria was articulated in California Retail Liquor Dealers Association v. Midcal Aluminum, Inc., 445 U.S. 97 (1980). The criteria are that:

First, the challenged restraint must be "one clearly articulated and affirmatively expressed as state policy"; second, the policy must be "actively supervised by the state itself." 6/

445 U.S. at 105 (citation omitted). Where the actions of a state regulatory board meet these criteria, its actions are "outside the reach of the antitrust laws under the 'state action' exemption." New Motor Vehicle Board v. Orrin W. Fox Co., 439 U.S. 96, 109 (1978). However, where the regulatory board's actions do not meet these criteria they are subject to antitrust scrutiny.

In applying the state action test to regulations promulgated under section 9-419(a), two questions must be answered. First, does the Board have the requisite "clearly articulated and affirmatively expressed" authority to enact regulations

6/ Although the Supreme Court has not directly ruled on the manner and extent to which a legislature must actively supervise the activities of a state regulatory board, it is our view that the active supervision requirement is satisfied when the challenged activity has been undertaken by a state regulatory board.

Mr. W. Thomas Gisriel, Chairman
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restricting the amount of the investments enumerated in section 9-419(a)? Second, if the Board has such authority, what is the effect of section 9-419(c)?

Section 9-419(a) is prefaced with the words, "Subject to the regulations of the Board of Commissioners, a savings and loan association may invest in any of the following types of investments...." In section 8-102, the General Assembly has stated that it is the policy of the State that "the business and financial stability of savings and loan associations be promoted and assured." This grant of authority to enact regulations to protect the financial security of associations is sufficient to give the Board antitrust immunity to restrict competition to the minimum extent necessary to fulfill the Board's statutory obligation. 7/

A finding that the Board does have the requisite specific authority to enact restrictive regulations under section 9-419(a) does not end the inquiry. As discussed above, the General Assembly enacted section 9-419(c) cognizant of the competition between state associations and federal associations in the area of investments. Although we do not construe section 9-419(c) to have repealed the power of the Board to regulate all investments enumerated in section 9-419(a) -- and only to have a direct

7/ The history of section 9-419(a) evidences the sufficient legislative directive to permit the Board to place restrictions upon the amount of investments enumerated in section 9-419(a) that may be anticompetitive. The current section 9-419 was codified in 1980 within the Financial Institutions Article. Its predecessor, Md. Ann. Code art. 23, § 161Z, stated "Subject to such conditions and restrictions as the Board, by regulation, may from time to time impose, every association shall have the power to invest...." This language clearly and unambiguously expressed the intention of the General Assembly to permit the Board to limit the amount of the enumerated investments that may effect competition. Significantly, the Committee Comments to section 9-419 state that the "former phrases 'conditions and restrictions,' and 'may from time to time impose' were deleted as included in the phrase 'subject to the regulations of the Board.'" Thus, it is clear that it was the intention of the General Assembly that the Board may enact restrictive regulations with respect to investments enumerated in section 9-419(a).

Mr. W. Thomas Gisriel, Chairman
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effect upon investments in certain deposits -- we are constrained to reiterate that this interpretation is not without doubt. A court may disagree and construe section 9-419(c) as placing state associations in total parity with federal associations with respect to all investments enumerated in section 9-419(a). As a result, any Board regulations that restrict investments under section 9-419(a) to a greater extent than the law governing investments of federal associations could be subject to an antitrust challenge. Moreover, even if our interpretation of section 9-419(c) is accepted by a court, antitrust liability could still arise from regulation under section 9-419(a) that is broader than necessary to carry out the Board's statutory function.

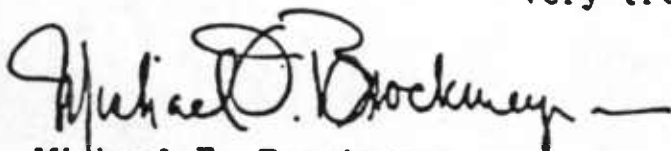
Because of the potential of antitrust liability, the Board must exercise its regulatory authority only after careful consideration of the competitive effects of its proposed action. Before enacting any regulation that places limitations on investments that are more restrictive than those imposed upon federal associations, the Board must take into consideration federal standards and must make specific, detailed findings that conditions in this State require different treatment for state associations. These findings must clearly demonstrate that any such regulation was promulgated to protect the financial security of savings and loan associations; not merely to restrict competition.

III

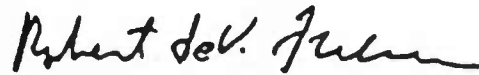
CONCLUSION

In summary, it is our advice that subject to antitrust considerations the Board may impose by regulation limitations on the types of investments enumerated in section 9-419(a) except investments in deposits insured by FSLIC or FDIC. Although this is our carefully considered advice on this matter, it is not an Opinion of the Attorney General.

Very truly yours,



Michael F. Brockmeyer
Assistant Attorney General and
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Assistant Attorney General
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of Licensing & Regulation

A-137

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, SEPTEMBER 12, 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 September 12, 1984 at 9:00 A.M.

Members present:

Terry L. Neifeld, Chairman

John D. Faulkner, Jr.

William F. Brooks

James L. Otto

Michael J. Dietz

George W. H. Pierson

Jerome F. Dolivka

Absent and excused: Henry R. Elsnic

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.

A motion was made, seconded and duly passed that the minutes of the August 13, 1984 meeting be approved as submitted.

MEMBERS' COMMENTS

Deferred to staff reports.

REPORTS BY STAFF

First Progressive Savings and Loan and Old Court Savings and Loan

Mr. Trice reported on the status of the merger of First Progressive Savings and Loan into Old Court. Mr. Trice indicated that Messrs. Levitt and Cardin confirmed the decision to merge the two associations as soon as possible. A target date of October 31, 1984 has been set. One potential delay could be the

approval of the merger by the Division of Savings and Loan Associations. However, Mr. Trice believes that Mr. Brown, the Director of the Division of Savings and Loan Associations will approve the merger.

Mr. Brooks inquired about the delay in First Progressive's 1983 certified annual audit. He stressed his concern about establishing the financial position of First Progressive prior to the merger. Mr. Trice reported that there had been delays in completion of the audit, but that he had been promised the audit by September 14, 1984. The consensus of the members of the Committee shared Mr. Brooks concern about receiving the audit prior to the merger.

Mr. Brooks inquired about the release by the Division of Savings and Loan of the 1983 examination of First Progressive. Mr. Trice reported that the report will likely not be released. The consensus of the members of the Committee was that this is a very disturbing position for the Division of Savings and Loan to take. Mr. Trice was requested to have counsel for the Corporation, formalize in writing as to whether MSSIC can sue the Division of Savings and Loan Associations for not releasing the First Progressive examination, should damages result to MSSIC as a result of information contained in the examination. Mr. Trice reported that in a conversation with Counsel for the Corporation, Mr. Hall indicates that it is unlikely that the Division of Savings and Loan can be sued on this matter. Mr. Trice indicated that he would instruct Mr. Hall to further research and formalize his opinion.

Mr. Faulkner requested staff to notify the Division of Savings and Loan that it is the Corporation's position that certain possible criminal activities conducted by former employees of First Progressive should be referred to the Attorney General's office for review.

Mr. Otto inquired about whether pro-forma financial statements have been prepared by Old Court Savings and Loan to show the financial position of the

association after the merger. It was reported that been pro-formas have not been prepared as yet. Mr. Neifeld inquired as to the net worth of the associations once merged. Mr. Trice estimated that it would be between 3.2% and 3.8%, unless Old Court liquidates certain of its venture interests, in which case the profit from these may restore the net worth ratio to 4% or more. Mr. Trice was requested to clarify the financial position of the associations on a pro-forma basis.

Mr. Trice reported that he had issued a staff cease-and-desist letter to Old Court Savings and Loan concerning certain lending limit violations, which directive was temporarily lifted, but reinstated after confirming with the association that the limits were being violated. Mr. Trice indicated that the staff will monitor all outstanding commitments and any future commitments which may fall within the specified categories.

It was further reported that the association is in the process of reducing brokered deposits.

Mr. McCracken presented the Committee with an update of his monitoring of Old Court. He reported that he and Ann Franetovich had traveled to Pennsylvania to visit a project of Old Court's known as Meadowick. Mr. McCracken reported that they had found the property to be in both an excellent condition and location.

It was noted that the Division of Savings and Loan Association's examiners concern about this project's value may have been unwarranted.

Mr. McCracken reported that he is meeting with Mr. Guidice of Old Court Savings and Loan on a weekly basis to discuss the overall operations of the association.

It was reported that the completion of the field work of the Old Court examination had been delayed by at least a week.

Several committee members inquired about the status of the Corporation's

notice to the Division of Savings and Loan concerning the disapproval of branch applications. Mr. Trice reported that one branch application had been approved apparently as a result of his letter arriving after the period of time by which the Director is required to issue his order.

After considerable discussion about the options that appear to be available to the Corporation concerning First Progressive, a motion was made, seconded and duly passed that staff advise First Progressive that a merger by First Progressive must take place by October 31, 1984 or the Corporation will require the principals of First Progressive to infuse capital into First Progressive in amount necessary to obtain a 3.00% net worth level. If the principals of First Progressive Savings and Loan are either unwilling or unable to infuse this amount necessary, then the Committee recommends that the Board of Directors take action to petition the courts for a receivership or conservatorship of First Progressive. Mr. Otto abstained, indicating that he agreed in principle with the motion, but felt the Membership Committee lacked the authority in the MSSIC Bylaws to take the action specified.

It was reported that First Progressive violated its staff cease and desist order concerning trading in futures and options. Mr. Trice reported that Paul Freeman, who is both the managing officer and sole trader in securities for the association, indicated that he did not understand the terms of the cease-and-desist order. Mr. Becker indicated that he and Mr. Hall believe that the association has been speculating in the securities market and that this has been a factor in the decline of the association's net worth due to both realized and unrealized losses. Mr. Brooks asked Mr. Trice if he has any personal or other association or affiliation with Mr. Freeman currently. Mr. Trice indicated he did not.

Mr. Dietz expressed concern over the extensive advertising that many associations who are below 3.75% net worth ratio are currently engaged in. He

recommended that these associations cease further advertising until they are in compliance. A motion was made, seconded and duly passed that the Committee recommends to the Board of Directors that sanctions forbidding advertising be implemented against all associations below a 3.75% a net worth ratio. Mr. Faulkner was absent for the vote.

Mr. Dietz requested that copies of the staff cease-and-desist letters previously issued be provided at the next Executive Committee meeting.

It was requested that staff remind the Division of Savings and Loan of the Corporation's desire to be a part of the approval process for new branches.

Gibraltar Building and Loan Association

Mr. Trice reported that Gibraltar Building and Loan has repaid \$2 million of the \$3 million borrowed from the MSSIC CRF. The final \$1 million is expected to be repaid in a month. It was reported that the stockholders suit between Messrs. Goldstein and Hershon has been settled. Mr. Hershon is no longer a stockholder nor affiliated in any way with the association.

First Maryland Savings and Loan

Mr. Trice reported that a staff cease-and-desist order was issued to First Maryland Savings and Loan for certain lending limit violations. The association while disagreeing with the interpretation of the lending limit rules, will furnish a plan to lower its loan concentration in these violated areas. It was reported that the subordinated debenture application before the Board of Directors was denied due to lack of specific buyers. It was the position of the Directors not to issue "blanket" or "shelf" approvals of proposed debenture issues.

Merritt Commercial Savings and Loan Association

Mr. Trice reported that he had issued a staff cease-and-desist order to Merritt Commercial Savings and Loan for certain lending limit violations. A meeting was held at MSSIC between representatives of Merritt and staff. A

primary topic of discussion was the financing plans of the Merritt Tower. It now appears that the association will seek substantial if not all of the financing of the building from outside sources or syndicate the building. Mr. Trice reported that the two owners of Merritt, Messrs. Klein and Gibbs are negotiating for one of them to buy the other's portion of the stock.

Mr. Faulkner wished to advise the Committee that in his opinion, the Merritt Tower project represents an undisclosed liability of the association.

Community Savings and Loan, Inc.

Mr. Faulkner excused himself from the discussion. It was reported that due to difficulties in structuring certain of the terms, the request for approval of \$20 million in subordinated debentures by Community Savings and Loan has been withdrawn.

RULES VIOLATION STATUS REPORT

Liquidity:

Madison and Bradford - Mr. Neifeld presented, for discussion, the liquidity violation of Madison and Bradford. Mr. Neifeld indicated that he had notified Mr. Elsnic of his intention to discuss this at the meeting and that Mr. Neifeld commented that the kind of liquidity waiver that was granted the association several years ago is not consistent with the policy decisions currently being implemented by the current Board of Directors. Specifically, Madison and Bradford under the waiver provision, is allowed to make mortgage loans to existing customers although they may be below a 6% liquidity ratio. Therefore, this provision does not require improvement in the level of liquidity. The Committee noted that although Madison and Bradford has operated for several years with a low level of liquidity, it has not borrowed from MSSIC during this period or appeared to the public to have a liquidity crisis. However, the Committee in the spirit of obtaining full compliance with the MSSIC Rules and

Regulations, for all associations, instructed the staff to request a plan from Madison and Bradford indicating prompt compliance with the rule.

Mr. Trice reviewed with the Committee, the rules violation list indicating where appropriate various actions that are being taken by the staff in addressing the associations' compliance requirements or actions.

Mr. Trice reported that Section 3-217(A)1) of the Rules and Regulations is being incorrectly interpreted by some associations as to its definition of "aggregate outstanding principle balance". He indicated that some associations are interpreting this phrase to mean the "net" rather than the "gross" amount of the applicable loans. Mr. Trice suggested that the membership be notified in writing as to the proper interpretation of this rule.

The Committee agreed with Mr. Trice's suggestion and requested he notify the membership.

There being no further business, the meeting adjourned at 1:20 P.M.

Martin W. Becker

Respectfully submitted
Martin W. Becker
Senior Financial Analyst

MWB/nc

<u>ORDER NO.</u>	<u>Association</u>	<u>Nature of Order</u>	<u>Date of Order</u>
396	Chevy Chase Savings and Loan, Inc.	B/O--White Oak Shopping Center 11261 N. Hamp. Ave. Silver Spring, Md.	10/18/78
397	Second National Building and Loan, Inc.	B/O--1243 Benfield Road Severna Park, Md.	10/31/78
398	Citizens Savings and Loan Association	B/O--Little Patuxent Pkwy., One Turner Center, Columbia, Maryland	11/22/78
399	John Hanson Savings and Loan, Inc.	B/O--2232 Veirs Mill Road, Rockville, Md.	12/14/78
400	Ridgeway Savings and Loan Association	R/B/O--9095 Frederick Road, Ellicott City, Md.	12/15/78
401	Sharon Building and Loan Association	Merger with and into Monumental City Savings and Loan Association, Inc.	12/29/78
402	Community Savings and Loan, Inc.	B/O - 5430 Lynx Lane, Wilde Lake Village, Columbia, Md.	1/22/79
403	Calvert Savings and Loan Association	B/O - Bel Air Tollgate Town Center, Bel Air, Md.	2/3/79
404	Chevy Chase Savings and Loan, Inc.	B/O - 1327 Lambertson Dr., Kemp Mill Center, Silver Spring, Md.	2/8/79
405	Metropolis Building Association	B/O - 401 York Road, Towson, Maryland	2/26/79
406	Berlin Building and Loan Association	Merger with and into Eastern Shore Savings and Loan Association	2/28/79
407	Merritt Savings and Loan, Inc.	1506 Reisterstown Road Pikesville, Maryland	2/28/79
408	Government Service S/L, Inc.	Capital Plaza Shopping Center Prince Georges County, MD	3/8/79
409	Lenox Permanent Building and Loan Association	Merger with and into Metropolis Bldg. Assn.	3/13/79
410	Citizens Savings and Loan Association, Inc.	B/O - 4550 Montgomery Avenue, Bethesda, MD.	4/23/79
411	Heritage Savings Association	R/B/O - 1520 Country Ridge Lane, Essex, Maryland	5/9/79

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<u>Order No.</u>	<u>Association</u>	<u>Nature of Ord</u>	<u>Date of Order</u>
412	North Bend Thrift & Loan Assn., Inc.	R/P/O - 920 Frederick Rd., Catonsville, Md.	5/21/79
413	Second National B/L, Inc.	Limited Facility Branch 700 A North Phila. Ave. Ocean City, Maryland	5/21/79
414	Old Court Savings and Loan, Inc.	B/O - Martin Plaza, Martin Boulevard and Middle River Road, Baltimore, MD.	6/ 5/79
415	Chevy Chase S/L, Inc.	B/O - Congressional Plaza, 1661 Rockville Pike, Rockville, Md.	6/ 5/79
416	Arlington Savings and Loan Association	New Charter	7/ 5/79
417	White Ground Building and Loan Association	R/P/O - 7405 Windsor Mill Rd., Baltimore, Maryland	7/11/79
418	Arlington Savings and Loan Association	Merger with and into Central Savings Bank	7/18/79
419	Chevy Chase Savings and Loan, Inc.	B/O-2215 Bel Pre Road, Plaza Del Mercado, Montgomery County, Maryland	7/27/79
420	Eastern Shore S/L Assn.	R/B/O-10 South Main Street, Berlin, Maryland	7/30/79
421	Pompei Permanent Building and Loan Association	R/P/O-1726 West Street, Annapolis Maryland	8/1/79
422	First Maryland Savings and Loan, Inc.	B/O - Montrose Center, Montrose Road, Rockville, Md.	8/9/79
423	Government Services Savings and Loan, Inc.	B/O - 3601 St. Barnabas Road, Silver Hill, MD.	8/24/79
424	Orangeville Permanent Building Association	Merger with and into Metropolis Building Association	8/28/79
425	Chesapeake Savings and Loan Association	RPO-2100 Somerville Road, Annapolis, and retention the 224 Main Street Office as a Branch	8/31/79
426	Equitable Savings and Loan Association	B/O - Routes 29 and 198, Burtonsville, MD	9/11/79
427	Metropolis Building Assn.	Five Limited Facility Branch Offices in Stewarts Department Stores	9/19/79

A 1035

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE OF ORDER</u>
428	St. Casimirs Savings and Loan Assn.	RBO - 2703-05-07-09 Foster Avenue, Baltimore, MD	9/20/79
429	Fairfax Savings and Loan Assn.	B/O-17 Light Street, Baltimore, MD	9/24/79
430	Eastern Savings and Loan Assn.	B/O-Belair Beltway Plaza Shopping Center, 7628 Belair Road, Baltimore, MD	9/24/79
431	Sharon Savings and Loan	B/O - 1542 York Road Lutherville, MD	9/27/79
432	Laurel Building Association	B/O - Green Valley Center #12, Monrovia, MD	10/23/79
433	Second National Building and Loan	RBO-Benfield Plaza Shopping Center, Benfield and Jumpers Hole Roads, Severna Park, MD	10/25/79
434	Security Savings and Loan	7 Additional Electronic Customer Communication Terminals with First National Bank	11/6/79
435	Equitable Savings and Loan Association	B/O - Georgia Avenue and Hillcrest Street Olney, Maryland	11/7/79
436	Gibraltar Building and Loan Association	1090 Cape St. Claire Road, Cape St. Claire Shopping Center, Annapolis, MD	11/8/79
437	Chevy Chase Savings and Loan, Inc.	B/O - 6107 Greenbelt Rd., Berwyn Heights	11/28/79
438	Chevy Chase Savings and Loan, Inc.	L/F/B/O - 8740 Arliss Street, Silver Spring Maryland	11/28/79
439	Government Services Savings and Loan, Inc.	L/F/B/O - 11325 Seven Locks Road, Cabin John Mall, Potomac, Maryland	11/30/79
440	John Hanson Savings and Loan	B/O - 4405 East West Highway, Suite:202/203, Bethesda	11/30/79
441	Baltimore County Savings and Loan Assn.	B/O- 6510 Baltimore National Pike, Pike Park Plaza, Catonsville, Maryland - 21228	1/8/80
442	Chevy Chase Savings & Loan (A Stock Corporation)	B/O Georgia Ave & Spartan Rd. Olney, Maryland 20832	

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<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE</u>
443	Gough Street Loan and Savings Association	Merger with and into Metropolis Building Assn.	1/25/80
444	Fairfax Savings and Loan Association, Inc.	Merger with and into Prudential Savings and Loan, Inc.	1/29/80
445	Augusta Bldg & Loan Association, Inc.	B/O 1100 W. 36th St. Balto, Md. 21211	1-29-80
446	Heritage Savings Assn.	RBO to 4226 Harford Road Baltimore, MD 21214	3-6-80
447	Government Services S/L, Inc.	B/O-Prince George's Plaza Hyattsville, Maryland	4-11-80
448	Citizens Savings and Loan Association, Inc.	R/B/O - from Frederick County Square Shopping Center, 1003 West Patrick Street, Frederick, MD - 21701, to a free standing building approximately one thousand feet from the present branch location in the same shopping mall	5-7-80
449	Security Savings and Loan, Inc.	Merger with Sharon-Security, Inc. (Security the Survivor)	5-13-80
450	Home Building and Loan Association of Cecil County	Merger with and into Harford-Gunpowder Savings and Loan	5-26-80
451	Chevy Chase Savings and Loan, Inc.	B/O - 2417 Ritchie Parkway, Rockville, MD	6-24-80
452	Ridgely Building Assn.	Merger with and into Augusta Savings & Loan	6-26-80
453	First Progressive S/L	LFBO/ 229 E- Main St. Westminster, Md. 21157	7-16-80
454	East Ave Bldg. & Loan	Merged with Midstate S/L	7-23-80
455	Security Savings and Loan	Violation Order (withdrawn)	7-25-80
456	American National Bldg. & Loan Association	B/O 5 Light Street Baltimore, Md. 21202	7-25-80
457	Chevy Chase S/L	B/O - Diamond Square Shopping Center, Gaithersburg, Maryland	7-30-80

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<u>ORDER NO.</u>	<u>Association</u>	<u>Nature of Order</u>	<u>Date of Order</u>
458	Chevy Chase Savings and Loan	B/O-Clinton Square Shopping Center, Clinton, MD	8/8/80
- 459	Baltimore County Savings and Loan Assn.	B/O - 537 Ritchie Highway, Cirelli Bldg., Severna Park, MD - 21146	9/8/80
460	Northeastern Bohemian Savings and Loan Association, Inc.	Merger with and into Madison and Bradford Savings and Loan Association, Inc.	9/11/80
461	Old Court Savings and Loan, Inc.	Relocation of Principal Office to 23-25 Light Street, Baltimore, MD 21201	9/22/80
462	Sacred Heart Building and Loan Association	Merger with and into Municipal Savings and Loan Association	10/16/80
463	Domestic Building Association	Merger with and into Metropolis Building Assn.	10/16/80
464	Fidelity Building and Loan Assn.	Merger with and into Metropolis Building Assn.	10/16/80
465	Forest Hill Permanent Building Association	Transfer of Assets to Forest Hill State Bank and subsequent Dissolution of Forest Hill Permanent Building Assn.	11/12/80
466	Second National Building & Loan, Inc.	RBO from Harrison Street to Glebe Road, Easton, MD	11/12/80
- 467	Baltimore County Savings and Loan Association	B/O - 6410 Security Boulevard, Baltimore, Maryland - 21207	11/20/80
468	Rainy Day Permanent Savings and Loan Association	Merger with and into Madison Square Building Association	11/26/80
469	Dover Perpetual Building and Loan Association	with and into Parkville Savings and Loan Association	11/26/80
470	Midtown Savings and Loan Association	Merger with and into Fairfax Savings and Loan	11/28/80

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<u>Order NO.</u>	<u>Association</u>	<u>Nature of Order</u>	<u>Date of Order</u>
471	White Ground Building and Loan Association	Merger with and into Ridgeway Savings and Loan Association	12/3/80
472	Harford-Gunpowder Savings and Loan Association	RBO - from 9½ Courtland Street to Main and Gordon Streets, Bel Air, MD 21014	12/10/80
473	Metropolis Building Assn.	RBO from 30 N. Market St. & 154 N. Market St/ to 52 N. Market St. Frederick, Md	12/16/80
474	Sharon Savings & Loan	Shared Electronic Customer Communication Terminals with First National Bank	1/27/81
475	Snow Hill Building and Loan Association	Merger with/into Eastern Shore Savings and Loan Association	2/20/81
476	Custom Savings and Loan Association	RPO - from 3655 Old Court Rd. to 1013 Reisterstown Rd., Pikesville, MD	2/20/81
477	Regal Savings and Loan Association	Conversion from a mutual to a stock association	2/24/81
478	John Hanson Savings and Loan, Inc.	RBO - from 15126 Frederick Rd. to 835 Rockville Pike, Rockville, MD	3/6/81
479	Baltimore County Savings and Loan Assn.	B/O - 40 West Shopping Center Catonsville, Md. Rescinding Order No. 441	3/6/81
480	Golden Ring Savings and Loan Association	Merger with/into Heritage Savings Association	3/12/81
481	Calvert Savings and Loan Association	Merger with Yorkridge Federal S/L Assn. (Calvert is survivor)	3/13/81
482	Maryland Capital Savings and Loan Association	Conversion from a mutual to a stock association	3/24/81
483	Maryland Savings and Loan Association of Glen Burnie, Inc.	Merger with/into Sharon Savings and Loan	3/30/81

<u>ORDER NO.</u>	<u>Association</u>	<u>Nature of Order</u>	<u>Date of Order</u>
484	First Maryland Savings and Loan	B/O- Eastgate Shopper's World on Greenbelt Rd (Rt. 193) & Lanham Severn Rd. (Rt. 564) Glenn Dale, Md.	4/3/81
485	Hanover Building Assn.	Merger with/into Light Street Savings and Building Assn.	4/3/81
486	Liberty B/L Assn., Clifton Perm. Bldg. Assn., & Homewood S/L Assn.	Merger with/into New Michaels Perm. Savings and Loan Association	4/9/81
487	Pleasant Hill Permanent B/L Assn., Inc.	Merger with and into Metropolis Bldg. Assn.	4/29/81
488	Eastern Savings & Loan Assoc.	B/O - 1417 Reisterstown Road Pittsville, Maryland 21208	5/27/81
489	Center Savings & Loan	Relocate Principal Office to 201 N. Charles St. Suite 1702, Baltimore, Md 21201	5/27/81
490	Regal Savings & Loan Association	B/O - 2505 N. Charles Street Baltimore, Maryland 21218	6/2/81
491	Second National Building and Loan, Inc.	LFBO - 14804 Main Street Upper Marlboro, Maryland	6/ 9/81
492	Eastern Savings and Loan Association, Inc.	Conversion from a Mutual Association to a Stock Association	6/9/81
493	City Savings and Loan Association	Merger with and into Augusta Savings and Loan Association	8/18/81
494	Custom Savings & Loan Association, Inc	Conversion from a Mutual Association to a Stock Association	6/23/81
495	Second National B/L, Inc.	RBO from 7302 Coastal Highway, Ocean City, to 79th and Coastal Highway, Ocean City	6/24/81
496	Metropolis Building Assn.	Merger with and into John Hanson Savings & Loan, Inc.	7/14/81
497	Heritage Savings Association	Relocate Principal Office to 1503 York Road, Lutherville, Md. 21093	

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE EFFORD</u>
498	Merritt Savings & Loan	B/O 2045 York Road Lutherville-Timonium, Md. 21093	3/2/81
499	Old Court S/L, Inc.	RBO--from 8654 Liberty Rd. to 8599 Old Court Rd., Randallstown	7/23/81
500	Chevy Chase S/L, Inc. (Denied)	B/O 16823 Crabbs Branch Way, Rockville, MD	10/05/81
501	Government Services S/L, Inc. (Denied)	B/O 300 N. Frederick Ave., Gaithersburg, MD	10/06/81
502	Laurel Building Assn.	R/B/O from 201 N. Fred- erick Avenue to 300 N. Frederick Ave., Gaithers- burg, MD	10/06/81
503	Frederick Avenue Building Association	Merger with and into John Hanson Savings & Loan, Inc.	10/16/81
504	Madison Square Permanent Building Association	B/O 1115 Baldwin Mill Rd. Jarrettsville, Maryland	10/22/81
505	Yorkridge-Calvert Savings and Loan Association	R/B/O--from 140 Shopping Center, Westminster, to Pomona Square Commercial Center, Reisterstown Road, Baltimore, Maryland	11/1/81
506	John Hanson Savings and Loan, Inc.	B/O the John Hanson Bldg., 11700 Beltsville Drive, Beltsville, Maryland	11/04/81
507	Belair Road Building and Loan Association	Merger--with and into Madison Square Permanent Building Association	11/16/81
508	Eastview Savings and Loan Association	Merger--with and into Augusta Savings and Loan	11/19/81
509	Eastern Shore Savings and Loan Association	Merger with and into John Hanson S/L, Inc.	11/27/81
510	Fairfax Savings and Loan	Violation Order	12/ 8/81
511	Fairfax Savings and Loan	B/O 9739 York Road Cockeysville, Maryland	1/27/82
512	Maryland Capital Savings and Loan Association	B/O Charles St & Maple Ave. LaPlata, Md. 20646	1/27/82
513	Howard Loan and Savings Association	Merger--with and into Liberty Savings and Loan	3/1/82
514	Liberty Savings and Loan Association	B/O 10707 York Road Cockeysville, Maryland	3/30/82

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<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE OF ORDER</u>
515	Eastern Savings and Loan Association, Inc.	R/B/O to 3700 Eastern Avenue, Baltimore, MD	4/22/82
516	Gibraltar Building and Loan Association, Inc.	Conversion to stock association	4/27/82
517	John Hanson Savings and Loan, Inc.	R/B/O from Stewart's Golden Ring to Golden Ring Rd. & Kenwood Ave. Baltimore, Maryland	5/20/82
518	Twin Pines Savings & Loan Association, Inc.	Merger with and into Community Savings & Loan	6/1/82
519	Gibraltar Building and Loan Association, Inc.	B/O Routes 50 and 18, Kent Island, Stevensville, Maryland	6/17/82
520	Second National Building and Loan, Inc. (Disapproved)	B/O 3033 Solomon's Island Rd., Edgewater, Maryland	6/25/82
521	Friendship Savings and Loan Association, Inc.	Temporary relocation of B/O from 7623 Wisconsin Avenue, to the Bethesda Sq. Shopping Center, Bethesda, Maryland	6/29/82
522	Liberty Savings and Loan Association, Inc.	Articles of Revival	7/23/82
523	Harford-Gunpowder Savings and Loan Association	Merger with and into John Hanson Savings and Loan	7/23/82
524	Bay State Savings and Loan Association, Inc.	New Charter	7/23/82
525	Community Savings and Loan, Inc.	R/B/O to 111-A Centerway Rd., Greenbelt, MD	(Preliminary) (Final) 10/29/82
526	First Progressive Savings and Loan Association	R/P/O to 229 E. Main St. Westminster, MD & conversion of this office to a full service office	8/17/82
527	Second National Building and Loan, Inc.	B/O S. Salisbury Blvd. Rte 13) and Pine Bluff Rd. Salisbury, Maryland	9/14/82
528	Eastern Savings and Loan Association	B/O Reisterstown Rd. Plaza Baltimore, Maryland	9/22/82
529	Fairfax Savings Association	B/O 140 Village Shopping Center, Westminster, MD	10/18/82
530	Merger of Chevysub Corporation with and into Government Services Savings and Loan	Merger	11/1/82
531	The North Eastern Loan and Savings Association	Merger with and into New Michaels Permanent Savings and Loan Association	11/15/82

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER.</u>	<u>DATE OF ORDER</u>
532	First Maryland Savings and Loan, Inc.	B/O 814 S. Light St. Baltimore, Maryland	11/18/82
✓533	John Hanson Savings and Loan, Inc.	R/B/O to 107 Green St. Snow Hill, Maryland	12/2/82
✓534	Sharon Savings & Loan (They use 6900 Ritchie Highway as their address now.)	R/B/O to 1417 Crain Highway Glen Burnie, Maryland 21061	12/17/82
535	John Hanson Savings and Loan, Inc.	R/B/O to 11708 Reisterstown Road, Reisterstown, Maryland 21136	12/27/82
536	Admiral Builders Savings & Loan Association	B/O 1746-48 York Road. Lutherville, Maryland 21093	12/27/82
537	Fairfax Savings Association	B/O Ocean City Mall, Coastal Highway & 94th Street, Ocean City, Maryland 21842	2/04/83
538	Fairfax Savings Association <i>Date of order changed from 2/10 to 2/17</i>	B/O Security Blvd. and Whitehead Road Baltimore, Maryland 21207	2/25/83
539	Ashburton Savings & Loan Association, Inc.	Articles of Revival	2/14/83
540	Maryland Capital Savings and Loan Association	B/O 301 North Charles Street Baltimore, Maryland 21201	3/18/83
541	United Savings Association	New Charter (Preliminary)	3/24/83
542	Maryland Capital Savings and Loan Association	(Final)	4/14/83
543	Fairfax Savings Association	B/O The Randallstown Plaza Shopping Center, 3965 Offutt Road, Randallstown, MD 21133	4/25/83
543	Fairfax Savings Association	B/O 9070 Liberty Road at Offutt Road, Randallstown, MD 21133	4/25/83
544	Maryland Capital Savings and Loan Association	R/B/O from the corner of Rt. 5 and Rt. 925, Waldorf, MD to Suite 101 Moran Bldg., Waldorf Maryland 20601	6/21/83
545	Merritt Savings and Loan, Inc.	B/O Ocean Side of Coastal Highway Between 57th and 58th Streets, Ocean City, Maryland 21842	6/21/83
546	Maryland Capital Savings and Loan Association	B/O 4022 Eastern Avenue Baltimore, Maryland 21224	7/05/83
547	Merritt Savings and Loan, Inc.	B/O Merritt Park Shopping Center Merritt Blvd. & Wise Avenue Dundalk, Maryland 21222	7/11/83

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<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OR DER</u>	<u>DATE OF ORDER</u>
548	Baltimore County Savings and Loan Association	B/O Suite 110, The Jefferson Building, Chesapeake Ave. & Courtland St., Towson, Md. 21204	7/22/83
549	Baltimore County Savings and Loan Association	B/O Arbutus Shopping Center, 1054 Malden Choice Lane, Baltimore, Maryland 21227	7/22/83
550	Northfield Savings & Loan Assn., Inc.	B/O 1844 E. Joppa Road Baltimore County, Maryland 21234	7/26/83
551	Maryland Capital Savings & Loan Association	B/O Romsburg Industrial Park Section One - Intersection of Maryland Routes 85 and 355, Frederick, Maryland 21701	8/17/83
552	U.S. Home Savings & Loan Association	New Charter (Preliminary)	8/18/83
553	Maryland Capital Savings & Loan Association	B/O 1819 York Road, Grand York Shopping Center, Lutherville, Maryland 21093	8/30/83
554	Maryland Capital Savings and Loan Association	B/O 13 West Baltimore Street Baltimore, Maryland 21201	9/20/83
555	Maximum Savings Association	New Charter (Preliminary) (Final)	9/20/83 3/01/84
556	Maryland Capital Savings & Loan Association	B/O 725 South Salisbury Boulevard, Salisbury, Maryland 21801	9/22/83
557	Southern Permanent Building Association of Baltimore City	Conversion to stock association Articles of Amendment & Restatement	10/14/83
558	Custom Savings Association	B/O 4 Allegheny Avenue, Baltimore, Maryland 21204	10/19/83
559	First Maryland Savings & Loan, Inc.	B/O 8307 Main Street Ellicott City, Maryland 21043	10/26/83
560	Community Savings & Loan, Inc.	B/O Bedford Building, 6500 Rock Spring Drive, Bethesda, Maryland 20817	11/01/83
561	Regal Savings & Loan Association	R/B/O From 2505 N. Charles Street, Baltimore, Maryland 21218 to 24360 N. Charles Street, Baltimore, Maryland 21218	11/21/83
562	Maryland Capital Savings and Loan Association	B/O Store #14, Maryland City Plaza, 3431 Fort Meade Road, Laurel, Maryland 20707	11/26/83

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE OF OF</u>
563	Maryland Capital Savings and Loan Association	B/O Suite 117 Exchange Place Building, 451 Hungerford Drive, Rockville, Maryland 20850	12/14/83
564	Chesapeake Savings and Loan Association of Annapolis, Inc.	Conversion to stock association - Articles of Amendment & Restatement	12/14/83
565	Merger of Leland Corporation and Government Services Savings & Loan, Inc., with and into Chevy Chase Savings and Loan, Inc.	Merger	12/27/83
566	Maryland Capital Savings and Loan Association	B/O 217 Baltimore Pike Bel Air, Maryland 21014	1/10/84
567	Merritt Commercial Savings & Loan, Inc.	B/O 300-304 N. Charles Street, Baltimore, Maryland 21202	1/10/84
568	Bay State Savings and Loan Association	B/O Odenton Shopping Center, Odenton, Maryland 21113	1/12/84
569	Custom Savings Association	B/O 1 South Calvert Street, Baltimore, Maryland 21202	1/17/84
570	Hopkins Savings and Loan Association	Conversion to stock association - Amended Articles of Incorporation	9-17-84
571	Old Court Savings & Loan, Inc.	R/P/O from 25 Light Street, Baltimore, Maryland 21202 to 16 South Calvert Street, Baltimore, Maryland 21202	1/19/84
572	Merritt Commercial Savings and Loan, Inc.	Temporary Relocation of P/O from 6 St. Paul St., Baltimore, Maryland 21202 to 23-25 Light Street, Baltimore, Maryland 21202	1/13/84
573	Maryland Capital Savings and Loan Association	B/O 5209 East Drive, East Drive Shopping Center, Arbutus, Maryland 21227	2/17/84
574	Maryland Capital Savings and Loan Association	53 McKinsey Road, Severna Park, Maryland 21146	2/17/84

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE</u>	<u>ORDER</u>	<u>DATE OF ORDER</u>
575	Second National Building & Loan, Inc.	B/O 3033 Solomon's Island Road, Edgewater, Maryland 21037		3/22/84
576	Maryland Capital Savings & Loan Association	B/O Catonsville Commercial Center, 403 Frederick Rd., Catonsville, MD 21228		4/18/84
577	Severn Savings Association of Annapolis, Inc.	Conversion to Stock Association- Amended Articles of Incorporation		4/24/84
578	Westowne Savings & Loan Association	Merger with and into John Hanson Savings and Loan, Inc.		4/24/84
579	Commercial Credit Savings & Loan Association	B/O 7972 Belair Road, Baltimore, MD 21236		6/04/84
580	Second National Building & Loan, Inc.	B/O 145th Street and Coastal Highway, Ocean City, MD 21843		6/04/84
581	Potomac Savings and Loan Association	New Charter (Preliminary) (Final)		6/19/84 10/17/84
582	Commercial Credit Savings & Loan Association	B/O Cherry Valley Shopping Center, 11630 Reisterstown Rd., Reisterstown, Md. 21136		6/29/84
Amended 583	Commercial Credit Savings & Loan Association	B/O 532 Baltimore Boulevard (Route 140), Westminster, MD 21157		6/29/84
584	American National Building & Loan Assn of Baltimore City	R/P/O to 211-217 N. Liberty Street, Baltimore, MD 21201		7/9/84
585	Lewes and Rehoboth Building and Loan	Merger with and into Second National Building and Loan, Inc.		7/13/84
586	The Milton Building and Loan Association	Merger with and into John Hanson Savings and Loan, Inc.		7/16/84
587	Commercial Credit Savings & Loan Association	R/B/O from 53 McKinsey Road, Severna Park, Maryland 21146 to 614 Ritchie Highway, Severna Park, Maryland 21146		7/16/84
588	Government Services Savings & Loan, Inc.	R/P/O to Wisconsin Avenue and Old Georgetown Road, Bethesda, Maryland 20814		7/23/84
589	Kinsley Savings Association	New Charter (Preliminary)		8/7/84

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER.</u>	<u>DATE OF ORDER</u>
590	Government Services Savings and Loan, Inc.	Automated Teller Machine (ATM), Cabin John Mall 11325 Seven Locks Road Potomac, Maryland 20854	8/14/84
591	Merritt Commercial Savings & Loan Association	B/O Talbottown Shopping Center, Easton, Maryland 21601	8/14/84
592	Old Court Savings and Loan, Inc.	B/O 125th Street and Coastal Highway, Ocean City, Maryland 21842	8/20/84
593	Greater Baltimore Savings & Loan Association	Conversion to Stock Association - Amended Articles of Incorporation and Name Change	8/20/84
594	The Dorsey Building and Loan Association, Incorporated	Conversion to Stock Association - Amended Articles of Incorporation	8/24/84
595	Commercial Credit Savings and Loan Association	B/O 7436 Ritchie Highway, Glen Burnie, MD 21061	9/26/84
596	Security Savings and Loan	R/B/O from Towne Plaza Shopping Center, Joppa, MD 21085 to Towne Plaza Shopping Center, Joppa, MD 21085 (2 doors west)	9/26/84
597	Municipal Savings and Loan Association, Inc.	Articles of Revival	9/28/84
598	First Maryland Savings & Loan, Inc.	B/O Three Bethesda Metro Center, Bethesda, Md. 20814	10/15/84
599	First Progressive Savings & Loan Association, Inc.	Merger with and into Old Court Savings and Loan, Inc.	11/1/84
600	Sterling Savings Association	New Charter (Preliminary) (Final)	11/13/84 4/4/85
601	Second National Building & Loan, Inc.	B/O Bay Forest Shopping Center, Annapolis, MD 21403	11/15/84
602	Second National Building & Loan, Inc.	B/O Southeast Corner of Rt. 2 & West St. Annapolis, Maryland 21401	11/15/84
603	John Hanson Savings & Loan, Inc.	R/B/O from 10 South Main Street, Berlin, MD 21811 to 18 North Main Street Berlin, MD 21811	11/16/84

A-1047

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE OF ORDER</u>
604	Baltimore Savings and Loan Association, Inc.	Articles of Revival	11/21/84
605	Second National Building and Loan, Inc.	Automated Teller Machine (ATM) Gold Coast Mall parking lot, Coastal Hwy. and 115th St., Ocean City, Maryland 21842	12/5/84
606	Government Services Savings & Loan, Inc.	B/O Limited Facility 4708 Bethesda Avenue Bethesda, MD 20814	12/11/84
607	Friendship Savings and Loan	B/O 18206 Contour Road Gaithersburg, MD 20879	12/11/84
608	John Hanson Savings & Loan	R/B/O from Cave Neck Road, Milton, Delaware 19968 to Midway Shopping Center, U.S. Route 1, Rehoboth Beach, Delaware 19971	12/11/84
609	American National Building & Loan Association	R/B/O from 7735 Eastern Ave. Eastpoint Mall, Balto., Md. 21224 to 7848 Eastern Ave., Eastpoint Mall, Balto., Md. 21224 (Full Service Facility)	12/18/84
610	Commercial Credit Savings and Loan Association	B/O 704 Merritt Blvd., Baltimore, MD 21222	12/17/84
611	Atlas Savings & Loan Association, Inc.	Conversion to Stock Association - Articles of Amendment and Restatement	12/19/84
612	Commercial Credit Savings and Loan Association	R/B/O from 15 Shangri La Dr. Lexington Park, MD 20653 to 50 Essex Drive South, Lexington Park, MD 20653	1/7/85
613	Maximum Savings Association	B/O 99 South Washington St. Rockville, Maryland 20850	1/7/85
614	Eastern Savings Association	B/O 531 York Road Towson, Maryland 21204	1/18/85
615	Fairfax Savings Association	B/O 424 York Road Towson, Maryland 21204	1/18/85
616	Ridgeway Savings & Loan Association	Conversion to Stock Association - Articles of Amendment and Restatement	1/24/85
617	Presidential Savings Association	New Charter - Bethesda Office Center, 4520 East-West Highway, First Floor Bethesda, Maryland 20814	Preliminary 1/29/85 Final 4/4/85

A 1048

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE OF ORDER</u>
618	Summit Savings Association	New Chart. - One Eighteen Center, MD Route 118 & Wisteria Dr., Germantown, Maryland 20874	Preliminary 1/30/85
619	Gibraltar Building and Loan Association, Inc.	B/O Northeast corner of Rowe Boulevard & Taylor Avenue, West Annapolis Shopping Center, Annapolis, Maryland 21401	1/31/85
620	Universal Savings and Loan Association	R/P/O from 17 Old Court Rd., Baltimore, Maryland 21208 to 3655b Old Court Road Suites 20 & 21 Baltimore, Maryland 21208	2/6/85
621	Fairfax Savings Association	B/O 1001 S. Salisbury Blvd., Salisbury, Maryland 21801	2/6/85
622	Second National Building and Loan, Inc.	B/O 503 Washington Avenue Chestertown, Maryland 21620	2/6/85
623	Second National Building and Loan, Inc.	B/O RD 1, located on Route 1, approx. 1/4 mile from intersection of Route 24, Rehoboth Beach, Delaware 19971	2/28/85
624	The Southern Permanent Building Association of Baltimore City	R/P/O from 1502 Riverside Avenue, Baltimore, Maryland 21230 to 2541 Ennalls Avenue Wheaton, Maryland 20902	3/26/85
625	Sharon Savings & Loan	B/O 81st Street and Coastal Highway, Ocean City, MD 21842	4/9/85
626	Community Savings & Loan, Inc.	3 Automated Teller Machine (ATM) at Brady Bldg, Rtes 450 & 195, Bowie, Md 2071 Montgomery Village Shopping Mall, Giant Food Parking Lot, Gaithersburg, Md 20879; & Lake Forest Shopping Mall, Upper Level Pkg Lot between Hechts & J.C. Penney's, Gaithersburg, Md. 20877	4/12/85
627	Government Services Savings & Loan, Inc.	B/O Sugarloaf Centre, Md Rte 118 & Wisteria Drive, Germantown, Maryland 20874	4/12/85
628	Community Savings & Loan, Inc.	B/O 15906 Shady Grove Road Gaithersburg, MD 20877	4/12/85
629	American National Savings Association	B/O Cherry Shire Center, Reisterstown & Cherry Valley Roads, Baltimore, Maryland 21136	4/16/85
630	Second National Building & Loan, Inc.	B/O 9th & Shipley Street, Wilmington, Delaware 19801	4/26/85
631	Community Savings and Loan, Inc.	B/O 2335 Glenallen Avenue Silver Spring, Maryland 20902	4/26/85

A-1049

<u>ORDER NO.</u>	<u>ASSOCIATION</u>	<u>NATURE OF ORDER</u>	<u>DATE OF ORDER</u>
632	The North Bend Thrift & Loan Association, Incorporated	Conversion into a Stock Association	4/24/85
633	First Maryland Savings & Loan, Inc.	Establishment of a Branch Office 8737 Colesville Road Retail Level Silver Spring, Maryland 20910	4/30/85

A-1050



All you need to know about safety of savings:

When you see this symbol displayed in your savings and loan association it means that your savings are insured to \$40,000 by the Maryland Savings-Share Insurance Corporation. You'll never have to worry about safety of your savings — it's that simple. And, the insurance doesn't cost you a penny.

So while you're looking for convenience and return on your savings, don't forget safety. We haven't. That's why the 135 savings and loan associations in Maryland who display the seal of the Maryland Savings-Share Insurance Corporation are bringing you this advertisement.

We want you to know

Maryland Savings-Share Insurance Corporation / 901 North Howard Street
Baltimore, Maryland 21201 / (301) 797-7810

17(159)

This advertisement

appears in the Maryland edition of TIME Magazine, January 8, 1979. It describes the Maryland Savings - Share Insurance Corporation — what it is, what it does, what's in it for you. We're proud that our Association is a member of the Corporation.

152

COPY NO. _____ CLIENT MARYLAND SAVINGS-SHARE INSURANCE CORPORATION
DATE 7/9/85 JOB "Neighborhood" :30 TV final version

VIDEO

Black-and white street scene of Baltimore neighborhood, circa the late 30's. Spokesman, dressed in period business suit, gets out of '39 Olds and walks down street.

Waves to man who is sitting in front of store. Man waves back.

Spokesman peeks into window of savings and loan, then walks in.

Dissolve to shot of spokesman handing passbook to smiling teller.

Wipe to color shot of spokesman, now in modern suit, picking up passbook in a modern savings and loan. He gestures to MSSIC seal, tucks passbook into jacket pocket, and exits left. Slow zoom on seal.

Dissolve to seal on blue background.

Super "Maryland Savings-Share Insurance Corporation."

AUDIO

SFX: Outdoor city sounds, under.

SPOKESMAN: Mornin' Harry! How are 'ya today?

SPOKESMAN (V/O): Time was, at the heart of every neighborhood, you'd find a savings and loan.

SPOKESMAN (V/O): It's still true today. And when you see this seal displayed at savings and loans throughout Maryland, rest assured: your savings are protected.

SPOKESMAN (V/O): Savings insurance for you and your community -- from the Maryland Savings-Share Insurance Corporation.

Gilbert Sandler & Associates, Inc.

ADVERTISING AND PUBLIC RELATIONS • 501 ST PAUL PLACE • BALTIMORE MARYLAND 21202 • (301)837-7100

COPY

NO. _____ CLIENT MSSIC

DATE 2/28/85 JOB :30 TV Audio--Lighthouse

ANNCR:

It's reassuring.

You know it's always there.

You can depend on it through calm straits and troubled waters.

By day, a landmark of strength.

By night, a comforting beacon to safety.

We're the Maryland Savings-Share Insurance Corporation. Look for our symbol of safety at savings and loans throughout Maryland. It means each account is insured up to \$100,000.

VENABLE, BAETJER AND HOWARD

ATTORNEYS AT LAW
1800 MERCANTILE BANK & TRUST BUILDING
& HOPKINS PLAZA
BALTIMORE, MARYLAND 21201

TELEPHONE 752-6780
AREA CODE 301

August 17, 1976

Mr. Harry B. Wolf, Jr.
Executive Vice President
Maryland Savings-Share Insurance
Corporation
Baltimore Life Building
901 North Howard Street
Baltimore, Maryland 21201

Dear Mr. Wolf:

You have requested our opinion concerning the meaning of one section of the Charter of the Maryland Savings-Share Insurance Corporation ("MSSIC") which establishes a limit on the amount of insurance which may be provided to the holders of accounts in member associations. The section, which appears in Article 23 of the Annotated Code of Maryland as §161SS, reads in part as follows:

As one of such rules and regulations the board of directors from time to time shall establish a limit on the amount of insurance which may be provided for each separate share account of any association; and this limit may not exceed by more than the sum of \$10,000.00 the amount of prevailing insurance available from the Federal Savings and Loan Insurance Corporation or its successor instrumentality from time to time.

Pursuant to this enabling statute, MSSIC has recently adopted a provision in Article VII, §2 of its By-Laws which states that:

The limit of insurance liability for which the Corporation may be required to pay for each separate share account of any association may not exceed by more than the sum of \$10,000 the amount of prevailing insurance available from the Federal Savings and Loan Insurance Corporation or its successor instrumentality from time to time.

Hall DX 46-155-2085

00015691-1112

Mr. Harry B. Wolf, Jr.
August 17, 1976
Page Two

This provision amended the previous Article VII, §2 by replacing the words "any one free share account" with the words "each separate share account of any association". As we understand the situation, the purpose of this amendment was to clarify MSSIC's intent to provide insurance for each share account as those accounts appear on a member's records. Thus, supposing that an individual were to open several accounts with a MSSIC member, using the same name for each account, and that the MSSIC member permitted this duplication, the individual would be insured for the full amount of insurance on each of the accounts.

We also understand that MSSIC in the past has issued to its members a general set of criteria, to be used by members in determining insurance coverage, which combined separate accounts having a single ownership into a single account for insurance purposes. Presently, MSSIC is sending out a new circular which states that each account appearing on a member's books shall receive full insurance coverage.

In adopting this new practice of providing full insurance coverage for each separate account appearing in a member's records, MSSIC is relying upon the plain meaning of the words "each separate share account of any association", which tends to indicate that each account recorded in a member's records may receive insurance up to the full limit permitted in MSSIC's Charter. As for the meaning of "account", MSSIC adopts the position that reference to a member's records provides the most obvious determination of how many "accounts" a member has at any one time.

We believe, with the qualifications stated below, that MSSIC's interpretation of its power to insure, granted by §161SS of its Charter, is a reasonable interpretation, and has the added advantage of setting forth a simple, definable means of determining the insurance coverage of any one individual or business.

The major problem which we believe MSSIC faces in interpreting its Charter in this manner stems from the fact that MSSIC's Charter, by making reference to the insurance

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limits of the Federal Savings and Loan Insurance Corporation ("FSLIC") as a limit on MSSIC's own insurance coverage, is obviously designed to achieve some sort of parity between MSSIC's insurance limits, on the one hand, and those of FSLIC on the other. We do not have a detailed knowledge of why this reference to FSLIC was inserted in MSSIC's own Charter, but it stands to reason the reference reflects a realization by the Maryland legislature that MSSIC members could secure a competitive advantage over federally-insured savings and loan associations by providing insurance far in excess of that which is available from FSLIC. As you know, FSLIC has promulgated a very complex set of regulations, which appear in Title 12, Part 564 of the Code of Federal Regulations, which treat various types of ownership interests and combinations of accounts as single accounts for insurance purposes. These regulations in their present form date back to 1967, and have been substantially amended since that time. The regulations, in turn, have been promulgated pursuant to §§401 and 404 of the National Housing Act, which require the combination of certain accounts for purposes of determining insurance coverage. The Federal Deposit Insurance Act also requires that certain accounts be treated as single accounts for insurance purposes, and regulations have been adopted by the Federal Deposit Insurance Corporation which closely parallel the regulations adopted by FSLIC.

MSSIC's authority to insure accounts as they appear on member's records could be challenged in a variety of ways. An institution insured by FSLIC, for instance, might complain to the Division of Building, Savings and Loan Associations ("Division") regarding the practice, or commence a declaratory judgment action to interpret MSSIC's Charter in the State courts.

If any such proceeding was commenced, MSSIC, as noted before, could initially defend its position by pointing to the plain meaning of the words "each separate share account" in its Charter. Other points which MSSIC could use in favor of its being able to take such action are (1) the absence of any single standard definition of an "account", which applies to all state and federal banks and/or savings

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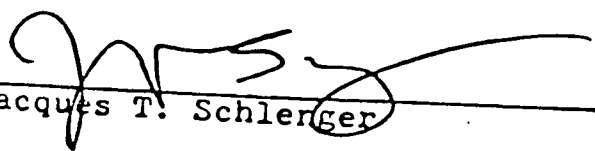
associations and (2) the complexity of the federal regulations published by FSLIC which define "account" for purposes of federal insurance coverage. On this latter point, you could stress the fact that it was FSLIC's decision -- not MSSIC's -- to adopt such a set of complicated regulations, and that to automatically force the application of those regulations upon MSSIC by reference would substantially interfere with the authority and discretion of your group.

In conclusion, we would state that you have strong arguments favoring your ability to define "accounts" in a manner which differs somewhat from the definition of "accounts" in the FSLIC regulations, so long as you adopt some rational means of determining what is an "account". Reference to member's records appears to provide such a means. We would further stress, however, that your Charter does indicate a general intent to create some kind of competitive parity between those associations insured by MSSIC and those associations insured by FSLIC. If MSSIC's recent action in amending its By-Laws was perceived as a competitive maneuver by the Division or a court, or if MSSIC members, for instance, were to encourage a proliferation of accounts for the purpose of providing additional insurance coverage, or were to advertise the distinction between federally and state-insured associations, we believe that a court, or the Division, might well focus on this policy statement in MSSIC's Charter and determine that the words "each separate share account" must be interpreted by MSSIC in a manner which fulfills that policy as well as providing you with an easily-determinable measure of your potential liability. For the time being, however, we suggest that you defend your recent amendment as being consistent with your Charter authority.

Very truly yours,

VENABLE, BAETJER AND HOWARD

By:


Jacques T. Schlenger

JTS:prb

MEMORANDUM TO MR. MCCARTHY

Re: First Progressive Building & Loan Association -
MSSIC Action

I. Facts

MSSIC desires to take action against First Progressive Building & Loan Association as quickly as possible in order to either terminate insurance or to take some other action in order to improve the management of First Progressive. MSSIC's by-laws provide for a procedure whereby MSSIC issues a temporary cease and desist order requiring a member organization to take certain actions which MSSIC believes is necessary in order to avoid prejudice against the interests of MSSIC. MSSIC issued such an order, and pursuant to its by-laws, it held a hearing whereby First Progressive was able to address itself to the cease and desist order. We have a transcript of that hearing at which an attorney for First Progressive appeared and specifically addressed the criticisms of MSSIC contained in a letter to the Chairman of the Board and President of First Progressive. The hearing was held on June 28, 1978.

Since that time the Division of Building & Loan Associations of the State of Maryland, an agency of the State of Maryland which regulates building, savings and loan associations, issued a report on First Progressive as of the close of business on February 28, 1978. The report was issued as a result of an examination which took place from April 3, 1978 to August 4, 1978. The report is highly critical of the management of First Progressive Savings & Loan Association, and the examiners conclude and recommend that First Progressive Savings & Loan Association should not be permitted to operate as a savings and loan association.

II. Questions and Discussions

A. Does MSSIC have the power to issue cease and desist orders?

MSSIC has the power to issue cease and desist orders under existing law. This conclusion is supported by several arguments.

First, Section 161 PP, Article 23, Maryland Annotated Code (all references will be Article 23 of Maryland Code unless otherwise stated) provides that "the membership of the Corporation (MSSIC) shall consist of those associations the financial affairs, solvency, management and directorship of which have been certified to the Corporation as approved for insurance of free-share accounts, by the supervisor, and which have thereupon filed an application for membership accepted by the Board of Directors, which acceptance shall not be denied except for good cause shown." The section further provides that "membership in the corporation is for the life of the corporation, subject to the by-laws, rules and regulations of the corporation." Therefore, the enabling statute specifically limits membership of the corporation to those associations whose financial affairs and management have been approved by the Board of Directors and further provides that continuing membership is subject to the by-laws, rules and regulations of the Corporation. This indicates that the Corporation has authority to investigate the financial affairs and management of its members and may enact by-laws, rules and regulations governing the financial affairs and management of its members.

Second, Section 161 MM provides that the Board of Directors may adopt and promulgate by-laws, rules and regulations which conform to the reasonable intent and purposes of

this sub-heading. Section 161 NN(a) provides that the purposes of the Corporation are to promote the elasticity and flexibility of the resources of member associations, to establish a central reserve fund, and to insure the free-share accounts of such associations. Thus, the purposes of the Corporation are intimately tied to the financial status of its members, and the Corporation is charged with the power to take actions to promote elasticity and flexibility of the resources of member associations and therefore to enact rules and regulations governing the operation of member organizations so as to achieve that purpose.

Third, Section 161 SS explicitly provides that the Board of Directors has the power to enact by-laws, rules and regulations, and that the by-laws, rules and regulations will become effective unless the supervisor denies approval. Furthermore, Section 161 SS provides that the supervisor may only deny approval if he has reason to believe that the principles and purposes of this sub-heading will be subverted thereby or if the best interest of the public will not be promoted thereby. This standard of review is limited. The regulations regarding cease and desist orders are clearly intended to benefit the public interest by preventing the public from dealing with building and loan associations which do not have adequate financial resources or management. Furthermore, the regulations clearly do not subvert the intent of the enacting legislation in that the regulations clearly attempt to enhance and insure the flexibility and financial soundness of member organizations as is authorized under Section 161 NN and 161 PP.

Fourth, Maryland case law indicates that an agency of government which are given the power to issue regulations and rules has the power to issue regulations which are reasonable and consistent with the letter and policy of the statutes under which it acts, Comptroller v. M. E. Rockhill, Inc., 205 Md. 226, 107 A.2d 93 (1954); Board of County Commissioners for Prince George's County v. Milstead, 265 A.2d 879 (1970). In the case of a remedial statute, a rule of liberal construction is used in determining the authority of the agency, Givner v. Commissioner of Health of Baltimore City, 207 Md. 184 (1954). In the present case, the enactment of the MSSIC legislation was in response to scandals concerning failures and frauds perpetrated by owners and managers of building and loan associations. Therefore, it can be argued that the statute is remedial and should be liberally construed.

B. Does the fact that the rules and regulations of MSSIC were promulgated in 1961 when membership in MSSIC was voluntary and that since that date Section 150 A now requires membership in MSSIC or in the Federal Savings and Loan Insurance Corporation as a condition of doing business as a building and loan association affect the power of MSSIC to regulate savings and loan associations and to expel members?

While the enactment of Section 150A weakens the argument that member organizations have voluntarily agreed to abide by the rules and regulations of MSSIC, the law strengthens the argument that MSSIC has the power to regulate savings and loan associations and expel members. By enacting Section 150A, the legislature clearly indicated that savings and loan associations must meet the requirements for membership in MSSIC and in FSLIC

(Federal Savings and Loan Insurance Corporation) as provided in the rules and regulations of both those corporations. Furthermore, in enacting Section 161 in 1973, the legislature provided that MSSIC would supervise the liquidation, merger, consolidation or reorganization of any building and loan association insured by MSSIC. Section 161 clearly indicates that MSSIC is to be a primary regulatory authority with respect to the management and financial capability of building and loan associations and to the supervision of the orderly resolution of any problem building and loan association. Thus, the fact that membership is no longer voluntary does not affect MSSIC's role as a regulator or supervisor of building and loan associations, and in fact, the legislature has broadened that rule of MSSIC with respect to ailing building and loan associations.

Moreover, the FSLIC regulations, analogous to that currently provided in MSSIC's regulations, provide for termination of membership. FSLIC rule 563.17 provides that members should have safe and sound management and financial policies which are safe and sound. FSLIC regulation 565.2 provides for a procedure for termination based upon the unsafe or unsound condition or manner of conducting business of a member institution and requires that notice be given to the affected member of the unsafe and unsound conditions, and that the member have 120 days to correct the conditions. The procedure does permit FSLIC to shorten this period to as short as 20 days. The regulation provides for a hearing on 30 days' notice and does permit termination of insurance. These regulations are similar to the regulations which were in effect at the time the enactment of legislation by General Assembly requiring such insurance and clearly support the argument that MSSIC has similar powers.

C. How can MSSIC proceed in the present case in the most expeditious manner?

1. Can MSSIC now go ahead and make the temporary order of May 25 permanent, since in their judgment Progressive has not properly responded to MSSIC's letter of May 25th?

Under MSSIC's by-laws, section 3-222(a), the order of May 25, 1978 can be made permanent. Under Section 3-222(c) if a member is found by the Board of Directors or the Executive Committee of the Corporation to continue to violate the provisions of a temporary or permanent cease and desist order that has become final (action has not been taken to stay, modify, terminate or set aside the order pursuant to section 3-222(b) (5)), then the Corporation can appoint a supervisor in charge of the member and can make various orders concerning removal from office, prohibition from and/or limitation and participation in the conduct of the affairs of the member of certain directors, officers or other persons. While the Corporation may proceed in this manner, I have reviewed the transcript of the hearing held with respect to the May 25, 1978 order, and it is my opinion that the May 25 letter and the transcript would not present a strong case for review should an appeal of the MSSIC's decision be taken to a court (see the discussion in subsection D hereof).

First, the letter contained a list of specific problems which were specifically addressed at the hearing. Most of these problems were addressed at the hearing in a satisfactory manner. However, there are certain items which may provide a basis for acting in the above manner. Item 10 of the May 25 letter states that mortgage loans in the amount of \$2,200,000 were at least one month delinquent as of December 31, 1977.

While this statement is not in the form of an order to cease and desist from doing anything, apparently First Progressive has not found any difficulty interpreting the meaning of this order. On pages 9 through 15 of the transcript of the hearing, counsel for First Progressive embarks on a long discussion with respect to this particular item. It appears that First Progressive claims that the definition of delinquency used by MSSIC was improper and responded stating that only \$250,847.17 were delinquent by 90 days or more. Mr. Aaron, the president of First Progressive, also explained that specific loans were to be paid off or foreclosure was to be commenced in the near future with respect to these delinquent loans. If MSSIC can justify their definition of delinquency, then this might be one point which was not satisfactorily answered in the hearing.

First Progressive did admit that item 15 of the May 25 letter with respect to Monumental Cities Service Corporation was in fact correct and that they were attempting to remedy the situation.

While items 9 and 13 relating to the activities of Jeffrey Levitt, a lawyer for and a director of the association, were responded to at the hearing and by Mr. Levitt in a letter, the Division's report indicates that there are other activities of Jeffrey Levitt which might also fall within the confines of Section 13.

Finally, it should be noted that at the hearing First Progressive represented that it was taking no more mortgage commitments. This indicates that First Progressive is no longer conducting an active business as a building and loan association.

The principal problem with the May 25, 1978 letter is that there are several items which are vague and which are probably not adequately corrected as of this date. In particular, item 5 states that miscellaneous records are not adequately maintained and item 17 refers to any other unsafe and unsound practices. Unless MSSIC can justify action on the above grounds, it would seem advisable to start this procedure or an alternative procedure over again so as to build a better record for the expulsion of First Progressive.

2. Can MSSIC use the Division of Building, Savings and Loan Association's report as the basis for making a permanent order?

The report would appear to be proper evidence to be considered by MSSIC in issuing a cease and desist order. Section 3-222 does state that if in the opinion of 25% of the Board of Directors of the corporation, any insured member is engaged in or is about to engage in an unsafe or unsound practice such an order would issue. If the Board of the corporation makes the temporary order permanent on the basis of this report, it is my opinion that First Progressive might be able to overturn the Board's action on the basis that the Board did not give First Progressive a due process hearing in order to rebut the findings of the report. However, if the Board issues a cease and desist order or give notice for the termination of insurance based on this report and holds a hearing with respect to either of those actions pursuant to its by-laws, then the report would legitimately be a basis for the issuance of an order and could be used to improve the record justifying such an order.

3. What is the most expeditious manner to move against First Progressive?

There are two ways, other than issue a permanent order, to move against First Progressive. The most expeditious way would be to issue a temporary cease and desist order and a report to and pursuant to section 3-222 of the by-laws. A hearing could then be fixed for a date set by the MSSIC board. There are no requirements that the date be at least 10 days later than service, but due process may require that First Progressive have some time to prepare a response to the charges.

The second method of action would be to give notice pursuant to section 3-601 of the by-laws that the Corporation intends to expel First Progressive and the grounds for such expulsion. The Board has to furnish First Progressive with a statement outlining the practices or violations complained of and must give 30 days for time to correct such violations. If the violations are not corrected within 30 days, the Board of Directors must give 30 days' written notice of its intention to terminate First Progressive as a member of the Corporation and a time and place of a hearing on that action. It appears from the regulations that the 30 days applies only to the effective date of termination, and that a hearing may be held at an earlier date.

It is my opinion that the MSSIC should consider action under both sections so as to terminate insurance and act under the cease and desist section to change the management and control of the building and loan association while termination proceedings are pending.

4. Can MSSIC appoint a conservator pursuant to its cease and desist order provision?

I have some question as to the ability of MSSIC to appoint a supervisor in charge of the member of the Corporation pursuant to 3-622(c)(b), although I believe that such power can be justified by the statute as explained in paragraph (A) above. However, Section 161 K provides for the appointment of a conservator by the Board of Building, Savings and Loan Associations in the event that the Board of Building, Savings and Loan Associations finds that such an association is conducting an unsafe or unsound operation. Such action was recommended by the examiners to the Division of Building, Saving and Loan Associations. Section 161 K provides for application to be made to a court of equity. It would appear that Section 161 K might provide the sole procedural method for having a receiver appointed over a savings and loan. Section 161 provides that MSSIC shall be the receiver so that MSSIC will supervise the member association if this course of action is taken. Thus, there is some risk that the action taken by MSSIC under its cease and desist order section imposing a supervisor-in-charge of First Progressive may be contrary to the provisions of existing law. The Court of Appeals has consistently held that actions contrary or in any way in opposition to law are not within the power of a state agency. Thus, I would recommend that First Progressive be expelled from MSSIC as expeditiously as possible and that until such time, MSSIC should act pursuant to its cease and desist order mechanism to attempt to get management changes made and, if necessary, impose management changes on First Progressive. Since interference with management will

be for a limited time, the potential liability of this course of action will be quite limited.

5. Additional authority concerning MSSIC's authority.

Section 161 LL-3 provides for the repeal of many of the regulatory sections effective 1982, including section 161 K, concerning the Board of Building, Savings and Loan Commissioners and the Division of Building, Savings and Loan Associations so as to enhance MSSIC's role in the regulation of Building, Savings and Loan Associations. Thus, MSSIC is an integral part of the State's regulation of savings and loan associations.

C. Since MSSIC is not a "state" agency, are general administrative law concepts applicable to it?

There is no real definition of what is a state agency for administrative law purposes. Section 244 of Article 41 of the Annotated Code of Maryland defines an agency to mean "any state board, commission, department or officer authorized by law to make rules or to adjudicate contested cases, except those in the legislative or judicial branch and except...". MSSIC is not expressly excluded from the definition of state agency and is authorized by law to make rules. While MSSIC is not authorized by state law to hear "contested cases", i.e. "proceedings before an agency in which the legal rights, duties or privileges of specific parties are required by law or constitutional rights to be determined after an agency hearing", MSSIC cease and desist and expulsion proceedings may well fall into the definition of contested cases and due process probably requires a hearing before final action. However, the MSSIC

enabling legislation sets forth the procedure for enacting rules and regulations which is contrary to the procedures set forth in section 245 of the administrative procedure act contained in Article 41 of the Maryland Annotated Code. In addition MSSIC is not a "state" agency since its members are clearly not governmental units. Thus, Section 255 of the administrative procedure act, which provides for a right of judicial review of actions of state agencies and sets the standards for review (e.g. action is in violation of constitutional provisions, in excess of statutory authority or jurisdiction, made upon unlawful procedure, affected by other error of law, unsupported by competent, material and substantial evidence in view of the entire record as submitted, against the weight of competent, material and substantial evidence in view of the entire record, and including de novo evidence taken on appeal and is not supported by the entire record, or action is arbitrary or capricious) and gives the court a broad scope of review of agency decisions is not directly applicable to MSSIC. While MSSIC is not a state agency, it is a state-chartered regulatory agency of which three members of the Board are appointed by the Governor. Thus, MSSIC should still try to establish a favorable record for appeal in the event First Progressive resorts to court action.

The record is important since in Criminal Injuries Compensation Board v. Gould, 331 A.2d 55, 273 Md. 486 (1975), the Court of Appeals of Maryland considered an appeal from an action taken by the Criminal Injuries Compensation Board which the Court of Appeals held was not a state agency subject to the administrative procedure act. The enabling legislation specifically excluded the right of appeal beyond that specifically

set forth in the statute. However, the court held that despite the express intention of the statute, the legislature could not divest the court of the inherent power the courts possess to review and correct actions by an administrator or agency which are arbitrary, illegal, capricious or unreasonable. The court would have the power to reverse a decision which is not supported by the facts, reverse any action which is not within the scope of delegated authority or which is arbitrary, capricious or unreasonable. Actions of MSSIC may well be subject to review by a court in accordance with the above law.

ELW

Handwritten notes at top left: "To: F. W. by Tuesday" and "VBA client".

Handwritten notes at top right: "Pamela for Tuesday" and "Tuesday".

MEMORANDUM TO MR. MCCARTHY

Re: MSSIC-First Progressive Building and Loan Association

I. Results of Further Research

I have not found any case authority which either directly or impliedly holds that a regulatory agency is granted by implication the power to take sanctions against the institutions or individuals which it regulates. The enabling statutes for the FDIC and the FSLIC provide for the power to enforce the rules and regulations of those corporations and further provide for a procedure whereby the corporations can issue a cease and desist order. Apparently, the MSSIC regulations are modeled under the statutory language and regulations issued by FSLIC regarding cease and desist orders. MSSIC would have to rely upon its general power to make rules and regulations and to provide the terms for insuring member organizations under its enabling statute, in order to justify its taking action by way of a cease and desist order. MSSIC can rely on Section 161 PP regarding the membership of the corporation and explicitly requiring that the financial affairs and management of each member be approved and that membership in the corporation is subject to the rules and regulations of the corporation, to justify the corporation's interest and authority in issuing the rules and regulations regarding cease and desist orders. It is my judgment that if the rules and regulations were challenged, MSSIC would have the better case as to the rules regarding cease and desist orders and would surely prevail with regard to rules regarding termination of insurance.

I found no authority which held that MSSIC or a similar institution is an agency of the state and subject to all administrative law concepts. There is some dictum in a case

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dealing with the FSLIC which indicates that the legislative body has the discretion to regulate industries by the creation of such a corporation, and that such a corporation is in some senses an administrative agency.

In the event that MSSIC were to take action against First Progressive and First Progressive were not to comply with a cease and desist order, the order, if enforceable, would have to be enforced in a proceeding seeking an injunction against First Progressive.

II. Recommendations

In light of the uncertain statutory authority with regards to the issuance of cease and desist orders, MSSIC should rely on the proceedings instituted by the Division of Building, Savings and Loan Associations as a means of correcting the bad business practices of First Progressive, unless there is some compelling reason to act otherwise. If MSSIC elects to issue a cease and desist order, there can be no assurance that that order will be enforceable pursuant to injunctive proceedings. The power to seek injunctions was given to the Board regulating savings and loan associations in a 1977 amendment to its enabling legislation which may indicate that there was some doubt as to the Board's power to seek enforcement of its rules. Thus, MSSIC may lack the power to enforce its cease and desist orders.

If MSSIC believes that substantial harm can come to the Corporation as a result of the present management of First Progressive (in light of the fact that any final order of the Division is subject to judicial review by a de novo hearing pursuant to Section 161 H(e) of Article 23 of the Annotated Code of Maryland) the Board should act either under its cease

and desist order power regulation or under the termination regulation in order to change the management practices. If the Board wishes to take definitive action against First Progressive, it should initiate the procedure leading to the termination of membership rather than issue a cease and desist order. While such an order may lead to drastic consequences, I believe that it is the procedure which is most likely to be upheld and enforced against any challenge and which would pose a very direct and great incentive to the management of First Progressive to comply with and correct any poor management practices specified by MSSIC. Moreover, such a procedure permits the Board to immediately issue a "final" order requiring the member to correct certain practices. The termination procedure does not provide for a hearing until and unless MSSIC decides to act to terminate membership. Finally, once MSSIC holds a hearing, there is no time limit with which to issue a decision on termination, therefore allowing for additional time for and putting additional pressure on First Progressive to change its operation.

ELW

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VENABLE, BAETJER AND HOWARD

4185:49764

October 23, 1978

Mr. Harry B. Wolf, Jr.
Executive Vice President
Maryland Savings Share Insurance Corporation
Baltimore Life Building
901 North Howard Street
Baltimore, Maryland 21201

Dear Mr. Wolf:

You have requested our advice with respect to certain powers and procedures provided for in the By-laws and Rules and Regulations of Maryland Savings Share Insurance Corporation ("MSSIC") generally, and as they relate to MSSIC's consideration of the operations of First Progressive Savings and Loan Association ("First Progressive"), a MSSIC insured association. On May 25, 1978, MSSIC issued a Temporary Cease and Desist Order pursuant to Section 3-222(B) of its Rules and Regulations directed to First Progressive, and on June 28, 1978, a hearing was held by MSSIC on such Order at which time First Progressive responded to the matters raised in the Order of May 25.

Since the date of the hearing, on or about September 14, 1978, the Division of Building, Savings and Loan Associations (the "Division") has issued a report of examination of First Progressive as of February 28, 1978. Based on the report of examination, the Division has issued to First Progressive a Violation Order, and a hearing has been set on such Order for October 24, 1978.

You first inquire of us what action, if any, MISSIC should take either to make its Temporary Cease and Desist Order permanent or to commence other proceedings under its Rules and Regulations, based upon the report of examination issued by the Division.

IIIB3

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After reviewing the transcript of the MSSIC hearing held on June 28, 1978, and the report of examination of the Division, and studying the Charter, By-laws, Rules and Regulations of MSSIC, and meeting with you, at which meetings you indicated that your field representatives have recently advised you that a number of the unsafe or unsound practices of First Progressive cited by MSSIC and the Division have now been corrected, we are of the opinion that, in light of the pending hearing on October 24 to be held by the Division, MSSIC should take no further action at this time concerning First Progressive, whether by cease and desist order or through a proceeding to expel First Progressive from membership in MSSIC. We base this advice first upon the practical grounds that the public interest is being protected by the proceeding presently pending before the Division, whose regulatory and inquiry powers are, in our judgment, more clearly defined than those of MSSIC; and second, because we do not feel that MSSIC's powers, especially with regard to cease and desist orders, are so clearly defined as to suggest that such powers be tested in the present case since the facts do not clearly establish serious continuing problems with the management and operations of First Progressive.

Your second inquiry of us concerned whether or not MSSIC does indeed have power to issue cease and desist orders. In our opinion, although the Charter of MSSIC is not clear on this matter, we believe that MSSIC does have such power in order that it may effectively exercise the responsibilities delegated to it by the General Assembly. We believe a close but proper reading of the MSSIC Charter would probably lead a court to conclude that MSSIC does have the cease and desist order power, if the court agrees with our conclusion that MSSIC, as insurer and maintainer of the Central Reserve Fund must, in order to effectively carry out the principles and purposes of its Charter, be permitted and was intended to inquire into, and take action concerning, business and management practices of MSSIC's member associations.

We recognize that under present Maryland law, a building, savings and loan association, in order to stay in business, must either have its free share accounts insured by MSSIC or by the Federal Savings and Loan Insurance Corporation. We do not think, however, that this requirement negates MSSIC's power to issue cease and desist orders in appropriate cases, especially since member associations, by their act of becoming a member of the MSSIC insured group, are specifically declared by statute to recognize that the By-laws, Rules and Regulations of MSSIC are applicable to all such members. In other words, if an entity elects to conduct a building, savings and loan business with accounts insured by MSSIC, it agrees to be bound by MSSIC's Rules and Regulations, one of which embraces the cease and desist power.

We would reaffirm, as you already recognize, that in the exercise of the cease and desist power, MSSIC should proceed

Mr. Harry B. Wolf, Jr.
October 23, 1978
Page Three

COPY

VENABLE, BAETJER AND HOWARD

in a manner consistent with due process of law, including opportunity for a fair hearing by the association affected, and that any such proceeding should be conducted with the further purpose to provide a full and complete record in the event that appellate review of any final order is sought. In our opinion, the present pertinent MSSIC Rules and Regulations on this subject are designed to comply with such concepts, but we do feel that the language of these pertinent rules could be revised somewhat for purposes of clarity and effectiveness of operation.

Finally, you inquired as to the power of MSSIC to expel members in light of the statute requiring membership in MSSIC as a condition of conducting business. In our opinion, while the matter is not entirely free from doubt, MSSIC has the power to expel members. MSSIC's Charter specifically provides that any insured association's financial affairs, solvency, management and directorship be approved prior to such association's being admitted as a member of MSSIC, and that continued membership is subject to the Rules and Regulations of MSSIC. Thus, MSSIC's Charter implies that continued membership in MSSIC is not guaranteed upon admission, but is subject to continuing compliance with certain rules and regulations. Failure to comply would thus be grounds for expulsion, following appropriate notice and opportunity for hearing, as presently provided in the MSSIC Rules and Regulations.

We will be pleased to discuss this letter with you further at your convenience.

Sincerely yours,

70271000

William J. McCarthy

WJM:fs

4185:46940
:55309

STATE OF MARYLAND



DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS

ONE SOUTH CALVERT STREET
BALTIMORE, MARYLAND 21202

REPORT OF EXAMINATION OF

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION, INC.
Name of Association

416-418 North Charles Street
Street and Number

Baltimore, MD
City

Maryland
State

21201
Zip Code

As of Close of Business

February 28, 1978
Month, Day and Year

The following pages were omitted because they were not applicable:
Pages: 11

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.

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19375

Savings Accounts
Insured by

M.S.S.I.C.

EXAMINATION AS OF
February 28, 1978

Current Policy
or
Certificate No.
4456

First Progressive Savings and Loan Association, Inc.
Association

416-418 North Charles Street Baltimore, Maryland 21201
Address City State Zip Code

Address of Branches

(1) NONE
(2) _____

Free Share or Savings Accounts

Mortgage Loans

No. 1520 \$ 8,641,242.26 No. 410 \$9,941,756.04

September 19, 1914	Mutual	December 31	2nd Monday in January	3-31 9-30 6% 6-30 12-31
Date Chartered	Stock or Mutual	Years End	Annual Meeting	Dividend Rate and Period

OFFICERS AND DIRECTORS

Name	Address	City	Officer	Director (x)
(1) Albert G. Aaron	3908 N. Charles St.	Baltimore	President	(x)
(2) Stewart J. Greenebaum	Suite 204; 1301 York Rd.	Baltimore	Vice-President	(x)
(3) Jeffrey A. Levitt	11408 Woodland Dr.	Baltimore	Secretary	(x)
(4) Benjamin Lehman	3507 Beagle La.	Randallstown	Treasurer	(x)
(5) Susan J. Nauman	2 Clear Skys Ct.	Baltimore	Managing Officer Assistant Treasurer	
(6) Herbert Sandler	6605 Shelrick Pl.	Baltimore		(x)
(7) Nathan Wechsler	8401 Connecticut Ave.	Chevy Chase		(x)
(8) Alan Pearlstein	3704 Breton Way	Baltimore		(x)
(9) Thomas Steinhardt	2503 Farrington Rd.	Baltimore		(x)
(10) _____				
(11) _____				
(12) _____				
(13) _____				
(14) _____				
(15) _____				

Counsel

Accountant

Name Jeffrey A. Levitt
Address 416 North Charles Street
Baltimore, Maryland 21201

Name Glass, Friedman & Trivas
Address 222 St. Paul Street
Baltimore, Maryland 21202

Period of Examination	
From <u>4-3-78</u>	To <u>8-4-78</u>

Examiner-In-Charge
<u>Charles J. Marshall 19376</u>

COMPARATIVE PERCENTAGE SUMMARY
CURRENT EXAMINATION

PREVIOUS EXAMINATION

Date February 28, 19 78

Date April 15, 19 76

	Amount	% to Total Assets	Amount	% to Total Assets
1. Total Assets	\$ <u>10,704,914.49</u>		\$ <u>5,845,251.26</u>	
2. Reserve for Bad Debts	<u>204,775.00</u>	1.9 %	<u>140,108.00</u>	2.4 %
3. Undivided profits and surplus	<u>252,861.05</u>	2.4 %	<u>112,449.21</u>	1.9 %
4. First mortgage loans	\$ <u>9,941,756.04</u>	92.9 %	\$ <u>5,538,031.82</u>	94.7 %
5. Ground rents owned	\$ <u>48,284.00</u>	.5 %	\$ <u>48,284.00</u>	.8 %
6. Liquid Assets:				
(a) Cash	\$ <u>138,973.98</u>		\$ <u>(75,166.56)</u>	
(b) Investments (Securities)	<u> </u>		<u> </u>	
(c) M.S.S.I.C. deposit	<u>219,500.00</u>		<u>74,300.00</u>	
Total Liquid Assets	\$ <u>358,473.98</u>	3.4 %	\$ <u>(866.56)</u>	%
7. Slow Assets:				
(a) Slow mortgage loans	\$ <u>1,297,049.36</u>	12.1 %	\$ <u>384,600.19</u>	6.6 %
(b) Real estate Owned	<u>23,380.71</u>	.2 %	<u>-0-</u>	%
(c) Office Building & Improvements (net)	<u> </u>	%	<u> </u>	%
(d) Leasehold Improvements (net)	<u>26,349.75</u>	.3 %	<u>13,125.00</u>	.2 %
(e) Furniture & Fixtures (net)	<u>49,090.83</u>	.5 %	<u>3,851.38</u>	.1 %
(f) <u> </u>	<u> </u>	%	<u> </u>	%
Total Slow Assets	\$ <u>1,395,870.65</u>	13.1 %	\$ <u>401,576.57</u>	6.9 %
8. Borrowed Money	\$ <u>1,200,000.00</u>	11.2 %	\$ <u>500,000.00</u>	8.5 %

Year Ended December 31, 1977

Year Ended December 31, 1976

	Amounts	Ratios	Amounts	Ratios
9. Operating ratios:				
(a) Gross operating income (Item 9, Page 4)	\$ <u>834,960.19</u>		\$ <u>666,049.57</u>	
(b) Total operating expense (Item 25, Page 4 and Item 29, Page 5)	\$ <u>193,830.12</u>		\$ <u>182,793.16</u>	
(c) % Operating expense to gross operating income		<u>23.2 %</u>		<u>27.4 %</u>
(d) Net operating income (Item V, Page 5)	\$ <u>641,130.07</u>		\$ <u>483,256.41</u>	
(e) Dividends (page 6)	\$ <u>554,463.57</u>		\$ <u>399,393.23</u>	
(f) % Dividends to net operating income		<u>86.5 %</u>		<u>82.7 %</u>
(g) Total assets at end of fiscal year	\$ <u>10,218,221.79</u>		\$ <u>8,279,522.12</u>	
(h) % Operating expense to total assets		<u>1.9 %</u>		<u>2.2 %</u>
(i) Share liability at end of fiscal year	\$ <u>8,542,088.63</u>		\$ <u>7,685,652.29</u>	
(j) % Net income to share liability		<u>7.5 %</u>		<u>6.3 %</u>
(k) Reserve for Bad Debts	\$ <u>197,475.00</u>		\$ <u>163,797.00</u>	
(l) % Reserve for Bad Debts to Share Liability		<u>2.3 %</u>		<u>2.1 %</u>
(m) Total Net Worth	\$ <u>450,336.05</u>		\$ <u>322,798.63</u>	
(n) % Total Net Worth to Share Liability		<u>5.3 %</u>		<u>4.2 %</u>

19377

STATEMENT OF CONDITION

Exhibit A

Name of Institution First Progressive Savings and Loan Association

as of February 28, 1978

ASSETS

1. First mortgage loans:		
a. First mortgage direct reduction loans	\$ 9,405,329.12	
b. First mortgage drop share loans		
c. F.H.A. mortgage loans		
d. G.I. mortgage loans		
e. First mortgage straight loans		
f. Participation loans	337,656.81	
g. Accrued interest receivable on first mortgage loans	180,551.60	
h. Advances for taxes, insurance, etc., on first mortgage loans	18,218.51	\$ 9,941,756.04
2. Subordinated Liens:		
a. Second Mortgages	\$	
b. Accrued interest receivable on second mortgages		
c. Advances for taxes, insurance, etc., on second mortgages		
3. Free Share Account Loans:		
a. Loans secured by accounts of this association	\$ 69,753.14	
b. Accrued interest receivable on free share account loans		69,753.14
4. Other loans:		
a. Loans on all other security	\$	
b. Unsecured loans		
c. Accrued interest receivable on other loans		
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.)		23,380.71
7. Ground Rents Owned		48,284.00
8. Investments:		
a. Stock in Federal Home Loan Bank	\$	
b. Federal Home Loan Bank Securities		
c. U.S. Government obligations		
d. Other investment securities		
9. M.S.S.L.C. Deposit		219,500.00
10. Investment - Service Corporation		165,255.24
11. Cash		
a. Cash on hand	\$ 2,000.00	
b. Cash in banks	136,973.98	
c.		
d.		138,973.98
12. Office Building (if owned):		
a. Office building and improvements	\$	
b. Less allowance for depreciation		
13. Leasehold Improvements:		
a. Leasehold improvements	\$ 34,767.75	
b. Less allowance for amortization	8,418.00	26,349.75
14. Furniture, etc.:		
a. Furniture, fixtures and equipment	\$ 62,485.83	
b. Less allowances for depreciation	13,395.00	49,090.83
15. Deferred charges		6,150.52
16. Other assets (Schedule G, Page 14)		16,420.28
17.		
18.		

TOTAL ASSETS _____

\$ 10,704,914.49
19378

CAPITAL AND LIABILITIES

20. Free accounts:			
a. Installment share dues credited _____	\$ _____		
Deduct—Delinquent dues (if carried) _____	_____		
Sub-total _____	\$ _____		
Add—Dividends (unless included in 20-s) _____	_____		
Net free installment shares _____	_____		
b. Savings shares and accounts (payments and dividends) _____		\$	3,362,642.15
c. Variable Dividend Certificates _____			4,897,889.86
d. Single payment shares (payments and dividends) _____			
e. Matured shares (payments and dividends) _____			
f. Hypothecated Share Accounts—Mortgage Loans _____			310,957.11
g. Pledged Share Accounts—Free Share Account Loans _____			69,753.14
h. Income Shares _____			
i. _____			
Total Share Accounts: _____			8,641,242.26
21. Other Accounts:			
Christmas Clubs _____	\$ _____		
Vacation Clubs _____	_____		
Total Other Accounts _____			
22. Advances from Federal Home Loan Bank _____			
23. Borrowed money:			
a. From banks (Schedule 8, Page 14) _____	\$ 1,200,000.00		
b. From others (Schedule 8, Page 14) _____	_____		1,200,000.00
24. Mortgages on real estate owned _____			
25. Interest accrued on items 22, 23 and 24 _____			
26. Dividends declared, unpaid and uncredited _____			
27. Taxes accrued and unpaid on real estate owned _____			
28. Accounts payable _____			
29. Loans in process _____			
30. Advance payments:			
a. Advance payments by borrowers for taxes and insurance (if carried separately) _____	\$ 202,495.67		
b. _____	_____		202,495.67
c. _____	_____		
31. Other liabilities (Schedule 7, Page 14) _____			28,503.25
32. Deferred credits to future operations:			
a. For unearned profit on real estate sold _____	\$ _____		
b. For income collected in advance _____	10,805.00		
c. For income Taxes _____	9,024.00		
d. _____	_____		19,829.00
33. Specific reserves:			
a. For uncollected interest _____	\$ _____		
b. For subordinated liens _____	_____		
c. _____	_____		
34. General reserves:			
a. Reserve for bad debts _____	\$ 204,775.00		
b. Federal Insurance reserve (if insured) _____	_____		
c. _____	_____		
d. _____	_____		
e. _____	_____		204,775.00
35. Surplus _____			252,861.05
36. Undivided profits _____			
37. Reserve for estimated dividend requirements _____			
38. Current earnings (if interim statement) <u>2</u> months ended <u>2-28</u> 1978 _____			191,285.18
39. Reduction of Income Y/E 12-31-77 (Not Booked) _____			(36,076.92)
40. _____			
TOTAL CAPITAL AND LIABILITIES		\$	10,704,914.49

19379

STATEMENT OF OPERATIONS

NAME OF INSTITUTION First Progressive Savings and Loan Assn.

	Current Period		Year		Year	
	From <u>1-1-78</u>	To <u>2-28-78</u>	From <u>1-1-77</u>	To <u>12-31-77</u>	From <u>1-1-76</u>	To <u>12-31-76</u>
I. GROSS OPERATING INCOME:						
1. Interest						
a. On mortgage loans—ordinary cash collections	\$ <u>186,394.33</u>		\$ <u>789,669.27</u>		\$ <u>578,220.61</u>	
b. On mortgage loans—all other						
c. On loans on shares, passbooks and certificates	<u>-0-</u>		<u>-0-</u>		<u>2,631.49</u>	
d. On real estate sold on contract						
e. On investments and bank deposits	<u>-0-</u>		<u>581.61</u>		<u>2,529.12</u>	
f. On property improvement loans						
g. On ground rents	<u>173.50</u>		<u>3,139.50</u>		<u>3,292.00</u>	
h. Other	<u>(3,004.85)</u>		<u>5,126.09</u>		<u>383.64</u>	
2. Discount on loans (current installment and amortization only)						
3. Appraisal fees, legal fees and initial service charges	<u>61,596.00</u>		<u>22,297.00</u>		<u>23,511.00</u>	
4. Other fees and fines	<u>1,955.71</u>		<u>13,800.30</u>		<u>5,553.31</u>	
5. Real estate operations—Net income or (loss from R.E.O. Details on page 5)						
6. Gross income from <u>Subsidiary</u> Branch Office	<u>-0-</u>		<u>-0-</u>		<u>49,928.40</u>	
7. Dividends:						
a. On stock in Federal Home Loan Bank						
b. Other dividends						
8. Miscellaneous operating income	<u>-0-</u>		<u>346.42</u>		<u>-0-</u>	
9. Gross operating income	\$ <u>247,114.69</u>		\$ <u>834,960.19</u>		\$ <u>666,049.57</u>	
II. LESS--OPERATING EXPENSE:						
10. Salaries, etc.:						
a. Compensation to directors, officers, employees, etc.	\$ <u>15,218.00</u>		\$ <u>66,365.40</u>		\$ <u>60,253.85</u>	
b. Collection expenses (agents, etc.)						
11. Legal services—retainer, traveling expenses and special services	<u>2,907.40</u>		<u>2,380.00</u>		<u>3,804.50</u>	
12. Expense accounts of directors, officers and employees	<u>1,941.06</u>		<u>5,256.08</u>		<u>7,672.34</u>	
13. Rent, light, heat, etc.	<u>2,027.62</u>		<u>11,487.07</u>		<u>8,556.91</u>	
14. Office building expenses (if owned):						
a. Repairs, taxes and maintenance of office building including depreciation						
b. <u>Data Processing</u>	<u>932.62</u>		<u>2,604.82</u>		<u>3,049.49</u>	
15. Furniture, fixtures and equipment, including depreciation <u>& repairs</u>	<u>1,253.13</u>		<u>7,774.81</u>		<u>5,377.00</u>	
16. Advertising	<u>1,411.25</u>		<u>3,596.86</u>		<u>26,002.09</u>	
17. Stationery, printing and office supplies	<u>1,275.97</u>		<u>9,491.75</u>		<u>9,869.25</u>	
18. Telegraph, telephone, postage & express	<u>718.77</u>		<u>5,674.36</u>		<u>5,171.68</u>	
19. Insurance and bond premiums	<u>78.00</u>		<u>3,060.98</u>		<u>1,515.56</u>	
20. Federal insurance premium (if insured)						
21. Audit and supervisory examination	<u>-0-</u>		<u>23,794.51</u>		<u>17,063.00</u>	
22. Taxes (other than real estate taxes)	<u>7,054.48</u>		<u>3,880.40</u>		<u>4,707.83</u>	
23. Organization dues	<u>-0-</u>		<u>1,565.53</u>		<u>1,197.72</u>	
24. Other operating expense	<u>227.18</u>		<u>15,036.64</u>		<u>5,229.74</u>	
25. Total operating expense	\$ <u>35,045.48</u>		\$ <u>161,969.21</u>		\$ <u>159,470.96</u>	
III. Net Operating Income Before Interest and Other Charges	\$ <u>212,069.21</u>		\$ <u>672,990.98</u>		\$ <u>506,578.61</u>	

(Carried forward to page 5)

STATEMENT OF OPERATIONS (Continued)

Exhibit B (Continued)

	Current Period From <u>1-1-78</u> To <u>2-28-78</u>	Year From <u>1-1-77</u> To <u>12-31-77</u>	Year From <u>1-1-76</u> To <u>12-31-76</u>
III. Net Operating Income Before Interest and Other Charges _____ (Carried forward from page 4)	\$ <u>212,069.21</u>	\$ <u>672,990.98</u>	\$ <u>506,578.61</u>
IV. LESS--INTEREST CHARGES:			
26. On advances from Federal Home Loan Bank _____	\$ _____	\$ _____	\$ _____
27. On borrowed money _____	<u>9,840.11</u>	<u>28,965.54</u>	<u>23,322.20</u>
28. Int. on Escrow Accounts _____	<u>-0-</u>	<u>2,895.37</u>	<u>-0-</u>
29. Total Interest _____	\$ <u>9,840.11</u>	\$ <u>31,860.91</u>	\$ <u>23,322.20</u>
V. Net Operating Income _____	\$ <u>202,229.10</u>	\$ <u>641,130.07</u>	\$ <u>483,256.41</u>
VI. ADD-NON-OPERATING INCOME:			
30. Dividends retained on withdrawals _____	\$ _____	\$ _____	\$ _____
31. Profit on sale of real estate _____	_____	_____	_____
32. Profit on sale of investments _____	_____	_____	_____
33. Mortgage prepayment penalties _____	_____	_____	_____
34. Other non-operating income _____	_____	_____	_____
35. Total non-operating income _____	\$ _____	\$ _____	\$ _____
VII. Net Income After Interest and Before Charges _____	\$ <u>202,229.10</u>	\$ <u>641,130.07</u>	\$ <u>483,256.41</u>
VIII. LESS--NON-OPERATING CHARGES (do not use lines herein for items charged direct to reserves):			
36. Foreclosure costs and back taxes on real estate acquired (unless capitalized or charged to reserves) _____	\$ _____	\$ _____	\$ _____
37. Loss on sale of ^{Mortgages} PROPERTY _____	<u>-0-</u>	<u>-0-</u>	<u>949.76</u>
38. Loss on sale of investments _____	_____	_____	_____
39. Other non-operating charges _____	_____	_____	_____
40. Total non-operating charges _____	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>949.76</u>
IX. Net Income for Period _____	\$ <u>202,229.10</u>	\$ <u>641,130.07</u>	\$ <u>482,306.65</u>

REAL ESTATE OPERATION (Details)

I. REAL ESTATE INCOME:			
1. Real Estate Rents _____	\$ _____	\$ _____	\$ _____
2. _____	_____	_____	_____
3. Total Real Estate Income _____	\$ _____	\$ _____	\$ _____
II. LESS--REAL ESTATE OPERATING EXPENSES:			
4. Taxes _____	\$ _____	\$ _____	\$ _____
5. Insurance _____	_____	_____	_____
6. Repairs and Maintenance _____	_____	_____	_____
7. Commissions _____	_____	_____	_____
8. Depreciation _____	_____	_____	_____
9. Other Miscellaneous real estate expenses _____	_____	_____	_____
10. _____	_____	_____	_____
11. Total Real Estate Expenses _____	\$ _____	\$ _____	\$ _____
12. Net profit on Real Estate Operations _____	\$ _____	\$ _____	\$ _____
13. Net loss on Real Estate Operations _____ (Note--Insert net income or loss in connection with real estate on page 4 as indicated.)	\$ _____	\$ _____	\$ _____

19391

DISTRIBUTION OF NET INCOME AND
RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

	Current Period From <u>1-1-78</u> To <u>2-28-78</u>	Year From <u>1-1-77</u> To <u>12-31-77</u>	Year From <u>1-1-76</u> To <u>12-31-76</u>
Distribution of Net Income			
1. Net income for period (Item IX, Exh. B)	\$ <u>202,229.10</u>	\$ <u>641,130.07</u>	\$ <u>482,306.65</u>
Distribution			
2. Transfers to reserves:			
a. Federal insurance reserve	\$ <u>7,300.00</u>	\$ <u>33,600.00</u>	\$ <u>23,689.00</u>
b. Reserve for bad debts	<u> </u>	<u> </u>	<u> </u>
c. Surplus	<u> </u>	<u> </u>	<u> </u>
d. Special MSSIC Reserve	<u>-0-</u>	<u>-0-</u>	<u>38,407.00</u>
e.	<u> </u>	<u> </u>	<u> </u>
f.	<u> </u>	<u> </u>	<u> </u>
g.	<u> </u>	<u> </u>	<u> </u>
3. Earnings distributed on av. capital:			
a. Dividends on savings	<u>400.00</u>	<u>207,895.07</u>	<u>157,828.92</u>
b. Int. on deposits, invest., cert. etc.	<u>3,543.92</u>	<u>346,568.50</u>	<u>241,564.31</u>
c. Res. for div. on Var. Div. Certs.	<u> </u>	<u> </u>	<u> </u>
d. Dividends on Escrow-Undistrib.	<u>(300.00)</u>	<u>-0-</u>	<u>-0-</u>
4. Other			
a. Federal income tax Undistributed	<u>-0-</u>	<u>-0-</u>	<u>(2,228.00)</u>
b.	<u> </u>	<u> </u>	<u> </u>
c.	<u> </u>	<u> </u>	<u> </u>
5. Total Distribution of Net Income	\$ <u>10,943.92</u>	\$ <u>588,063.57</u>	\$ <u>459,261.23</u>
6. Net Income After Distribution	<u>-0-</u>	\$ <u>53,066.50</u>	\$ <u>23,045.42</u>
7. Net income Undistributed	\$ <u>191,285.18</u>	<u> </u>	<u> </u>
Reconcilement of Undivided Profits			
8. Balance—beginning of period	\$ <u>107,236.05</u>	\$ <u>13,376.63</u>	\$ <u>112,449.21</u>
9. Net Income After Distribution (line 6)	<u>-0-</u>	\$ <u>53,066.50</u>	\$ <u>23,045.42</u>
10. Other additions:			
a. A/E 50 to properly ref. def. tax	<u>-0-</u>	\$ <u>11,630.00</u>	\$ <u>-0-</u>
b. Undistrib. loss included in	<u>-0-</u>	<u>36,076.92</u>	<u>-0-</u>
c. Above inc. figure but not	<u> </u>	<u> </u>	<u> </u>
d. reflected in undivided profits	<u> </u>	<u> </u>	<u> </u>
e.	<u> </u>	<u> </u>	<u> </u>
f.	<u> </u>	<u> </u>	<u> </u>
g.	<u> </u>	<u> </u>	<u> </u>
11. Subtotal	\$ <u>107,236.05</u>	\$ <u>114,150.05</u>	\$ <u>135,494.63</u>
12. Deductions:			
a. To MSSIC Reserve	<u>-0-</u>	<u>-0-</u>	\$ <u>107,218.00</u>
b. Income taxes payable	<u>-0-</u>	<u>(1) 6,914.00</u>	<u>14,900.00</u>
c. (1) not booked	<u> </u>	<u> </u>	<u> </u>
d.	<u> </u>	<u> </u>	<u> </u>
e.	<u> </u>	<u> </u>	<u> </u>
f.	<u> </u>	<u> </u>	<u> </u>
g.	<u> </u>	<u> </u>	<u> </u>
13. Total deductions	\$ <u>-0-</u>	\$ <u>6,914.00</u>	\$ <u>122,118.00</u>
Balance at end of period	\$ <u>107,236.05</u>	\$ <u>107,236.05</u>	\$ <u>13,376.63</u>
14. Dividend or interest rate for period	6 %	6 %	6 %

19302

RECONCILEMENT OF RESERVES

Exhibit D

	Current Period From <u>1-1-78</u> To <u>2-28-78</u>	Year From <u>1-1-77</u> To <u>12-31-77</u>	Year From <u>1-1-76</u> To <u>12-31-76</u>
Reserve for bad debts			
1. Balance at beginning of period	\$ <u>197,475.00</u>	\$ <u>163,797.00</u>	\$ <u>140,108.00</u>
2. Additions during period:			
(a) From net profit	\$ <u>2,900.00</u>	\$ <u>33,600.00</u>	\$ <u>25,483.00</u>
(b) To reflect def. tax A/E 50	<u>-0-</u>	<u>78.00</u>	<u>-0-</u>
(c)			
(d)			
3. Total additions	\$ <u>2,900.00</u>	\$ <u>33,678.00</u>	\$ <u>25,483.00</u>
4. Totals of items 1 and 3	\$ <u>200,375.00</u>	\$ <u>197,475.00</u>	\$ <u>165,591.00</u>
5. Deductions during period:			
(a) To reserve for MSSIC	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>1,794.00</u>
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
6. Total deductions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>1,794.00</u>
7. Balance at end of period	\$ <u>200,375.00</u>	\$ <u>197,475.00</u>	\$ <u>163,797.00</u>

Reserve			
1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period	_____	_____	_____
3. Totals of items 1 and 2	\$ _____	\$ _____	\$ _____
4. Deductions during period:			
(a)	\$ _____	\$ _____	\$ _____
(b)	_____	_____	_____
(c)	_____	_____	_____
5. Total deductions	\$ _____	\$ _____	\$ <u>19300</u>
Balance at end of period	\$ _____	\$ _____	\$ _____

RECONCILEMENT OF RESERVES

	Current Period From <u>1-1-78</u> To <u>2-28-78</u>	Year From <u>1-1-77</u> To <u>12-31-77</u>	Year From <u>1-1-76</u> To <u>12-31-76</u>
Surplus			
1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
(e) _____	_____	_____	_____
3. Total additions	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ _____	\$ _____	\$ _____
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
(e) _____	_____	_____	_____
(f) _____	_____	_____	_____
(g) _____	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ _____	\$ _____	\$ _____

Reserve For M.S.S.I.C.

1. Balance at beginning of period	\$ <u>145,625.00</u>	\$ <u>145,625.00</u>	\$ <u>-0-</u>
2. Additions during period:			
(a) From Post-1951 Undiv. Profits	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>77,177.00</u>
(b) From Pre-1951 Undivided Profits	<u>-0-</u>	<u>-0-</u>	<u>30,041.00</u>
(c) From Net Profit	<u>-0-</u>	<u>-0-</u>	<u>36,613.00</u>
(d) From Reserve for Bad Debts	<u>-0-</u>	<u>-0-</u>	<u>1,794.00</u>
3. Total Additions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>145,625.00</u>
4. Totals of items 1 and 3	\$ <u>145,625.00</u>	\$ <u>145,625.00</u>	\$ <u>145,625.00</u>
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ <u>145,625.00</u>	\$ <u>145,625.00</u>	\$ <u>145,625.00</u>

LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home & Business
- 2--Apts. w/ 3 or more families
- 3--Business--Commercial
- 4--Farm
- 5--Unimproved
- P--Purchase
- R--Refinance
- 10--Refinance (Other)
- C--Construction

LOANS SUBJECT TO COMMENT AS OF-- February 28, 1978

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original (1) Amount	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid (4) Interest	Total (5) Debt	No. Pay-ments Last 12 Months	Total Debt (6) 4-15-78	Comments
2888	McCormick, Edith & Beverly 3606 Calloway	1A	9-26-61	\$13,000.00		\$ 3,779.29	\$ 76.00	\$ 3,855.29	25 of 52	\$ 4,757.67	Int. over 3 mos. in arrears
3345	Jersch Eld, Ida & Joseph 1200 E. Homberg Ave.	1A	8-16-67	15,000.00		12,423.19	190.00	12,613.19	12	12,983.58	No evidence of taxes for 76-77 or 77-78 payment
3387	Carver, Carl & Rosemary 2709 Liberty Heights Ave.	1A	11-5-68	5,200.00	\$ 975.22	3,191.05	170.16	4,336.43	2	3,314.04	Escrow Account over 3 mos. in arrears
3406	Bach Atach, Carl & Rome 3814 Sequoia Ave.	1A	3-14-68	3,500.00		2,467.37	82.24	2,549.61	11	2,781.19	Int. over 3 mos. in arrears
3437	Weinberg, Raymond 1535 N. Wolfe St.	1A	2-8-68	2,500.00	54.94	858.31		913.25	12	1,108.93	Escrow acct. Overdrawn \$54.94 (No escrow pmts.)
3448	Washington, Lawrence Various Properties	1A	9-5-68	14,000.00	444.08	8,730.14	349.20	9,523.42	0	10,025.81	Int. 6 mos. in arrears
3468	Mary Newsome Realty, Inc. 2306 Bryant Ave.	1A	12-27-68 4-3-70	4,800.00 12,000.00	1,062.73	4,725.11	787.50	6,575.34	0	4,725.11	Int. 25 mos. in arrears
3532	Briggs, The Lma 20 Peble Drive, A. A. Co.	1A	4-14-70	2,500.00		8,836.81		8,836.81	12	10,592.09	Mortgagor deceased mtgo. matured 4-3-75
3600	James Tabernacle Apostolic, Ch. 2400-04 Modamin Ave.	1A	2-9-73	17,500.00	284.81	11,006.04		11,290.85	13	12,593.47	Escrow acct. 9 mos. in arrears
3604	Republic Properties Various Properties	1A	2-20-73	22,000.00		10,216.42	927.24	11,143.66	5	17,366.52	Int. 8 mos. in arrears
3615	Johnson, Oliver & Jean 3102 Spaulding Ave.	1A	4-4-73	7,500.00		2,635.19	87.85	2,723.04	5	5,395.99	Int. 5 mos. in arrears
3637	Newsome, John & Mary Various Properties	1A	10-31-73	5,600.00	842.73	5,524.51	883.92	7,251.16	0	5,534.57	Int. 24 mos. in arrears
3638	Various Properties Washington, Lawrence	1A	10-31-73	8,000.00	815.26	7,972.42	1,275.60	10,063.28	0	7,986.10	Int. 24 mos. in arrears
3644	1801 Poplar Grove St. Washington, Lawrence	1A	8-9-74	3,500.00		1,417.03	131.39	1,548.42	12	2,306.99	Int. 7 mos. in arrears
3652	1403-32 Druid Hill Ave. Washington, Lawrence	1A	12-21-74	9,000.00	643.55	5,651.84	533.08	6,838.47	1	7,808.99	Int. 12 mos. in arrears
3664	2108 Chelsea Terrace Greene, Chelsea	1B	6-18-75	3,500.00	327.83	1,832.59	242.65	2,075.24	1	3,206.31	Int. 10 mos in arrears.
3675	2204 W. Fayette St. Follett, Richard & Paula	1A	8-7-75	7,300.00		6,140.10	269.70	6,737.63	5	6,430.74	Foreclosed 1-18-78 Card Closed 4-12-78
3676	Board Street, Delta, Pa. Youn, Howard & Carolyn	1A	8-4-75	30,000.00		25,966.00	952.08	26,918.08	9	29,151.44	Int. 4 mos. in arrears
3685	344 Redbine Ave.	1A	9-30-75	20,800.00	173.70	20,007.00	342.02	21,037.79	11	20,743.50	Escrow acct. over 3 mos. in arrears

1A--Single Family Dwelling
 1B--2-4 Family Dwelling
 1C--Home & Business
 2--Apts. w/5 or more families
 3--Business--Commercial
 4--Farm.

5--Unimproved
 P--Purchase
 R--Refinance
 RO--Refinance (Other)
 C--Construction

LEGEND

LOANS SUBJECT TO COMMENT AS OF -- February 28, 1978

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original (1) Amount	Debit (2) Exp. Acct.	Unpaid Principal	Unpaid Interest (4)	Total Debt (3, (1) & (4))	No. Payments Last 12 Months	Total Debt Last Exam. 4-15-76	Comments
3691	Holland House et al. 7400 Pulaski Highway Les Realty Co.	3	10-10-75	\$150,000.00		\$146,819.53	\$11,290.95	\$158,110.48	5	\$149,510.51	Int. 8 mos. in arrears
3710	5321 Cuthbert Ave. McCadden, William & Gonda	1A	11-14-75	12,900.00	\$ 42.32	11,620.67	454.02	14,117.01	6	12,860.66	Int. 4 mos. in arrears
3720	100 Creekvlew Ct. Newsome, John & Mary	1A	11-25-75	15,750.00	323.38	15,044.23		15,367.61	12	15,655.98	Escrow acct. 13 mos. in arrears.
3725	2601 Ruscombe Lane Schulman, Allan & Irene	1A	8-21-64	9,300.00	752.13	8,802.77	880.32	10,435.22	0	8,940.03	Int. 20 mos. in arrears
3736	405 Esserwood Ct. Mirabile, Samuel & Angelina	1A	12-22-75	35,300.00		34,924.26	1,164.12	36,088.38	9	35,268.59	Int. over 3 mos. in arrears
3754	3224 Belair Rd. Kanelopoulos, Elias & Elis.	1A	1-10-76	7,000.00	893.36	4,648.57		5,541.93	12	6,823.11	Escrow acct. 13 mos. in arrears
3756	Various Properties Washington, Lawrence	1A	1-13-76	30,000.00	546.44	28,768.07		29,314.51	12	30,000.00	Escrow acct. 4 mos. in arrears
3767	2905 Oakhill Ave. Mitso, Nicholas & Regina	1A	1-24-76	11,000.00	35.21	10,574.49	1,146.26	11,695.96	0	11,000.00	Int. 11 mos. in arrears
3775	15105 Priceville Rd. Irosener, Maynard & Charlotte	1A	2-13-76	70,000.00		69,523.24	3,207.84	72,731.08	10	69,969.02	Int. 5 mos. in arrears
3795	820 Hopewood Rd. Les Realty	1A	3-4-76	55,000.00	22.12	54,626.70	1,229.07	55,877.89	11	55,000.00	76-77 taxes no evidence of pmt. (Int. 3 mos in arr.
3801	Various Properties Moon, Benjamin & Gloria	1A	3-9-76	21,000.00	1,675.97	20,692.83	689.76	23,058.56	6	21,000.00	Int. 4 mos. in arrears.
3813	2058 Kelmore Rd. Kayne, Elliott & Leslie	1A	3-23-76	21,900.00		21,703.08	904.25	22,607.33	9	21,900.00	Int. 5 mos. in arrears
3822	222 Wendover Rd. Turner, Bruce & Margaret	1A	4-1-76	93,500.00		92,219.53	4,610.94	96,830.47	7	93,500.00	Int. 6 mos. in arrears
3828	Turner Farm 47 acres Hoxter, James & Edna	1A	4-13-76	44,000.00	39.45	43,397.54	1,808.25	45,245.24	9	44,000.00	Int. 5 mos. in arrears
3852	253 Balto. Ave. Howell, Leslie & Sadie	1A	5-28-76	17,600.00	150.67	17,236.36	287.26	17,674.29	11	-0-	Escrow Acct. over 3 mos. in arrears
3866	2720 Oakley Ave. Les Realty	1A	6-3-76	11,000.00	749.38	10,518.57	175.30	11,443.25	12	-0-	Escrow Acct. 11 mos. in arrears
3867	Various Properties Columbia Mortg. Invest. Corp.	1A	6-7-76	28,000.00	2,253.61	27,590.49	689.73	30,533.83	7	-0-	Escrow acct. 22 mos. in arrears
3869	5143 Elliotts Oak Rd. Piantholt, Richard & Mary	1A	6-10-76	54,000.00		52,890.77	2,203.75	55,094.52	9	-0-	Int. 5 mos. in arrears
3874	119 Cherrywood Rd. Les Realty	1A	6-16-76	38,500.00	102.92	39,218.96	326.01	39,647.89	0	-0-	Escrow acct. over 3 mos. in arrears

LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home & Business
- 2--Apts. w/3 or more families
- 3--Business--Commercial
- 4--Farm.
- 5--Unimproved
- P--Purchase
- R--Refinance
- RO--Refinance (Other)
- C--Construction

LOANS SUBJECT TO COMMENT AS OF-- February 28, 1978

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original (1) Amount	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid (4) Interest	Total (5) (3) & (4)	No. Payments (6) Last 12 Months	Total Debt Less Exem. (7) 4-15-76	Comments
3878	Washington, Lawrence 2905 Oakhill Ave.	2nd 1A	6-18-76	\$10,000.00		\$ 9,827.58	\$ 992.75	\$10,820.33	1	-0-	Int. 12 mos. in arrears
3880	Keyne, Harry & Leslie 222 Wendover Road	2nd 1A	6-23-76	15,500.00		10,062.27	503.10	10,565.37	7	-0-	Int. 5 mos. in arrears
3897	Mitos, Nicholas & Regina 15105 Priceville Rd.	2nd 1A	8-4-76	12,000.00		11,850.83	395.02	12,245.85	10	-0-	Int. 4 mos. in arrears
3906	Waybright, James & Bernadine 2828 Wells Ave.	2nd 1A	8-24-76	2,600.00		2,594.44		2,594.44	4	-0-	Int. 8 mos. in arrears
3912	Lorincz, Irene & Gertrude 7812 St. Bridgets Lane	1A	9-14-76	25,500.00	\$ 776.36	2,643.62	1,477.96	4,897.94	6	-0-	Int. 5 mos. in arrears
3924	Spence, Walter & Lillian 5221 Alhambia Ave.	1A	9-27-76	4,500.00		4,304.91	179.30	4,484.21	5	-0-	Int. 4 mos. in arrears
3930	Spence, Walter & Lillian Various Properties	1A	10-12-76	28,000.00		27,467.94	915.56	28,383.50	7	-0-	Int. 5 mos. in arrears
3937	Las Realty Various Properties	1A	10-15-76	19,000.00	8.93	18,693.03	778.85	19,480.81	5	-0-	Int. over 3 mos. in arrears
3948	Conkling, William & Jane 1516 King William Drive	1A	11-1-76	69,750.00		69,274.74	1,585.76	70,860.50	9	-0-	Int. over 16 mos. in arrears
3952	Hodges, Elisha & Catherine Rt. 2 Box 396 Severna Pk.	2nd 1A	10-18-76	4,000.00		4,000.00	548.82	4,548.82	0	-0-	Int. 5 mos. in arrears
3958	White, Joseph & Amlie 2221 Sidney Ave.	1A	11-5-76	7,250.00	77.46	7,262.62	302.61	7,642.69	4	-0-	Int. 6 mos. in arrears
3961	Hayes, Edward & Effie 2713 Goodwood Rd.	1A	11-16-76	30,000.00	582.49	29,674.52	1,483.72	31,740.73	5	-0-	Escrow acct. over 3 mos. in arrears
3963	Jackson, Sammy & Arginta 4801 Reisterstown Rd.	1A	11-17-76	5,100.00	194.18	4,699.24	95.38	4,988.80	12	-0-	Int. 4 mos. in arrears
3964	Phymer, Leslie & Valerie 134 E. Cold Spring Ln.	1A	11-22-76	16,500.00		16,275.08	542.50	16,817.58	8	-0-	Int. 3 mos. in arrears
3968	Haxon, Edwin 5107 Harford Rd.	1A	11-22-76	27,000.00		26,872.96	671.79	27,544.75	4	-0-	Int. 9 mos. in arrears
3992	Bakan, Bohamal & Torina 4312 St. Paul St.	1A	3-10-77	65,700.00	1,782.58	65,644.47	4,923.09	72,347.14	1 of 10	-0-	Int. 4 mos. in arrears
4013	Saunders, David 3320 Hayward Ave.	1A	5-26-77	10,500.00		10,429.14	347.64	10,776.78	4 of 6	-0-	Int. over 3 mos. in arrears
4014	Cherry, Lawrence & Wanda 4105 Ford's Lane	1A	5-27-77	25,700.00		25,489.91	665.41	26,155.32	5 of 8	-0-	Int. over 3 mos. in arrears
4043	Dukes, Joyce R. 906 N. Broadway	1A	9-23-77	4,900.00		4,836.11	131.78	4,967.89	1 of 4	-0-	Int. over 3 mos. in arrears

LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home & Business
- 2--Apts. w/5 or more families
- 3--Business--Commercial
- 4--Farm.
- 5--Unimproved
- P--Purchase
- R--Refinance
- RO--Refinance (Other)
- C--Construction

LOANS SUBJECT TO COMMENT AS OF--February 28, 1978

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original (1) Amount	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid (4) Interest	Total Debt (2),(3) & (4)	No. Payments Last 12 Months	Total Debt Last Exam. 4-15-76	Comments
4044	Spence, Walter 121 N. Patterson Pk. Ave.	1A	9-28-77	\$ 5,000.		\$ 5,000.00	\$ 166.67	\$ 5,166.67	0 of 4	-0-	Int. 4 mos. in arrears
4050	Spence, Walter & Lillian Various Properties	1A	10-6-77	15,000.	\$ 129.00	15,000.00	386.58	15,515.58	0	-0-	Never made a payment
4057	The 5210 Corp. Harry Abell Various Properties	1A	7-12-77	24,500.		24,500.00	816.67	25,316.67	0 of 7	-0-	Int. 4 mos. in arrears (Modification of #3542-3610 & 3902 7-12-77)
4059	Barney, Kenneth & Ellen 4332 Danloa Drive	2nd 1A	11-18-77	2,200.		2,200.00	52.64	2,252.64	0 of 2	-0-	12% Second Mortgage
4074	Holland House 7400 Pulaski Highway	2nd 3	1-26-78	25,000.		25,000.00	275.01	25,275.01	0 of 1	-0-	Payment not made until 5-23-78-Interim Int. not pd.
				\$1,388,150.	\$16,762.81	\$1,280,286.56	\$56,607.07	\$1,353,656.13			
				Seventeen	"Loans Subject to Comment" last examination						
			Summary:	Loan Nos.	2450, 3629, 3715						-Paid in Full
				Loan Nos.	3345, 3448, 3637, 3638, 3691						-Still Subject to Comment
				Loan Nos.	3500, 3509, 3589, 3645, 3656						-Modified & Consolidated into loan #4069
				Loan Nos.	2896, 3598, 3703						-Foreclosed & Sold
				Loan Nos.	3706						-Now Current
	A. Note: This denotes instances where the unpaid principal amount plus the overdrawn escrow account exceeds the original principal balance.										
	(13 of the 62 loans listed on 2.1% fall within this category)										
	* Note: This denotes instances where the total debt exceeds the original amount of the loan. (39 of the 62 loans listed above fall in this category or 62.9% of loans scheduled)										

LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home & Business
- 2--Apts. w/3 or more families
- 3--Business--Commercial
- 4--Farm
- 5--Unimproved
- P--Purchase
- R--Refinance
- RO--Refinance (Other)
- C--Construction

Share LOANS SUBJECT TO COMMENT AS OF-- February 28, 1978

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Schedule NCR

Loan No.	Name of Borrower and Location of Property	Rate	Date of Loan	Original (1) Amount	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid Interest (\$)	Total Equity (2) (5) & (4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments
3731	Jeffrey Levitt 416 N. Charles St.	7 3/4	12-18-75	\$15,000.00		\$15,000.00	\$ 633.73	\$15,633.73		\$15,000.00	7 mos. delinquent interest
3738	Jeffrey Levitt 416 N. Charles St.	7 3/4	1-16-76	1,000.00		1,000.00	37.07	1,037.07		1,000.00	6 mos. delinquent interest
3742	Jeffrey Levitt 416 N. Charles St.	7 3/4	12-23-75	7,000.00	incr.	11,000.00	467.83	11,467.83		11,000.00	7 mos. delinquent interest
3818	Carol K. Levitt 416 N. Charles St.	7 3/4	5-15-76	10,000.00		10,000.00	422.75	10,422.75			7 mos. delinquent interest
						\$37,000.00	\$1,561.38	\$38,561.38			

Schedule No. 2

REAL ESTATE OWNED AS OF - February 28, 1978

	No.	Book Value	Appraised Value
Balance last examination _____	0	\$ -0-	\$ _____
Acquired since last examination _____	3	31,931.06	_____
Additions since last examination _____		21,578.12	_____
Total _____	3	\$ 53,509.18	\$ _____
Sold since last examination _____			_____
Charge offs since last examination _____		30,128.47	_____
* Balance (current examination date) _____		\$ 23,380.71	\$ _____

* 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. _____	\$ _____

* This represents only a reflection of the general ledger balance. As noted in the comments, this account contains capitalized losses, repairs applicable to properties not even booked in this account and various other items. It cannot be absolutely determined what represents the above balance without an indepth audit of said records, which time did not permit.

SUMMARY OF PROPERTIES WITH POOR INCOME AND/OR SALES PROSPECTS

Item	Parcels	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 _____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

OFFICE BUILDING

Year Ended _____

Asset value before depreciation:

Land _____ \$ _____
 Building _____
 Total _____ \$ _____
 Less: Allowance for depreciation _____
 Book Value _____ \$ _____

Assessed value:

Land _____ \$ _____
 Building _____
 Total _____ \$ _____

Insurance carried:

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.	Lloyds of London	2-28-79	\$ 60,000.00 any one bldg.
Contents	Insurance Co. of N. Amer.	Continuous	\$ 200,000.00 aggregate \$ 40,000.00 per. prop. \$ 1,000.00 addl. exp.
Comprehensive-Glass			\$ 10,000.00 Valuable paper
Owners, Landlords and Tenants Liability	"	"	\$ 500,000.00/500,000.00
Auto Liability	"	"	\$ 500,000.00/500,000.00
Medical Payments (Premises)			\$ 250.00/person 10,000.00/accident

OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES 2-28-78

Name	Officer Title	Director	Meetings Attended Since Last Examination	Time Devoted	Annual Salaries Y/E 12-31-77	Annual Fees Y/E 12-31-77	*Indebtedness As Of 12-31-77		Total Fice Share AS OF 12-31-78
							Type	Amount	
Albert G. Aaron	President	X	23	Part	\$18,600.00 * 500.00	\$ 5,050.00			\$112,026.99
Stewart J. Greenebaum	Vice-President	X	21	Part		3,100.00	S/L	\$ 10,000.00	89,430.17
Jeffrey A. Levitt	Secretary	X	23	Part		3,000.00	M	137,007.07	84,548.61
Benjamin Lehman	Treasurer	X	23	Part		1,200.00	S/L	27,000.00	43,142.45
Herbert Sandler		X	15	Part		1,100.00			10,267.28
Allan Pearlstein		X	4	Part		1,200.00	M	173,537.78	231,102.67
Nathan Wechler		X	5	Part		1,200.00			5,543.37
Thomas Steinhardt	Assistant	X	8 of 9	Part		1,200.00			6,245.55
Susan J. Nauman	Treasurer				10,260.00 * 800.00 20,455.40 * 100.00				290.00
Employees					\$51,015.40	\$17,050.00	S/L	1,500.00	10,147.91
								\$349,044.85	\$592,745.00

*Bonus - not included in salary expense, Reflected in miscellaneous

Amount	Name of Surety and Home Office	Expiration Date
\$340,000.00	Aetna Casualty & Surety Company	8-11-80
	Hartford, Conn.	

Meetings held since last examination 23 Date of last annual meeting of members January 9, 1978

Number of directors designated in by-laws 5-15

*Designate Mortgage Loan--M; Share Account Loan--S; Unsecured Loan--U; Collateral--C; Trustee Account--T.

OTHER ASSETS: (Item 16, Exhibit A)

Appraisal Expense Collected	\$ 90.00
Credit Report Expense Collected	20.01
Due From Jeffrey Levitt	1,186.43
Exchange	3,723.84
Entrance Fees Receivable	<u>11,400.00</u>
	<u>\$16,420.28</u>

OTHER LIABILITIES: (Item 31, Exhibit A)

Federal Income Tax Withheld	\$ 1,094.80
FICA Withheld	353.22
Maryland Income Tax Withheld	354.60
Liability for Federal Income Tax	13,199.00
Ground Rent Deposit	260.00
Accrued Expenses	4,269.94
Note Payable Xerox	7,866.00
Due to Annapolis Federal S/L	<u>1,105.69</u>
	<u>\$28,503.25</u>

BORROWED MONEY: (Item 23, Exhibit A)

<u>To Whom Owed</u>	<u>Amount</u>	<u>Rate</u>	<u>Due Date</u>	<u>COLLATERAL</u>	
				<u>Description</u>	<u>Unpaid Principal</u>
Union Trust Co. Balto., Md.	\$1,200,000.00	Variable Average 8.5%	Variable	Assigned Mortgages	\$1,301,238.74

SUMMARY OF CERTIFICATES OF DEPOSIT, SAVINGS ACCOUNTS, OTHER SECURITIES, ETC.

<u>Description</u>	<u>Amount</u>	<u>Rate</u>	<u>Due Date</u>
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EXAMINERS' COMMENTS

First Progressive Savings and Loan Association

Comment 1: Mortgage Loan Documentation Deficiencies

An examination of the files of 122 mortgage loans granted during the period April 15, 1976 through February 28, 1978, revealed the following:

A. Loan file Nos. 3958, 3961, 3973, 4001, 4018, 4023, 4031, 4046, 4053, 4069, 4074 and 4090 did not contain the original Deed of Trust instruments as required by Regulation .29A(2)(f).

B. Loan file Nos. 3959, 3961, 3963, 3964, 4004, 4063 and 4069 did not contain the original of the current insurance policies as required by Regulation .23D.

The insurance policy in loan file Nos. 3956 and 3969 did not contain a mortgagee clause to protect the interest of the association as required by Regulation .29A(2)(d).

The insurance policy in loan file Nos. 3972, 4042 and 4049 did not contain sufficient coverage to protect the interest of the association as required by the above referenced regulation.

Loan file No. 4001 did not contain acceptable evidence of insurance as required by Regulation .29A(2)(d).

C. The applications contained in loan file Nos. 3956, 3983, 3996, 4005, 4007, 4011, 4014, 4016, 4033, 4040, 4051, 4052, 4063, 4068, 4070 and 4079 were not dated so as to indicate that the information furnished thereon was obtained prior to granting of the loans.

The applications contained in loan file Nos. 3959, 3978, 4016, 4049, 4054, 4062 and 4079 did not clearly state the purpose for which the loans were sought as required by Regulation .23A(2)(g).

The applications in loan file Nos. 3958, 3962, 3963, 3982, 3984, 3988, 4039 and 4055 were basically blank. Regulation .23A(2) specifies the minimum information that every application must contain.

Loan file Nos. 3973, 4003, 4004, 4042, 4043 and 4059 did not contain applications as required by Regulation .23A.

Loan file Nos. 3979, 4049, 4061 and 4063 contained applications which were incomplete with respect to either the personal history and/or financial data on the applicants which is required by Regulation .23(A)(2)(b) & (c).

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First Progressive Savings and Loan Association

Loan file Nos. 3983 and 4013 contain applications which were obtained after the date that the loans were granted.

- D. Loan file Nos. 3961, 3970, 3971, 3972, 3978, 3979, 4013, 4039, 4041, 4042, 4044, 4046, 4050, 4057, 4059, 4061, 4069, 4073 and 4079 did not contain appraisal reports as required by Regulation .23B. The association is required to provide this Division with appraisals in support of each of these loans which are prepared by qualified independent appraisers.

A review of the appraisals for property pledged as security for loan Nos. 3954 and 4055 revealed that the appraisals were not obtained until after the date each loan was granted.

Loan file No. 3958 contained an appraisal signed by two directors, however, the second signature was illegible.

The appraisal for loan Nos. 3989 and 4053 did not contain an appraised value for properties located at 453 E. 28th Street and 6108 Danville Avenue, respectively, as required by Regulation .23B.

- E. Loan file Nos. 3983 and 3984 did not contain a certification of title as required by Regulation .23C.

The certification of title contained in loan file No. 3954 was not obtained by the settling attorney until 6/1/77. The loan was granted on November 3, 1976.

The certifications of title contained in loan file Nos. 3956, 3959, 3961, 3963, 3966, 3967, 3988, 3989 were not dated so as to reflect that the association was protected, through the date of settlement, against any prior liens as required by Regulation .23C.

There was no evidence in loan file No. 3970 to indicate that the Title Policy was re-endorsed in favor of the association, upon repurchase of the loan from Westview Federal Savings and Loan Association.

The Certification of Title for loan No. 3989 reflects that the secured property located at 1102 N. Augusta Avenue was "In Fee Simple". A review of other documents in the same loan file revealed that the property was subject to a \$90.00 Ground Rent payable in January and July of each year.

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First Progressive Savings and Loan Association

Additionally, 1102 Augusta Avenue and 453 East Twenty-eighth Street were both pledged as security for this loan. However, the Title Certification did not reflect that the association was protected against liens on both properties as required by Regulation .23C.

The Certification of Title in loan file Nos. 4041 and 4042 does not reflect that the association has a first lien on the properties pledged as security as required by Regulation .23C.

- F. A review of the loan files disclosed that Mr. Jeffrey A. Levitt, the association's attorney, charged the borrowers for title insurance on the loans listed below, however, no title insurance policies were contained in the respective loan files:

<u>Loan No.</u>	<u>Charged for Title Ins.</u>	<u>Date Loans Granted</u>
3956	\$ 40.00	11/ 1/76
3959	65.00	11/ 9/76
3962	25.00	11/15/76
3963	12.75	11/17/76
3964	412.75	11/16/76
3966	36.25	11/15/76
3967	35.00	11/16/76
3968	67.50	11/17/76
3971	38.75	11/18/76
3972	115.00	12/ 3/76
3973	138.00	12/ 6/76
3975	84.15	12/ 9/76
3978	18.75	12/14/76
3979	67.50	12/21/76
3980	164.30	12/30/76
3982	48.75	12/29/76
3983	130.00	12/29/76
3984	24.25	12/29/76
3986	100.00	1/13/77
3987	30.00	1/17/77

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First Progressive Savings and Loan Association

The association is directed to obtain appropriate title insurance policies from Mr. Levitt covering the loans listed above.

- G. Loan file Nos 4013 and 4064 did not contain a memorandum of settlement as required by Regulation .29A(2)(c).

The memorandums of settlement in loan file Nos. 3955, 4015, 4034 and 4049 were not signed by the borrowers as required by the above referenced regulation.

- H. Loan file Nos. 3964, 3907, 4046 and 4064 did not contain a receipted copy of the disclosure statements as required by Regulation .29A(2)(k).

Loan file Nos. 3955, 3956, 3957, 3959 and 4059 did not contain a dated loan disclosure statement so as to indicate that the statement was signed prior to the execution of the contract of indebtedness as required by Regulation .29A(2)(k).

- I. The examiners noted that the Loan Committee approval sheets for loan Nos. 3957, 3959, 3960, 3971, 3965, 3966, 3967, 3968, 3970, 3972, 3973, 3975, 3977, 3978, 3979, 3980, 3982, 3983, 3985, 3986 and 3987 were not dated so as to indicate that these loans were reviewed by the Committee before they were granted. On several of the loans listed above, the examiners also noted that the Loan Committee approval sheets were only signed by two members of the Committee which does not constitute a majority.

- J. In addition to the documentation required by Regulation .29, accepted procedure dictates that other additional documents be obtained to further protect the interests of the association on construction loans. A review of the file for loan No. 4033 which was granted for construction purposes revealed the following:

1. Loan file No. 4033 contains evidence which reflects that work had started and materials were delivered prior to recording of the the Deed of Trust. This evidence is contained in the Appraisal Report signed by two officers of the association. As stated in the appraisal, the borrower had "already paid for the land and approximately \$80,000.00 of the construction costs".

First Progressive Savings and Loan Association

2. There was no construction loan and trustee agreement contained in the loan file.
3. The signed inspection reports contained in the file were found to be lacking essential information necessary to determine whether the association exercised adequate control and properly disbursed funds held in the loans in process account.
4. There were no releases of mechanics liens available for review at the time of the examination.
5. The borrowers engaged a contractor to construct the property as a residence. However, the file did not contain a current financial statement of the builder.
6. The Title Certification was dated 8/1/77 and the Deed of Trust was recorded on 4/3/78, eight months later. The attorney for the association did not update the Title through the recording of the Deed of Trust.

Comment 1.1: Maintenance of Subsidiary Mortgage Ledger Cards

During the course of the examination, it was determined that many subsidiary ledger cards maintained for mortgage loans contained errors such as advance interest being charged, noncollection of late charges from certain individuals, noncollection of interest owed on payoffs from certain individuals, errors in interest computations, nonposting of journal entries to the subsidiary cards, and noncollection of substantial interim interest owed. In fact, these errors are so numerous so as to prohibit the examiners from listing all of them. Therefore, the listing that follows is only a partial representation of the discrepancies, inconsistencies, and errors pervasive throughout the association. If the association so desires, its accountant may contact this Division to review its workpapers on the accounts listed below.

Loan No. 3962

This loan was granted on November 16, 1976. The first payment on this loan, made on December 29, 1976, was improperly posted and all payments thereafter have also been improperly posted. The examiners' calculations indicate that this borrower has been overcharged interest in the amount of \$22.28 which should be refunded or credited to the principal amount of this loan.

First Progressive Savings and Loan Association

Loan No. 4039

This loan was granted on September 9, 1977. The term of the loan was six months and it was due and payable on March 9, 1978. The loan was still on the books as of June 15, 1978 and was contractually delinquent at that time. The examiners noted that late charges were not assessed against the account in accordance with the mortgage loan contract in January, February, and March, for a total of \$15. Additionally, the association has not collected the interim interest due from September 9, 1977 through October 1, 1977 on this account of approximately \$73.26.

Loan No. 3275

This loan was granted on October 24, 1966. A review of the escrow subsidiary for this account disclosed that on April 25, 1978 the association disbursed \$307.18 for the payment of real estate taxes for the property located at 2204 Westwood Avenue. The association's mortgage loan is secured by the property located at 2206 Westwood Avenue. Fortunately, for the association, the mortgagors also own 2204 Westwood Avenue. Therefore, the association should be able to obtain a check for the amount paid out on April 25, 1978, which will enable the association to pay the taxes for 2206 Westwood Avenue.

Loan No. 3910

This loan was granted on September 7, 1976. The loan file contains a letter dated March 17, 1977 from Mr. Jeffrey A. Levitt, attorney for the association, to Miss Susan Naumann notifying her that if payments on this account were made by the 25th of the month that no late charge should be assessed. A review of the subsidiary ledger card indicates that this letter was prompted by the collection of late charges in the amount of \$21.43 for the months of January and February, 1977 due to late payments. Starting in March of 1977, none of the payments were received in accordance with the agreement contained in Mr. Levitt's letter of March 17, 1977, as the March payment was posted on March 31, 1977, and all subsequent payments to date have not been in accordance with the agreement. Therefore, late charges in the amount of \$321.45 are due through May 1, 1978. This type of arrangement was not noted on any other mortgage subsidiary card during the course of the examination. This account is also secured by an hypothecation from Mr. Stewart Greenbaum.

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First Progressive Savings and Loan Association

Loan No. 3940

This loan was granted on October 20, 1976. A review of the subsidiary ledger card for this account reveals that the borrower has been in arrears from October 11, 1977 through the current examination date and was one month in arrears at that time. No late charges, however, have been assessed against this account. The examiners' calculation of the late charges due on this account is \$138.81. The borrower on this loan is Raymond Weinberg, who is well known by the association's officers and personnel.

Loan No. 3939

This loan was granted on October 18, 1976. A review of the subsidiary ledger card for this loan disclosed that this account has been in arrears since December 16, 1977. No late charges have been assessed against this account. The examiners' calculation of late charges due on May 15, 1978 is \$319.62. The borrower on this loan is Mr. Gilbert Sapperstein, who is well-known by the association's officers and personnel.

A review of the mortgage loan escrow subsidiary for this account disclosed that 1977/78 taxes were not paid until September 29, 1977 even though sufficient funds were in the account in July of 1977. Additionally, \$3,192.10 was disbursed to Mr. Sapperstein on September 15, 1977 as he supplied the association with an insurance policy covering the secured property. On May 15, 1978, the escrow account had a balance of \$1,892.48. The monthly payments to this accounts are \$259.47. Based on last year's tax bill of \$3,076.41, this escrow account will not contain sufficient funds to pay real estate taxes until at least October of 1978, assuming no funds are paid to the borrower for insurance.

Loan No. 4055

This loan was granted on October 31, 1977. This loan was paid off on April 13, 1978; however, the examiners have discovered that the borrower is due a refund of \$195.82 due to the improper posting of this account by the association. Please provide this Division with a copy of the refund check mailed to this borrower.

Loan No. 4042

This loan was granted on September 19, 1977. The examiners' review of the subsidiary card for this account disclosed that the payment made on November 30, 1977 was improperly posted, thus resulting in an overcharge to the borrower of \$17.54.

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Loan No. 4030

This loan was granted on July 1, 1977. A review of the subsidiary card for this account disclosed that a \$6,000 error was made in posting the account on January 16, 1978. This error was corrected by journal entry No. 53 on May 31, 1978, some four months later. The interesting point is the fact that the trial tapes of the subsidiary mortgage loan cards which are run monthly by the association could not possibly have agreed with the control account in the general ledger for the months of January, February, March, or April. As a matter of general industry practice, each association proves out its work on a daily basis, and this error would have been noted in most institutions on the day it was made. We recommend that the association immediately institute a similar procedure for proving balances daily.

Loan No. 3811

This loan was granted on May 23, 1976. The borrower on this account has made a practice of making double payments since the inception of the loan. Instead of using the second payment to reduce the principal amount of the loan, however, the association has arbitrarily applied this payment to both principal and interest. Consequently, at the time of the examination, the borrower was several months ahead in his payments. By following this practice, however, the association has been charging the borrower interest in advance and the examiners have calculated an overcharge in interest in the amount of \$207.97.

Loan No. 4069

This loan was modified on December 30, 1977. In reviewing the subsidiary loan card for this account, the examiners noted that the first interest calculation was based upon the wrong loan balance. This error caused all subsequent interest calculations to be incorrect. The examiners have computed that the borrower was overcharged \$20.28.

Loan No. 3866

This loan was granted on June 7, 1976. The subsidiary ledger card for this account indicates that the borrower's escrow account was charged \$150 for the institution of foreclosure proceedings on August 24, 1977 and again on April 10, 1978. These fees were paid to Jeffrey Levitt, the association's attorney. In both instances, the escrow account was overdrawn at the time these payments were made and, consequently, the association is paying Mr. Levitt for fees instead of requiring that he collect same from the mortgagor.

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Loan No. 4021

This loan was granted on June 30, 1977. A review of the escrow account maintained in connection with this loan disclosed that 1977/78 real estate taxes were not paid until May 1, 1978. These taxes were due and payable on June 30, 1977. When questioned about the timing of this payment, management indicated that the borrower did not submit the tax bill. However, there was no evidence in file to indicate that any requests for the tax bill were made by the association or that any review of this account had been made. As a result of the association's lack of internal procedures to monitor the payment of tax bills, this borrower paid \$27.51 in interest penalties even though more than sufficient funds were in the escrow account to cover the payment of taxes.

During the course of the examination, the examiners noted that the association has no internal procedures whatsoever to monitor the payment of real estate taxes. On April 25, 1978, the association paid in excess of \$17,000 in late tax bills on properties which had been advertised for sale in Baltimore City. Furthermore, this was not the only instance of multiple tax bills being paid by the association to avoid tax sales. The examiners found several lists entitled "Tax Delinquents--per newspaper listings" with different dates. At the present time, this is the only control the association has over the payment of real estate taxes...i.e., review of advertisements for tax sales.

Loan No. 3828

This loan was granted by the association on April 13, 1976, at which time the association received a certification from Mr. Jeffrey A. Levitt, attorney for the association, which stated that taxes have been paid on the property securing this loan. On May 9, 1977, the association disbursed \$431.33 from the escrow account maintained in connection with this loan to cover 1975/76 taxes on one of the two properties securing the loan.

Loan No. 3992

This loan was granted on March 10, 1977. The association instituted foreclosure proceedings on this loan in March of 1978 and on March 20, 1978, the borrower paid off this indebtedness. The examiners' review of the association's calculation of interest due on this account through the payoff date disclosed that the association's calculation was erroneous and, as a result,

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the association lost \$96.50. In reviewing the subsidiary records supporting the escrow account maintained in connection with this loan, the examiners noted that Mr. Jeffrey A. Levitt charged this account for \$100 on August 22, 1977, which was not in accordance with the mortgage instrument creating this escrow account.

Loan No. 3897

This loan was granted on August 4, 1976. This is a second mortgage on the borrower's residence located at 15105 Priceville Road. The loan was granted with interest at the rate of 10% per annum. In accordance with the Attorney General's Opinion dated December 27, 1977, the interest rate must be rolled back to the rate of 8% since the inception of the loan. The excess interest charged to the borrower in this instance should be either refunded or credited to the loan account. The amount to be credited or refunded has not been computed by the examiners but we estimate the amount to be returned will exceed \$250. The association is directed to inform the Division as to the corrective action decided upon and also advise the dollar amount of the adjustments along with supporting computations.

Loan No. 4059

This loan was granted on November 18, 1977. This is a second mortgage on the borrower's residence at 4332 Oanlou Drive. The interest rate on this loan is 12% and is an apparent violation as mentioned in the above listed instance. As in the previous case, the association will have to adjust the interest rate on this loan and make the necessary adjustments to the borrower's account. The association is directed to advise the Division of the action taken to correct this situation and furnish all computations determining the refund.

Loan Nos. 3880 and 3822

A review of the subsidiary mortgage loan records for loan Nos. 3822 and 3880 from First Progressive and loan No. SC 949-76 from Monumental City Service Corporation revealed an apparent conflict of interest. The mortgagor in all three cases is Mr. Elliott H. Kayne who is well known by the association's officers and personnel and the loans are on his residence located at 222 Wendover Road. The total principal sum advanced to this borrower on the subject property was \$126,000 and the unpaid balance is \$119,281.80 as of February 28, 1978.

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The delinquent and unpaid interest due on these loans as of April 30, 1978 is \$9,314.61. The last payment on these loans was in November of 1977 paying the interest through the month of July, 1977. To further compound the problem, the association has disbursed monies from the escrow account causing a deficit of \$2,279.64 as of April 30, 1978. The total debt on these loans now exceeds the original cumulative amount by \$4,876.05 and exceeds the appraised value as of February 21, 1978 of \$130,000 by \$876.05. The examiners have noted that the association is accruing interest on these loans on a monthly basis, and our calculations indicate that uncollected monthly interest since November of 1977 totalling \$5,338.06 should have been placed in a reserve for uncollected interest account.

Finally, it was noted by the examiners that a check in the amount of \$981.00 posted on November 11, 1977 was returned from the bank on December 6, 1977 for insufficient funds. This check has never been replaced by the borrower thereby making the effective date of his last payment October 12, 1977. A further review of the general journal revealed that journal entry No. 184 was prepared to reverse the posting to the subsidiary card, but that the \$88.86 debit to the expense account was never reversed on the subsidiary ledger card resulting in a true deficit as of April 30, 1978 of \$2,368.50, further increasing the potential loss on Mr. Kayne's loan.

Loan No. 3900

This loan was granted on August 6, 1976. A review of the mortgage subsidiary card for this account disclosed that funds withheld at settlement by the association's attorney, Jeffrey Levitt, were not remitted to the association until September 21, 1976. The settlement sheets indicate that Mr. Levitt withheld \$1,060 at settlement to pay the 1975/76 and the 1976/77 real estate taxes. In addition, \$100 was withheld for the payment of insurance premiums. This property was sold at tax sale on August 18, 1976, just 12 days after the loan was granted. The property was subsequently redeemed by the association on February 14, 1977. The attorney's certification issued to the association at the closing of this loan on August 6, 1976 indicates that all taxes were paid.

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At the inception of this account, the borrower's escrow payment was set up at \$42.64 per month, or \$511.69 per annum. This amount is not sufficient to pay real estate taxes on this property, much less the insurance premiums. The payment record of this borrower has been erratic since the inception of the loan, and the amount of escrow payment was not adjusted until April of 1978. The 1977/78 real estate taxes were not paid by the association until April 25, 1978, and the remaining amount in the escrow account is not sufficient to pay real estate taxes for 1978/79 which are due and payable at the present time.

From the above, it is apparent that the association and its attorney have been negligent in the establishment and maintenance of this escrow account, and as a result of this negligence, the borrower has incurred substantial interest penalties. Consequently, we must require that the following refunds be made to the borrower:

(1) Interest penalty imposed for nonpayment of taxes (attorney withheld monies for same) - \$52.56.

(2) Improper interest calculation on February 22, 1978 - \$70.72.

The examiners also noted that the borrower on this loan was charged \$22.50 for a title insurance policy; however, none was in file.

Loan No. 3782

On February 24, 1976, the association granted a first mortgage in the amount of \$65,000 to John and Judy Merenda, which was secured by their residence located at 1007 Stepney Road. On May 5, 1976, the association granted a second mortgage in the amount of \$21,500, which was secured by this same property. On November 12, 1976, Mr. Gilbert Sapperstein, who is well known by the association's officers and personnel, assumed both these mortgages in the amount of \$86,068.13. On January 10, 1977, Mr. Sapperstein sold this same property to Arthur and Ruby Gaddis for \$110,000 with the purchasers assuming the first and second mortgages owed to First Progressive in the amount of \$86,068.13. While Mr. Sapperstein held these mortgages between November 12, 1976 and January 10, 1977, he never made a payment to the association. The examiners' calculation of interest on this amount for this period disclosed that Mr. Sapperstein owes the association a total of \$2,524.68.

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Loan No. 3952

This loan was granted on October 18, 1976. This is a second mortgage on the borrower's residence located at 7174 Forest Road. The interest rate on this loan is 10% and is an apparent violation as mentioned in the above listed instances. As noted in the previous case, the association will have to adjust the interest rate on this loan and make the necessary adjustments to the borrower's account. In addition, we again find it necessary to require that the association advise this Division of the corrective action taken as well as all computations for determining the amount of the refund.

Loan No. 4034

This loan was granted on August 17, 1977. This loan is in the amount of \$250,000 for a term of three years. The very first payment due October 1, 1977 was 26 days late, and no late charge was collected. Since that time, the borrower has been late with six of the eight payments that were due through June 30, 1978. Late charges not collected total \$416.60; only on two occasions were late charges collected. There is a second mortgage on this property and that is loan No. 4062.

The examiners have also noted that interim interest due on this loan from the 17th to the 30th in the amount of \$1,041.60 had not been collected as of the date of the examination. Additionally, it was determined through a conversation among the examiners, Mr. Barry Glass, the association's CPA, and Miss Susan Naumann, the manager of the association, that when borrowers have a substantial sum on deposit with the association, First Progressive does not bother to collect the interim interest. A subsequent conversation was held among the examiners and Mr. Levitt, the association's attorney, concerning the above policy and he stated that this policy was not in effect at First Progressive.

Loan No. 4073

This loan was granted for the purpose of refinancing the borrower's residence in the amount of \$11,000.00 on January 18, 1978 at an interest rate of 10%. Prior to the granting of the loan, the association failed to obtain an appraisal of the property pledged as security for the loan so as to ascertain its condition and current fair market value.

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A review of the loan file and subsidiary mortgage receivable card revealed that the loan was in default from the date of inception to March 29, 1978 when two payments were made bringing the loan current to April 1, 1978. No late charges were assessed against the borrower until June 1, 1978. Interim interest was due from January 9, 1978 to January 13, 1978. The subsidiary loan card, reflects that no interim interest was collected from the borrower. This was calculated by the examiner to be \$36.63 ($\$11,000 \times .10 \times .0333$).

Comment 1.2: Loan Modifications and Consolidations

As noted elsewhere in these comments and prior reports of examination, this association has had a much bigger problem with delinquencies than other associations of comparable asset size. Instead of diligently working to bring delinquent accounts current, the association as a matter of general practice enters into loan consolidation and modification agreements with delinquent borrowers. The net effect of this practice is that unpaid and delinquent interest is taken into current income and at the same time capitalized and added to the outstanding amount of the borrower's indebtedness.

In fact, during the course of the examination, the examiners reported to management of the association that its delinquency ratio (loans 30 days or more past due) was approaching 50% of total mortgages and a whole-scale loan consolidation and modification program was undertaken by management. The examiners have reviewed all loans modified during the current examination period, as well as several loans which were modified and/or consolidated while the examination was in progress. The examiners findings are as follows:

1. Between April 15, 1976 and February 28, 1978, the association modified an/or consolidated 24 different loans with original amounts totaling \$515,350 into loans which have been assigned loan Nos. 3406, 3785, 3874, 3947, 3949, 3950, 3958, 4069 and 4091. The unpaid balance on seven of these nine loans now exceeds the original amount of the indebtedness as specified in the instrument securing each respective loan. The amount by which these loans exceed the original indebtedness totals \$3,766.19 and this amount must be considered as unsecured loans to these borrowers. By consolidating and/or modifying these loans, the association has capitalized \$5,507.50 in delinquent and unpaid interest which was then taken into current income.

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2. The instruments assigned loan Nos. 3785, 3862, 3874, 3947, 3949, 3950 and 3958 contain the same future advance clause which states in part "it is stipulated that the maximum amount secured by the mortgage at execution, or which under any contingency may be secured thereby at any time in the future, shall be the principal amount hereof".

As noted above, the examiners consider the amount which exceeds the principal amount of these debt instruments to be unsecured. We note that Section 7-102 of the Real Property Article provides "No mortgage or deed of trust may be a lien or charge on any property for any principal sum of money in excess of the aggregate sum appearing on the face of the mortgage or deed of trust and expressed to be secured by it, without regard to whether or when advanced". The examiners' review also revealed that the association did not require any of the above borrowers to execute a promissory note for the amount by which the indebtedness exceeds the principal amount of the debt instruments.

At the present time, the association's general ledger should reflect \$3,766.19 in unsecured loans which violates the provisions of Article 23, Section 161Z of the Annotated Code of Maryland.

Also noted by the examiners was the fact that no title updates had been ordered to determine whether or not any intervening liens had been placed against the properties in question.

3. In reviewing the loan modifications and consolidations, the examiners also reviewed the subsidiary mortgage ledger cards maintained in support of each of these accounts. The examiners' review disclosed that not one of these modifications and/or consolidations was properly handled. Although the comments which follow are repetitive of the comments earlier in this report which discuss the matter of subsidiary mortgage ledger cards, these comments do serve to illustrate the lack of expertise on the part of the association's personnel in handling these transactions.

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- a. Loan No. 3947 was assumed by Irving and Dorothy James on May 26, 1977. As of February 28, 1978, the escrow account maintained in connection with this mortgage loan was overdrawn by \$162.73. This is due to the fact that the monthly escrow payment required from these borrowers is only \$68.08 although the examiners have calculated that these borrowers should be making monthly escrow payments of at least \$200 per month in order for insurance and taxes to be paid on a timely basis.

Lastly, the examiners noted that in connection with this modification the association capitalized interest and added it to the principal amount of the indebtedness. However, the borrower's monthly principal and interest payment was not adjusted and consequently this loan will not amortize within its term in violation of Regulation .30C(1).

- b. Loan No. 3874 to Richard and Mary Plantholt was 3 months in arrears when it was modified by the association on September 30, 1977. Since that date, the borrowers have made only two payments on time and have been paying a late charge of \$16.89 every month. In reviewing the escrow account maintained in connection with this mortgage loan the examiners noted that 1977/78 real estate taxes were not paid until May 11, 1978 and as a result the escrow account was overdrawn by \$575.64. It is important to keep in mind that 1978/79 taxes were due and payable in July of 1978 and that the examiners estimate that sufficient funds would not be available in the escrow account to pay these taxes for approximately 1½ years.

Lastly, the examiners noted that in connection with this modification, the association capitalized interest and added it to the principal amount of the indebtedness. However, the borrower's monthly principal and interest payment was not adjusted and consequently this loan will not amortize within its term in violation of Regulation .30C(1).

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- c. Loan No. 3950 was assumed by Helen and James Gray on May 19, 1977.

This loan has been one month in arrears since December, 1977 and the new borrowers are paying \$17.15 in late charges each month. In reviewing this assumption, the examiners calculated interest due on the date of the examination to be \$960.29. The borrowers, however, were only charged \$202.54 by the association thus resulting in a loss of \$757.75 to the association. The examiners also noted problems with the escrow account maintained in connection with this loan. Specifically, 1977/78 real estate taxes in the amount of \$892.11 were not paid until April 12, 1978 thus overdrawing the account by the amount of \$33.16. Again, real estate taxes are currently due and payable and sufficient funds to pay these taxes will not be on hand for quite some time as the borrowers' monthly escrow payments are only \$59.86.

Lastly, the examiners noted that in connection with this modification the association capitalized interest and added it to the principal amount of indebtedness. However, the borrowers monthly principal and interest payment was not adjusted and consequently, this loan will not amortize within its term in violation of Regulation .30C(1).

- d. On March 23, 1978, loan Nos. 3785 and 3862 which were first and second mortgages in the amount of \$35,400 and \$4,800 were consolidated into loan No. 3785. Since this consolidation, this loan has been continually delinquent and the borrowers have been paying \$17.05 in late charges. A review of the association's handling of this transaction disclosed that the association incorrectly calculated interest due on the second mortgage at the time of consolidation. As a result the association lost \$71.00 in interest which was due and payable.

Lastly, the examiners noted that in connection with this modification the association capitalized interest and added it to the principal amount of the indebtedness. However, the borrower's monthly principal and interest payment was not adjusted and consequently this loan will not amortize within its term in violation of Regulation .30C(1).

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- e. Loan No. 3949 in the amount of \$42,862.42 was assumed by Adrian and Venus McKay on April 29, 1977. Although the borrowers have not missed a payment since the assumption, the examiners noted that in connection with this modification the association capitalized interest and added it to the principal amount of the indebtedness. However, the borrower's monthly principal and interest payment was not adjusted and consequently this loan will not amortize within its term in violation of Regulation .30C(1).

Also in connection with this assumption, the association's attorney, Mr. Jeffrey Levitt, granted a second mortgage to the borrower in the amount of \$2,000 to fund settlement costs.

- f. On December 30, 1977, the association entered into a loan modification and consolidation agreement with Gerald Lebowitz an individual who is well known by the association's officers and personnel which consolidated seven different mortgage instruments covering 13 properties into loan file No. 4069. The examiners review of the loan file documentation and subsidiary cards supporting these accounts disclosed that the aggregate of the principal balances on these loans totaled \$116,615.48 at December 30, 1977. Delinquent and unpaid interest totaled \$8,378.97 and the escrow accounts were overdrawn in the amount of \$184.89. Of the 13 properties offered as security for this loan, 3 of the properties (1212 E. Madison Street, 3536 Overview Road and 809 N. Woodington Avenue) have been condemned and taken over by the City of Baltimore. At the time this modification and consolidation agreement was entered into, the association failed to obtain any current appraisal of the properties offered as security for the loan, so as to provide updated information as required by Regulation .23B(1) thru (4).
Originals of the current insurance policies required by Regulation .23D were not in file for two of the properties offered as security for the loans.

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The new mortgage instrument created as of December 30, 1977 had not been recorded as of May 18, 1978. Several checks were contained in the loan file which had been returned due to insufficient funds. In investigating this matter further, the examiners noted that the Board had approved the release of a hypothecation of the borrower on May 31, 1976 which was offered as additional security for one of the loans involved in this consolidation. The examiners noted that the payments required under the hypothecation agreement had not been made at the time this hypothecation was released.

- g. On March 29, 1978, the association entered into a loan modification and consolidation agreement with Walter and Lilian Spence (individuals who are well known by the association's officers and personnel) whereby 9 existing loans securing 20 properties were consolidated into loan No. 4091 in the amount of \$180,000. The total indebtedness under the 9 existing loans was \$168,737.15 which included \$273.68 in late charges and \$6,465.90 in delinquent and unpaid interest. The examiners recalculation of these figures, however, disclosed that the association did not include \$104 in interim interest for loan No. 4050 in its calculation. A further review of this transaction disclosed that all 9 of these loans were delinquent at the time this loan consolidation and modification agreement was entered into. Furthermore, the principal balance of loan No. 4091 exceeds the aggregate of the principal balances of the original 9 mortgage loans by \$19,300 (\$180,000 minus \$160,700). No title updates were obtained by the association to determine if any subsequent liens had been placed on the properties pledged as security for the new mortgage loan.

Furthermore, the examiners noted that mortgage loan No. 4091 in the amount of \$180,000 had not been recorded as of the date of the current examination. No payments were made on this account until June 5, 1978 and that payment was not properly posted. Additionally, late charges in the amount of \$236.97 had accumulated by that time. On June 5, 1978, the expense

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account maintained by the association in connection with this mortgage loans was overdrawn in the amount of \$1,748.59. However, one of the properties securing this loan located at 3509 West Garrison Avenue was sold and released from the mortgage. Instead of reducing the principal balance of the mortgage loan of \$180,000, however, the association applied the proceeds of \$7,625 to the borrowers escrow account thus erasing the deficit and leaving a balance of \$5,076.41.

- h. On August 1, 1976, Mr. Lawrence Washington, an individual who is well known by the officers and personnel of the association, assumed mortgage loan No. 3448 in the original amount of \$14,000 which was secured by four separate properties located in Baltimore City. From time to time in the past, Mr. Washington has taken distress property off the hands of the association so that losses on foreclosures will not occur. Since August 1, 1976, Mr. Washington made only two payments on loan No. 3448. Interest was brought current through the date of the examination as a result of a loan modification and consolidation whereby Mr. Washington's existing loans were consolidated into one delinquent and unpaid interest capitalized, and then taken into income.

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On September 30, 1977, Mr. Washington sold the property located at 1228 W. Lanvale Street which was one of the four properties securing loan No. 3448 to Ester Mae Frierson at a purchase price of \$6,900. At settlement Mrs. Frierson made a down payment of \$1,000 and obtained a \$5,000 mortgage on this property from First Progressive Savings and Loan. Consequently, Mrs. Frierson still owed the remaining \$900 of the purchase price plus settlement costs. Mrs. Frierson, however, lacked the remaining necessary funds to settle and Mr. Washington agreed to take back a second mortgage which would cover these costs. As a result of a rather involved transaction, however, Mrs. Frierson has paid or become obligated for monies that total \$9,614.50 which is broken down as follows:

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Down Payment	\$1,000.00
1st Mortgage to First Progressive	5,000.00
2nd Mortgage to Lawrence Washington	<u>3,614.50</u>
Total	<u>\$9,614.50</u>

The memorandum of settlement reflects that Mrs. Frierson became obligated for this amount of money as follows:

Purchase Price	\$6,900.00
Less: Downpayment	1,000.00
Adjustments	<u>180.40</u>
Net Amount Due from Borrower	\$5,719.60
Settlement Costs	<u>1,087.65</u>
Total Amount Due from Borrower	<u>\$6,807.25</u>
Less: 1st Mtge. First Progressive	<u>5,000.00</u>
Balance	\$1,807.25
	<u> x 2</u>
Second Mortgage	<u>\$3,614.50</u>

In conversation with personnel of the association, the examiners discovered that the amount of Mrs. Frierson's second mortgage was arrived at in negotiations whereby she agreed to permit Mr. Washington to double the amount of the indebtedness in consideration for him paying these costs for her. First Progressive had complete knowledge of the circumstances surrounding this transaction and proceeded with financing the first mortgage which made this arrangement possible. This is deplorable in and of itself; however, the association then proceeded to purchase this second mortgage from Mr. Lawrence Washington, as evidenced by an assignment on the back of the second mortgage. This second mortgage, however, is not reflected as an asset on the books of the association. No appraisal was ever prepared in connection with the granting of this loan or the purchase of the second mortgage by the association.

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A review of the subsidiary ledger card for loan No. 3448 revealed that the association released 1228 W. Lanvale Street for the sum of \$1,295.67. At September 30, 1977, Mr. Washington was over 12 months in arrears on loan No. 3448 and the interest due and payable to the association was approximately \$1,002.45. In effect, the property located at 1228 W. Lanvale Street was released from mortgage loan No. 3448 for \$293.22 (\$1,295.67 - \$1,002.45). It is important to remember, however, that Mr. Washington assigned to the association the second mortgage in the amount of \$3,614.50 on 1228 W. Lanvale Street. Although this mortgage is not reflected on the association's books and records, it appears to be additional consideration paid by Mr. Washington to the association for the release of 1228 W. Lanvale Street from loan No. 3448.

Comment 1.3: Additional Loan File Deficiencies

In addition to the preceding comments, the following loan file documentation deficiencies were noted by the examiners on a loan by loan basis:

Loan No. 3954

Mr. Albert Aaron, President of the Association, personally granted a loan to Himelfarb's Inc. on October 31, 1973 for \$60,000.00. To fund this loan, he borrowed money from Union Trust Company. On November 30, 1973, Harry and Eleanor Himelfarb executed a Guaranty and Indemnity Mortgage to Albert Aaron. This mortgage was then assigned to Union Trust on November 30, 1973.

On November 3, 1976, the above mentioned mortgage and note from Himelfarbs, Inc to Mr. Aaron was assigned to First Progressive without recourse. The examiners noted the following with respect to this assignment.

1. The mortgage instrument does not reflect a rate of interest or term and does not provide for late charges. Currently, the association is charging 10% and is also collecting late charges on this loan. This violates the requirements of the Commercial Law Article, Section 12-103(a) and 12-105(b).
2. On April 7, 1978, the examiners requested information concerning details of the assignment to determine if the loan was purchased at par or at a discount. Miss Naumann stated that she was not aware of any records and that Mr. Albert Aaron, President of the Association, had handled the purchase for the association. As noted above, Mr. Aaron was the mortgagee of record prior to this assignment.

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3. The appraisal report in file does not meet the requirements of Regulation .23B(1) and .23B(4) and was not obtained prior to the purchase of the loan.
4. The association failed to obtain any financial data on the borrower as required by Regulation .23A(2).
5. A review of the documentation in file reflected that the loan was delinquent before the association purchased it. A review of the correspondence in the file revealed that the loan is constantly in arrears.

Loan No. 3955

A review of the settlement sheet reflected that the borrower still owes \$94.71 which has not been collected.

Loan No. 3957

The settlement sheet reflects a \$100.00 charge to the borrower for a survey. None was in file. Please make an appropriate refund to the borrower. The loan was granted November 2, 1976.

The escrow money was not remitted by Jeffrey Levitt to the association until November 24, 1976.

Loan No. 3958

The ratio of the hypothecation to the appraised value and the purchase price of the property equals 52.2%. This is a violation of Regulation .30C(9) which states that the above ratios shall not exceed 20%.

Correspondence in the file reflected that this loan was placed in foreclosure as of December 21, 1977. The last payment was made on October 25, 1977.

Loan No. 3960

The loan file contained no information or details on its participation with Annapolis Federal Savings and Loan Association.

Loan No. 3962

A review of this loan reflected that the last payment was made on November 30, 1977. No paid tax bills were noted in file.

Loan No. 3963

A review of this loan reflects that the loan is constantly in and out of foreclosure.

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Loan No. 3964

The examiners noted that the escrow account was charged \$50.00 on January 4, 1978 for foreclosure and \$10.00 in February for judgment reports. These costs should properly be remitted and reported to the court auditor and resolved at foreclosure, instead of being disbursed out of the expense account.

Loan No. 3965

The borrower's escrow account was charged \$50.00 on March 23, 1977 for foreclosure expenses. These expenses should be submitted to the court auditor and collected at foreclosure.

Loan No. 3971

The borrower was charged \$180.00 for two appraisals, however, neither appraisal was in file. Please refund this amount to the borrower.

Loan No. 3972

There was no evidence in file that 1977-78 real estate taxes had been paid.

Loan No. 3978

The borrower was charged \$150.00 entrance fee. A review of the documentation revealed that the loan is not a "commercial loan" according to the Commercial Law Article, Section 12-101(c). Accordingly, please make an appropriate refund to the borrower.

This loan was granted December 14, 1976, the Deed of Trust was recorded February 23, 1977.

Loan No. 3983

Mr. Albert Aaron, President of the Association, sold the property to the borrower. The appraiser used an income approach based on income and expenses supplied by Mr. Aaron. Please provide this Division with an independent appraisal on this property.

Loan No. 3985

The borrower was charged for two sets of settlement papers (\$650.00 per set) while only one loan was granted. Please make an appropriate refund to the borrower.

Loan No. 3986

Open 1976-1977 real estate taxes in the amount of \$1,012.91 were deducted at settlement on January 13, 1977. The borrower received a Delinquent Tax Notice late in 1977 reflecting a total amount due of \$1,114.20 which includes \$101.29

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in penalties. The settlement attorney should pay the 1976-1977 taxes, which remained unpaid as of May 12, 1978. A review of the attorney's file on May 12, 1978 revealed that the borrower did not have sufficient cash at settlement to complete the transaction and that the funds necessary for completion have not been remitted.

The attorney's title letter states that all taxes have been paid. All of the evidence in file indicates that this is not the case. This account is constantly in arrears.

Interim interest of \$188.87 was collected at settlement. Interest should not be collected in advance and should have been billed in the first payment or separately around that time.

Loan No. 3987

A review of the file reflects that this is a second mortgage on the borrower's residence, the prior mortgage is held by the association (loan file No. 3986). The mortgage states that the loan is for commercial purposes, however, there is nothing in the file to support this. The examiners were informed that the loan was made to pay income taxes. In addition, this loan was made within four days of the first mortgage. The rate of interest on the second mortgage is 12% and 5 points were collected at settlement together with interim interest of \$85.00. The 12% rate violates Attorney General's Opinion dated December 27, 1977. The 5 points violates Section 12-108 of the Commercial Law Article. Due to the close proximity of the two loan settlements, the second mortgage appears to be an outright attempt to circumvent the above statute.

Accordingly, the association is required to reduce the rate on this second mortgage to 8% and to refund the 5 points plus any excess interest collected (The difference between 8% and 12%).

Loan No. 4063

Loan No. 4063 was released as a result of a pay-off on May 17, 1978. At the time of pay-off, the association collected \$22.49 less than the amount owed by the borrower.

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Loan No. 4064

This loan was originally granted by Rosa, Ltd. (which is owned by Mr. Jeffrey Levitt) on October 13, 1976 and secured by a mortgage note in the amount of \$9,000.00.

On January 12, 1977, the loan was assigned to Monumental City Service Corporation, a subsidiary of the association, by Rosa Ltd. On December 1, 1977 the loan was purchased by the association from the Monumental City Service Corporation and recorded on the books in the amount of \$8,199.41. This amount was erroneous, and was later corrected by the association by adjusting Journal Entry 172. The effect of the adjusting entry was to capitalize interest for the period from November 13, 1977 to December 1, 1977, however, the association only took \$96.17 into income instead of \$140.28 which was due at the time the entry was made.

Loan No. 4079

This loan was granted upon the security of property located in both Baltimore City and Harford County. At the time of review the mortgage documents had not been recorded in Baltimore City.

Loan No. 4031

A review of the file revealed that the trustee was paid \$500.00 on May 26, 1978, as an attorney's fee for foreclosure. This \$500.00 was deducted from the borrowers expense account along with an additional \$10.00 for advertisement in the Jeffersonian.

The subsidiary loan card reflects that the borrower brought the loan current and the foreclosure proceedings were then suspended.

Loan No. 3892

A review of loan file No. 3892 revealed that the borrower paid a total of \$1,028.00 which was remitted to Jeffrey A. Levitt in \$500.00 and \$528.00 amounts on July 6, 1977 and February 7, 1978, respectively, as fees in connection with foreclosure proceedings. Both of these amounts were deducted from the Borrowers Expense Account, and paid to defray the cost of attorney's fees, commissions and expenses for sale of the property pledged as security for the loan.

Further review reveals that no sale took place on or after either date, and that as of February 29, 1978, the loan was then current.

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Comment 1.4: Loan Participation with First Federal Savings and Loan of Brooklyn

On May 7, 1974, Maryland Capital Service Corporation, a subsidiary of First Federal Savings and Loan of Brooklyn, Maryland, granted a loan to the Landco Limited Partnership in the amount of \$270,000 with interest at 30½% due May 7, 1976. The loan was granted for the purpose of acquiring a parcel of land in Anne Arundel County containing approximately 102.79 acres. On May 7, 1976, the loan was extended by Maryland Capital Service Corporation to August 5, 1977, and then to September 5, 1977. The interest rate on the loan was adjusted down to 10% and the unpaid balance was increased to \$355,000, which included the original unpaid principal of \$270,000, plus \$85,000 in accrued and unpaid interest.

On December 29, 1977, Maryland Capital Service Corporation sent a letter to the borrowers advising them that foreclosure proceedings had been instituted, but would be forestalled if all indebtedness in excess of \$358,000 was paid. On that same date, an extension agreement between Maryland Capital Service Corporation and the borrower was entered into extending the loan through December 1, 1978. This agreement was contingent upon First Progressive's purchasing a \$258,000 interest in this loan, which represents 72.07% of the total indebtedness. In return for purchasing this loan, the borrower paid First Progressive an entrance fee of \$11,400.

At the time this loan was purchased, Mr. Albert Aaron, the Association's President, requested that he be provided with an updated appraisal of the subject property. This appraisal, which is contained in loan file No. 4070, reflects a value of \$935,000. The examiners have reported that the underwriting of this loan was inadequate in certain material respects and these deficiencies are listed below:

- A. The appraisal provided to Mr. Aaron was prepared for the borrower.
- B. The appraisal contains several comparables with large disparities between the price per acre for which no adjustments were made to correlate the differences between the subject property and the comparables.
- C. The subject property is raw land, undeveloped, and located in an area zoned for future development. The appraisal indicates that no public utilities are servicing the subject property and they are not expected for another 15 years.

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- D. When present values are assigned to the anticipated future inflow from the sale of this land, the holding costs appear to be prohibitive.
- E. The association accepted the unaudited financial statements of William Dixon in support of his personal guaranty.
- F. A review of the tax return for Landco Limited Partnership reflected that it has been operating at a loss.

When the examiners questioned Mr. Aaron regarding the purchase of this participation, Mr. Aaron provided the examiners with an agreement signed by Mr. Richard A. Nuth, President of First Federal Savings and Loan of Brooklyn, in which Mr. Nuth agreed to buy back this loan without recourse for \$425,000 plus accrued interest at the expiration of its term. In reviewing this agreement, however, the examiners noted that the loan participation agreement specifically states that First Progressive purchased its interest without recourse and, furthermore, that First Federal Savings and Loan is not a party to the participation but rather Maryland Capital Service Corporation, its subsidiary.

In light of the history of this loan, as well as the fact that the appraisal offered in support of the loan was prepared for the borrower, we must require that the association obtain an independent appraisal from an appraiser approved by the Director which provides another estimation of the value of this property. After such appraisal of this property is made, it may be necessary for the association to establish a specific loss reserve to cover any deficiencies in the value of this land.

One final note. At the time these documents were reviewed during the course of the examination, the borrower was two months behind in his interest payments.

Comment 1.5: Monumental City Service Corporation

An examination of the files of twenty loans granted by Monumental City Service Corporation during the period April 15, 1976 - February 28, 1978, revealed the following:

- A. Loan file No. 1123-77 contained a mortgage instrument which was not recorded until seven months after the loan was granted.
- B. Loan file Nos. 734-76, 1161-77, 1228-77, 1259-78, 801-76, 1229-77 and 1261-78 did not contain the original current insurance policies or endorsements stating Monumental's position

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with respect to coverage as a subsequent lien holder as required by Regulation .29D.

Loan file 1214-77 did not contain insurance on the additional security property located at 1335 E. North Avenue.

- C. Loan file Nos. 1161-77, 1228-77, 1229-77 and 1261-78 did not contain applications as required by Regulation .29A(2)(a).

Loan file Nos. 962-77, 1075-77, 1192-77 and 1195-77 did not contain completed applications with respect to property descriptions, purpose of the loan and borrower information.

- D. Loan file Nos. 1192-77, 1161-77, 1195-77, 1228-77, 1260-78, 777-76, 1229-77 and 1261-78 did not contain appraisals as required by Regulation .29A(2)(b).

Loan file Nos. 949-76, 962-77, 1124-77, 1214-77, 1225-77, 734-76, 1259-78, 953-77 and 1123-77 did not contain completed appraisals with respect to basis for valuation of the properties offered as security.

- E. Loan file Nos. 777-76 and 1261-78 did not contain title certifications as required by Regulation .29A(2)(e).

None of the loan files examined contained title certifications which were brought current through the date of recording. This is significant in view of the fact that the examiners have noted frequent cases in both the association and service corporation where the security instruments have remained unrecorded for seven or more months after the date of settlement.

- F. Loan file Nos. 1228-77, 777-76, 1229-77 and 1261-78 did not contain settlement sheets as required by Regulation .29A(2)(c).

- G. Loan file Nos. 1161-77, 777-76 and 801-76 did not contain the appropriate disclosures as required by Regulation .29A(2)(k) or Federal Regulation Z.

- H. In addition to the above list of documentation exceptions, the following deficiencies were noted on a loan by loan basis:

Loan No. 962-77

A review of this loan file reflected that a second mortgage was granted with the first being held by Merritt Savings and Loan, Inc. (A Stock Corporation). This violates the provisions of Regulation .34(D)(1), as well as Section 161Z(a)(2) of the Maryland Code.

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Loan No. 1075-77

A review of this loan file reflected that Monumental City Service Corporation purchased this property from Ryland Homes which investment was not authorized by Regulation .34(c). Monumental later sold this property to James & Helen Gray who assumed a first mortgage which was held by First Progressive.

Monumental then granted the Grays a second mortgage at 9% to cover settlement costs. However, payments were not being made on this loan as agreed in the mortgage instrument. On this sale, the service corporation realized a gain of \$1,539.89 which was immediately taken into income. However, due to the interest rate concession on this loan, as well as the 100% financing afforded by First Progressive and Monumental, this gain should have been deferred and taken into income as principal was repaid in order to conform to A.I.C.P.A. guidelines.

Loan No. 1225-77

This loan was granted as a second mortgage by Becky, Ltd., an entity owned by Mr. Jeffrey A. Levitt, the association's attorney. This loan was assigned to Monumental City Service Corporation on January 13, 1978. The mortgage loan contains a commercial purpose clause and provides for an 18% interest rate. After examining the first mortgage file at First Progressive, as well as the documents in loan file No. 1225-77, it appears that this loan was for bill consolidation purposes and not for commercial purposes.

During the examination, the examiners learned from Mr. Levitt that "all loans granted by Becky, Ltd. and assigned to Monumental are done this way as a favor to Monumental because the service corporation committed to make loans but did not have the money to fund them".

Loan No. 734-76

This loan was granted as a second mortgage with the first being held by the Rouse Company. This violates Regulation .34D(1), as well as Article 23, Section 161Z(a)(2) of the Maryland Code.

Loan No. 1228-77

This loan was granted as a second mortgage with the first being held by the American Mortgage Company. This is in violation of Regulation .34(D)(1), as well as Article 23, Section 161Z(a)(2) of the Maryland Code.

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Loan No. 1259-78

This loan was assigned to Monumental City Service Corporation by Jeffrey A. Levitt, K. Levitt, S. Aaron and R. Aaron. The term of this loan expired February 18, 1978 and was two months past due as of April 18, 1978.

Loan No. 694-76

This loan was a second mortgage with the first being held by Chesapeake Financial Corporation. This is in violation of Regulation .340(1) as well as Article 23, Section 161Z(a)(2) of the Maryland Code. This loan has been paid off.

Loan No. 801-76

This loan was a third mortgage with the first and second being held by Guild Mortgage Company and Carrollton Bank, respectively. This is in violation of Regulation .340(1) as well as Article 23, Section 161Z(a)(2) of the Maryland Code. This loan has been paid off.

Additionally, an entrance fee of \$700.00 was charged to the borrower, however, the documents in file did not substantiate the fact that the loan was actually for commercial purposes.

Loan No. 953-77

Mr. Gilbert Sapperstein, who is well known by the association's officers and personnel, purchased the property located at 809 Pontiac Avenue for \$10,500.00 and, on the same day, sold the property to Frederick and Patricia Greene for \$31,000.00. Monumental City Service Corporation handled all of the financing for this transaction and Mr. Sapperstein personally guaranteed this loan and became what appears to be a co-borrower. A review of the settlement sheet in the amount of \$25,000 for this loan/failed to disclose the actual recipient of the settlement proceeds. The settlement sheet on this loan also reflected that Mr. Jeffrey Levitt, attorney for the association, charged the borrower his normal attorney fee which includes a title search. The borrower was also charged \$116.00 for Mr. Jerome Sopher's abstract of title. This charge should be included in Mr. Levitt's attorney fee since Mr. Sopher is a subcontractor of Mr. Levitt. Mr. Levitt is required to refund the \$116.00 overcharge to the borrowers.

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Additionally, this loan was granted before an appraisal was obtained and the appraisal which was subsequently received indicates the value of this property to be only \$9,500.00. This loan was then sold to First Progressive Savings and Loan by Monumental. At the time of this sale, the Deed of Trust Note to this loan had been assigned to Union Trust Company as security for Monumental's borrowed money. The Deed of Trust Note was not delivered to the association until May 5, 1978 - well after the date this loan was sold to the association.

Loan No. 1123-77

This loan was granted as a second mortgage with the first mortgage being held by First Federal Savings and Loan Association of Annapolis. This violates Regulation .34D(1) as well as Article 23, Section 161Z(A)(2) of the Code.

Documents in the file reflect that the borrower had a negative net worth of \$8,000.00 at the time this loan was granted. Additionally, no financial statements were obtained for the personal guarantor of the loan. This loan has been paid off.

Loan No. 1229-77

This loan has been paid off, however, the original unreleased mortgage instrument is still in file. It should be released and returned to the borrower.

Loan No. 1261-78

This loan file contained only a copy of the Deed of Trust. The file did not contain the applicable documentation to determine the nature and purpose of the loan nor to comply with Regulation .29C.

- I. The examiners noted that loan Nos. 962-77, 1075-77, 1161-77 and 1225-77 were granted by Monumental as second mortgages with rates in excess of 8%. This violates the December 27, 1977 Attorney General's Opinion relative to the maximum rate of interest which may be charged on such loans. Appropriate refunds must be made to the respective borrowers or adjustments made to their accounts. Please advise this Division of the specific action taken in this regard.
- J. The examiners noted that on loan Nos. 1214-77 and 953-77 interim interest remained uncollected totaling \$139.28.

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K. The examiners noted that the service corporation granted two unsecured note loans in violation of Regulation .34B and Article 23, Section 161Z of the Code.

Loan No. 996-77

Loan No. 996-77 in the amount of \$300 was granted on an unsecured confessed judgment note to Sandra Moore to cover settlement costs.

This loan was 19 months past due as of May 28, 1978.

Loan No. 966-77

Loan No. 966-77 in the amount of \$20,000 was granted to Mr. Gilbert Sapperstein, who is well known by the association's officers and personnel, on the security of an unsecured confessed judgment note.

An additional review of this loan file reflected that the original confessed judgment note was in file. The examiners were also provided with a Deed of Trust Note which purportedly secured this loan. This Deed of Trust Note was assigned to the Union Trust Company to collateralize a loan to the service corporation. When Mr. Jeffrey Levitt, the association's attorney, was questioned about the two notes, he stated that the bank would not accept the Confessed Judgment Note as collateral so he had a Deed of Trust Note typed and executed. The Deed of Trust Note was supposed to be secured by the property located at 8508 Arborwood Road. When asked where the Deed of Trust was, Mr. Levitt said that there was none and that the only reason that he gave the bank a Deed of Trust Note is because the bank would not accept a Confessed Judgment Note. Up until a new note was substituted on May 5, 1978, the bank had been provided with a "phony" Deed of Trust Note which was not backed by any security held by Monumental or First Progressive.

In connection with this \$20,000 unsecured note loan, the settlement sheet reflects a disbursement of \$500 to the mortgagors escrow account. The subsidiary ledger card maintained in support of this loan does not reflect any entries for an escrow account. This is consistent with the fact that this would not be necessary in any event on an unsecured loan. Please advise this Division as to who received this \$500.

Comment 2: Delinquencies

A. An analysis of the subsidiary mortgage loan records reflected the existence of sixty-two delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$1,297,049.36 as of the date of the current examination, representing a delinquency ratio of 13.3% of the total mortgage loan balances outstanding.

During the period of the current examination, the total outstanding balance of the delinquent accounts increased from \$384,600.19 to \$1,297,049.36. Delinquent and unpaid interest on the loans subject to comment totaled \$56,607.07.

A review of the loans subject to comment scheduled on page 9 of this report reflected that loan Nos. 3468, 3874, 3952, 3992, 4044, 4050, 4057, 4059, and 4074 had not been amortized during the twelve month period immediately preceding the date of the current examination. The borrowers in thirty instances paid less than one-half the required payments during the same period. This review also reflected that 29 of the 62 delinquent loans were granted since April 15, 1976, the date of the last regular examination of the association.

The examiners' review also revealed that two individuals, Mr. Nicholas Mitsos and Mr. Elliott Kayne, were responsible for \$253,223.60 and \$102,281.80, respectively, representing 2.6% and 1.1% of the total mortgage loan balances outstanding as of the date of the current examination. The combined dollar amount of indebtedness of these two individuals totals 27.4% of the delinquent accounts scheduled on page 9 of the report.

Additionally, the examiners have noted that loan Nos. 3345, 3448, 3637, 3638 and 3691 were subject to comment in the prior report of examination and that loan Nos. 3500, 3509, 3589, 3645, and 3656 were also subject to comment in the prior report of examination, but these loans have been modified and consolidated into loan No. 4069 in the names of Walter and Lillian Spence.

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B. The total indebtedness (unpaid principal plus overdrawn escrow) on 13 of the 62 loans listed on page 9 of the report exceeded the original amount of the instruments securing these loans. The total indebtedness on these 13 loans was \$267,113.52 which exceeded the aggregate total of the instruments securing these loans by \$12,635.02.

An additional 39 of the 62 loans listed on page 9 had total debt exceeding the original amount of indebtedness when delinquent and unpaid interest was added to the unpaid principal plus any amounts overdrawn from the escrow accounts. The aggregate amount of these 39 loans was \$1,157,432.89 which exceeds the amount of the original instruments securing these loans by \$43,232.89.

C. Due to the extraordinary number of delinquent accounts at the association, the examiners conducted an in-depth analysis of the subsidiary mortgage loan records relative to delinquent accounts.

This analysis disclosed the following:

<u>Days in Arrears</u>	<u>No. of Accounts</u>	<u>Total Dollar Amount of Delinquency</u>	<u>% of Total Mortgages</u>	<u>% of Total Net Worth</u>	<u>Total Amount of Unpaid Interest</u>
over 90 days	62	\$1,297,049.36	13.3%	293%	\$56,607.07

In investigating this matter further, the examiners noted the following with respect to accounts that were 30 days or more past due:

<u>Days in Arrears</u>	<u>No. of Accounts</u>	<u>Total Dollar Amount of Delinquency</u>	<u>% of Total Mortgages</u>	<u>% of Total Net Worth</u>	<u>Total Amount of Unpaid Interest</u>
30 days	51	\$1,003,073.87	10.3%	227%	\$ 8,479.60
60 days	40	800,994.95	8.2%	181%	13,444.82
90 days	8	360,816.66	3.7%	82%	10,189.96
Total	99	\$2,164,885.48	22.2%	490%	\$32,114.38

When these figures are added to the accounts which are delinquent under the definition contained in Regulation .01G, the following picture of the association's mortgage portfolio emerges:

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into current income and at the same time capitalized and added to the outstanding amount of the borrower's indebtedness. It is important to note that loan modifications and consolidations have not been included in the delinquency schedules unless the modification and/or consolidated loans meet the specific criteria set forth for inclusion in the comment. Consequently, some loans which had been modified and/or consolidated due to prior delinquencies were not included above if they were current at the time of the examination.

- F. An analysis of the subsidiary mortgage loan records for Monumental City Service Corporation reflected the existence of seven delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$95,220.00 as of the date of the current examination representing a delinquency ratio of 42% of the total mortgage loan balances outstanding.

The delinquent and unpaid interest on the loans subject to comment totaled \$5,605.76.

A loan portfolio yield analysis was prepared by the examiners and it was noted that contractually the portfolio should have yielded 11.3%. Based on collections the actual yield was 6%, with the cost of money averaging 9.1%.

Comment 2.1: Mortgage Loan Foreclosures

The Management Questionnaire submitted by the association disclosed that foreclosure proceedings had been instituted on 35 loans since the prior examination date of April 15, 1976. Consequently, an independent analysis was made by the examiners of the 15 loans which had been foreclosed and sold during the period April 15, 1976 through August 1, 1978. The majority of these foreclosures were handled by Mr. Jeffrey A. Levitt, the association's attorney. A few foreclosures, however, were handled by Mr. Samuel Aaron who is the father of the association's president. As noted previously in these comments, the association's non-existent loan underwriting policies and poor collection procedures were the primary cause of this extremely high number of foreclosures. On the average, a moderately well-run \$10 million association could expect to experience 2 or 3 foreclosures in this time frame--First Progressive experienced 35. The examiners' review of the 15 loans which had been foreclosed and sold disclosed several significant areas of concern, including the following:

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1. Improper distribution of sale proceeds by the trustee. The examiners have determined that the association's attorney, Mr. Jeffrey A. Levitt, has misapplied \$13,898.23 in connection with the distribution of the proceeds of foreclosure sales which he handled for the association. This amount does not include \$2,887.98 in connection with the foreclosure on loan No. 3916, which he turned over to the association when this matter was brought to his attention by the examiners. (See Loan Nos. 3916, 3912, 3961, 3703 and 3964).
The examiners also noted in reviewing the foreclosures that Mr. Levitt failed to remit funds on a timely basis in connection with the settlement of loans by the association. (See loan No. 3961).
2. Excessive trustee fees and excessive auctioneer fees. The examiners reviewed the trustee fees charged by the association's attorney, Mr. Jeffrey A. Levitt, as well as the auctioneer fees charged by Mr. Samuel J. Aaron and other auctioneers in accordance with the Baltimore City Code and the Supreme Bench Rules or applicable rules of other localities and determined that these fees were excessive in several instances. (See Loan Nos. 3961 and 3964.)
3. Improper accounting for foreclosures by the association. The examiners noted at least seven instances where transactions in the foreclosure process were not properly accounted for by the association. In several instances, the association acquired title to properties at public auctions and yet the properties remained in the mortgage loan receivable account and were not transferred to real estate owned. Additionally, the association has failed to properly account for gains or losses in connection with the sale of properties acquired through foreclosure.
Lastly, as noted above, the association exercised no control over the activities of the association's attorney, Mr. Jeffrey A. Levitt, as in many instances proper remission of foreclosure proceeds was not made to the association. (See Loan Nos. 3912, 3850, 3961, 3964, 3468 etc., 3958 and 3791.)
4. Improper application of hypothecations. The examiners noted several instances where mortgage hypothecations were applied against the outstanding indebtedness at the time foreclosure proceedings were instituted. At that time, no determination had been made as to whether the association would suffer a gain or a loss. On the other hand, the examiner

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noted that the association did not apply mortgage hypothecations against the indebtedness even after a loss had been realized when these accounts were owned by Samuel J. Aaron, the father of the association's president. (See Loan Nos. 3961, 3964, 2896, 3468, 3868 and 3958.)

5. Self-dealing. In reviewing the foreclosure process at the association, the examiners noted numerous instances where the ultimate purchaser of a property at foreclosure sale was in some way related to the association. In several instances, properties were acquired by the association's attorney, Mr. Jeffrey A. Levitt, or Mr. Samuel J. Aaron, the father of the association's president. In other instances, properties were acquired by individuals such as Messrs. Gerald Leibowitz, Walter Spence, and Gilbert Sapperstein, who are well known by the association's officers and personnel and do business with the association on a regular basis.

One glaring inconsistency was noted by the examiners. As noted in the delinquency comments, individuals who are well known by the association's officers and personnel are often afforded the luxury of not making payments on mortgage loan accounts for as long as two years. At the same time, some borrowers who are not well known by the association are foreclosed on immediately upon becoming 90 days past due when it is obvious that foreclosure will be a profitable alternative for the association. Loan No. 3961 is the most obvious example of this practice. (See Loan Nos. 3850, 3961, 3703, 2896, 3528, 3468 etc., 3868, and 3958.)

A review of the files documenting these 15 foreclosures disclosed the following deficiencies on a case-by-case basis:

Loan No. 3916

This loan was granted on September 22, 1976 in the amount of \$37,500. At the time this loan was granted, the association also obtained a \$2,500 hypothecation from Coastal Mortgage Company which is owned by Mr. Warren D. Klawans, who is well known by the association's officers and personnel. Foreclosure proceedings were instituted on November 3, 1977 and at that time, the loan had an unpaid balance of \$37,471.73. The property was bought at public auction for \$43,000, which should have been more than sufficient to cover the association's indebtedness, plus any costs associated with foreclosure.

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A further review of this foreclosure disclosed that the association was due \$37,887.98 out of the sale proceeds after foreclosure costs.

Mr. Jeffrey Levitt, the association's attorney, remitted only \$35,000 to the association and retained the remaining \$2,887.98. The Court Auditor's report indicates that the association was due \$2,485.50 in delinquent interest; however, it only received \$50.52 from Mr. Levitt. When the examiners brought this matter to Mr. Levitt's attention, he promptly wrote a check for \$2,887.98 to the association. However, Mr. Levitt had the use of these funds for eleven months.

In reviewing this foreclosure, the examiners also noted that the association applied the mortgage hypothecation of Coastal Mortgage Company in the amount of \$2,616.38 against this indebtedness. This amount included \$116.38 in accumulated dividends. The examiners have calculated that only \$2,394.98 of the \$2,887.98 was due the association. The remaining \$493.00 must be refunded to Coastal Mortgage Company.

Loan No. 3912

This loan was granted on September 14, 1976 in the amount of \$25,500 and was secured by the property located at 7812 St. Bridget's Lane. On August 16, 1977 foreclosure proceedings were instituted and the association acquired this property at public auction on February 1, 1978. This property was never reflected on the association's books as real estate owned as it remained in the mortgage control account in the general ledger. On April 19, 1978, the association sold this property to Frederick Ackwith & Jean Rizer for \$30,400 and at the same time granted loan No. 4098 to the purchasers in the amount of \$28,800. No gain or loss on this transaction was booked or recognized by the association.

A further review of this transaction disclosed that an appraisal was obtained from Mr. Eugene Denver in the amount of \$30,500 yielding a loan-to-appraisal ratio of 94% which violates the provisions of Regulation .30C(2)(a). After the payment of settlement costs by the association on behalf of the borrowers, the trustee received \$27,112 out of the sale proceeds. A review of the subsidiary cards maintained for loan No. 3912 disclosed that Mr. Jeffrey Levitt, the association's attorney, remitted only \$21,522.13 out of the sale proceeds. Accordingly, Mr. Levitt has withheld \$5,589.87 in his account which must be remitted to the association immediately.

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Loan No. 3850

This loan was granted on May 20, 1976 in the amount of \$13,000 and was secured by the property located at 5611 Wayne Avenue. On November 5, 1976 foreclosure proceedings were instituted as the borrowers had made only one payment on this loan. The association acquired this property at public auction, however, this property was never reflected on the association's books as real estate owned, as it was never removed from the mortgage control account. On April 21, 1977, the association sold this property to Sheila Wilson for \$21,900 and while granting Mrs. Wilson loan No. 4003 in the amount of \$21,400 No gain or loss on this transaction was booked or recognized by the association.

A further review of this transaction disclosed that an updated appraisal was obtained from Mr. Eugene Denver in the amount of \$22,000, yielding a loan-to-appraisal ratio of 97.3% which violates the provisions of Regulation .30C(2) (a). No financial information on the borrowers was in file. At settlement, \$3,000 was withheld for repairs which were to be made under the supervision of Ben Hur Realty, a company which is owned by Mr. Stewart Greenbaum, one of the directors of the association. A further review also revealed that Mr. Greenbaum's realty company received a commission on the sale of this property in the amount of \$2,250 which exceeds the 10% rate established in the sales contract by \$60.00. The association is directed to obtain a reimbursement in this amount from Mr. Greenbaum.

Loan No. 3961

This loan was granted on November 16, 1976 in the amount of \$30,000 and was secured by a bar located at 633 North Duncan Street, as well as the borrower's residence located at 2713 Goodwood Road. As additional security, the association also required a hypothecation in the amount of \$2,050.00 from Hilltop Mortgage Company which is owned by Mr. Norman Libowitz who is well known by the association's officers and personnel. The examiners also noted that this \$2,050 hypothecation was not remitted by the settlement attorney, Mr. Jeffrey A. Levitt, until February 9, 1977--three full months after settlement and at that time he remitted only \$2,000 while \$2,050 was withheld at settlement. The borrower's payment record was perfect through August 1977. On November 17, 1977 foreclosure proceedings were instituted and these properties were sold at public auction on January 5, 1978.

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At the time of this foreclosure, the outstanding indebtedness totaled \$29,674.52. No adjustments were made to the mortgage control account for loan No. 3961 until April 10, 1978.

The examiners' review of the Court Auditor's Report, Statement of Mortgage Debt and other pertinent foreclosure documents disclosed that several charges were made in connection with this foreclosure which exceeded the permissible limits established in both the Baltimore City Code, as well as the Supreme Bench Rules. These charges are as follows:

	<u>Permissible Charge</u>	<u>Actual Charge</u>	<u>Over- Charge</u>
1. Trustee Commissions	\$1,211.00	\$3,580.00	\$2,369.00
2. Auctioneer Fees	1,008.50	1,469.00	460.50
3. Interest Miscalculation by Trustee	905.70	3,299.16	2,393.46
4. Attorney Fees--Not provided for in Deed of Trust		50.00	<u>50.00</u>
Total Excess Foreclosure Costs			<u>\$5,272.96</u>

As a result of these foreclosure proceedings, no loss of principal or interest was sustained by the association and the proceeds of the sales were more than sufficient to cover the costs of the Trustee, Mr. Jeffrey A. Levitt. On April 7, 1978, however, Mr. Jeffrey A. Levitt ordered that the mortgage hypothecation referred to above be closed and the balance applied against the loan. Consequently, the mortgage hypothecation owner lost a total of \$2,197.17--his original balance of \$2,000 (the \$50.00 noted above was never placed in the account) plus \$197.17 in accumulated dividends.

Following the sale of these properties, Mr. Levitt did not make proper remissions to either the association or the mortgagors and he is still holding the following funds:

First Progressive Interest Due	\$1,785.58
Mortgagors--Balance of Proceeds	1,835.71
Hypothecation Owner	<u>2,197.17</u>
Total	<u>\$5,818.46</u>

Unfortunately, the transaction did not end here as the association granted loan Nos. 4081 and 4096 to the individuals who purchased these properties at the foreclosure sale.

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Loan No. 4096 was granted in the amount of \$7,700 to Mr. Gilbert Sapperstein, who is well known by the association's officers and personnel, to purchase the bar located at 633 N. Duncan Street. The liquor license for this bar was also purchased by Mr. Sapperstein at the public sale, however, this important security was not included in the Deed of Trust and in fact was sold to another party by Mr. Sapperstein. The appraisal obtained by the association in support of Loan No. 4096 estimates the fair market value of 633 North Duncan Street to be \$12,000, including the liquor license. Without this security, there is no way of telling what the fair market value of this property is and we must require that the association provide this Division with an independent appraisal in support of this loan.

Loan No. 4081 in the amount of \$20,000 was granted to the purchasers of 2713 Goodwood Road. The appraisal in the file does not conform to the requirements of Regulation .23B and reads as follows:

"Property sold at public auction for \$26,300, which would be the fair market value. House is a two-story frame dwelling in good condition. Excellent middle-class neighborhood. A mortgage of \$20,000 can safely be made."

The appraisal was made by Mr. Jeffrey A. Levitt, the association's attorney, and M's. Susan Naumann, the association's office manager. To the best of our knowledge, neither of these individuals possess any of the necessary qualifications to make an appraisal of real estate and consequently we must require that the association provide this Division with an independent appraisal in support of this loan.

Loan No. 3703

This loan was granted on November 7, 1975 in the amount of \$31,000 and was secured by the property located at Route 4, Box 240, Hillcrest Street, Anne Arundel County, Maryland. On August 23, 1976 foreclosure proceedings were instituted and at that time the loan had an unpaid balance of \$30,818.71. On October 6, 1976, the property was sold at public auction for \$36,500--an amount more than sufficient to cover the indebtedness to the association plus miscellaneous costs associated with the foreclosure.

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In distributing the proceeds of this sale, however, the trustee, Mr. Jeffrey A. Levitt, did not remit \$1,047.84 in delinquent and unpaid interest which was awarded to the association by the Court. The association should obtain reimbursement from Mr. Levitt of this amount immediately.

A review of the Statement of Mortgage Debt which was filed with the Court by Mr. Levitt disclosed that the association's interest claim was understated by the amount of \$188.32, which amount was passed on to the owners of a second mortgage on this property. The owners of this second mortgage are Lexington Corporation which is owned by Mr. Samuel J. Aaron, father of the association's president, and Hilltop Mortgage Company which is owned by Mr. Norman Libowitz, who is well known by the association's officers and personnel. The association should obtain reimbursement of this amount immediately from either Mr. Levitt or the owners of the second mortgage.

Loan No. 3964

This loan was granted on November 22, 1976 in the amount of \$16,500 and was secured by the property located at 1314 E. Cold Spring Lane. As additional security the association also required a hypothecation in the amount of \$700.00 from the seller which was later purchased by Hilltop Mortgage Company which is owned by Mr. Norman Libowitz who is well known by the association's officer and personnel. The examiners' review of the Court Auditor's Report, Statement of Mortgage Debt and other pertinent foreclosure documents disclosed that several charges were made in connection with this foreclosure which exceeded the permissible limits established in both the Baltimore City Code, as well as the Supreme Bench Rules. These charges are as follows:

	<u>Permissible Charge</u>	<u>Actual Charge</u>	<u>Over- Charge</u>
Trustee Commissions	\$615.00	\$1,800.00	\$1,185.00
Auctioneer Fees	510.00	770.00	<u>260.00</u>
Total Excess Foreclosure Costs			<u>\$1,445.00</u>

As a result of these adjustments, the \$1,445 is available for distribution by the trustee, Mr. Jeffrey A. Levitt and should be remitted as follows:

First Progressive Interest Due	\$ 689.46
Hypothecation Owner	<u>755.54</u>
Total	<u>\$1,445.00</u>

As a point of information, it should be noted that the association received the entire principal amount of indebtedness out of the foreclosure proceeds, however, they did not receive delinquent and unpaid interest in the amount of \$689.46

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Additionally, the mortgage hypothecation owners lost a total of \$757.92 which includes the original balance of \$700.00 plus \$57.92 in accumulated dividends. Consequently, the remaining \$755.54 should be returned to the owner of the hypothecation.

One final note. Although this loan was foreclosed on January 13, 1978, it was not removed from the mortgage loan control account in the general ledger until May 23, 1978.

Loan No. 2896

Foreclosure proceedings to recover the unpaid balance of this loan in the amount of \$3,004.91 were instituted on September 27, 1976 for the property securing this loan was purchased at public auction by Mr. Samuel J. Aaron, father of the association's president, for \$1,100. The association, however, was protected on this transaction as it applied a \$2,000 hypothecation established by the seller of this property in 1961 to the unpaid balance. Mr. Aaron later reimbursed the association for the remaining \$814.91 in foreclosure costs associated with this transaction so that the association did not sustain a loss.

Loan No. 3528

This loan was granted on December 8, 1969 in the amount of \$10,500. Foreclosure proceedings were instituted on May 29, 1977 and prior to this property being put up for public auction, the association sold the loan to Mr. Samuel J. Aaron, father of the association's president, for the amount of the outstanding principal indebtedness which totaled \$5,019.25. At the time of this sale, the association failed to collect delinquent and unpaid interest in the amount of \$406.00.

Loan Nos. 3468, etc.

Loan Nos. 3468, 3637, 3638 and 3725 were granted to John & Mary Newsome and/or various companies controlled by them in the aggregate amount of \$27,300 and were secured by ten properties located in Baltimore City. John & Mary Newsome are well known by the association's officers and personnel. As additional security for these loans, the association required hypothecations totaling \$8,600.00 from Mr. Samuel J. Aaron, the father of the association's president. At various stages during the life of these loans, four of the properties securing the loans were released to the Newsomes. The remaining six properties were foreclosed

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in March of 1977 by the association and the association sustained a net loss of principal of \$11,710.33, plus delinquent and unpaid interest of \$2,312.74 for a total loss of \$14,023.07.

On May 31, 1978, a journal entry was made by the association's accountant to close Mr. Aaron's hypothecated accounts and to close these mortgage loan receivable accounts. As of the close of the examination, however, Mr. Aaron's accounts were still reflected on the savings subsidiary trial and were still accumulating dividends. Additionally, at the close of the examination, no loss on these loans had been charged against General Reserve for Losses.

In connection with the sale of the various properties securing these loans at foreclosure, the examiners noted that the association granted three new loans to Walter & Lillian Spence, who are well known by the association's officers and personnel, so that they could acquire three of these properties. It was also noted that another property was purchased at the foreclosure sale by Becky, Ltd. which is owned by the association's attorney, Mr. Jeffrey A. Levitt.

Loan No. 3868

This loan was granted on June 8, 1976 in the amount of \$12,000 and was secured by the property located at 3320 Haywood Avenue, Anne Arundel County, Maryland. As additional collateral, the association required a hypothecation in the amount of \$2,500 from Lendrin Builders which is owned by Leroy Applefeld who is well known by the association's officers and personnel. Foreclosure proceedings were instituted on January 26, 1977 and the property was purchased at public auction for \$10,500 by Modern Mortgage Company which is owned by Mr. William G. Conkling--the former office manager of First Progressive. No loss of principal was sustained by the association, however, as the trustee, Mr. Jeffrey A. Levitt, applied the hypothecation against the indebtedness and reduced his fees in connection with the handling of this transaction. Modern Mortgage Company, in turn, sold this property to a new purchaser and the association granted loan No. 4013 in the amount of \$10,500 on May 26, 1977 to finance this purchase.

In connection with the settlement on loan No. 4013, a \$2,000 brokerage fee was paid "outside of closing" ^{by the purchaser} which was not listed on the settlement sheet. This violates the express provisions of Article 23, Section 161GG of the Code. Documentation in the file indicates that this \$2,000 fee was split so that Modern Mortgage Company received \$1,500 while \$500 went to Lendrin Builders-- the company whose hypothecation had been applied against loan No. 3868. The

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appraisal contained in loan No. 4013 did not meet the requirements of Regulation .23 and read as follows:

"Two story brick semi-detach home. Three bedrooms, living room, dining room, kitchen, oil heat. House was sold at foreclosure for ~~\$12,500.00~~ and a mortgage of \$10,500.00 can safely be made.

NOTE: At the time of sale the Association announced that said mortgage was available to the successful purchaser. Mortgage made to facilitate sale. Middle class area."

This appraisal was signed by Mr. Jeffrey A. Levitt, the association's attorney and M's Susan Naumann, the association's office manager. To the best of our knowledge, neither of these individuals possess any of the necessary qualifications to make an appraisal of real estate and consequently, we must require that the association provide this Division with an independent appraisal in support of this loan.

On March 10, 1978, the owner of this property conveyed it to new purchasers for \$11,500 and the association then granted loan No. 4097 in the amount of \$11,500 to finance this conveyance. At the time of this last transaction, the property was reappraised by Mr. Jeffrey A. Levitt, the association's attorney, and Mr.

Samuel J. Aaron, the father of the association's president, for \$12,500. Based on either the appraisal or the purchase price, this loan exceeds the 90% limitation imposed by Regulation .30C(A)(2).

Loan No. 3958

This loan was granted on November 5, 1976 in the amount of \$7,250.00 and was secured by the property located at 2221 Sidney Avenue. On December 28, 1977 foreclosure proceedings were instituted to collect the unpaid balance of \$7,262. The amount of the indebtedness at the time foreclosure proceedings were instituted exceeded the original amount of the loan because the association had capitalized delinquent interest on this loan in May of 1977. This property was purchased by the association at foreclosure for \$3,000, however, it has not been transferred to a real estate owned account and still remains in the mortgage loan receivable account in the general ledger. Although the association suffered a substantial loss of principal on this transaction, no loss has been charged against the association's Reserve for Losses Account. Additionally, the association has not yet applied the mortgage hypothecation which was also required as collateral for this loan against this loss. A hypothecation in the amount of \$3,625 was required

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from the sellers at the time this loan was granted. The examiners also noted that the association expects to receive \$608.00 in insurance proceeds and this amount had not been applied against the indebtedness.

One final note. Examiners were advised during the course of the examination that Mr. Jerome Lebowitz, an individual who is well known by the association's officers and personnel, had verbally agreed to purchase this property from the association for \$4,000 around August 1, 1978. Please provide us with complete details as to the current disposition of this property.

Loan No. 3791

This loan was granted on February 2, 1976, in the amount of \$50,000 and was secured by the property located at 12 Sunday Court, Baltimore County, Maryland. On September 1, 1976, foreclosure proceedings were instituted as the borrower had made only two payments since the inception of the loan. At this time, the unpaid balance was \$49,955.75. The property was purchased at foreclosure on March 14, 1977, however, this sale fell through and no documentation is contained in the association's files as to why this transpired. On May 23, 1977, First Progressive brought this property at public sale for \$40,000. This property remained in the mortgage loan receivable account and was never transferred to the real estate owned account.

On September 25, 1977, the association sold this property for \$57,900 at the same time the association granted loan No. 4061 to the purchaser in the amount of \$56,900 and additionally paid \$1,496.48 of the total settlement costs of \$1,700. Consequently, the borrower had no equity in this property. Additionally, loan No. 4061 carried an interest rate of only 7½% and no appraisal report was obtained as required by Regulation .23B. As of the completion of the examination, the association had not posted a gain or loss on the sale of this real estate owned or made any adjustments for an imputed interest loss on this transaction as required by A.I.C.P.A. guidelines. The examiners calculation disclosed that the association suffered no loss of principal on this transaction, however, they did lose \$4,122.37 in uncollected interest.

One final note. The examiners noted that the association maintained open mortgage loan subsidiary cards for both loan Nos. 3791 and 4061 from the date loan No. 4061 was granted on November 30, 1977 through December 7, 1977. Consequently, the association's mortgage loan receivable trial could not have proved for this period of time.

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Comment 3: Subsidiary Mortgage Expense Accounts

An analysis of the subsidiary mortgage expense accounts reflected that 53 accounts had overdrawn balances totaling \$18,218.51 as of February 28, 1978. The sheer volume of overdrawn accounts precipitated a more thorough examination of the borrowers' expense accounts, and this examination was extended through May 5, 1978 in order to determine the current status of these accounts. This review disclosed the following:

1. As of May 5, 1978, 42 mortgage expense accounts had overdrawn balances totaling \$15,198.19. The examiners also noted that \$38,861.17 was paid out of these accounts just for real estate taxes in the tax year 1977/78. When this figure is added to the overdrawn balances in these accounts, the examiners have calculated that a shortage exists of \$54,059.36 for the payment of 1978/79 real estate taxes.
2. The examiners also determined that a shortage of escrow funds exists in 51 additional accounts as of May 5, 1978 to pay the 1978/79 real estate taxes. The current balances of these accounts was \$13,407.91 and the examiners noted that \$43,932.09 was paid out of these accounts for real estate taxes in the 1977/78 tax year. Consequently, an escrow shortage of \$30,524.18 exists in these 51 expense accounts.
3. By adding these figures together, the examiners calculated a total shortage of \$84,583.54 in these 93 mortgage expense accounts as of May 5, 1978.

Comment 4: Loan-to-Value Violations

- A. During the period of the current examination, the association granted twenty loans on which the original amounts exceeded 80% of the appraised value of the security mortgaged to the association. As of February 28, 1978, the total principal balances of all over 80% loans totaled \$1,391,251.13 representing 13.3% of the total assets as of that date. Regulation .30D(2) provides that the aggregate outstanding principal balance of all loans made upon the security of improved real or leasehold property in excess of 80% of the market value of such property shall not at any time exceed 10% of the association's total assets.

A further review of this matter disclosed that the principal balances on loan Nos. 3881, 3930, 3963, 4016, 4053, and 4055 exceeded 100% of the appraised value of the security for these loans.

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- B. Loan Nos. 3964, 3967, 3990, 3995, 3998, 4003, 4014, 4016, 4053, 4055 and 4061 were granted upon the security of improved residential property with loan-to-appraisal ratios in excess of 90% of the market value of the security. Regulation .30C(2)(a) provides that the aggregate amount of any loan made upon the security of improved residential property shall not exceed 90% of the market value of the security.

Comment 5: Share Loan Exceptions

An examination of the records supporting the free share loans revealed the following:

- A. The association requires that all passbooks securing share loans be maintained at the association in its possession.
The passbooks securing share loan Nos. 3545, 3731, 3738, 3742 and 3748 are not being retained. These passbooks belong to Mr. Samuel Aaron, Mr. Jeffrey Levitt and his wife, Karol Levitt.
- B. Share loan No. 3848 does not reflect the number of savings accounts pledged as security on the note or pledge agreement.
- C. The files for share loan No. 4037 contains two separate notes making up the total loan. One note is for \$40.00 and is not backed up by a pledge agreement, loan disclosure statement or Federal Truth-in-Savings statement, as required by Regulation .24.
- D. Regulation .24(B) requires that all notes be executed under seal. The only notes executed under seal were those to Jeffrey Levitt.
- E. Regulation .24(d) requires that the free share ledger indicate the amount of the pledge. The association uses an N.C.R. terminal which does not disclose the amount of the pledge.
- F. An analysis of share loan No. 3687 reflected that, based on the computations by the examiner, Mr. Albert Aaron owes the association \$85.61 in interest due to improper calculation.
- G. A review of the interest collections on the share loans reflected that share loan Nos. 3731, 3738, 3742 and 3848 which belong to Jeffrey and Karol Levitt, all were seven months delinquent except for share loan No. 3738 which was only six months delinquent.
The outstanding balance of these accounts was \$37,000.00 and the unpaid interest totaled \$1,561.38. This represents a delinquency ratio of 53% of the total outstanding free share loan balances.

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Comment 6: Accounting Deficiencies

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

- A. The total of the subsidiary mortgage loan accounts exceeded the balance in the general ledger control account by \$6,019.58.
- B. The total of the subsidiary participation loan accounts exceeded the control account in the general ledger by \$386.43. This amount was later written off.
- C. The total of the subsidiary savings certificates (7½%) was \$2,108.18 less than the control account in the general ledger.
- D. The total of the subsidiary mortgage expense accounts was \$1,621.74 less than the control account in the general ledger.
- E. Additional review of the above variances reflected the following inadequacies:
 1. Manually run trials were not initialed by the preparer.
 2. Adjustments to the manually run trials were not labeled or explained.
 3. Of the tapes reviewed, Mortgage Loans, Participation Loans and Expense Accounts reflected unreconciled differences.
 4. Review of the subsidiary print-outs revealed that a difference had been carried since before December 31, 1976 and remained unresolved. The association replied that it was corrected when in fact it was not.
 5. Reconciliations done on the subsidiaries are maintained at the CPA's office and not on the association's premises.
 6. Certain corrections were made but had no journal back up. It was noted that corrections can be made by activating the journal key on the terminal and it will back date the entry. No supervisory over-ride key is necessary, therefore, no record or control is maintained over these transactions.
 7. Finally, review reflected that tapes run were not always using accurate numbers. If the reconciliation didn't prove, the matter wasn't pursued any further.

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- F. Review of the loan participations with Annapolis Federal Savings and Loan Association reflected that First Progressive Savings and Loan Association is the servicer and retains a 10% interest in the loans. As of the current examination, the association booked only their 10% interest. Proper accounting for participation is for the servicer to book the gross amount of the loan(s) and offset this total with a contra-account reflecting the participation interest.
- G. A review of the records supporting furniture, fixtures and equipment and related depreciation of these items revealed that in two instances the balances carried forward from one month to the next on October 31, 1976 and November 30, 1976 were \$5,328.24 less and \$7,497.36 greater respectively, than the balance which should have been forwarded. No journal entry or cash disbursement reference supported these changes. The net effect of the two variances reflected a net overstatement of the asset account in the amount of \$2,169.12. Additionally, it was noted that the association is continuing to make entries by writing checks to itself. Cash disbursement No. 2745 increased the Furniture & Fixtures Account by \$587.45 in this manner.
- H. Review of the "Note Payable Xerox" reflected that this payable was consumated per agreement on November 21, 1977, however, it was not recorded on the books until March 31, 1978. This understated the general ledger for December 31, 1977 and February 28, 1978 by \$7,866.00.
- I. A review of the ground rents owned by the association reflected the following:
1. Ground rents located at 1915 Fairbanks Avenue and 3806 W. Garrison Avenue which were sold in 1969 and 1970, respectively, have not been released from the deed held by the association.
 2. No subsidiary cards are maintained to support the general ledger balance or record the collection of rents.
 3. For the months of January 31, 1978 and February 28, 1978, the general ledger reflected no ground rents balance in the account. The balance had been plugged into REO.
 4. The ground rents located at 1721 Moreland Avenue and 1903 W. ¹⁹¹¹⁴ Fairmount Avenue were sold in 1975 but not released from the Deed.
- J. Review of the checking accounts with Union Trust Company and Equitable

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Trust Company revealed the following:

1. The Equitable Trust account has had no activity since December 31, 1976. The account remains open and has an outstanding balance of \$25.58. However, two checks in the amount of \$113.67 are still outstanding.

2. The Union Trust account review reflected two items outstanding since March 10, 1977 totaling \$2.30.

K. Review of the MRD-K8 reflected that the association remitted \$10.00 less to the State than the amount completed on the return.

L. Review of the "Investment in Property" account reflected the following:

1. Two journal entries, AE 27 & 28 were made to remove \$1,238.06 and \$2,507.46, respectively, from the account. Both of these items were transferred to the Exchange Account and represented a claim from M.G.I.C. which did not appear to be recoverable.

Additionally, these receivables should have been reflected as such instead of being held in the exchange account.

2. Journal entry 47 was made which capitalized a loss on Patterson Park Avenue, and taxes on Hayward Avenue. The capitalization of losses is improper, and should have been charged to the Reserve for Bad Debts.

M. Analysis of the association's net worth accounts reflected the following:

1. The association transferred \$1,794.00 from the reserve for bad debts to the M.S.S.I.C. reserve on December 31, 1976. This transfer is not permissible under State Law and must be reversed.

2. The association incurred a loss for the year December 31, 1976 on Loan No. 3450 in which the property was taken by the city. This loss was for \$949.96 and was charged through operations. For GAAP accounting this charge is acceptable, however, for State purposes the loss should have been charged to the Reserve for Bad Debts.

N. Review of the borrowed money reflected that the association did not monitor interest billed by the bank or interest which should be due.

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- O. Review of various selected expense accounts revealed the following:
1. Five employees received bonuses in varying amounts which were reflected in the miscellaneous expense account which should have been charged to Payroll Expense.
 2. The association charged \$324.78 to the miscellaneous account for a trip made by Robert Gordon. This should have been charged to the Officers & Directors Expense Account.
 3. The \$300.00 FNMA membership dues should have been charged to organizational dues.
 4. Finally, the \$10.00 remittance to the Maryland Department of Assessments & Taxation should have been charged to the Taxes Expense Account.
- P. The journal vouchers prepared by the CPA for 1976, 1977 and 1978 were not being maintained by the association.
- Q. Interest accruals were almost double the actual collections being made by the association in December 1977. The purpose of this accrual is to reflect a "reasonable" estimate of income which is to be collected in future periods. The delinquency problem was ignored by the accountants when the interest was accrued in that no adjustment was made for uncollectable interest as noted elsewhere in these comments.
- R. Review of the annual reports for 1976 and 1977 submitted to the Division did not agree with the general ledger or the CPA reports. The 1977 annual report did not reflect year end adjusting entries and these entries were not booked until April 13, 1978.
- S. Review of prior loans records reflected that two loans were sold to Merritt Savings and Loan "with recourse". The two loans amounted to \$268,446.00 and were not disclosed in the financial statements as a contingent liability.

Comment 6.1: Interest Accruals

In light of the delinquency problems previously discussed in these comments, the examiners reviewed the association's policy with respect to accrued interest on mortgage loans receivable. Under both generally accepted accounting principles, as well as the regulations of the Federal Home Loan Bank Board, a Reserve for Uncollected Interest account is established where interest is accrued on loans which meet the following criteria:

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1. Earned but uncollected interest has been due and uncollected for more than 90 days,
2. Foreclosure proceedings have been instituted,
3. Collection is doubtful due to chronic delinquency.

In the alternative, interest simply is not accrued on loans which met these criteria.

The examiners reviewed the workpapers of the association's accounting firm and isolated all loans on which:

1. Interest accruals had been made although interest was due and uncollected for more than 90 days, or
2. Interest accruals had been made on loans which have previously been modified and were currently 90 days or more in arrears (note: prior modification involved capitalization of delinquent interest),
3. Foreclosure proceedings had been instituted.

The examiners' review disclosed that 33 loans met the first two criteria listed above. These loan Nos. are as follows: 3387, 3448, 3604, 3615, 3638, 3639, 3644, 3652, 3664, 3691, 3725, 3767, 3775, 3785, 3801, 3822, 3828, 3878, 3880, 3897, 3912, 3924, 3930, 3937, 3947, 3949, 3952, 3958, 3961, 3992, 4039, 4050 and 4069.

Additionally, the examiners noted that foreclosure proceedings had been instituted on the loan Nos. 3912, 4044, 3961, 3725, although interest was still being accrued on these loans. An interest accrual for the year ended December 31, 1977 was made by the association's accounting firm in the amount of \$118,781.01. By adjusting these figures for the excess interest (over 90 days, etc.) accrued by the association's accountant, the examiners calculated that interest was overaccrued in the amount of \$24,449.84.

The examiners discussed this matter with the association's accountant, Mr. Barry Glass, and he advised them that he didn't know what policy was followed by the association with respect to interest accruals. Based on the above analysis, it is apparent that interest on loans is continually accrued without respect to the current status of the loan. The association is directed to establish a specific policy with respect to interest accruals and to direct its accounting firm to comply with this policy immediately.

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Comment 6.2: Accounting Deficiencies - Monumental City Service Corporation

An examination of the books, records and accounting practices of Monumental City Service Corporation revealed the following:

- A. The total of the subsidiary mortgage loan accounts was \$1.75 more than the control account in the general ledger.

A further review of this subsidiary reflected that:

1. Several of the subsidiary loan sheets do not clearly reflect the loan amount and unpaid balances of the loan.
2. Loan No. 260-78 reflects that the loan is \$15,000.00.

Monumental's interest in this loan is actually \$10,000.00.

- B. Monumental is servicing 2 (or more) loans in which it is participating with other lenders.

These participations are not reflected in the general ledger accounts nor is any of the remittance to the participant reflected. The service corporation books only its portion collected, and does not appear to even get a servicing fee.

- C. The trial tapes are not run on at least a quarterly basis as required by Regulation .08.

- D. Loan No. 966-77 to Gilbert Sapperstein which is discussed in Comment 1.5 is a note loan and is reflected in the mortgage loans receivable account in the general ledger. A specific account is set up for note loans in the general ledger but is being used inconsistently.

- E. The records for borrowed money were not completed so as to indicate the balance owed after December 31, 1977.

Several notes and renewals of notes could not be tied into the general ledger.

- F. The adjusting and closing entries for the year ended December 31, 1977 were not posted until April 1978. Further review reflected that the general ledger had not been posted for January, February, March and April of 1978. This violates Regulation .08.

- G. The entries in the general ledger and cash receipts and disbursement book were insufficient to obtain a February 28, 1978 Trial Balance. The records were reconstructed from the checkbook and deposit records.

- H. The annual report for Monumental City Service Corporation had not been submitted to the Division for the year ended December 31, 1977.
- I. The checkbook for Monumental City Service Corporation was reviewed and the following was noted:
1. Reconciliations are not performed monthly per Mr. Glass.
 2. The checkbook is not maintained with a running balance so that the amount in the account can be determined.
 3. No explanation is provided for checks which were written in the checkbook. The dates for these checks are also not in the checkbook.
 4. The checking account only requires one signature. Good internal control would dictate two signatures be required to issue checks.
 5. The examiner did a proof of cash in the checking account as of May 11, 1978 and found it overdrawn by \$8,289.77.

Comment 6.3: Loans-in-Process

An examination of the records supporting the Loans-in-Process account in the general ledger reflected that the funds are kept in savings accounts which designate Jeffrey Levitt as trustee. The examiners requested to review the passbooks to examine the disbursements made out of the accounts, but the association could not produce the passbooks. No subsidiary cards were maintained in support of the loans-in-process account. In order to determine the dates and amounts of the disbursements made from these accounts, the examiners had to review the monthly printouts which disclosed when the accounts were established and when disbursements were made from the accounts.

The association should maintain subsidiary ledger cards to provide an accountability for the balance held in escrow and to determine that the draws are being properly disbursed.

Comment 6.4: Independent Auditors?

In accordance with routine examination procedures, the examiners made numerous requests of association personnel for accounting related materials. In most instances the examiners were referred to the association's accounting firm, Glass, Friedman & Trivas, C.P.A. When the accounting firm was contacted by the examiners, they indicated that they did not perform the functions in question. After this occurred several times, the examiners requested that management advise them, in writing, as to the duties and functions of the accounting firm. This letter was never provided.

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During the course of the examination, the examiners noted that numerous entries were made on the association's books and records by the association's accounting firm, however, this procedure has not been approved by the association's Board of Directors in the minutes. Additionally, many entries made by the association's personnel were not booked by the accounting firm. It was apparent to the examiners, that the accounting firm was making routine management decisions as to which accounting entries should be made. This day to day involvement in the association's operations greatly reduces the independence of this accounting firm. Through May 31, 1978, the accounting firm had been paid in excess of \$13,000 for accounting work performed in the first five months of the current fiscal year. Consequently, we must advise the association that the association must retain another accounting firm to perform the annual audit required by Regulation .06.

Comment 7: Minutes

A review of the minutes of the meetings of the Board of Directors and of the Executive Committee of the Association reflected the following:

- A. No attendance was recorded for the Board of Directors meeting held on June 7, 1976.
- B. The minutes did not reflect significant detail concerning delinquent loans and discussions of said loans (Based on the delinquency problem experienced, it would seem to indicate that very little Board action was taken to correct the problems).
- C. Dates payable on dividend declarations as well as the dividend period were not stated as required by Article 23, Section 161FF(c) of the Maryland Code.
- D. Proper allocation to the reserves before dividend declaration was not recorded as required by Article 23, Section 161EE of the Maryland Code.
- E. The minutes were not maintained on sequentially numbered pages for proper control.
- F. The minutes of the Executive Committee reflect very little discussion of underwriting criteria used in granting loans. The only information recorded is loan information (i.e., amount, term, rate and points) and approval noting who abstained.

First Progressive Savings and Loan Association

- G. Alan Pearlstein and Nathan Wechsler attended only 4 and 5 meetings, respectively, of the 23 meetings held by the Board of Directors since the last examination. At the same time, these directors received remuneration of \$100 per month. On June 13, 1977, the Board adopted a resolution which authorized the payment of Directors fees regardless of attendance, subject, however, to Board approval.
- H. Officers were not elected for 1977 and 1978 after the annual meeting as required by the association's charter and by-laws.

Comment 7.1: Minutes - Monumental City Service Corporation

A review of the minutes of the meetings of the Board of Directors of Monumental City Service Corporation reflected that:

- A. The Corporation is being managed by only 2 directors. State Law and the by-laws require a minimum of 3 directors.
- B. Minutes of previous meetings are not read and approved.
- C. Delinquencies and borrowed money are not noted in the minutes as being discussed at the meetings.
- D. The Board does not approve actions of the loan committee in the minutes.
- E. No minutes were kept for February, March, April of 1977, as well as from July 1977 through the date of the examination for the Board of Directors.
- F. Insurance commissions were collected in the amount of \$300.05. The corporation has no insurance license and has violated the licensing provisions of the State Insurance Code found in Article 48A of the Code.
- G. The officers and directors of Monumental are not covered by a Bond for Monumental nor is there an endorsement to that effect on the association's blanket bond.

Comment 8: Mortgage Hypothecations

A review of the records supporting mortgage hypothecations revealed the following:

- A. Loan No. 3829 and 3919 have two hypothecation agreements signed by the pledgor but neither makes reference to the free share accounts which were pledged as security for the loans.
- B. Loan Nos. 3831 and 3913 are additionally secured by hypothecations, but the account is not cross-referenced on the mortgage card.

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First Progressive Savings and Loan Association

- C. The teller has access to the hypothecation code which is necessary to make transactions affecting the hypothecated accounts. This function should be controlled by the manager to insure that proper control is maintained over the release of hypothecated accounts.
- D. The association released a hypothecation securing loan No. 3681 in accordance with the Executive Committee's approval in the minutes dated June 21, 1976. A further review of the matter disclosed that this hypothecation was released because the loan was assumed. There was no evidence in file pertaining to the credentials or stability of the borrowers assuming the loan. A review of the payment pattern of the borrowers who assumed the loan indicated that this pattern is very erratic and irregular. Since the assumption on or about February 28, 1977, the borrower has written six checks which have been returned due to nonsufficient funds.

The Board also apparently ignored the terms of its own pledge agreement as twice the amount of the hypothecation had not been paid to principal as required by the agreement.

It was also noted that Mr. Zell Hurwitz, who is well known by the association's officers and personnel, and Mr. Stewart Greenbaum, a Director of the association, hold second and third mortgages on this property, and in the opinion of the examiners, appropriate foreclosure action has not been taken by the association because one or both of the individuals listed above stand to lose their investments.

This is not in the best interest of the association or its members.

Comment 9: Conflict of Interest

In addition to the numerous conflicts discussed in the association's lending operations noted in comment 1, the examiners have also noted the following:

- A. In September of 1974 and 1975, the association's Executive Committee entered into two leases with Mr. Albert G. Aaron for the premises located at 416-418 N. Charles Street and 414 N. Charles Street, respectively. Both leases provide for a 5 year term and since the inception of these leases, the association has expended \$34,767.75 for leasehold improvements. Neither lease contains any provisions for renewal terms or projected rental rates upon renewal. This arrangement causes us considerable difficulty as Mr. Albert Aaron has become President of the association

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First Progressive Savings and Loan Association

since the execution of these leases. Consequently, we must require that the proposed terms for renewal of these leases be submitted to this Division for written approval prior to the execution of any further leases with Mr. Aaron.

- B. In reviewing the minutes of the Board of Directors meetings, the examiners noted that on February 13, 1978 "Board approved a retroactive payment of an appraising bill from Harry Gilbert for \$1,250.00. Said bill was for appraising a farm owned by Albert G. Aaron, that Albert Aaron was going to pledge with MSSIC". MSSIC had required that the directors hypothecate a substantial sum with MSSIC as additional protection for the insurance corporation. This was a personal obligation of the directors and was not an obligation of the association. Accordingly, this appraisal fee of \$1,250.00 was also an obligation of the directors and should not have been paid by the association. The Board is directed to reimburse the association in the amount of \$1,250.00 which was wrongfully paid from the association's funds to cover its own obligation.

Comment 10: Insurance

A review of the association's insurance and blanket bond policies revealed the following:

- A. The association's liability insurance is evidence by a binder only. The association did not possess an insurance policy.
- B. The association's blanket bond reflected no endorsement covering the service corporation's officers and directors.

Comment 11: Annual Meeting

Review of the notice of annual meeting published on December 22, 1976 reflected that the required 20 day notice was not given as prescribed in Article 23, Section 161(S).

Comment 12: Management Questionnaire

On April 3, 1978, the examiners mailed the standard management questionnaire to all Directors and Officers of the association, as well as the association's

First Progressive Savings and Loan Association

attorney.

No response was received from Directors Stewart Greenbaum and Alan Pearlstein to this questionnaire.

Additional requests were made to Albert Aaron on June 15, 1978 in an attempt to obtain this and other material. As of August 14, 1978, the Division still has not received these questionnaires from the above directors.

On other occasions, the examiners requested certain information from the association's attorney, Jeffrey A. Levitt, concerning the Service Corporation and loan foreclosures which was not received on a timely basis. Although this information was received after repeated requests, Mr. Levitt's non-cooperation severely hampered the flow of the examination.

Comment 13: Advertising

A review of the advertising policy of First Progressive revealed that the association is using a form letter to inform their depositors of the fact that as a depositor in First Progressive they are a member of United Buying Service.

In the third paragraph of this form letter the following sentence was noted "BESIDE GETTING THE HIGHEST INTEREST RATE AVAILABLE, I WOULD LIKE TO INFORM YOU THAT BY BEING A DEPOSITOR IN FIRST PROGRESSIVE YOU ARE A MEMBER OF UNITED BUYING SERVICE."

This language is contrary to the Attorney General's Opinion No. 21 dated January 29, 1969. This opinion states in part "It is obvious that in mutual savings and loan associations the sums apportioned among the free share account holders are dividends based on profits of the association after the close of the period for which they are declared. Accordingly, we believe that it would be improper to refer to the division of profits as interest rather than dividends".

Also, it should be noted that several State-chartered associations are offering higher dividend rates than First Progressive, therefore, the reference to "Highest" rate is also not factual.

Accordingly, the association is required to review all of its advertising programs for compliance with the above and discontinue the use of the mailed material which contains the above language.

First Progressive Savings and Loan Association

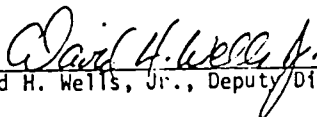
Informational Comments:

Reprinted below in their entirety are memorandums from the Deputy Director of the Division, as well as the examiners involved in the examination of First Progressive.

M E M O R A N D U M

TO: Charles H. Brown, Jr., Director
FROM: David H. Wells, Jr., Deputy Director
RE: Report of Examination of First Progressive Savings and Loan Association as of February 28, 1978
DATE: September 14, 1978

I have devoted my entire time for the last three weeks in reviewing this report of examination, questioning the examiners as to the substance of their comments and finally rewriting many of the comments in the report of examination. The comments presented in the report of examination are factual. Editorial statements or opinions of the examiners or myself have been eliminated to the greatest extent possible. Nevertheless, certain things have to be said and they are included in the examiners' memorandum which follows. I endorse the conclusions of the examiners completely.


David H. Wells, Jr., Deputy Director

M E M O R A N D U M

TO: Charles H. Brown, Jr., Director
FROM: Paul R. Freeman, Examiner V
Glen C. Burger, Examiner IV
Charles J. Marshall, Examiner III
RE: Report of Examination of First Progressive Savings and Loan Association as of February 28, 1978
DATE: August 30, 1978

At the completion of this examination, we had an informal meeting to discuss the findings of our examination. We unanimously concluded that the people who are currently operating First Progressive Savings and Loan Association should not be permitted to operate a savings and loan association. This statement is not made lightly as not one of us, either individually or collectively, have made

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First Progressive Savings and Loan Association

such a statement before. Together, we represent over 27 years of experience as savings and loan examiners.

As evidenced by the previous comments, First Progressive Savings and Loan Association is not being operated in the public interest as required by Maryland Law and we recommend that either a supervisory merger be effected or that a conservator be appointed. This recommendation is based on the following conclusions which we reached as a result of our examination:

- A. First Progressive Savings and Loan Association is not being operated in the public interest but rather in the interest of the officers and directors of the association, as well as a select group of individuals to whom we refer to continually throughout the report of examination.
- B. In April of 1976, the Division issued a report of examination which was highly critical of the association's management and lending practices. Another report was issued in connection with a special examination made in October of 1976. As a result of that special examination, the association's manager, Mr. William G. Conkling, was fired.

Since that time, however, the association has demonstrated that the problems at First Progressive went much deeper than Mr. Conkling's ineffectiveness as manager of the association. Management has demonstrated a total disregard for State statutes and regulations which establish lending limitations and procedures. Due to the pervasive self-dealing which is discussed in the report of examination, First Progressive is a burden on the community which it supposedly serves.

- C. Due to management's inability to properly control the operation of this savings and loan association, the Division has expended an incredible number of man-days in examining the activities of the association. The figures below do not include time spent by supervisory personnel in finalizing the various reports of examination, reviewing monthly reports submitted by the association, and handling general correspondence. It is our opinion that the various examination teams have been used as "managers" for this association since practically every area of the association's operation has been subject to comment. Year after year, the people at First Progressive tell us that corrective and positive action will be taken. The number of man-days expended by this Division in reviewing First Progressive's operations indicates that

First Progressive Savings and Loan Association

these statements are nothing more than puffery. The man-days are as follows:

Regular examination as of April 15, 1976	70½ man-days
Compliance examination as of July 1976	6½ man-days
Special examination as of October 31, 1976	61½ man-days
Compliance examination as of September 1977	12 man-days
Regular examination as of February 28, 1978	<u>239½</u> man-days
Total	<u>390</u> man-days

In a similar time period, the Division would normally have expended roughly 50 man-days in examining a moderately well-run \$10 million savings and loan association. Currently, the Federal Home Loan Bank Board, the Comptroller of the Currency, as well as the State Bank Commissioner's Office, bills each respective financial institution on a per diem, which ranges between \$100 to \$130, depending on the examiner's experience. Using the lowest figure, this Division has expended approximately \$39,000, not including supervisory time, in reviewing the operations and activities of this association in the last two years.

- D. One last point is important. The problems noted in our examination of this association violate not only the provisions of all pertinent statutes and regulations but transcend the bounds of acceptable savings and loan practice. The policy statement contained in Article 23, Section 161A of the Code, provides that "The savings and loan business...is affected with a public interest and shall be supervised as a business affecting the economic security and general welfare of the people of the State." Furthermore, Article 23, Section 161K of the Code, authorizes a court of competent jurisdiction "to appoint a conservator if it finds that such association: (1) is in an impaired or insolvent condition; or (2) is in substantial violation of any valid and applicable law or regulation; or (3) is concealing any of its assets, books or records; or (4) is conducting an unsafe or unsound operation". In our judgment, First Progressive Savings and Loan Association meets all of the above requirements except number (1)--it is not in an impaired or insolvent condition. From the preceding examiners' comments, it should be clear that this association is in substantial violation of practically every statutory and regulatory limit-

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First Progressive Savings and Loan Association

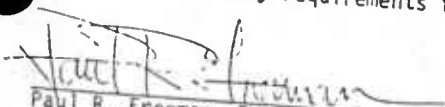
ation imposed on an association's lending activities. Numerous other statutory and regulatory violations also exist. It should also be clear from Examiners' Comment 2.1 which discusses mortgage loan foreclosures that the association is concealing or misrepresenting its assets in that it does not reflect properties acquired through foreclosure sales as real estate owned but rather leaves these properties in the mortgage loan receivable account. Obviously, the requirements of subsections (2) and (3) of Article 23, Section 161K of the Code, have been met. However, the biggest problem we perceive at the association is that it is conducting an unsafe or unsound operation within the contemplation of Article 23, Section 161K(a)(4) of the Code. In support of this statement, we offer the following:

1. The association's service corporation financed a transaction in which a person who is well known by the association's officers and directors purchased a property for \$10,500 and sold it the same day for \$31,000. This was done on the basis of a \$9,500 appraisal.
2. Officers, directors, and persons who are well known by the association's officers and personnel have assigned or sold loans to the association which they had personally granted.
3. The association's president assigned a delinquent mortgage loan to the association without obtaining any information to substantiate the value of the property offered as security or the credit-worthiness of the borrowers on the loan.
4. The service corporation granted an unsecured note loan to a person who is well known by the association's officers and directors.
5. The association's attorney has charged borrowers for title insurance on 20 loans and yet has not provided policies to the association.
6. The association does not require persons who are well known by the association's officers and personnel to make mortgage payments and continuously grants these individuals loan modifications and/or consolidations in which delinquent and unpaid interest is capitalized and added to the principal amount of the indebtedness.
7. At the same time, the association has adopted a vigorous foreclosure policy with respect to borrowers who are not well known by the association's officers and personnel when it is apparent that foreclosure will be a profitable venture.


First Progressive Savings and Loan Association

8. When a bank which had required collateral to secure the service corporation's lines of credit refused to accept confessed-judgment note as collateral, the association's attorney typed up a deed of trust note and delivered it to the bank as collateral although the association possessed no interest in the property in question. This deed of trust note was executed by a person who is well known by the association's officers and personnel.
9. The association financed the sale of a property by a person who is well known by the association's officers and personnel. In connection with that sale, the seller executed a second mortgage to the purchaser which was double the amount of the settlement costs. The savings and loan association then purchased this second mortgage from the seller.
10. The association purchased a substantial interest in a participation with another association in a loan which had been continuously delinquent from the day it was granted.

We believe these examples when taken in conjunction with the information contained in the report of examination are illustrative of the fact that First Progressive meets the statutory requirements for the appointment of a conservator.


Paul R. Freeman, Examiner V


Glen C. Burger, Examiner IV


Charles J. Marshall, Examiner III

DHW:cam

HARRY HUGHES
GOVERNOR



JOHN J. CORBLEY
SECRETARY

STATE OF MARYLAND

CHARLES H. BROWN, J.
DIRECTOR

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF BUILDING, SAVINGS AND LOAN ASSOCIATIONS
601 SOUTH CALVERT STREET, SUITE 1006, BALTIMORE, MARYLAND 21202
301 383-2314

May 26, 1980

Board of Directors
First Progressive Savings and
Loan Association
416-418 North Charles Street
Baltimore, Maryland 21201



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 Building, Savings and Loan Associations. This report represents an examination of the association's books and records as of December 31, 1979 for compliance with Maryland statutes and regulations and does not constitute an audit of these records.

We request that the Board review the entire report of examination and specifically direct its attention to the Examiners' Comments on pages 15-151 of the report which require corrective action. Although there has been a noticeable improvement in the association's record keeping and bookkeeping procedures since the prior examination, the examiners still have cited numerous deficiencies in these areas.

In Comment 1D, the examiners have reported that the association granted three loans in the amounts of \$414,000, \$237,500, and \$50,000 without the benefit of an appraisal as required by Regulation .29A(2)(b). Two of these are very substantial loans, and we must require that the association submit detailed appraisal reports in support of each loan.

In Comments 1G and 2, the examiners have reported that the association is still experiencing difficulty in receiving timely and accurate title certifications and policies from its settlement attorney. Appropriate steps should be taken to correct this situation.

Comment 6 indicates that the outstanding balance of the association's delinquent accounts as of the examination date totaled \$630,209.80 as of the examination date, representing a delinquency ratio of 7.1% of the total mortgage loan balances outstanding. We must request that management provide this Division with a specific list of these

Board of Directors
First Progressive Savings and
Loan Association
May 26, 1980
Page 2

delinquent accounts, detailing the specific steps being taken to bring these accounts current.

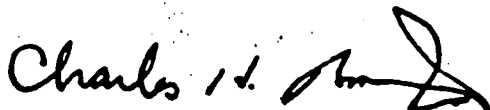
In Comment 19, the examiners note the continuing deficiencies in the books and records of Monumental City Service Corporation. We must require that management advise this Division of the specific action taken to resolve each of these deficiencies.

The most serious area of concern is highlighted in Comment 20. The examiners have reported that the association has not taken any corrective action with respect to five usurious second mortgage loans held by the association and eight usurious second mortgage loans held by the service corporation. These loans were subject to comment in the prior report of examination, and we must require that the association refund all interest charged these borrowers in excess of the 8% legal limit.

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 corrective action taken with respect to these matters.

We would also request that two copies of this response be forwarded to the Division within thirty 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:DHW:cp

Enclosure

cc: Maryland Savings-Share Insurance Corporation

STATE OF MARYLAND



DIVISION OF BUILDING, SAVINGS
AND LOAN ASSOCIATIONS

ONE SOUTH CALVERT STREET
BALTIMORE, MARYLAND 21202

REPORT OF EXAMINATION
OF

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

Name of Association

416-418 North Charles Street

Street and Number

Baltimore,
City

Maryland
State

21201
Zip Code

As of Close of Business

December 31, 1979

The following pages were omitted because they were not applicable:
Pages: 8, 10 & 11
av

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.

Savings Accounts
Insured by

M.S.S.I.C.

EXAMINATION AS OF
December 31, 1979

Current Policy
or
Certificate No.

4993

First Progressive Savings and Loan Association
Association

416-418 North Charles Street
Address

Baltimore,
City

Maryland
State

21201
Zip Code

Address of Branches

(1)

NONE

(2)

Free Share or Savings Accounts

Mortgage Loans

No. 1454

\$ 7,500,158.56

No. 334

\$ 8,978,323.35

<u>September 19, 1914</u> Date Chartered	<u>Mutual</u> Stock or Mutual	<u>December 31</u> Years End	<u>2nd Monday in June</u> Annual Meeting	<u>3-31, 9-30 6% 6-30, 12-21</u> Dividend Rate and Period
---------------------------------------------	----------------------------------	---------------------------------	-------------------------------------------------	---------------------------------------------------------------------

OFFICERS AND DIRECTORS

Name	Address	City	Officer	Director (x)
(1) <u>Albert G. Aaron</u>	<u>3908 N. Charles St.</u>	<u>Baltimore</u>	<u>President</u>	<u>x</u>
(2) <u>Stewart J. Greenebaum</u>	<u>12 Windsong Ct.</u>	<u>Pikesville</u>	<u>Vice President</u>	<u>x</u>
(3) <u>Herbert Sandler</u>	<u>6605 Shelrick Pl.</u>	<u>Baltimore</u>	<u>Vice President</u>	<u>x</u>
(4) <u>Harrison E. Greene, Jr.</u>	<u>1902 Don Ave.</u>	<u>Westminster</u>	<u>Exec. Vice President Managing Officer</u>	
(5) <u>Benjamin Lehman</u>	<u>3507 Beagle La.</u>	<u>Randallstown</u>	<u>Treasurer</u>	<u>x</u>
(6) <u>Jeffery A. Levitt</u>	<u>11408 Woodland Dr.</u>	<u>Baltimore</u>	<u>Secretary</u>	<u>x</u>
(7) <u>Allan Pearlstein</u>	<u>3407 Bretomway</u>	<u>Baltimore</u>		<u>x</u>
(8) <u>Nathan Wechsler</u>	<u>8401 Connecticut Ave.</u>	<u>Chevy Chase</u>		<u>x</u>
(9) <u>Thomas Steinhardt</u>	<u>2503 Farringdon Rd.</u>	<u>Baltimore</u>		<u>x</u>
(10) <u>Paul R. Freeman</u>	<u>1935 Don Ave.</u>	<u>Westminster</u>	<u>Controller</u>	
(11)				
(12)				
(13)				
(14)				
(15)				

Counsel

Accountant

Name Albert G. Aaron
Address 416 N. Charles St.
Baltimore, Maryland 21201

Name Glass, Friedman, and Trivas
Address 222 St. Paul St.
Baltimore, Maryland 21202

Period of Examination
From <u>2-14-80</u> To <u>3-28-80</u>

Examiner-In-Charge
<u>Thomas J. Burger</u>

AT 5000

COMPARATIVE PERCENTAGE SUMMARY
CURRENT EXAMINATION

PREVIOUS EXAMINATION

Date December 31, 1979

Date February 28, 1978

	Amount	% to Total Assets	Amount	% to Total Assets
1. Total Assets	\$ 10,005,748.86		\$ 10,704,914.49	
2. Reserve for Bad Debts	242,475.00	2.4 %	204,775.00	1.9 %
3. Undivided profits and surplus	343,016.89	3.4 %	252,861.05	2.4 %
4. First mortgage loans	\$ 8,978,323.35	89.7 %	\$ 9,941,756.04	92.9 %
5. Ground rents owned	\$ 48,284.00	.5 %	\$ 48,284.00	.5 %
6. Liquid Assets:				
(a) Cash	\$ 254,496.92		\$ 138,973.98	
(b) Investments (Securities)				
(c) M.S.I.C. deposit	229,300.00		219,500.00	
Total Liquid Assets	\$ 483,796.92	4.8 %	\$ 358,473.98	3.4 %
7. Slow Assets:				
(a) Slow mortgage loans	\$ 630,209.80	6.3 %	\$ 1,297,049.36	12.1 %
(b) Real estate Owned	-0-		23,380.71	.2 %
(c) Office Building & Improvements (net)				
(d) Leasehold Improvements (net)	23,289.40	.2 %	26,349.75	.3 %
(e) Furniture & Fixtures (net)	47,277.09	.5 %	49,090.83	.5 %
(f) _____				
Total Slow Assets	\$ 700,776.29	7.0 %	\$ 1,395,870.65	13.1 %
8. Borrowed Money	\$ 1,630,000.00	16.3 %	\$ 1,200,000.00	11.2 %

Year Ended December 31, 1979

Year Ended December 31, 1978

	Amounts	Ratios	Amounts	Ratios
9. Operating ratios:				
(a) Gross operating income (Item 9, Page 4)	\$ 1,044,295.29		\$ 1,013,949.37	
(b) Total operating expense (Item 25, Page 4 and Item 29, Page 5)	\$ 345,356.41		\$ 276,336.90	
(c) % Operating expense to gross operating income		33.1 %		27.3 %
(d) Net operating income (Item V, Page 5)	\$ 698,938.88		\$ 737,612.47	
(e) Dividends (page 6)	\$ 600,259.12		\$ 596,560.17	
(f) % Dividends to net operating income		85.9 %		80.8 %
(g) Total assets at end of fiscal year	\$ 10,005,748.86		\$ 11,193,161.92	
(h) % Operating expense to total assets		3.5 %		2.5 %
(i) Share liability at end of fiscal year	\$ 7,500,158.66		\$ 8,950,804.81	
(j) % Net income to share liability		9.3 %		8.2 %
(k) Reserve for Bad Debts	\$ 242,475.00		\$ 232,875.00	
(l) % Reserve for Bad Debts to Share Liability		3.2 %		2.6 %
(m) Total Net Worth	\$ 585,491.89		\$ 524,567.67	
(n) % Total Net Worth to Share Liability		7.8 %		5.9 %

5951
A70051

STATEMENT OF CONDITION

Exhibit A

Name of Institution First Progressive Savings and Loan Assn.

as of December 31, 19 79

ASSETS

1. First mortgage loans:			
a. First mortgage direct reduction loans		\$ 8,803,216.44	
h. First mortgage drop share loans			
c. F.H.A. mortgage loans			
d. O.I. mortgage loans			
e. First mortgage straight loans			
f. Participation loans			
g. Accrued interest receivable on first mortgage loans		75,119.41	
h. Advances for taxes, insurance, etc., on first mortgage loans		97,866.51	
		2,120.99	\$ 8,978,323.35
2. Subordinated Liens:			
a. Second Mortgages			
h. Accrued interest receivable on second mortgages			
c. Advances for taxes, insurance, etc., on second mortgages			
3. Free Share Account Loans:			
n. Loans secured by accounts of this association			
h. Accrued interest receivable on free share account loans		\$ 136,902.76	
			136,902.76
4. Other loans:			
a. Loans on all other security			
h. Unsecured loans			
c. Accrued interest receivable on other loans			
5. Real Estate Sold on Contract:			
n. 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			48,284.00
8. Investments:			
a. Stock in Federal Home Loan Bank			
b. Federal Home Loan Bank Securities			
c. U.S. Government obligations			
d. Other investment securities			
e. M.S.S.I.C. Deposit <u>and Central Reserve</u>			
10. Investment - Service Corporation			229,300.00
11. Cash			166,855.73
a. Cash on hand			
b. Cash in banks		\$ 2,000.00	
c.		252,496.92	
d.			
			254,496.92
12. Office Building (if owned):			
a. Office building and improvements			
b. Less allowance for depreciation			
13. Leasehold Improvements:			
a. Leasehold Improvements		\$ 38,317.40	
b. Less allowance for amortization		15,028.00	23,289.40
14. Furniture, etc.:			
a. Furniture, fixtures and equipment		\$ 71,505.09	
b. Less allowances for depreciation		24,228.00	47,277.09
15. Deferred charges			23,323.59
16. Other assets (Schedule 6, Page 14)			83,719.35
17. <u>Accrued Interest Receivable "CD" & Central Reserve</u>			13,976.67
18.			
TOTAL ASSETS			\$ 10,005,748.86

STATEMENT OF CONDITION--(Continued)

Exhibit A

CAPITAL AND LIABILITIES

20. Free accounts:			
a. Installment share dues credited _____	\$ _____		
Deduct—Delinquent dues (if carried) _____			
Sub-total _____			
Add—Dividends (unless included in 20-a) _____	\$ _____		
Net free installment shares _____			
b. Savings shares and accounts (payments and dividends) _____		\$ 2,643,761.03	
c. Variable Dividend Certificates _____			
d. Single payment shares (payments and dividends) _____		4,498,044.77	
e. Matured shares (payments and dividends) _____			
f. Hypothecated Share Accounts—Mortgage Loans _____		221,450.00	
g. Pledged Share Accounts—Free Share Account Loans _____		136,902.76	
h. Income Shares _____			
i. _____			
Total Share Accounts: _____			7,500,158.56
21. Other Accounts:			
Christmas Clubs _____	\$ _____		
Vacation Clubs _____			
Total Other Accounts _____			
22. Advances from Federal Home Loan Bank _____			
23. Borrowed money:			
a. From banks (Schedule 8, Page 14) _____	\$ 1,630,000.00		
b. From others (Schedule 8, Page 14) _____			1,630,000.00
24. Mortgages on real estate owned _____			
25. Interest accrued on items 22, 23 and 24 _____			
26. Dividends declared, unpaid and uncredited _____			
27. Taxes accrued and unpaid on real estate owned _____			
28. Accounts payable _____			
29. Loans in process _____			
30. Advance payments:			
a. Advance payments by borrowers for taxes and insurance (if carried separately) _____	\$ 164,571.88		
b. _____			164,571.88
c. _____			
31. Other liabilities (Schedule 7, Page 14) _____			76,258.18
32. Deferred credits to future operations:			
a. For unearned profits Commitment Fees _____	\$ 860.00		
b. For income to be earned Service Charges _____	2,634.00		
c. For income taxes _____	4,076.00		
d. _____			7,570.00
33. Specific reserves:			
a. For uncollected interest _____	\$ _____		
b. For subordinated liens _____			
c. _____			
34. General reserves:			
a. Reserve for bad debts _____	\$ 242,475.00		
b. Federal Insurance reserve (if insured) _____			
c. _____			
d. _____			
e. _____			242,475.00
35. Surplus _____			
36. Undivided profits _____			343,016.89
37. Reserve for estimated dividend requirements _____			41,698.35
38. Current earnings (if interim statement) _____ months ended _____ 19 _____			
39. _____			
40. _____			
TOTAL CAPITAL AND LIABILITIES			\$ 10,005,748.86

STATEMENT OF OPERATIONS
 NAME OF INSTITUTION First Progressive Savings and Loan

Exhibit B

Current Period	Year	Year
From <u>1-1-79</u>	From <u>1-1-78</u>	From <u>1-1-77</u>
To <u>12-31-79</u>	To <u>12-31-78</u>	To <u>12-31-77</u>

I. GROSS OPERATING INCOME:

1. Interest

a. On mortgage loans—ordinary cash collections	\$ <u>926,990.77</u>	\$ <u>931,702.72</u>	\$ <u>789,669.27</u>
b. On mortgage loans—all other			
c. On loans on shares, passbooks and certificates			
d. On real estate sold on contract			
e. On investments and bank deposits	<u>38,638.51</u>	<u>9,881.94</u>	<u>581.61</u>
f. On property improvement loans	<u>3,132.16</u>	<u>3,282.50</u>	<u>3,139.50</u>
g. On ground rents	<u>7,835.85</u>	<u>6,245.34</u>	<u>5,126.09</u>
h. Other <u>Gen. Res./ Monumental City</u>			
2. Discount on loans (current installment and amortization only)			
3. Appraisal fees, legal fees and initial service charges	<u>45,249.26</u>	<u>43,012.00</u>	<u>22,297.00</u>
4. Other fees and fines	<u>22,355.69</u>	<u>19,564.87</u>	<u>13,800.30</u>
5. Real estate operations—Net income or (loss from R.E.O. Details on page 5)			
6. Gross income from office building			
7. Dividends:			
a. On stock in Federal Home Loan Bank			
b. Other dividends			
8. Miscellaneous operating income	<u>93.05</u>	<u>260.00</u>	<u>346.42</u>
9. Gross operating income	<u>\$ 1,044,295.29</u>	<u>\$ 1,013,949.37</u>	<u>\$ 834,960.19</u>

II. LESS—OPERATING EXPENSE:

10. Salaries, etc.:			
a. Compensation to directors, officers, employees, etc.	<u>\$ 93,296.00</u>	<u>\$ 74,244.00</u>	<u>\$ 66,365.40</u>
b. Collection expense (agents, etc.)			
11. Legal services—retainer, traveling expenses and special services	<u>5,678.00</u>	<u>6,000.00</u>	<u>2,380.00</u>
12. Expense accounts of directors, officers and employees	<u>7,078.45</u>	<u>6,282.31</u>	<u>5,256.08</u>
13. Rent, light, heat, etc.	<u>13,585.80</u>	<u>12,474.76</u>	<u>11,487.07</u>
14. Office building expenses (if owned):			
a. Repairs, taxes and maintenance of office building including depreciation	<u>5,962.67</u>	<u>4,473.03</u>	<u>2,604.82</u>
b. <u>Data Processing</u>	<u>12,585.21</u>	<u>9,537.17</u>	<u>7,774.81</u>
15. Furniture, fixtures and equipment, including depreciation <u>& Repairs</u>	<u>11,001.13</u>	<u>12,383.71</u>	<u>3,596.86</u>
16. Advertising	<u>9,938.38</u>	<u>10,130.76</u>	<u>9,491.75</u>
17. Stationery, printing and office supplies	<u>4,912.36</u>	<u>4,528.56</u>	<u>5,674.36</u>
18. Telegraph, telephone, postage & express	<u>4,769.39</u>	<u>2,432.01</u>	<u>3,060.98</u>
19. Insurance and bond premiums			
20. Federal insurance premium (if insured)	<u>25,868.10</u>	<u>29,613.11</u>	<u>23,794.51</u>
21. Audit and supervisory examination	<u>7,014.32</u>	<u>5,968.32</u>	<u>3,880.40</u>
22. Taxes (other than real estate taxes)	<u>1,558.06</u>	<u>567.50</u>	<u>1,565.53</u>
23. Organization dues	<u>2,550.43</u>	<u>1,060.52</u>	<u>15,036.64</u>
24. Other operating expense	<u>205,798.30</u>	<u>\$ 179,695.76</u>	<u>\$ 161,969.21</u>
25. Total operating expense	<u>\$ 838,496.99</u>	<u>\$ 834,253.61</u>	<u>\$ 672,990.98</u>
III. Net Operating Income Before Interest and Other Charges			
(Carried forward to page 5)			

STATEMENT OF OPERATIONS (Continued)

Exhibit B (Continued)

	Current Period From <u>1-1-79</u> To <u>12-31-79</u>	Year From <u>1-1-78</u> To <u>12-31-78</u>	Year From <u>1-1-77</u> To <u>12-31-77</u>
III. Net Operating Income Before Interest and Other Charges (Carried forward from page 4)	\$ 838,496.99	\$ 834,253.61	\$ 672,990.98
IV. LESS-INTEREST CHARGES:			
26. On advances from Federal Home Loan Bank	\$	\$	\$
27. On borrowed money	134,995.52	92,853.70	28,965.54
28. Interest on Escrow Accts.	4,562.59	3,787.44	2,895.37
29. Total Interest	\$ 139,558.11	\$ 96,641.14	\$ 31,860.91
V. Net Operating Income	\$ 698,938.88	\$ 737,612.47	\$ 641,130.07
VI. ADD-NON-OPERATING INCOME:			
30. Dividends retained on withdrawals	\$	\$	\$
31. Profit on sale of real estate			
32. Profit on sale of investments			
33. Mortgage prepayment penalties			
34. Other non-operating income <u>Ser. Corp.</u>	-0-	9,806.36	-0-
35. Total non-operating income	\$ -0-	\$ 9,806.36	\$ -0-
VII. Net Income After Interest and Before Charges	\$ 698,938.88	\$ 747,418.83	\$ 641,130.07
VIII. LESS-NON-OPERATING CHARGES (do not use lines herein for items charged direct to reserves):			
36. Foreclosure costs and back taxes on real estate acquired (unless capitalized or charged direct to reserves)	\$ 5,262.77	\$ -0-	\$ -0-
37. Loss on sale of real estate <u>Foreclosures</u>	3,807.46	-0-	-0-
38. Loss on sale of investments			
39. Other non-operating charges <u>Ser. Corp.</u>	10,068.31	-0-	-0-
40. Total non-operating charges	\$ 19,138.54	\$ -0-	\$ -0-
IX. Net Income for Period	\$ 679,800.34	\$ 747,418.83	\$ 641,130.07

REAL ESTATE OPERATION (Details)

I. REAL ESTATE INCOME:			
1. Real Estate Rents	\$	\$	\$
2.			
3. Total Real Estate Income	\$	\$	\$
II. LESS-REAL ESTATE OPERATING EXPENSES:			
4. Taxes	\$	\$	\$
5. Insurance			
6. Repairs and Maintenance			
7. Commissions			
8. Depreciation			
9. Other Miscellaneous real estate expenses			
10.			
11. Total Real Estate Expenses	\$	\$	\$
12. Net profit on Real Estate Operations	\$	\$	\$
13. Net loss on Real Estate Operations (Note—Insert net income or loss in connection with real estate on page 4 as indicated.)	\$	\$	\$

DISTRIBUTION OF NET INCOME AND
RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

	Current Period	Year	Year
	From <u>1-1-79</u> To <u>12-31-79</u>	From <u>1-1-78</u> To <u>12-31-78</u>	From <u>1-1-77</u> To <u>12-31-77</u>
Distribution of Net Income			
1. Net income for period (Item IX, Exh. B)	\$ <u>679,800.34</u>	\$ <u>747,418.83</u>	\$ <u>641,130.07</u>
Distribution			
2. Transfer to reserves:			
a. Federal insurance reserve	\$ _____	\$ _____	\$ _____
b. Reserve for bad debts	30,600.00	30,900.00	33,600.00
c. Surplus	_____	_____	_____
d. A/E 120000	-0-	2,900.00	-0-
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
3. Earnings distributed on sav. capital:			
a. Dividends on savings	199,272.61	209,349.81	207,895.07
b. Int. on deposits, invest., cert. etc.	400,986.51	387,210.36	346,568.50
c. Res. for div. on Var. Div. Certs.	_____	_____	_____
d. _____	_____	_____	_____
4. Other			
a. Federal income tax	18,617.00	55,535.00	-0-
b. _____	_____	_____	_____
c. _____	_____	_____	_____
5. Total Distribution of Net Income	\$ <u>649,476.12</u>	\$ <u>685,895.17</u>	\$ <u>588,063.57</u>
6. Net Income After Distribution	30,324.22	61,523.66	53,066.50
7. Net Income Undistributed	\$ _____	\$ _____	\$ _____
Reconciliation of Undivided Profits			
8. Balance—beginning of period	\$ <u>291,692.67</u>	\$ <u>252,861.05</u>	\$ <u>159,001.63</u>
9. Net Income After Distribution (line 6)	30,324.22	61,523.66	53,066.50
10. Other additions:			
a. A/E 50 to properly Ref. Def.	-0-	-0-	11,630.00
b. Undistributes loss in /tax above	-0-	-0-	36,076.92
c. Res. For B/D	21,000.00	-0-	-0-
d. Adj. Def. Inc. Tax	-0-	14,211.00	-0-
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
11. Subtotal	\$ <u>343,016.89</u>	\$ <u>328,595.71</u>	\$ <u>259,775.05</u>
12. Deductions:			
a. Prior Period Adjustments	-0-	35,303.04	-0-
b. To Res. for B/D	-0-	1,600.00	-0-
c. Inc. Tax Payable (not booked)	-0-	-0-	6,914.00
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
13. Total deductions	\$ <u>-0-</u>	\$ <u>36,903.04</u>	\$ <u>6,914.00</u>
Balance at end of period	\$ <u>343,016.89</u>	\$ <u>291,692.67</u>	\$ <u>252,861.05</u>
14. Dividend or interest rate for period	6.0 %	6.0 %	6.0 %

RECONCILEMENT OF RESERVES

Exhibit D

	Current Period		Year	
	From <u>1-1-79</u> To <u>12-31-79</u>	From <u>1-1-78</u> To <u>12-31-78</u>	From <u>1-1-77</u> To <u>12-31-77</u>	
Reserve for bad debts				
1. Balance at beginning of period	\$ <u>232,875.00</u>	\$ <u>197,475.00</u>	\$ <u>163,797.00</u>	
2. Additions during period:				
(a) From net profit	\$ <u>30,600.00</u>	\$ <u>30,900.00</u>	\$ <u>33,600.00</u>	
(b) <u>To reflect Def. Tax A/E 50</u>	<u>-0-</u>	<u>-0-</u>	<u>78.00</u>	
(c) <u>A/E 120000</u>	<u>-0-</u>	<u>2,900.00</u>	<u>-0-</u>	
(d) <u>From Undivided Profits</u>	<u>-0-</u>	<u>1,600.00</u>	<u>-0-</u>	
3. Total additions	\$ <u>30,600.00</u>	\$ <u>35,400.00</u>	\$ <u>33,678.00</u>	
4. Totals of items 1 and 3	\$ <u>263,475.00</u>	\$ <u>232,875.00</u>	\$ <u>197,475.00</u>	
5. Deductions during period:				
(a) <u>Auditors closing entry #6</u>	\$ <u>21,000.00</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
6. Total deductions	\$ <u>21,000.00</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	
7. Balance at end of period	\$ <u>242,475.00</u>	\$ <u>232,875.00</u>	\$ <u>197,475.00</u>	

Reserve				
1. Balance at beginning of period	\$ _____	\$ _____	\$ _____	
2. Additions during period	_____	_____	_____	
3. Totals of items 1 and 2	\$ _____	\$ _____	\$ _____	
4. Deductions during period:				
(a)	\$ _____	\$ _____	\$ _____	
(b)	_____	_____	_____	
(c)	_____	_____	_____	
5. Total deductions	\$ _____	\$ _____	\$ _____	
6. Balance at end of period	\$ _____	\$ _____	\$ _____	

AT 5051

LEGEND

- 1A—Single Family Dwelling
- 1B—2-4 Family Dwelling
- 1C—Home & Business
- 2—Auto, w/5 or more families
- 3—Business—Commercial
- 4—Farm
- 5—Unimproved
- P—Purchase
- R—Refinance
- RO—Refinance (Other)
- C—Construction

LOANS SUBJECT TO COMMENT AS OF - December 31, 1979

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Exp. Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total Debt (5) & (4)	No. Payments Last 12 Months	Total Debt Last Exam. 2-28-78	Comments
3629	Richard G. Smith & wife 4014 Chesmount Ave.	1A	8-10-73	\$ 15,000.00		\$ 11,276.34	\$ 300.68	\$ 11,577.02	8	\$ 12,300.74	4 mos. int. due
3698	Robert & Doris Jones 2805 Baublitz Rd.	1A	10-29-75	23,000.00		12,736.96	424.56	13,161.52	9	17,535.26	4 mos. int. due
3737	Williams James Need III 733 Seawall Rd.	1A	12-22-75	28,900.00		28,259.96	1,413.00	29,672.96	7	28,606.43	6 mos. int. due
3755	Ernest Rich & wife 1228 Walters Ave.	1A	1-12-75	25,500.00	219.65	25,056.76	1,252.86	26,529.27	9	25,264.78	6 mos. int. due
3775	Nicholas & Regina Mitsos 15105 Priceville Rd.	1A	12-13-76	70,000.00	1,898.46	69,523.24	8,111.04	79,532.74		69,523.24	
3897	Nicholas & Regina Mitsos 15105 Priceville Rd.	1A	8-4-76	12,000.00		11,850.83	1,382.50	13,233.33		11,850.83	2nd mortgage Pd. in full 2-19-80
3898	Warren B. Carolyn Zimmerman 5 Uermon Hill Ct.	1A	8-2-76	58,200.00		56,992.59	2,196.55	59,189.14	9	57,653.67	5 mos. int.
3910	Fevi Pappas 2718 Sparrows Point Rd.	1A	9-7-76	45,000.00		43,822.35	1,605.80	45,429.15	11	44,724.67	4 mos. int. due
3948	William & Sane Conkling 1516 Kine William Dr.	1A	11-1-76	69,750.00		68,675.18	3,605.42	72,280.60	6	68,815.13	Loan pd. in full 1-3-80
3950	James & Helen Gray 7008 Alter St.	1A	11-1-76	42,750.00		43,043.77	1,291.28	44,335.05	10	42,721.68	4 mos. int. due
4046	Esther Mae Frierson 1228 W. Lanyale St.	1A	9-30-77	5,000.00		4,696.84	157.04	4,853.88	9	4,951.68	4 mos. int. due
4073	Joseph R. Sigal & wife 3508 South Rd.	1A	1-9-78	11,000.00		9,904.90	330.16	10,235.06	9	11,000.00	4 mos. int. due
4090	Alonzo Moore 118 S. Morley	1A	3-28-78	8,950.00		8,157.16	271.90	8,429.06	9		4 mos. int. due
4104	Steven Main Right 5205 Liberty Hgts.	1A	5-23-78	10,900.00		10,230.09	483.80	10,713.89	8		5 mos. int. due
4118	Robert & Doris Jones 2805 Baublitz Rd.	1A	12-7-78	21,000.00		20,835.97	833.40	21,669.37	8 of 11		4 mos. int. due
4125	Ivan Lee, 3114 Virginia Ave. 3320 Hayward	1A	2-27-79	19,300.00		19,282.28	642.72	19,925.01	5 of 8		2nd mortgage
3681	D.J. Redroom 2125 Sparrows Point Rd.	3	9-12-75	155,000.00		146,729.24	11,273.06	158,002.30	8	150,358.51	5 mos. int. due
3682	Paul E. Ebbert & Nyla J. 1225 Brehms Rd.		8-29-75	40,000.00		39,135.33	1,304.48	40,439.81	9	39,448.96	4 mos. int. due
				\$2,118.11	\$630,200.80	\$36,881.25	\$669,209.16				

OFFICE BUILDING

Year Ended 1979

Asset value before depreciation:

Land _____ \$ _____
 Building _____ \$ _____
 Total _____ \$ _____
 Less: Allowance for depreciation _____ \$ _____
 Book Value _____ \$ _____

Assessed value:

Land _____ \$ _____
 Building _____ \$ _____
 Total _____ \$ _____

Insurance carried:

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	Ins. Co. of North America	4-24-80	\$ 45,000.00
Comprehensive-Glass	"	"	\$ Replacement Cost
Owners, Landlords and Tenants Liability	"	"	\$ 500,000/500,000
Auto Liab. Coverage	"	3-24-80	\$ 500,000.00
			\$ _____

OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES December 31, 1979

Schedule No. 1

Name	Officer Title	Director	Meetings Attended Since Last Examination	Time Devoted	Annual Salary Y/E 12-31-79	Annual Fees Y/E 12-31-79	*Indebtedness As Of		Total Firms Share AS OF 12-31-79
							Type	Amount	
Albert G. Aarnn	President	x	21	Part	\$19,100.00	\$1,800.00		S	\$232,936.83
Stewart J. Greenebaum	Vice President	x	9	Part		1,800.00	10,000.00	S	68,764.79
Jeffrey A. Levitt	Secretary	x	20	Part		1,800.00	27,000.00	S	
Herbert Sandler	Vice President	x	16	Part			134,115.83	M	74,020.93
Benjamin Lehman		x	21	Part		1,200.00	2,655.32	S	24,068.27
Nathan Wechsler		x	1	Part		1,200.00	2,500.00	S	37,000.00
Allan Pearlstein		x	1	Part		1,200.00			6,167.32
Thomas Steinhardt		x	20	Part		1,200.00	170,970.43	M	102,839.77
Harrison E. Greene, Jr.	Executive Vice President			Full	21,300.00				7,035.04
Paul R. Freeman	Controller			Full	1,280.00		1,986.24	S	7,810.08
Susan J. Levinson				Full	14,475.00			M	5,888.45
Renee Portney				Full	10,845.00		46,494.81		6,460.97
Ethel Roffman				Full	9,310.00		1,500.00	S	2,186.36

Meetings held since last examination 21 Date of last annual meeting of members January 8, 1979

Number of directors designated in by-laws 5-15

*Designate Mortgage Loan--M; Share Account Loan--B; Unsecured Loan--U; Collateral--C; Trustee Account--T.

Bond		Expiration Date
Amount	Name of Surety and Home Office	
\$340,000	Aetna Casualty and Surety Company	8-11-80
	Hartford, Conn.	

OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES

Name	Officer Title	Director	Meetings Attended Since Last Examination	Time Devoted	Annual Salaries Y/E	Annual Fees Y/E	*Indebtedness As Of		Total Free Share Accounts AS OF
							Type	Amount	
Henry Myers				Part	\$ 2,786.00	\$		\$	
Morris Schectman		1		Part		600.00			92,972.63
Rita G. Wienapple		1		Part		800.00	S	18,000.00	10,497.28
Ruben Pasarew		1		Part		900.00			100,350.01
Malcom Katzen		1		Part		500.00			20,628.79
					\$79,096.00	\$14,200.00		\$415,222.63	\$811,564.45

(1) Advisory Board

Meetings held since last examination 20 Date of last annual meeting of members January 8, 1979

Number of directors designated is by-law 5-15

*Designate Mortgage Loan-M; Share Account Loan-S; Unsecured Loan-U; Collateral-C; Trustee Account-T.

Bond		Expiration Date	
Amount	Name of Surety and Home Office	Amount	Expiration Date

OTHER ASSETS: (Item 16, Exhibit A)

Schedule No. 6

Misc. Receivable	\$ 1,497.35
Appraisal Expense collected	(198.00)
Credit Report Expense collection	45.47
Due from Jeffrey Levitt	82,534.95
Exchange	(160.42)
	<u>\$83,719.35</u>

OTHER LIABILITIES: (Item 31, Exhibit A)

Schedule No. 7

Notes Payable	\$ 4,719.60
Accrued Expense	39,082.22
Federal Inc. Tax (withholding)	1,410.00
FICA	569.89
Md. Inc. Tax withholding	476.47
Misc. Liabilities	30,000.00
	<u>\$76,258.18</u>

BORROWED MONEY: (Item 23, Exhibit A)

Schedule No. 8

To Whom Owed	Amount	Rate	Due Date	COLLATERAL
				Description
Union Trust Co. of Md.	\$ 100,000	13.5%	1-4-80	Unpaid Principal
Union Trust Co. of Md.	175,000	14.5	1-10-80	Various Mortgages
Union Trust Co. of Md.	40,000	15	1-30-80	Various Mortgages
Union Trust Co. of Md.	45,000	15	1-30-80	Various Mortgages
Union Trust Co. of Md.	400,000	15½	1-31-80	Various Mortgages
Union Trust Co. of Md.	275,000	15½	2-5-80,	Various Mortgages
Union Trust Co. of Md.	45,000	15½	2-16-80	Various Mortgages
Union Trust Co. of Md.	50,000	15½	3-10-80	Various Mortgages
Union Trust Co. of Md.	500,000	15½	3-13-80	Various Mortgages
	<u>\$1,630,000</u>		3-31-80	Various Mortgages

SUMMARY OF CERTIFICATES OF DEPOSIT, SAVINGS ACCOUNTS, OTHER SECURITIES, ETC.

Schedule No. 9

Description	Amount	Rate	Due Date
Bank of Tokyo	\$200,000	10%	6-2-80

EXAMINERS' COMMENTS

First Progressive Savings and Loan Association

Comment 1:

An examination of the files supporting the mortgage loans granted during the period March 1, 1978 - December 31, 1979 revealed the following:

A. Loan file Nos. 4130, 4143 and 4155 did not contain the original mortgage or deed of trust as required by Regulation .29A, (2)(f).

The note for loan file No. 4105 indicates a 9½% rate. However, the loan disclosure statement and principal and interest payments are based on 9% rate.

B. Loan file No. 4091A did not contain the original of the current insurance policies on the additional security properties located at 5221 Alhambra Avenue, 2306 Bryand Avenue and 1710 Barclay Street as required by Regulation .29A(2)(d).

The insurance policy in loan file No. 4111 has Mr. Jeffrey Levitt listed as mortgagee. Regulation .23D requires that the association be listed as mortgagee.

The insurance policy in loan file No. 4104 is a homeowner policy, however, this does not appear to be an owner-occupied dwelling.

C. Loan file No. 4118 and the related loan file No. 3698 did not contain a most recent financial statement or Federal or State Income Tax return as required by Regulation .23(a)(2)(c).

It was noted that a credit report dated October 15, 1975, was in loan file No. 3698.

Loan file No. 4091A did not contain any financial information on the person who assumed the loan. Prudent underwriting procedures would require that the association determine and document that the person assuming a loan has the ability to meet the required payments.

The application form in loan file No. 4130 did not contain any of the information required by Regulation .23A(2). It was noted that the borrowers balance sheet dated December 31, 1977 was in file. The loan was settled in May 1979 in the amount of \$360,000. Subsequently, two additional advances totaling \$54,000 were made. No explanation or settlement sheet for the additional amounts were in file. Please explain these advances and submit a current financial statement on this borrower.

D. Loan file Nos. 4130, 4143 and 4145 did not contain appraisal reports as required by Regulation .29A(2)(b). These loans were in amounts of \$414,000, \$237,500 and \$50,000. They represent 30.9% of the total amount of loans granted during the current examination period. Accordingly, we must require that the association submit detailed appraisal reports in support of each loan.

The appraisal report contained in loan file No. 4094 was subject to repairs of roof, repairs to electrical system and redecorating of the interior. There is no evidence in file to verify that this work has been completed.

Comment 1: (cont.)

The appraisal report in loan file No. 4147 did not contain a statement that the appraiser personally inspected the property, that he has no present or contemplated future monetary interest in the property and that his fee was not contingent upon his findings. These statements are required by the provision of Regulation .23B4(a)(b)(c).

The qualifications for the appraiser (Mr. Wheatly) were not available for review. Regulation .23B requires that the qualifications of all appraisers be available to the examiners for review.

E. Loan file No. 4155 did not contain evidence of the certification of title as required by Regulation .29A(2)(e).

F. Based on the settlement sheet in loan file No. 4130, \$3,600 was withheld for payment of property taxes. The settlement sheet was dated May 16, 1979. As of March 21, 1980, there is no evidence in file to indicate that the real estate tax was paid.

The attorneys certification of title which is not dated, states in part that "taxes have been paid on said property". The bottom of the certification of title states "Taxes have to be paid before papers of record". Regulation .23C(3) states "Promptly after settlement, the Association shall secure the written title certification together with a statement of the steps taken to protect the Association against any prior lien not then released of record".

G. Of the twenty-one loan files reviewed that contained title certificates and recorded deeds of trust or mortgages pertaining to loans granted during the current period of examination only two had title policies that showed a first lien at the time of recording.

Of the remaining nineteen loan files, eleven files contain debt instruments which were recorded more than 2 months after the date indicated on the Attorneys certificate of title.

Because the title certificates are not brought through the date of recording on most loans, the examiner can not, with the documentation available in most loan files examined, determine that the association is in compliance with Article 23 Section 161Z of the Maryland Code. The Law states in part that "any mortgages held by an Association shall be a first lien upon such real or leasehold property, except that any mortgage may be a second lien if the first lien on said property is held by the Association".

H. The settlement sheets in loan file Nos. 4080, 4121 and 4131 indicate that the appraisal fee and credit report fee were paid; however, no amounts are shown. The settlement sheet in loan file No. 4080 did not describe the reason for a \$35 fee. Article 23 Section 161GG states in part that "at each and every settlement there shall be furnished to each borrower a memorandum of settlement which shall show in detail each and every charge made in connection with said settlement". Please explain these discrepancies.

Comment 2:

Title insurance premiums were shown on the settlement sheets for the following loans, but no title policies were in the respective files:

Comment 2: (cont.)

Loan No.	Premium	Loan No.	Premium
4080			
4085	56.17	4106	33.75
4086	70.50	4111	172.00
4105	98.50	4127	327.00
4119	179.00	4131	50.00
	101.00	4143	Exact amount unknown

Please furnish this Division with copies of the title policies of these loans.

Comment 3:

Loan Nos. 4098, 4122 and 4125 were granted upon the security of improved residential property with loan to appraisal ratios in excess of 90% of the market value of the security. Regulation .30C 2(a) provides that the aggregate amount of any loan made upon the security of improved residential property shall not exceed 90% of the market value of the security.

Loan file No. 4083 is a commercially insured loan granted upon the security of improved residential property with a loan to appraisal ratio in excess of the 95% loan to appraisal ratio. Regulation .30C(7) provides that no loan upon the security of improved residential property may be made for an amount in excess of 95% of the appraised market value of the security. Please advise this Division of the steps taken to bring these loans into compliance with the referenced Regulation.

Comment 4:

As of December 31, 1979, the total principal balances of all loans in which the loan to appraisal ratio exceeded 80% was \$1,144,022.27 representing 11.4% of the total assets. Regulation .30D(2) provides that the aggregate outstanding principal balance of every loan made by an Association upon the security of improved real or leasehold property in excess of 80% of the fair market value of the security may not exceed 10% of its total assets. Accordingly, the association is directed to discontinue this type of lending until evidence of compliance with this Regulation has been submitted to this Division.

Comment 5:

Mortgage loan account No. 3963 reflected a balance of \$3,872.59 at December 31, 1979. On or about October 15, 1979, the property securing the loan was released, however, this loan is still reflected as a mortgage on the association's general ledger. This release resulted in an unsecured loan which is not an authorized investment under Article 23, Section 161Z of the Code. The examiners noted that the association filed suit against the mortgagors and had a judgement placed against the mortgagors residence. Please advise this office of the current status of this account.

Comment 6:

An analysis of the subsidiary mortgage loan records reflected the existence of eighteen delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$630,209.80 as of the current examination date, representing a delinquency ratio of 7.1% of the total mortgage loan balances outstanding.

Delinquent and unpaid interest on the loans subject to comment totaled approximately \$36,881.25.

Comment 7:

An analysis of the subsidiary mortgage expense accounts reflected that three accounts had debit balances totaling \$2,120.99 as of the current examination date.

Comment 8:

An examination of the records supporting free share loans revealed the following:

- A. Share loan No. 4138 had a term which expired October 16, 1979. Interest through December 31, 1979 was not paid until January 25, 1980. The loan was made to a partnership in which Mr. Jeffrey Levitt an association's director has an interest. There was no evidence in file to indicate that the loan has been extended.
- B. The loan disclosure statement in free share loan file No. 4151 (a term loan) did not disclose the amount of the finance charge as required by Section 12-106 of the Commercial Law Article.
- C. The free share loan file No. 4152 (a demand loan) did not contain a disclosure statement as required by Section 12-106(b)(c) of the Commercial Law Article.
- D. Free share loan No. 4154 was granted upon the security of a money market certificate which was earnings, a dividends rate of 12.651%. The loan was being charged 13.5% interest which exceeds the 12% maximum allowed by Section 12-103(a)(2) of the Commercial Law Article. Interest received by the association in excess of the 12% limitation allowed by Maryland law must be refunded to the borrower and the rate on this adjusted to 12%. Please advise this Division of the specific corrective action taken.

Comment 9:

A review of the association's mortgage hypothecations disclosed the following:

- A. The following mortgage loans indicate that the association has accepted a hypothecation in excess of the 20% allowed by Regulation .30C(9) from sellers who were not the occupants of the secured property. This regulation states that "An association may not accept as security in connection with a loan for residential purposes, an hypothecation from the seller who is not the occupant of subject property which exceeds 20 percent of the lower of the appraised value or the purchase price of the secured property".

Mortgage loan No.	Lower of appraised value or purchase	Maximum allowable hypothecation	Amount of hypothecation	Amount to be refunded
4090	\$10,700	\$2,140	\$3,000	\$860
4087	7,500	1,500	2,200	700

The amounts in excess of the percentage allowed by the regulation must be refunded to the pledgor.

- B. The hypothecation agreement in mortgage loan file No. 4090 does not indicate the number of the savings account pledged as collateral for the loan.

Comment 9: (cont.)

- C. Mortgage loan file No. 3913 indicates that free share No. 2679 is pledged as a \$2,000 hypothecation, however the savings trial balance of December 31, 1979 shows a balance of \$1,554.22 in savings account. There is no information in file indicating approval of a release.
- D. Mortgage loan Nos. 3441, 3551, 3570 and 3710 have been closed. Savings accounts Nos. 2061, 2152, 2156 and 2488 were pledged for those loans. The savings accounts are still included in the general ledger account No. 2020 hypo's. The pledors on these accounts should be notified that their funds are available.
- E. Mortgage loan file No. 3660 contains a hypothecation agreement pledging \$1,650 in share account No. 2255. The savings account has been closed, however, a notation on the hypothecation agreement indicates that savings account No. 2172 has been substituted as collateral. This savings account in the name of Mr. Samuel Aaron is not listed in the general ledger account No. 2020 for hypothecations and is not protected by a supervisory hold.
- F. There is no indication in mortgage loan file No. 3619 that hypothecated free share No. 2194 for \$625 has been approved by the board for release. Share account 2194 has been closed.

Comment 10:

A review of the minutes of the Board of Directors meetings revealed the following:

- A. The minutes did not reflect the dividend resolutions prior to the payment of dividends for the periods ending March 31, June 30, September 30 and December 31, 1978.
- B. The minutes of the January 8, 1979 meeting did not reflect the election of officers. The election of officers is required by Article IV, Section 2 of the associations bylaws.
- C. Directors Allan Pearlstein, Nathan Wechsler, and Stewart Greenebaum, attended 1, 1 and 9 of the twenty-one board meetings held during the period of the current examinations.
Furthermore each one of the above named directors are in violation of Article V Section 7 of the association's bylaws which states that, "Any Director absenting himself for five successive meetings shall automatically be relieved as a Director and his seat shall be declared vacant, and the Board of Directors shall at once fill the vacancy thus created".
- D. The minutes for November 6, 1978 and December 4, 1978 were not signed by an appropriate officer.

Comment 11:

A review of the ground rent subsidiary and supporting documents revealed that a trial balance of the ground rent accounts has not been performed on a quarterly basis as required by Regulation .08. Furthermore, the ground rent at 1913 W. Christian Street was not paid for February 1, 1979 and August 1, 1979.

Comment 12:

A review of the free share accounts and supporting documentation revealed that the association did not report two dormant free share accounts to the Miscellaneous Revenue Division of the State Treasurers Office. Free share Nos. 1463 and 1867 totaling \$14.57 have not had any activity for a period of 12 years or more. Title 17 of the Commercial Law Article presents a proper method for disposition of these accounts.

Comment 13:

A review of the association Truth in Savings statement revealed the following:

- A. The method and dates dividends are credited on certificates and the date certificates begin to earn dividends is not shown as required by Article 23 Section 161FF (2)(3) and (6).
- B. The penalty for early withdrawal is not disclosed as required by Article 23 Section 161FF(5). The examiners noted that a statement "All certificate accounts are subject to penalty for early withdrawal" is on the form. Please submit amended "Truth in Savings" statements to this Division for review.

Comment 14:

A review of the association's system of internal controls revealed the following:

- A. Blank checks are not under complete control, many are stored on a shelf which is available to all association personnel.
- B. The examiners noted that when more than one customer is present, both the Teller and Managing Officer uses the same cash drawer. Each person handling cash should have their own cash drawer.
- C. Surprise counts of cash are not conducted by persons not handling cash.

Comment 15:

On June 30, 1979, by Journal entry No. 178 the association journaled \$9.50 from the mortgage escrow account of Homeowner loan No. 3752 to late charge income. Section 12-109-1(a) of the Commercial Law Article States "Funds in any escrow account for use in paying taxes, insurance premiums and ground rents, may not be used to reduce the principal, or to pay interest, or other loan charges except upon foreclosure or release". This amount must be returned to the borrowers escrow account and collected separately from the borrower.

Comment 16:

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

- A. The settlement sheet for loan No. 4085 reflected a total of \$340 in loan fees due the association. This amount was posted on May 10, 1978 to the mortgage escrow account instead of an income account.
- B. The checking account No. 021-6288-8 at Equitable Trust has two outstanding checks that have been outstanding since 1976. The Bank statement for December 31, 1979 indicates that there are insufficient funds in the account to cover the \$113.67 in outstanding checks.
- C. The checking account No. 201-46239 at Union Trust Bank has 6 checks totaling \$716.77 that have been outstanding since 1977.
- D. The general ledger account No. 4280 entitled "loss on sale of mortgages". Actually reflects losses due to foreclosure.

Comment 16: (cont.)

- E. General ledger account No. 1160 "Due from Monumental" in the amount of \$3,000 could not be identified as to what the asset is for and no supporting documents were made available to identify this item.
- F. A \$1,500 disbursement dated December 20, 1978 in the bookkeeping fee account was not supported by an invoice.
- G. The Officers and Directors expense account (G/2 No. 4160) for year ended December 31, 1979 two (\$300) payments to Mr. Schectman and Ms. Weinapple that should have been posted in the advisory board fee account.
- H. When Mortgage loans are sent to foreclosure, the unpaid balance of the loan is maintained in the mortgage loan subsidiary account. These balances should be segregated in a separate general ledger account for proper identification.
- I. The association does not segregate its IRA and Keough accounts on the general ledger. Regulation .36B states in part that "An association exercising the powers authorized by this section shall segregate all funds held in such fiduciary capacity on the association's general and subsidiary ledgers".
- J. An analysis of the association's net worth accounts for the year ended December 31, 1979 revealed that the association net allocation to reserve for bad debts of \$9,600 was approximately \$23,460 less than the requirement set forth in Article 23 Section 161EE of the Maryland Code. Please make the appropriate adjusting entry.

Comment 17:

An examination of the lease commencing on November 1, 1979 between First Progressive and its landlord, Mr. Albert G. Aaron, revealed that the rental included the second floor offices of Mr. Jeffrey Levitt, the association's attorney. This transaction is not "fair and reasonable" to the association as required by Regulation .43a and the association is requested to advise this Division of the steps taken to correct this situation.

Comment 18:

- A. The association attorney (now suspended) Jeffrey A. Levitt has not responded to a request from this Division for certain information relating to settlement charges and fees to borrowers. The request was made by letter dated April 2, 1980.
- B. The association's Executive Vice President has not responded to a request by the Division for information regarding fees and charges for settlement, document preparation and title examination by the Charles Street Title Company.

Comment 19:

A review of the activities of Monumental Service Corporation disclosed the following:

- A. On August 14, 1979, the service corporation granted a second mortgage to the association's Executive Vice President, Mr. Harrison E. Greene, Jr. Neither the association nor the service corporation has the first mortgage. The second mortgage instrument contains a provision which states: "It is hereby agreed that this mortgage is subject to a first mortgage to Greater Baltimore Savings and Loan; payments must be made to Monumental City Service Corporation which will disburse said funds accordingly".

Comment 19: (cont.)

The service corporation is not collecting and transmitting to the holder of the first mortgage the payments due there under as required by the second mortgage and by Regulation .34D(b)(1).

The loan file does contain a letter dated August 7, 1979 to an officer of the first mortgage holder informing him of the second mortgage and requesting notification to Mr. Albert Aaron (The Service Corporation's President) in the event the first mortgage payment is not made on time.

- B. A review of the minutes of the service corporation's Board of Directors meetings revealed the following:
1. The minutes did not reflect the 1978 annual meeting and the election of officers.
 2. The minutes do not reflect the approval of a second mortgage to Mr. Harrison E. Greene, Jr.
 3. The minutes do not reflect approval of borrowing \$20,000 from an individual or \$50,000 in the form of a mortgage for property at 119 Cherry Hill Road.
 4. The minutes did not reflect authorization for any of the disbursements reflected in the real estate owned account.
 5. The minutes did not reflect approval of the payment of "management fees" in the amounts of \$5,000 and \$1,500 to Harrison E. Greene, Jr. and Paul Freeman, respectively, for the year ending December 31, 1979.
- C. A review of the service corporations books, records and accounting practices revealed the following:
1. The general ledger has not been posted completely through December 31, 1979 as of March 19, 1980.
 2. The bank statement for December 31, 1979 has not been reconciled by the service corporation.
 3. The mortgage control account was posted through December 31, 1979, however, the subsidiary trial balance exceeded the control by \$4,000. This variance is attributable to JE 13 being posted to the control account but not to the subsidiary account.
 4. In July 1979, the service corporation borrowed \$50,000 from the parent in the form of a mortgage. The mortgage was on property bought by the service corporation when the parent foreclosed on the old loan. This liability was not posted to the service corporations general ledger as of December 31, 1979.
 5. Invoices for numerous disbursements related to real estate owned were not in file or made available to the examiners.
 6. The auditors have recommended certain adjustments related to the property at 2720 Oakley Street and deferred commitment fees which have not been made.
- D. A review of the mortgage loan subsidiary records revealed three loans that did not have principal or interest payments made for a

Comment 19: (cont.)

period of one year or more as of December 31, 1979. These were mortgage loans Nos. 1024-27, 1025-7 and 1195-77. The examiners also noted that the term of loan Nos. 949-76, 1124-77 and 1195-77 had expired.

- E. The borrower on loan No. SC 6005 has not made a principal or interest payment since December 31, 1976. Please advise of the action taken to bring this account current.

Comment 20:

A review of the action taken to correct the exceptions set forth in the prior report of examination revealed that the association has not taken any corrective action with respect to five usurious second mortgage loans held by the association (loan Nos. 3897, 4059, 3952, 3900 and 3782) and eight usurious second mortgage loans held by the service corporation, (loan Nos. 1195-77, 694-76, 801-76, 1225-77, 734-76, 1161-77, 962-77 and 1075-77).

The Division has been advised by it's Assistant Attorney General that we must require interest rate adjustments be made on all second mortgages granted by associations in excess of the 8% legal limit.

The Division has little or no latitude in the enforcement of Maryland's usury statute, and we must require that the appropriate adjustments to the borrowers' accounts be made. The association has indicated in it's previous responses to this matter that the association is prepared to go to court over this matter. If refunds are not made within 30 days, this office will turn the case over to the Attorney Generals office for appropriate action.

Informational Comments:

- A. A review of the associations bylaws that were made available for examination revealed the bylaws should be updated and an undated copy be available at the association.
- B. The Federal truth in lending statements in files supporting demand free share loans do not disclose interest based on a six month term as required by Federal Regulation Z.
- C. Free share loan file No. 4151 did not disclose the total amount of interest to be collected as required by Federal Regulation Z and Section 12-106 of the Commercial Law Article of the Annotated Code of Maryland.

The settlement sheet in loan file No. 4120 indicated an incorrect footing for total disbursements on behalf of the mortgagors. The total shown was \$347,500. A refooting indicates the amount should have been \$348,050. The settlement sheet indicated \$152,998 of the proceeds went to the mortgagors or \$550 more then should have been based on refooting.

- D. A comparative analysis of the financial condition of the association as of December 31, 1979 and February 28, 1978 revealed the following:

	December 31, 1979	February 28, 1978	Increase (Decrease)	
			Dollar Amount	Per Cent
Total Savings	\$ 7,500,158.66	\$ 8,641,242.26	(\$1,141,083.60)	(13.2)
Total Net Worth	585,491.89	457,636.05	127,855.84	27.9
Total Mortgage Loans	8,978,323.35	9,941,756.04	(963,432.69)	(9.7)
Total Assets	10,005,748.86	10,704,914.49	(699,165.63)	(6.5)

AL-0078

Informational Comments: (cont.)

E. A review of the association's earnings for the calendar/fiscal year ended December 31, 1979 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	<u>\$679,800.34</u>	<u>100.0</u>
2. Taxes (Page 6, Line 4)	<u>18,617.00</u>	<u>2.7</u>
3. Earnings distributed on savings (Page 6, Line 3)	<u>600,259.12</u>	<u>88.3</u>
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	<u>60,924.22</u>	<u>9.0</u>
5. Net income distributed (Total of 2, 3 & 4 above)	<u>\$679,800.34</u>	<u>100.0</u>

CHB:DHW:aw

37th Street
BALTIMORE, MARYLAND 21201

NAME OF ASSOCIATION First Progressive Savings and Loan Association
July 1981

As of Date March 31, 1981

Examiners		
Stanley Goodwin	32 DAYS	24 Min
Kevin L. Berry	31 DAYS	3 hrs 6 Min
see Michael	1 DAY	

64 Days 3 hrs 30 Min

This association post its books DAILY
(daily, weekly, monthly, quarterly)

Does association obtain yearly independent certified audits? yes

On Line? yes (SAVINGS ONLY)

290

6578

FIRST PROGRESSIVE B. & L. ASS'
 416 N. CHARLES STREET
 BALTIMORE, MARYLAND 21201

Savings Accounts Insured by
MSSIC

AN EXAMINATION AS OF
3/31/81

Current Policy or Certificate No.
5257

First Progressive Savings and Loan Association, Inc.
 Association

416 North Charles Street Baltimore Maryland 21201
 Address City State Zip Code

Address of Branches

111 227 East Main Street Westminster, Maryland 21157

First Share or Savings Accounts

1,148

Mortgage Loans

7,900,833.83

No. 319

7,731,116.93

September 19, 1914	Mutual	Dec. 31	2nd Monday in June	7% 3/31 9.50 5/30 12/31
Date Chartered	Stock or Mutual	Years End	Annual Meeting	Dividend Rate and Period

OFFICERS AND DIRECTORS

Name	Address	City	Officer	Director (x)
(1) Albert G. Aaron	3908 N. Charles Street	Baltimore	President	X
Harrison E. Greene, Jr.	1902 Don Avenue	Westminster	Executive Vice-President	X
Paul R. Freeman	1935 Don Avenue	Westminster	Vice-President	
Jeffrey A. Levitt	11408 Woodlawn Drive	Baltimore	Secretary	X
(5) Benjamin Lehman	3507 Beagle Lane	Fondallstown	Treasurer	X
(6) Renee Portney	Deerfoot Crescent	Westminster	Assistant Treasurer	
(7) Thomas Strinhardt	2503 Kingdow Pond	Baltimore		X
(8) Herbert Sandler	6605 Shelrick Place	Baltimore		X
(9)				
(10)				
(11)				
(12)				
(13)				
(14)				
(15)				

Counsel

Name: Albert G. Aaron
 Address: 416 N. Charles Street
 Baltimore, Maryland 21201

Accountant

Name: Glass, Friedman, and Texas
 Address: 222 St. Paul Street
 Baltimore, Maryland 21202

Period of Examination

From 3/31/80 To 3/31/81

Examiner-In-Charge

Walter J. Green

COMPARATIVE PERCENTAGE SUMMARY
 CURRENT EXAMINATION

PREVIOUS EXAMINATION

Date March 31, 1981

Date December 31, 1979

	Amount	% to Total Assets	Amount	% to Total Assets
1. Total Assets	9,642,116.61 \$ 9,645,189.44		\$ 10,005,748.86	
2. Reserve for Bad Debts	289,393.34	3.0 %	242,475.00	2.4 %
3. Undivided profits and surplus	126,787.83	1.3 %	343,016.89	3.4 %
4. First mortgage loans	7,734,116.93	80.1 %	8,978,323.35	89.7 %
5. Ground rents owned	48,284.00	0.5 %	48,284.00	0.5 %
6. Liquid Assets:				
(a) Cash	627,019.81		254,496.92	
(b) Investments (Securities)	150,000.00		- 0 -	
(c) M.S.S.I.C. deposit + (C. I. I. I.)	176,600.00	1.1 %	227,300.00	
Total Liquid Assets	932,619.81	9.7 %	483,796.92	4.8 %
7. Slow Assets:				
(a) Slow mortgage loans	559,419.36	5.7 %	630,209.80	6.3 %
(b) Real estate Owned	- 0 -		- 0 -	
(c) Office Building & Improvements (net)	24,265.04	.4 %	- 0 -	
(d) Leasehold Improvements (net)	28,113.50	.2 %	23,289.40	.2 %
(e) Furniture & Fixtures (net)	38,945.04	.4 %	47,077.09	.5 %
(f) _____				
Total Slow Assets	650,742.94	6.7 %	700,776.29	7.0 %
8. Borrowed Money	912,000.00	9.4 %	1,430,000.00	16.3 %

Year Ended 12-31-80

Year Ended 12-31-79

	Amounts	Ratios	Amounts	Ratios
9. Operating ratios:				
(a) Gross operating income (Item 9, Page 4)	5,151,500.00 \$ 246,838.84		\$ 4,044,295.29	
(b) Total operating expense (Item 25, Page 4 and Item 29, Page 5)	4,904,661.16 \$ 46,632.09		\$ 345,356.41	
(c) % Operating expense to gross operating income		19.2 %		33.1 %
(d) Net operating income (Item V, Page 5)	4,686,838.85 \$ 130,206.75		\$ 498,938.88	
(e) Dividends (page 6)	205,771.49	1.1 %	609,259.12	
(f) % Dividends to net operating income		63.2 %		85.9 %
(g) Total assets at end of fiscal year	9,645,189.44		10,005,748.86	
(h) % Operating expense to total assets		1.2 %		3.5 %
(i) Share liability at end of fiscal year	7,900,823.83		7,500,136.66	
(j) % Net income to share liability		1.6 %		9.3 %
(k) Reserve for Bad Debts	289,393.34		242,475.00	
(l) % Reserve for Bad Debts to Share Liability		3.7 %		3.2 %
(m) Total Net Worth	1,113,182.07		569,491.59	
(n) % Total Net Worth to Share Liability		9.2 %		7.4 %

STATEMENT OF CONDITION

Exhibit A

Name of Institution First Progressive Savings & Loan Association, Inc.
 as of March 31, 1981 19 81

ASSETS

1. First mortgage loans:		
a. First mortgage direct reduction loans	\$ 7,587,184.10	
b. First mortgage drop share loans		
c. F.H.A. mortgage loans		
d. G.I. mortgage loans		
e. First mortgage straight loans		
f. Participation loans		
g. Accrued interest receivable on first mortgage loans	65,240.48	
h. Advances for taxes, insurance, etc., on first mortgage loans	71,962.49	
	67,379.86	\$ 7,731,116.93
2. Subordinated Liens:		
a. Second Mortgages		
b. Accrued interest receivable on second mortgages		
c. Advances for taxes, insurance, etc., on second mortgages		
3. Free Share Account Loans:		
a. Loans secured by accounts of this association	\$ 156,960.51	
b. Accrued interest receivable on free share account loans		156,960.51
4. Other loans:		
a. Loans on all other security		
b. Unsecured loans		
c. Accrued interest receivable on other loans		
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		18,284.00
8. Investments:		
a. Stock in Federal Home Loan Bank		
b. Federal Home Loan Bank Securities		
c. U.S. Government obligations		
d. Other investment securities	150,000.00	117,117.11
9. M.S.S.I.C. Deposit		150,000.00
10. Investment - Service Corporation		196,600.00
11. Cash		247,671.91
a. Cash on hand	\$ 7,500.00	
b. Cash in banks	620,019.81	
c. <u> </u>		
d. <u> </u>		
		627,019.81
12. Office Building (if owned):		
a. Office building and improvements	NET	\$ 24,265.04
b. Less allowance for depreciation		24,265.04
13. Leasehold Improvements:		
a. Leasehold improvements	NET	\$ 28,113.50
b. Less allowance for amortization		28,113.50
14. Furniture, etc.:		
a. Furniture, fixtures and equipment	NET	\$ 38,945.04
b. Less allowances for depreciation		38,945.04
15. Deferred charges		67,561.75
16. Other assets (Schedule 6, Page 14)		95,788.14
17. <u> </u>		27,500.00
18. <u> </u>		
TOTAL ASSETS		\$ 9,645,189.44

STATEMENT OF CONDITION—(Continued)

Exhibit A

CAPITAL AND LIABILITIES

20. Free accounts:			
a. Installment share dues credited	_____	\$ 1,964,603.38	
Deduct—Delinquent dues (if carried)	_____		
Sub-total	_____	\$ 1,964,603.38	
Add—Dividends (unless included in 20-a)	_____		
Net free installment shares	_____		
b. Savings shares and accounts (payments and dividends)	1,877,111.11	1,932,077.83	\$ 1,967,803.38
c. Variable Dividend Certificates	_____	5,006,799.91	4,837,473.58
d. Single payment shares (payments and dividends)	_____		
e. Matured shares (payments and dividends)	_____		
f. Hypothecated Share Accounts—Mortgage Loans	245,856.96	221,450.00	245,856.96
g. Pledged Share Accounts—Free Share Account Loans	_____		150,760.51
h. Income Shares	_____		
i. _____	_____		
Total Share Accounts:	_____		7,900,833.83
21. Other Accounts:			
Christmas Clubs	_____		
Vacation Clubs	_____		
Total Other Accounts	_____		
22. Advances from Federal Home Loan Bank			
23. Borrowed money:			
n. From banks (Schedule 8, Page 14)	_____	\$ 912,000.00	
h. From others (Schedule 8, Page 14)	_____		912,000.00
24. Mortgages on real estate owned			
25. Interest accrued on items 22, 23 and 24			
26. Dividends declared, unpaid and uncredited			
27. Taxes accrued and unpaid on real estate owned			
28. Accounts payable			1,771.00 (202.25)
29. Loans in process			150,000.00
30. Advance payments:			
a. Advance payments by borrowers for taxes and insurance (if carried separately)	_____	\$ 222,033.66	
b. _____	_____		222,033.66
c. _____	_____		
31. Other liabilities (Schedule 7, Page 14)			43,831.66
32. Deferred credits to future operations:			
a. For unearned profit on real estate sold	_____		
b. For income collected in advance	_____	\$ 1,651.00	
c. For income Taxes	_____	4,076.00	
d. _____	_____		5,727.00
33. Specific reserves:			
a. For uncollected interest	_____		
b. For subordinated liens	_____		
c. _____	_____		
34. General reserves:			
a. Reserve for bad debts	_____	\$ 287,393.31	
b. Federal Insurance reserve (if insured)	_____		
c. _____	_____		
d. _____	_____		
e. _____	_____		287,393.31
35. Surplus			
36. Undivided profits			
37. Reserve for estimated dividend requirements			126,282.82
38. Current earnings (if interim statement) 3 months ended 3/31 1981			68,204.51
39. _____			(-1,000.00)
40. _____			
TOTAL CAPITAL AND LIABILITIES			\$ 7,646,167.11

STATEMENT OF OPERATIONS

Exhibit B

NAME OF INSTITUTION First Progressive Savings and Loan Association, Inc.

Current Period	Year	Year
From <u>1-1-81</u>	From <u>1-1-80</u>	From <u>1-1-79</u>
To <u>3-31-81</u>	To <u>12-31-80</u>	To <u>12-31-79</u>

I. GROSS OPERATING INCOME:

1. Interest

a. On mortgage loans—ordinary cash collections	\$ 217,634.54	\$ 823,560.09	\$ 926,990.77
b. On mortgage loans—all other			
c. On loans on shares, passbooks and certificates			
d. On real estate sold on contract			
e. On investments and bank deposits	7,911.52	15,501.85	38,638.51
f. On property improvement loans			
g. On ground rents	271.52	2,633.04	7,132.16
h. Other <u>residual</u> fees	25,950.19	10,427.28	7,835.85
2. Discount on loans (current installment and amortization only)			
3. Appraisal fees, legal fees and initial service charges	498.00		45,717.26
4. Other fees and fines	7,228.79	19,030.30	22,355.67
5. Real estate operations—Net income or (loss from R.E.O. Details on page 5)			
6. Gross income from office building			
7. Dividends:			
a. On stock in Federal Home Loan Bank			
b. Other dividends			
Miscellaneous operating income	243.23	16,245.32	23.05
Gross operating income	\$ 246,838.84	\$ 887,395.88	\$ 4,044,295.27

LESS—OPERATING EXPENSE:

10. Salaries, etc.:			
a. Compensation to directors, officers, employees, etc.	\$ 33,141.53	\$ 115,088.00	\$ 93,276.00
b. Collection expense (agents, etc.)			
11. Legal services—retainer, traveling expenses and special services	7,109.68	16,234.42	5,678.00
12. Expense accounts of directors, officers and employees	4,446.86	13,696.06	7,078.45
13. Rent, light, heat, etc.	6,790.05	24,032.14	13,595.80
14. Office building expenses (if owned):			
a. Repairs, taxes and maintenance of office building including depreciation			
b. <u>Data processing</u>	2,797.51	7,329.81	5,362.67
15. Furniture, fixtures and equipment, including depreciation	3,611.36	17,067.05	12,685.21
16. Advertising	1,891.23	2,367.29	11,001.13
17. Stationery, printing and office supplies	1,926.97	14,925.73	7,738.38
18. Telegraph, telephone, postage & express	766.96	6,159.88	4,712.26
19. Insurance and bond premiums	5,202.47	6,898.73	4,727.39
20. Federal insurance premium (if insured)			
21. Audit and supervisory examination	50.96		25,818.10
22. Taxes (other than real estate taxes)	3,516.30	7,436.75	5,000.00
23. Organization dues	59.00	736.85	1,538.06
24. Other operating expense	732.77	1,295.79	2,550.43
Net Operating Income Before Interest and Other Charges	\$ 175,200.19	\$ 114,937.38	\$ 828,496.99

Carried forward to page 5)

STATEMENT OF OPERATIONS (Continued)

Exhibit B (Continued)

	Current Period From <u>1-1-81</u> To <u>3-31-81</u>	Year From <u>1-1-80</u> To <u>12-31-80</u>	Year From <u>1-1-79</u> To <u>12-31-79</u>
III. Net Operating Income Before Interest and Other Charges (Carried forward from page 4)	\$ 175,200.19 ✓	\$ 634,927.38 ✓	\$ 838,496.77 ✓
IV. LESS-INTEREST CHARGES:			
26. On advances from Federal Home Loan Bank	\$ _____	\$ _____	\$ _____
27. On borrowed money	\$ 44,993.44 ✓	\$ 155,276.41 ✓	\$ 134,995.52 ✓
28. Dividends - Escrow Accounts	\$ _____	\$ 6,076.69	\$ 4,562.57 ✓
29. Total Interest	\$ 44,993.44 ✓	\$ 161,353.10 ✓	\$ 139,558.11 ✓
V. Net Operating Income	\$ 130,206.75 ✓	\$ 473,574.28 ✓	\$ 698,938.66 ✓
VI. ADD-NON-OPERATING INCOME:			
30. Dividends retained on withdrawals	\$ _____	\$ _____	\$ _____
31. Profit on sale of real estate	\$ _____	\$ _____	\$ _____
32. Profit on sale of investments	\$ _____	\$ _____	\$ _____
33. Mortgage prepayment penalties	\$ _____	\$ _____	\$ _____
34. Other non-operating income	\$ _____	\$ _____	\$ _____
35. Total non-operating income	\$ _____	\$ -0-	\$ -0-
VII. Net Income After Interest and Before Charges	\$ 130,206.75 ✓	\$ 473,574.28 ✓	\$ 698,938.66 ✓
VIII. LESS-NON-OPERATING CHARGES (do not use lines herein for items charged direct to reserves):			
36. Foreclosure costs and back taxes on real estate acquired (unless capitalized or charged to reserves)	\$ (2,545.00) ✓	\$ 2,795.00 ✓	\$ 5,762.77 ✓
37. Loss on sale of real estate - Foreclosures	\$ _____	\$ _____	\$ 3,807.46 ✓
38. Loss on sale of investments	\$ _____	\$ _____	\$ _____
39. Other non-operating charges - Service Corp.	\$ _____	\$ _____	\$ 10,068.31 ✓
40. Total non-operating charges	\$ (2,545.00) ✓	\$ 2,795.00 ✓	\$ 19,178.54 ✓
IX. Net Income for Period	\$ 127,661.75 ✓ 130,206.75	\$ 470,779.28 ✓	\$ 679,800.34 ✓

REAL ESTATE OPERATION (Details)

I. REAL ESTATE INCOME:			
1. Real Estate Rents	\$ _____	\$ _____	\$ _____
2. _____	\$ _____	\$ _____	\$ _____
3. Total Real Estate Income	\$ _____	\$ _____	\$ _____
II. LESS-REAL ESTATE OPERATING EXPENSES:			
4. Taxes	\$ _____	\$ _____	\$ _____
5. Insurance	\$ _____	\$ _____	\$ _____
6. Repairs and Maintenance	\$ _____	\$ _____	\$ _____
7. Commissions	\$ _____	\$ _____	\$ _____
8. Depreciation	\$ _____	\$ _____	\$ _____
9. Other Miscellaneous real estate expenses	\$ _____	\$ _____	\$ _____
10. _____	\$ _____	\$ _____	\$ _____
11. Total Real Estate Expenses	\$ _____	\$ _____	\$ _____
12. Net profit on Real Estate Operations	\$ _____	\$ _____	\$ _____
13. Net loss on Real Estate Operations (Note-Insert net income or loss in connection with real estate on page 4 as indicated.)	\$ _____	\$ _____	\$ _____

DISTRIBUTION OF NET INCOME AND
 RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

	Current Period From <u>1-1-81</u> To <u>3-31-81</u>	Year From <u>1-1-80</u> To <u>12-31-80</u>	Year From <u>1-1-79</u> To <u>12-31-79</u>
Distribution of Net Income			
1. Net income for period (Item IX, Exh. B)	\$ <u>132,751.75</u> 124,461.75	\$ <u>479,779.28</u>	\$ <u>679,800.34</u> ✓
Distribution			
2. Transfers in reserves:			
a. Federal insurance reserve	\$ _____	\$ _____	\$ _____
b. Reserve for bad debts	_____	_____	_____
c. Surplus	_____	_____	<u>30,600.00</u> ✓
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
3. Earnings distributed on sav. capital:			
a. Dividends on savings	<u>41,632.35</u> ✓	<u>179,101.53</u> ✓	<u>199,272.61</u> ✓
b. Int. on deposits, invest., cert. etc.	<u>164,139.14</u> ✓	<u>545,746.41</u> ✓	<u>400,486.51</u> ✓
c. Res. for div. on Var. Div. Certs.	_____	_____	_____
d. _____	_____	_____	_____
4. Other			
a. Federal income tax	_____	_____	<u>18,617.00</u> ✓
b. _____	_____	_____	_____
c. _____	_____	_____	_____
5. Total Distribution of Net Income	\$ <u>205,771.49</u> ✓	\$ <u>724,847.94</u> ✓	\$ <u>649,476.12</u> ✓
6. Net Income After Distribution	<u>(72,919.74)</u>	<u>(254,068.66)</u> ✓	<u>11,324.22</u>
7. Net income Undistributed	\$ <u>(73,017.74)</u>		
Reconcilement of Undivided Profits			
8. Balance—beginning of period	\$ <u>150,247.00</u> ✓	\$ <u>343,016.89</u> ✓	\$ <u>291,692.67</u> ✓
9. Net Income After Distribution (line 6)	\$ <u>-0-</u>	<u>(254,068.66)</u> ✓	\$ <u>30,324.22</u> ✓
10. Other additions (Total Reserve for ...)			
a. <u>... Crossing ...</u>	<u>0</u>	<u>61,298.77</u>	<u>21,000.00</u>
b. <u>CPA adjustments</u>	<u>-0-</u>	<u>84,757.94</u>	<u>34,000.00</u>
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
11. Subtotal	\$ <u>150,247.00</u>	\$ <u>150,247.00</u> ✓	\$ <u>343,016.89</u> ✓
12. Deductions:			
a. <u>... (Exh. IX)</u>	<u>23,459.17</u>	<u>23,459.17</u>	<u>-0-</u>
b. _____	_____	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
13. Total deductions	\$ <u>23,459.17</u>	\$ <u>23,459.17</u>	\$ <u>-0-</u> ✓
Balance at end of period	\$ <u>126,787.83</u>	\$ <u>150,247.00</u> ✓	\$ <u>343,016.89</u>
14. Dividend or interest rate for period	<u>7</u> %	<u>7</u> %	<u>60</u> %

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DISTRIBUTION OF NET INCOME AND
 RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

Current Period	Year	Year
From 1-1-81	From 1-1-80	From 1-1-77
To 3-31-81	To 12-31-80	To 12-31-79

Distribution of Net Income

1. Net income for period (Item IX, Exh. B) \$ 127,461.75 \$ 479,779.28 \$ 679,800.31

Distribution

2. Transfers to reserves:

a. Federal insurance reserve	\$ _____	\$ _____	\$ _____
b. Reserve for bad debts	_____	_____	30,600.00 ✓
c. Surplus	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____

3. Earnings distributed on sav. capital:

a. Dividends on savings	\$ <u>41,632.35</u>	\$ <u>179,101.53</u>	\$ <u>199,272.61</u>
b. Int. on deposits, invest., cert. etc.	\$ <u>164,139.14</u>	\$ <u>545,746.41</u>	\$ <u>409,986.51</u>
c. Res. for div. on Var. Div. Certs.	_____	_____	_____
d. _____	_____	_____	_____

4. Other

a. Federal income tax	_____	_____	18,617.00 ✓
b. _____	_____	_____	_____
c. _____	_____	_____	_____

5. Total Distribution of Net Income \$ 205,771.49 \$ 724,847.94 \$ 649,176.12

6. Net Income After Distribution \$ (78,109.74) \$ (254,068.66) \$ 30,324.22

7. Net income Undistributed \$ _____ \$ _____ \$ _____

Reconciliation of Undivided Profits

8. Balance—beginning of period \$ 150,247.00 \$ 343,016.89 \$ 294,672.67

9. Net Income After Distribution (line 6) \$ _____ \$ (254,068.66) \$ 30,324.22

10. Other additions:

a. <u>Clearing Entries</u>	\$ _____	\$ <u>61,298.77</u>	\$ _____
b. _____	_____	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	21,000.00
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____

11. Subtotal \$ _____ \$ 150,247.00 \$ 343,016.89

12. Deductions:

a. _____	\$ _____	\$ _____	\$ _____
b. _____	_____	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____

13. Total deductions \$ _____ \$ _____ \$ _____

Balance at end of period \$ 126,781.13 \$ 150,247.00 \$ 343,016.89

14. Dividend or interest rate for period 7 % 7 % 60 %

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RECONCILEMENT OF RESERVES

Exhibit D

	Current Period		Year	
	From 1-1-81 To 12-31-81	From 1-1-80 To 12-31-80	From 1-1-79 To 12-31-79	From 1-1-78 To 12-31-78
Reserve for bad debts				
1. Balance at beginning of period	\$ 265,934.17	\$ 242,475.00	\$ 232,875.00	
2. Additions during period:				
(a) From net profit	\$ _____	\$ _____	\$ 39,600.00	
(b) From Unabated Profits	\$ 23,459.17	\$ 23,459.17		
(c)				
(d)				
3. Total additions	\$ 23,459.17	\$ 23,459.17	\$ 39,600.00	
4. Totals of items 1 and 3	\$ 289,393.34	\$ 265,934.17	\$ 272,475.00	
5. Deductions during period:				
(a) 1/1/81 - 1/1/80	\$ -0-	\$ -0-	\$ 21,000.00	
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
6. Total deductions	\$ -0-	\$ -0-	\$ 21,000.00	
7. Balance at end of period	\$ 289,393.34	\$ 265,934.17	\$ 251,475.00	

Reserve				
1. Balance at beginning of period	\$ _____	\$ _____	\$ _____	
2. Additions during period	\$ _____	\$ _____	\$ _____	
3. Totals of items 1 and 2	\$ _____	\$ _____	\$ _____	
4. Deductions during period:				
(a)	\$ _____	\$ _____	\$ _____	
(b)	\$ _____	\$ _____	\$ _____	
(c)	\$ _____	\$ _____	\$ _____	
5. Total deductions	\$ _____	\$ _____	\$ _____	
6. Balance at end of period	\$ _____	\$ _____	\$ _____	

RECONCILEMENT OF RESERVES

Exhibit D (Continued)

	Current Period		Year		Year	
	From	To	From	To	From	To
	1-1-81	3-31-81	1-1-80	12-31-80	1-1-79	12-31-79
Surplus						
1. Balance at beginning of period						
2. Additions during period:						
(a) From net profit						
(b)						
(c)						
(d)						
(e)						
3. Total additions						
4. Totals of items 1 and 3						
5. Deductions during period:						
(a)						
(b)						
(c)						
(d)						
(e)						
(f)						
(g)						
6. Total deductions						
7. Balance at end of period						

M/A

Reserve						
1. Balance at beginning of period						
2. Additions during period:						
(a)						
(b)						
(c)						
3. Total Additions						
4. Totals of items 1 and 3						
5. Deductions during period:						
(a)						
(b)						
(c)						
(d)						
6. Total deductions						
7. Balance at end of period						

LEGEND
 1A--Single Family Dwelling
 1B--2-4 Family Dwelling
 1C--Home & Business
 2--Apts. w/ 3 or more Families
 3--Business--Commercial
 4--Farm
 5--Unimproved
 P--Purchase
 R--Refinance
 RO--Refinance, Other
 C--Construction

LOANS SUBJECT TO COMMENT AS OF - 3/31/81 -

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount	Debit Exp. Acct.	Unpaid Principal	Unpaid Interest	Total Paid (2), (3), (4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments
3751	Walter & Doris Decker	1-A	1-5-76	16,000.00	—	13,666.25	1,139.00	14,805.25	3	13,936.27	
3755	401 Box 96A 21061 Ernest & Christina Ruch	1-A	1-2-75	25,500.00	—	24,780.56	1,445.00	26,225.56	6	25,056.96	
3775	1228 Whiters Ave. Nicholas Mission at Esos 15105 Knoxville Pa.	1-A	2-13-76	70,000.00	1,898.46	21,778.88	11,401.00	35,078.34	1	69,928.05	
3910	Erni Pappas 2718 Sparrows Point Rd. 21219 Jesse T. Aubrey Thomas	3	9-7-76	45,000.00	846.66	44,929.63	6,031.00	51,807.29	5	43,822.35	
4060	10000 Moore 2507-4123 Road Hill	3	11-21-77	33,750.00	111.47	6,689.91	335.00	7,136.40	10	7,281.12	
4090	1185 Market St. 21229 Walter & Lillian Spruce	1-A	3-28-78	8,950.00	—	7,833.08	379.00	8,212.08	7	30,064.68	Loan paid in full on 4/20/81
4125	401 Box 1078 Abingemirett 21003 James Lee Williams, Pa.	1-A	4-20-79	60,000.00	—	59,550.01	4,466.00	64,016.01	12	8,157.16	
3681	B. S. Redman c/o Mrs. Jones 2125 Sparrows Pt. Rd. 21219 Jerry D. & Helen Winston	3	2-27-79	19,300.00	947.60	20,424.07	3,854.00	25,295.67	0	19,282.29	
3745	426 Essexwood Ct. 21221 James & Helen M. Gray	1-A	9-10-75	55,000.00	18.99	46,729.24	16,000.00	162,748.23	4	146,729.24	
3950	2008 River Street A. P. Kwotki	1-A	12-26-75	72,102.00	—	31,449.46	3,097.00	33,546.46	7	31,620.44	
4144	1012 23rd St. Charles Rd. Mary & Margaret Murphy	5	11-1-76	42,700.00	—	42,847.67	2,893.00	45,740.67	9	43,043.77	
4021	2516 S. Sayre Ave. 21219	1-A	9-19-79	87,000.00	—	87,000.00	8,773.00	95,773.00	0	87,000.00	
			6-30-77	21,700.00	—	20,505.44	854.00	21,359.44	9	20,903.94	
				626,350.00	3,823.30	559,419.36	61,274.00	624,466.56		608,552.89	

LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home & Business
- 2--Appts. w 3 or more families
- 3--Business--Commercial
- 4--Farm

- 5--Unimproved
- P--Purchase
- R--Refinance
- RO--Refinance (Other)
- C--Construction

416 N. CALVERT STREET
BALTIMORE, MARYLAND 21201

LOANS SUBJECT TO COMMENT AS OF-- 3/31/81

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid (4) Interest	Total Debt (5) (1) & (4)	No. Payments Last 12 Months	Total Debt Last Exmn.	Comments
	Summary: Loan Nos. # 3698, # 3737, # 3876, # 3948, # 4104, # 4118, # 3680, # 3877		Eighteen (18)	Loans subject to comment	Last Examination						
	Loan Nos. # 4046, # 3629, # 4073										-Paid in Full - 8
	Loan Nos. # 3755, # 3725, # 3910, # 3950, # 4099, # 4125, # 3681										-Brought Current - 3
											STILL Subject to COMMENT
											Total 18

None

	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	Parcels	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 _____	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

FINEST INVESTMENTS & ASSOCIATES
 416 N. CHARLES STREET
 BALTIMORE, MARYLAND 21201

SCHEDULE OF INVESTMENTS AS OF -- 12-31-80 --

Schedule No. 3
 20
 120

Par Value	Description	Rate	Maturity	Actual Cost	Book Value	Interest Accrued (If Carried as an Asset)	Comments
\$20,000.00	11 1/2 Term Bonds	12.05	9-10-81	3,122.25	418,215.02		Hold -
12,000.00	"	12.15	6-10-81	9,706.38	97,706.38		
110,000.00	"	14.30	5-28-81	102,266.02	110,000.00		
10,000.00	"	15.30	4-16-81	9,612.25	10,000.00		
\$150,000.00	Account Interest			\$140,400.79	\$49,599.21		
150,000.00				\$140,400.79	150,000.00		
					147,000.00		

1000 ... STREET
 BALTIMORE, MARYLAND 21201

Schedule No. 4

OFFICE BUILDING

Year Ended 1990

Asset value before depreciation

NONE

Land _____ \$ _____
 Building _____
 Total _____ \$ _____
 Less: Allowance for depreciation _____
 Book Value _____ \$ _____

Assessed value:

Land _____ \$ _____
 Building _____
 Total _____ \$ _____

Insurance carried

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	_____	_____	\$ _____
_____	_____	_____	\$ _____
_____	_____	_____	\$ _____

FIRST PROGRESSIVE B. & L. ASSN.
 216 N. CHARLES STREET
 BALTIMORE, MARYLAND 21201

5-15

OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES

Schedule No. 5

Name	Officer Title	Director	Meetings Attended Since Last Examination	Time Devoted	Annual Salaries Y.E.	Annual Fees Y.E.	*Indebtedness As Of		Total Free Share Accounts AS OF
							Type	Amount	
Albert G. Aron	President	X	11	P.T.	19,100.00	1,400.00	—	—	284,501.84
Harold E. Greene, Jr.	Executive Vice-President	X	—	Full	21,700.00	—	—	1,986.24	264,537.21
Paul R. Freeman	Vice-President	—	—	Full	21,700.00	—	—	—	—
Jeffrey A. Lee, H.	Secretary	X	8	Part	—	1,100.00	—	—	274,623.36
Benjamin Lehman	Treasurer	X	12	Part	—	1,100.00	—	—	121,875.22
Reverend Patrick	Assistant Treasurer	—	—	Full	11,870.00	—	—	—	37,357.32
Thomas Steinhardt		X	8	Part	—	1,100.00	—	—	960.65
Herbert Sandler		X	11	Part	—	1,400.00	—	—	4,362.79
Allen H. Peckstein		X	0 - resigned	Part	—	—	—	—	—
Other Employees		—	—	Part	—	—	—	—	—
				Full	29,118.00	—	—	17,625.00	26,871.52
					103,488.00	6,400.00	—	—	97,029.99
							—	—	5,070.60
							—	—	15,150.78
							—	—	470,419.68
							—	—	642,404.69

Meetings held since last examination 13

Number of directors designated in by-laws 5-15

Date of last annual meeting of members September 9, 1950

Amount	Bond	Name of Surety and Home Office	Expiration Date

281-10-00-91-11-11

ST PROGRESSIVE B. & L ASSN.
 11 CHIMBLES STREET
 BALDRE, MARYLAND 21201

Schedule No. 6

OTHER ASSETS: (Item 16, Exhibit A)

M.D.S. from [unclear] \$ 1,497.35
 Appraisal Expense Collected \$ 0.00
 Credit Appraisal Expense Collected \$ 0.00
 FGL Fees Receivable \$ 13,195.72
 Due from Jeffrey Levitt \$ 81,034.95
 Exchange \$ 50.00

Total \$ 95,788.74

Schedule No. 7

OTHER LIABILITIES: (Item 31, Exhibit A)

Notes payable - Xerox \$ 2,253.10
 Accrued Expenses \$ 35,930.82
 FICA withheld \$ 1,543.32
 Unpaid Income Tax Withheld \$ 633.61
 Discount on Treasury Bills \$ 7,270.81

Total \$ 43,631.66

Schedule No. 8

BORROWED MONEY: (Item 23, Exhibit A)

To Whom Owed	Amount	Rate	Due Date	COLLATERAL	
				Description	Unpaid Principal
Windsor Trust Co. of Md.	\$ 50,000.00	20%	4/27/81	1st mortgage	unsecured
	50,000.00	20%	5/1/81		
	65,000.00	19 1/2%	5/5/81		
	300,000.00	17 1/2%	5/7/81		
	112,000.00	19 1/2%	6/10/81		
	329,000.00	19 1/2%	5/26/81		
	85,000.00	17.75%	6/30/81		

Total \$ 912,000.00

Schedule No. 9

SUMMARY OF CERTIFICATES OF DEPOSIT, SAVINGS ACCOUNTS, OTHER SECURITIES, ETC.

Description	Amount	Rate	Due Date
-------------	--------	------	----------

1/1/81

6595



JOHN J. CORBLEY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS
ONE SOUTH CALVERT STREET . SUITE 1006 . BALTIMORE, MARYLAND 21202
301/689-6330
TTY FOR OEAF
BALTO. AREA 383-7888
O.C. METRO 868-0481

November 4, 1981

Board of Directors
First Progressive Savings & Loan Association, Inc.
416 North Charles Street
Baltimore, Maryland 21201

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 March 31, 1981 for compliance with Maryland statutes and regulations and does not constitute an audit of these records.

The Board's attention is directed to Examiner's Comments on pages 15 through 15E which cites the specific deficiencies brought to the office attention by the examiners. To say the least, we are somewhat shocked that an association of your size would have so many problem areas requiring comments.

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 corrective action taken with respect to these matters.

We would also request that two copies of this response be forwarded to the Division no later than November 23, 1981 and that one copy of the response be forwarded to the Maryland Savings-Share Insurance Corporation.

In addition, because of the nature of the comments, this office, after reviewing the association's response to the examiner's comments will set up a meeting with members of the Board to discuss the report of examination.

Very truly yours,

Charles H. Brown, Jr.
Director

CHB:jh

Enclosure

CC: Maryland Savings-Share Insurance Corporation

EXAMINERS' COMMENTS
FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION, INCORPORATED

Comment 1:

An examination of the files of the eleven (11) mortgage loans granted during the period January 1, 1980 to March 31, 1981 revealed the following:

- A. (1) Loan file nos. 4175, 4176, 4178 did not contain the original mortgage instrument as required by Regulation .29A(2)(f).
- (2) Loan no. 4172 was granted on November 14, 1980; however, it was not recorded until February 5, 1981. Mortgages should be recorded in a more timely manner. A further review of loan nos. 4172 and 4158 revealed that Mr. Jeffrey Levitt was the seller of the property and also the settlement agent. As these transactions do not meet the requirements of Regulation .43A, they constitute a conflict of interest. Furthermore, neither loan file no. 4158 nor loan file no. 4172 contained the certification of title as required by Regulation .23C.
- B. (1) Loan file no. 4160 did not contain an appraisal report as required by Regulation .23B.
- (2) The appraisals in loan file nos. 4159, 4178, 4172, 4166 and 4161 failed to comply with various provisions of Regulation .23B as detailed in the list of mortgage file exceptions left with management. The appraisal in loan file no. 4158 was dated after the loan was granted and this is in violation of Regulation .23B.
- (3) The settlement sheet in loan file nos. 4159, 4175, 4172, 4166 and 4160 did not contain the fees charged to the respective borrowers for the appraisal fee and credit report fee.
- C. Loan file no. 4161 did not contain an application form as required by Regulation .23A.

The application in loan file nos. 4158, 4159, 4172 did not state the purpose for the application as required by Regulation .23 (A)(2)(g). Loan file no. 1158 did not contain a W-2 statement or verification of employment in file as required by Regulation .23A(2)(b).

Loan file no. 4165 did not contain the most recent financial statement or tax return as required by Regulation .23A(2)(c).

The application in loan file no. 4165 was not signed by or on behalf of the person for whose benefit the loan was made, as required by Regulation .23(a)(1).

Comment 2:

An analysis of the subsidiary mortgage loan records reflected the existence of fourteen (14) delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$559,419.36 as of the date of the current examination, representing a delinquency ratio of 7.2% of the mortgage loan balances outstanding.

The delinquent and unpaid interest on the loan subject to comment totaled \$61,224.00.

A review of the loans subject to comment scheduled on page 9 of this report reflected that Loan nos. 4125 and 4144 had not been amortized during the twelve month period immediately preceding the date of the current examination.

Comment 3:

An analysis of the subsidiary mortgage expense accounts reflected that six accounts had debit balances totaling \$6,739.86 as of the date of the current examination.

Comment 4:

During the period of the current examination, the Association granted seven loans in which the original amounts exceeded 80% of the appraised value of the security mortgaged to the Association. As of 3/31/81, the total principal balances of all over-80% loans totaled \$1,101,367.51, representing 11.4% of the total assets as of that date.

Regulation .30D(1) provides that the aggregate outstanding principal balance of all loans made upon the security of improved real or household property in excess of 80% of the market value of such property shall not at any time exceed 10% of total assets. The association is directed to refrain from granting loans in excess of 80% until the portfolio is brought in compliance with the regulation.

Comment 5:

Loan no. 4175 was 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. This loan was not commercially insured.

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 6:

The association's records on foreclosed loans nos. 4074 and 3691 made to Estill and Christine Reed were incomplete; therefore, the examiners could not ascertain a full accounting for all funds.

Management is requested to submit to this office a complete accounting of this foreclosure.

Comment 7:

A review of the records supporting free share loans revealed the existence of twelve delinquent share loans. Total delinquent interest totaled \$3,944.24.

A further review indicated that nine of the twelve loans were in the name of Mr. Jeffrey Levitt, who is a Director of First Progressive Savings and Loan Association. Please advise this office of the current status of these loans, particularly those granted to Mr. Levitt.

Comment 8:

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

- A. General Ledger Account #1010-02 (Cash-Union Trust Company) has a balance of \$585,252.25 as of the current examination; however, Federal Funds totaling \$499,659.30 are included within this account.

Prudent accounting practice would dictate that a separate general ledger account be established for the proper classification of Federal Funds.

- B. A review of General Ledger Account #1200-05 (Investments - U. S. Treasury Bills) revealed that United States Treasury Bills were purchased for \$102,266.08 on December 21, 1980; a further review of this account revealed that these Bills were set up on the books at Par value of \$110,000 rather than at cost.

Comment 8: continued

- B. Generally accepted accounting practices dictate setting up of all purchases of investments at cost rather than at Par value.
- C. A review of checking account #011-4382-1 revealed one outstanding check over six months old totaling \$68.24; a review of checking account #201-46239 revealed three outstanding checks over six months old totaling \$760.87.
The association's accountant should be notified and proper disposition of such checks should be made.
- D. A review of General Ledger Account No. 4110 entitled "Office Expense" revealed that this account contained the \$1,500.00 paid to Director Herbert Sandler representing bonuses paid for the year ending December 31, 1980. These bonuses should be reclassified in Account No. 4000 entitled "Salaries."
- E. On February 27, 1979 the Association purchased an automobile; however, as of this date no depreciation has been taken for the calendar year 1980.
- F. The latest trial balances of all loans in the portfolio was prepared as of 12/31/80. The trial balances for loans, free shares, mortgage expense accounts, and ground rents for the quarter ending 3/31/81 were not available for review. Regulation .08 requires that trial balances be taken and balanced at least quarterly.

Comment 9:

Mortgage loan account no. 3963 reflected a balance of \$3,841.05 as of 3/31/81. On or about October 15, 1979 the property securing the loan was released; however, this loan is still reflected as a mortgage on the Association's Ledger. This release resulted in an unsecured loan which is not an authorized investment under Title 9-419 of the Financial Institutions Article. The examiners noted that the association filed suit against the mortgagors and had a judgment placed against the mortgagor's residence. Please advise this office of the current status of this account. This was a matter of supervisory concern during the last examination.

Comment 10:

- A review of the association's system of internal control revealed the following:
- A. The examiner noted that when more than one customer is present, both the teller and Managing Officer use the same cash drawer. Each person handling cash should have their own cash drawer.
This was a matter of supervisory concern during the last examination.
 - B. The preparation of various subsidiary ledger trial balances is not being signed by the person preparing same.
 - C. Blank checks, travelers checks and savings bonds are stored in the safe, which is open all day and is easily accessible to all employees.
 - D. Separate controls should be established for using a separate numbering system for share loans vs. mortgage loans. Currently both mortgage loans and share loans are identified by a four digit number. Thus, one cannot tell at a glance whether a given loan number applies to a mortgage loan or a share loan.

Comment 11:

A review of the minutes of the meetings of the Board of Directors revealed the following:

- A. The minutes of the Board of Directors on 8/11/80 and 11/24/80 were not signed by the Secretary of the Association.
- B. There was no approval or disapproval of new loans recorded in the minutes.

Comment 11: continued

- C. Bonuses totaling \$9,000 payable to Mr. Harrison Greene, Executive Vice President (\$5,000) and Mr. Paul Freeman, Controller, (\$4,000) were not approved by the Board of Directors.
- D. The minutes did not reflect the dividend resolution prior to the payment of dividends for the periods ending March 31, June 30, September 30, and December 31, 1980.

Comment 12:

A review of the advertising poster in the lobby reveals that the saver must keep his or her deposit on hand for ninety days. The saver is penalized by the cost of the giveaway should he withdraw earlier than the required time allotted. The cost of the giveaway will then be automatically deducted from his savings account.

As no withdrawal authorization form was signed by the saver, it appears that this constitutes an unauthorized withdrawal on the part of the association.

Comment 13:

A review of the comments which remain uncorrected as of the date of last examination are as follows:

Prior Examination

Comment 1:

- A. The note for loan file no. 4105 indicates a 9% rate. However, the loan disclosure statement and principal and interest payments are based on a 9% rate.
- B. Loan file no. 4091A did not contain the original of the current insurance policies on the additional security properties located at 5221 Alhambra Avenue, 2306 Bryant Avenue and 1710 Barclay Street as required by Regulation .29A(2)(d).

Comment 8:

An examination of the records supporting free share loans revealed the following:

- A. Share loan no. 4138 had a term which expired October 16, 1979. Interest through December 31, 1979 was not paid until January 25, 1980.

The loan was made to a partnership in which Mr. Jeffrey Levitt, an association's director has an interest. There was no evidence in file to indicate that the loan has been extended.

- B. A review of the minutes of the service corporation's Board of Directors' meetings revealed the following:

1. The minutes did not reflect the 1978 annual meeting and the election of officers.
2. The minutes do not reflect the approval of a second mortgage to Mr. Harrison E. Greene, Jr.
3. The minutes do not reflect approval of borrowing \$20,000 from an individual or \$50,000 in the form of a mortgage for property at 119 Cherry Hill Road.
4. The minutes did not reflect authorization for any of the disbursements reflected in the real estate owned account.
5. The minutes did not reflect approval of the payment of "management fees" in the amounts of \$5,000 and \$1,500 to Harrison E. Greene, Jr. and Paul Freeman, respectively, for the year ending December 31, 1979.

Comment 14:

As of September 10, 1981, the Annual Report and the Directors' Acceptance of Election for the year ending December 31, 1980 had not been received.

Please furnish this office with these documents as soon as possible.

Comment 15:

There has been no change in the \$1,497.35 balance of the Miscellaneous Receivables Account (General Ledger Account #1225-00) since December 31, 1979.

A letter written by Executive Vice President Harrison E. Greene, Jr., on February 28, 1980 to Mr. Henry Biegacz of the CPA firm of Glass, Friedman, and Trivas states the following:

"The sum of \$1,497.35 is receivable on account of the Newsome properties from Samuel J. Aaron."

Please advise this office as to what steps have been taken to collect this receivable.

MONUMENTAL CITY SERVICE CORPORATION

Comment 16:

- A. As of the date of the current examination, the association's investment in Monumental City Service Corporation consisted of the following:

<u>Description</u>	<u>Amount</u>	<u>% to Total Assets of</u> <u>\$9,642,218.63</u>
Investment in Monumental City (G/L Acct. #1200-02, net of Equity Method Adjustments)	\$60,000.00	0.6%
Due from Monumental City (G/L Acct. #1160-00)	\$318,405.27	3.3%
Mortgage Loan Due from Monumental City (Loan #4145, 119 Cherry Hill Road)	50,000.00	0.5%
	<u>\$428,405.27</u>	<u>4.4%</u>

The association's total investment in the service corporation is in violation of Regulation .34B(2)(a), which limits the association's investment in the service corporation to 2% of the association's total assets.

- B. As of the current examination date, the books of the Service Corporation have not been posted beyond December 31, 1980.
- C. During the period December 31, 1979 thru March 31, 1980 the Service Corporation granted three loans totaling \$146,000.00; however, there was no approval for these loans in the minutes.
- D. For the year ending 12/31/80 management fees totaling \$1,000.00 were paid to Executive Director Harrison Greene. There was no Board approval for this transaction.
- E. In April, 1980, Monumental City Service Corporation purchased a \$30,000.00 second mortgage loan which was made to Jeffrey and Karol Levitt. The seller of this loan was Becky, Limited, a company of which Jeffrey Levitt is Vice President.

The following items are of major concern to this office:

- (1) There is no evidence that any minutes exist for the service corporation; therefore, it cannot be ascertained if Mr. Levitt abstained from the voting on this loan.

MONUMENTAL SERVICE CORPORATION: (continued)

Comment 16:

- (2) This loan was originally granted to the mortgagors by First Progressive Savings and Loan, Inc., on March 17, 1976, for a five-year term. There has been no amortization of principal on the loan, which carries a 7½% interest rate.
 - (3) There is no appraisal, title certification, or settlement sheet in the loan file. The insurance policy does not name Monumental City Service Corporation as the second mortgagee. There was no evidence in the file to substantiate that the 1979 and 1980 property tax bills were paid.
- F. An analysis of the subsidiary mortgage loan records reflected the existence of four delinquent accounts as determined by the definition as set forth in Regulation .01G. The outstanding balances of these accounts as of March 31, 1981 totaled \$64,482. The total unpaid interest was approximately \$6,100.00.
- G. Loan no. 1123-77 was granted on 9/5/77 in the amount of \$25,000 and was paid off on 3/29/78. However, as of the current examination date, a balance of \$11,500.00 is still shown on the books.
- H. A review of the checking account reconciliations revealed that no reconciliations have been prepared since 12/31/80.
- I. A review of the mortgage loans receivable account as of December 31, 1980 reveals that the subsidiary records were \$9,061.39 over the Control Account in the General Ledger.
- J. A review of Legal Fees paid for the year ending 12/31/80 revealed that the sum of \$10,000.00 was paid to Mr. Jeffrey Levitt, Director. A further review revealed that no breakdown could be obtained as to the specific nature of the services rendered.
- K. A review of the Office Supplies account revealed that charges for \$2,141.06 and \$341.88 were not substantiated by any invoices or back-up data.
- L. An examination of the files of the three mortgage loans granted during the period 12/31/79 - 3/31/80 revealed the following:
- (1) The insurance policy in the loan file in the name of Jerrald Cottlieb, insuring 6600 Edenvale Road has expired.
 - (2) (a) The file in the name of Sara Adler did not contain the certification of title as required by Regulation .29A(2)(e). Moreover, the borrower was charged \$1,000.00 for title search. It appeared that this \$1,000.00 fee was credited to the Commitment Fees Account. Good accounting practice would dictate that fees for title search be segregated in a separate account, as they are significantly different in character from commitment fees.
 - (b) The settlement sheet for the loan to Sara Adler indicates a pay-off of \$70,000.00; however, there was no indication as to which liens were actually paid off.
- M. On April 21, 1980, Monumental City Service Corporation granted a \$66,000 loan to Ira Adler. A review of the Commitment Fees Account revealed that a \$6,000.00 fee, representing 9.1% of the original loan amount was taken into income without deferring the portion of this fee exceeding 3% of the loan amount, as required by Regulation .11.

The association should have taken \$1,980.00 (3% of the original loan amount) into current income; the balance of \$2,020.00 should have been credited to a deferred fees account, and subsequently amortized to income in accordance with Regulation .11.

INFORMATIONAL COMMENTS:

- A. Attorney's letters were sent to Attorneys Jeffrey Levitt, Albert Aaron, and Samuel Aaron on 6/5/81. As of 9/9/81, we have not received them.
- B. Borrowed money totals \$912,000.00 as of the current examination date. This represents 9.5% of the association's total assets.
- C. Loan nos. 4159 and 4172 granted during the period 12/31/79 - 3/31/81 had down payments less than 5% of the original purchase price.
- D. Bonuses totaling \$2,491.00 were paid in 1980 while the Association sustained a net loss for the year. Furthermore, additional bonuses paid in 1981 totaled \$9,000.00 while the Association had a year-to-date net loss as of the current examination date.
- E. The association's automobile liability insurance policy (Policy #OBP 409850A, Insurance Company of North America) insures two automobiles, a 1978 Ford Fiesta and a 1979 International Scout. However, the Association's Automobile Account (General Ledger Account #1250-03) contains only one of these vehicles, the 1978 Ford Fiesta.

Please inform this office as to whether or not the 1979 International Scout is someone's personal vehicle, and if so, whether the association's Board of Directors has authorized the association to pay the liability premium on this vehicle.

- F. A comparative analysis of the financial condition of the Association as of March 31, 1981 and December 31, 1979 revealed the following:

	<u>March 31, 1981</u>	<u>December 31, 1979</u>	<u>Dollar Amount</u>	<u>Per Cent</u>
Total Savings	\$7,900,833.83	\$7,500,158.56	\$400,675.27	5.3
Total Net Worth	416,181.17	585,491.89	(169,310.72)	(28.9)
Total Mortgage Loans	7,731,116.93	8,978,323.35	(1,247,206.42)	(13.9)
Total Assets	9,642,218.63	10,005,748.86	(363,530.23)	(3.6)

- G. A review of the association's earnings for the calendar/fiscal year ended December 31, 1980 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	\$470,779.28	100.0
2. Taxes (Page 6, Line 4)	-0-	-
3. Earnings distributed on savings (Page 6, Line 3)	724,847.94	154.0
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	(254,068.66)	(54.0)
5. Net income distributed (Total of 2, 3 & 4 above)	\$470,779.18	100.0

INSURANCE AGREEMENT

THIS INSURANCE AGREEMENT, made as of December 30, 1981, by and between FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION, INC., a mutual association (the "Association"), and MARYLAND SAVINGS-SHARE INSURANCE CORPORATION ("MSSIC").

WHEREAS, as of the date hereof the "total net worth" of the Association (as that term is defined in Section 3.211(A) (3) of MSSIC's Rules and Regulations) is below three percent (3%) of the aggregate withdrawal value of its savings accounts; and

WHEREAS, under Section 3-211(C) (2) of MSSIC's Rules and Regulations, an association is required to enter into an Insurance Agreement if the association's net worth falls below three percent (3%) of the aggregate withdrawal value of its savings accounts.

NOW, THEREFORE, THIS INSURANCE AGREEMENT WITNESSETH THAT, for and in consideration of the premises, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. RECITALS. The foregoing recitals are made a part of this Agreement.

2. COVENANTS AND AGREEMENTS OF ASSOCIATION. Throughout the entire term of this Agreement, the Association covenants and agrees to comply, and to cause Monumental Service Corporation and each of the Association's other subsidiaries, as shall exist from time to time (individually the "Subsidiary" and collectively the "Subsidiaries"), to comply, with the following requirements:

(a) Within ten (10) days following the execution of this Agreement, the Association and each of the Subsidiaries shall deliver unto MSSIC a detailed operating income and expense budget for the six-month period commencing on January 1, 1982 and ending on June 30, 1982. Thereafter, the Association and each of the Subsidiaries shall deliver unto MSSIC a detailed operating income and expense budget for each subsequent six-month period at least ten (10) days prior to the commencement of said period. Each such budget shall be broken down by months, and each shall show a pro forma statement of condition of the Association or the Subsidiary, as the case may be, as of the final day of each month covered by such budget.

(b) No item of expense not in the budget set forth in Section 1(a) hereof shall be incurred by the voluntary action of the Association or any Subsidiary without the prior written consent of MSSIC.

(c) Except for commitments heretofore made, neither the Association nor any Subsidiary shall make any capital expenditure in excess of Five Hundred Dollars (\$500.00) without the prior written consent of MSSIC.

(d) Except for salaries of part-time officers of the Association of record as of September 30, 1981, no fee or other remuneration shall be paid unto any member of the Board of Directors, or any part-time officer, of the Association or any Subsidiary, in his or her capacity as such Director or officer, without the prior written consent of MSSIC.

(e) No officer or employee of the Association or any Subsidiary shall receive any bonus or any increase in salary, or any other compensation in lieu of bonuses or salary increases, without the prior written consent of MSSIC.

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(f) Neither the Association nor any Subsidiary shall consolidate with, merge into or sell, lease or otherwise dispose of all or substantially all of its assets to any person, nor shall they permit any other corporation to merge into or to sell, lease or otherwise dispose of all or substantially all of its assets to them, or any of them, without the prior written consent of MSSIC.

(g) No asset of the Association or any Subsidiary shall be sold or transferred to any party unless the prior written consent of MSSIC is obtained.

(h) The Association and each of the Subsidiaries shall, at all times and from time to time, (i) permit a representative of MSSIC to be present in the principal office or any branch office of the Association or the Subsidiary (ii) provide reasonable desk space and office facilities for such representative, (iii) afford such representative full and free access to all the books and records of the Association and the Subsidiary, (iv) give such representative reasonable notice of all meetings of the boards of directors of the Association and the Subsidiary and of any committee of such boards, and (v) permit such representative to attend all such meetings.

(i) The Association and each of the Subsidiaries shall deliver unto MSSIC such financial and other data and reports as MSSIC shall, from time to time, require, including, but not limited to, the following:

(i) Monthly Reports (due no later than the fifteenth (15th) day following the last day of the month for which the report is made):

(A) financial statements for the Association (Form S/L 200);

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(B) financial statements (Form S/C 100) for each of the Subsidiaries and all joint ventures in which the Association is a majority owner;

(C) detailed schedule, in form approved by MSSIC, of delinquent interest (90 days or more) on all loans made by the Association, including but not limited to, mortgage loans, savings account loans and loans to subsidiaries;

(D) for the Association and each of the Subsidiaries, a cost of funds analysis in form approved by MSSIC;

(E) for the Association and each of the Subsidiaries, an earning asset yield analysis in form approved by MSSIC; and

(F) for the Association and each of the Subsidiaries, a detailed schedule of all real estate owned, if same was acquired through foreclosure or deed in lieu of foreclosure.

(ii) Weekly Reports (due on the Monday following the week for which the report is made):

(A) for the Association and each of the Subsidiaries, a detailed schedule of borrowed monies;

(B) for the Association and each of the Subsidiaries, a detailed schedule of commitments and loans-in-process to be funded within the ensuing thirty (30) day period;

(C) for the Association and each of the Subsidiaries, a detailed schedule of liquid assets and available lines of credit; and

(D) for the Association and each of the Subsidiaries, a detailed schedule of all loans settled during the previous week.

(iii) Daily Reports (due no later than the day following the occurrence of any of the following events):

(A) if the aggregate withdrawals from savings accounts with the Association exceed the aggregate deposits in savings accounts by more than Fifty Thousand Dollars (\$50,000.00) in any one day; or

(B) if net new borrowings by the Association and the Subsidiaries together exceed the sum of Fifty Thousand Dollars (\$50,000.00) in any one day.

(j) The Association shall not make any loan (including savings account loans) to any organization owned or controlled by any person owning five percent (5%) or more of the total savings of the Association, or to any officer or director of the Association or any Subsidiary, without the prior written consent of MSSIC.

(k) The Association shall notify MSSIC immediately whenever any officer or director of the Association withdraws from his or her account with the Association savings in an amount equal to or greater than five percent (5%) of said account.

3. REPRESENTATIONS AND WARRANTIES. The Association represents and warrants to MSSIC that the following are true and correct as of the date hereof:

(a) The Association is a corporation duly organized, validly existing and in good standing under the Savings and Loan Associations Law of the State of Maryland, is

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duly qualified to conduct a savings and loan business in said State and has the corporate power to make and perform this Agreement.

(b) Monumental Service Corporation is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland.

(c) The making and performance of this Agreement by the Association have been duly authorized by all requisite corporate action and will not contravene any provision of law or any provision of the Articles of Incorporation or By-Laws of the Association, or result in the breach of or constitute a default under, or result in the creation of any lien, charge or encumbrance upon any property or assets of the Association pursuant to any indenture, or other agreement or instrument, to which the Association is a party or by which the Association or its property or business may be bound or affected.

(d) The Association and each of the Subsidiaries have duly filed their latest reports of condition with the appropriate governmental agencies having jurisdiction and with MSSIC, and said reports are true and correct in all material respects as of the respective dates thereof, except as otherwise disclosed in writing to MSSIC prior hereto.

(e) The Association and each of the Subsidiaries will, within thirty (30) days from the date hereof, furnish to MSSIC a true and complete list of their current officers and directors, showing as to each his or her name, title, residence address, tenure of office in the Association, total savings, and any other obligation due to or from the Association or Subsidiary, and all mortgage loans and other indebtedness owed to the Association or Subsidiary.

(f) The Association and each of the Subsidiaries have heretofore furnished to MSSIC true and complete copies of their Articles of Incorporation and By-Laws.

(g) Except as heretofore disclosed to MSSIC in writing, there are, to the best of the knowledge and belief of the Association, no suits or proceedings pending or threatened against or affecting the Association or any Subsidiary, or any of their property, before any Court or by or before any governmental commission, bureau or other regulatory authority, federal, state or local, which, if adversely determined, would have a material adverse effect upon the financial condition or business of the Association or any Subsidiary.

4. EVENT OF DEFAULT. It shall be an event of default hereunder if any of the following shall occur at any time during the term of this Agreement:

(a) the Association shall fail to comply with any of the requirements set forth in Section 2 hereof;

(b) any of the warranties or representations set forth in Section 3 hereof shall cease to be true and correct;

(c) the combined "total net worth" (as that term is defined in Section 3.211(A) (3) of MSSIC's Rules and Regulations) of the Association and the Subsidiaries shall at any time fall below two percent (2%) of the aggregate withdrawal value of the Association's savings accounts;

(d) the combined net operating loss of the Association and the Subsidiaries (as determined in accordance with S/L 200 and S/C 100 reporting requirements) shall, for any calendar month during the first five (5) full calendar months following the date hereof, equal or exceed the combined net

operating loss of the Association and the Subsidiaries for the immediately preceding calendar month; or

(e) for the sixth (6th) full calendar month following the date hereof, the combined "total net worth" (as that term is defined in Section 3.211(A) (3) of MSSIC's Rules and Regulations) of the Association and the Subsidiaries shall not equal at least three percent (3%) of the aggregate withdrawal value of the Association's savings accounts.

5. REMEDIES. If any event of default shall occur hereunder at any time during the term of this Agreement, MSSIC shall have the right to (a) issue a cease and desist order under Section 3-222 of the Rules and Regulations of MSSIC; (b) petition for and obtain from any court the appointment of a conservator or receiver for the Association or any Subsidiary, or all of them; (c) remove from office, or prohibit or limit the participation in the conduct of the affairs of the Association or the Subsidiaries of, any director or officer of the Association or any Subsidiary, or any other person; (d) exercise any rights that it may have under MSSIC's Rules and Regulations or By-Laws, and/or (e) exercise any other rights that it may have in law or in equity, and the exercise of any such right or rights shall not preclude the exercise of others.

6. TERM OF AGREEMENT. This Agreement shall continue in full force and effect until such time as the "total net worth" of the Association shall exceed three percent (3%) of the aggregate withdrawal value of its savings accounts for three (3) consecutive months.

7. MISCELLANEOUS.

(a) No failure on the part of MSSIC to exercise, and no delay in exercising, any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single

or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) Neither MSSIC nor any of its officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under this Agreement, or in connection therewith, except for its or their own gross negligence or willful misconduct. The Association agrees to indemnify and hold harmless MSSIC, its officers, agents and employees from and against any and all liabilities incurred pursuant to any provision of this Agreement, or in the exercise of any right or power herein conferred upon MSSIC, except as aforesaid.

(c) Any notices, reports or other communications hereunder shall be hand-delivered or mailed by first class mail, postage prepaid, to the parties at the following addresses (or such other address or addresses as shall be designated by notice in accordance herewith):

TO THE ASSOCIATION:

First Progressive Savings and
Loan Association, Inc.
416 North Calvert Street
Baltimore, Maryland 21201

TO MSSIC:

Maryland Savings-Share Insurance Corporation
Baltimore Life Building
901 N. Howard Street
Baltimore, Maryland 21201

provided, however, any daily report under Section 2(i)(iii) may be given by telephone, followed by a confirmatory letter.

(d) This Agreement contains the final agreement between the parties hereto, and no amendment or modification thereof shall be binding unless in writing signed by both parties hereto.

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WITNESS the following hands and seals as of the day
and year first above written.

ATTEST:

Paul V. J. [Signature]

FIRST PROGRESSIVE SAVINGS AND
LOAN ASSOCIATION, INC.

By: [Signature] (SEAL)
President

MARYLAND SAVINGS-SHARE
INSURANCE CORPORATION

[Signature]

By: [Signature] (SEAL)
Executive Vice President

INSURANCE AGREEMENT

THIS INSURANCE AGREEMENT, made as of July 31, 1981, by and between OLD COURT SAVINGS AND LOAN, INC. (a stock corporation) (the "Association") and MARYLAND SAVINGS-SHARE INSURANCE CORPORATION ("MSSIC").

WHEREAS, as of the date hereof the "total net worth" of the Association (as that term is defined in Section 3.211(A)(3) of MSSIC's Rules and Regulations) is below three percent (3%) of the aggregate withdrawal value of its free share accounts;

WHEREAS, under Section 3-211(C)(2) of MSSIC's Rules and Regulations, an association is required to enter into an Insurance Agreement if the association's net worth falls below three percent (3%) of the aggregate withdrawal value of its free share accounts;

WHEREAS, the Association has requested MSSIC's assistance in correcting the Association's net worth problem;

WHEREAS, MSSIC has agreed to purchase from the Association, on or before July 31, 1981, a subordinated debenture in the principal amount of Seven Hundred Twenty-Five Thousand Dollars (\$725,000.00) (the "Subordinated Debenture"), provided that, inter alia, this Insurance Agreement is executed.

NOW, THEREFORE, THIS INSURANCE AGREEMENT WITNESSETH THAT, for and in consideration of the premises, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. RECITALS. The foregoing recitals are made a part of this Agreement.

2. COVENANTS AND AGREEMENTS OF ASSOCIATION.

Throughout the entire term of this Agreement, the Association covenants and agrees to comply with the following requirements:

(a) Within ten (10) days following the execution of this Agreement, the Association shall deliver unto MSSIC a detailed operating expense budget for the six-month period commencing on August 1, 1981 and ending on January 31, 1982.

Thereafter, the Association shall deliver unto MSSIC a detailed operating expense budget for each subsequent six-month period at least ten (10) days prior to the commencement of said period. Each such budget shall be broken down by months.

(b) No item of expense not in the budget set forth in Section 1(a) hereof shall be incurred by the voluntary action of the Association without the prior written consent of MSSIC.

(c) Except for commitments heretofore made, the Association shall not make any capital expenditure in excess of One Thousand Dollars (\$1,000.00) without the prior written consent of MSSIC.

(d) No fee or other remuneration shall be paid unto any member of the Board of Directors of the Association, in his or her capacity as a Director of the Association, without the prior written consent of MSSIC.

(e) No officer of the Association shall receive any bonus or any increase in salary, or any other compensation in lieu of bonuses or salary increases, without the prior written consent of MSSIC.

(f) The Association shall not declare or pay any dividend on any class of its stock or purchase or otherwise

acquire for value any such stock or make any other payment or distribution (in stock of the Association or otherwise) in respect thereof, without the prior written consent of MSSIC.

(g) Unless 66-2/3% of all newly issued stock is placed under the Voting Trust Agreement (as hereinafter defined), the Association shall not issue any additional shares of its stock to any person without the prior written consent of MSSIC.

(h) The Association will not consolidate with, merge into or sell, lease or otherwise dispose of all or substantially all of its assets to any person and will not permit any other corporation to merge into or to sell, lease or otherwise dispose of all or substantially all of its assets to the Association, without the prior written consent of MSSIC.

(i) The Association will, at all times and from time to time, (i) permit a representative of MSSIC to be present in the principal office or any branch office of the Association, (ii) provide reasonable desk space and office facilities for such representative, (iii) afford such representative full and free access to all the books and records of the Association, (iv) give such representative reasonable notice of all meetings of the board of directors of the Association and of any committee of such board, and (v) permit such representative to attend all such meetings.

(j) The Association shall deliver unto MSSIC such financial and other data and reports as MSSIC shall, from time to time, require, including, but not limited to, the following:

(1) Monthly Reports (due no later than the fifteenth (15th) day following the last day of the month for which the report is made):

(A) financial statements (Form S/L 200);

(B) detailed schedule, in form approved by MSSIC, of delinquent interest (90 days or more) on all loans, including but not be limited to, mortgage loans, savings account loans and loans to subsidiaries;

(C) financial statements (Form S/C 100) for all subsidiaries of the Association and all joint ventures in which the Association is a majority owner;

(D) cost of funds analysis in form approved by MSSIC;

(E) earning asset yield analysis in form approved by MSSIC; and

(F) detailed schedules of all real estate owned by the Association or its subsidiaries acquired through foreclosure.

(ii) Weekly Reports (due on the Monday following the week for which the report is made):

(A) detailed schedule of borrowed monies;

(B) detailed schedule of commitments and loans-in-process to be funded within the ensuing thirty (30) day period;

(C) detailed schedule of liquid assets and available lines of credit; and

(D) detailed schedule of all loans settled during the previous week.

(iii) Daily Reports (due no later than the day following the occurrence of any of the following events):

(A) if the aggregate withdrawals from savings accounts exceed the aggregate deposits in savings

accounts by more than Two Hundred Fifty Thousand Dollars (\$250,000.00) in any one day;

(B) if net new borrowings by the Association exceed the sum of Two Hundred Fifty Thousand Dollars (\$250,000.00) in any one day; or

(C) if the Association becomes aware of any purchase, sale, transfer or encumbrance of any stock owned, or to be owned, by any officer or director of the Association.

(k) Until such time as a certain Voting Trust Agreement in substantially the form attached hereto as Exhibit A (the "Voting Trust Agreement") shall be executed by persons owning at least 66-2/3% of the issued and outstanding voting stock of the Association, or until such time as the Subordinated Debenture shall have been repaid to MSSIC in full, whichever shall first occur, the proceeds of the Subordinated Debenture shall be kept in a joint account of MSSIC and the Association, which account shall provide that all sums therein shall be payable solely to the order of MSSIC on September 16, 1981 if the Voting Trust Agreement shall not be executed by persons owning at least 66-2/3% of the issued and outstanding voting stock of the Association on or before September 15, 1981, or, if such Voting Trust is so executed on or before September 15, 1981, said account shall be payable solely to the order of the Association and MSSIC shall be removed from the account.

(l) The Association shall not make any loan (except savings account loans) to any organization owned or controlled by any person owning five percent (5%) or more of the stock of the Association, or voting trust certificates therefor, without the prior written consent of MSSIC.

(m) Simultaneously with the execution hereof, the Association has caused an opinion of its counsel, in the form attached hereto as Exhibit B, to be delivered to MSSIC.

Whenever the prior written consent of MSSIC is required hereunder, MSSIC agrees that its consent shall not be unreasonably withheld.

3. REPRESENTATIONS AND WARRANTIES. The Association represents and warrants to MSSIC that the following are true and correct as of the date hereof:

(a) The Association is a corporation duly organized, validly existing and in good standing under the Savings and Loan Associations Law of the State of Maryland, is duly qualified to conduct a savings and loan business in said State and has the corporate power to make and perform this Agreement.

(b) The making and performance of this Agreement by the Association and the purchase and sale of the Subordinated Debenture have been duly authorized by all requisite corporate action and will not contravene any provision of law (saving and excepting the Rules and Regulations of the Division of Savings and Loan Associations or MSSIC) or any provision of the Articles of Incorporation or By-Laws of the Association, or result in the breach of or constitute a default under, or result in the creation of any lien, charge or encumbrance upon any property or assets of the Association pursuant to any indenture, or other agreement or instrument, to which the Association is a party or by which the Association or its property or business may be bound or affected.

(c) The Association has duly filed its latest reports of condition with the appropriate governmental agencies having jurisdiction and with MSSIC, and said reports are true and correct in all material respects as of the respective dates

thereof, except as otherwise disclosed in writing to MSSIC prior hereto.

(d) The Association will, within thirty (30) days from the date hereof, furnish to MSSIC a true and complete list of the current officers and directors of the Association, showing as to each his or her name, title, residence address, tenure of office in the Association, stock, total savings, and any other obligation due to or from the Association to or from any officer or director of the Association, and all mortgage loans and other indebtedness owed to the Association.

(e) The Association has heretofore furnished to MSSIC true and complete copies of the Association's Articles of Incorporation and By-Laws.

(f) Except as heretofore disclosed to MSSIC in writing, there are, to the best of the knowledge and belief of the Association, no suits or proceedings pending or threatened against or affecting the Association or any of its property before any Court or by or before any governmental commission, bureau or other regulatory authority, federal, state or local, which, if adversely determined, would have a material adverse effect upon the financial condition or business of the Association.

4. EVENT OF DEFAULT. It shall be an event of default hereunder if any of the following shall occur at any time during the term of this Agreement:

(a) the Association shall fail to comply with any of the requirements set forth in Section 2 hereof and such failure shall continue uncured for a period of five (5) days following notice of default from MSSIC to the Association;

(b) any of the warranties or representations set forth in Section 3 hereof shall cease to be true and correct

and such condition shall continue uncured for a period of five (5) days following notice of default from MSSIC to the Association; or

(c) any event of default shall occur under the terms of the Subordinated Debenture.

5. REMEDIES. If any event of default shall occur hereunder at any time during the term of this Agreement, MSSIC shall have the right to (a) demand and receive payment in full of all principal and interest outstanding under the Subordinated Debenture, (b) exercise its voting rights as provided for in the Voting Trust Agreement, (c) exercise any rights that it may have under MSSIC's Rules and Regulations or By-Laws, and/or (d) exercise any other rights that it may have in law or in equity, and the exercise of any such right, or rights shall not preclude the exercise of others.

6. TERM OF AGREEMENT. This Agreement shall continue in full force and effect until such time as the indebtedness due under the Subordinated Debenture shall have been paid in full, it being understood that this Agreement shall not terminate even if the "total net worth" of the Association (exclusive of the proceeds of the Subordinated Debenture) shall once again exceed three percent (3%) of the aggregate withdrawal value of its free share accounts, unless the indebtedness due under the Subordinated Debenture shall have been paid in full.

7. MISCELLANEOUS.

(a) No failure on the part of MSSIC to exercise, and no delay in exercising, any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) Neither MSSIC nor any of its officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under this Agreement, the Subordinated Debenture or the Voting Trust Agreement, or in connection therewith, except for its or their own gross negligence or willful misconduct. The Association agrees to indemnify and hold harmless MSSIC, its officers, agents and employees from and against any and all liabilities incurred pursuant to any provision of this Agreement, the Subordinated Debenture or the Voting Trust Agreement, or in the exercise of any right or power therein conferred upon MSSIC, except as aforesaid.

(c) Any notices, reports or other communications hereunder shall be hand-delivered or mailed by first class mail, postage prepaid, to the parties at the following addresses (or such other address or addresses as shall be designated by notice in accordance herewith):

TO THE ASSOCIATION:

Old Court Savings and Loan, Inc.
25 Light Street
Baltimore, Maryland 21202

TO MSSIC:

Maryland Savings-Share Insurance Corporation
Baltimore Life Building
901 N. Howard Street
Baltimore, Maryland 21201

provided, however, any daily report under Section 2(j)(iii) may be given by telephone, followed by a confirmatory letter.

(d) For purposes of this Agreement, "issued and outstanding voting stock of the Association" shall mean all Class "A" (guaranty) stock, all Class "B" (guaranty) stock and all Free Share (savings or withdrawable) stock of the Association.

WITNESS the following hands and seals as of the day
and year first above written.

ATTEST:

OLD COURT SAVINGS AND LOAN,
INC.

[Handwritten Signature]

By: *[Handwritten Signature]* (SEAL)
President

MARYLAND SAVINGS-SHARE
INSURANCE CORPORATION

[Handwritten Signature]

By: *[Handwritten Signature]* (SEAL)
Executive Vice President

VOTING TRUST AGREEMENT

THIS VOTING TRUST AGREEMENT, dated as of July 31, 1981, by and among the undersigned stockholders (hereinafter collectively referred to as the "Stockholders"), each of whom owns shares of stock in Old Court Savings and Loan, Inc. (a stock corporation) (hereinafter referred to as the "Company"), and Maryland Savings-Share Insurance Corporation (hereinafter referred to as "MSSIC" or "Trustee").

WHEREAS, MSSIC has agreed to purchase from the Company a subordinated debenture in the principal amount of Seven Hundred Twenty-Five Thousand Dollars (\$725,000.00) (the "Subordinated Debenture");

WHEREAS, as a condition of making said purchase, MSSIC has required the Stockholders to enter into this Agreement;

WHEREAS, the Stockholders have agreed to appoint MSSIC as Trustee under this Agreement and to deposit their shares of stock in the Company with MSSIC as Trustee;

WHEREAS, the Stockholders have agreed upon the designation of the Trustee and upon the form of this Agreement; and

WHEREAS, the Trustee has consented to act under this Agreement for the purposes herein provided.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are

hereby acknowledged, the parties hereto, intending to be legally bound, covenant and agree as follows:

1. RECITALS. The foregoing recitals are made a part of this Agreement.
2. APPOINTMENT OF VOTING TRUSTEE. The Stockholders hereby appoint MSSIC as Trustee under this Agreement.
3. COPIES FOR INSPECTION AND BINDING EFFECT. An executed copy of this Agreement and all counterparts thereof, and of every agreement supplemental hereto or amendatory hereof, shall be filed in the principal office of the Company and shall be open to inspection during daily business hours by any Stockholder of the Company or by the holder of any voting trust certificate issued hereunder. All voting trust certificates issued hereunder shall be issued, received, and held subject to all terms of this Agreement. Every person, firm, or corporation entitled to receive voting trust certificates hereunder (and their transferees, assigns, and personal representatives) upon accepting the voting trust certificates issued hereunder, shall become parties to and be bound by, the provisions of this Agreement with the same effect as if they had executed this Agreement.
4. TRANSFER OF STOCK TO TRUSTEE. The Stockholders below listed, being the owners of at least $66\frac{2}{3}\%$ of the issued and outstanding voting stock of the Company, simultaneously with the execution of this Agreement, shall assign and deliver to the Trustee the stock certificates, duly endorsed for transfer, evidencing their shares of voting stock as follows:

NameNo. of Shares

See Schedule A attached hereto

5. ADDITIONAL STOCKHOLDERS. Any stockholder of the Company not listed in Section 4 hereof may become a party to this Agreement by executing a counterpart of this Agreement and by assigning and delivering his or her stock certificate representing shares of the Company to the Trustee, and all such counterparts shall be deemed to be part of this original agreement.
6. TRUST CERTIFICATES. The Trustee shall issue to each of the Stockholders certificates evidencing the number of shares transferred to it by each of the Stockholders (the "Voting Trust Certificates"), in substantially the form attached hereto as Exhibit 1. The Stockholders shall hold the Voting Trust Certificates until the termination of this Agreement, whereupon such Voting Trust Certificates shall be returned to the Trustee.
7. DIVIDENDS. Each of the Stockholders shall be entitled to receive from the Trustee payments equal to the accumulated cash dividends received by the Trustee on the shares of stock deposited by each of the Stockholders hereunder at such time as all sums due under the Subordinated Debenture are paid in full, but until such sums are fully paid, Trustee may retain all dividends received, and shall not be required to pay any interest thereon, except for the minimum amount required to be paid by law, if any. If any stock dividends are declared, the Trustee shall retain certificates evidencing such stock, which shall be deemed to have been deposited under the terms of this Agreement.

8. VOTING. Subject to the limitations hereinafter set forth, the Stockholders shall, throughout the term of this Agreement, retain the right to vote the stock deposited hereunder, to waive any notice required by law, and to give written consents in lieu of voting thereon, on any and all matters, in person or by proxy, at all meetings of the stockholders of the Company, and in all proceedings wherein the vote or written consent of stockholders may be required or authorized by law; provided, however, that if at any time during the term hereof, the "total net worth" of the Company (as that term is defined in Section 3-211(A)(3) of the Rules and Regulations of MSSIC, but excluding therefrom all proceeds to the Company from the sale of the Subordinated Debenture to MSSIC saving and excepting (a) the sum of Two Hundred Thousand Dollars (\$200,000.00) or (b) the outstanding principal balance of the Subordinated Debenture, whichever is less) shall fall below two percent (2%) of the aggregate withdrawal value of its free share accounts, or if an event of default shall occur under the Insurance Agreement between MSSIC and the Company dated July 31, 1981, or if an event of default shall occur under the Subordinated Debenture, then in any such case, Trustee shall have the right (but not the obligation) to vote the stock in favor of a merger of the Company with another savings and loan institution on such terms and conditions as the Trustee, in its sole discretion, shall deem desirable, and, if necessary to accomplish that purpose (and only if necessary to accomplish that purpose), to vote the

stock on any other matter, including voting for the election of new directors, and to take any other action which a Stockholder owning the stock would be able to take. To ensure that each Stockholder retains the right to vote the stock deposited, upon request of any Stockholder MSSIC shall give such Stockholder a proxy entitling the Stockholder to cast as many votes as the stock deposited by such Stockholder would entitle MSSIC to vote, which proxy shall be revoked by MSSIC only upon the happening of an event described above which would give MSSIC the right to vote the stock. Each Stockholder hereby agrees that MSSIC shall not be liable for any action by Stockholders unless MSSIC actually casts a vote on any matter or improperly revokes the proxy to be granted to each Stockholder. Anything hereinabove to the contrary notwithstanding, it is understood and agreed that the Stockholders, in voting the stock hereunder, shall not have the right to vote in favor of any amendment to the Articles of Incorporation or By-Laws of the Company, without the prior written consent of MSSIC (which consent shall not be unreasonably withheld), and, further, shall not have the right to vote in favor of any measure that would, in any way, damage or restrict the ability of the Trustee to effect a future merger if the Trustee should be entitled to vote thereon, and any proxy given by MSSIC to any Stockholder shall contain the foregoing restrictions on Stockholder's right to vote his stock.

9. TRUSTEE'S COMPENSATION. The Trustee shall serve without compensation. The Trustee shall have the right to incur and

pay such reasonable expenses and charges, including, without limitation, the employment and payment of agents, attorneys and counsel, as it may deem necessary and proper for putting this Agreement into effect. Any such expenses or charges incurred by and due to the Trustee may be deducted from the dividends and/or other monies or property received by the Trustee on the stock deposited hereunder, but the Trustee shall not be required to collect such sums from such dividend or other payments. Anything contained herein to the contrary notwithstanding, the Trustee shall not be disqualified from acting as insurer of the Company's savings accounts, or acting in any other capacity, and in such capacity receiving compensation or other payments.

10. LIABILITY OF TRUSTEE. The Trustee shall use its best judgment in voting the stock deposited under this Agreement, but shall not be liable for the consequence of any vote cast or consent given by it in good faith or any other action taken by the Trustee, in the absence of gross negligence or willful misconduct.

11. TERM. This Agreement shall continue until July 30, 1991, except that it shall be earlier terminated upon the occurrence of any of the following events:

(a) the written agreement of all of the parties hereto;

(b) the payment of all sums due under the Subordinated Debenture;

- (c) resignation of MSSIC as voting trustee; or
- (d) the dissolution of the Company.

At the expiration of the term of the trust hereby created, the Trustee shall, upon surrender of the Voting Trust Certificates, deliver to the holders thereof stock certificates representing shares of stock of the Company equal in amount to the proportionate interest represented by the Voting Trust Certificates surrendered in all of the stock then held by the Trustee.

12. BINDING EFFECT. This Agreement shall be binding upon the Stockholders, their heirs, personal representatives, successors and assigns, and shall be deemed a "Voting Trust" subject to the terms of Section 2-510 of the Corporations and Associations Article of the Annotated Code of Maryland (1975), and any amendment or successor statute thereto. Any institution or entity succeeding to the rights and obligations of MSSIC generally ("Successor") shall serve as successor Trustee hereunder if MSSIC shall cease to serve, and the Stockholders hereby ratify, approve and confirm any such Successor. Except as set forth in the preceding sentence, MSSIC shall not have the right to assign, convey or otherwise transfer its powers and authority hereunder without the prior written consent of the Stockholders, which consent shall not be unreasonably withheld.

13. AMENDMENT. Any amendments to this Agreement shall be in writing and executed by each of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ATTEST:

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION, TRUSTEE

_____ BY: _____ (SEAL)

WITNESS: *Goal*

[Signature] _____ (SEAL)

[Signature] _____ (SEAL)
Jerome S. Cardin
THE ADMIRAL MANAGEMENT COMPANY

[Signature] _____ (SEAL)
Jerome S. Cardin, Vice President
ADMIRAL HOMES, INC.

[Signature] _____ (SEAL)
Jerome S. Cardin, Vice President
ADMIRAL EQUIPMENT CORP.

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President
COMMODORE LAND CORP.

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President
THE SANFORD LAND CO.

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President
ADMIRAL CONSTRUCTION CORP.

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President
C & S CONSTRUCTION COMPANY, INC.

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President
CARMAOR COMPANY

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Vice President

[Signature] _____ (SEAL)
BY: _____ (SEAL)
Jerome S. Cardin, Trustee under Voting Trust
Dated September 18, 1981

WITNESS:

Patricia S. Weinstein

Shoshana Cardin (SEAL)
Shana Cardin (Shoshana Cardin)

Patricia S. Weinstein

Jacob L. Cardin (SEAL)
Jacob L. Cardin

Patricia S. Weinstein

Morton J. Macks (SEAL)
Morton J. Macks

Patricia S. Weinstein

Jerome S. Cardin (SEAL)
Jerome S. Cardin, Custodian for Ilene Cardin Vogelstein (nee Ilene M. Cardin), under the Maryland Uniform Gift to Minor's Act

Patricia S. Weinstein

Jerome S. Cardin (SEAL)
Jerome S. Cardin, Custodian for Nina Cardin Reisner (nee Nina Beth Cardin), under the Maryland Uniform Gift to Minor's Act

Patricia S. Weinstein

Jerome S. Cardin (SEAL)
Jerome S. Cardin, Custodian for Steven H. Cardin, under the Maryland Uniform Gift to Minor's Act.

Patricia S. Weinstein

Jerome S. Cardin (SEAL)
Jerome S. Cardin, Custodian for Sanford R. Cardin, under the Maryland Uniform Gift to Minor's Act

Jonathan E. Mearns

Jerome S. Cardin, Chairman (SEAL)
of CARDIN-MACKS DEVELOPMENT CORPORATION

EXHIBIT 1

Maryland Savings Share Insurance Corporation, Voting Trustee of the capital stock of Old Court Savings and Loan Inc., under a Voting Trust Agreement dated the 31st day of July, 1981, having received ___ shares of stock of said Corporation from _____ pursuant to such Voting Trust Agreement, which agreement the holder hereof, by accepting this certificate, ratifies and adopts, hereby certifies that _____ will be entitled to receive a certificate representing shares of stock in the Corporation equal in amount to the proportionate interest represented by this Voting Trust Certificate in all of the stock held by the Voting Trustee on the date the Voting Trust Agreement terminates, and shall be entitled to receive payments equal to any cash dividends, subject to the conditions of said Voting Trust Agreement, that may be collected by the undersigned Trustee upon the proportionate number of such shares held by him under the terms of the Voting Trust Agreement.

This Voting Trust Certificate is transferable only on the books of the undersigned Trustee by the registered holder in person or by his duly authorized attorney, and only in accordance with the provisions of the aforementioned Voting Trust Agreement and the holder hereof, by accepting this Voting Trust Certificate, manifests his consent that the undersigned Trustee may treat the registered holder hereof as a true owner for all purposes, except the delivery of stock certificates, which deliveries shall not be made without the surrender hereof pursuant to the terms of the Voting Trust Agreement.

IN WITNESS WHEREOF, Maryland Savings-Share Insurance Corporation has executed this certificate this 31st day of July, 1981-

ATTEST:

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

Executive Vice President (SEAL)

Trustee

OLD COURT SAVINGS AND LOAN, INC.

Seven (7) Year 10% Debenture

For value received, Old Court Savings and Loan, Inc., (a stock corporation) (hereinafter referred to as "Corporation"), hereby promises to pay to the order of Maryland Savings-Share Insurance Corporation, a Maryland corporation (hereinafter referred to as the "Holder"), at its principal office at Baltimore Life Bldg., 901 N. Howard St., Baltimore, Md. 21201, or at such other place as it may from time to time designate in writing, the principal sum of Seven Hundred Twenty-Five Thousand Dollars (\$725,000), with interest thereon at the rate of Ten Percent (10%) per annum from and after July 31, 1981, payable as hereinafter set forth, in lawful money of the United States of America, as follows:

Subject to the provisions hereinafter set forth, principal shall be payable in equal, consecutive annual installments of One Hundred Thousand Dollars (\$100,000.00) each, commencing on July 30, 1982, and on each July 30 thereafter until July 30, 1988, at which time the entire outstanding principal balance shall be paid in full. Interest on the outstanding principal balance of this debenture shall be paid quarterly commencing on November 1, 1981 and on the first day

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of each quarter thereafter until the principal is repaid in full. Interest shall be calculated on the basis of a 365-day or, when appropriate, 366-day year.

This debenture has been executed in connection with a Voting Trust Agreement ("Voting Trust Agreement") to be executed in substantially the form attached hereto as Exhibit A by persons owning at least 66-2/3% of the issued and outstanding voting stock of the Corporation. At such time as persons owning 66-2/3% or more of the issued and outstanding voting stock of the Corporation have executed the Voting Trust Agreement, which execution shall entitle the Voting Trustee under the Voting Trust Agreement to approve a merger of the Corporation with another savings and loan institution without the approval of any stockholder not a party to the Voting Trust Agreement, this indebtedness shall be subordinated to all other indebtedness of the Corporation ("Senior Indebtedness"), including but not limited to all loans to the Corporation from any bank, finance company or other financial institution and all indebtedness to depositors of the Corporation. This debenture shall be automatically subordinated without the necessity of any further action of any party at such time as persons owning 66-2/3% of the issued and outstanding voting stock of the Corporation have executed the Voting Trust Agreement.

The Corporation shall have the right, without penalty, to prepay the whole or any part of the principal sum hereof at any time, provided that any prepayment of principal shall be

accompanied by payment of all accrued but unpaid interest on the whole indebtedness to the date of prepayment. Anything herein to the contrary notwithstanding, the principal amount of this debenture, together with all interest and other charges accrued, must be paid prior to payment of any dividends to stockholders of the Corporation. In the event that any dividend is paid to stockholders of the Corporation before all outstanding amounts of principal and interest due under this debenture are paid, the principal amount of the debenture then outstanding, together with all accrued interest thereon, shall at the option of Holder immediately become due and payable and the interest rate payable on the outstanding amount of principal and, if allowed by law, on the accrued interest, shall at the option of Holder thereafter be increased to 1% over the Corporate Base Rate (prime rate) charged by The First National Bank of Chicago to its most credit-worthy customers as of the first day of the calendar month in which such payment becomes due and payable and interest shall thereafter continue to accrue on the outstanding amounts at that rate, which shall be adjusted monthly on the first day of each month to reflect the then current Corporate Base Rate (prime rate) of The First National Bank of Chicago.

Each of the following shall constitute an event of default hereunder:

(a) if the Corporation shall fail to pay any installment of principal or interest on this debenture when

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same becomes due and such default shall continue uncured for a period of five (5) days following notice of default from Holder to the Corporation; or

(b) if the Corporation shall commence any proceeding or there shall be commenced against the Corporation any proceeding relating to the Corporation under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, receivership, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereinafter in effect; or if the Corporation shall be adjudicated insolvent or bankrupt by a decree of a court of competent jurisdiction; or if the Corporation shall petition or apply for, acquiesce in or consent to, the appointment of any receiver or trustee of the Corporation or for all or a substantial part of the property of the Corporation; or if the Corporation shall make an assignment for the benefit of the creditors; or if the Corporation shall admit in writing its inability to pay its debts as they mature; or

(c) if any event of default shall occur under the terms of the Insurance Agreement dated July 31, 1981, by and between the Corporation and the Holder (the "Insurance Agreement"); or

(d) if persons owning at least 66-2/3% of the issued and outstanding and voting stock of the Corporation have not executed the Voting Trust Agreement on or before September 15, 1981; or

(e) if, at any time after persons owning at least 66-2/3% of the issued and outstanding voting stock of the Corporation become parties to the Voting Trust Agreement, the total voting stock of the Corporation subject to the Voting Trust Agreement shall, without the fault of Holder, cease to be at least 66-2/3% of the total issued and outstanding voting stock of the Corporation, or if the stock subject to the Voting Trust Agreement becomes insufficient to approve a merger of the Corporation or to take any related required action without the approval of stockholders not parties to the Voting Trust Agreement, and such condition shall continue uncured for a period of five (5) days following notice of default from Holder to the Corporation; or

(f) if the execution of the Voting Trust Agreement by any stockholder of the Corporation violates the provisions of any collateral assignment, stock power, or other agreement to which the stockholder is a party and, as a result thereof, the Holder does not have the right to vote at least 66-2/3% of the issued and outstanding voting stock of the Corporation in accordance with the terms of the Voting Trust Agreement, and such condition shall continue uncured for a period of five (5) days following notice of default from Holder to the Corporation.

Upon the occurrence of any event of default hereunder, at the option of the Holder the interest rate on any payment of principal or, to the extent allowed, any payment of interest then due shall from that date forward bear interest at a rate equal to 1% above the Corporate Base Rate (prime rate) charged

by The First National Bank of Chicago to its most credit-worthy customers in effect on the first day of the month in which such interest begins to accrue, to be adjusted on the first day of each and every month thereafter. In addition, at the option of Holder, as evidenced by a notice sent by the Holder to the Corporation, the full principal amount of this debenture outstanding together with all interest then due and outstanding, shall immediately become due and payable. The failure of the Holder hereof to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default.

Anything herein to the contrary notwithstanding, it is understood and agreed that if the "total net worth" of the Corporation (as that term is defined in Section 3-211(A)(3) of MSSIC's Rules and Regulations, but excluding therefrom the proceeds of this debenture) shall at any time equal or exceed four percent (4%) of the aggregate withdrawal value of its free share accounts, and shall equal or exceed four percent (4%) for a total period of six (6) consecutive months, and if, in addition, the Corporation shows positive earnings (as determined under the Form S/L 200 filed by the Corporation) for each month of said six-month period, then in such case this debenture shall become due and payable in full at the end of the sixth (6th) month of said period.

As to this debenture, the Corporation waives all applicable rights, whether under the State constitution, homestead laws or otherwise, and also waives valuation and

appraisement, presentment, protest and demand, notice of protest, demand and dishonor, and nonpayment of this debenture, and expressly agrees that this debenture or any payment hereunder may be extended or modified from time to time without in any way affecting the liability of the Corporation.

This debenture is issued in the State of Maryland and all questions pertaining to its interpretation and enforcement shall be determined in accordance with the laws of that State. The specification of any right or remedy herein or in related agreements shall not be deemed to limit or be in lieu of any rights of the Holder allowed by applicable law.

All notices required or submitted under the terms of this debenture shall be in writing, and shall be hand-delivered or mailed by certified mail, return receipt requested, to the parties at the following addresses (or such other address or addresses as shall be designated by notice in accordance herewith):

To the Corporation:

Old Court Savings and Loan, Inc.
25 Light Street
Baltimore, Maryland 21202

To the Holder:

Maryland Savings-Share Insurance Corporation
Baltimore Life Building
901 N. Howard Street
Baltimore, Maryland 21201

Except for a collateral assignment of this debenture to any person for the purpose of securing the indebtedness of the Holder, or an assignment to any institution or entity

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succeeding to the rights and obligations of Holder generally, the Holder may not transfer or sell this debenture.

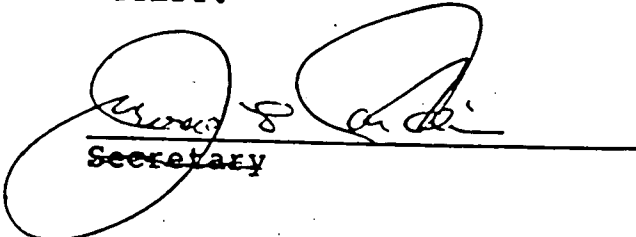
This debenture is subject to all the terms of the Insurance Agreement and the Voting Trust Agreement.

For purposes of this debenture, "issued and outstanding voting stock of the Association" shall mean all Class "A" (guaranty) stock, all Class "B" (guaranty) stock and all Free Share (savings or withdrawable) stock of the Corporation.


IN WITNESS WHEREOF, the Corporation has caused this debenture to be executed on July 31, 1981 by its duly authorized officer and its corporate seal affixed on the date first above written.

ATTEST:

OLD COURT SAVINGS AND LOAN, INC.


Secretary

By:


President

(SEAL)

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

FEB 17 1982

CHARLES H. BROWN, JR.
DIRECTOR



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

BOARD OF COMMISSIONER

W. THOMAS GISRIEL
CHAIRMAN

JOHN M. BALDER
VICE CHAIRMAN

JOHN J. CORBLEY
SECRETARY

NANCY ERWIN
JAY FITZGERALD
FRANK L. HEWITT, JR.
JOANNE R. KERSTETTER
CHARLES K. RITTENHOUSE
BROADUS E. SAWYER
ROBERT L. STOCKSDALE

M I N U T E S
January 18, 1982

Board of Savings and Loan Association Commissioners

The 226th meeting of the Board of Savings and Loan Association Commissioners was held on Monday, January 18, 1982, at 1:30 p.m. in Room 1006 of the One South Calvert Building, One South Calvert Street, Baltimore, Maryland 21202. (Due to inclement weather, the meeting originally scheduled for Thursday, January 14, 1982, was postponed until the 18th.) The following Commissioners were present:

W. Thomas Gisriel, Chairman
Nancy Erwin
Jay FitzGerald
Frank L. Hewitt, Jr.
Joanne R. Kerstetter
Charles K. Rittenhouse
Broadus E. Sawyer
Robert L. Stocksdale

John M. Balder was excused.

Also present: Charles H. Brown, Jr. Director
James D. Laudeman
Callahan, Calwell & Laudeman
William S. LeCompte, Jr. Deputy Director
Barry J. Renbaum
Custom Savings and Loan Association
Alan M. Foreman, Esquire
Assistant Attorney General
Eugene Hettleman
Merritt Savings and Loan, Inc.
Charles C. Hogg, II
Maryland Savings-Share Insurance Corporation

By motion and unanimous vote of the members of the Board of Savings and Loan Association Commissioners in attendance, the Board went into Executive Session immediately after the meeting was called to order at 1:30 p.m. It then considered those items on the Executive Session portion of the agenda which, in the Board's judgment and with concurrence of counsel, were deemed to be exempt from open meeting discussion. The Executive Session was adjourned at 2:15 p.m. and the Board reconvened the public meeting at 2:20 p.m. (Mr. Brown was excused from the Executive Session as he was in Annapolis at a legislative committee hearing; however, he returned in time for the public meeting.)

Minutes

Mr. Glsriel noted that the quotation attributed to Mrs. Erwin in the last paragraph on page 3 of the minutes of December 10, 1981 was not clear and suggested that the quotation be amended to read: "The Director may require an association to include, as part of any future advertising material, corrective advertising which clarifies or corrects any advertising that is not in accordance with these regulations." Mrs. Erwin agreed with Mr. Glsriel's clarification.

On motion of Mr. FitzGerald, seconded by Mr. Hewitt and unanimously resolved by the Commissioners present, the Board approved the minutes of the December 10 meeting as amended.

Regulatory Considerations

Proposed Amendments to Maryland Agency Rule 09.05.01.18 -
"Advertising and Promotional Activities"

Mr. LeCompte reminded the Commissioners that at last month's meeting, the Board had discussed two proposed amendments to Regulation .18 pertaining to brokers' fees and corrective advertising. The Board made several amendments to these proposals and requested that staff redraft the proposals for the January meeting. Mr. LeCompte then outlined the changes made to the proposals.

With regard to section H of Regulation .18 "Use of Brokers-Sales' Commissions or Brokers' Fees," the limitation allowing a maximum 2% broker's fee on funds received by an association through a broker and the percentage limitation on the aggregate amount of savings that may be received by an association through a broker were deleted as requested. Section J "Prohibited Advertisement" was redrafted to include the changes recommended by Mrs. Erwin. The new proposal authorizes the Director to require an association to include, as part of any future advertising material, corrective advertising which clarifies or corrects any advertising which is unauthorized, false, deceptive, misleading, or not in accordance with regulations of the Division.

Mr. Glsriel stated that he had problems with both proposals as redrafted. He noted that it was the intent of section H(1) of the proposal to prohibit an officer, director, or employee of an association from acting as a broker. Mr. Glsriel did not feel that the language in this section was clear on this point. After a brief discussion, the Board agreed to amend section H(1) of Regulation .18 as follows:

"The term 'broker' means a person employed, engaged, or retained by an institution for services consisting in whole or in part of soliciting or obtaining the opening of, or increasing of, savings accounts in such institution. An individual who is an officer, director, or employee of such institution may not act as a broker."

With regard to section J pertaining to prohibited advertising, Mr. Glsrlei suggested that the references to "advertisement" be deleted and that the first sentence be amended to read:

"An association may not use any advertising material after the Director has given written notice that such advertising material is unauthorized, false, deceptive, misleading, or not in accordance with regulations of the Division."

Mr. Glsrlei noted that this change would tie in with the language suggested by Mrs. Erwin at the previous Board meeting.

On motion of Mr. Hewitt, seconded by Mr. FitzGerald and unanimously resolved by the Commissioners present, the Board approved the proposed amendments to Regulation .18 with the changes noted above.

Proposed Repeal of Maryland Agency Rule 09.05.01.37 and
Proposed New Maryland Agency Rule 09.05.01.37 -
"Insured Deposits In Other Associations"

Mr. LeCompte also reminded the Commissioners that at last month's meeting, they had discussed a new regulatory proposal concerning associations investing in the deposits of another association. As a result of the Board's discussion, the staff was requested to redraft the proposal deleting the requirement that a deposit may not exceed 1% of the recipient association's withdrawable accounts. Mr. LeCompte also referenced Mr. Glsrlei's suggestion that the phrase "unless otherwise approved by the Board" be placed after "the investment does not exceed the greater of \$100,000 or 5% of the total net worth of the depositing association" rather than before it. These changes have been included in the draft designated as Proposal A, a copy of which was included with the Board materials for today's meeting.

Mr. LeCompte then mentioned that a copy of Stanford Hess' letter of December 9, 1981 in which he suggested certain changes to Regulation .37 was distributed prior to last month's meeting and that Mr. Glsrlei had requested the staff to consider Mr. Hess' suggestions in redrafting the proposal. Proposal B, also included with the Board materials, was drafted along the lines of Mr. Hess' suggestions. Under this proposal, an association may invest funds in another association located in the State provided that the investment does not exceed $\frac{1}{2}$ of 1% of the total savings of the depositing association, but not in excess of \$500,000.

Lastly, Mr. LeCompte noted that also included with the Board materials for today's meeting was a copy of a letter dated December 18, 1981 from Ralph Holmes of MSSIC regarding the Board's regulation on deposits in other savings and loans. In his letter, which was submitted on behalf of MSSIC as well as several of its member associations, Mr. Holmes suggested that the Board review the possibility of allowing associations to deposit with FSLIC- or MSSIC-

Insured Institutions more in line with the authority given associations to invest with the commercial banks. He also requested that the Board give consideration to the fact that MSSIC insures each separate account of deposits to \$100,000. Lastly, Mr. Holmes suggested that the Board consider establishing investment parameters based upon the size of the depositing institution rather than the recipient institution.

Mr. FitzGerald voiced opposition to the proposals as re-drafted. He noted that although Proposal A would permit an investment which does not exceed the greater of \$100,000 or 5% of the total net worth of the depositing association, this limitation would force a highly illiquid association to deposit its funds outside of the savings and loan system and also out of State by means of deposits in banks, federal funds, or money market mutual funds. He did not see any reason to restrict a liquid association from depositing more than \$100,000 in any one association so long as the funds are insured by either MSSIC or FSLIC and the Division has no problem with the transaction. Mr. FitzGerald noted that this was the way the regulation was written a few years' ago.

Mr. Gislriel felt that it might not be a bad idea to have an association's funds diversified in the event of a failure. He also noted that the withdrawal of a substantial amount of money at one time could cause a problem for the recipient association. Mr. Gislriel stated that the purpose of the regulation is to monitor the amount of money that is invested by one association into another. Mr. FitzGerald agreed and noted that the key was with the recipient association, not the depositing association, and recommended that the Board consider placing limits on the amount the recipient association could accept from another association. He suggested that the recipient association be restricted from accepting an amount in excess of 5% of its assets from any one association. After a brief discussion, Mrs. Erwin suggested that the Board consider two regulations on investments--one addressing the depositing association; the other, the recipient association. Mr. Gislriel agreed with Mrs. Erwin that both areas should be addressed in the regulations, but he felt that they could be covered under the same regulation.

Mr. Brown then inquired whether the Board wanted associations to obtain the Director's prior written approval for such investments as is required under the current regulation. Mr. Stocksdale stated that these investments are authorized by statute and he did not see any reason for requiring the Director's approval. Mrs. Erwin felt that the answer was in requiring the associations to report their investments to the Director rather than having him approve them. Mr. Stocksdale indicated that this could be done by means of the monthly/quarterly report (Form S/L 200).

Mr. Brown noted that Mr. Barry Renbaum of Custom Savings and Loan was present at the meeting and that he had previously requested to address the Board concerning Regulation .37. Mr. Renbaum emphasized the disparity between Regulation .37 Insured Deposits in Other Associations and Regulation .31 Investment with Banks. He stated that

savings and loans should be able to invest freely in either banks or savings and loans in State or out of State.

Mr. Gislrel noted that the Financial Institutions Article does not permit State-chartered savings and loans to invest in associations outside of this State and, therefore, this prohibition cannot be changed by regulation. Mr. Renbaum stated that he felt that the prohibition was regulatory as Section 9-419(a)(12)(111) authorizes savings and loans to invest in obligations of FSLIC, which he interpreted to be savings deposits of FSLIC-insured associations.

Mr. Hettleman, attorney for Merritt Savings and Loan, stated that it was his opinion that the Board could authorize deposits in savings and loans outside of the State of Maryland under Section 9-419(a)(19) of the Financial Institutions Article. He added that under this section the Board could also authorize many other investments allowed for federal associations, such as commercial paper.

It was decided that a ruling would be requested from Alan Foreman concerning the points raised by Messrs. Renbaum and Hettleman with respect to the Financial Institutions Article. Mr. Brown was instructed to work with Mr. Foreman in redrafting the proposal for consideration at next month's meeting.

Proposed Amendment to Maryland Agency Rule 09.05.01.40-1 -
"Reserves and Allocation of Profits"

Mr. LeCompte noted that last summer, the Board had discussed possible ways in which assistance could be given to savings and loans. One way discussed was to allow deferred income to be considered as part of net worth for State regulatory accounting purposes. A study was made by the Division and, at that time, it was determined that deferred fees were so minimal that they were meaningless in helping to bolster any association's net worth.

Mr. LeCompte went on to say that MSSIC's rules provide for deferred fees to be included as part of an association's net worth. The Division has also found that deferred fees are becoming significant for many associations as a result of points being allowed on residential mortgage loans. For these reasons, the Division drafted for the Board's consideration a regulatory proposal which will include deferred fees as part of net worth. Specifically, Regulation .40-1 has been amended to include "Deferred initial loan charges and commitment fees" as part of an association's reserves. Mr. LeCompte noted that initial loan charges and commitment fees are defined in the regulations.

On motion of Mr. Hewitt, seconded by Mr. FitzGerald and unanimously resolved by the Commissioners present, the Board approved the amendment to Regulation .40-1 as presented for publication in the Maryland Register.

Alternative Mortgage Plans

The following alternative mortgage plans were submitted for approval by the Board of Savings and Loan Association Commissioners:

Baltimore County Savings and Loan Association

Baltimore County has requested an adjustable mortgage loan which provides for a term of 30 years with annual interest rate adjustments. The interest rate cannot exceed $3\frac{1}{2}\%$ over the 3-year Treasury Bill auction rate; however, the interest rate may not be increased or decreased by more than .1% each year. There is a 30-day required notice before any rate adjustment.

Chevy Chase Savings and Loan, Inc.

The following six plans were approved for Chevy Chase:

- (1) Adjustable Interest Rate - Adjustable Fixed Payment Mortgage with a Balloon Payment (00-7 ARM). This is a slight revision of a plan previously approved by the Board for Chevy Chase. This revision simply places a cap on the increase in the interest rate differential of not more than 3% above the 13- or 26-week Treasury Bill rate on an annualized discount basis. Previously, there was no limit on the interest rate adjustments.
- (2) Adjustable Interest Rate - Adjustable Fixed Payment Mortgage with a Balloon Payment (00-8 ARM). This is also a revision of a previously approved plan for Chevy Chase. This revision places a cap on the interest rate differential of from 3 to 5%; however, there will be a percentage limitation placed on the amount that the monthly principal and interest payment can increase.
- (3) Scheduled Adjustable Rate - Call Option Mortgage Loan ("SARCOM"). This plan calls for a term of from 15 to 30 years with amortization over a corresponding period. The initial interest rate is fixed for an initial period of from 1 to 5 years and is adjusted every 1 to 5 years thereafter by a predetermined schedule set forth in the Deed of Trust Note. The lender has the option to call the loan after 3 to 10 years as set forth in the loan contract. There is a 30-day requirement for interest rate adjustments, a 60-day requirement for monthly payment adjustments, and a 90-day notice prior to exercising the call option.
- (4) Fixed-Rate Second Mortgage Loan with a Balloon Payment (For use only in Virginia). This identical plan was previously approved by the Board for first mortgage loans in Virginia as well as Maryland and the District of Columbia. This second mortgage version of the plan cannot be used in Maryland as it would undoubtedly violate Maryland's Second Mortgage Loan Law.
- (5) Optional Adjustable Rate - Call Option Mortgage Loan ("OARCOM"). This plan calls for an initial fixed interest rate

to be changed to another predetermined fixed rate which will remain constant throughout the remaining term of the loan unless the lender exercises its option to convert to an adjustable rate, at which time interest would be adjusted based on a predetermined Index and a predetermined fixed differential and the rate would be adjusted on the same date every year thereafter based upon the applicable Index and differential. The Index will be either the 13- or 26-week Treasury Bill rate and the predetermined differential will be from 1 to 5%. The lender has the option to call the loan after 3 years or as established by the loan contract. There are 30-, 60-, and 90-day notice requirements, respectively, for rate changes, monthly payment changes, and the exercising of the call option provision.

(6) Call Option Mortgage Loan ("COM"). This plan provides for a term from between 15 to 30 years with a corresponding amortization period. It contains a fixed interest rate over the life of the loan. There is a call option exercisable by the lender after 3 years. There is the required 90-day notice before calling the mortgage.

Citizens Savings and Loan Association, Inc.

Citizens has requested approval to offer the Renegotiable Rate Mortgage plan adopted by the Federal Home Loan Bank Board. This federal plan calls for interest rate adjustments every 3 years, and there is a limit of 1½% on any interest rate adjustment with a 5% rate adjustment limit over the life of the loan.

Fairfax Savings and Loan

Fairfax has requested permission to use the 3-year callable mortgage plan previously approved for John Hanson Savings and Loan. It was noted that no documentation was submitted with this request.

Friendship Savings and Loan

Friendship has requested approval for a plan with a term of from 3 to 10 years amortized over a 30-year basis. This, naturally, results in a balloon payment. The lender will give 90-day notice and agrees to refinance the loan. The Deed of Trust specifies that the borrower will bear all costs associated with the refinancing of the loan.

Friendship additionally requested the Board's approval of 3 amendments to the previously approved plan for the Hunting Pledge Condominium project. It was noted that this is the alternative mortgage plan which is linked to the issuance of a Prince George's County revenue bond. The association requests the following:

(1) That the adjustment date be changed to correspond to the issuance date of the revenue bond versus the loan settlement date;

(2) That the notice requirement to the borrower be changed from 30 days to a range of from 30 to 45 days prior to the adjustment date; and

(3) That the bond index used in the rate adjustment be the latest index published at least 60 days prior to the rate adjustment date in order to insure sufficient time for proper notice to the borrowers.

Lincoln Building Association

Lincoln requests a revision to their previously approved alternative mortgage plan which simply provided for a call provision every 3, 4, or 5 years as agreed to in the loan contract. They wish to be permitted to call the mortgage every 1, 2, 3, 4, or 5 years as agreed to by the parties in the loan contract. It was also noted that the Board's policy is that an institution must provide the borrower with at least a 90-day notice prior to exercising any call provision.

On motion of Mr. FitzGerald and seconded by Mr. Hewitt, the above alternative mortgage plans were approved by the Commissioners present subject to submission and approval of all required documentation by the Division. Mr. Hewitt abstained from voting on the plan submitted by Citizens Savings and Loan. Mr. Sawyer voted in opposition to Lincoln Building Association's plan containing a 1-year call provision as he did not feel that such a plan served the public interest.

Savings Plans

The following savings plans were submitted for the Board's approval:

American National Building and Loan Association

IRA and Keogh Accounts:

- (1) A 3-year IRA certificate account;
- (2) 30-month small savers certificate account;
- (3) 6-month money market certificate account;
- (4) regular passbook account;
- (5) 18-month variable rate IRA certificate account;
- (6) 18-month fixed rate IRA certificate.

Chesapeake Savings and Loan Association

IRA and Keogh Accounts:

- (1) Fixed rate - 18-month certificate based upon $\frac{1}{2}\%$ below the 30-month small savers certificate rate in effect at the time the account is opened.
- (2) Variable rate - 18-month certificate based upon $\frac{1}{2}\%$ below the average of the monthly rate of the 30-month small savers certificate account.

Fairfax Savings and Loan

18-month IRA certificate at a rate $\frac{1}{2}\%$ above the 30-month T-Bill rate, which rate will be adjusted semi-annually on January 1 and July 1.

Glen Burnie Savings and Loan Association

18-month IRA certificate with a rate based upon the 6-month average of the 30-month T-Bill rate (interest payable semi-annually).

John Hanson Savings and Loan, Inc.

IRA and Keogh Accounts:

- (1) 30-month certificate; dividend rate 12% per annum, subject to change bi-weekly based upon 30-month T-Bill auction rate.
- (2) 18-month fixed-rate account based upon 30-month T-Bill certificate account.
- (3) 18-month variable-rate account based upon $\frac{1}{2}$ of 1% above the 91-day T-Bill rate or such rate established by the Executive Committee based on current market conditions, not to exceed 2% above the 91-day T-Bill rate.

Madison Square Permanent Building Association

18-month variable-rate IRA account based upon a rate $\frac{1}{2}\%$ above the 91-day T-Bill rate.

Midstate Savings and Loan Association

18-month IRA account with a fixed rate of 12%, compounded daily.

Senator Savings and Loan Association

2-year IRA and Keogh Accounts at a fixed rate based upon the 30-month T-Bill rate.

Weekly Savings and Loan Association

18-month fixed-rate IRA account not to exceed $\frac{1}{2}\%$ above the most recent auction rate for 30-month T-Bills.

Western Permanent Savings and Loan Association

18-month fixed-rate IRA account, rate to be set by Board, not to exceed 13%.

Eastern Savings and Loan Association

Rate not to exceed 1%
below the prevailing
prime rate \$1,500 minimum 30 days

Madison and Bradford Savings and Loan Association

Fixed rate not to exceed 2%
above the rate paid on 91-
day T-Bills --- 91 days

Government Services Savings and Loan, Inc.

IRA and Keogh Accounts:

- (1) 18-month fixed-rate certificate at a rate equal to the 30-month small savers certificate rate.
- (2) 18-month variable-rate certificate based upon the 91-day certificate rate, which will be adjusted the first day of each month.

Ellwood Permanent Building Association

Fixed-rate IRA account, 30-month term not to exceed 15%.

Bohemian American Savings and Loan Association

Fixed-rate IRA account, term of 18 months or more, rate not to exceed 2% above the 26-week Treasury Bill rate.

Citizens Savings and Loan Association

IRA and Keogh Accounts:

30-month variable-rate certificate based upon 1/2% above the 30-month small savers certificate, with the rate to be adjusted the first day of each month.

On motion of Mrs. Erwin and seconded by Mr. Rittenhouse, the above savings plans were approved by the Commissioners present. Mr. Gisriel abstained from voting on the plans submitted by American National and Mr. Stocksdaile abstained from voting on the plans submitted by Madison and Bradford, Bohemian American, and Ellwood Permanent.

Subordinated Debentures

Chevy Chase Savings and Loan, Inc.

Mr. LeCompte stated that by letter dated December 24, 1981, Martin D. Krall, as counsel for Chevy Chase, requested Board approval for his client to issue up to \$21 million in subordinated debentures. These debentures were to be sold to the Maryland

Savings-Share Insurance Corporation. Because of the necessity to effect this transaction before the fiscal year end, Mr. Brown conducted a telephonic poll of the Commissioners on December 28, 1981, receiving the approval of all Board members with the exception of Mrs. Erwin and Mr. Sawyer, neither of whom could be reached. Mr. LeCompte stated that the Board was now being asked to ratify the telephonic approval of this transaction.

On motion of Mr. Hewitt, seconded by Mr. Stocksdale and unanimously resolved by the Commissioners present, the Board ratified the telephonic approval of the Board authorizing Chevy Chase to issue \$21 million in subordinated debentures to MSSIC.

Custom Savings and Loan Association, Inc.

Mr. LeCompte then informed the Board of a request from Barry Renbaum, Secretary-Treasurer of Custom Savings and Loan, to sell \$500,000 in subordinated debentures to Temple Finance. In return, Custom was to invest \$500,000 in another subordinated debenture issued by Temple Finance, a licensed Maryland financial institution. The debenture issued by Custom would pay a rate $\frac{1}{8}\%$ above the rate paid by Temple, i.e., Temple would receive a $\frac{1}{8}\%$ fee as consideration for the transaction. The effect of the transaction is to increase Custom's regulatory reserves by \$500,000. As the Renbaum family own Temple Finance, there is a possible conflict of interest to be considered. Mr. Brown noted that Mr. Renbaum was present and could possibly answer questions the Board might have.

Mr. Stocksdale stated that he felt this type of transaction should be restricted between associations and either MSSIC or a commercial bank insured by the Federal Deposit Insurance Corporation. Mr. Stocksdale explained that he was concerned that in the event Temple would have financial difficulties resulting in bankruptcy, the Trustee in Bankruptcy would have claim to the \$500,000 due from Custom and the association would not be able to obtain payment on the debenture they hold.

Mr. Renbaum stated that the debenture issued to the association by Temple would be a "senior liability" of Temple Finance Company, which has sufficient net worth to cover the obligation. Furthermore, he stated that Custom had first explored selling the debenture to the Maryland National Bank and it was his understanding that Maryland National was not interested in this type of arrangement.

Mr. Gisriel then asked if Custom had approached MSSIC concerning this transaction. Mr. Renbaum said that they had briefly discussed it, but he wasn't sure if it was feasible. Mr. Hogg stated that in order to effect such a transaction, MSSIC would have to obtain the approval of its 8 "credit line" banks. This was done for the Chevy Chase debenture and he hoped they would be agreeable to other such similar transactions.

Mr. Hettleman asked if an association could legally invest in the subordinated debt of Temple Finance. After some discussion, it was the feeling of Mr. Foreman that it was a permissible investment under 59-419(a)(11) and 51-101(h) of the Financial Institutions Article.

The Board remained concerned over the bankruptcy point raised by Mr. Stocksdale and decided to table this matter pending MSSIC's exploring the possibility that they could purchase Custom's subordinated debenture.

Service Corporation

Fairfax Mortgage, Inc., a wholly-owned subsidiary of Fairfax Savings and Loan

Mr. LeCompte stated that Fairfax Savings and Loan has requested approval to form a wholly-owned subsidiary to be known as Fairfax Mortgage, Inc. for the purpose of performing any and all activities permitted by applicable laws and regulations. It was noted that the Articles of Incorporation had been approved for form and legal sufficiency by Mr. Foreman.

On motion of Mr. Hewitt, seconded by Mr. Rittenhouse and unanimously resolved by the Commissioners present, the Board approved the formation of Fairfax Mortgage, Inc. by Fairfax Savings and Loan.

Report of the Director

Applications Pending

Hearing Date

Chevy Chase Savings and Loan, Inc.-- Branch Office 7700 Old Georgetown Road, Bethesda, Maryland	In Review
Twin Pines Savings and Loan Association--Relocation of Principal Office from 105 Centerway Road, Greenbelt, to 111-A Centerway Road, Greenbelt, MD	In Review
Merger of Howard Loan and Savings Association with and into Liberty Savings and Loan Association	In Review
Fairfax Savings and Loan--Branch Office 9739 York Road, Cockeysville, Maryland	In Review
Eastern Savings and Loan Association-- Branch Office 9001 Liberty Road, Randallstown, Maryland	In Review
Maryland Capital Savings and Loan Association--Branch Office Charles Street and Maple Avenue, LaPlata, Maryland	In Review

Government Services Savings and Loan,
Inc.--Limited Facility Branch Office
River Road, Potomac, Maryland

In Review

Liberty Savings and Loan Association--
Branch Office 10707 York Road,
Cockeysville, Maryland

1/29/82

First Maryland Savings and Loan, Inc.--
Limited Facility Branch Office
South Light Street and Henrietta Avenue,
Baltimore, Maryland

2/19/82

John Hanson Savings and Loan, Inc.--
Relocation of a Branch Office from
Stewart's Golden Ring Mall, Baltimore,
to Golden Ring Road and Kenwood Avenue,
Baltimore, Maryland

Hearing Date
to be
Established

Fairfax Savings and Loan--
Violation Order on advertising

Rescheduled
2/2/82

Other Business

Mr. Gisriel requested an update on the status of the Board's alternative mortgage loan bill. Mr. Brown stated that the bill had been introduced as Departmental Bill No. 8 but that it had not yet been scheduled for hearing.

Mrs. Erwin inquired as to what has transpired concerning the scheduled hearing on the violation order issued to Fairfax Savings and Loan. Mr. Brown stated that the hearing was rescheduled from January 11 until February 2 due to various conflicts.

Mr. Rittenhouse asked if the classification issue of passbook versus statement account had been finally resolved. Mr. Foreman said that he would submit an opinion on this matter at the next meeting.

Adjournment

The meeting was adjourned at 3:30 p.m. The next meeting of the Board will be held on Thursday, February 11, 1982, in Room 1006. The Board will hold an Executive Session at 1:30 p.m., with the public meeting to begin at 2 p.m.

Respectfully submitted,

Charles K. Rittenhouse
Secretary

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A86291

EXECUTIVE SESSION
January 18, 1982

Board of Savings and Loan Association Commissioners

Mr. Charles Hogg of Maryland Savings-Share Insurance Corporation was invited to attend the Executive Session of the Board meeting.

Yorkridge-Calvert Savings and Loan

Mr. LeCompte stated that as discussed at the last Board meeting, Yorkridge-Calvert had requested to account for their merger of March of 1981 under the "Purchase Method" of accounting. The association engaged Peat, Marwick and Mitchell who have certified as to the appropriateness of using the "Purchase Method" retroactively to the March merger. The Federal Home Loan Bank Board however, has taken a regulatory position that they will not accept the use of the "Purchase Method" to support a proposed merger where the merged entity would not be viable. There are numerous considerations, however basically an association cannot create an illusion of viability purely by means of the "Purchase Method" of accounting. Staff has requested supportive documentation regarding Yorkridge-Calvert's operating projections for the next couple of years. After our review we will contact the Federal Home Loan Bank Board to discuss what course of action we feel is appropriate.

Mr. Gisriel stated that the FHLBB has been actively trying to obtain a merger partner for Yorkridge-Calvert including American National. When American National called the Bank Board concerning what assistance was being offered, they were told that the Bank Board was currently offering the merger Intra-State with no assistance and would probably end up merging it with a District of Columbia association. It was felt that a "foreign" association may take the merger unassisted to circumvent the Inter-state branching prohibition and to thereby gain access to the Maryland market.

Mr. Rittenhouse asked if the Federal Home Loan Bank would have the final say on this merger. Mr. LeCompte stated that regardless of the type of charter, when you get into a merger requiring assistance from either MSSIC or FSLIC you have to proceed jointly with the Insuring company since you are looking for them to provide funds.

Mr. Stocksdale asked if they were currently under an agreement with the regulatory agencies. Mr. LeCompte stated that he understood that they had signed an insurance agreement that contain numerous sanctions which Mr. Brown had discussed at a previous Board meeting.

Mr. Hewitt asked if any action was being requested from this Board. Mr. LeCompte said no, they were simply being keep apprised of the situation.

Chevy Chase

Mr. LeCompte then asked Mr. Hogg to update the Board on Chevy Chase's subordinated debenture arrangement with MSSIC.

Mr. Hogg stated that hopefully, as of this date, the transaction will be consummated and will be effective on the association's books as of December 31, 1981. The delay has been due to a covenant with a District of Columbia bank who currently holds some Chevy Chase savings and loan debentures, and their approval is necessary before the association can issue any additional subordinated debt.

Mr. Hewitt asked how much money MSSIC was advancing. At that point Mr. LeCompte interjected that the Board had not been informed of the mechanics of the arrangement and requested Mr. Hogg to walk the Board through it. Mr. Hogg stated that Chevy Chase would purchase a \$21 million capital note from MSSIC, and MSSIC in turn would purchase \$21 million of subordinated debentures from Chevy Chase. The result is that \$21 million of Chevy Chase's excess liquidity is transformed into net worth for MSSIC and regulatory purposes. Mr. Hogg admitted that the transaction is somewhat cosmetic; however, it also has validity in that as part of the overall agreement, there will be 3 million dollars of outside capital infused into the association within the next 11 months. Also, from analysis of their financial reports, it appears that the association will be profitable in 1982, given that interest rates don't rise drastically from current levels. The basis for this analysis is that the association has just turned their net interest margin from a considerably negative position to slightly positive, but this spread does not currently cover their operating expenses. Furthermore, in 1981, Chevy Chase tried to lower their cost of funds rather than lend heavily to generate fees. As a result, they are now highly liquid and are in a position to generate considerable income from their mortgage lending. There is also the pending sale of some Financial General Bankshare stock which would generate another \$3½ million in profits to the association.

Mr. Stocksdale asked if there was a rate differential between MSSIC's capital note and Chevy Chase's debenture. Mr. Hogg stated that all terms, including rate, were identical in both instruments.

that MSSIC is involved to the extent of weekly or even daily monitoring of operations by either reports or by telephone calls. They don't directly manage any of the associations, but they do limit management by means of the covenants in the various insurance agreements.

- - - - -
In response to several references by Mr. Hogg concerning the Division and MSSIC keeping each other completely informed of all negotiations, Mr. FitzGerald stated that he felt both Mr. Hogg and Mr. Brown should be commended for their cooperative efforts in dealing with supervisory problems in these difficult times.
- - - - -

Mr. LeCompte then stated that at the last meeting, the issue of federal funds was discussed and an opinion was requested. Mr. Foreman said he was currently drafting an opinion and that his preliminary view was that they are permissible investments.

- - - - -
Mr. LeCompte mentioned the proposal by Custom Savings and Loan to issue a subordinated debenture. Custom currently has a net worth to savings ratio of 1.8%, or \$456,000 on about \$26 million in savings. With the proposed debenture, their net worth ratio would be approximately 3.6% or 3.7%. Mr. LeCompte referenced Mr. Brown's letter which explains certain pertinent points in evaluating this proposal.

CHB:WSL:cpk

*Copy Supplied.
Perty. Corbley*

Mr. Stocksdale also questioned that although they showed strong savings inflows, they also showed increased borrowings. Mr. Hogg answered that the association's investment strategy is quite sophisticated. The borrowing represents repurchase agreements and the arbitrage of their All Savers certificates.

Mr. LeCompte then informed the Board that in the regular session of today's meeting, they would be requested to ratify their telephonic approval of this debenture. The Board's approval is required for the waiver of sections B(2), B(5), and B(6) of Regulation .41.

First Progressive Savings and Loan Association

Mr. Hogg stated that First Progressive has entered into an insurance agreement with MSSIC which authorizes MSSIC to effect a merger of the association. There are discussions with roughly 5 associations regarding merger; any of the proposed mergers will require some assistance. The merger of this association will cost MSSIC some money but how much is not known at this time.

Mr. Hogg noted that Mr. Brown has been very instrumental in bringing Albert Aaron to the realization that the timely merger of his institution is in everyone's best interest.

Old Court Savings and Loan, Inc.

Mr. Hogg stated that the operations of Old Court have stabilized at a reasonable level although they continue to lose money. The insurance agreement with Old Court contains a 2% net worth level provision which allows MSSIC to effect the merger of the association. MSSIC at this time is taking a "wait and see" posture as they do not view Old Court as a desperate situation.

Mr. Hogg also noted that Old Court was a stock company and that there is a problem in getting stockholders to agree in advance to supervisory mergers where they realize nothing for their stock. MSSIC is meeting this Thursday with FSLIC to see just how they have handled similar situations on their side of the industry.

Mr. LeCompte mentioned that these problem situations are being presented to the Board as these associations are not in compliance with our reserve rule and the Board could take supervisory action. However, the problems are being addressed and possible solutions explored, and it is felt that further Board action at this time is not warranted.

Mr. Stocksdale asked to what extent MSSIC is directly involved in the management of these institutions. Mr. Hogg answered

REQUEST/PROPOSAL OF JEFFREY A. LEVITT
RE: FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION
NEW INSURANCE AGREEMENT

- I. To restructure association's operations pursuant to following plan:
 - A. Levitt, et al, to hypothecate savings
 1. Initial amount not determined or offered;
 2. Levitt's settlement or foreclosure fees to be added to hypo as received;
 3. Paul Freeman, Manager, agreed to place \$50 per week in hypothecated account;
 4. Employees of Westminster office agree to jointly add \$50 per week to hypothecated account.
 - B. Change principal office to Westminster location and make 416 North Charles Street a limited facility.
 1. Westminster office space/lease presently \$400 per month. Will provide extra space needed free of charge for as long as may be necessary.
 2. 416 North Charles Street lease reduced from \$13,000 per year to \$6,000 per year.
 - C. Reduce Staff
 1. Harrison Greene no longer employed;
 2. Paul Freeman new Managing Officer;
 3. One other employee at 416 North Charles has been terminated;
 4. Two other employees at 416 North Charles have been advised of termination effective February 1, 1982;
 5. Albert Aaron to forego salary as President.
 - D. "New" Board of Directors:
 1. Jeffrey Levitt
 2. Albert Aaron
 3. Paul Freeman
 4. Two others as approved by MSSIC
 - E. Borrowings to be paid in full by mid-February.
 - F. Reduce high cost Jumbos by replacing with new savings such as N.O.W. Accounts.
 - G. Institute new delinquency collections policy using Mr. Levitt and Samuel Aaron. Has done with some success to date.
 - H. Service corporation is profitable and tax refund due; therefore Association not "insolvent".
 - I. Albert Aaron, Samuel Aaron, Jeffrey Levitt and Alan Pearlstein, et al, to leave savings at current rates or less.

- II. Time frame requested to demonstrate feasibility of plan is 91-120 days. Maintains profit can be achieved by end of February.
- III. A. Levitt personally to guarantee payment of late fee penalties current and future.
B. Usual Insurance Agreement terms remain.

STAFF'S OBSERVATIONS OF PROPOSAL

- 1. Is in line with MSSIC recommendations of one year ago.
- 2. Conceptually appears worthy of further study.
- 3. May result in improvements to survivor if default occurs.
- 4. Should be structured so that if not successful in 90 days, the cost to MSSIC is no greater than would be today (i.e. losses should be charged directly to hypos first - not to earned/booked net worth).

STAFF'S RECOMMENDATIONS

Refer to Committee for study, review, meetings with Levitt, and decision by next Board meeting.

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

418 NORTH CHARLES STREET
BALTIMORE, MARYLAND 21201
301/338-0707

ESTABLISHED
1814

September 22, 1982

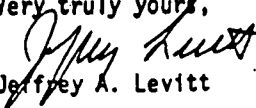
Mr. Charles H. Brown, Jr.
Director
DIVISIONS OF SAVINGS AND LOAN
Suite 1006
One South Calvert Street
Baltimore, Maryland 21202

Dear Mr. Brown:

This will confirm our verbal request and your oral approval for MONUMENTAL CITY SERVICE CORPORATION to make a loan to FRANKLIN ASSOCIATES, subject to the terms set forth below:

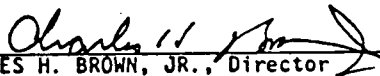
1. AMOUNT OF LOAN: FIVE HUNDRED THOUSAND (\$500,000) DOLLARS.
2. TERM: TWO (2) YEARS.
3. SECURITY OFFERED: 250 Acres of real estate situated in Prince Georges County, Maryland.
4. APPRAISED VALUE: FIVE MILLION FIVE HUNDRED THOUSAND (\$5,500,000) DOLLARS, copy attached.
5. INTEREST: (a) Ten (10%) percent of any future profits which will be derived when said property is sold; or
(b) Interest at twelve (12%) percent per annum, payable annually on the anniversary date hereof.

Very truly yours,


Jeffrey A. Levitt

JAL:1m

APPROVED on this 22nd day of September, 1982:


CHARLES H. BROWN, JR., Director
Division of Savings and Loan Assns.

Savings Insured Up To \$100,000



Continuous Dividends since 1914

373

IIIB11

8323

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

418 NORTH CHARLES STREET
BALTIMORE, MARYLAND 21201

301/332-0707

ESTABLISHED
1914

September 22, 1982

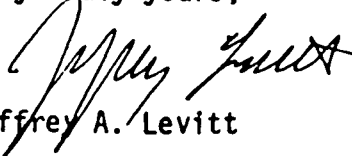
Mr. Charles C. Hogg, II
Executive Vice President
MSSIC
901 N. Howard Street
Baltimore, Maryland 21202

Dear Mr. Hogg:

This will confirm our verbal request and your oral approval for MONUMENTAL CITY SERVICE CORPORATION to make a loan to FRANKLIN ASSOCIATES subject to the terms set forth below:

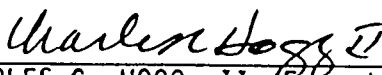
1. AMOUNT OF LOAN: FIVE HUNDRED THOUSAND (\$500,000) DOLLARS.
2. TERM: TWO (2) YEARS.
3. SECURITY OFFERED: 250 Acres of real estate situated in Prince Georges County, Maryland.
4. APPRAISED VALUE: FIVE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$5,500,000), copy attached.
5. INTEREST: (a) Ten (10%) percent of any future profits which will be derived when said property is sold; or
(b) Interest at twelve (12%) percent per annum, payable annually on the anniversary date hereof.

Very truly yours,


Jeffrey A. Levitt

JAL:lm

APPROVED on this 22nd day of September, 1982:


CHARLES C. HOGG, II, Executive Vice President
Maryland Savings-Share Insurance Corp. (MSSIC)

374

Savings Insured Up To \$100,000



Continuous Dividends since 1914

2341
III312

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

418 NORTH CHARLES STREET
BALTIMORE, MARYLAND 21201
301/332-0707

ESTABLISHED
1914

October 4, 1982

Mr. Charles H. Brown, Jr.,
Director
DIVISIONS OF SAVINGS AND LOAN
Suite 1006
One South Calvert Street
Baltimore, Maryland 21202

and

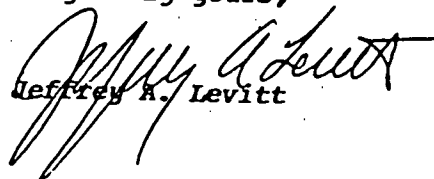
Mr. Charles C. Hogg, II,
Executive Vice President
MSSIC
901 N. Howard Street
Baltimore, Maryland 21202

Dear Messrs. Brown and Hogg:

First Progressive Savings and Loan Association, Inc. requests your written approval to grant a Second Mortgage Loan to FRANKLIN ASSOCIATES, the principals of which are Jeffrey A. Levitt and Allan H. Pearlstein:

1. AMOUNT OF LOAN: One Million Seven Hundred Thousand Dollars.
(\$1,700,000.00)
2. TERM: Two (2) Years.
3. SECURITY: 250 Acres of real estate situated in Prince Georges County, Maryland.
4. APPRAISED VALUE: Five Million Five Hundred Thousand (\$5,500,000.00) Dollars. Appraisal previously submitted.
5. INTEREST: (a) Ten (10%) percent of any future profits which will be derived when said property is sold; or
(b) Interest at twelve (12%) percent per annum, payable annually on the anniversary date hereof.

Very truly yours,


Jeffrey A. Levitt

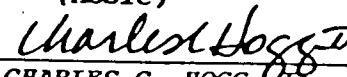
JAL:lm

APPROVED on this day of October, 1982:

DIVISIONS OF SAVINGS AND LOAN

By: 
CHARLES H. BROWN, JR., DIRECTOR

MARYLAND SAVINGS-SHARE INSURANCE CO.
(MSSIC)

By: 
CHARLES C. HOGG, II -
Executive Vice President

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IIIB13

23598 Subject to conditions
in attached letter

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

416 NORTH CHARLES STREET
BALTIMORE, MARYLAND 21201
301/332-0707

ESTABLISHED
1814

October 4, 1982

Mr. Charles E. Brown, Jr.,
Director
DIVISIONS OF SAVINGS AND LOAN
Suite 1006
One South Calvert Street
Baltimore, Maryland 21202

Dear Mr. Brown:

This will confirm our meeting of even date wherein Mr. Trice and I discussed the funding of the hypothecated savings for OLD COURT SAVINGS & LOAN, INC.

In furtherance of that meeting, I have submitted for your approval under separate cover, a request for First Progressive to grant a One Million Seven Hundred Thousand (\$1,700,000.00) Dollar Second Mortgage loan secured that property described in the referenced separate letter.

The proceeds of this loan will be used as follows:

- (a) One Million (\$1,000,000.00) Dollars deposited in Old Court Savings & Loan and to be hypothecated with MSSIC and the Division.
- (b) Five Hundred Thousand (\$500,000.00) Dollars to pay off that loan granted by First Progressive on September 22, 1982, as described in a letter of that date and approved by Division and MSSIC.
- (c) Two Hundred Thousand (\$200,000.00) Dollars to be used for loan settlement expenses and balance due on outstanding stock being acquired.

It is understood that Old Court Savings & Loan, Inc. may purchase this loan at its sole option in the future if it desires to acquire the equity interests to be provided in the mortgage.

Very truly yours,


Jeffrey A. Levitt

JAL:lm

cc: Mr. Charles C. Hogg, II - MSSIC

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23509

III14

EXECUTIVE SESSION

October 14, 1982

Board of Savings and Loan Association Commissioners

Charles Hogg, of the Maryland Savings Share Insurance Corporation, attended the Executive Session of the Board meeting.

Yorkridge-Calvert Savings and Loan Association

Mr. Brown informed the Board of Commissioners that included in their materials was a copy of a letter dated September 22, 1982, from the Federal Savings and Loan Insurance Corporation in reply to a letter from this Division informing the federal regulatory authorities of the Board of Commissioner's concern over the operations of Yorkridge-Calvert Savings and Loan. FSLIC simply asked us to refrain from any supervisory action at this time.

Mr. Brown also informed the Board that in the opinion of counsel for Yorkridge-Calvert, the new Garn-St Germain Depository Institutions Act of 1982, which we have not yet received a copy, contains capital assistance provisions which along with "Mark to Market" accounting could result in significant additions to net worth and may possibly salvage the association.

Mr. Brown also noted that the Division had recently received the association's August 31st, 1982, figures relating to do their purchase accounting adjustments which we will be reviewing with the Federal Home Loan Bank to determine the present financial condition of the association. He also reminded the Board that the association is still discussing the possibility of converting to a "State Stock Charter" to infuse additional capital into the institution.

Maryland Capital Savings and Loan Association

Mr. Brown noted that on the agenda for the regular session of the meeting is a request for a revision to the charter of Maryland Capital Savings and Loan. The charter is being amended to allow the Commercial Credit Company to purchase the stock of the association. Commercial Credit Company is the holding company of Commercial Credit Corp. which operates twenty-one finance company offices in the Baltimore area. Commercial Credit Company is a subsidiary of Control Data. Maryland Capital's current charter, as required under our conversion regulations, prohibits a company in an unrelated business activity from acquiring control of its stock for a period of five years after the conversion with the approval of the Division Director.

The value of Maryland Capital's stock at the time of conversion in March of 1981 was \$5 per share. Commercial Credit has offered a total of \$16.66 per share, of which \$6.25 is due at the time of the execution of the purchase agreement and the Division Director's approval, \$8.75 is due upon receipt of certified audited statements and \$1.66 due one year from the date of

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purchase. It appears to be a very good deal for the stockholders and should also provide the association with a considerable source of capital in the future.

Old Court Savings and Loan, Inc.

The Board was informed that the stock of Old Court Savings and Loan had been purchased by Jeffrey Levitt and Alan Pearlstein, who are both currently Directors of First Progressive Savings and Loan. The purchase involved Jerry Cardin selling 161,719 shares of his 211,719 total shares of stock at a price of \$4 per share. The purchasers are also hypothecating \$1 million with MSSIC, which increases the association's regulatory net worth. The purchasers have also named Paul Trice, President of Old Court. Paul formerly worked for this Division and has been with MSSIC the past six or seven years.

Mr. Brown stated that Old Court has requested the Board's approval to form four new subsidiaries under their wholly-owned service corporation, Old Court Investment Corp. This request was being made by the new management as it was felt that additional efficiency and control would be gained by segregating the various different types of business current being conducted by Old Court Investment Corp.

Mr. Brown also stated that Old Court had requested four new certificate programs which they feel are needed to keep the association competitive and to assist them in turning the operation around.

A lengthy discussion ensued wherein several members of the Board expressed their concern over the poor financial condition of the association and the high rates paid on deposits. The Board also discussed at length what were felt to be the "pros" and "cons" of an hypothecation and to what extent it protects the interests of both MSSIC and the Division.

Liberty Savings and Loan Association, Inc.

Mr. Brown told the Board that a recent examination turned up some significant problems at Liberty Savings and Loan. We have met with several members of their Board concerning self-dealing at the association. Frank Peach, the President of Peach Realty, has resigned from the Board and as the chief operating officer. Their Board of Directors, many of whom are prominent businessmen from the area, appear genuinely concerned and have stated their willingness to attempt to work out these problems. We are quite concerned over some of the loan problems which may result in sizable losses, and we will continue to monitor their operations closely.

Mr. Hogg added that the cooperation between MSSIC and the Division has been excellent in dealing with this situation.

John Hanson Savings and Loan, Inc.

Mr. Brown stated that included in the Board's materials for today's meeting was a letter from John Hanson requesting a hearing before the Board to appeal a Division ruling which denied

their request to record as current income 3% of the total mortgages John Hanson acquired through their mergers with Metropolis Building Association and Eastern Shore Savings and Loan. The Board's materials also contain various correspondence relating to this matter.

A discussion ensued concerning mergers, purchase accounting and Regulations .05 and .13. Mr. LeCompte explained some basic concepts relating to accounting for a merger under the purchase method of accounting, i.e., that purchase accounting conceptually looks upon the merger as an acquisition of all the assets and liabilities of one association by another. However, purchase accounting does not provide for any income recognition based upon these assets being acquired at a discount. Regulation .13 does permit 3% of any loans purchased at a discount to be taken into current income. The staff believes that there is a considerable difference between a merger which is simply accounted for under the purchase method and Regulation .13 which speaks to the purchase of loans.

Mr. Hogg stated that in theory, the 3% income recognition was probably to acknowledge the cost associated with the purchase of a loan or group of loans. He felt that there was little or no economic basis for this type of income recognition in a merger. Mr. Gisriel added that Regulation .05 requires that the books of an association should truly and accurately reflect its financial condition. It was not felt that the proposed accounting treatment would truly represent the financial condition of the association.

Alan Foreman stated that the Board should inform John Hanson of its interpretation of Regulation .13; that the Attorney General's Office looks to Boards to interpret their regulations. If John Hanson wishes, they could then petition the courts for a declaratory ruling.

MEMORANDUM TO ETHICS COMMITTEE FILE

Re: Representation of Maryland Savings Share Insurance Corporation ("MSSIC") and Old Court Savings and Loan Association and its Principal Stockholder, Jeffrey A. Levitt

This memorandum records the conclusions reached at a meeting of Jerry Katz, Bill McCarthy, Ed Dandridge, Terry Hall and Lee Miller on January 11, 1983 with respect to the ambit of our representation of Old Court and Jeffrey Levitt.

Terry Hall represents MSSIC. MSSIC is a corporation created by statute, the members of which are state chartered savings and loan associations. MSSIC serves as the deposit insurer for those majority of state chartered savings and loan associations which do not have Federal insurance. Although it is controlled by the industry, in its capacity as insurer it also serves in a quasi-regulatory role and its views are relied upon heavily by the Director of the Savings and Loan Division of the State Department of Licensing and Regulation. Terry Hall attends its Board meetings and is relied upon as its general counsel. Jerry Katz has represented Jeffrey Levitt for many years. Jeffrey has now sought his advice with respect to many transactions involving Old Court.

In July of 1981, MSSIC entered into a Subordinated Debenture Agreement, a Voting Trust Agreement and a Special Insurance Agreement with Old Court because Old Court's net worth

had reached a dangerously low level. The agreements were drafted by VB&H. Among the provisions of the Insurance Agreement is the requirement that any insider loans be approved by MSSIC. The agreements were entered into prior to acquisition of Old Court by Jeffrey Levitt from Jerry Cardin, also a firm client. The agreements will continue in effect until certain financial goals are met, primarily the payment of the subordinated debenture.

At the meeting, we discussed, both as an ethics and a policy question, three levels of activity. We reached the following conclusions.

1. That we could continue to represent Jeffrey Levitt individually in non-Old Court related transactions, in each case upon confirming that Old Court is, in fact, not involved as a lender or otherwise. It was recognized that this representation, as well as that discussed in 3 below, might, nevertheless, reinforce our inability to represent MSSIC against Levitt or Old Court in any future dispute with MSSIC, but this was considered a strong possibility already because of our prior relationship with Levitt.

2. That we could not represent Old Court or Jeffrey Levitt with respect to Old Court related transactions where there is an insider loan to him, or to an entity in which he or his family is involved because the Insurance Agreement requires MSSIC approval of such transactions and, therefore, gives rise to an immediate conflict.

3. That we could represent Old Court in transactions in which there is no insider loan requiring MSSIC approval, subject to being sensitive to the possible need to withdraw if a potential conflict surfaced.

4. That we advise both clients of our position and determine whether they have any objections and further request from Jeff Levitt a letter acknowledging that in the event of a future confrontation between MSSIC and him or Old Court, we would represent MSSIC so long as the ethical rules permitted, which was considered problematical.

5. That we could represent other MSSIC insured S&L's following guidelines similar to those set forth in this memo, which may vary depending on whether the S&L has special agreements with MSSIC such as those referred to above.

6. At the writing of this memo, MSSIC has agreed to the proposal, but there is no firm response from Jeff Levitt.

Lee M. Miller

cc: William J. McCarthy, Esq.
Gerald M. Katz, Esq.
Terry F. Hally, Esq.

EXECUTIVE EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated November 17, 1983, between Old Court Savings & Loan, Inc. (hereinafter referred to as the "Company"), a Maryland corporation, and Jeffrey A. Levitt (hereinafter referred to as the "Executive");

IN CONSIDERATION of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Scope of Employment. The Company hereby agrees to employ the Executive upon the terms and conditions herein set forth, to perform such executive duties as may be determined and assigned to him from time to time by the Board of Directors of the Company (the "Board"), or any other officer to whom the Board may have delegated such authority. The Executive hereby agrees to serve in such capacities and to devote his time and efforts, with undivided loyalty, to the performance of such duties until the end of the term of employment under this agreement. It is the expectation of the parties that the Executive will be elected the President and a director of the Company and will serve in such offices during the term of the Executive's employment hereunder. The parties acknowledge that the Executive may also be employed or serve as consultant for

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affiliates of Company and that Executive also is engaged in other activities requiring a portion of his time.

2. Term. The term of the Executive's employment hereunder shall be for a three (3) year period commencing on the date of this Agreement; provided that said term shall be extended automatically at the end of each year for an additional year so that the term of this Agreement shall continue on a three (3) year basis. This Agreement shall be terminated prior to the expiration of its term only upon the occurrence of one or more of the following conditions:

(a) In the event of the Company's involuntary dissolution, receivership or bankruptcy.

(b) By the death of the Executive.

(c) At the option of the Company upon one (1) month's written notice, if by reason of illness or other disability the Executive is permanently and totally incapacitated for the performance of the services required by this Agreement.

(d) By the Company for good cause, upon written notice.

(e) The Executive, at his option and without further liability to the Company, may terminate the employment relationship created by this Agreement upon not less than three (3) months' written notice to the Company.

3. Continuation of Salary. In the event this Agreement is terminated prior to the expiration of its term for any

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the Company shall continue to pay the Executive (or his legal representatives) his Salary (in the amount which would otherwise be payable to the Executive) for the remaining period of the three (3) year term as of the date of such termination.

4. Salary. The Company agrees to pay the Executive, and the Executive agrees to accept, during the term of this Agreement, in full payment for all services to be rendered by the Executive hereunder, a salary at the rate of Seventy-five Thousand Dollars (\$75,000) per annum (the "Salary"). The Salary shall be payable in equal periodic installments, not less frequently than monthly, less such sums as may be required to be deducted or withheld under the provisions of law. Nothing herein contained shall be construed as restricting the power of the Board to (i) increase the amount of the Salary to be paid the Executive or (ii) award further compensation to the Executive in the form of bonuses from time to time.

5. Other Benefits. In addition to the Salary provided in Section 4, the Company shall provide Executive with the following minimum benefits and emoluments during the term of this Agreement:

(a) Executive is authorized to incur reasonable expenses for promoting the business of the Company. The Company will reimburse Executive for all such expenses upon the presentation by Executive, from time to time, of an itemized account of and proper receipts for such expenditures.

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(b) Executive shall be entitled to a vacation of four weeks (or such greater period of vacation leave as shall be authorized by the Company from time to time) during each one-year period during the term hereof. Executive may take his vacation at such time or times as he may desire, provided such times are reasonably convenient to the Company and do not interfere with the efficient operation of the Company.

(c) The Company shall provide term life insurance coverage for Executive in the face policy amount of One Million Dollars (\$1,000,000) in the form and manner determined by the Company.

6. Non-Competition Covenants. During the term of this Agreement and any period thereafter during which payments are being made by Company, the Executive agrees that he will not on his own behalf or as a partner, officer, director, employee or consultant of any other person, firm or corporation, directly or indirectly engage in any business activity which is the same or similar to the business of the Company without its consent.

7. Authority. Company is authorized to execute this Agreement by virtue of resolutions adopted by its Directors at special meeting held on _____, 1983. Company further states to Executive that it has obtained the approval of MSSIC _____, 1983 for its entering into this Agreement.

8. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns.

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and their heirs, successors, assigns and personal representatives. As used herein, the successors of the Company shall include, but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of its assets, or similar reorganization. In no event may the Executive assign any rights or duties under this Agreement.

9. Controlling Law. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of Maryland. The invalidity or unenforceability of any provision of this Agreement shall not affect or limit the validity and enforceability of the other provisions hereof.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

11. Arbitration. The Company and the Executive mutually agree and agree that if any controversy or dispute relating to this Agreement arises between them, either party may petition the appropriate court of the State of Maryland for an order compelling the submission of that controversy or dispute to arbitration, and that any award or finding made pursuant to such arbitration shall in all respects be well and fairly kept and observed and may be imposed by judgment of the appropriate court of the State of Maryland pursuant to the applicable laws relating thereto. The parties expressly agree

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3-201 through 3-234 of Subtitle 2 of Title 3 of the Courts and
Judicial Proceedings Article of the Annotated Code of Maryland
(Maryland Uniform Arbitration Act), including, without limita-
tion, Section 3-206 thereof, shall apply and be applicable
hereto.

12. Headings. The headings herein are inserted only as a
matter of convenience and reference, and in no way define,
limit or describe the scope of this Agreement or the intent of
any provisions thereof.

IN WITNESS WHEREOF, the parties have duly executed this
Agreement by their hands and seals as of the day and year first
above written.

ATTEST:

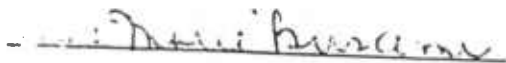

(SEAL)

OLD COURT SAVINGS & LOAN, INC.

BY



WITNESS:




Jeffrey A. Levitt (SEAL)

CONSULTING AGREEMENT

This Consulting Agreement executed this 17th day of November, 1983, by and between Old Court Joint Ventures, Inc. (the "Company"), and Jeffrey A. Levitt ("Consultant").

WITNESSETH:

WHEREAS, the Company desires to retain Consultant to assist in various business matters;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other good and valuable consideration, the parties hereto hereby agree as follows:

1. Recitals. The foregoing recitals and statements are made a part of this Agreement.

2. Scope of Consulting Duties. The Company hereby agrees to retain Consultant upon the terms and conditions herein set forth, to perform such consulting duties as may be requested from time to time by the Board of Directors of the Company (the "Board") or any other officer of the Company to whom the Board may have delegated such authority.

Consultant hereby agrees to provide consulting services when needed and to devote reasonable time and effort to the performance of such duties until the end of the term of this Agreement.

3. Term. This Agreement shall be for a term of three (3) years commencing on the date of this Agreement; provided that said term shall be extended automatically at the

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end of each year for an additional year so that the term of this Agreement shall continue on a three year basis. This Agreement shall be terminated prior to the expiration of its term only upon the occurrence of one or more of the following events:

(a) In the event of the Company's involuntary dissolution, receivership or bankruptcy.

(b) In the event of the death of Consultant.

(c) At the option of the Company upon one (1) month's written notice, if by reason of illness or other disability the Consultant is permanently and totally incapacitated for the performance of the services required by this Agreement.

(d) By the Company for good cause, upon written notice. "Good cause" shall include a good faith determination by Company's Board of Directors that its profitability is inadequate to continue this Agreement.

(e) At the option of Consultant and without other liability to the Company, upon not less than three (3) months' written notice to the Company.

4. Continuation of Fees. In the event this Agreement is terminated prior to the expiration of its term for any reason, other than as set forth in Sections 3(d) and (e) above, the Company shall continue to pay the Consultant (or his legal representatives) his fees (in the amount which would otherwise be payable to the Consultant) for the remaining

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period of the three (3) year term as of the date of such termination.

5. Fees. The Company agrees to pay Consultant, and Consultant agrees to accept, during the term of this agreement, in full payment for all consulting services to be rendered by him hereunder, fees at the rate of Four Thousand Dollars (\$4,000) per month. All such fees shall be paid without withholding for Federal, State or local income taxes, and the Company shall not be responsible for the payment of any employment taxes, workmen's compensation or otherwise. Nothing herein contained shall be construed as restricting the power of the Board to increase the amount of the fees to be paid the Consultant from time to time.

6. Trade Secrets. Consultant agrees to keep secret and to treat confidentially all of the Company's trade secrets, techniques, plans, concepts, programs, innovations, inventions and improvements (jointly termed "information") and not to use or aid others in using any such information in competition with the Company, this obligation to exist both before and after the termination of this Agreement for so long as any of the Company's information retains any confidentiality.

7. Authority. Company is authorized to execute this Agreement by virtue of resolutions adopted by its directors at a special meeting held on _____, 1983. Company further states to Consultant that it has obtained the

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approval of MSSIC on _____, 1983 for its entering into this Agreement.

8. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties etc and their heirs, successors, assigns and personal representatives. As used herein, the successors of the Company shall include; but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of its assets, or similar reorganization. In no event may Consultant assign any rights or duties under this Agreement.

9. Applicable Law. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of Maryland. The invalidity or unenforceability of any provision of this Agreement shall not effect or limit the validity or enforceability of the other provisions hereof.

10. Independent Contractor. The Company and Consultant acknowledge that the relationship between them shall that of principal-independent contractor and this Agreement shall be so construed. In this regard, Consultant shall pay employment taxes and quarterly estimates of his income taxes as required by the Internal Revenue Code of 1954, as amended, and the laws of the State of Maryland or the State where Consultant is required to pay income taxes.

11. Arbitration. The Company and Consultant mutually promise and agree that if any controversy or dispute

CONSULTING AGREEMENT

This Consulting Agreement executed this 17th day of November, 1983, by and between Meridian Mortgage Investments, Inc. (the "Company"), and Jeffrey A. Levitt ("Consultant").

WITNESSETH:

WHEREAS, the Company desires to retain Consultant to advise it in various business matters.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other good and valuable consideration, the parties hereto hereby agree as follows:

1. Recitals. The foregoing recitals and statements are made a part of this Agreement.

2. Scope of Consulting Duties. The Company hereby agrees to retain Consultant upon the terms and conditions herein set forth, to perform such consulting duties as may be requested from time to time by the Board of Directors of the Company (the "Board") or any other officer of the Company to whom the Board may have delegated such authority.

Consultant hereby agrees to provide consulting services when requested and to devote reasonable time and effort to the performance of such duties until the end of the term of this Agreement.

3. Term. This Agreement shall be for a term of three (3) years commencing on the date of this Agreement; provided that said term shall be extended automatically at the

end of each year for an additional year so that the term of this Agreement shall continue on a three year basis. This Agreement shall be terminated prior to the expiration of its term only upon the occurrence of one or more of the following

(a) In the event of the Company's involuntary dissolution, receivership or bankruptcy.

(b) In the event of the death of Consultant.

(c) At the option of the Company upon one (1) month's written notice, if by reason of illness or other disability the Consultant is permanently and totally incapacitated for the performance of the services required by this Agreement.

(d) By the Company for good cause, upon written notice. "Good cause" shall include a good faith determination by Company's Board of Directors that its profitability is inadequate to continue this Agreement.

(e) At the option of Consultant and without liability to the Company, upon not less than three (3) months written notice to the Company.

4. Continuation of Fees. In the event this Agreement is terminated prior to the expiration of its term for any reason, other than as set forth in Sections 3(d) and (e) hereof, the Company shall continue to pay the Consultant (or his authorized representatives) his fees (in the amount which would otherwise be payable to the Consultant) for the remaining

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period of the three (3) year term as of the date of such termination.

5. Fees. The Company agrees to pay Consultant, Consultant agrees to accept, during the term of this Agreement, in full payment for all consulting services to be rendered by him hereunder, fees at the rate of Four Thousand Dollars (\$4,000) per month. All such fees shall be paid without withholding for Federal, State or local income taxes, and the Company shall not be responsible for the payment of any employment taxes, workmen's compensation or otherwise. Nothing herein contained shall be construed as restricting the power of the Board to increase the amount of the fees to be paid the Consultant from time to time.

6. Trade Secrets. Consultant agrees to keep secret and to treat confidentially all of the Company's trade secrets, techniques, plans, concepts, programs, innovations, inventions and improvements (jointly termed "information") and not use or aid others in using any such information in connection with the Company, this obligation to exist both before and after the termination of this Agreement for so long as the Company's information retains any confidentiality.

7. Authority. Company is authorized to execute this Agreement by virtue of resolutions adopted by its directors at a special meeting held on _____, 1983. Company further states to Consultant that it has obtained the

approval of ASSIC on: _____, 1983 for its entering into this Agreement.

8. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their heirs, successors, assigns and personal representatives. As used herein, the successors of the Company shall include, but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of its assets, or similar reorganization. In no event may Consultant assign any rights or duties under this Agreement.

9. Applicable Law. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of Maryland. The invalidity or unenforceability of any provision of this Agreement shall not effect or limit the validity or enforceability of the other provisions hereof.

10. Independent Contractor. The Company and Consultant acknowledge that the relationship between them shall be that of principal-independent contractor and this Agreement shall be so construed. In this regard, Consultant shall pay employment taxes and quarterly estimates of his income taxes as required by the Internal Revenue Code of 1954, as amended, and the laws of the State of Maryland or the State of Delaware where Consultant is required to pay income taxes.

11. Arbitration. The Company and Consultant mutually promise and agree that if any controversy or dispute

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relating to this Agreement arises between them, either party may petition the appropriate court of the State of Maryland for an order compelling the submission of that controversy or to arbitration, and that any award or finding made pursuant to such arbitration shall in all respects be well and truly kept and observed and may be imposed by judgment of the appropriate court of the State of Maryland pursuant to the applicable laws relating thereto, the parties expressly agreeing that Sections 3-201 through 3-234 of Subtitle 2 of Title 3 of the Courts and Judicial Proceedings Article of the Annotated Code of Maryland (Maryland Uniform Arbitration Act), including, without limitation, Section 3-206 thereof, shall apply and be applicable hereto.

IN WITNESS WHEREOF, the parties have duly executed this Agreement by their hands and seals as of the day and year first above written.

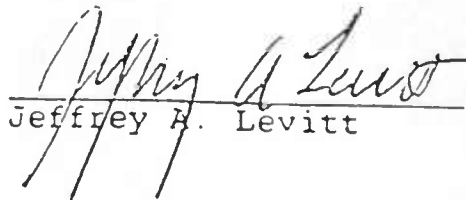
AND:

(SEAL)

BY

MERIDIAN MORTGAGE
INVESTMENTS, INC.

By 
President

 (SEAL)
Jeffrey A. Levitt

CONSULTING AGREEMENT

This Consulting Agreement executed this 17th day of November, 1983, by and between Bankers Realty, Inc. (the "Company"), and Jeffrey A. Levitt ("Consultant").

WITNESSETH:

WHEREAS, the Company desires to retain Consultant to advise it in various business matters.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other good and valuable consideration, the parties hereto hereby agree as follows:

1. Recitals. The foregoing recitals and statements are made a part of this Agreement.

2. Scope of Consulting Duties. The Company hereby agrees to retain Consultant upon the terms and conditions herein set forth, to perform such consulting duties as may be requested from time to time by the Board of Directors of the Company (the "Board") or any other officer of the Company to whom the Board may have delegated such authority.

Consultant hereby agrees to provide consulting services when requested and to devote reasonable time and effort to the performance of such duties until the end of the term of this Agreement.

3. Term. This Agreement shall be for a term of three (3) years commencing on the date of this Agreement; provided that said term shall be extended automatically at the

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end of each year for an additional year so that the term of this Agreement shall continue on a three year basis. This Agreement shall be terminated prior to the expiration of its term upon the occurrence of one or more of the following:

(a) In the event of the Company's involuntary dissolution, receivership or bankruptcy.

(b) In the event of the death of Consultant.

(c) At the option of the Company upon one (1) month's written notice, if by reason of illness or other disability the Consultant is permanently and totally incapacitated for the performance of the services required by this Agreement.

(d) By the Company for good cause, upon written notice. "Good cause" shall include a good faith determination by Company's Board of Directors that its profitability is inadequate to continue this Agreement.

(e) At the option of Consultant and without any liability to the Company, upon not less than three (3) months written notice to the Company.

4. Continuation of Fees. In the event this Agreement is terminated prior to the expiration of its term for any reason, other than as set forth in Sections 3(d) and (e) above, the Company shall continue to pay the Consultant (or his legal representatives) his fees (in the amount which would otherwise be payable to the Consultant) for the remaining

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period of the three (3) year term as of the date of such termination.

5. Fees. The Company agrees to pay Consultant, Consultant agrees to accept, during the term of this contract, in full payment for all consulting services to be rendered by him hereunder, fees at the rate of Four Thousand Dollars (\$4,000) per month. All such fees shall be paid without withholding for Federal, State or local income taxes, and the Company shall not be responsible for the payment of any employment taxes, workmen's compensation or otherwise. Nothing herein contained shall be construed as restricting the power of the Board to increase the amount of the fees to be paid the Consultant, from time to time.

6. Trade Secrets. Consultant agrees to keep secret and to treat confidentially all of the Company's trade secrets, techniques, plans, concepts, programs, innovations, inventions and improvements (jointly termed "information") and not use or aid others in using any such information in connection with the Company, this obligation to exist both before and after the termination of this Agreement for so long as the Company's information retains any confidentiality.

7. Authority. Company is authorized to execute this Agreement by virtue of resolutions adopted by its directors at a special meeting held on _____, 1983. The Company further states to Consultant that it has obtained the

Approval of MSBIC on _____, 1983 for its entering into this Agreement.

8. Successors and Assigns. This Agreement shall binding upon, and inure to the benefit of, the parties and their heirs, successors, assigns and personal representatives. As used herein, the successors of the Company shall include, but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of its assets, or similar reorganization. In no event may Consultant assign any rights or duties under this Agreement.

9. Applicable Law. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of Maryland. The invalidity or unenforceability of any provision of this Agreement shall not effect or limit the validity or enforceability of the other provisions hereof.

10. Independent Contractor. The Company and Consultant acknowledge that the relationship between them shall be that of principal-independent contractor and this Agreement shall be so construed. In this regard, Consultant shall pay employment taxes and quarterly estimates of his income taxes as required by the Internal Revenue Code of 1954, as amended, and the laws of the State of Maryland or the State of Virginia if Consultant is required to pay income taxes.

11. Arbitration. The Company and Consultant mutually promise and agree that if any controversy or dispute

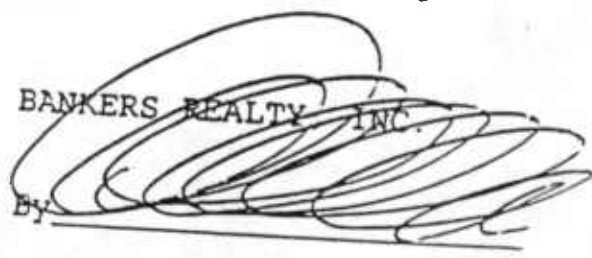
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relating to this Agreement arises between them, either party may petition the appropriate court of the State of Maryland for an order compelling the submission of that controversy or to arbitration, and that any award or finding made by such arbitration shall in all respects be well and truly kept and observed and may be imposed by judgment of the appropriate court of the State of Maryland pursuant to the applicable laws relating thereto, the parties expressly agreeing that Sections 3-201 through 3-234 of Subtitle 2 of Title 3 of the Courts and Judicial Proceedings Article of the Annotated Code of Maryland (Maryland Uniform Arbitration Act), including, without limitation, Section 3-206 thereof, shall apply and be applicable hereto.

IN WITNESS WHEREOF, the parties have duly executed this Agreement by their hands and seals as of the day and year first above written.

_____(SEAL)

By

BANKERS REALTY INC.


President

 (SEAL)
Jeffrey P. Levitt

1970. W. # 20
10-21-85 BJS

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT, made this 17th day of November, 1983, by Old Court Savings & Loan, Inc. a Maryland corporation (hereinafter referred to as the "Guarantor"), in favor of Jeffrey A. Levitt, (hereinafter referred to as the "Consultant"):

WHEREAS, Meridian Mortgage Investments, Inc., a Maryland corporation ("Meridian"), Old Court Joint Ventures, Inc., a Maryland corporation ("Ventures") and Bankers Realty, Inc., a Maryland corporation ("Bankers") are wholly-owned subsidiary corporations of the Guarantor; and

WHEREAS, the Consultant has agreed to enter into the consulting agreements with Meridian, Ventures and Bankers attached hereto as Exhibits I, II and III (hereinafter referred to as the "Consulting Agreements") on the condition that Guarantor execute this Guaranty Agreement in favor of the Consultant.

NOW, THEREFORE, in order to induce the Consultant to execute the Consulting Agreements, and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor agrees as follows:

1. The Guarantor hereby unconditionally, irrevocably and directly guarantees to the Consultant the prompt, punctual

and full payment (whether by acceleration, declaration, extension or otherwise) and performance of all obligations, indebtedness and liabilities of Meridian, Ventures and Bankers to the Consultant in connection with and pursuant to the Consulting Agreements of every kind and nature whatsoever (collectively, the "Liabilities"). Should Meridian, Ventures or Bankers for any reason fail to pay or perform all or any part of the Liabilities as and when due and payable (whether by acceleration, declaration, extension or otherwise), the Guarantor promises to immediately pay or perform the same.

2. The Guarantor hereby consents that at any time and from time to time and with or without consideration, the Consultant may, without notice to and further consent of the Guarantor and without in any manner affecting, impairing, lessening and releasing the obligations of the Guarantor hereunder, renew, extend, change the manner, time, place and terms of payment of, sell, exchange, release, surrender, realize upon, modify, waive, grant indulgences with respect to and otherwise deal with in any manner: (a) all or any part of the Liabilities; (b) the Consulting Agreements; and (c) any person other than the Guarantor at any time primarily or secondarily liable for all or any part of the Liabilities.

3. The Guarantor hereby waives demand, presentment for payment, protest, notice of dishonor and of protest, notice of acceptance of this Guaranty Agreement, notice of the making of any of the Liabilities and notice of default under the Consulting Agreements.

4. The Guarantor agrees to reimburse and pay to the Consultant on demand any and all costs and expenses incurred by and on behalf of the Consultant in connection with (a) the collection of any of the Liabilities, and (b) the collection of any of the obligations of the Guarantor hereunder.

5. No delay or failure on the part of the Consultant to exercise any of its options, powers, rights or remedies hereunder, under the Consulting Agreements or now or hereafter existing at law or in equity or by statute or otherwise, or any partial or single exercise thereof, shall constitute a waiver thereof. All such options, powers, rights and remedies are cumulative and may be exercised singly or concurrently and the exercise of any one or more of them will not be a waiver of any other. No waiver of any of its rights hereunder, and no modification or amendment of this Guaranty Agreement, shall be deemed to be made by the Consultant unless the same shall be in writing, duly signed on behalf of the Consultant, and each such waiver, if any, shall apply only with respect to the specific instance involved and shall in no way impair the rights of the Consultant or the obligations of the Guarantor hereunder in any other respect at any other time. This Guaranty Agreement shall be binding upon the heirs, personal representatives, successors and assigns of the Guarantor and shall inure to the benefit of the successors and assigns of the Consultant. This Guaranty Agreement shall be governed and construed in accordance with the laws of the State of Maryland and shall be deemed to be executed, delivered and accepted in the State of Maryland.

.889L

The signature and seal of the Guarantor are subscribed to this Guaranty Agreement as of the date first written above.

WITNESSES:

OLD COURT SAVINGS & LOAN, INC.

Lois Marie Busceme (SEAL)

[Signature]

Accepted this 17th day of Nov., 1983

Witness:

Lois Marie Busceme

[Signature]
Jeffrey A. Levitt

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Old Court Savings & Loan, Inc.

Administrative Offices: Phone 727-3357 • 25 Light Street • Baltimore, Maryland 21202
Branch Office: Phone 727-7898 • 25 Light Street • Baltimore, Maryland 21202

Office of the President

December 21, 1983

Mr. Ralph Holmes
MSSIC
901 N. Howard Street
Baltimore, Maryland 21201

Dear Mr. Holmes,

As per our conversation, the following is my compensation from Old Court Savings & Loan, Inc., and its subsidiaries, which has been approved by the Board of Directors of Old Court Savings & Loan, Inc.:

Old Court Savings & Loan, Inc.	- - \$1,500.00/week	→ 75.00 = 75
Meridian Mortgage Investments, Inc.	- 4,000.00/month	
Old Court Joint Ventures, Inc.	- 4,000.00/month	
Bankers Appraisal Service	- 2,000.00/month	

I am enclosing a copy of my employment agreement with Old Court Savings & Loan, Inc., Meridian Mortgage Investments, Inc., Old Court Joint Ventures, Inc., and Bankers Appraisal Service.

I would appreciate your approval of said agreements.

Very truly yours,

Jeffrey A. Levitt
Jeffrey A. Levitt

Hall 0x12 SW 11-18-85

APPROVED THIS 21st day of December, 1983.

Ralph K. Holmes
Ralph K. Holmes, Senior Vice President

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00031112

Liberty Court Shopping Center
8600 Liberty Road
Corner Old Court Road

Reisterstown Shopping Center
11991 Reisterstown Road

Burwood Plaza
Old Annapolis & Furnace Branch Roads

Martins Plaza
1442 Martin Boulevard

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

FEBRUARY 9, 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 February 9, 1983 at 1:30 P.M.

The following members were present:

Henry R. Elsnic, Chairman
Jerome F. Dolivka
William F. Brooks, Jr.

John D. Faulkner, Jr.
Frances F. Anderson
David F. Wallace

Absent and Excused: Judith H. Miles

Guests: 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. After reviewing the minutes, a motion was made and seconded to approve the minutes as submitted.

Members' Comments

Mr. Wallace suggested that staff monitor the dollar amount of delinquent loans in the MSSIC industry that are in bankruptcy. It was decided that a supplemental report would be devised to obtain this information and submitted probably on a quarterly basis.

Membership Reports

Mr. Hogg reported that he is scheduling a meeting with Julian Seidel, Chairman of First Maryland Savings and Loan, Inc. to discuss various concerns he has about the association's loan portfolio. Mr. Holmes reported that the Division has finalized their First Maryland examination comments and are sending them directly to the homes of each director of the association. In

addition, Mr. Holmes indicated that Mr. Trice and Mr. Mahon are visiting the sites of several loans which are in the First Maryland loan portfolio.

Mr. Holmes indicated that progress has been made in locating and returning some of the primary documents to the loan files but additional documents need to be located. Mr. Holmes indicated that First Maryland Savings and Loan is below the 3.00% MSSIC regulatory net worth ratio and that negotiations will shortly begin to require an insurance agreement to be entered into. Mr. Hogg revealed that he has discussed establishing a loan loss reserve for the MSSIC financial statements with Touche Ross & Co. in relation to possible losses at First Maryland Savings and Loan. Messrs. Hogg and Holmes both indicated that First Maryland Savings and Loan will require a lengthy workout period to resolve their loan portfolio problems. A lengthy discussion ensued among the committee members concerning the appropriate action it should take. As a result of this discussion, a motion was made, seconded and duly passed that the Committee recommend to the MSSIC Board of Directors that they restrict the issuance of any new mortgage commitments by the staff of First Maryland Savings and Loan until otherwise notified by the Board. In addition, a motion was made, seconded and duly passed that the Committee recommend to the MSSIC Board of Directors that they evaluate pursuant to the MSSIC By-Laws, the possible removal of senior management of First Maryland Savings and Loan. Mr. Hogg indicated that the Committee will receive a full update on First Maryland at the next Committee meeting.

Mr. Mahon gave a comprehensive statistical update on Old Court Savings and Loan, Inc. and First Progressive Savings and Loan Association. He indicated that both associations are increasing their profitability and liquidity.

Mr. Becker gave a net worth comparison update for December 31, 1982. He indicated that the monthly reports are indicating a definite industry trend towards increased profitability.

There being no further business, the meeting adjourned at 3:10 P.M.


Secretary of the Meeting

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

MARCH 9, 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 March 9, 1983 at 1:30 P.M.

Members present:

Henry R. Elsnic
William F. Brooks, Jr.
Jerome F. Dolivka
John D. Faulkner, Jr.

Frances F. Anderson
David F. Wallace
Judith H. Miles

Guests: 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; Sharon D. Maleski, Data Processing Coordinator.

Mr. Elsnic called the meeting to order. Mr. Elsnic welcomed Sharon D. Maleski to the MSSIC staff and indicated to the Committee she will be replacing Vickie L. Paytas as Data Processing Coordinator. After reviewing the minutes of the prior meeting, a motion was made, seconded and duly passed to accept the minutes as submitted.

Members' Comments

Mr. Wallace commented about the dramatic increase in savings inflows that has occurred in the MSSIC industry over the past several months and inquired about the ability of associations to support this growth with net worth. Mr. Becker indicated that he has conducted an evaluation of the associations who are below 5% net worth for the year ending December 31, 1982.

The results indicate that this group of associations was able to support about 75% of their savings growth to maintain a status quo net worth ratio by the infusion of the various net worth components.

Ms. Miles made a recommendation that a more comprehensive service corporation reporting system be developed in response to the increased activity among the MSSIC membership. The Committee agreed unanimously that staff should devise a new reporting system and present it to the Board of Directors for approval.

An inquiry was made as to the status of Ridgeway Savings and Loan Association. Mr. Trice reported that the management of Ridgeway is exploring the possibility of selling their main office building to the Ridgeway Board of Directors with a lease-back provision. In addition, the use of hypothecation of savings accounts by the Directors is also being considered.

Membership Reports

Mr. Hogg gave a comprehensive report on First Maryland Savings and Loan, Inc. in which he indicated that he has met with Julian Seidel and counsel for the association concerning an insurance agreement. Mr. Hogg reported on the various aspects of the insurance agreement and indicated that Mr. Seidel has agreed to enter into the agreement. Mr. Hogg revealed that the insurance agreement should be finalized shortly and that the agreement will provide the measure of comfort necessary in improving the financial position of the association.

Mr. Mahon reported that a recent review of Sharon Savings and Loan revealed a significantly higher percentage of delinquent loans than is being reported by the association on the monthly S/L-200. Mr. Holmes indicated that a meeting with management of the association will be scheduled to discuss the delinquency situation.

Mr. Becker reported that the management of First Progressive Savings and Loan Association has made sufficient progress in establishing accounting records for the association's accounting firm to now conduct the fiscal 1982 audit.

Mr. Holmes reported that Chesapeake Savings and Loan Association has submitted a proposal to the Division of Savings and Loan Associations for the conversion from a mutual to stock association. The initial offering of stock will be 100,000 shares at \$6/share and is expected to net the association \$525,000 after expenses. With Ms. Miles abstaining, a motion was made, seconded and duly passed that the Committee recommend to the MSSIC Board of Directors that the Board approve the stock conversion proposal at the next Board meeting.

Mr. Mahon gave the net worth deficiency update report.

Mr. Becker gave the net worth comparison update report.

There being no further business to come before the Committee, the meeting adjourned at 3:18 P.M.

Charles Hogg II
Secretary of the Meeting

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

JUNE 8, 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 June 8, 1983 at 1:30 P.M.

Members present:

Henry R. Elsnic, Chairman
William F. Brooks, Jr.
Michael J. Dietz
Jerome P. Dolivka

Frank L. Hewitt, III
David P. Wallace
John D. Faulkner, Jr.
James D. Laudeman, 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. Mr. Elsnic introduced and welcomed Messrs. Laudeman, Dietz and Hewitt as the new members of the Committee. Mr. Elsnic reviewed with the Committee the format, purpose and authority of the Committee.

After reviewing the minutes of the prior meeting, a motion was made, seconded and duly passed to accept the minutes as submitted.

COMMITTEE MEMBERS' COMMENTS

Mr. Dietz inquired about the decline in Merritt Savings and Loan, Inc.'s net worth ratio. Mr. Trice reported that the association reduced their net worth in April by approximately \$3,000,000 and deferred fees by \$1,450,000 as requested by MSSIC.

The association reported in April a profit of \$1,670,000 from their service corporation which offset in part the decline.

Mr. Wallace inquired about the increase in the delinquency ratio of Universal Savings and Loan Association. Mr. Mahon indicated he will review the association's delinquencies and present a report to the Committee at the next meeting.

Mr. Hogg reported that he met with Mr. Saul of Chevy Chase Savings and Loan, Inc. to discuss the association's advertising and net worth position. Mr. Hogg indicated that Mr. Saul intends to adjust the association's advertisements to indicate a clearer distinction that Government Services Savings and Loan, Inc. and Chevy Chase Savings and Loan, Inc. are separate savings and loans.

Mr. Hogg reported that a meeting will be held between representatives of MSSIC and Chevy Chase to discuss Chevy Chase's net worth projections. Mr. Elsnic requested that the Committee be updated on the results of the meeting.

Mr. Dietz inquired about the ability of Old Court Savings and Loan, Inc. and First Progressive Savings and Loan Association to provide sufficient capital to achieve a 3.00% net worth ratio based on the associations' savings growth. Mr. Holmes indicated that staff will provide projections for Old Court and First Progressive at the next Committee meeting.

Mr. Elsnic indicated that he was concerned about the ability of associations with high cost of funds to earn sufficient income to maintain their net worth ratios. He requested that Mr. Becker prepare a report on the ten MSSIC associations with the highest cost of funds.

MEMBERSHIP REPORTS

Mr. Trice indicated that he continues to monitor the progress of First Maryland Savings and Loan, Inc. in rectifying the delinquency position of the association. Mr. Trice reported that the association currently has three delinquent commercial loans totaling \$987,000 and twenty-seven homeowner loans totaling \$1.4 million. The causes of the delinquencies vary and the association has begun either foreclosure proceedings or is formulating workout agreements where applicable. Mr. Trice indicated he will be meeting with representatives of the association to review the Real Estate Owned through foreclosure position.

Mr. Holmes updated the Committee on the progress of Sharon Savings and Loan, Inc. in rectifying their delinquency position. Mr. Holmes reported that he has physically reviewed some of the delinquent loans in Maryland and feels that sufficient security exists. Mr. Holmes indicated that he personally reviewed the loan files of a group of delinquent loans in Florida and that they appear to be well documented. Mr. Holmes feels that some progress has been made in improving the overall delinquency position of the association but a lengthy workout is probable on the delinquent loans as a whole.

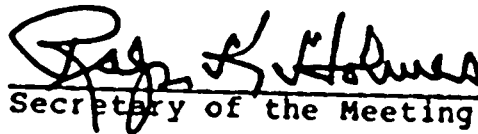
Mr. Trice updated the Committee on the plans of Hopkins Savings and Loan Association to achieve compliance with the MSSIC net worth rule. He reported that as a result of a delay in the approval of the stock conversion plan by the Division of Savings and Loan Associations that he is proceeding to implement a Preliminary Insurance Agreement with representatives of the association.

Mr. Trice reported that representatives of MSSIC and Liberty Savings and Loan Association have met to discuss the association's delinquency and net worth position. Mr. Trice indicated the preliminary results of the operations in May indicate that the association is now above 3.00% net worth and therefore would not be required to enter into an Insurance Agreement. Mr. Trice indicated that the association is working to restructure their largest delinquent loan, the Melstone Valley project, to obtain greater control of the project for the association. Mr. Trice reported that Lynda Nusinov who is in charge of savings at the association will be leaving the association in July. Several of the members expressed interest in verifying the appropriate accounting treatment of the association's delinquent interest income. Mr. Trice indicated he would discuss the matter with the firm's accountants, Wooden and Benson.

Mr. Holmes reported that a meeting was held between representatives of MSSIC and Municipal Savings and Loan Association to discuss the association's net worth ratio deficiency. Mr. Holmes indicated that the association's projections indicate a profit for 1983, but that as a result of savings growth the association will still be in violation of the net worth rule. The association is exploring the possibility of selling their Joppa Road office with a leaseback provision as a possible means of obtaining additional capital. Mr. Holmes indicated that Mr. Trice has begun the drafting of a Preliminary Insurance Agreement and that he would update the Committee at the next meeting on the status of its implementation.

Mr. Becker presented an industry net worth evaluation for the period 11/1/82 through 4/30/83. He reported that the industry has grown just over \$1 billion in savings accounts in this period and through the infusion of various forms of capital, the industry net worth ratio has risen from 4.00% to 4.18%.

The meeting adjourned at 3:50 P.M.


Secretary of the Meeting

RKH/MWB/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

JULY 13, 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 July 13, 1983 at 1:30 P.M.

Members present:

Henry R. Elsnic, Chairman
William F. Brooks, Jr.
Michael J. Dietz
Jerome P. Dolivka

Frank L. Hewitt, III
David F. Wallace
John D. Faulkner, Jr.
James D. Laudeman, Jr.

Others present: 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. Mr. Dietz requested that the meeting time of the Committee be changed to 1:00 P.M. in the future. The Committee discussed the time change and agreed that beginning in August the meeting time will be 1:00 P.M.

After reviewing the minutes of the prior meeting, a motion was made, seconded and duly passed to accept the minutes as submitted.

COMMITTEE MEMBERS' COMMENTS

Mr. Dietz inquired about whether associations below 3.75% net worth are required to submit a plan of corrective action. Mr. Holmes indicated that either as a preliminary action to an association entering an Insurance Agreement or as a reporting requirement of an Insurance Agreement, that associations are requested to

submit a plan of corrective action.

Several members indicated that they were somewhat confused as to the process in which an Insurance Agreement is entered into and the terms and conditions which are included in the Insurance Agreements. In addition, it was requested that the relationship between an Insurance Agreement and a plan of corrective action be clarified. Mr. Laudeman offered an explanation that an Insurance Agreement represents a legal agreement in which an association agrees to comply with requests specified by MSSIC. The plan of corrective action is an explanation of the process and projected results that an association will take in rectifying its violations and may be incorporated as part of the Insurance Agreement although it is not in of itself a legal document.

A discussion ensued as to the components of Insurance Agreements and a consensus of the members indicated that the specific terms and conditions of individual Insurance Agreements be reviewed. A motion was made, seconded and duly passed that staff should provide, on a quarterly rotating basis, a summary of the plan of corrective action of those associations in violation of the 3.75% net worth level.

Mr. Wallace indicated that in response to the growing complexity of accounting for new savings certificates, that MSSIC associations should be required to adopt a full accrual accounting method if they are \$25 million in assets or larger. Several members expressed their concern about the need to establish consistency and fairness of financial position in the reporting of members to MSSIC and the Division of Savings and Loan Associations. Messrs. Faulkner and Becker indicated that the MSSIC

Accounting Task Force will shortly be finalizing its recommendations for accounting changes and recommended that the Committee defer action on this issue until then.

MEMBERSHIP REPORTS

Mr. Trice reported that some progress has been made in correcting the delinquency position at First Maryland Savings and Loan, Inc. The association has obtained a new controller and by the end of August the association's accounting problems are anticipated to be resolved. Mr. Trice reported that upon reviewing various new loans, he feels the association has improved its underwriting practices. In addition, Mr. Trice indicated that he is continuing to review for approval in accordance with the MSSIC Insurance Agreement, significant new loan packages.

Mr. Trice reported that a Preliminary Insurance Agreement has been executed with Hopkins Savings and Loan Association. As a condition of the Agreement, the association will have converted to stock by July 31, 1983 or the Directors will hypothecate savings at that date in an amount to achieve a 3% net worth level.

Mr. Trice reported that a meeting was held between representatives of MSSIC and the Liberty Savings and Loan Association Board of Directors to discuss the association's financial position. Mr. Trice indicated that there are several personnel changes occurring at the association. Perry McAtee and Lynda Nusinov have left the association. Judith Miles has been hired by the Board of Directors as a full-time consultant. Mr. Trice indicated that Ms. Miles is currently working to restructure the staff at Liberty and work to maintain public confidence in the association.

Mr. Trice reported that he has sent a Preliminary Insurance Agreement to Municipal Savings and Loan Association. Mr. Shilling, Executive Vice President of Municipal, is revising his operating budget previously submitted to MSSIC. Mr. Trice indicated he will report the status of negotiations at the July MSSIC Board of Directors meeting.

Mr. Mahon presented a summary of the projected financial position of Old Court Savings and Loan, Inc. as of 7/31/83. Mr. Mahon indicated that the association should be close to a 3% net worth level by 7/31/83 and that he feels their plan seems achievable.

Mr. Mahon reported that he was unable to prepare a presentation of the projected financial position for First Progressive Savings and Loan Association as planned because of the inability of the association to determine its current financial position. Mr. Mahon indicated that he was hopeful now that the association's independent accounting firm had begun the fiscal 1982 audit, that the financial position of the association can be ascertained within the near future. Mr. Mahon indicated he will continue to monitor the situation. It was recommended that in lieu of the current uncertainty existing concerning the financial position of First Progressive, that certain inquiries be made concerning the association's pending branch application.

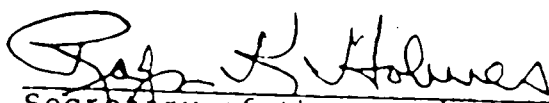
Mr. Mahon reported on his recent review of Glenmore Permanent Savings and Loan Association. He reported that the association is currently near breakeven with a return on assets of .25%. Mr. Mahon indicated that the directors of the association will hypothecate savings to compensate for the association's net

worth deficiency. In addition, the directors are exploring the possible conversion to stock and the possibility of merging.

Mr. Holmes reported that an application for the creation of a new MSSIC insured savings and loan to be known as U.S. Home Savings and Loan Association has been received. Mr. Holmes indicated that he is reviewing the application and upon approval by the Director of the Division of Saving and Loan Associations, he will make a recommendation to the Committee concerning their admittance as a MSSIC member.

Mr. Becker updated the Committee on the completion of a computer project dealing with financial analysis of members on an individual basis and as an industry. He then presented a report on the ten associations with the highest cost of savings based on the S/L-200A report for the last three months. Mr. Becker indicated that as a result of not accruing dividends on certain savings certificates, that some associations may have been excluded from the list of the ten highest cost of savings.

There being no further business, the meeting adjourned at 4:11 P.M.


Secretary of the Meeting

RKH/MWB/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, JULY 27, 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 July 27, 1983.

The following Directors were present:

Frances F. Anderson
Leonard Bass
Michael J. Dietz
Jerome F. Dolivka
John C. Donohue, Sr.

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

Absent and Excused: Joseph P. Carroll

Others Present: Charles C. Hogg, II, President; Paul V. Trice, Jr., Vice President; Martin W. Becker, Financial Analyst; Terry F. Hall, Venable, Baetjer and Howard; Craig T. Garrison, Union Trust Company of Maryland.

The meeting was called to order at 9:30 A.M. and a quorum was noted as present.

INVESTMENT REPORTS

A general economic narrative which had been distributed was read and the Investment Reports were reviewed. (Copies of the economic narrative and Investment Reports are attached to the permanent file copy of these minutes.)

Following a discussion of the report Mr. Garrison was excused from the meeting.

READING OF PREVIOUS MINUTES

A minutes of the prior Board Meeting were reviewed with Mr. Dolivka requesting that the following amendment be made:

Page 4, Line 3, preceding the phrase beginning . . . "Following discussion, Mr. Dolivka nominated . . .", insert, . . . "Mr. Dolivka noted (1) that Mr. George W. H. Pierson was apparently the second nominee of the Nominating Committee being the only other candidate specifically named by that Committee and voted on by the Committee; (2) that Mr. Pierson was a duly authorized representative of a mutual association whose asset size was near that of Chesapeake's at the time Judith H. Miles first became a member of the Board; and (3) that Second National's net worth position would not be acceptable under the proposed revision to Section 2-202 of the By-Laws whereas Parkville's net worth would be."

Mr. Neifeld moved that this amendment be inserted. Mr. Dietz seconded the motion which passed unanimously.

Mr. Faulkner called for a motion to accept the minutes as amended. Mr. Neifeld moved, Mr. Dietz seconded, and the motion carried.

TREASURER'S REPORT

Mr. Neifeld opened the Treasurer's report with a request that staff furnish all appropriate financial statements and data by the 15th day of each month to allow him sufficient time to prepare his report.

Mr. Hogg advised that staff would endeavor to accommodate the Treasurer's request.

Mr. Neifeld then proceeded with the Treasurer's Report for

the period ended June 30, 1983. A general discussion of selected items ensued with a request that the change in "Other Income" be reviewed and reported at the next meeting. (Copies of the Financial Statements are attached to the permanent file copy of these minutes).

Mr. Dietz moved that the Treasurer's Report be accepted. Mr. Elsnic seconded the motion which passed unanimously.

MEMBERSHIP COMMITTEE

Mr. Elsnic, Chairman, reviewed the minutes of the Membership Committee Meeting of July 13, 1983, noting in particular:

A. Staff's continued monitoring of First Maryland Savings and Loan, Inc, Liberty Savings and Loan Association, Municipal Savings and Loan Association, Old Court Savings and Loan, Inc., and First Progressive Savings and Loan Association.

Mr. Hogg also advised of various accounting record deficiencies cited by examiners of the Division in their current examination of First Progressive which MSSIC, upon receipt of the Division's preliminary report, will also follow through on for proper resolution.

B. The Committee is also addressing compliance with Section 3-211(A)(4) and 3-211(B), as well as 3-211(C)(2). (A copy of the Membership Committee Minutes are attached to the permanent file copy of these minutes).

Mr. Neifeld inquired as to whether staff included those estimated income and expense figures reported on lines 1340 to 1410 as adjustments to the computation of net worth. Mr. Becker responded that future net worth reports will include computations

showing "current net earnings/loss" and "adjusted current net earnings/ loss."

Mr. Dolivka inquired whether any affects of the Home Federal merger into Vermont Federal had been noted. Mr. Hogg responded that staff had not received any indication of adverse affects.

Mr. Dolivka noted that First Progressive had not received a certified audit for its fiscal year ended 12/31/81, nor had an examination been performed since about that time. He further inquired as to whether there were any others for whom no recent audits or examinations had been performed. Mr. Hogg advised that staff periodically checks these against an internal checklist which will be updated and reported on at the next Board meeting. Specific note will be made at the next meeting of those associations who have not filed an audit report within four months of the audit completion date.

Mr. Dolivka further asked if a formal report on the substance of audit reports should be given to the Board. The consensus on this item was that significant matters noted by staff in the audits should be brought to the Membership Committee for review, and recommendations, if any, will then be made to the Board.

There being no further discussion, Mr. Neifeld moved that the report of the Membership Committee be accepted. Mr. Bass seconded the motion which passed unanimously.

OLD BUSINESS

Mr. Faulkner called on Mr. Hogg for his report on the minutes of the Nominating Committee and the current status of the

vacant seat on the Board.

Mr. Hogg reviewed said minutes and subsequent discussions by the Board at its last meeting.

After discussion of the matter, Mr. Neifeld noted the prior meeting's motion to elect Mr. Pierson was before the Board and called for a vote. Mr. Elsnic seconded the motion. Mr. Faulkner asked if there were any other nominations. Mr. Laudeman nominated David F. Wallace; Mr. Bass seconded the nomination. There being no further nominations Mr. Neifeld moved to close the nominations. Mr. Dolivka seconded and the motion carried. The Chairman reviewed voting procedures with counsel. The votes being duly and properly cast, George W. H. Pierson was unanimously elected to fill the vacancy and term of Judith H. Miles.

Mr. Dietz moved to accept the minutes of the Nominating Committee Meeting. Mr. Elsnic seconded the motion and it was carried. (A copy of the minutes of the Nominating Committee Meeting is attached to the permanent file copy of these minutes).

Mr. Neifeld inquired of his previous request for information on simple interest certificates and accrual of dividends specifically as to industry trends in these areas. Mr. Trice advised that this information was distributed at the last Board meeting, but no discussion was held due to lack of time. This matter will be scheduled for presentation and discussion at the next Board Meeting.

NEW BUSINESS

Report of the President

A. Audit and Budget Committee - Mr. Hogg called upon

Frances Anderson, Chairperson, for a report on the committee's recent meeting. (A copy of the minutes of the Audit and Budget Committee are attached to the permanent file copy of these minutes). Mrs. Anderson noted that the Committee recommends the following:

1. Touche Ross & Co. be retained for 1983 to perform the Corporation's audit and prepare the year end audit report.

2. Increasing the budget by \$23,500 to provide for the following cash item revisions:

BUDGET REVISIONS

	<u>PROPOSED</u>	<u>CURRENT</u>
Line of Credit	\$153,000	\$187,500
Supplies	8,500	2,500
Legal: Tax	50,000	25,000
Accounting	17,000	14,000
Salaries	<u>289,800</u>	<u>265,800</u>
TOTAL	<u>\$518,300</u>	<u>\$494,800</u>

A revision to the Travel and Entertainment Account will be discussed after completion of further analysis of items contained in this account.

Mr. Dietz inquired as to whether other CPA firms such as Wooden & Benson were interviewed relative to performing the Corporation's audit. Mr. Hogg advised that no such inquiries were made primarily due to (1) satisfaction with Touche Ross, (2) the late date and (3) the Committee's recommendation to conduct a cost/performance review of Touche Ross & Co.'s 1983 audit early in 1984. Additionally, Mr. Hogg noted that the Corporation's line of

credit contains a requirement that the Corporation furnish the participating banks with copies of an audit report performed by one of the "big eight" CPA firms.

After further discussion, Mr. Neifeld moved and Mr. Dietz seconded that:

1. The budget increase of \$23,500 be approved; and
2. Touche Ross & Co. be retained to perform and prepare the Corporation's 1983 audit report with the Committee and Board conducting a cost/performance review of this audit in early 1984.

The above motion was passed by unanimous vote.

B. Member Relations Questionnaire - Mr. Hogg next reported on the results of the referenced questionnaire which had been responded to by the Board members, noting that the following general topics and related issues appear to be the primary areas for focusing the Corporation's attentions in promoting member relations: 1) net worth; 2) rapid growth without adequate net worth; and 3) advertisements/high rates.

C. Report on Selected Associations and Net Worth Update

1. Municipal Savings and Loan Association - Mr. Hogg reported on his and Mr. Trice's meeting with representatives of Municipal to discuss the terms of their Preliminary Insurance Agreement. As a result, Messrs. Hogg and Trice recommend the following conditions be included in this agreement:
 - a.) Positive net earnings for each month (August through December 1983).
 - b.) Positive increase in the net worth ratio for each month (August through December 1983).

c.) Achieve a minimum net worth ratio of 2.25% by December 31, 1983. A new Preliminary Insurance Agreement with appropriate conditions would then be prepared/executed following satisfactory achievement of these conditions and providing for ultimate achievement of a net worth ratio in excess of 3%.

These recommendations were accepted by unanimous consent of the Board.

2. Chesapeake Savings and Loan Association - Mr. Trice reported that Chesapeake has received our Preliminary Insurance Agreement which is currently being reviewed by their counsel. It is anticipated that Chesapeake will execute and deliver same on or before August 1, 1983.

3. John Hanson Savings and Loan, Inc. - Mr. Hogg advised of his recent correspondence with this association advising them of the Corporation's posture relative to compliance with Section 3-211(C)(2). He also reviewed Mr. Whitlock's response and noted their positive actions/plans to increase the net worth ratio. Discussion on this matter concluded on the Board's consensus that staff proceed to effect their compliance with Section 3-211(C)(2).

4. Ridgeway Savings and Loan Association - Mr. Trice advised of his meeting with representatives of Ridgeway wherein he addressed the need to promptly effect compliance with Section 3-211(C)(2). He recommended that Ridgeway's Preliminary Insurance Agreement contain the following minimum terms:

a.) To file with the Director of the Division their application for conversion to stock charter on or before 9/30/83;

b.) To obtain the required approval and consummate the

conversion to stock charter on or before 12/31/83;

c.) To maintain positive earnings in each of the succeeding months - August through December;

d.) To increase the net worth to savings ratio in each of the months - August through December.

Ridgeway has been requested to execute and deliver the agreement on or before 8/1/83.

5. Friendship Savings and Loan, Inc. - Mr. Hogg advised of his and Mr. Trice's meeting with representatives of Friendship wherein they informed Friendship of the need to comply with Section 3-211(C)(2). Mr. Hogg also reported that the meeting encompassed an in-depth review of that association's financial condition, projections, etc., noting further that management is very much aware of their goals, weaknesses, etc. and have engaged an outside consulting firm to aid them in financial and managerial planning. It is expected that the association will execute the Preliminary Insurance Agreement in August, or that the net worth will be increased to a level in excess of 3% of savings.

6. Bay State Savings and Loan Association - Mr. Hogg reported that this association will sell additional stock, thereby increasing its net worth to an acceptable level. In the event the sale of stock is not accomplished in the near future, staff will proceed with an appropriate form of an Insurance Agreement.

7. Liberty Savings and Loan Association - Mr. Hogg and Mr. Trice reported on the personnel changes at Liberty and apparent improvements being made to that association's basic operations. Note was also made that a resolution to the delin-

quency problems was being addressed but would be slow in achieving satisfactory results in certain instances. Staff will continue to monitor this association.

D. Report on Board of Commissioners Meeting

Mr. Hogg reported that Mr. Holmes attended the last Board of Commissioners meeting and had advised that Mr. Brown was directed by that Board to meet with the management of Chevy Chase Savings and Loan, Inc., Chesapeake Savings and Loan Association and Municipal Savings and Loan Association to express the Division's concern over the continued decline in these association's net worth ratios and to obtain their plans for improvement of the net worth. First Maryland Savings and Loan, Inc.'s request for approval to issue various subordinated debentures was tabled pending resolution of technical aspects.

E. Premium Restructure Committee

Mr. Hogg reported on the several meetings held by this Committee, noting, in particular, the difficult issues being addressed therein such as legislative and tax ramifications/problems, defining risks, continued changes in the industry, costs for members, etc. He also noted the Committee will be reviewing FSLIC and FDIC rating systems.

Mr. Elsnic requested, and other Board members concurred, that copies of the Premium Restructure Committee minutes be furnished to the Board members. Mr. Hogg advised these would be mailed with the next meeting's notice.

F. Tour of Federal Reserve Bank - Baltimore

Mr. Hogg stated that a tour of the Federal Reserve Bank

could be arranged for the Board members if they desired and which should be of interest and benefit. The Board agreed such a tour would be beneficial and requested staff to arrange for same on August 24, 1983 at 9:00 a.m.

G. Relocation of Office Building

Mr. Hogg reported on current developments with owners/developers of the Latrobe Building, noting cost increases, etc.

After considerable discussion, it was determined that no further action be taken on the Latrobe Building; that further study be made on a new location; and a committee be appointed to aid staff in their efforts to select a new office location. Mr. Faulkner will discuss the selection of this committee with Mr. Hogg.

Mr. Neifeld noted prior meeting references to the re-activation/establishment of a By-Law Review Committee. After discussion, Mr. Dietz moved and Mr. Bass seconded, that those members who served on the last By-Law Review Committee and James L. Otto and Zell C. Hurwitz be appointed. The motion passed unanimously.

There being no further business to come before the Board Mr. Dietz moved the meeting be adjourned, Mr. Bass seconded. The motion carried and the meeting adjourned at 12:30 P.M.

Charles Hogg II
Secretary of the Meeting

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

AUGUST 10, 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 August 10, 1983 at 1:00 P.M.

Members present:

Henry R. Elsnic, Chairman
Michael J. Dietz
Jerome F. Dolivka

Frank L. Hewitt, III
David F. Wallace
John D. Faulkner, Jr.

Absent and excused: William F. Brooks, Jr. and James D. Laudeman, Jr.

Others present: Charles C. Hogg, II, 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, a motion was made, seconded and duly passed to accept the minutes as submitted.

COMMITTEE MEMBERS' COMMENTS

Mr. Dietz inquired about the status of First Progressive Savings and Loan Association's efforts to correct its accounting problems. Staff reported that the association's independent auditors continue to work to ascertain the financial position of the association and hope to complete their work by the end of

August. In addition, it was reported that the Division of Savings and Loan Associations is in the process of performing a full examination of the association.

MEMBERSHIP REPORTS

Mr. Becker gave a presentation of the financial projections of five associations which were below 4% net worth/savings as of June 30, 1983. He indicated that Bay State Savings and Loan Association and Second National Building and Loan, Inc. intend to improve their net worth ratios by the additional issuance of capital stock. Bay State successfully issued \$962,875 of capital stock in August and this should increase the association's net worth ratio to over 6%. Second National intends to issue at least \$5 million in capital stock in August, and if successful, the association's net worth ratio should increase to near 6%. Eastern Savings and Loan Association, Fairfax Savings Association and Monumental Savings and Loan Association intend to increase their net worth ratios through moderating savings growth and increasing profits. Fairfax anticipates their net worth ratio will be above 4% at the end of August 1983. Eastern indicated they project their net worth ratio to be above 4% by June 30, 1984. Monumental anticipates their net worth ratio to be above 4% by December 31, 1983.

Mr. Holmes indicated that a formal request had been made for insurance by MSSIC from a group of individuals for an association to be known as U.S. Home Savings and Loan Association. Mr. Holmes related to the Committee details about the proposed directors, initial capitalization of the association, location and

other pertinent information. Mr. Holmes indicated that he felt the Committee should recommend to the Board of Directors the approval for membership in MSSIC of U.S. Home Savings and Loan Association.

After discussing the matter, the Committee abstained from making a formal recommendation to the Board of Directors, but it was indicated that the matter would be brought to the Board.

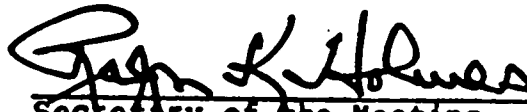
A request was made by several Committee members that staff obtain copies of all the current advertising documents currently being used by First Progressive Savings and Loan Association.

Mr. Trice presented a detailed report to the Committee on the status and terms of all pending Preliminary Insurance Agreements as of August 10, 1983. Municipal Savings and Loan Association was anticipated to enter into a Preliminary Insurance Agreement (P.I.A.) on August 10, 1983. Friendship Savings and Loan, Inc. is anticipated to enter into a P.I.A. by August 18, 1983 pending the realization of profit on the sale of loans by the association which would increase the association's net worth ratio above 3% and negate the need for the agreement. Mr. Trice indicated that there is a question concerning whether the "Liquidation Account" of \$1,931,046 should be included as net worth in calculating the net worth ratio of John Hanson Savings and Loan, Inc. If allowed, this would increase the net worth ratio to above 3% and negate the need for a P.I.A. Chesapeake Savings and Loan Association executed a P.I.A. on August 1, 1983. Mr. Trice indicated that he has experienced some difficulty in obtaining a Preliminary Insurance Agreement from Ridgeway Savings and Loan

Association. He currently anticipates the execution of a P.I.A. by August 23, 1983.

Mr. Trice provided the Committee with summary outlines of the terms of all outstanding Insurance Agreements. In addition, he provided sample agreements of both a Preliminary Insurance Agreement and a Insurance Agreement.

There being no further business, the meeting adjourned at 2:46 P.M.


Secretary of the Meeting

RKH/MWB/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, AUGUST 24, 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 August 24, 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.
Terry L. Neifeld
George W. H. Pierson

Others Present: Charles C. Hogg, II, President; Ralph K. Holmes, Senior Vice President; Paul V. Trice, Jr., Vice President; Terry F. Hall, Venable, Baetjer and Howard.

Mr. Faulkner called the meeting to order at 11:20 a.m. and welcomed newly elected director George W. H. Pierson.

INVESTMENT REPORTS

Mr. Hogg noted that representatives of Union Trust Company were unable to attend this meeting, but had furnished their usual financial reports and written narratives relative to the Corporation's investments and recommended investment strategies. (Copies of the narratives and Investment Reports are attached to the permanent file copy of these minutes.) Mr. Faulkner encouraged each director to review these documents.

READING OF PREVIOUS MINUTES

The minutes of the prior Board Meeting were reviewed. There being no comments, Mr. Dolivka moved that the minutes be accepted as presented. Mr. Elsnic seconded the motion which passed unanimously.

TREASURER'S REPORT

Mr. Neifeld, Treasurer, began the Treasurer's Report with an explanation of "Other Income" which had been requested at the prior meeting, noting that the following major items comprised this account: 1.) admission fee for new members, and 2.) late report penalties.

Mr. Neifeld then proceeded to note and explain the following major items in the Corporation's operating statement for the year to date and for the month of July:

1. Charitable contributions declined insignificantly due to a change in accounting;
2. Legal Fee increase due to billing from Venable, Baetjer and Howard in the amount of \$11,000 for services for May and June;
3. Line of Credit Fee - explained by Mr. Hogg as a normal charge imposed by the lenders;
4. Programming fee - appears high, but actually represents several months' services;
5. Printing expense - appears high when compared to prior year, but it was noted that the current charge is for a larger number of Annual Reports than last year. The charge for last year's Annual Reports was not included in "Printing", but in another account.

There being no further comments, Mr. Carroll moved the Treasurer's Report be accepted as presented. Mrs. Anderson seconded; motion carried unanimously. (Copies of the Financial Statements are attached to the permanent file copy of these minutes.)

MEMBERSHIP COMMITTEE

Mr. Elsnic, Chairman, reviewed the minutes of the Membership Committee Meeting, noting the following in particular:

A. Staff is continuing to monitor the problems associated with First Progressive Savings and Loan Association's accounting system/records. Staff also advised that First Progressive's independent audit is expected to be completed in the near future. Statements for their year ended 1981 will most likely be a "compilation", while 1982 year end will be a regular audit report. The Division is also currently conducting an examination of First Progressive.

B. In further development on members' compliance with the net worth requirements of Section 3-211 of the Rules and Regulations, Mr. Becker presented the Committee with a current report on associations, noting that five associations had less than three percent (3%) net worth. Staff is currently working with those associations to ensure compliance with applicable Rules and Regulations and Insurance Agreements.

Mr. Hogg also commented that staff is securing plans for corrective action from all associations whose net worth is below 3.75%, and is monitoring these plans on a quarterly basis.

C. Mr. Trice presented the Committee with a status report on Insurance Agreements and Preliminary Insurance Agreements.

Mr. Dolivka inquired whether Alexander Grant had rendered a position on John Hanson Savings and Loan, Inc.'s "Liquidation Reserve Accounts" as to eligibility for net worth. Mr. Hogg responded that while no such position had apparently been given by Alexander Grant on this matter, the firm, through its recently completed audit, did note and reclassify certain eligible Deferred Fees from Deferred Income, and as a result, increased their total net worth to approximately 3.1%.

No further comments being noted, Mr. Pierson moved to accept the report of the Membership Committee. Mr. Laudeman seconded; the motion carried unanimously.

OLD BUSINESS

Mr. Neifeld inquired whether the fee paid to Raymond Cobb, member of the Premium Restructure Committee, was adequate to cover his expenses. Mr. Trice responded that he and Mr. Hogg had considered the matter and it was their consensus that, there being no precedent for these situations, he could only be paid the regular committee fee as compensation. Mr. Trice further noted that it was his understanding from Mr. Cobb that the fee paid did adequately cover his expenses for travel and meals.

Mr. Neifeld questioned whether the current fee structure was equitable given the travel costs as in the case of Mr. Cobb or others who travel farther. Mr. Dolivka commented that perhaps the fee structure should be reviewed and appropriately changed to more

properly reflect responsibilities, preparation time, travel and other matters.

After further discussion, it was determined that this matter be referred to the Audit and Budget Committee for review and recommendations.

Mr. Neifeld noted that penalties had been paid for the late filing of withholding tax reports in 1983 and questioned how such lateness had occurred. Mr. Hogg explained that Mr. Fitzhugh, the previous controller, had advised him of the lateness and applicable penalties on his last day of employment and that the matter had been an oversight on Mr. Fitzhugh's part. Mr. Hogg further noted that proper controls were now in place to prevent a recurrence. Efforts to recover some of these penalties are being made.

Mr. Trice next reviewed the results of the Simple Interest Certificate survey, noting those institutions whose response indicated no accrual of dividends during the term of the certificates. Mr. Neifeld questioned whether Second National's response was correct, noting that the volume they held in this certificate program was significant and any unrecorded accrued dividends thereon could adversely affect their operations. Mr. Trice advised he would verify Second National's response with management as well as compare same with the monthly reports where possible.

It was also noted that the survey date was approximately five months old and that significant changes may have occurred

during this period. Accordingly, staff was requested to update its findings as soon as may be practical and report to the Board.

Mr. Dolivka inquired of the status of audit reports filed with the Corporation. Mr. Hogg advised this would be covered under his "General Comments".

NEW BUSINESS

Mr. Hogg advised that Liberty Savings and Loan Association had requested the Board to grant a special waiver of the penalty imposed for the late filing of its S/L-200A report for the period ended June 30, 1983. He also read excerpts of their request which set forth the circumstances resulting in the late filing.

Mr. Laudeman inquired of counsel for the Corporation as to whether the Rule allowed such additional waiver. Mr. Hall responded that the Rule is quite clear in not permitting more than two (2) such waivers in any preceding twelve month period.

After due discussion, Mr. Neifeld moved and Mrs. Anderson seconded that the Board uphold the provisions of the Rule and require payment of the penalty from Liberty. The motion carried by vote of seven in favor, four against.

Mr. Pierson asked for clarification of Judith Miles' position re: Admiral-Builders Savings and Loan Association and Liberty Savings and Loan Association. Mr. Hogg advised that Ms. Miles was an Assistant Treasurer at Admiral-Builders and is a consultant to Liberty Savings and Loan, as well as U.S. Home Savings and Loan Association.

Mr. Neifeld next questioned whether more frequent assessment of the Capital Deposits should be considered in view of the

accelerated growth of the membership. He also noted that the Insurance Reserve, and particularly the retained earnings of the Corporation, to insured savings ratio had been declining significantly during recent periods of accelerated growth. Mr. Faulkner suggested and the Board concurred that this matter be referred to the Premium Restructure Committee for review and recommendations. Additional discussion included note of potential impact on the savings of the membership from increased frequency of assessments.

NET WORTH/SELECTED ASSOCIATIONS REPORT

Mr. Hogg reviewed these reports, noting in particular the corrective action or staff action regarding the following:

- a. John Hanson Savings and Loan, Inc. - staff to secure updated plan of action;
- b. Liberty Savings and Loan Association - staff notified association; response due by September 15, 1983;
- c. Ridgeway Savings and Loan Association - advised they will increase hypothecation.

Mr. Neifeld inquired of differences between the Preliminary Insurance Agreements and final Insurance Agreements, noting further that recent Preliminary Insurance Agreements appear to require positive action for increasing net worth while other final Insurance Agreements do not. As an example he cited Chevy Chase's agreement. Despite the subordinated debt purchased by the Corporation, this association has had a continued decline in its net worth ratio from 4.93% in January 1982 to less than 3.00% as of

June 30, 1983. He questioned specifically why Chevy Chase's and other similar Insurance Agreements do not require positive earnings or net worth improvement, and asked whether these Agreements should be renegotiated. Mr. Hogg responded that different Insurance Agreements are basically evolutionary products of different economic circumstances.

Mr. Elsnic noted that he had previously requested that staff compare prior budget projections required of Chevy Chase with actual results attained as well as a report on the current six month budget projection and results achieved to date.

Mr. Neifeld commented that these comparisons of Chevy Chase's projections with actual results should be of benefit to the Board in explaining the basis for the continued decline in net worth since the infusion of the Corporation's subordinated debt.

Mr. Faulkner suggested that staff assemble the requested information as well as secure an update of Chevy Chase's projections and plans. The Board concurred and Mr. Hogg said that these items will be reviewed at the next Board meeting.

Mr. Neifeld then questioned whether the acquisition of Government Services Savings and Loan, Inc. had transformed into a merger or not. Mr. Dolivka commented that in his opinion, based on recent personal observations and conversations, the two associations had merged for all practical purposes. Mr. Laudeman stated that while there may have been some consolidation of certain operational functions for economy, the two associations have separate charters and are considered separate by the Division

of Savings and Loan Associations. He further advised that he knows of no plans at this time to formally merge the two associations.

Mr. Neifeld then referred to the minutes of October 27, 1982 in which he noted on page 6 thereof Mr. Whitlock's comment "... it is important to separate the difference between this merger and a subsequent merger of the two associations", noting that the term merger, not acquisition, may have been the perception of certain members of the Board even at that time, particularly as it concerns the issue of concentration.

Mr. Faulkner commented that, in his opinion, such consolidations of associations may well be and may well hold the key for the future direction of the Corporation and the industry.

BOARD OF COMMISSIONERS REPORT

Mr. Holmes reported that the Board of Commissioners approved the issuance of two new charters, one of which, U.S. Home Savings and Loan Association, had also filed application with the Corporation for insurance of accounts.

Mr. Holmes noted also that approval had been granted to First Maryland Savings and Loan, Inc. for the issuance of subordinated debt totalling \$3 million.

PREMIUM RESTRUCTURE COMMITTEE

Mr. Hogg noted that copies of the records of this committee's meetings had been furnished to the Board as requested. He further noted that the records appear to clearly demonstrate the difficulties encountered in attempting to establish a new equitable system. The committee will continue to meet and it is anticipated

that a refinement of direction will be forthcoming in the near future and the Board will continue to receive copies of the records of these meetings.

Mr. Dolivka questioned when the Board might expect a recommendation. Mr. Laudeman offered that more than one recommendation, or a series of recommendations may be offered for the Board's consideration, as opposed to a single restructuring.

RELOCATION OF OFFICE SITE

... Hogg advised that efforts are continuing to find a suitable new location. Realtors continue to submit new proposals and staff is evaluating several possibilities. Mr. Faulkner advised that the "Location Committee" will be comprised of those members of the Executive Committee and will assist staff as needed.

Recommendations of staff and the Location Committee will be submitted to the Board when completed.

AUDIT REPORTS

Mr. Hogg reported that Martin Becker has completed his review of the files and has notified those associations (approximately 20) who have not filed a current audit report with the Corporation. He further advised that a full status report on this matter will be presented at the next Board Meeting.

"INVEST REPORT"

Mr. Hogg reported that he had received a letter from an organization called INVEST which described certain investment services/opportunities to be offered to smaller associations. He noted further that staff would meet with representatives of INVEST

to attain a better understanding of their services and operations and would advise the Board of the results of the meeting.

APPLICATION FOR INSURANCE OF ACCOUNTS

Mr. Holmes reported on the application of U.S. Home Savings and Loan Association for insurance of accounts. He further provided the Board with an oral synopsis of the principals, location, capitalization and financials of U.S. Home Corporation. Note was also made that the by-laws of U.S. Home Savings require the approval of the Director of the Division for any new subsequent directors of the association.

Mr. Carroll moved and Mr. Bass seconded that U.S. Home Savings and Loan Association be admitted as a member.

Discussion then ensued concerning the applicant, with comments generally reflecting eligibility considerations.

Mr. Pierson then noted that the Board has not received written recommendation of the Membership Committee which he understood was required under the Rules. He further advised that he felt most uncomfortable at being requested to vote on a subject without benefit of any required written analysis and recommended that the matter be referred back to the Membership Committee for action as prescribed.

After further discussion the motion was called and received a favorable majority vote with Mr. Pierson opposing.

There being no further business to come before the Board Mr. Carroll moved and Mr. Bass seconded that the meeting adjourn. The motion carried unanimously and the meeting adjourned at 1:20 P.M.

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Charles H. Hays
Secretary of the Meeting

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

SEPTEMBER 14, 1983

The regular monthly meeting of the Membership Committee of the Maryland Savings-Share Insurance Corporation was held at the offices of the Corporation, 901 North Howard Street, Baltimore, Maryland on September 14, 1983 at 1:00 P.M.

Members present:

Henry R. Elsnic, Chairman
Michael J. Dietz
Jerome F. Dolivka

Frank L. Hewitt, III
David F. Wallace
William F. Brooks, Jr.

Absent and excused: John D. Faulkner, Jr., and James D. Laudeman, Jr.

Others present: Charles C. Hogg, II, 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. Mahon acted as recorder.

— After reviewing the minutes of the prior meeting, a motion was made, seconded and duly passed to accept the minutes as submitted.

Mr. Elsnic read a statement he had prepared concerning the board meeting of 8-24-83. At that meeting, Mr. Holmes summarized the facts of U.S. Home's application to MSSIC including the fact that the Membership Committee made no recommendation to the Board. Mr. Elsnic's statement, in response to Membership Committee members' comments to him, took exception to Mr. Holmes' comments to the Board and the alleged insinuation that the Membership Committee was irresponsible in this particular instance.

Mr. Dolivka stated his concern that the Membership Committee should not be expected to make a recommendation in these matters based only on a verbal summary provided them at the time of the meeting. He requested that the Committee be given in advance, written material so they can better assess the applications for membership.

Mr. Hogg agreed with the Committee that the recent procedure for approval of new members was inadequate and, in fact, not in accordance with the rules and regulations of this Corporation. In the future, it will be handled as Mr. Dolivka suggested.

Mr. Hogg, however, saw no intention of criticism in Mr. Holmes' report to the Board. He stated that Mr. Holmes merely reported the facts, among those being the Membership Committee's refusal to make a recommendation and that no specific and valid reasons for denial were offered. He stated that only valid reasons should enter into the decision making process because as Terry Hall pointed out at the Board meeting, other actions might have legal ramifications.

Mr. Wallace brought up the point that he thought Mr. Hogg and Mr. Holmes had misunderstood the Membership Committee's reasons for making no recommendation to the Board. There followed a brief discussion concerning the Committee's intended reasons. Reasons expressed were primarily that the addition of a new member with interstate connections might adversely affect the stability of our industry and MSSIC insured associations in particular.

It was finally decided that, in the future, the Committee will be provided more timely and more complete information for applications of new members.

COMMITTEE MEMBERS' COMMENTS

Mr. Hewitt inquired about the delinquency ratios of First Progressive Savings and Loan and Northfield Savings and Loan. Mr. Mahon responded that First Progressive's delinquency consists of many loans with a high percentage (about 50%) in about five loans. The problem is being worked on by the association and closely monitored by staff, but will take some time for First Progressive to fully work out. Northfield's delinquency ratio consists primarily of a project in Harford County that has been taken into R.E.O. Mr. Dietz, being familiar with the project, gave further explanation to the Committee.

Mr. Dietz inquired about Old Court Savings and Loan's violation of the

construction loan regulation, the lending regulation, and the borrowing policy statement. A discussion followed concerning staff's actions regarding these matters. Mr. Holmes stated that staff tries to work with the associations in these matters, and at times, assumes a flexible posture concerning some of the rules and regulations if the association is operating responsibly and in a profitable manner. At Mr. Dietz's request, a report on Old Court's mortgage loans will be given at the next Committee meeting.

Mr. Dietz questioned the erratic behavior of Merritt Savings and Loan's fee income as well as the increase in their total lending. It was agreed that a report concerning these matters will be given at the next Committee meeting.

Mr. Hogg requested that, in the future, the Committee members try to let staff know ahead of time when they have questions concerning non-agenda items. Perhaps then staff will be able to provide the answers on a more timely basis. The Membership Committee was in agreement with this request.

Mr. Wallace inquired about First Maryland Savings and Loan's subordinated debt proposal. Mr. Trice informed him that the Division has approved the debt, but the money has not been received yet. They expect a portion of it (\$ 2 million) by 10-1-83. Mr. Trice explained further that staff has been keeping a close watch on First Maryland's construction loans. At present, they are still in violation, but it is difficult to pinpoint the exact ratios due to First Maryland's classification of their loans. Working in conjunction with the Division, staff will attempt to get more exact figures.

Mr. Dolivka brought up the advertising to the members with emphasis on Merritt Savings and Loan in particular. Mr. Hogg stated he will meet with Merritt to discuss their advertising.

MEMBERSHIP REPORTS

Mr. Mahon summarized his review of Fairfax Savings and Loan. The review focused only on their investment and mortgage portfolio. He stated that Fairfax

has a 12.50% yield on investments and 13.00% mortgage yield. He was impressed with the underwriting and documentation in all areas. He stated that the association understands very well the effect of their advertising in terms of how much money will be attracted, how they will invest it, and how it will affect their net worth.

Mr. Mahon presented a report on his review of Ashburton Savings and Loan. He stated that when converted to a fully accrual basis, they have a slightly negative R.O.A. Their main problem is delinquent loans. Their ratio is at 6.36% and has been near that level for many months. Since the majority of these loans are in bankruptcy, the problem will not be remedied in the near future. He will monitor the situation.

Mr. Trice gave a report on Liberty Savings and Loan. He stated that their attorney, Mr. Cole, is handling the matter. The associations plan for compliance to net worth will be presented to Liberty's board on 9-22-83. Mr. Trice has requested MSSIC also attend this meeting since the plan will need MSSIC approval. The Preliminary Insurance Agreement should be received by 10-1-83. It is expected that Mr. Peach will be indicted soon. Mrs. Miles has prepared for a potential run on savings when this occurs.

Mr. Trice gave a report on Ridgeway Savings and Loan. He stated that they increased their hypothecations to MSSIC by \$20,000 bringing the total to \$55,000. They will submit a projected quarterly budget through 1984 and are pursuing a conversion to stock.

Mr. Dietz requested that the Membership Committee be given a report of five associations' adherence to their plan of corrective action each month. In that way, the Committee will receive a report of all net worth violators over a three month period, and every third month each violator's status will be updated. These reports will be provided by staff.

Mr. Holmes reported that Southern Permanent Building Association has received preliminary approval for the Division for a stock conversion. They

will offer 20,000 shares at \$5 a share. Directors of the association will buy at least 60% of the stock.

Mr. Becker reported that there has been steady increase in the profitability among the Membership.

Mr. Hogg questioned the Committee concerning the condition of the mortgage market. It appears there is a varying market depending on the geographic location of the association.

There being no further business, the meeting adjourned at 2:55 P.M.


Secretary of the Meeting

RKH/WFM/nk

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

OCTOBER 12, 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 October 12, 1983 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, Jr.
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. Mr. Becker acted as Recorder. After reviewing the minutes of the prior meeting, a motion was made, seconded and duly passed to accept the minutes as submitted.

COMMITTEE MEMBERS' COMMENTS

Mr. Wallace made several suggestions on improvements in the monitoring of associations. He indicated that while current quantifying of data seems sufficient, that more subjective analysis is needed. Mr. Wallace stated that as a result of the deregulation of the savings and loan industry, the new investment powers indicate a need for MSSIC to increase its understanding of the members' activities.

Several members suggested that an increase in both the size and scope in the review area may be appropriate.

Mr. Elsnic inquired about the status of the MSSIC staff participating in exit interviews conducted by the examiners from the Division of Savings and Loan Associations. Mr. Hogg responded that in some circumstances there has been a

problem where the MSSIC staff was not notified when an interview was going to be conducted. Mr. Hogg stated that he will seek to re-emphasize to the appropriate Division personnel the MSSIC staff's desire to participate in these interviews.

MEMBERS' REPORTS

Mr. Trice reported that he has received a schedule from Merritt Commercial Savings and Loan Association concerning fee income. Mr. Trice read to the Committee the amounts of fee income associated with the various projects. The Committee requested Mr. Trice obtain additional information about the types of loans that are being originated, and information concerning the level of loan commitments.

Mr. Trice reported on the loan concentration of First Maryland Savings and Loan, Inc. He indicated that the association's amount of construction loans is \$38,822,904 which is 29% of the savings base as of August 31, 1983. However, after netting out participations, the percentage of construction loans to savings is 25%, which is permissible. The association's combined commercial, land and construction loans is 51% of the August 31, 1983 savings base. Mr. Trice indicated that in October, anticipated payoffs of \$8-\$10 million will reduce this combined ratio to 45% of savings with additional progress to be made in future months.

Mr. Holmes presented an organization chart of Old Court Savings and Loan, Inc. and described the functions of the various individuals and subsidiary operations. In addition, he presented a chart tracing the progress management has made in improving the net worth ratio of the association.

Mr. Trice presented a report on eleven projects of Old Court that he visited in Ocean City, Maryland. Mr. Trice reported that the projects appear to be well

collateralized and several are near completion.

Mr. Holmes reported that the independent audit for First Progressive Savings and Loan Association is anticipated to be completed by October 31, 1983. Based on the results and completion of the audit, the association may merge with Old Court Savings and Loan, Inc.

Mr. Trice updated the Committee on the status of Liberty Savings and Loan Association. The management of the association is currently awaiting appraisals on several major delinquent projects to determine if loan losses will need to be established. In addition, it was reported that the indictment of Frank Peach, Jr. appearing in the newspapers had no adverse affect on the association's savings deposits.

It was reported that Slavie Savings and Loan Association was in violation of the MSSIC liquidity rule in July and August. The Committee agreed to allow the association a one month waiver.

Mr. Becker presented a summary of plans submitted by Friendship Savings and Loan, Inc., Municipal Savings and Loan Association, Chevy Chase Savings and Loan, Inc., Hopkins Savings and Loan Association and Ridgeway Savings and Loan Association for attaining compliance with the net worth rule. Friendship and Hopkins are projecting net worth ratios in excess of 5% by year end. Municipal is projecting a net worth level of 2.38% by December 31, 1983, which is in accordance with their Preliminary Insurance Agreement. Ridgeway and Chevy Chase are projecting net worth ratios below 3% through December 31, 1984, although on a consolidated basis Chevy Chase would reach 3% by May 31, 1984.

Mr. Trice presented a proposed amendment to Section 3-211(A)(3) of MSSIC's Rules and Regulations. The amendment would exclude from inclusion in computing the MSSIC net worth ratio any capital stock or subordinated debentures, the purchase of which is financed by a loan from the association.

Upon discussing the proposed amendment, several members expressed agreement in the Intent of the amendment but indicated that some difficulty may exist in enforcing the amendment equitably. Therefore, a motion was made, seconded and duly passed to accept the concept of the amendment to Section 3-211(A)(3) at this time with further consideration to be given before its formal adoption.

Mr. Hogg presented to the Committee a copy of a letter sent to the Board of Directors concerning a proposed revision of Section 3-103 regarding the procedures for application for MSSIC membership and Insurance. Mr. Hogg indicated that a need exists to differentiate application requirements between an existing association applying for MSSIC insurance and a newly created state-chartered institution. The proposed amendment would outline the responsibilities of staff, the Membership Committee and the Board of Directors in the analysis and approval procedures.

There being no further business, the meeting adjourned at 3:40 P.M.


Secretary of the Meeting

RKH/MWB/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, OCTOBER 26, 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 October 26, 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 F. Faulkner, Jr.

James D. Laudeman, Jr.

Terry L. Neifeld

George W. H. Pierson

Others Present: Charles C. Hogg, II, 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; John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Faulkner called the meeting to order at 9:28 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Messrs. Pretko and Garrison reviewed the financial reports and the general economic narrative. (Copies of the financial reports and the narrative are attached to the permanent file copy of these minutes.) Following a brief discussion the representatives from Union Trust Company were excused from the meeting.

READING OF PREVIOUS MINUTES

The minutes of the prior Board meeting were reviewed. Mr. Neifeld noted the

following changes:

1. (Page two, number 2). The words ", but not to amend the minutes" should be removed, and the second paragraph of this section should begin "Following this discussion, Mr. Faulkner . . .".

2. (Page 2, number 3). No indication is made of counsel's comments on the subject of the requirements of Chevy Chase Savings and Loan to enter into an insurance agreement.

Following discussion on this point Mr. Neifeid moved that the minutes quote counsel's opinion on this matter.

Mr. Pierson seconded the motion which received the Board's approval, with Messrs. Carroll, Laudeman and Mrs. Anderson abstaining.

For the record, the following is a quote of counsel's opinion:

Prior to the date on which Chevy Chase entered into its current Insurance Agreement with MSSIC, Chevy Chase's net worth was below 3.00% of the aggregate withdrawal value of its savings accounts. Upon the execution of the Insurance Agreement, Chevy Chase's net worth rose above 3.00% of the aggregate withdrawal value of its savings accounts because a subordinated debenture was simultaneously purchased by MSSIC. Subsequent to the execution of the current Insurance Agreement, Chevy Chase's net worth again fell below 3.00% of the aggregate withdrawal value of its savings accounts. Accordingly, Chevy Chase has again violated Section 3-211(CX2) of MSSIC's Rules and Regulations, which reads as follows: "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". As a result of this new violation, it is appropriate for MSSIC to enter into a new Insurance Agreement with Chevy Chase.

3. (Page 3 - MEMBERSHIP COMMITTEE - paragraph 2). The meaning of this paragraph would be vague without a copy of the letter mentioned being attached.

Mr. Neifeld moved that a copy of Mr. Pierson's August 26, 1983 letter be attached to the permanent file copy of these minutes. Mr. Dolivka seconded and the motion was approved unanimously.

Mr. Dolivka said the last statement on page 6, "Chevy Chase Savings and Loan has explored FSLIC insurance and prefers to remain in the MSSIC system . . ." should be changed to read "Chevy Chase Savings and Loan has explored FSLIC insurance, has found that they did not qualify for FSLIC insurance, and prefers to remain . . ."

Mr. Faulkner said the minutes should be corrected as noted as to items 1 and 3 above.

Mr. Dietz moved that the minutes be accepted as amended. Mr. Bass seconded; the vote unanimously passed.

TREASURER'S REPORT

Mr. Neifeld began the Treasurer's Report by noting and explaining several items in the Corporation's September financial statements. These items included an increase in fixed assets due to the purchase of word processing equipment, an increase in other income due to the receipt of penalty fees from members, and an increase in legal expense because the first billing regarding the tax case was paid. Mr. Neifeld concluded his report with the indication that the Corporation continues to make money.

Mr. Dietz asked for the quarterly comparison of actual to budget. It was indicated this would be forthcoming.

There being no further comments, Mrs. Anderson moved that the Treasurer's Report be accepted as presented. Mr. Elsnic seconded and the motion carried unanimously. (Copies of the Financial Statements are attached to the permanent file copy of these minutes).

MEMBERSHIP COMMITTEE

Mr. Elsnic reviewed the minutes of the Membership Committee Meeting. It was noted that the Committee discussed the coming era of deregulation and the possible need for greater supervisory expertise. Reports by MSSIC staff concerned themselves with fee income at Merritt Commercial; the concentration of construction, commercial and land development loans at First Maryland; the organizational restructuring and Ocean City, Maryland projects of Old Court; the completion of an audit and merger talks at First Progressive; and the approximate 18% delinquency ratio and obtaining of new appraisals at Liberty. It was noted that the Committee said they will wait one month to see what develops regarding the liquidity violation at Slavic Savings and Loan. The associations whom the Committee received plan adherence reports on were Friendship, Hopkins, Municipal, Ridgeway and Chevy Chase. Additional discussions were held on a proposed amendment to Section 3-211(A)(3) of MSSIC's Rules and Regulations and the September 28, 1983 memo dealing with membership application to MSSIC by new or existing savings and loans.

Remarks on the Membership Committee report included: the Board should have more information on the concentration of construction and land development loans, particularly in members below 3%; if this means expanding the staff in the area of review and examination, we should. Mr. Faulkner stated that it would be worthwhile to seriously study bolstering the MSSIC staff to whatever level necessary to review and examine these areas of concern.

No further comments being noted, Mr. Pierson moved to accept the report of

the Membership Committee. Mr. Dolivka seconded and the motion carried unanimously.

SPECIAL COMMITTEE

Mr. Elsnic gave a report on the developments of the special committee to create a proposed insurance agreement with Chevy Chase Savings and Loan, Inc. He said the committee is being very reasonable and the requirements being written into this agreement are attainable by the association. He indicated it will be completed by the November Board meeting.

Mr. Hogg noted that a letter has been sent to the Board of Commissioners concerning a request for permission to merge Government Services Savings and Loan, Inc. with and into Chevy Chase effective December 31, 1983.

It was agreed that the Special Committee would meet again on Wednesday, November 9, 1983.

PREMIUM RESTRUCTURE COMMITTEE

Mr. Trice reported that a majority of this committee has reached a consensus that the premium be based on at least three major areas. These areas are net worth position, interest rate risk and default risk. He indicated it will still be some time before the Committee decided on the list of elements under each major area and is able to weigh these elements and areas in relation to their effect on the final premium.

This report thus having concluded, Mr. Dietz moved that it be accepted. Mr. Carroll seconded; the vote was unanimous. (A copy of the record of this Committee is attached to the permanent file copy of these minutes).

OLD BUSINESS

The Corporation has received 63 out of 102 possible responses to its survey on simple interest certificates. The results of this data will be forthcoming.

Fees paid to Directors or committee members for their participation and input

at an ad-hoc, special or occasional meeting were discussed. This discussion concluded with Mr. Dolivka moving that any Director or committee member attending one of the aforementioned informal meetings be paid \$150 for that event or \$75 if it occurs on the same day as another meeting. Mr. Laudeman seconded and the motion passed.

After a brief discussion on the subject Mr. Hogg stated that the approved draft of the By-Law revision will be distributed immediately to the Board.

NEW BUSINESS

Franklin Associates (i.e. Messrs. Levitt and Pearlstein) have requested permission to convert their \$1 million hypothecation with MSSIC to a subordinated debenture (7 year term, with sinking fund at a rate of the greater of 12% or 1% over Union Trust Company prime). Mr. Hogg said we see no reason to disagree with this request; he would recommend that the Board approve it subject to the approval of the Board of Commissioners.

Discussion included the following: is there any urgency on this matter; this conversion would lock these funds in for seven years; the association has requested a decision prior to November 30, 1983 so it can be reflected on their books by December 31, 1983.

Mr. Pierson moved that this conversion from a hypothecation to a subordinated debenture be permitted. Mr. Dietz seconded the motion.

Mr. Elsnic asked that the motion be amended to include an interest rate cap of 13%.

During discussion of various interest rate caps Mr. Pierson withdrew his motion in its entirety.

Mr. Hall concluded the discussion by suggesting that the Board give staff a maximum to which they would be permitted to negotiate.

Mr. Laudeman moved to permit Franklin Associates to convert its MSSIC

hypothecation held for Old Court Savings and Loan, Inc. to a subordinated debenture (terms as previously described) with a cap to be negotiated by staff but not to exceed 16%. Mr. Carroll seconded and the motion passed.

REPORT OF THE PRESIDENT

Mr. Becker presented the Net Worth Comparison and Status Update. These reports included for the first time an expanded report which indicated possible trends on those associations reporting a net worth position below 5%.

Mr. Hogg reported on Liberty Savings and Loan Association. He said they have been taking positive action on their delinquent loans and are moving swiftly to getting new appraisals on their troubled loans. Mr. Hogg indicated that Liberty's acting managing officer, Ms. Miles, is actively working on hiring her replacement.

Mr. Hogg said that the MSSIC staff will conduct regional seminars for the member associations to explain and describe various reports generated by MSSIC's computer from the data the members supply to the Corporation.

Mr. Hogg explained that letters addressing the possibility of misleading or deceptive advertising have been sent to Sharon Savings and Loan, Inc., Fairfax Savings Association, Eastern Savings Association and Custom Savings Association. He said that Mr. Trice has followed up by meeting with or scheduling meetings with the managing officers of these four associations. He added that an industry-wide memo reiterating the previously distributed guidelines on advertising and the degree of integrity which should be exercised in advertising will be forthcoming.

Mr. Hogg stated that the Board of Provident Savings Bank has approved MSSIC as a tenant in their new financial center building.

Mr. Hogg concluded his report by stating that the staff is pursuing the final form of membership applications with counsel, and he is preparing a letter to clarify capital deposit adjustments.

At 12:00 noon the MSSIC staff was excused as the Board met in executive session, to discuss the Performance Evaluation and Salary Review for Mr. Hogg. After this meeting Mr. Hogg was apprised of the Board's actions by Mr. Faulkner. The details of this evaluation and review are to be supplied by Mr. Faulkner and will be made a part of the permanent copy of these minutes.

CCH/pat

Charles C. Hogg IV / *P.V.F.*
Secretary of the Meeting

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY NOVEMBER 9, 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 November 9, 1983 at 1:00 P.M.

Members present:

Henry R. Elsnic, Chairman
Michael J. Dietz
Jerome F. Dollivka
John D. Faulkner, Jr.

Frank L. Hewitt, III
James D. Laudeman, Jr.
David F. Wallace

Absent and Excused: William F. Brooks, Jr.

Others present: Charles C. Hogg, II, 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, a motion was made, seconded and duly passed to accept the minutes as submitted.

MEMBERS' REPORTS

Mr. Mahon gave a report on the loan concentration of Merritt Commercial Savings and Loan. He indicated that the association is in violation of MSSIC's mortgage loan concentration rule, Section 3-217, concerning the limitation of the aggregate of all construction, land and commercial loans not to exceed 40% of total savings. He further explained that while Merritt is in violation of MSSIC's rule, the association is in compliance with a similar rule of the Division of Savings and Loan Associations, Section .09.05.01.30D(3)(d) because of the use of total assets in the denominator instead of total savings. Mr. Mahon indicated that Merritt's management believes the MSSIC Board should review this discrepancy.

Mr. Mahon next gave a comprehensive report on the mortgage loan

concentration and investments of Old Court Savings and Loan, Inc. He indicated that similar circumstances exist between Merritt and Old Court, where Old Court is in violation of the MSSIC 40% loan concentration rule but not the Division rule. Old Court's management indicated they will attempt to lower their concentration level to comply with the MSSIC rule. He also reported that although technically in violation of the liquidity rule, Old Court has gross liquidity in excess of 6% of total savings.

Mr. Trice reported that First Maryland Savings and Loan, Inc. had not submitted a schedule requested concerning loan concentration and therefore indicated that he would defer his full report until the next Committee meeting. He did indicate that some progress was made in lowering the concentration percentage of construction, land and commercial loans in September. Mr. Trice also noted that a flaw may exist in the effectiveness of Section 3-217 because the loans of a savings and loan's subsidiaries are not required to be consolidated for the purposes of determining compliance.

Mr. Trice then updated the Committee on the status of Liberty Savings and Loan Association workouts. He indicated that approximately 80% of the requested appraisals have been completed. The results indicated that some small profits and losses exist in the various delinquent projects/loans.

The next item on the agenda concerned a review of the status of three associations in violation of the MSSIC liquidity rule. They were Madison and Bradford Savings and Loan Association, Slavie Savings and Loan Association, and Weekly Savings and Loan Association. Since Madison and Bradford was to be considered, Mr. Elsnic abstained from participation and asked Mr. Dolivka to chair this discussion. Mr. Mahon reviewed in detail the liquidity position of the associations and the net effect of savings flows over the last four months. He indicated that Slavie has requested a six month waiver of the liquidity rule and Madison and Bradford and Weekly have submitted plans regarding compliance with

the lending restrictions of the rule.

After discussion a motion was made, seconded and duly passed to recommend to the Board that it (1) grant a six month waiver to Slavic of the MSSIC liquidity rule and (2) accept the plans submitted by Madison and Bradford and Weekly.

Mr. Becker then gave a presentation on two net worth comparison reports that are now available from the computer system. These reports will be included in the Committee's spread sheet packets each month and are anticipated to assist the Committee members in evaluating the financial position of associations below the 5% MSSIC net worth ratio level.

Mr. Becker next presented the plans of Glenmore Permanent Building and Loan Association, Old Court Savings and Loan, Inc., John Hanson Savings and Loan, Inc., First Maryland Savings and Loan, Inc., and Chesapeake Savings and Loan Association to achieve a 4% net worth ratio level. He indicated that Glenmore and Old Court project a 4% net worth level by December 31, 1983 through operational earnings. First Maryland projects a 4% net worth level by December 31, 1983 through the issuance of subordinated debentures and capital stock. Chesapeake projects a 4% net worth level by December 31, 1983 through operational earnings and the issuance of \$600,000 in capital stock. It was reported that John Hanson's public offering of stock has been withdrawn due to difficulties with the underwriting firm. Mr. Hogg indicated he will contact the management of the association concerning their achieving a 4% net worth level.

There being no further business, the meeting adjourned at 3:10 p.m.

Ralph K. Holmes / pvt. jr.
Secretary of the Meeting

RKH/MWB/pat

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY DECEMBER 14, 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 December 14, 1983 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, Jr.
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; Patrick M. McCracken, Administrative Coordinator; William F. Mahon, Review Analyst.

Mr. Elsnic called the meeting to order. Mr. Mahon acted as Recorder. After reviewing the minutes of the prior meeting, a motion was made, seconded and duly passed to accept the minutes as submitted.

COMMITTEE MEMBERS' COMMENTS

Mr. Wallace asked about Admiral-Builders Savings and Loan Association's increase in the delinquency ratio. Mr. Mahon reported that this is due to an addition to the delinquency list of one loan of about \$1,000,000. Since Admiral-Builders has a 50% participation with Chesapeake Savings and Loan Association on this loan, they are not really at risk for as large an amount as it appears.

Mr. Wallace asked about Community Savings and Loan, Inc.'s decrease in savings. Mr. Faulkner answered that it was due to normal run-off in jumbo CD's because of rate competition.

Mr. Wallace stated his concern that Bay State Savings and Loan Association is in violation of the 25% construction loan regulation, while at the same time their net worth decreased.

Mr. Wallace, along with other members of the Committee, inquired about First Progressive Savings and Loan Association's large amount of borrowings, as well as the general condition of the association. Mr. Mahon reported that the 1982 audit has finally been completed, but MSSIC has not seen it yet. First Progressive indicated to MSSIC that year end 1983 net worth will be about 2.30% or \$1,000,000. It was decided that a complete report on First Progressive would be given at the next Membership Committee Meeting.

Mr. Hewitt inquired as to where MSSIC stands relative to the Chevy Chase Savings and Loan, Inc. and Government Services Savings and Loan, Inc. merger. Mr. Hogg informed him that MSSIC has approved the merger subject to Mr. Brown's approval and the terms of the new insurance agreement being negotiated.

Mr. Hewitt asked about Merritt Commercial Savings and Loan's relationship to Metropolitan Federal Savings and Loan Association. Mr. Hogg informed him that Mr. Klein (of Merritt) is interested in acquiring Metropolitan on a personal basis and that Merritt is not involved in any pending deals. In addition, it appears as if two other parties are also involved in current negotiations to acquire Metropolitan.

Mr. Dolivka inquired about the increases in the delinquency ratios of Hopkins Savings and Loan Association and Ridgeway Savings and Loan Association. Mr. Mahon reported that Hopkins' increase is due primarily to contractually delinquent accounts. Hopkins monitors the accounts very closely and does not foresee any losses. Ridgeway's delinquency increase is the result of eight delinquent accounts, two of which are in foreclosure. Staff has requested further detail from Ridgeway.

Mr. Dietz read an excerpt from a bill proposed by Jim Leach addressing depository institutions insurance. A discussion followed concerning this and the recent failure of the Nebraska Insurance Fund. Mr. Hogg concluded the discussion by outlining the difference between the Nebraska Fund and MSSIC (and the four other private insurance corporations; Ohio, Pennsylvania, Massachusetts and North Carolina) and assuring the Committee that MSSIC, in conjunction with the other private insurance corporations, is closely monitoring the situation.

Mr. Dietz presented to the Committee copies of articles concerning Merritt Commercial Savings and Loan's loan activities. He voiced his concern over the apparent diversity of Merritt's loan portfolio and that perhaps MSSIC should require further information on loans of a particular amount and particular nature.

Mr. Trice clarified the article in question. While Mr. Klein (of Merritt) is personally involved with the projects mentioned, Merritt does not have direct involvement in many of these loans. It appears the authors of the article or perhaps Mr. Klein himself did not give an accurate representation of Merritt's involvement versus Mr. Klein's involvement.

Mr. Laudeman voiced his disagreement with Mr. Dietz's suggestion requiring further reporting on loans. Mr. Laudeman suggested that instead MSSIC should require associations to prove that they have the expertise, experience and knowledge to engage in diverse lending practices.

A lengthy discussion followed in which the following points were made:

-An individual loan cannot be judged merely on the amount of the loan and location of the project.

-This Committee does not want to limit the ability of MSSIC associations to effectively compete with other savings and loans.

-MSSIC was originally intended to insure thrifts, not commercial banks.

-Does MSSIC have legal grounds for taking any significant action that would restrict lending practices.

Mr. Brooks commented in conclusion that MSSIC already has the means, via its existing rules and regulations, to effectively monitor the activities of members, but is not using them. All other suggestions are unnecessary if we were to enforce our current rules and regulations.

Summing up, Mr. Hogg said we have discussed three views:

1. Requiring associations to maintain a staff experienced to engage in those activities they wish to engage in.
2. Further intensification of the examination process.
3. Better enforcement with the means already available.

STAFF REPORTS

Mr. Holmes gave a report on Old Court Savings and Loan, Inc.'s two hydro-electric plant loans. He stated that these were really Industrial Development Bonds secured by mortgages. He was satisfied with the file documentation and was convinced these loans do not represent an extraordinary insurance risk to MSSIC. As of December 10, 1983 the first power plant is up and running. The power from both plants will be purchased by Niagara Mohawk Power Corporation. Old Court has an equity interest in both loans.

Mr. Brooks questioned if the amounts of the loans (\$4,100,000 and \$12,000,000) are in violation of Division regulations. Since the \$12,000,000 loan is in excess of Old Court's total net worth, this is a violation. Mr. Holmes said he believes Mr. Levitt would sell a participation if we asked him to; however, the Committee made no formal request to do so.

Mr. Trice gave a report on First Maryland Savings and Loan, Inc. Construction loans equal \$50,000,000 or 32% of savings. By the end of March 1984 this amount should reduce by about 12-15%. Commercial and land loans equal

\$51,800,000 or 33-1/2%, bringing the total up to 66%. By the end of March 1984, this ratio should be about 41%. These reductions will be accomplished through loan pay-offs, selling participations, and no replacement with new loans of these types. First Maryland's delinquency ratio has improved significantly in the last six months.

Mr. Trice gave a report on Liberty Savings and Loan Association. The result of the updated appraisals performed by Legg Mason, Inc. estimated losses of about \$800,000-\$1,000,000 on Liberty's loan portfolio. Mr. Trice estimated that given the time to try to work out the loans, perhaps the losses could be reduced to \$250,000-\$300,000 over a one year time period. Mr. Trice requested that the Membership Committee make a recommendation to the Board for either 1) a workout insurance agreement or 2) a liquidation of the association.

Mr. Wallace and Mr. Laudeman were both concerned that Judi Miles (the present managing officer) may not remain with the association during the course of a workout agreement, in which case there would be no one to manage the association. Mr. Hogg agreed to meet with Ms. Miles to fully understand her intentions. Also, MSSIC will begin to explore a bidders process.

A motion was made, seconded and duly passed to recommend a six month workout agreement to the Board of Directors.

Messrs. Mahon and McCracken gave a report on Custom Savings Association. Mr. Mahon reported that the review of Custom showed sound bookkeeping and internal control. Custom does not originate mortgages but invests primarily in FHLMC securities. Their yield on investments is 12.50% and their cost of funds is 9.58%. To date they have written off \$700,000 in losses from their investment in Penn Square Bank.

Mr. McCracken reported on an advertising rate scenario and compared it to actual month end figures for Custom. This scenario outlines a method whereby an

association can, through the use of two separate funds, advertise a consistently high rate, while in fact, actually pay a lower effective rate.

A discussion followed concerning the use of deceptive advertising and the legal grounds, if any, for MSSIC to prevent this. The point was made that Custom's truth-in-savings statements do not adhere to Section 9-403 of the Annotated Code of Maryland - so that there is definite grounds for action concerning the truth-in-savings statements.

A motion was made, seconded and duly passed recommending to the Board that we notify Custom to cease their deceptive advertising practices.

Mr. Becker presented the plan of John Hanson Savings and Loan, Inc. to achieve a 4% net worth ratio level. This will be achieved by March 31, 1984 through increased earnings and the sale of loans. He also reported on the comparison of Fairfax Savings Association, Eastern Savings Association, Monumental Savings and Loan Association, Bay State Savings and Loan Association, and Second National Building and Loan, Inc. projected net worth to actual figures. In all cases, except Monumental, the associations are close to projections.

Mr. Holmes reported that U.S. Home Savings and Loan Association has withdrawn its application.

There being no further business, the meeting adjourned at 4:30 P.M.


Secretary of the Meeting

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, DECEMBER 28, 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 December 28, 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 F. Faulkner, Jr.
James D. Laudeman, Jr.
Terry L. Neifeld
George W. H. Pierson

Others Present: Charles C. Hogg, II, President; Ralph K. Holmes, Senior Vice President; Paul V. Trice, Jr., Vice President; Martin W. Becker, Financial Analyst; Patrick M. McCracken, Administrative Coordinator; John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Faulkner called the meeting to order at 9:32 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Messrs. Pretko and Garrison reviewed the financial reports and the general economic narrative. Following a brief discussion the representatives from Union Trust Company were excused from the meeting. (Copies of the financial reports and the narrative are attached to the permanent file copy of these minutes.)

READING OF PREVIOUS MINUTES

The minutes of the prior Board meeting were reviewed. Mr. Neifeld noted a correction appropriate on page 4, item (1) under paragraph 2 which should read:

"(1) increased from .2% to .4%"

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After discussion Mr. Bass moved that the minutes be approved as corrected. Mr. Dolivka seconded and the motion unanimously passed.

TREASURER'S REPORT

Mr. Neifeld indicated that interest on investments declined, the tax figure for the month is negative because of our recent refund, and the Corporation continues to be profitable.

Mr. Dolivka moved that the Treasurer's Report be accepted as presented. Mr. Bass seconded and the motion carried unanimously. (Copies of the Financial Statements are attached to the permanent file copy of these minutes.)

MEMBERSHIP COMMITTEE

Mr. Elsnic reviewed the minutes of the Membership Committee Meeting. He noted that the Committee discussed the delinquency ratio of Admiral-Builders Savings and Loan Association, a savings decrease at Community Savings and Loan, Inc., the construction loan percentage violation of Bay State Savings and Loan Association, and the large amount of borrowings at First Progressive Savings and Loan Association. Mr. Elsnic further noted that a change should be made in the December 14, 1983 Committee Meeting Minutes (page 2, paragraph 3, sentence 2, change last word "negotiated" to "accepted"). Other items discussed by the Committee related to Hopkins Savings and Loan Association, Ridgeway Savings and Loan Association and Merritt Commercial Savings and Loan. Mr. Elsnic stated that at the conclusion of a lengthy discussion on lending practices at the Committee meeting, three possible alternatives were presented for further exploration:

1. More extensive reporting on loans made by members in excess of a given amount;
2. That job descriptions and resumes containing lending qualifications be required of member associations;

3. More stringent enforcement of current rules and regulations.

Mr. Elsnic noted that staff reports were given on two loans at Old Court Savings and Loan, Inc. and First Maryland Savings and Loan, Inc.'s violation of the loan concentration regulation dealing with construction, commercial and land development loans. Other staff reports noted were given on Liberty Savings and Loan Association, Custom Savings Association, John Hanson Savings and Loan, Inc., Fairfax Savings Association, Eastern Savings Association, Monumental Savings and Loan Association, Bay State Savings and Loan Association and Second National Building and Loan, Inc.

No further comments being noted, Mr. Neifeld moved to accept the report of the Membership Committee. Mr. Carroll seconded and the motion carried unanimously. (A copy of the Membership Committee Minutes is attached to the permanent copy of these minutes.)

Mr. Faulkner noted that the subject of improved scrutiny of the lending ability, activity and compliance of members will be on next month's Board Meeting agenda for discussion by the Board.

AUDIT AND BUDGET COMMITTEE

Mrs. Anderson presented the proposed 1984 corporate budget. Following several questions and discussion, Mr. Elsnic moved the 1984 corporate budget be approved as submitted. Mr. Laudeman seconded and the vote was unanimously in favor. (A copy of the 1984 corporate budget and the minutes of the Audit and Budget Committee are attached to the permanent file copy of these minutes.)

OLD BUSINESS

The proposed tenth revision (corrected) of the MSSIC By-Laws having been previously distributed, reviewed and discussed, Mr. Neifeld moved that they be approved subject to the approval of the membership and the Director of the Division of Savings and Loan Associations. Mr. Dietz seconded the motion which

passed unanimously. A discussion ensued regarding suggestions as to preparations for a special meeting of members for the membership's vote on the proposed By-Laws (tenth revision-corrected). Staff is to make recommendations on this matter.

Mr. Hogg reviewed in detail some very recent changes brought about by a zoning change on certain property which impacts the net worth of both Chevy Chase Savings and Loan, Inc. and Government Services Savings and Loan, Inc. and thereby would affect the proposed merged entity. He said this impact would bring the proposed merged association above the 3% benchmark. Following a lengthy discussion and review of the details involved Mr. Hogg recommended:

1. The Board approve the merger.
2. The net worth of the merged association be closely monitored.
3. A progress report be a monthly Membership Committee agenda item.

During renewed discussion Mr. Pierson asked that the record indicate his asking MSSIC's legal counsel if Chevy Chase Savings and Loan is in violation of any state law or any of MSSIC's Rules, Regulations or By-Laws. At the conclusion of the lengthy discussion Mr. Dietz moved that the merger of Government Services with and into Chevy Chase be approved subject to a letter containing a signed agreement from Chevy Chase which states that if, at any time, during the life of the December 31, 1981 Insurance Agreement and the life of the related subordinated debentures, the merged entity falls below 3% net worth, they will execute the specifically prepared insurance agreement which has been presented to them. Mr. Neifeld seconded the motion which passed by a majority vote with Mr. Pierson opposed and Mr. Laudeman abstaining.

Mr. Faulkner excused himself from the meeting and Mr. Bass assumed the chair.

NEW BUSINESS

Mr. Trice and Mr. Neifeld reviewed the details of the proposed amendment to Section 3-202 and the proposed adoption of Section 3-308 of the MSSIC Rules and Regulations (a copy of these two proposed sections is attached to the permanent file copy of these minutes).

Following a brief discussion and adoption of some wording changes, Mr. Donahue moved that these two proposed sections be approved as changed. Mr. Neifeld seconded and the vote passed unanimously.

REPORT OF THE PRESIDENT

A review of the money market accounts offered by Custom Savings Association, the advertising, and variable interest rate method used was given by Mr. McCracken. Mr. Hogg noted that this review will be given to the Division and Mr. Kresslein, Maryland League of Financial Institutions.

The Net Worth Comparison Update was reviewed.

Mr. Hogg stated that recommendations regarding changes on the Central Reserve Fund will be forthcoming.

Mr. Hogg asked that the Directors consider separating social activity from the business meeting at the Annual Meeting. He said he would ask for recommendations next month.

Mr. Hogg stated that the annual planning meeting of MSSIC staff officers will be held in January.

Mr. Hogg indicated that the anticipated date of the relocation of the corporate offices to the Provident Financial Center is May 1, 1984.

Mr. Hogg explained that staff has written to all stock associations regarding proposed changes to Federal Reserve Board Regulation Y. He said the letter suggested that each specific association have its counsel review their position as regards this proposed change.

482 21718

Mr. Pierson suggested that an indepth review regarding the definition of "a bank" be placed on next month's agenda.

A few Directors requested a tour of the proposed corporate office location of MSSIC in the Provident Financial Center.

Mr. Carroll moved that the meeting adjourn. After a second and an affirmative vote, the meeting adjourned at 1:23 p.m.

Charles C. Hogg II
Secretary of the Meeting

CCH/pat

EXECUTIVE SESSION
November 3, 1983

Board of Savings and Loan Association Commissioners

Ralph Holmes of MSSIC attended the Executive Session of the Board meeting.

Consolidation

Mr. Gisriel stated that Mr. Brown had sent a memorandum dated October 21, 1983 to the Board with respect to the proposed consolidation of the financial regulatory agencies. Attached to his memorandum were copies of the 1976 study by a commission appointed by Governor Mandel, the 1978 "Sunset Report" and Mr. Brown's memorandum of June 28, 1983 to Secretary Corbley. Mr. Gisriel felt that this material gave the Board a good basis upon which to evaluate consolidation of the financial agencies. He asked the Board members for their comments.

Mr. Stocksdale stated that he was not in favor of the proposed consolidation for the various reasons outlined in the 1976 study on regulatory structure. Mrs. Erwin felt that, although now may not be the time to consolidate the agencies, that with the parallel authorities now granted State-chartered associations, that perhaps regulatory consolidation should be reviewed at some time in the future.

Mr. Gisriel stated that he was also concerned over the fact that the State was using as general revenues, funds paid by savings and loans, in the form of a franchise tax, for regulation of the industry. He added that this agency runs on considerably less money than paid by the associations in taxes, however, our budget has been cut, and now through the budget process they want to combine us with other agencies to save even more money.

There was some further discussion concerning what was felt to be five very strong reasons contained in the 1976 study for not consolidating the financial regulatory agencies. It was noted that the special committee which made this study consisted of a good cross section of professionals including some prominent members of the legislature. Mr. Stocksdale then made a motion that the Board emphatically oppose consolidation based upon the points raised in the 1976 study, which are still felt to be applicable in today's environment. This motion was unanimously approved by the Board of Commissioners.

John Hanson

Mr. LeCompte stated that this month's meeting was advanced to the first Thursday of the month at the request of Jerry Whitlock. He made this request as John Hanson needed prompt consideration of a charter amendment concerning preemptive rights on their capital stock and approval of a subordinated debenture to be used in an upcoming public offering. Mr. Whitlock is here, somewhat embarrassed, and would like to address the Board.

Mr. Whitlock stated that after months of discussions that a commitment committee of Drexel Burnham Lambert had decided not to go through with the underwriting. He added that one upsetting aspect was that the three reasons given at this late hour by the underwriter for not proceeding were all known to Drexel Burnham Lambert months ago at their very first meeting. Since then, a considerable amount of effort, time and money had been spent putting this offering together. However, he stated that John Hanson has spoken with five other underwriters at this point, and believe they can restructure another deal.

Mr. Balder asked why it was turned down. Mr. Whitlock stated that the reasons given were a June 30, 1983 sale of stock to John Hanson's existing stockholders which involved some favorable financing; the price of two times book was felt to be too high; and that the association had a mismatch of assets and liabilities. Mr. Whitlock then thanked the Board for their time and left the meeting.

Mr. Gislriel stated that he was concerned over the amount of net worth in this proposal which would be in the form of a subordinated debenture. Mr. Stocksdales added that he also objected to a debt instrument being considered as net worth. Mr. LeCompte stated that one requirement of Regulation .41 - Subordinated Debentures was that debentures cannot be more than 50% of net worth. He stated that this percentage could easily be changed by the Board, or they could also change Regulation .40-1 (Reserves) to adjust for these debt instruments. Mr. LeCompte also noted that when Regulation .41 was adopted, the economy was much better, the associations were all making money and this regulation allowed them to grow and still meet the 4% net worth test. With the recent economy and the losses that occurred, these debt instruments, which may constitute a large portion of an association's net worth are naturally viewed a little differently. Mr. Gislriel felt this matter should be given some consideration in the future.

Promotional Gifts

Mr. LeCompte noted that before each Commissioner was a copy of a certificate ad ran by Washington Federal Savings and Loan, offering a color television as a gift for opening the account. He noted that under the federal regulations, the value of any gift of over \$10 or \$20, depending upon the size of the deposit, was considered additional interest. Because of interest rate ceilings under Regulation Q, such giveaways couldn't be done. However, the account offered by Washington Federal is one which is now deregulated, and has no interest rate ceiling. Mr. LeCompte stated he had just received a request from a State-chartered institution to offer a similar program; however the association did not want their plan discussed in regular session in front of their competitors, if the Board was inclined to table the request for additional study. He explained that the association wasn't that large, and felt that if the plan was tabled and brought back in a month or so, they would lose any competitive advantage to an institution with larger advertising budgets.

A rather lengthy discussion ensued concerning this issue and it was decided that this plan was not permitted under our current advertising regulations. It was also decided to see whether the FHLB takes exception to this type of program. The Board was inclined to change their regulation if these gifts are now permitted to be given by federal associations. Action on this proposal was tabled for further study.

U.S. Home Savings and Loan Association

Mr. LeCompte stated that as part of the new charter application by U.S. Home Corporation, the names of three new directors had been submitted for the Board's review. The new directors were Ronald M. Shapiro, Larry D. Dismuke and Elizabeth M. Houston. Mr. LeCompte noted that Mr. Shapiro was a well known, prominent Baltimore Attorney and Mr. Dismuke and Ms. Houston were employees of U.S. Home Corporation's Baltimore Operation.

A discussion ensued relative to the fitness and qualifications of these people to serve as directors of the institution. It was felt that Mr. Dismuke and Ms. Houston did not have much of a business background, as they were both quite young, and they may not be able to contribute much in the way of direction and policy to the proposed institution. It was felt that under the statute, and since this institution would be wholly-owned by U.S. Home Corp., the Board had no real basis to object to these proposed directors at this time.

John Hanson Savings and Loan, Inc. - Golden Mortgage Plan

A rather lengthy discussion ensued over what concerns the Board may still have with respect to this mortgage plan. It was decided that the plan could be approved under the provisions of Regulation .30C(16), however, there was some concern with respect to disclosures to the borrower and the security of the loans where an IRA account was used as part of the plan. These issues would be taken up with John Hanson in the regular session of today's meeting.

Old Court Savings and Loan, Inc. - Subordinated Debenture

Mr. LeCompte stated that Old Court has requested permission to issue a \$1 million subordinated debenture. They wish to issue this to replace a \$1 million savings hypothecation for net worth purposes. Mr. LeCompte noted that Old Court's net worth was approximately 3.7%, and under the terms of the hypothecation agreement, these funds may soon be eligible for release.

A lengthy discussion ensued with respect to whether debt instruments should be allowed to comprise a substantial portion of an association's regulatory net worth. It was noted by Mr. Brown that Old Court meets all the requirements contained in our subordinated debenture regulation; i.e., they do not need any waivers from the Board, and there was no basis to really deny this request. It was decided that the Board should consider amending their regulations concerning debentures as net worth.

EXECUTIVE SESSION
December 8, 1983

Board of Savings and Loan Association Commissioners

Ralph Holmes of HSSIC was in attendance at the Executive Session of the Board meeting

Consolidation of the Financial Regulatory Agencies

Mrs. Erwin stated that she felt the Board's letter to Secretary Corbley, signed by Mr. Gisriel as Chairman, was a good, substantive letter with respect to consolidation. The other Board members expressed their agreement with her opinion. Mrs. Erwin also referenced that in the letter to Secretary Corbley, dated November 29, 1983 and which was signed by the three financial agencies, it stated in the section relating to Legislative Consolidation that consumers have unanimously and vigorously opposed this idea. She stated that she did vote against consolidation of the agencies, but "vigorously" was somewhat of an overstatement. She added that the Board's Executive Minutes of last meeting stated very well what she did say. Mr. Gisriel stated that he felt this referred to the Boards generally and not solely to the consumer members. Mr. Brown stated that the Board's letter of November 3, 1983 would be sent with the consolidation report which was due to the legislature by December 1, 1983.

Mr. Brown then reported with regard to finding office space to house all three agencies, that the agencies and staff of the Secretary's Office had met with General Services and it now appeared that they would try to locate space in the "downtown financial area". This area is being roughly defined as bordered by Saratoga Street on the North, Pratt Street on the South, Hopkins Plaza to the West, and Holiday Street on the East. This proposal came about since the Bank Commission does not want to leave the downtown financial district. If this proposal is used, then the Shilcraft Building would be eliminated as a possible office site. It also appears that a final decision on the office space will be held off until the three financial regulators meet with Timothy Maloney, who is the Chairman of the House Appropriations subcommittee who will be reviewing the budget for the Department of Licensing and Regulation.

Mr. Brown also noted that the consolidation report deadline of December 1, 1983 had been extended to January 15, 1984.

Subordinated Debentures

Mr. Brown stated that from time to time certain Board members have brought up the issue of subordinated debentures as a component of net worth. It was felt by some commissioners that with the betterment of the economy, that debentures should not be permitted to constitute too large of a percentage of an institution's net worth. There was also concern expressed over debentures

IIIB34

487

A 542 CD

which were non-cash purchases. Staff requested some input as to whether the Board felt that debentures should be phased out as a net worth item, limited to a certain percentage or only cash purchases be considered in any amount as net worth.

Mr. Stocksdale asked Mr. Holmes about MSSIC's position with respect to debentures as net worth. Mr. Holmes stated that MSSIC now includes the full amount of a debenture as net worth, however previously debentures were only counted as net worth net of a required sinking fund.

After some discussion, it was decided to again consider this matter at a future meeting.

Operations

Mr. Rittenhouse noted the delinquent mortgage loans at First Progressive, Liberty and Hopkins seem quite high. Mr. Brown stated that Liberty's problems have been reported at several prior meetings of the Board. First Progressive has recently been examined and there are several areas of concern. Discussions have occurred with respect to possibly merging them into Old Court Savings and Loan. Hopkins' examination will begin shortly. Mr. Brown referenced that all will be monitored closely.

Mr. Stocksdale and Mr. Gisriel also referenced that Sharon/Security should also be reviewed.

State/Federal Regulators Conference

Mr. Brown stated that he had recently attended a regulators conference in Washington sponsored by the Federal Home Loan Bank. He felt that two items discussed at length by the federal regulators were worthy of note.

First, the Federal Home Loan Bank is increasing the required minimal capital to charter a new association to \$3 million in capital stock and an initial 7% net worth requirement for the first year. This 7% requirement would be phased down over a four year period to 3%. The apparent reason for this is that there is presently about 200 applications filed for new California State-chartered associations with FSLIC insurance. It appears that a recent change in the California law which will permit a California association to invest up to 100% of assets in service corporations has caused this rush to acquire these charters. The Bank Board expressed some concern over possible self dealing and the character and fitness of some of these applicants.

Secondly, the Bank Board is considering prohibiting brokered savings. They are finding too many situations where the brokers of these savings dollars are also receiving large loans which oftentimes are not felt to be good loans.

It was decided that both of these items should be given consideration at a future meeting.

Regulations .30 and .50

Mr. Brown advised the Board that Regulations .30 and .50, which were approved by the Board at its August meeting and appeared in the September 30, 1983 issue of the Maryland Register, were to be considered for final adoption at today's meeting. However, there have been many good comments received from the industry which were forwarded to Mr. Stocksdale's committee. After some discussion, it was agreed that the Regulation Rewrite Committee should give consideration to the various comments received. Mr. Brown noted that if any substantive changes were made to the regulations, they would have to be republished for public comment. Mr. Stocksdale stated that his committee would meet sometime in January and would submit the revised regulations for consideration at the Board's February meeting. Mr. Gisriel stated that he would make this announcement during the general session of the Board meeting.

MEMO

To: Charles H Brown, Jr.
From: Jeffrey Fine

Date 7/20/83

Re 1st Progressive SCL

Enclosed is a list of problems with loans and other areas on a case by case basis. Most show where money is due the area from somewhere. This is not meant to include all problems in all areas, only the ones that we already have found as an example to give you a sample of the problems encountered

A review of mortgage loan files revealed an unusually large amount of missing and incomplete documents for each loan file. The reason for this appears to be that the documents involved have been submitted by the attorney to the servicer.

There were many more than usual of missing recorded mortgage instruments; missing or incomplete settlement sheets; missing ^{certifications of title or} missing title insurance policies all of which could be attributed to the attorney. The Examiner also noted some mortgage instruments took considerably longer than the usual 30 days to record the document. One took over a year to record because the date of the settlement. We also observed that ^{the attorney} ~~it~~ show to remit to the servicer in a timely manner required documents and in several instances funds due the servicer from settlements. There has been a continuing concern for the past several examinations.

Additionally we found copies of settlement sheets that were signed in blank and in one instance located a copy of a mortgage signed in blank. (See 4199 Supplement in various properties).

Another area of concern is the slowness of the attorney to remit documents and funds on foreclosed loans.

General ledger account #1398-00 "Due from Jeffrey Levitt." totals the following as of the date listed:

4/12/31/80	\$ 81,034.95
3/31/81	81,034.95
12/31/82	197,092.97
3/31/83	350,139.59

This account includes fund due as foreclosure of loan 4076 Clemons Properties, caves Rd. in the amount of \$79,741.24 as of 12/31/79. The asset has never received a court auditors report on the property nor any funds. Until it received this it cannot write off a loss (assuming there were no funds). Mr. Levitt disputes that the money is owed (per Paul Freeman). The bulk of the remaining funds due are buying and reporing T-Bills and securities for Mr. Levitt's personal account. ALSO some money paid for repairs and/or remodeling, gas + electric to the office owned by Mr. Levitt. ALSO some money paid for rent on suites NOT occupied by 1st Progressive - (and some occupied by 1st Progressive).

3
Loan 4076 To Clevead Properties
= 2, 3, + 10; Lot = on CAVES Road.

Original Loan \$300,000

Loan 4076 was foreclosed and bought in by Monumental CHS.C. in 1979, then sold by MCSC to Abraham KOROTKI in 2/19/79 in 1981 HE KOROTKI deeded the property back to 1ST Progressive.

Paul Freeman stated that NO audit report for loan 4076 was ever received nor were any funds ever received from attorney Levitt. This loan card shows an unpaid balance of \$2,733.24. The acct transferred \$79,411.24 to the due from Jeff Smith general ledger account in 12/31/79. The other \$1672. is also expense due from the foreclosure.

Loan 4144 for the amount of \$89000. is still on the books. plus an overhead expense account \$2,035.04. This amount as of 3/31/83 remains in Mortgage loans receivable even though it has been deeded back to 1ST Progressive.

Clemson Properties of John Clemson ACCT. NO. 40
 ADDRESS 28 Allegany Ave. Towson 21284-1300 000.00
 ADDRESS OF PROPERTY Lots - Lewis Rd + Park Hg Ave 21284-1300

DATE PD.	SYN.	INTEREST	PRIN. & INT.	BALANCE	OLD BAL. - PREVIOUS
2 FEB -8-70	H A	300,000.00		**300,000.00S	
3 APR -5-78	04-1 A	*3,000.00	*3,000.00	**300,000.00S	
4 MAY 15-78	05-1 A	*3,000.00	*3,000.00	**300,000.00S	
5		150.00			
6 JUN 19-78	06-1 A	*3,000.00	25,893.28	**281,256.77S	
7 JUN 19-78	06-1 A	*2,069.86	*2,159.86	**280,256.77S	payoff Lot #6 at 7/25/78
8		Fine **138.63			
9 SEP 20-78	07-1 A	*2,772.56	*2,911.19	**277,256.77S	
10 SEP 20-78	0 A		29,000.00	**248,256.77S	pay off lot #8
11		Fine			
12 SEP 20-78	07-24 A	*1,931.55	*1,931.55	**248,256.77S	
13		Fine			
14 OCT 26-78	08-24 A	*2,482.56	*2,606.66	**248,256.77S	
15		Fine			
1 NOV 20-78	09-24 A	*4,965.12	39,213.32	**214,256.77S	payoff lot #5
2					
3 DEC -7-78	09-24 A	*2,142.56	28,642.56	**187,756.77S	payoff lot #9
4 DEC 11-78	09-24 A	*1,877.56	28,877.56	**160,756.77S	payoff lot #7
5 FEB -9-78	02-11 A	*2,036.25	*2,036.25	**160,756.77S	
6 MAR 26-78	02-11 A	**964.54	**980.07	**160,741.24S	
7 MAY 25-78	H A	*1,000.00	Legal fees	**161,741.24S	
8 SEP 25-78	D A		82,000.00	**79,741.24S	
10					
11 APR -2-81	H A	**692.00	Foreclosure	**80,433.24S	
12					
13 MAR 11-82	H A	*1,000.00	Legal Fees	**81,433.24S	
14					
15					

MONTHLY PAYMENT	PRINCIPAL 2772.56	INT. FEE 0
WEEKLY PAYMENT	INTEREST 3000 -	LAND LOAN
PAYMENT	EXPENSE 0	LC 1500 2 YEARS
	TOTAL 3000 -	

THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC.

\$79,741.24 is in g/c 398 at 12/21/77 which is "one-time sell note". The 692.00 and 1,000.00 are 4/2/81 and 3/11/82

216986

payoff Lot #6 at 7/25/78

pay off lot #8

payoff lot #5

payoff lot #9

payoff lot #7

ALERT PAID 12-31-79 K

033-0077

MORTGAGEE: Abraham Paul Korotki ACCT. NO. 4744
 ADDRESS: 516 W. Allegheny Ave. Towson 21204 LOAN # 87,000.00
 ADDRESS OF PROPERTY: MO #2, 3, 4, 10 Crows Pt. DATE OF LOAN 9/19/79

MORTGAGE LOAN				BALANCE	OLD BAL. PICK-UP
DATE PD.	INT. PT.	SYM.	INTEREST	PRIN. & INT.	
1					
2 SEP 19-79	H	A	87,000.00 ^	***87,000.00S ^	<u>38.97</u>
3 NOV 13-79	DA	A	**318.97^	**318.97^	mkcjm int.
4 NOV 13-79	DA	A	**797.50^	**797.50^	
5 DEC -3-79	DA	A	**797.50^	**797.50^	
6 DEC 31-79	DA	A	**797.50^	**797.50^	
7 JAN 31-80	DA	A	**797.50^	**797.50^	
8 FEB 29-80	DA	A	**797.50^	**797.50^	
9 APR -3-80	DA	A	**797.50^	**797.50^	
10					
11					
12					
13					
14					
15					

AS of 3/31/81 This is a part of the mortgage receivable control
 This should be in REO. The property was deeded to owner in 1981

REC not ridge

MONTHLY WEEKLY PAYMENT	PRINCIPAL & INTEREST \$	<u>797.50</u>	ENT. FEE \$	<u>Lead Loan (Clemson Prop)</u>
	EXPENSES \$	<u>125.50</u>		<u>66 38.89</u>
	TOTAL \$	<u>923.00</u>		

11%
X

THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC. ACCT#111111



Clawson Properties

ADDRESS OF PROPERTY

ACCT. NO. 4144

GROUND RENT

DUE

EXPENSE ACCOUNT

DATE PD.	DATE PD. TO	DISBURSEMENTS	RECEIPTS	BALANCE	OLD BAL. PICK-UP
1					
2					
3	SEP 25-79	K A	**500.00	*****500.00	
4	NOV 13-79	K A	**125.50	*****625.50	
5	DEC -3-79	K A	**125.50	*****751.00	
6	DEC 31-79	K A	**125.50	*****876.50	
7	JAN 31-80	K A	**125.50	*****1,002.00	
8	FEB 29-80	K A	**125.50	*****1,127.50	
9	APR -3-80	K A	**125.50	*****1,253.00	
10	MAY 29-80	J A	**557.46	*****695.54	
11	JUL 29-80	J A	**511.70	*****183.84	
12			80-81		
13	AUG 27-81	J A	**576.50	*****392.66S	
14	AUG 27-81	J A	**526.50	*****919.16S	
15	AUG 27-81	J A	**542.30	*****1,461.46S	
16	AUG 27-81	J A	**573.58	*****2,035.04S	
17			81-82		
18			81-82		
19			81-82		
20			81-82		
21					
22					
23					
24					
25					

Loan 4196 to Allen Feinberg upon the
security of 118 S. Morley St.
date of loan 2/18/82 amount \$12,000

Loan sold by Jeffrey Levitt Trustee

Monumental City S.C has a \$12,000 loan
on the same address to Leon Sealty (Paul Sealts)
11/24/82

both loans are on the books as of 3/21/83.

Loans 3691 and 4074 was a 1st and second mortgage respectively on 7400 Pulaski Highway. On 1/25/78 there is a certification of title by Jeffrey Levitt stating that loan (4074) is a second mortgage. The loans were foreclosed and sold on 4/26/79. The court auditors report shows that the 2ND Mortgage was paid funds after Edgmore Finance company was paid \$18,991.41 on its claim. Yet the examiner calculates that another \$20,245.78 in foreclosure costs and interest were due 1ST Progressive. These fees should have been paid by 1ST Progressive before the \$18,991.41 was paid to Edgmore Finance Co. Therefore the attorney must reimburse the assn the 18,991.41 loss of funds due to the fact that 1ST Progressive did not have 2ND loan position which he certified it to be. Also it could not be determined if the assn had received payment.

Loan 4125

To: IVAN LEE

3320 HAYWARD AVE

3114 VIRGINIA AVE

date foreclosed : 3/16/81

3320 Hayward Ave: purchased by Monumental City SC
and sold to The Church of God for all peoples.
(Loan #4194 for \$18,800. dated 2/2/82)

Loan 4125 balance @ 3/31/83.

\$20,833.92

7,465.66

1,040.60

\$29,340.18

principal
interest

overhead Expense.
Total

It appears that all court costs, taxes, etc were
advanced to Sam Aaron.

The 3114 Virginia Ave Property, was purchased
at the foreclosure sale by MCSC. MCSC appears to
have made a sale to SCL, INC and in turn loaned
SCL (PAUL SECHS, and/or his property) \$25,000 on the property (?)
in MCSC.

As of 7/13/83 loans 4125, 4194 and the
\$25,000 loan in the service corp to SCL remain
unpaid on the books. It could not be determined

if the asser remitted the \$7500. and \$4000
to attorney Levitt for monumental City to
purchase the properties on loan 4125.
If no check was remitted to Levitt than
no money was due back to asser. All that
was omitted was to recognize gain or loss
on sale to monumental C.S.C. and wipe out
loan 4125.

[Faint, illegible text on a lined background, possibly a stamp or form.]

Loan 3681

DJ. Red room
% Doris Jones

2125 Sparrows point Rd.

original amt: \$155,000. date of loan 9/12/75
unpaid balance @ 3/31/83

\$161,168.67	principal
<u>30,622.11</u>	interest
191,790.78	total due 1-7 Prng. @ 3/31/83

loan foreclosed and purchased by Municipal
City Service Corp. 6/2/81
still on books

Also @ 3/31/83

Loan 4185

JARRARD

2125 Sparrows point Rd.

date of loan 8/4/81 for \$270,000.

unpaid balance @ 3/31/83

\$270,000.	principal
10,364.18	overdraw account
<u>42,750.00</u>	interest
\$323,114.18	total due F.P.

still on books.

Loan 3745 Helen Blanton
436 ESSEXWOOD COURT

foreclosed and sold 4/2/82
the amount received \$25,028.96 from attorney
J. Levitt by check dated 6/16/83 14 months
later -)

Loan 4227 was to Henry Lato, purchaser
of 436 Essexwood Ct. Loan is for \$12,000
date of loan is 6/24/82.

@ 3/31/82	\$ 31,565.05	Principal
	+ 34.14	overdraw amount
	+ 3156.51	interest
	<u>34,755.70</u>	Total due
	- 5220.28	less M.G.I.C. check
	<u>29,535.42</u>	Total still due @ 3/31/83

1st Progressive

3/21/83

Loan 4199

Borrower: Gilbert + SONORA Sopperstein

Date: MARCH 11, 1983.

Amount: \$150,000.

This was to be a loan to refinance loans 3706 and 4096 held by 1st Progressive and also would include a mortgage on his home at 8508 A Arborwood Rd and his business (JACK'S Deli) at 114 E LOMBARD St. This was per H. Bosley but could not be verified.

The only real information in file was the commitment letter which did not list the purpose. Also interest was to be at 5 points above New York composite index at time of settlement. Amount does not know what the rate is to be charged although it is 15 months later. The settlement sheet and the mortgage appear to have been signed in blank.

Loan 3706, 4096 and 4199 are all still on the books at 3/21/83. It appears that attorney Hewitt holds funds of the 4199 settlement of at least \$150,000 which would pay off 3706 and 4096. Also the commitment letter states that interest on loan 4199 shall be prepaid on the loans, so Mr Hewitt should have remitted interest from settlement to account.

Balance due on:

Loans 3706	\$ 16,612.99	Principal
	3,599.44	Interest
	<u>20,212.43</u>	Total
Loans 4096	6385.43	Principal
	1383.46	Int. acc.
	<u>7768.89</u>	Total

Since there was no loan card in file for 4199 now was it possible until 7/12/83 when the examiner brought it to their attention. It should also be on the delinquent list.

503-10391

Loan 4205 to Joseph Sigai at 3502 Louth Rd
 dated 4/30/82 was to refinance loan 4073.
 The unpaid balance on loan 4073 as of
 4/30/82 was as follows:

\$8530.27	principal
162.40	overdraw amount.
<u>710.90</u>	interest from 7/81 to 4/82
9403.57	total due on loan 4073

as of 3/31/83 the account has not received funds from
 McDevitt to pay off 4073

Sigai
3508 Loath Rd.

loan 4205

- ① This loan was refinanced twice in a 5 year period in violation of 12-409 of the Commercial Law Article. Civil and criminal penalties are provided for in sections 12-413 and 12-414.
- ② Mtg not yet recorded; date of loan was 4/30/82.
- ③ Settlement sheet signed in blank.
Also one partially completed settlement sheet.
- ④ Settlement attorney Jeffrey Levitt is still holding payoff funds from settlement of loan 4073 (old loan) has not been paid off.
- ⑤ Title search appears to have been done after settlement which turned up an unexpected lien. Sufficient funds were not deducted at settlement for this loan. Attorney must provide assurance that upon closing the assn will get clear title and a first lien (reg z.c) Levitt does not do this which caused the problem.
- ⑥ No title certificate issued as of 4/25/83.
- ⑦ Loan Application and credit report shows borrower to be unemployed and a bad pay. Loan should not have been made.
- ⑧ Money disbursed from escrow for title (\$100) not for taxes, insurance, or ground rent or foreclosure cost. Therefore violates 12-109 of Commercial Law Article. This is a homeown loan.

COMMENT

50510393

3/31/83

Loan 4073 and 4205

Examiner re-examined file on 6/9/83 with the following results:

① saw cut a settlement check for \$16,000 to Jeffrey Levitt settlement attorney and Joseph Sigin and Dawn Sigin of Howland. All loan documents - mortgage, settlement sheet, Federal Truth in Lending show loans of \$15,000. Title insurance all funds on settlement sheet (at \$15,000) then law extra \$1000. must be remaining in MR Levitt's settlement account.

② Loan 4205 was to reference 4073. Settlement sheet now in file (6/9/83) shows \$9066.13 was taken to pay off the First Mortgage at 1st Progressive (4073). However the examiner noted that \$9403.57 was received and credited to the account 4073 as follows on May 25, 1983:

\$162.40	to cover overdraw escrow
710.90	for interest July 1, 1982 to 4/30/83 from through card in MR-labeled 7/82 to 4/83
8530.27	for principal
<u>\$9403.57</u>	Total

③ Loan file 4073 has copies of checks 8207 and 822 payable to 1st Progressive dated 5/23/83 from the Jeffrey Levitt Real Estate Escrow Account for \$9066.13 and \$362.44. The 362.44 plus 9066.13 minus \$25.00 for a release fee is the \$9403.57 mentioned in ② above. It appears the \$362.44 came from settlement funds of loan 4205 but is not listed on the settlement sheet.

④ Jeffrey Levitt ^{attorney} was holding \$1000. for escrow account of loan 4205 for the last settlement sheet in file (on 6/9/83). Settlement was on 4/30/82 yet the association did not receive the \$1000. from the attorney until 5/25/83 almost 13 months later. Lenders must recompute the escrow account as if it had received the check within a reasonable time after settlement, say one week and then pay interest on escrow in accordance with 12-109 of the Commercial Law Article

1ST Progressive

3/3/83

Loan 4073 and 4205.

⑤ MR Levitt should be required to pay a market rate of interest on all funds he held.
 (hand did not) (disturbance within reasonable time)

⑥ The... did not receive the \$750. in a unit until May 25, 1983 almost 13 months after settlement from attorney J. Levitt.

⑦ Loan card 4205. shows what appear to be two payments of interest as follows:

PAID	PAID to	interest
April 12-83	6/82 - 5/15/83	\$ 2587.50
June 1, 83	6/82 - 4/83	2512.50

Probably the June 1-83 entry re allocated the April 12, 1983 payment. The April date paid should be returned instead of the June 1 date and the entire line with \$ 2587.50 should have been lined through.

⑧ Since the loan was for \$16,000. it appears that Mr & Mrs Sigai are owed and additional \$1000. plus the \$ 3457.87 that shows on the settlement sheet. It also appears that out of this \$3457.87, \$2587.50 was paid on 4/12/83 to cover interest referred to above in ⑦ and \$362.44 to pay the balance referred to in ③ and the release fee.

⑨ because of the amounts and checks destroyed almost a year after settlement it appears that MR Levitt is not completing all settlement papers at settlement. Some figures appear to be tallied in at a later date.

Also I would like to see the \$3457.87 check payable to Mr & Mrs Sigai the cashed check front and back.

⑩ Loan card still indicates a \$15,000. loan not \$16,000.

CRIVELLO

MORTGAGE

Joseph R. Signa, D. na Signa

ASST. NO. 073

ADDRESS

LOAD 11,000.00

ADDRESS OF PROPERTY 3508 Louth Rd. 21222

DATE 1/19/78

DATE PD	INT	SYN	INTEREST	PRIN & INT.	BALANCE	OLD BAL. PICK-UP
1 May 25-83	7/81 thru		*710.90	*710.90	7/1/81	
2 May 25-83	4/82			*8,530.27	*8,530.27	
3					-0-	
4					* 522 # 1205	
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						

*1/19/78
16,000
4/3/78
J.R.S.*

**ACCOUNT
CLOSED**

*No
Checks*

MONTHLY WEEKLY PAYMENT 10%	{	PRINCIPAL \$ 145.37	EST. FEE \$ 1/C \$7.27
		INTEREST \$ 49.39	
		EXPENSE \$ 194.67	
		TOTAL \$	

Prev. ML 3722 paid off 1/30/78

THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC.

Sigaf

ADDRESS OF PROPERTY

ACCT. NO. 4073

GROUND RENT 90.00

DUE 4/25 & 10/25

EXPENSE ACCOUNT

DATE PD	DATE PD TO	DISBURSEMENTS	RECEIPTS	BALANCE	OLD BAL PICK-UP
1				4/28/82	
2	3/3/82	Ins.	**94.00	(256.40) NEG. BAL.	
3	July 20-82	94.00	Wm	(162.40) NEG.	
4	May 25-83		*162.40	(256.40) NEG. BAL	
5				-0- ✓	
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					

ACCOUNT CLOSED

MORTGAGOR

Joseph and Iona Sigai

ADDRESS 3508 South Rd, Baltimore, MD 21222

ACCT. NO. 4205

ADDRESS OF PROPERTY

LOAN \$ 15,000.00

DATE OF LOAN 4-30-82

DATE PD	INT	ROW	MORTGAGE LOAN		BALANCE	OLD BAL	PICR UP
			INTEREST	PRIN. & INT.			
1	Apr. 12-83	6/82	5/15/83				
2							
3	Apr. 12-83			*2,587.50	*2,587.50	**15,000.00	
4	(June 1-83)	6/82					
5		4/83		*2,512.50	*2,512.50	**15,000.00	JE#423-83
6	June 3-83	5/1		*225.00	*270.28	**14,954.72	
7	June 27-83	6/1		*224.32			
8		L/C		*13.51	*283.79	**14,908.76	Bals
9	June 27-83	7/1		*223.64	*270.28	**14,862.12	Bals
10							
11							
12							
13							
14							
15							

MONTHLY	}	PRINCIPAL	(21.22)	ENT. FEE \$	
WEEKLY		INTEREST \$	21.22	(L.C. 13.51)	
PAYMENT		EXPENSE \$	50.72		
187.		TOTAL \$	371.00		

THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC. REGISTERED

10y20.

Joseph and Tona Sigai
 ADDRESS OF PROPERTY 3508 Louth Rd. Baltimore, MD 21222 ACCT. NO 4205

GROUND RENT		DUE		EXPENSE ACCOUNT	
DATE PD	DATE PD TO	DISBURSEMENTS	RECEIPTS	BALANCE	OLD BAL PICK-UP
1	June 9-82	Title	* 10.00	**[10.00]	PG
2	Dec. 1-82	G.R.	*45.00	**[55.00]	PG
3	Dec. 29-82	tax	*502.11	**[557.11]	PG
4	Mar. 3-83	INS	*183.00	(**740.11)	
5	Apr. 14-83	GR	*45.00	(**785.11)	
6	May 25-83				
7	June 1-83		*1,000.00	**214.89	✓
8	June 3-83		*75.00	**289.89	✓
9	June 27-83		*50.72	**340.61	✓
10	June 27-83		*50.21	**390.82	✓
11			*50.72	**441.54	✓
12					
13					
14					
15					

JEFFREY A. LEVITT
REAL ESTATE ESCROW ACCOUNT
25 LIGHT STREET
BALTIMORE, MD 21202

MAY 23 19 83

8205

PAID TO THE ORDER OF FIRST PROGRESSIVE SAVINGS & LOAN ASSOCIATION

\$ 750.00

DOLLARS



from Signal - Points #4205

#008205# • 1:05 20000161: # 20 1 4 5744#

Jeffrey Levitt

JEFFREY A. LEVITT
REAL ESTATE ESCROW ACCOUNT
25 LIGHT STREET
BALTIMORE, MD 21202

MAY 23 19 83

8206

PAID TO THE ORDER OF FIRST PROGRESSIVE SAVINGS & LOAN ASSOCIATION

\$ 1,000.00

DOLLARS



from Signal - Escrow #4205

#008206# • 1:05 30000161: # 20 1 4 5744#

Jeffrey Levitt

PROGRESSIVE SAVINGS AND LOAN ASSOCIATION
 418 MD&I 7458 STREET
 BALTIMORE, MARYLAND 21222
 301/338-0707

April 30 1982

25436

PAY THE SUM OF \$16,000.00 DOLLARS


DOLLARS	CENTS
\$16,000	00

TO Joseph L. Sigal and
 Dona Sigal and
 Jeffrey Levitt, Settlement Attorney.

FIRST PROGRESSIVE SAVINGS AND LOAN ASS'N., INC.

NON-NEGOTIABLE

UNION TRUST COMPANY
 BALTIMORE, MD.

ACCT. NO.	ITEM	DESCRIPTION	AMOUNT
L1120-00	Mtg Loans Rec	EX: 3508 Louth Rd 21222 4205  Savings Insured Up to \$100,000 Continuous Dividends since 1914	\$16,000.00 L1120-00

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION, INCORPORATED - BALTIMORE, MD.

4205

THIS MORTGAGE, Made this ~~10th~~ day of ~~April~~, 1978, by and between JOSEPH R. SIGAI and IONA L. SIGAI, his wife

of Baltimore County, in the State of Maryland, hereinafter termed the "Mortgagor", and FIRST PROGRESSIVE SAVINGS AND LOAN ASSOC., a corporation organized and existing under the laws of the State of Maryland, hereinafter termed the "Mortgagee";

WHEREAS, the Mortgagor, being a member of the Mortgagee, stands firmly bound and indebted and does hereby secure to the Mortgagee, the principal sum of FIFTEEN THOUSAND ~~00/100~~ Dollars (~~\$15,000.00~~), being part of the purchase money for the property hereinafter described;

AND WHEREAS, the Mortgagor has agreed and does hereby covenant to pay said principal sum (and all other sums hereby secured), with interest from date hereof, at the rate of EIGHTEEN ~~per centum~~ (18%) per annum on the unpaid principal, until paid in full, in monthly installments of TWO HUNDRED SEVENTY ~~Dollars~~ (\$ 270.28), commencing on the first day of June 1978, and continuing on the first day of each month thereafter until the whole of the principal sum and all other sums hereby secured, and all of the interest are fully paid.

The due execution of this mortgage having been a condition precedent to the granting of said credit;

NOW, THEREFORE, THIS MORTGAGE WITNESSETH, that in consideration of the premises, and the sum of one dollar this day paid, the receipt whereof is hereby acknowledged, the Mortgagor does hereby grant, convey and assign unto the Mortgagee, its successors and assigns, all the lot(s) of ground, situate, lying and being in Baltimore County, in the State of Maryland, aforesaid, and described as follows:

BEING known and designated as Lot No. 5 in Block 7 as shown on Plat No. 7, Dundalk, which Plat is recorded among the Land Records of Baltimore County in Plat Book C.H.K. No. 13, folio 22. The improvements thereon being known as No. 3508 Louth Road.

Being the same lot of ground and premises thereon which by Deed dated July 10, 1975 and recorded among the Land Records of Baltimore County in Liber E.H.K. Jr. No. 5547, folio 495 was granted and conveyed by Lav Realty, Inc., et al, unto Joseph R. Sigai and Iona L. Sigai, his wife.

There shall be a release fee of twenty-five (\$25.00) Dollars.

~~Not recorded~~

File 4205

LAW OFFICES
JEFFREY A. LEVITT
416 NORTH CHARLES STREET
BALTIMORE, MARYLAND 21201

*file in 4205
copy*

April 30, 1982.

First Progressive Savings & Loan Association, Inc.
416 North Charles Street
Baltimore, Maryland 21201

Re: 3508 Louth Road (SIGAI, Joseph R. & Iona L.)

Gentlemen:

Title to the within described property has been examined carefully and is found to be good and clear of all incumbrances except the ground rent, if any, mentioned in the within application. This mortgage taken by the Association under date of April 30, 1982 is a first mortgage lien upon said property. Subject to a ground rent in the amount of \$90.00 annually. Taxes have been paid on said property.

Very truly yours,

Jeffrey A. Levitt

JAL:1m

Enclosed check in the amount of \$
\$
\$

- Escrow Account
- Points ()
- Credit Report

*No signature and
not through route of recording*

10403

515

MEMORANDUM OF MORTGAGE LOAN SETTLEMENT

Borrowers: SIGAI, Joseph R. and Iona L. Date: _____

Lender: FIRST PROGRESSIVE SAVINGS & LOAN ASSN Interest rate: 11 1/2%

Loan No. Property: 3808 Louth Road Baltimore, MD 21288 Term: 10 YR

Payments: On Loan \$ 270.00 Expense Account \$ 50.00 Total: \$ 321.00

Payments due monthly on the first day of each month, beginning _____

PRINCIPAL AMOUNT OF MORTGAGE LOAN 12,524.00

SETTLEMENT EXPENSES:

Attorneys fee for services rendered in connection with the preparation, closing or disbursing of loan	\$ 500.00
Notary fee	5.00
Lien sheet	
Judgment reports	10.00
Recordation tax stamps	66.00
Recording	13.00
Transfer tax or charge	
Premium for mortgage title insurance	
Survey	
<i>Other</i>	<i>7.00</i>
<i>Waiver of rights</i>	<i>30.00</i>

Total Deductions for Settlement Expenses 1,476.00

MORTGAGORS EXPENSE ACCOUNT:

Initial amount placed by borrowers with lender for purpose of providing fund for payment of ground rent (if any) real estate taxes, and insurance premiums 1,476.00

Net amount available for distribution after deduction of above amounts from principal amount of mortgage loan 12,524.00

THE MORTGAGORS AUTHORIZE AND DIRECT THE FOLLOWING DISBURSEMENTS AND PAYMENTS TO BE MADE ON THEIR BEHALF:

Interest prepaid at time of settlement at request of mortgagors covering interest from date to _____

First Progressive S&L 906.00

Total disbursements on behalf of mortgagors 906.00

AMOUNT PAID TO MORTGAGORS AS BALANCE OF PROCEEDS OF MORTGAGE LOAN 12,524.00

The undersigned borrowers acknowledge the receipt of a copy of this Memorandum of Mortgage Loan Settlement, express their agreement and satisfaction thereto, agree to the correctness thereof, agree that any errors or omissions will be corrected by the parties hereto, ratify the same and the application and disbursements as stated therein.

Joseph R. Sigai ← NOT INK; copy only

copy of a copy appears figures filled in
one copy and was corrected and placed in file

MEMORANDUM OF MORTGAGE LOAN SETTLEMENT

Borrowers: SIGAI, Joseph R. and Iona L.

Date: 4/30/82

Lender: FIRST PROGRESSIVE SAVINGS & LOAN ASSN.

Interest rate: 18%

Loan No. Property: 3508 Louth Road
Baltimore, MD 21222

Term: 10 yr.

Payments: On Loan \$ 270²⁸, Expense Account \$ 50⁷², Total: \$ 321²

Payments due monthly on the first day of each month, beginning

PRINCIPAL AMOUNT OF MORTGAGE LOAN \$ 15,000⁰⁰

SETTLEMENT EXPENSES:

Attorneys fee for services rendered in connection with the preparation, closing or disbursing of loan	\$ <u>500⁰⁰</u>
Notary fee	<u>5⁰⁰</u>
Lien sheet	
Judgment reports	<u>10⁰⁰</u>
Recordation tax stamps	<u>66⁰⁰</u>
Recording	<u>15⁰⁰</u>
Transfer tax or charge	
Premium for mortgage title insurance	
Survey	
<u>5 pts</u>	<u>750⁰⁰</u>
<u>appraisal</u>	<u>100⁰⁰</u>
<u>2 exit sigs</u>	<u>30⁰⁰</u>

Total Deductions for Settlement expenses

MORTGAGORS EXPENSE ACCOUNT:

Initial amount placed by borrowers with lender for purpose of providing fund for payment of ground rent (if any) real estate taxes, and insurance premiums

Net amount available for distribution after deduction of above amounts from principal amount of mortgage loan

THE MORTGAGORS AUTHORIZE AND DIRECT THE FOLLOWING DISBURSEMENTS AND PAYMENTS TO BE MADE ON THEIR BEHALF:

Interest prepaid at time of settlement at request of mortgagors covering interest from date to

Pay off First Progressive S.F.A.	\$ _____
_____	_____
_____	_____
_____	_____
_____	_____

Total disbursements on behalf of mortgagors

AMOUNT PAID TO MORTGAGORS AS BALANCE OF PROCEEDS OF MORTGAGE LOAN

The undersigned borrowers acknowledge the receipt of a copy of this Memorandum of Mortgage Loan Settlement, express their agreement and satisfaction thereto, agree to the correctness thereof, agree that any errors or omissions will be corrected by the parties hereto, ratify the same and the application and disbursements as stated therein.

Joseph R. Sigai ← INK

10405

MEMORANDUM OF MORTGAGE LOAN SETTLEMENT

Borrowers: SIGAI, Joseph R. and Iona L.

Date: 4/30/82

Lender: FIRST PROGRESSIVE SAVINGS & LOAN ASSN.

Interest rate:

Loan No. Property: 3508 Louth Road
Baltimore, MD 21222

Term:

Payments: On Loan \$ _____, Expense Account \$ _____, Total: \$ _____

Payments due monthly on the first day of each month, beginning

PRINCIPAL AMOUNT OF MORTGAGE LOAN _____ \$ 15,000.00

SETTLEMENT EXPENSES:

Attorneys fee for services rendered in connection with the preparation, closing or disbursing of loan	_____	\$ _____
Notary fee	_____	_____
Lien sheet	_____	_____
Judgment reports	_____	_____
Recordation tax stamps	_____	_____
Recording	_____	_____
Transfer tax or charge	_____	_____
Premium for mortgage title insurance	_____	_____
Survey	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Total Deductions for Settlement expenses _____

MORTGAGORS EXPENSE ACCOUNT:

Initial amount placed by borrowers with lender for purpose of providing fund for payment of ground rent (if any) real estate taxes, and insurance premiums _____

Net amount available for distribution after deduction of above amounts from principal amount of mortgage loan _____

THE MORTGAGORS AUTHORIZE AND DIRECT THE FOLLOWING DISBURSEMENTS AND PAYMENTS TO BE MADE ON THEIR BEHALF:

Interest prepaid at time of settlement at request of mortgagors covering interest from date to

_____	\$ _____
_____	_____
_____	_____
_____	_____
_____	_____

Total disbursements on behalf of mortgagors _____

AMOUNT PAID TO MORTGAGORS AS BALANCE OF PROCEEDS OF MORTGAGE LOAN _____

\$ _____

The undersigned borrowers acknowledge the receipt of a copy of this Memorandum of Mortgage Loan Settlement, express their agreement and satisfaction thereto, agree to the correctness thereof, agree that any errors or omissions will be corrected by the parties hereto, ratify the same and the application and disbursements as stated therein.

Joseph R. Sigai ← *INK*

10476

JEFFREY A. LEVITT
REAL ESTATE ESCROW ACCOUNT
25 LIGHT STREET
BALTIMORE, MD 21202

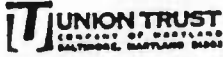
8207

May 23 19 83

7/120

PAY TO THE ORDER OF FIRST PROGRESSIVE SAVINGS & LOAN ASSOCIATION \$ 9,066.13

NINE THOUSAND SIXTY SIX DOLLARS AND 13/100 DOLLARS



FOR SIGAI - Payoff of First Mortgage 4673

⑆008207⑆ ⑆052000016⑆ ⑆20145744⑆

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JEFFREY A. LEVITT
REAL ESTATE ESCROW ACCOUNT
25 LIGHT STREET
BALTIMORE, MD 21202

8212

May 23 19 83

7/120

PAY TO THE ORDER OF FIRST PROGRESSIVE SAVINGS & LOAN ASSOCIATION \$ 362.44

THREE HUNDRED SIXTY TWO DOLLARS AND 44/100 DOLLAR



FOR SIGAI

⑆008212⑆ ⑆052000016⑆ ⑆20145744⑆

10407

JERRY A. LEVIT
REAL ESTATE ESCROW ACCOUNT

128

BALTIMORE, MD 21202 RECEIVED APR 11 1983

OTHER OF FIRST PROGRESSIVE SAVINGS & LOAN, INC.

\$ 2,587.50

TWO THOUSAND FIVE HUNDRED EIGHTY SEVEN DOLLARS AND 50/100

DOLLARS

interest



~~Payment~~ - Mtg. Loan #4205 - 51981

Jerry Levit

⑆007926⑆ ⑆10520000161⑆ 1 20 1 5741⑆



229 E. Main Street
Westminster, Maryland 21157
(301) 857-5888, 876-1511

April 11, 1983

To: M. Bosley
From: F. Kemp
Subject: Mortgage Loan #4205

Interest due to bring loan current to April 15, 1983 is, \$2,587.50

Loan Amount \$15,000.00
Date of Loan April 30, 1982
Interest Rate 18%

Jul 1982 - Apr 1983

Savings Insured Up To \$100,000



Continuous Dividends since 1914

521

10409

#1205

66101-7 (5/79)
M. V. C. R. CAREX

	1982
6/82	(5) - 31
7/82	(6) - 30
8/82	(7) - 31
9/82	(8) - 31
10/82	(9) - 30
11/82	(10) - 31
12/82	(11) - 30

214 days

principal: \$7.50
interest rate 18%

~~penalty = \$8.25~~

TOTAL # days interest due = 365

~~total int due = \$29.20~~

total = 2587.50

	1983
1/83	(10) - 31
2/83	(1) - 31
3/83	(2) - 28

*4/83 (3) - 31

~~5/83 (4) - 31~~

~~151 days~~

TOTAL DAYS = 335

~~361 days~~

~~int = \$29.20~~

~~total = 2591.50~~

thru 4/83 = 2512.50

del. = 75.00

365 x .18 = 65.70

SAP Systems and Forms
(American Savings & Accounting Supply, Inc.)



Loan 4172

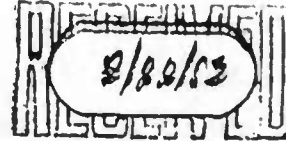
Joseph Chencarini
1046 IRIS AVE

Foreclosure occurred on 2/1/82 and
court auditor's report allows interest to 4/30/82
so sale must have been satisfied prior to 4/30/82
funds were not received from trustee MR Levitt
until 6/20/83 by check dated 4/19/83 in the amount
\$19,385.10.

However the purchase of the property
11. COTTONWOOD was given a \$15,000. loan
by 1ST Progressve (No. 4204) this loan settled
7/17/82. MR Levitt also settled this loan. So
he had funds on 4/12/82 to pay off foreclosure
on loan 4172. Yet he held funds for over a year.

SAMUEL J. AARON
ALBERT G. AARON

AARON & AARON
ATTORNEYS AT LAW
416 N. CHARLES STREET
BALTIMORE, MD. 21201



February 18, 1983

Mr. Paul R. Freeman
First Progressive S. & L. Assn.
229 E. Main St.
Westminster, Md. 21157

Dear Paul:

On Chincarini, your Loan 4172, the Auditor's Report has been finished, and Jeffrey has not sent a check for the same. The last I heard from Jeffrey was that he was trying to collect money from an insurance company. The matter has been open since April, 1982 when the sale was ratified.

Jeffrey settled for the property, and somebody should have the money.

Here are the bills that are needed:

Trustee's Commissions	\$645.00
John P. O'Ferrall, Auditor	90.00
Clerk of the Circuit Court of Baltimore City	66.00
(Bond of \$75.60 is paid)	
Attorney's Fee	350.00
(Total check to Attorney is \$995.00)	
Notary Fees	5.00

What other information do you want? This is supposed to be an insured mortgage, and Jeffrey should have collected the money.

Very truly yours,

Sam

SJA:aj

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION

5062

MAIN OFFICE

229 E. MAIN STREET
WESTMINSTER, MARYLAND 21157

BRANCH OFFICE

416 NORTH CHARLES STREET
BALTIMORE, MARYLAND 21201

FIRST NATIONAL BANK OF MARYLAND ⁷⁻¹¹ ₈₂₈

February 22 19 83

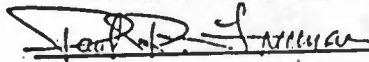
THE SUM 1156 DOLS 00 CTS

DOLLARS	CENTS
\$1,156	00


PAY

FIRST PROGRESSIVE SAVINGS AND LOAN ASS'N., INC.

TO Sam Aaron, Esq.



⑆00508⑆ ⑆052000⑆⑆⑆⑆ 088⑆9853⑆2⑆

ACCT. NO.	ITEM	DESCRIPTION	AMOUNT
11120-00	Mtge. Disb.	Re: Joseph J. Chincarini 1046 Iris Ave. Trustee's Commissions \$645.00 Auditor, John P. O'Ferrall 90.00 Clerk, Circuit Court 66.00 Attorneys Fees -350.00 Notary Fees 5.00	\$1,156.00
			
		Savings Insured Up to \$100,000 Continuous Dividends since 1914	GL1120-00

FIRST PROGRESSIVE SAVINGS AND LOAN ASSOCIATION, INCORPORATED—BALTIMORE, MD. • WESTMINSTER, MD.

JEFFREY A. LEVIT
REAL ESTATE BROKER ACCOUNT

PAY TO THE
ORDER OF

FIRST PROGRESSIVE SAVINGS & LOAN

\$ 19,385.10

NINETEEN THOUSAND THREE HUNDRED EIGHTY FIVE DOLLARS AND 10/100 DOLLARS



FOR Chincarini

Jeffrey Levit

⑆008279⑆ ⑆052000Q⑆ ⑆20⑆4574⑆

Mortgage Guaranty Insurance Corporation
MGIC Plaza, Milwaukee, Wisconsin 53202

MGIC

First Wisconsin National Bank
of Brookfield
Account #2 075909547

167337

PAY EXACTLY *****7918 DOLLARS AND *74 CENTS
TO THE ORDER OF

DATE AMOUNT
04/19/83 \$7,918.74

FIRST PROGRESSIVE BUILDING & LOAN
229 EAST MAIN STREET
WESTMINSTER MD 21157

VOID 1 YEAR AFTER DATE
OVER \$25,000.00 TWO SIGNATURES REQUIRED

David R. King

⑆167337⑆ ⑆075909547⑆ 000003⑆375⑆

JK

MORTGAGOR Joseph J. Chingarin / Kathy S. Chingarin acct. no 4178
 ADDRESS 1046 Iris Ave. 21206
 LOAN # 24,900.00
 DATE OF LOAN 11/14/80

DATE PD	INT	SYM	INTEREST	PRIN. & INT.	BALANCE	OLD BAL. PICK-UP
1						
2	11-14-80	H	A	24,900.00	***24,900.00	
3						
4						176.38
5	JUL 27-81	D	A	**176.38	**176.38	***24,900.00
6	JUL 27-81	D	A	**311.25	**314.85	***24,896.40
7				**15.74		
8						
9	FEB 18-81	D	A	**311.20	**330.59	***24,892.75
10	MAR 12-81	D	A	**311.15	**314.85	***24,889.05
11				**15.75		
12	MAY -4-81	D	A	**311.12	**330.60	***24,885.32
13						
14	JUN 22-81	H	A	**77.00		***24,955.32
15						
1	JUN 22-82	H	A	**77.00		***25,030.32
2						
3	FEB 22-82	H	A	**105.75		***25,136.07
4						
5	FEB 22-82	H	A	**75.00		***25,211.07
6	3/12/82			**75.60		***25,286.67
7						
8	MAR 29-82	H	A	**674.00		***25,960.67
9	3/31/82			Gas & Elec 161.24		26,121.91
10	4/22/82			Repairs		***26,198.91
11	2/22/83			F.C. exp.		27,354.91
12	June 20-83					***27,303.84
13						***51.07
14						
15						

MONTHLY WEEKLY PAYMENT 15%
 PRINCIPAL & INTEREST 314.85
 EXPENSE 107.35
 TOTAL 422.20
 ENT. FEE & MGIC \$500.00 #42224-00
 longer active
 L/C 15.75
 CK. #5061
 Rec

THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC.

ADDRESS OF PROPERTY

GROUND RENT

DUE

DATE PD		DATE PD TO	DISBURSEMENTS	RECEIPTS	BALANCE	OLD BAL. PICK-UP
1						
2	JUN-9-81	K A		**131.75	*****131.75-	
3	JUN-9-81	J.M.G. A	**124.50-		*****7.25~	
4						
5	JUN-27-81	K A		**58.23	*****65.48~	
6	FEB-2-81	J.G. A	**43.50-		*****21.98~	
7						
8	FEB-18-81	K A		**96.61	*****108.59~	
9	FEB-12-81	K A		**102.35	*****210.94~	
10						
11	APR-3-81	J.G. A	**43.50-		*****167.44~	
12						
13	MAY-4-81	K A		**102.35	*****269.79~	
14	MAY-3-81	J.M.G. A	**59.76		*****210.03~	
15						
1						
2	JUN-20-81	J.M.G. A	**101.00		*****109.03	
3	JUN-4-81	J.G. A	**43.50		*****65.53	20497
4	Dec 14, 82	GR.	43.50		22.03	22310
5						
6	Feb. 7-83	MGIC	*59.76		(37.73)-	
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FIRST PROGRESSIVE SAVINGS
AND LOAN ASSOCIATION

VS.

JOSEPH H. CHINCARINI and
KATHY E. CHINCARINI, his
wife

In the
Circuit Court

Docket

& for
Baltimore City.

C-33/1982
C-38773

Baltimore, March 28, 1983

You will please take notice that I have this day filed in the Clerk's Office my Report and Account in the above entitled case, which, if not excepted to, will be ratified after the expiration of fifteen days from the date hereof. When ratified, payment will be made by
Jeffrey Levitt, Trustee

to whom all communications should be addressed.

The amount allowed you is \$ 16,099.66

The commissions allowed you are \$ _____

The fee allowed you is \$ _____

J. P. OFERRALL
JOHN P. OFERRALL,
Auditor,
9th Floor Sun Life Building
Baltimore, Maryland 21201

Prepared By	Revised	Date
Approved By		

National
41-802 Eye-Ease
41-802 20/20 Buff
Made in USA

1ST Progressive Stl

12

3/31/83

loan 4274 was to refinance loan no 4207. Borrower in both cases was Donald and Carolyn Wenderoth. The settlement sheet on loan 4274 (attached) shows that \$6500. was deducted to pay the prior loan (NO 4207) and \$310.68 was to pay interim interest on loan to be paid off (4207). This interim interest covers 10/1/82 to 10/22/82 settlement. It was not received by 1ST Progressive from settlement attorney J. Levitt, and was never posted to loan card 4207 as received.

As of 5/23/83 the \$310.68 has not been received by the servicer. Mr Levitt should also pay interest on the amount to the servicer.

MORTGAGOR: Donald R. Wenderoth
 ADDRESS: 16120 Dark Hollow RD
 ADDRESS OF PROPERTY: Upperco, MD 21155
 ACT. NO. 4207
 LOAN \$ 65,000.00
 DATE 1-25-82

DATE PD	INT	SYM.	INTEREST	PRIN. & INT.	BALANCE	OLD BAL. PICK-UP
1 3/30/82	5/1		*812.50	*812.50 ✓	**65,000.00 AK	
2 4/28/82	4/1		*812.50	*812.50 ✓	**65,000.00 AK	
3 5/25/82	5/1	Interim	*812.50	*812.50 ✓	**65,000.00 AK	
4 June 15/82	Int.		*187.56	*187.56	**65,000.00	
5 June 15-82	5/1		*812.50	*812.50	**65,000.00	
6 July 14-82	7/1		*812.50	*812.50	**65,000.00	
7 Aug 13-82	8/1		*812.50	*812.50	**65,000.00	
8 Sept. 15-82	9/1		*812.50	*812.50	**65,000.00	
9 Oct 14-82	10/1		*812.50	*812.50	**65,000.00	
10 Feb, 8-83				**65,000.00	-0-	

Interest payment settlement of 4/27
not entered on card - verify name
reversed
1150 check for 65.00
sent via certified mail 1/83
Interest due from
Twitt never
paid

MONTHLY WEEKLY PAYMENT } PRINCIPAL & INTEREST \$ 812.50
 EXPENSE \$
 TOTAL \$ 812.50
 EXT. FEE \$
 L.C. 40.63
 15% Int. only 700
 THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC.

Identity of Creditor making this disclosure:

Date: 10/22/82

Borrowers: Carolnie Wendroth
Donald Wendroth

Interest rate: 13%

Term: 3 years

Loan 4274

Property: 16120 DARK Hollow Road

Payments: On Loan \$ _____; Expense account \$ _____; Total: \$ _____

Payments due monthly on the same day of each month, beginning December 1, 1982

PRINCIPAL AMOUNT OF MORTGAGE LOAN \$ 25,000⁰⁰

Prepaid Finance Charges:

Loan commitment fees, or points \$ _____

ITEMIZATION OF THE AMOUNT FINANCED OF \$ 25,000⁰⁰

Amounts paid to others on your behalf:

Amount paid to

for title examination \$ 300⁰⁰ MS

for mortgagee title insurance _____

for document preparation _____

for settlement preparation _____

for photo copies _____

for judgment search _____

Amounts paid to public officials for:

Lien Sheet _____

Recordation tax stamps 300⁰⁰ MS

Recording costs 19⁰⁰ MS

Notary fee _____

Estimated cost to title release of this transaction upon payment in full ()

Amount paid to appraiser _____

Amount paid for credit report _____

Amount paid for survey _____

Total Deductions for Settlement expenses: \$ 619⁰⁰

MORTGAGORS EXPENSE ACCOUNT:

Initial amount placed by borrowers with lender for purpose of providing fund for payment of ground rent, real estate taxes, and insurance premiums \$ 24381⁰⁰

THE MORTGAGORS AUTHORIZE AND DIRECT THE FOLLOWING DISBURSEMENTS AND PAYMENTS TO BE PAID TO OTHERS ON THEIR BEHALF:

First Mortgage 5+1 - \$ 6500⁰⁰ MS } Loan 4274
 interest on mortgage to be paid off - 310⁰⁰

JEFFREY A. LEVITT
REAL ESTATE BROKER

7285

25 LIGHT STREET
BALTIMORE, MD 21202

TO THE ORDER OF FIRST PROGRESSIVE SAVINGS & LOAN, INC.

\$ 65,000.00

SIXTY FIVE THOUSAND DOLLARS AND 00/100

DOLLARS



Caroline and Donald Wenderoth

Jeffrey A. Levitt

⑆007285⑆ ⑆052000⑆ ⑆1⑆ 20 ⑆ 45744⑆

Pay off Loan

From Loan file 4207 from payoff (refinance) of Loan 4274



229 E. Main Street
Westminster, Maryland 21157
(301) 857-5888, 876-1511

April 21, 1983

Mr. Walter Otstot
Unite #3
616 Salt Spray Rd.
Box 1864 Montego Bay Station
Ocean City, MD 21842

Re: Mortgage Loan #4261

Dear Mr. Otstot:

On several occasions we have discussed the above referenced mortgage loan regarding the settlement sheet, which to date we do not have.

We are sending you a statement for interest on monies disbursed up to this time. When we receive a settlement sheet, we will adjust the interest accordingly.

**INTEREST DUE on disbursements from 10/26/82 through April 30, 1983 = \$4,222.59

Please remit the above amount as soon as possible.

Sincerely,

Frankie Kemp
Mortgage Servicing Department

FK:dr

534

10422

Savings Insured Up To \$100,000



Continuous Dividends since 1914

MORTGAGOR		O/H Enterprises (Halter Otstot)		ACCT. NO.	4261
ADDRESS		137th St. Block 14 Lot 4		LOAN \$	300,000.00
ADDRESS OF PROPERTY		137th St. Block 14 Lot 4		DATE OF LOAN	Jul 82
		MORTGAGE LOAN		BALANCE	OLD BAL. PICK-UP
DATE PD	SYM	INTEREST	PRIN. & INT.	BALANCE	OLD BAL. PICK-UP
1					
2	May 3-83 10/26/82-4/30/83	*4,222.59	*4,222.59	**300,000.00	
3					
4	June 20-83 thru 5/31	*2,350.17	*2,350.17	**300,000.00	
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MONTHLY WEEKLY PAYMENT	PRINCIPAL \$ _____ INTEREST \$ _____ EXPENSE \$ _____ TOTAL \$ _____		ENT. FEE \$ _____		
20%	THE FIRST PROGRESSIVE BUILDING & LOAN ASSOCIATION OF BALTIMORE CITY, INC.				

535

10423

MORTGAGOR		Walter Ostot (OMH Enterprises)		ACCT. NO. 4261-LIP	
ADDRESS		ADDRESS OF PROPERTY		LOAN & DATE OF ISSU	
		MORTGAGE LOAN		BALANCE	
DATE PD	INT # 12	INT	PRIN. & INT.		OLD BAL. PICK-UP
1	10-26-82	1,570.00	Ck. #3156		
2	12-10-82	6,822.00	Ck. #3910		
3	12-10-82	2,186.00	Ck. #3913		
4	12-22-82	20,000.00	Ck. #4127		
5	2-17-83	3,344.00	JE#100-83		
6	3-7-83	37,000.00	JE#137-83		
7	3-23-83	16,756.24	JE#174-83		
8	4-20-83	44,900.39	JE#273-83		
9	4-29-83	6,490.00	JE#314-83		
10	5-10-83	2,735.41	JE#351-83		
11	5-18-83	4,009.98	JE#372-83		
12	5-27-83	1,740.13	JE#4100-83		
13	6-8-83	20,000.00	JE#445-83		
14	6-17-83	20,000.00	JE#488-83		
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Loan #261 Walter Otsiot; OMH Enterprises
137th Street
Ocean City, Md.

Date of loan: 7/20/82
Amount of loan: \$300,000.

No Money has been received by OMH on this settlement
to date, accrue on LIP. The settlement check has
not been received as of 6/27/83 so there is no
way the money can be given and drawn amount is expected
to be received in LIP. Yet as of 6/27/82
the crew has disbursed \$186,544.15 from "LIP"
on this loan. Mr J. Levitt settled the loan
Also the inspection reports which authorize the draws
state a portion is for the interest. Since
First Progressive never received the funds on
settlement, they are in essence advancing
the interest to any loan cured on 5/2/82 and 8/10/82.

Summary

① The insurance in loan file 4197 was by a non-admitted insurer not under the jurisdiction of the Md insurance commission. The policy does not comply with regulation 23D which requires a policy from a company qualified to do business in Maryland.

② Loans 4176 and 4214 were loans to employee Laura Maas. The rate of interest being charged on those loans was 2% less than the rate of interest being charged on loans to other employees. When the employee left the employ of First Progress, Ms Maas left 1st. Progressive but the loan rate and payment has not been increased.

③ The following is a list of loans where more than 2 months had elapsed between the date of the loan to the actual date of recording. Some of these loans have not yet been recorded as of the March 31, 1983 examination date.

4184	4200	4217	4229	4249
4190	4204	4218	4230	4251
4193	4205	4219	4240	4258
4196	4206	4224	4242	4260
4198	4211	4227	4246	4261
4274				
4279				
4280				

④ Settlement attorney Jeffrey Levitt is slow to remit funds withheld from settlement for accrual.

			Loan date	Settle date
4197	J. Purdie	2567 Greenmount Ave	3/26/82	6/26/82
4200	H. Thompson	4033 Edgewood Rd.	4/19/82	6/26/82
4206	J. Edwards	2627 Greenmount Ave	5/1/82	8/26/82

538

10496

Summary

③ Loan 3722 granted 11/26/75 to Joseph R. Sigai and wife upon security of 3508 Louth Rd. Loan 4073 dated 1/18/78 refinanced loan 3722 which was delinquent. Loans 4205 dated 4/30/82 was to refinance loan 4073.

The association has refinanced loan this property with the same borrower twice in five years in violation of Commercial Law Article 12-408. The association is therefore subject to civil and criminal penalties as set forth in sections 12-413 and 12-414 of this article of the Maryland Code.

④ Attorney Jeffrey Levitt is still holding funds from the settlement of loan 4205 and has not paid off the prior loan 4073 also held by the association. Over one year has elapsed since settlement Sigai 3508 Louth Rd.

⑤ See other comments on loan 4205

⑥ Loan nos. 4190, 4213, 4214, 4237, 4254 of improved residential property - homeowner with appraisal rates in excess of 90% of the market value. Regulation 30 C (2)(b) 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.

⑦ Loans 3807 and 4191 is a 1st and 2nd mortgage respectively on 11408 Woodland Dr. owned and occupied by Jeffrey + Carol Levitt. As of the 12/30/81 loan date of the second mortgage the unpaid principal balance was as follows.

Loan 3807	\$130,003.56
Loan 4191	100,000.00
Total	230,003.56

The only appraisal in file was dated 11/26/75 for \$190,000. The loan to appraisal ratio is 121.0% of the security in violation of Regulation 30 C (2)(b)

9) Continued

Furthermore, regulation 30C(2)(c) requires that a loan secured by improved residential property - homeowner (as defined in regulation 30C(2)(b)) be amortized on a monthly basis and that the loan term and amortization period be the same.

The Levitts are required only to pay interest on the 2ND loan per loan agreement.

10) Loan nos. 4210, are loans upon the security of improved commercial property - Non-Amortizing with a loan to appraisal ratio in excess of 75% of the market value. Regulation 30C(5) states that the aggregate amount of any non-amortizing loans upon the security of improved commercial property may not exceed 75% of the market value of the security.

11) Loan 4222 is a second mortgage loan upon security of an owner occupied dwelling. The association collected \$250. in points from the borrower on the \$10,500. loan. This is in excess of 2 points allowed by section 12-405(a) of the Commercial Law Article. The association must refund the excess \$40. to the borrower and may be liable for damages as set forth in section 12-413 of the article.

12) The settlement sheet for loan no 4197 shows that \$600. was withheld by attorney Jeffrey Levitt for the escrow account to pay taxes. However the above loan card shows that only \$131.41. A letter from Mr. Levitt's office to the examiner indicated that \$466.59 was used to pay a judgement held by the C. Hoffberger Co and the balance of the \$600. was remitted to the escrow for the escrow account. This violates section 9-424(B) of the Financial Institutions

Article which requires that details of each and every charge made in connection with the settlement be on the memorandum of settlement.

The method to used by the attorney to pay the judgement from funds set aside for the escrow account also violates 12-109.1 of the Commercial Law Article which prohibits the use of escrow accounts to pay anything other than taxes, insurance premiums and ground rents except upon foreclosure or release.

③ A review of loan file no 4217 revealed the following. At the time of the loan the home was owned occupied by Mr. Edwin Whaley. The co-borrower Mrs Kathleen Ware his daughter did not occupy the premises. There is no commercial affidavit in file and the purpose of the loan indicated on the application is home improvement. The assw is charging a late charge of 10% after 10 days in violation of 12-105(b)(3) of the Commercial Law Article.

④ Old Line Mortgage Co was paid a broker fee of \$490. There is no evidence of a written broker agreement in file as required by 12-805(d) of the Commercial Law Article.

⑤ The settlement sheet indicates an "additional cost" of \$150. paid to Jeffrey Hewitt in addition to the \$500. paid to him for attorneys fees. Please have Mr Hewitt explain what the fee represents.

⑥ The borrower's escrow account was charged \$50. for attorneys fees on 3/23/83 in violation of 12-109.1 of the Commercial Law Article.

Prepared By	Checked By	Date
Approved By		

(13) E continued.

The settlement sheet shows that \$600. was withheld to pay off an open mortgage to ALVIN LAPIDUS. Since this loan involves a refinancing of an owner occupied dwelling the disclosure to the borrower of his right of rescission under Federal Regulation Z must be in file and was not.

(14) Loan 4274 dated 10/22/82 in the amount of \$75,000 was a refinance of loan 4207 originated 1/25/82 in the amount of \$65,000. Both loans were made to Donald and Carolyn Wendecoth by 1st Progressive S.F.L. Refinancing within a 12 month period is a violation of Section 12-408(1) of the Commercial Law Article. Civil and Criminal Penalties are provided for under sections 12-413 and 12-414

Loan 4266

Borrower: (Bethany 40, Ltd (a not partnership)
Angels Amabile
Property: Shopping Center + office condos.
10176 Balts National Pike
Ellicott City, Md

Date of loan: 12/14/82 ORIGINAL amount \$750,000.
\$60,000. was deducted at settlement labeled
"Hold for mortgage payoff"
\$642,550.50 was deducted at settlement
as "escrow for construction"

The \$60,000 was to pay off part of a
\$150,000. loan to Howard Associates, the seller of the
property. The remaining \$90,000 was taken from
loan 4247

The assw LIP of \$642,550.50 was
received. but the \$60,000. was not. However
on 4/28/83 the assw paid \$60,000. from LIP to
pay for the land.

See memo 6/28/83 The examiner originally believed \$60,000. was
due from Mr. Levitt. However when reviewing this file
to write this memo more documentation was in file
than when I first reviewed it. A check from settlement
for \$702,550.50 (\$60,000 plus \$642,550.50) was in
file. Therefore the assw did receive this amount
only the LIP card was incorrect.

Now there appears to be a \$5000.
discrepancy on the \$5,000. "loan origination fee

on the settlement sheet. The assw has not received the \$5000. from Mr Levitt (as of 6/28/83) yet on 3/5/83 this fee was refunded by IST Program to the borrower Angelo Amabile. The assw. charged the g/l account # 3330 which reduced joint income of which \$2,500. was received on this loan. Since the assw received a \$20,000. check from Mr Levitt dated 5/23/83 which now must be returned. To correct the error they should return a net check of \$55,000 to Mr Levitt.

Also there is a second settlement sheet in file now 6/28/83 that was not in the file when first reviewed, it has one does not show the \$5000. law origination fee referred to above. However this settlement sheet is a copy without ink signatures like the other one.

Loans 4195

James A Dorey, JR
1007 Providence St.

Loan date: 2/23/82

\$200. was deducted at settlement for mortgage escrow
but never credited to account. No evidence was
received from attorney Levitt, Ac c' 6/28/83
the \$200. was not posted to the escrow account.

Loan 4/21

Date 10/2/78

Ellis Yancy

2501 - 03 Gwynn, St. P. St.

Downloaded + sold 6/15/82

\$25,000 deposit in purchase at sale. Where
is it. See attached letter

Loan Bal: \$23,857.50
@ 4/1/82. 2,036.22

principal
interest accrued

Also account may have a \$5000 diff. We
are still looking. This loan was sold &
foreclosed but the latest season has not holding settlement
so that one of the partners of the purchaser had
a small outlay.

SAMUEL J. AARON
ALBERT G. AARON

AARON & AARON
ATTORNEYS AT LAW
416 N. CHARLES STREET
BALTIMORE, MD. 21201

January 5, 1983

Mr. Paul Freeman
First Progressive S.
& L. Assn.
229 E. Main St.
Westminster, Md. 21157


loan #4121

Dear Paul:

On the foreclosure of 5501-3 Gwynn Oak, which is your File No. 4121, enclosed herewith is a bill from A. J. Billig for \$380.37. Please pay the same. There was never any deposit given in this matter to me, or to anybody else.

Jeffrey Levitt is very dilatory in settling the matter. This thing has been pending since June, 1982.

Very truly yours,


Sam

SJA:aj
Enc.

cc: Jeffrey Levitt, Esq.

BALTIMORE, MD. 21202, June 15, 1983

Jeffrey Levitt, Trustee

416 North Charles Street - Balto, Md 21201

TO **A. J. BILLIG & COMPANY, DR.**

General Auctioneers

loan no: 41

Real Estate,
Machines Plants,
Household Effects,
Automobiles,
General Merchandise

OFFICE: 16 EAST FAYETTE STREET

Sale Price- 5501-5503 Gwynn Oak Ave			\$25,00
Purchaser- W & L Enterprises, Inc.			
2043 Feather Bed Lane			
Baltimore, Maryland 21207			
Commissions	\$250	00	
Sum Advertising	129	37	
Notary Fees- Affidavits	1	00	
Total Due	\$ 380	37	
Note- Deposit was given to Samuel J. Aaron, Attorney for trustee).			

Mail to Sam Aaron

\$380.37 pd. 2.9.83
CK. # 4969

SAMUEL J. AARON

ALBERT G. AARON

AARON & AARON
ATTORNEYS AT LAW
416 N. CHARLES STREET
BALTIMORE, MD. 21201



February 18, 1983

Mr. Paul R. Freeman
First Progressive S. & L. Assn.
229 E. Main St.
Westminster, Md. 21157

Dear Paul:

I conducted a foreclosure of 5501-3 Gwynn Oak Avenue, your File 4121. I sent you a letter on January 5th, 1983 and sent Levitt a copy. This matter has been pending for quite some time, and the Court Auditor is waiting for the papers. Can we do anything with Jeffrey to force him to settle for the property, because he is costing the building association money. The purchaser is very anxious to settle. He has rehabilitated the property, and he is collecting rent, and we are getting nothing.

Very truly yours,

Sam
Sam

SJA:aj

National
45-802 Eye-Ease
45-802 20-20 Bull
Made in USA

1st Progressive Day
Loans Delinquent to Lender not on Association
Delinquent Mortgage Rpt. @ 3-31-83

Loan #	Name	Unpaid Principal
		@ 3-31-83
4031	Henry Murphy	20711.82
3745	Blanton	31565.05
3963	Jackson	3841.05
4172	Chincari	27354.91
4191	Sunset Assn. Inc.	40000.00
4194	Church of God for All People	18800.00
4196	Allen Heimberg	12000.00
4205	Joseph Sign	15000.00
4217	Walby (Ware)	6798.00
4291	Jones	84000.00
3921A	Neale	26832.07
4216	W & V Realty Co	500000.00
4202	Mitrovis	63000.00
4293	Bottleby	79442.65
4321	Franklin Associates	1700000.00
	Total of 15 loans	2989345.55
4199	Sappersstein	150000.00
<p>The above loans were found delinquent @ 3/31/83 by the examiners but were not listed on the SL-200 report by the assn.</p> <p>Also: The delinquent principal @ 3/31/83 of P 5,099,456.30 is 25.9% of \$19,660,737.57 of loans actually originated by the Union (not including GNAH's and FUSIC)</p>		
	550	
	10438	

A - Single Family Dwelling
 B - 2-4 Family Dwelling
 C - Home & Business
 1 - Auto, w. 3 or more families
 2 - Business - Commercial
 3 - Farm

4 - Unimproved
 P - Purchase
 R - Refinance
 RO - Refinance (Other)
 C - Construction

LOANS SUBJECT TO COMMENT AS OF - 3-31-83

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Exp. Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total Debt (5) (1) + (3) + (4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments
3735	Budget 5 Maple Ct. Old Town	1A	9-15-73	20,000	—	13276.88	802.98	14079.86	9		2-2-193 accumulated amount of interest & principal of 6 mos payments reduced to 6 mos 6.878 in 12 months
3735	Ernest Ruff 1228 Walton Ave	1A	1-12-75	25,500	—	24461.36	51.82	24513.18	9		
3789	Victor & Barbara 243 Prospect St	1A	3-1-76	9,000	—	7201.83	256.72	7958.55	8		
3738	John & Mildred 618 Woodlawn Dr. 2122	1A	4-21-76	11,810	754.12	10,868.50	1,086.85	12,709.47	0		
3950	James & Mary 7008 88th St	1A	11-1-76	42,750	62,158	42,751.29	2,244.48	45617.35	5		
4031	Henry & Margie 2516 Lincoln Ave	1A	7-1-77	21,700	441.04	20,711.82	1380.80	27533.66	4		10-1-83
3745	Blanton 436 Beaufort Ct.	1A	12-26-75	32,400	34.14	31,565.05	3156.51	34755.70	0		
4091	St 7 for 1078 St 7 for 1078	1A	3-30-78	50,000	246.19	59336.75	5937.65	65516.62	5		accumulated by quantity of interest & principal 2-1-83 cumulative debt by interest & principal 2-1-83 cumulative debt by interest & principal 2-1-83 and 4-1-83 interest & principal 2-1-83 interest & principal 2-1-83 interest & principal 2-1-83 interest & principal 2-1-83
4106	James & Mary 633 N. Ocean St	3	4-7-78	7700	—	6385.42	1383.46	7768.88	0		
4117	Shadigan 2905 Oakhill Dr	1A	6-7-78	49,200	1,162.32	39396.66	9148.26	40708.24	0		
4121	James & Mary 551-5503 Bayview Blvd	1A	1-5-79	24,000	781.12	23605.73	3895.95	29282.81	0		
4125	James & Mary 3521 Hayward Dr	1A	2-22-79	19,300	1,042.10	20833.32	7465.66	27340.18	0		
3763	James & Mary 4019 Bismarck Ave	1A	11-17-76	5100	—	3541.05	1421.17	5262.22	0		
4143	Wm. & Mary 2140 E. Lincoln Highway	3	9-7-79	237500	15234.34	23449.33	31285.28	284158.95	0		Cumulative debt by quantity of interest & principal 11-1-83 cumulative debt by interest & principal 11-1-83 cumulative debt by interest & principal 11-1-83 cumulative debt by interest & principal 11-1-83 cumulative debt by interest & principal 11-1-83 cumulative debt by interest & principal 11-1-83
4155	Edward III 1801 Parker Lane II	1B	12-27-79	6946.41	2263.97	4946.41	1662.72	9973.10	0		
4175	Chinami 2108 Wilson Street	1B	1-10-81	19000	1541.19	18361.39	4361.03	24863.61	0		
4172	1146 Arvin Ave.	1A	11-14-81	24200	—	2794.91	7864.62	35252.26	0		it is still owned see on p. 11, recorded

LEGEND

- W-Single Family Dwelling
- 1-3-4 Family Dwelling
- P-Purchase
- R-Refinance
- HO-Refinance (Other)
- C-Construction
- 5-Unimproved
- 1-Home & Business
- 2-Part, 3 or more families
- 3-Business-Commercial
- 4-Farm

LOANS SUBJECT TO COMMENT AS OF - 3-31-83

Line No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Exp. Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total Debt (2) (3) & (4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments
4191	Diamond Development 2718 Spencer Rd. Ft. Worth	3	6-4-81	60,000	980.13	58,546.45	5,277.69	64,824.14	3		9 months delinquent
4195	2125 Fairview Blvd. Hurst, Texas	3	8-4-81	270,000	10,364.18	270,000	42,750.	323,114.18	0		19 months delinquent
4197	2075 Maplewood Court 3320 Stevenson Blvd. Dallas	5	1-29-82	400,000	—	400,000	28,750.	428,750	7		5 months delinquent
4198	1187 Spring St. Southfork 5508 Southfork Rd. Dallas	3	2-2-82	18,800	96.00	18,800	3,055.	21,951	0		no payment even made 10 months delinquent (1/25) on 10/25/82 with owner
4205	10666 Prolet Rd. Winston	1A	2-22-82	12,000	—	12,000	2,340.	14,340	0		11 months delinquent
4208	1643 rd. W. Carrollton	1A	4-30-82	15,000	740.11	15,000	2,475.	18,215.11	0		5 months delinquent
4217	1513 rd. W. Carrollton	3	6-7-82	50,000	50.00	50,000	5,000.	55,050	7		3 1/2 months delinquent
4219	1513 rd. W. Carrollton	3	5-28-82	250,000	—	250,000	13,866.96	263,866.96	6 1/2		3-28-82 delinquent
4229	1513 rd. W. Carrollton	3	6-23-82	7,000	—	6,798.00	4,078.88	7,205.88	6		3 months delinquent
4232	1513 rd. W. Carrollton	3	7-7-82	60,000	—	60,000	6,000.	66,000	2		only 50% of required monthly payments for last 4 months delinquent
4233	1513 rd. W. Carrollton	3	7-16-82	20,000	—	19,924.95	15,94.	21,518.95	4		delinquent 3 months
4239	1513 rd. W. Carrollton	3	7-15-82	85,000	—	85,000	10,757.78	95,757.78	1		delinquent 3 months
4249	1513 rd. W. Carrollton	3	8-26-82	50,000	—	49,934.05	3,123.30	53,057.35	3		delinquent 4 months
4279	1513 rd. W. Carrollton	3	9-7-82	50,000	—	50,000	4,999.98	54,999.98	1		delinquent 4 months
4291	1513 rd. W. Carrollton	3	10-18-82	2,700	—	2,700	243.	2,943.00	1		6 months delinquent
2161	1513 rd. W. Carrollton	3	12-3-82	84,000	—	84,000	4480.	88,480	0		4 months delinquent
2166	1513 rd. W. Carrollton	1A	9-23-76	26,900	748.15	26,832.07	2,236.7	29,816.77	2		10 months delinquent
2175	1513 rd. W. Carrollton	C	6-22-82	500,000	—	500,000	22,924.61	522,924.61	0		delinquent 19 months
2175	1513 rd. W. Carrollton	C	12-6-82	50,000	—	50,000	2,500.	52,500	0		90 days construction was in progress

57
52

LOANS SUBJECT TO COMMENT AS OF - 3-31-83

- LEGEND**
- A - Single Family Dwelling
 - B - Family Dwelling
 - C - Home & Business
 - D - 2 or more families
 - E - Commercial
 - F - Construction
 - G - Unimproved
 - H - Furniture
 - I - Refinance
 - J - Refinance (Other)

Line No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount	Debit Exp. Acct. (2)	Unpaid Principal (1)	Unpaid Interest (1)	Total Debt (2) (3) & (1)	No. Payments (12 Months)	Total Debt Last Exam.	Comments
4272	Wittner 1215 Rogers Rd.	1A	4-6-82	63,000	—	62,000	8,741.25	71,741.25	0		Account paid in full 4-12-83
3275	Spanning Ave. Litchfield		11-7-75	55,000	—	16,612.99	3,599.44	20212.43	0		2 1/2 months delinquent
4293	Wittner 1215 Rogers Rd.		6-16-82	145,000	—	79,442.65	6,752.64	86,195.29	4		
3284	524 Adams Rd.	1A	6-2-76	14,700	—	11,915.57	4,666.30	11,657.87	7		
3287	2125 Spencer Rd. 28	3	9-12-75	155,000	—	14,168.67	306,23.11	191,790.78	0		Spencer's original balance still in balance on the original
4224	FRANKLIN NEGOTIATES 150 acres P. G. County, Md	5	10-19-82	1,700,000.		1,700,000.	22,661.00	1,770,661.00	0 of 5/8		
4139	SAPPSTEIN VARIOUS PROPERTIES	1A's	4/11/82	159,000.		159,000.			0		

On file

- LEGEND**
- 1 - Unimproved
 - 2 - Family Dwelling
 - 3 - Purchase
 - 4 - Home & Business
 - 5 - Home, 2 or more families
 - 6 - Home of frame (Other)
 - 7 - Commercial
 - 8 - Other

LOANS SUBJECT TO COMMENT AS OF - 3-31-83

Schedule No. 1

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Exp. Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total Debt (5) & (4)	No. Pay-Insts Made	Total Debt Last Pymt.	Comments
3786	Proctor 820 Greenwood Rd. Burlington	1A	3-76	55,000	—	52,022.22	1170.82	53173.04	9		
3828	See 3608 Bentley Rd. Burlington	1A	3-76	10,800	—	7845.39	196.14	8041.53	9		
4105	See 3231 Olson Ave. Burlington	1A	4-77	15,650	2675	15,148.41	328.22	15,538.88	9		
3712	See 511 Gardner Ave. Burlington	1A	11-75	15,000	—	9,869.10	411.38	10,280.48	8		
3741	See 1012 W. Bayview Rd. Burlington	1A	12-75	28,000	194.89	25,632.75	1281.66	27109.30	7		
3822	See 173 Windsor Rd. Burlington	1A	4-76	93,500	—	85,964.31	3,581.85	89,546.16	7		
3880	See 272 Matthews Rd. Burlington	2nd	6-76	15,500	—	5,209.82	260.50	5470.32	7		
4184	See 215 Good Rd. Rd. Burlington	3	7-81	93,000	—	93,125.	21178.52	114,303.52	0		
3524	See 388 O'Lea Ave. Burlington	1A	10-69	13,900	140.58	2,861.60	52.24	3059.42	9		
4132	See 1663 Riverwood Rd. Burlington	1D	8-77	28,000	—	27,013.	551.98	27,564.98	9		
Totals				54 Loans	40500.14	5099456.30	416,094.64	5,546,051.08			

10443

555

Loan file 4288 L+W realty
Kew + Paula Williams
914 N. Charles St. Jdd.

Amt: \$150,000.
Date of loan: 8/5/82

Paid in full March, 1983

per Frankie Kemp by the time she received
the loan file the loan was ready to be paid off
therefore she did not put the loan
on line or prepare an off-line card.
So when she drew out a check on 8/5/82 for the
mortgage there was never a subsidiary record
of the loan

SAMUEL J. AARON
ALBERT S. AARON

AARON & AARON
ATTORNEYS AT LAW
416 N. CHARLES STREET
BALTIMORE, MD. 21201

January 5, 1983

Mr. Paul Freeman
First Progressive S.
& L. Assn.
229 E. Main St.
Westminster, Md. 21157

loan #4121

Dear Paul:

On the foreclosure of 5501-3 Gwynn Oak, which is your File No. 4121, enclosed herewith is a bill from A. J. Billig for \$380.37. Please pay the same. There was never any deposit given in this matter to me, nor to anybody else.

Jeffrey Levitt is very dilatory in settling the matter. This thing has been pending since June, 1982.

Very truly yours,


Sam

SJA:aj
Enc.
cc: Jeffrey Levitt, Esq.

IIIB36

10503

557

BALTIMORE, MD. 21202.
Jeffrey Levitt, Trustee

June 15,

1982

416 North Charles Street-Balto, Md 21201

TO **A. J. BILLIG & COMPANY, DR.**

General Auctioneers

1001 n:4121

Real Estate,
Machinery Plants,
Household Effects,
Automobiles,
General Merchandise

OFFICE: 16 EAST FAYETTE STREET

Sale Price- 5501-5503 Gwynn Oak Ave			\$25,000	00
Purchaser- W & L Enterprises, Inc.				
2043 Feather Bed Lane				
Baltimore, Maryland 21207				
Commissions	\$250	00		
Sum Advertising	129	37		
Notary Fees- Affidavits	1	00		
Total Due	\$ 380	37		
Note: Deposit was given to Samuel J. Aaron, Attorney for Trustee.				
<i>Made to Sam Aaron</i>				

\$380.37 pd. 2-9-83
ck. # 4969

SAMUEL J. AARON
ALBERT W. AARON

AARON & AARON
ATTORNEYS AT LAW
416 N. CHARLES STREET
BALTIMORE, MD. 21201

RECEIVED
2/22/83

February 18, 1983

Mr. Paul R. Freeman
First Progressive S. & L. Assn.
229 E. Main St.
Westminster, Md. 21157

Dear Paul:

I conducted a foreclosure of 5501-3 Gwynn Oak Avenue, your File 4121. I sent you a letter on January 5th, 1983 and sent Levitt a copy. This matter has been pending for quite some time, and the Court Auditor is waiting for the papers. Can we do anything with Jeffrey to force him to settle for the property, because he is costing the building association money. The purchaser is very anxious to settle. He has rehabilitated the property, and he is collecting rent, and we are getting nothing.

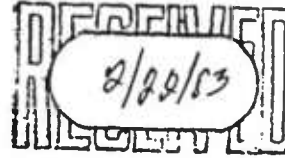
Very truly yours,

Sam
Sam

SJA:aj

SAMUEL J. AARON
ALBERT S. AARON

AARON & AARON
ATTORNEYS AT LAW
416 N. CHARLES STREET
BALTIMORE, MD. 21201



February 18, 1983

Mr. Paul R. Freeman
First Progressive S. & L. Assn.
229 E. Main St.
Westminster, Md. 21157

Dear Paul:

On Chincarini, your Loan 4172, the Auditor's Report has been finished, and Jeffrey has not sent a check for the same. The last I heard from Jeffrey was that he was trying to collect money from an insurance company. The matter has been open since April, 1982 when the sale was ratified.

Jeffrey settled for the property, and somebody should have the money.

Here are the bills that are needed:

Trustee's Commissions	\$645.00
John P. O'Ferrall, Auditor	90.00
Clerk of the Circuit Court of Baltimore City	66.00
(Bond of \$75.60 is paid)	
Attorney's Fee	350.00
(Total check to Attorney is \$995.00)	
Notary Fees	5.00

What other information do you want? This is supposed to be an insured mortgage, and Jeffrey should have collected the money.

Very truly yours,

Sam
Sam

SJA:aj

560

MEMORANDUM

To: Charles Brown, Jr. Director
William LeCompte, Jr. Deputy Director

From: Jeffrey S. Fine, EXAMINER IV
Date, August 4, 1983

RE: 1ST Progressive StL CPA Audit.

The CPA firm conducting an audit of assets has related to us the following information of which you should be aware

① The 1981 year will be a compilation audit. No opinion will be rendered on the financial condition of the asset.

② The 1982 yearend audit will automatically be given a disclaimer opinion because the opening 1982 figures (year end 12/31/81) were not audited and cannot be relied upon for that reason.

Also, the audit crew of Barry Glass and Associates pulled out on two occasions already because back up work had not been completed to their satisfaction. They were not here on July 25, 26, and 27, returned on the 28 and 29. On July 29, the auditors decided to pull out for two weeks, so the association could complete work in areas they wished to review. They expect to return to First Progressive on August 15.

I think the time has come for the Division to call in Mr Glass and set a reasonable date for finishing the year end 12/31/82 audit. Also require Mr Glass, or another firm necessary, to do whatever is necessary to render an opinion

561

10376

on the financial condition and statements
of 1ST Progressive S and L and subsidiaries for 1982.
As you may recall, the last certified audit
was as of 12/31/80. So it is going into the
third year without a certified audit. Under
FIA 9-502 (b) "The Division Director may
require a savings and loan association to be
audited annually in a manner satisfactory to
the Division Director."

Special Workup - Excerpted Loans from MCOE ^{copy}

FIRST PROGRESSIVE SAVINGS AND LOAN: Examination as of March 31, 1983

A review of workpapers pertaining to First Progressive Savings and Loan's service corporation, Monumental City Service Corporation, revealed numerous transactions which are of concern to the Division. These transactions are detailed in workpapers prepared by Examiner Charles F. Endres; four of these transactions are of special concern, and are as follows (all loan numbers were assigned by the examiner, since none were assigned by the service corporation):

1. Loan No. 19 to Rita Wehnapple;
2. Loan No. 26 to Gilbert Sapperstein;
3. Loan No. 29 to Franklin Associates;
4. Loan No. A to Gary and Linda Huddles.

Each of these loans is described separately in this memorandum. Please note that an asterisk (*) next to a particular document indicates that a photocopy of same is on file at the Division.

10636

563

Loan No. 19 - Rita Weinapple

Loan No. 19 to Rita Weinapple was granted on 11/18/82, in the amount of \$10,000.00; it is booked on the service corporation's general ledger in the account entitled, "Mortgage Loan(s) Receivable." The subsidiary ledger sheet* for loan No. 19 states:

1 yr.	15%	ck to Rita Weinapple	
commercial loan		Per Jeffrey Levitt	11/18/82
BALANCE			
\$10,000.00			

No other entries appear on the subsidiary ledger sheet. An inspection of the cancelled check* (#1071, 11/18/82) in the amount of \$10,000.00 revealed that the check was signed by Robert H. Hudson (former vice president of the service corporation), and contained the memo notation, "Per: Jeffrey Levitt."

The service corporation comments* written by Examiner Endres contain the following statements:

- " (1) Entire file consists of one letter* dated February 4, 1983 requesting interest payments;
- (2) Loan was discussed by examiners with Mr. Robert H. Hudson (former vice president of service corp.) on June 21, 1983. Mr. Hudson stated on that date that Mr. Jeffrey A. Levitt authorized issuing the check for this loan. Also, that when Mrs. Rita Weinapple received the letter requesting interest payments, she contacted him and stated the following:

No loan was made by her, that Mr. Jeffrey A. Levitt owed her \$10,000.00, and the check she received represented payment of this debt.
- (3) No payments were ever made by Mrs. Weinapple on this account."

Assuming that there is no acceptable alternative explanation for the facts stated above, the implication arises that Jeffrey Levitt authorized having a fictitious loan for \$10,000.00 set up on the service corporation's books, in order to justify the disbursement to Mrs. Weinapple to satisfy a personal debt. Formal confirmation from Mrs. Weinapple concerning whether or not she actually owes \$10,000.00 to the association or the service corporation on this transaction would help to clarify this matter.

10637

Loan No. 26 - Gilbert Sapperstein

Loan No. 26 to Gilbert Sapperstein was granted in two disbursements, on 3/22/82 (\$85,000.00) and 6/24/82 (\$10,000.00), for a total loan amount of \$95,000.00; it is booked on the service corporation's general ledger in the account entitled, "Mortgage Loan(s) Receivable." The heading on the subsidiary ledger sheet* states:

\$200.00 Per Mo.	\$85,000.00 3/22/82	Gilbert Sapperstein
Purchase of notes	10,000.00 6/24/82	8508 Arborwood Road
& financing statements		Baltimore, Md. 21208
1 yr. - 24%	Installment loan	

Both the original amount and unpaid balance on the subsidiary ledger sheet are shown to be \$10,000.00.

The service corporation comments* written by Examiner Endres contain the following statements:

- "(1) Disbursements noted --
(a) March 22, 1982 check #2120* -- \$85,000.00
(b) June 24, 1982 check #2147* -- 10,000.00
Total funds disbursed \$95,000.00;
- (2) The balance that the corporation is collecting interest on is \$10,000.00, when they actually disbursed \$95,000.00 to Mr. Sapperstein ($\$10,000.00 \times 24\% = \$2,400.00$ per year, $\div 12 = \$200.00$ per month, as indicated on the heading of the subsidiary ledger sheet);
- (3) Insurance policy* in file states "2nd mortgage;"
- (4) If loan is consumer loan, it is in violation of Regulation .49A(2) [definition of consumer loan]; if loan is a mortgage loan, it is in violation of Regulation .23A, B, and C [underwriting requirements - application, appraisal, title certification];
- (5) Mr. Hudson (former vice president of service corporation) could not explain the \$85,000.00 check disbursement, which he stated was issued per Mr. Levitt's instructions."

A review of cancelled checks #2120 (3/22/82, \$85,000.00, "For 2nd mortgage") and #2147 (6/24/82, \$10,000.00, "For Installment Loan - 1 yr. - 24%") revealed that on both checks the final endorsement appeared as follows:

For deposit only
Jeffrey Levitt
real estate escrow
201-45744

10638

This loan raises several questions, as follows:

- (1) Exactly what type of loan(s) do these two disbursements represent?
- (2) If these two disbursements represent a single loan, why does the subsidiary ledger sheet only show an original amount and unpaid balance of \$10,000.00? Conversely, if these two disbursements represent two separate loans, why was only one subsidiary ledger sheet prepared?
- (3) If these disbursements represent consumer loans, why were they endorsed over to Jeffrey Levitt and subsequently deposited into his real estate escrow account? This question is especially pertinent as regards check #2147 (6/24/82, \$10,000.00), which is clearly marked, "For Installment Loan - 1 yr. - 24%."

10639

Loan No. 29 - Franklin Associates

Loan No. 29 was granted to Franklin Associates on 9/22/82, in the amount of \$200,000.00; it is booked on the service corporation's general ledger in the account entitled, "Mortgage Loan(s) Receivable." The heading on the subsidiary ledger sheet* states:

	Steve Holder	Franklin Associates
	Allen Pearlstein	c/o Sylvania Shoe Company
9/22/82	\$200,000.00	350 South St. McSherrystown, PA 17344

No other entries appear on the subsidiary ledger sheet.

The service corporation comments written by Examiner Endres contain the following statements:

" Loan No. 29 Franklin Associates -- \$200,000.00
Subsidiary records show this loan as \$200,000.00; however, Monumental City Service Corporation actually disbursed check No. 2185* on September 22, 1982 for \$500,000.00. In addition, the following was noted in regards to this loan:

- (1) Allen Pearlstein, Jeffrey Levitt, and Karol Levitt are directors of First Progressive S & L [the parent company of Monumental City Service Corporation; Examiner Endres was unable to determine who the directors and officers of the service corporation were, if in fact any had ever been elected]; they are also stockholders of Franklin Associates. This loan appears to have been made in violation of Financial Institutions Article Title 9-307(A)(2)(ii) and (B)(2)(i) [re conflict of interest];
- (2) If the above is a mortgage loan, it does not comply with Regulation .29A(2) [documentation requirements];
- (3) No payments have been received by the service corporation since the inception of this loan;
- (4) The 9/21/82 approval letter* from MSSIC is for \$200,000.00, not \$500,000.00 [the amount actually disbursed]. The letter also states, "It is further understood that all monies received herein will be promptly returned to Monumental City Service Corporation together with interest at the annual rate of twelve (12%) percent if the subdivision approvals are not

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received within six (6) months from the date hereof." There is no evidence that this [subdivision] approval has been received; therefore, this loan should have been repaid." [It was further noted that a letter* dated 9/22/82 requesting approval from the Division for a \$500,000.00 loan to Franklin Associates was on file.]

In addition, a review of Examiner Endres' account analysis* of the "Mortgage Loan(s) Receivable" general ledger account revealed that the disbursement for this loan was booked on the general ledger in the amount of \$200,000.00; however, the check (#2185, 9/22/82) was actually in the amount of \$500,000.00. This could possibly mean that a \$300,000.00 reconciling item is being carried on the Union Trust checking account #201-46676 reconciliation. Examiner Endres was unable to obtain any reconciliations of this bank account; the 7/1/83 letter* from Senior Vice President Michael G. Bosley, Sr. to Examiner Endres states that the service corporation bank accounts had not been reconciled since April of 1982, and that Controller Roger Rosen was currently working on them.

Furthermore, the statement of condition* (w/p 102a) prepared by Examiner Endres as of the 3/31/83 examination date revealed that the Union Trust checking account #201-46676 was being carried on the general ledger as a \$765,261.01 credit balance; however, the verification* of this account sent to the Union Trust Company indicated a zero balance. Assuming that there is no alternative explanation for this situation, the implication arises that the \$765,261.01 credit balance may have to be written off against the service corporation's net worth accounts; \$300,000.00 of this \$765,261.01 credit balance could possibly consist of the discrepancy pertaining to the disbursement of the loan proceeds for the Franklin Associates loan.

Loan No. A - Gary and Linda Huddles

Loan No. A to Gary and Linda Huddles was granted on 3/26/82 in the amount of \$60,000.00; the mortgage instrument* states, "This Mortgage Is Due and Payable In Full On Or Before January 1, 1983." The security for this loan was a second mortgage on 7 Swanhill Drive (21208), the borrowers' residence. The loan proceeds were disbursed by check #2124* (3/29/82, \$60,000.00), payable to "Gary & Linda Huddles & Jeffrey Levitt Settlement Attorney." This check was endorsed as follows:

Gary Huddles
Linda Huddles
Jeffrey Levitt
settlement attorney
For deposit only
Jeffrey Levitt
real estate
escrow
201-45744

It appears that Gary Huddles, the co-mortgagor, is the same Gary Huddles who is a member of the Baltimore County Council.

The service corporation comments* written by Examiner Endres contain the following statements:

"A review of the file entitled "Loan Receivables Closed" was made and the following was noted:

(1) Loan No. A Gary and Linda Huddles
 7 Swanhill Drive
 2nd mortgage
 Amount \$60,000.00

(a) While the subsidiary records were located in the "Paid File," a balance of \$60,000.00 is still shown as open on the subsidiary ledger sheet.*

(b) As of 6/16/83, the examiner inquired as to the status of this loan and received the following reply:

Mr. Hudson (former vice president of service corporation) talked to Mr. Jeffrey Levitt who stated, "Loan is paid in full." However, no money has been received by Monumental City (per Mrs. Weaver of Monumental City).

(c) On 6/21/83, Mrs. Weaver was instructed to prepare the following billing for interest due (the following notation was made on the subsidiary ledger sheet):

$\$60,000.00 \times 20\% \div 365 \times 451 \text{ days} = \text{total interest due.}$
total interest due from 3-26-82 to 6-20-83 is \$14,827.40.
per diem is \$32.88.

(d) On 6/22/83, the examiner was presented a file in reference to this loan; noted in the file was the following:

(1) Settlement sheet* (dated 3/26/82), showing the following charges:

3 points on \$50,000.00 [net proceeds]	\$1,500.00
Interest collected at 20% on \$50,000.00 [net proceeds] for nine months in advance	7,497.00
Credit Report	30.00

(2) Two checks dated 3/31/82, drawn on the following account:

Jeffrey A. Levitt
Real Estate Escrow Account
416 N. Charles Street
Baltimore, Maryland 21201

check #6148* - \$1,530.00, for credit report and points;
check #6150* - \$7,497.00, for 9 months' prepaid interest --
9 mos. x \$833.00 (20% x \$50,000.00 (net settlement proceeds) ÷ 12 mos.) = \$7,497.00.

(3) Neither check has ever been deposited; Mrs. Weaver stated that she was informed on 6/22/83 that the checks were no longer useable, and that they were not to be deposited."

The following questions remained unanswered concerning this loan:

- (1) Is this loan currently open or closed; if closed, when was it paid in full?
- (2) What is the correct balance on which interest is to be calculated -- \$50,000.00 (the net settlement proceeds) as specified in the mortgage instrument, or \$60,000.00 (the total loan amount) as indicated in the calculation shown on the subsidiary letter sheet (for interest due from 3/26/82 to 6/20/83)?
- (3) Why were checks #6148 (3/31/82, \$1530.00 for credit report and points) and #6150 (3/31/82, \$7497.00, for prepaid interest), both of which were drawn on Jeffrey Levitt's real estate escrow account, never deposited to the credit of Monumental City Service Corporation?

In light of the problems indicated by the 3/31/83 examination, of which the four loans analyzed in this memorandum are examples, the following recommendations are deemed appropriate:

- (1) A comprehensive audit by a CPA firm should be made of the association and its subsidiaries -- this should include positive verification of all assets and liabilities;
- (2) Provision should be made for immediate implementation of accounting systems and procedures to insure the timely posting of all accounting records, balancing of subsidiary records to general ledger control accounts, preparation of bank reconciliations, et cetera;
- (3) The association should be required to scrupulously adhere to the requirements of Regulation .43 ("Transactions Involving Directors and Officers") and Title 9-307 of the Financial Institutions Article ("Conflict of Interest") with regard to "Insider" transactions.

W. RY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



JOHN J. CORBLEY
SECRETARY

Dep. W. #23 10-21-85 BJS

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

April 3, 1984



The Board of Directors
Old Court Savings and Loan
Association
207 E. Redwood Street
8th Floor
Baltimore, Maryland 21202

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 December 31, 1982 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 May 6, 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, it is our belief that management has lost control of the operations of the association. 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. This

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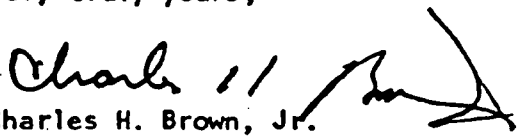
A-2127

The Board of Directors
Old Court Savings and Loan Association
April 3, 1984
Page Two

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:11b

Enclosure

cc: Maryland Savings-Share Insurance Corporation

STATE OF MARYLAND



DIVISION OF SAVINGS
AND LOAN ASSOCIATIONS

231 EAST BALTIMORE STREET
BALTIMORE, MARYLAND 21202
7TH FLOOR

REPORT OF EXAMINATION
OF

Old Court Savings and Loan, Inc.
Name of Association

25 Light Street
Street and Number

Baltimore, Maryland 21202
City State Zip Code

As of Close of Business

December 31, 1982
Month, Day and Year

The following pages have been omitted from this report because they were not applicable. Pages 10 and 12.

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.

Savings Accounts Insured by
M.S.S.I.C.

EXAMINATION AS OF
December 31, 1982

Current Policy or Certificate No.
5656

Old Court Savings and Loan, Inc.

Association

25 Light Street Baltimore, Maryland 21202
Address City State Zip Code

Address of Branches

- (1) Liberty Court Shopping Center 8600 Liberty Rd., Randallstown, Md. 21133
- (2) Reisterstown Shopping Center 11991 Reisterstown Rd., Reisterstown, Md. 21136
- (3) Burwood Plaza Old Annapolis & Furnace Branch Roads, Glen Burnie, Md. 21061
- (4) Martin's Plaza 1442 Martin Boulevard, Baltimore, Maryland 21220

No.

No.

Date Chartered	Stock or Mutual	Years End	Annual Meeting	Dividend Rate and Period
December 30, 1960	Stock	July 31	September 30	1/31 7/31 6% 4/30 10/31

OFFICERS AND DIRECTORS

Name	Address	City	Officer	Director
(1) Jeffrey A. Levitt	11408 Woodland Drive	Lutherville	President	(x)
(2) Dennis Guldice	3303 Garrison Farms Rd.	Baltimore	Executive Vice President	(x)
(3) Allen Feinberg	1612 Ross Rd.	Forest Hill	Vice President Secretary	(x)
(4) Robert Pearlstein	3704 Breton Way	Pikesville	Treasurer	(x)
(5) David Uhlfelder	3311 Woodvalley Dr.	Baltimore		(x)
(6) Samuel Shoubin	2902 Terry Dr. Apt. D	Baltimore		(x)
(7)				
(8)				
(9)				
(10)				
(11)				
(12)				
(13)				
(14)				
(15)				

Counsel

Accountant

A 2130

Name Cardin and Cardin, P.A.
Address 6615 Reisterstown Road
Baltimore, Maryland 21215

Name Glass & Associates, P.A.
Address 222 St. Paul Street
Baltimore, Maryland 21202

Period of Examination
From 1/19/83 To 5/6/83

Examiner-In-Charge
Gregory L. Watkins

COMPARATIVE PERCENTAGE SUMMARY

<u>CURRENT EXAMINATION</u>	<u>PREVIOUS EXAMINATION</u>
Date <u>December 31,</u> 19 <u>82</u>	Date <u>September 30,</u> 19 <u>81</u>

	<u>Amount</u>	<u>% to Total Assets</u>		<u>Amount</u>	<u>% to Total Assets</u>
1. Total Assets	\$ 146,813,274.80			\$ 69,707,467.82	
2. Reserve for Bad Debts	\$ 1,604,940.25	1.1 %		\$ 1,604,904.25	2.3 %
a. Capital Stock	298,026.00	0.2		298,026.00	0.4
3. Undivided profits and surplus	\$ (2,767,919.14)	(1.9) %		\$ (718,956.67)	(1.0) %
a. Paid-In Surplus	171,111.95	0.1		171,111.95	2.3
4. First mortgage loans	\$ 83,333,988.90	56.8 %		\$ 63,720,686.42	91.4 %
5. Ground rents owned	\$ 11,175.00	-		\$ 11,175.00	-
6. Liquid Assets:					
(e) Cash	\$ 9,873,882.57			\$ (24,528.50)	
(b) Investments (Securities)	38,992,581.59			2,036,925.65	
(c) M.S.B.I.C. deposit & C.R.F.	1,928,400.00			1,558,725.00	
Total Liquid Assets	\$ 50,794,864.16	34.6 %		\$ 3,571,122.15	5.1 %
7. Slow Assets:					
(e) Slow mortgage loans	\$ 2,343,573.09	1.6 %		\$ 2,425,511.64	3.5 %
(b) Real estate Owned	125,198.23	0.1 %		-0-	-
(c) Office Building & Improvements (net)	293,371.44	0.2 %		295,796.33	0.4 %
(d) Leasehold Improvements (net)	310,466.27	0.2 %		335,440.74	0.5 %
(e) Furniture & Fixtures (net)	287,657.39	0.2 %		284,639.77	0.4 %
(f) _____					
Total Slow Assets	\$ 3,360,266.42	2.3 %		\$ 3,341,388.48	4.8 %
8. Borrowed Money	\$ 26,567,000.00	18.1 %		\$ 8,151,000.00	11.7 %

Year Ended <u>July 31,</u> 1982	Year Ended <u>July 31,</u> 1981
---------------------------------	---------------------------------

	<u>Amounts</u>	<u>Ratios</u>		<u>Amounts</u>	<u>Ratios</u>
9. Operating ratios:					
(e) Gross operating income (Item 9, Page 4)	\$ 8,751,481.17			\$ 7,009,433.43	
(b) Total operating expense (Item 25, Page 4 and Item 29, Page 5)	\$ 2,525,538.85			\$ 1,677,437.73	
(c) % Operating expense to gross operating income		28.9 %			23.9 %
(d) Net operating income (Item V, Page 5)	\$ 6,225,942.32			\$ 5,331,995.70	
(e) Dividends (page 6)	\$ 7,938,786.23			\$ 5,957,072.91	
(f) % Dividends to net operating income		127.5 %			111.7 %
(g) Total assets at end of fiscal year	\$ 84,898,860.00			\$ 66,475,012.26	
(h) % Operating expense to total assets		3.0 %			2.5 %
(i) Share liability at end of fiscal year	\$ 68,114,322.00			\$ 55,111,507.55	
(j) % Net income to share liability		9.1 %			9.7 %
(k) Reserve for Bad Debts	\$ 1,604,940.25			\$ 1,604,940.25	
(l) % Reserve for Bad Debts to Share Liability		2.4 %			2.9 %
(m) Total Net Worth	\$ (211,370.35)			\$ 1,355,112.53	
(n) % Total Net Worth to Share Liability		(0.3) %			2.5 %

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STATEMENT OF CONDITION

Exhibit A

Name of Institution Old Court Savings and Loan, Inc.
 as of December 31, 1982

ASSETS

1. First mortgage loans:			
a. First mortgage direct reduction loans		\$ 70,760,192.69	
b. First mortgage drop share loans			
c. F.H.A. mortgage loans			
d. G.I.B. mortgage G.N.M.A.		11,100,214.42	
e. First mortgage straight loans			
f. Participation loans		660,494.34	
g. Accrued interest receivable on first mortgage loans		802,504.58	
h. Advances for taxes, insurance, etc., on first mortgage loans		10,582.87	\$ 83,333,988.90
2. Subordinated Liens:			
a. Second Mortgages		\$	
b. Accrued interest receivable on second mortgages			
c. Advances for taxes, insurance, etc., on second mortgages			
3. Free Share Account Loans:			
a. Loans secured by accounts of this association		\$ 853,380.30	
b. Accrued interest receivable on free share account loans			853,380.30
4. Other loans:			
a. Loans on all other security		\$	
b. Unsecured loans <u>Notes Receivable - OCIC/Ruxton/QCJV/Leib</u>		1,895,500.00	
c. Accrued interest receivable on other loans		67,914.60	1,963,414.60
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.)			125,198.23
7. Ground Rents Owned			11,175.00
8. Investments:			
a. Stock in Federal Home Loan Bank <u>F.N.M.A. Stock</u>		\$ 14,974.42	
b. Federal Home Loan Bank Securities <u>F.N.M.A./FHLB/FHLMC</u>		26,446,112.66	
c. U.S. Government obligations		12,000,000.00	
d. Other investment securities <u>Accrued Interest</u>		531,494.51	38,992,581.59
9. M.S.S.I.C. Deposit <u>& Central Reserve Fund</u>			1,928,400.00
10. Investment - Service Corporation			42,652.45
11. Cash:			
a. Cash on hand		\$ 251,349.77	
b. Cash in banks		5,994,664.74	
c. Federal Funds - Secured		2,500,000.00	
d. Certificates of Deposit and Accrued Interest		1,127,868.06	9,873,882.57
12. Office Building (if owned):			
a. Office building and improvements		\$ 300,506.23	
b. Less allowance for depreciation		(7,134.79)	293,371.44
13. Leasehold Improvements:			
a. Leasehold improvements		\$ 372,443.88	
b. Less allowance for amortization		(61,977.61)	310,466.27
14. Furniture, etc.:			
a. Furniture, fixtures and equipment		\$ 467,731.51	
b. Less allowances for depreciation		(180,074.12)	287,657.39
15. Deferred charges & Deferred Loss - Sale of Loans			4,407,812.39
16. Other assets (Schedule 6, Page 14) <u>Accounts Receivable</u>			1,155,413.51
17. <u>Inventories/Prem. G.N.M.A. & Govt. Securities</u>			2,447,213.50
18. <u>Deferred Int. Exp. - Savings</u>			786,666.66

TOTAL ASSETS

\$146,813,274.80

STATEMENT OF CONDITION--(Continued)

Exhibit A

CAPITAL AND LIABILITIES

20. Free accounts:			
a. Installment share dues credited	_____	\$ _____	
Deduct—Delinquent dues (if carried)	_____		
Sub-total	_____	\$ _____	
Add—Dividends (unless included in 20-u)	_____		
Net free installment shares	_____		
b. Savings shares and accounts (payments and dividends)	_____		\$ 65,925,328.74
c. Variable Dividend Certificates	_____		
d. Single payment shares (payments and dividends)	_____		
e. Matured shares (payments and dividends)	_____		
f. Hypothecated Share Accounts—Mortgage Loans	_____		488,550.00
g. Pledged Share Accounts—Free Share Account Loans	_____		853,380.30
h. Income Shares	_____		
i. N.O.W. Accounts	_____		37,463,926.23
Total Share Accounts:	_____		104,731,185.27
21. Other Accounts			
Christmas Clubs	_____	\$ _____	
Vacation Clubs	_____		
Total Other Accounts	_____		
22. Advances RECEIVED FROM F.N.M.A. Principal - Exp. Int. Paymts.			16,256.22
23. Borrowed money:			
a. From banks (Schedule 8, Page 14) & Others	_____	\$ 26,567,000.00	
b. From others (Schedule 8, Page 14)	_____		26,567,000.00
24. Mortgages on real estate owned	_____		
25. Interest accrued on items 22, 23 and 24	_____		
26. Dividends declared, unpaid and uncredited	_____		557,893.27
27. Taxes accrued and unpaid on real estate owned	_____		
28. Accounts payable	_____		247,815.76
29. Loans in process & Water and Sewer Trust	_____		4,905,753.37
30. Advance payments:			
a. Advance payments by borrowers for taxes and insurance (if carried separately)	_____	\$ 812,289.34	
b. Debit Escrow Balance	_____	10,582.87	
c.	_____		822,872.21
31. Other liabilities (Schedule 7, Page 14) Exchanges	_____		124,174.48
32. Deferred credits to future operations:			
a. For unearned profit on real estate sold	_____	\$ _____	
b. For income collected in advance	_____	4,185,696.26	
c. For income Taxes	_____	(143,496.63)	
d. Discount on Securities	_____	4,899,527.00	8,941,726.63
33. Specific reserves:			
a. For uncollected interest	_____	\$ _____	
b. For subordinated liens	_____		
c.	_____		
34. General reserves:			
a. Reserve for bad debts	_____	\$ 1,604,940.25	
b. Federal Insurance reserve (if insured)	_____		
c.	_____		
d.	_____		
e.	_____		1,604,940.25
35. Surplus Paid-In Surplus	_____		171,111.95
36. Undivided profits	_____		(2,767,919.14)
37. Reserve for estimated dividend requirements	_____		
38. Current earnings (if interim statement) 5 months ended 12/31, 19 82	_____		(32,561.47)
39. M.S.S.I.C. Debenture	_____		625,000.00
40. Capital Stock Class A and B	_____		298,026.00
TOTAL CAPITAL AND LIABILITIES			\$ 146,813,274.80

STATEMENT OF OPERATIONS

Exhibit B

NAME OF INSTITUTION Old Court Savings and Loan, Inc.

	Current Period		Year		Year	
	From 8/1/82	To 12/31/82	From 8/1/81	To 7/31/82	From 8/1/80	To 7/31/81
I. GROSS OPERATING INCOME:						
1. Interest						
a. On mortgage loans—ordinary cash collections	\$ 2,992,616.06		\$ 7,139,502.20		\$ 5,420,227.23	
b. On mortgage loans—all other						
c. On loans on shares, passbooks and certificates	-0-		-0-		81,604.33	
d. On real estate sold on contract						
e. On investments and bank deposits	801,827.15		296,388.37		314,204.80	
f. On property improvement loans						
g. On ground rents						
h. Other notes	90,134.51		130,418.64		11,258.21	
2. Discount on loans (current installment and amortization only)	291,047.91		-0-		-0-	
3. Appraisal fees, legal fees and initial service charges	584,803.73		1,012,366.76		1,093,735.25	
4. Other fees and fines	62,666.30		87,102.91		38,369.41	
5. Real estate operations—Net income or (loss from R.E.O. Details on page 5)						
6. Gross income from office building						
7. Dividends:						
a. On stock in Federal Home Loan Bank						
b. Other dividends M.S.S.I.C. - C.R.F.	18,288.42		70,825.43		27,713.44	
8. Miscellaneous operating income	2,504.71		14,876.86		22,320.76	
9. Gross operating income	\$ 4,843,888.79		\$ 8,751,481.17		\$ 7,009,433.43	
II. LESS—OPERATING EXPENSE:						
10. Salaries, etc.:						
a. Compensation to directors, officers, employees, etc. Health Insurance	\$ 258,944.85		\$ 512,937.86		\$ 466,263.02	
b. Collection expense (agents, etc.)	9,192.43		35,473.67		32,152.53	
11. Legal services—retainer, traveling expenses and special services	53,009.66		78,225.57		71,835.92	
12. Expense accounts of directors, officers and employees	6,128.98		8,004.13		17,220.74	
13. Rent, light, heat, etc.	46,098.58		110,583.34		117,508.19	
14. Office building expenses (if owned):						
a. Repairs, taxes and maintenance of office building (excluding depreciation)	15,906.01		32,779.26		25,278.26	
b.						
15. Furniture, fixtures and equipment, including depreciation	82,821.34		186,448.73		154,442.09	
16. Advertising	42,260.25		122,692.72		138,916.43	
17. Stationery, printing and office supplies	17,869.79		40,366.92		36,487.12	
18. Telegraph, telephone, postage & express	25,015.62		45,786.27		30,581.47	
19. Insurance and bond premiums	15,310.55		18,903.38		13,195.84	
20. Federal insurance premium (if insured)						
21. Audit and supervisory examination						
22. Taxes (other than real estate taxes)	16,700.94		78,088.10		90,640.58	
23. Organization dues	5,501.97		9,510.31		7,335.68	
24. Other operating expense	29,950.58		71,434.21		69,390.86	
25. Total operating expense	\$ 624,711.55		\$ 1,351,234.47		\$ 1,271,248.73	
III. Net Operating Income Before Interest and Other Charges	\$ 4,219,177.24		\$ 7,400,246.70		\$ 5,738,184.70	
(Carried forward to page 5)						

*Amount Represents Professional Fees which Includes Both Legal & Accounting Fees.

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STATEMENT OF OPERATIONS (Continued)

Exhibit B (Continued)

	Current Period From 8/1/82 To 12/31/82	Year From 8/1/81 To 7/31/82	Year From 8/1/80 To 7/31/81
III. Net Operating Income Before Interest and Other Charges (Carried forward from page 4)	\$ 4,219,177.24	\$ 7,400,246.70	\$ 5,738,184.70
IV. LESS-INTEREST CHARGES:			
26. No advances from Federal Home Loan Bldg. Amort. Def. Int. Expense	\$ 13,333.34	\$ -0-	\$ -0-
27. On borrowed money	534,888.76	1,174,304.38	406,189.00
28. Interest on Escrow	351.23	-0-	-0-
29. Total Interest	\$ 548,573.33	\$ 1,174,304.38	\$ 406,189.00
V. Net Operating Income	\$ 3,670,603.91	\$ 6,225,942.32	\$ 5,331,995.70
VI. ADD-NON-OPERATING INCOME:			
30. Dividends retained on withdrawals	\$ -0-	\$ -	\$ -
31. Profit on sale of real estate	-0-	7,391.02	101,854.52
32. Profit on sale of investments	236,848.22	-0-	-0-
33. Mortgage prepayment penalties			
34. Other non-operating income			
35. Total non-operating income	\$ 236,848.22	\$ 7,391.02	\$ 101,854.52
VII. Net Income After Interest and Before Charges	\$ 3,907,452.13	\$ 6,233,333.34	\$ 5,433,850.22
VIII. LESS-NON-OPERATING CHARGES (do not use lines herein for items charged direct to reserves):			
36. Provision for costs and back taxes on real estate sold to GIBB LENDERS PROPERTY SERVICE CORP.	\$ -0-	\$ 42,305.11	\$ 84,301.91
37. Loss on sale of real estate			
38. Loss on sale of investments	74,644.35	-0-	-0-
39. Other non-operating charges	247.50	-0-	-0-
40. Total non-operating charges	\$ 74,891.85	\$ 42,305.11	\$ 84,301.91
IX. Net Income for Period	\$ 3,832,560.28	\$ 6,191,028.23	\$ 5,349,548.31

REAL ESTATE OPERATION (Details)

I. REAL ESTATE INCOME:			
1. Real Estate Rents	\$	\$	\$
2.			
3. Total Real Estate Income	\$	\$	\$
II. LESS-REAL ESTATE OPERATING EXPENSES:			
4. Taxes	\$	\$	\$
5. Insurance			
6. Repairs and Maintenance			
7. Commissions			
8. Depreciation			
9. Other Miscellaneous real estate expenses			
10.			
11. Total Real Estate Expenses	\$	\$	\$
12. Net profit on Real Estate Operations	\$	\$	\$
13. Net loss on Real Estate Operations (Note-Insert net income or loss in connection with real estate on page 4 as indicated.)	\$	\$	\$

DISTRIBUTION OF NET INCOME AND
RECONCILEMENT OF UNDIVIDED PROFITS OR EARNED SURPLUS

	Current Period	Year	Year
	From <u>8/1/82</u> To <u>12/31/82</u>	From <u>8/1/81</u> To <u>7/31/82</u>	From <u>8/1/80</u> To <u>7/31/81</u>
Distribution of Net Income			
1. Net income for period (Item IX, Exh. B)	\$ 3,832,560.28	\$ 6,191,028.23	\$ 5,349,548.31
Distribution			
2. Transfers to reserves:			
a. Federal insurance reserve	\$ _____	\$ _____	\$ _____
b. Reserve for bad debts	_____	_____	_____
c. Surplus	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
3. Earnings distributed on sev. capital:			
a. Dividends on savings	<u>1,617,143.03</u>	<u>2,195,642.41</u>	<u>512,851.36</u>
b. Int. on deposits, invest., cert. etc.	<u>2,247,978.72</u>	<u>5,743,143.82</u>	<u>5,444,221.55</u>
c. Res. for div. on Var. Div. Certs.	_____	_____	_____
d. _____	_____	_____	_____
4. Other			
a. Federal income tax <u>Estimated</u>	<u>-0-</u>	<u>(181,275.12)</u>	<u>(151,900.00)</u>
b. _____	_____	_____	_____
c. _____	_____	_____	_____
5. Total Distribution of Net Income	<u>\$ 3,865,121.75</u>	<u>\$ 7,757,511.11</u>	<u>\$ 5,805,172.91</u>
6. Net Income After Distribution	<u>-0-</u>	<u>\$ (1,566,482.88)</u>	<u>\$ (455,624.60)</u>
7. Net income Undistributed	<u>\$ (32,561.47)</u>	_____	_____
Reconcilement of Undivided Profits			
8. Balance—beginning of period	<u>\$ (2,285,448.55)</u>	<u>\$ (718,965.67)</u>	<u>\$ (263,341.07)</u>
9. Net Income After Distribution (line 6)	<u>\$ -0-</u>	<u>\$ (1,566,482.88)</u>	<u>\$ (455,624.60)</u>
10. Other additions:			
a. _____	\$ _____	\$ _____	\$ _____
b. _____	_____	_____	_____
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
11. Subtotal	<u>\$ (2,285,448.55)</u>	<u>\$ (2,285,448.55)</u>	<u>\$ (718,965.67)</u>
12. Deductions:			
a. J.E. 837 Adj. Excess Def. Fees	<u>335,433.93</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
b. J.E. 838 Adj. Excess Def. Fees	<u>147,036.66</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
c. _____	_____	_____	_____
d. _____	_____	_____	_____
e. _____	_____	_____	_____
f. _____	_____	_____	_____
g. _____	_____	_____	_____
13. Total deductions	<u>\$ 482,470.59</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Balance at end of period	<u>\$ (2,767,919.14)</u>	<u>\$ (2,285,448.55)</u>	<u>\$ (718,965.67)</u>
14. Dividend or interest rate for period	<u>6 %</u>	<u>6 %</u>	<u>6 %</u>

RECONCILEMENT OF RESERVES

Exhibit D

	Current Period From <u>8/1/82</u> To <u>12/31/82</u>	Year From <u>8/1/81</u> To <u>7/31/82</u>	Year From <u>8/1/80</u> To <u>7/31/81</u>
Reserve for bad debts			
1. Balance at beginning of period	\$ <u>1,604,940.25</u>	\$ <u>1,604,940.25</u>	\$ <u>1,412,056.25</u>
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b) J/E 127 Transf. from Surplus	<u>-0-</u>	<u>-0-</u>	<u>192,884.00</u>
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
3. Total additions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>192,884.00</u>
4. Totals of items 1 and 3	\$ <u>1,604,940.25</u>	\$ <u>1,604,940.25</u>	\$ <u>1,604,940.25</u>
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
(e) _____	_____	_____	_____
(f) _____	_____	_____	_____
(g) _____	_____	_____	_____
6. Total deductions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
7. Balance at end of period	\$ <u>1,604,940.25</u>	\$ <u>1,604,940.25</u>	\$ <u>1,604,940.25</u>
Capital Stock - Par Value (Class A and B)			
Reserve			
1. Balance at beginning of period	\$ <u>298,026.00</u>	\$ <u>298,026.00</u>	\$ <u>298,026.00</u>
2. Additions during period	<u>-0-</u>	<u>-0-</u>	<u>264.00</u>
3. Totals of items 1 and 2	\$ <u>298,026.00</u>	\$ <u>298,026.00</u>	\$ <u>298,290.00</u>
4. Deductions during period:			
(a) Estate of D. Elliott	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>264.00</u>
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
5. Total deductions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>264.00</u>
6. Balance at end of period	\$ <u>298,026.00</u>	\$ <u>298,026.00</u>	\$ <u>298,026.00</u>

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RECONCILEMENT OF RESERVES

Exhibit D (Continued)

	Current Period From <u>8/1/82</u> To <u>12/31/82</u>	Year From <u>8/1/81</u> To <u>7/31/82</u>	Year From <u>8/1/80</u> To <u>7/31/81</u>
--	------------------------------------------------------------	-------------------------------------------------	-------------------------------------------------

Surplus

1. Balance at beginning of period	\$ <u>177,111.95</u>	\$ <u>171,111.95</u>	\$ <u>171,111.95</u>
2. Additions during period:			
(a) From net profit	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
(e) _____	_____	_____	_____
3. Total additions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>8.00</u>
4. Totals of items 1 and 3	\$ <u>177,111.95</u>	\$ <u>171,111.95</u>	\$ <u>171,111.95</u>
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
(e) _____	_____	_____	_____
(f) _____	_____	_____	_____
(g) _____	_____	_____	_____
6. Total deductions	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>8.00</u>
7. Balance at end of period	\$ <u>171,111.95</u>	\$ <u>171,111.95</u>	\$ <u>171,111.95</u>

Reserve

1. Balance at beginning of period	\$ _____	\$ _____	\$ _____
2. Additions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
3. Total Additions	\$ _____	\$ _____	\$ _____
4. Totals of items 1 and 3	\$ _____	\$ _____	\$ _____
5. Deductions during period:			
(a) _____	\$ _____	\$ _____	\$ _____
(b) _____	_____	_____	_____
(c) _____	_____	_____	_____
(d) _____	_____	_____	_____
6. Total deductions	\$ _____	\$ _____	\$ _____
7. Balance at end of period	\$ _____	\$ _____	\$ _____

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LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home & Business
- 2--Apartment 5 or more families
- 3--Business--Commercial
- 4--Farm
- 5--Unimproved
- P--Purchase
- R--Refinance
- RO--Refinance (Other)
- C--Construction

LOANS SUBJECT TO COMMENT AS OF-- December 31, 1982

Schedule No. 1

Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original (1) Amount	Debit Exp. Acct. (2)	Unpaid (3) Principal	Unpaid (4) Interest	Total (5) Del. (3) & (4)	No. Payments (6) Last 12 Months	Page 1 of 3 Total Debt Last Exam.	Comments
243290-9	Twin Lakes 13.63 Acres Milford Hill Rd. Baltimore County, Md.	5	3/5/75	6650,000.00	3388.00	\$ 64,000.00	9,600.00	\$ 73,988.00	0	-0-	15 Mos. Int. del. paid off 1/83.
34-9	Twin Lakes Twin Lakes Ct. Baltimore County	C	5/9/78	1,920,000.00	-0-	37,640.00	6,820.00	44,460.00	0	-0-	14 Mos. Int. del.
3844-9	Ruxton Crossing Joint Venture Reisterstown Baltimore County	5	3/30/79	1,176,000.00	-0-	803,626.00	187,190.00	990,816.00	0	951,161.79	21 Mos. Int. del.
24-3916-99	Ruxton Crossing Joint Venture Ruxton Crossing Baltimore County	Land	4/10/80	117,600.00	-0-	117,600.00	39,152.00	156,752.00	0	-0-	21 Mos. Int. del.
22-3774-8	Alloways 209 Palmetto Dr. Edgewood, Md.	1A/ C	8/25/78	43,940.00	-0-	41,286.18	1,307.40	42,593.58	8	-0-	
223776-3	Hassey, D. 16 Galahad Ct. Baltimore, Md.	1A	8/17/78	48,850.00	29.39	47,518.81	2,257.14	49,805.34	6	-0-	
24-3997-2	Fratiscelli 2 Trueman Ct. Towson, Md.	1A 2nd	12/2/80	55,000.00	-0-	54,076.39	3,098.10	57,174.45	7	-0-	
Sub Totals:				\$417.39		\$1,165,797.34	\$24,649,424.64	\$1,415,589.37			

LEGEND

- 1A--Single Family Dwelling
- 1B--2-4 Family Dwelling
- 1C--Home-Business
- 2--Apts. w. 3 or more families
- 3--Business--Commercial
- 4--Farm
- 5--Unimproved
- P--Purchase
- R--Refinance (Other)
- RO--Refinance (Other)
- C--Construction

LOANS SUBJECT TO COMMENT AS OF-- December 31, 1982

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Loan No.	Name of Borrower and Location of Property	Type	Date of Loan	Original Amount (1)	Debit Exp. Acct. (2)	Unpaid Principal (3)	Unpaid Interest (4)	Total Paym'ts (2,3,4)	No. Payments Last 12 Months	Total Debt Last Exam.	Comments
24-4168-6	Balance Forward R. Seager 4000 Collidge Ave. Arbutus, Md.	Wrap 2nd	12/18/81	\$750,000.00	-0-	\$1,165,747.34	\$249,424.64	\$1,415,589.37	5		
24-4031-2	F. Trocki 3129 Dudley Ave. Baltimore, Md.	1A	1/16/81	31,500.00	346.71	31,320.15	2,344.66	34,011.52	4		
243457-3	J. Walker 209 Redbud Rd. Edgewood, Md.	1A	10/21/76	43,390.00	-0-	40,841.54	1,107.26	41,948.80	8		
244080-2	A. Snyder 213 Reistersotown Rd. & Hooks Lane Baltimore County	C 2nd	7/10/81	247,200.00	1,119.28	247,019.02	12,556.80	260,695.10	8		
244205-9	J. Seehusen 2032, 2040 E. Fayette St. Baltimore, Md.	R 2-1A	3/19/82	14,400.00	-0-	14,332.72	971.44	15,304.16	8 of 8		
244206-7	J. Seehusen 1029-1031 N. Caroline St. Baltimore, Md.	R 2-1A	3/26/82	12,800.00	-0-	12,750.74	864.22	13,614.96	8 of 8		
24-3963-4	M. Atbinak 525 Allegheny Ave. 717 Hillen Rd. Towson, Md.	1A	9/23/80	82,700.00	-0-	82,700.00	16,540.00	99,240.00	-0-		15 Mos. Delinq.
				Totals:	\$1,883.38	\$2,343,573.09	\$6362,452.02	\$2,707,908.00			

SCHEDULE OF INVESTMENTS AS OF -- December 31, 1982 Page 2 of 2

Schedule No. 3

Prem. or Disc. Plus Per Value	Description	Rate	Maturity	Actual Cost	Book Value	Interest Accrued (If Carried as an Asset)	Comments
51,929,487.37	FNMA 396	10.50%	12/1/10	51,934,287.94	51,929,487.37	533,794.65	
2,521,760.10	FNMA 575	12.00%	---	2,523,811.01	2,521,760.10	25,217.60	
1,005,942.00	FHLB 10-45%	10.45%	2/25/87	1,008,750.00	1,000,000.00	35,994.45	
149,430.32	FHLMC #16-001	7.125%	12/1/02	149,430.52	201,252.95	2,389.88	
2,335,396.75	FHLMC #16-024	8.00%	6/1/07	2,335,396.75	2,994,098.40	39,921.32	
258,215.31	FHLMC #16-029	8.25%	10/1/07	258,215.31	328,936.70	4,522.88	
943,032.18	FHLMC #16-030	8.25%	11/1/07	943,032.18	1,195,451.84	16,437.48	
982,086.61	FHLMC #16-034	8.50%	12/1/07	982,086.61	1,228,007.36	17,396.76	
461,633.62	FHLMC #17-012-A	8.00%	3/1/07	461,633.62	592,582.50	7,901.10	
600,123.70	FHLMC #17-012-B	8.00%	3/1/07	600,123.70	770,357.25	10,271.42	
734,779.51	FHLMC #18-0010-A	7.75%	10/1/11	734,779.51	973,217.90	6,285.37	
1,505,000.00	FHLMC #18-0093	7.00%	6/1/03	1,505,000.00	2,000,000.00	11,666.67	
3,967,663.28	FHLMC #18-0439	8.00%	3/1/09	3,697,663.28	4,809,968.50	32,066.46	
1,526,606.51	FHLMC #18-1457	8.00%	11/1/08	1,526,606.51	1,985,829.60	26,477.72	
725,666.72	FHLMC #18-1486	7.00%	5/1/08	725,666.72	988,983.60	5,769.07	
756,046.52	FHLMC #18-335	8.00%	10/1/09	756,046.52	978,700.99	13,049.36	
752,213.22	FHLMC #18-403 A	8.00%	11/1/07	752,213.22	973,738.80	6,491.59	
752,213.22	FHLMC #18-403 B	8.00%	11/1/07	752,213.22	973,738.80	6,491.60	
<u>321,907,296.94</u>				<u>321,846,956.62</u>	<u>526,446,112.66</u>	<u>5302,145.38</u>	

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OFFICERS, DIRECTORS, ATTORNEYS AND EMPLOYEES *

Sch. No.

Name	Officer Title	Director	Meetings Attended Since Last Examination	Time Devoted	Annual Salaries Y/E 7/31/83	Annual Fees Y/E 7/31/82	*Indemnity As Of 12/31/82		Tot. F. V. Share Account AS OF
							Type	Amount	
B. P. Cuzzart	President	X	14	Full	\$57,549.90		M	\$239,079.81	
V. L. Vanneman	Executive Vice President			Full	34,550.00		M	53,567.42	
W. W. Simpson	Vice President			Full	23,692.46				
D. M. Heffernan	Vice President			Full	15,230.60		M	17,781.03	
D. E. Guldice	Vice President			Full	27,599.88				
Jack Robinson		X	14	Full	20,060.06				
Stuart L. Berger	Secretary	X	9	Part			M	173,588.43	
Albert Cutler		X	8	Part					
David Uhlfelder	Treasurer	X	14	Part			M	73,716.09	
Samuel Shoublin		X	10	Part			S	15,563.96	
					\$178,682.90			\$573,296.74	

* The new Board of Directors shown on the first page of this report was elected on October 12, 1982.
 Meetings held since last examination 14 Date of last annual meeting of members September 14, 1982

Number of directors designated in by-law 5-15

*Designate Mortgage Loan--M; Share Account Loan--S; Unsecured Loan--U; Collateral--C; Trustee Account--T.

Bond		Expiration Date
Amount	Name of Surety and Home Office	
\$1,000,000.00	MGIC Indemnity Corp.	7/25/83
	Millwaukee, Wisconsin	

A 2143

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Schedule No. 6

OTHER ASSETS: (Item 16, Exhibit A)

Schedule No. 7

OTHER LIABILITIES: (Item 31, Exhibit A)

Schedule No. 8

BORROWED MONEY: (Item 23, Exhibit A)

To Whom Owed	Amount	Rate	Due Date	COLLATERAL	
				Description	Unpaid Principal
First National Bank	\$5,270,000.00	Various	Various	GNMA	
"	950,000.00	9.375%	1/6/83	U.S. Treasury Sec.	
Beull, Bresler & Schulman	2,512,000.00	Various	Various	GNMA	
"	2,233,750.00	Various	Various	U.S. Treasury Sec.	
Collins, Locke & Lasater	8,516,250.00	Various	Various	U.S. Treasury Sec.	
UMIC Govt. Sec., Inc.	5,189,000.00	Various	Various	FHLMC, FNMA	
First United	1,920,000.00	14%	1/3/83	U.S. Treasury Bonds	
Variance	(24,000.00)				
Total:	<u>\$26,567,000.00</u>				

Schedule No. 9

SUMMARY OF CERTIFICATES OF DEPOSIT, SAVINGS ACCOUNTS, OTHER SECURITIES, ETC.

Description	Amount	Rate	Due Date
Harbor Bank	\$100,000.00	8.75%	
First Progressive	1,000,000.00	12%	1/9/83
	\$1,100,000.00		----
Accrued Interest on Certificates of Deposit	27,868.06		
	<u>\$1,127,868.06</u>		

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EXAMINERS' COMMENTS

Old Court Savings and Loan, Inc.
(A Stock Corporation)

Comment 1:

- A. An analysis of the association's reserves and allocation of profits revealed that as of July 31, 1982 and December 31, 1982 the association was not in compliance with Regulation .40-1B, which states "that 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% of the savings liability". From October 31, 1981 through December 31, 1982 the association's percentage of net worth to savings liability was considerably less than the 3% required by Regulation .40-1B.

As of the association's fiscal year ended July 31, 1982 and the 5 months ended December 31, 1982, the association's net worth to savings liability was 1.09% and 1.31%, respectively.

- B. A review of the association's lending practice revealed that in many instances the association made loans in excess of its net worth. Regulation .308 provides that "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". A review of the loan register revealed that two loans were granted totaling \$4,562,500.00 in the month of December 1982 which exceeded the association's net worth of \$489,283.96 as of November 30, 1982:

<u>Number</u>	<u>Granted</u>	<u>Loan Amount</u>	<u>Net Worth</u>
4282-1	12/24/82	\$3,000,000.00	\$489,283.96
4283-9	12/31/82	1,562,500.00	
Total:		<u>\$4,562,500.00</u>	

Comment 2:

- A. A review of the association's handling of loan origination fees ("points") reflected that in several instances the association took in 3 points on a loan transaction, and its subsidiaries also took in a loan processing fee. This practice resulted in up to 5 points being taken into income on certain transactions. This practice violates Regulation .11.

It is the Division's position that under no circumstances may more than a total of three points be taken into income with respect to a loan; the excess over the three points must be deferred, and taken into income pro rata over the term of the loan or over not less than the first seven years of the loan, whichever term is less.

- B. An analysis of the subsidiary records for loan origination fees reflected that the following loan fees were booked twice:

<u>Loan No.</u>	<u>Borrower</u>	<u>Amount</u>
4233-1	Woodbridge Construction	\$6,000.00
4234-9	Woodbridge Construction	8,250.00
4243-7	Duffy	1,380.00
4249-4	O'Master	3,250.00
4248-6	Norton	395.00
4284	Amber Waves	69,000.00

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Comment 2B: (Con't)

<u>Loan No.</u>	<u>Borrower</u>	<u>Amount</u>
4247-5	Wilson	450.00
4251-6	Jay Mare Corp.	3,042.00
4267	Eckenrode	1,800.00
4268	Country Club Construction	2,600.00
4258	Smith	700.00
4275	Hilltop Associates	38,250.00
4268	Country Club Construction	<u>7,200.00</u>
Sub Total:		\$142,317.00
Less: Subsequent Adjustments		<u>35,782.00</u>
Total Amount Booked Twice		<u>\$106,535.00</u>

This \$106,535.00 double booking of income should be reversed immediately, and a copy of the correcting entry for the \$106,535.00 should be sent to the Division with your reply to the comments.

Comment 3:

A review of the loan participations purchased from Home Federal Savings and Loan revealed that the general ledger and statements from Home Federal Savings and Loan showed the following variances:

	<u>General Ledger</u>	<u>Bank Statement</u>	<u>Variance</u>
November 1982	\$3,232,199.21	\$3,247,121.84	(\$14,922.63)
December 1982	3,228,388.06	3,232,616.05	(4,227.99)
January 1983	3,225,768.02	3,235,926.73	(10,158.71)
February 1983	3,225,768.02	3,219,967.74	5,800.28

A further reconciliation by the examiners reflected a net variance of \$10,694.64 as follows:

Ending November Balance per statement	\$3,247,121.84
Remittances in December-check #53400	(3,811.15)
Adjusted Balance	<u>3,243,310.69</u>
Ending Balance per Bank Statement @ December	<u>3,232,616.05</u>
Variance:	<u>\$10,694.64</u>

It was noted by the examiners that statements from Home Federal before November of 1982 were not available for review because the mortgage department could not locate the file. Also, the loan purchase agreement from Home Federal and VMI Servicing was not available for review by the examiners as required by Section 9-503 of the Financial Institutions Article.

As of December 31, 1982, the general ledger balance was \$4,227.99 less than the amount reflected on the bank statement.

Comment 4:

A review of general ledger account No. 1270-21 entitled "Participation Loan Sold - Sequoia" revealed that the account and the subsidiary records reflected a balance of \$243,102.76. However, a review of the subsidiary

Comment 4: (Con't)

mortgage trial balance printout and the confirmation from Sequoia reflected the following:

	<u>Per General Ledger</u>	<u>Mortgage Trial Balance</u>	<u>Difference</u>
Total Loan	\$486,205.52	\$478,284.48	\$7,921.04
Participations Sold	243,102.76	239,142.24	3,960.52
Net Asset	\$243,102.76	\$239,142.24	\$3,960.52

It was noted that the confirmation from Sequoia shows a balance per their books to be \$239,142.24 as reflected in Old Court's "Mortgage Trial Balance".

Comment 5:

An examination of the files of the mortgage loans granted during the period October 1, 1981 thru December 31, 1982 revealed the following:

- A. Loan file Nos. 4149, 4150, 4169, 4185, 4187, 4191, 4204, 4214, 4216, 4219, 4223, and 4148 did not contain the original mortgage instrument as required by Regulation .29A(2)(f).
- B. Loan file Nos. 4220, 4238, 4244, 4252, 4282, 4284, 4299 and, 4342 did not contain the original of the current insurance policies as required by Regulation .29A(2)(d).

The insurance policy in loan file No. 4205-9 was written by an insurance company not licensed to do business in the State of Maryland, as required by Regulation .230.

The insurance policies in loan file Nos. 4138, 4150, and 4168 had terms which had expired.

The insurance policies in loan file Nos. 4152, 4178, 4192, and 4194 did not contain sufficient coverage to protect the interest of the association as required by the above referenced regulation.

- C. Loan file Nos. 4168, 4213, 4220, 4232, 4239, 4242, and 4299 did not contain applications as required by Regulation .29A(2)(a).

The application in loan file Nos. 4145 and 4283 were not signed by or on behalf of the borrower as required by Regulation .23A(1). The application in loan file No. 4143 was not signed by the co-borrower.

The application in loan file No. 4283 did not contain sufficient personal history data on the applicant to comply with the provisions of Regulation .23A(1) and (2).

Loan file Nos. 4252 and 4275 did not contain the most recent financial statement or income tax return as required by Regulation .23A(2)(c). Loan file No. 4268 did not contain financial information on 5 of 9 borrowers.

- D. Loan file Nos. 4243, 4245 and 4252 did not contain appraisal reports as required by Regulation .238.

The appraisal report in loan file No. 4268 was 2 years old. The association should have obtained a current appraisal on the security property. The appraisal report in loan file No. 4299 was dated two months after the loan was made. The appraisal report in loan file No. 4239 did not reflect a final appraised value, as required by Regulation .238(4)(d).

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The appraisal report in loan file No. 4249 did not contain a statement signed and dated by the appraiser as required by Regulation .238(4)(b)(c).

Loan file No. 4220 did not contain an appraisal on properties 1133-1143 & 1153 Watson Street, nor did it contain an appraisal for 13-19 South Aisquith Street, which were offered as additional security for the loan.

- E. Loan file Nos. 4213, 4216, 4219, 4223, 4243, 4252, 4283 and 4299 did not contain a certification of title as required by Regulation .29A(2)(e).

The interim title binders supporting loan Nos. 4212, 4227, 4230 and 4265 were not updated through the last disbursement, so as to properly reflect the status of the association's title to the security as well as its marketability.

The memorandum of settlement in loan file No. 4219 was not signed by the borrowers.

- F. A review of loan file Nos. 4233, 4234, 4239, 4248, and 4249 revealed that the borrowers were charged for both a title examination and title insurance. However, only title insurance was found in file.

A review of loan file Nos. 4201, 4220, 4221, 4231, 4232, 4244 and 4245 revealed that the borrower was charged for both title examination and title insurance; however, none of the documentation was in file. Regulation .29A(2)(e) requires evidence of certification of title.

- G. A review of loan file Nos. 4233 and 4244 revealed that the borrowers were charged for credit reports. However, none were found in the files.

- H. A review of loan file Nos. 4233, 4239, 4244, 4249 and 4252 revealed that the mortgage notes were not available for review.

Comment 6:

An analysis of the subsidiary mortgage loan records reflected the existence of fourteen delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$2,343,593.09 as of the date of the current examination, representing a delinquency ratio of 3.32 of the total loan balances outstanding.

The delinquent and unpaid interest on the loans subject to comment totaled \$362,452.02.

A review of the loans subject to comment scheduled on page 9 of this report reflected that loan Nos. 2909, 3714-9, 3844-9, 3916-09 and 3963-4 had not been amortized during the twelve month period immediately preceding the date of the current examination.

Comment 7:

An analysis of the subsidiary mortgage expense accounts reflected that thirty accounts had debit balances totaling \$10,582.87 as of the date of the current examination.

The mortgagors' expense accounts should be reviewed and adjustments to the required payments should be made to compensate for the increased cost of taxes and insurance.

Comment 8:

An examination of the books and records pertaining to the advertising expense revealed that an advertising file as required by Regulation .18 has not been maintained.

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Comment 9:

On December 24, 1981 the association had a \$1,206.00 loss on the theft of silver coins and a \$1,100.00 loss on the theft of some brass items. Also, there was a \$7,569.73 loss from a hold-up of the association's Reisterstown branch. As of the date of the current examination, the association had not notified the Division's Director as required by Regulation .221. Also, it was noted that a letter from Jane Anderson, Savings Manager, dated November 25, 1981, reflected that the loss from the robbery was actually \$8,060.55, which is a \$490.82 variance over the amount actually written off.

Comment 10:

Loan Nos. 4274-1 and 4270-1 were granted upon the security of improved residential property - non homeowner with loan-to-appraisal ratio in excess of 90% of the market value of the security. Regulation .30C(3)(b) provides that 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.

Comment 11:

Loan Nos. 3916 and 1023 contain terms which require semi-annual payments of interest and/or principal. Regulation .30C prohibits semi-annual payments.

Comment 12:

Loan No. 3659 which was granted for the purpose of land acquisition and development on February 14, 1978 was extended to March 3, 1983. Regulation .30C(8)(a) provides that the term on such loan should not exceed 5 years.

Comment 13:

A review of construction loan No. 4221-0 granted to Elliot R. Weinstein and Susan R. Weinstein in the amount of \$86,000.00 for a term of 30 years revealed the following:

- A. Loan granted at 12 7/8% interest rate while the market index reflects 16.7%.
- B. There were no construction plat plans and specifications as required by the construction trust agreement.
- C. There was no inspection before the \$67,500.00 draw on January 11, 1983.

Comment 14:

Loan No. 3771 was made to Uptown Club, Ltd. on August 29, 1978 in the amount of \$1,269,000.00 secured by 27.1 acres in Northwest Baltimore County, in the area of Glyndon, to acquire and develop 94 buildings lots. The principal owner of the Uptown Club is Jerome S. Cardin.

Since the loan was granted on August 29, 1978 the loan has been extended as follows:

August 28, 1979 to August 27, 1981
August 27, 1981 to November 28, 1981
November 28, 1981 to May 19, 1982
May 19, 1982 to May 28, 1983

The most recent extension shows the loan amount lowered to \$400,000.00 by mutual agreement due to "market conditions". It was noted that from July to December 1982, \$28,715.78 was drawn from L.I.P. to pay interest. Therefore, no real income was realized by the association.

Furthermore, a "Baltimore Sun Paper" article revealed that a sewer moratorium has been placed on the area where the above property is situated until at least May of 1984, and no building permits will be allowed until the sewer system is ready. Prior to approving a loan, adequacy of sewer facilities should be verified.

A 2150

Comment 15:

A review of loan Nos. 4242-9, 4266-1, 4261-2, and 4342 to Crab Cove Limited Partnership totaling \$1,297,317.00 for the purpose of building 30 town-houses in four groups with ten 2½ story-3 bedroom units and twenty 2 story-2 bedroom units in Ocean City, Maryland.

Crab Cove Limited Partnership 4242-9:

Loan No. 4242-9 was made in the amount of \$662,000.00 on October 15, 1982 on Phase 1 of Crab Cove of 32nd Street, Parcel A-3 Bayshore Estates, Addition C. The loan proceeds were to be used to build 7 units in Crab Cove costing \$362,299.00 plus a lot purchase costing \$290,617.00. As of the date of the current examination, the following exceptions were noted:

1. The association took into income \$19,860.00 (3 points) plus a \$2,000.00 loan processing fee. Regulation .11 limits the income to 3 points.
2. The financial statement on the borrower was unaudited and did not contain an officer or director's signature.
3. No flood insurance policy was in file. (It was noted that the policy shown to the examiner as a flood insurance policy by Dennis Guldice specifically stated that it does not insure against floods).
4. Insurance was inadequate to cover the security.
5. The title letter from Mr. Jeffrey Levitt indicates property is free and clear. However, the certification of title from Williams, Hammond, Moore & Shocklet, P.A. prepared for Harold B. Gordy, Jr. reflects several outstanding liens. A review of the settlement sheet did not reflect that these liens were satisfied.

Crab Cove Limited Partnership 4266-1:

On December 7, 1982 the association made a second mortgage in the amount of \$276,317.00 on Phase 1 of Crab Cove on 32nd Street, Parcel A-3 Bayshore Estates, Addition C. The loan proceeds are to be used to complete construction on units 8-13 Penguin Drive.

As of the date of the current examination, the following exceptions were noted:

1. The loan file did not contain the original mortgage instrument, the original of the current insurance policy and the application as required by Regulations .29A(2)(f), .29A(2)(d) and .29A(2)(a), respectively.
2. The loan file did not contain a flood insurance policy to protect the association's interest.
3. The association's service corporation took \$1,000.00 as a loan processing fee in addition to the 4 or more points which the association took into income.

Crab Cove Limited Partnership 4261-2:

Loan was granted on November 30, 1982 in the amount of \$99,000.00 plus 3 points. As of the date of the current examination, the following exceptions were noted:

1. The loan file did not contain the original current insurance policy as required by Regulation .29A(2)(d).
2. The loan file did not contain a loan application as required by Regulation .29A(2)(a).

The examiners noted that Old Court Joint Venture has a 50% interest in Crab Cove. The principals in Old Court Joint Venture are Mr. Jeffrey Levitt, Mr. Allen Pearlstein and Mr. Dennis Guldice. It was noted by the examiners that the note was witnessed by Mr. Jeffrey Levitt.

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Crab Cove Limited Partnership 4342:

Loan No. 4342 was granted on February 1, 1983 in the amount of \$260,000.00 plus 3 points. The proceeds of the loan were used to refinance loan No. 4261 which was delinquent since inception.

Furthermore, the participation agreement states that additional capital would only be used for specific charges such as taxes and other assessments and must be conditional upon receipts. In any case, the additional amount could not exceed \$500.00 for each partner at any one time. However, a capital contribution was made for \$31,000.00. Since there were no accounting records for Crab Cove, Ltd., and none were set up as of March 24, 1983, it was not possible to determine how this particular transaction was recorded. The check register reflects this as a "capital contribution". However, a copy of the check was not in the file, although it was cashed and shows up in the bank statement.

Per the settlement sheet, part of the \$31,000.00 capital contribution was given back to Old Court Joint Venture on March 4, 1983. It is the examiner's opinion that this is an unsecured loan which is prohibited by the partnership agreement. It was noted that this loan was still reflected on Old Court Savings and Loan's books as a mortgage receivable.

Comment 16:

A review of loan file No. 4284 to "Amber Waves, Limited Partnership" in the amount of \$2,300,000.00 was secured by 9 lots. The purpose of the loan was to build 10 3-bedroom and 15 2-bedroom condominium units in Ocean City. A further review revealed the following exceptions:

- A. The sales contract in the loan file shows Mr. Jeffrey A. Levitt as a partner. Section 9-307B of the Financial Institutions Article requires that regulatory approval be obtained.
- B. The settlement sheet reflects that the borrower paid \$3,750.00 for a title policy; however, it was noted that no title policy was in file.
- C. Draw schedule allows \$820,000.00 for land draw. Amount disbursed was \$823,986.00, which was \$3,986.00 over the amount allowed by the draw schedule.
- D. The amount disbursed at settlement totaled \$851,456.00. However, the land was appraised for \$725,000.00; thus, the amount disbursed was in excess of 100% of the market value of the property which is in violation of Regulation .30C(6)(a).
- E. Draw schedule does not break down construction in steps; instead, it shows a lump sum of \$1,225,000.00.

Comment 17:

An examination of the records supporting free share loans revealed that share loans have been very poorly managed. There are numerous share loans with no collateral as of the date of the current examination. A sample of 18 loans revealed that four of them were without collateral. One had a pledged account the balance on which is lower than the balance on the share loan.

In the past when share loans were past due, there was no clear policy statement as to what steps were to be taken. No monies were withdrawn from hypothecated accounts, even though the association had power to do so under the hypothecation agreement — share loans.

The following share loans are unsecured or undersecured:

Loan No.	Name	Loan Amount	Savings No.	Savings Acct. Balance	Total Unsecured
800455	Cardin, Howard	\$ 5,161.22	04-8027584	-0-	\$ 5,161.22
800459	"	11,736.91	04-010-353-9	-0-	11,736.91
800537	Cardin, Jerome	13,469.29	04-8027-584	-0-	13,469.29
800500	"	10,591.56	04-8528832	\$10,000.00	591.56
Totals:		<u>\$40,958.98</u>		<u>\$10,000.00</u>	<u>\$30,958.98</u>
800476	Gordon, David	\$13,111.26	04-901-425	-0-	\$13,111.26
800452	Vogelstein	7,382.90	04901152-5	-0-	7,382.90
Totals:		<u>\$20,494.16</u>			<u>\$20,494.16</u>

Also, there was no paperwork on loan No. 800512, no record as to who the borrower is or if any account has been pledged.

The following share loan rates for David Uhlfelder, Director of Old Court Savings and Loan, Inc., were only 1/2 percent above the savings account rate:

Loan #	Rate	Collateral #
51-800465-7	6.50%	4-010613-0
51-800469-9	6.50%	4-010613-0
51-800470-3	6.50%	4-010613-0
51-800471-1	6.50%	4-010613-0
51-800473-7	6.50%	4-010613-0
51-800479-4	6.50%	4-010613-0

Also, share loan 51-800450-2 carries a rate of 7.50%, which is the same rate Mr. Uhlfelder is earning on collateral account 4-901591-4.

The interest rate on share loans should be at least 1% above the current dividend rate, to cover the cost of handling these accounts. Section 12-103(a) (2) of the Commercial Law Article stipulates a maximum rate of 2% above the certificate rate for share loans secured by a certificate of deposit. Section 12-103(a)(1) stipulates a maximum rate of 8% for share loans secured by a pass-book or statement savings account.

Comment 18:

The books and records were not posted promptly and balanced for fiscal year ended July 31, 1982, as required by Regulation .08.

- A. As of the date of the current examination, December 31, 1982, the adjusting and closing entries for the fiscal year end still had not been recorded in the general journal and general ledger. These entries were entered on the books during the course of the examination.

Due to the absence of these entries, the books and records have not accurately reflected the financial status of the association since preclosing July 31, 1982.

- B. A periodic review of general ledger accounts is not performed to reconcile the control accounts with the subsidiary or supporting detail records. It was noted further that the subsidiary or supporting detail records were not updated daily, monthly or in some instances quarterly.

Numerous misposting and incorrect classifications, especially on expense transactions, occur on the books and records and they are either not discovered or are not adjusted until year end. Consequently, the ledger balances do not always reflect an accurate accounting by the categories represented.

- C. A review of the general ledger account No. 1530-30 and 1530-32 entitled "Furniture and Fixtures" downtown and Burwood, respectively, revealed that the association had not properly maintained an inventory tagging system. It was noted that items of furniture, fixtures and equipment had not been located for tagging by Mr. Ted Greene, the association's comptroller. As of July 31, 1982 these unlocated items totaled \$54,028.42 (net of depreciation). The association had been continually taking depreciation on these items until they are fully depreciated; however, proper procedure would be to write these items off. Also, it was noted that in January of 1974 the

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association purchased 13 Dall Etchings costing \$5,200.00. As of July 31, 1982 the association's Inventory of furniture and fixtures reflected the tagging of only 10 of the etchings which would suggest that 3 of the etchings cannot be located. Furthermore, the examiners noted that the association has almost fully depreciated (\$4,680.00 accumulated depreciation) the etchings, when it is possible they may have appreciated.

It was noted further by the examiners that several new items had been purchased since July 31, 1982. However, as of March 1983 the subsidiary records had not been updated to reflect additional purchases. Regulation .08 requires books and records be posted quarterly.

- D. A review of general ledger account No. 1210-14 and 1210-15 entitled "Loans Sold" revealed the following:

General ledger account No. 1210-14 entitled "Loans Sold - Security" was \$181.96 greater than the amount reflected on the subsidiary records.

General ledger account No. 1210-15 entitled "Loans Sold - Friendship" was \$21,013.54 less than the subsidiary records @ 12/31/82.

The examiners noted that account No. 1210-15 had not been reconciled for October, November, December of 1982. Regulation .08 provides that "the books and records of an association shall be posted promptly and be balanced by the appropriate officer or officers of the association no less frequently than quarterly".

- E. The total of the subsidiary free share accounts per FDS exceeded the control account No. 2010-10 in the general ledger by \$15,696.00.
- F. The total of the subsidiary mortgage loan accounts was \$7,524,026.00 less than the control account No. 1210-10 in the general ledger. Also, it appears that this account had not been reconciled since January, 1982. Regulation .08 provides that books and records be reconciled at least quarterly.
- G. The total of the subsidiary note loan account No. 1410-00 was \$25,975.00 less than the control account in the general ledger.
- H. A review of general ledger account No. 2030-30 entitled "Water and Sewer Trusts" reflects that the subsidiary records were not updated from July 31, 1982. Regulation .08 provides that the books and records of an association be balance by the appropriate officer or officers of the association no less frequently than quarterly. It was noted by the examiner that the general ledger was updated to December 31, 1982.
- I. General ledger account No. 1800-30 entitled "Inventories" contains 3,020 silver half dollars, in addition to other promotional items.

These half dollars are carried on the association's records at \$30,200.00. This amount represents the association's cost for these items (3020 @ \$10.00). Based on current market value, the coins on hand at December 31, 1982 are worth \$15,100.00 (3020 @ \$5.00) indicating a loss of \$15,100.00.

Also, these coins should be collected from the various branches and maintained at the main office for better internal control.

A further review of the Inventory account revealed that the association has not taken an Inventory count nor has any merchandise been written off since September 3, 1982.

- J. A review of the adjusting entries from the association's auditors and their subsequent booking revealed that the auditors' adjusting entries Nos. 10-11 were booked incorrectly. Debits were credited and credits were debited in March of 1983. The net result is that each account (1270-22 & 1270-33) are in error by \$90,400.00 currently. Since adjusting entries are not double checked, the errors were not discovered before posting to the general ledger.

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- K. An analysis of the mortgage loan accounts reflected that the account contained share loans. Also, the mortgage interest account contained share loan interest. Accepted accounting procedures would require separate classification for each source of income and for each type of loan.
- L. A reconciliation of the custodial F.N.M.A. P&I account reflected several reconciling items which were left uncorrected for several months (2/3/82 to 2/10/83). One item was noted to be a wire transfer of 12/17/82 totaling \$43,597.75, which was not recorded in the general ledger until February 3, 1983.
- M. A review of general ledger No. 1010-80 revealed that the subsidiary accounts for CD's @ First Progressive Savings and Loan Association exceeded the general ledger by \$2,000,000.00 as of the date of the current examination.

It was noted that a journal entry #2036 was made correcting the general ledger on January 26, 1983. However, no documentation was available evidencing the association's \$2,000,000.00 deposit with First Progressive Savings and Loan Association.

Furthermore, a review of the bank confirmation from First Progressive Savings and Loan reflected a \$2,000,000.00 note payable to Old Court Savings and Loan, Inc., and \$1,000,000.00 in certificates of deposit as of the date of the current examination. However, Old Court does not reflect a receivable from First Progressive on its books.

- N. The reconciliation of the checking account for Relsterstown Expense reflected that deposits totaling \$227,907.61 were not recorded on the general ledger. Also, exchange checks totaling \$8,798.32 were recorded on the bank statement but not in the general ledger. In addition, deposits totaling \$61,161.79 were recorded in the general ledger but not on the bank statement. It was noted further that Randallstown used Relsterstown's checks, which caused a breakdown in branch cash controls.

The reconciliation of checking account No. 691-744 for Martin's Expense reflected that deposits totaling \$159,694.20 were recorded on the bank statement but not in the general ledger. Also, deposits totaling \$2,128,151.16 were reflected on the bank statement but not on the general ledger.

A review of Custodial Account No. 20400020-2 "T&I - Security" reflected that disbursement checks Nos. 104 and 105 in the amounts of \$2,986.84 and \$2,415.17, respectively, were not recorded in the general ledger.

A review of custodial account No. 20400023-6 "P&I - Friendship" reflected that the subsidiary was \$3,000.00 less than the control account in the general ledger as of the date of the current examination. Also, account No. 20400024-4 was \$3,395.94 less than the control account in the general ledger.

A reconciliation of checking account No. 052-1565-0 with Equitable Trust Company revealed two checks made out by Levitt Builders. These checks were written to Old Court which in exchange, wrote out checks to North American Housing Corp. In total, three checks were written. Two of them were returned for NSF. These returned checks were redeposited on 2/24/83. (The status of these redeposited checks could not be ascertained until the bank statement for March is received).

It is the examiner's opinion that there should be a system to insure that before exchange checks are written, the balance on the account on which the checks are drawn should be checked for sufficient funds and the exchange checks put on hold until the original checks clear. For those requiring immediate exchange checks, Old Court should ask for a certified or cashier's check if such checks are drawn on accounts in other institutions.

A reconciliation of checking account No. 7019284 with Maryland National Bank reflected that the account was overdrawn per the bank statement by \$102,640.28. Since the association has no established line of credit with this institution or any other banking institution,

the association should monitor their cash in the bank on a more timely basis to insure that overdrafts do not occur. It was noted by the examiners that several of the association's checking accounts had not been reconciled at least quarterly, as required by Regulation .08.

A reconciliation of checking account No. 691-773-6 for Martin's Main reflected 19 returned items totaling \$3,163.06. An analysis of these returned items reflected 6 items totaling \$461.40 were over 6 months old. The association should consult their accountant for proper disposition of these returned items.

A reconciliation of checking account No. 148-0023-7 for Burwood Main reflected 43 returned items totaling \$12,379.08. An analysis of these returned items reflected that 9 items totaling \$964.81 were over 6 months old with the oldest returned item dated 2/25/82.

A reconciliation of checking account No. 230-08873 for Reisterstown Main reflected 1 returned item over 6 months old totaling \$50.00.

The reconciliation of the checking account for downtown expense reflected that Trustee Checks totaling \$388,679.95 were cashed by the bank but not recorded in general ledger. Also, checks totaling \$2,882,588.18 were listed on the statement but not in the general ledger.

The reconciliation of the checking account for Burwood Expense reflected that deposits totaling \$110,008.79 were reflected on the bank statement, but not in the general ledger. Also, deposits totaling \$450,378.63 were reflected in the general ledger but not on the bank statement.

A review of general ledger account No. 1010-90 entitled "Exchange Account" reflected the following:

1. Old outstanding checks totaling \$2,267.80 are maintained in this account. The association should consult with their accountants for proper disposition of these accounts.
2. An insurance reimbursement to Rosekramer has been on the books for 8 or 9 months.
0. A review of loan file No. 4213 revealed that interest for September 1982 was calculated on 31 days interest instead of 30 days; therefore, the borrower over paid \$25.32. The effective rate of interest is 17.57%.
A review of general ledger account No. 4210-20 revealed that two checks disbursed to pay interest on Escrow Accounts on December 24, 1981 and April 14, 1982 were unavailable for review by the examiners.
The association is not currently paying interest on escrow on all accounts that were paid off during the year.
- P. A review of the association's 6%, 7% and 8% passbook accounts totaling \$103,569.08 revealed that the association's subsidiary ledger control recap was not available for review.
- Q. A review of general ledger account No. 2010-30 entitled "MQW" revealed that the general ledger was \$1,355,838.96 less than the subsidiary.
- R. On November 13, 1982, the association changed computer companies from Maryland National Bank to Financial Data System (FDS), a division of Citicorp Service. When the program was set up for the demand deposit accounts, it was calculating dividends on a simple interest basis and not continuous daily compounding. Therefore, from November 13, 1982 until February 3, 1983 all computations were incorrectly computed by the simple interest rate basis.
- S. A review of general ledger account No. 1410-90 entitled "Real Estate Owned" revealed that on August 31, 1982 the association acquired through foreclosure property located at 11799 Triadelphia Road in Howard County, Maryland.

The net cost of the purchase, per the court auditor's report, was \$210,637.96, while the association's adjusted book value was \$319,214.05; therefore, the net loss was \$108,576.09 inclusive of delinquent interest.

A 2156

A further review of the association's subsidiary records reflected the proceeds of sale as \$254,667.58 and reflected a net loss of \$65,384.38. As of the date of the current examination, the net loss had not been written off.

The examiners noted that this loan is still being carried on the books as an open mortgage receivable, even though the loan had been taken in by foreclosure in 1981.

Comment 19:

A review of the association's method for computing late charges reflected that in several instances the association is computing late charges on principal, interest and escrow. Commercial Law Article 12-105(b)(3) requires that a late charge be calculated on the total amount of any delinquent or late periodic installment of principal and interest. The association should analyze this situation and make the necessary adjustments and refunds.

Comment 20:

A review of the receivables from various borrowers revealed the following:

- A. A note receivable from Howard Leeb was reflected on the general ledger for \$10,500.00. However, no formal note was ever signed by Howard H. Leeb. The only evidence was the check register which had a memorandum as to it being a demand note. The check register stub called for interest of 13 7/8%, which for 13 days equals \$52.61 ($13/360 \times 13.875\% \times \$10,500$), which was never collected nor accounted for.

Since this was a demand note with no further documents, this appears to be a consumer loan - the maximum limit of such loan is \$10,000.00 per Regulation .49G(2); furthermore, there was no separate application on file nor is there a note signed by the borrower.

- B. Accrued interest totaling \$10,791.61 earned from a \$750,000.00 note loan to J. Hazzard was improperly posted to an account entitled "Accrued Interest O.C.I.C." The correct posting of this interest would have been a credit to accrued interest-mortgages.
- C. A note for \$80,000.00 from Old Court Investment Corporation on August 7, 1980 states that interest is due the "7th day of August of each year, beginning August 7, 1980". The interest for August 1982 had not been paid as of the date of the current examination.
- D. There is no evidence of a \$25,000.00 note from Ruxton Financial Corporation. The examiners did find a copy of the loan note in last year's report. This note was due May 29, 1981. No interest is being accrued as of the date of the current examination. This was subject to comment in the prior report of examination. This note seems to be uncollectable, and therefore should be written off.
- E. The accrued interest due from a note receivable from O.C.J.V. was improperly booked into general ledger account No. 1800-24 entitled "Accrued Interest O.C.I.C." The accrued interest should have been booked in an account entitled "Accrued Interest due from O.C.J.V."
- F. The note receivable account No. 1800-13 in the general ledger from Old Court Investment Corporation was \$800,000.00 less than the control account in the general ledger.

Comment 21:

An examination of the files of the mortgage loans for which there are proceeds held in the loans in process account in the general ledger revealed the following:

- A. An analysis of the loans in process account reflected that the subsidiary exceeded the general ledger by \$726,317.74.
- B. The subsidiary records provided by the accounting department exceeded the amount reflected by the mortgage department's loans in process cards by \$13,465.79.
- C. Check Nos. 2114, 2435, 2517 and 2395 written to Trustees Dennis Guidice

and Jeffrey Levitt for disbursements were not listed as outstanding and could not be located among the cancelled checks.

- D. Checks were not issued to both the borrower and the trustees. Checks should be drawn to the trustee/borrower and other parties who have acquired a financial interest.
- E. There is no evidence available to verify that check Nos. 2457, 2628 and 2459 written to the order of "Old Court, J. Levitt" for disbursement to the borrower actually were eventually disbursed to the borrowers.
- F. Loan No. 3659 was closed on February 20, 1983. However, this loan was still being carried in the L.I.P. account.
- G. An analysis of the association's loans in process transactions for Amber Waves, Ltd. Partnership revealed that Mr. Jeffrey Levitt, trustee for the loan, made in error two disbursements of \$69,000.00 for points. A review of the L.I.P. cards maintained by the loan department and the accounting department reflected that the \$69,000.00 error was improperly corrected by refunding Mr. Levitt \$69,000.00 twice. The error occurred due to the accounting department's and the mortgage department's inability to agree on the correct L.I.P. balance for this loan.

Balance Per Accounting Department @ 12/31/82	\$1,367,544
Balance Per Mortgage Department @ 12/31/82	1,436,544
Variance:	\$ (69,000)

It appears that the mortgage department tried to correct the discrepancy by creating a new card with a December 31, 1982 balance as reflected by the accounting department, and then tried to correct the error made by Mr. Levitt by showing a refund of \$69,000.00 to Mr. Levitt; when, in fact, the accounting department's total was already net of the refund.

The examiners express grave concern that:

- a. L.I.P. card showed different totals on different dates, indicating possible alteration.
- b. White out on settlement sheet appeared several places.
- c. The L.I.P. card for Amber Waves was \$69,000.00 out from correct amount.
- d. Other L.I.P. cards also had different balances when seen on different days (Grab Cove, Regency, OHM).

Comment 22:

- A. In October 1982, Old Court Savings and Loan, Inc. paid First United \$800,000.00 as broker's fees for having arranged to have various pension funds invested in money market certificates totaling \$8,000,000.00. The agreement calls for additional fees of \$400,000.00 each year in the 2nd and 3rd years. The money market certificates in this instance pay 10.5% on 3 million and 11% on 5 million. These funds are to stay in the association for ten years. However, no signed contracts to back up the terms were available for review as required by Regulation .18H(2)(a). On December 2, 1982, there was a letter sent to First United Fund, Ltd., amending the fee schedule to include a contingency clause based on the term the funds are to be kept at the association. However, there is no confirmation from either the pension fund's trustees or from First United Fund, Ltd. stating that these amendments were agreed to by either party.
- B. The association has a contract from the United Wire, Metal and Machinery & Health & Welfare Fund allowing certificates to be held up to \$800,000.00, individually. The passbooks for these pension funds had typed on them "Penalty Clause - 100% loss of interest for early withdrawal." This may be in violation of Regulation .33C(2) which provides that an association cannot impose a penalty more stringent than that imposed by the FHLBB on a savings certificate with a comparable term. Also, there was no written agreement "stating the services to be performed by the broker and the commission or

other fees to be paid" per Regulation .18H(2)(a). Nor were there any signature cards at the association available for review.

Comment 23:

- A. The Loans-in-Process schedule prepared by the loan department was \$726,317.74 greater than the control account in the general ledger for December 31, 1982.
- B. On March 11, 1983, the accounting department supplied the examiners with an L.I.P. list which was different from the examiners' schedule (loan department) in both loans outstanding and balances. It was noted further that the L.I.P. cards for the following loans were changed:

<u>Loans</u>	<u>Old Card @ 2/16/83</u>	<u>New Card @ 3/14/83</u>	<u>Change</u>
402 Crab Cove	\$ 236,390.00	\$196,733.00	\$39,657.00
403 Regency	64,322.00	71,166.00	(6,844.00)
408 Amber Waves	1,436,544.00	1,367,544.00	69,000.00
405 OHM	36,161.50	39,161.50	(3,000.00)

Comment 24:

A review of the minutes of the meetings of the Board of Directors revealed the following:

- A. The minutes did not reflect dividend resolutions prior to the payment of dividends to the free shareholders for the period ending January, February, June, August, September, October, November and December, 1982.

The minutes did not reflect any resolutions prior to the payment of dividends on savings certificates for the periods stated above.

- B. The annual meeting did not provide the number of stockholders voting by proxies.

Comment 25:

A review of the association's constitution and bylaws revealed the following:

Article II, Section 7 of the association's constitution and bylaws provides that the officer or agent having charge of the records of the corporation shall make at least ten days before the meeting of the stockholders a complete list of stockholders entitled to vote at such meeting. As of December 31, 1982, no such list was made available to the examiners. Also, Section 9-324A & B of the Financial Institutions Article provides that each capital stock association shall provide the Division Director annually a list of all stockholders. As of the date of the current examination, no such list has been submitted.

Comment 26:

A review of the association's stock register revealed the following:

- A. The stock register does not contain the addresses of the stockholders as required by Section 9-324(B)(2) of the Financial Institutions Article.
- B. The association has not complied with Section 9-324(A) of the Financial Institutions Article, which states "each capital stock association shall send to the Division Director annually a list of all of its holders of capital stock".

The examiner reported the deficiency in Part A of this comment to Mr. Levitt, President and Director of Old Court Savings and Loan, who responded that the stock list will be sent to the Division as is (without all of the addresses), because he feels that Old Court has exhausted all efforts to locate the individual stockholders.

Comment 27:

A review of the association's subsidiary records for accrued interest on

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Investments revealed the following:

G/L #18200-23 - "Acc. Int. - Govt. Sec."		\$531,494.51
Subsidiary Record - Accrued Interest on U.S. Treasury Bonds	\$214,339.41	
Subsidiary Record - Accrued Interest on FNMA, FHLB, FHLMC	<u>302,145.38</u>	<u>516,484.79</u>
	Variance	<u>\$15,009.72</u>

Please review the comment and advise this office of the corrective action taken.

Comment 28:

A review of the memorandum dated March 24, 1983 to Dennis Guildice, Vice President of Old Court Savings and Loan, revealed that the following question remained unanswered.

Question 10:

As of March 1983, has Old Court Savings and Loan issued any letters of credit? Please list as follows:

- A. To whom issued
- B. Amount
- C. Security
- D. Date

In addition to the above, please state the purpose for which any such letters of credit were issued.

INFORMATIONAL COMMENTS:

- A. A comparative analysis of the financial condition of the association as of December 31, 1982 and September 30, 1981 revealed the following:

	<u>December 31, 1982</u>	<u>September 30, 1981</u>	<u>Increase (Decrease) Dollar Amount</u>	<u>Per Cent</u>
Total Savings	\$104,731,185	\$56,956,348	\$47,774,837	83.9%
Total Net Worth	(693,841)	1,355,113	(2,048,954)	(151.2)
Total Mortgage Loans	83,333,989	63,720,686	19,613,303	30.8
Total Assets	146,813,275	69,707,468	77,105,807	110.6

- B. A review of the association's earnings for the calendar/fiscal year ended July 31, 1982 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	<u>\$6,191,028.23</u>	<u>100.0%</u>
2. Taxes (Page 6, Line 4)	(181,275.12)	(2.9)
3. Earnings distributed on savings (Page 6, Line 3)	7,938,786.23	128.2
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	(1,566,482.88)	(25.3)
5. Net income distributed (Total of 2, 3 and 4 above)	<u>\$6,191,028.23</u>	<u>100.0%</u>

Old Court Savings and Loan, Inc.
OLD COURT JOINT VENTURE

Comment 1:

- A. Old Court Joint Venture does not have any accounting records other than a check register. This omission per the association was caused by their continued involvement in establishing many other partnerships that the Joint Venture fall behind in their recordkeeping and just has not caught up. Such a policy not only shows a lack of proper planning but also shows a willingness by the management at Old Court Savings and Loan to proceed full steam ahead without regard for the possible negative consequences. Lacking records, management cannot possibly know what the return on their investment is or if the partnership is in financial danger. Sound management dictates that before establishing any subsidiary or joint venture, the tools and manpower required to monitor the venture are present.
- B. As of the date of the current examination, the book value of O.C.J.V.'s investment can only be found by adding up the checks sent to each partnership as a capital contribution. Investment however can increase or decrease due to pro rating of partnership income or loss. Therefore, copies of financial statements of the partnerships should be presented to the association in order that the association can readily determine whether profits or losses are being properly assigned. As of the date of the current examination, no such financial statements are on file despite an agreement that annual reports be given to O.C.J.V.
- C. There was no corporate minute book or bylaws available for review by the examiners.

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Old Court Savings and Loan, Inc.
JOINT VENTURES
SUBSIDIARIES

Comment 1:

Crab Cove Limited Partnership:

The partnership agreement specifically states that additional capital will be given only for assessment, or additional expenses, and in no case was the amount to exceed \$500 at one time. Yet a capital contribution of \$31,000 was made on November 30, 1982.

Comment 2:

Gettysburg Limited Partnership:

The limited partnership agreement provided us during our review of Gettysburg loan does not note that Old Court Joint Venture has any financial interest in it.

Comment 3:

Chadford Limited Partnership:

A review of the check register revealed that capital contribution to Chadford Associates was for \$3,000. Yet a review of the partnership agreement for Old Court Joint Venture revealed that Old Court Joint Venture was to make only a \$600.00 capital contribution. When this discrepancy was brought to management's attention, it was stated that an error was made and the difference will be returned from the next draw on construction loan No. 4241. This return of capital contribution should come from the Limited Partnership and NOT the loan proceeds.

A review of loan No. 4241 granted to "Chadford Associates" on October 29, 1982 in the amount of \$330,000.00 revealed a commitment letter from First Progressive Savings and Loan dated September 30, 1982 and accepted by the general partner on October 2, 1982 for a loan in the amount of \$330,000.00. If the loan with First Progressive had been consummated, then the loan with Old Court Savings and Loan is a third mortgage. There was no evidence in the file to reflect any release of liens. Also, there were no insurance policies on file, and/or the most recent financial statement or tax returns or both, as required by Regulations .29A(2)(d) and .23A(2)(c), respectively. Nor did the file contain a credit report or verification of deposit.

Comment 4:

Singer Road Joint Venture:

The loan file was not available for review by the examiners. Without this file, the examiners were unable to determine whether the proper procedures were used in making this loan available to the Joint Venture or whether or not the loan was delinquent.

It was noted by the examiners that Old Court Savings and Loan had booked the loan as a receivable for Singer Road Joint Venture, when in fact it should have been a receivable from Old Court Joint Venture.

Comment 5:

Amber Waves, Limited Partnership:

The partnership document provided by the Association lists Mr. Paul Trice as the resident agent. Mr. Trice is no longer employed by Old Court Savings and Loan, Inc. The partnership agreement should be corrected.

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Old Court Savings and Loan, Inc.
JOINT VENTURES
SUBSIDIARIES

Comment 5: (Cont.)

The original partners were:

Walter Otstot	50%
Old Court Joint Venture	40%
Ross and Sanford Levitt	10%
	<u>100%</u>

The partnership agreement calls for each of the partners, (W. Otstot, Old Court Joint Venture, Ross and Sanford Levitt) to make initial capital contributions of \$1,000. Yet the check register for Old Court Joint Venture shows a check for \$800 in capital contribution.

Ross and Sanford Levitt assigned their share to Old Court Joint Venture. At first, Association personnel could not find the documents used by Ross and Sanford Levitt to assign their share. Later when the examiners were provided with the documents, the signature "appeared" to be different from the ones on the Partnership Agreement.

Comment 6:

Summit Ridge Partnership:

The original capital contribution to Summit Ridge Partnership was as follows:

Summit Ridge Development Corp.	\$50,000
Philip Aitfeld	\$50,000

Summit Ridge Development Corp. and Mr. Aitfeld borrowed \$50,000 each from Maryland National and gave the \$100,000 to the partnership as capital. They used \$95,000 of this as down payment for the land for which they obtained a mortgage of \$800,000 from Old Court Savings and Loan, Inc. and \$860,000 from United Virginia Bank. They also received a land development loan of \$1,911,000 from Old Court Savings and Loan, Inc. At the end of December, 1982, Summit Ridge Development Corp. and Aitfeld pulled out their capital contribution. Their investment in Summit Ridge at this point was zero. Summit Ridge Development Corp. and Aitfeld had a \$3,571,000 mortgage with no investment or risk. Yet according to the partnership agreement they are to share in the profits (25% each).

The only contribution of funds to Summit Ridge Joint Venture was from the loans, and interest payments could only be made from the loan money.

The partnership balance sheet as of December, 1982 does not show any indebtedness to Maryland National Bank. Yet, the first draw request itemizes an interest payment of \$13,662 to Maryland National Bank. When asked, the Association replied that it was for funds borrowed by the individuals to lend to the partnership. THAT MAKES THE INDEBTEDNESS A PERSONAL LIABILITY OF THE PARTNERS AND PARTNERSHIP FUNDS SHOULD NOT BE USED TO PAY IT OFF.

Old Court Savings and Loan, Inc. - Subsidiary

OLD COURT INVESTMENT CORP.

Comment 1:

The Service Corporation included several items in income for the year and 7/31/82 and the period ending 12/31/82 that are not in conformity with generally accepted accounting principles.

The effect on Net Worth and Income at 12/31/82 are as follows:

	<u>Income 5 months Ending 12/31/82</u>	<u>Retained Earnings</u>	<u>Effect On Net Worth</u>
Balance Per G/L 12/31/82	\$ 9,776.70	(\$44,292.97)	--- ---
Accrued Interest - Lakes Loan 19 months delinquent (1)	(5,030.64)	(15,026.16)	(\$ 20,056.80)
Profit on Sale of Condo - Association and Service Corp. took back loans (2) for 100% of Sales Price @ Submarket Rate	(77,770.60)	--	(77,770.60)
Brown Loan - 7 months Accrued Interest (1)	(1,469.27)	(277.50)	(1,746.77)
Crosby Loan - 13 months delinquent (1)	(750.38)	(1,929.58)	(2,679.96)
Sale of Harbor Group (3)	<u>(29,665.58)</u>	<u>--</u>	(29,665.58)
	(\$104,909.77)	(\$61,526.21)	

Explanatory Notes:

- (1) Accepted accounting practices dictate that interest on loans should not be accrued in excess of three months. An interest reserve account should be established for these accounts.
- (2) Income on a sale of an asset should only be recognized up to the amount of cash actually received. Although Old Court Investment Corp. received cash from the settlement of the first mortgage by Old Court Savings and Loan, this cannot be recognized as coming from an unrelated party. Both loans were at submarket rates.
- (3) Loss on sale of the wholly owned Service Corporation should be recognized immediately and not amortized over 9 months as the association is doing.

In addition to being 19 months delinquent, the Lakes Second Mortgage is also contractually delinquent, since the principal was to be paid down by \$40,000 on August 7, 1981, and was not.

Comment 2:

Gettysburg Square Limited Partnership:

1. Association Directors Levitt and Pearlstein are involved in the limited partnership. The loan was not approved by the Division Director as required by Title 9-307B(2)(11) and the appraiser was not approved by the Division Director as required by Title 9-307B(2)(111).

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Old Court Savings and Loan, Inc. - Subsidiary

OLD COURT INVESTMENT CORP.

Comment 6:

A review of the mortgages granted by Old Court Investment Corporation revealed three delinquent loans as defined by Regulation .01G. The total outstanding balance of these loans on December 31, 1982 was \$142,202.42, including \$25,202.42 in unpaid interest.

Comment 7:

Water Street News - The general ledger was out of balance in the amount of \$3,639.43 at December 31, 1982.

Comment 8:

The association could not provide evidence that it received written approval from the Division to establish Meridian Mortgage Corporation.

Comment 9:

A review of general ledger account No. 1800-0 entitled "Accounts Receivable" revealed that salaries for Old Court Investment Corporation are paid by Old Court Savings and Loan, and the amount is booked as a receivable. This accumulation totaled \$255,681.35 as of the date of the current examination. This accumulation dates back to August 31, 1971, the earliest date for which records are on the premises. Since no payments have been received from Old Court Investment Corporation on this account for an accurate presentation, this part of accounts receivable should be transferred to an investment account. Although there will not be any difference in the asset total, it will give a better picture of the amounts invested in Old Court Investment Corporation.

Also, accounts receivable reflect \$46,840.00 due from Stevenson Post for fee income. This amount has been reflected on the books for over 2 1/2 years, with the only payment being \$19,600, which was paid in August of 1982. This account should be closely monitored and the collectability of items contained therein should be determined, and if collectability is undeterminable, these items should be written off.

Old Court Savings and Loan, Inc. - Subsidiary

OLD COURT INVESTMENT CORP.

Comment 2: (Cont.)

2. While not specifically required by regulation, good underwriting policies would include the following:
 - a. Personal guarantee of all members of the partnership including limited partners and spouses of the general and limited partners.
 - b. Assignment of rents.
 - c. Financing statement.
 - d. Personal financial statements of the general partners.
 - e. The requirement that the general partners and limited partners have a significant personal investment in the project. Based on information made available in the file, the initial investment totaled \$5,000 for all the investors.
 - f. Financial statements of the business purchased.
3. \$150,000.00 is reflected in the Accounts Receivable account of Old Court Savings and Loan but is not reflected in the Notes Receivable Gattysburg Square account on Old Court Investment Corporation's books.
4. A review of the appraisal revealed:
 - a. The appraisal does not indicate if the low vacancy rate is attributed to the below market rents or not.
 - b. Appraisal does not explain the source of the capitalization rate.
5. Fire insurance policy does not show Old Court Investment Corp. as second mortgagee.

Comment 3:

The association did not have available for examination all the books and records of Ruxton Post Limited Partnership.

Comment 4:

The minutes of Ruxton Financial Corporation were not available for review.

Comment 5:

The following loans are unsecured except by notes, and appear to be consumer loans:

- A. Loan 202:
 1. The application did not contain a balance sheet of the borrowers nor sufficient information to ascertain their ability to pay. There is no evidence of credit worthiness and no purpose of loan given as required by Regulation .49C(1)(a). The examiner noted that the loan is guaranteed by Mr. Aaron.
 2. There is no evidence of compliance with disclosure requirements as required by Regulation .49C(1)(b).
- B. Loans 202 and 204 exceeded the 2.5% of the "Reserves" of the association and/or the service corporation and \$10,000 limitations of Regulation .49C(2).

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A 2166

WEP. 24. # 22
10-21-85
BJS

Maryland Savings Share Insurance Corporation

BALTIMORE LIFE BUILDING
901 NORTH HOWARD STREET
BALTIMORE, MD. 21201

PAUL V. TRICE, JR.
VICE PRESIDENT

(301) 727-7810

April 16, 1984

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

Dear Charlie,

This will confirm our conversation of even date wherein I advised you that the Corporation's Membership Committee, by consensus, directed that we inform you of the objections and concerns of the Corporation relative to the current applications for the establishment of three (3) branch offices of Old Court Savings and Loan, Inc.

To be brief, the objections are:

1. Old Court Savings and Loan, Inc. does not appear to have demonstrated its ability to properly and satisfactorily maintain its operations and records in accordance with applicable regulations and/or acceptable industry standards. This general statement is basically supported by the following facts:
 - a. The Division's most recent report of examination, dated December 31, 1982, reflects numerous and substantive comments reflective not only of concern to your agency, but, of equal concern to this Corporation;
 - b. The date of the examination report, we believe, is material, in that the Corporation, after considering the serious nature and text of that report, has further concern for what the current status of the institution's operations and records might be. We would, therefore, request that, prior to rendering your decision, you conduct a current examination of that institution to determine whether

Mr. Charles H. Brown, Jr.
April 16, 1984
Page Two

adequate improvement in the operations and records has been effected to the degree necessary to properly support and underwrite an expansion of its operations through the establishment of branch offices;

- c. Old Court's fiscal year end is July 31, yet, in spite of numerous inquiries and requests, that institution has been unable to produce and submit an audited financial statement as required under both the Division's and the Corporation's regulation for the year ended July 31, 1983 (it is our understanding that the independent certified public accounting firm conducting the audit has been waiting for certain several and material items, from that institution's management, necessary to the proper completion of the audit);
2. The principals of Old Court are, as you know, principals in the First Progressive Savings and Loan Association, which has, we understand, similar numerous and substantive comments reflected in your most recent examination of that institution. Likewise, we would request that your office conduct, prior to rendering a decision on these branch applications, a current examination of that association to determine whether sufficient and satisfactory progress has been made in this instance to substantiate and effect the anticipated proposed merger of First Progressive with and into Old Court.

Again, we note that the required audit reports for December 31, 1982 and December 31, 1983 have also not been remitted for First Progressive, and we further understand that the same independent certified public accounting firm is waiting for certain material items, necessary for proper completion of the audit, from the management of First Progressive.

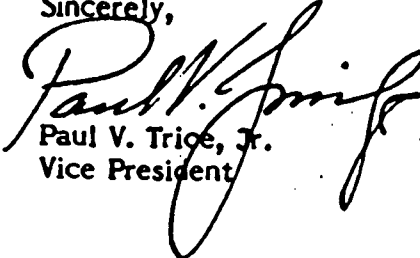
By way of explanation, the consensus of the seven (7) member Membership Committee, mentioned earlier, consisted of four (4) affirmative and three (3) abstaining. Those three (3) abstaining were representatives of associations located near one of the three proposed branch offices of Old Court and their abstention reflects their decision to avoid a potential conflict of interest situation.

Mr. Charles H. Brown, Jr.
April 16, 1984
Page Three

In conclusion, I believe it is only correct and fair to state that the Corporation does recognize the positive accomplishments of the principals heretofore mentioned in their efforts to restore and enhance the profitability and net worth posture of both Old Court and First Progressive, however, these accomplishments do not, from the Corporation's viewpoint, negate or otherwise minimize those serious and substantive concerns outlined above, which we believe must be addressed and corrected before any expansion of their operations can be considered.

If I can be of further assistance to you in this matter, please feel free to contact me.

Sincerely,



Paul V. Trice, Jr.
Vice President

PVT/nc

cc: Terry F. Hall
Jeffrey A. Levitt
Alan H. Pearlstein
Jerome S. Cardin, Esquire

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN,
DIRECTOR



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

FREDERICK L. DEWBERRY
SECRETARY

ORDER NO. 592

Subject: Application submitted by Old Court Savings and Loan, Inc., for permission to establish and maintain a branch office at 125th Street and Coastal Highway, Ocean City, Maryland 21842

Application having been filed with the Director of the Division of Savings and Loan Associations for the State of Maryland by Old Court Savings and Loan, Inc., 16 South Calvert Street, Baltimore, Maryland 21202.

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 timely protest 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 125th Street and Coastal Highway, Ocean City, Maryland 21842 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.

PROVIDED further that:

1. If the branch office is not opened and operating within six months from the date hereof, this ap-

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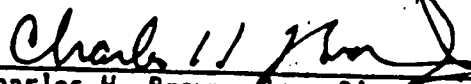
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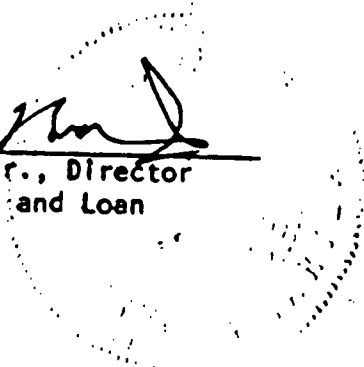
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proval shall become null and void unless an extension is requested and granted.

2. and that 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 20th day of August, 1984.


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



MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, March 14, 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; William F. Mahon, Review Analyst.

Mr. Elsnic called the meeting to order. Mr. Trice indicated that the minutes of the February 8, 1984 meeting should be changed on Page 2, statement 5 to read "A written statement concerning any consideration given by First Maryland or its subsidiaries to any third parties for the purchase of stock." The minutes were accepted as amended.

MEMBERSHIP REPORTS

Martin Becker reported that he and Mr. Trice have reviewed the certified audit report for John Hanson Savings and Loan. He indicated that the association's report was prepared on GAAP basis (generally accepted accounting principles) rather than a RAP basis (regulatory accounting principles). The association was given an unqualified opinion on the report. However, Mr. Becker and Mr. Trice both indicated that they took exception to the manner in which a recent issuance of stock is reported in the report. Mr. Trice, after conferring with other authoritative sources, determined that a contra-account in the amount of

\$2,323,060 should be established to the capital stock account, which would appropriately reflect the substance of the transaction. The affect on the net worth of the association is a reduction from a net worth ratio of 3.97% to ratio of 3.45%.

Mr. Trice reported that the management of the association was notified in writing of the need to change their reporting of net worth in conformity with the aforementioned method. Management for John Hanson has responded to Mr. Trice's notification, and they maintain that their original treatment in the audited report is correct. Mr. Trice indicated that he is obtaining a written opinion from both Touche Ross and Company and the F.H.L.B.B. in support of staff's position. Mr. Trice indicated that the associaton may choose to litigate the matter.

In another matter, John Hanson has notified the staff of MSSIC that it has objections to MSSIC's proposed amendment to Section 3-211, and has requested a hearing be held on the proposal. Mr. Trice indicated that a hearing will be held.

Mr. Holmes reported that John Hanson has submitted a request for the merger of Westowne Savings and Loan and Milton Savings and Loan into John Hanson. Milton Savings and Loan is an uninsured savings and loan based in Delaware with assets less than \$100,000. Mr. Holmes reported that the affect of the mergers using purchase accounting would be nominal in relation to the net worth ratio. The net worth ratio would decline from 3.45% to 3.41% if both mergers took place. Mr. Holmes reported that Charles Brown, Director of the Division of Savings and Loan Associations has discussed the merger of Milton Savings and Loan with the Delaware Bank Commissioner and while not yet approved, he anticipates that the merger would be approved in Delaware. Mr. Holmes indicated that the Assistant Attorney General assigned to the Divison, has evaluated the merger of Milton Savings and Loan and can find nothing in the law to prohibit the merger. Mr. Terry Hall, counsel for MSSIC, reported that he has

reviewed the merger with Milton Savings and Loan and agrees with the Assistant Attorney general that Maryland state chartered savings and loans can have out of state branches. Furthermore, MSSIC would have both the authority and the obligation to insure the savings accounts for an out of state branch.

Mr. Elsnic asked, "What is the net worth ratio minimum required by the Division for the approval of a branch?" It was the concensus of the committee that 4% is required by the Division, except when a branch is established through a merger, then it appears that this requirement may be less, or not even considered.

Mr. Wallace indicated that he received a copy of a letter dated March 9, 1984 outlining 18 questions concerning the John Hanson merger with Milton Savings and Loan written by Mr. Elsnic and addressed to Mr. Hogg. Mr. Hogg reported he had not yet received the letter. Copies of the letter were distributed to members in attendance at the meeting. Mr. Wallace indicated that he was particularly concerned about the impact of out-of-state mergers on MSSIC. He listed the following as questions to be discussed:

1. How does MSSIC and the state monitor an out-of-state branch?
2. John Hanson has often been in violation of various MSSIC rules and regulations. What assurance do we have that the merger of Milton will not create additional problems.?
3. The merger appears to be legal but is it advisable?

Mr. Wallace indicated that he is not opposed to an out-of-state merger per se, but this is a policy question for the Board to decide.

Mr. Faulkner asked the question of whether a merger can be approved or disapproved based only on a geographic basis or if the financial position must be considered?

Mr. Hall indicated that a merger can be disapproved if an association fails

to meet the standards established by MSSIC. A disapproval based solely on geography may be a problem. Mr. Laudeman commented that state lines are arbitrary in approving or disapproving the branch. Market areas should be considered. In addition he commented that a branch in Delaware is not the issue because any branch is still subject to MSSIC's jurisdiction. Several members indicated they felt standards for the approval of out-of-state mergers and branches should be established. In addition, the question was asked of whether approving this merger created a precedent for other out of state mergers?

Mr. Hogg commented that MSSIC can handle out-of-state branches. In addition, he agreed that criteria for evaluating mergers should be established. Mr. Dietz asked if John Hanson is in violation of any MSSIC rules and regulations? It was reported that association is in violation of the net worth rule. A comment was made whether MSSIC had formally changed Section 3-211A(2) requiring an increasing net worth percentage. It was reported that MSSIC had not rescinded this portion of the rule, but had placed greater emphasis on the 3.00% benchmark for an insurance agreement and 3.75% for potential sanctions as a result of the adverse economy in 1981/82. Mr. Dietz indicated that he could not support the merger of Westowne Savings and Loan and Milton Savings and Loan into John Hanson and made the following motion:

"The proposed merger of Westowne and Milton should be disapproved until such time as John Hanson's net worth ratio reaches 4% of savings".

The motion was approved by a vote of 4 to 2.

Mr. Holmes reported that a proposal has been submitted by Second National to merge with Lewes and Rehoboth Savings and Loan, a Delaware based association. Lewes and Rehoboth is an uninsured savings and loan with assets of \$750,000. Mr. Holmes reported that the merger will have a nominal affect on the net worth of Second National reducing the net worth ratio from 5.24% to 5.23%.

Many of the same points made concerning the merger of John Hanson Savings and Loan with a Delaware based savings and loan were made concerning the appropriateness of Second National merging with an out of state savings and loan. Mr. Hogg suggested that a motion to approve the merger should be tabled until criteria for approving or disapproving a merger could be established.

Mr. Laudeman again commented that market areas should be used as a criteria, not state lines.

Mr. Dietz asked if Second National was in violation of any MSSIC rules and regulations. It was reported, based on their S/L-200A, that the association is apparently in violation of Section 3-217 concerning mortgage commitments and L.I.P, but that details on this were requested from the association. A comment by Mr. Hogg was made that he had reason to believe that the association was in compliance and that the violation was attributable to a reporting error.

Mr. Wallace made the following motion:

"The Committee recommends the Board approve the merger of Lewes and Rehoboth Savings and Loan with and into Second National subject to the approval of the director." The motion carried with 3 affirmative votes and 2 abstentions. Mr. Brooks did not vote.

After discussion, the concensus of the Committee was that it recommend to the Board to the establishment of criteria for the purpose of approving or disapproving mergers.

Mr. Holmes reported that upon review of Severn Savings And Loan's construction loan violation, it has been determined that the association is actually in compliance. Mr. Holmes also reported that the management of Severn has requested a release of the hypothecation of savings accounts, due to compliance currently with the MSSIC net worth ratio rule and the terms of the hypothecation agreement. Mr. Holmes indicated that the hypothecation would be released.

Mr. Mahon reported on his recent review of Bay State Savings and Loan. He reported that the association was currently addressing certain internal control problems. New personnel have been hired in addition to instituting corrective measures. Mr. Mahon indicated that loan documentation is somewhat poor but should improve with the additional personnel.

Mr. Trice updated the Committee on the negotiations for an Insurance Agreement with Liberty Savings and Loan. Mr. Trice reported he is awaiting the certified audit report which may contain significant adjustments. Mr. Trice indicated he will not commit MSSIC to an Insurance Agreement until such time as the financial position of the association can be determined. Mr. Trice reported that he will prepare a letter of understanding, to be reviewed by counsel, which will be presented to the association and will serve as a form of a preliminary insurance agreement. Mr. Trice reported that including the affects of delinquent loans and the non-recognition of interest from those loans, the association has indicated that a profit of \$70,000 will be realized in March.

Mr. Trice reported that he has notified in writing, First Maryland Savings and Loan that a recent issuance of a \$1,000,000 subordinated debenture will not qualify for the purpose of complying with the MSSIC net worth rule. The transaction has been determined not to be an "arms length transaction" or "non-affiliated transaction" and therefore does not qualify as a proper form capital. The management of First Maryland has so far not responded to Mr. Trice's notification.

Mr. Becker presented the Committee with a schedule illustrating actual vs. projected net worth for Chevy Chase Savings and Loan. Mr. Becker reported that both Chevy Chase and Government Services have exceeded their net worth projections. This is due primarily to the change in the status of the Artery project in Government Sevices and the change by both associations to a more liberal

income recognition on certain securities which is allowed under state regulations.

Mr. Dolivka reported that he, Mr. Neifeld and Mr. Dietz had agreed to meet with Mr. Laudeman earlier in the day to listen to Mr. Laudeman's comments concerning Chevy Chase's Insurance Agreement. Mr. Dolivka further commented that he had contacted Mr. Hall, counsel for MSSIC and Mr. Hogg, concerning the potential for a conflict of interest as specified under Section 2-803 of the MSSIC Rules and Regulations in attending a meeting with Mr. Laudeman concerning Chevy Chase.

Both Mr. Hall and Mr. Hogg indicated that in their opinion, a conflict of interest did exist but recommended to Mr. Dolivka that he consider attending the meeting with Mr. Laudeman in the interest of resolving any misunderstanding concerning the proposed amendments to the Chevy Chase Insurance Agreement. Mr. Laudeman indicated that he had requested the meeting not as a negotiator for Chevy Chase, but in an information gathering and sharing capacity. Mr. Laudeman reported that apparently a misunderstanding has existed concerning the proposed new Chevy Chase Insurance Agreement. Mr. Dolivka indicated that the intent of the Chevy Chase Insurance Agreement Committee was to require that Mr. Saul sign the proposed insurance agreement or a letter of intent agreeing that should the association fall below 3.00% net worth on a consolidated basis, that he would enter into a new insurance agreement, substantially in form as that proposed by the Committee and should the association fall below 2.00% net worth, a voting trust clause would be activated. Mr. Laudeman reported that he would convey this information to Mr. Saul and that he could not speculate as to the acceptance of this proposal. It was noted out that some of the difficulty surrounding this new insurance agreement or letter of intent may have resulted from ambiguity in the drafting of the agreement.

Mr. Holmes reported that a meeting was held at MSSIC between members

of staff, the Division, and representatives of Old Court and First Progressive. Mr. Holmes reported that the primary purpose of the meeting was to make aware to Mr. Levitt and Mr. Pearlstein certain conditions considered unacceptable by the staff and discuss appropriate measures for correction of these conditions. In particular, it was reported that as a result of First Progressive's involvement with a lost/stolen credit card reporting company, that losses in excess of \$500,000 may exist at First Progressive. As a result of this meeting, it was agreed that:

1. Roger Rosen would be dismissed from First Progressive.
2. The certified audit report of 12/31/82 for First Progressive would be completed by March 28, 1984 and submitted to MSSIC.
3. Action Line (lost/stolen credit card reporting company) would be sold.
4. Jeffrey Levitt and/or associates will hypothecate \$500,000 in savings.

Mr. Hogg commented that he instructed Mr. Levitt at the meeting to reduce Old Court's and First Progressive's aggressive savings solicitations/programs, especially brokered deposits.

It was reported that the goal of management at Old Court is to merge First Progressive into Old Court.

It was reported that due to the duration of the meeting, the presentations of a proposed change in the liquidity rule and the brokered deposit survey results, would be postponed until the next meeting.

Mr. Hogg indicated that a series of articles continue to appear in the local papers, primarily The Washington Times. Mr. Hogg indicated that a Washington Times reporter appears to be receiving confidential information from a source either affiliated with MSSIC or the Division. Mr. Hogg cautioned against talking to reporters concerning confidential information and indicated he would serve as spokesman for the corporation.

Mr. Hogg reported both he and Mr. Holmes would not be in town at the next

regularly scheduled Committee Meeting. It was agreed to change the next meeting to April 4th at 1:00 P.M.

There being no further business, the meeting adjourned at 4:53 P.M.

Martin W. Becker /MWB
Secretary of the Meeting

MWB/nc

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, MARCH 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, 901 North Howard Street, Baltimore, Maryland on March 28, 1984.

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. Elsjic
John F. Faulkner, Jr.
James D. Laudeman, Jr.
Terry L. Neifeld
George W. H. Pierson

Others Present: Charles C. Hogg, II, President; Ralph K. Holmes, Senior Vice President; Martin W. Becker, Financial Analyst; Patrick M. McCracken, Administrative Coordinator; Terry F. Hall, Venable, Baetjer and Howard; and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Faulkner called the meeting to order at 9:30 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Mr. Garrison reviewed the financial reports and the general economic narrative. Following a brief discussion Mr. Garrison was excused from the meeting. (Copies of the financial reports and the narrative are attached to the permanent file copy of these minutes.)

READING OF PREVIOUS MINUTES

Following a brief review of the minutes of the prior Board meeting, Mr.

passed unanimously.

TREASURER'S REPORT

Mr. Neifeld reviewed the financial statements and distributed an additional page of data.

Mr. Dolivka moved that the Treasurer's Report be accepted. Mr. Carroll seconded and the motion carried unanimously. (Copies of the Financial Statements are attached to the permanent file copy of these minutes).

MEMBERSHIP COMMITTEE

Mr. Elsnic reviewed the minutes of the Membership Committee Meeting. Among the items he noted from the Committee Meeting were: the need for criteria for mergers, branch offices and mergers which result in branch offices; Chevy Chase projections and the need for a final resolution on their net worth position and losses at First Progressive in excess of \$500,000 due to credit card company mismanagement.

Certain items related to the committee minutes were referred back to the Membership Committee for further discussion. Mr. Pierson moved that the report of the Membership Committee as given by Mr. Elsnic be accepted, noting that the committee minutes might be corrected. Mr. Carroll seconded the motion which passed unanimously.

Mr. Hogg announced that Jennifer Lindsey Trice was born at 9:33 A.M. this morning.

Mr. Pierson moved that an appropriate resolution be passed congratulating Mr. and Mrs. Paul V. Trice, Jr., on the birth of their daughter. Mr. Bass seconded the motion and it passed unanimously.

Mr. Hogg then commented on the structure and procedure involved in a hearing on a proposed regulation. He noted that debate and discussion are proper following the hearing.

Mr. Whitlock of John Hanson Savings and Loan entered the room and read a prepared statement which presented opposition to the recommended amendment to Section 3-211(A)(3)(g)(i) (a copy of the prepared statement is attached to the permanent file copy of these minutes).

During discussion which followed the hearing Mr. Whitlock expressed concern regarding definition of the word "cash"; the confusion created by apparent disagreement between regulations of the Division and MSSIC; and the lack of any clear indication of the motivation of this proposed change.

Comments from the Board included discussion of the word "value" such as "a value achieved by independent appraisal" in place of the word "cash"; the possibility of including an exception for stock dividend payment; and that the Board's motivation to make this change springs from their concern that creating net worth from within the association is an unsafe practice.

Mr. Whitlock closed the discussion with the comment that the basic questions is whether the state did the right thing in approving John Hanson's stock transaction and was the stock paid for in cash or was it not paid for in cash.

Mr. Whitlock left the meeting and Mr. Faulkner summarized that one issue is whether the state's actions were proper or improper, however, he noted there are also accounting and semantic issues involved.

Mr. Hogg said that both Touche Ross and the FHLBB support the MSSIC staff position; that position accepts the transaction but does not include the new stock in the net worth of the association.

Mr. Faulkner referred this matter back to the Membership Committee and noted that some modification in language may be in order.

Mr. Hogg indicated he would contact Touche Ross to clarify the concept of value and he would also communicate with Mr. Whitlock and the Membership Committee.

At this juncture, Mr. Carroll left the meeting and therefore was not present for any vote beyond this point.

Mrs. Anderson gave the report on the Audit and Budget Committee. Discussion included a brief review of the addition to the loss reserve. Mr. Bass moved to accept the committee report. Mr. Laudeman seconded and the vote was unanimously favorable.

Mr. Hogg reviewed in detail his memo regarding moving expenses and fixed asset expenses. He noted that the total represents a \$25,135 net increase in relocation expenses.

It was the consensus of the Board that staff secure additional prices on new office furniture for the senior vice president and the file units.

Mr. Laudeman moved that the requested increase of \$25,135 be approved, with the understanding that those items mentioned be further investigated. Mrs. Anderson seconded and the vote received a favorable majority with Mr. Neifeld opposed.

Mr. Donohue requested that staff prepare a list of trade in items for possible purchase by others.

OLD BUSINESS

Mr. Elsnic commented that he is not satisfied with the handling of the Chevy Chase matter. He said he thinks this matter is now the Board's responsibility and that appropriate action should be taken. Avoiding that responsibility, he added, would be negligence in his opinion.

Mr. Faulkner responded that there is a variety of sentiment among the Board members on this matter and that several are in agreement with Mr. Elsnic. He added that due to events at recent Membership Committee Meetings he is encouraged that the Corporation will determine a conclusion to this matter.

During discussion, Mr. Hogg stated that regarding Chevy Chase's accounting issues (equity accounting, non-earning asset, etc.) MSSIC staff has taken a position contrary to GAAP with the support of the Board. He added this has been in effect for the past 15 months.

Further comments included the fact that MSSIC has not recognized the equity accounting as a condition of the approval of the original purchase of Government Services by Chevy Chase and that MSSIC should get from both accounting and legal perspectives a basis on which to make a decision in this matter.

The discussion terminated with Mr. Bass moving that the Board authorize both the Corporation's independent accounting firm (Touche Ross & Co.) and outside legal counsel (Venable, Baetjer and Howard) to promptly examine the Corporation's position as to evaluating Chevy Chase Saving and Loan and the accounting treatment.

Mrs. Anderson seconded this motion which received majority approval with Mr. Laudeman abstaining.

Mr. Neifeld asked if an updated copy of the MSSIC Charter, Bylaws, Rules and Regulations was soon to be distributed to the membership.

Mr. Hogg said the entire document is prepared but has not been proofread at this point.

Mr. Faulkner suggested that staff draft a letter to the members recounting the events at the February 29, 1984 Special Meeting of Members.

Mr. Laudeman suggested that specific sections of the Bylaws might be addressed such as removing section 7 from the Bylaws and placing that section in the Rules and Regulations.

Mr. Faulkner requested that the Bylaw Committee meet to study possible alternatives to speed the revision of the Bylaws.

Old Business concluded with Mr. Faulkner sending the Items of restrictions/limitations on total MSSIC insurance and the issue of "brokered deposits" to the Membership Committee for its review and recommendations.

NEW BUSINESS

Due to the relationship of the next matter to Mr. Faulkner's association (Community Savings and Loan, Inc.) he relinquished the chair to Mr. Bass.

Mr. Bass presented a request from Community Savings and Loan for the Board's approval of the association issuing a \$1 million subordinated debenture.

It was noted that Community Savings and Loan is aware that this is a non-cash transaction and that ultimately it may not be counted as net worth.

Mr. Neifeld moved that this request be approved. Mr. Laudeman seconded and the vote received majority approval with Mr. Faulkner and Mrs. Anderson abstaining.

Mr. Dietz asked Mr. Faulkner if there were any loans to the parties involved in the subordinated debt transaction.

Mr. Faulkner asked both counsel and the Board members if there was any objection to his responding to the question. Hearing no objection he stated that no loans were involved in this transaction to any of the related parties.

Mrs. Anderson then asked if a nominating committee would be formed to put forth candidates for the various officer positions of the Corporation.

Mr. Pierson said that no mention of the need for a nominating committee is made in the MSSIC Bylaws or Rules and Regulations.

Mr. Donohue asked if public members are eligible for the position of Chairman of the Board.

Mr. Hall indicated that they were.

Mr. Faulkner said that the nomination and election of officers could be discussed and could take place at the next regularly scheduled meeting of the

Board (April 25, 1984.)

The Board took a short recess and then agreed to work during lunch.

REPORT OF THE PRESIDENT

Mr. Holmes gave a brief update on Federal Reserve Regulation Y and also on U. S. Congressman Leach's Bill.

Mr. Hogg said that there was little business other than the audit report to be presented at the annual meeting.

He indicated that the policy regarding Directors attendance at the annual meeting is that each Director will receive a complimentary "guest" ticket to the meeting and that the member associations will each get a "Member" ticket.

Mr. Hogg noted that Senate Bill 576 (empowering the Director to remove officers and/or Directors from state-chartered savings associations) passed the state senate and that the original amendments were deferred to summer study.

Mr. Elsnic asked Mr. Brown why he opposed recent legislation regarding added qualifications for MSSIC director eligibility. Mr. Brown indicated that he opposed it for the same reasons he originally opposed it.

Mr. Hogg reviewed a list of criteria for merger approval. Mr. Dolvika presented a list of criteria which was generated by a segment of the Membership Committee. It was noted that this matter should be coordinated with the Division of Saving and Loan Associations.

Mr. Faulkner directed staff to notify the members that the Board of MSSIC feels a study of criteria for branching, mergers and mergers where branches result is in order and that this notice should solicit comments.

Mr. Neifeld asked why the Board would want to control branching.

Mr. Elsnic responded that the Board may not want a troubled associaton branching.

Mr. Hall stated that any final regulations resulting from this study would

require Mr. Brown's approval.

Mr. Brown said that preliminary approval has been given to the merger of Westowne Savings and Loan with and into John Hanson Savings and Loan. He noted that the rule regarding an association's net worth ratio being below 4% doesn't apply in mergers.

After discussion, Mr. Pierson moved that the Board approve the recommendation of the Membership Committee regarding the decline of approval of a merger either of Westowne Savings and Loan and Milton Savings and Loan of Delaware with and into John Hanson.

Mr. Dietz seconded the motion.

Mr. Laudeman then asked why the Board should deny the Westowne merger. He questioned whether there is increased insurance risk or anti-trust considerations?

Mr. Dietz responded that disapproval should be based on the fact that John Hanson Saving and Loan is in violation of MSSIC's rules and regulations concerning net worth.

The vote received majority approval with Mr. Laudeman and Mr. Bass abstaining.

Mr. Holmes reviewed the events which lead to the current Officers Benefit Program. Mr. Hogg concluded that the question was should the Corporation fund the program in 1983 the way it was funded in 1982. Mr. Hogg characterized the plan as a substitute for stock options or profit sharing which are not available to MSSIC's officers.

All non-Board members were excused from the meeting and the Board went into executive session.

After a lengthy interval, Mr. Faulkner asked that the excused persons return to the meeting.

the unanimous consensus of the Board that the officers benefit program be adhered to in the strictest sense as originally intended and to consist of a 5% deferred compensation program.

At this conjecture, Mr. Dolivka left the meeting and therefore was not present for any vote beyond this point.

Mr. Hogg said that MSSIC staff, primarily Martin Becker, would make a financial analysis presentation to the Board of Commissioners during executive session at their April 12, 1984 meeting. Mr. Hogg stated that staff welcomes this opportunity to facilitate better communication between the Division and the Corporation and that this may only mark the beginning of potentially providing print out information and perhaps a terminal linked to MSSIC's computer system.

Mr. Pierson said that consistent with security of the data he supports improved communication with the Division Director and his staff.

Mr. Bass discussed a recent letter to Mr. Brown from Universal Savings and Loan which indicated confusion regarding the exceeding of limits on lending. Mr. Hall addressed this point by indicating that while the Garn-St. Germain Act did override state laws on this subject, it did so only for those savings and loans chartered by the Federal Home Loan Bank Board.

During a brief update on selected associations by MSSIC staff, Mr. Brown indicated that the Attorney General is reviewing the Custom Savings Association matter and the possibility of restitution but that the Attorney General has as yet not directly addressed the matter.

Mr. Holmes reported that First Progressive Savings and Loan without MSSIC's knowledge or approval has indulged in a credit card operation known as "Action Line". He indicated that this involvement has resulted in losses due to improper management. Mr. Becker indicated that losses could occur in two events. The first in the amount of \$600,000 and the second amount of

approximatley \$350,000. It was reported that MSSIC currently holds a \$109,000 joint MSSIC/Division hypothecation and that the Division is obtaining another \$500,000 joint MSSIC/Division hypothecation from Messrs. Levitt and Pearlstein. It was also noted that First Progressive Savings and Loan must seek both MSSIC's and the Divisions approval before merging with and into Old Court Savings and Loan. Mr. Hogg indicated that this matter has been very frankly discussed with Mr. Levitt and that staff will closely monitor this matter.

Mr. Hogg reviewed a proposed "Message from the Board of Directors" from the 1983 Annual Report. It was the consensus of the Board that this be approved (a copy of this message is attached to the permanent file copy of these minutes).

Mr. Hogg stated that the Corporation's Loan agreement expires on April 30, 1984 and that the new agreement will be a rolling forward of the same arrangements.

	(Dollars in Millions)
First National of Chicago	\$25
Riggs	\$13
Mellon	\$10
Union Trust Company	\$7
Equitable	<u>\$5</u>
Total:	\$60

Mr. Hogg said he would attempt to negotiate a reduction in the \$50,000 agents fee to first National of Chicago. Mr. Hogg requested the Board's approval of a resolution authorizing the three staff officers to act on behalf of the Corporation in this matter.

Mr. Donohue moved approval of the resolution.

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Mr. Laudeman seconded the motion which passed unanimously.

There being no further business Mr. Dietz moved that the meeting adjourn. Mr. Bass seconded and upon a unanimously favorable vote, the meeting adjourned at 3:19 P.M.

CCH/PMM/nc

Charles Hogg II
Secretary of the Meeting

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, APRIL 4, 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 | John D. Faulkner, Jr. |
| William F. Brooks, Jr. | Frank L. Hewitt, III |
| Michael J. Dietz | James D. Laudeman |
| Jerome F. Dolivka | 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; William F. Mahon, Review Analyst; Terry F. Hall; , Venable, Baetjer and Howard.

Mr. Elsnic called the meeting to order. The following amendments were made concerning the minutes of March 14, 1984. First, Terry F. Hall was in attendance. Second, paragraph two, page seven should read "It was noted that some difficulty surrounding this new insurance agreement or letter of intent may have resulted from a misunderstanding pertaining to the agreement." Third, paragraph two, page seven strike the phrase "substantially in form as that proposed by the Committee". The minutes were approved as amended.

MEMBERS' COMMENTS

Mr. Brooks commented that he is concerned about the Corporation's

apparent lack of progress in resolving problem institutions in a timely manner in that they seem to appear on the agenda of the Committee month after month. He inquired about the specific actions that are available to the Corporation in attempting to resolve the violations of member institutions. Mr. Hogg responded that the Corporation has the ability to issue a cease-and-desist order against specific actions. Mr. Hogg indicated that it has been his policy of attempting to work with associations in resolving their problems rather than automatically granting financial assistance from the Corporation and/or thereby incurring an insurance loss.

Mr. Brooks inquired about the procedures taken by staff once a violation is discovered. Mr. Mahon indicated that he notifies in writing all associations that are in violation of a rule or regulation and requests confirmation of the violation. In addition, a statement indicating corrective action is requested. It was reported that difficulty exists in the substance of many responses to violations. Management of associations point to differences in State and MSSIC regulations as a reason for non-compliance. In some cases, responses elicit a debate on the appropriateness of a rule or regulation rather than a course of corrective action. While many Committee members agreed that it may be appropriate to review certain MSSIC rules and regulations for revision, it was the concensus of the Committee that it is essential that member associations comply with existing MSSIC rules and regulations until such time as they are revised.

REPORTS BY STAFF

Mr. Trice reported that Liberty Savings and Loan, Association is currently operating profitably exclusive of the designated delinquent loans. Mr. Trice indicated that a letter of understanding which will serve as a preliminary insurance agreement has been submitted to Terry Hall for review. Mr. Brooks inquired about whether a suitable merger partner for Liberty Savings and Loan,

Association has been obtained should the association fail to meet the terms of the agreement. Mr. Hogg indicated that a specific association has not been determined, but the Corporation has a list of associations which have indicated a desire to acquire other associations.

Mr. Trice presented the Committee with a report on possible merger guidelines to be adopted in an attempt to uniformly consider applications for mergers and branches. (A copy of this report is attached to the permanent copy of these minutes.) After a lengthy discussion, the Committee agreed that the subject deserved additional consideration and scheduled a special meeting of the Committee for the specific purpose of developing merger/branch criteria and related proposed regulations. The meeting will be held on April 18, 1984 at 9:30 A.M.

Mr. Becker reported that the Corporation has received the certified audit report of Fairfax Savings Association for the fiscal year ending 9/30/83 performed by Peat, Marwick, Mitchell and Co. Mr. Becker indicated that the report has a qualified opinion due to use of state regulatory accounting practices. In addition, a management letter was included which indicated no significant material weaknesses.

Mr. Mahon updated the Committee on First Progressive Savings and Loan. Mr. Mahon reported that he was very concerned that the association's borrowing using reverse repurchase agreements now exceed 100% of the association's savings. Mr. Mahon reported that the investments obtained through these reverse repos are currently in a market loss position should they have to be sold. Mr. Mahon indicated that the increase in borrowed funds was both unknown to him and in direct contradiction to instructions from the MSSIC staff to decrease the association's borrowed funds. Mr. Becker reported that First Progressive did not submit the completed certified audit report as of December 31, 1982 at our Board

of Directors meeting in March but did submit a preliminary audit report which had already been received by MSSIC several months ago. After a lengthy discussion concerning First Progressive, staff was instructed to evaluate the investment portfolio of First Progressive to determine potential market losses. In addition, due to the continued and unreasonable delay in providing these certified audit reports, a motion was made, seconded and duly passed instructing staff to notify the management of First Progressive Savings and Loan that if the certified audit report for the year ending December 31, 1982 is not delivered to MSSIC by April 23, 1984, that it is the recommendation of the Committee that the Board of Directors of MSSIC employ, at the association's expense, independent auditors of its choosing to perform the December 31, 1982 certified audit. In addition, if the certified audit report for December 31, 1983 is not completed and delivered to MSSIC by June 30, 1984, that independent auditors are, likewise to be employed by the Corporation at that association's expense to perform the December 31, 1983 audit. Further discussion revealed that the certified audit report for the fiscal year ending July 31, 1983 has not been received from Old Court Savings and Loan, Inc. Due to an unreasonable delay in obtaining this audit report, a motion was made, seconded and duly passed instructing staff to notify the management of Old Court Savings and Loan, Inc. that if the certified audit report for the year ending July 31, 1983 is not delivered to MSSIC by May 7, 1984, that it is the recommendation of the Committee that the Board of Directors of MSSIC employ independent auditors of its choosing, at the association's expense to perform the audit for the period ending July 31, 1983.

The Committee also inquired of the most recent examination reports of both Old Court and First Progressive and it was reported that, although we have received preliminary comments, the Division has not issued its most recent exam reports on these associations even though they were completed nine to twelve

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months ago. The Committee then noted that Old Court has applied for three branch offices; that no recent certified audit reports had been received as noted above; that the preliminary examination comments of both Old Court and First Progressive contained numerous and substantive comments indicative of weak operational standards, etc; that the principals of Old Court and First Progressive are the same; that First Progressive is to be merged into Old Court and, in view of these items, directed, by consensus, that staff express to the Division Director the concerns and objections of the Corporation to the establishment of the proposed branch offices until such time as the above referenced matters have been addressed and resolved. Messrs. Dolivka, Wallace and Elsnic abstained from the consensus in view of the fact that one of the proposed branch offices is located in the general vicinity of their associations and participation in this decision would, in their opinion, be a conflict of interest.

Mr. Trice reported that he received a written opinion from Touche Ross & Co. which supports staff's position of disallowing the accounting treatment used by John Hanson Savings and Loan on their S/L-200A report concerning capital stock issue of June 30, 1983.

Mr. Trice presented for discussion a revised amendment to Section 3-211(A)(3) of the Rules and Regulations concerning net worth. After discussing the proposed amendment, it was determined that Messrs. Trice, Laudeman and Hall will be appointed to a committee for the purpose of refining this amendment for approval by the Board at its next scheduled meeting.

Mr. Hogg reported that the Accounting Task Force has completed a draft of proposed accounting changes for comment by the MSSIC Board of Directors, State Board of Commissioners and state-chartered savings and loans. It is hopefully anticipated that both MSSIC and the Division's Board of Commissioners will adopt the recommendations of the Task Force and thereby provide a uniform

accounting basis for evaluating MSSIC associations on a comparable level and eliminate what the task force feels are improper or unsafe and unsound accounting practices.

Mr. Hogg reported that the proposed amendments submitted by Senator Denis were withdrawn in favor of a "summer study" by a yet to be appointed committee. The members of the Committee discussed the various aspects of the proposed amendments and it was determined that staff should be prepared to answer questions that may arise.

Mr. Becker presented the results of the brokered deposits survey. He indicated that on a voluntary reponse basis, approximately 3% of all savings in the MSSIC industry are brokered. Mr. Hogg indicated that MSSIC may be required to adopt a brokered deposit rule as a defensive posture due to regulations currently being proposed by the FHLBB and the FDIC. It was also mentioned that jumbo certificates of deposits have become a major source of savings in certain associations. The Committee determined that it may be appropriate to adopt a regulation concernng a maximum level of jumbo certificates to savings.

There being no further business, the meeting adjourned at 4:46 P.M.

Martin M. Becker
Secretary of the Meeting

MWB/nc

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, APRIL 25, 1984

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 April 25, 1984.

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.
Terry L. Neifeld
George W. H. Pierson

Others Present: Charles C. Hogg, II, 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, Director, Division of Savings and Loan Associations; and John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Faulkner called the meeting to order at 9:30 a.m. and acknowledged that a quorum was present.

INVESTMENT REPORTS

Messrs. Garrison and Pretko reviewed the financial reports and the general economic narrative. Following a brief discussion Messrs. Garrison and Pretko were excused from the meeting. (Copies of the financial reports and the narrative

are attached to the permanent file copy of these minutes.)

READING OF PREVIOUS MINUTES

Following a review of the minutes of the prior Board meeting and minor corrections, Mr. Laudeman moved that the minutes be approved. Mr. Dietz seconded the motion which passed unanimously.

TREASURER'S REPORT

Mr. Neifeld reviewed the financial statements and the actual to budget quarterly comparison.

Mr. Dietz moved that the Treasurer's Report be accepted. Mr. Carroll seconded and the motion carried unanimously. (Copies of the Financial Statements are attached to the permanent file copy of these minutes).

MEMBERSHIP COMMITTEE

Mr. Elsnic reviewed the minutes of the Membership Committee Meeting. Among the items he noted from the Committee Meeting were: the unanimous consensus of the committee to enforce the Corporation's Rules and Regulations; progress is expected at Liberty Savings and Loan by May 30, 1984; a recommendation that the Board adopt a resolution on merger and branch office criteria; audit reports from Fairfax, First Progressive, and Old Court; Mr. Trice's letter to the Division Director regarding MSSIC's concern on Old Court branching; the Touche Ross opinion related to John Hanson's stock transaction; Revision to 3-211(3)(C) of the MSSIC Rules and Regulations; the Accounting Task Force completed report; the need for regulations on brokered deposits and jumbo savings accounts.

During this review, Mr. Hogg indicated that both Chase Manhattan and Citicorp have expressed interest in acquiring a MSSIC member association.

Mr. Brown stated that S.B. 576 which would have given removal power to the Division Director passed the Senate, went to the House and died in committee.

A discussion then ensued regarding regulations on brokered deposits and jumbo savings accounts.

Mr. Donohue emphasized his concerns as to the prolonged and seemingly unresolved problems at First Progressive Savings and Loan Association. He asked that the record indicate that he is disturbed and displeased with the manner in which this association has operated. Additional discussion took place on this matter.

Mr. Neifeld moved that the minutes of the Membership Committee be accepted. Mr. Carroll seconded and the vote was unanimously favorable.

OLD BUSINESS

Mr. Hogg discussed the unwritten and informal procedures of the recent past regarding election of both board and staff officers and selection of members for standing committees.

Mr. Neifeld moved that the election of officers take place and that the Board go into executive session thereby temporarily excusing all non-directors from the meeting. Mr. Elsnic seconded and the vote was unanimously favorable.

The election took place from 10:59 A.M. until 11:20 A.M., at which time all former attendees rejoined the meeting.

Mr. Faulkner announced that the following persons were elected to the positions indicated:

George W. H. Pierson, Chairman of the Board

Terry L. Neifeld, Vice Chairman

Michael J. Dietz, Secretary

Frances F. Anderson, Treasurer

Executive Committee:

George W. H. Pierson, Chairman

Jerome F. Dollvka

Michael J. Dietz

Frances F. Anderson

Terry L. Nelfeld

John D. Faulkner, Jr.

Mr. Faulkner indicated that the election of staff officers would be deferred until the next board meeting.

Mr. Elsnic moved that the Board pass a unanimous resolution in appreciation of Mr. Faulkner's dedication and on going efforts as Chairman of the MSSIC Board of Directors. Mr. Pierson seconded the motion which received a unanimously favorable vote.

Mr. Faulkner expressed his gratitude and stated that he felt the past two years have presented difficult challenges and difficult decisions. He stated further that although some differences have existed among the Board members he was pleased to say there has been movement toward understanding and more commonality of interest.

Mr. Faulkner noted that the new slate of officers would preside at the first meeting following the annual meeting.

NEW BUSINESS

Mr. Christopher Olander, of Shapiro and Olander, was introduced to the meeting. He reviewed in depth a program known as "Loans to Lenders". This program, he explained, includes the issue of bonds from a trustee to bond purchasers; a trustee then establishes certificates of deposit (which exactly match the bonds) at a savings and loan association; the savings loan association then lends the proceeds to a developer for a specific project. Mr. Olander further

explained that the flow of earnings would be the reverse of the original flow of funds and it would provide a positive spread to the savings and loan association in the range of 1/4 to 1 1/2 points, plus origination fees. He said Reliance Insurance Company will put its Triple A rating behind the bonds and would also review the developer's project to be certain its underwriting standards were satisfied. Mr. Olander said that this entire transaction represented business-as-usual for the savings and loan association. In conclusion, he stated that his presentation was for informational purposes and to assure the MSSIC Board that his clients did not intend to pursue the program if the Corporation was opposed to it.

Following this presentation, Mr. Olander was excused from the meeting and the Board took a short recess.

REPORT OF THE PRESIDENT

Mr. Hogg said that following a meeting with Touche Ross & Co. a report on recent accounting issues will be forthcoming. He gave an update on the Annual Meeting, reviewing briefly various dinner and meeting agenda items.

Mr. Hogg stated that the Corporation's Loan Agreement would be renewed as of April 30, 1984. He said the structure of the agreement was unchanged but that The First National of Chicago has adjusted its agents fee to \$25,000 at closing, certificates of deposit with a cost of approximately \$10,000, and if the Corporation borrows at least \$6 million for 6 days, the remaining \$15,000 will be due and payable.

Messrs. Laudeman and Trice reviewed certain proposed revisions to the Corporation's Rules and Regulations. These revisions were all individually unanimously approved with the following Directors moving and seconding as detailed below:

3-211, Mr. Dietz moved, Mrs. Anderson seconded.

3-211(A)(3)(d), Mr. Neifeld moved, Mr. Carroll seconded.

3-211(A)(3)(c), Mr. Neifeld moved, Mr. Bass seconded.

3-223, Mr. Neifeld moved, Mr. Dolivka seconded.

Mr. Elsnic thanked Messrs. Laudeman, Trice and Hall for the many hours of work involved in preparing these revisions to the Rules and Regulations.

Mr. Hogg commended Mr. Becker on his presentation at the last Board of Commissioners Meeting.

During a review of the Net Worth Comparison Update, Mr. Hogg stated that the Corporation may be approaching a cease and desist order in the case of First Progressive Savings and Loan Association. He said that the trend at Liberty Savings and Loan is positive. Mr. Hogg gave an update on John Hanson Savings and Loan and said that there are some technical difficulties in Hanson obtaining a letter of credit regarding their stock. He said they are attempting to find a way to accomplish this and he stated he hopes he has enough latitude to make the situation work.

Mr. Hogg indicated that First Maryland Savings and Loan's subordinated debentures were similar regarding net worth inclusion to the John Hanson stock issue. He asked, therefore, if in First Maryland's situation an irrevocable letter of credit would be acceptable in reevaluating their subordinated debenture as net worth. This received the favorable consensus of the Board

At 1:26P.M., the non-officer staff members were excused from the meeting which subsequently adjourned.

Mr. Hogg reported that he and Mr. Holmes had interviewed a suitable applicant to fill a new staff position. He distributed the resume of Stephen G. Boyd and recommended that Mr. Boyd be hired and elected as a Vice President of the Corporation. Several directors suggested that this be tabled and that more information including a job description and a salary and benefits summary be provided. Other personnel actions were also tabled until a subsequent meeting.

Finally, it was noted that this was the last Board of Directors meeting to be held at this location, because the Corporation would move to new quarters on May 6, 1984.

There being no further business, the meeting adjourned at approximately 1:45 P M.

CCH/nc

Charles H. ...
Secretary of the Meeting

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TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT, made as of April 23, 1984, by and among JEROME S. CARDIN, JEFFREY A. LEVITT and ALLAN H. PEARLSTEIN (collectively "Stockholders") and MARYLAND SAVINGS-SHARE INSURANCE CORPORATION ("MSSIC").

WHEREAS, on July 31, 1981, certain stockholders of Old Court Savings and Loan, Inc. ("Old Court") and MSSIC entered into a Voting Trust Agreement ("Voting Trust Agreement"), pursuant to which MSSIC was appointed as Trustee for the stock of said stockholders;

WHEREAS, the Stockholders are currently the owners of all stock covered by the Voting Trust Agreement;

WHEREAS, under Section 11 of the Voting Trust Agreement, the Voting Trust Agreement is to terminate upon payment in full of a certain subordinated debenture in the amount of Seven Hundred Twenty-Five Thousand Dollars (\$725,000.00) purchased by MSSIC from Old Court; and

WHEREAS, the foregoing subordinated debenture has been paid in full.

NOW, THEREFORE, THIS TERMINATION AGREEMENT WITNESSETH THAT, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree that, as of the date hereof, the Voting Trust Agreement

is terminated and of no further force or effect, and the parties hereto agree to forward an executed copy of this Termination Agreement to Old Court.

WITNESS the following hands and seals as of the day and year first above written.

WITNESS:

Jerome S. Cardin (SEAL)

Jeffrey A. Levitt (SEAL)

Allan H. Pearlstein (SEAL)

ATTEST:

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

Paul K. Jones

By: Charles Hogg (SEAL)
President

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT, made as of April 23, 1984, by and between OLD COURT SAVINGS AND LOAN, INC. (a stock corporation) ("Old Court") and MARYLAND SAVINGS-SHARE INSURANCE CORPORATION ("MSSIC"),

WHEREAS, the parties hereto have heretofore entered into an Insurance Agreement dated July 31, 1981 (the "Insurance Agreement");

WHEREAS, under Section 6 of the Insurance Agreement, the Insurance Agreement is to terminate upon payment in full of a certain subordinated debenture in the amount of Seven Hundred Twenty-Five Thousand Dollars (\$725,000.00) purchased by MSSIC from Old Court; and

WHEREAS, the foregoing subordinated debenture has been paid in full.

NOW, THEREFORE, THIS TERMINATION AGREEMENT WITNESSETH THAT, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree that, as of the date hereof, the Insurance Agreement is terminated and of no further force or effect.

WITNESS the following hands and seals as of the
day and year first above written.

ATTEST:

OLD COURT SAVINGS AND LOAN, INC.

By: _____ (SEAL)
President

MARYLAND SAVINGS-SHARE INSURANCE
CORPORATION

Paul W. Jirg

By: Charles Hogg II (SEAL)
President



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

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MEMORANDUM

TO: Charles H. Brown, Jr., Director
William S. LeCompte, Jr., Deputy Director

FROM: Glen C. Burger, Examiner Supervisor

DATE: May 4, 1984

RE: First Progressive Savings and Loan

On May 3, 1984 Martin Becker, Bill Mahon and myself met with the representatives of First Progressive Savings and Loan and Old Court Savings and Loan, namely, Paul Freeman, Dennis Guldice, Allen Holtzman, to discuss various areas of accounting and internal control. We quickly learned that the association did not have supporting records for all of its investment portfolio. We were told that the part that was missing was currently being prepared by Allen Baer. Our conversation quickly led into the real problem, which is that the association has an estimated investment portfolio of \$83 million consisting primarily of mortgage backed securities and Treasury bonds whose maturity is 30 years. \$69 million of the \$83 million has been secured as collateral for borrowings (repo'd). This represents approximately \$17 million or 19% of the entire portfolio is actually owned by First Progressive. The current estimate of market value of their investment portfolio indicates that if it were liquidated, they would incur approximately \$6.4 million in loss. Allen Holtzman stated that if the investments were sold to pay off borrowings, after the anticipated loss of \$6.4 million, the association would have approximately \$3 million left to invest. As you are aware, Paul Freeman managed the association for the past several years and in 1982 received approximately \$28,000 in salary, \$25,000 bonus, which totals \$53,000. In addition, he received commissions on the net gains on investments for those instruments that he purchased for Old Court Savings and Loan. This commission totaled an estimated \$60,000 in 1982. The 1983 figures for salary and commission are not yet available.

We also talked with Edward Jacobson, CPA, of Glass & Associates, who is presently working on the 1983 audit. Mr. Jacobson seemed almost relieved to talk with members of MSSIC and the Division. He stated that the association's books and records for 1982 again could not be audited. It was his firm's decision to reconstruct, if possible, a set of records that could be audited. This was done for 1982, and the firm has rendered their certification, which both regulatory agencies have. He continued to make such comments as: This is the worst he has ever seen in his experience; simple transactions were difficult to trace in their entirety; intercompany transactions as well as the famous "Exchange Account" caused them considerable

problems. He has anticipated that the target date of June 30, 1984 will be met for rendering their opinion on the financial statements as of December 31, 1983.

I wish to point out at this time that of the \$30 million of long term T bonds, that only the cash portion representing 5% of that total is reflected on the SL 200 report submitted to this agency. Therefore, there is an adjustment increasing investments of \$28.5 million with a similar credit to borrowed money for the same amount. ($\$30m \times 95\% = \$28.5m$) The company's books for the 1982 audit reflected that the subsidiary detail accounts for Monumental Service Corporation's savings ledger exceeded the control account in the General Ledger by \$154,000. This is a totally unlocated difference, and the CPA firm's position is that the detail records are correct and, therefore, they have reflected this unlocated difference as an expense on the 1982 audit. This is reflected on page 10 of the recently received 1982 audit in Footnote No. 5.

Another area of major concern is the expected loss from the Action Line Credit Card operation which totals \$1.4 million. Mr. Holtzman, Controller of Old Court, stated that they would begin to write the \$1.4 million loss off within the next few months, starting in June of this year. Realistically, some part of this loss is a 1983 expense and part is 1984, but considering the state of the association's books, it will have to be totally reflected in 1984 reports.

Mr. Jacobson of the CPA firm indicated that besides the problems with the accounting records, that he did not have minutes of the Board of Directors for January, February, March and April of 1982. His review of the minutes indicated that Mr. Freeman did have investment authority. However, there was no limitation established, and it is felt that Mr. Freeman acted independently.

There are additional matters concerning Action Line that I must call to your attention. Mr. Freeman stated that Michael Bosley purchased 50% of the stock ownership in Action Line while he was on vacation in Nevada. The check to purchase this stock was written by Mr. Bosley in the sum total of \$137,500. Mr. Freeman said he was most upset with this investment and actually initiated a stop payment order on that check. He further stated that it was later overwritten by Mr. Jeffrey Levitt, and Monumental City became the 50% owner of Action Line. From the best of my recollections, several months later in the deteriorating condition of the association, Mr. Bosley was relieved of his duties. During this time Mr. Roger Rosen, who was the association's controller at that time, approached Mr. Freeman and stated that he and Mr. Bosley had each received a check for \$6,250, or \$12,500 in total, as a fee for purchasing the stock of Action Line. Mr. Freeman then ordered Mr. Rosen to return his check to the former owner, Joel Katz. Subsequently, Mr. Freeman checked with Mr. Katz to see if this in fact had been done, and Mr. Katz supposedly told him that

when Mr. Bosley learned of the return of that check, that he demanded that, that too be given to him. Therefore, Mr. Bosley is alleged to have received \$12,500 in fees to purchase the stock of Action Line while he was an officer, or at least an employee, of First Progressive and the service corporation. It should be noted that Mr. Bosley also has personal notes totaling approximately \$27,000 which he is in default of and, in fact, has made no attempt to pay them at all. In addition, the former controller Roger Rosen has notes totaling approximately \$35,000 plus interest, of which he is also in default. I have been told that the only note that is secured is one from Mr. Rosen securing a Cadillac. He also has not, to the best of my knowledge, made any attempt to pay any of his notes and, in fact, has as of December 31, 1983, signed a consolidated note which indicates that 2 payments are due; the first is due July 1, 1984, totaling in excess of \$19,500, and the second for \$18,500 is due January 1, 1985. Again, this consolidated note covers many other notes issued by Mr. Rosen, who is in default of each and every one of them. Apparently Mr. Bosley approved Mr. Rosen's loans; and Mr. Rosen correspondingly approved Mr. Bosley's loans.

We have also learned that First Progressive is named in a third party suit from the brokerage firm known as Duncan Williams for a total of \$1.6 million. Mr. Freeman briefly stated that he felt that this suit was totally unfounded and that the association would suffer no loss, and that the whole matter was the result of some \$22 million worth of investments they sold from First Progressive in December of 1983 to Duncan Williams brokerage firm and subsequently repurchased by the association in February of 1984. Mr. Freeman said that there was an internal problem with this brokerage firm and one of the key officers who handled this transaction left in a hurry and went with another brokerage firm and apparently left with Duncan Williams' access code to their computer system. He further stated that there was nothing wrong with the transaction and, again, the association would suffer no loss.

It is alarming to know that the books and records of First Progressive are in such deplorable state that the CPA firm had to reconstruct something in order to perform any type of audit. As you are aware, the same firm refused to certify the 1981 statements, based on the condition of the records. We have all been told that the records would be maintained properly. This has not occurred up until and through my visit yesterday. There was a problem with staffing First Progressive. However, it is incumbent upon management to seek the proper employees to manage the funds of depositors. There has been no management at First Progressive for a number of years. Mr. Freeman was allowed total independence to wheel and deal and speculate in huge sums of investments for the purpose of his own gain. Mr. Bosley was allowed to go unchecked and enter into unapproved transactions in this association with the supposed knowledge of Mr. Jeffrey Levitt, who now contemplates merger of Old Court and First Progressive. At all levels the problems still come back to Jeffrey Levitt's management ability, and I do not want to discount that at all. There has been no demonstration on his part that he has solved any problems, but rather he has created many more.

EXECUTIVE SESSION

March 8, 1984

Board of Savings and Loan Association Commissioners

Mr. Charles Hogg of MSSIC attended the Executive Session of the Board meeting.

Mr. Brown informed the Commissioners that Mrs. Erwin was recently re-appointed to this Board by the Governor. Mrs. Erwin stated that she will be meeting with the Executive Nomination Committee on Tuesday, March 20, 1984 in reference to her reappointment and that she would like to meet with the Division to discuss the current status of our bills and any other matters that she may be questioned on by this committee.

Advertising Practices - Custom Savings

Mr. Brown stated that since the last Board meeting, MSSIC had discovered that on their variable rate money fund accounts, Custom was involved in a practice of quoting rather high (above market) rates Monday through Friday, but when it came to a weekend the rates were lowered considerably. These accounts simply provide in their disclosures that the rates are set by the association and subject to change.

The Division, Jack Cooper and Charles Hogg had a meeting with Custom's counsel. Custom was confronted with this practice and was directed to discontinue this, which they have agreed to do.

Willis Witter, a reporter for the Washington Times, is also aware of this matter. He called us yesterday and the first thing he asked about was the possibility of restitution. We informed him that we had already sought the advice of the Attorney General's Office as to whether we have the authority to require restitution. It appears Steve Sachs has been contacted by Mr. Witter. Jack Cooper stated that there isn't any definite resolution at this time, however his review of the law in this area creates some doubt as to whether this agency has the authority to tell Custom to make restitution.

Mr. LeCompte stated the account indicated that it will be changed from time to time based upon market conditions. They do not advertise it in the paper other than the initial rate. The only way you can check on the rate changes is to telephone them. Custom has an answering service Monday through Friday where they will give you the rate. However, there is no one to answer the phone on the weekend, therefore, no one is aware of the drop in rate. Mr. LeCompte stated that one basic problem is how do you determine the amount of restitution? Mr. Gisriel suggested that we should get all the facts and send it to the Attorney General for possible prosecution. Mr. LeCompte stated that we have already involved the Attorney General's Office.

Mr. FitzGerald suggested that a letter should be sent to all associations stating that this type of practice should be discontinued at once. Mrs. Erwin agreed and stated that she felt we should send this letter to the industry to go on record as opposed to any such misrepresentation. With respect to our agency's ability to require restitution, she raised the question whether the agency could enforce Maryland's Consumer Protection laws.

The Board agreed that a letter should be sent to all associations informing them of this deceptive practice and that this Board would take action against any institution involved in such a practice including it being referred to the Attorney General's Office. The Board also wished the matter of restitution to be pursued with the Attorney General.

Operations

Mr. LeCompte stated that Maryland Permanent Building and Loan Association, Inc's., delinquency ratio of 14% amounted to three homeowner loans where the loan balance was only about 50% of the market value of the security. These loans totaled \$74,000 and they had about \$240,000 worth of security. It is a very small institution in a blue collar neighborhood with some unemployment problems.

Mr. LeCompte stated that Vanguard Savings & Loan Association, Inc., had 6½% delinquency ratio comprised of all single family homeowner loans. Mr. LeCompte stated that there is no loss of principal or interest exposure on these \$40,000 to \$50,000 loans.

Mr. LeCompte stated that Hopkins Savings and Loan Association had an 11.6% delinquency ratio of which a majority of the loans were moderate size homeowner loans with sufficient value in the security. We are receiving a report each month that lists each of the delinquent loans individually as is MSSIC. Hopkins also lends in a blue-collar neighborhood that has unemployment problems.

Mr. LeCompte stated that Sharon Savings & Loan has 7.6% in delinquencies which is comprised of predominately nonresidential property. Quite a few of these loans did not reflect an appraisal of the property. We are going to pursue them for additional information.

Mr. Gisriel stated that Liberty Savings and Loan Association, Inc., has 17.3% in delinquencies. Mr. LeCompte stated that we have been involved in Liberty since October 1982. Liberty has had ongoing problems related to the indictment of Frank Peach. Judith Miles, who used to be at Chesapeake Savings & Loan Association of Annapolis, Inc. is at Liberty and is working out of some problem loan projects. They are reportedly going to go to settlement on a sizeable block of their delinquent loans shortly.

Mr. LeCompte stated that Yorkridge/Calvert has \$64.9 million in borrowed money, which is all in Federal Home Loan Bank advances. These Bank Board advances are at a rate considerably above prime and they are term loans with substantial prepayment penalties. The cost of these borrowings appear to be a major contributing factor to the association continuing operating losses. The association lost \$565,000 for the month of January.

Mr. LeCompte stated that First Progressive, Old Court and Fairfax will also show considerable amounts of borrowed money. These institutions have large investments in government obligations and securities which they have used in securing reverse-repurchase agreements at a cost of about 9 3/4% to 10%. This money they are investing at a positive spread.

Mr. Stocksdale stated that he took the December 1982 and December 1983 figures for all the stock associations and out of those sixteen associations, only two associations (Chevy Chase and Eastern) did not have improved earnings. He also stated that everyone had considerable improvement in reserves except Chevy Chase.

After considerable discussion it was decided to obtain the 1983 certified audit report for Chevy Chase and to evaluate what if any improvement has been made. After this review, the Board will consider whether Mr. Saul should be called before this Board to discuss his operations.

A general discussion ensued concerning the extreme growth of the savings and loan industry in Maryland and the increasing work load faced by this Board and the Division. Mr. Brown mentioned that the Division had recently been informed of a pending budget cut in the neighborhood of \$17,000. Mr. Gisriel suggested that a letter be sent by the Board to Mr. Corbley, with a copy to Johnny (Enjer) Johnson, asking for additional staff for the Division and an explanation as to why the Division's budget is being cut in light of the industry's growth and the increasing complexity of the business.

Upon motion by Mr. Rittenhouse, seconded by Mr. Hewitt, the Board unanimously agreed to formally inform Mr. Corbley of the Board's position on the proposed budget cut for the Division.

The Board then discussed the need to increase our agency's financial analysis of the industry. It was felt that this could only be accomplished by virtue of computerization. Charles Hogg stated that access to the MSSIC computer system could be made available to our agency and he offered to give a presentation of what was available from MSSIC to the Board.

It was decided that in April the Executive Session would begin at 10 a.m. and that MSSIC would give the Board a presentation of the MSSIC computer system.

EXECUTIVE SESSION
April 12, 1984

Board of Savings and Loan Association Commissioners

Mr. Paul Trice of MSSIC attended the Executive Session of the Board meeting.

Custom Savings Association

Mr. Brown stated that the Division had directed Custom to discontinue its practice of quoting rather high above market rates Monday through Friday, and then lowering the rates on the weekends when the public could not obtain rate information from the association. The Division had referred this matter to the Attorney General's Office to find out if restitution should be sought. On April 11, 1984, the Division received an Advice of Counsel stating that this Agency could not force the association to make restitution.

Mr. Cooper, Assistant Attorney General, stated that he took this position as he could find no authority given to this Agency in the code. He suggested to the Board that they send out an official letter to Custom relating to this practice, requiring that they are to discontinue this practice immediately as it appears to be in violation of several applicable regulatory provisions in the savings and loan code.

Mr. Gisriel stated that during the General Session it should be noted that Custom has been ordered to cease and desist from this practice and that a response was received from the Attorney General's Office stating that the Division does not have the power to order restitution in this matter.

A lengthy discussion ensued with respect to this Agency's apparent lack of enforcement powers. The Board discussed with counsel the possibility of referring this matter to the Consumer Protection Division of the Attorney General's Office.

Fairfax Savings Association

Mr. Brown stated that the Division received a copy of an anonymous letter that was sent to the Better Business Bureau which stated that Fairfax was also quoting rather high rates Monday through Friday and then lowering the rates on the weekends. The Division and MSSIC met with Fairfax. Malcolm Berman had stated that there was a month or two where rates were lowered slightly on the weekends. When he became aware of this in December (1983) it was discontinued. He noted that Fairfax does mail each month a statement on these accounts which discloses to the depositor the average rate paid for the month and that his rate line is open on the weekends and rate information was available during this time.

Mr. Brown stated that more recently, Fairfax was advertising a variable savings rate on Wednesday of 11%, but the rate dropped the remainder of the week. This was done due to the Sunpapers financial presentation each Wednesday of savings rates paid in and around Baltimore. This has also been discontinued.

Mr. LeCompte stated that Fairfax differs from Custom in that the rate line is advertised and is operational seven days a week. Additionally, each variable rate account at Fairfax receives a monthly statement which contains the monthly average yield paid on the account. It does provide the consumer with periodic information about what the account is actually earning.

Mr. Cooper suggested that the Board wait until they are advised officially that the Attorney General's Office has cleared this procedure and then the Board can send a closeout letter to Fairfax telling them to cease and desist from these practices.

Brokerage Savings

Mr. Brown stated that the Board was provided with a schedule of the brokerage savings in the State-chartered industry. He stated that the Board was given a draft of a proposed Regulation .18H(3) which states "An institution may not have brokered savings deposits which exceed ___% of total savings. For this calculation, brokered savings accounts include all deposits on which a commission or fee has been paid for the current term of the deposit". The Board only had to determine what the percentage should be. Mr. Brown added that the FDIC has suggested 10% of savings in their regulations and the Federal Home Loan Bank is remaining firm on their position of having only \$100,000 of deposit insurance per broker regardless of the number of accounts the broker brings in. The Federal Home Loan Bank regulation has an effective date of 10/04/84 and it has a two year phase in period.

Mr. FitzGerald felt that the only way to curtail brokered deposits is if MSSIC would stop insuring more than \$100,000 for anyone individual.

Mr. Stocksdales suggested that our regulation also have an effective date, so as to give fair notice to associations which have, or intend to accept brokered deposits.

Mr. FitzGerald stated that brokerage funds amount to merely paying a commission in lieu of advertising expenses for retail deposits. The problem isn't the funds that they get, it's how these funds are invested by the association. Mr. Gisriel stated that we are allowing 10% of deposits to be from brokers and higher concentrations have proven to have caused operating problems at various federal associations and banks.

Mr. Brown suggested that the permissible percentage of brokered deposits be 10% if the net worth of the association is above 3%, and for institutions of less than 3% net worth the maximum brokered funds be 5%. Mr. Hewitt suggested the regulation be published with the 10% limit, and 5% for institutions with less than 3% net worth, and see what comments are received.

Advertising Regulations

Mr. Gisriel stated that he is very concerned about certain advertising that is misleading to the public. He suggested that our regulation should state that when an account is opened, the depositor should be given a truth-in-savings statement indicating how the dividends are compounded, how often they are compounded, how they are calculated, etc. Mr. LeCompte stated that these requirements are already in §9-403 of the Financial Institutions Article.

After a lengthy discussion on how to draft a regulation which would address the problems encountered on variable rate savings deposits, Mr. Gisriel and Mr. Stocksdales offered to draft a proposal by next meeting.

Regulation .20

Mr. Brown stated that at the May Board meeting, Regulation .20 "Minimum Capitalization Requirements for Associations" will be up for final adoption. Mr. Allan D. Housley of the law firm of Housley Goldberg & Kantarian, has asked to speak to the Board today in opposition to the proposed amendments in order that the Board will have some time to consider his views.

Fairfax's Subordinated Debenture

Mr. Brown stated that Fairfax is requesting permission to issue subordinated debentures to retire the stock of minority stockholders. Fairfax states that they do not want to pay a cash dividend to stockholders which will reduce the associations net worth. They do have some stockholders who feel that it is time for them to receive some return from their investment.

Mr. LeCompte stated that the institution argues that buying out these stockholders would be less costly than paying cash dividends on the stock. At this point, however, they could not really pay a cash dividend on stock as their net worth is insufficient under the provisions of Regulation .40-1.

Mr. Brown stated that Mr. Mark Coplin will be at the meeting today to discuss this issue with the Board.

EXECUTIVE SESSION

May 10, 1984

Board of Savings and Loan Association Commissioners

Mr. Charles Hogg of MSSIC attended the Executive Session of the Board meeting.

New Charter - "Potomac Savings and Loan Association"

Mr. Brown stated that the new charter application for Potomac Savings and Loan was to be considered by the Board at today's meeting. He asked if the Commissioners had any questions or comments concerning the materials supplied to them with respect to this application.

A discussion ensued as to whether Potomac would be adequately capitalized at \$750,000 in capital stock. It was noted that the report prepared by staff showed that with \$750,000 in capital, Potomac would be profitable in their first year of operation. Mr. Brown stated that Regulation .20 provides that an association can begin with \$200,000 or such greater amount that the Board shall determine. Mr. Cooper stated that if the Board decides to increase the minimum capitalization amount from \$200,000 it should be done by regulation. Mr. Brown also mentioned that it was previously decided that any new charter applications received before the time that our proposed amendments the Regulation .20B became effective would be accepted at the \$200,000 capital stock amount.

A discussion then ensued with respect to the amendments to Regulation .20B and C which were to come up for final adoption at today's Regular Session of the Board meeting. Mr. Fitzgerald asked if it wouldn't be better if our regulation was amended to state that new associations must have initial capital of \$1 million or more; and for a conversion from a mutual to stock from the amount would be \$500,000 provided the same management or board remains intact. Mr. Cooper stated that this could probably cause problems in the Anti-trust law.

Mr. Hogg stated that MSSIC met with the principals of Potomac on Wednesday, May 9, 1984 and approved them for insurance of accounts at the \$750,000 capital level. He added that MSSIC had some concern with starting an association with only \$750,000 at certain locations. Those locations being where you open your doors and money is dumped in and all of a sudden your capital is quickly outstripped. On a new charter started in an area of fast savings growth, if the initial capitalization is not high enough you may have capital problems, but Mr. Hogg added that it was his belief that MSSIC and the Division would be able to monitor and correct that type of situation. Mr. Hogg also stated his belief that a minimum capitalization of \$1 million is not too high for a new charter, however for a conversion of a mutual he felt that the required capitalization would obviously depend on the size of the mutual at the time.

Another lengthy discussion ensued on the proper amount of capital stock for a converting mutual association. It was decided that the quality of appraisals was a key factor. Mr. Balder asked if the Director had the authority to determine the qualifications of an appraiser to do a conversion. Mr. Brown responded that the conversion regulation gives that authority to the Director. The Board decided on \$1 million of capital to start a new association and for a converting association it would be at the appraised value of the association as determined by an appraiser approved by the Director, but not less than \$200,000 or any greater amount that the Director may require. Rather than delaying this amendment another 90 to 120 days, the Board decided on final adoption of Regulation .20B, but to amend and republish for comment Regulation .20C concerning conversions.

Mr. FitzGerald stated that it had recently come to his attention that there was considerable differences in chartering a new stock bank versus as new stock savings and loan with respect to the State Securities Laws. During formation, a new bank when selling stock must have the prospectus cleared through the State Securities Commissioner and anyone actually selling the stock must be licensed. He stated that only after the bank is fully operational does it become exempt from the State Securities Law. Mr. Brown stated that staff would look into this matter.

Advertising

Mr. Gisriel stated that he and Mr. Stocksdale had discussed a recent Federal Reserve Press Release, a copy of which was given to each Commissioner. The concerns of the Federal Reserve parallel some of the concerns that the Board has discussed concerning advertisements by a few of our State-chartered associations. The action taken by the Federal Reserve Board was in response to recent advertisements where initial high rates of interest appear in large print, while lower rates be paid for the predominant part of the term of the account appear in much smaller print. The Federal Reserve Board expressed concern that such advertising was potentially misleading and confusing to depositors. It is noted in the press release that for accounts that offer an initial fixed rate to be followed by a variable rate determined by an index during the remainder of the term of the account that the method of determining the variable rate shall be stated in type of the same size as the fixed rate. In addition, the time period for which the initial fixed rate or subsequent rate might apply must be conspicuously stated. Mr. Gisriel stated that he personally would like to see them go a little further by requiring that the advertisement disclose what the current rate would be as determined by the index.

The Board was in favor of adopting such an advertising regulation. Mr. LeCompte stated that staff would prepare and send out a draft of the language and would include a prohibition against advertising that IRA's are tax free accounts as they are only tax deferred accounts.

First Progressive Savings & Loan Association, Inc.

Mr. Brown stated First Progressive had purchased an interest in a company known as Action Line. Action Line is one of these organizations that, for a fee, notifies all the issuers that your credit cards have been lost or stolen. Action Line was purchased by the association for \$138,000 which was not an authorized investment. When it was discovered, the Division and MSSIC met with First Progressive and made them divest themselves of Action Line. They actually received \$100,000 for their interest in Action Line, which was felt to be acceptable as Action Line was in financial trouble. However, it now appears that people who have purchased the service for a fee of \$95 for five years, do have the right to a refund within a certain time period. There are quite a few refunds being requested and First Progressive will have to honor them. There appears to be an estimated loss of possibly \$500,000.

A meeting was held with Jeffrey Levitt, Alan Pearlstein and Jerry Cardin and they agreed to hypothecate \$500,000 to MSSIC and the Division for First Progressive. The hypothecation agreements have not yet been signed but the funds have already been placed in the Harbor Bank.

Members of the Division and MSSIC were sent to First Progressive to further review the situation. They found out the loss on Action Line may be more than \$500,000. The association now has about \$800,000 in actual net worth. They also found that the association has been buying considerable amounts of GNMA bonds and then borrowing against them through repurchase agreements. First Progressive has a sizeable paper loss on these bonds based upon current market rates. They are illiquid and if they were forced to repay any borrowed money they would have to sell some of the GNMA bonds and recognize the losses.

We again met with MSSIC and will be meeting shortly with Mr. Cardin and Mr. Levitt to discuss merging First Progressive into Old Court. The merger will probably contain some operating sanctions required by MSSIC and the Division.

EXECUTIVE SESSION
June 14, 1984

Board of Savings and Loan Association Commissioners

Mr. Charles Hogg of MSSIC attended the Executive Session of the Board meeting along with Alan M. Barr and Linda H. Jones of the Antitrust Division of the Attorney General's Office.

Proposed Amendments to Regulations .30, .50 and .40-1

Mr. Brown stated that proposed Regulations .30, .50 and .40-1 were up for final adoption at today's meeting; however the Attorney General's Office has expressed some reservations regarding these regulations relative to the Antitrust laws.

Mr. Cooper stated that the Antitrust Division has requested time to make an antitrust review in this area. He noted that at this time no final determination has been made as to whether the proposed regulations do in fact violate any antitrust statutes.

Mr. Barr stated that in the way of background, his office did not initiate this motion. That he had received a call from Alan Foreman, who previously was counsel to this Board but is now employed by Weinberg and Green, that several of his clients were considering filing an antitrust suit if the Board of Commissioners adopted these regulations. Mr. Barr stated that he then made a quick review of Sections 9-419(a) and (c) of the Financial Institutions Article in light of the proposed regulations and felt that there could be some antitrust problems due to lack of statutory authority. He referenced that where a regulation is adopted without regulatory authority and where the regulation has the effect of limiting or impeding competition, then there are antitrust problems. He noted that on this Board were various members of the savings and loan industry, which could possibly be construed to constitute a conspiracy to impede competition in the industry.

Mr. Gisriel stated that this Board has the statutory duty to maintain the safety and soundness of all State associations and to protect the savings invested in these savings and loans. He said there was a very good brief written by Bob Frierson and Paul Grimm, both with the Attorney General's Office, on our regulation of this industry. He added that we have percentage limitations throughout our regulations based upon safety and soundness considerations and this is precisely what the Board has done with these proposed regulations. Mr. Gisriel said he failed to see how this was anti-competitive and furthermore, with respect to his being an attorney for a State-chartered institution, the institution which he represents must comply with these same regulations.

Mr. Barr stated that the Board does have a duty to provide for safety and soundness of institutions, but the Board's primary obligation is to obey the law. The "bottom line" is what has the General Assembly told the Board they

are to do. If they have told you to put the savings and loans on a par with federal savings and loans and the banks, then that's what the Board must do. Mr. Barr stated that there was an apparent conflict in that the General Assembly gave the Board certain duties and then told them what they had to do.

Several members of the Board expressed their concern over having responsibility for maintaining safety and soundness of the industry while being told at the same time they don't have the ability to adopt regulations they believe are necessary for safety and soundness. Mr. Cooper stated that he felt that a definitive opinion signed by the Attorney General that the Board does not have the authority to adopt certain regulations would be pretty persuasive to the legislature.

The Board then again discussed their dissatisfaction at being referenced as not doing their job in the Washington Times and then being threatened with civil suit under the antitrust laws for adopting regulations to curb unsafe and unsound practices. The Board decided to postpone final adoption on Regulations .30, .50 and .40-1 and to send these regulations along with some legislative history.

Regulation .18 "Advertising and Promotional Activities"

Mr. Brown stated that the Office of the Secretary added a subsection (c) to our proposed amendment to Regulation .18 which was to limit brokered savings for State-chartered associations. This subsection (c) reads as follows: "The Director may grant a waiver on any part of existing brokered savings exceeding the percentage established in this Subsection 3 for any period not beyond October 1, 1985, based upon a showing of substantial adverse economic hardship on the association". Mr. Cooper, Assistant Attorney General, stated that this subsection was felt to be needed to avoid any liquidity problems at institutions which couldn't afford not to renew some brokered deposits.

Mr. LeCompte asked Mr. Hogg if MSSIC had the ability to limit brokered savings through an insurance prohibition if the Board were unable to implement this proposed regulation by October 1, 1984 when the federal limitation went into effect. Mr. Hogg stated that it was quite possible that his Board could and would adopt some rule to limit brokered deposits.

Mr. Brown stated that if the Board is in disagreement with this regulation in any way, the regulation can be changed before final adoption. The Board unanimously agreed to the submission of this regulation with subsection (c) for publication and public comment.

Regulation .18 "Advertising and Promotional Activities"

Mr. Brown stated that at the May meeting, the Board asked staff to draft some amendments to Regulation .18 concerning the advertisement of rate and yields for the various types of fixed and variable rate savings accounts presently being offered. //

Mrs. Erwin stated that she felt the proposed draft did address the problem areas. She did suggest a format change whereby 18C1 would remain a separate section for emphasis, and that a new section D labeled Rate and Yield contain the remainder of the proposed amendments.

The Board unanimously agreed to the change and directed staff to revise the proposed regulation and send it to the Maryland Register for publication.

First Progressive Savings & Loan Association, Inc.

Mr. Brown stated that last month he gave the Board a report on First Progressive's purchase of an interest in a credit card operation known as Action Line. The Division had met with the association because this was not an authorized investment and the Division also found that the association had a loss somewhat in excess of \$500,000 in this investment. Additionally, the association has some sizeable paper losses on some bonds that they had purchased which they have used as collateral to borrow funds; therefore, they have a liquidity problem.

The Division and MSSIC have reviewed this situation carefully and believe the only way to resolve this problem is to merge First Progressive into Old Court. Old Court is the natural candidate as the management of two institutions are already affiliated. The merger will be a regular statutory merger rather than a supervisory merger. The application has been filed and is now being processed. Additionally, the Division and MSSIC have a \$500,000 hypothecation from Levitt, Pearlstein, and Cardin to support the soundness of the institution. We received a signed hypothecation agreement however there are some wording problems that Terry Hall, as counsel for MSSIC, is reviewing.

Gibraltar Building and Loan Association, Inc.

Mr. Brown stated that a stockholders suit has been filed against Gibraltar. The suit appears to be the result of a disagreement between Larry Goldstein, the President and the largest stockholder and Simon Hershon, the second largest single stockholder. Mr. Brown then asked Mr. LeCompte to address the Board on this matter as he was primarily involved.

Mr. LeCompte stated that MSSIC and the Division have attended numerous meetings with the parties and their counsel to try to work out an agreeable solution. The dispute centers around an investment by the service corporation in a computer software company known as Integrated Financial Software. The investment is in trouble and Simon Hershon had been in charge of its operation. There are many allegations being made by both sides concerning mismanagement. It appears that one group will have to buy out the opposition.

Legislative Task Force

Mr. Brown stated that he and Charles Hogg had attended the organizational meeting last Tuesday of the legislative subcommittee selected to study our Division and MSSIC. There are three Senate members - Senator Denis from Montgomery County who is co-chairman of the committee, Senator Della from Baltimore City, and Senator Simpson from Southern Maryland and six members of the House - Diane Kirchenbauer from Montgomery County, who is also co-chairing the committee, Hattie Harrison from Baltimore, George Littrell, Jr., from Frederick, Joe Lutz from Harford County, Lou Morsberger from Baltimore County and Ed Kasemeyer from Howard County.

Mr. Brown stated that among their concerns were the overall growth of the State-chartered industry, out of State investments, brokered deposits and the Division's bill on removal of officers and directors and the MSSIC bill concerning 4% net worth requirement to be a member of MSSIC's board, both of which failed in this year's legislative session.

The next meeting of the Task Force is scheduled for Tuesday, June 26, 1984 at which they will be going over the two bills. The committee did ask that Mr. Brown give a history on the Savings and Loan Division.

Securities Filing on New Stock Charters

Mr. LeCompte stated that Mr. FitzGerald raised a question last month about the difference between filing for a new stock bank versus a new stock savings and loan from the Securities standpoint. He stated that Mr. Brown and he had met with Ms. Susan Rittenhouse, the Maryland Securities Commissioner, and basically her feeling was that most of our new charter applications will be exempt from filing with the Securities Division due to the small number (under 35) of sophisticated investors who usually purchase the stock. The banks generally have a broader stock offering.

In any event, as part of any new stock charter application, the Division will require that the applicant make a filing with the Securities Division and have them issue to our agency a letter stating that it is exempt from a securities filing or that the offering material complies with the State Securities Laws.

Chevy Chase Savings and Loan, Inc.

Mr. LeCompte stated that Regulation .30 states that an association cannot lend an investor more than 80% of value of the property unless the loan carries mortgage insurance. Chevy Chase is requesting permission to make uninsured 90% investor loans. He added that federal associations can lend up to 100% of value with good underwriting, but if we approve this, then we are approving an investment in violation of our own regulations.

The Board decided to table this item until further information is received from the Attorney General's Office concerning the Board's regulatory authority in this area.

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, MAY 9, 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 May 9, 1984 at 1:00 P.M.

Members present:

Henry R. Elsnic, Chairman	John D. Faulkner, Jr.
Michael J. Dietz	James D. Laudeman
Jerome F. Dolivka	David F. Wallace

Absent and excused: Frank L. Hewitt, III

Others present: Charles C. Hogg, II, President; Ralph K. Holmes, Senior Vice President; Paul V. Trice, Jr., Vice President; Martin W. Becker, Financial Analyst; William F. Mahon, Review Analyst; William S. LeCompte, Deputy Director; Division of Savings and Loan Associations.

Mr. Elsnic called the meeting to order. He noted that this was the first meeting of the Committee in the Provident Financial Center. Mr. Elsnic wished the minutes to reflect his personal thanks to each member of the Committee and staff for their assistance and contributions to the Membership Committee over the last year. Mr. Elsnic indicated that starting in June, a newly elected Membership Committee would begin functioning.

A motion was made, seconded and duly passed that the minutes of the April 4, 1984 meeting be accepted as submitted.

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MEMBERS' COMMENTS

Mr. Dietz presented the Committee with copies of an excerpt from a recent Washington Notes article pertaining to comments made by FHLBB Chairman Edwin Gray to a House Government Operations subcommittee. The article highlights several actions Chairman Gray recommends in significantly strengthening cease-and-desist authority in dealing with financially troubled institutions.

The Committee discussed at length the various proposed actions and how they relate to MSSIC's cease-and-desist authority. It was suggested that it may be appropriate for MSSIC to adopt regulations more specific on the causes for issuing cease-and-desist orders particularly relating to the removal of management and directors. It was suggested that MSSIC needs to have authority in between the options of doing nothing and having an institution placed into conservatorship.

Mr. Faulkner commented that he believes the Corporation should explore a proposal suggested in a prior meeting by Mr. Laudeman concerning a Contract of Insurance whereby an association specifically agrees not to violate MSSIC Rules and Regulations.

Mr. Faulkner suggested that it may be appropriate for the incoming Chairman, Mr. Pierson to create a special committee for the purpose of establishing methods of dealing with habitual rules violaters.

Mr. Wallace supported the need for additional measures in dealing with certain management due to the apparent ineffectiveness of "jawboning" associations into compliance.

Mr. Faulkner commented that it is unclear to what extent MSSIC has the power to influence management.

Mr. Dolivka inquired as to the status of the proposed John Hanson mergers.

Mr. Hogg responded that the association is willing to meet the requirements established by the MSSIC Board of Directors for merger. Mr. Hogg indicated that the association hopes to merge with Westowne Savings and Loan by June 1, 1984. However, they have not yet received from the Division of Savings and Loan their examination comments, and therefore, have not been able to formally respond to these comments. A satisfactory response is required as a condition for merger.

Mr. Brooks requested a copy of the minutes of the Special Board of Directors meetings pertaining to John Hanson Savings and Loan. He indicated that in the future, it would be appropriate for non-directors who are committee members to be supplied with such special minutes in advance since committee members are often required to act upon actions taken in special meetings.

REPORTS BY STAFF

Mr. Holmes updated the Committee on the status of the plan by Old Court Savings and Loan to merge with First Progressive Savings and Loan. Management of Old Court has notified MSSIC that the certified audit report is complete and will be forwarded to MSSIC before the May Board of Directors meeting.

Mr. Holmes presented an overview of what he believes are the causes of First Progressive Savings and Loan's deterioration.

Mr. Hogg reviewed with the Committee the progression of events involving Messrs. Levitt and Pearlstein and First Progressive Savings and Loan.

Mr. Hogg then discussed with the Committee what staff believes are the options available in resolving First Progressive's significant financial difficulties.

Mr. Hogg indicated that due to the significant cost of either liquidating the association or merging First Progressive Savings and Loan with financial assistance, it is staff's position that a merger with Old Court Savings and Loan may be the best alternative available. Mr. Hogg indicated that under such a merger, Old Court would have to agree to numerous stringent requirements due to

the management of Old Court Savings and Loan being responsible at least in part, with the deterioration of First Progressive Savings and Loan. Mr. Hogg listed approximately ten proposed requirements for merger.

Mr. Becker presented a detailed overview of his and Mr. Mahon's review of First Progressive conducted on May 3, 1984. In his discussion, he listed the following points:

1. As a result of the 1982 audit, the April, 1984 S/L200-A will reflect a reduction in Retained Earnings of \$526,000.
2. The association continues to operate under an unsatisfactory system of internal control including insufficient staffing and segregation of duties.
3. The association books and records are still in an unsatisfactory condition. It is unclear what the impact of the yet to be conducted 1983 audit will have on net worth of the association.
4. Management in particular Paul Freeman, has speculated in acquiring short term reverse repurchase agreements in the amount of \$66 million. The investment portion of the transactions are currently below market. If it is determined to liquidate their position in these repos, Mr. Mahon believes the investments are approximately 10 points below market, or a loss would be incurred in the amount of \$6.6 million as of May 9, 1984.
5. As evidence of inaccurate reporting on the S/L-200A report, it has been determined that approximately \$30 million of the \$66 million in reverse repurchase agreements are not on the general ledger of the association.
6. Alan Holzman, Controller of Old Court Savings and Loan, who has been working part-time in correcting First Progressive's books, estimates

the losses relating to the credit card reporting service known as Action Line are \$1.4 million. In addition, it has been alleged that two former officers of the company, each received \$6,250 as an inducement for acquiring the company through First Progressive's service corporation known as Monumental City, Inc.

7. Two former officers each engaged in using association funds for personal debts and then supplying the association with notes receivable. One of the former officers has yet to make a payment.
8. The association is being sued by a brokerage firm for damages including punitive in the amount of \$1.6 million. Counsel for the association believes the suit is frivolous.

After Mr. Becker's presentation, the Committee members discussed the various options available to the Corporation. The consensus of the Committee members was for Mr. Hogg to pursue a plan of merger of Old Court Savings and Loan and First Progressive Savings and Loan under the stringent requirements that he had outlined earlier.

The Committee requested Mr. Hogg formalize his proposed merger requirements in writing for review by the Committee and the Board.

A motion was made, seconded and duly passed that the Committee recommends the Board of Directors to approve the mergers of First Progressive into Old Court Savings and Loan, subject to the approval of the Director of the Division of Savings and Loan and provided stringent requirements yet to be formalized are adopted and agreed upon by the management of Old Court Savings and Loan.

The committee instructed staff to notify in writing, the management of First Progressive that due to both the violation of the 15% borrowings policy statement and adverse market position of the current reverse-repos, that the

associations is not to engage in reverse repos other than renewal of existing reverse repos and to reduce existing reverse repos whenever possible.

Mr. Trice reported that a letter of understanding which will serve as a preliminary insurance agreement has been signed by the management of Liberty Savings and Loan. Under this agreement, certain existing delinquent loans have been identified for monitoring exclusive of the association's normal operations. In addition, the Liberty Board of Directors did not re-elect either Messrs. G. Warren Mix or Franck Peach, Sr., to the Board. The Board is also proceeding against Mr. Mix for alleged negligence in Mr. Mix's handling of certain loan transactions on behalf of the association as counsel.

Mr. Trice responded, upon questioning, that he is uncertain at this time as to the ultimate disposition of the association, but is encouraged by recent events there.

Mr. Trice updated the Committee on the loan concentration of First Maryland Savings and Loan. Mr. Trice reported that upon exclusion of non-applicable loans and loans-in-process, that the concentration of land, land development, commercial and construction loans decreases from 64% to 44.8%.

Mr. Trice reported that further declines in the ratio are expected over the next several months, and staff will continue to monitor this item.

Mr. Holmes reported that an application has been submitted for MSSIC insurance for an association to be known as Potomac Savings and Loan Association. Mr. Holmes indicated that he mailed copies of the application to Committee members for their review. Mr. Holmes indicated that he had reviewed the application and is satisfied with recommending their approval for MSSIC insurance. Mr. Laudeman suggested that for future applications, staff perform financial analysis of the applications and present this to the Committee.

A motion was made, seconded and duly passed that the Committee

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recommends the Board of Directors approve the application of Potomac Savings and Loan Association for MSSIC insurance subject to the approval of the Director of the Division of Savings and Loan.

Mr. Mahon presented the Committee with a Rule Violation Status Report as of 3/31/84 listing all associations who are in violation of a MSSIC rule, regulation or policy statement and the association's response to the violation.

Mr. Mahon presented the Committee with an outline for consideration of a proposed change in the manner of calculating liquidity.

The Committee briefly discussed the need to develop a position on various topics in anticipation of the impending "summer study" of the legislature. It was decided that in lieu of the formation of a new Committee next month, the existing Membership Committee would defer recommendations to the new Committee.

A consensus of the Committee was reached that MSSIC should formulate regulations pertaining to brokered deposits.

It was reported that Old Court Savings and Loan has withdrawn applications for branches at Belair Road and Dundalk Avenue.

Messrs. Hogg and Faulkner thanked Mr. Elsnic for his service as Chairman of the Membership Committee over the past two years.

There being no further business, the meeting adjourned at 5:15 P.M.

Martin W. Becker

Secretary of the Meeting

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

TUESDAY, MAY, 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 May 22, 1984.

The following Directors were present:

Leonard Bass

John D. Faulkner, Jr.

Michael J. Dietz

James D. Laudeman, Jr.

Jerome F. Dolivka

Terry L. Neifeld

John C. Donohue, Sr.

George W. H. Pierson

Henry R. Elsnic

The following directors were absent but excused: Frances F. Anderson and Joseph P. Carroll.

Others Present: Charles C. Hogg, II, 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, Director, Division of Savings and Loan Associations; and John J. Pretko and Craig T. Garrison, Union Trust Company of Maryland.

Mr. Pierson called the meeting to order at 9:03 a.m. and acknowledged that a quorum was present.

Mr. Pierson expressed his gratitude to the Directors for changing the meeting date for him, and he related the following comments:

-He explained that Mrs. Anderson's and Mr. Carroll's absences were excused.

-He reviewed "Disqualification of Director for Failure to Attend Meetings" (Section 2-209, MSSIC By-Laws) and asked each Director to notify the chair ahead of time if unable to attend a meeting.

-Mr. Pierson in the tradition of his association in recognizing past leaders presented inscribed gavels to Mr. Faulkner and Mr. Bass.

-He presented business cards to each Board Officer and to each Director and asked each Director to use these cards as a gesture of their pride in being a part of MSSIC.

-Mr. Pierson then detailed what he referred to as a list of housekeeping matters. Those items included:

-The Board table will have twelve places for the 11 Directors and the President.

-Guest or staff should be recognized by the Chair before addressing the meeting.

-Gentlemen and Ladies should call attention to the chair before removing suit coats.

-Emergency telephone numbers are next to the Board Room telephones. Mr. Pierson asked the Vice Chairman to note any business brought up at previous meetings which has not yet been completed. He then appointed Messrs. Dolivka and Elsnic as honorary sargeants at arms.

INVESTMENT REPORTS

Messrs. Garrison and Pretko reviewed the financial reports and the general economic narrative. Following a brief discussion on Continental Illinois Bank and several questions, Messrs. Pretko and Garrison left the meeting. (Copies of the financial reports and the narrative are attached to the permanent file copy of these minutes.)

READING OF PREVIOUS MINUTES

Mr. Dietz moved that the previous minutes of both the regular and special meeting of the Board be approved. Mr. Elsnic seconded and the vote was unanimously favorable.

TREASURER'S REPORT

In Mrs. Anderson's absence, Mr. Kohr reviewed the financial statements and certain subsidiary schedules.

Following a brief discussion, Mr. Elsnic moved that the Treasurer's Report be accepted. Mr. Faulkner seconded the motion which passed unanimously. (Copies of the Financial Statements are attached to the permanent file copy of these minutes.)

MEMBERSHIP COMMITTEE

Mr. Elsnic reviewed the minutes of the Membership Committee Meeting. Among the items he noted from the Committee Meeting were: a lengthy discussion concerning strengthening cease-and-desist authority in dealing with financially troubled institutions; a suggestion that a special committee be formed to establish methods of dealing with habitual rules violators; a review of John Hanson's satisfaction of merger approval criteria; an update on the plan by Old Court Savings and Loan, Inc. to merge with First Progressive Savings and Loan; further updates on Liberty Savings and Loan and First Maryland Savings and Loan; a review and recommendation for approval of application for MSSIC insurance by Potomac Savings and Loan Association; and a consensus of the committee to formulate regulations pertaining to brokered deposits.

During this review, Mr. Pierson asked Mr. Neifeld to make a note for the Executive Committee to discuss a special committee for the purpose of establishing methods of dealing with habitual rules violators.

Mr. Faulkner moved that the minutes of the Membership Committee be accepted. Mr. Laudeman seconded and the vote was unanimously favorable.

EXECUTIVE COMMITTEE REPORT

Mr. Pierson stated that the Executive Committee will meet on each Friday preceeding the Board Meetings at 9:00 A.M. He reviewed the various Committee assignments and noted that these assignments constitute a wide spectrum of the membership. He advised that the Committee nominated Charles C. Hogg, II as President and Patrick M. McCracken as Assistant Secretary. He indicated that other officer nominations were deferred pending the Committee's review of job descriptions for the specified positions. Additional items Mr. Pierson noted in his review of the Executive Committee Meeting included: reimbursement of Director's parking fees, bus or subway fare; the proposed John Hanson mergers; a discussion on conflict of interest which included a clearer definition of Section 2-803 of the MSSIC By-Laws "...and no such member of the Board of Directors shall participate in any deliberations..." That definition being that in the event of possible conflict of interest the Director or Directors in question can not participate in any discussion and shall not be in attendance at the meeting during which such discussion takes place.

The final item Mr. Pierson related from the Executive Committee dealt with enforcement of the MSSIC rules and regulations. He indicated that the Corporation will use a common sense approach to their enforcement.

OLD BUSINESS

Mr. Elsnic moved to approve the Committee's and their members as constituted by the Executive Committee. Mr. Dolivka seconded and the vote was unanimously favorable. (A copy of the committees and their designated members is attached to the permanent file copy of these minutes.)

Mr. Neifeld moved to elect Mr. Charles C. Hogg, II as President and Mr. Patrick M. McCracken as Assistant Secretary. Mr. Dietz seconded and the vote was unanimously favorable.

During a lengthy discussion of John Hanson Savings and Loan Association's conformance with the original criteria set forth by the Corporation for approval of its mergers with Westowne Savings and Loan Association and Milton Savings and Loan of Delaware, the following relevant comments were noted: Mr. Hogg indicated that certain directors of John Hanson were willing to hypothecate funds sufficient to achieve 4% net worth for the association. Mr. Hall responded in the affirmative to Mr. Pierson's question of "Are we in your opinion completely protected if we accept a hypothecation in lieu of an irrevocable letter of credit?" In response to Mr. Dietz's question Mr. Hogg stated he told Mr. Whitlock not to make loans to directors which would be placed in a savings account and then hypothecated to MSSIC. In answer to Mr. Elsnic's question concerning when the Department would complete the Hanson Examination, Mr. Brown stated that he had many Division Examinations to complete in addition to John Hansons' and he would get to it in due course.

Mr. Dietz moved to amend the original criteria for approval of the Hanson mergers as follows:

In lieu of providing an irrevocable letter of credit to allow directors and/or officers of John Hanson or any other person to hypothecate funds (i.e. savings accounts and/or certificates of deposit) to MSSIC on such terms and conditions as MSSIC shall require, and to keep those funds hypothecated until such time as the association exceeds 4% net worth exclusive of the stock issued on or about June 30, 1983 for other than cash consideration and the hypothecation; provided that neither John Hanson Savings and Loan, Inc., nor any of its subsidiaries shall make any loan, directly or indirectly, to any such director, officer or any other person for the purpose of enabling such person or persons to acquire the savings account or certificate of deposit to be hypothecated. Mr. Faulkner seconded and the vote was unanimously favorable.

Mr. Pierson asked Mr. Donohue as Chairman of the Insurance Coverage Committee to make a full report on the MSSIC Director's and Officer's Liability Insurance Policy coverage at the June Directors meeting.

Mr. Pierson requested that Mr. Nelfeld obtain a recommendation from the Membership Committee regarding brokered deposits and limits on insurance coverage for the June Directors Meeting.

NEW BUSINESS

Mr. Elsnic moved to approve the appropriate resolution and to notify the State Department of Assessments and Taxation of the Corporation's new Corporate Headquarters. Mr. Bass seconded and the vote was unanimously favorable (a copy of this resolution is attached to the permanent file copy of these minutes.)

Mr. Elsnic moved to approve Potomac Savings and Loan Association for MSSIC Insurance of their savings accounts and membership in the Corporation, subject to the approval of the Board of Commissioners of the Division of Savings and Loans. Mr. Faulkner seconded and the vote was unanimously favorable.

During discussion of the new membership approval, Mr. Hogg indicated that a specimen application for establishment of a savings and loan will be presented at the next Membership Committee Meeting. He said this would facilitate a discussion of what relevant items should be included in a summary of an application.

Mr. Brown announced that certain principals were in the formulative stages of establishing another new state savings and loan in Montgomery County.

Following a review of the several conditions listed in the Membership Committee Minutes as conditions for the Old Court/First Progressive merger, the Board unanimously directed the staff to pursue the merger under our terms and to report back at the June Board Meeting. Mr. Faulkner mentioned the possibility of

substantial losses at Old Court as a result of the merger. Mr. Pierson indicated it would be appropriate for the Membership Committee to study this matter.

Mr. Hogg and Mr. Donohue reviewed the present Pension Plan and the need to make changes in the vesting schedule prior to year end 1984. After considerable discussion of this matter, Mr. Pierson assigned this item to the Salary, Compensation and Benefits Committee.

Mr. Faulkner asked the Board to commend Mr. Elsnic for an outstanding job as Chairman of the Membership Committee over the past two years. The Board unanimously expressed its appreciation.

REPORT OF THE PRESIDENT

Mr. Hogg reported on the most recent Board of Commissioners Meeting. Considered at that meeting was a regulation to increase the capital required for a new charter to \$1 million; a regulation containing strict advertising rules; the Community Savings and Loan subordinated debenture transaction; John Hanson Savings and Loan's commercial lending tie to Solomon Brothers; and Merritt Commercial Savings and Loan establishing a discount brokerage operation.

Mr. Hogg said in recent meetings with representatives of Chevy Chase Savings and Loan that accounting issues were discussed and that they are working on a plan for capital infusion.

FOR THE GOOD AND WELFARE OF MSSIC

Mr. Pierson asked each Director if they wished to present any further business for the good of the Corporation.

Mr. Laudeman expressed concern regarding the conflict of interest comments made earlier in the meeting by Mr. Pierson. He said he would like to encourage liberalized communication because he thinks a more conservative approach could work against the best interests of the members.

Mr. Neifeld had no comments.

Mr. Dietz passed along concerns expressed to him by a president of a FSLIC association regarding Fairfax Savings and Loan and its involvement in the recent purchase of the Baltimore Harbor Bethlehem Steel Shipyard and Merritt Commercial Savings and Loan building a high rise office building.

Mr. Brown commented that he has some concern about the shipyard purchase.

Mr. Hogg stated that the shipyard was purchased through a service corporation of Fairfax Savings and Loan and that it will most likely be resold in a short time and very profitably.

Mr. Pierson directed staff to write to Malcolm Berman (Fairfax Savings and Loan) and solicit his written response detailing the entire shipyard transaction.

In response to an additional comment by Mr. Dietz, Mr. Pierson further directed staff to get a formal explanation from Mr. Ed Chammel of the Maryland State Controllers Office detailing the reasons the State terminated all jumbo C.D.'s from MSSIC associations.

Mr. Pierson also requested staff to monitor and formulate comments on any pertinent newspaper articles printed during the interim between board meetings.

Mr. Faulkner had no comment.

Mr. Bass mentioned a recent IRS ruling dealing with magnetic tape requirements. Following a discussion regarding a one year exemption from this ruling, Mr. Pierson asked Mr. Hogg to write a memo to the members regarding this matter.

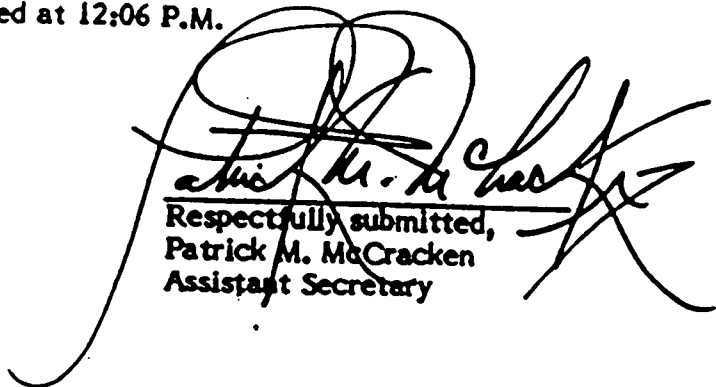
Messrs. Dolivka, Elsnic and Donohue had no comments.

Mr. Pierson closed the meeting by extending an invitation to the various members of the staff and member association's representatives to attend future board meetings in an effort to better inform and communicate.

There being no further business to come before the Board, Mr. Bass moved

that the meeting be adjourned. Mr. Faulkner seconded and the vote was unanimously favorable.

The meeting adjourned at 12:06 P.M.



Respectfully submitted,
Patrick M. McCracken
Assistant Secretary

PMM/nc

thoughts on first Progressive

1- get the hypo

2- Options available

- Do nothing - continue to monitor
- liquidate - cost, publicity
- assume mgmt - consultant, staff, etc
- merge w/ OCSC
- merge w/ other - cost

3- Best solution

- Merge w/ OCSC but:
 - X - force liquidation of borrowed position
 - X - force accounting update - W&B?
 - X - change mgmt + staff - ^{Rosen, Basler} Freeman
 - stringent agreement w/ OCSC
 - X change accountants
 - X reduce total borrowings to comply
 - X restrain growth at combined
 - X write off major items
 - Mgmt supplement X correct all discrepancies
 - (no 1st Proxy Board + Weinstein) legal, accounting, loans
 - approval X reduce advertising
 - X monitor asset changes
 - current exam
 - X divest all non-complying investments
 - closely work w/ Division

Maryland Savings-Share Insurance Corporation

Exhibit A

Paul V. Trice, Jr.
NEW YORK PRESIDENT

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

August 13, 1984

Mr. Jeffrey A. Levitt, President
Old Court Savings and Loan, Inc.
25 Light Street
Baltimore, Maryland 21202

Dear Mr. Levitt,

You will recall that by letters dated April 16, 1984 and April 24, 1984 this Corporation registered its objections and concerns to Old Court's proposed establishment of various branch offices for reasons contained in those letters.

Our records indicate that our concerns, as reflected in those letters, have not been resolved to date. In addition, our records reflect the following rule and policy statement violations for Old Court:

- (a) **Liquidity Rule: Section 3-210 - Old Court, as of the close of business at the end of each month and as reported on the required financial report, form S/L-200A, has reflected liquidity levels below that required for each of the last six consecutive months from January, 1984 through June, 1984.**
- (b) **Lending Limitations: Section 3-217**
 - (1) **The total of all construction, commercial or land loan is limited to 40% of the total savings of the member. Old Court's level of concentration in these loans, as a percentage of its total savings, has exceeded the permitted level substantially in each of the months of January, 1984 through June, 1984 inclusive. As of June 30, 1984 the percentage invested in these categories exceeded seventy percent of total savings.**

I therefore, must require that you immediately cease-and-desist from any further commitment to grant loans in these categories until compliance has been effected and demonstrated to the Corporation.

- (2) **The total of all construction loans exceeds the 25% of total savings limitation imposed under this rule. As of June 30, 1984, the level of loans in this category was 36.27% of savings.**

Mr. Jeffrey A. Levitt
August 13, 1984
Page Two

Again, I must require that you immediately cease-and-desist from any further commitment to grant such loans until compliance has been effected and demonstrated to the Corporation.

Exempt from the cease-and-desist requirements above are those construction/permanent loans for the construction of a single family residence made to a borrower who intends to reside therein.

- (3) Borrowings: Policy Statement No. 2 -
This policy provides that borrowings not exceed 15% of a members outstanding free shares without the prior written approval of MSSIC. This matter has been the subject of several discussions between Old Court and this Corporation and it was orally agreed that you would make every effort to reduce borrowings and effect compliance as promptly as possible. A review of Old Court's level of activity in this area does not reflect progress in accordance with the oral agreement.

For each and all of the above reasons, and in accordance with the Membership Committee's directive, I am advising of our registration of objection with the Division to your applications for the establishment of branch offices until such time as Old Court clearly demonstrates its ability to effect and maintain compliance with the Corporation's rules and regulations. Registration of this objection is accomplished by copy hereof to the Director of the Division of Savings and Loan Associations.

Should you have any questions, please contact me or Charles Hogg.

Sincerely,


Paul V. Trice, Jr.
Senior Vice President

PVT/nc

Enclosure

cc: Charles H. Brown, Jr.
Terry F. Hall, Esquire
Jerome S. Cardin, Esquire

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A-2045

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.

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 Decrin, 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

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

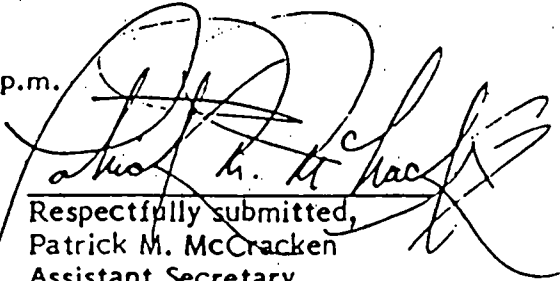
Mr. Laudeman noted that the Corporation should be careful in the wording of letters along with other operational matters.

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

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

MEMBERSHIP COMMITTEE

WEDNESDAY, SEPTEMBER 12, 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 September 12, 1984 at 9:00 A.M.

Members present:

Terry L. Neifeld, Chairman

John D. Faulkner, Jr.

William F. Brooks

James L. Otto

Michael J. Dietz

George W. H. Pierson

Jerome F. Dolivka

Absent and excused: Henry R. Elsnic

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.

A motion was made, seconded and duly passed that the minutes of the August 13, 1984 meeting be approved as submitted.

MEMBERS' COMMENTS

Deferred to staff reports.

REPORTS BY STAFF

First Progressive Savings and Loan and Old Court Savings and Loan

Mr. Trice reported on the status of the merger of First Progressive Savings and Loan into Old Court. Mr. Trice indicated that Messrs. Levitt and Cardin confirmed the decision to merge the two associations as soon as possible. A target date of October 31, 1984 has been set. One potential delay could be the

approval of the merger by the Division of Savings and Loan Associations. However, Mr. Trice believes that Mr. Brown, the Director of the Division of Savings and Loan Associations will approve the merger.

Mr. Brooks inquired about the delay in First Progressive's 1983 certified annual audit. He stressed his concern about establishing the financial position of First Progressive prior to the merger. Mr. Trice reported that there had been delays in completion of the audit, but that he had been promised the audit by September 14, 1984. The consensus of the members of the Committee shared Mr. Brooks concern about receiving the audit prior to the merger.

Mr. Brooks inquired about the release by the Division of Savings and Loan of the 1983 examination of First Progressive. Mr. Trice reported that the report will likely not be released. The consensus of the members of the Committee was that this is a very disturbing position for the Division of Savings and Loan to take. Mr. Trice was requested to have counsel for the Corporation, formalize in writing as to whether MSSIC can sue the Division of Savings and Loan Associations for not releasing the First Progressive examination, should damages result to MSSIC as a result of information contained in the examination. Mr. Trice reported that in a conversation with Counsel for the Corporation, Mr. Hall indicates that it is unlikely that the Division of Savings and Loan can be sued on this matter. Mr. Trice indicated that he would instruct Mr. Hall to further research and formalize his opinion.

Mr. Faulkner requested staff to notify the Division of Savings and Loan that it is the Corporation's position that certain possible criminal activities conducted by former employees of First Progressive should be referred to the Attorney General's office for review.

Mr. Otto inquired about whether pro-forma financial statements have been prepared by Old Court Savings and Loan to show the financial position of the

association after the merger. It was reported that been pro-formas have not been prepared as yet. Mr. Neifeld inquired as to the net worth of the associations once merged. Mr. Trice estimated that it would be between 3.2% and 3.8%, unless Old Court liquidates certain of its venture interests, in which case the profit from these may restore the net worth ratio to 4% or more. Mr. Trice was requested to clarify the financial position of the associations on a pro-forma basis.

Mr. Trice reported that he had issued a staff ~~cease-and-desist~~ letter to Old Court Savings and Loan concerning certain lending limit violations, which directive was temporarily lifted, but reinstated after confirming with the association that the limits were being violated. Mr. Trice indicated that the staff will monitor all outstanding commitments and any future commitments which may fall within the specified categories.

It was further reported that the association is in the process of reducing brokered deposits.

Mr. McCracken presented the Committee with an update of his monitoring of Old Court. He reported that he and Ann Franetovich had traveled to Pennsylvania to visit a project of Old Court's known as Meadowick. Mr. McCracken reported that they had found the property to be in both an excellent condition and location.

It was noted that the Division of Savings and Loan Association's examiners concern about this project's value may have been unwarranted.

Mr. McCracken reported that he is meeting with Mr. Guidice of Old Court Savings and Loan on a weekly basis to discuss the overall operations of the association.

It was reported that the completion of the field work of the Old Court examination had been delayed by at least a week.

Several committee members inquired about the status of the Corporation's

notice to the Division of Savings and Loan concerning the disapproval of branch applications. Mr. Trice reported that one branch application had been approved apparently as a result of his letter arriving after the period of time by which the Director is required to issue his order.

After considerable discussion about the options that appear to be available to the Corporation concerning First Progressive, a motion was made, seconded and duly passed that staff advise First Progressive that a merger by First Progressive must take place by October 31, 1984 or the Corporation will require the principals of First Progressive to infuse capital into First Progressive in amount necessary to obtain a 3.00% net worth level. If the principals of First Progressive Savings and Loan are either unwilling or unable to infuse this amount necessary, then the Committee recommends that the Board of Directors take action to petition the courts for a receivership or conservatorship of First Progressive. Mr. Otto abstained, indicating that he agreed in principle with the motion, but felt the Membership Committee lacked the authority in the MSSIC Bylaws to take the action specified.

It was reported that First Progressive violated its staff cease and desist order concerning trading in futures and options. Mr. Trice reported that Paul Freeman, who is both the managing officer and sole trader in securities for the association, indicated that he did not understand the terms of the cease-and-desist order. Mr. Becker indicated that he and Mr. Hall believe that the association has been speculating in the securities market and that this has been a factor in the decline of the association's net worth due to both realized and unrealized losses. Mr. Brooks asked Mr. Trice if he has any personal or other association or affiliation with Mr. Freeman currently. Mr. Trice indicated he did not.

Mr. Dietz expressed concern over the extensive advertising that many associations who are below 3.75% net worth ratio are currently engaged in. He

recommended that these associations cease further advertising until they are in compliance. A motion was made, seconded and duly passed that the Committee recommends to the Board of Directors that sanctions forbidding advertising be implemented against all associations below a 3.75% a net worth ratio. Mr. Faulkner was absent for the vote.

Mr. Dietz requested that copies of the staff cease-and-desist letters previously issued be provided at the next Executive Committee meeting.

It was requested that staff remind the Division of Savings and Loan of the Corporation's desire to be a part of the approval process for new branches.

Gibraltar Building and Loan Association

Mr. Trice reported that Gibraltar Building and Loan has repaid \$2 million of the \$3 million borrowed from the MSSIC CRF. The final \$1 million is expected to be repaid in a month. It was reported that the stockholders suit between Messrs. Goldstein and Hershon has been settled. Mr. Hershon is no longer a stockholder nor affiliated in any way with the association.

First Maryland Savings and Loan

Mr. Trice reported that a staff cease-and-desist order was issued to First Maryland Savings and Loan for certain lending limit violations. The association while disagreeing with the interpretation of the lending limit rules, will furnish a plan to lower its loan concentration in these violated areas. It was reported that the subordinated debenture application before the Board of Directors was denied due to lack of specific buyers. It was the position of the Directors not to issue "blanket" or "shelf" approvals of proposed debenture issues.

Merritt Commercial Savings and Loan Association

Mr. Trice reported that he had issued a staff cease-and-desist order to Merritt Commercial Savings and Loan for certain lending limit violations. A meeting was held at MSSIC between representatives of Merritt and staff. A

primary topic of discussion was the financing plans of the Merritt Tower. It now appears that the association will seek substantial if not all of the financing of the building from outside sources or syndicate the building. Mr. Trice reported that the two owners of Merritt, Messrs. Klein and Gibbs are negotiating for one of them to buy the other's portion of the stock.

Mr. Faulkner wished to advise the Committee that in his opinion, the Merritt Tower project represents an undisclosed liability of the association.

Community Savings and Loan, Inc.

Mr. Faulkner excused himself from the discussion. It was reported that due to difficulties in structuring certain of the terms, the request for approval of \$20 million in subordinated debentures by Community Savings and Loan has been withdrawn.

RULES VIOLATION STATUS REPORT

Liquidity:

Madison and Bradford - Mr. Neifeld presented, for discussion, the liquidity violation of Madison and Bradford. Mr. Neifeld indicated that he had notified Mr. Elsnic of his intention to discuss this at the meeting and that Mr. Neifeld commented that the kind of liquidity waiver that was granted the association several years ago is not consistent with the policy decisions currently being implemented by the current Board of Directors. Specifically, Madison and Bradford under the waiver provision, is allowed to make mortgage loans to existing customers although they may be below a 6% liquidity ratio. Therefore, this provision does not require improvement in the level of liquidity. The Committee noted that although Madison and Bradford has operated for several years with a low level of liquidity, it has not borrowed from MSSIC during this period or appeared to the public to have a liquidity crisis. However, the Committee in the spirit of obtaining full compliance with the MSSIC Rules and

Regulations, for all associations, instructed the staff to request a plan from Madison and Bradford indicating prompt compliance with the rule.

Mr. Trice reviewed with the Committee, the rules violation list indicating where appropriate various actions that are being taken by the staff in addressing the associations' compliance requirements or actions.

Mr. Trice reported that Section 3-217(A)1) of the Rules and Regulations is being incorrectly interpreted by some associations as to its definition of "aggregate outstanding principle balance". He indicated that some associations are interpreting this phrase to mean the "net" rather than the "gross" amount of the applicable loans. Mr. Trice suggested that the membership be notified in writing as to the proper interpretation of this rule.

The Committee agreed with Mr. Trice's suggestion and requested he notify the membership.

There being no further business, the meeting adjourned at 1:20 P.M.

Martin W. Becker

Respectfully submitted
Martin W. Becker
Senior Financial Analyst

MWB/nc

Amber Waves 449-7

- A) Front N.E. \$1.8 Mil
- B) joining condos W. (7-83)
- C) Front S.E. Paid off out
- D) W. on 40th
- E) SW from spot F) Back

Topside Restaurant

- A) W Paid Off 2-10-84
- B) E 1.5 million Flights End Partnership

Marple Woods out in Dec '84

- A) Sign \$1.8 million 49% OC ut. Var
- B) Unit 9 Acres 128 units 1% OC IC
- C) Court Unit D) San Fran

Meadow wick

- A) Sign \$3.1 million
- B) C) Back of Blue 273 Townhouse apts.
- D) Residential E) Tan

Chadford Estates

- A) Sign 4887 = \$1.2 mil
- B) Landmark 14% Rental
- C) E D) NW Not progressing as fast as they would like

The Falls (formerly - Summit Ridge)

- A) Sign \$3.1 million Out in a year
- B) Units 478 = 3.4 million
- C) Units Brick to grade

Condos - Federal Hill - Old Church

8 units \$150,000 - \$250,000 per unit

Emmorton Industrial Park McDonald's
 Econo Lodge Rt 24 Harford County
 57 acres; 4924 = \$2.5 mil
 512 = 1.8 mil Parcel 3

- A) Main Lob.
- B) Back
- C) Side-Blue D) South E) 95

Montgomery Airpark - Kolb Center Montgomery County

- A) Entrance Gatthersburg
- B) Front 2.8 Million Corner Md Rt. 17
- C) Back O.C. JT Vent. 49%

World Building Silver Spring

- A) down Georgia Ave 10yr. Call
- B) Up \$1.8 mil 5 yrs remaining or sold
- C) across D) Silver Spring Metro

Leesburg Loudon County, Va

- A) Sign 4536 = \$2.9 mil
- B) Sign 5081 = \$5.7 mil
- \$4 million to be paid off in December '84

Ocean City Branch

\$7.8 million since Aug. 2

Look AT
LOAN

9431

HARRY HUGHES
GOVERNOR

STATE OF MARYLAND

CHARLES H. BROWN, JR.
DIRECTOR



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

FREDERICK L. DEWBERRY
SECRETARY

H06G
EXH # 33
10/22/84
pd

October 18, 1984



Mr. Alan Pearlstein, President
First Progressive Savings and
Loan Association
229 East Main Street
Westminster, Maryland 21157

Dear Mr. Pearlstein:

We are forwarding for review by the Board of Directors of the association, the report of examination made by examiners representing the Maryland Division of Savings and Loan Associations. This report represents an examination of the books and records of First Progressive as of March 31, 1983 for compliance with Maryland statutes and regulations. It should be noted that our examination was not completed until September 2, 1983.

There has been a delay in getting this report to you because of my recent illness and the illness of a key member of our staff which together with the significant growth in the State-chartered savings and loan industry has severely taxed our Division to the point where the legislature is now involved in increasing our staff. However, as you are aware, this Division and MSSIC have met on several occasions with you and other representatives of the association to discuss the problems encountered with the operations of First Progressive. Additionally, the report was held until such time as we received the annual audit of the association for the year ended December 31, 1983 and which was received on September 18, 1984. The management letter from your auditor, Glass & Associates, P.A., was not received until October 5, 1984.

The comments and criticisms in the examination as well as in the audit report and management letter are of a very serious nature and reflect quite unfavorably on the management of the association and on its Board of Directors. Based on the numerous violations of the Financial Institutions Article of the Annotated Code of Maryland as well as the Rules

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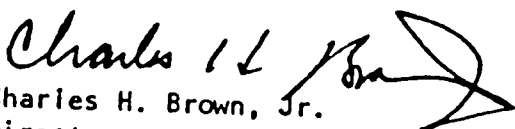
2338³

Mr. Alan Pearlstein, President
October 18, 1984
Page Two

and Regulations of the Board of Commissioners, it is apparent that management as well as the Board of Directors has lost control of the operations of the association. I feel, therefore, it is incumbent upon me to remind you, as President, and the Board of Directors of the fiduciary responsibility of each member.

In view of the proposed merger of First Progressive with and into Old Court Savings and Loan Association, there is not sufficient time to work out each and every problem in connection with this examination. When the merger is consummated at the end of this month or early in November, it is expected that a concentrated effort will be made by all parties to correct the many problems set forth in the examination. This Division will follow up and examine for compliance the progress made to this end.

Very truly yours,


Charles H. Brown, Jr.
Director

CHB:WSL:kg
Enclosure

cc: Maryland Savings-Share Insurance Corporation

EXAMINER'S COMMENTS

First Progressive Savings and Loan

Comment 1:

An examination of the mortgage loans granted during the period April 1, 1981 to March 31, 1983, revealed the following:

- A. The loan-to-value ratio required by Regulation .30C could not be determined on certain loans because there was no appraisal in file, or because there were liens prior to the association's lien for which confirmed data as to the unpaid balance was not available. These loans are as follows:

4181	4183	4196	4222	4227	4230
4239	4240	4243	4246	4261	4262
4263	4264	4265	4267	4268	4269
4270	4271	4272	4273	4274	4276
4278	4279	4280	4285	4286	4287
4288	4290				

The association is to obtain the necessary information and provide the Division with the total loan balance including prior liens, the appraised value, the loan-to-value ratio, and the applicable ratio that applies under Regulation .30C.

- B. Loans 4176 and 4214 were loans to employee Laura Maas. The rate of interest being charged on these loans was to increase by 2% when the employee left the employ of First Progressive. Ms. Maas left First Progressive, but the loan rate and payment have not been increased.
- C. The following is a list of loans where more than 2 months had elapsed between the date of the loan to the actual date of the recording of the mortgage. Some of these loans have not yet been recorded as of the March 31, 1983 examination date. This was a matter of supervisory comment in the prior examination report:

4184	4188	4189	4190	4193	4196	4198
4200	4204	4205	4206	4211	4217	4218
4219	4224	4227	4229	4230	4240	4242
4246	4249	4251	4258	4260	4261	4274
4279	4280	4291				

- D. Settlement attorney Jeffrey Levitt is slow to remit funds withheld from settlement for escrow. This was the case with the following loans:

4197 4200 4206

The attorney should remit all funds due to the association in a timely manner.

- E. Attorney Jeffrey Levitt is still holding funds from the settlement of loan 4205 and has not paid off the prior loan No. 4073 also held by the association. Over one year has elapsed since settlement.
- F. Loan Nos. 4190, 4213, 4214, 4237 and 4254 were granted on the security of improved residential property -- homeowner with a loan to appraisal ratio in excess of 90% of the market value.

Comment 1: (Cont.)

- G. Loans 3807 and 4191 are a 1st and 2nd mortgage, respectively, on 11408 Woodland Drive owned and occupied by Jeffrey & Karol Levitt. As of the December 30, 1981 loan date of the second mortgage, the unpaid balance was as follows:

Loan 3807	\$130,003.56
Loan 4191	100,000.00
Total:	<u>\$230,003.56</u>

The only appraisal in file was dated November 26, 1975 for \$190,000. The loan to appraisal ratio is 121.0% of the security, in violation of Regulation .30C(2)(b).

The Levitts are required by the mortgage to pay interest only on the second mortgage loan.

Regulation .30C(2)(c) requires that a loan secured by improved residential property -- homeowner be amortized on a monthly basis and that the loan term and amortization period be the same.

- H. Loan No. 4210, on the security of improved commercial property, is non-amortizing with a loan to appraisal ratio in excess of 75% of the market value. Regulation .30C(5) states that the aggregate amount of any non-amortizing loan upon the security of improved commercial property may not exceed 75% of the market value of the security.
- I. The settlement sheet for loan No. 4197 shows that \$600 was withheld by attorney Jeffrey Levitt for the escrow account to pay taxes. However, the association loan card shows that only \$131.41 was credited. A letter from Mr. Levitt's office to the examiner indicates that \$466.59 was used to pay a judgement held by the C. Hoffberger Co. and the balance of the \$600 was remitted to the association for the escrow account. This violates Section 9-424(B) of the Financial Institutions Article which requires that details of each and every charge made in connection with the settlement be on the memorandum of settlement.

The method used by the attorney to pay the judgement from funds set aside for the escrow account also violates Section 12-109.1 of the Commercial Law Article which prohibits the use of escrow accounts to pay anything other than taxes, insurance premiums and ground rents except upon foreclosure or release.

- J. A review of loan file No. 4217 revealed that at the time the loan was granted, the home was owner-occupied by Mr. Fleming Whaley.

The following was noted in regards to this loan:

- (1) There is no commercial affidavit in file and the purpose of the loan indicated on the application is home improvement. The association is charging a late charge of 10% after 10 days, in violation of Section 12-105(b)(3) of the Commercial Law Article.
- (2) Old Line Mortgage Company was paid a broker fee of \$490. There is no evidence of a written broker agreement in file as required by Section 12-805(d) of the Commercial Law Article.
- (3) The settlement sheet indicates an "additional cost" of \$150 paid to Jeffrey Levitt in addition to the \$500 paid to him for attorney's fees. Please have Mr. Levitt explain what the fee represents.
- (4) The borrower's escrow account was charged \$50 for attorneys' fees on March 23, 1983 in violation of Section 12-109.1 of the Commercial Law Article.

Comment 1: (Cont.)

The settlement sheet shows that \$600 was withheld to pay off an open mortgage to Alvin Lapidus. Since this loan involves a re-financing of an owner-occupied dwelling, the disclosure to the borrower of his right of rescission under Federal Regulation Z must be in file and was not.

- K. The settlement sheet for loan number 4195 indicates that \$200 was withheld for the borrower's escrow account. A review of the mortgagors' account reveals that this money has not been credited to the borrower's account. It appears that this money has never been received from the attorney.
- L. Loan 4274 was to refinance loan No. 4207. Borrower in both cases was Donald and Carolyn Wenderoth. The settlement sheet on loan 4274 shows that \$65,000 was deducted to pay the prior loan (No. 4207) and \$310.68 was to pay interim interest on loan to be paid off (4207). This interim interest covers 10/1/82 to 10/22/82 settlement. It was not received by First Progressive from settlement attorney J. Levitt and was never posted to loan card 4207 as having been received.

As of May 23, 1983, the \$310.68 has not been received by the association.

- M. The mortgage instrument for loan 4321 is dated December 6, 1982; however, the settlement sheet is dated October 19, 1982. Checks dated October 19, 1982 and totaling the \$1.7 million loan amount were also found. The loan is to Franklin Associates, of which Karol Levitt is President, Allen Feinberg is Secretary and Jeffrey Levitt and Allan Pearlstein are owners:

- (1) Please explain the reason for the discrepancy in the dates.
- (2) This loan exceeds the net worth of the association at the time the loan was granted, in violation of Regulation .308(1).
- (3) The loan does not require payments of interest at least quarterly as required by Regulation .30C(7).
- (4) There is no evidence to show that requirements for approval set forth in FIA 9-307 were met by the association on behalf of Messrs. J. Levitt, Karol Levitt and A. Pearlstein.

- N. Loan 4255 is a loan granted for construction purposes with a loan to appraisal ratio in excess of 80% of the market value. Regulation .30C(10) states that the aggregate amount of any loan for construction purposes may not exceed 80% of the value of the improvements after completion.
- O. The association obtained permission from MSSIC to make a loan to Sunset Associates for \$280,000 for a 6 month term. Loan 4193 is for \$400,000 and a term of one year. Please explain why the approval terms were exceeded without permission.
- P. Loans 4242 and 4246 are in the amount of \$164,000 and \$200,000, respectively, secured by the identical lot numbers. Title certification in file by attorney Jeffrey Levitt indicates that both are first mortgage loans. Please give the correct lien status of each loan.

Furthermore, the title certification in loan 4242 indicates the sellers of the property took back a \$180,000 second mortgage. If correct, loan 4246 would appear to be a third mortgage.

- Q. At the conclusion of the examination, the examiners provided management with an exception sheet that listed technical deficiencies in loan documentation including missing and incomplete documents. 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.

Comment 2:

An analysis of the subsidiary mortgage loan records reflected the existence of fifty-three delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$5,099,456.30 as of the current examination date, representing a delinquency ratio of 16.2% of the total mortgage balances outstanding. This also represents 10.2% of total assets.

During the period of the current examination, the total outstanding principal balance of the delinquent accounts increased from \$559,419.36 to \$5,099,456.30. The delinquent and unpaid interest on loans subject to comment increased from \$61,224.00 to \$416,094.64.

It was noted that some of the loans listed were awaiting disbursement of funds from refinances, sales or foreclosure sales. Attorney Jeffrey Levitt has held funds for over a year after settlement or ratification. Mr. Levitt must remit the funds promptly to take these loans off the association's books.

A review of the loans subject to comment on page 9 of this report reflects that loan Nos. 3681, 3706, 3745, 3838, 3963, 4096, 4107, 4121, 4125, 4143, 4155, 4172, 4175, 4184, 4185, 4194, 4196, 4199, 4202, 4205, 4216, 4275, 4279, 4291, and 4321 had not been amortized during the 12 month period immediately preceding the date of the current examination.

The examiner review of delinquencies revealed that sixteen loans totaling \$3,139,345.55 in principal were not being reported to MSSIC and the Division on the monthly S/L 200 Report.

Comment 3:

The following non-homeowner loans were charged a late charge based on 10% of payment after the delinquency continued for 10 days. However, the actual mortgage loan instrument in all cases specifies a 5% late charge of the principal and interest payment due after the delinquency has continued for at least 15 days. Therefore, the association must review all loans where late charges were collected and determine if they were collected in accordance with the mortgage contract. All late charges not in accordance with the contract must be refunded to the borrower, or other appropriate adjustment should be made to the borrower's account. Refunds in the following cases must be made if any late charge was collected in excess of the amount provided in the mortgage:

4193	4212	4260
4195	4224	4279
4196	4227	4288
4203	4233	4321
4206	4244	

Comment 4:

A review of the settlement sheets in the following loan files revealed that the borrowers were charged for title insurance policies. No final title policies were in file, although in some cases, there was an opinion of title certificate in file from attorney Jeffrey Levitt. The borrowers paid for, and therefore should receive, a title insurance policy or a refund of the amount charged:

4181	4226	4258	4285
4188	4229	4261	4286
4189	4239	4266	4287
4190	4240	4280	4288
4193	4244	4281	4289
4210	4246	4282	4290
4211	4247	4283	4291
4221	4251	4284	4292
4225			

34

23396

Comment 5:

Loan Nos. 4217, 4218, 4249 and 4265 are example of loans where the escrow account was charged \$50 for an attorney's collection letter. This is in violation of Section 12-109.1 of the Commercial Law Article which prohibits the use of funds in any escrow for use other than in paying taxes, insurance premiums, and ground rents except upon foreclosure or release.

Comment 6:

Attorney Jeffrey Levitt collects \$50.00 for sending a collection letter and \$75.00 for instituting foreclosure proceedings. These fees are either added to the mortgage balance or deducted from the mortgagor's escrow balance. The \$75.00 fee is authorized by the mortgage instrument; the \$50.00 collection fee is not.

Borrowers cannot be charged this \$50.00 collection letter fee unless it is agreed to in writing. Therefore, Mr. Levitt must cease such charges until such time as the borrower agrees in writing to pay such charges. Prior fees paid must be refunded by Mr. Levitt.

Comment 7:

An examination of the records supporting freeshare loans revealed the following:

- A. Savings account Nos. 3150, 3144, 3143, 3255, 70019, and 2018 are assigned as security for loan Nos. 001, 4126 and 4151. All documents in these files are not signed properly. The savings accounts are all custodial accounts. Therefore, the note, pledge agreement and disclosure statement must be signed to indicate this (e.g. John Smith custodian for Jane Smith), to comply with Regulation .24.
- B. Loan No. 3719 was not supported by an agreement authorizing the association, in the event of default, to withdraw the necessary funds from the pledged account to pay off the loan in full as required by Regulation .24C.
- C. The association uses a combination note and pledge agreement for its freeshare loans. Loan Nos. 4163 and 4164 were not signed as required by Regulation .24B and C. These loans were to Jeffrey Levitt, who at the time of the loan was Secretary, Attorney and a Director of the association.
- D. An analysis of the subsidiary share loan records reflected at least four loans for which interest was unpaid for at least 90 days. The aggregate amount of the loans totaled \$37,000, all of which are attributable to Jeffrey Levitt and/or Security Storage. Mr. Levitt also signed the loan documents for Security Storage.

Comment 8:

A review of the association's fidelity bond revealed that the present coverage of \$425,000 is \$185,000 less than the \$610,000 required by Regulation .22B.

Comment 9:

A review of the minutes of the meetings of the Board of Directors revealed the following:

- A. The minutes did not reflect any dividend resolutions for the payment of dividends on savings to account holders during the current examination period April 1, 1981 -- March 31, 1983. This was a matter of supervisory comment in the prior examination report.
- B. No annual meeting has been held since August 10, 1981.
- C. The annual meeting of members held August 10, 1981 elected some directors for 5 year terms, but the directors elected were not listed.
- D. There is no evidence in the minutes that Paul Freeman was ever elected as a director either at a regular board meeting or an annual meeting.

Furthermore, Mr. Freeman, himself, does not know when he was elected a director.

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Comment 9: (Cont.)

- E. Allen Pearlstein resigned as a director on March 11, 1981. The minutes do not indicate that he was re-elected as a director at a later date, yet Mr. Pearlstein has voted as a director since May 3, 1982.
- F. The minutes of the meetings held on July 13, 1981, August 10, 1981 (Annual Meeting), and December 14, 1981 were not signed by the Secretary.
- G. There were no minutes for meetings during the following months or statements in file evidencing that no meeting was held, if that was the case:

September 1981	March 3, 1982
November 1981	October, 1982
January 1982	January, 1983
February 1982	

- H. Director Thomas Steinhardt did not attend 5 consecutive meetings as follows: 6/21/82, 7/12/82, 9/12/82, 11/24/82 and 12/15/82. Section 7 of Article V of the association's bylaws reads as follows:

"Section 7: Any Director absenting himself for five successive meetings shall automatically be relieved as a Director and his seat shall be declared vacant, and the Board of Directors shall at once fill the vacancy thus created..."

- I. The Board formally approves the executive committee actions at each meeting. However, there were no minutes of the executive committee available for review.
- J. On February 28, 1983, Mr. Jeffrey Levitt attended the Board of Directors' meeting as Mr. Pearlstein's proxy. Directors may not be represented by proxy unless allowed in the bylaws.
- K. The minutes indicate approval to pay Jeffrey Levitt as counsel for the association a retainer of \$30,000, semi-annually for 5 years. Mr. Levitt was also paid \$30,000 for 1982 services rendered to Monumental City Service Corporation. These fees appear to be high and in violation of Regulation 43A(4). This is especially high compensation in light of the fact that most attorneys will serve the association as counsel for free, in return for the settlement and/or foreclosure business.

It was noted that these fees were approved on the same day Mr. Levitt resigned as Secretary and Director of First Progressive. Mrs. Levitt was then elected to fill this position at that time.

Furthermore, the payment of the above compensation (and another \$5,000 retainer by Monumental City) is in violation of Section 2(e) and 2(f) of MSSIC insurance agreement dated March 12, 1982, which requires the prior written consent of MSSIC for the payment of such fees.

Comment 10:

Attorney's letters were sent to Attorneys Jeffrey Levitt, Albert Aaron, and Clifford Silbiger on April 14, 1983. As of August 24, 1983, we have not received them.

Furthermore, Mr. Levitt and Mr. Aaron were a matter of supervisory comment in the prior examination report for not responding to the attorney's letter.

Comment 11:

A review of the association's Federal and State tax returns revealed the following:

- A. First Progressive Savings and Loan and its subsidiary Monumental City Service Corporation have not filed detailed U.S. Income Tax Returns for the years ended December 31, 1981 and December 31, 1982.

Furthermore, it was noted that automatic 3 month extensions had been filed and the time had passed without the required filing of the return.

Comment 11: (Cont.)

- B. First Progressive Savings and Loan should refile an FT-1 form for the year ended December 31, 1981. Since all figures are supposed to come off of the Federal 1120 form, which has not yet been filed, all figures are estimates. The association is directed to file a corrected copy complete with the actual U.S. Return when it is prepared and filed.
- C. No Maryland FT-1 form has been filed for the year ended December 31, 1982. No extension was found for that year.

Furthermore, an unconsolidated Maryland Return must be filed by Monumental City Service Corporation for 1981 and 1982 which has not been done.

- D. The examiners were not provided with a completed copy of the MRD K-8 form for the period ended December 31, 1982, which was requested on numerous occasions. This information must be made available to the Division pursuant to FIA 9-503.

Comment 12:

In addition to the documentation required by Regulation .29A, accepted procedure dictates that other additional documents be obtained to further protect the interests of the association. A review of the files securing loans granted for construction purposes revealed the following:

- A. Loan file Nos. 4246, 4247, 4260, 4261, 4275 and 4298 did not contain a disbursement schedule.
- B. Loan file Nos. 4261 and 4275 did not contain a construction loan agreement.
- C. Loan file Nos. 4246, 4255, 4261 and 4277 did not contain trustee escrow agreements.
- D. Loan file Nos. 4246, 4250, 4260, 4261, 4275, 4277, 4283 and 4298 did not contain a current financial statement and data on the builder.
- E. Loan file Nos. 4246, 4247, 4255, 4260, 4261, 4266, 4275, 4277, 4216 and 4298 did not contain signed, written inspection reports for each draw advanced to date.
- F. Loan file Nos. 4246, 4250, 4255, 4261 and 4298 did not contain the specifications of the house and/or the plat plan.

Comment 13:

An examination of the files of mortgage loans for which there are proceeds held in the Loans-In-Process account in the general ledger revealed the following:

- A. A review of the loans-in-process account for construction loan No. 4250 revealed that there is no record or other information to enable the examiners to ascertain why draws have not been made for a period in excess of 60 days.
- B. Loan No. 4261 is a \$300,000 construction loan settled on July 20, 1982. As of August 1, 1983, the LIP card has not been posted to indicate that any funds have been received from settlement by the association. As of the examination date, the association has disbursed \$87,678.24 from loans-in-process and \$145,814.02 as of May 18, 1983, even though none has been received per association's records. It appears that the funds have not been received from the settlement attorney Jeffrey Levitt.
- C. The settlement sheet for loan No. 4246 indicates that \$32,000 was retained by the attorney Jeffrey Levitt for "advance for pre-construction work".

Comment 13: (Cont.)

There is nothing to indicate what work was completed or who was paid. Please provide copies of the canceled checks for this amount from the settlement attorney. Also, indicate what the funds were specifically used for.

- D. A review of the subsidiary LIP records supporting various loans (e.g. 4246) revealed that in some instances, the association charges interest due on the loan against the LIP account. The Division does not condone this practice as it can result in an unwarranted depletion of funds necessary for completion of construction, thereby enhancing the risk of loss to the association. Furthermore, such practice also erroneously reflects the loans as being current, when in fact such loans may be delinquent.
- E. In several instances, (e.g. 4246, 4260, 4261, 4266, and 4247) construction advances were transferred to the borrowers' checking account by journal entry. The borrowers were then supposed to disburse funds to the proper people. Where possible, the association should issue checks drawn to the order of both the borrower/builder and other parties who have acquired a financial interest in the security for the loan. Such a policy reduces the risk of construction loan funds being diverted for purposes other than intended.

Furthermore, since Mr. Levitt is the trustee for all funds, there should be a signed authorization for each disbursement of funds. This signed authorization must be in addition to the written inspection report.
- F. Loan 4277 was a construction loan settled on January 14, 1983. Per a letter from First Progressive to the settlement attorney, Thomas Caracuzzo, no funds were to be disbursed until First Progressive received a Builder's Risk Insurance policy. As of the March 31, 1983 examination date, there is no evidence in file of a Builder's Risk Policy. In addition, funds totaling \$24,525.72 have been disbursed.
- G. Advances for funds on construction loans are not being made in accordance with the draw schedule in file for loan Nos. 4250, 4277, and 4255. The total amount disbursed on loan No. 4216 exceeded the maximum \$120,000 that was to be outstanding at any one time by \$23,167.00.
- H. \$92,369.27 was transferred from loan 4266 to loan 4247 without benefit of a journal entry.
- I. A review of the draw schedule maintained for loan 4266 revealed that \$56,519.02 was disbursed prior to December 10, 1982. This loan was settled on December 14, 1982, and therefore funds were advanced prior to settlement.
- J. The mortgage instrument in file No. 4298 indicates the loan was granted by Monumental City Service Corporation to Taneytown Townhouse Joint Venture on April 25, 1983. However, First Progressive actually made the loan to Monumental City Service Corporation and ARM, Inc.

Comment 14:

The association maintains a general ledger account (No. 2020-00) entitled "Hypothecated Savings", for savings accounts that are pledged as security for mortgage loans. A review of these accounts revealed the following:

- A. The association does not maintain any records to indicate for what mortgage the savings account is pledged as collateral. The examiners had to provide the association with a list from the old examination report.
- B. No records are maintained as to the amount pledged.
- C. The association is not properly placing and maintaining hold codes on the savings accounts.
- D. No evidence was available that the 50% partial release of funds in savings account No. 3038 on February 16, 1983 was authorized by the Board of Directors. The same applies to account No. 2679.

Comment 15:

A review of loans foreclosed revealed the following:

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Comment 20: (Cont.)

- (3) The minutes of March, 1983 state that a 1979 automobile was given to departing employee Bob Hudson. The book value was said to be about \$1,200. No adjustment was made to the general ledger for this gift.
- H. A review of Accrued Interest Receivable account (G/L #1175-00) revealed that the entire \$1,106,221.96 balance as of March 31, 1983 has been taken into income. This accrued interest amount includes interest on loans that have had foreclosure proceedings instituted, or interest earned but uncollected for more than 90 days. The standard accounting manual for savings and loans set forth the proper method of accounting as accruing interest against a Reserve for Uncollected Interest.
- I. Regular and periodic review of general ledger accounts is not performed to reconcile the control accounts with the subsidiary or supporting detail records. Furthermore, the examiners could not reconcile the subsidiary records to the general ledger control account for the following accounts:

1120-00	Mortgage Loans Receivable -- Off line
2175-00	Mortgagor's Escrow -- off line
1200-01	Ground Rents
1120-01	Mortgage loans receivable -- on line
2175-01	Mortgagor's Escrow -- on line
2010-00	7% Free shares
2011-00	7% (90 day) Notice Accounts
2012-00	Statement Savings
2050-00	Certificates of Deposit -- 7 1/2%
2081-01	" " " -- All Savers
2091-00	" " " -- Money Market Cert.
2092-00	Jumbo CD's
2093-00	30 Month CD's
2094-00	IRA & Keogh Accounts
2095-00	NOW accounts
2096-00	" "

- J. The examiner attempted to review the reconciliation of the monthly statements for the following bank accounts:

<u>G/L #</u>	<u>Bank</u>	<u>Account #</u>
1005-00	Equitable Bank	411-0584-7
1006-00	" "	411-0585-9
1007-00	" "	411-0586-1
1008-00	" "	411-0587-3
1010-02	Union Trust	201-46239
1010-04	1st National Bank of Maryland	520-1176-4
1010-07	" "	088-9853-2
1010-06	Maryland National	811352-4
1010-08	1st National Bank of Md.	520-1172-1
1010-05	Carroll County Bank & Trust	011-4382-1

None of the above accounts have been reconciled since the last examination date of March 31, 1981. Furthermore, the comments of the prior examination report indicate that no reconciliations had been prepared since December 31, 1980.

- K. A review of the subsidiary records supporting general ledger account 1150-00, Passbook Loans Receivable, revealed that the association is carrying \$968.98 in adjustments as reconciling items, some of which date back to December 31, 1981. First Progressive should book these adjustments in a timely manner and stop carrying them as reconciling items.
- L. A review of the general ledger account No. 1225-00 entitled "Miscellaneous Receivables" revealed the following:

- (1) The amounts listed below remain in Miscellaneous Receivables @ 3/31/83:

\$97,108.64	Debit Balance	October 31, 1982
246,956.52	" "	October 31, 1982
61,410.83	" "	November 30, 1982
54,270.00	" "	November 30, 1982
(104,966.67)	Credit Balance	November 30, 1982

\$354,779.32 Net Total

Please provide this office with a detailed explanation of each of the above transactions.

- (2) The \$25,000 on 6/2/81 was a check to A. J. Billig. This was a deposit to purchase D. J.'s Redroom, 2125 Sparrows Point Road, at the foreclosure of loan 3681. It appears that Monumental City Service Corporation purchased the property (with payment by First Progressive). The property was sold to Wm. Jarrard in August, 1981 and First Progressive gave a loan (4185) in the amount of \$270,000 to the purchaser. It appears that the association has never received any funds on the foreclosure sale of loan 3681 on the \$25,000. Evidence is in file that Billig turned over the \$25,000 to trustee Jeffrey Levitt less some expenses.

Please provide this office with an accounting of the \$25,000.

- M. A review of the general ledger account No. 1160-00 entitled "Due from Monumental City" revealed the following:

- (1) The ending account balance on December 31, 1982 of \$1,491,028.36 was not the same as the opening balance of \$1,691,028.36 on January 1, 1983. Please explain the reason for the variance.
- (2) As of the March 31, 1983 examination date, the books of First Progressive show as due to Monumental City Service Corporation a total of \$1,691,028.36.

The books of Monumental City show as due to First Progressive only \$1,076,818.44, for a difference of \$614,209.92. Please explain the reason for the variance.

- N. The total of the subsidiary records for general ledger account No. 2100-03 "Repurchase Agreements" exceeded the control account by \$518,862.85 as of March 31, 1983.

- O. A review of the Real Estate Owned account G/L No. 1511-00 revealed that it had not been posted with the appropriate entries to reflect the foreclosure of several mortgage loans in which the properties securing these loans were bought in by the association.

In some cases, the books of Monumental City did not reflect its purchase of several properties at foreclosure sales or from First Progressive.

- P. Loan 4288 to L & W Realty and Kenneth Williams was settled on August 5, 1982 in the amount of \$150,000. The loan was paid in full in March, 1983. However, there was never any subsidiary loan card prepared. The association's personnel explained that a loan is not put on line until the file is received. Since the file was received with the payoff check, no off-line card was prepared nor was the loan ever put on line.

The association should always have subsidiary records for each loan at the time a check is disbursed for a settlement. First Progressive should either put the loan on line or prepare an off-line mortgage card.

INFORMATIONAL COMMENTS:

A. A comparative analysis of the financial condition of the association as of March 31, 1983 and March 31, 1981 revealed the following:

	<u>March 31, 1983</u>	<u>March 31, 1981</u>	<u>Increase (Decrease) Dollar Amount</u>	<u>Per Cent</u>
Total Savings	\$37,405,847.89	\$7,900,833.83	\$29,505,014.06	373.4
Total Net Worth	281,037.65	416,181.17	(135,143.52)	(32.5)
Total Mortgage Loans	31,414,717.74	7,731,116.93	23,683,600.81	306.3
Total Assets	49,944,529.54	9,642,218.63	40,302,310.91	418.0

B. A review of the association's earnings for the calendar/fiscal year ended December 31, 1982 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	\$2,770,188.10	100.0
2. Taxes (Page 6, Line 4)	-0-	---
3. Earnings distributed on savings (Page 6, Line 3)	2,350,352.96	84.8
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	419,835.14	15.2
5. Net income distributed (Total of 2, 3 and 4 above)	\$2,770,188.10	100.0

MONUMENTAL CITY SERVICE CORPORATION

Examiner's Comments

Comment 1:

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

Due to inability to reconcile the service corporation's books with the association's books, total investment was calculated as follows:

Percentage of Investment:

- (1) Per Monumental City Books = 2.3%
- (2) Per First Progressive Savings & Loan Books = 3.7%

Comment 2:

A review of the minutes of Monumental City Service Corporation revealed the following:

- A. Service corporation has not held an annual meeting for the past two years. Section 1 of the "Articles of Corporation" state in part.... Annual meetings at the principal office of the corporation on the second Tuesday of March in each year.
- B. The only minutes of "Board of Directors" meetings available for review for the two year period covering March 31, 1981 through March 31, 1983 were those dated March 22, 1982 and December 1, 1982.
- C. Paul R. Freeman, President, is the only officer appointed at the "Special Board" meeting held March 22, 1982 who is still currently with the association.
- D. The following management fees, legal fees and bonuses were approved on December 1, 1982:

Paul Freeman	\$1,000.00
Jeffrey Levitt	1,000.00
Jeffrey Levitt	5,000.00 (Retainer)
Jeffrey Levitt	30,000.00 (Management Bonus)

These fees are in violation of Article 2(e)(f) of the Maryland Savings-Share Insurance Corporation Agreement dated March 12, 1982.

Comment 3:

An examination of records of the service corporation in reference to the general ledger account headed "Mortgage Loan Receivable" revealed the following. All loan numbers have been provided by the examiner, as none were utilized by Monumental City.

- A. Loan No. 19 Rita Weinapple - amount \$10,000.00. Service corporation records state this loan is a "1 year 15% Commercial loan," made on November 18, 1982:
 - (1) Entire file consist of one letter dated February 4, 1983 requesting interest payments.
 - (2) No payments ever made by Mrs. Weinapple on this account.
- B. Loan No. 26 -- Gilbert Sapperstein - amount \$10,000.00. Subsidiary records indicate that this account is an installment loan in the amount of \$10,000.00.
 - (1) Disbursements noted:
 - (a) March 22, 1982 Check #2120 \$85,000.00
 - (b) June 24, 1982 Check #2147 10,000.00
 - Total funds disbursed (per subsidiary sheet) \$95,000.00

Comment 3: (Cont.)

(2) Balance corporation collecting interest on is \$10,000.00 when they actually disbursed \$95,000.00 to Mr. Sapperstein.

(3) Insurance policy in file states "2nd mortgage."

C. Loan No. 29 - Franklin Associates - \$200,000.00

Subsidiary records show this loan as \$200,000.00. However, Monumental City disbursed check No. 2185 on September 22, 1982 for \$500,000.00.

The following was noted in regards to this loan:

(1) Allen Pearlstein, Jeffrey Levitt and Karol Levitt, directors of First Progressive Savings and Loan at time loan was settled, are also stockholders of Franklin Associates. Loan appears to have been made in violation of Financial Institutions Article 9-307(A)(2)(ii) and 9-307(B)(2)(i)

(2) If above is mortgage loan, it does not comply with Regulation .29(A)(7).

(3) No payments received by service corporation since inception of loan.

(4) The 9/21/82 approval letter from MSSIC is for \$200,000.00, not \$500,000.00. The letter also states, "it is further understood that all monies received herein will be promptly returned to Monumental City Service Corporation together with interest at the annual rate of twelve (12%) percent if the subdivision approvals are not received within six (6) months from the date hereof." There is no evidence that this approval has been received; therefore, this loan should have been repaid.

D. Loan No. 18 - Zell Hurwitz - Amount \$8,500.00

Entire contents of file on this loan consist of a letter dated October 20, 1982 referring to this loan as a "half interest of secured mortgage." The following was noted in reference to this loan:

(1) Violates Regulation .29A(1)(2).

(2) No payments since inception of loan (Nov. 10, 1982).

(3) Following fees paid:

(a) Paul Freeman - check #2195 - \$1,000.00

(b) J. A. Levitt - check #2196 - \$1,000.00

E. Loan No. 30 - Levitt Builders, Inc. \$100,000.00

Loan appears to be a construction loan; however, the following was noted in reference to this loan:

(1) Violates Regulation .29(A)(1)(2) (no file).

(2) Letters from Maryland Savings-Share Insurance Corporation subjecting loan to specific conditions not signed.

(3) If said agreement was accepted, following conditions violated:

(6) Term of loan 6 months.

(7) Agreement to repurchase if not sold within 6 months.

(8) Approval by Director of Division.

(9) Approval by Board of Directors.

It was further noted that all customary and proper construction loan underwriting requirements and safeguards were not maintained.

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Comment 3: (Cont.)

F. Loan No. 31 - Allen/Rita Feinberg - Beechcrest Motel & Trailer Park, Laurel, Maryland \$100,000.00.

This loan appears to be a third mortgage loan. File did not contain:

1. Application as required by Regulation .23A.
2. Appraisal as required by Regulation .23B.
3. Title certification as required by Regulation .23C.
4. Settlement sheet as required by Regulation .29A(2)(c).

Due to lack of an appraisal, examiner was unable to determine "Loan-to-Value Ratio". Thus, there is a possibility this loan is in violation of Regulation .34(D)(2) (Loan in excess of 90%).

G. Loan No. 32 - Allen/Rita Feinberg \$100,000.00
Loan violates Regulation .29(A)(1) & (2) - No loan file. Examiner was unable to determine Loan-to-Value ratio due to lack of information on first mortgage loan.

H. Loan No. 33 - Allen/Rita Feinberg - Amount \$20,000.00
This loan appears to be a consumer loan. File does not contain documentation as required by Regulation .49C(1)(a)(b).
Examiner unable to determine if loan is a "Qualified Consumer Loan" as defined in Regulation .49(A)(2). Loan also violates Regulation .49G(2) - In excess of \$10,000.00 or 2.5% of reserves, whichever is greater.

I. Loan No. 34 - H. L. H. Inc. - Amount \$25,000.00
Settlement sheet states this loan was made as a consumer loan. This loan was made in violation of Regulation .49A(2) - Consumer loan means a direct loan to one or more persons for personal, family or household purposes, and does not include a commercial or corporate loan granted pursuant to Commercial Law Article Section 12-103(e). Also in violation of Regulation .49G(2) (Excess Amount). It was further noted that 2 points or \$500.00 was deducted at settlement.

J. The following loans were made as consumer loans. However, from information available from the service corporation records, funds for these loans were for "Business Purposes":

Loan No. 2 Patricia Jones	\$10,000.00
Loan No. 5 Joseph Pirog	5,000.00
Loan No. 27 Reid Vogelhut	3,500.00
Loan No. 28 Mark Sapperstein	6,500.00

The above loans are in violation of Regulation .49A(2) which states in part, "Consumer Loan means a direct loan to one or more persons for personal, family, or household purposes and does not include a commercial or corporate loan granted pursuant to Commercial Law Article 12-103(e)."

K. The following loan files did not contain a recorded lien against the automobile pledged as collateral as required by Regulation .49C(2)(c):

Loan No. 14 Gregory Gramlich	\$2,300.00
Loan No. 23 Vincent Maas	7,700.00
Loan No. 25 James Land	6,085.46

L. Loan No. 24 Levitt Builders, Inc. \$12,000.00

The above loan was made as a consumer loan; however, this loan does not fall under the definition as defined in Regulation .49A(2).

It was further noted that the file did not contain any documentation as required by Regulation .49C(1)(2).

Comment 20: (Cont.)

- (3) This account includes money due from Mr. Levitt for funds advanced on his behalf to purchase securities such as U.S. Treasury Bonds, FHLMC certificates, FNMA Bonds, etc. Mr. Levitt has not reimbursed the association for his purchases as of March 31, 1983.
 - (4) On at least two occasions, Jeffrey Levitt provided a check to First Progressive for \$6,889.86. He directed that the check be deposited and an exchange check be issued payable to Carroll County Bank. The check to Carroll County Bank was used to pay the mortgage of Westminster Properties on 229 E. Main Street, Westminster, Maryland. However, Mr. Levitt's check to First Progressive for \$6,889.86 was returned twice for insufficient funds and has not been repaid to the association.
 - (5) This account includes \$79,741.24 for funds due from Mr. Levitt on the foreclosure of loan 4076 -- Clemson on 9/19/79. The property was purchased by Monumental City and resold to Abraham Korotki. Furthermore, First Progressive has never received a court auditors report for foreclosure of loan 4076.
- E. A review of the general ledger account entitled "Premiums -- Investments" (G/L No. 1225-07) revealed the following:
- (1) This account does not reflect that approximately a \$590,000 premium was paid on \$2.0 million face value of Treasury Bonds purchased on October 19, 1982.
 - (2) The association could not locate the purchase ticket for the above mentioned \$2.0 million in Treasury Bonds.
 - (3) The association does not maintain a schedule of purchases and sales for U.S. Treasury Bonds.
 - (4) The association is not amortizing the premiums associated with purchases reflected in this account. Amortization of the \$1,766,875 premium paid on the \$6.0 million (par value) in this account would be \$58,895.83 per year. The amortization on the \$590,000 in premiums mentioned in E(1) above would be an additional \$19,666.67 per annum which should properly be expensed.
 - (5) The \$190,000 credit entry on October 31, 1982 to close out a sale of Treasury Bonds was posted to G/L No. 1225-00 in error. This should be posted to G/L No. 1225-07.
- F. Vice President Paul Freeman stated to the examiner that First Progressive owned \$8 million par value of U.S. Treasury Bonds all of which were held by Broker's Capital as of March 31, 1983.
- As of the same date, G/L No. 1200-07 titled "U.S. Treasury Bonds" has a balance of \$8,991,562.50 representing \$9 million in par value. The association is to explain who is holding the other \$1.0 million par of U.S. Treasury Bonds, as Brokers Capital's confirmation only reflects holding \$8.0 million in safekeeping.
- G. A review of the "Automobile" account (G/L No. 1250-03) and its related account "Depreciation - Automobile" (G/L No. 1260-03) revealed the following:
- (1) There are no schedules available to ascertain what cars are represented in the general ledger balance and the amount of depreciation relating to each car.
 - (2) In January, 1983 monthly depreciation was increased from \$106.00 to \$225.64, yet no purchases were reflected since March 11, 1982. No one at the association could explain the reason for the increased amount of depreciation.

Comment 20: (Cont.)

to support the following general ledger accounts:

G/L No.	
1151-00	Real Estate Owned
1399-00	Exchange
1175-00	Accrued Interest Receivable
1175-03	" " Investments
1175-04	" " Monumental City
1200-07	U.S. Treasury Bonds
1398-00	Due from Jeffrey Levitt
2150-00	Loans In Process

B. Loan 4144 to Abraham Korotki is still included in the off-line mortgages general ledger control. The properties, lots 2, 3 and 10, Caves Road, were deeded back to the association on or about 9/1/81. The \$87,000 balance should be transferred to the Real Estate Owned account (G/L #1151). Furthermore, the overdrawn expense account of \$2,035.04 should be transferred to REO at the same time.

C. The examiners noted that \$100,000 was advanced by Monumental City Service Corporation to build a home on lot 3 Caves Road (the property referred to in B above). The \$100,000 is listed as a loan to Levitt Builders and Jerry Gottlieb. Please advise this office of the current status of this loan.

D. A review of the general ledger account entitled "Due from Jeffrey Levitt" (G/L No. 1398-00) with a balance of \$352,431.06 revealed the following:

- (1) \$1,400 must be transferred to rent expense because it is for office space used by First Progressive.
- (2) The association has been paying for items that are the responsibility of the landlord, Westminister Properties. Mr. Levitt is a co-owner of Westminister Properties. The following are listed as due to First Progressive from the landlord:

Heating Oil	\$956.58
Suite Renovations	6,010.45
Water & Sewer	258.30
Painting	603.70
Cooking Range	227.20
R. E. Taxes	3,376.72
Cleaning	123.71
Gas & Electric for Suite not used by association	1,300.42
Sign	159.75
Payments on Mortgage at Carol County Bank and Trust on behalf of landlord	11,483.10

Comment 15: (Cont.)

- A. Not all loans foreclosed and sold contained a statement of mortgage debt filed with the court, nor the final court auditors report.
- B. Loan 4121 to Ellis Yancey was foreclosed and sold on June 15, 1982 to W G L Enterprises for \$25,000. The invoice from the auctioneer states that the \$2,000 deposit was given to Samuel Aaron, attorney for the trustee. The auctioneer was also reimbursed by a First Progressive check dated February 9, 1983 for \$380.37 for ads and commissions. Mr. Aaron claims he never received a deposit and none was ever received by anyone else.

Also, as of March 31, 1983 this property has not settled and there presently is no hold code for savings account 3136 pledged as security on this loan.

- C. On August 25, 1976, Jeffrey Levitt as settlement attorney withheld \$2,000 from the proceeds of loan 3910 granted to Fevl Pappas which was secured by property located at 2718 Sparrows Point Road. The money was held for exterior repairs.

The examiner by letter dated June 21, 1983 requested the following information from Mr. Levitt:

- (1) A letter stating he is still holding said \$2,000 if, in fact, he is, or;
- (2) Copies of cancelled checks for portions of funds that were released.

Mr. Levitt did not respond to this request. Furthermore, since the association wrote off a loss of \$28,173.16 (not including interest due), any funds still held by Mr. Levitt should be turned over to the association and applied to this loss.

Please furnish this information to the Division.

- D. As stated in C above, First Progressive wrote off on September 25, 1981 a loss of \$28,173.16 on the Pappas loan on the 2128 Sparrows Point Road property.

First Progressive is still holding savings account 2732 as collateral on this loan. The pledge agreement is for \$3,500 plus any accumulated dividends. As of May 1983, the balance in this account is \$4,587.96. The association should apply the entire balance as a recovery of a bad debt.

- E. Further review of the Pappas loan 3910 also found the trustee commission was \$1,187.50, plus attorney fee in mortgage of \$1,000. Even if above items in C and D are recovered, losses still are \$21,585.20. It is general practice for the association's attorney to forego his trustee fee and attorney fee so the association will not take a loss. Mr. Levitt and/or Mr. Sam Aaron did not forego these fees.

- F. Review of foreclosed loan file 3745 on property located at 436 Essexwood Court revealed the following:

- (1) The property was sold at auction on April 2, 1982 and as of the March 31, 1983 examination date, loan 3745 is still listed as a mortgage receivable.
- (2) Funds from the foreclosure were not received from attorney Jeffrey Levitt until after June 16, 1983, over 14 months later.
- (3) A check dated March 17, 1983 was received from MGIC for \$5,220.28. As of June 17, 1983, this check had not been cashed.

- G. A review of foreclosed loan file 3681 (A/K/A Blast Furnance) on property located at 2125 Sparrows Point Road revealed the following:

- (1) As of March 31, 1983, this loan remains in mortgages receivable -- offline with an unpaid principal balance of \$161,168.67.
- (2) Monumental City Service Corporation sold this property on August 4, 1981 to William Jarrard and took back a \$270,000 loan (No. 4185). A gain or loss should have been recognized by Monumental City Service Corporation at that time.

Comment 15: (Cont.)

- (3) There is a notation on the loan card that the Gnuu (Blast Furnance) loan was secured with a hypothecation No. 2436. It could not be determined if the hypothecation was taken by the association to reduce losses of principal, interest and foreclosure costs or was returned to the pledgor. Please advise this office of the status of this hypothecation.
- H. A review of foreclosed loan file No. 3691 and 4074 on property located at 7400 Pulaski Highway revealed that the certifications of title by Attorney Jeffrey Levitt shows that loan 3691 is a first lien and that loan 4074 is a second lien. The court auditor's report indicates that \$18,991.41 of the proceeds from the foreclosure sale was paid on a lien to Edgemere Finance Company; however, the examiner's calculation revealed that in excess of \$20,000 in delinquent interest on loans 3691 and 4074 was due to First Progressive.
- I. A review of foreclosed loan No. 4125 to Ivan Lee on property located at 3320 Hayward Avenue and 3114 Virginia Avenue revealed the following:
- (1) The properties were sold at auction on March 16, 1981. The court auditor's report indicates that there was a shortage of \$15,471.00 after the association received \$9,596.94 in payment for the loan. Records indicate that in both cases, the properties were purchased by Monumental City Service Corporation who later resold the properties.
- As of March 31, 1983, loan 4125 is listed as a loan receivable -- offline with an unpaid principal balance of \$20,833.92 and an overdrawn expense account of \$1,040.60. No funds have been received from the attorney to date.
- (2) The purchase of the properties by Monumental City Service Corporation was never reflected in the real estate owned account of Monumental City Service Corporation.
- (3) No gain or loss has been recognized on the purchase by Monumental City Service Corporation and subsequent sale of both properties.
- J. A review of foreclosure loan No. 4172 of Joseph Chincarini on property located at 1046 Iris Avenue revealed that funds from the sale of the property have not been received from Attorney Jeffrey Levitt as of March 31, 1983. The property was sold on March 1, 1982; more than 13 months have elapsed.

Comment 16:

A review of loan records of First Progressive Savings and Loan and its wholly owned subsidiary, Monumental City, revealed several loans on the same property. Closer investigation revealed that some of the loans were to pay off prior loans (refinances) and some were to purchase the property from a seller who also had his loan at First Progressive or Monumental City. It is obvious that some of these loans have been paid in full from the settlement.

- A. Loan 4196 to Allen Feinberg was granted upon the security of 118 S. Morley Street. This loan is dated February 18, 1982 for \$12,000. Monumental City has a \$12,000 loan to Leon Realty (Paul Sachs, President) dated November 24, 1982 on the same address. Both loans remain open as of the March 31, 1983 examination date.
- B. Although no file could be located for loan 4199, the following information was obtained. The loan was dated March 11, 1982 for \$150,000. The loan was in part to pay off in full loans 3706 and 4096, all listed to Gilbert & Sandra Sapperstein (including 4199). As of March 31, 1983, all loans are still open. Furthermore, there was no subsidiary loan card for 4199, nor did anyone know what the interest rate was on this loan.

Please advise this office of the current status of these loans.

Comment 17:

Loan 4293 to Gerlad Gottlieb was paid in full on April 12, 1983 by check in the amount of \$94,667.99 from Jeffrey Levitt's settlement account (ck. #7927). The \$94,667.99 included interest on the loan through April 30, 1983. The association issued a check to Jeffrey Levitt for the unearned portion of the interest totaling \$675.18. The following items were noted in this regard:

- A. The association should issue such refund checks directly to the borrower.
- B. There is no evidence in file that Mr. Gottlieb ever received his refund.

Comment 18:

A review of mortgage loan file settlement sheets revealed the following:

- A. Some of the mortgage loan files reviewed by the examiners revealed loan documents signed by the borrower in blank. Loan file Nos. 4196, 4199 and 4205 contained a settlement sheet signed in blank. Loan file No. 4199 contained a mortgage signed in blank by the borrowers. In all cases, the settlement attorney was Jeffrey Levitt. This appears to be in direct violation of Section 9-424(B) of the Financial Institutions Article which requires the borrower to receive at settlement a memorandum of settlement that details each charge made in connection with the settlement.
- B. Loan file 4291 did contain a settlement sheet at the time the file was reviewed by the examiners in May, 1983. However, the file also contains a letter from the borrower stating, "I have yet to receive a settlement sheet, or anything indicating what was paid." The settlement was December 3, 1982 and the letter was dated March 29, 1983. This loan was also settled by Attorney Jeffrey Levitt.

It appears that Mr. Levitt is not completing all necessary papers at settlement as required by applicable laws and regulations.

Comment 19:

A review of the examination management questionnaire which was completed by management revealed the following:

- A. Question 4 did not disclose that Karol Levitt and Allan Pearlstein, who are both officers and directors of First Progressive, and Jeffrey Levitt, who is the husband of Karol Levitt and attorney for First Progressive, are all controlling persons of Old Court Savings and Loan by either direct ownership of stock or by virtue of ownership in the Light Street Partnership.
- B. Question 4 did not disclose that Jeffrey Levitt, association counsel and husband of officer and director Karol Levitt, is the owner of Westminster Properties, a company engaged in the real estate business.
- C. Question 4 did not disclose Mr. Levitt's ownership in the Golden Woods Partnership which constructs and sells homes.
- D. Question 4 did not disclose that Mr. Jeffrey Levitt and Mr. Allan Pearlstein are owners of Franklin Associates, nor was it disclosed that Mrs. Karol Levitt was president of Franklin Associates.
- E. Question 5A did not disclose that First Progressive made loans to Franklin Associates (\$1.7 million). Furthermore, additional loans by Monumental City to Franklin Associates were not disclosed.

Comment 20:

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

- A. The association does not maintain adequate subsidiary records in detail

Comment 3: (Cont.)

Also, interest is being incorrectly charged each month. Interest is calculated on entire original principal balance each month with no allowance for prior principal payments received.

M. Loan No. 35 - Ira/Lucille Adler 4 Irving Place
Based on information on subsidiary card, this loan appears to be a second mortgage. However, the only papers noted in file given to examiner to review related to a first mortgage loan made approximately May, 1980.

N. Loan No. 41 - "4001 Company" \$207,000.00
File did not contain an application as required by Regulation .23A, title certification as required by Regulation .23C, settlement sheet as required by Regulation .29A(2)(c) or mortgage/note as required by Regulation .29A(2)(f).

O. Loan No. 46 - 7008 Alter Street Amount \$2,000.00
Based on information noted in this file, it appears this loan is in foreclosure. No payments have been received since September, 1981. Also noted in file was an invoice from A. J. Billig & Company indicating a sale was held and the property was purchased by Monumental City Service Corporation.

The present status of this account is unknown. Please furnish an explanation as to who owns said property and if any loss is anticipated by the service corporation.

P. Loan No. 48 - Leon Realty Inc. 3114 Virginia Avenue Amount \$25,000.00

This property was sold by Monumental City Service Corporation to Leon Realty, Inc. However, the following was noted:

1. Property never appeared as "Real Estate Owned" on Monumental City's records.
2. First Progressive Savings and Loan Association still has an open mortgage on this property (Loan No. 4125).
3. No appraisal as required by Regulation .23B.

Q. Loan No. 49 - Leon Realty, Inc. 118 S. Morley Street \$12,000.00

This property was also sold by Monumental City Service Corporation to Leon Realty, Inc. based on information in the file reviewed. However, the following was noted in reference to this loan:

1. Property never appeared on the records of Monumental City Service Corporation as "Real Estate Owned."
2. First Progressive Savings and Loan carries an open mortgage. Loan No. 4196, on its books and records for this same property.

Comment 4:

A review of the file entitled "Loan Receivables Closed" was made and the following was noted. All loan numbers have been provided by the examiner, as none were utilized by Monumental City:

1. Loan No. "A" Gary and Linda Huddies Second Mortgage
7 Swanhill Drive Amount \$60,000.00

- (a) While subsidiary record was located in "Paid File", balance of \$60,000 still shown as open on ledger sheet.
- (b) On 6/21/83, Mrs. Weaver was instructed to prepare the following billing for interest due the following notation was made on the subsidiary ledger sheet 7:

Comment 4: (Cont.)

$\$60,000.00 \times 20\% \div 365 \times 451 \text{ days} = \text{total interest due.}$
total interest due from 3/26/82 to 6/20/83 is \$14,827.40.
per diem is \$32.88.

(c) On 6/22/83, the examiner was presented a file in reference to this loan; noted in the file were the following:

(1) Settlement sheet (dated 3/26/82), showing the following charges:

3 points on \$50,000.00 $\sqrt{\text{net proceeds}}$	\$1,500.00
Interest collected at 20% on \$50,000.00 $\sqrt{\text{net proceeds}}$ for nine months in advance	7,497.00
Credit Report	30.00

(2) Two checks dated 3/31/82, drawn on the following account:

Jaffrey A. Lavitt
Real Estate Escrow Account
416 N. Charles Street
Baltimore, Maryland 21201

check #6148 - \$1,530.00, for credit report and points;
check #6150 - \$7,497.00, for 9 months' prepaid interest --
 $9 \text{ mos.} \times \$833.00 \sqrt{20\% \times \$50,000.00 \text{ (net settlement proceeds)}} \div 12 \text{ mos.} = \$7,497.00.$

(3) Neither check has ever been deposited; the examiner was advised on 6/22/83 that the checks were no longer useable, and that they were not to be deposited.

2. Loan No. "B" Steve Hankins - \$15,000.00

(a) Subsidiary records indicate this loan is "Paid off."

(b) No indication that Monumental City Service Corporation ever received any funds to pay off this loan.

(c) Settlement sheet states that loan is a third mortgage.

(d) Unable to determine "Loan-to-Value Ratio" due to lack of information on 1st and 2nd mortgages.

3. Loan No. "C" Gilbert Sapperstein

Original amount - \$20,000.00

(a) Subsidiary records located in "closed file." However, records indicate an outstanding balance of \$6,482.00.

(b) Balance has not changed since December 26, 1978. Last entry noted 2/20/80 -- \$300.00 applied against interest.

4. Loan "G" James A. Black \$11,000.00
421 Hillington Ave.

Term 1 yr. (Date of loan 11/12/77)

(a) Subsidiary record located in paid file.

(b) Ledger sheet indicates 9 payments of \$110.00 each (12/6/77 thru 8/24/78) all applied as interest payments only.

(c) No reduction of principal noted.

5. Loan "H" Jeffrey A. Levitt Original Amount \$30,000.00
Becky Limited Balance -----0-----

(a) Subsidiary records located in closed files.

(b) There is no evidence that interest due from April 1, 1980 thru December 10, 1982 (\$15,800.00) was ever paid.

Comment 4: (Cont.)

(c) Notation noted on letter of January 11, 1983

(Re: Interest Due):

Disregard letter for collection of Interest 1/17/83".

Comment 5:

An analysis of the subsidiary loan records reflected the existence of sixteen delinquent accounts. The outstanding balance of these accounts totaled \$732,775.31 as of the date of the current examination, representing a delinquency ratio of 63.5% of the total loan balances outstanding.

A further review of these accounts revealed that eight of the sixteen delinquent loans were attributable to only four borrowers. These eight loans totaled \$465,000.00, representing 40.3% of the total loan balances outstanding.

In addition to the amounts and accounts "subject to comment" in the above paragraphs, the following accounts and amounts appear to be funds due the service corporation and on which the corporation is receiving no payments:

- 1) Loan No. 29 in the amount of \$200,000 (Franklin Associates).
Actual amount of loan appears to be for \$500,000.00, not \$200,000.00.
- 2) Loan No. 26 in the amount of \$10,000.00 (Sapperstein).
Actual amount of loan appears to be \$95,000.00, not \$10,000.00.
- 3) Loan No. "A" (Gary & Linda Huddles) - Amount \$60,000.00.
Subsidiary records state "Paid off". However, no evidence of any funds being actually received by the service corporation could be verified.
- 4) Loan "No. "B" (Steve Hankins) -- Amount \$15,000.00.
Subsidiary records marked "Paid Off". No evidence of any payment received by service corporation.
- 5) Loan No. "C" (Gilbert Sapperstein) -- Balance of loan \$6,482.00, no payments since 2/20/80 -- subsidiary records located in "Paid" files - no evidence of any payments after February 20, 1980.
- 6) Loan No. "G" (James and Helen M. Black) -- Amount \$11,000.00.
Subsidiary record located in paid file indicates that nine payments of \$110.00 each were received by the corporation between 12/12/77 and 8/12/78, all credited to interest only. No payments were received after August 12, 1978. No evidence that this loan has ever been paid in full could be located.
- 7) Loan No. "H" (Jeffrey A. Levitt) -- Balance Due \$15,800.00.
While the principal amount of this loan (\$30,000.00) was paid in full on January 11, 1983, there still remains \$15,800.00 in interest due (covering the period of April 7, 1980 through December 10, 1982). As of the date of examination, this amount has not been received.

Comment 6:

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

A. The following checking accounts --

No. 520-1178-1	First National Bank
No. 520-1179-9	First National Bank
No. 201-46676	Union Trust Company
No. 25279-4	Savings Bank of Baltimore

have not been reconciled by the service corporation since approximately April, 1982.

Comment 6: (Cont.)

Although the above accounts show balances on the corporation's books and records, confirmations sent to the respective banks have been returned indicating zero balances.

- B. Statement accounts Nos. 02-10-3173 and 02-10-3131 held with First Progressive Savings and Loan are not reconciled - date of last reconciliation unknown.
- C. The subsidiary records of the service corporation to support general ledger account "Cash-Savings Accounts" was \$248.59 more than the control account. There was no evidence of any income earned on the above savings accounts being recorded on the service corporation's books for the period of March 31, 1981 through March 31, 1983.
- D. No depreciation expense has been recorded on the books and records of the corporation in reference to the automobile owned.
- E. General ledger account "Participation Certificates" was \$429,000.00 more than the subsidiary records.
- F. Liability general ledger account entitled "Due to First Progressive S/L" could not be reconciled to the parent's books and records.
- G. General ledger account "Accrued Expenses" is used to record expenses pertaining to "Participations Sold."

It was noted that the balance in this account has not changed since the last examination (a period of two years).

This account should be reviewed and the necessary adjustments made.

- H. The total of the subsidiary mortgage accounts exceeded the control account "Mortgage Loans Receivable" by \$284,625.62.
- I. Based on the review done by the examiner on the following general ledger accounts --

Real Estate Owned
Participation Certificates
Cash: First National Bank
Savings Accounts (First Progressive)
Union Trust
Mortgage Loans Receivable
Due First Progressive

and the exceptions and variances in balances noted and explained in Comments "A" through "H" in reference to these accounts, it is clearly illustrated that the service corporation is not in compliance with Regulation .05B.

Comment 7:

A review of the "Real Estate Owned" account for the period covering January 1, 1981 through March 31, 1983 revealed the following:

As of January 1, 1981, four properties appeared in this general ledger account totaling \$56,093.87. The following was noted in reference to these properties:

- A. Loan No. 3866 -- 2720 Oakley

The service corporation's books and records still reflect \$1,418.41 related to this property even though said property was sold on January 19, 1979.

It appears this amount should be written off.

- B. Loan No. 3691 -- 7400 Pulaski Highway

Property sold December 31, 1980; however, on November 3, 1981 check #1726 in the amount of \$1,000.00 was issued to "Garry Huddles" and charged to "Real Estate Owned" against this property.

Please explain.

- C. Loan No. 3874 -- 119 Cherryhill Road

The following was noted:

Comment 7: (Cont.)

- (1) This property was brought on the books of the service corporation by the following entry on 12/31/79 (J/E 21):

"Debit" Real Estate Owned
"Credit" Mortgage Payable - First Progressive

- (2) No payments were recorded to this mortgage payable account from 12/31/79 through 12/31/80, at which time A/E 24-80 was made as follows:

"Debit" - Mortgage Payable - First Progressive
"Credit" - Real Estate Owned

Please explain the following in regards to the above transactions:

- (a) Why, in December 31, 1979 (J/E 21), was Interest Income reduced by \$2,087.00?
- (b) What was the basis for the gain of \$1,371.26 taken December 31, 1980 (A/E 24-80)?
- (c) Why was the entire transaction recording this property done by Journal entries?
- (d) Was this property originally on the books of Monumental City Service Corporation or First Progressive?
- (e) When this property was sold by Monumental City Service Corporation, where was the cash received from sale recorded?
- (f) First Progressive Savings and Loan presently holds a mortgage (Loan #4160) against this property. Settlement sheet in this file indicates:
- (1) Seller of property "Diamond Realty Corporation".
(2) Settlement date, April 23, 1980.
(3) Sale price \$65,000.00.

No records were available to show how "Diamond Realty Corporation" became owner of this property.

- (g) Entire transaction involving "119 Cherryhill Road" should be explained in detail.

- D. For the present examination period covering March 31, 1981 through March 31, 1983, the following was further noted in regards to "Real Estate Owned" on the books and records of "Monumental City Service Corporation":

- (1) No entries available showing any of the following properties ever being recorded as "Real Estate Owned" on the books and records of Monumental City Service Corporation. However, the following properties with the following amounts charged/credited against them appear in this account:

(a) <u>3114 Virginia Avenue</u>	\$33,493.33
(b) <u>2718 Sparrows Point Road</u>	(22,641.15)
(c) <u>2125 Sparrows Point Road</u>	(171,250.00)
(d) <u>3320 Hayward Avenue</u>	778.31

It was further noted:

- (2) Mr. Jeffrey Levitt, Trustee, received \$25,214.25 in trustee fees that have been charged against 3114 Virginia Avenue property. No explanation as to what these fees represent was available.

Also, the following loans were being carried as open loans against the property known as "3114 Virginia Avenue":

(a) Loan No. 4125 (First Progressive S/L) \$20,833.92
(b) Loan No. 48 (Monumental City Service Corp.) 25,000.00

- (3) On June 9, 1981, Monumental City received \$44,272.21 which was credited to "Real Estate Owned" for 2718 Sparrows Point Road, even though Monu-

Comment 71 (Cont.)

mental City had no real estate owned recorded on its records for this property.

Furthermore, on September 17, 1981, Monumental City issued check #1578 in the amount of \$20,381.06 payable to "Sam J. Aaron, Esq." and charged this check to "Real Estate Owned" property, "2718 Sparrows Point Road", with no explanation given.

The above transactions should be explained in detail.

- (4) On August 4, 1981, Monumental City Service Corporation received \$211,000.00 which was credited to "Real Estate Owned" for the property at 2125 Sparrows Point Road, even though Monumental has no real estate owned recorded on its records for this property.

It was also noted that the following loans were being carried as open loans against this property:

Loan No. 3681 (First Progressive S/L)	\$161,680.67
Loan No. 4185 (First Progressive S/L)	270,000.00

- (5) Property - 3320 Hayward Avenue shows a balance of \$778.31 being carried in Real Estate Owned on Monumental City Service Corporation's records.

However, the association's records indicate that this property was sold on February 2, 1982.

The association holds the present mortgage (Loan No. 4194) on this property.

Mtg w/ Old Court

10/18/84

PVT - mtg deals w/ examination rpt

merger

Glass & Assoc. re audit of 1st Prog. - timing

we have audit H. - for 1983 for 1st Prog.
when can we have audit done? by Dec 1984?

assume 1st Prog. has 0 net worth at merger (not a negative net worth);
Old Ct will pay money in 1st Prog. to bring it to zero;

7/31/84 audit by Glass will be done before merger → for Old Ct;

Dec 31, 1984 → audit of 1st Prog. to be finished

they will audit company Nov 1 & make adjustments to OC → finalize by
Dec 31, 1984;

Examination Report on 1st Prog.

- ① Act on books of 1st Prog. → "due from Jeffrey Lovitt - ^{\$245,000} ~~\$245,000~~"
Glass says Jeffrey owes \$20,000; → remainder was due from other
entities in which Jeffrey has interest; Jeffrey has not paid;
[no interest is paid on account now]
Charles C. Hoag wants to have this paid off; → immediately →
Jeffrey says will be paid off tomorrow;
other obligations will also be paid off immediately

Jeffrey will clean this all up in a couple of days when Glass
gives him a figure

00012699

IIIB61

Hall 0X44 SW

11-20-85

735

Jeffrey will pay int. at 14% on funds to extent ~~the amount~~ interest
has been accrued but not paid
... escrow acct will be closed

Jeffrey has many delinquent loans re interest on loans;

- Sunset Associates 19 mos behind
- Alston - foreclosed - really just referred to Cardin & Cardin
- Weinstein will be paid
- Goulding Corp foreclosed - " " " " "
- Capital Leasing foreclosed - " " " " "
- Alston foreclosed - " " " " "
- Supersting is being sold

\$3,400,000 in delinquent loans → Jeffrey guarantees there will be no loss on
these loans; there is no loss re principal → but will be loss
of unpaid interest

Franklin Associates → used to be Jeffrey; was sold to Mr. Rudd;

Rita Wineapple Loan? - somebody owes 1st Prdg. \$10,000;
Jeffrey will give written explanation

00012700

736



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

#1
Due 1/11/85

1/18/85 - Extended to 1/25/85

HOGG
ETH

34
10/22/85
rd

November 26, 1984

331
45
376 =
365
11/11/85

Board of Directors
Old Court Savings & Loan, Inc.
23-25 Light Street
Baltimore, Maryland 21202

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 April 30, 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:

1. Comment 1 & 2 deal with N.O.W. account overdrafts and unsecured note loans. It was noted in most instances that the overdrafts and unsecured note loans were to officers, directors, and/or controlling persons. Any unsecured loan to any officer, director, and/or controlling person is strictly prohibited by the provisions of the Financial Institutions Article, Section 9-307(b)(2)(iii) and 9-923(e)(2). The association is directed to take the necessary steps to immediately eliminate these overdrafts; furthermore, the association is directed to cease from granting any unsecured loans to officers, directors, and/or controlling persons in the future.
2. Comments 3 through 14 revealed serious deficiencies in loan underwriting procedures involving violations of Regulations .23 and .29, dealing with loan documentation and sound underwriting procedures. In addition, these comments revealed loans which were in violation of the loan-to-value limitations contained in Regulation .30C.
3. Comments 18 & 19 cite the association for failure to comply with the provisions of the Federal tie-in regulations with regard to investment in futures and options.

We request that you carefully review the report and direct your attention to the following items:

BALTIMORE METRO AREA 659-6330
OUTSIDE BALTIMORE METRO AREA
TOLL-FREE 1-800-492-7521

TTY FOR DEAF
BALTO. AREA 393
D.C. METRO 567-6

1. Comment 1 & 2 deal with N.O.W. account overdrafts and unsecured note loans. It was noted in most instances that the overdrafts and unsecured note loans were to officers, directors, and/or controlling persons. Any unsecured loan to any officer, director, and/or controlling person is strictly prohibited by the provisions of the Financial Institutions Article, Section 9-307(b)(2)(iii) and 9-923(e)(2). The association is directed to take the necessary steps to immediately eliminate these overdrafts; furthermore, the association is directed to cease from granting any unsecured loans to officers, directors, and/or controlling persons in the future.

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Board of Directors
Old Court Savings & Loan, Inc.
Page Two
November 26, 1984

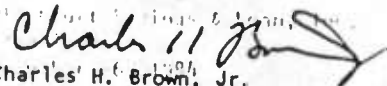
You should also review the other exceptions discussed with management and assure this Division that corrective action has been taken with respect to each comment.

The Board's attention is directed to Examiner's Informational Comments B and C which outline the two most recent examination dates and also highlight the association's operating results for the period ended July 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:1/b

Enclosure

cc: Maryland Savings-Share Insurance Corporation

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EXAMINER'S COMMENTS
Old Court Savings and Loan, Inc.

Comment 1:

Overdrafts of N.O.W. Accounts

As of April 30, 1984, the association had ten overdrawn N.O.W. accounts in excess of \$10,000.00 to entities that do not have Old Court's name in the title. They are as follows:

<u>Account No.</u>	<u>Name</u>	<u>4/30/84 Balance</u>	<u>*6/20/84 or 6/30/84 Balance</u>
63-200012-2	The Glass Smith, Inc.	\$ 71,379.70	\$ *71,379.70
63-200021-0	Levitt Family Partnership	155,205.77	*193,126.93
64-200040-4	Levitt, Pearlstein Management Co.	11,539.71	36,000.05
64-200042-0	Ruxton Post Limited Partnership	300,352.70	478,368.94
64-200053-3	Light Street Partnership	28,762.40	*216.40
64-200082-2	Calvert and Redwood Limited Partnership	140,692.67	184,624.60
64-200126-2	Chadford Associates	45,030.34	47,934.26
64-200139-1	Pearlstein Levitt Investments	19,106.94	Credit Bal.
64-200142-2	Pearlstein Levitt Investments	12,114.11	24,343.58
64-200169-8	Western Cross Limited Partnership	88,499.86	246,362.87
		\$872,684.20	\$1,282,357.33

No overdraft penalties were applied to the above accounts. These overdrafts constitute interest-free and unsecured loans to the account holders.

Further areas of concern are the following:

- A. Association director Jeffrey Levitt is a principal in Levitt Family Partnership, Levitt Pearlstein Management Company, Light Street Partnership, Calvert and Redwood Limited Partnership, and Pearlstein Levitt Investments.

Since the association did not charge penalties and/or interest on these overdrafts, the officers and directors involved may be in violation of Regulation 43A(1), since interest-free overdrafts are not reasonable to the association. Violation of any section of Regulation 43 may constitute an unsafe and unsound practice, necessitating the issuance of an order as set forth in Regulation 43C.

The association does not allow overdraft loans to the public.

- B. No signed signature cards were made available for examination, in reference to the following N.O.W. accounts:

64-200053-3	Light Street Partnership
64-200126-2	Chadford Associates
64-200169-8	Western Cross Limited Partnership

Section 9-503 of the Financial Institutions Article requires the association to make these signature cards available for inspection. Accordingly, the association is directed to include copies of the above signature cards with the response to the comments.

Furthermore, good internal control procedures would not allow clearing of N.O.W.'s without a signed signature card.

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Comment 1: (Cont.)

- C. The association, through its service corporations, owns Ruxton Post Limited Partnership. The following overdrafts represent interest payments on the listed loans:

<u>Check No.</u>	<u>Check Amount</u>	<u>Loan No.</u>	<u>Loan Name</u>	<u>Date Payment Credited</u>
1029	\$17,202.58	4223	Ruxton Crossing	6/21/84
1030	33,251.66	3844	Ruxton Limited Partnership	6/21/84
1031	6,075.35	3916	Ruxton Post	6/21/84

By using the above procedure, the interest income of the association can be overstated in a consolidated financial statement. This practice also causes inaccurate delinquency reports to be generated.

- D. The overdrafts result in understatement of savings account liabilities and conceal the actual loans receivable.
- E. Section 9-307(b)(2)(iii) of the Financial Institutions Article prohibits an association from granting an unsecured 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 of the association or member of the immediate family of an officer or director.

Therefore, the association is directed to immediately eliminate any such overdrafts.

Comment 2:

Note Loans

During the period January 1, 1983 through April 30, 1984, the association granted the following unsecured note loans to entities in which Association Director Levitt is a principal:

<u>Loan No.</u>	<u>Borrower's Name</u>	<u>Loan Amount</u>
4751	Calvert and Redwood Ltd. Partnership	\$100,000
4753	Levitt and Pearlstein Investments	285,000
4883	Charles St. Title and Jeffrey Levitt	2,960,000
4907	Levitt and Pearlstein Investments	385,000
4927	Levitt and Pearlstein Investments	25,000
4943	Levitt and Pearlstein Investments	200,000
4976	Logan Village, Ltd. and Levitt and Pearlstein Realty	225,000
5003	Levitt and Pearlstein Investments	125,000

Section 9-307(b)(2)(iii) of the Financial Institutions Article prohibits the association from granting an unsecured 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 of the association or member of the immediate family of an officer or director.

Comment 3:

Whitpain Associates (Meadowick)

On July 26, 1983, the association granted a \$3,410,000 note loan secured by an unrecorded second mortgage on 273 townhouse apartments in Pennsylvania. The loan has a ten year term. Interest is 12 1/8%; however, 9% of interest is payable monthly for the first two years, unless profits allow paying the higher rate. Any accrued difference is due in two years. The loan will be amortized for the remaining eight years, based on a 30-year paydown. A loan fee of 2.86% was charged.

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According to the July 26, 1983 agreement, the association will not record any mortgage. The note limits recourse to the property. In addition, the partners indemnified the association against any future claims.

The balance of the first mortgage held by the Pennsylvania Housing Finance

Comment 3: (Cont.)

Agency (PHFA) was \$6,954,496.00 at December 31, 1983.

All costs were paid from settlement, including payoff of a \$100,000.00 note loan for the down payment. There is no evidence of a cash capital contribution by any of the partners.

The December 31, 1983 Whitpain Associates audited financial statements show the \$3,410,000.00 loan amount as a capital contribution.

\$1,525,000.00 of the purchase price was deferred. The funds were placed in a 12% certificate of deposit at the association. Interest on the certificate of deposit is used to pay interest on the loan.

The association's service corporations have an equity interest in the loan. Old Court Investment is a general partner.

The following items of concern were noted:

- A. The reluctance of the association to approach the PHFA to obtain permission to record a mortgage if such permission was necessary.
- B. Lack of documentation showing PHFA's legal position if the borrower defaulted on either or both loans.
- C. The appraisal does not value the property at its present legal status:
1. The appraisal states the value as condominiums for sale. A letter from an attorney advises a change in the structure of the owners from a corporation to a partnership due to the property being operated as a rental facility for "some time."
2. No monies were set aside for condominium conversion.
3. The files do not contain evidence that PHFA would allow sales of the units as condominiums.
- D. The following documentation was not in file:
 1. A mortgage as required by Regulation .29A(2)(f).
 2. Current original insurance policy as required by Regulation .29A(2)(d).
 3. A certification of title as required by Regulation .29A(2)(e).
- E. The loan was delinquent four months as of April 30, 1984.

Comment 4:

MSDL Partnership

During the period August 11, 1983 through November 18, 1983, the association granted three loans totaling \$3,270,000.00 to MSDL Partnership. The loans are secured by stores leased to a convenience store chain in the Buffalo Region of New York State.

The partnership is comprised of David, Stephen and Mark Hurwitz, and Edwin Lax.

The loans are 11% fixed rate, 25-year loans with a 3% service fee.

The following areas of concern were noted:

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Comment 4: (Cont.)

- A. Two sets of appraisals for the same properties were made available. Both were signed by Robert H. Hudson and dated one day apart. Mr. Hudson is the Executive Vice President of Bankers Appraisal Service Inc., a wholly-owned subsidiary of a service corporation of the association.

The loan-to-appraisal ratios were as follows:

Loan No.	Appraisal Dated 5/24/83	Appraisal Dated 5/25/83
4621	90%	82.5%
4734	94.9%	88.6%
4787	87.4%	79.8%

All but one of the above loan-to-appraisal ratios exceed the 80% limitation set forth in Regulation .30C(4)(b).

- B. The stores are under individual 25-year leases. Generally accepted appraisal guidelines would require that the income approach be used in performing the appraisal.
- C. The appraiser used a cost method, but did not support his values as required by Regulation .23B.
- D. The loan is a submarket rate loan.
- E. None of the loan files contained applications or settlement sheets as required by Regulation .29A(2)(a) and Regulation .29A(2)(c), respectively.
- F. Loan file No. 4734 did not contain a certificate of title as required by Regulation .29A(2)(e).
- G. The original mortgage for loan No. 4734 was not in file as required by Regulation .29A(2)(f).

Comment 5:

4621	90%
4734	94.9%
4787	87.4%

Chadford Associates

On October 29, 1982, the association granted a \$330,000.00 second mortgage (Loan No. 4241) secured by an apartment building at 909 W. University Parkway. The seller took back a \$345,000.00 first mortgage; \$140,000.00 of the association's loan proceeds was placed into escrow. By July 7, 1983, the escrow was over-drawn by \$4,586.72. No interest was paid on the association's mortgage until November, 1983.

On November 10, 1983, the association agreed to purchase the first mortgage loan for \$380,810.42. In return, the first mortgagee agreed to cancel the property sale.

On December 20, 1983, the association granted a \$1,200,000.00 mortgage loan. Part of the proceeds were used to pay off the first mortgage and the second mortgage. The new mortgage is a 14%, 25-year instrument with a call provision at 5 years. Interest only is payable monthly for the first 6 months. A 3% loan fee was charged.

The Chadford Associates Limited Partnership is comprised of Old Court Investment Corporation - 85%, Zell Hurwitz - 7%, and MSD Associates - 7%. A copy of the partnership's 1983 tax return indicates that no capital contributions were made by the partners.

On January 19, 1984, \$45,000.00 was disbursed to Levitt Pearlstein Management Company for work performed on the properties. The following areas of concern were noted:

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Comment 5: (Cont.)

- A. The interest payments on the new loan are made from a Chadford Associates N.O.W. account. The account is used also for other purposes. The N.O.W. account was over-drawn on the following dates:

<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>
January 9, 1984	January 24, 1984	March 21, 1984	April 3, 1984
February 6, 1984	February 9, 1984	April 13, 1984	May 9, 1984
February 17, 1984	February 22, 1984	May 23, 1984	May 25, 1984
February 27, 1984	March 1, 1984	June 1, 1984	June 30, 1984
March 6, 1984	March 16, 1984		

The over-drawn balance at April 30, 1984 was \$45,030.34, and \$47,934.26 at June 30, 1984.

The association did not charge any interest or penalties for the overdrafts. The overdrafts constitute an unsecured and non-interest bearing loan to the partnership.

- B. The appraisal in file, dated October 15, 1982, indicated a renovated market value of \$782,000.00. No updated appraisal was made available. Based on the available appraisal, the loan-to-appraisal ratio was 153%. This is in excess of the 80% limitation imposed by Regulation .30C(3)(b).
- C. The draw authorizations for escrow disbursements do not describe the specific work performed; also, the authorizations to replenish the N.O.W. accounts do not indicate what the account is being reimbursed for. From January 26, 1984 to July 9, 1984, four authorizations totaling \$71,000.00 were used to replenish the N.O.W. account. Four authorizations totaling \$195,000.00 did not give any reason for the authorization.
- D. The original mortgage was not in file, as required by Regulation .29A(2)(f).
- E. The file did not contain an original current insurance policy, as required by Regulation .29A(2)(d).
- F. No title policy was in file, as required by Regulation .29A(2)(e). A fee for a policy was charged.

Comment 6:

Karol Springs

On April 30, 1984, the association granted eight land acquisition and development loans totaling \$15,000,000.00. The borrowers are eight corporations in which Association Director and President Jeffrey Levitt is the only listed director. The land securing the loan is located in Coral Gables, Florida, and is zoned for a planned unit development. The loans have a three year term. The interest rate is prime + 2% and a minimum of 14%. A three point loan fee was charged on each loan.

Association Director, Jeffrey Levitt is also a general and limited partner in Karol Springs Limited Partnership I. He is listed to receive 98% of the profits.

The appraisals dated June 10, 1984, one month after the loans were settled, revealed the following:

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Comment 6: (Cont.)

Loan No.	Parcel	Loan Amount	Appraised Value	Loan-to-Value Ratio
5279	L	\$6,000,000.00	\$5,390,000.00	111%
5280	J	1,600,000.00	1,535,000.00	104%
5281	D	2,120,000.00	1,750,000.00	121%
5282	C	1,030,000.00	1,090,000.00	94.5%
5283	Q	1,100,000.00	965,000.00	114%
5284	B	1,100,000.00	985,000.00	112%
5285	I	750,000.00	785,000.00	95.5%
5286	R	1,300,000.00	1,140,000.00	114%

According to the association's controller, the association and its service corporations have pledged various securities in return for a \$1,900,000.00 irrevocable standby letter of credit at Union Trust for the Karol Springs Project.

Association Vice President Dennis Guldice has verbally indicated that the association intends to sell an 80% participation in the Karol Springs mortgage loans.

The following items of concern were noted:

- The appraisals were made subsequent to the loan date. Regulation .23B states in part, "Before an association shall make a loan to be secured by mortgage on real property, it shall first obtain a written appraisal of this property."
- The loan-to-appraisal ratios exceeded the 75% limitation set forth in Regulation .30C(8).

\$6,000,000.00	\$5,390,000.00
1,600,000.00	1,535,000.00
2,120,000.00	1,750,000.00
1,030,000.00	1,090,000.00
1,100,000.00	965,000.00
1,100,000.00	985,000.00
750,000.00	785,000.00
1,300,000.00	1,140,000.00
- The loans were not approved by the Division Director as required by Title 9-307(b)(2)(i) of the Financial Institutions Article.
- The loan files did not contain applications as required by Regulation .29A(2)(a).

Comment 7:

Karol's Landing

the association's controller has advised that the association has pledged various securities in return for a standby letter of credit at Union Trust for the Karol Springs Project. On December 14, 1983, the association granted a \$4,500,000.00 land loan to Karol's Landing Ltd. Partnership. The 3 year loan is at prime plus 2%. A 3% commitment fee was charged. The loan is secured by 109.003+ acres of land on Back River Neck Road.

The following areas of concern were noted:

- The total distributed for land acquisition was \$2,706,103.27. The sales agreement showed a sales price of \$2,100,000.00 to Old Court Investment Corporation and L & P Realty Corporation. Director Levitt is a principal in L & P Realty Corporation. The association is requested to explain how the land was sold to Karol's Landing Limited Partnership; the association is also requested to explain the \$600,000.00 difference between the sales price and the disbursement shown on the settlement sheet.
- \$1,412,597.16 of the loan proceeds were used January 3, 1984 to pay off a mortgage. The association is requested to reply as to who held the mortgage that was paid off.
- On March 9, 1984, \$113,680.30 was disbursed from LIP to pay December, January and February interest on the loan.
- A letter dated March 15, 1984 from a general partner indicated that they were not in a position to carry the loan at present rates and requested that an interest reserve be established. On June 12, 1984, the LIP account was deleted. The association is requested to explain the loan underwriting guidelines used in granting the loan and how the interest is to be paid in the future.

Comment 7: (Cont.)

- E. The loan file did not contain an appraisal as required by Regulation .29A(2)(b).
- F. The association is requested to explain why it underwrote a loan for 214% of the indicated sales price.

Comment 8:

World Building Limited Partnership

On June 2, 1983, the association granted a \$2,219,000.00 mortgage loan to World Building Limited Partnership. The loan has a 10-year term with a 12 1/2% interest rate. Interest is payable at 9% until January 12, 1986. The difference is due when the loan is paid off. The principal is non-amortizing. Old Court Savings and Loan's subsidiaries received a 1% general and a 4% limited partnership interest. A 3% loan fee was charged.

The security is a 10-story office building in Silver Spring, Maryland.

All expenses and the purchase deposit were reimbursed from the loan proceeds. The loan amount was 120% of the purchase price.

Based on a copy of the partnership's 1983 tax return and April 30, 1984 financial statement, no cash capital contributions were made by the partners. The mortgage note limits the partners' liability to the security only.

The appraisal was dated September 5, 1983, or three months after the loan was granted. The appraisal gives an investment value instead of a market value. The appraiser states that "investment value is considered a value to a particular investor, based upon individual investment requirements, as distinguished from the concept of market value, which is impersonal and detached."

In November, 1983, the association loaned \$40,000.00 to three of the outside partners, in the form of an unsecured note loan. They, in turn, loaned the money to the partnership. Old Court Joint Venture loaned the partnership the other \$40,000.00 of the \$80,000.00 needed for improvements.

The following items of concern were noted:

- A. As of April 30, 1984, it appears that the association and its subsidiaries bear all of the risk of this loan, but will only benefit in 50% of the profits.
- B. The marketability of the loan is questionable because of the interest rate, high loan-to-purchase ratio, 100% financing and lack of a market value appraisal.
- C. The loan-to-market value cannot be determined since the appraisal gives investment value. However, if the market value was the same or less than the investment value, the loan would exceed the 75% or market value limitation set forth in Regulation .30C(5).
- D. The association granted the loan approximately three months before the appraisal date. Regulation .238 states in part that "before an association shall make a loan to be secured by mortgage on real property, it shall first obtain a written appraisal of this property."

Comment 9:

2389 Boston Street

On May 14, 1984, the association granted a \$157,500.00 investment loan to Jerome Cardin. The mortgage has an interest rate of prime + 1%, floor at 10%, ceiling at 15%. It is a 25-year loan with a three year call provision. No loan fee was charged. The deed of trust states in part that, "the borrower and his successors and assigns are hereby full and completely exculpated for any and all liability hereunder." The loan is commercially insured.

The property shown on the deed of trust securing the loan is 2389 Boston Street. The appraisal includes \$18,000.00 for a boat slip. The boat slip is not part of the deed of trust. The loan-to-appraisal ratio after subtracting the boat slip is 99.9%. Regulation .30C(13)(b) limits insured loans secured by non-homeowner property to 90% of the market value.

Comment 10

Summit Ridge Partnership

The association has granted six development and construction loans totaling \$10,804,000.00 to Summit Ridge Partnership. The loans are secured by townhouses and garden apartments. One of the partners is Summit Ridge Financial Group, which is owned by Old Court Joint Venture, a wholly-owned subsidiary of Old Court Savings and Loan.

On January 25, 1984, the subsidiary, Summit Ridge Financial Group, purchased all the outstanding stock of the other partners for \$625,000.00 and 5% of the future profits.

The following items of concern were noted:

- A. The appraisal made available did not address the complete project. The loan-to-value ratio based on this appraisal is 106%.
- B. The stock certificates did not show Summit Ridge Financial Group as assignee.

Comment 11:

Eastern Development Corporation

On January 19, 1984, the association granted a \$370,000.00 land acquisition loan to Eastern Development Corporation to purchase four Ocean City lots. The loan amount was 117% of the purchase price.

The following items of concern were noted:

- A. The loan amount was 89.9% of the market value. This is in excess of the 70% limitation set forth in Regulation .30C(7).
- B. It appears that \$38,725.00 of the proceeds went to Chadford Associates, owners of a Baltimore project. The association is requested to reply as to why this disbursement was made.

Comment 12:

Woodington West General Partnership

On December 1, 1983, the association granted a \$1,400,000.00, 12½%, 30-year mortgage loan to Woodington West General Partnership. A 2% loan origination fee was charged. The loan is secured by an apartment complex. The following areas of concern were noted:

- A. The loan-to-value ratio of 88% exceeds the 80% limitation set forth in Regulation .30C(4)(b). Furthermore, the appraised value is after renovation; however, it was noted that no funds from the loan or borrower were placed in escrow for renovation.
- B. The loan amount is 103.6% of the purchase price.

Comment 13:

Zinn Property Limited

This loan was granted August 9, 1983 in the amount of \$2,900,000.00. The loan was 116% of the purchase price. The rate is prime plus two percent, with a 12½% floor and a 15½% ceiling. However, interest in excess of 10% will accrue and will not be payable for three years; the loan term is three years. A three point fee was charged, and the association's service corporations received a 50% equity interest, including a general partnership interest.

The mortgage note limits the partnership's liability to the property.

Comment 13: (Cont.)

The association, directly and through its subsidiaries, financed 100% of the purchase, including the deposit. The association agreed to advance sums for the interest during the first two years.

The property currently contains farm buildings and a house.

The following areas of concern were noted:

- A. The appraisal is on 90 acres, whereas the property consists of 88½ acres.
- B. As of April 30, 1984, the association and its subsidiaries bore all the risk exposure but were entitled to only 50% of the profits.

Comment 14:

A review of loan-to-value ratios revealed the following:

- A. For loan No. 4385-5, the loan-to-value ratio of 86.1% exceeds the 80% limitation contained in Regulation .30C(10).
- B. For loan No. 5000, the loan-to-value ratio of 93.9% exceeds the 80% limitation contained in Regulation .30C(4)(b). This loan is a refinance of a prior association-held mortgage.

Comment 15:

At the conclusion of the examination, the examiners provided management with an exception sheet which listed technical deficiencies in the area of loan file documentation.

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. Copy attached.

Comment 16:

An analysis of the subsidiary mortgage loan records reflected the existence of forty-three delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$3,530,469.01 as of the date of the current examination, representing a delinquency ratio of 0.9% of the total mortgage loan balances outstanding.

Comment 17:

An analysis of the subsidiary unsecured loan records reflected the existence of fourteen delinquent accounts as determined by the definition set forth in Regulation .01G. The outstanding balance of these accounts totaled \$4,576,991.34 as of the date of the current examination, representing a delinquency ratio of 44.7% of the total unsecured loan balances outstanding. Included in the \$4,576,991.34 delinquency total is the \$3,410,000.00 balance of unrecorded second mortgage loan No. 4570 (Whitpain Associates - Meadowick Apartments).

Comment 18:

A review of the association's financial futures records revealed the following:

- A. The association's Board of Directors did not in its minutes reflect approval of internal control procedures, policy objectives, limits, duties, responsibilities and limits of authority of the personnel as required by Title 12 Code of Federal Regulations (CFR) Section 563.17-4(d).
- B. The minutes did not reflect that the Board of Directors reviewed the position limit, all outstanding contract positions and unrealized gains or losses on those positions at each regular Board meeting, as required by 12 CFR Section 563.17-4(d).

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MORTGAGE FILE EXCEPTIONS

as of April 30, 1984

(O - denotes missing; X - incomplete document)

Loan No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	LOAN AMOUNT
Loan No.	Mort. Inst.	Ins. Pol.	Applica-tion	Appr.	Title Cert.	AR-chieve	Settl. Sheet	
4364	1/24/83		0	0				1,911,000
4350	2/1/83	0	0					4,100,000
4370	3/21/83		0					1,500,000
4389	2/20/83		0					130,000
4401	4/22/83		0					450,000
4468	12/1/83	0	0		0			800,000
4425	8/6/83		0					1,800,000
4488	6/17/83		0					3,163,000
4495	5/12/83	0	0					1,300,000
1508	4/1/83	0			0			2,218,000
2570	7/26/83	0	0		0			3,400,000
12	8/9/83	0	0	(1)	(1)	(1)	(1)	2,900,000
21	8/11/83		0					1,135,000
4236	5/22/83	0	0					5,200,000
4234	10/2/83	0	0	0	0		0	1,000,000
4288	10/4/83			0				2,635,000
4343	12/1/83	0			0			1,400,000
4374	12/14/83			0				4,500,000
4397	12/20/83	0	0	0	0			1,200,000
4394	12/21/83	0	0	0				2,400,000
4418	12/22/83		0	0				600,000
4441	2/16/84	0	0	0	0			4,800,000
4450	1/14/84	0			0			1,900,000
4474	1/25/84	0	0	0	0			4,100,000
4478	2/1/84	0	0	0				1,195,000
4488	2/1/84	0	0					2,330,000
4497	2/12/84	0	0	0	0			925,000
4500	3/13/84		0		0			2,000,000
4504	3/13/84	0	0	0	0			2,200,000
4505	3/20/84	0	0		0			2,327,760

FILE ADJUSTED
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Comment 18: (Cont.)

- C. The association did not maintain a contract register as required by 12 CFR Section 563.17-4(f)(1).
- D. The association does not account for gains and losses in the manner prescribed by 12 CFR Section 563.17-4(g); Instead, all gains and losses are recorded annually.

Comment 19:

- A review of the associations options records revealed the following:
 - A. The association's Board of Directors minutes did not reflect adoption of policy objectives, limits, and authorization of personnel to engage in financial options which sets forth their duties and limits of authority as required by 12 CFR Section 563.17-5(d).
 - B. The minutes did not reflect that the Board of Directors reviews the position limit, outstanding options contract positions and unrealized gains and losses as required by 12 CFR Section 563.17-5(d).
 - C. The association did not maintain a contract register as required by 12 CFR Section 563.17-5(f)(1).

Comment 20:

A review of the books and accounting records revealed the following:

- A. The association could not provide advices for the purchase of the following treasury bonds:

<u>Rate</u>	<u>Maturity</u>	<u>Amount</u>
10.375%	November 15, 2012	\$1,000,000.00
10.375%	November 15, 2012	1,000,000.00
10.375%	November 15, 2012	1,000,000.00
10.375%	November 15, 2012	1,000,000.00
		<u>\$4,000,000.00</u>

- B. The association cannot identify the securities involved with the \$25,566,438.00 dollar roll.
- C. The association had adjustments from May 20, 1983 reflected on its April 30, 1984 reconciliation of the funds held in escrow accounts. Adjustments and corrections should be corrected on the subsidiary cards and the general ledger promptly.
- D. The association has not developed a system to assure collection of proper interest charges when the mortgage instrument calls for deferral of a portion of the interest charge to a later date.
- E. As of the current examination date, the association is carrying a debit balance of \$496,320.89 in general ledger account No. 1910-200, "Exchange". The association is requested to furnish a detailed analysis of this account with the response to this comment.
- F. As of the current examination date, the association is carrying the following receivables on its books:

<u>General Ledger No.</u>	<u>Account Title</u>	<u>Balance (debit)</u>
1910-100	Accounts Receivable	\$330,635.71
1910-500	A/R - Security	576,736.46
1940-200	Due from Levitt/Pearl-Stein	361,866.82

The association is requested to furnish a detailed analysis of these accounts with the response to this comment.

Comment 21:

An analysis of the subsidiary mortgage expense accounts reflected that fifteen accounts had debit balances totaling \$7,912.14 as of the date of the current examination.

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Comment 21: (Cont.)

The mortgagors' expense accounts should be reviewed and adjustments to the required payments should be made to compensate for the increased cost of taxes and insurance.

Comment 22:

A review of the association's fidelity bond revealed that the present coverage of \$2,000,000.00 is \$185,000.00 less than the \$2,185,000.00 required by Regulation .22.

Comment 23:

The association did not reflect its total savings liability on the Franchise Tax on Savings Accounts (MRD K-8). The amount shown on the form was \$1,787,773.00 less than the true liability. The difference is attributable to overdraft N.O.W. accounts as of December 31, 1983. This difference resulted in underpayment of the tax by \$232.82.

Comment 24:

During the course of the examination, the examiners requested but did not receive a schedule of officers' and directors' indebtedness to the association.

Accordingly, the association is directed to furnish this schedule with the response to this comment.

Comment 25:

A review of the association's response to the comments contained in the supervisory letter pertaining to the prior examination dated December 31, 1982 revealed the following:

The association did not respond to Comment #21-E, which reads as follows --

E. There is no evidence available to verify that check Nos. 2457, 2628 and 2459 written to the order of "Old Court, J. Levitt" for disbursement to the borrower actually were eventually disbursed to the borrowers.

Accordingly, the association is requested to respond to this comment in detail, and to provide photocopies (front and back) of check Nos. 2457, 2459, and 2628 which show that these checks were received by and properly endorsed by the borrowers.

INFORMATIONAL COMMENTS:

A. For the nine month period ending April 30, 1984, the association recorded approximately \$6,606,000.00 in loan fees. A substantial portion of these fees were taken out of loan proceeds. The association also has a practice of paying interest on mortgages through interest reserves. The association is requested to review its cash flow requirements to insure that it is generating sufficient net cash income to meet its operating expenses, including dividends.

B. A comparative analysis of the financial condition of the association as of April 30, 1984 and December 31, 1982 revealed the following:

			Increase (Decrease)	
	April 30, 1984	December 31, 1982	Dollar Amount	Per Cent
Total Savings	\$324,574,764	\$104,731,185	\$219,843,579	209.9
Total Net Worth	997,859	(693,841)	1,691,700	243.8*
Total Mortgage Loans	392,314,251	83,333,989	308,980,262	370.8
Total Assets	497,920,967	146,813,275	351,107,692	239.2

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*Based on change from negative balance @ December 31, 1982.

INFORMATIONAL COMMENTS: (Cont.)

C. A review of the association's earnings for the calendar/fiscal year ended July 31, 1983 disclosed the following:

	<u>Dollar Amount</u>	<u>% to Net Oper. Inc.</u>
1. Net operating income (Page 6, Line 1)	<u>\$15,573,812.78</u>	<u>100.0</u>
2. Taxes (Page 6, Line 4)	-0-	---
3. Earnings distributed on savings (Page 6, Line 3)	11,884,210.68	76.3
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)	3,689,602.10	23.7
5. Net income distributed (Total of 2, 3 and 4 above)	<u>\$15,573,812.78</u>	<u>100.0</u>

INFORMATIONAL COMMENTS: (Cont.)

C. A review of the association's earnings for the calendar/fiscal year ended July 31, 1983 disclosed the following:

1. Net operating income (Page 6, Line 1)		
2. Taxes (Page 6, Line 4)		
3. Earnings distributed on savings (Page 6, Line 3)		
4. Net income available for reserves and surplus (Page 6, Line 2 and Line 6)		
5. Net income distributed (Total of 2, 3 and 4 above)		

EXECUTIVE SESSION
October 11, 1984

Board of Savings and Loan Association Commissioners

Mr. Charles Hogg and Mr. Martin Becker of MSSIC attended the Executive Session of the Board meeting.

Old Court Savings and Loan, Inc.

Mr. Hogg stated that the Board of Savings and Loan Association Commissioners at the last meeting asked that MSSIC make a financial presentation on Old Court Savings and Loan, Inc. Old Court is to be the receiving institution for a merger with First Progressive Savings & Loan Association, Inc. MSSIC's Board has taken the position that this merger will take place on or before October 31, 1984, and should it not, for reasons other than those controlled by the principals, that the principals should hypothecate funds to bring and keep First Progressive at a 3% net worth level. As a party to that merger, MSSIC will enter into an agreement with Old Court outlining certain changes in the operations of the new surviving company; basically those that have to do with security portfolios and in compliance with certain lending regulations, their record keeping and audit procedures. As a whole, we are looking forward to that merger which will resolve one problem, and we are anticipating action which will not put us into a position of having a larger problem. We have had good cooperation from the Division on both of these companies and we believe they will work.

Mr. Hogg then referenced that the Board of Commissioners asked that MSSIC address two specific items. The first was the reasons for the significant adjustments in July to the net worth of Old Court and secondly, the source and correctness of profits reported for the fiscal year ended July 31, 1984.

Mr. Becker stated that from June to July, there was a decline in reported net worth of about \$3.6 million. The major portion of this decline, about \$2.2 million, was due to non cash year end adjustments in service corporations. Service corporations and joint ventures are much more difficult to account for in terms of matching income and the expenses, and it is not uncommon with service corporations for a lot of the non cash expenses to be recognized at the end of the year. In looking at the joint ventures in the service corporation, the \$2.2 million are not losses in projects, but some non cash expenses that were recognized. For tax planning purposes, the association tried to recognize expenses in July and defer profits into August. In July there also appeared for the first time a figure of \$1.3 million for estimated income taxes for the year.

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Mr. Gisriel expressed his concern over the large investments by some associations, such as Old Court, in real estate. He questioned whether there was any self-dealing in the projects and whether the Income in these projects was real.

Mr. Hogg stated that no self-dealing was evident in the real estate joint ventures at Old Court. Mr. Becker stated that with respect to income recognition from investments in real estate acquisition, development and construction, some accounting rulings and changes will be forthcoming. Mr. Hogg added that these rulings will deal with the timing of income recognition.

Mr. Stocksdale expressed concern over the percentage of larger loans at Old Court involving construction, land and land development. He added that fees are being recognized, but whether there is any real profit in the project won't be determined until completion and sale. Mr. Hogg referenced that MSSIC has actually done site inspections of various Old Court projects and has been very pleased with the product and its apparent viability.

Mr. Fitzgerald questioned the \$94 million reflected as Other Liabilities at Old Court and the \$74 million of borrowed money. Mr. Becker stated that the \$94 million reflected some accounts payable to brokers for securities purchased, but not yet paid for; and about \$70 million of this figure was simply Loans in Process (LIP). The \$74 million in borrowed money was mostly reverse repurchase agreements. Mr. Hogg added that both MSSIC and the Division have informed Mr. Levitt that he is expected to reduce his borrowed position.

Mr. Hogg and Mr. Becker then discussed generally some real estate projects of Old Court which would be generating some very significant real profits which would help defray the losses which would be brought into Old Court via the merger with First Progressive. As part of the merger MSSIC is requiring that Mr. Levitt hire some middle management at Old Court. The merger will be an unassisted merger into Old Court.

Mr. Stocksdale asked whether the Board should go on record as requiring the merger of First Progressive due to their losses. Mr. LeCompte stated that Mr. Brown has already granted preliminary approval of the merger, but staff did not want a supervisory merger which could become a media event.

A discussion ensued and the Board decided to reconsider formal action if the merger of First Progressive was not completed by their November meeting.

Merritt Commercial Savings and Loan, Inc.

Mr. Gisriel stated that he is also concerned over Merritt investing some \$38 million in a building with total net worth of some \$8 million.

Mr. Hogg stated that MSSIC was concerned over both the current stockholders dispute at Merritt and the Merritt Towers. The stockholders dispute is being handled by Merritt in a very professional manner. The principals, Mr. Klein and Mr. Gibbs, are very close to agreeing to a buy/sell arrangement to resolve the dispute. There isn't that much money actually in the building at this time and Merritt is looking at either syndicating the project or obtaining some partners and conventional financing. Mr. Stocksdale questioned what was Merritt's liability to the builder at this point!

Liberty Savings and Loan Association, Inc.

Mr. Hogg stated that MSSIC and this Board are well aware of the problems related to Frank Peach and his pending trial before the Baltimore County State's Attorney. MSSIC has taken the perspective that there are two parts to Liberty Savings and Loan. The old part is the Peach related problems which include some troubled real estate; and a new Liberty consisting of its current operation. Under Judy Miles-Budoff, the current operation of Liberty is doing quite well. However, the old problems are considerable and will be a drag on the current operation for quite awhile.

Mr. Stocksdale asked if MSSIC had considered going against Frank Peach for any losses incurred. Mr. Hogg stated that this was a possibility if MSSIC actually had to pay to assist a merger or to liquidate the institution. Mr. FitzGerald asked if Liberty's board consisted of many of the same directors who were there when Frank Peach was running the association. Mr. Hogg stated there were and it was felt that the board was manipulated by Frank Peach rather than being accomplices. Mr. LeCompte added that the State's Attorneys' Office looked very closely as to whether to indict the board with Frank Peach, but they decided against indicting them. Mr. LeCompte said that as we do not have removal powers, this board actually got rid of Frank Peach. They are a group of know businessmen in the area, but they are not sophisticated real estate or savings and loan people.

Brokered Deposits - Robert Frierson

Mr. Frierson informed the Board that he had received a letter from Senator Howard Denis asking that he draft language for a bill which would permit limitations to be placed on brokered deposits in State-chartered associations. Mr. Frierson stated that he had informed Senator Denis that he would have to discuss the language with this Board for technical assistance.

A discussion ensued on the proposed language in Mr. Frierson's draft. After some minor changes, Mr. FitzGerald asked if this language would permit this Board to pass their currently proposed regulation to place percentage limitations on brokered deposits. Mr. Frierson said he believed it would, but this would have to be checked with the Antitrust Division.

There was then another lengthy discussion on possible other statutory amendments which would broaden the Board's regulatory powers.

BFS Mortgage Company

Mr. Brown stated that the Board had been provided with two additional appraisals on the BFS Mortgage Company. These appraisals are part of a proposal whereby the Saul Mortgage Company will become a subsidiary of the Chevy Chase Savings and Loan.

Mr. Gisriel referenced that he had met with Mr. Laudeman who had explained that this acquisition was to be done through a holding company which will be called Lakeco Sub. There will be no cost to Chevy Chase Savings and Loan, Inc. The only problem he saw was that this transaction will result in an increase of some \$34 to \$38 million in net worth representing the appraised value of the Saul Mortgage Company. This net worth will then become a leverage factor for additional growth and large loans.

Mr. Gisriel added that he was concerned over the recent lack of profits in the Saul Mortgage Company. He understood that the Saul Mortgage Company had opened quite a few new offices throughout the country at a considerable expense. One reason for this expansion was to provide loan offices through which they could offer adjustable rate mortgage loans for Chevy Chase Savings and Loan. Chevy Chase says they have not been able to generate sufficient interest in adjustable rate loans in the D.C. area. Mr. Gisriel noted that at the present time Chevy Chase does have almost 60% of their portfolio in adjustable rate loans which is a very positive aspect of their operation, which few other associations have. Mr. Gisriel added that there is a favorable arrangement to Chevy Chase Savings and Loan with respect to the escrow accounts on the loans the Saul Company manages.

Mr. LeCompte stated that as Mr. Gisriel had noted, there is no cost or liability to the savings and loan in this deal. The holding company, Lakeco Sub, will issue the \$34 to \$38 million in their preferred stock to the owners of the BFS Mortgage Company. Lakeco will then donate this asset to their subsidiary which is Chevy Chase Savings and Loan. Mr. LeCompte added that there is a preferred stock dividend each year of some \$2.8 million. This money is a liability from Lakeco to the current owners of the Saul Mortgage Company and not a liability of Chevy Chase. Mr. Gisriel noted that one reason for this structure was tax advantages of about \$11 million.

At this time the Board called into Executive Session Mr. Jim Laudeman and Mr. George Rogers as counsel to Chevy Chase. Mr. Laudeman went through the structure of the proposal stating that the only issue actually before this Board was the approval of a service corporation to be known as the BFS Mortgage Company. That he felt that the owners of Chevy Chase had every right to donate an asset to Chevy Chase. He explained that the reason for this whole proposal is to be able to obtain FSLIC insurance of accounts.

Mr. Gisriel and Mr. Stocksdale commented that they believe this matter does come before our Board because this donated asset is to be considered as net worth. This Board has the ability to determine what constitutes net worth. They added that the appraised value of a company, which is a judgemental opinion

based upon certain prevailing market conditions, may not be the proper amount to be considered as net worth.

After further discussion of the value of the BFS Mortgage Company, the Board agreed in Executive Session to accept the \$38 million value for net worth, noting that this was considerably less than the \$44 million average of the three separate appraisals.

EXECUTIVE SESSION
December 13, 1984

Board of Savings and Loan Association Commissioners

Mr. Balder stated that Mr. Gisriel could not be present for today's meeting and therefore he would be Acting Chairman for the Board meeting.

He asked Mr. Brown if anything had been done with respect to the issue of MSSIC attending our Executive Sessions. Mr. Brown stated with the recent move, several days spent at legislative meetings and the upcoming holidays, a draft letter was only recently sent to Mr. Gisriel.

New Charter - Presidential Savings Association

Mr. LeCompte stated that the only issue staff noted in the application was that A. Bruce Cleveland who appears to be the principal of this new association is also the President, Chairman and principal of Government Investors Trust (GIT), which is probably the second largest money fund located in the metropolitan Washington area. The Board has Regulation .43 which prohibits officers and directors from serving with two competing savings and loans or banks. Although a money market fund is not addressed in this regulation, money market mutual funds do compete with savings and loans and banks in the D.C. area for funds.

Mr. FitzGerald noted that he understood that the MSSIC membership committee had recently approved this application. Mr. Stocksdale asked if Commercial Credit owning a savings and loan wasn't similar.

A lengthy discussion ensued concerning Regulation .43 and potential conflict situations involving GIT and Presidential. The consensus of the Board was that technically Regulation .43 did not apply to money funds, however the intent of the regulation with respect to competing institutions could apply to a money market mutual fund. The Board decided to request a memo from Mr. Cleveland asking that he address the issue of conflicts of interest in these competing companies which have the same management.

It was noted that the financials, and the fitness and character of the incorporators and officers were quite satisfactory. Mrs. Erwin stated that Regulation .43 should be reviewed and possibly amended.

Sequoia - Loan Loss Deferrals

Mr. Brown stated Sequoia has \$153,000 in net worth and they have applied to the Federal Home Loan Bank for a conversion to a federal stock-chartered

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savings bank. Sequoia had \$2 million in U.S. Treasury Bonds which matured in 2012 and carried a rate of 10 3/8%. They sold the bond at a \$189,000 loss. They state that they believe this loss can be written off over the remaining life of the bond.

In December 1981, this Board adopted a policy, which was similar to federal regulatory change at the same time, which permitted losses of the sale of mortgage loans or mortgage backed securities to be deferred over the life of loan or related security. The association has submitted a letter from the law firm of Silver, Freedman and Taff which states that under FSLIC regulations, this loss on the bond sale could be deferred.

The Board felt that they would permit this loss deferral if it was permitted for federal associations. They asked that staff contact the Federal Home Loan Bank.

Regulation .18

Mr. Brown stated that several amendments were made to Regulation .18 at the November meeting and it was to be republished for comment. However, when preparing the regulation for publication, staff noted certain changes that it felt should be made and we have brought the regulation back to the Board. He also noted that he understood other Commissioners also felt some changes were necessary.

Mr. Balder stated that he felt item #6 should be changed. He did not feel this Board should have a regulation which takes a position with respect to tax laws. He also stated that item #7 should be amended to include "conspicuously stated" as this phrase is also used in several places in the regulation.

Mr. LeCompte stated that in item #2 the last line or so creates a possible loophole concerning the advertisement of accounts with more than one rate. He suggested deleting "will be and the initial rate to be paid is higher than subsequent rates."

The Board then discussed some specific advertising problems and whether the regulation now adequately addressed these issues. No further amendments were made.

Fairfax Savings Association - Gift and Free Checking

Mr. Brown stated that Fairfax wishes the Board to review a new N.O.W. account plan they would like to offer. The account would be a non-interest bearing account which would give the \$20 gift PLUS free checks. The free checks would be worth approximately \$4 to \$8.

A discussion ensued on whether free checks was a "gift" under our regulation. Mr. Hewitt stated that the commercial banks do not consider free checks as a giveaway and he didn't feel that they were intended to be considered as part of our gift limitation. The Board concurred with this position. The Board also referenced that the \$10 limitation for accounts of under \$5,000 would apply to this proposal.

Liberty Savings and Loan Association, Inc.

Mr. LeCompte stated that Liberty Savings and Loan was able to have Ohio Casualty reinstate their blanket bond. The only condition is that they must remain profitable. He noted that as mentioned last month, Liberty does reflect a negative net worth of \$32,801. This position is due to real estate write offs which were part of the Frank Peach problems of almost two years ago. Mr. Peach has been indicted and is scheduled for trial early next year. Based upon several pending projects, the association should have positive net worth by the end of the year.

Old Court Savings and Loan, Inc.

Mr. Stocksdale stated that Old Court is in violation of the commercial real estate lending limitation and now there is an article in the paper about them being involved in a \$2 billion project in Florida. Also, he questioned the fluctuation in their profitability.

Mr. Brown explained that they have until the end of December to reply to our examination report and we would evaluate their operation at that time. Also, the newspaper article on Old Court's involvement in the Poinciana project in Florida is very misleading. Old Court has about \$4½ million in a very secured real estate acquisition loan and no other financing commitment.

After discussion, the Board felt that they would like to have the principals of Old Court address the Board at a future executive session meeting.

Merritt Commercial Savings & Loan Association

Mr. Brown stated that the stockholders dispute was settled with Mr. Gibbs selling his interest in Merritt to Mr. Klein for \$7 million. Mr. Klein had obtained \$3 million from outside sources and had borrowed \$4 million from Merritt secured by a real estate project in Ocean City known as Heron Harbour which has ample net value to cover the loan amount.

Mr. Balder asked about Merritt Towers, which doesn't appear to be progressing. Mr. Brown stated that the stockholders dispute had hampered the progress of the building. A lengthy discussion then ensued concerning the financing of Merritt Towers and any contractual obligations Merritt has with the builder.

The Board decided that they would like the principals of Merritt to address the Board at its January meeting on Merritt Towers and other issues involving Merritt's operation.

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

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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

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.

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.

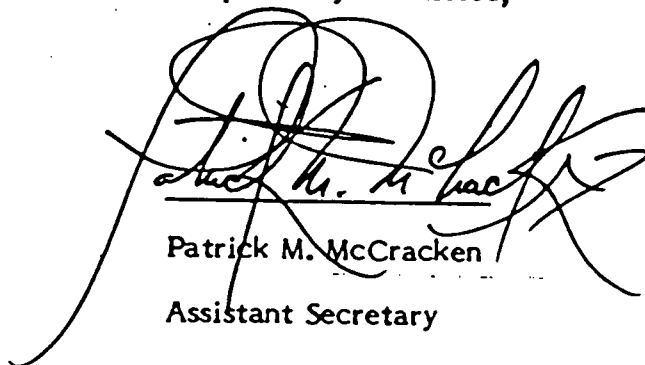
Mr. Otto moved that the Committee recommend to the MSSIC Board that a temporary moratorium be placed on new members, until staff completes its review and determination of appropriate current membership requirements. Mr.

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,

A large, stylized handwritten signature in black ink, appearing to read 'Patrick M. McCracken', is written over a horizontal line. The signature is highly cursive and loops around itself.

Patrick M. McCracken

Assistant Secretary

PMM/law

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MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, DECEMBER 19, 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 December 19, 1984.

The following Directors were present:

George W. H. Pierson, Chairman

Frances F. Anderson

John C. Donohue, Sr.

Leonard Bass

Henry R. Elsnic

Joseph P. Carroll

John D. Faulkner, Jr.

Michael J. Dietz

James D. Laudeman, Jr.

Jerome F. Dolivka

Terry L. Neifeld

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; Lesley A. Wernsdorfer, secretary; Terry F. Hall, Venable, Baetjer and Howard; Craig T. Garrison, Union Trust Company of Maryland; Charles H. Brown, Jr., Director, Division of Savings and Loan Associations.

Mr. Pierson called the meeting to order at 9:09 a.m. and noted that a quorum was present.

INVESTMENT REPORTS

Mr. Garrison reviewed the investment reports and the general economic narrative. Following a brief discussion Mr. Garrison left the meeting. (Copies of the investment reports and the narrative are attached to the permanent file copy

of these minutes.)

COMMENTS BY THE CHAIRMAN

Mr. Pierson noted that he, Mr. Dolivka, Mr. Hogg, and Mr. Trice met with five vice presidents of Union Trust. They discussed the industry as a whole and also the Corporation's line of credit. Mr. Pierson stated that if there were any questions on this matter, he would be glad to answer them after the meeting.

Mr. Pierson mentioned that he is very disturbed that Mr. Willis Whitter has received confidential information available only to members of the MSSIC Board, MSSIC committees, and the MSSIC staff. He noted that Mr. Terry Hall, counsel for MSSIC, would explain, during the Old Business section of the meeting, the legal ramifications of this problem.

READING OF MINUTES OF THE BOARD MEETING OF NOVEMBER 28, 1984

Mr. Dietz moved to approve the minutes of the previous meeting, subject to an amendment to the Reports of the President on page eight which should state Executive Committee rather than Membership Committee. Mr. Faulkner seconded the motion, and it passed unanimously.

TREASURER'S REPORT

Mrs. Anderson reported the net operating income to be \$1,200,000 as of November 30, 1984. She noted that the advertising budget for 1985 would be increased by \$30,000. Mr. Hogg noted that television advertising exceeded the 1984 budget by \$10,000. He further noted that an implementation of a control factor between the Corporation and Gilbert Sandier is in order. It was also noted that approximately \$7600 would be regained through the sale of Question and Answer brochures to member associations.

Mr. Neifeld noted that it is interesting that insured savings have increased by \$1,000,000 over the past six months.

Mr. Neifeld then moved to accept the Treasurer's Report, Mr. Carroll

seconded, and the motion passed unanimously.

EXECUTIVE COMMITTEE REPORT

Mr. Pierson reported that the Executive Committee, at its meeting on December 17, 1984, restated that after January 1, 1985 and after each association has been given notice, it shall be the policy of the Corporation, when any association is in violation of any of the Corporation's Rules and Regulations, to file a formal protest with the Division of Savings and Loan Associations regarding the branch application of said association and that this protest will include a request for a hearing on specific branch applications.

Mr. Pierson further noted that the Insurance Coverage and the Salary, Compensation, and Benefits Committees have ably completed the tasks assigned to them, and that any further business in these areas will now be handled by the Executive Committee.

Mr. Elsnic moved to approve the Executive Committee report, Mr. Dolivka seconded, and the motion passed unanimously.

MEMBERSHIP COMMITTEE REPORT

Mr. Elsnic reported that the Membership Committee met for its regular monthly meeting on December 12, 1984. He then reported the following:

The Membership Committee expressed concern that MSSIC is not represented at exit interviews conducted by the Division of Savings and Loan Associations. The Committee suggests that a schedule of these interviews is obtained so that a MSSIC staff member can attend each exit interview.

In a review of specific associations discussed at the Membership Committee meeting, Mr. Elsnic noted the following:

Merritt Commercial. The Membership Committee discussed the status of Merritt Commercial Savings and Loan, Inc. The Committee expressed concern about the Associations decrease in net worth. The Committee asked that Heron

Harbor and King's Landing be reviewed.

Custom. In order to comply with MSSIC's net worth rule Custom Savings Association has agreed to decrease savings and as of December 5, 1984, they have decreased savings to \$243,000,000 and are, therefore, following their plan.

Southern Permanent. The Membership Committee is concerned that Southern Permanent Building Association is in violation of several MSSIC and Division Rules and Regulations. The Committee instructed the staff to send a cease-and-desist letter to Southern Permanent. Mr. Trice added that he had met with counsel for the Association and that they have agreed to hypothecate \$100,000 to bring them into compliance with MSSIC's net worth rule.

Potomac. Potomac Savings and Loan Association is in or near violation of several MSSIC rules and regulations and that they will be closely monitored.

Presidential. Representatives from Presidential appeared before the Committee to present their reasons for seeking MSSIC Insurance.

Liberty. Further details on a new insurance agreement between Liberty Savings and Loan Association and MSSIC will be given during the Report of the President.

Old Court. The Membership Committee made several recommendations regarding Old Court. These items will be individually presented under new business.

Mr. Elsnic stated that the Membership Committee voted to recommend a temporary moratorium on new members, but because only two of the members of the Membership Committee voted in favor, the motion is not considered to have passed. At this point, Mr. Pierson stated that, in the opinion of the chair, a majority of those present is necessary in order for a motion to pass. Mr. Bass asked about the sentiments of the Membership Committee concerning the temporary moratorium. Mr. Elsnic replied that the Committee feels that until

requirements for capital deposit have been clearly established, a temporary moratorium is in order. Mr. Pierson noted that this matter would be discussed in detail during New Business.

Mr. Bass moved to accept the Membership Committee report, Mr. Dietz seconded, and the motion passed unanimously.

BY-LAW REVIEW COMMITTEE REPORT

Mr. Hogg reported that the By-Law Review Committee is still considering moving Subtitle 'VII' from the By-Laws and placing it in the Rules and Regulations. There is still a question as to the definition of default and to the payment of insured accounts upon default. Mr. Hogg noted that a proposal would be presented to the By-Law Review Committee at its meeting on January 15, 1985.

Mr. Carroll moved to approve the By-Law Review Committee report, Mrs. Anderson seconded, and the motion passed unanimously.

CHEVY CHASE IMPACT STUDY COMMITTEE

Mr. Faulkner indicated that the Committee has received and reviewed the recommendations from Touche Ross and Trident Financial Corporation and that he would address the committee's findings under New Business. Mr. Dietz moved to accept the report, Mr. Carroll seconded, and the motion passed unanimously.

SALARY, COMPENSATION, AND BENEFITS COMMITTEE

Mr. Elsnic reported that Mr. Hogg submitted job descriptions and a schedule of salary increases for the MSSIC Staff, to be granted at Mr. Hogg's discretion. He said that the Committee unanimously approved these increases and that all future matters of this nature will be reviewed by the Executive Committee.

Mr. Dietz moved to accept the report, Mr. Faulkner seconded, and the motion passed unanimously.

AUDIT AND BUDGET COMMITTEE

Mr. Bass reported that the Committee approved the proposed 1985 budget. He also reported that it was decided that the informal search for another Investments portfolio manager will continue.

Mr. Nelfeld moved to accept the report, Mr. Carroll seconded, and the motion passed unanimously.

PREMIUM RESTRUCTURE COMMITTEE

Mr. Laudeman noted that insurance coverage by MSSIC should be changed to insurance coverage of FSLIC on Page 2 of the December 11, 1984 minutes of the Premium Restructure Committee. He further reported that the Committee had sought outside consulting assistance and has received a bid from Management Strategies, Inc. (MSI).

He also detailed three approaches currently under consideration:

1. Changing the manner of assessment.
2. Changing the amount of insurance coverage.
3. Changing the method of dealing with troubled associations.

He said that the Committee requested the Board to retain MSI to study risks in the MSSIC system, review possible changes to the C.R.F., look at changing limits on insurance, and possibly studying the feasibility of FSLIC type limits on insurance.

He concluded his remarks by stating that the outside consulting firm would have a non-political point of view and that their modeling package would be compatible with MSSIC's computer system.

Mr. Elsnic moved to accept the report, Mr. Dietz seconded, and the motion passed unanimously.

INSURANCE COVERAGE COMMITTEE REPORT

Mr. Donohue reported that the Committee recommends that MSSIC change

its health insurance policy from Travelers to Blue Cross/Blue Shield. He also reported that the Committee recommends that an umbrella insurance policy on automobiles be obtained. Mr. Hogg noted that the umbrella policy would be implemented following the receipt of a second price quote.

Mr. Carroll moved to accept the report, Mr. Bass seconded, and the motion was passed unanimously.

OLD BUSINESS

Mr. Laudeman and Mr. Hogg reported on the background of employees of Management Strategies, Inc. (MSI). Mr. Laudeman noted that the premium restructure study should be completed by June or July of 1985. He further noted that the Premium Restructure Committee would be meeting with MSI at regular intervals. There was discussion as to the probability of the proposed changes being accepted by the entire MSSIC membership. There was concern as to the payment schedule for the work done by MSI. Mr. Hogg noted that the payment would be on an hourly basis (\$65.00 per hour) so that if it was decided at any point during the study that MSI would no longer be of use to MSSIC, the full amount budgeted (not to exceed \$70,000) would not be paid. Mr. Faulkner said that MSI should review and comment on the adequacy of the present premium structure.

Mr. Carroll moved that:

1. Management Strategies, Inc. be retained for the premium restructure study at the fees indicated.

2. MSI report at regular intervals to the Corporation and meet on occasion with the Premium Restructure Committee to review progress and get the Committee's approval to continue.

3. MSI should also review and comment on MSSIC's present premium structure.

Mr. Donohue seconded the motion, and it passed by a majority vote with Mr.

Elsnic opposing.

At this point, Mr. Pierson stated that the agenda would be changed to allow Mr. Faulkner to leave immediately following his report of the Chevy Chase Impact Study Committee. Following Mr. Pierson's statement, Mr. Laudeman excused himself from the meeting.

Mr. Faulkner noted that the Committee met on December 12, 1984 and received reports from Touche Ross and Trident Financial. These reports stated that the problems revolve primarily around accounting. It was noted that there are 32 to 38 issues still unresolved.

Mrs. Anderson moved that until these issues are resolved, the Board's decision should be deferred. Mr. Faulkner seconded, and the motion passed unanimously.

At 10:55 Mr. Pierson called for a short break from the meeting. Mr. Faulkner then excused himself from the meeting. The meeting was called back to order at 11:07 at which point Mr. Laudeman re-entered the meeting, and Mr. Pierson called for a return to Old Business.

HABITUAL RULE VIOLATORS

Mr. Hogg noted that because the 15th of the month fell on a Saturday, the Periodic Performance Reports were not due in until the 17th therefore an up to date report was not available.

TREATMENT OF THE MEDIA BY MSSIC

At this point, Mr. Pierson restated his concern over the leak of confidential information to the press. He noted that MSSIC was put on the defensive at a recent meeting with Merritt Commercial Savings and Loan because Merritt's representatives were concerned about this same leak of confidential information.

Mr. Terry Hall spoke of the liabilities of MSSIC should this information lead

to bad publicity for specific associations or for all associations.

Mr. Pierson then stated that Mr. Hogg is the official spokesman for the Corporation, and that any Board, Committee, or Staff member who is contacted by any member of the press should notify Mr. Pierson or Mr. Hogg within 24 hours. He added that he does not intend to prevent or censor anyone regarding discussion with the media.

PROPOSAL OF NEW REGULATIONS

Mr. Hogg noted that the report of the Accounting Task Force has been distributed to each Director today. He further noted that no action was required at this time but that the material should be reviewed for the next Board meeting.

NEW BUSINESS

Adoption of 1985 Budget.

Mr. Bass moved to pass the 1985 Budget, and Mrs. Anderson seconded. Following discussion of certain items (e.g. replacement automobiles, Advertising, etc.), the motion passed unanimously.

Recommendations of Membership Committee.

Mr. Elsnic moved that the Membership Committee's recommendation that Presidential Savings Association's application for membership be approved, and Mr. Bass seconded the motion. After considerable discussion about the procedure for application and the incorporators of Presidential, the motion was passed with an amendment stating that acceptance of Presidential is subject to approval of its application by the Board of Commissioners.

Mr. Elsnic presented the five conditions of Liberty Savings and Loan Association's new Insurance Agreement. Mr. Pierson noted that the Executive Committee agreed with the conditions subject to the deletion of the fifth item which states that any new growth be supported by an increase of 3% net worth to savings ratio, exclusive of dividends. Mr. Elsnic moved that the recommendation

as made by the Membership Committee be accepted. Mr. Neifeld seconded. Mr. Trice noted that Ms. Judith Budoff stated that it would be impossible for Liberty to comply with the fifth condition. The pursuant discussion led to Mr. Elsnic's withdrawal of his motion. Mr. Carroll moved to authorize the Staff to achieve a workable Insurance Agreement based on the first four items, deleting the fifth. Mr. Laudeman seconded, and the motion passed by majority vote with Mr. Neifeld opposed.

Mr. Elsnic noted that the Membership Committee recommends that Old Court Savings and Loan, Inc. should not be allowed to convert First Progressive Savings and Loan Association's hypothecation into a subordinated debenture. Mr. Trice noted that, under the terms of the hypothecation agreement, the Corporation had no basis to delay disbursement of the hypothecated funds after the First Progressive merger with and into Old Court, if Old Court complied with the net worth requirement under that agreement. He said that the subordinated debenture would have a seven year term and therefore remain in place for a given period of time. Following a brief discussion, Mr. Elsnic stated that based on this new information, he takes no position. Mr. Neifeld moved, that based on this new information, the conversion of the hypothecation to a subordinated debenture in the standard form should be allowed. Mr. Bass seconded Mr. Neifeld's motion, and it passed unanimously.

Mr. Elsnic reported that the Membership Committee recommends that a MSSIC Staff member attend all Old Court Board and Committee meetings. There was discussion as to the legalities of having a Staff member attend such meetings. Mr. Laudeman noted that a Cease-and Desist Order may be necessary before such action could be taken. Following discussion, Mr. Pierson noted that the Board does not recommend that someone attend Old Court's meetings, but the Association should be monitored very closely.

Mr. Elsnic indicated that the Membership Committee recommends to the Board that a Cease-and-Desist Order be issued by the Board to Old Court Savings and Loan, Inc., subject to the confirmation of a violation (the Poinciana Project - Orlando, Florida) of the Staff cease-and-desist letter issued August 13, 1984.

During discussion it was noted that the Poinciana Project has been preliminarily reviewed by Staff and that it appears to have not violated the above mentioned Staff letter. Action was deferred on this Membership Committee recommendation pending further clarification by the Staff. Mr. Pierson directed the Staff to give a full report on this matter to the Membership Committee at its next regular meeting.

Mr. Elsnic noted that the Membership Committee recommends that a temporary moratorium be placed on new associations. Mr. Pierson suggested that the Staff design a form to be used as an application for membership so that some form of control can be achieved. Mr. Trice noted that the Rules and Regulations state that all applications would be done on a MSSIC form, but that such a form does not exist. Mr. Hogg noted that it would not be necessary to implement a moratorium while designing a form. Mr. Hogg further commented that there is no time limit for the acceptance of a new member, and if they get caught up in the time that the form is being designed, so be it.

Mr. Elsnic reported that the Membership Committee recommends that the Board file formal protest at the Division of Savings and Loan Associations against the establishment of a branch office by Gibraltar Building and Loan Association. Mr. Trice noted that he has been in touch with counsel for this Association, and they have agreed not to open the branch until they have received written approval from the Corporation. Mr. Pierson asked the Staff to get a written commitment to this effect, and he reiterated that formal protest will take place on new branch application filings submitted after January 1, 1985.

REPORT OF THE PRESIDENT

Mr. Hogg noted that Custom Savings Association had already been discussed in detail.

Mr. Hogg stated that Gerald Klein is now the full owner of Merritt Commercial Savings and Loan, Inc. He further noted that Merritt is technically in compliance with the Net Worth Rule if the capitalization arising from Heron Harbor donation toward net worth is included. Mr. Brown of the Division of Savings and Loan Associations noted that he would not consider these properties as such and that he would expect that MSSIC would not. The Staff was directed to analyze this matter and report to the Membership Committee.

Mr. Trice noted that Liberty Savings and Loan's Fidelity Bond has been extended through 1986.

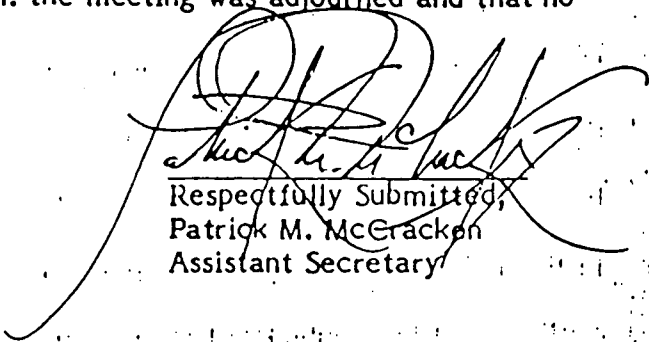
He also stated that Southern Permanent has hypothecated \$100,000 to improve its net worth.

Mr. Hogg reported that the tax court action on MSSIC's tax case went well and that Mr. Shapiro of Venable, Baer, and Howard represented the Corporation very well.

ADDITIONAL MATTERS

Mr. Pierson asked for a resolution to extend sympathy to Mr. Faulkner and his family on the death of his brother. He added that sympathy should also be extended to Mr. Ronald Jasion and his family on the death of his father.

Mr. Pierson noted that at 1:18 p.m. the meeting was adjourned and that no motion was called for.



Respectfully Submitted,
Patrick M. McCracken
Assistant Secretary

PMM/law

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VENABLE, BAETJER AND HOWARD
ATTORNEYS AT LAW

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

1800 MERCANTILE BANK & TRUST BUILDING
2 HOPKINS PLAZA

BALTIMORE, MARYLAND 21201

(301) 244-7400

WASHINGTON, D.C. OFFICE

VENABLE, BAETJER, HOWARD & CIVILETTI
SUITE 704

1301 PENNSYLVANIA AVENUE, N.W.

WASHINGTON, D.C. 20004

(202) 783-4300

WIRE'S DIRECT NUMBER IS

244-7422

JAMES D. WRIGHT, P.C.

September 25, 1984

Mr. Jeffrey Levitt
Old Court Savings & Loan Association, Inc.
25 Light Street
Baltimore, Maryland 21202

Re: Tega Cay

Dear Jeff:

Enclosed are several memos prepared in connection with the Tega Cay transaction. Of the problems identified, we believe the following are the most important:

1. Water and Sewer: According to Bill Hargraves, only a few of the unsold lots are served by existing water and sewer plants. In order to build additional facilities, permits will be required from the South Carolina Department of Health and Mental Hygiene (as well as any required Public Service Commission and building approvals). Among the required permits is a "NPDES" permit, which cannot be issued without the opportunity for public comment. While it is rare to hold a public hearing, the process will still take a minimum of 4 months from when an application is filed.

2. Allocation: As drafted, the Contract provides for purchase of the stock for \$5,000,000, with the assignment of the mortgages thrown in with no additional consideration. We must ascertain if we wish to have an entirely new contract to allocate the \$5,000,000 between the four corporations and to allocate a portion of said \$5,000,000 to the assignment of the mortgages. We have been advised that the mortgages are treated as having zero value and may have been satisfied by the bankruptcy.

3. Access: Bill Hargraves advised us the "BRT" owns portions of the road by which access is given to Tega Cay. This did not seem to disturb Jim Gay, but does not present potential problems which we should investigate with the title company.

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by 02/21
1/14/2004*

*case
of new
structure*

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VENABLE, BAETJER AND HOWARD

Mr. Jeffrey Levitt
September 25, 1984
Page 3

challenge the newly established rates on the basis that your basis in the company is only nominal and consequently is not entitled to a return on that nominal basis anywhere close to the \$29.00 per lot month fee established.

10. Qualification: We must ascertain if any Company we are forming must be "qualified to do business" in South Carolina.

11. Restrictions on Development: There is apparently a move to establish a bird sanctuary at Tega Cay. We do not know its status or potential effect on development. Bill Hargraves is checking.

Very truly yours,

James D. Wright

JDW/bt
Enclosures

cc: Mr. Jim Gay
Gerald M. Katz, Esq.

OUTLINE MEMO OF
OWNERSHIP OF TEGA CAY

1. Old Court S&L has apparently lent \$7 million to Tega Cay Development Co., Inc. Loan documents need to be prepared by Old Court.

2. Tega Cay Development Co., Inc. paid \$5 million for the purchase of the four corporations, i.e., the two land corporations, the utility and the golf course companies. The understanding, according to Mr. Levitt, is that the utility company and the golf course company stock will be transferred directly from the seller to Jeffrey Levitt, the consideration being his agreement to make substantial capital contributions to these two corporations. Thus, the minutes of Tega Cay Development Co., Inc. need to reflect that the stock of those two corporations was transferred to Jeffrey for that consideration. Jeffrey must then make his substantial capital contributions to those two corporations. Jeffrey has been advised as to the substantial tax risk that he may be viewed as receiving income equal to the value of these two corporations, which could perhaps be over \$2 million. He stated that he would take this risk,

Jeffrey was also advised that the entire transaction, including the two corporate stocks going to Jeffrey, need to be approved by independent directors of Old Court S&L.

3. The stock of the two land companies will thus be booked at a purchase price of \$5 million. A \$338 election needs to be made

EX. 326
11/12/84

promptly to step up the underlying basis of the assets in the two corporations. The allocation of the \$5 million probably should be based upon the relative book values on the 9/30/84 balance sheet. I have asked Barbara Golden to prepare these elections. They need to be reviewed by the accountants for the corporations.

Upon these transfers, Tega Cay Development Co., Inc. will have a basis of \$5 million in the stock of the two land corporations and the land corporations will have a tax basis of \$5 million in the underlying assets owned by them. Jeffrey would have a basis of -0- in the stock of the utility and golf course corporations and the two corporations would keep the same underlying tax basis that they reflect as of 9/30/84. See the letter from the sellers accountant on the method of stating the value of these assets. Jim Gay was advised at the closing that while the rate for the utility company was at this point apparently based on need, it may in the future be based on cost of assets, and the foregoing method does not result in any step up on the basis of underlying assets.

4. Jeffrey needs to write his checks to the two corporations to be owned by him. He would then be issued additional shares of stock for this investment, in addition to the transfer of the existing stock. Ed Oppel will then make a capital contribution to these two companies so that he will own 10% of the stock. There should also be a stockholders agreement if one can be negotiated between Levitt and Oppel.

~~5. There remains for resolution the ownership of the~~
stock of Tega Cay Development Co., Inc. The understanding is that Old Court is to receive 60% of the profits of this corporation and Oppel is to receive 40%. With this arrangement, the corporation could not be consolidated for income tax purposes since it will be 90% owned, and this may also effect the income reportable for financial statement purposes. This needs to be checked with Barry Glass. Further, Jeffrey's proposal is that Old Court Investment Corporation initially owned the stock of these two corporations, for the \$5 million purchase price, and then sell the 40% stock interest to Oppel and book a \$1 million profit. The problem with this approach is that Oppel could not pay for the stock (assuming that the gain is even reportable for book purposes, since paper would be taken, although it probably would be reportable for income tax purposes thus producing a substantial tax). Thus, the alternative would be that OCIC buy the stock of the two corporations for \$5 million and then sell them to Tega Cay Development Co., Inc. for \$6 million, thus booking a \$6 million profit, with the stock of Tega Cay Development Co., Inc. being owned 60% by OCIC and 40% by Oppel. Again, it would not seem possible to book a gain on a sale to a 60% owned subsidiary; although for federal income tax purposes, since it would not be a consolidated return, the gain probably would be taxable. Thus, my conclusion is that no gain should be booked and OCIC would simply own 60% and Oppel 40% of Tega Cay Development Co., Inc. or alternatively, OCIC would own 80% and Oppel

would own 20% with a 20% kicker on profits paid out as a fee. This would require defining profits which may be difficult.

6. There remains the question of the mortgages. Jeffrey intends that all of the mortgages other than the golf course and utility mortgage would be assigned to Old Court S&L. This would be fine if the sole purpose were to secure the loan to Tega Cay Development Co., Inc., although Jeffrey's present thinking is that he may attempt to collect the full amount due on the mortgages even though they do not show as debts on the books of the corporations. This would raise substantial tax and accounting questions and would also raise the question of what would be the effect on Oppel's ownership position.

7. Minutes for each of the corporations need to be prepared, stock certificates issued, etc. The accountants for the corporations need to prepare tax returns and make sure the books are properly set up. Bank accounts need to be opened by Jim Gay for each of the entities.

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ATTORNEYS AT LAW

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BALTIMORE, MARYLAND 21201

(301) 244-7400

RICHARD M. VENABLE (1939-1910)
EDWIN G. BAETJER (1866-1946)
CHARLES MCM. HOWARD (1870-1942)

WASHINGTON, D.C. OFFICE

VENABLE, BAETJER, HOWARD & CIVILETTI
SUITE 704

1301 PENNSYLVANIA AVENUE, N.W.

WASHINGTON, D.C. 20004

(202) 783-4300

GERALD M. KATZ, P.C.

WRITER'S DIRECT NUMBER IS

244-7550

November 9, 1984

HAND DELIVERED

Mr. Jeffrey A. Levitt
3rd floor
25 Light Street
Baltimore, MD 21202

Re: Tega Cay

Dear Jeffrey:

This is a summary of the stock we propose to issue:

I. Tega Cay Development Co., Inc.

<u>Stockholders</u>	<u>Shares</u>	<u>Percentage</u>
Old Court Investment Corporation	60	60%
Edward R. Oppel	40	40%

Edward R. Oppel is to put up \$1,000 for the stock and he will assign 60% of this to OCIC in connection with the \$7,000,000 loan. Tega Cay Development is the purchaser of the stock of TC126, Inc. and TC22, Inc. It needs to immediately make a §338 election with the IRS with respect to each purchase.

Tega Cay Development will assign its rights to purchase the stock of TCU and Tega Cay Recreation Company, Inc. as follows:

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EX. 7

11/12-335

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VENABLE, BAETJER AND HOWARD

Mr. Jeffrey A. Levitt
November 9, 1984
Page Two

Handwritten notes:
OAH
November 9/84

II. Tega Cay Recreation Company, Inc.;

<u>Stockholders</u>	<u>Shares</u>	<u>Percentage</u>
Edward R. Oppel and Jeffrey A. Levitt	100	10%
Jerome S. Cardin	210	21% 1670
Jeffrey A. Levitt	345	34-1/2%
Allan H. Pearlstein	345	34-1/2%

III. TCU, Inc.;

<u>Stockholders</u>	<u>Shares</u>	<u>Percentage</u>
Edward R. Oppel and Jeffrey A. Levitt, <i>as tenants in common</i>	100	10%
Jerome S. Cardin	210	21% 1670
Jeffrey A. Levitt	345	34-1/2%
Allan H. Pearlstein	345	34-1/2%

Handwritten signature:
Jeffrey A. Levitt

These two corporations may want to make a subchapter S election. The stockholders for these corporations will invest in the aggregate \$100,000.00 in each corporation in accordance with the percentage of the stock owned.

See the enclosed earlier schedule from Jim Gay on the stock ownership and note the differences.

In light of the substantial net worth reflected in the financial statements for Tega Cay Recreation and TCU, there is a very substantial tax exposure to the stockholders who are to receive the stock of the company with no allocation of the \$5,000,000 purchase price.

IV. TC22, Inc.

<u>Stockholders</u>	<u>Shares</u>	<u>Percentage</u>
Tega Cay Development Co., Inc.	1,000	100%

COPY

VENABLE, BAETJER AND HOWARD

Mr. Jeffrey A. Levitt
November 9, 1984
Page Three

V. TC126, Inc.

<u>Stockholder</u>	<u>Shares</u>	<u>Percentage</u>
Tega Cay Development Co., Inc.	10	100%

The accountants for the corporation must complete and get to us within the next week the \$338 election for Tega Cay Development Co., Inc. for TC126 and TC22.

Please let me know if the above stock summary is as it should be so that we may proceed to distribute the stock certificates.

Sincerely,

GMK:ml
enclosure

Gerald M. Katz

cc: James L. Gay, Jr.
James D. Wright, Esq.

Old Court - Overdrawn NOWs

As of 1-31-85, 403 of the associations 7,125 NOWs were overdrawn. The total overdrawn was \$9,926,570.

47 of these accounts were overdrawn in excess of \$1,000. The total overdraft balance of these 47 accounts was \$9,872,326 or 99.5% of the total \$9,926,570.

From the 47, 30 appear to ~~be~~ either directly or indirectly involve related parties. The total of these 30 accounts is \$5,724,421 overdrawn or 57.7% of the total overdrafts (\$9,926,570)

7-3357
LAW OFFICES
JEFFREY A. LEVITT
THE OLD COURT BUILDING
16 S. CALVERT STREET
BALTIMORE, MARYLAND 21202

I N V O I C E

DATE: February 6, 1985
TO: Old Court Investment Corporation
FROM: Anne marie Buscemi
RE: Fees
AMOUNT: \$250,000.00

The above amount represents payment for services rendered with regard to the following:

- 1) Arranging Four Million (\$4,000,000.00) Dollar loan purchase of Cedar Brook Country Club loan with the Union Savings Bank, 62 S. Ocean Avenue, Patchogue, New York. Meetings having been held in November and December, 1984.
- 2) Arranging loan with NCBT Bank for purchase of Karol Springs loans (11/3/84 and 1/3/85)

Please make your check payable to JEFFREY A. LEVITT and forward to me at the above address.

Thank you

790

IIIB71

23484

Office
727-3357

LAW OFFICES
JEFFREY A. LEVITT
THE OLD COURT BUILDING
16 S. CALVERT STREET
BALTIMORE, MARYLAND 21202

I N V O I C E

DATE: February 6, 1985
TO: Old Court Joint Ventures, Inc.
FROM: Anne Marie Buscemi
RE: Fees
AMOUNT: \$250,000.00

The above amount represents services rendered in arranging with Union Trust Company for mortgage loan on the Southern Hotel and also with New York banks for construction loan on Garview Point property. Services are for the period November and December, 1984.

Please make your check payable to JEFFREY A. LEVITT and forward to me at the above address.

Thank you

791

23485

MERIDIAN MORTGAGE INVESTMENTS, INC.

Subsidiary of Old Court Savings & Loan, Inc.

207 E. REDWOOD STREET
BALTIMORE, MARYLAND 21202

301-576-9212

MERIDIAN MORTGAGE INVESTMENTS, INC.

BOARD OF DIRECTORS MEETING

June 12, 1984

The Meeting of the Board of Directors of Meridian Mortgage Investments, Inc., a Corporation duly organized and existing under the laws of the State of Maryland, was held this 12th day of June, 1984 at the downtown office of the Corporation, 914 North Charles Street, Baltimore, Md. 21201, at 10:00 AM.

The Meeting was called to order by Allen Feinberg, President. Those in attendance were: Allen Feinberg, Jeffrey Levitt, Dennis Guidice and Roxanne Helm.

PRIOR MINUTES: The minutes of the previous meeting on May 8, 1984 were ready and a motion was duly made, seconded and carried. It was resolved that the minutes were approved and ratified as read.

BALANCE SHEET: Mr. Guidice presented for the Board's consideration and review a Balance sheet ending, May 31, 1984. The Board reviewed said report, a copy of which is attached hereto and hereby made a part of these minutes.

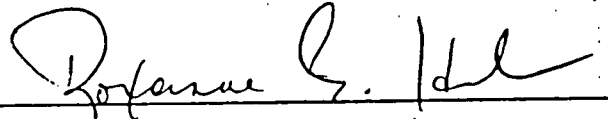
INCOME STATEMENT: Mr. Guidice presented for the Board's review and consideration an Income Statement for the period ending May 31, 1984. The Board reviewed the report, a copy of which is attached hereto and hereby made part of these minutes.

NEW BUSINESS: After discussion and review a motion was duly made, seconded and carried that a fee of \$100,000. be granted to Jeffrey

June 12, 1984

Levitt as a consulting fee. Karol Levitt and Robert Pearlstein would each receive \$1,500.00 in consulting fees, Allen Feinberg would receive \$20,000.00 in consulting fees for the month, and an agreement was made between Jeffrey Levitt and Walter Otstott that Meridian Mortgage would pay to Walter Otstott a fee of \$40,000.00 per month for a period of twelve (12) months for good will. First payment will be in the month of June, 1984.

There being no further business to transact, the meeting was adjourned by unanimous vote at 10:40 a.m.



Roxanne Helm, Secretary/Treasurer

MERIDIAN MORTGAGE INVESTMENTS, INC.

Subsidiary Of Old Court Savings & Loan, Inc.
914 N. Charles Street
Baltimore, Maryland 21201
301-576-9212

MERIDIAN MORTGAGE INVESTMENTS, INC.

BOARD OF DIRECTORS MEETING

July 10, 1984

The Meeting of the Board of Directors of Meridian Mortgage Investments, Inc., a Corporation duly organized and existing under the laws of the State of Maryland, was held this 10th day of July, 1984 at the downtown office of the Corporation, 914 North Charles Street, Baltimore, Md. 212021, at 10:00 AM.

The Meeting was called to order by Allen Feinberg, President.

Those in attendance were: Allen Feinberg, Jeffrey Levitt, Dennis Guidice and Roxanne Helm.

PRIOR MINUTES: The minutes of the previous meeting on June 12, 1984 were read and a motion was duly made, seconded and carried and it was resolved that the minutes be accepted and ratified as read.

BALANCE SHEET: Mr. Guidice presented for the Board's consideration and a review, a balance sheet ending, June 30, 1984. The Board reviewed said report, a copy of which is attached hereto and hereby made part of these minutes.

INCOME STATEMENT: Mr. Guidice presented for the Board's review and consideration an Income Statement for the period ending June 30, 1984. The Board reviewed the report, a copy of which is attached hereto and hereby made part of these minutes. IIB73

NEW BUSINESS: It was decided that Meridian Mortgage would relocate its downtown offices to 207 E. Redwood Street, Baltimore, Md. 21202. The move will give the company the additional space it requires. 794

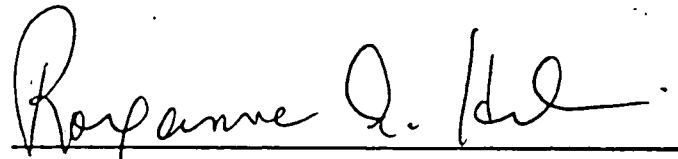
July 10, 1984

The move will occur sometime this month or the first of August.

It was also discussed and a motion made, seconded and unanimously carried that a \$150,000.00 end of year bonus would be paid out to Jeffrey A. Levitt. Also, Susan Grant would be reinstated as Meridian Mortgage Investments, Inc.'s Executive Vice President on July 9, 1984, and Mr. James Gay has tendered his resignation as Executive Vice President. Karol Levitt and Robert Pearlstein would receive \$1,500.00 in consulting fees, and Walter Otstot would receive \$40,000.00 in consulting fees. In addition, Susan Grant would receive a company car - an Avanti at the cost of \$39,572.25, and Allen Feinberg would receive \$2,000.00 in consulting fees.

Also approved was the expense of \$8,086.00 to the Comptroller of the Treasury for Real Estate taxes.

There being no further business the meeting was adjourned at 11:00 a.m.



Roxanne E. Helm
Secretary/Treasurer

PVT 2/14/85

Do overdrafts of NOW accounts by officers & directors & related persons (including controlling persons) constitute a violation of Md law or NISIC rules or Div's rules?

what enforcement can NISIC effect for each of these?

(a) specifically?

(b) generally?

problem is Levitt

① Division has a related party provision

② Sec 9-307

PVT says it is an unsecured loan

need written opinion by Feb 22

Hall DX 49 DW 11-20-85

3-214

✓ - 9-307

- 9-307(2)

- 43A(1) D.

- 43 (D.)

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VENABLE, BAETJER AND HOWARD

ATTORNEYS AT LAW

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RICHARD M. VENABLE (1838-1910)
EDWIN G. BAETJER (1888-1948)
CHARLES McH. HOWARD (1870-1942)

WRITER'S DIRECT NUMBER IS

244-7477

TERRY F. HALL

February 22, 1985

Membership Committee
Maryland Savings-Share
Insurance Corporation
114 East Lexington Street
Suite 602
Baltimore, Maryland 21202

Gentlemen:

You have asked us to determine whether any law of the State of Maryland or any rule or regulation of Maryland Savings-Share Insurance Corporation ("MSSIC") or the Division of Savings and Loan Associations ("Division") is violated if any officer or director of a MSSIC-insured institution, or any family member of such officer or director or company controlled by such officer or director (collectively a "Controlling Person"), overdraws his or her NOW account at such institution. Furthermore, if such overdraft constitutes a violation, as aforesaid, you have asked us to determine what remedies, if any, would be available to MSSIC.

It is our opinion that if a Controlling Person of an institution overdraws his or her NOW account at such institution, such overdraft constitutes an unsecured loan from the institution to the Controlling Person, and therefore violates the provisions of Section 9-307 of the Financial Institutions Article of the Annotated Code of Maryland. Section 9-307 provides, in part, as follows:

"9-307. Conflict of Interest.

(a) Loans prohibited to director or officer. -- (1) For purposes of this Section 'member of the immediate family' of an officer or director means a spouse, child, parent, sibling, grandparent, or grandchild.

(2) Except as provided in subsection (b) of this section, a savings and loan association or its subsidiary may not make a loan directly or indirectly to:

(i) Any officer or director of the association; or

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(ii) Any corporation or business in which an interest of 10 percent or more is owned by an officer or director of the association, or member of the immediate family of an officer of director.

(b) Exceptions to prohibition. -- A loan is not prohibited by subsection (a) of this section if the loan is:

(1) Secured by the borrower's:

(i) Principal residence; or

(ii) Savings accounts in the association, provided that a loan secured by a savings account may not be more than the withdrawal value of the account; or

(2) (i) Approved by a two-thirds vote of the board of directors, any interested director taking no part in the vote;

(ii) Approved by the Division Director; and

(iii) Secured by collateral appraised by a disinterested appraiser approved by the Division Director
....."

The provisions of Section 9-307(b)(1) are not met since there is no security for the overdraft, and the provisions of Section 9-307(b)(2) are not met since the overdraft (a) probably was not approved by the board of directors of the institution, (b) was not approved by the Division Director, and (c) is not secured.

For essentially the same reasons as set forth above, an overdraft by a Controlling Person would violate the provisions of Section 9-323 of the Financial Institutions Article, provided that the Controlling Person meets the definition of a "controlling person" set forth in Section 9-323(a). Section 9-323 provides, in part, as follows:

"(a) 'Controlling person' defined. -- In this section 'controlling person' means an individual or legal entity, acting directly or indirectly, individually or in concert with one or more other individuals or legal entities, or through one or more subsidiaries, who owns, controls, or holds with power to vote, or holds proxies to vote more than 20 percent of the voting shares of the capital stock association, or controls in any manner the election of a majority of the directors of the capital stock association.
.....

(e) Loan to controlling person. -- A capital stock association may make a loan to any controlling person if:

(1) The loan is approved in good faith by the recorded vote of the present and voting disinterested directors of the association;

- (2) The security is appraised by a disinterested appraiser; and
(3) The loan is approved by the Division Director."

None of the provisions of Section 9-323(e) are met since the overdraft (a) probably was not approved by the board of directors of the institution, (b) is unsecured, and (c) was not approved by the Division Director.

An overdraft by a director or officer would also violate Division Regulation 43(B)(3), which provides as follows:

"(3) An association may grant a loan to any of its officers, directors, or employees in accordance with the specific requirements of Financial Institutions Article, Section 9-307, Annotated Code of Maryland."

Furthermore, if no interest is charged on the overdraft, such overdraft would probably violate the provisions of Division Regulation 43(A)(1), which provides that transactions between officers and directors and their association must be conducted in good faith, and must be honest, fair, and reasonable to the association. Failure to charge interest on an overdraft probably is not reasonable.

Finally, an overdraft by a Controlling Person would violate the provisions of Section 3-214 of MSSIC's Rules and Regulations, which provides, in part, as follows:

"Section 3-214. Business Conduct. [Each member of MSSIC agrees] To maintain safe and sound management, and financial policies and to comply with the laws of Maryland, the orders and directives of the Supervisor. . . ."

Thus, a failure to comply with the laws of Maryland (i.e., Section 9-307 and possibly Section 9-323 of the Financial Institutions Article) is a violation of MSSIC's Rules and Regulations.

There are at least two remedies available to MSSIC in the case of an overdraft by a Controlling Person -- (1) a cease and desist order under Section 3-222(A) of MSSIC's Rules and Regulations and (2) expulsion of the member institution under Subtitle VI of MSSIC's Rules and Regulations. In addition, a temporary cease and desist order may be available under Section 3-222(B). Furthermore, MSSIC could always petition a court to enjoin the illegal activity. The latter two remedies would not, however, be available in all cases.

Membership Committee
Maryland Savings-~~are~~
Insurance Corporation
February 22, 1985
Page 4

Finally, it should be noted that the Division has the right to enforce Sections 9-307 and 9-323 of the Financial Institutions Article and Division Rule 43 in accordance with the provisions of Title 8 of the Financial Institutions Article. Such enforcement could be undertaken simultaneously with any proceedings instituted by MSSIC in pursuing its remedies.

Very truly yours,

VENABLE, BAETJER AND HOWARD

Venable, Baetjer and Howard

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May 3, 1985

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

Dear Governor Hughes:

As you are already aware, this Office has received information suggesting the possibility of criminal conduct with respect to transactions engaged in by Old Court Savings and Loan, Inc., its affiliated companies and associated individuals. Based on the information presently available, we believe a criminal investigation is warranted, and request your authorization to undertake such an investigation.

As a result of an audit of Old Court Saving and Loan, Inc. conducted by Glass and Associates, P.A. which disclosed a variety of irregularities in the financial affairs of Old Court, the Maryland Savings-Share Insurance Corporation ("MSSIC"), in February of 1985, voted to initiate cease-and-desist proceedings against Old Court for violations of MSSIC's Rules and Regulations. On March 22, 1985, MSSIC delivered to Old Court a letter charging Old Court with numerous violations of its Rules. Old Court requested that the parties enter into an operating agreement, in lieu of the cease-and-desist proceedings, and with MSSIC's consent, such an agreement was entered into in April of 1985.

The purpose of the operating agreement was to insure compliance on the part of Old Court with MSSIC's Rules, as well as with the provisions of the Financial Institutions Article of

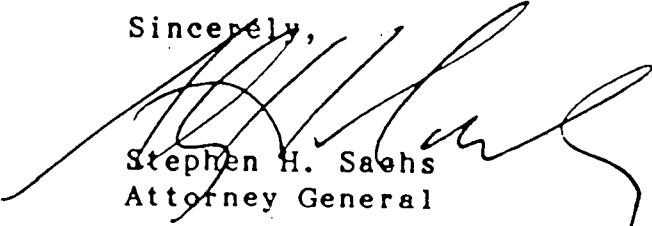
The Honorable Har R. Hughes
May 3, 1985
Page Two

the Annotated Code of Maryland. The audit and findings of MSSIC which precipitated the operating agreement had disclosed, among other irregularities, a pattern of self-dealing in which ~~individuals and companies related to Old Court had obtained~~ unsecured loans without proper documentation or disinterested approval, uncollected overdrafts on accounts held by related parties, excessive fees paid to related parties, and the lack of an adequate internal accounting control system. We have received information which indicates that Old Court has violated the terms of the April agreement by making at least one large unsecured loan to a related party, which was specifically prohibited by the terms of the agreement.

Based on the foregoing, we believe a criminal investigation into these matters is necessary. Our investigation would include, but not be limited to, the possible commission of the crimes of theft, misappropriation by a fiduciary, perjury, forgery, falsification of public records, fraudulent misrepresentation by corporate officers, and violations of the State tax laws.

I hereby request, pursuant to the provisions of Article V, §3 of the Maryland Constitution, that the Office of the Attorney General, in conjunction with the Maryland State Police, be authorized to investigate the matters described herein and to prosecute any violations uncovered as a result of that investigation.

Sincerely,



Stephen H. Sachs
Attorney General

MEMORANDUM

TO: WDP & WBC

FROM: GBM

RE: NOW Accounts at Old Court

DATE: October 25, 1985

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You have asked for an opinion as to what laws and regulations, if any, were violated as a result of the practice at Old Court Savings and Loan ("Old Court") of honoring overdrafts of NOW checking accounts held by directors and/or officers of Old Court, or honoring overdrafts on NOW accounts held by family members of, or companies controlled by, directors and/or officers of Old Court ("insider accounts"). You have also asked for my comments concerning an opinion letter dated February 22, 1985 authored by Venable, Baetjer and Howard that was sent to MSSIC concerning this issue. The facts on which my opinion is based were gathered from conversations with you and your staff as well as my review of Venable's February 22, 1985 letter. The facts as I understand them are as follows. Several of the directors and/or

officers of Old Court had NOW checking accounts with the institution and controlled companies that had NOW accounts with the institution. In addition, family members of the directors and/or officers had such accounts.¹ There were approximately thirty (30) such accounts. As of January 31, 1985, Old Court had honored overdrafts on these thirty (30) accounts in the amount of approximately six million dollars (\$6,000,000.00) The indebtedness represented by these overdrafts was not secured and no interest was charged by the bank. Thus, the insiders were able to use millions of dollars of bank funds without paying any interest.

The problem at Old Court concerning these overdrawn insider accounts came to the attention of MSSIC. In early 1985, MSSIC requested an opinion from Venable as to what laws were violated by this practice. Venable was counsel to MSSIC, but also represented Old Court and its president, Jeffrey Levitt, as well as a number of other insiders. Levitt personally controlled a number of the overdrawn accounts. There is some dispute as to whether MSSIC was ever apprised of this conflict. Venable's opinion letter makes no mention of it.

Venable concluded without much analysis that the overdrafts of NOW accounts held by insiders violated Sections 9-307 and 9-323(e) of the Financial Institutions Article of the

¹ NOW accounts are authorized by Md. F.I. Code Ann. §9-408 and COMAR 09.05.01.48. Old Court was required to file its rules with the Division of Savings & Loan Associations concerning the accounts, including specific information on overdraft privileges. COMAR 09.05.01.48B(3).

Annotated Code of Maryland, Division Regulation 43(B)(3) and Section 3-214 of MSSIC's rules and regulations.² The fact that no interest was charged was said to "probably" violate Division Regulation 43(A)(1), which provides that transactions between a savings and loan and its directors or officers must be conducted in good faith and must be honest, fair and reasonable. Venable surmised that an unsecured loan for which no interest was charged "probably is not reasonable."

A.
Financial Institutions Article

I agree with Venable that §§9-307 and 9-323(e) of the Financial Institutions Article were violated by the overdrawn NOW accounts, although I believe more analysis is necessary to reach this conclusion than that done by Venable. Section 9-307 prohibits loans to directors, their companies or immediate family members. The issue presented in resolving whether §9-307(a) was violated is whether an overdraft constitutes a loan. Unfortunately, Title 9 of the Financial Institutions Article does not define the term "loan," and case law can be found to support either answer to the issue. I would recommend that the statute be amended to prohibit extensions of credit to directors and/or officers so as to avoid any confusion.³ Notwithstanding this

² It was concluded that Division Regulation 43(B)(3) and §3-214 of MSSIC's rules and regulations were violated because §§9-307 and 9-323 of the Financial Institution Article were violated.

³ It should be noted that by regulation the Board of Governors of the Federal Reserve System defined "extension of credit" as including overdrafts. 12 CFR 215.2. Members of the Federal

oversight, I believe the advances of money in the form of permitting overdrawn accounts would be considered loans. See, e.g., FDIC v. Ciaffoni, 176 Pa. Super. 91, 107 A.2d 211 (1954); Brombrey v. Bank of America, 58 Cal. App. 2d 1, 135 P.2d 689 (1943); State v. Cittrell, 14 Ariz. App. 203, 481 P.2d 889 (1971); State v. Bradford, 218 Wis. 68, 260 N.W. (1935). See also Fisher v. Parr, 92 Md. 245, 277 (1901).

Venable concluded that only subsection (e) of §9-323 was violated. I also believe that subsection (e) was violated, but would think that subsection (d) was also violated. Section 923 provides as follows:

(a) 'Controlling person' defined. --
In this section 'controlling person' means an individual or legal entity, acting directly or indirectly, individually or in concert with one or more other individuals or legal entities, or through one or more subsidiaries, who owns, controls, or holds with power to vote, or holds proxies to vote more than 20 percent of the voting shares of the capital stock association, or controls in any manner the election of a majority of the directors of the capital stock association.

* * * * *

(d) Conflict of interest. -- (1) A controlling person may engage in a business or transaction with a capital stock association only if:

(i) A full disclosure of the business or transaction and the nature of the controlling person's interest is made to the board of directors of the capital

Reserve System are prohibited from extending credit to officers.

stock association;

(ii) Any profits of the controlling person are not at the expense of the capital stock association and do not prejudice its best interests.

(2) This section does not apply to compensation paid to a controlling person for services.

(e) Loan to controlling person. -- A capital stock association may make a loan to any controlling person if:

(1) The loan is approved in good faith by the recorded vote of the present and voting disinterested directors of the association;

(2) The security is appraised by a disinterested appraiser; and

(3) The loan is approved by the Division Director. (CA §6-216; 1980, ch. 856).

Md. F.I. Code Ann. §9-323. Clearly, as concluded by Venable, subsection (e) was violated in that Levitt was a controlling person, the overdrafts were loans, and there was no compliance with the conditions contained in subsection (e).

Subsection (d) was also violated. The honoring of overdrafts arguably constituted a transaction between Levitt, the controlling person, and Old Court. There is no indication that any disclosure of this transaction was made to the Board of Directors and subsequently approved by them. Finally, even if such disclosures were made, subsection (d) requires that the controlling person's profits not be at the expense of the savings and loan and not prejudice the savings and loan's best interests.

These overdraft loans were made interest free. Thus, Old Court's best interests were prejudiced in that it did not earn any interest on that portion of depositors' funds which went to honor Levitt's and others' overdrafts.

The implication of these violations of Title 9 represented by the overdrafts are monumental. Section 9-102(a) of Title 9 provides that "only a corporation that complies with [Title 9] may conduct the business of a savings and loan association or do business under any name or make any representation that implies it is a savings and loan association." Md. F.I. Code Ann. §9-102(a). By failing to comply with at least two of the provisions of Title 9, Old Court could have been found to have been improperly doing business as a savings and loan. As such, it, as well as the insiders who caused the violation, could be found to have been guilty of a misdemeanor subject to a fine of \$1,000.00 for each offense. Venable did not alert MSSIC that violations of Title 9 were crimes.

B.
COMAR

Title 8 of the Financial Institutions Article establishes a Board of Savings and Loan Association Commissioners. The Board is empowered to adopt rules and regulations to carry out those statutes that relate to savings and loan associations. Md. F.I. Code Ann. §8-207(b). Those regulations provide in relevant part as follows:

.43 Transaction Involving Directors and Officers.

A. Directors and officers occupy a fiduciary relationship to their association, and a director or officer may not engage or participate, directly or indirectly, in any business or transaction conducted on behalf of or involving the association, which would result in a conflict of his own personal interests with those of the association in a manner which would be detrimental to the association.

* * * * *

B. The following restrictions governing the conduct of directors and officers are imposed, but the restrictions are not to be construed as excusing these persons from the observance of the general fiduciary duty owed to the association:

* * * * *

(3) 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.

COMAR 09.05.01.43. The honoring of the overdrafts violated subsection B(3) for the same reasons set forth above concerning §9-307. In addition, subsection A was violated in that the overdrawing of their accounts without interest put the insiders' interests in conflict with the interests of the institution in earning money on its depositors' funds.

C.

Md. Corporations Law

Section 1-201 of the Financial Institutions Article provides that any financial institution supervised under the

article is also governed by the Maryland General Corporation Law. Md. F.I. Code Ann. §1-201. Those loans represented by the overdrafts violated at least two of the provisions of the corporate code. Section 2-405.1 requires the following of a director:

(a) In general. -- A director shall perform his duties as a director, including his duties as a member of a committee of the board on which he serves:

(1) In good faith;

(2) In a manner he reasonably believes to be in the best interests of the corporation; and

(3) With the care that an ordinarily prudent person in a like position would use under similar circumstances.

Md. Corp. Code Ann. §2-405.1. Clearly, interest free loans to the tune of six million dollars (\$6,000,000.00) to pursue private investments was not in the best interests of Old Court.

Section 2-416 of the Corporations and Associations Article of the Maryland Code provides the rare circumstances under which a corporation may lend money to an officer or employee. The corporation may lend money when, in the judgment of the directors, the loan reasonably may be expected to benefit the corporation or when it is an advance against indemnification. In the instant case, there is no evidence of board approval of the overdraft. Secondly, even if the "loans" had been approved, it is inconceivable that the corporation benefited from them. The only

parties to benefit were the ones receiving the interest-free loans.

D.
Article 27

The interest free loans represented by the overdrafts on the NOW accounts could amount to criminal violations on the part of the insiders. These crimes were not explored in the Venable letter to MSSIC.

Section 342 of Article 27 provides in relevant part as follows:

A person commits the offense of theft when he willfully or knowingly obtains control which is unauthorized or exerts control which is unauthorized over property of the owner, and:

(1) Has the purpose of depriving the owner of the property; or

(2) wilfully or knowingly uses, conceals, or abandons the property in such manner as to deprive the owner of the property; or

(3) Uses, conceals, or abandons the property knowing the use, concealment, or abandonment probably will deprive the owner of the property.

Md. Ann. Code Art. 27 §342. Here, the insider obtained control over Old Court funds by writing overdrafts. Presumably, the insiders knew that they did not have the funds to cover the drafts in their own accounts and either directed or knew that the drafts would be honored, so they "knowingly" obtained control over the funds. See Md. Ann. Code Art. 27 §340(e). Moreover, the issuance

of overdrafts which the insiders presumably knew or directed to be honored by Old Court was exerting control over Old Court property. See Md. Ann. code Art. 27 §340(d). The obtaining or exerting of control over the funds was unauthorized as the insiders were prohibited from using such funds. See §§A-C, supra.⁴ An issue arises as to whether there was a deprivation of the property assuming that overdrafts were treated as loans. "Deprived" as used in §342 is defined as follows:

(c) 'Deprive' means to withhold property of another:

- (1) Permanently; or
- (2) For such a period as to appropriate a portion of its value; or
- (3) With the purpose to restore it only upon payment of reward or other compensation; or
- (4) To dispose of the property and use or deal with the property so as to make it unlikely that the owner will recover it.

Md. Ann. Code Art. 27 §340(c). If treated as a loan, the money was not withheld permanently. The money was withheld, however, for such a period that a portion of its value was appropriated in that Old Court could not earn interest on the funds. As the insiders were not paying interest, Old Court was deprived of a portion of the value of the money. Thus, a violation of §342 could be made out.

⁴ Under the former offense of larceny, the taking of property had to be a trespassory taking. Farlow v. State, 9 Md. App. 515 (1970).

Section 132 of Article 27 provides as follows:

If any executor, administrator, guardian, committee, trustee, receiver or any fiduciary shall fraudulently and willfully appropriate to any use and purpose not in the due and lawful execution of his trust, any money or any other thing of value which may come into his hands as such executor, administrator, guardian, committee, trustee, receiver, or in any other fiduciary capacity, or secrete it with a fraudulent intent to appropriate it to such use or purpose, he shall be deemed guilty of embezzlement, and shall be punished upon conviction by imprisonment in the penitentiary for not less than one year nor more than five years.

Md. Ann. Code Art. 27 §132. As explained above, a director or officer of a corporation stands in a fiduciary relationship to the corporation and is forbidden "to use the powers entrusted to him to promote his personal interest at the expense of the corporation." Stathes v. State, 29 Md. App. 747, 482 (1975), cert. denied, 277 Md. 741 (1976). Thus, it is unlawful for a fiduciary to misuse the association's funds for personal gain.

Section 132 was enacted to "extend the proscription of the embezzlement law to those who breach a fiduciary trust." Andresen v. State, 24 Md. App. 128, 149 (1975). Where money is entrusted to a fiduciary for one purpose, but it is fraudulently and willfully put to some other purpose, the crime is complete. Id. at 150. Thus, §132 merely requires misuse of money, rather than withholding property of another permanently, as in §342.

Therefore, the willful overdraft of a checking account by a director or officer constitutes misappropriation of the savings and loan association's money under §132.

As noted above, Venable did not alert MSSIC of these criminal violations.

G. B. M.

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

REGULAR MEETING OF DIRECTORS

WEDNESDAY, FEBRUARY 27, 1985

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 February 27, 1985.

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; Patrick M. McCracken, Assistant Secretary; Martin W. Becker, Senior Financial Analyst; Dean Digiondomenico, Financial Analyst; Lesley A. Wernsdorfer, secretary; Terry F. Hall, Venable, Baetjer and Howard; Craig T. Garrison, Union Trust Company of Maryland; Charles H. Brown, Jr., Director and William S. LeCompte, Deputy Director of Savings and Loan Associations.

Mr. Pierson called the meeting to order at 9:22 a.m. and noted that a quorum was present.

INVESTMENT REPORTS

Mr. Garrison reviewed the investment reports and the general economic narrative. Following a brief discussion Mr. Garrison left the meeting. (Copies of

the investment reports and the narrative are attached to the permanent file copy of these minutes.)

COMMENTS BY THE CHAIRMAN

Mr. Pierson noted that most of his comments concerned items on the agenda so he would wait until each item is being discussed. However, he noted that he did wish to make a few comments now.

1. Second National Building and Loan Association has advised Mr. Hogg that its Board of Directors have approved a recommendation for application for FSLIC.

2. At the Executive Committee meeting, Mr. Pierson requested that Mr. Hogg direct a member of the Staff to do a report comparing MSSIC and FSLIC.

READING OF MINUTES OF THE BOARD MEETING OF JANUARY 23, 1985

Mr. Neifeld asked that the Minutes of January 23, 1985 be changed so they reflect that he and Mr. Carroll voted not to defer the approval of the merger between Chevy Chase and Government Services. Mr. Dietz moved to approve the minutes subject to this revision. Mr. Faulkner seconded, and the motion passed unanimously.

TREASURER'S REPORT

Mrs. Anderson reported that income had increased by \$500,000 from January 31, 1984 to January 31, 1985. Mr. Hogg noted that Touche Ross has finished its audit of MSSIC. Mr. Pierson noted that Mr. Bass and the Audit and Budget Committee should be prepared to meet to review the audit when Touche Ross submits it. Mr. Faulkner moved to approve the Treasurer's Report. Mr. Bass seconded, and the motion passed unanimously.

EXECUTIVE COMMITTEE REPORT

Mr. Pierson noted that most of the items discussed at the Executive Committee meeting would be brought up later, but there were a few items to be

noted:

1. A report of Messrs. Pierson and Hogg's meeting with B. Francis Saul.
2. A discussion of House Bill 1609
3. A review of the preparation and format for the Annual Meeting.
4. A review of the actions of the Membership Committee.
5. A discussion of changes at Kinsley Savings Association.
6. A discussion of Riggs National Bank's decision to withdraw from MSSIC's line of credit.
7. A discussion of the reaction of Lippman, Frizeil, and Mitchell on Heron Harbour.
8. A discussion on counsel's opinion concerning the insurance of letters of credit. Mr. T. Hall's opinion is that they are not insured by the Corporation.
9. A discussion of the article in the Sun concerning MSSIC.
10. A discussion of Second National's request for a waiver for compliance with the liquidity rule.

Mr. Faulkner moved to accept the Executive Committee Report. Mr. Neifeld seconded, and the motion passed unanimously.

MEMBERSHIP COMMITTEE REPORT

Mr. Elsnic reported that the Membership Committee discussed the following at its meetings on January 30, 1985 and February 13, 1985:

1. The Division Examination of and Comments on Old Court Savings and Loan, Inc. and the Association's Responses.
2. Mr. Faulkner's suggestion that Section 3-222 (Cease-and-Desist) be reviewed by the By-Law and Rules and Regulations Review Committee for revision as to more timely effectiveness.

3. Mr. Brooks' motion that the minutes state exactly who and by what date assignments should be completed.
4. A motion to issue a formal Cease-and-Desist concerning activities under Rule 3-217 to First Maryland Savings and Loan, Inc.
5. Rule violations of the following member associations:
 - a. First Maryland
 - b. Kent
 - c. Kinsley
 - d. Universal
 - e. Municipal
 - f. Southern Permanent
 - g. Liberty
 - h. Bay State

Mr. Neifeld moved to accept the Membership Committee Report. Mr. Faulkner seconded, and the motion passed unanimously.

OLD BUSINESS

Mr. Hogg noted that he received seven requests for a hearing concerning the proposed accounting regulation.

Mr. Pierson noted that he, Mr. Hogg, and Mr. Becker met with Mr. Saul, Mr. Jackman, and Mr. Halpin of Chevy Chase. Mr. Hogg noted that the Chevy Chase responses to the 38 issues have been forwarded to Touche Ross and Trident Financial Corporation, and the Chevy Chase Subcommittee.

Mr. Hall noted that a new copy of the Liquidity changes had been distributed and that there were no substantive changes except in 3(b) where the word not had been omitted. Mr. Dietz moved to approve the proposal as amended. Mr. Faulkner seconded, and Mr. Neifeld noted that he wished to make

some comments. He noted that the \$3 million cut-off level was no longer significant and that some thought should be given to changing that to something closer to a \$40 million level. After further discussion, the motion passed by a majority vote with Messrs. Elsnic and Neifeld opposing.

The meeting was then directed toward a discussion of habitual rule violators. Mr. Neifeld noted that he would like associations that have been in violation to be included the rule violators report even if its S/L 200A has not been submitted for the month. Mrs. Anderson asked Mr. Trice about Atlas' high rate of delinquency. Mr. Trice noted that Miss Franetovich would be reviewing the situation.

Mr. Hogg then proceeded to a discussion of Kinsley Savings Association. He noted that counsel for the Association had advised MSSIC of changes in the stock subscriptions. He further noted that the Staff requests that the Board remand this application to the Membership Committee for review. Mr. Brown noted that the Division had given preliminary approval, but because of the changes, he would give it further consideration. Mr. Carroll moved to remand the application to the Membership Committee. Mr. Bass seconded, and the motion passed unanimously.

Mr. Hogg read a resolution concerning the pension plan. Mr. Dietz moved to pass the resolution. Mr. Faulkner seconded, and the motion passed unanimously (a copy of this resolution is attached to the permanent file copy of these minutes).

NEW BUSINESS

Mr. Hogg gave brief legislative update.

Mr. Trice introduced revised language for MSSIC 3-217 and noted that there are still some associations concerned about the wording of Rule 3-217 and that a hearing would probably be requested. Mrs. Anderson moved to amend the Rule thereby adopting the revised language on an emergency basis. Mr. Dietz seconded, and the motion passed unanimously. (a copy of this revision is attached

to the permanent file copy of these minutes). Mr. Laudeman requested that the Rule and the procedure for emergency adoption be reviewed very carefully.

Mr. Elsnic noted that the Membership Committee recommends that the Board Issue a formal Cease-and-Desist to Old Court. Following discussion and deliberation, and in accordance with counsel's suggestion, Mr. Carroll moved the following:

RESOLVED, that Old Court be subjected to a Cease-and-Desist Order under Section 3-222(A) of the Corporation's Rules and Regulations, as follows:

1. Within 30 days following receipt by Old Court of notice of the Board's determination to issue a Cease-and-Desist Order, Old Court must enter into an operating agreement with MSSIC which provides for compliance with the requirements of all of MSSIC's Rules and Regulations and for cessation of all unsafe and unsound practices, which shall be satisfactory to the Staff of the Corporation; it is specifically required that such agreement will contain a provision in which Old Court recognizes and agrees that a violation of the agreement is likely to cause insolvency or substantial dissipation of assets or retained earnings of Old Court, and is likely to otherwise seriously prejudice the interest of MSSIC.

2. If such an agreement is not entered into within such 30 day period, Old Court must attend a hearing at the offices of MSSIC for the purpose of determining whether Old Court is still in violation of MSSIC's Rules and Regulations or is still engaging in unsafe and unsound practices.

3. If, at such hearing, it is determined by at least 75% of the Board that Old Court is still in violation of MSSIC's Rules and Regulations or is still engaging in unsafe and unsound practices, Old Court will be required to cease violating such Rules and Regulations and cease engaging in such unsafe and unsound practices.

4. Such order will become effective at the expiration of 30 days after

the order is served on Old Court (unless Old Court does not attend the hearing, in which case the order will become effective immediately).

5. The Staff is directed notify Old Court of the foregoing action taken by the Board.

Mr. Bass seconded, and the motion passed by majority vote with Mr. Faulkner abstaining.

Mr. Elsnic noted that the Membership Committee recommended that the Board issue a formal Cease-and-Desist Order to Merritt Commercial Savings and Loan, Inc. Mr. Pierson noted that due to previous commitments regarding a timetable for Merritt Commercial's compliance, this recommendation should be deferred. Mr. Elsnic agreed with this position.

Mr. Hogg noted that Second National has a liquidity problem resulting from its recent experience with excessive withdrawals. The Association requests that it be granted a waiver of the loan restriction aspect of the liquidity rule. Mr. Laudeman moved to approve the waiver. Mr. Elsnic seconded, and the motion passed unanimously.

REPORT OF THE PRESIDENT

Merritt. Mr. Digiondomenico reported that the Association's budget for the Merritt Tower is \$39 million, and that to date, it has spent \$14 million. He noted that by November, they would probably begin to exceed the budget if the scheduled completion and leasing requirements are not met.

Liberty. Mr. Hogg noted that the Association has executed its insurance agreement and has also funded the previously agreed upon subordinated debenture.

First Maryland. Mr. Hogg noted that the Association had submitted its business plan, and that a brief, preliminary review shows that it may be acceptable.

ADDITIONAL MATTERS

Mr. Hogg noted that House Bill 1609 called for MSSIC to change its seal, to state clearly in its advertising, as well as that of its members, that it is not a State Agency. Mr. Pierson noted that it is very important that this bill not come to a hearing.

As a final note, Mr. Hogg noted that the By-Law Review Committee would be considering changes in the Cease-and-Desist Rule and a rule concerning MSSIC's authority to regulate approval of branch offices.

There being no further business, the meeting was adjourned at 1:25 p.m.

Patrick M. McCracken
Respectfully Submitted,
Patrick M. McCracken
Assistant Secretary

PMM/law

1 of 5

Thursday, February 28, 1985 2:56 p.m.

George Pearson	J. Cardin
J. Dolivka	A. Pearlstein
C. Hagg	J. Levitt
P. Trice - Absent	
T. Hagg Hall	
C. Brown	
W. LeCompte	
M. Becker	
P. McCracken	

George - obvious problems

we are going to enforce the rules
as firmly and fairly as possible
We have not put in effect a cease-
and-desist order.

if you don't do certain things
a cease and desist order could have
a serious consequence

- your own CPA - not capable
management

stat analysis have uncovered
regulations violations -

We have bent over backwards
for you guys - G.D. we have got to
get this thing straightened out

Fees alone would shake the hell

IIIB79

9154

523

you guys are capable guys, we want to cooperate but something must be done

John Faulkner - ~~will be a~~ ^{management} ~~and member of the~~ ^{Board of Directors}
has been hired starts on Monday
- he is of high integrity -

agreement drawn by Terry Hall
this will not whitewash unless he has the power to do some things. if he isn't given authority unless he can show something tangible can be done -

Consultant - assistant to Jeffrey
Jerry → give him authority to bring association into the shape he wants which is higher than anyone could force them to achieve
Pearlstein → fully concurs - wants to run a clean shop.

→ Charles - major areas of concern and focus → at the Board Meeting

OC operating in an unsafe & unsound manner

Management Letter - Staff's findings

- Divisions findings

we really act as one regulatory agency

→ lack of management control

- excessive overdraw now accounts

- note loans →

- fee structure - question it

- income recognition
- accounting issues
- AICPA - FASB - ADC loans
 - taking in income
 - reporting - particularly tax liabilities
- action to present you with a list of charges if you will to proceed toward a cease & desist order
- What we propose - prior to a hearing date enter into an operating agreement
- if we can reach that agreement we can avoid at least temporarily the cease-and-desist hearing.
- the time to stop unsafe & unsound and start - is NOW
 - loans in excess of lending regulations
 - improper note loans without the approval of MSSIC
 - stop payment of unjustified fees
 - stop overdrafting of new accounts
 - stop refinancing delinquent loans
 - recognize when it is uncollected loans
 - stop operating without adequate qualified management
 - no loans to subsidiaries
 - need proper approval of division
 - stop making loans without proper

C.H-
 stop operating without a business plan
 - legal audit - by your council
 - review of glasses workpapers
 particularly recognition of loan fees
 => branch apps and expansive operations
 ought not be taken until we have these
 things accomplished ->

we will prepare a letter tomorrow
 and set a date 30 days

- Jerry - everything is basically in
 agreement with all of us. Jeffrey is more
 anxious than anyone else. Some need to be
 reasonable - stop lending to subsidiaries
 same as others -

We have established a stock holders
 committee and we meet weekly confirming
 any unsecured loan in excess of \$50,000.
 any loan of any large size } approved by
 any acquisition } this committee

Legal audit ->

Jeffrey maybe overkill but he wants 2 things
 C. Brown - you have the worst set of files
 of any association we examine.

Jerry - there are some positives -> profitability
 is good or better

\$2.8 million profit

operating profit alone \$500,000

C.H. → attention to technical attention
growth ought to be restrained
will include some restriction
on the level of advertising
turn the dimmer switch

C. Brown → no loans to insiders have his approval
all overdraft ^{now} accounts



21st of March

3:50 pm

Patrick



GLASS & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

714 MERCANTILE BANK & TRUST BUILDING
TWO HOPKINS PLAZA • BALTIMORE, MARYLAND 21201 • 301-237-5400

The Board of Directors
Old Court Savings and Loan, Inc.
Baltimore, Maryland 21202

We have examined the financial statements of Old Court Savings and Loan, Inc. and subsidiaries (the Corporation) for the year ended July 31, 1984, and have issued our report thereon dated February 5, 1985. As part of our examination, we made a study and evaluation of the Corporation's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the other auditing procedures necessary for expressing an opinion on the company's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Old Court Savings and Loan, Inc. and subsidiaries is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Corporation taken as a whole. Our study and evaluation disclosed no condition that we believed to be a material weakness; however, the items, as set forth in the following pages, represent weaknesses which we feel warrant management's attention.

This report is intended solely for the use of management and should not be used for any other purpose.

Glass & Associates P.A.
GLASS & ASSOCIATES, P. A.

828

February 9, 1985

IIIB80

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ORGANIZATIONAL STRUCTURE

Over the past fiscal year, the Corporation has experienced tremendous growth both in the lending and savings area and in the activity of its subsidiaries. This increase in size has been accompanied by a diversification in operations. As a result of our audit, we feel that the management structure as it presently exists is not adequate to effectively operate and control the operation. Many of the comments in the accompanying pages of this report can be related to the effect that this deficiency in management structure had on the operations during the past year.

We believe that the organizational structure at the management level should be broken down as follows:

CHIEF OPERATING OFFICER - Reports directly to the President and is responsible for all corporate activity and all levels of management except the internal audit department.

CHIEF FINANCIAL OFFICER - Reports directly to the Chief Operating Officer and is in charge of all accounting functions (including those of the subsidiaries) and all investment activity for the savings and loan operations. Responsible for all reporting requirements such as the SL-200 and operational reports to the Board of Directors. The Controller reports directly to the Chief Financial Officer.

LOAN UNDERWRITING OFFICER - Responsible for loan origination including acquisition of necessary loan documentation. Prepares the information necessary for the loan committee and/or Board of Directors to evaluate a loan. Reports directly to the Chief Operating Officer.

LOAN SERVICING OFFICER - Responsible for all loan activity subsequent to loan origination, including delinquencies, construction loan activity, and maintenance of escrow accounts. Reports directly to the Chief Operating Officer.

SAVINGS OFFICER - Responsible for all branch operations. Reports directly to the Chief Operating Officer.

OFFICER IN CHARGE OF SUBSIDIARIES - Responsible for investing in joint ventures and subsidiaries, tracking operations of existing joint ventures and subsidiaries, and looking after the Corporation's interest in entities in which the Corporation does not have direct control. Reports directly to the Chief Operating Officer.

CHIEF INTERNAL AUDITOR - Responsible for the internal audit department which performs independently of any other department and reports directly to an audit committee. The audit committee is made up of several members of the Board of Directors and acts as an intermediary between this department and the full Board of Directors. We are aware that an individual has been hired to fill the position of an internal auditor. We feel that this is a positive step towards greater internal control and readily offer our assistance in formulating an effective internal audit program.

CASH ACCOUNTS

A check in the amount of \$76,000 written July 20, 1984 for the disbursement of construction funds held in trust and to be paid to the Corporation as trustee, remained outstanding as of the completion of our fieldwork. We feel that because of the nature of the disbursement, the check should have cleared the bank under normal circumstances. Examination of the monthly bank reconciliations by supervisory accounting personnel should be performed to identify and investigate this type of unusual situation.

Our audit of the downtown main checking account revealed a high frequency of returned deposits originating from May 1984 through July 1984, being carried as reconciling items. Subsequent to July 31, 1984, these items were charged back to customer accounts. Again, we feel a more current resolution of these items is required in order to avoid a financial loss to the Corporation.

In auditing the July 31, 1984 dividend checking account, we noted in several instances the amount on the dividend check generated by the computer service center differed from the amount per the computer generated check register. The payee and account number also differed. The check register represents the source for recording the dividends in the general ledger. Further investigation throughout the year revealed that this was an isolated case. It was found that the actual checks were correct and the register was in error, therefore, an audit adjustment was made to correct the variance. Prompt reconciliations of the bank accounts will disclose similar problems. The potential for computer error is very real, as evidenced by this particular situation. Further review throughout the year did not reveal any other similar occurrence.

MORTGAGE LOANS

Our examination of the reconciliation between the subsidiary mortgage computer generated trial balance and the general ledger revealed the following problems at July 31, 1984:

1. Twelve separate loan payoffs or pay downs were received and recorded in the general ledger from May 1984 through July 1984. The transactions were not entered into the computer system.
2. A \$300,000 loan made in October 1983 was not entered into the computer system until September 1984.
3. A check written in April 1984 for a loan in the amount of \$78,300 was voided and re-issued. The appropriate general ledger accounts were never adjusted to reflect the voided check.
4. A check written and voided in May 1984 for a loan in the amount of \$400,000 was not removed from the computer system.
5. A journal entry affecting the mortgage loan general ledger account was recorded backwards and remained uncorrected.

Though many of the above errors were ultimately corrected by the Corporation as of the date of our fieldwork, these reconciling items indicate a weakness in the recording procedures for mortgage transactions and a lack of a timely reconciliation between the computer subsidiary system and the general ledger. All reconciling items of the type mentioned above should be resolved on a monthly basis and should not be carried forward for additional months.

MORTGAGE LOAN FILES

Our random selection of 44 mortgage loan files from loans originated during the fiscal year ending July 31, 1984 revealed numerous instances of missing documents. We found two files with no recorded mortgage or deed of trust, nine files with no title insurance or certification, five files without an adequate appraisal, five files with no signed settlement sheet, nine files without a credit report and/or financial statement, six files without a loan application, nine files without evidence of hazard insurance, one file without a truth in lending statement, six construction loan files without a construction loan agreement, and eight construction loan files without plans and specifications on the project. We informed the appropriate personnel of these deficiencies and they are continuing their effort to locate and obtain these documents.

It is recommended that the Corporation, in the future, make a concerted effort to obtain these sensitive documents as timely as possible. In addition, all loan files with missing documents should be segregated from completed files and should be monitored for completion of documentation.

CONSTRUCTION LOANS

The following weaknesses were noted in the construction loans-in-process area:

1. Draws totaling \$28,046 made to four loans were recorded on the subsidiary loans-in-process cards but not in the general ledger.
2. Draws totaling \$1,334,030 made to eight loans were recorded in the general ledger but not on the subsidiary loans-in-process cards.
3. The Corporation had not received \$3,312,643 as of July 31, 1984, for construction funds to be held in escrow for nine construction loans on which earlier settlements took place. Numerous construction draws had been made on these loans subsequent to settlement.
4. The Corporation received nine payments totaling \$1,661,255 in construction funds to be held in escrow between August 17, 1983 and July 6, 1984 for which loan and accounting personnel cannot specifically identify the construction loan to which it relates.
5. The Corporation disbursed two draws totaling \$40,450 via wire transfers which were not recorded on the subsidiary loans-in-process cards.

We feel it is imperative the Corporation implement stringent controls over the disbursing and receipt of construction funds. Funds must be received from construction loan settlements on a timely basis and the subsidiary records should properly reflect the transaction when the funds are received. Communication is necessary between the accounting and construction loan departments to insure that the specific loan is identified prior to the funds being deposited in the bank and recorded in the general ledger. Additionally, under no circumstances should a draw be approved and disbursed prior to the creation of the loans-in-process subsidiary card and the receipt of the construction funds to be held in escrow from the loan settlement.

In testing interest income billed and earned on construction loans, we found numerous over and under billings. Interest billings are performed manually and, as such, are more susceptible to error. We feel it is extremely important that a supervisory review be performed monthly verifying the interest calculations prior to the monthly billings.

LOAN PARTICIPATIONS SOLD

A participation in loans sold to Yorkridge Calvert Savings and Loan was paid off by the Corporation in September, 1983. However, the transaction was incorrectly recorded on the general ledger, leaving an outstanding balance in the general ledger account at July 31, 1984. A monthly review of the general ledger loan accounts would have revealed this error and resulted in its correction on a timely basis.

UNSECURED LOANS

At July 31, 1984, loans receivable which were not secured by mortgages on real estate or savings accounts totaled \$12,837,873. Of these, there were \$2,841,564 in loans that were delinquent thirty days or more. We feel that the Corporation should exercise stringent underwriting and collection practices in order to insure that no losses will be incurred on these loans.

SAVINGS ACCOUNT LOANS

Interest on savings account loan #810648 and loan #800512 has been delinquent since 1983 and 1978, respectively, even though the interest is continually being accrued and recorded in the general ledger. Further investigation showed that both loans were uncollateralized.

ACCRUED INTEREST RECEIVABLE

Accrued interest receivable on construction and land acquisition and development loans are calculated manually rather than utilizing the amount generated by the computer system. This is due to the computer system's inability to properly track floating interest rates and variations in the loans-in-process accounts. We found, however, that accrued interest was overstated in the general ledger by \$38,465 as a result of the erroneous recording of the computer generated amount on several loans in addition to the manually calculated figure.

SAVINGS ACCOUNTS

On July 20, 1984, a \$30,000 withdrawal was made at the Reisterstown branch; however, the amount was not charged against the customer's account in the computer subsidiary records until September 25, 1984. During the interim, interest was credited by the computer system on the withdrawn amount. Further examination revealed that the teller's daily settlement sheet did not prove out and was not picked up by branch and accounting personnel at that time. This represents an example of non-compliance in the daily proof system and demonstrates the danger of not reconciling savings accounts and resolving reconciling differences on a timely basis.

NOW ACCOUNTS

Our examination of NOW accounts revealed the following weaknesses:

1. We noted a frequent number of instances in our random examination in which customer checks written with nonsufficient funds were honored by the Corporation and the overdraft balances were carried for an extended period of time (in some instances, over a month).
2. We noted numerous cases when service charges were not levied for bounced checks and overdrawn accounts.
3. An employee in the NOW account department was found to have had an account in a constant overdraft position. Further investigation revealed that this individual was destroying the overdraft notices generated by the servicing bank. It should be noted that upon being informed of this situation, the Corporation immediately fired the individual.

NOW ACCOUNTS (CONTINUED)

4. The Corporation had to write-off \$267,577 in uncollected funds on overdraft NOW accounts originating over the past several years.

We believe a returned check should only be honored in special circumstances and with the approval of supervisory personnel. In addition, a service fee should be charged on every returned check unless waived by supervisory personnel. These supervisory authorizations should be clearly documented and maintained by the NOW account department.

We strongly suggest that a formal daily review procedure be implemented by the NOW account department. An individual other than a NOW account clerk should receive the returned check listing directly from the bank. This allows an independent review of the overdrafts and provides a deterrent against deviation from stated policy. Additionally, we feel that a more timely follow up of overdrawn accounts is necessary.

Two customer NOW account checks written in May 1984, totaling \$42,802 and honored by the Corporation, were not recorded through the detail subsidiary records until October 1984. The potential exposure on this type of delay is that the customer could write additional checks up to this amount, without the system being able to identify that these amounts had already been disbursed through previously issued checks. In order to avoid a similar situation, processing of checks through the system should be performed immediately. Additionally, a timely reconciliation and resolution of differences would disclose this type of problem.

"DOLLAR ROLL" TRANSACTIONS

During the current year, the Corporation, for the first time, entered into borrowing transactions known as dollar rolls. This is a fairly new area of borrowing for savings and loan institutions; and, as a result, the accounting treatment is unfamiliar. Our auditing of these transactions revealed that accounting treatment in the general ledger was incorrect and required an audit adjustment of approximately \$240,000. We suggest the accounting department communicate with our firm when an accounting problem arises that would necessitate the need for technical assistance.

PAYROLL

In our testing of the payroll system, we noted numerous errors in the preparation of the November 18, 1983 payroll. Further investigation revealed that this particular payroll was prepared by someone other than the regular payroll clerk. We feel that it is important that the employee designated as the back up payroll clerk be thoroughly familiar with the procedure for payroll preparation.

Although it is the policy of the Corporation to have department heads provide written authorization for overtime, we found this was not done for several employees in one of our randomly selected pay periods (November 18, 1983).

DEPRECIATION

For additions to property and equipment for the fiscal year ending July 31, 1984, depreciation was calculated using the Accelerated Cost Recovery System. Although this is the appropriate method for income tax purposes, this is not a proper method of depreciation under generally accepted accounting principles.

INSURANCE

Our examination of the Corporation's blanket bond insurance policy at July 31, 1984, revealed the amount of insurance was \$115,000 short of the required coverage as specified by State regulations. We suggest that a quarterly review of the coverage be performed and any adjustments to the policy be made on a timely basis.

TELLER TRANSACTIONS

Miscellaneous cash receipt items such as money orders sold and utility bills collected are not supported in the tellers' daily work by miscellaneous cash receipt tickets and other documentation. Miscellaneous cash receipt tickets should provide a description of the source and amount of the cash receipt and should be prepared for all miscellaneous cash items in order to provide a proper trail and source of all items entered on the tellers' daily sheets.

During our testing of three days selected at random, we found three instances in which the amount of mortgage payment received was different from the amount entered on the mortgage payment card. In order to fully support the daily sheets, the teller or clerical personnel should change the amount on the mortgage payment card to reflect the amount of cash received and obtain documented authorization from supervisory personnel prior to accepting payment.

Certified checks sold at the branches were not reflected on the tellers' daily sheets. The result of this omission is that there is no trail for this type of teller transaction. Lack of trail would make it difficult to resolve any subsequent problems which might arise as a result of this transaction.

Our test work found five instances where transaction tickets were not properly machine validated. By not having these tickets validated, there is a potential for defalcation resulting from the processing of a transaction ticket more than once.

In the course of testing specific customer transactions, we requested eleven signature cards which the branches were unable to locate. The acquisition and maintenance of signature cards is crucial for both legal and internal control purposes.

OLD COURT INVESTMENT CORPORATION AND OLD COURT JOINT VENTURE - INVESTMENT IN REAL ESTATE AND REAL ESTATE JOINT VENTURES

During the current fiscal year, the Corporation entered into many real estate joint ventures, and purchased several parcels of land for investment. Documentation supporting these investments such as partnership agreements and purchase contracts were not always readily obtainable by corporate personnel. We stress the importance of acquiring and maintaining, in an organized and effective manner, all underlying documentation supporting these investments.

MERIDIAN MORTGAGE, BANKERS REALTY, INC., BANKERS APPRAISAL, INC., AND ALLSTATE TITLE INSURANCE

In examining the books and records of these subsidiaries, we found no formal accounting system for the acquisition and maintenance of documentation and support for cash disbursements and cash receipts. Even though the recording of the transactions is performed at the Corporation's administrative offices under the supervision of the Controller, there exists no accounting control over the actual transactions which originate

MERIDIAN MORTGAGE, BANKERS REALTY, INC., BANKERS APPRAISAL, INC., AND
ALISTATE TITLE INSURANCE (CONTINUED)

outside the administrative offices. Disbursements and receipts are frequently misposted because of the lack of substantiation and clarification of the transaction. We generally found a lack of reconciliation between the general ledger accounts and the supporting detail.

We strongly urge that all accounting and record keeping functions be transferred to the administrative office under the responsibility of the Controller. The accounting department should receive substantiation for all cash transactions on a timely basis. All cash accounts should be reconciled monthly by the accounting department, with the general ledger being reviewed and analyzed for propriety of transactions.

JOINT VENTURE ACCOUNTING

At July 31, 1984, the Corporation owned interest in approximately 90 joint ventures. In a majority of instances, the accounting and record keeping for the partnerships are maintained outside of the Corporation's control. We believe this lack of control creates the following problems:

1. Partnerships on a calendar year accounting period report the results of their operations as of and for the twelve months ending December 31, rather than on a July 31 fiscal year basis, which coincides with the Corporation's fiscal year. As a result of the difference in year ends, the financial reporting of the Corporation's equity interest in these joint ventures at July 31 does not reflect the joint ventures' activity for the period January 1 through July 31 of the current year.
2. In a few instances, the partnerships' year end financial information was received by the Corporation in an untimely manner, or was never received at all.
3. Lack of control over the accounting records enhances the possibility that misappropriations of the joint ventures' funds or impropriety of partnership activity could occur without detection by the Corporation.

We believe that a criteria for entering into partnership agreements should be the assurance that the Corporation will have control over the accounting and record keeping for the joint ventures whether by the Corporation's own accounting department or by an outside firm contracted by the Corporation. This will allow timely reporting and proper control over the joint ventures.

* * * *

We would like to take this opportunity to extend our gratitude for the cooperation and assistance received from the officers and employees of the Corporation during the course of our work. If you have any questions, or wish to discuss these matters further, please contact us.



GLASS & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

714 MERCANTILE BANK & TRUST BUILDING
TWO HOPKINS PLAZA • BALTIMORE, MARYLAND 21201 • 301-237-5400

The Board of Directors
Old Court Savings and Loan, Inc.
Baltimore, Maryland 21202

We have examined the financial statements of Old Court Savings and Loan, Inc. and subsidiaries (the Corporation) for the year ended July 31, 1984, and have issued our report thereon dated February 5, 1985. As part of our examination, we made a study and evaluation of the Corporation's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the other auditing procedures necessary for expressing an opinion on the company's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Old Court Savings and Loan, Inc. and subsidiaries is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Corporation taken as a whole. Our study and evaluation disclosed no condition that we believed to be a material weakness; however, the items, as set forth in the following pages, represent weaknesses which we feel warrant management's attention.

This report is intended solely for the use of management and should not be used for any other purpose.

Glass & Associates P.A.
GLASS & ASSOCIATES, P. A.

February 9, 1985

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4876

T. Burger

*For exam
as of 12/31/84*

**OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JULY 31, 1984 AND 1983**

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

FEB 6 1985

H D 4:30



**GLASS & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS**

**OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JULY 31, 1984 AND 1983**

OLD COURT SAVINGS AND LOAN, INC.
 AND SUBSIDIARIES
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 YEARS ENDED JULY 31, 1984 AND 1983
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GLASS & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

714 MERCANTILE BANK & TRUST BUILDING
TWO HOPKINS PLAZA • BALTIMORE, MARYLAND 21201 • 301-237-5400

The Board of Directors
Old Court Savings and Loan, Inc.
Baltimore, Maryland 21201

Gentlemen:

We have examined the consolidated statements of financial condition of Old Court Savings and Loan, Inc. and subsidiaries as of July 31, 1984 and 1983 and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our 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 we considered necessary in the circumstances.

As described in Note 1 and Note 11, Old Court Savings and Loan, Inc. and subsidiaries' (the Corporation) policy is to prepare its financial statements on the basis of accounting practices prescribed or permitted by the Maryland Department of Licensing and Regulation, Division of Savings and Loan Associations. These practices differ in some respects from generally accepted accounting principles.

In our opinion, except for the method of recording loan fees, commitment fees, discounts on loans purchased, and losses on loans sold as described in Note 1 and Note 11, the consolidated financial statements referred to in the first paragraph present fairly the financial position of Old Court Savings and Loan, Inc. and subsidiaries at July 31, 1984 and 1983 and the results of operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The examination referred to above was directed primarily toward formulating an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating and consolidated schedules are presented for supplementary analysis purposes and are not intended to present the individual financial positions and results of operations of the components of the consolidated group in conformity with generally accepted accounting principles, nor are they necessary for a fair presentation of the financial position and results of operations of the consolidated group. The consolidating and consolidated schedules have been subjected to the auditing procedures applied in the examination of the consolidated financial statements. In our opinion, except for the method of recording loan fees, commitment fees, discounts on loans purchased, and losses on loans sold as described in Note 1 and Note 11, such schedules are stated fairly in all material respects only when considered in conjunction with the consolidated financial statements taken as a whole.

February 6, 1985

840

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OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JULY 31, 1984 AND 1983

<u>ASSETS</u>	<u>1984</u>	<u>1983</u>
Cash on hand and in banks (including certificates of deposit of \$500,000 and \$400,000 in 1984 and 1983 respectively)	\$ 18,699,776	\$ -
Marketable securities - Note 12	55,460,823	44,475,654
Unsecured short-term loan to commercial bank	5,276,781	2,250,000
Loans receivable, net - Note 2	237,885,370	154,012,038
Accrued interest receivable	7,353,193	3,601,752
Deposits with Maryland Savings-Share Insurance Corporation (MSSIC) - Note 3:		
Capital deposit	6,999,300	2,982,900
Central Reserve Fund	2,647,800	941,100
Property and equipment, net - Note 4	2,236,181	1,095,380
Investment in and advances to real estate joint ventures - Note 6	114,531,513	31,740,658
Real estate acquired through foreclosure	150,000	202,691
Prepaid expenses and other assets	22,927,525	7,137,179
Federal income taxes recoverable - Note 9:		
Current	-	39,408
Investment in consolidated corporation in excess of book value	3,165,409	-
Investment in and advances to unconsolidated subsidiaries - Note 13	1,533,845	-
Real estate held for investment - Note 14	18,901,403	1,387,590
TOTAL ASSETS	<u>\$ 497,768,919</u>	<u>\$ 249,866,350</u>

(see accompanying notes to financial statements)

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
JULY 31, 1984 AND 1983

<u>LIABILITIES, DEFERRED INCOME AND STOCKHOLDERS' EQUITY</u>	<u>1984</u>	<u>1983</u>
<u>LIABILITIES</u>		
Cash overdraft	\$ -	\$ 1,414,485
Savings accounts - Note 7	390,885,751	163,770,466
Notes payable and other borrowings - Note 8	85,148,467	77,799,625
Advances by borrowers for taxes, insurance and ground rents	874,914	662,770
Accrued interest payable	6,729,128	1,973,967
Accrued expenses and other liabilities	3,369,827	1,999,011
Income taxes currently payable - Note 9	656,674	106,386
Deferred Federal income taxes payable	<u>2,381,051</u>	<u>317,492</u>
TOTAL LIABILITIES	\$ 490,045,812	\$ 248,044,202
DEFERRED INCOME - NOTE 1	\$ 653,224	\$ 268,070
SUBORDINATED DEBENTURE - NOTE 3	\$ 1,000,000	\$ 625,000
MINORITY INTEREST IN SUBSIDIARIES	\$(88,197)	\$ -
STOCKHOLDERS' EQUITY - NOTES 3 AND 10		
Guaranty stock:		
Class A, \$1 par value per share, authorized 50,000,000 shares; issued 295,526 shares	\$ 295,526	\$ 295,526
Class B, \$1 par value per share, authorized and issued 2,500 shares	- 2,500	2,500
Additional paid-in capital	174,835	174,835
Retained earnings - restricted	<u>5,685,219</u>	<u>456,217</u>
TOTAL STOCKHOLDERS' EQUITY	\$ 6,158,080	\$ 929,078
COMMITMENTS - NOTE 5		
TOTAL LIABILITIES, DEFERRED INCOME AND STOCKHOLDERS' EQUITY	<u>\$ 497,768,919</u>	<u>\$ 249,866,350</u>

(see accompanying notes to financial statements)

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED JULY 31, 1984 AND 1983

	<u>1984</u>	<u>1983</u>
INCOME		
Interest on loans		
Loan fees and service charges - Note 1	\$ 22,509,123	\$ 11,567,780
Interest on marketable securities and other investments	9,557,021	4,402,454
Equity in net (loss) income of real estate joint ventures	14,413,062	2,890,431
Rental income	(1,269,434)	138,770
Gain on sale of investment securities	350,530	-
Gain on sale of real estate	75,932	-
Other income	4,975,695	690,112
	479,336	117,905
TOTAL INCOME	\$ 51,091,265	\$ 19,807,452
EXPENSES		
Interest on savings accounts	\$ 27,924,783	\$ 11,960,739
Interest on borrowings	8,012,446	2,988,384
General and administrative - Schedule 1	7,307,232	2,516,060
TOTAL EXPENSES	\$ 43,244,461	\$ 17,465,183
INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	\$ 7,846,804	\$ 2,342,269
PROVISION FOR INCOME TAXES - NOTE 9		
Current	\$ 650,690	\$ 106,621
Deferred	2,063,559	401,000
	\$ 2,714,249	\$ 507,621
NET INCOME BEFORE MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	\$ 5,132,555	\$ 1,834,648
MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	96,447	-
NET INCOME - NOTE 15	\$ 5,229,002	\$ 1,834,648
NET INCOME PER SHARE - NOTE 10	\$ 17.55	\$ 6.15

(see accompanying notes to financial statements)

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
JULY 31, 1984 AND 1983

	GUARANTY STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)
	CLASS A	CLASS B		
BALANCE JULY 31, 1982	\$ 295,526	\$ 2,500	\$ 174,835	\$(1,378,431)
NET INCOME FOR 1983	-	-	-	1,834,648
BALANCE JULY 31, 1983	\$ 295,526	\$ 2,500	\$ 174,835	\$ 456,217
NET INCOME FOR 1984	-	-	-	5,229,002
BALANCE JULY 31, 1984	<u>\$ 295,526</u>	<u>\$ 2,500</u>	<u>\$ 174,835</u>	<u>\$ 5,685,219</u>

(see accompanying notes to financial statements)

TOTAL

\$(905,570)

1,834,648

929,078

5,229,002

\$ 6,158,080

OLD COURT SAVINGS AND LOAN, INC.
 CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
 FOR THE YEARS ENDED JULY 31, 1984 AND 1983

USES OF FUNDS:	1984	1983
Loans receivable, net - excess loan disbursements over repayments	\$ 83,871,412	\$ 86,773,072
Increase in marketable securities	10,985,169	42,469,712
Increase in secured short-term loan to commercial bank	3,026,781	2,050,000
Increase in accrued interest receivable	3,753,361	2,798,395
Increase in deposits with MSSIC	5,723,100	1,995,600
Increase in property and equipment, net	1,505,601	-
Increase in investments in and advances to real estate joint ventures	84,060,289	29,389,046
Increase in prepaid expenses and other assets	15,790,346	6,813,270
Increase in real estate held for investment	17,513,813	1,387,590
Increase in investment in consolidated corporation in excess of book value	3,165,409	-
Increase in and advances to subsidiaries	1,533,845	-
Increase in cash	18,699,776	-
Decrease in advances by borrowers for taxes, insurance and ground rents	-	28,955
Decrease in deferred income	-	11,948
Decrease in minority interest in subsidiaries	88,197	-
Decrease in cash overdraft	1,414,485	-
TOTAL USES OF FUNDS	\$ 251,131,584	\$ 173,717,588

(see accompanying notes to financial statements)

OLD COURT SAVINGS AND LOAN, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JULY 31, 1984 AND 1983

	<u>1984</u>	<u>1983</u>
SOURCES OF FUNDS:		
From operations		
Net income	\$ 5,229,002	\$ 1,834,648
Charges (credits) to income not affecting funds:		
Depreciation and amortization	364,800	138,077
Deferred income tax	2,063,559	401,000
Equity in net (income) loss of real estate joint ventures	<u>1,269,434</u>	<u>(138,770)</u>
Funds provided by operations	\$ 8,926,795	\$ 2,234,955
Decrease in cash	-	1,126,448
Decrease in real estate acquired through foreclosure	52,691	37,468
Decrease in property and equipment, net	-	754,333
Decrease in Federal income taxes currently recoverable	39,408	43,592
Excess of savings accounts receipts over withdrawals	227,115,285	95,654,636
Decrease in cash overdraft	-	1,414,485
Increase in notes payable and other borrowings	7,348,842	68,836,625
Increase in subordinated debenture	375,000	-
Increase in accrued interest payable	4,755,161	1,799,840
Increase in accrued expenses and other liabilities	1,370,816	1,741,037
Increase in income taxes currently payable	550,288	-
Decrease in state income taxes currently payable	-	74,169
Increase in advances by borrowers for taxes, insurance and ground rents	212,144	-
Increase in deferred income	<u>385,154</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>\$ 251,131,584</u>	<u>\$ 173,717,588</u>

(see accompanying notes to financial statements)

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

The consolidated financial statements for 1984 and 1983 include the accounts of Old Court Savings and Loan, Inc. (a wholly-owned subsidiary of LCP Corporation) and its wholly-owned subsidiaries: Old Court Investment Corporation, Old Court Joint Venture, Inc., Twin Lakes, Inc., Meridian Mortgage Investment, Inc., Bankers Realty, Inc., and Bankers Appraisal Services, Inc. For 1984, the consolidated financial statements also include the accounts of Allstate Title Insurance Company, Inc., a wholly-owned subsidiary, YKON Corporation, an 80% owned subsidiary, and D.R. Development Joint Venture, Inc. and Old Court Insurance Group, Inc. both 67% owned subsidiaries. Additionally for 1984, the consolidated financial statements include the accounts of five real estate partnerships in which the Corporation has controlling interest.

Marketable Securities:

Marketable securities consist of U. S. Government and agency obligations, corporate and municipal bonds, and corporate stock and are carried at cost, net of original premium or discount. For the debt securities, the lower of cost or market is not used since it is generally management's intention to hold these securities to maturity. Gains or losses on sale are reflected in income at the time of sale.

Investment In and Advances to Real Estate Joint Ventures:

Investments in real estate joint ventures are accounted for on the equity method. The ventures capitalize interest on construction advances and loan fees paid to Old Court Savings and Loan, Inc. Old Court Savings and Loan, Inc. defers a percentage, equal to its ownership of the loan fees and interest, and recognizes them when expensed by the ventures. The remaining percentage of interest is recognized as current income.

Provision for Loss:

Provision for loss on loans receivable and real estate acquired through foreclosure is charged to income when it is determined that the investment in such assets is greater than estimated net realizable value. Additionally, interest income on loans which were more than 90 days delinquent is not accrued.

Property and Equipment:

Depreciation and amortization are accumulated on a straight-line basis over the estimated useful lives of the assets. Additions and betterments are capitalized, and charges for repairs and maintenance are expensed when incurred. The cost and related accumulated depreciation or amortization are eliminated from the accounts when an asset is sold or retired and the resultant gain or loss is credited or charged to income.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes:

Deferred income taxes are provided on income and expense items when they are reported for financial statement purposes in periods different from the periods in which these items are recognized in the income tax returns. The Corporation and its subsidiaries file consolidated Federal income tax returns.

Investment tax credits are accounted for as a reduction of the provision for income taxes on the "flow-through" method.

Loan Fees:

In accordance with regulations prescribed by the Maryland Department of Licensing and Regulation, Division of Savings and Loan Associations, loan fees, commitment fees and discounts on loans purchased which exceed three percent of the respective loan or commitment are taken into income over a period of seven years or the life of the loan, whichever is shorter; while the first three percent is recognized as income in the year received. This treatment is at variance with generally accepted accounting principles.

Unamortized Loss on Loans Sold:

As permitted by supervisory regulations, the Corporation elected to defer and amortize realized losses, net of taxes, on sales occurring in 1982 and 1983. Amortization is over the period equal to the average remaining lives of the loans at the time of sale. This treatment is at variance with generally accepted accounting principles.

Real Estate Acquired Through Foreclosure:

Real estate acquired in settlement of loans is recorded at the lower of the net loan receivable balance or the fair value of the real estate at the date of foreclosure. Costs of foreclosure and direct holding costs are charged to expense, and improvements to the property are capitalized.

The valuation of real estate owned, including development projects, is reviewed for propriety by management at least annually. Valuation allowances for estimated losses on real estate are recorded when a decline in value is deemed to have occurred.

Construction Period Interest:

Interest expense on funds borrowed for the acquisition and construction of assets by the Corporation are capitalized for a percentage equal to its ownership in the asset and are expensed over the estimated useful life or period of ownership, whichever is less. At July 31, 1984, the amount of capitalized interest was \$2,445,163.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 2 - LOANS RECEIVABLE

Loans receivable consist of the following at July 31:

	<u>1984</u>	<u>1983</u>
Loans secured by mortgages on real estate:		
Conventional and short-term construction	\$ 192,902,390	\$ 101,971,809
Pass-through certificates guaranteed by GNMA and PHLMC participation certificates	68,682,351	61,951,763
	<u>\$ 261,584,741</u>	<u>\$ 163,923,572</u>
Unsecured loans	12,837,873	-
Savings account loans	2,083,376	1,143,558
	<u>\$ 276,505,990</u>	<u>\$ 165,067,130</u>
 LESS:		
Undisbursed construction loan funds	\$ 27,046,414	\$ 4,537,361
Deferred loan fees	1,409,269	251,039
Unearned discounts - net	10,164,937	6,266,692
	<u>\$ 38,620,620</u>	<u>\$ 11,055,092</u>
 Loans receivable, net	 <u>\$ 237,885,370</u>	 <u>\$ 154,012,038</u>

Outstanding mortgage loan commitments amounted to approximately \$27,000,000 at July 31, 1984.

NOTE 3 - REGULATORY REQUIREMENTS AND INSURANCE AGREEMENT WITH MARYLAND SAVINGS-SHARE INSURANCE CORPORATION

The Corporation's savings share accounts are insured up to a maximum of \$100,000 per account by Maryland Savings-Share Insurance Corporation (MSSIC). The Corporation is required to maintain a non-interest bearing capital deposit with MSSIC equal to 2% (computed semi-annually) of its savings share accounts, to be maintained by MSSIC as an insurance fund for possible losses incident to its insurance of accounts. The Corporation is also required to maintain an interest-bearing Central Reserve Fund deposit with MSSIC based on a percentage of the Corporation's savings share accounts to the total savings share accounts in Maryland, to be maintained by MSSIC as an emergency fund available for making loans to members.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 3 - REGULATORY REQUIREMENTS AND INSURANCE AGREEMENT WITH MARYLAND SAVINGS-SHARE INSURANCE CORPORATION (CONTINUED)

The Corporation is also required to maintain a certain minimum level of net worth, as defined (principally stockholders' equity) under State of Maryland Department of Licensing and Regulation, Division of Savings and Loan Associations (State) regulations and MSSIC regulations. At July 31, 1980, the Corporation did not meet the minimum regulatory net worth requirement prescribed by MSSIC. Pursuant to Section 3-211(A)(1) of MSSIC's Rules and Regulations, the Corporation on July 31, 1981, entered into three related agreements with MSSIC. The first agreement provides for the sale by the Corporation to MSSIC of \$725,000 of debentures. The debentures bear interest at 10% per annum and are repayable in installments of \$100,000 on each July 31st through 1987, and \$125,000 on July 31, 1988. In addition, the indebtedness evidenced by the debentures is subordinated to all other indebtedness of the Corporation. The subordinated debentures are includable in regulatory net worth of the Corporation by MSSIC and State regulations. The second agreement establishes certain restrictions and requirements including: a) limitations on operating and capital expenditures, on fees and remuneration to directors and officers, on issuance of additional shares of stock, on payment of dividends on existing stock, on the consolidation or disposition of assets, and on the loaning of money to affiliated organizations, and b) the submission of financial and other data to MSSIC on a regular basis. The third agreement, a "Voting Trust Agreement" requires MSSIC's approval of any proposed merger involving the Corporation. At July 31, 1983, the Corporation did not meet the minimum regulatory net worth requirements and was bound by the three agreements with MSSIC. As of July 31, 1984, the regulatory net worth requirements were met, the subordinated debenture was repaid in full, and the Corporation was released from the obligations of the three agreements.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	1984	1983	ESTIMATED USEFUL LIVES
Land	\$ 145,912	\$ 145,912	-
Buildings	228,804	154,594	25-30 years
Furniture, fixtures and equipment	1,180,735	714,074	5-10 years
Leasehold improvements	1,091,246	365,507	15-30 years
Automobiles	144,282	30,207	3- 4 years
Total, at cost	\$ 2,790,979	\$ 1,410,294	
LESS: Accumulated depreciation and amortization	554,798	314,914	
PROPERTY AND EQUIPMENT, NET	<u>\$ 2,236,181</u>	<u>\$ 1,095,380</u>	

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 5 - COMMITMENTS

At July 31, 1984, Old Court Savings and Loan, Inc. was obligated under non-cancellable long-term operating leases for its main office and four branch locations. The administrative office and one of the branch locations are leased from partnerships in which certain officers and directors own financial interest. The lease on the administrative office provides for six renewal options of five years each. The other three branch locations are leased from unrelated parties. One of these leases has a renewal option of five years. The minimum annual rental payments under these leases are as follows:

<u>YEARS ENDING</u> <u>JULY 31</u>	<u>MINIMUM</u> <u>LEASE PAYMENTS</u>
1985	\$ 208,186
1986	270,598
1987	275,598
1988	196,612
1989	154,073
Subsequent to 1989	61,453
Total minimum lease payments	<u>\$ 1,166,520</u>
Sub-lease income	(477,500)
Net minimum lease payments	<u>\$ 689,020</u>

Rental expense under these long-term leases was \$184,778 for the year ended July 31, 1984.

NOTE 6 - INVESTMENT IN AND ADVANCES TO REAL ESTATE JOINT VENTURES

Old Court subsidiaries are venturers in numerous entities with general and limited partnership interests ranging from 25% to 70%. The ventures are involved in real estate investment and development activities. The investment in joint ventures is carried on the books under the equity method of accounting; whereby its shares of losses or profits either decreases or increases its carrying value in the joint venture. The carrying values are adjusted at the end of the investees' fiscal year. For all but a few joint ventures in which the fiscal year end is July 31, the investees' fiscal year ends are December 31, therefore, for these joint ventures, for purposes of July 31, 1984 and 1983 carrying values, the December 31, 1983 and 1982 financial statements of the investees were utilized as provided by generally accepted accounting principles.

Combined condensed financial information for the ventures is as follows at July 31 and for the year then ended:

<u>ASSETS</u>	<u>1984</u>	<u>1983</u>
Residential projects under construction	\$ 16,845,206	\$ 3,809,682
Commercial projects under construction	8,921,737	-
Land held for development	13,334,124	150,000
Other	12,729,866	403,622
Rental properties	<u>17,754,437</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 69,585,370</u>	<u>\$ 4,363,304</u>

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 6 - INVESTMENT IN AND ADVANCES TO REAL ESTATE JOINT VENTURES (CONTINUED)

	1984	1983
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
<u>LIABILITIES</u>		
Due to Old Court Savings and Loan, Inc. and subsidiaries	\$ 52,676,329	\$ 3,743,008
Due to other	17,454,430	546,248
<u>PARTNERS' CAPITAL (DEFICIT)</u>		
Old Court subsidiaries	(1,228,234)	172,610
Other	682,845	(98,562)
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 69,585,370</u>	<u>\$ 4,363,304</u>
<u>REVENUES AND EXPENSES</u>		
<u>REVENUES</u>	\$ 7,278,868	\$ 2,431,852
<u>EXPENSES</u>	9,810,732	2,199,025
<u>NET INCOME (LOSS)</u>	<u>\$(2,531,864)</u>	<u>\$ 232,827</u>

The following is a reconciliation of investments in and advances to the real estate joint ventures with the related balances shown above.

<u>Balance shown above:</u>		
Due Old Court Savings and Loan, Inc. and subsidiaries	\$ 52,676,329	\$ 3,743,008
Partners' capital	(1,228,234)	172,610
	<u>\$ 51,448,095</u>	<u>\$ 3,915,618</u>
<u>Add (Deduct):</u>		
Interest due on loans delinquent over 90 days not accrued by Old Court Savings and Loan, Inc.	-	(183,519)
Additional loan advances from January 1 to July 31, net of repayments	68,775,859	28,008,559
Interest income and loan fees received from joint ventures and deferred on the books of Old Court Savings and Loan, Inc.	(5,692,441)	-
INVESTMENT IN AND ADVANCES TO REAL ESTATE JOINT VENTURES	<u>\$ 114,531,513</u>	<u>\$ 31,740,658</u>

At July 31, 1984 the investment in and advances to real estate joint ventures was net of \$45,455,594 in undisbursed construction loan funds.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 7 - SAVINGS ACCOUNTS

The following is a summary of savings accounts at July 31:

	1984			1983		
	RATE	AMOUNT	%	RATE	AMOUNT	%
Passbooks	6.00-10.00	\$ 43,880,059	11.2	6.00-10.00	\$ 50,485,399	30.8
N.O.W. accounts	0.00-6.00	17,602,406	4.5	0.00- 6.00	4,046,515	2.5
Certificates	9.30-15.55	249,683,266	63.9	6.46-16.55	59,417,637	36.3
Money market accounts	8.97-10.64	79,720,020	20.4	10.50	49,820,915	30.4
		<u>\$ 390,885,751</u>	<u>100.0</u>		<u>\$ 163,770,466</u>	<u>100.0</u>

NOTE 8 - NOTES PAYABLE

Notes payable and other borrowings are summarized as follows at July 31:

	1984	1983
Securities sold with agreement to repurchase within one year with interest rates ranging from 8.28% to 9.90%.	\$ -	\$ 77,499,625
Mortgage payable, due July 1, 1984, interest rate at prime rate plus 1%.	-	300,000
Securities sold with agreements to repurchase within one year with interest rates ranging from 11.50% to 12.625%.	77,660,823	-
Mortgages payable, secured by investments in real estate, with expiration dates between 1987 and 1990 with interest rates between 9.60% and 14.0%	7,284,279	-
Other notes payable, unsecured	203,365	-
	<u>\$ 85,148,467</u>	<u>\$ 77,799,625</u>

The repurchase agreements are secured by GNMA pass-through certificates and FHLMC participation certificates with unpaid principal balances totaling \$56,382,547 at July 31, 1984 and \$50,219,907 at July 31, 1983 and marketable securities with a carrying value of \$39,603,644 at July 31, 1984 and \$41,307,644 at July 31, 1983.

The mortgage obligation was interest only on a monthly basis, until the due date, and was secured by land with a book value of \$739,398 at July 31, 1983.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 9 - INCOME TAXES

The provision for income taxes is comprised of the following for the years ended July 31:

	<u>1984</u>	<u>1983</u>
Current:		
Federal	\$ -	\$ -
State	650,690	106,621
	<u>\$ 650,690</u>	<u>\$ 106,621</u>
Deferred - Federal	2,063,559	401,000
	<u>\$ 2,714,249</u>	<u>\$ 507,621</u>

The sources of timing differences resulting in a deferred income tax provision (benefit) for 1984 and 1983 and the tax effect of each were as follows:

	<u>1984</u>	<u>1983</u>
Loan fees recognized into income over the lesser of the average life of the loan or seven years for financial statement purposes and when received on the tax return	\$ 670,657	\$ 76,372
Loss on sale of marketable securities recognized for financial statement purposes over the remaining life of the securities and on the tax return when incurred	(14,445)	232,619
Difference in depreciation between tax return and financial statement	10,318	8,980
Loss on sale of mortgage loans recognized for financial statement purposes over the remaining life of the loans and on the tax return when incurred	136,195	135,192
Difference between financial statement and tax return net income of real estate joint ventures	(367,136)	(60,180)
Gain on sale of real estate recognized on the installment method for tax purposes	1,510,347	-
Excess of tax net operating loss carryforwards over book net operating loss carryforwards	117,623	-
Supplemental interest on savings certificate accounts recognized for financial statement purposes over the terms of the certificates and on the tax return when paid	-	8,017
	<u>\$ 2,063,559</u>	<u>\$ 401,000</u>

At July 31, 1984, Old Court Savings and Loan, Inc. has available approximately \$1,626,896 in a net operating loss carryforward for Federal income tax return purposes and approximately \$99,491 in an investment tax credit carryforward. The last of the loss carryforward will expire in 1998 if not utilized.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 9 - INCOME TAXES (CONTINUED)

A reconciliation between the provision for income taxes and the amount computed by multiplying income before income taxes by the statutory Federal income tax rate (46%) is as follows:

	1984	1983
Federal income tax at statutory rate	\$ 3,645,313	\$ 1,077,444
Increase (Decrease) resulting from:		
Bad debt deduction permitted of savings and loan associations	(1,040,236)	(126,523)
Surtax exemption	(20,250)	(20,250)
Tax benefit from net operating loss carryforwards	(47,621)	(392,801)
Tax credits	-	(85,993)
Other	914	(1,831)
State income tax, net of Federal income tax benefit	351,372	57,575
Tax effect on unconsolidated subsidiaries	(131,843)	-
Stepped up depreciation basis for tax purposes	(50,750)	-
Tax exempt interest and dividends	(13,617)	-
Loss on sale of real estate acquired through foreclosure	20,967	-
	<u>\$ 2,714,249</u>	<u>\$ 507,621</u>

The Corporation has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income an allowance for bad debts based on a percentage of taxable income before such deduction. The Tax Reform Act of 1969 gradually reduced this deduction to 40 percent in 1979. In the future, if the Corporation does not meet Federal income tax requirements necessary to permit it to deduct an allowance for bad debts, the Corporation's effective tax rate could increase to a maximum of 46 percent. Retained earnings included approximately \$1,216,000 and \$55,000, at July 31, 1984 and 1983, respectively, for which no provision for Federal income tax has been made.

NOTE 10 - STOCKHOLDERS' EQUITY

Holders of Class A and Class B guaranty stock are entitled to the same rights and privileges.

Net income per share for 1984 and 1983 is based on 298,026 shares of Class A and Class B guaranty stock outstanding for the entire year.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 11 - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES COMPARED TO REGULATORY ACCOUNTING PRINCIPLES

Generally accepted accounting principles permit recognition of loan fees initially only to the extent of direct underwriting costs and other origination costs. Amounts in excess of such costs must be deferred and amortized into income over the loan period using the level-interest-yield method. Fees received for making loan commitments are similarly treated, except that fees in excess of costs on floating rate commitments, or fixed rate commitments that are at market when funded, are recognized as income over the commitment period. Discounts on loans purchased should be amortized on the interest method over the expected term of the related loans.

Additionally, generally accepted accounting principles require that losses on loans be recognized in the year in which they occur.

The effect of generally accepted accounting principles as compared to regulatory accounting treatment for the aforementioned items would be an increase in net income of \$237,613 and a reduction in net income of \$2,518,087 for 1984 and 1983, respectively, and a decrease in retained earnings of \$6,735,481 and \$6,973,094 for 1984 and 1983, respectively.

NOTE 12 - MARKETABLE SECURITIES

Marketable securities at July 31, 1984 consist of the following:

	<u>COST</u>	<u>APPROXIMATE MARKET VALUE</u>
U. S. Government and agency obligations with maturities through 2012	\$ 50,570,301	\$ 46,978,815
Other investment securities (including \$103,125 in equity investments) with maturities through 2013	<u>4,890,522</u>	<u>4,747,375</u>
	<u>\$ 55,460,823</u>	<u>\$ 51,726,190</u>

NOTE 13 - UNCONSOLIDATED SUBSIDIARIES

At July 31, 1984, Old Court Savings and Loan, Inc. held investments in corporations whose sole function was to be a partner in real estate joint ventures. Additionally, Old Court Savings and Loan, Inc. held an interest in a real estate agency. The investment in and advances to these corporations was \$1,399,887 as of July 31, 1984.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

NOTE 13 - UNCONSOLIDATED SUBSIDIARIES (CONTINUED)

At July 31, 1984, Old Court Savings and Loan, Inc. had an investment totaling \$133,958 in a corporation which owns and operates automobile service centers. Condensed financial information for the corporation is as follows as of and for the year ended July 31, 1984:

	<u>ASSETS</u>
Property and equipment, net	\$ 86,370
Prepaid expenses and other assets	<u>571,171</u>
TOTAL ASSETS	<u>\$ 657,541</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</u>	
<u>LIABILITIES</u>	
Cash overdraft and other liabilities	\$ 523,583
Due to Old Court Savings and Loan, Inc. and subsidiaries	<u>286,800</u>
TOTAL LIABILITIES	<u>\$ 810,383</u>
STOCKHOLDER'S EQUITY (DEFICIT)	<u>(152,842)</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)	<u>\$ 657,541</u>
<u>STATEMENT OF INCOME (LOSS)</u>	
SALES	\$ 171,132
COST OF SALES	<u>43,285</u>
GROSS PROFIT	\$ 127,847
GENERAL AND ADMINISTRATIVE EXPENSES	<u>281,689</u>
NET INCOME (LOSS)...	<u>\$(153,842.)</u>

NOTE 14 - REAL ESTATE HELD FOR INVESTMENT

At July 31, 1984, Old Court Savings and Loan, Inc. held investments in real estate comprised of the following:

Residential properties	\$ 15,228,676
Commercial properties	1,468,410
Land held for development	<u>2,204,317</u>
	<u>\$ 18,901,403</u>

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

FE 15 - RECONCILIATION OF EARNINGS FROM REGULATORY REPORT
TO FINANCIAL STATEMENTS

The Corporation is required to file a monthly report to the regulatory authorities. The following is a reconciliation of earnings reported to the regulatory authorities and earnings of these consolidated financial statements as of July 31, 1984:

Current earnings per monthly regulatory report as of July 31, 1984	\$ 10,503,798
Corporation's entries made subsequent to preparation of monthly regulatory report at July 31, 1984	(1,010,075)
<u>Adjustments made during audit examination:</u>	
Recording of unrecorded commitment fees	700,000
Capitalization of construction period interest	2,445,163
Deferral of interest income received from related joint ventures	(2,424,448)
Deferral of loan fees received from related joint ventures	(1,107,452)
Recording of previously unrecorded cash disbursements in July, 1984	(84,887)
Proper recording of dollar roll transactions	243,949
Proper recording of release fees	(632,329)
Adjustment of provision for income taxes	(1,394,249)
Proper recording of reduction of gain on sale of real estate	(675,000)
Recording of previously unrecorded equity in joint ventures and subsidiaries	(1,275,850)
All other adjustments, net	(59,618)
 NET INCOME PER CONSOLIDATED FINANCIAL STATEMENTS	 <u>\$ 5,229,002</u>

FE 16 - RELATED PARTY TRANSACTIONS

The Corporation leases its administrative office and a branch office from a partnership in which officers and directors have ownership interest. The lease was entered into subsequent to July 31, 1984.

Legal fees and management fees paid to stockholders, officers, and directors and to entities in which they have controlling interest amounted to \$2,136,345 for the year ended July 31, 1984.

A director and stockholder of the Corporation owns a controlling interest in a firm that receives fees for performing settlement functions on mortgage loans originated by the Corporation.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1984 AND 1983

17 - SUBSEQUENT EVENT

On November 1, 1984, Old Court Savings and Loan, Inc. executed a statutory merger with First Progressive Savings and Loan, Inc., whereby First Progressive transferred all of its assets subject to all of its liabilities to Old Court for the purpose of dissolving First Progressive. The savings accounts of First Progressive became savings accounts of Old Court, at full value.

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
YEARS ENDED JULY 31, 1984 AND 1983

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SCHEDULE 1

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATED SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JULY 31, 1984 AND 1983

	1984	1983
Advertising	\$ 445,616	\$ 217,080
Amortization - loss on sale of loans	222,897	193,991
Auto	10,621	3,401
Carrying costs on real estate acquired through foreclosure	45,581	-
Commissions	60,443	62,805
Contributions	100,000	-
Data processing	227,631	101,748
Depreciation and amortization	364,800	138,077
Dues and subscriptions	38,922	18,505
Group insurance	101,896	26,166
Insurance	47,892	35,781
Loan fee and settlement expense	336,115	-
Management and consulting fees	250,000	-
Miscellaneous	139,479	85,333
NOW account write offs	267,577	-
Office supplies and expense	322,024	172,634
Payroll	1,166,590	672,982
Payroll taxes	93,854	43,151
Postage	62,679	29,989
Professional fees	2,284,879	394,465
Provision for loss on loans	4,831	-
Real property tax	-	11,101
Rent	184,778	97,675
Repairs and maintenance	80,456	60,474
Taxes and licenses	102,130	33,446
Telephone	69,826	37,628
Travel	166,990	42,592
Utilities	108,725	37,036
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 7,307,232</u>	<u>\$ 2,516,060</u>

(see accompanying notes to financial statements)

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE - STATEMENT OF FINANCIAL C
JULY 31, 1984

<u>ASSETS</u>	<u>OLD COURT SAVINGS AND LOAN, INC.</u>	<u>OLD COURT INVESTMENT CORPORATION</u>	<u>—</u>
Cash on hand and in banks	\$ 17,367,192	\$ 835,759	\$
Marketable securities	50,570,301	4,890,522	
Unsecured short-term loan to commercial bank	5,276,781	-	
Loans receivable, net	235,117,814	2,200,774	
Accrued interest receivable	7,111,546	231,106	
Deposits with Maryland Savings-Share Insurance Corporation:			
Capital deposit	6,999,300	-	
Central Reserve Fund	2,647,800	-	
Property and equipment, net	1,861,963	201,120	
Investment in and advances to:			
Real estate joint ventures	126,562,374	1,327,320	
Subsidiaries	15,272,133	3,535,871	
Real estate acquired through foreclosure	150,000	-	
Prepaid expenses and other assets	21,383,583	160,369	
Real estate held for investment	-	1,372,286	
Investment in consolidated corporation in excess of book value	-	-	
TOTAL ASSETS	<u><u>\$ 490,320,787</u></u>	<u><u>\$ 14,755,127</u></u>	<u><u>\$</u></u>

Eliminations:

- (a) Intercompany receivables and payables
- (b) Investment in subsidiaries

(see accompanying notes to financial statements)

NDITION

TWIN LAKES INC.	CONSOLIDATED REAL ESTATE JOINT VENTURES	OLD COURT JOINT VENTURES, INC.	MERIDIAN MORTGAGE INVESTMENT INC.	OLD COURT INSURANCE GROUP, INC.	ALLSTATE TITLE INSURANCE COMPANY, INC.
18,458	\$ 437,863	\$ 145,205	\$ 612,247	\$ 148,552	\$ 626,498
-	-	-	-	-	-
-	-	-	-	-	-
17,500	58,130	250,000	115,700	-	-
1,050	-	11,411	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	52,063	-	76,069	25,704	-
52,398)	-	235,866	73,121	-	-
-	-	(364,290)	-	-	-
-	-	-	-	-	-
-	1,061,171	725,300	6,884	94,484	-
65,224	11,088,346	834,537	-	-	-
-	-	-	-	-	-
<u>49,834</u>	<u>\$ 12,697,573</u>	<u>\$ 1,838,029</u>	<u>\$ 884,021</u>	<u>\$ 268,740</u>	<u>\$ 626,498</u>

BANKER'S REALTY INC.	BANKER'S APPRAISAL SERVICES, INC.	YKON CORPORATION	D. R. DEVELOPMENT JOINT VENTURE INC.	ELIMINATIONS
\$ 30,018	\$ 48,202	\$ 243,191	\$ 1,442	\$ 1,814,851 (a)
-	-	-	-	-
59,368	-	66,084	-	-
-	-	-	-	1,920 (a)
-	-	-	-	-
2,538	10,347	6,377	-	-
-	-	-	-	-
-	-	-	-	13,614,770 (a)
-	-	-	-	16,909,869 (b)
-	-	-	-	-
740	-	153,288	279,359	-
-	-	807,401	4,733,609	937,653 (a)
-	-	-	-	-
-	-	3,165,409	-	-
<u>\$ 92,664</u>	<u>\$ 58,549</u>	<u>\$ 4,441,750</u>	<u>\$ 5,014,410</u>	<u>\$ 33,279,063</u>

11575

NSOLIDATED

18,699,776
55,460,823

5,276,781
237,885,370
7,353,193

6,999,300
2,647,800
2,236,181

531,513
533,845

150,000
22,927,525
18,901,403

3,165,409

97,768,919

11576

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE - STATEMENT OF FINANCIAL POSITION
JULY 31, 1984

	OLD COURT SAVINGS AND LOAN, INC.	OLD COURT INVESTMENT CORPORATION	TWIN LAKES INC.
<u>LIABILITIES, DEFERRED INCOME AND STOCKHOLDERS' EQUITY</u>			
<u>LIABILITIES</u>			
Savings accounts	\$ 392,700,602	\$ -	\$ -
Notes payable and other borrowings	77,660,823	16,423,317	144,000
Advances by borrowers for taxes, insurance and ground rents	874,914	-	-
Accrued interest payable	6,731,048	-	-
Accrued expenses and other liabilities	1,769,132	976,621	1,920
Income taxes currently payable	632,032	-	-
Deferred Federal income taxes payable	2,381,051	-	-
TOTAL LIABILITIES	\$ 482,749,602	\$ 17,399,938	\$ 145,920
DEFERRED INCOME	\$ 413,105	\$ -	\$ -
SUBORDINATED DEBENTURE	\$ 1,000,000	\$ -	\$ -
PARTNERS' CAPITAL	\$ -	\$ -	\$ -
MINORITY INTEREST IN SUBSIDIARIES	\$ -	\$ -	\$ -
<u>STOCKHOLDERS' EQUITY:</u>			
Guaranty stock:			
Class A	\$ 295,526	\$ 14,000	\$ 5,300
Class B	2,500	-	-
Additional paid-in capital	174,835	-	-
Retained earnings, restricted (deficit)	5,685,219	(2,658,811)	(101,386)
TOTAL STOCKHOLDERS' EQUITY	\$ 6,158,080	\$(2,644,811)	\$(96,086)
TOTAL LIABILITIES, DEFERRED INCOME AND STOCKHOLDERS' EQUITY	\$ 490,320,787	\$ 14,755,127	\$ 49,834

Eliminations:

- (a) Intercompany receivables and payables
- (b) Investment in subsidiaries

(see accompanying notes to financial statements)

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IN KES C.	CONSOLIDATED REAL ESTATE JOINT VENTURES	OLD COURT JOINT VENTURES, INC.	MERIDIAN MORTGAGE INVESTMENT INC.	OLD COURT INSURANCE GROUP, INC.	ALLSTATE TITLE INSURANCE COMPANY, INC.
-	\$ -	\$ -	\$ -	\$ -	\$ -
4,000	11,462,609	9,341,220	271,408	150,000	26,500
-	-	-	-	-	-
1,920	1,124,328	162,481	-	-	-
-	-	-	17,017	221,823	-
1,920	<u>\$ 12,586,937</u>	<u>\$ 9,503,701</u>	<u>\$ 288,425</u>	<u>\$ 371,823</u>	<u>\$ 26,500</u>
-	\$ -	\$ -	\$ 240,119	\$ -	\$ -
-	\$ -	\$ -	\$ -	\$ -	\$ -
-	\$ 110,636	\$ -	\$ -	\$ -	\$ -
-	\$ -	\$ -	\$ -	\$ -	\$ -
300	\$ -	\$ 5,000	\$ 10,000	\$ 25,000	\$ 250,000
-	-	-	-	-	-
186)	-	(7,670,672)	345,477	(128,083)	349,998
186)	\$ -	<u>\$(7,665,672)</u>	<u>\$ 355,477</u>	<u>\$(103,083)</u>	<u>\$ 599,998</u>
34	<u>\$ 12,697,573</u>	<u>\$ 1,838,029</u>	<u>\$ 884,021</u>	<u>\$ 268,740</u>	<u>\$ 626,498</u>

11578

<u>BANKER'S REALTY INC.</u>	<u>BANKER'S APPRAISAL SERVICES, INC.</u>	<u>YKON CORPORATION</u>	<u>D. R. DEVELOPMENT JOINT VENTURE INC.</u>	<u>ELIMINATIONS</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,814,851 (a)
60,500	-	4,512,442	5,133,709	40,038,061
-	-	-	-	-
4,781	8,186	(10,871)	-	1,920 (a)
1,325	3,300	3,000	6,000	894,574 (a)
-	-	-	-	-
<u>\$ 66,606</u>	<u>\$ 11,486</u>	<u>\$ 4,504,571</u>	<u>\$ 5,139,709</u>	<u>\$ 42,749,406</u>
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ 110,636 (b)
\$ -	\$ -	\$ -	\$ -	\$ 88,197 (b)
\$ 2,000	\$ 2,000	\$ -	\$ 675	\$ 313,975 (b)
-	-	-	-	-
24,058	45,063	(62,821)	75	75 (b)
<u>\$ 26,058</u>	<u>\$ 47,063</u>	<u>\$(62,821)</u>	<u>\$(125,299)</u>	<u>\$(9,983,226) (b)</u>
<u>\$ 92,664</u>	<u>\$ 58,549</u>	<u>\$ 4,441,750</u>	<u>\$ 5,014,410</u>	<u>\$ 33,279,063</u>

11579

869

CONSOLIDATED

\$ 390,885,751
85,148,467

874,914
6,729,128
3,369,827
656,674
2,381,051

\$ 490,045,812

\$ 653,224

\$ 1,000,000

\$

\$(88,197)

\$ 295,526
2,500
174,835
5,685,219

\$ 6,158,080

\$ 497,768,919

OLD COURT SAVINGS AND LOAN, INC.
AND SUBSIDIARIES
CONSOLIDATING SCHEDULE - STATEMENT OF INCOME
FOR THE YEAR ENDED JULY 31, 1984

	OLD COURT SAVINGS AND LOAN, INC.	OLD COURT INVESTMENT CORPORATION	
INCOME			
Interest on loans	\$ 23,538,403	\$ 128,878	\$
Loan fees and service charges	8,459,967	-	
Interest on marketable securities and other investments	14,116,059	315,700	
Gain on sale of investment securities, net	75,932	-	
Equity in net (loss) of real estate joint ventures	-	(169,097)	
Rental income	-	-	
Other income	22,029	86,540	
Management fees	12,000,000	-	
Gain (loss) on real estate	-	3,794,579	
TOTAL INCOME (LOSS)	\$ 58,212,390	\$ 4,156,600	\$
EXPENSES			
Interest on savings accounts	27,945,161	-	\$
Interest on borrowings	7,750,545	706,686	
General and administrative	3,748,093	5,880,552	
TOTAL EXPENSES	\$ 39,443,799	\$ 6,587,238	\$
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES, EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES, AND MINORITY INTEREST IN LOSS OF SUBSIDIARIES			
	\$ 18,768,591	\$(2,430,638)	\$
PROVISION FOR INCOME TAXES			
Current	\$ 632,032	-	\$
Deferred	2,063,559	-	
TOTAL PROVISION - INCOME TAXES	\$ 2,695,591	\$ -	\$
INCOME (LOSS) BEFORE NET INCOME (LOSS) OF SUBSIDIARIES AND MINORITY INTEREST IN LOSS OF SUBSIDIARIES			
	\$ 16,073,000	\$(2,430,638)	\$
EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES			
	(10,843,998)	(228,319)	
NET INCOME BEFORE MINORITY INTEREST IN LOSS OF SUBSIDIARIES			
	\$ 5,229,002	\$(2,658,957)	\$
MINORITY INTEREST IN LOSS OF SUBSIDIARIES			
	-	-	
NET INCOME (LOSS)	\$ 5,229,002	\$(2,658,957)	\$
Eliminations: (see accompanying notes to financial statements)			
(a) Intercompany income and expense			
(b) Equity in subsidiaries			

TWIN LAKES INC.	CONSOLIDATED REAL ESTATE JOINT VENTURES	OLD COURT JOINT VENTURES, INC.	MERIDIAN MORTGAGE INVESTMENT INC.	OLD COURT INSURANCE GROUP, INC.	ALLSTATE TITLE INSURANCE COMPANY, INC.
40,228	\$ 32,626	\$ 56,315	\$ 15,163	\$ 963	\$ -
-	-	-	1,181,715	-	-
-	102	-	-	-	-
-	-	-	-	-	-
-	-	(1,100,337)	-	-	-
-	-	-	-	-	-
-	5,020	300,000	-	41,440	-
-	-	-	-	-	-
-	194,495	986,621	-	-	-
40,228	\$ 232,243	\$ 242,599	\$ 1,196,878	\$ 42,403	\$ -
-	\$ -	\$ -	\$ -	\$ -	\$ -
-	358,727	301,949	-	4,818	-
750	644,899	7,606,782	1,010,613	165,668	25,002
750	\$ 1,003,626	\$ 7,908,731	\$ 1,010,613	\$ 170,486	\$ 25,002
39,478	\$ (771,383)	\$ (7,666,132)	\$ 186,265	\$ (128,083)	\$ (25,002)
-	\$ -	\$ -	\$ 17,333	\$ -	\$ -
-	\$ -	\$ -	\$ -	\$ -	\$ -
-	\$ -	\$ -	\$ 17,333	\$ -	\$ -
39,478	\$ (771,383)	\$ (7,666,132)	\$ 168,932	\$ (128,083)	\$ (25,002)
-	-	(518,908)	61,353	-	-
39,478	\$ (771,383)	\$ (8,185,040)	\$ 230,285	\$ (128,083)	\$ (25,002)
-	-	-	-	42,267	-
39,478	\$ (771,383)	\$ (8,185,040)	\$ 230,285	\$ (85,816)	\$ (25,002)



FREDERICK L. DEWBERRY
SECRETARY

DEPARTMENT OF LICENSING AND REGULATION
DIVISION OF SAVINGS AND LOAN ASSOCIATIONS

THE BROADWAY BUILDING
34 MARKET PLACE
BALTIMORE, MARYLAND 21202-4076
301-659-6330

WILLIAM S. LECOMPTE
DEPUTY DIRECTOR

MEMORANDUM

TO: Charles H. Brown, Jr., Director
FROM: Joseph J. Barbera, Chief Examiner
Thomas J. Burger, Examiner IV
Charles F. Endres, Examiner IV
RE: Review of Old Court Examination April 30, 1984 and December 31, 1984
DATE: April 1, 1985

The examinations of Old Court Savings and Loan Association dated April 30, 1984 and the current examination (still in progress) as of December 31, 1984 reveal several areas of supervisory concern.

Throughout the examinations, deficiencies and/or regulatory violations are noted in areas of loan underwriting, portfolio analysis, appraisal, accounting practices, overdrafts on N.O.W. accounts, note loan delinquencies and fee income.

Loan Underwriting:

Underwriting procedures for major loans are inadequate; in fact, the association demands less financial information and accepts poorer appraisals on major loans than it does on typical single family dwellings. Not only are poor underwriting practices apparent, but in many instances on land development and acquisition loans, little or no equity is required from the borrower.

Portfolio Analysis:

Again, the examination of April 30, 1984 and the current examination as of December 31, 1984 indicate the majority of loans funded fall in the following categories:

- (a) Land
- (b) Land Development/Acquisition

BALTIMORE METRO AREA 659-6330
OUTSIDE BALTIMORE METRO AREA
TOLL-FREE 1-800-492-7321

TTY FOR DEAF
BALTO. AREA 383-7777
D.C. METRO 565-0467

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Portfolio Analysis: (Cont.)

- (c) Construction
- (d) Commercial
- (e) Unsecured Note Loans (A major concern)

It is further noted that large loans (Land, Land Acquisition and Land Development) in large numbers are being funded in many areas throughout the United States. Financial Institutions Article 9:419.1 (Priority of Investments) states "A savings and loan association shall give priority to first mortgages for owner-occupied residences in the state".

Funding of Mortgage Loans (Cash Flow):

Both examinations (April, 1984 and December, 1984) reveal grave concern as to Old Court's ability to being able to fund all major projects that the association has undertaken.

The majority of all loans reveal that the initial funding of said loans covered the following:

- (a) Acquisition Cost (in most cases 100% of purchase)
- (b) Settlement Fees
- (c) Points (Thus funding association's income)

with no funds escrowed for either the land development or construction phases of the project. It was noted that in most instances, the land was not acquired to be held as raw land, but was acquired as the first phase of a major construction project. The funds required for the subsequent land development and construction phases must therefore come from future cash inflows.

As to the source of funds for the above projects, examinations reveal that the association relies heavily on certificate of deposits obtained from nationwide solicitation and the offering of rates that are classed as of one of the highest offered throughout the United States as noted by leading publications. In most cases, these certificate of deposits are of short term duration (30 days to 6 months), leaving the association vulnerable to large cash fluctuations. (At present 3/85 -- association has approximately \$100 million due within the next 60 days -- if these funds are not renewed or new funds are not received, serious cash flow problems will be encountered.)

Note Loans Unsecured/Secured:

Again, both examinations (4/84 and 12/84) reveal an unusual large number of unsecured note loans being funded. The activity in this area was highlighted during the current examination by a noticeable heavy volume of this type of funding in January and February, 1985 (In excess of \$20,000,000) of particular concern in this area was the following:

Note Loans (Unsecured): (Cont.)

- (a) Number/Amount of these loans made to parties/individuals - also noted on mortgage loans for various development projects.
 - (i) Indicates that cash flow needs for said projects are possibly being funded by this method.
 - (ii) Possibility also exist that in some instances, interest payments on mortgage loans are being met through this source.
- (b) N.O.W. account overdrafts may have been corrected also by Issuing note loans.
- (c) In particular, 100% of these loans reviewed no financial information was noted on the borrower.
- (d) Approval of note loans appeared to be sole responsibility of Mr. Jeffrey A. Levitt or Dennis Guidace; and in fact, funds are issued as noted in some cases simply by a notation on memo stating issue per Mr. Levitt or Mr. Guidace.

Appraisals:

Appraisals (when available) In many instances do not comply with Regulation .23B. Such deficiencies were noted:

- (a) Lack of documentation supporting adjustments made to market and land sale comparables.
- (b) Insufficient documentation as to how price per square foot for subject property were chosen.
- (c) No feasibility study that would provide any type of absorption analysis.
- (d) Appraisals were prepared for estimated future sellout market value, not market value as of appraisal date.

As example of appraisal discrepancies:

- (a) Three loans made during the period of August 11, 1983 through November 18, 1983 totaling \$3,270,000.00 to "MSDL Partnership" secured by "convenience stores" in the Buffalo region of New York State.
 - (i) Three different values given same property on appraisals dated within two days of each other by the same appraiser.
 - (ii) Cost approach used by appraiser did not show the land comparables used to derive land value.

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Appraisals: (Cont.)

- (iii) Appraiser did not use the equity method or discounted cash flow amount method in his income approach. Either method is used by the profession when doing an income approach to market value.
- (b) It should be further noted that the above loans were made at submarket rates (11 1/2 - 25 yrs. 3 points).
- (c) Stores are under 25-yr. leases. Generally accepted appraisal guidelines would require that income approach be used in performing the appraisal.
- (d) Appraisal done by Robert E. Hudson (In-house appraiser) - Formerly employed by Monumental City Service Corporation -- A wholly owned subsidiary of First Progressive Savings & Loan, now merged with Old Court.

Loan Documentation:

This area has consistently been an area of major concern as evidenced by the number of mortgage file exceptions noted in the examinations of April 30, 1984 and December 31, 1984 (still in progress).

- (1) April 30, 1984 -- 70+ missing documents
December 31, 1984 -- Over 200 items requested

(The above missing items were noted on only a sampling of loans granted from one examination period through the next.)

Of particular concern is the fact that items missing included Recorded Mortgage Instruments (in some cases on loans which were settled 6 months or longer, prior to examination of the mortgage files -- thus making association's position questionable), title certifications (does the association have secured position), and appraisals.

N.O.W. Account Overdrafts:

Overdrafts were noted during both examinations (April, 1984 and December, 1984).

Approximate overdraft amounts existed on the following dates in the following amounts:

April, 1984	\$1,282,357
December, 1984	7,862,312

N.O.W. Account Overdrafts: (Cont.)

Old Court Savings and Loan Association's "Rules of Accounts" for N.O.W. accounts does not have overdraft privileges, and also calls for penalties to be assessed to accounts if checks are drawn on insufficient balances.

A review of the account history for accounts showing overdraft amounts indicates the following:

- (1) Checks are paid whether or not funds are available in said account.
- (2) No penalties assessed.
- (3) In a number of instances, no signature/signature card is on file - (Thus, no authorized party to draw checks); yet checks are processed.

The above strongly indicates that the association is not adhering to their own internal controls for N.O.W. accounts.

Further, as stated previously, it appears that funds are being supplied through these overdrafts to Individuals/projects as a means of "cash flow/cash need" without proper underwriting review.

Example of Above:

Jeffrey Levitt was a general partner in Calvert and Redwood Limited Partnership. Calvert and Redwood Limited Partnership was a borrower on a Deed of Trust recorded in Baltimore City on October 18, 1983 in Liber 0124, Page 082. The lender is Sharon Savings and Loan.

When a history of interest payments on the loan is compared to the N.O.W. account history of Calvert and Redwood Limited Partnership, the following is observed:

<u>Loan History:</u>		<u>N.O.W. Account History 64-200082-2:</u>		
<u>Date</u>	<u>Interest Payment</u>	<u>Debit Date</u>	<u>Amount</u>	<u>Check No.</u>
3/09/84	\$26,180.62	3/12/84	\$26,180.62	24400
4/10/84	27,986.18	4/11/84	27,986.18	26300
5/10/84	28,125.00	5/11/84	28,125.00	29400
6/11/84	30,138.82	6/12/84	30,138.82	0328

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N.O.W. Account Overdrafts: (Cont.)

The N.O.W. Account History indicates an overdrawn balance for the entire period shown. Therefore, there is strong evidence that Mr. Levitt may have kept his partnership current on the loan at Sharon by using interest free funds from Old Court Savings and Loan, Inc.

Income:

While the association records indicate large net income for periods in question, the following should be noted:

- (1) For the nine month period ending April 30, 1984, the association recorded approximately \$6,666,000 in loan fees -- A substantial portion of these fees were taken out of loan fees. (Thus, the association has funded its own income.) *Proceeds*
- (2) As of the current examination, this practice of generating income from loan proceeds continues -- Thus, little cash from an outside source.

Delinquency:

A review of note loans (secured/unsecured) reveals large number of delinquent accounts. As of February 19, 1985, the following delinquencies were noted:

<u>Days Delinquent</u>	<u>Number of Accounts</u>	<u>Principal Balance</u>
30 to 59	41	\$4,152,473
60 to 89	24	2,207,833
90 to 119	13	1,113,274
120 or more	35	3,486,890
Totals:	<u>113</u>	<u>\$10,960,470</u>

This memorandum only briefly outlines areas of concern. The magnitude of the potential problems at Old Court Savings cannot possibly be fully expressed in brevity.

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Maryland Savings-Share Insurance Corporation

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Charles C. Hogg, II
PRESIDENT

March 22, 1985

Mr. Jeffrey A. Levitt
President
Old Court Savings & Loan, Inc.
16 S. Calvert Street
Baltimore, Maryland 21202

Dear Mr. Levitt:

At the most recent meeting of the Board of Directors of Maryland Savings-Share Insurance Corporation ("MSSIC") on February 27, 1985, it was reported to the Board that Old Court Savings & Loan, Inc. ("Old Court") was in violation of numerous MSSIC Rules and Regulations ("MSSIC's Rules"). In particular, the following violations were noted:

1. As of January 31, 1985, the aggregate outstanding principal balance of Old Court's commercial, construction and unimproved land loans was 69.3% of its savings, which constitutes a violation of Section 3-217(A) of MSSIC's Rules.
2. As of January 31, 1985, the aggregate outstanding principal balance of Old Court's construction loans was 30.79% of its savings, which constitutes a violation of Section 3-217(A)(1) of MSSIC's Rules.
3. As of January 31, 1985, 403 of Old Court's 7,125 NOW accounts had overdrafts in the aggregate amount of \$9,926,570. At least 30 of said accounts, constituting overdrafts in the aggregate amount of \$5,724,421, were accounts owned by officers or directors of Old Court, family members of such officers or directors, companies controlled by such officers or directors or other persons who directly or indirectly control Old Court (collectively "Controlling Persons"). The overdrafts in the NOW accounts owned by Controlling Persons constitute unsecured loans from Old Court to the Controlling Persons, and therefore violate (a) Section 9-307 and/or Section 9-323(e) of the Financial Institutions Article of Annotated Code of Maryland ("Financial Institutions Article") and (b) Section 43(B)(3) of the Rules of the Division of Savings and Loan Associations ("Division's Rules"). The violations of Sections 9-307 and 9-323(e) of the Financial Institutions Article and Section 43(B)(3) of the Division's Rules constitute violations of Section 3-214 of MSSIC's Rules.

4. As of January 31, 1985, Old Court had made at least 20 unsecured note loans to Controlling Persons which were still outstanding. Such loans had an aggregate unpaid principal balance of \$5,787,979. The foregoing unsecured note loans violate (a) Section 9-307 and/or Section 9-323(e) of the Financial Institutions Article and (b) Section 43(B)(3) of the Division's Rules. The violations of Sections 9-307 and 9-323(e) of the Financial Institutions Article and Section 43(B)(3) of the Division's Rules constitute violations of Section 3-214 of MSSIC's Rules.

5. Old Court and its subsidiaries have paid excessive management, consulting and similar fees to Controlling Persons. During 1984, \$1,961,750 in management, consulting or similar fees were paid to Jeffrey A. Levitt, individually, \$630,000 in management, consulting or similar fees were paid to Levitt Pearlstein Management Company, and \$230,000 in management, consulting or similar fees were paid to Pearlstein Levitt Investments. The payment of excessive fees, as aforesaid, violates Section 43(A) of the Division's Rules, and therefore violates Section 3-214 of MSSIC's Rules.

6. During 1984, Old Court refinanced delinquent unsecured loans in the aggregate principal amount of at least \$1,000,000, thereby avoiding the obligation to disclose such delinquencies to MSSIC and avoiding the need to institute collection activity against the borrowers. Such refinancing constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

7. During 1984, Old Court made numerous "consumer loans", as defined in Section 49 of the Division's Rules, which were not supported by adequate documentation. The failure to properly document "consumer loans" violates Section 49(C) of the Division's Rules, and therefore violates Section 3-214 of MSSIC's Rules.

8. During 1983 and 1984, Old Court operated without adequate, qualified management. Glass & Associates, P.A., which performed Old Court's audit for the year ended July 31, 1984, noted in its letter to the Board of Old Court dated February 9, 1985 (the "Glass Management Letter") that "as a result of our audit, we feel that the management structure as it presently exists is not adequate to effectively operate and control the operation." The failure to have adequate, qualified management constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

9. Old Court has consistently failed to file its monthly general fiscal report (Form S/L-200A) with MSSIC on or before the 15th day of the month following the month for which

Mr. Jeffrey A. Levitt
March 22, 1985
Page 3

the report is due. In particular, the reports for the months of October, November and December 1984 and January 1985 were not filed in a timely fashion, and no waiver with respect thereto was available or granted. The failure to file the required monthly general fiscal reports in a timely fashion violates Section 3-203 of MSSIC's Rules.

10. During 1983 and 1984, Old Court's system of internal accounting control had numerous deficiencies, including, but not limited to, those which resulted in the problems described in the Glass Management Letter under the headings "Mortgage Loan Files," "Construction Loans," "Unsecured Loans," "Savings Account Loans," and "Savings Accounts". Permitting such deficiencies to exist constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

11. During 1983 and 1984, Old Court failed to maintain adequate and accurate books of accounts with respect to acquisition, development and construction loans and related transactions, in that it (a) failed to adequately recognize tax liabilities and (b) improperly recognized fee income, all as more fully set forth in Note 15 to Old Court's Consolidated Financial Statements for the years ended July 31, 1984 and 1983. Such failure constitutes a violation of Section 5(B) of the Division's Rules, and therefore violates Section 3-214 of MSSIC's Rules.

12. During 1984, Old Court made numerous loans without appropriate underwriting and documentation, including, but not limited to, the following: (a) loan in the amount of \$720,000 made on April 30, 1984, to Alan August, (b) loan in the amount of \$1,001,921.75 made on November 2, 1984 to Jeff & Walts Air Service, (c) loan in the amount of \$646,000 made on September 4, 1984 to Michael Silver, (d) loan in the amount of \$5,000,000 made on October 4, 1984 to Levitt Poinciana Limited Partnership, and (e) loan in the amount of \$1,500,000 made on June 14, 1984 to 80 M Tracks Limited Partnership. The making of the aforesaid loans without appropriate underwriting and documentation constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

13. As of July 31, 1984, Old Court had invested in numerous joint ventures in which Old Court does not control the accounting and record keeping, all as more fully set forth in the Glass Management Letter under the heading "Joint Venture Accounting". Accordingly, Old Court does not have sufficient knowledge of the current financial condition of certain joint ventures in which it has invested. The failure to maintain control over accounting and record keeping in joint ventures constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

Mr. Jeffrey A. Levitt
March 22, 1985
Page 4

14. As of January 31, 1985, Old Court was operating without a business plan. The failure to establish a business plan by an institution the size of Old Court constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

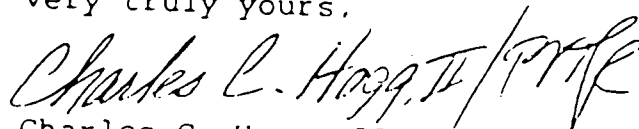
15. During 1984, Old Court engaged in certain financial market transactions without instituting adequate controls over such transactions and without maintaining proper documentation relating thereto. Board approval of transactions was not always obtained, and certain transactions were not properly recorded. The failure to institute adequate controls and maintain proper documentation relating to financial market transactions constitutes an unsafe and unsound practice which violates Section 3-214 of MSSIC's Rules.

In view of the foregoing violations, the Board of Directors of MSSIC has voted, by a vote of 10 in favor, 0 opposed, and 1 abstention, to initiate cease-and-desist proceedings against Old Court pursuant to Section 3-222(A) of MSSIC's Rules.

This letter constitutes notice to you of the charges set forth herein. Accordingly, you are hereby directed to attend a hearing to be held at our offices at 9:30 a.m. on Monday, April 22, 1985, to answer the foregoing charges. If, at that time, Old Court is deemed by at least 75% of the Board to be in violation of any or all of the MSSIC Rules described herein, Old Court will be required to cease-and-desist from any such violation or any activity resulting in such violation. Such order may require Old Court and its directors, officers, employees and agents to cease-and-desist from such violations and activities and, furthermore, may require Old Court and such persons to take affirmative action to correct the condition resulting from any such violation or activity.

Please give me a call at your earliest convenience so that we can discuss this matter.

Very truly yours,


Charles C. Hogg, II

CCH/leb
0095D

cc: Jerome S. Cardin, Esquire
Mr. Dennis Guidice
Mr. Charles H. Brown, Jr.
Terry F. Hall, Esquire

832 23108

HOGG
EXH #41
10/22/85
PLA

OPERATING AGREEMENT

THIS OPERATING AGREEMENT, made this 23^d day of April, 1985, by and between OLD COURT SAVINGS & LOAN, INC., a Maryland corporation ("Old Court"), and MARYLAND SAVINGS-SHARE INSURANCE CORPORATION, a Maryland corporation ("MSSIC").

WHEREAS, on February 27, 1985, the Board of Directors of MSSIC voted to initiate proceedings against Old Court pursuant to Section 3-222(A) of MSSIC's Rules and Regulations ("MSSIC's Rules") and directed MSSIC's staff to give Old Court an appropriate notice of its action;

WHEREAS, on or about March 22, 1985, MSSIC delivered to Old Court a letter alleging certain violations of MSSIC's Rules, a copy of which is attached hereto as Exhibit A;

WHEREAS, the aforesaid letter directed Old Court to attend a hearing to be held at the offices of MSSIC on April 22, 1985; and

WHEREAS, Old Court, in an effort to resolve the concerns of MSSIC but without admitting any of the allegations contained in the aforementioned March 22, 1985 letter has agreed to enter into this Operating Agreement in lieu of said hearing, and MSSIC has agreed thereto.

NOW, THEREFORE, THIS AGREEMENT WITNESSETH THAT, for and in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. COVENANTS AND AGREEMENTS OF OLD COURT.

Throughout the entire term of this Agreement, Old Court covenants and agrees to comply with each of the following terms, covenants and conditions:

(a) Old Court shall not make any construction loans, or commitments therefor, without MSSIC's prior written consent (which consent shall not be unreasonably withheld) until such time as Old Court is in full compliance with the provisions of Sections 3-217(A) and 3-217(A)(1) of MSSIC's Rules; provided, however, that Old Court shall have the right to honor the commitments listed in Exhibit B attached hereto, being commitments which were issued prior to March 22, 1985.

(b) Old Court shall not make any "commercial" loans, as that term is defined in the Rules of the Division of Savings and Loan Associations ("Division's Rules"), or commitments therefor, without MSSIC's prior written consent (which consent shall not be unreasonably withheld) until such time as Old Court is in full compliance with the provisions of Section 3-217(A) of MSSIC's Rules; provided, however, that Old Court shall have the right to honor the commitments listed in Exhibit C attached hereto, being commitments which were issued prior to March 22, 1985.

(c) Old Court shall not make any unimproved land loans, or commitments therefor, without MSSIC's prior written consent (which consent shall not be unreasonably withheld) until such time as Old Court is in full compliance with the provisions of Section 3-217(A) of MSSIC's Rules; provided, however, that Old Court shall have the right to honor the commitments listed in Exhibit D attached hereto, being commitments which were issued prior to March 22, 1985.

(d) Old Court shall collect all existing overdrafts of NOW accounts and checking accounts by Jeffrey A. Levitt and/or Allan Pearlstein, any family members of Jeffrey A. Levitt or Alan Pearlstein, and any companies controlled by Jeffrey A. Levitt and/or Allan Pearlstein within ten (10) days following the date hereof. Old Court shall use its best efforts to collect all other existing overdrafts of NOW accounts and checking accounts, and shall either write off any such overdrafts which are not collected within thirty (30) days following the date hereof or provide a specific reserve therefor.

(e) Old Court shall not honor any future overdrafts of NOW accounts or checking accounts unless same are permitted in accordance with a plan or procedure previously approved by MSSIC. Under no circumstances shall Old Court honor any overdrafts of NOW accounts or checking accounts by officers or directors of Old Court, family members of such officers or directors, companies controlled by such officers or

directors, or any other persons who directly or indirectly control Old Court (collectively "Controlling Persons") unless same fully comply with the applicable provisions of Sections 9-307 and 9-323(e) of the Financial Institutions Article of the Annotated Code of Maryland (the "Financial Institutions Article"). Any permitted overdrafts of NOW accounts or checking accounts shall bear interest at a rate of interest equal to fifteen percent (15%) per annum.

(f) Old Court shall collect all unsecured note loans due by Jeffrey A. Levitt and/or Allan Pearlstein, any family members of Jeffrey A. Levitt or Allan Pearlstein, and any companies controlled by Jeffrey A. Levitt and/or Allan Pearlstein within ten (10) days following the date hereof. Old Court shall use its best efforts to collect all currently delinquent unsecured note loans, and shall either write off any such loans which are not collected within thirty (30) days following the date hereof or provide a specific reserve therefor.

(g) Old Court shall not make any future unsecured note loans, and shall not refinance any such loans that are made, unless same are in accordance with a plan previously approved in writing by MSSIC and the Division of Savings and Loan Associations. Under no circumstances shall Old Court make any unsecured note loans to Controlling Persons of Old Court.

(h) Old Court shall not pay any management, consulting, brokerage, finder's or similar fees to any person or entity without the prior written consent of MSSIC; provided,

however, that the provisions of this Section 1(h) shall not apply to (i) the payment of legal or accounting fees to any person or entity which is not a Controlling Person (including, but not limited to, Cardin & Cardin, P.A.) or (ii) the payment of consulting fees to John D. Faulkner, Jr., Dr. _____ Dietrich and H. E. Connor, Jr., M.D.

(i) Old Court shall, as soon as reasonably possible, institute a new management structure in substantial accordance with the recommendations set forth in that certain letter dated February 9, 1985, from Glass & Associates, P.A. to Old Court (the "Glass Management Letter"), a copy of which is attached hereto as Exhibit E.

(j) Old Court shall file all monthly general fiscal reports (Form S/L-200A) in accordance with the provisions of Section 3-203(A) of MSSIC's Rules.

(k) Old Court shall use its best efforts to correct immediately the deficiencies in its internal accounting control system which resulted in the problems described in the Glass Management Letter, and shall report to MSSIC on the first day of each month during the term hereof what steps have been taken to correct said deficiencies.

(l) Old Court shall maintain adequate and accurate books of accounts with respect to its acquisition, development and construction loans and related transactions, which books of account shall properly recognize future tax liabilities and properly recognize fee income.

(m) Old Court shall not make any loan unless, in connection therewith, Old Court has complied with all appropriate underwriting and documentation requirements, including, but not limited to, all applicable requirements set forth in Sections 23 through 29, inclusive, and Section 49 of the Division's Rules, and all requirements established by MSSIC.

(n) Old Court shall not make any loan unless, in connection therewith, Cardin & Cardin, P.A., as counsel for Old Court, has reviewed and approved all documents prior to settlement.

(o) Old Court shall not make any loans to any Controlling Person of Old Court without the prior written consent of the Director of the Division of Savings and Loan Associations. Old Court shall notify MSSIC in writing of any such loan within seven (7) days following the making thereof.

(p) Old Court shall not engage in any financial market transactions unless, in connection therewith, the Board of Directors of Old Court has approved same, and such transactions are properly documented and recorded.

(q) Old Court shall cause its counsel to conduct a legal audit of all current loan files of Old Court, and shall cause a copy of such legal audit to be delivered to Venable, Baetjer and Howard, counsel for MSSIC, within ten (10) days following the completion thereof. Such legal audit shall be completed by no later than July 31, 1985, or such later date as shall be consented to by MSSIC, such consent not to be unreasonably withheld.

(r) Old Court shall immediately cause a review of its financial statements to be performed, at Old Court's expense, by an accountant or an accounting firm satisfactory to MSSIC or, in the alternative, if Old Court so elects, Old Court shall have the right to immediately deliver to an accountant or an accounting firm satisfactory to MSSIC all work papers relating to Old Court's most recent audit. The cost of any review of said work papers by such accounting firm shall be at Old Court's expense.

(s) Without the prior written consent of MSSIC, which consent shall not be unreasonably withheld, Old Court shall not invest in any joint venture to which Old Court has not made a loan. Furthermore, Old Court shall not invest in any joint venture (including those to which Old Court has made a loan) unless Old Court or one of its subsidiaries has the right to receive appropriate monthly operating reports relating thereto (it being understood that Old Court or one of its subsidiaries shall at all times use good faith efforts to enforce such rights). Attached hereto as Exhibit F is a list of all joint ventures in which Old Court or any of its subsidiaries has currently invested.

(t) Old Court shall not invest in, or make any loan to, any subsidiary of Old Court without the prior written consent of MSSIC (which consent shall not be unreasonably withheld) until such time as Old Court is in full compliance with the provisions of Section 34 of the Division's Rules.

(u) Old Court shall establish, and thereafter implement, a business plan for the overall operation of Old Court which shall be satisfactory to MSSIC. An initial draft of such plan shall be delivered to MSSIC within one hundred twenty (120) days following the date hereof. A final plan must be established within one hundred eighty (180) days following the date hereof, unless such period shall be extended with MSSIC's consent, which consent shall not be unreasonably withheld.

(v) If the aggregate liabilities of Old Court shall increase by more than ten percent (10%) during the twelve month period commencing on May 1, 1985, the net worth of Old Court shall increase by an amount equal to 4.66% of any such excess.

(w) Old Court shall submit to MSSIC, within twenty (20) days following the date hereof, its advertising budget and advertising plans for the next three (3) months, and thereafter shall submit such a budget and plans at three-month intervals. Old Court shall not engage in any advertising unless same is in accordance with a plan previously approved in writing by MSSIC.

(x) Old Court shall immediately cause a person acceptable to MSSIC to be elected to its Board of Directors, and shall keep such person, or any replacement thereof acceptable to MSSIC, on the Board at all times during the term hereof. It is recognized that, as of the date hereof, Old Court has complied with this provision.

(y) Old Court shall deliver to MSSIC copies of all reports, recommendations, analyses and similar documents prepared by any consultant retained by Old Court within seven (7) days following Old Court's receipt of same.

(z) Old Court shall, within ten (10) days following the date hereof, submit to the Director of the Division of Savings and Loan Associations (the "Director"), for his approval, all loans previously made by Old Court to Controlling Persons in violation of Sections 9-307 or 9-323(e) of the Financial Institutions Article. If the Director does not approve such loans within thirty (30) days following submission to him, Old Court shall, at MSSIC's request, immediately divest itself of any unapproved loan or loans.

2. TERM OF AGREEMENT.

This Agreement shall continue for a period of six (6) months or until such time as Old Court shall be in full compliance with all Maryland laws, MSSIC Rules and Division Rules, whichever is later.

3. REMEDIES OF MSSIC.

If Old Court shall at any time be in default in the performance of any of its covenants or agreements set forth in Section 1 hereof, and such default shall not have been cured within ten (10) days following receipt by Old Court of notice thereof, MSSIC shall have the right to (a) issue a temporary order under Section 3-222(B) of MSSIC's Rules requiring Old Court to cease-and-desist from such default, (b) require the

sole shareholder of Old Court to immediately execute a Voting Trust Agreement in substantially the form attached hereto as Exhibit G, (c) exercise any other rights that it may have under MSSIC's Rules or By-Laws, and/or (d) exercise any other rights that it may have in law or in equity, and the exercise of any such right or rights shall not preclude the exercise of others. In furtherance of the exercise by MSSIC of the rights set forth in Section 3(a) above, Old Court hereby acknowledges and agrees that any uncured default by Old Court in the performance of any of its covenants or agreements set forth in Section 1 hereof shall constitute grounds for the issuance by MSSIC of a temporary cease-and-desist order under Section 3-222(B) of MSSIC's Rules, and Old Court hereby acquiesces in the issuance of any such cease-and-desist order.

4. FOREBEARANCE BY MSSIC.

MSSIC shall immediately terminate all existing cease-and-desist proceedings relating to Old Court, provided, however, that MSSIC shall have the right to institute cease-and-desist proceedings under Section 3 hereof, and provided further that MSSIC shall have the right to institute cease-and-desist proceedings with respect to any violations of MSSIC's Rules not described herein and not heretofore within MSSIC's knowledge.

5. MISCELLANEOUS.

(a) No failure on the part of MSSIC to exercise, and no delay in exercising, any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single

or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) Neither MSSIC nor any of its officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under this Agreement, or in connection therewith, except for its or their own, gross negligence or willful misconduct. Old Court agrees to indemnify and hold harmless MSSIC, its officers, agents and employees from and against any and all liabilities incurred pursuant to any provision of this Agreement, or in the exercise of any right or power herein conferred upon MSSIC, except as aforesaid.

(c) Any notices, reports or other communications hereunder shall be hand-delivered or mailed by first class mail, postage prepaid, to the parties at the following addresses:

TO OLD COURT:

Old Court Savings & Loan, Inc.
16 South Calvert Street
Baltimore, Maryland 21202
Attn: Mr. Jeffrey A. Levitt

TO THE SHAREHOLDERS OF OLD COURT:

To the addresses set forth at the end of this Agreement

23157

TO MSSIC:

Maryland Savings-Share Insurance Corporation
114 East Lexington Street
Suite 602
Baltimore, Maryland 21202
Attn: Mr. Charles C. Hogg, II

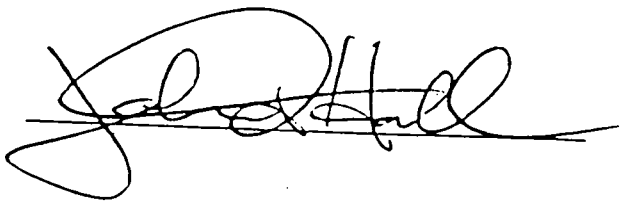
(d) All covenants and agreements set forth in Section 1 hereof shall apply not only to Old Court, but to each and every subsidiary of Old Court.

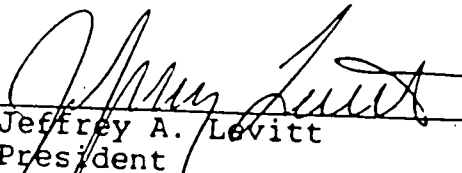
(e) Whenever the consent of MSSIC is required herein, such consent may be given by either the President or the Vice President of MSSIC, and it shall not be necessary to refer the matter to the Board of Directors of MSSIC.

WITNESS the following hands and seals as of the day and year first above written.

ATTEST:


OLD COURT SAVINGS & LOAN, INC.



By:  (SEAL)
Jeffrey A. Levitt
President

MARYLAND SAVINGS-SHARE INSURANCE CORPORATION



S. Vice President

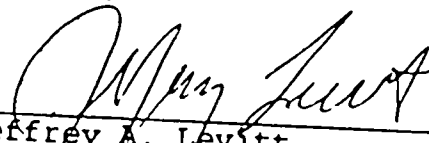
By:  (SEAL)
Charles C. Hogg, II,
President

The undersigned LCP Corp., being the sole shareholder of Old Court, and Jeffery A. Levitt, Allan Pearlstein, Jerome S. Cardin and the Light Street Partnership, being all of the

shareholders of LCP Corp., hereby join in the execution of this Agreement for the sole purpose of (i) acknowledging and agreeing to perform their obligations under Section 3(b) hereof (if applicable) and (ii) agreeing that they shall not sell, transfer, assign or encumber their stock in Old Court or LCP Corp., as applicable, without the prior written consent of MSSIC.

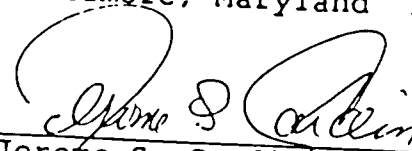
LCP CORP.

By:  (SEAL)
Jeffrey A. Levitt,
President

 (SEAL)
Jeffrey A. Levitt
c/o Old Court Savings & Loan,
Inc.
16 South Calvert Street
Baltimore, Maryland 21202

 (SEAL)
Allan Pearlstein

c/o Old Court Savings & Loan,
Inc.
16 South Calvert Street
Baltimore, Maryland 21202

 (SEAL)
Jerome S. Cardin
Cardin & Cardin, P.A.
6615 Reisterstown Road
Suite 301
Baltimore, Maryland 21215

0102D

LIGHT STREET PARTNERSHIP

By: Allan Pearlstein (SEAL)
Allan Pearlstein, Partner

By: Karol Levitt (SEAL)
Karol Levitt, Partner

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EXECUTIVE SESSION
February 14, 1985

Mr. Charles Hogg and Mr. Martin Becker of MSSIC attended the Executive Session of the Board meeting.

Herritt Commercial Savings and Loan Association

Mr. FitzGerald asked Mr. Brown if he received the signed leases from Mr. Klein for the various Herritt projects? Mr. Brown stated that the Division received the package Mr. Klein left last week and a letter in reference to Ocean City. The Board asked Mr. Brown to contact Mr. Klein to obtain copies of the leases on the various projects.

Mr. Stocksdale raised the question concerning the project that was donated to the association and which is being included as part of net worth. Mr. Brown stated that Heron Harbour in Ocean City was pledged to the association as collateral for a loan, and that subsequently the owner, Mr. Klein, donated it to the association. The donated value of \$5 million represents the appraised value less the outstanding loans against it. The appraisal was \$23 million. Mr. Stocksdale felt that the Board should take a harder look at these appraisals involving donated assets.

Mr. Stocksdale stated that according to various newspaper articles in reference to the current rental market for downtown office space, there appears to be a surplus of space for the next two to three years. He felt that this would have an adverse impact on the appraised value of these buildings.

There was a discussion of associations investing as the owners, as opposed to being a lending institution, in these building projects. The Board also discussed the possibility of limiting this type of activity. Mr. LeCompte stated that the Federal Home Loan Bank had just issued its final rule on Direct Investment for federal associations which could be reviewed for possible limitations.

The Board asked that staff provide them with a copy of the federal Direct Investment rule for consideration at next month's meeting.

Legislation

Mr. Brown stated that our agency presently has a total of eight bills in the Legislature. There are four bills in the House and four companion bills in the Senate. Mr. Gislel and he had testified in the Senate and Bill LeCompte testified on the House Bills. He added that Ira Cooke representing 17 stock chartered associations had testified in opposition to certain language in the bills. Mr. Brown reminded the Board that it was Mr. Cooke who testified on an amendment to HB 284 in the 1983 session which resulted in the passage of §9-419(c) - the federal parity issue.

Mr. Gisriel stated that he had met with Ira Cooke to see if some agreement could be reached with respect to possible amendments to the bills. This was thought to be advisable as the Senate Finance Committee expressed some concerns with the language in these bills. He stated that he and Ira Cooke had agreed to certain amendments to the bills and these amendments were given to counsel for the Senate Committee and counsel for the House Committee. The Attorney General's office also wanted an amendment concerning a cease and desist order which would clarify that such an order was in fact a final order upon which we could obtain a court order if necessary. Mr. Gisriel said that he had gotten Ira Cooke to agree to this amendment also.

Mr. Gisriel stated that he was encouraged that both committees are going to pass the bills. He noted that the House had shown the 60-minute program on the failure of the Nebraska Insurance fund. Charles Hogg did testify concerning the differences between the Nebraska failure and the resources and structure of MSSIC. Both Bob Frierson and Alan Barr did a good job of testifying on the legal conflict and antitrust problems facing this Board.

Mr. Gisriel informed the Board that he had also spoke with Johnnie Johnson, the Governor's Chief of Staff, about these bills. Mr. Johnson stated that they are very interested in these bills. The next day Dan Minnick of the Department of Licensing and Regulation called him and stated that the administration is behind these bills. Mr. Gisriel stated that he also brought up the problem the Division has with retaining examiners and ask for help with the budget, but it appears that it did not do any good. Mr. Brown stated that Diane Kirchenbauer, who was vice chairman of the summer task force is really concerned about our staffing problems. Delegate Kirchenbauer asked him about the additional examiners and the upgrading; and was upset that there would be no additional positions or salary upgrades in our budget. Mr. Brown stated that he subsequently received a call to be down in the House Building at 4 p.m. on Friday of last week with the Bank Commissioner and the Commissioner of Consumer Credit to meet with John O'Brien, Secretary of Personnel. Ilene Rehrmann of the Subcommittee of the House Budget and Appropriations Committee and Diane Kirchenbauer of the House Economic Matters Committee had set up this meeting. Also in attendance were Garry Alexander of the House Budget and Appropriations Committee, Timothy Maloney, Chairman of the House Budget and Appropriations Committee and Mike Glass of the Department of Personnel.

Mr. Brown stated that he was spokesman for the group. He informed Mr. O'Brien of the need of our agency to have qualified examiners and gave him some background on the Industry and our agency. Mr. O'Brien stated that he sympathized with us, however in considering upgrading our staff, that all similar auditing type positions in the State Government would have to be reviewed. Mr. O'Brien did give his personal commitment that our staffing situation would be addressed in next years budget.

Old Court Savings and Loan, Inc.

Mr. Brown stated that Old Court is scheduled to be the next institution to come in to address the Board concerning their operation. He asked that this be postponed until we have time to completely review their responses to our examination. Mr. Brown noted that based upon their growth and media coverage of some large projects that they are involved in, we have already started another examination of Old Court.

Mr. Stocksdale asked if the Division is able to track such things such as lending to themselves? Mr. Brown replied that this is part of the examination. Mr. FitzGerald asked if subsidiaries are examined as well as the parent? As an example, he referenced an insurance subsidiary and also questioned whether our examiners are qualified to evaluate such an activity. Mr. LeCompte stated that with respect to activities such as insurance, the service corporations act as an agent, not the insurer, so there is little investment or exposure. Also, service corporations acting as an insurance agency would have to be licensed and regulated by the State Insurance Commissioner. He noted that in the case of Old Court, they have purchased Schafel Insurance Company for reportedly \$3.5 million, which Old Court states still leaves them within our 2% aggregate investment limitation in service corporations.

Liberty Savings and Loan

Mr. FitzGerald asked if the Frank Peach situation had been straightened out? Mr. LeCompte stated that Frank Peach's trial was recently concluded and Mr. Peach had submitted what is referred to as an "Alford" plea whereby he does not plead guilty to the specific charges but admits that the State has sufficient evidence to convict him. Mr. Peach was sentenced to 90 days in jail and to pay restitution of \$75,630 to Liberty.

Mr. Stocksdale asked if the Division felt comfortable about Liberty, and he noted that they are spending a lot of money on advertising when they have little net worth. Mr. Brown stated that they have issued a subordinated

debenture. Mr. LeCompte stated that this advertising is not being done for growth, but rather it is being done to offset expected withdraws as a result of the adverse publicity from the Frank Peach trial.

Reappointment of Board Members

Secretary Dewberry wrote a letter to the Governor recommending the re-appointment of Mr. Glsriel, Mr. FitzGerald and Mr. Stocksdale. Mr. Rittenhouse, who was also up for reappointment, has indicated that he would like to step down from the Board.

New Legislation - HB1609

Mr. Brown stated that Terry Connelly recently introduced a bill entitled "MSSIC Advertising Disclosure" which would require all advertising of MSSIC, or member associations, to state that they are not backed by the State of Maryland.

Mr. Hogg stated that MSSIC met with Delegate Connelly and some other people who are interested in this bill, and he believed they worked out an agreement to withdraw the bill and to talk about the issue.

Accounting Task Force Proposed Regulations

Mr. Brown stated that with the Board's materials were (proposed) regulations drafted by the Accounting Task Force. He asked the Board to look over them and if they had any questions, Mr. Hogg and Mr. Becker are both here to answer any questions.

Mr. LeCompte asked Mr. Hogg if MSSIC has already adopted them? Mr. Hogg responded that their Board has and they are now out for comment.

The Board decided that they would consider these proposed regulations at a future meeting.

New Charter

Kinsley Savings Association

Mr. LeCompte stated that Kinsley has been given preliminary approval by this Board. However, since that time, Milton Schneiderman, who was the strongest person financially and was to be the major stockholder is no longer involved. Two new capital partners have been introduced. The people that we understand will be buying the majority of the stock are Robert Gibbs, who was

Gerald Klein's partner in Merritt, and Simon Hershon, who was the person that had the major stockholders fight last year with Larry Goldstein at Gibraltar. Mr. Gibbs and Mr. Hershon are to buy 40% each of Kinsley's Capital Stock.

Both of these individuals have been involved in a dispute for control of a Maryland Stock association and there have been suits filed and various verbal charges made against both parties concerning their actions within the associations. The question as to whether they should be given a savings and loan charter has been raised.

Mr. FitzGerald asked if besides the legal dispute they had with their other partners, is there anything that would lead you to believe they are not fit to operate an institution. Mr. LeCompte stated that verbal statements concerning possible misappropriation and self-dealing have been made, however staff is aware that such allegations would have to be substantiated.

Mr. Hewitt stated he does not see that we have any authority or regulation that says we can designate who can invest in Capital Stock. Mr. LeCompte stated that technically this is true, however if two people hold 80% of the Capital Stock, from a practical standpoint they are the directors, they are management, they are the absolute control of the institution.

Mr. Hogg stated that MSSIC had remanded the application back for further study based upon a significant change in facts surrounding their approval. There are significant allegations against both individuals which will have to be either confirmed or disproven.

Mr. LeCompte stated that he was writing both Merritt and Gibraltar and requesting all documentation relating to these individuals. Mr. LeCompte stated that if documentation supported the fact that these individuals are unfit then the Board could issue a final order denying the granting of the charter and let them appeal this decision to the courts.

EXECUTIVE SESSION
March 14, 1985

Mr. Charles Hogg of MSSIC attended the Executive Session of the Board meeting.

Background on HB1609 introduced in the House by Delegate Terry Connelly which would Require Certain Disclosures in Advertising by MSSIC and the MSSIC Membership

- Mr. Brown reported that Delegate Connelly has introduced in the House a bill concerning advertising and disclosure with regards to insurance of accounts by the Maryland Savings-Share Insurance Corporation (MSSIC). The bill would require that MSSIC or any member of the corporation advertising in any newspaper, magazine, radio, television, etc., must disclose that: (1) the corporation is not a corporation of the State; and (2) the corporation is not backed by the faith and credit of the State. The wording in the bill is not exactly correct, in that, Mr. Brown said he felt that Delegate Connelly meant that the corporation is not an Agency of the State and that the insurance by the corporation is not backed by the full faith and credit of the State of Maryland.

Mr. Hogg indicated that he had discussed this bill with Delegate Connelly and as far as he knew, Delegate Connelly had no intention of withdrawing the bill unless some action was taken by MSSIC to change their advertising and the corporation seal as he (Delegate Connelly) felt it was misleading to the public. This matter was mentioned to Secretary Dewberry due to the concern of Mr. Hogg that it could be very damaging to the industry and could create a run on our associations. The Secretary advised the Governor's office of the concern of Mr. Hogg and to see what was the Administration's position. A meeting was scheduled with the Governor and the MSSIC Board; however, before the meeting was held, the Ohio crisis came to life and which could place MSSIC in a very sensitive position since the Ohio Deposit Guarantee Fund apparently went down due to some heavy losses incurred by Home State Savings and Loan in Cincinnati. Mr. Hogg indicated that a member of his staff visited Ohio to determine what happened and made a full report to the Commissioner on the Ohio problem. A meeting was subsequently held with Johnnie Johnson, the Governor's Chief of Staff and the MSSIC Board. Mr. Johnson indicated that he feels the public is not aware that MSSIC is a private corporation and he felt there should be some disclosure to the public including a change in the seal. Mr. Brown stated that while in Annapolis, Secretary Dewberry, Charles Hogg and himself visited with Senator Steinberg, President of the Senate, and Ben Cardin, Speaker of the House, to discuss the Ohio situation which could lead to some problems in our State system.

As the Ohio crisis apparently was as a result of a "Repo Agreement" and/or a "Reverse Repo Agreement", Mr. Stocksdales asked if there was anyone available to explain the difference between the two agreements? Mr. Brown stated

that he could have one of the Senior Examiners discuss both types of agreements so that the Board would have some idea as to the reason for the problem in Ohio. Thereupon, Mr. Glen Burger, Examiner Supervisor explained to the Board members the two types of agreements, that is, a "Repo Agreement" and "Reverse Repo Agreement".

Mr. Hogg stated that MSSIC had previously issued a policy statement which would prohibit an association from borrowing more than 15% of its assets from any one source and that he will recommend to the MSSIC Board of Directors that this policy become a regulation. Mr. Hogg stated the Ohio crisis was brought about by borrowings by Home State Savings and Loan equivalent to 50% of its assets and over collateralization of the loan with ESM, a Government Securities Dealer. When ESM went down, it carried Home State Savings down with it as the excess collateral resulted in a loss of approximately \$150 million. The Ohio Deposit Guaranty Fund, a private insurer, similar to MSSIC also collapsed as a result of the losses at Home State. After a further discussion of the Ohio situation, Mr. FitzGerald recommended the staff to consider a regulation limiting the amount of borrowings by any association from anyone source and suggested we consider the same regulation that MSSIC will adopt of "not to exceed 15% of assets". Mr. Brown stated he would have a regulation prepared for consideration at a future meeting.

Old Court Savings and Loan, Inc.

Mr. Brown advised the Board that we had anticipated meeting with the Board of Directors of Old Court today. However, Mr. Cardin, Counsel for the association is in Israel and would not be able to make the meeting. Additionally, our examiners have just recently completed a review of the response of Old Court to our recent examination which response was dated January 23, 1985.

“
Mr. Brown advised that the Report of Examination is very lengthy as is the response from the association and it will take some time for a review by the Board and that we should meet with the Old Court Board as soon as possible.”

Mr. Hogg mentioned that members of his staff visited the association in January on a spot check examination and found further violations of MSSIC Rules as well as the Division's. A list of the many problem areas were read to the Board. Mr. Hogg indicated his staff is preparing a letter to the association with a list of charges based on their examination and which will include an operation's agreement for corrective action. Failure to sign per terms of the agreement will result in the issuance of a Cease and Desist Order. The agreement will further require each stockholder of Old Court to enter into a Voting Trust Agreement with MSSIC which could lead to the corporation taking over the association if corrective action is not taken or further violations occur.

After a discussion of the seriousness of the situation, the Board agreed to have a special meeting of the Board of Commissioners on Thursday, April 4, 1985 at 1 p.m., to review the examination and the response from the association. Mr. Brown stated he would have two of our examiners available to discuss and explain the comments in the report. It was further decided the Board should meet again at 11 a.m., on April 11, 1985, the day of our regular Board meeting to further discuss the examination and that the Board of Commissioners should meet with the Board of Directors of Old Court at 1 p.m., with the general meeting to begin at 2:30 p.m. Mr. Brown advised that copies of the examination will be distributed at the meeting on April 4, 1985.

Mr. Brown reminded the Board that due to MSSIC's findings, we sent our examiners into the association again on February 11, 1985, and we are currently examining the association.

Merritt Commercial Savings and Loan Associations

Mr. Brown advised that he has been in touch with Mr. Gerald Klein, principal stockholder of Merritt Commercial Savings and Loan Association with regard to the Merritt Towers. Mr. Klein advised that no leases have been signed to date, although, there is a lot of interest. It appears that the Union Trust Company's new building which is directly across the street from Merritt Towers has been leased almost in its entirety and that there is enough interest from possible tenants which could take all of the available space. Mr. Brown pointed out, however, there are no signed leases to date.

Mr. Brown indicated that this concludes the Executive Session and its now in order to proceed with the General Session.

EXECUTIVE SESSION

April 4, 1985

Present: W. Thomas Gisriel, John N. Balder, Charles K. Rittenhouse, Robert L. Stocksdale, Joanne R. Kerstetter, Nathan A. Pitts, Jay FitzGerald, Frank L. Hewitt, Jr., Nancy Erwin, Charles H. Brown, Jr., William S. LeCompte, Jr., Charles Hogg, Joseph Barbera, Charles F. Endres and Thomas J. Burger

The Board of Savings and Loan Association Commissioners met at a special meeting on April 4, 1985, at 1 p.m., to discuss Old Court's most recent examination. Each commissioner was given a copy of the comments from the April, 1984 examination which started on June 18, 1984 and completed on September 14, 1984, a short memorandum from Joseph Barbera, Chief Examiner and Thomas Burger and Charles Endres, Examiners reviewing the examination, and a review of the association's response of the examination comments and the examiner recommendations. A copy of the Old Court Examination was given to each commissioner.

Mr. Burger began the meeting by mentioning some of the problems Old Court is experiencing; namely,

- 1) Overdrafts of Now Accounts - Old Court has an overdraft of now accounts of over \$7 million. Mr. Burger stated that some of them have been corrected by cash payments, some of them have been corrected with loans and some of them are still outstanding. Jeffrey Levitt's name appears on the signature card for a lot of these accounts and he was the only one authorized to draw on some of them.
- 2) Service Corporations - Partnerships - Mr. Burger named a few which they are having problems tracing down. Mr. Stocksdale asked if the Board could require in our regulations that if you are making a loan to a partnership that you must have a partnership agreement and a list of who the partners are. Mr. Gisriel stated that this should be in the documents of the loan if it is for a general partnership.

Mr. Burger stated that we have a law limiting loans to officers and directors but we do not have any requirement that they disclose partnership agreements.

Mrs. Erwin stated that issue #1 is that the overdrafts do they exist and issue #2 is that they are unsecured interest free loans. Mr. Brown stated that it is not their general policy for the public to be allowed to have overdrafts and it is our understanding that Mr. Guidice and Mr. Levitt are the only ones that can authorize overdrafts to now accounts.

- 3) Mr. Gisriel stated that the January 23, 1985 letter states that these have been all straightened out, however, Mr. Burger stated that some have and some have not.

Mr. Hogg thought it might be well for all concerned if he would highlight the points that are stated in a management agreement which MSSIC has prepared which are as follows: The MSSIC Board at their February meeting voted unanimously to issue a letter to Old Court listing certain charges, citing specific violations of Maryland Law and the Division and MSSIC regulations. Part of the letter will be a management agreement which will require corrective action. A hearing has been established for April 22, 1985 and if after that hearing the Board of MSSIC concludes by a 75% vote that Old Court is in violation of any or all of the MSSIC or Division rules, a cease and desist order will become effective. Old Court can negate that theory by entering into an operating agreement.

The charges of violations are as follows:

- 1) The aggregate balance of Old Court's commercial, construction and land loan violate §3-217A of MSSIC rules.
- 2) The aggregate balance of Old Court's construction loans were in violation of MSSIC construction loan limit of §3-217(A)(1).
- 3) As of January 31, 1985, 403 of Old Court's 7,125 NOW accounts had overdrafts in the aggregate of \$9.9 million. Many of the accounts were owned by officers and directors of Old Court.
- 4) As of January 31, 1985, Old Court had at least 20 unsecured note loans to controlling persons with unpaid balances of \$5.7 million.
- 5) Old Court and its subsidiaries have paid excessive management consulting and similar fees to controlling persons of Old Court.
- 6) During 1984, Old Court refinanced delinquent unsecured loans in the aggregate principal amount of at least \$1 million thereby avoiding the obligation to disclose such delinquencies to MSSIC and avoiding the need to institute collection activities against the borrowers.
- 7) During 1984, Old Court made numerous consumer loans as defined in §49 of the Division rules which were not supported by adequate documentation.
- 8) During 1983 and 1984, Old Court operated without adequate qualified management, which was set forth in Glass & Associates' management letter which accompanied the July 31, 1984 audit report.
- 9) Old Court has consistently failed to file its monthly general fiscal report on time (SL-200A).

- 10) During 1983 and 1984, Old Court's system of internal accounting control had numerous deficiencies including but not limited to the list in the management letter from their own auditors.
- 11) During 1983 and 1984, Old Court failed to maintain adequate and accurate books of accounts with respect to acquisition development and construction loans in that it failed to adequately recognize tax liabilities and improperly recognize fee income also noted in the annual audit report.
- 12) During 1984, Old Court made numerous loans without appropriate underwriting and documentation, constituting an unsafe and unsound practice.
- 13) As of July 31, 1984, Old Court had invested in numerous joint ventures in which Old Court does not control the accounting and record keeping; accordingly, Old Court does not have sufficient knowledge of the current financial condition of certain joint ventures in which it has invested, all as set forth in the Glass management letter.
- 14) Old Court is operating without a business plan.
- 15) During 1984, Old Court engaged in certain financial market transactions without adequate controls and without maintaining proper documentation.

The Operating Agreement basically states Old Court covenants and agrees to comply with each of the following terms and conditions:

- A - C) It will not make any additional loans in the categories where they are violating regulations until they are complying with the regulations.
- D) Old Court shall collect all existing overdrafts of NOW accounts and checking accounts by officers, directors and controlling persons within 10 days following the date of this agreement. Old Court shall use its best effort to collect all other NOW accounts (no overdrafts of NOW accounts). Old Court shall not honor any further overdrafts of NOW accounts unless they are submitted to and agreed to by MSSIC.
- E) Under no circumstances shall Old Court honor any overdrafts of NOW accounts by controlling persons unless it complies with §§9-307 and 9-323. A 15% interest rate was established on any overdrafts of NOW accounts.

- F) Old Court shall collect all unsecured note loans from controlling persons within 10 days and use best efforts to collect all others and write them off after 30 days if not collected.
- G) Old Court shall not make any further unsecured note loans and shall not refinance any such loans that are made without MSSIC's permission and under no circumstances shall Old Court make an unsecured note loan to controlling persons.
- H) Old Court shall not pay management consulting brokers finders or similar fees to any person or entity without the prior written consent of MSSIC except law fees to Cardin and Cardin and the payment of a consulting fee to John Faulkner who has entered into a consultant arrangement with Old Court.
- I) Old Court shall, as soon as possible, institute a new management structure in substantial accordance with the recommendations set forth in their auditor's management letter.
- J) Old Court shall file all monthly reports on time.
- K) Old Court shall use its best efforts to correct immediately the deficiencies in its internal accounting control system and shall report to MSSIC on the first day of each month what steps have been taken to collect the deficiencies.
- L) Old Court shall maintain adequate and accurate books which books shall properly recognize future tax liability and properly recognize income.
- M) Old Court shall not make any loans unless they comply with proper underwriting and documentation requirements in compliance with the Division rule and requirements established by MSSIC.
- N) Old Court shall not make any loan unless counsel for Old Court has reviewed documentation prior to settlement.
- O) Old Court shall not make any loan to any controlling person without the prior written consent of the director of the Division and shall notify MSSIC in writing within 24 hours of any such loan.

- P) Old Court shall not engage in any financial market transactions unless the Board of Directors of Old Court has approved same and they are properly documented and recorded.
- Q) Old Court shall cause its counsel to conduct a legal audit of all current loan files and shall cause a copy of such legal audit to be delivered to Venable, Baetjer & Howard within 10 days of completion and would establish a date for the completion of that legal audit.
- R) Old Court shall immediately cause an audit of its financial statements to be performed at Old Court's expense by an accounting firm satisfactory to MSSIC or in the alternative if Old Court so elects shall have the right to deliver to an accounting firm satisfactory to MSSIC all work papers relating to Old Court's most recent audit.
- S) Old Court shall not invest in any joint venture without prior written consent of MSSIC and, further, Old Court shall not invest in any joint venture unless it controls the accounting and record keeping.
- T) Old Court shall not invest in or make any loan to any subsidiary of Old Court without prior written approval of MSSIC.
- U) The association shall establish and implement a business plan for the overall operation of Old Court which shall be satisfactory to MSSIC, the initial draft of which must be delivered to MSSIC within 120 days and the final plan within 180 days.
- V. Old Court shall withdraw all applications for branch offices previously filed with the Division.
- W. The aggregate liabilities of Old Court shall not exceed 10% during twelve-month period commencing May 1, 1985.
- X. Old Court shall submit to MSSIC its advertising budget and advertising plans for the next 6 months.
- Y. Require Old Court to add and keep at least one replacement on their Board of Directors and that person must be acceptable to MSSIC and that person shall not receive any compensation from Old Court or any of its subsidiaries other than director fees (They made John Faulkner a director but this precludes him so we want another independent director added to the Board whose only compensation is director's fees).

2. Old Court shall deliver to MSSIC copies of all reports, recommendations analysis and similar documents prepared by any consultant retained by Old Court immediately upon and receipt of it.
- AA. Old Court shall submit to the Division Director for his approval all loans in violation of §9-307 and §9-323(c) of the Financial Institutions Article.
- BB. Old Court shall at all times comply with the Division rules.

Mr. Hogg suggested to the Board that they direct Mr. Levitt and Mr. Pearlstein to be here next Thursday, properly express the Board's concern and the seriousness of these items and the Board might consider directing them short of a violation order to execute the agreement with us. If Old Court violates this order, two things will occur:

1. The cease and desist order becomes effective.
2. If they execute the voting trust agreement then MSSIC has the right to vote their shares which entitled MSSIC to elect the Board.

Mr. Hogg feels that this document will support John Faulkner, consultant of Old Court. This is a one year agreement or at such time if Old Court shall be in full compliance with all Maryland laws, MSSIC rules and Division rule, whichever is earlier.

Mr. Gisriel stated that the only club we have at this point is to advise Old Court's Board that we have serious concerns about their operation and if they are not here for the meeting next week we will seriously consider putting them into conservatorship or receivership. Mr. LeCompte stated that we could not ask for a conservatorship or receivership based upon the fact that they did not show up for a meeting not if you cannot prove the association to be impaired. Mr. Gisriel stated that this is the only power we have. The question is do we have sufficient information to put them into conservatorship or receivership and do we want too?

Mr. Stocksdale had a question concerning the legal audit. Mr. Hogg stated that the Board and MSSIC has the right to specify certain requirements of a legal audit. Mr. Burger stated we see disbursements according to the settlement sheet or title policies but there is not too much documentation in the files. Mr. LeCompte stated that a legal audit would have to make certain that there was a title policy in the file along with all other required documentation.

Several suggestions were made as to how to handle this situation in case Mr. Levitt is not present for the meeting:

- 1) Mr. FitzGerald suggested that we demand that they or their representative appear next Thursday, April 11, 1985. Mr. Brown stated a directive has already been sent to the Board.
- 2) Mr. Balder suggested that we inform whomever shows up that we are cancelling the meeting if Mr. Levitt does not attend.
- 3) Mr. FitzGerald suggested that we simply give the summation even if Mr. Levitt is not present by simply informing them to sign MSSIC's agreement prior to the hearing date or we will take the necessary steps to protect the public interest. Mr. Gisriel stated that the only steps are the conservatorship or receivership.
- 4) Mrs. Erwin suggested that we tell Old Court that we are having this meeting and giving them the opportunity to hear our views concerning what actions will be taken by the Board of Commissioners.

Mr. Hogg stated that MSSIC would like the agreement signed as violation orders are a matter of public record. MSSIC would like Old Court to sign the agreement but if they do not he would like to see violation orders issued before conservatorship or receivership. Mr. Gisriel stated that the Board will take appropriate steps which will be the violation orders. Mr. Hewitt asked what if Old Court refuses to sign the agreement? Mr. Hogg would issue the cease and desist order. If they violate that, the next step would be termination of insurance.

Mr. Stocksdale stated that a cease and desist order is not an automatic cancellation of insurance. If they violate the cease and desist order you have the authority to go to court and get a court order directing them to perform in accordance with that order. Mr. Hogg stated that we also have the authority to remove management and directors. Mr. Stocksdale stated that it does not necessarily mean receivership. Mr. Hogg is assuming failure to recognize all of these remedies.

Mr. Endres explained to the Board what the cash situation at Old Court has been for the past two weeks. Since March 16, 1985, they lost \$30 million in negative outflow. When this Ohio situation occurred they apparently went to Federal Reserve and they immediately received a \$17 million line of credit. Tuesday and Wednesday of this week they had to draw \$8.5 million. This was March 30, 1985. This is not including the \$30 million. They do a weekly cash study. On March 28, 1985, they only had \$606,000 immediately available. They have applied for another \$50 million from Federal Reserve. In reference to their certificate renewals in April and May they have over \$100 million coming due for renewal. Mr. Burger stated that Fairfax has \$13 million deposited after drawing out \$8 million about two weeks ago. Mr. Endres stated that the least little bit of a run could put them in very serious trouble. Mr. Gisriel feels that all of this should be reviewed by the Board.

Mr. Gisriel stated that we have to come up with violation orders before we can do any legal steps on our part.

Mr. FitzGerald stated that we have instructed our Director to prepare violation orders and if they do not sign the MSSIC agreement by April 22, 1985, we are prepared to issue them immediately which then become public. If they do not sign the agreement the cease and desist order will go into effect. Mr. FitzGerald just wanted to make sure he was certain as to what would take place.

Old Court would come to the meeting and we would inform them that we are prepared to file violation orders. If they do not sign the agreement on or before April 22, 1985, the Board is prepared to issue the violation orders. MSSIC will issue the cease and desist order and make certain Old Court is complying with the cease and desist. If they violate the cease and desist then the removal powers come into existence. The removal powers can come into existence upon the early instance of violating the cease and desist powers. MSSIC can remove management; only the Commissioners can request the appointment of a conservator. Mr. Hogg stated MSSIC does have the right to be the conservator. However, if Old Court can prove that they are not in violation of all these items then the MSSIC Board will not issue the cease and desist.

Mr. Balder feels that we have a lot of power coming July 1, 1985 with the new legislation to become effective that date but will be too late for the Old Court situation. Dr. Pitts asked if Mr. Levitt leaves, does that throw an additional financial burden on the organization. Mr. Hogg stated that we really need Jeffrey Levitt around, as on some of these deals he is the only one that understands them.

Mr. Balder asked if MSSIC had the authority to have Old Court pay for appraisals for all these out-of-state projects or outside appraisals? Mr. Hogg responded that MSSIC could order appraisals at the expense of Old Court and MSSIC also has the authority to make them pay for the audit that we order.

Mr. Stocksdale stated that he has a concern on real estate owned - how inflated are these investments?

Mr. Balder asked if MSSIC could provide periodic audits from an outside auditor every three months? Mr. Hogg responded he believes they can; however, it takes three months to do it. Mr. Balder is particularly speaking of follow up. Mr. Hogg stated that we will have our people in there and we will have to monitor their compliance with this agreement.

The Board of Commissioners decided to meet April 11, 1985 at 11 a.m., to have some time to go over any questions or additional information before meeting with Old Court at 1 p.m. Mr. Hogg stated that he could be present if the Board would like and the Board accepted his offer to attend. Mr. Brown stated that he will again get in touch with Mr. Cardin with a follow up letter directing the whole Board to attend.

Although Mr. Brown had previously stated the Old Court exam should not be taken from the office, Mr. FitzGerald stated he would like to take the report with him for further study prior to the Commissioners' meeting with the Old Court Board on April 11, 1985. Mr. Gisriel stated he felt the Board should have a copy of MSSIC's letter of March 22, 1985 and the management agreement. Mr. Brown said the examination report should be handled with care so that it is not lost or misplaced. As far as the MSSIC letter was concerned, that was a decision for Mr. Hogg who stated the MSSIC Board members did not take the letter out of the MSSIC office but if the Commissioners felt they needed a copy for study prior to the meeting with Old Court's Board, he would have no objection. Thereupon copies of the letter were prepared by the staff and distributed to the Board of Commissioners. Mr. Brown stated the MSSIC letter will be included in and become part of the minutes of this executive session.

Mr. Brown reminded the Board that the Division started a new examination at Old Court on February 11, 1985, earlier than usual because of the finding of MSSIC revealing continued violations of MSSIC and Division Rules.

Merritt Commercial Savings and Loan Association

Mr. Brown stated that Merritt is very seriously considering the sale of the Merritt Towers in which they anticipate about a \$4 million profit. As it stands right now, Mr. Brown wrote them approximately three weeks ago for a status report. Mr. Brown told Merritt that if they have a possible sale of the property with a profit, he would suggest that they sell it immediately to improve the image of the association and for public relation purposes, because Merritt Towers is the subject of conversation around town. Mr. Brown has a letter from Merritt indicating that they are seriously considering the sale. Mr. Klein of Merritt stated there is enough interest in prospective tenants, $\frac{1}{2}$ of which are hot prospects. One of the big 8 accounting firms is negotiating now. One thing that is in their favor is that Union Trust, which is located across the street is fully rented.

Mr. Brown reported on the congressional hearing in Washington on the Ohio situation. Mr. Stocksdales asked Mr. Brown if he got any reading yesterday on the probability of federal legislation going through. Mr. Brown stated that Preston Martin, Vice Chairman, Federal Reserve Bank, and Mr. Ed Gray, Chairman, Federal Home Loan Bank, were very much in favor of federal insurance in lieu of private insurance. At the hearing yesterday Governor Celeste of Ohio testified first followed by Don Hunchie from the insurance corporation and then the State Supervisor. The State Supervisor resigned in January and Deputy Supervisor who is also counsel was made acting head and subsequently made the director. Shortly thereafter he was replaced by a new director, Mr. McAllister. Mr. Barnard, Chairman, asked the Director at the time many questions which he kept taking the fifth amendment and stated that he would have to consult with his Attorney General before he can tell you anything, as Ohio apparently had a confidentiality section in their code similar to Maryland. Finally, Mr. Barnard told him that we would like him to respond to the questions that we ask you as that is the reason you were directed to be here at this hearing.

The subcommittee of the House Committee on Government Operations was well aware of what happened in Ohio. Every member of that committee had questions.

Mr. Brown reported many individuals from the financial regulatory agencies, both Federal and State testified at the hearing including Mr. Hogg and himself. The insurers and regulations from the four remaining states with private insurance fund testified in groups or as a panel, i.e., all the insurers together, followed by the regulation. We, the regulator, concluded our testimony about 5:30 p.m., which ended the morning session which was scheduled to end around noon. Still to be heard was the S.E.C. and several other individuals representing those political sub-divisions who suffered loss as a result of dealing with E.S.M., the Florida Brokerage Firm. A report of the committee will be prepared and distributed.

There being no further business to be discussed at this time, the meeting adjourned at approximately 4:25 p.m.

Mr. Gisriel reminded the Board of the Executive Session meeting to be held at 11 a.m., on Thursday, April 11, 1985, to further discuss this issue prior to the 1 p.m. meeting with Board of Old Court.

Executive Session
April 11, 1985

Present: W. Thomas Gisriel, John N. Balder, Robert L. Stocksdale, Nathan A. Pitts, Jay FitzGerald, Nancy Erwin, Frank L. Hewitt, Jr., William S. LeCompte, Jr., Deputy Director, Joseph Barbera, Chief Examiner, and Examiners Charles F. Endres and Thomas J. Burger

Note: Charles K. Rittenhouse and Joanne R. Kerstetter were excused. Charles H. Brown, Jr., Director was attending a meeting of the staff at MSSIC relative to the Management Agreement

The meeting convened at 11 a.m.

The Board raised some questions on the fees paid to certain insiders and was their documentation to substantiate the payment of such fees. As previously reported, Mr. Endres stated there was very little documentation and it was very difficult to obtain any information from any of the employees. An example of the lack of documentation: a notation on a letterhead of a "fee for consultation" with no explanation. Another example: a fee noted on a settlement sheet with no explanation and no one available to explain. As stated previously, few if any personnel had knowledge of the operation. Invoices told very little and few employees have been there for any length of time who could help.

The Board discussed further the Report of Examination and MSSIC agreement. Mr. Gisriel stated he is leaning toward the MSSIC Agreement as it is orderly and will keep down publicity and that if this situation was made public at this time it could ruin MSSIC and the State-chartered MSSIC industry. Mr. Stocksdale said he felt strong action is needed immediately and that it is proper for us to look to the insurance corporation first. Everything we do should be geared toward securing the current position to make certain it cannot get any worse and then start digging into everything they have done for the past two years.

Mr. Gisriel asked if the Board felt that we have the mechanics with the MSSIC Agreement to correct the problems. Mr. Stocksdale stated he felt that we do. He, Mr. Stocksdale, feels that the Board would be better off to go along with MSSIC's Operating Agreement. If the agreement is executed and if at some point we feel it needs beefing up, we certainly have a perfect right to say to MSSIC we think additional areas should be included in a supplemental agreement.

After a further discussion on the meeting with the Old Court Board at 1 p.m., Mr. Balder stated the Commissioners should make an open comment of which we think of the group, of what they are doing or permitting to be done and direct the Old Court group to enter into the MSSIC Agreement. Further, we will allow them to operate only under this agreement. If you do not intend to sign the agreement, tell us and we will take it from here.

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Mr. Stocksdale stated the Old Court Board should be told the entire Board was directed to attend this meeting due to the seriousness of the situation.

This portion of the Executive Session adjourned at 12:30 p.m. to meet with the Old Court Board at the office of MSSIC at 1 p.m.

Executive Session
Special Meeting of the Board
Thursday, April 11, 1985

A special meeting was held between the Board and the Directors of Old Court Savings and Loan Association at 1 p.m. at the offices of the Maryland Savings-Share Insurance Corporation.

The following were in attendance:

Old Court - Jeffrey Levitt, Jerome Cardin, Sanford Cardin, John Faulkner, Dennis Guidice, David Uhlfelder and Allan Feinberg

Board of Commissioners - Nancy Erwin, W. Thomas Gisriel, John Balder, Robert Stocksdale, Jay FitzGerald and Nathan Pitts
Charles H. Brown, Jr., William L. LeCompte, Jr. and John C. Cooper also attended.

MSSIC - Charles Hogg, President of MSSIC, and members of the MSSIC staff

Mr. Gisriel informed the officers and directors of Old Court of the Board's grave concern over the operations of the association. He stated that the Board has reviewed the most recent examination report and MSSIC report concerning Old Court's operations. The Board was greatly concerned over certain issues such as overdrafts of NOW accounts, loans which sometimes exceed 100% of the value of the collateral and where points, fees and interest are all funded by the lender from the loan proceeds. Mr. Gisriel stated that these and other violations of rules and regulations reflect that the association is, and has been, grossly mismanaged.

Mr. Jerome Cardin responded by stating that lending at 80% or so of the value of the property and then funding an interest reserve, points and other costs is the current lending practice of many financial institutions, including some of the largest and most conservative companies across the country. He noted that Old Court's practices are not significantly different from those of its competitors.

Mr. Cardin also stated that Mr. John Faulkner is to be added to the staff of Old Court to upgrade the quality of its management. Mr. Gisriel asked what authority Mr. Faulkner would have at Old Court. Mr. Cardin stated that Mr. Faulkner will review practices and procedures and make recommendations concerning necessary changes. Mr. Cardin stated that there were some areas that needed to be corrected, but that Old Court has a lot of good investments and that things are not as bad as some people present at the meeting may believe.

Mr. FitzGerald asked if the officers and directors of Old Court were ready to sign the operating agreement with MSSIC. Mr. Cardin stated that the agreement has been substantially agreed to by all the parties, with certain minor conditions being worked out. Mr. FitzGerald asked specifically if Mr. Levitt would be removed from Old Court. Mr. Cardin stated that removing Mr. Levitt from Old Court was not being

considered. He stated that Mr. Levitt is very knowledgeable with respect to real estate and its development, however he is not a good documentation person. There have not been enough people previously at Old Court to follow up and to document the loan files. However, he stated that the real estate deals that Mr. Levitt has put together are extremely sound, viable and profitable. He felt Mr. Levitt's knowledge of real estate represented a valuable asset to Old Court. The operating agreement with MSSIC will restrict Mr. Levitt's role in many areas. Although he will continue to structure real estate projects for the association, the agreement will insure that the loans do not settle until all the proper documents and approvals are obtained. Mr. Cardin stated that he and Mr. Faulkner will be working together to determine what changes need to be made to effect tighter controls in the lending area.

Mr. Balder asked if any independent appraisals are presently being done on existing Old Court real estate projects. Mr. Cardin stated that he did not feel that the quality of Old Court's portfolio was a concern. Mr. Balder stated that this was a concern of the Board of Commissioners. Mr. Cardin referenced that the association has very few delinquent loans and felt this was a good indication that there were not any asset quality problems. Mr. Gisriel referenced that the examination shows that one reason that delinquencies are low is that the association refinances projects to keep them from becoming delinquent. Mr. Cardin stated that this has been done on a very limited basis.

Mr. Cardin then referenced Old Court's Florida project known as Poinciana Park. He stated that this project represents \$10 to \$15 million in potential profits and if some rezoning is accomplished, there could be as much as \$30 million profits in this project. Mr. Cardin stated that from the press one may infer that Old Court would have \$50 million in this project. This is not true.

Mr. Stocksdale raised the question on loans to officers, directors and stockholders which were not submitted nor approved by the Division. Mr. Stocksdale noted that these are the types of violations that existed in both Fidelity Federal and County Federal Savings and Loan. Mr. Stocksdale stated that the Board wants the loans to the officers and directors to be reviewed in depth and any violations to be corrected as soon as possible.

In conclusion, Mr. Gisriel informed the members of Old Court that they should take action to correct all violations at the association and that it is expected they will shortly sign the operating agreement with MSSIC. If this is not done, the Savings and Loan Commissioners will reconvene and take whatever action is deemed necessary regardless of the impact it may have.

This meeting concluded at 1:55 p.m. The Commissioners were informed that the Executive Session would reconvene at the offices of the Division.