

**OHIO SAVINGS AND LOAN CRISIS AND COLLAPSE
OF ESM GOVERNMENT SECURITIES, INC.**

86603046

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS

FIRST SESSION

APRIL 3, 1985

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OHIO SAVINGS AND LOAN CRISIS AND COLLAPSE OF ESM GOVERNMENT SECURITIES, INC.

WEDNESDAY, APRIL 3, 1985

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER,
AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 8:30 a.m., in room 2154, Rayburn House Office Building, Hon. Doug Barnard, Jr. (chairman of the subcommittee) presiding.

Present: Representatives Doug Barnard, Jr., John M. Spratt, Jr., Joe Kolter, Ben Erdreich, Albert G. Bustamante, Larry E. Craig, Patrick L. Swindall, and Jim Saxton.

Also present: Representatives Jack Brooks, Thomas N. Kindness, Mary Rose Oakar, Thomas A. Luken, Marcy Kaptur, and Bob McEwen.

Staff present: Peter Barash, staff director; James M. Pates, counsel; Stephen R. McSpadden, counsel; Eleanor M. Vanyo, secretary; Faye Ballard, clerk; Scott Fisher, minority professional staff, Committee on Government Operations; and Dean T. Scott, subcommittee staff, on detail from the General Accounting Office.

OPENING STATEMENT OF CHAIRMAN BARNARD

Mr. BARNARD. The Subcommittee on Commerce, Consumer, and Monetary Affairs will come to order.

On March 4, the Securities and Exchange Commission obtained a Federal court order forcing ESM Government Securities of Fort Lauderdale, FL, into receivership. The collapse of this little-known Government securities dealer precipitated a disquieting chain of events unprecedented in the recent history of our Nation's financial markets.

The crisis began with the insolvency of Home State Savings Bank of Cincinnati, a \$1.4 billion thrift institution which had extensive business dealings with ESM; and it ended with nervous international money markets bidding up the price of precious metals and bidding down the price of the dollar.

In between these events, the Governor of Ohio ordered a bank holiday of the State's 70 privately insured thrifts; the Ohio Deposit Guarantee Fund, whose entire reserves of \$127 million may have been exhausted by the Home State failure, was placed under the control of a conservator; hundreds of Federal bank examiners were

dispatched to Ohio to prevent the thrift crisis from spreading and to speed the conversion of S&L's from private to Federal deposit insurance; the FSLIC and FDIC were swamped with calls from anxious S&L officials in other States seeking information on how to apply for Federal deposit insurance; and, dozens of municipalities and financial institutions across the country faced the bleak prospect of combined losses totaling \$350 million or more.

Today, the Commerce, Consumer, and Monetary Affairs Subcommittee of Government Operations begins hearings in an effort to determine whether the Ohio thrift crisis and the events that preceded it were avoidable; whether the major private deposit insurance systems in other States are secure; and, whether the Federal apparatus that supervises our Nation's financial and securities markets is sufficiently competent and aggressive to prevent a repetition of the Ohio situation or at least to minimize the damaging consequences of any repetition.

The subcommittee seeks specific answers to the following questions:

What did the Federal banking agencies and the SEC each know about the business conduct of ESM Government Securities and the ethics of its principals and when did they know it? Was information developed by one agency regularly shared with other supervisory agencies at the Federal and State levels? Were enforcement responses to ESM's tactics coordinated? If not, why not? What types of changes need to be made in our regulatory structure to assure such cooperative action?

Did the Federal Reserve and the Home Loan Bank Board perform adequately in responding to the Ohio emergency? Should the Federal banking agencies establish, on a permanent basis, a standby rescue program for dealing with any similar occurrences in the future?

Did the Ohio thrift regulatory officials perform their supervisory responsibilities adequately?

Do the major private deposit insurance systems in the various States and elsewhere have the necessary procedures and policies to avoid an Ohio situation? Can these systems, either alone or together with their thrift supervisory agencies, properly monitor and prevent unsafe and unsound banking practices? And do these private systems need to be strengthened, and if so, how?

The collapse of ESM Government Securities and the devastating impact of that event on financial institutions and municipalities across the country is a vivid illustration of the fragile interrelationships that exist among providers of our Nation's financial services. A failure on one financial sector can quickly spread to others and the results can be devastating. The failure of a securities dealer or a financial institution because of fraud is not a victimless crime. Just ask the citizens of Ohio, or the taxpayers of Beaumont, TX; Pompano Beach, FL; Toledo, OH, and other cities. Just ask the depositors and the arms-length stockholders of S&L's that did business with ESM.

Last October, this subcommittee issued a report entitled "The Federal Response to Criminal Misconduct and Insider Abuse in the Nation's Financial Institutions." It concluded that one-half of all commercial bank failures and one-quarter of all thrift failures are

caused by insider criminal misconduct. Within the recent past, fraud also appears to have played an important role in the collapse of a number of nonregistered Government securities dealers like Drysdale, Lion Capital Group, Winters Government Securities, and, of course, ESM. Within the past few weeks, a growing number of major banks have admitted to significant violations of the currency reporting requirements of the Bank Secrecy Act. In combination, these events and these admissions raise understandable concerns about our financial system.

While I believe that our Nation's financial markets are vigorous and essentially honest, a repetition of the Ohio episode could deal a crushing blow to the public's confidence in the integrity of those markets. It is essential, therefore, that this hearing lead to a significant strengthening of Federal and State regulatory systems that supervise financial markets.

It has been suggested by some that this committee is playing with a political football in this investigation. Well, let me set the record straight. This committee has a long and excellent record of financial institution and regulatory investigations without the least tint of political association.

Again, we are dealing here today in risky financial transactions over many years, longer than any period of office of most individuals appearing today. Even more importantly, they involve the loss of hundreds of millions of dollars to financial institutions and municipalities, thereby affecting depositors and taxpaying citizens.

Investigations and studies of this committee are independent of any political party or any officeholder.

Let me also note at this time that in yesterday's paper, it was announced that Attorney General Meese had outlined a program to better coordinate criminal prosecution of bank crime. I would like to say that this is directly related to the study that was made by this committee last year and is a typical example of the work that this committee aspires to perform.

This morning we are very fortunate and pleased to have with us, the Honorable Richard F. Celeste, Governor of the State of Ohio.

Governor, at the outset, thank you for taking your time to be with us today. I know it was of some inconvenience to fly in from Ohio today and I know that you are on a limited schedule, but we certainly do appreciate the contribution that you can make to this investigation today. And I would also like to note that there are several distinguished members of the Ohio delegation that are with us today and I want to welcome them to this hearing. Time permitting, I hope that we will be able to accommodate all of you as participants in this hearing.

We will ask if any of you would like to make formal statements, and if so, we would welcome those statements.

Governor, again we welcome you to be with us today and we will accommodate your entire testimony in the record. Without objection, his entire testimony will be entered into the record. If you care to summarize, you may do so at your own discretion. But before you begin, I would like to ask the distinguished senior minority member of this committee for an opening statement.

Mr. CRAIG. Thank you very much, Mr. Chairman.

Let me say at the outset a special thanks for the very fair and bipartisan way you have approached this concern and this issue. You are to be commended and your staff is to be commended for the effort you have become involved in.

Once again we enter a new chapter in our book of failed financial institutions in America. As in prior cases, we are faced with similar questions. What happened? Why did it happen? And how did it happen?

Some of those answers will be forthcoming shortly during today's hearings. But another question needs to be asked. When will it stop? If we fail to address this question and soon, the American people will lose any faith they still have in our very important banking system. I fear the days of hiding one's savings under the mattress or 40 paces due north from the south side of the barn will occur once again and that, of course, cannot be tolerated.

Many people would like to point fingers toward deregulation as the reason behind recent bank failures—a notion that I believe is seriously flawed. We are supposed to have a federal system of checks and balances which allows financial institutions to expand in the marketplace while at the same time ensuring stability and public confidence in our banking industry. For some reason, the status quo does not work as well as it should. Unfortunately, the Federal Government's checks and balances is intertwined in a massive layer of bureaucracy. It is this bureaucracy which allows those individuals who want to take advantage of the system to oftentimes do so.

It is now known that several Federal agencies were aware of ESM Government Securities, Inc.'s activities years ago, yet failed to communicate their alarm to other Federal agencies. The State of Ohio was well aware of Home State's financial dealings with ESM and failed to stop them. Deregulation did not prevent the Federal and State governments from acting.

Last week's committee hearings on Vice President Bush's task group report on regulation of financial services proposed ways to improve Federal regulations of financial institutions. I am going to review that report again to see if it contains a proposal requiring all Federal banking and thrift regulators to sit down together once a month, or once every other month, or once quarterly to discuss problem institutions and/or their investments. If they are not required to meet regularly they should be. If they cannot communicate together voluntarily then they should be legislated to do so.

Likewise, the task force report suggests giving States more authority to regulate their State-chartered institutions. Obviously, the State of Ohio will not be used as an example of how well a State can oversee its chartered institutions. Nor should it be said that all State-chartered, private insurance corporations are improperly managed and regulated. Nevertheless, Congress will have to establish stringent guidelines before States take over greater regulatory powers.

Finally, Mr. Chairman, Ed Gray, Chairman of the Federal Home Loan Bank Board, has recently received unfair attacks for the role he and the Federal Savings and Loan Insurance Corporation played in assisting the Ohio thrifts. Newspaper headline seekers have suggested that partisan politics were involved in his decision-

making during the Ohio thrift crisis. I find such remarks incorrect. The members of the subcommittee are well aware of the condition of FSLIC. I believe Chairman Gray acted in a prudent and highly professional manner by not succumbing to the pressures to immediately bring the Ohio thrifts into the FSLIC fund without first doing his required homework on each thrift. His first priority is to ensure financial soundness of FSLIC. Placing more bad apples into a basket that already has its share of bad apples would not be a responsible action. I am sure the thousands of savings and loans associations which are members of the FSLIC also appreciate the manner in which Chairman Gray has responded to this crisis.

Let me thank you, Mr. Chairman, and welcome Governor Celeste before our committee. I look forward to hearing from him.

Mr. BARNARD. Because of the Governor's schedule this morning, we are going to accommodate him first and then we will have questions from the panel and then we would like to have the testimony of Members of Congress who are here today; specifically, the Honorable Chalmers P. Wylie, the Honorable Thomas A. Luken, the Honorable Mary Rose Oakar, and the Honorable Thomas N. Kindness, if they would so like.

Mr. KOLTER. Mr. Chairman.

Mr. BARNARD. Yes, Mr. Kolter.

Mr. KOLTER. May I submit an opening statement for the record, please?

Mr. BARNARD. Without objection, that statement will be entered into the record.

[The opening statement of Mr. Kolter follows:]

OPENING REMARKS FOR
 CONGRESSMAN JOSEPH KOLTER
 BEFORE THE
 GOVERNMENT OPERATIONS COMMITTEE
 COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE
 ROOM 2154 RAYBURN HOUSE OFFICE BLDG.
 APRIL 3, 1985 - 8:30 A.M.

Mr. Chairman, the events of the last several weeks, have sensitized the American public to the problems facing the Nation's banking system. The closing of the thrift institutions in Ohio was just another link in what seems to be a long chain of events that have caused the public to ask just what is going on in the Nation's banking system.

While I realize that financial deregulation has brought much change for the better, it has also brought much uncertainty. My deep concern is that people with no real idea of what financial deregulation is all about, will feel less secure about their savings in the future. Confidence in the banking system is paramount to maintaining public trust and faith.

Mr. Chairman, I would like to thank you for calling this hearing today. It is most timely. I am here to learn more about what occurred in Ohio and for a status report from the witnesses scheduled to testify.

Mr. BARNARD. Do any other Members have a statement? Mr. Saxton.

Mr. SAXTON. Thank you, Mr. Chairman. I would just like to note for the record and for the interest of those who are here with us this morning and for the public as well, that the perspective from which I believe this committee comes is not one that we wish to express tremendous immediate concern as to the health and welfare of our financial institutions across this country.

This is one of a series of hearings that we have held relative to this subject. As the background that we set here in Washington for financial transactions relative to banks and thrift institutions has changed, because of deregulation, because of various changes that have happened on the Federal level, it has changed the financial workings of our financial institutions. And because that has happened, it is necessary for Congress to constantly monitor and watch, not only as the situation has developed in Ohio, but all across the country. And I think it is important to point out to the public and to those who are here today that we are not here because we expect some immediate catastrophe to happen with our banking institutions. It is because we are looking down the road and we are here today in a sense in a preventative way, to take whatever action may be necessary so that in the future we do not have to look at these kinds of situations in retrospect but rather we

are here today to look at them in the future in order to prevent these kinds of occurrences from happening again.

And once again, if I can just emphasize that we do not expect, we do not think, in fact, we are sure that FSLIC and FDIC are currently able to handle their intended function.

And so today we are here to look at the Ohio situation, to try and find out what happened in Ohio, to try and determine whether or not we need to make changes in our system so that these occurrences do not happen in the future.

Thank you, Mr. Chairman.

Mr. BARNARD. Governor Celeste.

STATEMENT OF RICHARD F. CELESTE, GOVERNOR, STATE OF OHIO

Mr. CELESTE. Thank you very much, Mr. Chairman, and members of the subcommittee, and particularly Representatives from the State of Ohio.

During the past 4 weeks I have become directly and deeply involved in a crisis which threatened the underpinnings of Ohio's thrift industry, and frankly, part of the fabric of our Nation's highly sophisticated financial system.

Four weeks ago this morning, Cincinnati's morning newspaper headlined the fact that Home State Savings, Ohio's largest privately insured savings and loan institution, had suffered a severe loss in connection with the massive fraud at ESM Government Securities in Fort Lauderdale, FL, compounded by a false audit report.

After 3 days, well over \$100 million had been withdrawn from Home State by worried depositors, about a third of the assets of the private Ohio Deposit Guarantee Fund were used up to meet the Home State run, and as officers of Home State and ODGF worked to find a buyer, the institution closed its doors.

On Sunday, March 10, the superintendent of the Ohio Savings and Loan Division in the Department of Commerce, appointed a conservator to protect the more than 70,000 remaining depositors in Home State and the \$520 million they still have on deposit there.

The State of Ohio moved as quickly as it could to protect the half million depositors at the 71 remaining privately insured thrifts. By the following Wednesday evening, in record time and with strong bipartisan support, Ohio had passed an emergency appropriation of \$50 million as a loan to a new, private insurance fund for those other S&L's, none of which had been tainted with the losses involved in the collapse of ESM.

But depositor fears outran legislative efforts. By Thursday, March 15, runs had spread to a growing number of institutions in Cincinnati and elsewhere. Officials of several thrifts had come to Washington and had pronounced private insurance dead, and Federal officials at this stage indicated that this was, in the first instance, a State problem requiring a State remedy.

At 5:30 a.m. on Friday, March 25, after reviewing a series of options with affected savings and loan executives, State legislative leaders, key administration personnel, and Federal regulatory officials, I determined that there was a high probability that one or

more of the S&L's would not be able to keep open that day and that additional failures would seriously jeopardize at least 70 other institutions.

I ordered a 3-day holiday for the privately insured thrifts so that we could establish an orderly plan for the reopening of all these institutions with sufficient protection to rekindle depositor confidence. I might add that in close cooperation with the Federal Reserve Board and its Chairman, Paul Volcker; and Mrs. Karen Horn, president of the Federal Reserve Bank of Cleveland; the Federal Home Loan Bank Board and its Chairman, Edwin Gray; and Dr. Charles Thiemann, president of the Home Loan Bank of Cincinnati, we are getting these institutions reopened—stronger than ever, and in record time.

As of this morning, 10 working days after passage of special legislation requiring Ohio's S&L's to apply for and qualify for FSLIC or FDIC, we have reopened 29 institutions, representing more than 40 percent of the depositors. And these institutions, I might add, are stronger than ever.

With this brief summary, let me indicate to you four recommendations, Mr. Chairman, that I would draw as lessons from the past 4 weeks for you and members of the committee.

First, the immediate and specific cause of this crisis was large-scale fraud in an unregulated Government securities trading company in Florida. If ESM were healthy today, if its audited statements were accurate, we would not be holding this hearing this morning.

The Federal Government must provide greater oversight of those who make the market for Government securities, a market which I understand from a recent Wall Street Journal article is trading at \$70 billion a day.

Second, apparently Ohio's supervision of our privately insured S&L's was sufficient to identify a problem at Home State. "Too many eggs in one basket," according to my commerce director, Ken Cox. But our regulatory process proved insufficient to cure the problem.

I am sharing with you—as attachment A to my testimony—several public accounts which highlight this serious concern, going back over two administrations. I have ordered my director of commerce and my superintendent of savings and loans to review both our procedures and our statutory authority and to recommend changes.

I have also strongly supported the appointment of a special prosecutor, who is now at work, and asked that his original charge be expanded to include a report "of any deficiencies which may have occurred in the State regulation of Home State Savings Bank and recommendations of any changes which ought to be made in State law, regulations, personnel, and practices in order to protect against a situation such as this ever arising again." He has agreed to this further assignment.

The State of Ohio must provide stronger regulation of our State-chartered thrifts and possibly other financial institutions. That is the second lesson I draw from this experience.

Third, despite reassurances by my former superintendent of savings and loans to the contrary, and I have attached as attachment

B his memo to me in early January, the Ohio Deposit Guarantee Fund fell short in two important respects. First, relating to public misperception, and the second, relating to private insufficiency.

On public misperception—most depositors believe that the “Ohio” in Ohio Deposit Guarantee Fund meant that the State of Ohio stood behind the fund. This misperception was so widespread that in the April 1 issue of Business Week, it is still referred to as a private, State-guaranteed fund. Depositors should know the full and accurate facts about who stands behind such private guarantee funds.

Second, in terms of private insufficiency—even though ODGF enjoyed a capital-to-asset ratio of 2.7 percent, roughly \$138 million of capital to \$5 billion of covered assets, the fund proved insufficient to withstand the failure of its largest member. Thus, to my understanding the history of Mississippi and Nebraska was substantially repeated.

At a minimum, States with private deposit guarantee funds must assure that their capital and reserves are capable of handling the possibility of failure of their largest member institution. For our part in Ohio, we are insisting on Federal insurance, or an acceptable guarantee from a parent big enough and strong enough to cover every single deposit.

Finally, it was apparent in the days immediately preceding my decision to protect depositors in Ohio's thrifts by closing them that there were no well-charted emergency powers by which Federal regulatory agencies could have helped us to head off the crisis. Closing 71 S&L's, most of them healthy but threatened by a growing loss of confidence, meant that our State's problem became part of a larger set of considerations. Such extraordinary State action should be unnecessary in the future.

As our national and international financial system grows more complex, more fast paced, and more interdependent, I strongly urge not more day-to-day intervention at the Federal level, but more readily accessible emergency powers to intervene directly and early in situations which could, left to run their course, do damage far beyond one thrift or one State.

I want to thank you very much for this opportunity to share the Ohio perspective with you this morning.

[Attachments to Mr. Celeste's prepared statement follow:]

The Columbus Dispatch/Tuesday, March 19, 1985

Home State warned in '82

By Michael Curtin
Dispatch General Assembly Reporter

Who knew what when? And why wasn't something done about it?

Those are the questions state legislators will ask in an investigation of the collapsed Home State Savings Bank, which triggered a crisis of confidence in, and the closing of, 69 privately insured savings and loans.

When legislators ask their questions, they will hear Clark W. Wideman, former superintendent of the Ohio Division of Savings and Loan Associations, say the red flag went up in 1982.

THAT WAS when Wideman's examiners reported that Home State, owned by prominent Democrat Marvin L. Warner, was dangerously overinvested in E.S.M. Government Securities Inc., which failed March 4.

"There was a tremendous amount of hand-wringing at the top levels" of the division, said Wideman, who was appointed by then-Gov. James A. Rhodes and served from September 1978 to February 1983.

Home State's unusually large and risky investments in repurchase agreements — in which cash was borrowed in exchange for securities of greater value — prompted him "to jawbone and armtwist" in an attempt to get the S&L to reduce its dealings with E.S.M. of Ft. Lauderdale, Fla., Wideman said in an interview.

ALTHOUGH THE superintendent has the authority to order divestiture in such cases, Wi-

deman said he feared that forcing Home State out of the transactions too quickly would bring down both the S&L and the Ohio Deposit Guarantee Fund.

Because Home State was the largest member of the fund, its failure would have jeopardized the fund, Wideman said.

"It seemed obvious to me that the amount of required assistance would have been fatal to the fund," he said.

"I was prepared to deal with the loss of one institution," Wideman said. "It was the very significant way the failure of Home State would have affected the guarantee fund" that prevented the intervention, he said.

"I COULD NOT determine anything more appropriate to do than to jawbone and armtwist," Wideman said. "We did the best we could. So far as I can tell, the guys who came in after us did essentially the same thing."

Wideman's successor, C. Lawrence Huddleston, who served from February 1983 to January 1985, said he could not comment.

"The first order of business is to get it (the S&L closings) resolved. I don't want to detract from that effort."

However, other sources with experience in the division confirmed there were continuing efforts — by the division and by the ODGF — to persuade Home State to reduce its dealings with E.S.M.

"WE ENTERTAINED the less-than-well-placed hope that Home State could wind out of those transactions," Wideman said.

Even though Home State directors pledged in 1983 to lessen the S&L's involvement with E.S.M., the transactions instead increased, reaching more than \$600 million that year. Home State had \$1.4 billion in net worth and assets.

Warren W. Tyler, director of the Ohio Department of Commerce from January 1983 to Feb. 22, 1985, said he was aware Home State had problems, but had no idea they were so large. The Division of Savings and Loan Associations is within the Department of Commerce.

"I CAN'T SAY we were unaware there was attention being paid to Home State," said Tyler, who now is director of the Ohio Environmental Protection Agency. "But there was attention being paid on a regular basis to a number of companies" in a variety of regulated areas.

Tyler said he had no direct knowledge of the communication between the Division of Savings and Loan Associations and Home State, saying it was "the sole authority of the superintendent."

Tyler said he was more than surprised by Home State's failure and the amount and complexity of the E.S.M. transactions. "I thought I understood a repurchase agreement," he said. "It's an amazing story."

THE PLAIN DEALER, SUNDAY, MARCH 31, 1985

Regulators to propose stricter laws for S&Ls

CINCINNATI (AP) — Ohio's savings and loan regulations turned out to be inadequate in the wake of the Home State Savings Bank collapse, and politicians and regulators have decided it is time for changes.

John Mongeluzzo, state Commerce Department staff lawyer, says talks already have begun within the department on drafting new legislation.

Lawrence Kane, a Republican special prosecutor appointed by Attorney General Anthony Celebrezze, has been asked to make recommendations for regulatory procedures while investigating the case.

"One of the problems with the S&L laws as they stand is that we can bark, but we cannot bite," Mongeluzzo said. "The laws, as stated, ... are very vague."

Two former directors of the loan division agreed on the need to strengthen state enforcement laws.

Clark Wideman, superintendent from September 1978 to January 31, 1983, said he and other officials knew years ago that their regulatory powers were not enough.

"But at the same time, we were all cognizant that this was the era of deregulation.

"Proposing tougher laws with more teeth in them was swimming upstream against the tide," Wideman said.

Former Assistant Attorney General Roger Sugarman said it has long been clear that judges frowned if the state threatened to issue a "cease and desist" order to stop a state-chartered thrift from engaging in "unsafe and unsound" activities.

"You have to have more than just

'One of the problems with the S&L laws as they stand is that we can bark, but we cannot bite'

suspicious to convince a judge that a cease and desist order is needed," said Sugarman, who served from 1980 to 1982.

Wallace Boesch, S&L superintendent from 1972 to 1974, said today's regulations are better, but not good enough.

"When I was in there, we didn't even have the cease and desist power. That's only about 4 years old. All I could do was browbeat people, or, if their assets were used up to the point where ... the public's money was becoming endangered, I could go to the attorney general and ask for orders to close them down. But there was nothing in between."

Boesch complained that although state examiners can look at thrift records every 18 months, they cannot examine the books of holding companies that own such thrifts. But state bank examiners can.

State Rep. William Batchelder, R-4, of Medina, said, "The superintendent of savings and loans has enough power. All he has to do is exercise his muscle."

Rick Spencer, Commerce Department spokesman, said the division has only 31 examiners, six less than its highest level in recent years.

Salaries range from \$16,300 to \$30,430 a year, Spencer said.

Commerce Director Kenneth Cox,

former Commerce Director J. Gordon Peltier and Wideman all said the state knew Home State had invested a dangerously large amount of money with ESM Government Securities Inc., of Fort Lauderdale, Fla., as early as 1982.

But state officials under former Gov. James A. Rhodes and Gov. Richard F. Celeste took no legal actions to stop Home State. Celeste has said his administration knew of no problems with Home State before 1983.

Wideman said Home State officials promised him in 1983 that they would phase out their ESM dealings. Instead, the Cincinnati thrift doubled its stake in ESM.

Disaster struck after the U.S. Securities and Exchange Commission closed ESM on March 4. The securities firm owed its creditors \$300 million.

Home State, which was state-chartered, suffered a \$144 million loss from ESM's closing, and a four-day run by depositors in 33 branches removed about \$154 million more before the thrift closed March 9.

On March 15, Celeste closed the other state-chartered thrifts when depositor runs started on some of them. Depositors withdrew an estimated \$60 million in one day from the thrifts, which were insured by the privately operated Ohio Deposit Guarantee Fund.

Ohio law would have allowed state officials to stop the Home State disaster by ordering directors fired and imposing a cease and desist order after a public hearing, officials said.

The superintendent could fine any thrift officer up to \$10,000 for ignoring the orders. The superintendent could also close the thrift and appoint a conservator, which was done.

State S&L chief told Celeste in January all was OK

By MARY ANNE SHARKEY
FOR BUREAU

COLUMBUS — Gov. Richard F. Celeste learned Jan. 7 in a memo from the Ohio Division of Savings and Loan Associations that Ohio's privately insured thrifts were safer than failed state deposit insurance funds in California and Nebraska.

"In response to two '60 Minutes'

reports on CBS-TV about the risks in California funds, the memo to Celeste said. "The stability and regulatory shortcomings that existed in those states do not exist in Ohio."

Celeste said last week the memorandum was his first awareness Ohio had a deposit guarantee fund. He called the memorandum "a false prophecy."

Indeed, it was C. Lawrence Huddleston, former superintendent of Ohio's S&Ls, said in the memorandum Ohio has stringent regulations and annual independent audits to ensure the soundness of the system.

Two months later, Home State Savings Bank of Cincinnati closed after ES&M Government Securities Inc. made it insolvent. This led to a run on Home State and several other pri-

vately insured thrifts in Ohio.

After the Jan. 4 TV segment Huddleston wrote, "I received calls at home from depositors and institution managers. This has been a very negative experience initially damaging to our assets."

The division received 10 calls between 9 and 12:30 (a.m.) on Jan. 7.

Huddleston explained that Callio-

nia insured thrifts and Nebraska insured thrifts are "both of the same thing," "both of the same kind of thing" and "both of the same kind of thing" between a credit union and a small loan company, but with fewer restrictions on the type of investments they can make.

The Nebraska fund, Huddleston said, does not have any full-time employees and is run by a volunteer board. "Ohio's Deposit Guarantee

Fund has a full-time supervisory staff which monitors the condition and practices of its insured companies." State officials admit concerns were expressed about Home State Savings' extensive investments in ES&M Securities, Ohio Commerce Dept. Director Kenneth Depue told Huddleston in a memo about "burying too many eggs in one basket."

Huddleston's January Guarantee Fund backed thrifts, "are more stringently regulated than are industrial banks. The assets to guaranteed savings ratio of the fund is higher than ES&LIC (the federal deposit insurance corporation) and the ratio of fund institutions is higher than ES&LIC institutions."

The memorandum did not point out federally insured banks and thrifts are backed by the federal government. The Ohio constitution prohibits pledging state money to back private enterprise. In 1957, ES&LIG was created by statute. In 1958, Huddleston described the California and Nebraska funds "as fatally flawed and doomed to failure."

Huddleston accurately declared: "All financial institutions depend on depositor confidence, and could not exist without depositor confidence."

The memorandum said the "60 Minutes" segments revealed depositors lost money in Nebraska and the form, but did not explain why the insurance funds failed.

"It is regrettable that the Ohio Deposit Guarantee Fund is the subject of depositor concerns because of the inadequate structure and supervision of (the Nebraska and California) funds."

Friday, March 29, 1985

Akron Beacon Journal

Celeste misled by memo

It said Ohio's S&Ls were safe

Associated Press

CINCINNATI — A Jan. 7 memorandum from a former state savings and loan superintendent assured Gov. Richard F. Celeste that Ohio's privately insured savings and loans were safer than troubled state deposit insurance funds in California and Nebraska.

The memo, made public Thursday, was in response to two 66 Minutes reports on CBS-TV about the Nebraska and California funds.

"The statutory and regulatory shortcomings that existed in those states do not exist in Ohio," the memo said.

Celeste has said the memo was his first indication that Ohio had a deposit guarantee fund. He called the memo "a false prophecy."

A text of the memo was made public Thursday by Celeste at a conference with newspaper editors in Columbus.

The January memo, by C. Lawrence Huddleston, said, "All financial institutions depend on depositor confidence, and could not exist without depositor confidence."

The erosion of confidence caused the collapse of Home State Savings Bank in Cincinnati, which remains under a conservator, and a run-on other savings and loan associations that trig-

gered a statewide closing order by Celeste March 15.

This week, a second savings and loan was placed temporarily under a conservator after reports that some of its officers withdrew their money improperly in the wake of Home State's troubles.

The conservator was called in Wednesday.

Robert B. McAllister, current state superintendent of savings and loans, said the conservatorship of the Oakmont Savings and Loan Co. in Cincinnati ended today.

McAllister allowed Oakmont to reopen Thursday after closing it Wednesday to investigate reports that one or more officers had drawn their own money out in violation of a March 13 state order.

Oakmont president Howard Thiemann said the institution has completed its application for federal insurance and would be open today for business today.

"My wife, children and I have our life's savings in Oakmont and we will make no withdrawals," he said in a prepared statement.

Information gathered about the incident has been turned over to the special state-appointed prosecutor looking into Ohio's savings and loan crisis.

Federal and state bank examiners and Thomas Battles, the state's chief deputy superintendent of savings and loans, were back at Oakmont on Thursday to finish reviewing the bank's books. Battles declined to say when the investigation would be completed but said Oakmont would be allowed to stay open and that the savings and loan is able to meet its money demands.

At his daily news briefing on the savings and loan situation, McAllister announced that East Side Building & Loan of Cincinnati has worked out a merger agreement with Mayflower Sav-

ings & Loan and thus will meet the requirement for federal insurance, which Mayflower already has. East Side was to reopen for full services today, McAllister said.

He said East Side will be the 27th among the privately insured S&Ls that now have been given conditional approval for federal insurance or have merged with institutions that have federal insurance. These have been allowed to open their doors for unlimited business, he said.

Meanwhile, the owner of Home State, Cincinnati financier Marvin L. Warner, 65, has denied any wrongdoing and claims he is as much a victim as the savings and loan association's depositors.

Warner, who has kept his whereabouts secret since Home State's closing, made a statement Thursday through a public relations firm.

"For 30 years, I have taken pride in Home State Savings, and service it has rendered to its depositors and the community.

"Now, the bank and its depositors, along with my family and myself, have become the victims of what appears to be a massive fraud," he said.

"It is my hope that officials in Ohio will handle this issue in such a way that every depositor and debenture holder will get every penny back," he said.

"The bank's doors have been locked, and my associates and I have not been given the opportunity to help reopen its doors or assist in its sale. I do not know how long this will take, but it is my prayer that this will be soon," Warner said.

Warner is one of 12 Home State officials named in a \$432 million civil suit filed by lawyers on Home State conservator Arlo Smith's behalf claiming the savings and loan's problems were caused by their negligence and reckless mismanagement. Warner did not refer to the suit.



STATE OF OHIO
 Department of Commerce
 Two Nationwide Plaza Columbus, Ohio 43215

MEMORANDUM

January 7, 1985

To: The Honorable Richard F. Celeste
 Governor of Ohio
 Speaker Vern Riffe
 President Paul Gilmore

From: C. Lawrence Huddleston, Superintendent
 Division of Savings and Loan Associations

Re: 60 Minutes spots on private insurance of deposit accounts.

Each of the past two weeks, CBS has run investigative spots on "60 Minutes" about the failed state deposit insurance funds in California and Nebraska. The California Fund insures "Thrift and Loans," the Nebraska Fund insures "Industrial Banks." Ohio does not have these types of institutions, both of which are something of a cross between a credit union and a small loan company, but with fewer restrictions on the types of investments they can make.

Last Monday, after the "60 Minutes" piece on California, two institutions reported significant outflows, although neither could be classified as a "run." The Division and many institutions received telephone inquiries.

After the latest piece, aired January 6, I received calls at home from depositors and institution managers. This has never happened in my two-year tenure, and suggests a potentially damaging nervousness may exist. The Division received 10 calls between 9 and 9:30 on January 7.

In the event that you wish to respond to constituent inquiries, we have attached the statements being made by this office, plus a copy of our special edition Newsletter mailed to the institutions after the December 26 "60 Minutes" broadcast.

CLH:gre

Attachments

cc: Warren W. Tyler

Ohio Savings and Loan Superintendent C. Lawrence Huddleston today issued a statement in response to recent "60 Minutes" investigative reports on the failures of an Industrial Bank in Nebraska and a Thrift and Loan in California, and the "insurance" pools which were to protect depositors.

"Both the Nebraska and California insurance corporations have deficiencies not shared by the Ohio Deposit Guarantee Fund:

- Ohio - Selective underwriting of savings and loans by Fund
Nebraska/California - must insure Industrial Banks and Thrift and Loans
- Ohio - Fund has full-time professional staff
Nebraska/California - no staff at all, a mere mail order pool of money.
- Ohio - Fund exercises supervision over member savings institutions
Nebraska/California - no supervision of any kind over activities of insured banks.
- Ohio - Fund requires monthly report
Nebraska/California - No reporting required
- Ohio - Fund has more than \$40 million in reserves and approximately \$130 million available to cover losses
Nebraska/California - Nebraska fund, according to our information had only \$2 million.
- Ohio - Fund insures only savings and loans
Nebraska/California - Funds insured industrial banks

The Ohio Deposit Guarantee Fund is a mutual deposit guarantee fund authorized by state law in 1956. The Fund and its member institutions are examined at least every 18 months by the Ohio Division of Savings and Loan Associations. The State has required annual independent audits. Ohio's savings and loans are more stringently regulated than are industrial banks. The assets to guaranteed savings ratio of the Fund is higher than FSLIC, and the average capital of Fund institutions is higher than FSLIC institutions.

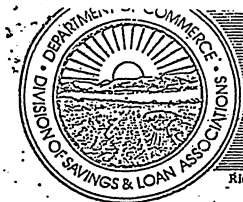
In short, the Ohio Division of Savings and Loan Associations views the Nebraska and California "insurance funds" as fatally flawed and doomed to failure. The statutory and regulatory shortcomings that existed in those states do not exist in Ohio.

All financial institutions depend on depositor confidence, and could not exist without depositor confidence. "60 Minutes" revealed that citizens lost money in Nebraska and California, but did not explain why the "insurance" funds failed. It is regrettable that the Ohio Deposit Guarantee Fund is the subject of depositor concerns because of the inadequate structure and supervision of the funds.

The Ohio Deposit Guarantee Fund meets the requirements of Ohio law and the regulations of the Division of Savings and Loan Associations.

The Ohio Deposit Guarantee Fund has been in existence since 1956. It is different from the troubled Industrial Bank Fund in Nebraska in several important respects. The Nebraska fund has no full-time employees and is run only by a volunteer board of directors. Ohio's Deposit Guarantee Fund has a full-time supervisory staff which monitors the condition and practices of its insured companies. Ohio's Deposit Guarantee Fund investigates and qualifies those it insures before insurance of accounts is granted whereas the Nebraska fund is obligated to admit all who apply, irrespective of quality.

The Ohio Deposit Guarantee Fund is chartered and examined by the Superintendent of Savings and Loan Associations of the State of Ohio. No depositor has ever lost money in any institution with Guarantee Fund coverage. The Ohio Deposit Guarantee Fund has more than \$130 million available to cover depositor losses, and earned more than \$10 million dollars on its investments in 1984.



Rapid Regulatory Review

Richard F. Celeste
Governor

Warren W. Tyler
Director

C. Lawrence Hurst
Superintendent

Special Edition

An Equal Opportunity Employer

December 1981

On the CBS evening news December 26 there was a news story on the failure of the California Thrift Guarantee Fund. The Division has received inquiries from customers of institutions insured by the Ohio Deposit Guarantee Fund, and several Fund-insured companies have also received inquiries about Ohio's Fund as a result of the CBS story.

The Superintendent and the Division have worked diligently in both the General Assembly and the Congress to insure the continued right of states to authorize private insurance of accounts. The Ohio Deposit Guarantee Fund — and similar funds in North Carolina, Massachusetts and Maryland — differ dramatically from the failed bank fund in Nebraska and the failed Thrift and Loan fund in California. Lest the Ohio Savings and Loan industry be damaged by unsupportable comparisons, we thought it important to share the differences in protection Ohioans enjoy over funds in other states.

The California and Nebraska funds are simply pools of money. We are informed they must insure all who apply, have no full-time employees, exercise no supervision or control over member institutions and have no authority of any kind to take steps to prevent or control problems.

By contrast, the Ohio Deposit Guarantee Fund exercises discretion over who they do and do not insure (having refused insurance to applicants in the past 18 months), has a full-time professional staff, exercise comparatively rigid supervisory controls over selected member institutions, and have virtually unlimited contractual authority over those institutions. In addition, the Fund itself is regulated by the Division of Savings and Loan Associations in roughly the same manner as we would regulate a savings and loan association.

The Ohio Deposit Guarantee Fund has 72 member institutions. The Fund earned in excess of \$10 million (net) in the 12 months ended June 30, and now has reserves in excess of \$100 million.

In summary, the statutory and regulatory shortcomings that permitted the failure of the California and Nebraska Funds do not exist here in Ohio where the Legislature has provided more authority to the regulatory structure. The savings institution community in Ohio can be helpful to depositors by understanding that, compared to non-supervisory funds in other states, a significantly better operating environment is enjoyed by the Ohio Deposit Guarantee Fund.

Mr. BARNARD. Thank you very much, Governor. Governor, it appears that there are 41 savings and loans that still remain closed in Ohio. What are the prospects for those 41?

Mr. CELESTE. Mr. Chairman, I believe the prospects for those 41 and particularly for the depositors in those 41 institutions, are very good. Most have made application for FSLIC insurance. And we estimate that a good number of them, 10 to 20, are likely to be processed by the same expeditious processing which the Federal Home Loan Bank has been assuring us in the past 2 weeks.

There are a group of them who have indicated the desire to find a strong partner. For them, merger is really important for them to operate safely in the future, and we have retained an investment banker and working with the superintendent of savings and loans to assist in that process and facilitate it.

For the remaining group, which really falls in between the first, relatively easy to process, and the latter, who need a strong partner, we are looking at the possibility of some kind of shared entry into the FSLIC in which the State uses what we now have on the table which is about \$60 million. I mentioned \$50 million—that has been increased to about \$60 million—to see if there is not a way in which we can help them meet the capital requirements, help them maintain the standards which FSLIC expects of them properly so that they can qualify. So it is our hope that we can get all of them open reasonably quickly. It is important to the depositors that they have that access to their funds.

Mr. BARNARD. Governor, there is substantial evidence that the Ohio Thrift Division knew many years ago about the massive unsafe and unsound financial transactions between Home State and ESM, but failed to do anything about it until it was too late.

Do you have any plans to improve your thrift supervisory division so as to minimize the possibility of any future failures?

Mr. CELESTE. Mr. Chairman, as I pointed out in my testimony, I think it is vitally important that we do precisely that. I look forward both to the recommendations of my own director of commerce and of the person I have installed who is fresh and from outside is the superintendent of savings and loans, as the changes we should make, both of a statutory nature and of a procedural nature, possibly including the additional personnel. In addition, I think it is very important to take quite seriously the report of the special prosecutor who will be looking at all of the implications of how this matter was handled, and I intend to do so.

Mr. BARNARD. Have you gotten any indication from your State supervisor—and you mentioned this in your testimony—why it was difficult to determine this connection between Home State and ESM even though you said that it was acknowledged that they knew about it, but it was difficult to disassociate it? Could you elaborate on that to some degree?

Mr. CELESTE. I can tell you what has been reported in the press. I have not had the results of any of the investigative work at this point and in terms of what was reported in the press, on several occasions plans were put in place, and in fact may have been under way to find a way to disinvest in—if that is a proper term—in ESM. The problem was how to manage that in such a fashion that you did not cause a crisis that you sought to avoid. In other words,

whether it was by public exposure of a concern that might cause a loss of depositor confidence through the mechanics available to the superintendent and his staff, or whether it was through substantial losses that might be incurred by a plan that required the sale of their investments in an unfavorable situation.

Mr. BARNARD. The problem is that first of all we are mindful that the supervisory forces of Ohio did make an attempt to separate the two. In other words, that Home State could buy back their repos. But the irony of it was that while a plan was made to decrease the amount, it actually increased.

Mr. CELESTE. You are asking the same questions that I am asking of both my superintendent and of a special prosecutor to examine. I am not sure when a plan was put in place. I am not sure what evidence we have of a commitment on both sides to see to it that that plan was implemented. That is part of what we have to determine.

I come back to this fact. If ESM had not practiced fraud and if the audited statements were accurate, we would not be confronting this issue in this situation today.

Mr. BARNARD. This is what our concern is. Because fraud was evident even back in 1977, and this is where we just—

Mr. CELESTE. There has never been evidence of fraud, Mr. Chairman. Excuse me, Mr. Chairman. There has never been evidence of fraud to my knowledge conveyed to anyone in Ohio's Department of Commerce, Division of Savings and Loan.

Mr. BARNARD. We will be coming back to this time and time again today. Because we can trace the knowledge of ESM through many Federal agencies, as well as State agencies. And credit unions. And it is just hard for us to understand why this information was not considered serious.

Governor, I believe you announced yesterday that an out-of-State purchaser had been found for Home State. Can you provide us with any of the details of this purchase? Or any further information?

Mr. CELESTE. Mr. Chairman I have learned to be very cautious in the last 4 weeks in the matters of banking, as you yourself I am sure are from your own experience in the field. No one is more understandably conservative than are the leaders of the banking community. Let me say this. At the time at which we recognized the dimensions of the crisis at Home State, Home State officers themselves were, and the representatives of the Ohio Deposit Guarantee Fund were in discussions with an Ohio bank about the possibility of a sale. Home State was then also presented to other banks in Ohio and out-of-State banks. In the past week, we have had an indication of substantial interest with the framework for moving forward. For an out-of-State bank to acquire Home State in Ohio and to operate it as a bank would require change in our State law and that matter is now in the hands of more attorneys than I would like to think of this morning to try to work it out.

Mr. BARNARD. But you still have a deposit base at Home State of over \$500,000.

Mr. CELESTE. We have a deposit base of about \$520 million, in 34 well-located branches and I am happy to say that.

Mr. BARNARD. Are you getting any help in this possible acquisition by the Federal Reserve, the FDIC, or the Home Loan Bank Board?

Mr. CELESTE. Yes. I think we have had very close cooperation by all of the Federal regulatory agencies in the effort to consider a buyer, a purchaser, for Home State.

Mr. BARNARD. Governor, how would you rate the performance of the Federal Reserve and the Federal Home Loan Bank Board in responding to Ohio's thrift crisis?

Mr. CELESTE. Mr. Chairman and members of the committee, I would say that there have been two time periods in which we have dealt. The time period before the declaration of a bank holiday and the time since. I think that the view generally was what we had up until the time I declared the holiday and closed these institutions was a State problem and it required a State remedy. That there was no obvious way in. I think you mentioned some kind of a Federal standby authority. That does not exist today for this kind of a situation. And so I would say as Governor of Ohio I had to seek a remedy on our own terms essentially.

Certainly, there was a recognition of the seriousness of the problem at every stage of the way, and willingness to provide advice and support in trying to understand and get our hands around that problem on the part of the Federal Reserve and the Federal Home Loan Bank.

Since the declaration of the holiday, we have had extraordinary cooperation. In fact, before that I should say we had Federal Home Loan Bank, or Federal Reserve examiners and others in to help. They came in early to take a look at what might be done in order to assure liquidity at the point at which we reopen institutions.

Mr. BARNARD. What has been the response of the financial institutions that were closed in your [bank] holiday? Were they responsive to that affirmatively or did they feel like it was unnecessary?

Mr. CELESTE. Mr. Chairman, two institutions chose to remain open in spite of the superintendent's order on Friday morning that the holiday began. One vice president announced that he knew his customers and he was confident that they could continue to be open. By noon, he had closed his institution and said the Governor was right and he would stay closed as long as the Governor required him to be closed.

I met with about 130 individuals who represented these 71 institutions the Sunday evening in which the holiday was to come to an end, at that point contemplating emergency legislation to require Federal insurance and to keep them closed until we had secured it.

In those conversations which lasted about an hour and a half, there was an opportunity for the executives to speak face to face with me. The vast majority of them expressed appreciation for the fact that they were closed. I said that I would like a written request that I keep them closed. I think understandably they deferred on that matter, but they did offer a rising indication of their opinion. Ninety-five percent of them asked me to keep them closed. But after the meeting about 95 percent of them said that they really would rather be open the next morning.

Now, to me that is perfectly understandable. These are individuals whose business is to be there to do business with their depositors and with their customers. And I think it is very difficult for any of them to go out and say on Main Street, "I do not want to be open this morning." But certainly to the Governor, they indicated

their desire to stay closed, to have a procedure that would expeditiously get them Federal insurance, either FSLIC or FDIC, depending on the circumstances. And that is what we have achieved.

Mr. BARNARD. The fact that so few, comparatively, asked for use of the Fed's discount window, as opposed to the availability of the discount window, does that indicate to you that the management felt confident that they could withstand this crisis?

Mr. CELESTE. I think what happened is that the crisis moved selectively from 1 or 2 institutions to 4 or 5 to perhaps 7 of the 71 that were experiencing severe runs on the day before the institutions were closed. Forty of these institutions were concentrated in a media market in southwestern Ohio where they were being belabored by some who urged them that it was time to panic, take your tents, take your cots, lineup in front of the institutions and there were people sleeping overnight in front of a growing number of institutions as Friday dawned. I think it is fair to say that the circumstance was moving very rapidly, and up to that point in time, no one at the Federal Reserve had really had an opportunity to make a judgment about the quality of assets against which these institutions might borrow at the discount window.

Mr. BARNARD. Governor, let me ask this question. With all of this experience behind you, will you be proposing that your State deposit insurance fund, as well as your State supervisory agency, be strengthened from the standpoint of what it can require of bank management as to management, capital, and other management practices?

Mr. CELESTE. Mr. Chairman, yes, I will. In fact, during the course of this crisis, we issued orders on the kind of trading that could be done, withdrawals, compensation dividends, that might be undertaken by the 71 institutions that were involved. It is my feeling that we have to be more aggressive. I need guidance from those who are investigating exactly what has happened. And the advice of my director of commerce. But I intend to see that strengthened.

Mr. BARNARD. You may check a note from the FDIC and the FSLIC. The Congress gave them the power of cease and desist a number of years ago. We certainly would strengthen their hands.

Mr. CELESTE. Mr. Chairman, we have a cease and desist power in the State law that requires an opportunity for public hearings shortly after the order is imposed and that problem of public hearing is one that raises often the very difficulty that one is trying to avoid.

What I have learned in this is that cash is not the most important ingredient in our banking system. It is confidence. And anything which undermines that confidence is really a greater threat than whether the cash is there at the withdrawal window. And so I am concerned that we reexamine how we strengthen our ability to set standards and enforce them in ways that avoid the danger of undermining confidence.

Mr. BARNARD. I have one final question and that is: What is your best estimate as to when the depositors of Home State will be paid off and whether they will recover all of their deposits?

Mr. CELESTE. My goal has been from the outset to try to make them whole in the Home State situation. I have been reluctant to make a commitment because it may require standing behind our

efforts at sale or something else by the State of Ohio that will be quite likely before the general assembly in the next several days. It is my feeling that we will work urgently in the next few days to have in place a mechanism that gets Home State reopened, gets the depositors protected 100 cents on the dollar, but that is probably a matter of a couple of weeks, not a couple of days, to be done.

Mr. BARNARD. How would you recommend, based upon this very difficult episode, that the Federal supervisory agencies can do a better job of protecting those who deal with Government securities dealers?

Mr. CELESTE. But surely, Mr. Chairman, if there is information available to Federal regulatory agencies about potential problems at any Government securities dealer, I think that information ought to be available to the State regulatory agencies who deal with financial institutions. I am not familiar enough because my background is not banking and finance to give you a technically strong answer, but as a chief executive officer of a State concerned about a panorama of potential problems, certainly good information about potential difficulties in a timely way is the single most important resource that we can look forward to.

Mr. BARNARD. Thank you. Mr. Craig.

Mr. CRAIG. Thank you very much, Mr. Chairman. Governor Celeste, we appreciate your openness and frankness about this critical issue.

Have any depositors in Ohio lost money yet?

Mr. CELESTE. No depositors in Ohio at this point have lost money.

Mr. CRAIG. There has been no money lost?

Mr. CELESTE. That is right. There may be some, officers and shareholders at Home State—

Mr. CRAIG. I used the word "depositor."

Mr. CELESTE. Who are also depositors—

Mr. CRAIG. I see.

Mr. CELESTE [continuing]. Who may have money at risk.

Mr. CRAIG. Would you tell us the relationship the State government has in Ohio with the Ohio Deposit Guarantee Fund?

Mr. CELESTE. Currently, of course, the superintendent has appointed a conservator so that the Ohio Deposit Guarantee Fund is really within the supervision, directly of our division.

Mr. CRAIG. Where was it prior to closing—

Mr. CELESTE. It was a private guarantee fund established under a statute passed in the mid-1950's which was subject to some supervision by the division of savings and loans but which operated independently and by virtue of bylaws adopted by the participating institutions. And operated with an assessment from them. I believe that one of its officers will be here shortly and probably could give you a better evaluation or description of that relationship.

Mr. CRAIG. There was no State regulatory responsibility or direct oversight of this fund?

Mr. CELESTE. I believe that the superintendent could exercise a regulatory authority—

Mr. CRAIG. But I mean there was no quarterly or monthly or—

Mr. CELESTE. To my knowledge, there was no quarterly or monthly supervisory review of the Ohio Deposit Guarantee Fund. You will see in my testimony a memorandum that was prepared for me

and for legislative leaders about the fund by our superintendent of savings and loans back at a time when public questions were raised because of the Nebraska situation.

Mr. CRAIG. What type of people then made up the advisory board or the control board or what the proper title is of the fund itself?

Mr. CELESTE. You will have to ask the—I apologize.

Mr. CRAIG. You are not aware of that?

Mr. CELESTE. I am not aware of that. I assume it was the officers of some of the participating institutions. But for accurate information I would defer to the officer of the Ohio Deposit Guarantee Fund.

If I may, Mr. Chairman and Mr. Craig, point out again that the "Ohio" in the Ohio Deposit Guarantee Fund was in many respects misleading.

Mr. CRAIG. Apparently misunderstood, too.

Mr. CELESTE. Of course, misunderstood.

Mr. CRAIG. The reason I asked those questions is because our investigation showed the rather notorious dealings of ESM were well known nationwide, in part by a lot of people starting in the late 1970's, by bankers and by savings and loans people. Yet, we seem to have had a phenomenal inability to communicate the Federal involvement and the Federal concern versus knowledge on the part of those who are active at State levels with similar responsibilities to our Federal regulatory groups to understand the magnitude of the problem, and therefore, some continued to do business with this group.

Let me then ask the question, Governor, why did you not place the full faith and credit of the State of Ohio behind the Ohio Deposit Guarantee Fund?

Mr. CELESTE. Under our constitution, on the advice of the Ohio attorney general, we could not do that. We could make a specific commitment to a private, nonprofit fund of an appropriation. We did that in the case of the second fund. There was no willingness on the part of the members of the general assembly—leadership of the general assembly—to undertake that with respect to Home State.

Mr. CRAIG. So in other words, this is why you created the new fund?

Mr. CELESTE. That is exactly right. Because it was not subject to the massive hemorrhage caused by the ESM failure and that was the reason for commitment to a new fund.

Mr. CRAIG. How many supervisors of the Ohio Division of Savings and Loan Association has there been since 1984?

Mr. CELESTE. Since 1984, the superintendent of savings and loan indicated to me his intention to resign in about November 1984, but actually stepped down in mid-January. We appointed an acting superintendent at that time, Thomas Batties, who was a member of the legal staff at the division. He was made superintendent during this crisis because under our law he could not sign any binding document unless he were serving as the superintendent. But the superintendent who I appointed, Robert McAllister, was appointed about 2 weeks ago this time.

Mr. CRAIG. So there have been approximately three during that time?

Mr. CELESTE. There really have been two and an acting person who was made superintendent in order that his signatures have the full power of the office.

Mr. CRAIG. What is the responsibility of that office?

Mr. CELESTE. That office has all of the regulatory authority. As a matter of fact, in terms of examination reports, the ability to act on those examination reports, it is in the hands of the superintendent. Even the director of the department in which that division is placed does not have authority under our statute to review examination reports or to act on those examination reports.

Mr. CRAIG. He does not have authority?

Mr. CELESTE. The director of the department does not have authority.

Mr. CRAIG. But this gentleman does?

Mr. CELESTE. This individual does have that responsibility. That is exactly right.

Mr. CRAIG. Do you know why the first person resigned?

Mr. CELESTE. No. I think part of it may have had to do with a quarrel over that authority in which the director chose to exert his leadership as director in terms of all of the divisions in his department. And on that score, I would support the director, let me say, rather than the superintendents.

Mr. CRAIG. In October of 1983, the superintendent of the division of savings and loan instructed Home State to wind down its transaction with ESM. In January 1984, all the directors of Home State agreed to a program of winding down ESM's relationship. I understand all directors agreed except one. Do you have any idea who that dissenter was?

Mr. CELESTE. No, I do not. The information you are providing me is not information that I have directly. My view, and I would go back to this, is that we must examine every aspect of this transaction to determine what is involved and what the lessons are for our regulatory operations.

Mr. CRAIG. And your supervisor or the superintendent of the division of savings and loan did not communicate those transactions to the Office of the Governor?

Mr. CELESTE. Absolutely not. The first time that the Office of the Governor became familiar with the problem at Home State was the evening before the article appeared in the Cincinnati Inquirer. Four weeks ago last evening. That was the first evidence, the first expression of concern with respect to Home State and its operations period.

Mr. CRAIG. Well, then, who does the superintendent report to?

Mr. CELESTE. The superintendent reports to the director of commerce, but the superintendent has the responsibility to deal with those problems and if he does not of his own accord walk forward and say this is a problem, if he believes he is handling the problem, it would be as in any other agency, his responsibility to do that.

Mr. CRAIG. And then the director of commerce you say is the title that he reports to?

Mr. CELESTE. That is right.

Mr. CRAIG. Ultimately then would report to you?

Mr. CELESTE. That is right.

Mr. CRAIG. And he brought this information to you?

Mr. CELESTE. No. No one—but let me go back. No one brought this information.

Mr. CRAIG. You read it in the newspaper?

Mr. CELESTE. We had a call and I could not tell you exactly from whom—the call to my chief of staff on Tuesday evening, the day after the SEC had closed ESM, saying that there was a serious concern about the impact which the ESM situation would have on Home State Savings because of the extent of Home State's investment. My own personal knowledge of this really began the next morning with the publication of the Cincinnati Inquirer story.

Mr. CRAIG. Thank you. Thank you, Governor. Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Spratt.

Mr. SPRATT. Mr. Chairman, I yield to my distinguished colleague and chairman of the Government Operations Committee, Mr. Brooks, if he would like to proceed ahead of me.

Mr. BROOKS. I will let the members go on and question the Governor. We are glad to have you here, Governor. And I will make a brief statement after you leave.

Mr. CELESTE. Thank you very much.

Mr. BROOKS. I know he has a time problem.

Mr. BARNARD. The Governor does have a time problem and I would like to be able to accommodate that time as much as possible. Mr. Spratt.

Mr. SPRATT. Governor Celeste, thank you for appearing here on rather short notice.

Could you tell us, even though it did not happen on your watch, what motivated the State of Ohio to create the Ohio Deposit Guarantee Fund in 1958?

Mr. CELESTE. Mr. Chairman, I cannot tell you. I think it was probably a determination that these—that there should at least be an alternative for the State-chartered institutions to Federal insurance, but I was not a member of the general assembly at that time, although I am older than I look, and feel older than I look. And I was not—frankly, the first time I heard of the Ohio Deposit Guarantee Fund was when a memo unsolicited came to my office from the superintendent, the January memo which is part of my testimony, saying these are the circumstances involving it. And so I am not familiar with its history.

Mr. SPRATT. Do I understand your testimony correctly to mean that the State, the Governor's office, and the State legislative leaders, are now rethinking that decision? It seems to me that you are saying that you are going to require in the future either a big enough parent for a guaranteed fund to assure adequate coverage, or Federal insurance. Are you abandoning the idea of a mutually held State-administered guarantee fund?

Mr. CELESTE. Mr. Chairman, Mr. Spratt, we have abandoned it. We have passed legislation that requires that these previously insured ODGF institutions, privately insured institutions, must apply for Federal insurance, must show evidence that they would qualify for Federal insurance or must—and then the superintendent can exercise discretion—or must have a parent who can provide a guarantee in proper form to satisfy the superintendent that all depositors are protected.

We, for example, have several loan associations who do not have mortgage portfolios that are not your traditional savings and loan, would not qualify for FSLIC insurance, but have very strong parents and there is a firm guarantee of all of the amounts of the deposits in writing with the superintendents, probably as strong a guarantee as you can get anywhere. But that is the only alternative to Federal insurance as far as this Governor is concerned and as far as our general assembly is concerned for the future, in my judgment.

Mr. SPRATT. Fine. I would like to ask more questions, but in light of the time constraints on all of us, I will pass up. Thank you for being here.

Mr. CELESTE. Thank you.

Mr. BARNARD. Mr. Saxton.

Mr. SAXTON. Governor, in previous hearings this committee has had relative to FSLIC and FDIC, one of the considerations that we have taken note of is proposed regulations by those agencies to regulate the amount of direct investment by thrift institutions and banks of various kinds. I am curious to know if you know offhand what percentage of Home State's net worth was invested in ESM?

Mr. CELESTE. I think that substantially about half of its assets were in ESM at that time. Its net worth was—or equity was very small. I do not have that information in front of me directly, but I think there are people here who could answer that for you.

Mr. SAXTON. Our conversations with FSLIC and FDIC have indicated that a safe level might be 5 or 10 percent of its worth.

Mr. CELESTE. I think that is right.

Mr. SAXTON. And your indication is that Home State had perhaps 50 percent of its net worth invested in ESM?

Mr. CELESTE. Yes, Mr. Chairman. Yes. Of its assets. Actually substantially more than its net worth.

Mr. SAXTON. Does the State audit for this type of information?

Mr. CELESTE. Yes, we do. And, Mr. Chairman, Mr. Saxton, in my testimony I have shared with you some articles that spell out the concerns that have been expressed over a number of years by those involved. I think our examiners flagged this problem. I think that the question was how do you cure the problem and whatever reasons for the failure to cure that problem are now the matter of investigation, an investigation I strongly support.

And we point out also it is not simply Home State that brings us together this morning, but the fact of closing 71 other institutions. None of them invested in ESM. To my knowledge, none of them had this same kind of a problem. And one of the points I would like to emphasize is that unfortunately healthy strong institutions and a very strong thrift industry in Ohio suffered because of the failure at Home State as a result of massive fraud at ESM.

Mr. SAXTON. Then if I am hearing you correctly, you are indicating to us that somehow the State had knowledge that this large amount of investment was directly invested in one firm and either could not or did not do anything to remedy the situation?

Mr. CELESTE. That is exactly right. I think the second lesson I point out is that we were able to identify the problem, but not cure the problem. And that is a matter of serious concern in terms of our regulatory capabilities.

Mr. SAXTON. In light of that, would you say—was anyone in your administration aware of Home State's difficulties before the crisis actually occurred?

Mr. CELESTE. Well, I assume that the superintendent of savings and loan was working with them on that. And I think the record will show that and that is part of what will be examined, both by the new superintendent and my director of commerce, new director of commerce, and by a special prosecutor.

Mr. SAXTON. One final question, Mr. Chairman.

In light of what has happened, do you feel that this subcommittee should make recommendations relative to major changes as they affect private insurance companies?

Mr. CELESTE. Yes.

Mr. SAXTON. Thank you.

Mr. BARNARD. Mr. Kolter.

Mr. KOLTER. Thank you, Mr. Chairman.

Governor, do you and your banking people in Ohio feel that possibly the Home State Bank problems could have been avoided if the Federal securities regulators had been more vigorous, perhaps strong?

Mr. CELESTE. Mr. Chairman, Mr. Kolter, if vigor was the problem, I suppose that will be identified. It may have been communicating information clearly if there were concerns as the chairman and others have indicated about the quality of business practices at ESM. There is no question in my mind that if ESM were healthy today, we would not have had the problem at Home State.

Mr. KOLTER. Do you believe the Federal response to the banking crisis in your State was satisfactory?

Mr. CELESTE. I am having a very satisfactory relationship with all of the Federal regulatory authorities during the last 2 weeks, and I think there is a real question about—let me take it back. Before the bank holiday, there is a real question about how any of the Federal regulatory authorities stepped in to help. And I am not sure there is a clear path for that to happen.

Mr. KOLTER. Thank you, Governor.

Mr. CELESTE. Thank you.

Mr. BARNARD. Mr. Swindall.

Mr. SWINDALL. Governor Celeste, if I understand your testimony correctly, you are stating that in spite of the fact that your capital-to-asset ratio was really not that unlike the capital-to-asset ratio we have with federally insured—

Mr. CELESTE. Better, as I understand it.

Mr. SWINDALL. Better. That the real flaw came in the fact that under your State constitution you are prohibited from really putting the full faith and credit of revenue, tax revenue. Is that essentially correct?

Mr. CELESTE. Mr. Chairman, Mr. Swindall, I think there are two aspects of a problem. The first, that even with a well-capitalized fund in relationship to the largest institution, it was not sufficient to meet that. One of the advantages I think of FSLIC and the rest is that though they may not have the same capital-to-assets ratio, there is no single institution that can put the same kind of call on the fund, if it is in trouble.

The other aspect of it, of course, is that the State of Ohio—the legislature of the State of Ohio cannot pass a resolution like the one the Congress passed in 1982 saying that the full faith and credit of the U.S. Government, in this case, the government of the State of Ohio, is behind this institution. We have a debt limitation. We balance our budget and we are required to make specific appropriations for specific purposes.

Mr. SWINDALL. But there was no prohibition whatsoever from you as Governor putting into effect some action that would have called on workers' compensation fund, pension funds, revenues from lottery profits, or for that matter any "nontax revenue," to back up and give what was in effect full faith and credit and is it not true that former Gov. Jim Rhodes said that is precisely what he would have done in the same situation?

Mr. CELESTE. Mr. Chairman, as all the Members of Congress know, States have only one Governor at a time, and this Governor did talk to the leaders of the general assembly, both parties, who indicated that they were not prepared to recommend the appropriation of any money at that point in time in connection with the situation at Home State. And so a Governor cannot unilaterally commit funds of the State, nor should a Governor be able to, any more than I think that the President could commit funds of this country.

Mr. SWINDALL. But, Governor, what you are saying to us is that some other solution for future problems needs to be solved. But my point is that under extraordinary circumstances, extraordinary leadership is necessary and had extraordinary leadership been taken in this situation we might well have avoided the panic that occurred from literally weeks of floundering, rather than—

Mr. CELESTE. Mr. Chairman, Mr. Swindall, let me make sure the record is correct here. Extraordinary leadership was exercised, both by the Governor and the Ohio General Assembly. Now, there were no weeks involved. There were 3 days involved between the time in which the story broke and the substantial loss at Home State Savings and the time in which the president of Home State closed his doors on a Saturday morning. We placed Home State into a conservatorship on Sunday. That is less than a week.

During that time, I met with legislative leaders to propose potential remedies. We had two problems. Home State directly, and 71 other institutions which were part of a private insurance fund threatened themselves because Home State's hole was so big it could absorb all of that fund and leave them, for all practical purposes, uninsured. In that time, the Ohio General Assembly at the request of the Governor prepared legislation and within 3 days passed legislation appropriating \$50 million, a step which I am told by Chairman Volcker and others was unprecedented by any State in an effort to protect those other institutions.

So I think that before you make a judgment about both the nature of leadership and the causes for panic in Ohio, it would be important to recognize the extraordinary nature of the steps that were taken and the fact that today those depositors are protected and those institutions are reopening stronger than ever.

Mr. SWINDALL. In closing, you do, however, concede that in retrospect it might well have been better to have pledged those nontax

revenue related assets of the State in support of full faith and credit, rather than—

Mr. CELESTE. Mr. Chairman, Mr. Swindall, no, I do not concede that at all.

Mr. SWINDALL. Thank you.

Mr. BARNARD. Time has expired. Mr. Bustamante.

Mr. BUSTAMANTE. Mr. Chairman, let me yield some of my time to my colleagues from Ohio. I would like to yield to the gentlelady from the State of Ohio, Mary Rose Oakar.

Mr. BARNARD. Ms. Oakar is recognized.

Ms. OAKAR. I want to thank the chairman for yielding to me. I want to thank the chairman for allowing us to sit with the committee. The chairman and I serve on the full Banking Committee together and I have great respect for the chairman and my colleagues on this committee.

Governor, I just simply want to compliment you on your statement today. I think that your spirit of openness was very, very important and the leadership you provided in those critical days was important.

You cannot say it, but I later will, and you have stressed that you have gotten tremendous cooperation in the last 2 weeks and I know you got very fine cooperation from the Federal Reserve prior to your decision to close the banks, but I intend to pursue politics involved and I just wanted to make that statement for the record and thank you for being here.

Mr. BARNARD. Mr. Kindness. A member of the overall committee.

Mr. KINDNESS. Thank you, Mr. Chairman, and Governor Celeste, we welcome you here today, but I think you would agree, Dick, that we have got to stop meeting like this.

I am concerned about a phase of the matter that is bound to have been overlooked in the process of quickly responding to the difficult situation with which you and the general assembly were faced, and that is some of the very small savings and loans, to the people who are depositors in those institutions. They have just as much concern about being able to get access to their funds for necessary purposes as do depositors of the larger ones that may qualify for FSLIC coverage, but they are too small. And one of them happens to be the Summerville Savings & Loan in our area, in Preble County, and I believe there may be one or two in that small category.

Is it contemplated by the legislation passed by the general assembly that the only out for those small institutions—that one I mentioned happens only to be open 1 day a week. It is a very small operation. Is the only out for them to merge into another savings and loan?

Mr. CELESTE. Mr. Chairman, Mr. Kindness, I do not know that the only out is for them to do that. There may be other vehicles under discussion. I might say that one of the things I learned in my conversations with Chairman Gray and his staff was that size in and of itself is not a factor in determining eligibility for Federal insurance. There are others with respect to their providing full-time service and things of this sort. But our hope would be to work with those small savings and loans. Again, many of them healthy and many of them providing essential services over several genera-

tions to a community to ensure that their depositors are protected and that that service continues to be available to them in some fashion. Merger may be the only or the best recourse in some areas, but I do not want to make that judgment at this point in time.

Mr. KINDNESS. The door is not closed at any rate to those small ones?

Mr. CELESTE. That is right.

Mr. KINDNESS. In the functioning of the State of Ohio under chapter 135 of the Ohio Revised Code, there is a State board of deposit whose minutes made by the State treasurer's office, I believe it is, are prima facie evidence in any court of what the transactions were that were dealt with by the State board of deposits. In December, there was a deposit or a purchase of a certificate of deposit by the State of Ohio of a million dollars in a transaction with Home State. At that time, according to press reports at any rate, there was knowledge that ESM and Home State were so intertwined that there was great difficulty to be contemplated there. Do you have any information that you could share with the committee as to why the taxpayers' moneys were put at risk in Home State in that critical period of time?

Mr. CELESTE. Mr. Chairman, Mr. Kindness, I do not. No. 1, I am not sure that—again, we are talking about press reports today about a situation in December where that knowledge may or may not have been communicated either formally or informally to the people who had to make the decision.

The Governor does not sit on the board of deposit, as you know, so I have not been involved. I would be happy to try to find out for you what the thinking was in the decision on that deposit, how it was recommended and whether there was any discussion or debate before submitting it to the board of deposit or whatever.

Mr. KINDNESS. And if I as a citizen of Ohio were to request a copy of the records relating to that transaction of the State board of deposit, you would have no objection to my obtaining that information?

Mr. CELESTE. More than that, I would help you and I would pay the postage.

Mr. KINDNESS. I thank you. Thank you, Mr. Chairman.

Mr. BARNARD. Governor, I realize that you are on a tight schedule. We have already exceeded it by 15 minutes. And let me say to the committee that as a part of this official record, if you would furnish us any questions that you would like to ask of the Governor or any of these other witnesses, we will see that those questions are answered at your direction and they will be part of the record as a part of your questioning. And so, without objection, we will do that.

And I want to say at this time we are delighted to have with us Congresswoman Kaptur and also a very important member of the Banking Committee and we appreciate your being here this morning.

Governor, with that we want to again say thank you for being here this morning. Your testimony has been very helpful, and we will very possibly be in touch with your office as to this information.

Mr. CELESTE. Thank you very much, Mr. Chairman and members of the committee. I want to express my appreciation for this opportunity to share this experience with you. I want to emphasize again, if I may, that I believe the financial institutions, including those thrift institutions in Ohio that have been affected, are healthy and they are emerging from the closing stronger than ever. But I think all of us can do a better job and look forward to the results of your recommendations.

Mr. BARNARD. We can all take some very definite lessons from Ohio, both from the Federal standpoint as well as the State standpoint, as well as Congress. So we hope that we can do something. Thank you very much.

Mr. CELESTE. Thank you very much.

Mr. BARNARD. Next I would welcome an opening statement from our very, very distinguished chairman of the Government Operations Committee who has permitted us to have this hearing today. I will now recognize the honorable chairman, Mr. Jack Brooks.

Mr. BROOKS. Thank you very much, Mr. Chairman. I want to take this opportunity to express my appreciation to you and the very able members of the Commerce, Consumer, and Monetary Affairs Subcommittee for undertaking this timely and much needed investigation into the conditions surrounding the collapse of ESM Government Securities and the financial difficulties ESM's failure has brought to public investors throughout our country.

In the past 3 years, six Government securities dealers have failed, costing investors hundreds of millions of dollars. These investors include individuals, municipalities, banks, savings and loan associations, public and private pension funds.

My hometown, Beaumont, TX, lost over \$20 million when ESM failed. Later this afternoon we will hear from Beaumont mayor, Bill Neild, and other representatives of organizations victimized by ESM's chicanery.

While the circumstances surrounding the failures of ESM, Drysdale Government Securities, Cosmark, Inc., Lombard-Wall, R.T.D. Securities and the Lion Capital Group differ from case to case, we can observe certain common characteristics. They were all heavily engaged in the growing National Government securities market. They made extensive use of a relatively new financial instrument called the repurchase agreement. And they were not under the active supervision of any Federal regulatory agency. Taken together their failures have had a far-reaching negative impact on the public's confidence in the stability of our capital markets.

It seems to me that part of our job here today is to begin the arduous task of discovering answers to the following questions. What were the causes of ESM's failure? We know they are thieves, but how did we allow them to operate that way? Who is responsible? Who could have avoided with proper Federal regulatory supervision these problems? And what can we do to prevent such failures from occurring in the future, other than everybody being as smart as the Chase National Bank was when they lost their \$30 million in one of these same scams?

You know, this does not just happen out in the hinterlands, where the unsophisticated people operate. Oh, those big operators right next to Wall Street, deep pocket boys, they dropped about 32

in one of these operations. Now, hopefully the answers to these and other questions should give us some factual base upon which to construct the system of governing the operations of both the Government securities market and those who would participate in this market. At the very least, such a system should offer the American people and the public investor a guarantee that their Federal Government is doing what it ought to do to ensure that our country's financial markets are fair and efficient and free of obvious fraudulent activities and operations.

Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Chairman, you certainly have set the stage for some very interesting inquiries this afternoon and I hope that you will find time to be back with us so you can hear some of the answers.

Mr. BROOKS. I will be back with you.

Mr. BARNARD. Good. We now have with us Congressman Chalmers Wylie of Ohio. Congressman Wylie is the senior minority member of the Banking Committee and a distinguished member of the Ohio delegation.

Chalmers, we are delighted to have you here with us this morning. And we would like to hear your testimony at this time. I understand that you have a lengthy statement, which we will, of course, without objection make part of the official record, and you may summarize as you desire.

STATEMENT OF HON. CHALMERS P. WYLIE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. WYLIE. Thank you very much, Mr. Chairman, and members of the Subcommittee on Commerce, Consumer, and Monetary Affairs.

I thank you for the opportunity to participate in this important hearing on the collapse of the private deposit insurance fund in Ohio which resulted from the failure of ESM Government Securities, Inc., in Florida, and I appreciate the warm welcome which you have extended to me, Mr. Chairman. The chairman is a very valuable member of our Banking Committee, very knowledgeable on banking matters and what he is doing today is providing an excellent service for all of us. And we thank you for that.

I do have a statement which I would ask to be included in the record, and at this point I would summarize the highlights of that statement.

Whenever a crisis such as the one which occurred in Ohio in the aftermath of ESM debacle takes place, we are reminded of just how important public confidence in the safety and soundness of depository institutions is to the health of the Nation's economy. The depositors have to come first in this instance and to date we have heard that no depositor in the 71 S&L's which were closed by the Governor has lost any money as a result of the crisis affecting State-chartered savings and loans in Ohio. And I hope the same is true for the depositors of the Home State Bank also.

Depositors in institutions insured by the Ohio Deposit Guarantee Fund have suffered great inconvenience as a result of being denied the use of their money for a period of time and some are still re-

stricted in the amount they can withdraw even after the institutions have reopened.

We have a responsibility, Mr. Chairman, not only to our constituents in this country but to everyone who relies on the stability of our Nation's economy, to learn whatever lessons can be learned from the Home State-ESM fiasco and to take the steps that are necessary to maintain public confidence in insured depository institutions.

During my years of service on the Banking Committee, I have participated in many inquiries concerning failures of depository institutions. In my experience the causes of these failures tend to fall into three categories: (1) problems associated with deteriorating "spreads" between the cost of funds and the earnings from sound investments; (2) problems associated with the quality of the assets, as has occurred with mortgage loans, business and agricultural loans, and international loans where the value of the property or the earning ability of the borrower were improperly estimated; and (3) where a dominant individual took advantage of weak or non-existent internal controls or external supervision to impose an imprudent investment policy on the institution.

A preliminary conclusion can be drawn that the Home State-ESM crisis falls into the third category as have most of the largest failures. To recite the list of large failures which threatened public confidence in depository institutions is also to list those cases in which a dominant individual was able to circumvent internal controls or agency regulations designed to safeguard the assets of the institution. To mention a few, Franklin National, the Texas and Georgia banking scandals, U.S. National Bank of San Diego, Penn Square, Continental, Financial Corp. of America and Empire all fall into this category, Mr. Chairman, and I ultimately suspect that Home State will join them.

The Federal Home Loan Bank Board and the Federal Reserve did yeoman service in making their personnel, right up to the chairmen, available to deal with the situation as it was breaking. And may I say that I was in on this from almost the beginning. And I take this opportunity again to express my gratitude to Chairman Gray and Chairman Volcker and to reaffirm my confidence in their dedication to preserving the safety and soundness of the Nation's financial system.

You asked the question in your hearing today whether the ESM collapse that triggered Home State's insolvency might have been avoided if Federal securities regulators had been more diligent or whether the SEC should have additional supervisory powers to protect investors.

Now, my staff has examined the most recent form 10-Q filed by Home State Savings as a publicly traded company with the Securities and Exchange Commission. It is easy to read this document, Mr. Chairman, and learn that out of \$1.4 billion in assets, approximately half were invested in reverse repurchase agreements with a single securities firm and that Home State seemed to have more of the characteristics of a mutual fund than of an institution in the business of making home mortgage loans. It would be interesting to find out how they filed their tax return.

I suspect that many deficiencies will be found in the disclosures made by Home State. Yet enough information was provided that one might expect a regulator or a fiduciary to ask further questions. In fact, we have some information provided by the National Credit Union Administration that indicates that some people did take advantage of the information they were able to obtain about Home State and avoided involvement in the transactions that caused so much grief to so many institutions. Moreover, according to last Sunday's Cleveland Plain Dealer, former Ohio State commerce director, Kenneth Cox; former commerce director, J. Gordon Peltier; and former superintendent of savings and loans, Clark Wideman quote "all said the State knew Home State had invested in a dangerously large amount of money with ESM Government Securities, Inc., of Fort Lauderdale, FL, as early as 1982."

It is certainly appropriate for this subcommittee to consider whether additional measures are needed, but warning signals were not heeded which could have prevented the failure. With the help of the Federal regulators, the damage was contained.

You asked another question. Given the state of the Nation's thrift industry, is there a need to strengthen, modify or replace the current system of State/private deposit insurance? And I think it is fair to say that confidence was restored when FSLIC insurance and FDIC insurance were made available to these institutions in Ohio. But the fact of the matter is, as you know, Chairman Gray, who is here and will testify later, has been saddled with some unprofitable portfolios on residential mortgages vis-a-vis the FSLIC fund. The chairman of the full Banking Committee, Mr. St Germain, and I introduced legislation providing for risk-related insurance to try to assist him in that regard.

Congress I think does need to act and act promptly with regard to the situation as we have found it in Ohio. I think, Mr. Chairman, what I would like to do is to close at that point and suggest that if there are any questions that I would be willing to try to answer them.

Thank you very much.

[Mr. Wylie's prepared statement follows.]

Statement of
Rep. CHALMERS P. WYLIE, Ohio
April 3, 1985
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
Hearings on the collapse of ESM Government Securities, Inc., and its
impact on privately insured Ohio thrifts

Mr. Chairman:

Thank you for the opportunity to participate in this important hearing on the collapse of the private deposit insurance fund in Ohio which resulted from the failure of ESM Government Securities, Inc. in Florida. My reason for accepting your invitation to appear today, Mr. Chairman, is stated very succinctly in your own remarks as part of the announcement of these hearings: "The public's confidence in the nation's financial markets could be eroded by a repetition of the Ohio-ESM episode. That must not be allowed to happen."

Whenever a crisis such as the one which occurred in Ohio in the aftermath of the ESM debacle takes place, we are reminded of just how important public confidence in the safety and soundness of depository institutions is to the health of the nation's economy. I am pleased to be able to report that to date no depositors have lost any money as a result of the crisis affecting state-chartered savings and loans. Hopefully, all depositors will be made whole in the very near future. Governor Celeste, state and federal officials, including Members of the Ohio congressional delegation, have worked long hours in order to speed the arrangements for the reopening of as many of the institutions as possible. At this point I must commend Federal Reserve Board Chairman Paul Volcker, Cleveland

Federal Reserve Bank President Karen Horn, Federal Home Loan Bank Board Chairman Ed Gray, for being available and for the long hours they and their able staff put in to contain the Ohio situation. Meanwhile, depositors in institutions insured by the Ohio Deposit Guarantee Fund have suffered great inconvenience as a result of being denied the use of their money for a period of time and restricted in the amount they can withdraw even after the institutions reopen.

As the Chairman knows, because we serve together on the Subcommittee on Financial Institutions of the Banking Committee, the Subcommittee held a hearing last week on regulations proposed by the Federal Home Loan Bank Board concerning direct investments by institutions insured by the FSLIC. Near the conclusion of the hearing Chairman St Germain made a statement that helped to put the Ohio situation in perspective. He noted that fluctuations in the value of the dollar in international money markets have been ascribed to concern over the condition of thrift institutions in Ohio and commercial banks in Texas. Having just returned from Europe I can attest to the fact that people in financial circles there are very much aware of Ohio and Texas. We therefore have a responsibility not only to our constituents in this country but to everyone who relies on the stability of our nation's economy to learn whatever lessons can be learned from the Home State-ESM fiasco and to take the steps that are necessary to maintain public confidence in insured depository institutions.

With that introduction, I will proceed to address the specific questions you set forth in your announcement.

Circumstances surrounding the Ohio thrift situation, adequacy of federal agency responses. During my years of service on the Banking Committee, I have participated in many inquiries concerning failures of depository institutions. In my experience the causes of these failures tend to fall into three categories: 1) problems associated with deteriorating "spreads" between the cost of funds and the earnings from sound investments; 2) problems associated with the quality of the assets, as has occurred with mortgage loans, business and agricultural loans, and international loans, where the value of the property or the earning ability of the borrower were improperly estimated; and 3) where a dominant individual took advantage of weak or nonexistent internal controls or external supervision to impose an imprudent investment policy on the institution.

Every day brings new information on the Ohio situation, and it is certainly too soon to pass ultimate judgment. It certainly is not my purpose to pass judgment on other such private insurance funds in other states. In fact, one of the purposes of this hearing is to collect and evaluate the available information. Still, a preliminary conclusion can be drawn that the Home State-ESM crisis falls into the third category, as have most of the largest failures. To recite the list of large failures which threatened public confidence in depository institutions is also to list those cases in which a dominant individual was able to circumvent internal controls or agency regulations designed to safeguard the assets

of the institution. Franklin National, the Texas and Georgia banking scandals, United States National Bank of San Diego, Penn Square, Continental, Financial Corporation of America and Empire all fall into this category, and ultimately, I suspect Home State will join them.

As for the adequacy of the responses to the crisis by the Federal Home Loan Bank Board and the Federal Reserve, I have already said that these agencies did yeoman work in making their personnel, right up to the chairmen, available to deal with the situation as it was breaking. I take every opportunity to express my gratitude to Chairmen Gray and Volcker and to reaffirm my confidence in their dedication to preserving the safety and soundness of the nation's financial system.

Whether the ESM collapse that triggered Home State's insolvency might have been avoided if federal securities regulators had been more diligent; or whether the SEC should have additional supervisory powers to protect investors. My staff has examined the most recent Form 10-Q filed by Home State Savings Bank as a publicly traded company with the Securities and Exchange Commission. Any number of people could look at this filing and get differing insights as to the nature of Home State, but it is remarkable how much of what eventually turned out to be questionable operations of Home State was set forth right in this publicly available filing. It is easy to read this document and learn that out of \$1.4 billion in assets, approximately half were invested in reverse repurchase agreements with a single securities firm and that Home State seemed to have more of the characteristics of a mutual fund than of an institution in the business of making home mortgage loans. The scheme of the

securities regulations has always been based on disclosure and on the assumption that people will have the means to protect themselves if there is adequate disclosure. I suspect that many deficiencies will be found in the disclosures made by Home State.

Yet, enough information was provided that one might expect a regulator or a fiduciary to ask further questions. In fact, we have some information provided by the National Credit Union Administration that indicates that some people did take advantage of the information they were able to obtain about Home State and avoided involvement in the transactions that caused so much grief to so many institutions. Moreover, according to last Sunday's Cleveland Plain Dealer, former Ohio State Commerce Director Kenneth Cox, former Commerce Director J. Gordon Peltier, and former Superintendent of Savings and Loans Clark Wideman "all said the state knew Home State had invested a dangerously large amount of money with ESM Government Securities, Inc., of Fort Lauderdale, Florida, as early as 1982."

It is certainly appropriate for this Subcommittee to consider whether additional measures are needed, but it has been my experience on the Banking Committee that many failures take place not because there is inadequate regulation or disclosure but because regulators and to a lesser extent investors failed to take advantage of the information systems that are in place. I do not mean to say that these systems will prevent failures, but when properly implemented, they can contain the damage caused by failures, so that they do not threaten the financial system as a whole. Warning signals were not heeded which could have prevented the

failure. With the help of the federal regulators, the damage was contained. We look to the regulators to perform the information function. It is our job to oversee their performance on a continuing basis.

Given the state of the nation's thrift industry, whether there is a need to strengthen, modify or replace the current system of state/private deposit insurance. Chairman Gray has testified with remarkable candor before both of our Subcommittees concerning the situation that confronts the thrift industry and its regulator. There is a virtual absence of tangible net worth. The size of the FSLIC as a percentage of deposits is near its all-time low. Some institutions are still saddled with unprofitable portfolios of residential mortgages while others are engaging in new activities and growing at an unmanageable rate. The Bank Board has imposed a quarterly assessment of 1/32% of assets. It has provided additional support staff to the regional Home Loan Banks and has asked Congress for money for more supervisory staff. The Bank Board has adopted a regulation on net worth and the regulation on direct investment that was the subject of the hearing last week before the Financial Institutions Subcommittee. Chairman Gray has submitted a proposal for risk-based insurance premiums, which Chairman St Germain and I have introduced by request as H.R. 1680, The Insured Institutions Improvements Act of 1985. FDIC Chairman Bill Isaac also has devised his own proposal which Chairman St Germain and I introduced at his request as H.R. 1833, The Federal Deposit Insurance Improvements Act of 1985. In short the regulators are doing all they can in my opinion. Now it's time for Congress to act.

The hearing last week, which gave us an opportunity to hear from Chairman Gray, from the S&L Commissioner of Texas, and from representatives of the major trade groups for the thrift industry dramatized the need for Congress to address the issue of deposit insurance reform. We can and should begin by promptly considering the agencies proposals. It is desirable to allow institutions, whether they have state or federal charters, to have enough flexibility to compete in the marketplace. In fact, this is necessary if they are to remain healthy in the long run. It is also desirable for state regulators to have an opportunity to participate in the process of formulating the regulations of the federal agency that insures the deposits of most state-chartered institutions. The crucial issues, however, are who is going to provide the capital to support the portfolios that insured institutions hold and who is going to underwrite insurance to protect the system from the inevitable failures that occur. More than merely desirable, it is necessary, it is imperative, that these issues be resolved, and we never know how much time we have to do it.

What I am suggesting is that we the Congress must ensure that the financial system underlying our Nation's economy is strong and healthy. Public confidence in depository institutions is a key to that strength. Another key is an efficient and smoothly functioning government securities market which is essential both to the Federal Reserve's implementation of monetary policy and to the U.S. Treasury's financing of the Federal Government. Congress needs to act this year to update our banking and deposit insurance laws, which obviously have not kept pace with the marketplace. The deposit insurance reforms proposals from the FDIC and the FHLBB need to be examined carefully by Congress, just as other

modernizing legislation introduced by Chairman Barnard, myself, and many others of our distinguished colleagues ought to be considered fully in this session of the 99th Congress.

I would like to address one other issue before concluding. As most of the financial community is aware, I have sponsored a bill, H.R. 15, which would permit bank and thrift holding companies to underwrite mortgage-backed securities and streamline the procedures for bank holding companies to receive approval to conduct nonbanking activities, within a regulatory framework designed to provide equitable regulation for all financial institutions. I am sometimes asked how I can propose expansion of the range of activities that can be conducted by depository institutions holding companies in light of the ESM incident and the recent disclosure of irregularities in the handling of mortgage-backed securities. The argument is often made that these institutions have enough trouble managing their existing activities that they do not need new powers, and to grant new powers would only be asking for more trouble and more scandals.

The point that I want to make today is that no matter what activities financial institutions engage in, problems will inevitably occur from time to time. There will always be people who will try to take advantage of any system, and there will always be people who will make costly mistakes. The rational response is not to shut down every activity in which problems occur. We could shut down the entire economy that way. Rather, the urgent challenge is to require that the institutions be sufficiently capitalized and that they have adequate systems of internal control. Then, there should be effective supervision to discover problems and deal with them in time to safeguard the financial system as a whole.

I look forward to working with Members of this Subcommittee, with my colleagues on the Banking Committee, with state and federal regulators, with industry representatives, and with anyone else who can help address the pressing issues facing the banking system today.

Thank you again, Mr. Chairman, for the opportunity to testify today.

Mr. BARNARD. Thank you very much, Mr. Wylie. You have certainly enumerated many of the things which are certainly on the minds of this committee and which hopefully, with your leadership, will be on the minds of the Banking Committee. I think we definitely need a much more indepth study of the insurance funds and how we can help them, such as the bill that you introduced on variable-rate premiums, and other legislation.

So we feel like the work of this committee should be very, very helpful to the Banking Committee and we hope that the Banking Committee will certainly utilize our report when it is developed.

And we thank you very much for being here this morning.

Mr. WYLIE. You are welcome.

Mr. CRAIG. Mr. Chairman, Congressman Wylie, one of the questions that I have asked insurance fund regulators that is of concern to me is the inability of the Ohio Deposit Guarantee Fund to respond accordingly. We hear the argument that simply the money was not there to back it up. And yet I am told that in the situation where there was \$130 million in the Ohio Deposit Guarantee Fund, that they could have covered the run on the Home State and then required other members of the fund to borrow from the Federal Reserve System to meet any shortfall caused by deposit demand for cash, and in fact, if that had occurred and the fund had responded as funds are designed to respond, that there would not have had to have been a banking holiday, there would have been no great concern or public outcry or run on the banks, and in large part, even Home State, although it would have been taken over by the fund, could have remained open.

Your experience on the Banking Committee—what is your reaction to that general comment?

Mr. WYLIE. I do not think that the Ohio Deposit Guarantee Fund could have in fact covered all the possible losses from Home State. I think that a run, a complete run, by Home State would have depleted the fund. As a matter of fact, the fund had \$130 million in it 1 day and about 3 days later, after a run, it had about \$90 million.

Mr. CRAIG. I am talking about prerun. With the knowledge that everyone had as to the situation at Home State, if the fund had acted properly preclosure, could that not have been avoided?

Mr. WYLIE. That is hindsight and I do not know. I am not in a position to suggest that something like that could have been done. After it was discovered that ESM Securities in Florida was going belly up, and that most of the assets of Home State were invested in ESM. I think at that point that the fund was clearly inadequate. Now, how you go about shoring up the fund at that point is a question that I am not in a position to answer.

Mr. CRAIG. But it is a procedural question. I was curious to see your reaction to it.

Mr. WYLIE. But I think after it was discovered that Home State had closed that the fund might not be adequate to meet the cash-flow demands of the persons who were insured. And this was a private fund. It was not State administered. It was created by a special statute, passed in Ohio in 1955. After that was discovered, the Chairman of the Federal Reserve Board, and I talked to him twice on March 13, was very forthcoming in opening the discount window as an emergency situation to all of these 71 State-chartered S&L's.

Mr. CRAIG. Thank you. Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Spratt.

Mr. SPRATT. I have no questions.

Mr. BARNARD. Mr. Kolter.

Mr. KOLTER. Thank you, Mr. Chairman.

Congressman Wylie, following the interrogation of the Governor, do you feel now that the investors have once again their own confidence in the system, in the banking system of Ohio—do you feel the investors are now sure that their money is safe?

Mr. WYLIE. The investors are now sure that their money is safe. I feel that since they have been given the opportunity to apply for FSLIC insurance. And may I say that the Federal Home Loan Bank Board put a lot of extra examiners on the job. They worked overtime to try to examine the books of some of the companies. Now, I think that there are now 30 S&L's the Governor said which have qualified for either FSLIC insurance or FDIC insurance.

The fact of the matter is that in those institutions it is my information that more money has come in in deposits than has gone out in withdrawals. So this, as far as we in Ohio are concerned, was not as serious as far as the other FSLIC-insured S&L's were concerned. And the assets in these companies represent less than 10 percent of the assets of all of the savings and loans in Ohio.

Mr. KOLTER. Thank you.

Mr. BARNARD. Mr. Saxton.

Mr. SAXTON. Congressman Wylie, as a member of the Banking Committee, let me ask you a question. I have here a copy of the Ohio Deposit Guarantee Fund constitution, and attached to it are the rules and regulations by which it operates. There is a section that deals with investigative authority of the fund. It says "the fund supervisory staff, at the discretion of the executive vice president of the fund, may at any time enter a member institution for the purpose of conducting an investigation or an audit. The members shall be required to furnish upon request all the company's books, records, securities, moneys, and other property needed to complete investigation of an audit."

I guess the question is that it appears to me that the mechanism was set through which the proper types of investigations could have been carried out. The signals were all there to indicate that such an investigation may have been necessary and yet no such investigation seemed to come forward. And I guess my question is from our perspective at the national level, how do we know that private funds carry out those functions? And is there something that we need to do from a legislative point of view to ensure that that happens?

Mr. WYLIE. That is a very good question and it may go back to the question that Mr. Craig asked and maybe I did not respond as well to his as I should have.

The problem with the Ohio statute and the Ohio Deposit Guarantee Fund, and you have put your finger on it, is that the agreement as to responsibility is not clear. And if you read those rules and regulations you will really not find out what the Ohio Deposit Guarantee Fund is supposed to do for its members in an emergency situation. And I guess that is the point you were trying to make, Larry.

But the first response, of course, should have come from the Ohio Deposit Guarantee Funds since they were the insurer. It did not. And it did not come immediately, why I do not know. The Federal Government attempted to intervene through the Federal Reserve 2 years ago to try to find out what the responsibility of the Ohio Deposit Guarantee Fund was to its members, and whether the exposure of the State-chartered S&L's, the 72 State-chartered S&L's, had any impact or effect on the safety and soundness of the banking system. And in the *Dimension* case, the members of the Ohio Deposit Guarantee Fund filed a law suit in which they got an injunction against the Federal Reserve from becoming involved in any way, and the injunction said that the Federal Government had no nexus, that it could not intervene, and that it could not examine as to safety and soundness. As one of the persons said, I think it was a Mr. Griffith from Molitor, at the meeting with the Federal Reserve Board Chairman, "We are sorry we won that case now. It would have been better if we had had somebody sort of examining it."

But the Federal Government at this point, or at that point, had no responsibility, could not have had any responsibility, and it was enjoined from doing anything.

I think that the Ohio Deposit Guarantee Fund's days are numbered. Or they have ended. And I think maybe we ought to look at some of the other so-called State funds. Not State funds, private funds, which insure these State-chartered S&L's.

Mr. BARNARD. Mr. Bustamante.

Mr. BUSTAMANTE. Mr. Chairman, thank you.

Congressman Wylie, my concern was with the initial reaction of the Federal Reserve to the Ohio bank run. Their initial reaction was that it was a State problem. However, this changed very quickly with the fluctuation of the dollar.

Can you tell me why this happened? What caused this reaction or attitude change?

Mr. WYLIE. I really do not think it had anything to do with the fluctuation of the dollar, but it is amazing how much of an impact the closing of 72 small State-chartered—well, some of them are rather large—but State-chartered S&L's in Ohio had on the impact of the dollar in Europe. And I had an opportunity to discuss this situation with the editor of the Financial Times and he said there was not any question but that it had an impact because the headlines in Europe were "banks fail in the United States." It did not identify that they were State-chartered savings and loans in Ohio, and so there was a run on the dollar and maybe it is coming down to a little more realistic level and will help the farmers in the process. Maybe there is some good coming from that.

But you have to understand that the Federal Home Loan Bank Board operates in a fiduciary capacity. It is their obligation to protect the FSLIC fund, and in that regard, they have to guarantee against loss. Now, if there is a new application, and Chairman Gray can answer this better than I can, but if there is a new application for a new charter, they have to have 5½ percent net worth. Most of these State-chartered S&L's did not have 5½ percent net worth. It was suggested that they all be brought in and I was at the meeting—that they all be brought in en masse. I do not think

that the Federal Home Loan Bank Board could do that legally. I think they had to make some examination up front.

Now, after it was determined that some of the State-chartered S&L's had a good asset ratio and had net worth above 5 percent—I think they modified it a little—then they were brought in. But they had an obligation, as I see it, to the other members of the FSLIC fund and they had established rules which provided for a 10-day period of comment. If someone wanted to comment about a new application as to whether that would guarantee against loss, they could do that. Now, they have waived in effect the 10-day rule, but at one point during the negotiations the Federal Home Loan Bank Board was willing to bring in all of the 71 State-chartered savings and loans if they could get a guarantee from the State of Ohio that the full faith and credit of the State of Ohio would be pledged against that. And then it was determined that the State of Ohio could not legally do that, or could not constitutionally do that, so they had to back off of that.

But I would say that I think the Federal Home Loan Bank Board was very cooperative here and I think the Chairman of the Federal Home Loan Bank Board, Mr. Gray, ought to be complimented for his part in it.

Thank you, Mr. Chairman.

Mr. BARNARD. Mr. Swindall?

Mr. SWINDALL. Yes. Following up with the constitutional constraints, that constitution in no way prohibits pledging of nontax revenues, does it? To your knowledge?

Mr. WYLIE. The constitutional provision would not allow the pledging of tax revenues. Is that your question?

Mr. SWINDALL. Right.

Mr. WYLIE. I do not think it would, no. What the constitutional provision provides is that you cannot pledge the full faith and credit of the State of Ohio against the contingent liability. If the money is there in a separate fund I would assume that perhaps the general assembly could act.

Mr. SWINDALL. That is my point. You are a former State legislator.

Mr. WYLIE. Yes, sir.

Mr. SWINDALL. And I would just like to know your opinion as to whether or not the Government—

Mr. BARNARD. I hate to interrupt but we have got a lot of witnesses today and I want him to answer the question. But he is not an official of the State.

Mr. WYLIE. I am glad you added that caveat. That is kind of a 20-20 hindsight call.

Mr. SWINDALL. Fine. I yield. He knows the question.

Mr. WYLIE. He made the point, yes.

Mr. SWINDALL. Thank you.

Mr. BARNARD. I am going to defer any further questions of you at this particular time because we do want to hear from other members of the Ohio delegation and we appreciate your being here and we understand that you have got other things to do.

Mr. WYLIE. Thank you very much for inviting me. I appreciate it.

Mr. BARNARD. We have invited several members of the Ohio delegation to be here this morning, and we certainly welcome them.

And we want them to have an opportunity to have something to say. I would like to encourage all of them though, if they would, to submit to us something for the record and then we would like for them to summarize because we have a little scarcity of time.

We are delighted now to have the distinguished Congressman from Cincinnati, Mr. Thomas Luken. We would like to hear from you at this time.

**STATEMENT OF HON. THOMAS LUKEN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO**

Mr. LUKEN. Thank you, Chairman Barnard.

I want to sincerely congratulate you in conducting this, calling for this examination, and in the way that the hearing has been conducted. There have been certain issues that have already been raised, but I believe that I have some particular information about the events that have come under question.

What I would like to state first, as Congressman Wylie did initially, that the main consideration is depositor confidence. That is the reason, the lack of depositor confidence, the threatened loss to depositors, that our international situation, our currency, has been threatened—has actually fallen. And this has brought involvement from the President, when he was asked at a news conference, and by the highest Federal officials.

Now, there is a time for questions, time and a place for questions and finger pointing, and I think this is one of those times.

But I would like to take us back to March 13. Those events have been discussed publicly and have been discussed here. And that was when several of us appeared before Chairman Gray, the Federal Home Loan Bank Board, but I will go back the day before. And that was when we appeared before the Federal Reserve and Chairman Volcker. Chairman Volcker at that time told the representatives of the thrifts from Cincinnati that what they were looking for was insurance. That the only thing the Fed could give them was a discount window. And the discount window at that point was like throwing an anchor to a drowning man. Because that would not improve their financial picture, and that is what they would need ultimately to get into FSLIC.

So that was not really any kind of a solution. The Fed had no solution and because of the divisions between the Fed responsibility for FDIC and Federal Home Loan Bank responsibility for FSLIC there was that division. And incidentally, Chairman Volcker has publicly recommended a merger of the Federal Home Loan Bank Board and the Fed. Apparently I only read his statement, but I read his statement in the press to the effect that he recommends consideration of a merger—

Mr. BARNARD. He was talking about the insurance funds, I believe.

Mr. LUKEN. All right. That is what I meant. That is the context—

Mr. BARNARD. The FDIC and FSLIC.

Mr. LUKEN. That is what I was referring to in the context, and that is what I understood, as it has a bearing on this particular situation.

So in any event, we did finally meet with Chairman Gray on the following day, which was March 13, and at that time the reaction of Chairman Gray—and I point out, there is a time and I think at this time what should have been the reaction of the Federal authorities was we have a threatened loss of depositor confidence. We had Home State that was closed. And the runs were occurring and this was described to him, it was described on the front pages of the paper. Pictures in the paper.

The reaction of Chairman Gray was insensitive. This is not a partisan statement. Mr. Gradison and Mr. Wylie so told the Wall Street Journal. I can quote that, but here is the article. Mr. Wylie admitted that there was a stall at that time on the part of—a stall is the way he describes—it on the part of Chairman Gray.

We were advised at that time that there was a 10-day waiting period, a 10-day period of notice that could not be waived. We were advised that the Federal Home Loan Bank Board did not have any extra examiners to send in to Cincinnati or to send in to Ohio. We were advised that it was a State problem, that the savings and loans of Ohio had plenty of opportunity and had resisted the opportunity to come into FSLIC, and that the depositors—when we pleaded based upon the depositors potential loss—we were told by Chairman Gray that the depositors knew that they were investing in an institution which did not have Federal insurance and therefore they had made their own bed and they could lie in it also.

I think we can learn from history here, and that is the reason I bring it up. We did have the division. We went to two different agencies and the buck was passed. And we went to the one agency who could have done something and I want to emphasize in my opinion, and I am not a banking expert. I am not the kind of an expert that some of you may be, but in my opinion if the Federal Government had responded as it did in the Continental case, it could have folded these in on March 13 and that is what we pleaded for, and then examined them and then weeded them out. Nobody has said that there is any of these 71 institutions that were that much worse. As a matter of fact, on the average they are better than the FSLIC. And when we considered what was at risk, depositor confidence throughout this country, I think that the proper reaction—I still think, I said it then and I still think that the proper reaction which would have avoided any closings was to fold them into FSLIC. They knew basically. When we talked to Mr. Raiden, Mr. Gray's counsel, he knew basically what the financial picture was in these savings and loans, just as he does now.

I have told you what the reaction was. I think that in the future we should consider bringing together these two institutions. I think the FDIC and FSLIC—I think as far as the finger pointing is concerned, we had a hearing yesterday in our Energy and Commerce Committee. I am not going to go into the ESM questions. Let me just repeat one of the points though that I made at that time, which has been brought up here, and that is that Mr. Warner was identified by the conservator from Ohio, the conservator of Home State, and by Mr. Tew who is going to testify here today, as the controller of the events at Home State and at ESM. And I think that is very instructive to know that.

So if we could back into that, I think the conservator has already filed suit against Mr. Warner. I think that the receiver here, Mr. Tew, should file suit against Mr. Warner. I think he is clearly the responsible party according to these reports, according to the investigation, according to the investigation of those who looked into it. He is one of the responsible parties.

We could go into that, but I think my time is about expired. And I wanted to particularly shed what light I could upon what happened with reference to extending this coverage so that in the future in my opinion, my recommendation would be, that we look first, as we did in Continental, to depositor confidence and do whatever is necessary to absolutely avoid—do what is necessary. That is my opinion.

Mr. BARNARD. Congressman, you have outlined some of the same concerns that everybody on this committee has, and that is why we are all so anxious to have a very thorough hearing into many of these questions that you have brought out. And hopefully, when this hearing is through and all of our investigations are made, we will be able to answer all of the questions that you have brought up this morning which are very substantive, and I think very appropriate, considering the sequence of events that we have been through since March. So we appreciate your sharing your observations with this committee and I assure you that we are going to look into every aspect of your testimony.

Thank you very much.

Mr. LUKEN. Thank you, Mr. Chairman.

Mr. BARNARD. Again, I want to say I am delighted to have Mrs. Oakar with us this morning, Mary Rose Oakar from Ohio, and also a very prominent member of the Banking Committee and I would like to hear from you at this time.

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. OAKAR. Thank you, Mr. Chairman, and distinguished members of the committee.

I want to first of all say that I am grateful for this hearing. I think it is important. You are a very important subcommittee. You have the role, as you know, of being the chief investigative committee for Congress related to banking issues. And I want you to know, Mr. Chairman, and others, that I am working on legislation related to the ESM crisis so that hopefully there will be more scrutiny in the manner in which S&L's and banks invest with some of these securities companies. I think it is very, very important that we really look into that situation.

I also want to say for the record that I believe very strongly as many of us do in Ohio and elsewhere, that anyone who was engaged in any illegal activity whatsoever be prosecuted. And I know that an investigation in my State is going on and I hope it comes—to fruition.

Mr. Chairman, you know and Congresswoman Kaptur, who is also a member of the Banking Committee, and others know that our Banking Committee has seen unbelievable failures in the last few years. I have been on the committee 8 years and in the last 3

or 4 years we have seen enormous failures such as Penn Square. We have seen Continental of Illinois being propped up with billions of dollars and we have seen in the S&L area the federally chartered Financial Corp. of America in California. Their subsidiary American Savings & Loan Co., was given unprecedented borrowing power exceeding normal capitalization and we saw the potential failure even of our major banks in their foreign investments. So this whole subject of what happens in a crisis transcends whether S&L's are insured federally or nonfederally.

I think we really have an obligation to see what is going on in this area in our country.

It should be noted for the record that most of the S&L's in Ohio were federally insured. My own county, Cuyahoga County for example, and in Cleveland, OH—had one S&L that was nonfederally insured. It was not a blanket problem in terms of the Federal insurance versus non-Federal insurance. Seventy-one out of about 205 were nonfederally insured. So that most of our institutions are federally insured, and I think that is important to note.

Mr. Chairman, I do want to raise this issue because you are the chief investigative committee and I think it is very important to clear the air on this issue and it in no way takes away from the scrutiny of what ought to be going on in the Ohio situation. I believe very strongly that Congress created the Federal Reserve System and the Federal Home Loan Bank Board to function as Federal regulators and to objectively monitor the investments and operation of our financial institutions and to make sure that the actions are in accordance with the principles of safety and soundness. They must protect depositors' moneys: it is extraordinarily important. Board members have long terms and they are appointed and they serve as separate entities from Congress and the administration, that the public perceive them, Chairman Volcker, Chairman Gray, and other members of their respective Boards, to be totally objective.

Mr. Chairman, I personally have felt that there were some problems with respect to the manner in which the Ohio S&L's were treated. I think that, and this is just a personal opinion, that Chairman Volcker and Karen Horn of Cleveland's Federal Reserve, acted absolutely expeditiously when they sensed there was an oncoming crisis in Ohio prior to the closing of the privately insured saving and loans. They rolled their sleeves up. They met with various Members of Congress. I was at a meeting that Chalmers Wylie called along with the two Members from Cincinnati, in Chairman Volcker's own boardroom to discuss the S&L's crisis March 13.

Mr. Chairman, I have only praise for their actions. They did nothing that was not in accordance with the law. No one wants any regulator to do anything that is not in accordance with the law. We want them to act in accordance with the law. And I want to make that clear. I personally do not feel that Ohio S&L's should have gotten a blanket insurance without scrutinizing first. But our appeal was to have the actions taken in terms of the possibilities of Federal insurance, to have them taken expeditiously. No more, no less. And I felt very strongly that there was stonewalling going on, and for that reason after the Governor closed the privately insured S&L's on the previous Saturday, I circulated a letter, which I

would like to submit for the record, that a number of Members of Congress from Ohio signed, both Republicans and Democrats, asking the Chairman of the Federal Home Loan Bank Board to judiciously and expeditiously consider the urgent request of the S&L's in accordance with the law. We felt the need to write this letter because we felt that there was this absolute lack of energy going on within that office.

It was not until the following week that the Governor was able to get the appointment with Chairman Gray. Of course, we have all seen the Wall Street Journal article which may or may not be true, but I think it is a very indicting article and I would like to submit that with your permission for the record. The article links our crisis in Ohio with GOP politics. Specifically on Friday, March 8, Treasury Secretary James Baker and other Treasury officials planned a Federal strategy regarding the runs on Ohio thrifts and they decided not to rescue them because we had a Democratic Governor, and informed Chairman Gray of that point.

At the Banking Committee the other day, Mr. Chairman, and you were there, Congresswoman Kaptur was there among others, I asked Chairman Gray two very simple questions: Did you, prior to March 13 or any day thereafter, get any advice on how to handle the situation in Ohio from the Secretary of the Treasury or anybody on the staff at the White House?

The second question: Did you in any way get advice from the White House on how to act before the Governor closed the S&L's in Ohio that were nonfederally insured?

Chairman Gray's answer was that he could not answer it because he did not think they were relevant questions. He refused to answer.

Mr. Chairman, I think that the air has to be cleared on this issue one way or another. I do not know whether this article is true or not, but there are some very serious allegations about the integrity of the Federal Home Loan Bank Board, and its ability to act objectively and nonpolitically.

For this reason, Mr. Chairman, I am asking your committee, because I think it is the proper committee, to investigate the conduct of the Federal Home Loan Bank Board, its Chairman, and the administration and let the chips fall where they may in terms of how that situation was handled. And I think that you are the proper source to do that, Mr. Chairman. I hope you can respond favorably to do the investigation on this situation and I look forward to a reply to my letter to you, Mr. Chairman, which you will be receiving in about 30 seconds.

Thank you, Mr. Chairman.

[Letter and article referred to follow:]

Congress of the United States
House of Representatives
 Washington, D.C. 20515

March 18, 1985

The Honorable Edwin J. Gray
 Chairman
 Federal Home Loan Bank Board
 1700 G Street, N.W.
 Washington, D.C. 20552

Dear Mr. Chairman:

As you know, some of the state chartered, privately insured Savings and Loans in Ohio have been experiencing a lack of confidence after the failure of Home State Savings Bank.

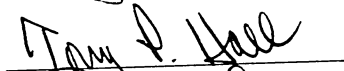
Last week, the Governor declared an emergency bank holiday. It is our understanding that in the interim, some of the affected Ohio Savings and Loans are applying for federal deposit insurance with the Federal Savings and Loan Insurance Corporation.


We would appreciate your agency's judicious and expeditious consideration of these urgent requests in accordance with the law.

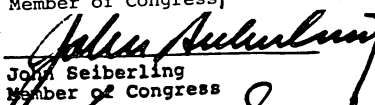
Thank you for your cooperation in this important matter.

Sincerely,


 Mary Rose Oaker
 Member of Congress


 Tony Hall
 Member of Congress

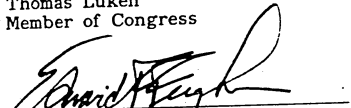

 Dennis Eckart
 Member of Congress



 John Seiberling
 Member of Congress


 Bob McEwen
 Member of Congress


 Louis Stokes
 Member of Congress


 Thomas Luken
 Member of Congress


 Edward Feighan
 Member of Congress


 Bill Gradison, Jr.
 Member of Congress

Bank Board Chairman's Cool Initial Response To Ohio Crisis Linked by Some to GOP Politics

By MONICA LANGLEY

STAFF REPORTER OF THE WALL STREET JOURNAL

WASHINGTON—When a group of Detroit Ohio thrift executives flew to Washington three weeks ago, Federal Reserve Board Chairman Paul Volcker put out the welcome mat.

Mr. Volcker immediately took time to meet with the executives, whose thrifts were backed by a newly insolvent insurance fund, and assured them that the Fed would provide cash for runs on their deposits by making loans through the Fed discount window. Then he told the executives to make themselves at home in the board of governors' conference room and his own office.

Mr. Volcker instructed two of his top staff members to help the executives plan a strategy to handle the emerging crisis

(D. Ohio). "Obviously, it wanted to embarrass the Democratic governor (Richard Celeste) up for reelection soon."

Rep. Thomas Luken (D., Ohio) adds. "It took the dollar falling and questions asked of President Reagan at his press conference before any Bank Board assistance was provided. Ohio thrifts had to become a national problem before party politics were removed."

Mr. Gray, through a spokesman, refused to comment on administration influence on his initial decision not to provide immediate federal insurance to the thrifts. But an official involved in the matter insists the "politics" of it wasn't partisan but federal versus state responsibility. When asked at a congressional hearing last week whether he was told how to react, Mr. Gray wouldn't answer the question.

Executives of privately insured Ohio

Ohio, according to a Reagan administration official.

A call was then made to Mr. Gray to inform him of the Treasury officials' consensus. This official says, adding, "Ed agreed with us that the Bank Board shouldn't save the thrifts; we didn't decide what he should do."

Thomas Healey, just-departed assistant treasury secretary for domestic affairs, added, "Of course it (the Treasury and Bank Board decisions) was political. But it's the politics of wanting Washington to bail the state out, but our saying no. It has nothing to do with Democrats and Republicans."

A Refusal to Meet With Them

When the thrift executives came to town the following Wednesday, Mr. Gray refused to see them. On Thursday, when he permitted Republican representatives from Ohio to see him, and after some resistance, let Democratic Rep. Luken and one thrift executive join them. Mr. Gray's first comment was, "Why aren't you guys up at the state capital?"

Mr. Gray then told them he couldn't insure the savings and loans until each institution met a 5% capital-to-assets ratio requirement; was individually examined by the Bank Board, "which could take months," and was subject to a 10-day comment period.

Upon returning to Ohio empty-handed, the executives privately asked Gov. Celeste to close the thrifts to stop the runs on deposits. Publicly these executives were stating they could handle the deposit withdrawals and wanted to stay open, but Mr. Gray's denial of federal backing terrified them, say the Ohio lawmakers who met with Mr. Gray.

So when Gov. Celeste, in a closed meeting with the thrift executives, asked who

wanted to reopen, only four of the 71 executives stood up in favor of reopening. Gov. Celeste told the lawmakers.

Even Ohio Republican Rep. Willis Gradison acknowledges that the Bank Board's initial refusal to aid the thrifts seemed particularly harsh, given the Fed's immediate willingness to intervene. "I wonder, too, if political considerations were placed above confidence in and the integrity of the financial system," Rep. Gradison says.

A Reversal by Gray

The Ohio Republican notes that Mr. Gray "reversed himself" the next week when the Ohio thrift crisis frightened the currency markets, causing the dollar to plunge. At about the same time, Mr. Volcker was urging Mr. Gray to expedite the insurance process, even offering information from Fed examiners' reports, and President Reagan was holding questions about federal assistance to Ohio thrifts.

Mr. Gray suddenly decided that the 10-day comment period could be waived, that the 5% capital requirement could be dropped to 5%, and that examinations could be expedited. Shortly after that, the Bank Board began approving federal insurance for two or three Ohio thrifts a day.

"Ed Gray was helpful before it was all over," says Rep. Chalmers Wylie (R.,

Ohio), the ranking Republican on the House Banking Committee. "I'm sure his only motivation in stalling at first was to guarantee against loss in the insurance fund."

But questions remain as to what extent political factors delayed the Bank Board's actions, and a House subcommittee hopes to learn more about that at a hearing scheduled tomorrow.

How Washington Got Involved

Thursday, March 7

A run on deposits begins at Home State Savings Bank, which expected heavy losses from its dealings with E.S.M. Government Securities Inc.

Friday, March 8

Treasury Secretary James Baker and other Treasury officials plan a federal strategy if runs begin at other Ohio thrifts. They decide not to rescue the B&Ls, and inform Federal Home Loan Bank Board Chairman Edwin Gray, who agrees with the plan.

Saturday, March 9

Home State closes, citing the run.

Monday and Tuesday, March 11-12

Ohio thrifts begin experiencing runs and call the Bank Board asking how to get federal insurance. They call their congressmen asking for federal help.

Wednesday, March 13

A group of Ohio thrift executives flies to Washington. Fed Chairman Paul Volcker promises loans through the discount window. Bank Board Chairman Gray refuses to meet the executives.

Thursday, March 14

Gray outlines to the delegation requirements thrifts must meet before he will consider granting federal insurance, and says it could take months.

Friday, March 15

Ohio Gov. Richard Celeste temporarily closes the thrifts.

Monday, March 18

The dollar begins falling, largely due to the Ohio crisis.

Tuesday, March 19

The Bank Board agrees to ease requirements for granting insurance.

Thursday, March 21

President Reagan, asked about the federal response to the Ohio thrift woes, calls it an isolated problem and says that beyond Fed loans, "there isn't anything for the federal government to do."

Friday, March 22

The Bank Board begins approving federal insurance for some of the thrifts.

stemming from the collapse of Home State Savings Bank of Cincinnati, and keep their thrifts open. The executives stayed at the Fed for six hours, using Mr. Volcker's telephones, typewriters and secretaries.

A few blocks away, Edwin Gray, chairman of the Federal Home Loan Bank Board, through whom the executives hoped to obtain federal insurance, refused to meet with them.

The stark difference in the receptions the Ohio thrift executives received in Washington is being blamed by some here on partisan politics. Democratic representatives, in particular, argue that Fed Chairman Volcker understood that a financial crisis was building and treated the executives accordingly. But Bank Board Chairman Gray, a Reagan appointee, was following orders from the Reagan administration not to assist Ohio's Democratic governor, these lawmakers assert.

"The administration must have given instructions to Ed Gray not to rescue the Ohio thrifts," says Rep. Mary Rose Oaktar

thrifts wanted federal insurance from the Bank Board to restore depositor confidence in the wake of the Home State failure, which by itself would wipe out the state-sponsored insurance fund. Home State was closed on Saturday, March 9, following runs stemming from heavy losses in its dealings with the failed E.S.M. Government Securities Inc., of Fort Lauderdale, Fla.

The night before, high-level Treasury officials, including Secretary James Baker, met for 1½ hours to decide what the federal response should be if other privately insured Ohio thrifts began experiencing runs. The group concluded that if a crisis developed, it should remain a problem of the Democratic administration in

Mr. BARNARD. Thank you, Madam Chairman, and let me assure you that we intend to cover every one of the subjects which you have enumerated in your testimony this morning. They have already been a consideration of this committee but we are delighted to have you here to emphasize your concern about this situation.

Thank you.

Ms. Kaptur, do you have any statement you would like to make at this time? We are delighted to have you with us this morning.

Ms. KAPTUR. Thank you, Mr. Chairman. I do not really have a formal statement except to say thank you so much for allowing me the courtesy to sit in on these hearings. And to encourage you to get to the bottom of this entire matter.

As you know, one of the municipalities that I represent lost \$19 million or it appears that it has lost \$19 million in this series of events, and there are certainly a lot of unanswered questions on various levels. And I would hope that this committee would use its full powers to bring in the appropriate witnesses and to get the kind of thorough investigation that I think this question needs so we find out who really did what and when.

Thank you, Mr. Chairman.

Mr. BARNARD. Thank you very much.

Congressman Kindness, you are going to be with us today. I did not know whether you wanted to offer any statement at this time.

Mr. KINDNESS. Thank you, Mr. Chairman. I had not planned to make a statement, but I would suggest that if newspaper articles are going to be made a part of the record, I have quite a collection of them from around the State of Ohio that reflect concerns about graft and corruption in the political sphere and its influence upon this whole matter, which I had sought not to get into today, but I would urge upon the chairman that if we are to really investigate fully what this matter is all about, we will find a whole lot more meat in the Governor's office, the various departments and agencies that are affected in the State of Ohio than we will find in the Federal Home Loan Bank Board or the Federal Reserve, and I would hope that perhaps we could confine this to those areas that would be productive in terms of finding what the Federal response really should be.

Thank you, Mr. Chairman.

Mr. BARNARD. Thank you very much.

We are also honored today to have with us Congressman Bob McEwen of Ohio and, Congressman, we would be delighted to hear from you if you have a statement at this time.

Mr. McEWEN. Mr. Chairman, thank you very much. It is gracious of you to give me this opportunity and I would just quickly say that I join my colleagues in expressing a personal interest in this matter. I too participated in the meetings with the Federal Home Loan Bank Board and I believe that as Congressman Kindness has said that if we can find some way that in the future the Federal Government can participate expeditiously and yet not usurp State authority it would be in the best interests of all of us.

And I thank you very much for the generosity. I would be glad to submit a statement.

Mr. BARNARD. Thank you very much.

Our next witness this morning—our next panel this morning will consist of Mr. Donald R. Hunsche, executive vice president of what was the Ohio Deposit Guarantee Fund, and Mr. Tom Batties, who is chief deputy superintendent and general counsel of the Ohio Division of Savings and Loans. If they would take the podium at this time, the witness stand.

We appreciate you gentlemen being with us today and participating in this hearing. And I would first recognize Mr. Donald R. Hunsche and Mr. Hunsche, if you would like to, without objection, we will submit your entire testimony in the record. If you feel like you would like to summarize, that would be at your desire.

**STATEMENT OF DONALD HUNSCHKE, EXECUTIVE VICE
PRESIDENT, OHIO DEPOSIT GUARANTEE FUND**

Mr. HUNSCHKE. Thank you, Mr. Chairman. Mr. Chairman, distinguished members of the committee, my name is Donald R. Hunsche. I am the executive vice president of the Ohio Deposit Guarantee Fund. I am accompanied today by David S. Cupps and Roger Yurchuck, my legal counsel.

I have been requested to provide the committee with background information on the Ohio Deposit Guarantee Fund and then discuss the Home State Savings Bank situation in three parts.

The first part, prior to the ESM collapse; second, the events from Saturday, March 2, 1985, the day the fund became aware of the problem involving ESM, through Sunday, March 10, 1985, the day the conservator was appointed for Home State; and third, the events from March 11 through 20, the date the conservator was appointed for the Ohio Deposit Guarantee Fund.

The law authorizing the creation of mutual, nonprofit guarantee associations for Ohio State-chartered savings and loans was passed in 1955. Our fund was incorporated in 1956 and commenced business January 2, 1957, with 69 original members.

The fund was formed because the Federal Savings and Loan Insurance Corporation would not insure companies that were only open for business less than 30 hours a week, did not have ground floor locations, or that had assets of less than \$1 million. Many of the initial ODGF members fit into this category.

The original amount of the total deposits guaranteed was about \$200 million. This has subsequently grown to over \$4.3 billion. The fund generally relied on the experience of Massachusetts whose fund predated Federal insurance.

The fund's assets include a 2-percent deposit from each member based on savings at that institution. In addition, earnings on those deposits are retained by the fund to further strengthen the fund. Members count this 2 percent as a part of their assets.

As of December 31, 1984, the fund had assets of \$125,800,000. The total amount of guaranteed deposits was approximately \$4.3 billion. The ratio of assets to guaranteed savings amounted to 2.9 percent. The FSLIC's comparable ratio is approximately three-quarters of 1 percent.

The Ohio Deposit Guarantee Fund has cooperated fully with the Ohio Division of Savings and Loans throughout its history. The fund received examination reports of the State as well as quarterly

and other reports from all member companies, including Home State. The reports are reviewed by the fund's department of supervision for the purpose of making recommendations to improve operations of the companies and to assist in the correction of unsafe practices.

However, the fund does not have legal power to effect compliance. It has no cease-and-desist power. It attempts to achieve compliance by working with State officials and the management of member companies to have the officers and directors of member companies agree to make desirable changes.

Beginning on about April 1, 1980, the fund became aware through a review of reports of Home State's involvement with ESM Securities. There were at that time repurchase agreements of about \$168 million.

The situation again came to our attention in March 1981. At that time a report revealed an increase to \$232 million. That occurred in July 1980. And there was overcollateralization and too much concentration with one dealer, namely, ESM.

As I recall, the State questioned the overcollateralization and claimed there was a violation of borrowing limits; 1982 showed more of the same. The percentage of overcollateralization increased. Letters were written and meetings held expressing our concern, stating that such activities were imprudent. We also told Home State to restructure the transaction.

On February 25, 1983, the fund wrote a letter to Home State strongly suggesting that it reduce the overcollateralization with ESM as soon as possible but not later than June 30, 1983, the date by which the transactions would mature.

A board resolution of Home State agreed to our directive. Later, the fund was startled to learn that contrary to these directions, the transactions were dramatically increased in May and June 1983 up to \$550 million.

A meeting was held on October 3 involving representatives of the fund, the superintendent of the division of savings and loans and his staff, officials of Home State, and a representative of ESM. At that point, there was also a significant overcollateralization. We expressed our serious concern. The superintendent, with the fund's full support and concurrence, instructed Home State to wind down the transactions and reduce the substantial overcollateralization.

In January 1984, all of the directors with the exception of two agreed to a program of unwinding the ESM relationship. By July 1984, 60 percent of the transactions had been matched and would mature in May and June 1985 and would thereupon cease. At least that is what Home State agreed to.

On March 2, 1985, at approximately 4:15 in the afternoon, the fund became aware for the first time of a potential problem at ESM and a potential resultant problem with a loss at Home State.

At that time, Mr. Schiebel, president of Home State, advised us that he was concerned because the audit report prepared by Alexander Grant & Co., the auditors for ESM, had been withdrawn on Friday, March 1, approximately 24 hours after it was delivered to him.

We were advised that Home State still had repurchase relationships with ESM and that they were substantially overcollateral-

ized. We responded by requesting that the Ohio Deposit Guarantee Fund be kept fully advised.

On Saturday or Sunday, March 2 or 3, I discussed the matter with Thomas Batties, as the acting superintendent of the division of savings and loans.

On March the 5th, the depositors of Home State started a run on the institution.

On March the 6th, the State of Ohio announced that it was prepared to safeguard the interests of the depositors of Home State and of all depositors whose funds were guaranteed by the Ohio Deposit Guarantee Fund and that the system in place provided adequate safeguards for depositors at its State-chartered savings and loans.

The run at Home State continued on Thursday and Friday, March the 7th and 8th, in spite of the State's announcements. By Friday evening, March 8, an estimated \$154 million had been withdrawn. By the close of business on March 8, the Ohio Deposit Guarantee Fund had advanced \$45 million in cash to Home State for the benefit of its depositors.

From approximately Wednesday, March 6, through Saturday, March 9, the ODGF was aware of negotiations involving a potential merger or purchase and assumption involving Home State.

On Saturday, March 9, the ODGF had representatives present as observers at a meeting in Cleveland where bankers throughout the State of Ohio were informed of the situation and of Home State's availability as a merger partner.

On Sunday, March 10, the State of Ohio announced the appointment of a conservator and the closing of Home State. Subsequent to Sunday, March the 10th, the Ohio Deposit Guarantee Fund has not been kept informed of the events surrounding Home State or its potential sale.

The fund was not allowed to review the books and records of Home State so as to make its own independent assessment of the parameters of the potential loss.

On about March 13, runs began at a few fund-member companies, particularly in the Cincinnati area, creating long lines which were dramatically played up by the media.

On or about March 13, the State legislature passed legislation authorizing the creation of a separate deposit guarantee fund and providing for a loan to that fund. The ODGF was not consulted about the content or the advisability of the legislation.

On March 15, the Governor visited Cincinnati and announced the closing of all Ohio Deposit Guarantee Fund companies statewide, even though the problem of runs was confined to the general Cincinnati area.

Members of the fund were forced to remain closed on March 18 and 19. Institutions which were and are totally uninsured were allowed to remain open throughout this crisis.

On Monday, March 21, the Ohio Deposit Guarantee Fund received notice that the superintendent of savings and loans had appointed or purported to appoint a conservator for it on the evening of March 20.

As you might guess, I have not yet had time or sufficiently complete information to reflect thoughtfully on the lessons on the

events or to formulate definitive recommendations. Since the appointment of the conservator for Home State on March 10, the Ohio Deposit Guarantee Fund has been denied access to the records of Home State. Consequently, it is impossible for me to answer certain questions as raised in your letter of March 22.

It is impossible to discuss comprehensively the ultimate financial impact of Home State's situation on the Ohio Deposit Guarantee Fund and its members. This is due to the fact that, one, as noted, the Ohio Deposit Guarantee Fund has been denied access to the books and records; second, the ultimate loss of Home State is still not quantified to our knowledge; third, no buyer has been found for Home State, so the purchase price cannot be determined and thus the impact on the fund cannot be determined; fourth, it is not yet possible to determine either the collectability of Home State's claim against the ESM estate and the likely defendants in ESM litigation or the collectability of claims against directors, officers, controlling persons and other potentially liable persons involved in the Home State situation; and fifth, until Home State is sold we do not know whether it will be sold in such a way as to preserve the ODGF members' 2-percent deposits with the fund.

It is also impossible to comment responsibly on the response and assistance from the Federal Home Loan Bank or the Federal Reserve. The ODGF does not know what the response from the Federal Home Loan Bank Board or the Federal Reserve has been since it has not been asked for its advice or assistance nor has it been informed directly as to what steps have been taken.

The relationship and interaction with the Ohio Division of Savings and Loans and the Ohio Deposit Guarantee Fund was excellent prior to the Home State Savings Bank closing. Up to March 10, 1985, the fund and the division worked closely to try to resolve problems of Home State. After March 10, when the conservator was appointed for Home State, there has been little if any interaction. Subsequent to March 10, no information has been shared.

In summary, as soon as the Ohio Deposit Guarantee Fund became aware of what it considered to be an inadvisable practice at Home State, it attempted to cause Home State to cease the practice. Contrary to those directions, Home State increased the dollar amounts of the transactions and increased the overcollateralization.

Finally, Home State and its directors agreed in writing to stop the transactions. The fund has no legal power to author or enforce a cease-and-desist order. It could counsel restraint, but could not compel it.

A tragic aspect of the situation which is still unresolved is the fate of the approximately 70 members of the fund. Some are now insured by the FSLIC. Others will be shortly. But there remain a significant number of sound, well-managed companies that have provided good service to their communities and neighborhoods, some for 100 years, whose fate is in doubt. The key to their future is to ensure that the Home State matter is settled promptly and in a way that protects the members' 2-percent deposit in the fund.

While I believe that, if handled differently, the Home State situation could have been solved through a quick sale or merger and depositors immediately protected, the problem we now face is to

ensure prompt reopening of the remaining fund-guaranteed companies in such a way that they and their depositors are fully protected.

To that end, the fund pledges its full support and cooperation.

Mr. BARNARD. Thank you very much.

Mr. HUNSCHÉ. Thank you, Mr. Chairman.

[Mr. Hunsche's prepared statement follows:]

STATEMENT OF DONALD HUNSCHE, AN OFFICER OF THE
OHIO DEPOSIT GUARANTEE FUND,
BEFORE SUBCOMMITTEE ON
COMMERCE, CONSUMER AND MONETARY AFFAIRS
OF THE COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

APRIL 3, 1985

Chairman Barnard:

My name is Donald Hunsche. I am the Executive Vice President of the Ohio Deposit Guarantee Fund ("ODGF").

I would like to provide the Committee with background information on the ODGF and then discuss the Home State Savings Bank ("Home State") situation in three parts: (1) prior to the ESM Securities collapse, (2) the events from Saturday, March 2, 1985, the day the Fund became aware of a problem involving ESM, through Sunday, March 10, 1985, the day a conservator was appointed for Home State, and (3) the events from March 11, through March 20, the date a conservator was appointed for ODGF. I will conclude with a summary and some observations.

Background

The law authorizing the creation of mutual nonprofit guarantee associations for Ohio chartered savings and loans was passed in 1955. The ODGF was incorporated in 1956 and began business on January 2, 1957. There were 69 original members.

The Fund was formed because the Federal Savings and Loan Insurance Corporation ("FSLIC") would not insure companies that were opened for business less than thirty (30) hours per week, did not have ground-floor office space or had less than

\$1,000,000 in assets. Many of the initial ODGF members fit those categories. Today, many of those members continue to operate in a similar fashion and serve their neighborhoods, particularly in the Hamilton County area, as well as small towns throughout the State of Ohio. Other original members believed they could jointly do as good a job as the FSLIC in guarding savers deposits.

The original amount of total deposits guaranteed was about \$200,000,000. This has subsequently grown to over \$4,300,000,000. The fund generally relied upon the experience of Massachusetts, whose fund predated federal insurance, and Connecticut in establishing the rules and operations of the fund.

Then and now there are several totally uninsured companies in Ohio. These have not been closed and have not generally, to my knowledge, been adversely affected by the Home State crisis.

The Fund's assets include a 2% deposit from each member, based on savings at that institution, which is adjusted semi-annually each year. In addition, earnings on the deposits of members are retained by the Fund to further strengthen the Fund. No dividends have been paid for 25 years. The members count this 2% deposit as part of their net worth.

As of December 31, 1984, the Fund had assets of \$125,800,000. The total amount of guaranteed deposits was approximately \$4,300,000,000. This is a ratio of approximately 2.9%. The FSLIC's comparable ratio is approximately 0.75%.

The Home State SituationPrior To ODGF's Knowledge of the Collapse of ESM

By way of additional background, ODGF has cooperated fully with the Ohio Division of Savings and Loan Associations throughout its history. ODGF receives examination reports of the State, as well as quarterly and other reports from all fund companies, including Home State. The reports are reviewed by the Fund's Department of Supervision toward the end of making recommendations to improve operations of the companies and to assist in the correction of unsafe practices. However, the Fund has no legal power to effect compliance. It has no cease and desist power. It attempts to achieve compliance by working with the the State and management of insured companies to have the directors of a company agree to make desirable changes.

Beginning in about 1980, the Fund became aware, through its review of reports, of Home State's involvement with ESM Securities. There were at that time repurchase agreements of about \$100,000,000. There was also a modest over-collateralization and non-uniform maturities.

The situation came to our attention next about March of 1981. At that time a report revealed over-collateralization and we noted that there was too much concentration with one dealer, namely, ESM. There was, however, no explicit lending violation. Letters were written to and meetings held with officers of Home State concerning the problem, particularly the over-collateralization.

1982 reports showed more of the same. Although the amounts involved would increase and decrease, the trend was upward. Again, we were concerned with over-collateralization and concentration of activities with ESM. Meetings were held with officials at Home State which were also attended by representatives of the State Superintendents Office.

On February 25, 1983, the Fund wrote a letter to Home State strongly suggesting that it unwind the transactions with ESM and reduce the over-collateralization as soon as possible, but not later than June 30, 1983, the date the transactions would mature.

Later, the Fund was startled to learn that, contrary to these directions, the transactions were dramatically increased in May and June of 1983. A meeting was held in October, 1983, involving representatives of the Fund, the Superintendent of the Division of Savings and Loans and his staff, officials of Home State and a representative of ESM. At that point there was also significant over-collateralization. The Superintendent, with the Fund's full support and concurrence, instructed Home State to wind down the transactions and reduce the substantial over-collateralizations. In January, 1984, all the directors of Home State, with one exception, agreed to a program of unwinding the ESM relationship, with a particular emphasis on over-collateralization, and the concentration of transactions with one thinly capitalized dealer.

It is our understanding that by July, 1984, the various transactions had been matched, would mature in June and July of 1985 and would thereupon cease. At least that is what Home State agreed to.

The Events of March 2-10

On Saturday, March 2, 1985, at approximately 4:15 p.m., the Fund became aware for the first time of the potential collapse of ESM and the resultant potential loss to Home State. We learned this at a meeting which I and the Fund's counsel attended. Also present were David Schiebel, President of Home State, Nelson Schwab, Jr., attorney for and a director of Home State, and Marvin Warner. At that time, Mr. Schiebel advised us that he was concerned because an audit report prepared by Alexander Grant & Company, the auditors for ESM, had been withdrawn approximately 24 hours after it was delivered to Mr. Schiebel earlier that week. We were also told that the withdrawal of the auditor's opinion caused Mr. Schiebel to engage legal counsel, whom he authorized to institute an immediate investigation of ESM. We were advised that Home State still had a repurchase relationship with ESM that was substantially over-collateralized. We responded by requesting that ODGF be kept fully advised of the results of the investigation Home State had undertaken in Florida.

On Saturday, March 2 or Sunday, March 3, I discussed the matter with Thomas Batties, at that time acting Superintendent of the Division of Savings and Loans of the State of Ohio.

Thereafter, ESM's financial posture became the subject of extensive news coverage in Cincinnati due to the impact it might have on Home State.

On March 5, the depositors of Home State started a run on the institution.

On March 6, the State of Ohio announced that it was prepared to safeguard the interests of the depositors of Home State and of all depositors whose funds were guaranteed by the ODGF and that the system in place provided adequate safeguards for depositors at its State chartered savings and loan associations. The run at Home State continued on Thursday and Friday, March 7 and 8, in spite of the State's announcements. By Friday evening, March 8, an estimated \$154,000,000 had been withdrawn. By the close of business on March 8, the ODGF had advanced \$45,000,000 in cash to Home State for the benefit of depositors. On its own initiative, Home State announced that it would not be open for business on Saturday, March 9, a normal day of business for the Company, pending resolution of its pursuit of a merger.

From approximately Wednesday, March 6 through Saturday, March 9, the ODGF was aware of negotiations involving a potential merger or purchase and assumption involving Home State. The negotiations earlier in the week were with the First National Bank of Cincinnati. On Saturday, March 9, the ODGF had representatives present as observers at a meeting in Cleveland where bankers from throughout the State of Ohio were informed of the situation and of Home State's availability as a merger partner. Representatives of the Department of Commerce and the

Superintendent were also present as were attorneys for the State and the Superintendent of Banks. Representatives of the Federal Reserve Board were also present. The bankers stated that they were unable to make a rational offer because of the lack of definitive financial information.

On Sunday, March 10, the State of Ohio announced the appointment of a conservator for and the closing of Home State.

The Events of March 11 through March 20

Subsequent to Sunday, March 10, the ODGF has not been kept informed of events surrounding Home State or its potential sale. Even though a request was timely made, the Fund was not allowed to review the books and records of Home State so as to make its own independent assessment of the parameters of the potential problem.

On Monday and Tuesday, March 11 and 12, the media continued to publicize the difficulty Home State was having as a result of the dealings with ESM. On Tuesday, March 12, 1985, the Fund retained Mr. John Lyons of a New York firm specializing in sale of troubled financial institutions. The Fund then made the services of Mr. Lyons and his firm available to the State. On Wednesday the Fund was informed that the services of Mr. Lyons were not needed at that time. Later, we learned that on Saturday, March 16, Mr. Lyons' firm was retained by the State to assist in the preparation of a bid package. We have not been furnished with a copy of the bid package or bidding instructions,

if any, and the Fund has not been involved in any efforts to sell Home State since the Saturday meeting on March 9 in Cleveland.

On or about March 13, runs began at a few Fund member companies, particularly in the Cincinnati area, creating long lines which were dramatically played up by the media.

On March 15, Governor Celeste announced the closing of all ODGF companies statewide, even though the problem of runs was confined generally to the Cincinnati area.

On or about March 13, the State Legislature passed legislation authorizing the creation of a separate deposit guarantee fund and providing for a loan to that fund. The Fund was not consulted about the content or advisability of the legislation.

On March 15, an organization meeting was held for the organization of the new deposit guarantee fund, specifically excluding Home State, based on a deposit of 1% of member savings and the lending of \$50,000,000 by the State of Ohio. To this date, to our knowledge, the State of Ohio has not placed its \$50,000,000 in the new fund.

On March 15, the Governor visited Cincinnati and announced the closing of all ODGF companies statewide, even though the problem of runs were confined to the general Cincinnati area. Members of the Fund were forced to remain closed on March 18 and 19. Institutions which were and are totally uninsured were allowed to remain open throughout the crisis. To our knowledge, they have had no runs to date.

On March 19, the Ohio Legislature passed additional legislation providing for the reopening of ODGF associations on a limited basis in some cases and on a full basis in others.

On the morning of March 21, ODGF received notice that the Superintendent of Savings and Loan Associations had appointed or purported to appoint a conservator for it on the evening of March 20.

Summary and Conclusions

As you might guess, I have not yet had time or sufficiently complete information to reflect thoughtfully on the lessons of the events or to formulate definitive recommendations. Since the appointment of a conservator for Home State on March 10, 1985, the ODGF has been denied access to the books and records of Home State. Consequently, it is impossible for me to answer certain questions as raised in your letter of March 22.

It is impossible to discuss comprehensively the ultimate financial impact of the Home State situation on the ODGF and its members. This is due to the facts that: (1) as noted ODGF has been denied access to the books and records of Home State, (2) the ultimate loss at Home State is still not quantified to our knowledge, (3) no buyer has been found for Home State, so the purchase price cannot be determined, and thus the impact on the Fund cannot be determined, (4) it is not as yet possible to determine either the collectability of Home State's claims against the ESM estate and the likely defendants in ESM litigation or the collectability of claims against the directors,

officers, controlling persons and other potentially liable persons involved in the Home State situation and (5) until Home State is sold we do not know whether it will be sold in such a way as to preserve the ODGF members' 2% deposit (2% of savings) with the Fund. If a sale can be arranged which protects that deposit, it would be of great benefit to the members of the Fund and their depositors.

It is also impossible to comment responsibly on the response and assistance from the Federal Home Loan Bank Board or the Federal Reserve System. Since March 10, the ODGF has basically been without communications or information relating to Home State. ODGF does not know what the response of the Federal Home Loan Bank Board or the Federal Reserve System has been since it has not been asked for its advice or assistance nor has it been informed directly of what steps have been taken. Therefore any comments would be based on hearsay, and I do not believe such a response would be appropriate.

In response to one of your questions in your letter of March 22, the relationship and interaction with the Ohio Division of Savings and Loan Associations and the ODGF was excellent prior to the Home State Savings Bank closing. Up to March 10, 1985, the Fund and the Division worked closely to try to solve the problem of Home State. After March 10, when the conservator was appointed for Home State, there has been very little, if any, interaction. Pursuant to Section 1155.16 of the Ohio Revised Code, examination reports prepared by the Ohio Division of

Savings and Loan Associations were shared with the ODGF. Subsequent to March 10, no information has been shared.

Summary

In summary, as soon as ODGF became aware of what it considered to be inadvisable practices at Home State, it attempted to cause Home State to cease the practices. Contrary to those directions, Home State apparently increased the dollar amounts of the transactions and increased the over-collateralization. Finally, Home State and its directors agreed in writing to stop the transactions. The transactions still went on. However, the Fund had no legal power to author or enforce a cease-and-desist order. It could counsel restraint, but could not compel it.

As soon as the Fund became aware of the ESM collapse, it began working with the State Superintendent. After the March 10, 1985 appointment of a conservator for Home State, the Fund has been kept out of all negotiations relating to Home State. In fact, even today, it does not know the true financial condition of Home State.

A tragic aspect of the situation which is still unresolved is the fate of the other approximately 70 members of the Fund. Some are now insured by the FSLIC. Others will be shortly. But there remain a significant number of sound, well-managed companies that have provided good service to their communities and neighborhoods, some for a 100 years, whose fate is in

doubt. The key to their future is to insure that the Home State matter is settled promptly and in a way that protects the members' 2% deposit in the Fund.

While I believe that, if handled differently, the Home State situation could have been solved through a quick sale or merger and depositors immediately protected, the problem we now face is to insure prompt reopening of the remaining Fund-insured companies in such a way that they and their depositors are fully protected. It will take the cooperation of the State, the FSLIC and the Fund to insure this result. To that end, I am sure the Fund would pledge its support and cooperation.

NAME OF DEPOSIT INSURANCE FUND: OHIO DEPOSIT GUARANTEE FUND
(the "ODGF")

I. General Information

-
1. Type(s) of Financial Institution(s)
 whose deposits you insure: Ohio chartered
 savings and loan
 associations.
-
2. In which state(s) do you insure: Ohio only.
-
3. A. Cost of initial membership
 in your fund, if any: 2% of withdrawable
 savings, rounded to
 the nearest \$100,
 adjusted semi-
 annually as of June
 30 and December 31
 of each year, plus
 pro rata share of
 accumulated earnings
 at date of accep-
 tance into fund
 membership.
- B. Annual premium: None.
- C. Continuing equity contribution
 or membership deposit: 2% of withdrawal savings,
 rounded to the nearest
 \$100, adjusted semi-
 annually as of June 30
 and December 31 of each
 year.
-
4. Maximum coverage per account or per
 depositor: 100%.
-
5. Do you insure brokered deposits: Yes, but members
 are controlled by the ODGF Rules and Regulations
 as to amounts they can take in brokered deposits
 (See Item II(k) the ODGF Rules and Regulations
 (the "Rules")).
-
6. Number of insured institutions, by type:

- A. Under \$100 million: 61
 B. \$100 million to \$500 million: 7
 C. \$500 million to \$1 billion: 1
 D. Over \$1 billion: 1 (Home State)

December 31, 1984

	Assets	Deposits
A.	\$1,833,006,000	\$1,699,704,000
B.	\$1,175,396,000	\$1,119,130,000
C.	\$ 914,551,000	\$ 823,675,000
D.	\$1,440,608,000	\$ 668,005,000

7. Aggregate amounts of deposits insured, by type of institution: \$4,310,514,000 at December 31, 1984.
-
8. Your fund's total usable assets: \$126,912,430 at December 31, 1984 (market value)
-
9. Ratio of usable insurance fund assets to deposits insured: 2.94% at December 31, 1984

II.

Background:

1. Are you a governmental or private agency and are you a creation of state law? Please provide a text or description of your basic statutory authority.

The ODGF is a non profit, private mutual corporation created pursuant to Ohio Revised Code Section 1151.80-92, as repealed by Amended Substitute Ohio Senate Bill 119.

2. Please provide name of the state agency(ies), if any, with supervisory authority over your books, records, operations, etc.

Ohio Division of Savings and Loans.

3. If a situation arises where your insurance funds are inadequate to cover deposit losses, do you have, by statute:

- a. Access to the treasuries of the state(s) in which you operate; and/or
No
- b. Authority to assess other insured institutions enough to cover the losses?
Not by statute; however, Article V of the ODGF Constitution and Item III(A) of the ODGF Rules provides a method for an assessment.
- 4. Are you subject to state limitations as to the ratio of insurance fund assets to total deposits insured?
No
- 5. Do you have lines of credit already established by contract on which you can draw at will? What is the aggregate dollar limit of established lines of credit? With what institution or institutions have these credit lines been established?
The ODGF has a \$1,000,000 line of credit at the Bank for Savings & Loan Associations, Chicago, Illinois
- 6. Do you reinsure your risks with any other insurance carriers? Please provide details.
\$2,000,000 Insurance Company of North America.
\$25,000,000 retention rider
- 7. Regarding your board of directors:
 - a. How is your board of directors selected?
Selected by Nominating Committee and/or representatives or members at ODGF Annual Meeting. See Article VIII of the Constitution.
 - b. What rules govern the size and composition of the board?
See Article VIII of the ODGF Constitution.
 - c. Who are the present members of your board? (Please provide names and principal affiliations.)

<u>Name</u>	<u>Affiliation</u>
Charles A. Brigham, Jr.	President and Director, Federated Savings Bank, Lockland, Ohio
John A. Dreyer	Director, Baltimore Savings and Loan Company, Cincinnati, Ohio
Richard D. Hoffman	Chairman of the Board, The City Loan & Savings Company, Lima, Ohio
Vernon W. McDaniel	Assistant Treasurer and Director, Anderson Ferry Building and Loan Company, Cincinnati, Ohio
John R. Perkins	President and Director, The Metropolitan Savings Bank, Youngstown, Ohio
Eleanor J. Remke	President and Director, Madison Saving Bank, Cincinnati, Ohio
Joseph D. Rusnak	President and Director, Mentor Savings Bank, Mentor, Ohio
David J. Schiebel	Chairman of the Board, Home State Savings Bank, Cincinnati, Ohio
Harold R. Swope	President and Director, Independent Savings Association, Euclid, Ohio
Charles F. Tilbury, Sr.	Executive Vice-President and Director, The Clermont Savings Association, New Richmond, Ohio
Jack R. Wingate	Executive Vice-President and Director, Heritage Savings Bank, Cincinnati, Ohio

III. Supervision of insured institutions:

1. Do you impose on the institutions whose deposits you insure, reserve, capital or other safety and

soundness requirements designed to prevent the likelihood of insolvency? If so, what basic requirements do you impose?

Yes. See Item II of the ODGF Rules.

2. Please respond separately for each state in which you insured deposits: Ohio only

- a. Do you have authority, either by statute or contract, to discontinue a financial institution's membership in your deposit insurance fund?

Yes--See:

- (1) Article IX, Section 6(a) of the ODGF Constitution;
- (2) Item IV(A) of the ODGF Rules provides for at least two months of continued insurance;
- (3) Item VI of the ODGF Rules requires Notice of Termination to be given to depositors.

- b. Under what set of conditions or circumstances would you be authorized to discontinue insurance?

By resolution of the Board of Trustees for due cause. See Article IX, Section 6(a) of the ODGF Constitution.

- c. Since January 1, 1980, set forth the number of institutions whose insurance you have discontinued and the reasons for such discontinuance.

None.

3. Please respond separately for each state in which you insure deposits: Ohio only

- a. Do you have authority to examine the books, records, loans and other financial transactions of the institutions you insure? Is any such authority statutory or by agreement? Please describe and/or provide a copy of your authority.

Yes. See Item VI(F) of the ODGF Rules. Also see Article IX, Section 6(b) of the ODGF

Constitution and Item VI(C) of the ODGF Rules concerning additional directors.

- b. How frequently do you examine the institutions whose deposits you insure? Please describe your examination policies and procedures. How many examiners/auditors do you have? What is your examination operating budget?

Member institutions are examined as deemed necessary by the Department of Supervision of the ODGF. Policies and procedures vary with the type of information desired. The Department of Supervision consists of three persons capable of examining and auditing with an unlimited budget.

- c. Whether or not you have independent examination powers, do you have a right of access to the examination reports of the relevant financial institution supervisory authority in your state? If so, do you receive their examination reports on a regular basis?

Yes, the ODGF receives copies of all examination reports of its member institutions as prepared by the Division of Savings and Loan Associations, State of Ohio.

4. Are the institutions you insure required to have their books audited and their financial statements certified by independent outside accountants?

No.

5. If a financial problem is discovered or otherwise becomes apparent in a member financial institution, what authority do you have, short of insurance termination, to force correction of the problem and thereby forestall the necessity for claims against the deposit insurance?

The ODGF has no direct authority to correct problems; however, the ODGF closely supervises problems through the Department of Supervision which works with the member institution to resolve its problems. If the problem cannot be resolved by the Department of Supervision, the ODGF works with the Division of Savings and Loans, State of Ohio, to seek to effect a merger with another financially viable institution. The Advisory Committee of the ODGF can make recommendations to

the Board of Trustees with respect thereto.

IV.

Payment of Losses:

1. Do you act as receiver/liquidator for failed institutions you insure?

No. By agreement with member institutions, the ODGF has replaced management and directors in the past with ODGF employees and Trustees, corrected problems and then effected a merger with a financially viable association. The ODGF has never been a receiver/liquidator.

2. If a financial institution whose deposits you insure is closed due to insolvency, do depositors receive their funds immediately or must they await a liquidation process?

The ODGF has never experienced a closing of a financial institution due to insolvency.

3. a. If an institution whose deposits you insure becomes insolvent, is liquidation and a payout of insured deposits your only alternative?

No. See Ohio Revise Code §1151.87(H). Pursuant to the ODGF Rules and general authority, the ODGF can attempt to effect mergers or provide other assistance.

- b. Do you have authority to arrange a purchase-and-assumption takeover (purchase of assets and assumption of deposit liabilities) of a closed institution by another sound institution?

No, not without the complete, full knowledge and approval of the Superintendent of the Division of Savings and Loan Associations, State of Ohio, and the ODGF member institutions.

- c. Do you have authority to keep an insolvent institution open and operating while seeking a merger partner?

Yes, but the ODGF needs the approval of the member institution and the Superintendent to provide assistance.

4. Please provide a listing showing, for each insolvency covered by your fund from January 1,

1980, to date:

The only situation to date is Home State Savings Bank, Cincinnati, Ohio, which is now in the hands of a state appointed conservator.

V. Insured Fund Reserves:

1. How much is your total usable insurance reserve? Provide calendar or fiscal year date for 1981, 1982, 1983, and 1984.

Fiscal Year Ended June 30

<u>1981</u>	\$50,182,978	<u>1982</u>	\$59,269,202
<u>1983</u>	\$88,354,862	<u>1984</u>	\$108,413,800

2. What is the present composition and market value, by type, of your insurance fund assets (for example: U.S. Treasury Securities, bank deposits, corporate bonds, mutual fund investments, state/local securities)?

At March 23, 1985

U.S. Government Securities	\$33,848,375
U.S. Government Agency Bonds	39,472,914
U.S. Government Treasury Bills	2,243,760
Cash and Federal Funds	2,968,157
Bank Certificate of Deposits	450,000

3. Do you invest any insurance fund assets in deposits, notes, debentures, or other obligations of the institutions you insure? How much?

ODGF deposits are made in member institutions only in the event of an assisted transaction. At present, \$6,955,311 is on deposit in a savings account at City Loan & Savings Co. pursuant to a contractual agreement arising out of an acquisition of Central Savings Association, Blue Ash, Ohio.

4. In each of the past four calendar or fiscal years, what has been the average yield from interest, dividends, etc., on your investment portfolio?

Fiscal Year Ended June 30

1981	9.98%
1982	11.36%
1983	11.30%
1984	11.32%

5. Please provide a copy of your latest annual report.

(Amended Substitute Senate Bill Number 119)

AN ACT

To ensure the orderly reopening of building and loan associations and to provide for the protection of depositors, to terminate the authority for deposit guaranty associations except for certain functions, to repeal sections 1151.80, 1151.81, 1151.82, 1151.83, 1151.84, 1151.85, 1151.86, 1151.87, 1151.88, 1151.89, 1151.90, 1151.91, 1151.92, and 1151.99 of the Revised Code, and to declare an emergency.

Be it enacted by the General Assembly of the State of Ohio:

SECTION 1. (A) No building and loan association the deposits of which on the effective date of this act are insured by any deposit guaranty association shall be open for business unless deposits in such association are insured by the Federal Savings and Loan Insurance Corporation (FSLIC) or the Federal Deposit Insurance Corporation (FDIC), or unless the findings in division (B), (C), or (D) of this section have been made.

(B) Notwithstanding division (A) of this section, a building and loan association which has made an application for insurance to FSLIC or FDIC that is substantially complete shall be permitted to open for business by the Superintendent of Building and Loan Associations if the Superintendent finds, upon application by such association to the Superintendent, that such association probably should qualify for such insurance under the applicable standards of FSLIC or FDIC, as the case may be. If such association is other than a permanent stock company, and, in addition to an application for insurance to FSLIC or FDIC, it has submitted an application for reorganization under section 1151.61 of the Revised Code, the Superintendent shall include and consider such application in making his finding.

(C) Notwithstanding division (A) of this section, if a building and loan association has made application to the Superintendent pursuant to division (B) of this section and such application has been denied or not been approved within fifteen days from the date such application was submitted to the Superintendent, such building and loan association may make application to the Director of Commerce. The Director shall hold a

hearing based upon rules promulgated by the Director within fifteen days at which evidence may be presented. A building and loan association shall be permitted to open unless the Director finds, based upon such factors as the liquidity of the building and loan association as demonstrated by its levels of cash, cash items and readily marketable securities, and the ability of such association to immediately preserve or increase the liquidity in response to depositor demands and the net worth of such association, and that such opening is not in the best interests of the depositors of such association or is detrimental to the interests of building and loan associations generally. The procedures provided by this act are not subject to Chapter 119. of the Revised Code.

(D) Notwithstanding division (A) of this section, a building and loan association may open if it demonstrates to the satisfaction of the Superintendent one of the following:

(1) Its deposits are guaranteed by a corporation, organization, or other person, which corporation, organization, or person owns, directly or indirectly, a majority of such association within 120 days of the effective date of this act, and which corporation, organization, or person meets such financial and other qualifications as may be established by the Superintendent;

(2) It is owned or controlled, directly or indirectly, by an institution insured by FSLIC or FDIC and such institution guarantees its deposits, or has entered into an agreement to be acquired by or be merged with such institution, or enters into such an agreement within fifteen days of the effective date of this act.

(3) The Superintendent determines that the interests of the depositors will not be jeopardized.

(E) In addition to the causes stated in section 1157.01 of the Revised Code, the Superintendent may order a building and loan association to liquidate its business and property pursuant to section 1157.23 of the Revised Code whenever either:

(1) The Superintendent has denied its application to open for business under division (B) of this section and there is no appeal from that denial pending pursuant to division (C) of this section or an appeal has been denied and the Superintendent determines that the interests of the depositors will be jeopardized if the association is not liquidated;

(2) After being permitted to open for business under division (B) or (C) of this section, its application for deposit insurance has been denied or the Superintendent finds that any other condition upon which opening was permitted is not in existence and the Superintendent determines that the interests of the depositors will be jeopardized if the association is not liquidated;

(3) The association has not qualified to open for business 120 days after the effective date of this act, and the Superintendent determines that the interests of the depositors will be jeopardized if the association is not liquidated.

(F) During the period in which a building and loan association is not open for business pursuant to division (A) of this section, such association may set aside and make available in its discretion for withdrawal by all depositors during any period of thirty consecutive days an aggregate amount not exceeding the balance of such depositors' account or accounts,

but in no event more than an aggregate of seven hundred fifty dollars in each thirty-day period; provided, however, that such association shall keep an account of the withdrawals made and such withdrawals shall be deemed to be credits against the withdrawing depositor's pro rata dividend in the event such association is liquidated. Such association may receive deposits, but the deposits received during such period are not subject to any limitation as to payment or withdrawal, and such deposits shall be segregated and shall not be used to liquidate any indebtedness of such association existing on the effective date of this act or any subsequent indebtedness. Such deposits received while the association is not open for business shall be kept on hand in cash, invested in the direct obligations of the United States or the State of Ohio, or deposited with a financial institution in Ohio designated by the Superintendent.

(G) Nothing in this section shall preclude the Superintendent from exercising his powers and discharging his duties and responsibilities as set forth in the Revised Code.

(H) The powers of the Superintendent under this act and Sub. S. B. 113 of the 116th General Assembly after December 31, 1985, shall be limited to the fulfillment of commitments made under such acts, expressly or by reasonable implication, on or before that date and shall not include the initiation of any additional proceedings not so required.

(I) There shall be no liability imposed on the part of, and no cause of action of any nature arises against, the savings association guaranty fund created pursuant to Sub. S. B. 113 of the 116th General Assembly, its board of trustees, officers, agents, or employees, the superintendent of savings and loan associations or his authorized representatives, for any statements made in good faith by them in any reports or communications concerning risks insured or to be insured by the association, or for any administrative actions conducted in connection therewith.

SECTION 2. That sections 1151.80, 1151.81, 1151.82, 1151.83, 1151.84, 1151.85, 1151.86, 1151.87, 1151.88, 1151.89, 1151.90, 1151.91, 1151.92, and 1151.99 of the Revised Code are hereby repealed effective sixty days from the effective date of this act. Notwithstanding this section, a deposit guaranty association has all power and authority necessary to accomplish complete winding up of its business, including, but not limited to, the defense to judgment, with right of appeal as in other cases, of any claims asserted against any such deposit guaranty association, and the prosecution to judgment, with right of appeal as in other cases, of claims, whether arising by subrogation or otherwise, presently held by, or hereafter arising or accruing to, any such deposit guaranty association.

SECTION 3. Notwithstanding any other provision of the Revised Code to the contrary, if any such building and loan association or building and loan association or building and loan associations insured by a deposit guaranty association elects to convert to a bank and if following such conversion the institution should be eligible for FDIC insurance, upon application the Superintendent of Banks shall forthwith issue an authorization for the applicant to commence business as a bank and thereafter the institution shall be a bank.

SECTION 4. Notwithstanding any other provision of the Revised Code to the contrary, if any such building and loan association or building and loan associations insured by a deposit guaranty association, elects to

convert to a bank, the association or associations shall file an application with the Superintendent of Banks. The Superintendent of Banks may, without being subject to the publication, notice and hearing requirements of section 1103.07 of the Revised Code, approve such application and may condition such approval to provide for the orderly transition from the business of a building and loan association to the business of the bank. The Superintendent of Banks shall have full authority to enforce compliance with such conditions and to regulate the resulting bank pursuant to Chapters 1101. to 1129. of the Revised Code. Upon receipt of evidence satisfactory to the Superintendent of Banks that the resulting bank will be insured by the Federal Deposit Insurance Corporation at the time it commences business as a bank, the Superintendent shall issue a certificate of authority to commence business as a bank.

Notwithstanding any other provision of the Revised Code to the contrary, if any building and loan association or building and loan associations insured by a deposit guaranty association elects to merge or consolidate with a bank or to transfer assets and liabilities to a bank, upon receipt of evidence satisfactory to the Superintendent of Banks that the resulting bank of such reorganization will be insured by the Federal Deposit Insurance Corporation upon consummation of the reorganization, the Superintendent of Banks shall approve the merger, consolidation or transfer of assets and liabilities.

The Superintendent of Banks may waive, in whole or in part, fees required by section 1125.16 of the Revised Code for any transaction made pursuant to this section.

SECTION 5. A special prosecutor shall be appointed by the attorney general as described in section 2939.10 of the Revised Code to investigate and prosecute any criminal violations that may have been committed in connection with any events and circumstances that caused any savings and loan association to be placed in the possession of a conservator as of March 15, 1985, and any criminal activity by any depositor, investor, director, officer, or employee of any savings and loan association, any unlawful activity in the operation of any savings, and loan association, or any unlawful activity by any state officer or employee in connection with the regulation, examination, inspection, or operation of any savings and loan association or any deposit guaranty fund or any person with whom an association had any contractual relationship.

SECTION 6. All assets, deposits or loans received by the deposit guaranty fund for state chartered building and loan associations, as created by Sub. S. B. 113 of the 116th General Assembly less any deposits by building and loan associations denied membership by the Federal Savings and Loan Insurance Corporation are hereby pledged to indemnify the corporation for any losses incurred by the corporation through defaults through June 30, 1987 of formerly privately insured state chartered associations accepted for membership by the corporation. In addition, the General Assembly shall appropriate \$10,000,000, not withstanding the net amount provided by the deposit guaranty fund for these same purposes to the extent these funds are required.

SECTION 7. Within two working days of a privately insured state chartered building and loan association receiving notification that it has been denied insurance from the Federal Savings and Loan Insurance Corporation, the deposit guaranty fund as created by Sub. S. B. 113 of

the 116th General Assembly, shall pay to the association any funds on deposit by the association to the guaranty fund less any withdrawals by the association and plus interest earned on the net balances by the association on deposit with the guaranty fund. Interest earned shall be calculated on the daily interest received by the guaranty fund as determined by the funds' management.

SECTION 8. This act is hereby declared to be an emergency measure necessary for the immediate preservation of the public peace, health, and safety. The reason for such necessity lies in the fact that this action is essential to the best possible conclusion to a serious problem affecting public confidence in building and loan associations whose deposits are insured by deposit guaranty associations. Therefore, this act shall go into immediate effect.

Speaker _____ *of the House of Representatives.*

President _____ *of the Senate.*

Passed _____, 19__

Approved _____, 19__

Governor.

The section numbering of law of a general and permanent nature is complete and in conformity with the Revised Code.

Director, Legislative Service Commission.

Filed in the office of the Secretary of State at Columbus,
Ohio, on the ____ day of _____, A. D. 19__.

Secretary of State.

File No. _____

Effective Date _____

[DEPOSIT GUARANTY ASSOCIATIONS]**§ 1151.80 Definitions.**

As used in sections 1151.80 to 1151.92, inclusive, of the Revised Code:

(A) "Building and loan association" means a corporation organized for the purpose of raising money to be loaned to its members or to others; and includes "savings association";

(B) "Deposit guaranty association" means an association organized under the provisions of sections 1151.81 to 1151.86, inclusive, of the Revised Code;

(C) "Superintendent of building and loan associations" means the superintendent of building and loan associations in the state of Ohio created

by the provisions of section 121.04 of the Revised Code.

HISTORY: 128 v 94, § 1. EE 10-11-88.

Cross-References to Related Sections

Fiduciary—

- Deposit of funds, RC § 2109.41
- Investment by, RC § 2109.37
- Investment of funds by trustees of police and firemen's disability and pension fund, RC § 742.11.
- Investment of surplus or reserve of state insurance fund, RC § 4123.44.2.
- Investments by domestic life insurance company, RC § 3907.14.
- Investments by public employees retirement board, RC § 145.11.
- Investments by state teachers retirement board, RC § 3307.15(F)(1).

See RC § 1107.16 which refers to RC §§ 1151.80 to 1151.92.

CASE NOTES AND OAG

1. A deposit guaranty association organized under RC § 1151.80 et seq is not empowered to guaranty the permanent stock of member building and loan associations: 1958 OAG No. 6299.
2. A deposit guaranty association organized under RC § 1151.80 et seq is empowered to guaranty withdrawable shares, stock deposit accounts or running stock of member building and loan associations: 1958 OAG No. 6299.
3. A deposit guaranty association organized under RC § 1151.80 et seq is empowered to guaranty moneys on deposit with member building and loan associations pursuant to the pertinent provisions of RC § 1151.19, whether evidenced by passbook or certificate of deposit: 1958 OAG No. 6299.

§ 1151.81 Incorporation of mutual deposit guaranty association.

Any number of building and loan associations incorporated pursuant to sections 1151.02, 1151.03 and 1151.04 of the Revised Code, not less than twenty-five, may become incorporated under the general corporation laws of this state as a mutual deposit guaranty association without capital stock subject to the limitations prescribed in sections 1151.80 to 1151.92, inclusive, of the Revised Code.

Articles of incorporation of a deposit guaranty association shall be filed in the office of the secretary of state. The secretary of state shall, upon receipt of such articles, transmit a copy of them to the superintendent of building and loans and shall not record them until authorized to do so by the superintendent.

HISTORY: 128 v 94, § 1. EE 10-11-88.

§ 1151.82 Examination and certification by superintendent.

Upon receipt from the secretary of state of a copy of the articles of incorporation of a proposed deposit guaranty association the superintendent of building and loans shall at once examine into all the facts connected with the formation of such proposed corporation. In the event such articles of incorporation are correct in form

and substance and the examination shows that such corporation, if formed, would be entitled to commence the business of a deposit guaranty association, the superintendent shall so certify to the secretary of state.

The superintendent may refuse to make such certification if upon examination he has reason to believe the proposed corporation is to be formed for any business other than assuring the liquidity of member building and loan associations and guarantying deposits therein, if he has reason to believe that the character and general fitness of the incorporators are not such as to command the confidence of the general public or if the best interests of the public will not be promoted by its establishment.

HISTORY: 128 v 94, § 1. EE 10-11-88.

CASE NOTES AND OAG

1. The sole purpose of the legislature in making possible a deposit guaranty corporation is to guaranty the liquidity of its member associations: Ohio Deposit Guarantee Fund v. Dziamba, 60 OO 428, 137 NE(2d) 905 (CF).
2. The refusal of the superintendent of building and loan associations to certify the articles of incorporation of a deposit guaranty association because of certain provisions or lack of provisions in a proposed constitution and by-laws constitutes an arbitrary and discriminatory act: Ohio Deposit Guarantee Fund v. Dziamba, 60 OO 428, 137 NE(2d) 905 (CF).

§ 1151.83 Recording of articles of incorporation; certified copies.

Upon receipt of the certificate provided for in section 1151.82 of the Revised Code, the secretary of state shall record the articles of incorporation of such deposit guaranty association and furnish a certified copy thereof to the incorporators and to the superintendent of building and loan associations. All papers thereafter filed in the office of the secretary of state relating to such corporation shall be recorded as provided by law and a certified copy forwarded to the superintendent.

HISTORY: 128 v 94 (95), § 1. EE 10-11-88.

§ 1151.84 Proposed amendments transmitted to superintendent.

When any proposed amendments to the articles of incorporation of a deposit guaranty association are filed in the office of the secretary of state, the secretary of state shall transmit a copy thereof to the superintendent of building and loan associations and shall not record such amendments until authorized to do so by the superintendent.

HISTORY: 128 v 94 (95), § 1. EE 10-11-88.

§ 1151.85 Examination and certification of amendments.

Upon receipt from the secretary of state of a copy of proposed amendments to the articles of

incorporation of a deposit guaranty association the superintendent of building and loan associations shall at once examine the proposed amendments to determine their effect on the operation of the deposit guaranty association.

In the event such proposed amendments are correct in form and substance and the examination shows that if adopted they would not change the character or principal business of the deposit guaranty association, the superintendent shall so certify to the secretary of state.

The superintendent may refuse to make such certification if upon examination he has reason to believe the proposed amendments would change the character of the business of the guaranty deposit association or the best interests of the public will not be promoted by their adoption.

HISTORY: 126 v 94 (95), § 1. EF 10-11-43.

§ 1151.86 Recording of amendments; certified copies.

Upon receipt of the certificate provided for in section 1151.85 of the Revised Code, the secretary of state shall record the amendments to the articles of incorporation and furnish a certified copy thereof to the corporation and to the superintendent of building and loan associations.

HISTORY: 126 v 94 (95), § 1. EF 10-11-43.

§ 1151.87 Powers of associations.

A deposit guaranty association incorporated in accordance with sections 1151.81 to 1151.86 of the Revised Code, may:

(A) Assure the liquidity of member building and loan associations;

(B) Guaranty moneys on deposit, but not the permanent stock of associations;

(C) Loan money to a member building and loan association for the purpose of assuring its liquidity and deposits therein;

(D) Buy any assets owned by a member building and loan association for the purpose of assuring its liquidity and deposits therein;

(E) Invest any of its funds in:

(1) Bonds or interest bearing obligations of the United States or for which the faith and credit of the United States are pledged for the payment of principal and interest;

(2) Bonds or interest bearing obligations of the District of Columbia, of this state, of any county, township, school district, or other political subdivision of this state, or of any municipal corporation in this state;

(3) Farm loan bonds issued under the "Federal Farm Loan Act," 39 Stat. 360, 12 U.S.C. 641 (1916), and amendments thereto;

(4) Notes, debentures, and bonds of the federal home loan bank issued under the "Federal Home Loan Bank Act," 47 Stat. 725, 12 U.S.C. 1421 (1932), and any amendments thereto;

(5) Bonds or other securities issued under the "Home Owners Loan Act of 1933," 48 Stat. 128, 12 U.S.C. 1461, and any amendments thereto;

(6) Securities acceptable to the United States to secure government deposits in national banks;

(7) Certificates of deposit of any financial institu-

tion that is subject to inspection by the United States or by this state.

(F) Issue its capital notes or debentures to member building and loan associations provided the holders of such capital notes or debentures shall not be individually responsible as such holders for any debts, contracts, or engagements of the deposit guaranty association issuing such notes or debentures;

(G) Borrow money;

(H) Exercise any corporate power or powers not inconsistent with, and which may be necessary or convenient to, the accomplishment of its purposes of assuring liquidity of member building and loan associations and guaranteeing deposits therein.

*HISTORY: 129 v 5 426. EF 12-9-82.

Ohio Administrative Code

Negotiable order of withdrawal account. OBL: OAC 1301: 2-5-21

Law Review

Developments in Ohio savings and loan law: 1980. Ronald E. Alexander. 17 AkronLRev 357 (1981).

Regulating State Chartered Savings Associations: An Introduction to the Ohio Scheme. Ronald E. Alexander. 11 AkronLRev 399 (1978).

The Ohio deposit guaranty fund—the Ohio alternative to FSLIC. Ronald Alexander. 15 AkronLRev 431 (1982).

§ 1151.88 Filing of semiannual financial reports.

Each deposit guaranty association shall on the thirtieth day of June and the thirty-first day of December of each year, or within forty days thereafter, file with the superintendent of building and loan associations a report for the preceding half year, showing its financial condition at the end thereof.

Such reports shall be in such form and contain such information as prescribed by the superintendent.

HISTORY: 126 v 94 (96), § 1. EF 10-11-43.

§ 1151.89 Annual examination of building and loan associations.

At least once each year the superintendent of building and loan associations shall make or cause to be made an examination into the affairs of each deposit guaranty association doing business in this state. The expenses of such yearly examination shall be paid by the state.

HISTORY: 126 v 94 (97), § 1. EF 10-11-43.

CASE NOTES AND OAG

1. The statute (RC § 1151.89 et seq) gives the absolute right of the superintendent to make investigations and examinations and inspections of any

deposit guaranty company in the same manner as he is empowered to supervise and control the operation of all member building associations. Any abuse of authority, power or discretion on the part of such guaranty association may be dealt with as completely and adequately as with any member building and loan association: Ohio Deposit Guarantee Fund v. Dziamba, 60 OO 428, 137 NE(2d) 905 (CP).

§ 1151.90 Special examinations.

Whenever the superintendent of building and loan associations deems it necessary he may make or cause to be made a special examination of any deposit guaranty association doing business in this state in addition to the regular examination provided for by section 1151.89 of the Revised Code. The expense of a special examination shall be paid by the association. Such expenses shall be collected by the superintendent and paid into the state treasury to the credit of the general revenue fund.

HISTORY: 126 v 94 (97), § 1. *EL* 10-11-58.

§ 1151.91 Right to enter and conduct investigations.

The superintendent of building and loan associations or any examiner appointed by him shall have access to and may compel the production of all books, papers, securities, moneys, and other property of a deposit guaranty association under examination by him. He may ad-

minister oaths to and examine the officers and agents of such association as to its affairs.

HISTORY: 126 v 94 (97), § 1. *EL* 10-11-58.

§ 1151.92 Fees.

Each deposit guaranty association doing business in this state shall pay to the superintendent of building and loan associations, at the time of filing each semiannual report required by section 1151.88 of the Revised Code, five dollars plus a sum equal to one one-hundred-sixtieth of one per cent of the assets of such association as shown in such report. All such fees shall be paid into the state treasury to the credit of the division of building and loan associations special account.

*HISTORY: 136 v 5 447 (*EH* 5-19-76); 137 v 5 221. *EH* 11-23-77.

The provisions of § 12 of SB 221 (137 v —) read as follows:

SECTION 12. Services rendered by the unclaimed funds section of the Department of Commerce shall include the necessary costs of making publications required by Chapter 169. of the Revised Code and of paying other operating and administrative expenses. Adjustments to the Unclaimed Funds rotary fund appropriation shall be made to cover the actual expenses of this section. The amounts appropriate to the Department of Commerce in Am. Sub. H.B. 161 of the 112th General Assembly for appropriation item 800-613 Building and Loan Rotary shall be con-

Ohio Deposit Guarantee Fund

Constitution



CONSTITUTION OF THE OHIO DEPOSIT GUARANTEE FUND

ARTICLE I
NAME

The name of the corporation shall be:
"OHIO DEPOSIT GUARANTEE FUND."

ARTICLE II
LOCATION

The principal office of the corporation shall be located in Cincinnati, Hamilton County, Ohio.

ARTICLE III
PURPOSE

The purpose of the corporation shall be to use the full extent of its powers, authority and resources to provide for the liquidity of its members and to guarantee the moneys on deposit in member associations, whether evidenced by passbook, or certificates of deposit, withdrawable shares, stock deposit accounts, or running stock of member building and loan associations and savings associations, but not the permanent stock, debentures or similar stock accounts.

ARTICLE IV
POWERS

The corporation shall have all of the powers granted by Sections 1151.80 to 1151.92 inclusive of the Ohio Revised Code to mutual deposit guarantee associations and as may be hereafter provided by law; and shall have the powers granted by the general corporation laws of Ohio to non-profit corporations.

ARTICLE V
DEPOSITS

Each member shall maintain a deposit with the corporation in such amount and under such terms and conditions as shall be determined by the Board of Trustees, not to exceed two percent (2%) of the deposit liability of such member, which shall be uniformly applied to all members. Such deposit shall be evidenced by certificates of deposit of the corporation. No additional deposit will be required except on an affirmative vote of members having deposit liabilities aggregating more than sixty percent (60%) of the total deposit liability of all members at a regular meeting or a special meeting called for the purpose. All deposits and certificates issued therefor shall be rounded off to the nearest Hundred Dollars. Members may carry such certificates on their books as assets and these may be considered as a liquid asset by the member. Members may not, without the consent of the Board of Trustees, use such certificate or certificates as collateral for loans. Deposits of members shall be adjusted semi-annually to conform to changes in deposit liability, as shall be determined by the Board of Trustees.

In addition to the above deposit, a new member shall, upon admission, contribute to the accumulated reserves of the corporation a sum equal to the accumulated reserves at the end of the calendar quarter immediately preceding such admission multiplied by the

ARTICLE V
DEPOSITS
 (continued)

fraction whose numerator shall be the required deposit of such new member and the denominator shall be the aggregate of deposits of all members.

ARTICLE VI
MEMBERS

SECTION 1

Only companies organized under Sections 1151.02, 1151.03 and 1151.04 of the Ohio Revised Code may be members of the corporation. On or before the 31st day of July each year, each member, by action of its Board of Directors, shall appoint one of its officers or directors to be its Representative, and one of its officers or directors to be its Alternate Representative who shall serve in the absence of the Representative, and shall thereafter notify the corporation of its appointment. On October first of each year following such notification, each Representative and Alternate Representative shall be the Representative and Alternate Representative of the member appointing them until October first of the following year or until their successors are chosen and qualified. At all meetings of members, the vote of each Representative or Alternate Representative shall be the vote of the member association which appointed him.

ARTICLE VI
MEMBERS
 (continued)

SECTION 2. Vacancies

Whenever a vacancy occurs in the office of Representative or Alternate Representative of any member, by reason of death, resignation or failure to continue in office as an officer or director, such member, by action of its Board of Directors, shall appoint a successor to fill such vacancy for the unexpired term and shall notify the corporation of its appointment.

ARTICLE VII
MEETINGS AND
NOTICES

SECTION 1. Annual Meeting of Members

The Annual Meeting of members shall be held in October of each year, not earlier than the fifteenth (15th) day thereof, for the purpose of electing the Trustees and conducting such other business as may properly come before the meeting. The Board of Trustees shall designate the time and the place of said meeting and the Secretary shall notify the Representatives at least fourteen (14) days in advance of said meeting by mail. Said notice shall contain the time, place and purpose of the meeting.

Section 2. Special Meetings of Members

Special meetings of members shall be held whenever called by the Board of Trustees, the President, or by at least five (5) Representatives or

ARTICLE VII
MEETINGS AND
NOTICES
 (continued)

twenty percent (20%) of the Representatives, whichever is larger, joined together for such purpose. The President, or such group of Representatives, shall notify the Secretary of the purpose of the meeting in writing. The Secretary shall notify all the Representatives of the call, time, place and purpose of said meeting, in writing, at least fourteen (14) days in advance of said meeting.

Section 3. Notices

All notices for Annual or Special Meetings shall be mailed to the address given by the member in its notice of appointment or such other address as the Representatives or Alternate Representatives shall designate.

Section 4. Quorum

Fifteen (15) Representatives or twenty percent (20%) of the Representatives, whichever is larger, shall constitute a quorum of members, and at each meeting of members, whether Annual or Special, said quorum may act by and through a majority of Representatives in attendance, and the act and deed of such majority shall be binding and conclusive as the action of all of the members in all respects.

ARTICLE VIII
BOARD OF
TRUSTEES

Section 1. Number of Trustees

The Board of Trustees shall consist of not less than nine (9) nor more than fifteen (15) Trustees. Only an officer or a director of a member shall be eligible to serve as a Trustee. The terms of office of elected Trustees shall not be less than one (1) year nor more than three (3) years. Representatives may increase or decrease the number of Trustees, within the limits herein prescribed, at any Annual or Special Meeting called for that purpose. A decrease will not affect the term of a Trustee then in office.

Trustees shall be elected by the Representatives at the Annual Meeting in such numbers and to serve for such terms that an equal number of Trustees, as nearly as possible, will expire each year. Elections shall be by ballot if more candidates are nominated than number of Trustees to be elected. Trustees shall be limited to two (2) consecutive terms of office, but may be eligible to serve after one (1) full year's absence on the Board.

The Board of Trustees may make recommendations to the membership as to the number of Trustees and may nominate a duly qualified person as Trustee.

Any five (5) Representatives may also nominate a Trustee by written nomination, provided such nomina-

ARTICLE VIII
BOARD OF
TRUSTEES
 (continued)

tion is made in writing and addressed to the Executive Vice-President and received by him at least five (5) days prior to the Annual Meeting.

Section 2. Compensation

The Trustees shall serve without compensation as Trustees, but may be reimbursed for expenses as may be required from time to time in the performance of their duties as Trustees.

Section 3. Termination of Office and Vacancies

The office of a Trustee shall be terminated by reason of death, resignation, failure to continue in office as an officer or director of a member or failure to attend three (3) consecutive meetings. Whenever such vacancy occurs, the remaining members of the Board of Trustees shall appoint a successor to fill such vacancy for the unexpired term.

Section 4. Meetings of Board of Trustees

The Board of Trustees shall meet at least once every three (3) months, and may, from time to time, by action of the Board of Trustees, establish additional regular meetings of the Board of Trustees. The President may call a special meeting of the Board of Trustees at any time and the Executive Vice-President shall notify the members of the Board of

ARTICLE VIII
BOARD OF
TRUSTEES
 (continued)

Trustees by notice, in writing, at least five (5) days prior to said meeting.

Section 5. Quorum

A majority of the Board of Trustees shall constitute a quorum at any meeting of the Board of Trustees. At any meeting of said Board, at which a quorum is present, said Board may act by and through a majority of the Trustees in attendance and the act and deed of such majority shall, in all respects, be binding and conclusive as the action of the whole Board.

ARTICLE IX
OFFICERS AND
COMMITTEES

Section 1.

The officers of the corporation shall be elected annually by the Board of Trustees at an organizational meeting to be held following the Annual Meeting of the corporation or at a regular or special meeting of the Board, if necessary, and shall consist of the following: President, and a Vice-President, all from its own number; one or more Vice-Presidents; a Secretary and a Treasurer. The Board shall elect an Executive Vice-President who shall not be an officer or director of any building and loan association, who shall administer the policies of the Board. The Board will appoint

ARTICLE IX
OFFICERS AND
COMMITTEES
 (continued)

an attorney or attorneys and an auditor or firm of auditors, who shall be certified public accountants. The Executive Vice-President, attorney or attorneys, and auditor or firm of auditors, will all serve at the pleasure of the Board. The Board may employ such other persons as it deems necessary. No full time employee may be a director or officer of any building and loan association. Officers so elected shall take office immediately and shall hold office for a term of one year or until their successors are elected and qualified. The office of President shall not be held for more than two (2) consecutive terms by the same person.

Section 2.

The President shall appoint an Executive Committee of five (5), with the approval of the Board of Trustees, all of whom shall be Trustees, who shall act for the Trustees of the corporation in the interim between the meetings of the Board of Trustees and have such duties and powers as is delegated to them by the Board of Trustees. The President shall appoint an Advisory Committee of seven (7), with the approval of the Board of Trustees, all of whom shall be officers or directors of members, who shall have such duties and

ARTICLE IX
OFFICERS AND
COMMITTEES
(continued)

authority as shall be delegated to them by the Board of Trustees. The Executive Vice-President shall be the Executive Secretary of both committees without vote.

Section 3.

The Board of Trustees shall have the power to adopt, amend, repeal and enforce such By-Laws, resolutions, rules and regulations and orders as they may deem necessary to enable them to properly manage and control all the business, property and rights of the corporation.

Section 4.

The officers shall have the powers and duties as may be prescribed by the By-Laws.

Section 5.

The Board of Trustees may elect such other officers and provide for such committees, either temporary or permanent, as it deems necessary.

Section 6.

In addition to the powers granted heretofore, the Board of Trustees is charged with the following specific responsibilities:

ARTICLE IX
OFFICERS AND
COMMITTEES
(continued)

(a) The Board of Trustees shall have the sole right to admit additional members to membership in the corporation on such terms and conditions as the Board may prescribe, and for due cause shall have the sole right to revoke membership in the corporation.

(b) The Board of Trustees may require regular and special reports, statements and audits of its members.

Section 7.

Any rule and regulation or order may be amended or repealed by a vote of the members at a duly constituted meeting called for that purpose.

ARTICLE X
AMENDMENTS

The Charter and Constitution of the corporation may be altered, amended, repealed, or superseded either in whole or in part by the affirmative action of a majority of the members, at any meeting of members called for that purpose.

ARTICLE XI
DISSOLUTION

The corporation may be merged or dissolved or otherwise terminate its existence, in accordance with the General Corporation Act of Ohio, with the provision that any action of the members to bring about a dissolution or termination of the existence of the corporation shall require the affirmative vote of not less than eighty percent (80%) of the members.

Notwithstanding the provisions of Article X of this Constitution, this Article XI may be amended only by the affirmative vote of not less than eighty percent (80%) of the members.

Ohio Deposit Guarantee Fund

By-Laws



BY - LAWS OF THE OHIO DEPOSIT GUARANTEE FUND

SECTION I DUTIES OF OFFICERS

A. President

The President shall preside at all meetings of the corporation, and of the Board, and shall have such authority and perform the duties as they pertain to said office as may be required of him.

B. First Vice-President

The First Vice-President, who is a Trustee, shall perform the duties of the President in the event of his absence.

C. Secretary

The Secretary shall keep a complete record of all the proceedings of all meetings of members and of the Board and shall perform the duties as shall pertain to said office and such other duties as may be required of him.

D. Treasurer

The Treasurer shall perform the duties usually incident to the office of the Treasurer and such other duties as may be required of him.

E. Executive Vice-President

The Executive Vice-President shall be a salaried officer who shall devote his entire business

SECTION I
DUTIES OF
OFFICERS
 (continued)

time to the affairs of the corporation. He shall administer the policies of the Board, and, as such, he shall be the general receiving, disbursing, and managing officer of the corporation under the Board and the Executive Committee, and, with the assistance of such employees as the Board may provide, shall have the care and management of all the corporation's business, rights, and affairs for which there is no other provision in the Constitution or By-Laws of the corporation. In the performance of his duties, he shall exercise such authority over the subordinate officers and employees as shall be necessary or appropriate. He shall receive notice of and attend all meetings of the members of the corporation, of the Board, of the Executive Committee, and of the Advisory Committee, and may act, if chosen, as secretary of any committee.

SECTION II
ATTORNEY

The Attorney shall represent the corporation in all legal proceedings; he shall draw all necessary legal papers, give his advice and counsel whenever requested, and render such other services as may be required by the Board.

SECTION III
AUDITOR

The Auditor shall annually examine the books and records of the corporation and render an opinion of same and perform such other duties as are required by the Board.

SECTION IV
COMMITTEESA. Executive Committee

The President shall appoint the Chairman of the Executive Committee who shall preside at all meetings of the Committee. The Executive Vice-President shall be ex-officio the secretary of the Committee without vote. Members of the Committee shall hold office until the next Annual Meeting following their appointment and until their successors are appointed and qualified. A majority of members of the Committee shall constitute a quorum for the transaction of business.

The Committee shall establish the policy for investment of funds within the limitations prescribed by Section 1151.87 of the Revised Code and shall establish the policy regarding the sale of investments or other assets, real or personal, of the corporation. The Committee may borrow money and secure loans so made by a pledge or mortgage of any of the property, real or personal, of the corporation.

If, in the opinion of the President, or of the Vice-President acting in the capacity of President, an emergency exists and it is impossible to get a quorum to act at once, he may appoint one or more members of the Board to act temporarily as a

SECTION IV
COMMITTEES
(continued)

member of the Executive Committee to provide a quorum so that the Committee may function during the emergency. Minutes of meetings of the Executive Committee shall be submitted to the Board at its next regular meeting.

B. Advisory Committee

The Committee shall, at its first meeting, organize by electing one of its members as its Chairman who shall preside at all meetings of the Committee.

The Executive Vice-President shall be ex-officio a member of said Committee without the power to vote. The Advisory Committee may inquire into the financial condition and management policies of each member of the corporation and shall recommend to any member actions or policies it considers necessary or advisable for such member to take to adopt in order to place or preserve such member in a condition to safeguard properly the interests of its depositors. If its recommendations are not complied with within a reasonable time to the complete satisfaction of the Committee, it shall so report to the Board at its next meeting, including in its report its recommendations with respect to the action to be taken by the Board.

SECTION IV
COMMITTEES
(continued)

Said Committee shall have authority to counsel with the Board of Directors of members.

All applications for membership in the corporation shall be submitted to the Advisory Committee for its review and recommendation to the Board. The Advisory Committee shall meet at least quarterly and special meetings may be called at any time by the Executive Vice-President or the Chairman of the Committee. Minutes of all meetings of the Advisory Committee shall be submitted to the Board.

SECTION V
WAIVER

Members of the Board may waive notice of a meeting required to be given by law or by the Constitution of the corporation, and, by attendance at a meeting, shall be deemed to have waived such notice.

SECTION VI
AUTHORIZED
SIGNATURES

All certificates of deposit, notes, deeds, mortgages, contracts, and all instruments in writing not herein specifically enumerated other than checks for the disbursement of money, shall be signed by any two (2) of the following officers: President; First Vice-President; Executive Vice-President; Secretary or Treasurer, or such officers as shall be designated by

SECTION VI
AUTHORIZED
SIGNATURES
(continued)

the Board of Trustees to sign on behalf of the corporation. No officer shall sign in more than one capacity.

SECTION VII
DEPOSITORIES
AND DISBURSE-
MENTS

All funds shall be under the control of the Board of Trustees, who shall cause them to be deposited in the name of the corporation with its designated depository or depositories, and such funds shall be withdrawn from such depository only on check of such depository or depositories, to be signed by such officer or officers as designated by resolution of the Board.

SECTION VIII
INDEMNITY
BOND

All officers and employees of the corporation, before entering upon the discharge of their duties, shall be covered by an individual, schedule or blanket fidelity bond in favor of the corporation in an amount required by, and with the terms and surety approved by, the Board. The Trustees, as such, shall not be required to give bond.

SECTION IX
PARTICIPATION
BY TRUSTEES
IN MATTERS
BEFORE BOARD

Any member of the Board of Trustees who represents, as counsel, director or other officer, a member of the Fund which has a matter before the Trustees, which may require action by the Trustees, may present to the Trustees the case of the member which he represents, but such member of the Trustees shall not participate any further in the deliberation of the Trustees or the action of the Trustees with respect to such matter.

SECTION X
PARTICIPATION
BY ADVISORY
COMMITTEE
MEMBERS IN
MATTERS BEFORE
COMMITTEE

Any member of the Advisory Committee who represents, as counsel, director or other officer, a member of the Fund which has a matter before the Committee which may require a recommendation by the Committee, may present to the Committee the case of the member which he represents, but such member of the Committee shall not participate, any further, in the deliberation of the Committee of the recommendation of the Committee with respect to such matter.

SECTION XI
AMENDMENTS

These By-Laws may be altered, amended, repealed, or superseded either in whole or in part by the affirmative action of a majority of members of the Board at any meeting of the Board called for that purpose. A proposal to amend shall be filed with the Executive Vice-President at least two (2) weeks prior to the meeting at which said amendment is to be considered, and the Executive Vice-President shall include said proposal with the notice of the meeting. Any amendment so adopted must be substantially the same as proposed.

Ohio Deposit Guarantee Fund

Rules and Regulations



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RULES AND REGULATIONS
OF THE
OHIO DEPOSIT GUARANTEE FUND

ITEM I.
APPLICATION
FOR
MEMBERSHIP

(A) ELIGIBLE

Any building and loan association of this state which is not a member of the Fund may, upon compliance with such conditions as may be prescribed by the Board, become a member of the Fund.

(B) RECORDS AND FILES

Applicants for membership in the Fund and members of the Fund agree to authorize the Superintendent to make available to the Fund the records and files in his office as to the management and condition of each member. Said authorization shall be in the form agreed upon by the Fund or the Superintendent.

(C) ADVERTISING MEMBERSHIP

A member may advertise itself as a member of the Fund and may use the symbol in its advertising as long as it is a member. The Fund reserves the right to prescribe the form in which the guarantee of deposits may be advertised.

ITEM II.STANDARDSANDQUALIFICA-TIONS

The following standards and qualifications shall be required of all members of the Fund and their maintenance shall be a condition of continuous membership or admittance to membership in the Fund.

(A) LIQUIDITY

Each member shall establish and maintain unpledged liquid assets equivalent to 7% (or such other percentage as determined by the Board of Trustees) of its net deposit liability and borrowed money. However, a member shall not be required to maintain the required percentage on borrowed money that is collateralized by a liquid asset as hereafter defined.

For purposes of this regulation, the following items shall be considered as liquid assets:

- 1) Cash.
- 2) U.S. Treasury Bonds, Notes or Bills.
- 3) Municipal obligations and federal funds, as prescribed in Section 1151.34(B), Ohio Revised Code.
- 4) Investments in any of the following:
 - a) Stock in Federal Home Loan Bank.
 - b) Deposit in Ohio Deposit Guarantee Fund.
 - c) Bank for Cooperatives Bonds.
 - d) Federal Land Bank Bonds.
 - e) Federal Intermediate Credit Bank.
 - f) Federal International Credit Banks Consolidated Systemwide Bonds.

ITEM II
STANDARDS
AND
QUALIFICA-
TIONS

- (A) LIQUIDITY (continued)
- g) Federal Home Loan Bank Bonds.
 - h) Federal National Mortgage Association Bonds.
 - i) Government National Mortgage Association Bonds.
 - j) Bankers acceptances of a bank insured by Federal Deposit Insurance Corporation.
 - 5) Deposits in Federal Home Loan Bank -- both demand and time.
 - 6) Deposits in Bank for Savings & Loan Associations.
 - 7) Certificates of Deposit in any financial institution subject to inspection by the United States or by the State of Ohio.
 - 8) Any other type of investment similar to those listed that may be approved from time to time by the Board of Trustees.

That portion of any liquid asset that is pledged or used as collateral for public deposits or used in reverse repo transactions cannot, at the same time, be construed as a liquid asset.

In the event that liquid assets are used as collateral for borrowed money, public deposits, or reverse repo transactions, only the amount of the liquid assets equal to the amount of the borrowed money, public deposit or reverse repo transaction need be deducted from the book value of the liquid assets in determining the 7% liquidity requirement. However, in the event the lender, etc. specifically requires liquid collateralization on a greater basis than one for one, the additional amount required shall also be deducted.

ITEM IISTANDARDS
AND
QUALIFICA-
TIONS

(A) LIQUIDITY (continued)

Specifically excluded as liquid assets are all mortgage backed securities and revenue bonds.

If, for any consecutive seven (7) business days, the liquid assets of the member remain less than the fixed requirement and, during that period, the member makes loans, the member may be assessed a fine of not more than \$500.00 for each day when loans were made. The amount of the fine shall be determined by the Board of Trustees, upon reviewing the facts disclosed to them by the Supervisory Section of the Fund.

At its discretion, the Board of Trustees may waive any fine or penalty assessed.

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ITEM II.
STANDARDS
AND
QUALIFICA-
TIONS
(continued)

(B) LOSS RESERVE AND OTHER NET WORTH ACCOUNTS

Each member or applicant for membership shall maintain or show reasonable ability to maintain, a Loss Reserve and other net worth accounts in accordance with the requirements of the Ohio Revised Code and the Superintendent, Division of Building and Loan Associations, State of Ohio.

(C) REAL ESTATE OWNED

No member or applicant for membership shall hold real estate, acquired through mortgage foreclosure or deed in lieu thereof, the aggregate value of which is in excess of three percent (3%) of its total assets.

(D) SLOW LOANS

No member or applicant for membership shall permit the aggregate of its slow loans, as defined by the Division of Building and Loan Associations, to exceed a sum equal to two percent (2%) of its total assets.

(E) TAXES AND INSURANCE

Each member or applicant for membership shall maintain office records which show payment or non-payment of taxes and insurance premiums upon all property upon which the member or applicant holds

ITEM II.

a mortgage, and upon real estate owned.

STANDARDS
AND
QUALIFICA-
CATIONS
(continued)

(F) SHAREHOLDERS' APPROVAL

Each member or applicant for membership shall obtain the approval by its shareholders of its membership or application for membership in the Fund, and shall, within sixty (60) days following its admittance to membership, present to the Fund a certified copy of minutes of the meeting at which such approval was given.

(G) HOLDING COMPANIES

Each member, the records of which disclose that more than twenty percent (20%) of its voting stock is owned by a person or corporation not organized under Chapter 1151 of the Ohio Revised Code, shall report this fact promptly to the Fund. The Fund, upon receipt of such notice, or within six (6) months thereafter, may then declare the member to be not eligible for continued membership in the Fund. In such event, said member shall withdraw from the Fund within two (2) months after the Fund has declared it to be not eligible for continued membership. Such member shall be entitled to withdraw from the Fund, in the manner provided in these Rules and Regulations.

ITEM II.
STANDARDS
AND
QUALIFICA-
TIONS
(continued)

The Fund may reject any application made for membership in the Fund, if it finds that more than twenty percent (20%) of the voting stock of the applicant is owned by a person or corporation not organized under Chapter 1151 of the Ohio Revised Code.

If, after the receipt of notice that more than twenty percent (20%) of the voting stock of a member or applicant for membership is owned by a person or corporation not organized under Chapter 1151 of the Ohio Revised Code, and the Fund decides to retain such member or admit such applicant for membership, such member and the person or corporation owning in excess of twenty percent (20%) of the voting stock may, at the discretion of the Board of Trustees, be required to comply with the following regulations:

1. No dividends may be declared or paid when the aggregate of the subject member's statutory reserves and undivided profits are less than five percent (5%) of its withdrawable money.

ITEM II.STANDARDS
AND
QUALIFICA-
TIONS
(continued)

2. The Fund shall have the right to audit or review the records of the person or corporation owning in excess of twenty percent (20%) of the voting stock of a member and any other subsidiary owned or controlled by such person or corporation whenever the Fund considers such audit or review necessary for its best interest.

3. A member whose voting stock is owned, as stated above, shall have its stockholder or corporation, at its expense, submit copies of all reports requested by the Fund which it considers necessary for the protection of its interest. Such reports shall include, but not be limited to, copies of annual audits performed by certified public accountants and copies of reports filed annually with the Securities and Exchange Commission.

4. Transactions and dealings between a member and any person owning more than twenty percent (20%) of the voting stock of such member, and any other corporations, partnerships, trusts, or similar organizations in which said person or his family has an interest, is prohibited, without the prior approval of the Fund.

ITEM II.
STANDARDS
AND
QUALIFICA-
TIONS
(continued)

5. Transactions and dealings between a member and its parent corporation, or any subsidiaries of the parent corporation or major stockholder of the parent or any of the subsidiaries, wherein the proceeds of any transaction or dealing made by such member inure to the benefit of any of the above, is strictly prohibited without the prior approval of the Fund.

(H) TEST APPRAISALS

Whenever a member is in violation of Subsections (C) or (D) of this section and an examination made by the Division of Building and Loan Associations, or an audit conducted by the Fund's staff discloses that the member company is or has been engaged in unsound, unsafe or imprudent lending practices, it shall be reported to the Board of Trustees. Under such circumstances, the Board of Trustees has the authority to cause test appraisals to be made of the real estate owned by such member and the real estate securing its loans, by an independent appraiser selected by the Fund. The cost of such test appraisals will be borne equally by the member and the Fund.

In the event the test appraisals indicate that the member is or has been engaged in unsound, unsafe or imprudent lending practices, the Board of Trustees

ITEM II.
STANDARDS
AND
QUALIFICA-
TIONS
(continued)

may require the member to set up a Specific Reserve in the amount by which the balance of the loan exceeds the appraised value of the real estate security and also, to have all future real estate offered as security for loans appraised by an independent appraiser selected by the Fund for such period as the Board may determine.

(I) DEFERRED CHARGES AND INCOME

Each member or applicant for membership shall charge off premiums, on mortgage loans purchased when paid, or may capitalize them. If capitalized, a proportionate amount of the premium shall be charged to expense, at least semi-annually, over the remaining term of the loans or over a period not exceeding the average remaining term of the loans, or seven (7) years, whichever is less.

Each member or applicant for membership shall defer discounts on loans purchased over a period of not less than seven (7) years; the discount shall be credited to income at least semi-annually. Any charge made by the purchaser in connection with the purchase of a loan shall be deducted from the purchase price to determine the amount of the discount.

ITEM II.
STANDARDS
AND
QUALIFICA-
TIONS
(continued)
(Rev. 2/80)

All charges for finder's fees, buying commission, attorney's fees, and brokerage fees in connection with the making or acquisition of a mortgage loan or contract, shall be treated as an expense in the accounting period in which such charges are incurred.

(Rev. 4/25/84)

Each member shall credit to an account descriptive of deferred income any amounts charged in connection with making a loan or contract (other than average interest provided by the loan contract) all amounts in excess of the greater of \$50.00, or four and one-half percent (4-~~1~~) of the amount of the loan, if the loan is for the purpose of construction, or four percent(4%) of the loan or contract, if the loan is for any other purpose, plus \$400.00 for either type of loan or contract when members utilize employees of the institution to perform appraisal, attorney or loan closing functions. A proportionate amount of this deferred income shall be credited to income, at least semi-annually over a period of not less than seven (7) years. Amounts collected from the borrower and paid out to third parties for necessary initial charges in connection with the mortgage loan or contract transaction are excluded from computing deferred income.

ITEM II.STANDARDSANDQUALIFICA-TIONS(continued)

On loans sold, by participation or otherwise, capitalized premiums and/or deferred credits or discounts applicable to such loans as of the sale date shall be added to or deducted from (as appropriate) the book value, and the profit or loss thereon shall be recognized as of that date.

On loans paid in full, the above may apply; however, it is not mandatory, as it is on loans sold.

(J). SERVICE CORPORATION ACTIVITIES

A service corporation in which any member has an interest or any subsidiary of a service corporation is prohibited from entering into any transaction wherein a director, officer, employee of the member or corporation, or person or corporation owning or controlling 20% or more of the member's stock has a direct or indirect interest without the prior written approval of the Ohio Deposit Guarantee Fund.

ITEM II.
STANDARDS
AND
ALIFICA-
TIONS
(continued)

(Approved by
Board of
Trustees --
9/26/84)

(K) BROKERED DEPOSITS AND JUMBO CERTIFICATES
OF DEPOSIT

Brokered Deposits are defined as funds received, in which a third party intermediary, acting as a broker, comes between the owner of the money and the depository. This broker represents either party for a fee --- or other consideration --- usually paid to the broker by the depository. A savings promotion by a member, in which the employee receives a bonus for bringing savings into the Association, is not considered brokered savings, provided no one other than the employee is involved in obtaining the savings deposits.

Jumbo Certificates of Deposit are defined as Certificates of Deposit in an amount of \$100,000 or more or a combination of amounts exceeding \$100,000, which are controlled by the same account holder, and which are specially negotiated as to rate and/or duration.

With respect to the above, a member or applicant for membership shall comply with the following:

- 1) Brokered Deposits and Jumbo Certificates, in the aggregate, shall not exceed five percent (5%) of a member's current total deposit liability.

ITEM II.STANDARDSDQUALIFICA-
TIONS(continued)

However, Brokered Deposits and/or Jumbo Certificates may be accepted in excess of the 5% limit, if such excess is invested in a liquid instrument that matures within seven (7) days of the maturity date of the Brokered Deposit or Jumbo Certificate.

Mortgage loans, construction loans, and other forms of loans will not be considered as liquid investments.

- 2) Any tie-in of Brokered Deposits or Jumbo Certificates to the granting of credit is prohibited.
- 3) In the event the Board of Trustees determines that a member is a supervisory problem, it may, by action taken at any regular or special meeting, prohibit any future acceptance of Brokered Deposits or Jumbo Certificates by said member until such time as the Board of Trustees, in its opinion, no longer considers said member to be a supervisory problem.
- 4) A member shall have the right to submit to the Board of Trustees a written request for authorization to exceed the percentage

ITEM II.STANDARDSA.QUALIFICA-TIONS(continued)

limitation in 1) above. Such request shall set forth the reasons for additional authorization, together with supporting documentation. The Board of Trustees shall have the sole right to approve or disapprove such request.

- 5) Brokered Deposits and Jumbo Certificates, held as of May 31, 1984, that exceed the percentage limit in 1), may not be renewed without the specific approval of the Fund, except that Jumbo Certificates existing in member institutions as of May 31, 1984, are "grandfathered" and may be continuously renewed.

ITEM III.(A) DEPOSITSDEPOSITS
AND
PENALTIES

1. If additional deposits are voted, in accordance with Article V of the Constitution, any member not voting in favor of such call may resign from membership by filing with the Fund, within thirty (30) days after such a vote is taken, a written notice of its intention to resign. Such resignation shall become effective upon compliance with and in accordance with the provisions of the Rules and Regulations. The member so resigning shall be entitled to receive from the Fund the same portion of its assets, and in the same manner, as it would be entitled to receive under Item IV, Section B, of these Rules and Regulations.

No member which has filed a notice with the Fund of its intention to resign under this Sub-Section shall be required to make any additional deposits, required by the Fund of its members pursuant to Article V of the Constitution, after receipt by the Fund of such notice.

The assent of each member to the vote for additional deposits shall be conclusively presumed to have been given unless a member, within thirty (30) days after the vote thereon was taken, files a notice with the Fund of its intention to resign.

ITEM III.DEPOSITS
AND
PENALTIES
(continued)

Any member, having given notice of its intention to resign, may withdraw such notice by written request, at any time before its effective date. Upon payment to the Fund of its full share of the additional deposit required, such notice of intention to resign shall be void.

2. Upon admission to the Fund, the amount required to be contributed to the accumulated reserves and to the deposit of the Fund, required by Article V of the Constitution, may be paid at once, or in such manner as may be determined by the Board of Trustees.

3. Deposits with the Fund, prescribed by Article V of the Constitution, and the amount required to be paid pursuant to Sub-Section 2 of this section, are prerequisite to membership.

4. "Deposit liability," as used in this section, means the deposit liability of a member as of December 31st or June 30th, immediately preceding the date of the action taken or required to be taken.

5. There shall be an adjustment of the deposit requirements of members semi-annually, beginning January 1st and July 1st, based upon the increase or the decrease of the deposit liability of each member.

ITEM III.DEPOSITS
AND
PENALTIES
(continued)

For each semi-annual period beginning January 1st, the deposit of each member shall equal that portion of the member's deposit liability as reported on December 31st, immediately preceding and for each semi-annual period beginning July 1st, the deposit of each member shall equal that portion of the member's deposit liability as reported on June 30th immediately preceding, as prescribed in percentage by Article V of the Constitution. If the required deposit of a member is thus found to have increased over the preceding semi-annual period, it may deposit the difference due from time to time, provided the entire difference shall be paid in full not later than February 10th and August 10th of the period for which the adjustment was made. Refund due to members on decrease shall be made by February 10th and August 10th of the period for which the adjustment is made, provided the Certificate of Deposit is presented for such change. At the time of each semi-annual adjustment of deposits, and after payments in accordance with such adjustments have been made, the Fund shall enter on each of the Certificates of Deposit the amount then on deposit. All deposits made with the Fund pursuant to this Sub-Section shall be rounded off to the nearest hundred dollars.

ITEM III.(B) PENALTIESDEPOSITS
AND
PENALTIES
(continued)

Each member accepts the obligation to make all payments due pursuant to Sub-Section 5 of Section A of this Item, on or before the date due. Failure to do so on the part of any member renders such member subject to suspension or expulsion. While under suspension, or after expulsion, for failure to make deposits when due, the Fund recognizes no obligations to such member to exercise any of the powers set forth in Item VI hereof, and such member is not entitled to any of the benefits of membership in the Fund, including display of the symbol, other than those granted by Item IV, Section B, with respect to withdrawal of assets.

Failure to make deposits on or before the date due shall subject the member to a penalty. The penalty shall not exceed ten percent (10%) of the amount due. The Fund may institute an action at law for the collection of the deposits or the penalty or both.

ITEM IV.(A) NOTICEWITHDRAWAL
FROM
MEMBERSHIP

Any member which is not, either at the time of giving notice of intention to withdraw or at the time of withdrawal, in default in any of its obligations to the Fund, including calls made before the date of withdrawal, or which has repaid any advance or loan made to it by the Fund, and has carried out the terms of any repurchase agreement made with the Fund, may withdraw from membership in the Fund upon giving to it twelve (12) months' notice in writing, of its intention to withdraw. The Fund may, upon a vote of two-thirds (2/3) of its Board of Trustees, at a meeting called to consider such notice, or upon a vote of the members whose deposit liabilities aggregate not less than seventy-five percent (75%) of the total deposit liabilities of all members (including those of the withdrawing member) at a meeting of the members called to consider such notice, permit such member to withdraw at the end of two (2) months from the date of giving such notice or at the end of such period less than twelve (12) months from the date of giving of such notice as may be approved by the Board, if no meeting of the members is called to consider such notice. Upon the written request of the withdrawing member, the meeting of the Board to consider the notice as above provided shall be held

ITEM IV.

WIS. RAWAL
FROM
MEMBERSHIP
(continued)

within five (5) weeks from the date such notice was given. If the Board, at such meeting, has fixed the effective date of withdrawal at a date more than two (2) months from the date the notice was given, then, upon the written request of the withdrawing member, the meeting of members to consider such notice, as above provided, shall be held within eight (8) weeks from the date such notice was given.

B) AMOUNT ENTITLED TO

(Approved
 by Board of
 Trustees -
 9/26/84)

Any member withdrawing from the Fund pursuant to the provisions of Section A above shall be entitled to withdraw from the Fund's assets only in the manner hereinafter stated, its proportionate share of the Fund's net assets on the date its withdrawal becomes effective. Such proportionate share shall be calculated in the following manner:

- 1) The amount of the deposit in the Fund by the member, (representing the percentage of the deposit liability of the member); plus
- 2) the amount of the payment, if any, made by the member upon admission to the Fund, representing its proportionate interest in the accumulated reserves of the Fund (the equalization payment); plus or minus

ITEM IV.WITHDRAWAL
FR
MEMBERSHIP
(continued)

- 3) The member's proportionate interest in the net earnings or losses of the Fund between the date such member was admitted to membership and the date of such member's withdrawal, calculated as hereinafter stated.

A member's proportionate interest in the earned reserves or losses of the Fund will be calculated in the following manner:

- 1) For each six-month period, or fraction thereof, (January to June, and July to December), of membership, the net earnings or losses of the Fund less any dividends paid to members shall be allocated to each member based upon the ratio of each member's deposit in the Fund to the total deposits in the Fund of all members, based upon the deposits required at the beginning of each period.
- 2) As of the withdrawal date, the withdrawing member shall be charged with its proportionate interest (based upon the ratio of the withdrawing member's deposit in the Fund to the total deposits in the Fund of all members at that date) in the following manner:

ITEM IV.

WITHDRAWAL
FR
MEMBERSHIP
(continued)

- a) the amount, if any, by which the market value of the Fund's assets is less than their amortized cost (book value);
 - b) the amount of any reserve, as determined by the Board of Trustees but not recorded in the financial statements of the Fund, to provide for existing or potential losses existing at the withdrawal date.
- 3) If the total of the amounts calculated in 1) and 2) above shall be an increase in the amount due to the withdrawing member, there shall be deducted from such amount, twenty-five percent (25%) of such amount to be retained by the Fund.

The amount due to a withdrawing member shall normally be paid in cash. However, in the event that the Board of Trustees, in its judgment, determines that certain assets of the Fund are not readily marketable, then a percentage of such amount shall be paid by the issuance of a certificate or certificates of fractional participation. Such certificate or certificates of fractional participation shall entitle the holder thereof to its proportionate share of any proceeds resulting from the liquidation of such remaining assets as they are liquidated by the Fund. Such certificates

ITEM IV.WITHDRAWALROMMEMBERSHIP(continued)

shall describe the assets to which it relates only by symbols, and the Fund shall, after the issuance of such certificate or certificates, designate such assets on its records, by like symbols. Such certificate or certificates shall not entitle the holder thereof to any control over the manner, amounts, or time of liquidation of any of such assets.

The Fund shall not reveal any information related to such remaining assets other than the extent of liquidation of the assets to which such certificate or certificates relate. The Fund, in final settlement of such member's proportionate share, either may pay to the withdrawing member, in lieu of such certificate or certificates, such sum in cash as may be agreed upon as the reasonable value thereof, or at any time after the issuance of such certificate or certificates, may purchase the same for such sum in cash as may be then agreed upon as the reasonable value thereof.

In the event that a withdrawing member's proportionate interest in the earned reserves or losses of the Fund was reduced by a reserve as provided in 2) b), the following shall apply. If the ultimate aggregate loss incurred by the Fund is less than the amount of the reserves provided at the withdrawal date, then the withdrawing member shall be entitled to its propor-

ITEM IV.
WITHDRAWAL
FI
MEMBERSHIP
(continued)

tionate share of any such amount (less the 25% to be retained by the Fund, if applicable). In this event, the determination of any amounts due to withdrawn members, as well as the time and method of payment, shall be made by the Board of Trustees, in their judgment, based upon a review of all the facts and circumstances relating to the loss or potential loss.

ITEM IV.(C) MERGER

WITHDRAWAL
FROM
MEMBERSHIP
(continued)

Any member, or members, proposing to merge with any other association or associations, shall immediately upon adoption of a plan of merger by the Board of Directors of such member, or members, notify the Fund of such action and provide the Fund with a detailed copy of the proposed merger. Such proposal shall include a proposed adjustment of its deposit and premium payment with the Fund based upon its deposit liabilities after such merger. The Fund may approve such proposal with or without modification or it may disapprove if the merged association fails to meet the standards adopted by the Fund. A decision to approve with or without modification or disapprove shall be made within sixty (60) days after receipt of the copy of the proposal. Upon request of the member, the Board of Trustees shall extend the sixty-day (60) period. Upon the final disapproval by the Fund of such merger, the membership of such member, or members, shall terminate upon the effective date of such merger. Any such member, or members, thus terminating membership shall be entitled to withdraw from the Fund's assets, in the same manner provided in Section B of this Item, its proportionate share of the Fund's net assets on the effective date of such merger.

ITEM IV.

WITHDRAWAL
FROM
MEMBERSHIP
(continued)

(D) REORGANIZATION

Any member proposing to reorganize pursuant to Section 1151.61 of the Ohio Revised Code shall notify the Fund immediately upon adoption by its Board of Directors of a plan of reorganization. The Fund may approve such plan with or without modification or it may disapprove, if the reorganized association fails to meet the standards adopted by the Fund. A decision to approve with or without modification or disapprove shall be made within sixty (60) days after receipt of the copy of the proposal. Upon request of the member, the Board of Trustees shall extend the sixty-day (60) period. Upon the final disapproval by the Fund of such plan, the membership of such member shall terminate upon the adoption of the plan by the shareholders and such member shall be entitled to withdraw from the Fund's assets, in the same manner provided in Section B of this Item, its proportionate share of the Fund's net assets on the date of the adoption of such plan by the shareholders.

ITEM IV.(E) DISSOLUTIONWITHDRAWAL
FROM
MEMBERSHIP
(continued)

Any member which has filed an application to dissolve with the Superintendent of Building and Loan Associations and received his consent in writing to such dissolution, pursuant to Section 1151.45 of the Ohio Revised Code, shall be entitled to withdraw from the Fund's assets, in the same manner provided in Section B of this Item, its proportionate share of the Fund's net assets on the date such consent of the Superintendent is given. The Fund shall deduct from the proportionate share of such member any obligation of such member to the Fund and may require the fulfillment of any repurchase agreement made with the Fund. Such member shall keep on deposit with the Fund such percentage of its current deposit liabilities as is required of members pursuant to Article V of the Constitution, until such time as such member shall have paid all of its depositors and the guarantee by the Fund of the deposits of such member's depositors shall have terminated.

ITEM V.
NOTICE OF
TERMINATION
OF
MEMBERSHIP

Any member, whose membership in the Fund is terminated at any time, shall notify each of its depositors of such termination of membership, and shall set forth in the notice the date upon which the Fund will cease to guarantee such deposits.

The Fund shall determine the date upon which it will cease to guarantee such deposits and the time and manner of giving and content of such notice.

In no event shall the Fund permit the withdrawal of any assets of the Fund by such member until such member has delivered to the Fund proof of the giving of such notice.

ITEM VI.
POWERS
DEFINED

For the purpose of guaranteeing the deposits and assuring the liquidity of its members, the Fund shall have the following powers:

(A) LOANS TO MEMBERS

The Fund may loan money to members with or without security. Such loans shall bear such rate or rates of interest and be on such terms as the Board of Trustees may determine. If and when bonds,

ITEM VI.
POWERS
DEFINED
(continued)

mortgages or mortgage notes secured by mortgages on real estate shall be taken as security for any such loan, the value of the bonds, mortgages or mortgage notes and the title of the mortgagor may be ascertained at such time and in such manner as shall be satisfactory to the Board, and it shall not be necessary to record the assignment of any such bonds, mortgages, or mortgage notes to the Fund.

(B) PURCHASE OF MEMBER'S ASSETS

The Fund may buy any assets owned by any member at the book value thereof, or at such other value as the Board of Trustees may determine, notwithstanding that such value may exceed the market value thereof, either with or without an agreement providing for the repurchase of such assets, or any of them, at such price or prices, and at such time or times, and subject to such conditions, as are determined by the Board.

(C) AUTHORITY TO FILL VACANCIES ON BOARD

Whenever the Superintendent of the Division of Building and Loan Associations shall notify the Fund that any member has committed such an act or acts or is in such condition that he might take possession of the business of such member, pursuant

ITEM VI.POWERSDEFINED(continued)

to law or when the Superintendent shall so request, the Fund may require the Board of Directors of such member to appoint one or more persons, recommended to it by the Board of Trustees, to attend all meetings of the Board of Directors and such committee meetings as the Fund shall deem necessary and also to fill any vacancy or vacancies on the Board of Directors, to remain and retain such rights until such conditions shall have been corrected to the satisfaction of the Superintendent and/or the Fund. Each building and loan association, upon becoming a member, agrees, under the foregoing circumstances, to make such changes in its condition or in its Constitution or By-Laws or in the membership of its Board of Directors as may be required of it by the Fund and to retain such changes in the Constitution and By-Laws for the duration of its membership or until authorized by the Fund to do otherwise.

ITEM VI.(D) LIQUIDATION BY SUPERINTENDENT

POWERS
DEFINED
(continued)

Whenever the Superintendent shall determine that a member is in such condition that he may be required to exercise any of his statutory powers to restrict such member in the carrying on of its business, or whenever he has, in fact, exercised any of such statutory powers, the Superintendent may notify the Fund. The Fund shall thereupon, or within a reasonable time, either restore such member to a financial condition satisfactory to the Superintendent, or it shall make available to the Superintendent, as receiver or liquidating agent, such funds as may be necessary to pay each of the depositors in such member the full amount of his deposit as credited to his account on the books of the member, and such funds shall be used only for the purpose of paying the depositors of such member. The Fund shall thereupon be subrogated to the rights of such depositors against such member.

(E) TRUSTEES' AUTHORITY TO REQUIRE AMENDMENTS

The Board of Trustees may require the Constitution and By-Laws of members and of applicants for membership to be amended for the sole purpose of providing uniformity of the provisions affecting the liability to their depositors and, consequently, the

ITEM VI.
POWERS
DEFINED
(continued)

liability and responsibility of the Fund to its members, and may require members to supply a copy of each state examination which is made from time to time. The Board may supply personnel to assist the Superintendent of Building and Loan Associations to make special examinations of its members.

(F) INVESTIGATIVE AUTHORITY

The Fund's Supervisory staff, at the direction of the Executive Vice-President of the Fund, may, at any time, enter a member institution for the purpose of conducting an investigation or audit. The member shall be required to furnish, upon request, all of the company's books, records, securities, monies, and other property, needed to complete the investigation or audit.

ITEM VII.INTEREST
AND
RETURN OF
DEPOSITS

(A) At the discretion of the Board of Trustees, the Fund may pay interest when the deposit liability ratio exceeds one and one-quarter percent (1-1/4%) and may return deposits to members, to the extent of the excess, when the deposit liability ratio exceeds two percent (2%).

(B) The Fund shall pay interest or return deposits to members when the deposit liability ratio exceeds three percent (3%) to the extent of such excess.

(C) The interest paid to any member shall be computed upon its deposits with the Fund, at the immediate preceding adjustment date or in such other manner as may be determined by the Board of Trustees.

(D) Any interest or return deposits may, at the discretion of the Board of Trustees, be paid to a member by applying such interest or return of deposits to the reduction of any advance made to such member by the Fund or any other liability of such member to the Fund, including any amounts due to the Fund as an adjustment of deposit requirements pursuant to Item III, Section A, Sub-Section 5, hereof.

ITEM VII.
INTEREST
AND
RETURN OF
DEPOSITS
(continued)

(E) Whenever the Fund returns deposits to members pursuant to Sections A, B, or D of this Item, the Fund shall enter on each of the certificates of deposit the amount then on deposit.

ITEM VIII.
INFORMATION
AND
STATISTICS
OF MEMBERS

The Fund may require from its members information and statistics, in addition to information which it may have received from the Superintendent, Division of Building and Loan Associations, or otherwise, with respect to their condition and investments, and upon consideration thereof may make such written recommendations as, in the judgment of the Board of Trustees, shall tend to place or preserve members in condition to properly safeguard their depositors. If a member to which such a recommendation has been made refuses to comply therewith, within a reasonable time, then the Board may, after hearing the member at a meeting of the Board called for that purpose, and upon the affirmative vote of three-fourths (3/4) of the entire Board, expel or suspend such member from membership in the Fund. Such member shall thereupon have, pursuant to Item IV (B), the same rights with reference to withdrawal of assets as a member which has withdrawn from the Fund, except that the Fund may set off against the member's proportionate share of the assets any obligation of the member to the Fund, including advances, loans or repurchase agreements.

ITEM IX.REQUIRED
NOTIFICA-
TION

Any member proposing to take any action for which statutes require that application be filed with or notice be given to the Superintendent of Building and Loan Associations, shall, at the time of filing such application or giving such notice, transmit a copy thereof to the Fund.

ITEM X.INCREASE IN
INTEREST OR
DIVIDEND

Any member intending to increase its rates of interest to be paid on deposits, or its dividend rates to be paid its withdrawable shareholders, shall immediately notify the Executive Vice-President of the Fund of such increase.

ITEM XI.ADVERTISING
RATES OF
RETURNS

Every advertisement, announcement or solicitation relating to the interest or dividends paid on savings accounts in member institutions shall be governed by the following rules:

(a) Annual rate of simple interest. Interest or dividend rates shall be stated in terms of annual rates of simple interest or dividends.

OHIO DEPOSIT GUARANTEE FUND
1001 TRI STATE BLDG.
CINCINNATI, OHIO 45202

ITEM XI.ADVERTISING
RATES OF
RETURN
(continued)(b) Percentage yields based on one year.

Where a percentage yield achieved by compounding interest or dividends during one year is advertised, the annual rate of simple interest shall be stated with equal prominence, together with a reference to the basis of compounding. No member shall advertise a percentage yield based on the effect of grace periods permitted such members.

(c) Percentage yields based on periods in excess of one year. No advertisement shall include any indication of a total percentage yield, compounded or simple, based on a period in excess of a year, or an average annual percentage yield achieved by compounding during a period in excess of a year.

(d) Time or amount requirements. If an advertised rate is payable only on savings accounts that meet time or amount requirements, such requirements shall be clearly and conspicuously stated. Where the time requirement for an advertised rate is in excess of a year, the required number of years for the rate shall be stated with equal prominence, together with an indication of any lower rate or rates that will apply if the savings account is withdrawn at an earlier maturity.

ITEM XI.ADVERTISING
RATES OF
RETURN
(continued)

(e) Profit. The term "profit" shall not be used in referring to interest or dividends paid on savings accounts.

(f) Accuracy of advertising. No member shall make any advertisement, announcement, or solicitation, which is inaccurate or misleading or which misrepresents its savings accounts contract.

(g) Solicitation of savings accounts for member institution. Any person or organization which solicits savings accounts for a member shall be bound by the rules contained in this section with respect to any advertisement, announcement, or solicitation. No such person or organization shall advertise a percent yield on any savings account it solicits for a member institution which is not authorized to be paid and advertised by such member.

(h) "Savings Accounts," as aforementioned, are defined as all types of savings accounts, whether evidenced by passbooks or certificates.

ITEM XII.
PROMOTIONAL
OPERATIONS

A member may use give-aways in connection with a promotional campaign to increase savings accounts.

The value of the give-away (any premium whether in the form of merchandise, credit, or cash) shall be its cost to member institution (excluding shipping and packaging costs, if applicable), and shall not exceed:

1. \$10.00 for the opening of a new account, or for an addition to an existing account of less than \$1,000.00.

2. \$20.00 for the opening of a new account, or for an addition to an existing account of \$1,000.00 or more.

ITEM XIII.AMENDMENTS

These Rules and Regulations may be altered, amended, repealed, or superseded, either in whole or in part, by the affirmative action of a majority of members of the Board at any meeting of the Board. A proposal by the Board to amend shall be submitted to the membership for review and comment thirty (30) days prior to final adoption by the Board of Trustees, except that, in any emergency, as determined by the Board of Trustees, temporary action, not to exceed ninety (90) days, may be taken to alter, amend, repeal or supersede the above regulations pending final adoption.

OHIO DEPOSIT GUARANTEE FUND
DEFINITIONS AS USED IN THE CONSTITUTION, BY-LAWS
AND RULES AND REGULATIONS

1. "Fund" means the Ohio Deposit Guarantee Fund, a corporation organized under the provisions of Section 1151.80 to 1151.92, inclusive, of the Revised Code of Ohio.
2. "Superintendent" means the Superintendent of the Division of Building and Loan Associations, an office created by Section 121.04 of the Revised Code.
3. "Building and loan association" means a corporation organized under Sections 1151.02, 1151.03 and 1151.04 of the Revised Code, for the purpose of raising money to be loaned to its members or to others, and "building and loan association" includes savings association.
4. "Member" means a building and loan association which has become a member of the Fund.
5. "Depositor" means any person, firm or corporation who has placed withdrawable funds in a member.
6. "Deposit liability" means the aggregate of all withdrawable funds credited to the accounts of all depositors of a member.

(more)

DEFINITIONS (CONTINUED)

7. "Certificate of deposit" means the capital note which the Fund is authorized to issue to its members pursuant to Section 1151.87, subsection (F), of the Revised Code.
8. "Deposit" means the money which a members has deposited with the Fund as a capital asset for which the Fund has issued a certificate of deposit.
9. "Deposit ratio" means, expressed in percentage, the deposit liability of a member divided into the face value of the certificates of deposit of a member.
10. "Deposit liability ratio" means, expressed in percentage, the aggregate deposit liability of all members divided into the aggregate of all cash and the value of marketable securities of the Fund.

OHIO DEPOSIT GUARANTEE FUND

1001 Tri-State Building
Cincinnati, Ohio 45202



STATEMENT OF CONDITION

June 30, 1984

TWENTY-EIGHTH ANNUAL REPORT

of the

OHIO DEPOSIT GUARANTEE FUND

A mutual deposit guaranty association of state-chartered savings and loan companies organized under the laws of the State of Ohio.

**Report For The Fiscal Year Ended
June 30, 1984**

**Submitted To The Members
October 18, 1984**

OHIO DEPOSIT GUARANTEE FUND BOARD OF TRUSTEES

THREE YEARS

- Charles A. Brigham, Jr.**
President and Director, Federated Savings Bank, Lockland
- Eleanor J. Remke**
President and Director, Madison Saving Bank, Cincinnati
- John R. Perkins**
President and Director, The Metropolitan Savings Bank,
Youngstown
- Joseph D. Rusnak**
President and Director, Mentor Savings Bank, Mentor

TWO YEARS

- John A. Dreyer**
Director, Baltimore Savings and Loan Company, Cincinnati
- David J. Schiebel**
Chairman of the Board, Home State Savings Bank, Cincinnati
- Harold R. Swope**
President and Director, Independent Savings Association, Euclid

ONE YEAR

- Robert D. Maher**
Secretary and Director, The Ottawa Home and Savings Association,
Ottawa
- Vernon W. McDaniel**
Assistant Treasurer and Director, Anderson Ferry Building and
Loan Company, Cincinnati
- Charles F. Tilbury, Sr.**
Executive Vice-President and Director, The Clermont Savings
Association, New Richmond
- Jack R. Wingate**
Executive Vice-President and Director, Heritage Savings Bank,
Cincinnati

OFFICERS AND COMMITTEES

OFFICERS

President	Charles F. Tilbury, Sr.
Executive Vice-President	Donald R. Hunsche
Vice-President	Vernon W. McDaniel
Secretary	David J. Schiebel
Treasurer	Joseph D. Rusnak

EXECUTIVE COMMITTEE

Vernon W. McDaniel	Joseph D. Rusnak
John R. Perkins	Charles F. Tilbury, Sr.
Jack R. Wingate	

ADVISORY COMMITTEE

Wallace E. Evans

Executive Vice-President, American Savings Bank
Upper Sandusky

Richard D. Hoffmann

Chairman of the Board, The City Loan & Savings Company,
Lima

August Hoffman

Executive Vice-President, Midwest Savings Association,
Silverton

Michael O. Roark

President, Scioto Savings Association, Columbus

Arthur W. Wendel, Jr.

Executive Vice-President, Seven Hills Savings Association,
Cincinnati

Jerry D. Williams

Secretary, People's Building, Loan and Savings Company,
Lebanon

Robert M. Williams

President, Union Savings, Building and Loan Company,
Loveland

ANNUAL REPORT OF THE PRESIDENT

Members of the Ohio Deposit Guarantee Fund:

Your Fund concluded a very successful twenty-eighth year of operation. The performance of your Fund is noteworthy in that new highs have once again been achieved. These achievements include topping \$100 million in Assets and \$10 million in Earnings. Also an achievement, during the fiscal year, is our losses, due to default prevention activities, which were less than one quarter of a million dollars.

Your Fund had some other noteworthy achievements during the fiscal year, which were related indirectly to its financial success:

1) The filing of a successful lawsuit against the Federal Reserve Board, challenging the Board's redefinition of Regulation Y. If the Fund had not been successful in winning this case, twelve of our members, with Assets aggregating \$2,854,000,000, would have been forced to terminate their membership in the Fund and apply for FSLIC or FDIC coverage.

2) NASSALS, on behalf of your Fund and the Superintendent, was also successful in Washington, D.C. in lobbying amendments to Senate and House Bills which would have given the federal government considerable control over state-chartered privately-insured savings and loans. However, it is imperative that, in the future, constant vigilance be exercised.

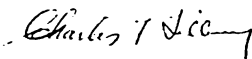
We owe a debt of gratitude to a number of enlightened United State Senators, Congressmen and Congresswomen.

We also owe a debt of gratitude to the Division of Savings and Loan Associations and its able Superintendent, C. Lawrence Huddleston, for having the State of Ohio join us in our suit against the Federal Reserve Board, as well as their efforts in Washington, D.C. in protecting the dual system of chartering.

This fiscal year has seen the savings and loan industry in Ohio emerging from the chaos of 1981 and 1982 with many additional powers. These powers are designed to enhance the profitability of the industry to enable it to better withstand the economic instability in which it has been forced to operate. If used properly, these new powers should increase profitability and enable all of us to better serve the housing needs of Ohioans.

I would like to extend my gratitude to the Board of Trustees, members of the various committees, management and staff for their cooperation. The Ohio Deposit Guarantee Fund has enjoyed another very successful year due to their dedication and unselfish service.

Sincerely,



Charles F. Tilbury
President

OHIO DEPOSIT GUARANTEE FUND
Consolidated Financial Statements of Membership
Adjusted to Reflect Current Membership Growth

(000 OMITTED)

	ASSETS		Increase or Decrease
	June 30, 1984	June 30, 1983	
Cash	\$ 78,180.	\$ 67,607.	\$ 10,573.
U. S. Govt. Obligations	782,184.	565,248.	216,936.
Other Investments	427,076.	514,068.	(86,992.)
Ohio Deposit Guarantee Fund	73,808.	55,577.	18,231.
Federal Home Loan Bank Stock	2,474.	2,981.	(507.)
First Mortgage Loans	2,875,435.	2,545,573.	329,862.
Other Loans	707,028.	472,672.	234,356.
Real Estate Owned	21,486.	12,385.	9,101.
Office Bldg., Leasehold Improvements & Equipment	47,086.	38,462.	8,624.
Other Assets	110,709.	73,372.	37,337.
TOTAL ASSETS:	<u>\$5,125,466.</u>	<u>\$4,347,945.</u>	<u>\$777,521</u>
LIABILITIES AND NET WORTH			
Withdrawable Savings *	\$4,103,030.	\$3,373,350.	\$729,680.
Borrowed Money	728,578.	717,116.	11,462.
Other Liabilities	81,020.	42,090.	38,930.
Permanent Stock	22,766.	20,664.	2,102.
General Reserves	77,145.	76,599.	546.
Undivided Profits	112,927.	118,126.	(5,199.)
TOTAL LIABILITIES AND NET WORTH:	<u>\$5,125,466.</u>	<u>\$4,347,945.</u>	<u>\$777,521.</u>

includes \$5,541,000 in
1983 insured by FSLIC.

Liquidity Ratio:	14.11%	12.61%
Net Worth to Savings Ratio:	5.19%	6.39%



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
580 Walnut Street
Cincinnati, Ohio 45202

The Board of Trustees and Members
Ohio Deposit Guarantee Fund
Cincinnati, Ohio:

We have examined the statements of financial condition of the Ohio Deposit Guarantee Fund as of June 30, 1984 and 1983 and the related statements of operations, changes in deposits and reserve fund and changes in financial position for the years then ended and the schedule of investments at June 30, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Ohio Deposit Guarantee Fund at June 30, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis; and the schedule of investments at June 30, 1984, in our opinion, presents fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

July 27, 1984

OHIO DEPOSIT GUARANTEE FUND
Statements of Financial Condition
June 30, 1984 and 1983

ASSETS	1984	1983
Cash	\$ 122,064	75,920
Time and overnight deposits	2,968,904	3,400,000
U. S. Government and agency obligations, approximate market \$96,387,000 in 1984 and \$74,961,000 in 1983	99,580,636	74,088,089
Accrued interest receivable	3,112,322	1,884,169
Note receivable from member, net (note 3)	6,955,311	7,225,581
Equalization contributions due from new members (note 2)	6,700	362,900
Prepaid insurance and other assets	13,989	11,821
	\$ 112,759,926	86,968,460
<u>LIABILITIES, DEPOSITS AND RESERVE FUND</u>		
Allowance for estimated losses (note 3)	150,000	120,000
Accrued expenses and other liabilities	33,182	34,708
Deposits and reserve fund (note 2):		
Members' deposits	74,778,500	57,952,000
Reserve fund	37,798,244	28,861,752
Total deposits and reserve fund	112,576,744	86,813,752
Contingencies (note 4)	\$ 112,759,926	86,968,460

See accompanying notes to financial statements.

OHIO DEPOSIT GUARANTEE FUND
Statements of Operations
Years ended June 30, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Interest income:		
U. S. Government and agency obligations	\$ 10,116,338	6,938,012
Time and overnight deposits	409,310	521,806
Notes receivable from members	765,115	913,648
Other	11,953	12,202
Total interest income	<u>11,302,716</u>	<u>8,385,668</u>
Office operating expenses	<u>754,947</u>	<u>481,097</u>
Operating income	10,547,769	7,904,571
Other income (expense):		
Provision for losses-member associations (note 3)	(225,269)	(176,369)
Other, net	34,976	6,072
Other income (expense), net	<u>(190,293)</u>	<u>(170,297)</u>
Net income	<u>\$ 10,357,476</u>	<u>7,734,274</u>

See accompanying notes to financial statements.

OHIO DEPOSIT GUARANTEE FUND
Statements of Changes in Deposits and Reserve Fund
Years ended June 30, 1984 and 1983

	<u>Members Deposits</u>	<u>Reserve Fund</u>
Balance at June 30, 1982	\$ 45,986,300	21,312,956
Net income for the year ended June 30, 1983	—	7,734,274
Increase in members' deposits (note 2)	12,475,700	—
Payments to withdrawing members	(510,000)	(185,478)
Balance at June 30, 1983	<u>57,952,000</u>	<u>28,861,752</u>
Net income for the year ended June 30, 1984	—	10,357,476
Increase in members' deposits, including equalization contributions (note 2)	19,371,200	14,718
Payments to withdrawing members	(2,544,700)	(1,435,702)
Balance at June 30, 1984	<u>\$ 74,778,500</u>	<u>37,798,244</u>

See accompanying notes to financial statements.

OHIO DEPOSIT GUARANTEE FUND
Statements of Changes in Financial Position
Years ended June 30, 1984 and 1983

	<u>1984</u>	<u>1983</u>
Sources of funds:		
Net income	\$ 10,357,476	7,734,274
Increase in accrued interest receivable	(1,228,153)	(710,810)
Funds provided from operations	<u>9,129,323</u>	<u>7,023,464</u>
Decrease in cash and time and overnight		
Deposits	384,952	2,075,433
Decrease in notes receivable from members	270,270	5,396,381
Increase in members' deposits, including equalization contributions	19,385,918	12,475,700
Other, net	382,506	606,546
	<u>\$ 29,552,969</u>	<u>27,577,524</u>
Use of funds:		
Increase in U. S. Government and agency obligations	25,572,567	26,882,046
Payments to withdrawing members	3,980,402	695,478
	<u>\$ 29,552,969</u>	<u>27,577,524</u>

See accompanying notes to financial statements.

OHIO DEPOSIT GUARANTEE FUND*Notes to Financial Statements**June 30, 1984 and 1983***(1) Summary of Significant Accounting Policies**

The Following items comprise the significant accounting policies which the Ohio Deposit Guarantee Fund (Fund) follows in preparing and presenting its financial statements:

U. S. Government and agency obligations are recorded at amortized cost. The obligations are not carried at the lower of cost or market because they are generally held until maturity. Gains or losses on the sale of securities are recognized upon realization and are included in the statements of operations.

Where the Fund anticipates losses will be incurred in fulfilling its guarantee of deposits in certain members, the Fund's policy is to provide allowances for losses and for liquidation expenses by charging operations for all anticipated losses in the period in which the losses become evident and can be reasonably estimated. Such allowances are recorded as asset valuation accounts where the Fund acquires assets at costs in excess of appraised values and where the Fund pledges certain assets to guarantee against losses to other parties. The costs of these assets which, in management's opinion, have no value are written down to a nominal value of \$1. When losses and liquidation expenses are anticipated, but do not relate to specific assets of the Fund, the allowances are shown as liabilities. Income is credited for the reduction of estimated loss provisions when losses realized in the period are less than the allowances provided. In the opinion of management, adequate provision has been made for all known or probable losses and expenses of liquidation to be incurred.

(2) Description of the Fund

The Fund, a corporation exempt from Federal income taxes, was incorporated under Ohio law as a mutual deposit guaranty association for the purpose of assuring the liquidity of and guaranteeing the deposits of its members.

OHIO DEPOSIT GUARANTEE FUND

Notes to Financial Statements, Continued

Each member maintains on deposit with the Fund 2% of its savings balances, adjusted semi-annually. Based on net growth in savings deposits of members during the six months ended June 30, 1984, the Fund expects to receive approximately \$7,283,000 in additional members' deposits. Members joining since the inception of the Fund are required to make an equalization contribution, which is credited to the reserve fund, to establish their interest in the fund balance at the date of entry on a par with other members. These deposits are invested primarily in United States Government and agency obligations and serve as the central fund to fulfill the guarantee of the Ohio Deposit Guarantee Fund.

(3) Provision for Losses

During the year ended June 30, 1983, the Fund, in its default prevention activities, assisted the merger of a member institution into another member institution by placing a deposit with the acquiring institution at a below market interest rate and by agreeing to indemnify the acquiring institution for losses on certain mortgage assets. The Fund previously recorded a provision of \$720,000 for estimated loss based upon management's evaluation of this situation and the status of negotiations at June 30, 1982. In the years ended June 30, 1983 and 1984, the Fund recorded additional provisions for estimated loss based upon management's continuing evaluation of the provisions of the assistance agreement.

The note receivable is due in annual installments of \$250,000, with the balance due in December, 1986. The balance at June 30, 1984 has been reduced by approximately \$425,000 (\$600,000 at June 30, 1983), representing the difference between imputed interest at the rate of 10.5% and the stated interest rate of 7.713% over the term of the note.

(4) Contingencies

The savings and loan industry in general (including many members of the Fund) is experiencing unfavorable operating results and declining net worth as a result of high and volatile rates. This operating

OHIO DEPOSIT GUARANTEE FUND
Notes to Financial Statements, Continued

environment has affected savings and loans more severely than many other sectors of the economy because of the mismatch between the yield and maturities of their assets and liabilities.

Given the state of the economy and present condition of the industry, it is possible that the Fund could sustain additional losses in subsequent accounting periods due to its default prevention actions. Because many of the causes for default are beyond management's control, the amount of these losses cannot be determined. However, the Fund believes that its resources are sufficient to absorb any such losses over the foreseeable future.

Schedule

OHIO DEPOSIT GUARANTEE FUND*Investments**June 30, 1984***U. S. TREASURY BILLS**

Maturity	Discount Rate	Equivalent Bond Yield	Par Value	Amortized Cost	Approximate Market Value
7/05/84	9.19%	9.80%	\$ 100,000	99,877	99,877
7/12/84	9.10	9.67	100,000	99,686	99,686
7/19/84	8.92	9.50	100,000	99,522	99,522
7/26/84	9.01	9.60	100,000	99,362	99,362
8/02/84	8.97	9.55	100,000	99,155	99,155
8/09/84	9.11	9.71	100,000	98,940	98,940
8/16/84	9.16	9.77	100,000	98,755	98,755
8/23/84	9.28	9.90	100,000	98,569	98,569
8/30/84	9.33	9.93	100,000	98,387	98,387
9/06/84	9.37	9.97	100,000	98,156	98,156
9/13/84	9.51	10.14	100,000	97,960	97,960
9/20/84	9.79	10.44	100,000	97,770	97,770
9/27/84	9.88	10.54	100,000	97,548	97,548
10/04/84	9.83	10.49	100,000	97,320	97,320
10/11/84	9.82	10.48	100,000	97,116	97,116
10/18/84	9.92	10.59	100,000	96,932	96,932
11/01/84	9.88	10.54	100,000	96,490	96,490
11/23/84	10.38	11.11	100,000	95,794	95,794
11/29/84	10.62	11.38	100,000	95,613	95,613
12/06/84	10.57	11.32	100,000	95,416	95,416
12/13/84	10.66	11.42	100,000	95,181	95,181
12/20/84	10.49	11.23	100,000	94,959	94,959
12/27/84	10.49	11.23	100,000	94,770	94,770
			<u>\$ 2,300,000</u>	<u>2,243,278</u>	<u>2,243,278</u>

U. S. TREASURY BONDS AND NOTES

Maturity	Interest Rate	Approx. yield To Maturity	Par Value	Amortized Cost	Approximate Market Value
7/31/84	13½%	11.78%	\$ 2,500,000	2,514,062	2,504,687
10/31/84	9%	9.52	1,500,000	1,501,339	1,492,969
11/30/84	9%	9.58	2,000,000	2,002,589	1,988,125
12/31/84	14	14.03	1,000,000	999,887	1,011,875
12/31/84	9%	9.48	1,500,000	1,499,297	1,484,531
1/31/85	9%	9.67	1,000,000	996,916	986,250
2/28/85	9%	9.71	1,000,000	999,300	985,625

Schedule, Continued
OHIO DEPOSIT GUARANTEE FUND
Investments

U. S. TREASURY BONDS AND NOTES, Continued

Maturity	Interest Rate	Approx. Yield To Maturity	Par Value	Amortized Cost	Approximate Market Value
5/15/85	10% ⁰⁰ / ₁₀₀	9.85%	\$ 1,000,000	1,005,250	987,500
6/30/85	10	10.24	1,000,000	996,719	978,437
7/31/85	10%	11.19	2,750,000	2,731,309	2,699,297
8/15/85	8 ¹ / ₄	8.37	1,500,000	1,498,268	1,441,875
11/15/85	9%	9.82	2,750,000	2,747,852	2,647,734
11/30/85	10 ¹ / ₂	10.57	3,000,000	2,997,124	2,913,750
2/15/86	9%	9.80	1,400,000	1,401,854	1,337,000
2/28/86	10%	10.96	3,000,000	2,995,312	2,909,062
3/31/86	14	14.03	1,500,000	1,499,496	1,521,094
3/31/86	11 ¹ / ₂	11.55	1,000,000	999,130	975,312
4/30/86	11 ³ / ₄	12.27	2,000,000	1,983,437	1,955,000
8/15/86	11 ¹ / ₂	11.42	3,600,000	3,596,892	3,483,000
9/30/86	12 ¹ / ₄	11.48	3,000,000	3,045,912	2,945,625
12/31/86	10	10.00	2,000,000	2,000,000	1,863,750
2/15/87	9	9.03	1,500,000	1,499,028	1,360,312
2/15/87	10%	11.10	3,000,000	2,982,880	2,840,625
3/31/87	10%	10.26	4,000,000	3,998,792	3,715,000
5/15/87	12	12.02	1,000,000	998,932	970,312
5/15/87	12 ¹ / ₂	12.62	2,000,000	1,995,270	1,956,250
5/15/87	14	14.08	1,500,000	1,497,967	1,519,687
6/30/87	10 ¹ / ₂	10.95	1,000,000	989,219	928,125
12/31/87	11 ¹ / ₂	11.35	1,000,000	997,252	938,750
3/31/88	12	12.21	2,000,000	1,986,875	1,908,125
8/15/88	10 ¹ / ₂	11.16	3,000,000	2,933,234	2,705,625
11/15/88	11 ³ / ₄	11.61	3,000,000	3,009,407	2,815,437
			<u>\$ 63,000,000</u>	<u>62,900,801</u>	<u>60,768,746</u>

AGENCY BONDS

Federal Farm Credit Bank

3/04/85	11.95%	11.95%	\$ 1,000,000	1,000,000	999,375
1/20/86	10.90	11.20	750,000	746,625	726,562
9/02/86	13.35	12.36	1,000,000	1,018,750	997,812
12/01/86	10.00	10.08	1,000,000	998,389	931,562
1/20/87	9.90	10.31	1,875,000	1,861,524	1,730,859
10/20/88	11.50	11.60	1,000,000	996,766	925,000
			<u>\$ 6,625,000</u>	<u>6,622,054</u>	<u>6,311,170</u>

(Continued)

Schedule, Continued

OHIO DEPOSIT GUARANTEE FUND
Investments

U. S. TREASURY BONDS AND NOTES, Continued

Maturity	Interest Rate	Approx. Yield To Maturity	Par Value	Amortized Cost	Approximate Market Value
Federal Home Loan Bank					
1/25/85	13.55%	12.20%	\$ 2,500,000	2,527,155	2,521,094
7/25/85	12.80	13.34	2,000,000	1,989,955	2,004,375
8/26/85	9.35	9.35	1,000,000	1,000,000	964,062
9/25/85	14.15	14.15	3,000,000	3,000,000	3,045,937
12/26/85	14.70	14.70	1,500,000	1,500,000	1,533,750
2/25/86	15.30	15.30	2,000,000	2,000,000	2,061,250
4/25/86	10.25	10.13	2,750,000	2,755,402	2,612,500
8/25/86	14.60	14.60	1,000,000	1,000,000	1,021,250
11/25/86	11.30	12.30	1,000,000	983,333	958,125
2/25/87	10.45	10.22	1,000,000	1,006,211	933,125
3/25/87	11.10	10.25	1,875,000	1,913,672	1,774,219
6/25/87	10.30	11.13	2,000,000	1,967,946	1,841,250
7/27/87	11.35	11.72	3,500,000	3,469,648	3,308,594
11/25/87	10.65	10.51	1,700,000	1,704,836	1,562,937
10/25/88	11.40	11.53	1,000,000	996,345	921,562
			<u>27,825,000</u>	<u>27,814,503</u>	<u>27,064,030</u>
Total U.S. Government and agency obligations			<u>\$ 99,750,000</u>	<u>99,580,636</u>	<u>96,387,224</u>

ROSTER OF MEMBERS

BELLAIRE

Buckeye Savings and Loan Company

BETHEL

Bethel Building and Loan Company

BLANCHESTER

Peoples Building and Loan Company

CINCINNATI

Addison Savings and Loan Company
 American Savings and Loan Company
 Anderson Ferry Building and Loan Company
 Baltimore Savings and Loan Company
 Century Savings Bank
 Charter Oak Savings Association
 Cherry Grove Savings and Loan Company
 Columbia Savings and Loan Company
 Delta Savings and Loan Association
 East Side Building and Loan Company
 First North West Savings and Loan Company
 Heritage Savings Bank
 Home State Savings Bank
 Madison Savings Bank
 Molitor Loan and Building Company
 New Foundation Loan and Building Company
 The Oakley Improved Building and Loan Company
 Oakmont Savings and Loan Company
 Seven Hills Savings Association
 Sycamore Savings and Loan Company
 The Tri-State Savings and Loan Company
 West Northside Loan and Savings Company
 Woodward Savings and Loan Company

COLDWATER

Home Building and Loan Company

COLUMBIANA

Home Savings & Loan Company

COLUMBUS

Scioto Savings Association

DAYTON

Home State Savings Bank of Dayton

DEGRAFF

People's Building and Loan Company

DOVER

Surety Savings and Loan Company

DRESDEN

Savings One Association

ELMWOOD PLACE

Inter-Valley Savings Association

EUCLID

Independent Savings Association

FRANKLIN

Miami Valley Building and Loan Association

GALION

Galion Building and Loan Company

GALLIPOLISBuckeye Building and Loan Company
Gallipolis Savings and Loan Company**GEAUGA**

Geauga Savings Association

GREENFIELD

Home Building and Loan Company

HAMILTON

Permanent Savings and Loan Association

HILLSBORO

Anchor Savings Association

LEBANON

People's Building, Loan and Savings Company

LIMA

The City Loan and Savings Company

LOCKLAND

Federated Savings Bank

LONDON

Home Savings Bank

LOVELAND

Union Savings, Building and Loan Company

MAINEVILLE

Cardinal Savings Bank

MENTOR

Mentor Savings Bank

MIAMITOWN

Miami Savings and Loan Company

MONTGOMERY

Unity Loan and Building Company

MT. HEALTHY

Mt. Healthy Savings and Loan Company

MT. VERNON

The Citizens Building, Loan and Savings Association

NEW ALBANY

Investor Savings Bank

NEW PARIS

New Paris Loan and Building Company

NEW RICHMOND

The Clermont Savings Association

OTTAWA

The Ottawa Home and Savings Association

OXFORD

Oxford Savings Association

SABINA

Sabina Building and Loan Company

ST. BERNARD

Southern Ohio Savings Association

ST. MARY'S

The Community Savings and Loan Company

SILVERTON

Midwest Savings Association

SOMERVILLE

Somerville Building, Loan and Savings Association Co.

STEUBENVILLE

Jefferson Building and Savings Company

UPPER SANDUSKY

American Savings Bank

VERSAILLES

Versailles Savings and Loan Company

WEST UNION

Adams County Building and Loan Company

WHITEHALL

First State Savings and Loan Association

WILLIAMSBURG

Williamsburg Building and Loan Company

WOODSFIELD

Woodsfield Savings and Loan Company

YOUNGSTOWN

The Metropolitan Savings Bank

Mr. BARNARD. We will now hear from Mr. Tom Batties, chief deputy superintendent and general counsel of the Ohio Division of Savings and Loans.

Mr. Batties.

STATEMENT OF TOM BATTIES, CHIEF DEPUTY SUPERINTENDENT AND GENERAL COUNSEL, OHIO DIVISION OF SAVINGS AND LOANS

Mr. BATTIES. Thank you, Mr. Chairman. I am here at the invitation of Chairman Barnard. I am pleased to be here to have the opportunity to answer the questions of the committee regarding the impact of the closing of Home State Savings Bank and what we are doing in Ohio to resolve this problem.

Unfortunately, I learned late afternoon of yesterday that I would be appearing before the committee to testify, so I do not have a prepared text. However, I was in receipt of a letter approximately March 22 or 23 by the chairman which listed a number of questions that would possibly be asked of me. And I have had an opportunity since yesterday afternoon to basically review those questions and prepare some answers.

I think it is important at this time for me to fill the committee in on my background and my relationship with the division. I joined the division on April 23, 1984, as counsel to the superintendent and chief of supervision.

On January 19, 1985, Mr. Larry Huddleston, who had been the superintendent, resigned on that day and I assumed the role as acting superintendent. On March 8, 1985, I assumed the role or was appointed to the role as superintendent of the division of savings and loan, and on March 22 I resigned this position and Mr. Robert McAllister was appointed the position of superintendent.

I guess in lieu of a prepared text, as I mention again, I have answered basically or reviewed the questions that were submitted to me and would like to share my comments with you now, Mr. Chairman.

In question No. 1 through 2, there are various informational data that was requested. I do have that information. I do not know whether you want me to recite that information now.

Mr. BARNARD. If you could just furnish it and we will, without objection, include it in the record, but if you will give us the bare statistics that would be fine.

Mr. BATTIES. Do you want me to recite that now, sir?

Mr. BARNARD. No. Let us skip over that. We might need to come back to it, but—

Mr. BATTIES. OK. Fine. I think one of the most important things is to note here in question 2A is how many Ohio federally insured and nonfederally insured thrifts were on your problem list prior to the insolvency of Home State? And I would like to answer that question by stating that there was actually no problem or watch list maintained by the Ohio Division of Savings and Loan. However, different types of lists were maintained for a variety of reasons. Some of these lists were to more closely supervise institutions as a result of their various violations of statutory laws. Other lists were kept for supervisory concerns as a result of operating losses sus-

tained by the institutions. Other lists were kept because of the high level of scheduled items incurred by an institution or delinquency rates. Also by management weakness and/or underwriting practices or a lack of continuity of management and other areas such as the amount or level of real estate owned by an institution and other related problems.

Mr. BARNARD. Can you tell us whether or not Home State was on that list?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. It was on the list?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. For any particular reason?

Mr. BATTIES. Yes, sir. It was on that list as a result of a low net worth with respect to its asset size.

Mr. BARNARD. How long had it been on that list?

Mr. BATTIES. My personal knowledge of that list was created once I had arrived at the division.

Mr. BARNARD. Which was—

Mr. BATTIES. In April 1984.

Mr. BARNARD. April 1984?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. But it was on the list since April 1984?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. Thank you.

Mr. BATTIES. Question 3A asks to describe as completely as possible the results of the last two examinations of Home State Savings Bank. "In your response, include specifically the supervisory rating accorded Home State, any examination, criticism, or mention of Home State's financial dealings with ESM Government Securities and any other unsafe or unsound conditions or operations at the association."

My answer to this is that I respectfully decline to answer on the basis that to provide any of the requested information would require me to violate the provisions of section 1155.16 of the Ohio Revised Code, which states, in part, "The Superintendent of Building and Loan Associations and its deputies, assistants, clerks and examiners shall keep secret the information obtained in an examination or by reason of their official position except in connection with criminal proceedings or when it is necessary for them to take official action regarding the affairs of the Building and Loan Association and examine."

I might add that a violation of this statute would result in a fourth degree felony for anyone who violates this.

Mr. BARNARD. Does your department have any intention at this time to file any criminal actions?

Mr. BATTIES. Sir, the Governor in recent legislation has appointed a special prosecutor to investigate wholly the transactions of Home State Savings Bank as well as the operations of the division prior to this situation. And we are working in cooperation with them and have submitted all our records to the special prosecutor.

Mr. BARNARD. When do you think there will be a report from the prosecutor?

Mr. BATTIES. Mr. Chairman, I believe that as expeditiously as possible. I could not give a date certain at this time, but as a result

of the public interest that I would believe that that would be done as expeditiously as possible. Question 3B asks:

Whether or not related to the examination findings on what date did the Savings and Loan Division first become aware of Home State's financial relationship with ESM? Please describe the formal and informal supervisory actions, if any, taken by your division with respect to Home State's financial dealings with ESM. In this connection, please provide copies of any supervisory letters or memorandums involving Home State and ESM and describe all meetings with Home State and/or ESM employees.

My answer to this question is to the extent that I am required to examine the records of the division, in order to answer this question, I have not done so because of section 1155.16 of the Ohio Revised Code. I have no personal knowledge of any action taken by any former superintendent in connection with prior examinations. To my personal knowledge, no actions not within the scope of section 1155.16 of the Ohio Revised Code were taken concerning Home State's dealings with ESM since I was employed by the division in April 1984.

Mr. BARNARD. Mr. Batties, is there any possibility that this information could be furnished to us privately?

Mr. BATTIES. I am sorry. Someone is coughing behind me.

Mr. BARNARD. Is there any possibility that we could get this information privately? You know, we could get it by subpoena.

Mr. BATTIES. I am well aware of that, sir. I would be more than happy to discuss that with the attorney general on what information we could disclose, and I would work with full cooperation to provide you with whatever we could under the law.

Mr. BARNARD. If you would look into that, because we think that this information is very important to our ongoing study of this problem.

Mr. BATTIES. Yes, sir. Question 4A—

At what point did the Ohio Savings and Loan Division first make known to, one, the Federal Home Loan Bank Board, and two, the Federal Reserve System the situation at Home State and its potential impact on Ohio Deposit Guarantee Fund?

My answer—I first learned of the potential problems at ESM and the consequences of those problems for Home State from Mr. Don Hunsche of the ODGF on Sunday, March 3, 1985. After stories concerning ESM appeared in the Cincinnati newspapers on Tuesday, March 5, 1985, I contacted the Federal Home Loan Bank at its Cincinnati office that same day to discuss the impact that this might have on Home State, on the ODGF funds, and for verification of the Cincinnati reports.

To the best of my recollection, my first discussions with the representatives of the Federal Reserve bank were on a Wednesday, March 6, 1985. Those discussions were confined primarily to the questions concerning the liquidity of Home State and the Federal Reserve Board's ability to help Home State respond to depositors' demands.

Question 4B—

Were copies of or information from your Division's examinations of Home State made available to the Federal Home Loan Bank Board prior to the events of last week? If so, when? Please enumerate.

Section 1155.16 of the Ohio Revised Code permits reports of examinations to be shared with representatives of the Federal Home

Loan Bank Board. A copy of the 1983 report of examination of Home State Savings Bank was provided to the Federal Home Loan Bank Board at its request on or about March 13, 1985.

Question 5—

Describe your Division's dealings with the Federal Home Loan Bank Board and the Federal Reserve System once it was determined that Home State would have to be closed because of insolvency. Were these dealings satisfactory? If not, why not? How could they have been improved?

First of all I would like to note that the division did not close Home State Savings Bank. Home State Savings Bank officers closed Home State effective Saturday, March 9, 1985. I appointed a conservator on Sunday, March 10, and the conservator decided not to reopen Home State in light of the depositor run which Home State had experienced from the previous week and the illiquidity of the institution.

The Federal Reserve Bank of Cleveland attempted to provide assistance to the division and to the conservator based upon past experiences including suggestions as to the solutions for Home State and the use of the discount window.

The Federal Home Loan Bank Board's fifth district's office in Cincinnati attempted to respond to inquiries and provide suggestions as to the Home State situation. I had no direct contact with the Federal Home Loan Bank Board of Washington and therefore am not in the position to comment on any dealings with them.

Obviously, in hindsight, I wish that it had been possible to find a way to reopen Home State with Federal insurance and adequate liquidity on Monday, March 11, 1985, with the assistance of the Federal Reserve Board and the Federal Home Loan Bank Board. Unfortunately, it was not possible to do so. Both institutions have been extremely helpful in assisting the State of Ohio with solutions and potential solutions for Home State and the other ODGF-insured institutions since that time.

As to the question of how the system could have been improved—obviously time was a crucial factor for us. I would like to suggest that there needs to be some sort of expedited process to get to the decisionmakers at the Federal Reserve Board and also the Federal Home Loan Bank Board. Procedures which lie outside of the normal operating channels.

I also believe that there needs to be a greater cooperation among financial institution regulators on both the State and Federal levels, and that there possibly is a centralized crisis center or something established so that situations that occur that we have the opportunity to deal with them directly and immediately. And to operate in a more coordinated fashion.

Question 6—

On what date did your Division first notify the Ohio Deposit Guarantee Fund of; one, the financial relationship between Home State and ESM, and two, your conclusion that Home State would have to be closed? Please elaborate.

My answer is that if your question goes to the losses actually suffered by Home State as a result of its dealing with ESM, I did not notify the Ohio Deposit Guarantee Fund. Don Hunsche, the executive director of the ODGF, called me late on Sunday night, March 3, 1985, to advise me that there was a concern that substantial

losses could be incurred by Home State as a result of an alleged fraud at ESM. I have no personal knowledge concerning discussions by prior superintendents with representatives of the Ohio Deposit Guarantee Fund as to the relationship between Home State and ESM other than those within the scope of section 1155.16 of the Ohio Revised Code.

As to question B, as I indicated earlier, the division did not close Home State Savings Bank. The officers of Home State made that decision to close its doors on Saturday, March 9, 1985. The conservator and the superintendent since that time have explored a variety of alternatives which would permit the reopening of Home State on a safe and sound basis, including the purchase of assets and the assumption of liabilities as well as other alternatives. But as of this date, no successful result has been concluded.

Question 7—

What specific lessons have been learned and what recommendations are you prepared to make to Congress regarding recent events in Ohio, including the relationship between Home State and out-of-State Government securities dealers and the financial crisis that developed therefrom?

I respectfully suggest that is more appropriate for the Governor of Ohio and the present superintendent to respond to this question with specificity. Since March 4 my activities have been solely centered around finding solutions to the problems of Home State and the other 71 savings and loan associations.

My concern at this point is directed primarily to needed changes in Ohio law concerning the powers of the superintendent to regulate financial institutions and the creation of more effective powers for the superintendent to utilize.

Obviously, I have not had time to focus upon Federal solutions or alternatives in the midst of this crisis and therefore have only a limited number of recommendations to offer at this time.

Once again, I would like to refer back to an answer to a previous question that I think there needs to be some sort of centralized crisis clearing house involving all the Federal financial institution regulators. The second recommendation is that I think that the Government securities area obviously needs to be highly regulated by the Securities and Exchange Commission, and I would like to defer any other recommendations until I have had a time to reflect upon the events that have taken place in the last month or so.

I had some other comments that I would like to make right now, Mr. Chairman, if I could.

I would like to applaud the efforts of the Federal Reserve Bank which has been helpful from the very beginning throughout this process not only in dealing with Home State but in dealing with the other 71 institutions as runs occurred throughout the State. They have provided examiners to ascertain the liquidity position and open the discount window to the various institutions and I think that they have been involved in an unrelentless effort in providing assistance.

I think that with respect to the Federal Home Loan Bank Board, once Chairman Gray made a decision to be of assistance in this problem that the fifth district of the Federal Home Loan Bank Board as well as Chairman Gray has acted in an expeditious

manner in providing assistance in getting these institutions open on a timely basis.

And I would like to take this opportunity to pay special attention to the president of the Federal Reserve Bank of Cleveland and to President Chuck Thiemann of the fifth district of the Federal Home Loan Bank Board and of Mr. Larry Muldoon for their assistance throughout this crisis.

And that is the end of my testimony, Mr. Chairman.

Mr. BARNARD. Thank you very much.

Mr. HUNSCHÉ, what is your official status at this particular time? I mean, the Ohio Insurance Fund is no longer a fact of life, is that—

Mr. HUNSCHÉ. It has been taken over by conservators, so I have no status.

Mr. BARNARD. But are there any funds left in the deposit fund at all?

Mr. HUNSCHÉ. Yes. There is about \$87 million.

Mr. BARNARD. \$87 million. What will happen to that?

Mr. HUNSCHÉ. That is a question only the conservator can answer, since he has total power over it.

Mr. BARNARD. But there is a new fund that the State legislature has appropriated. Is that true?

Mr. HUNSCHÉ. To the best of my knowledge, it has never got off the ground.

Mr. BARNARD. I thought the Governor said that the State legislature had started a new fund with about \$50 million or \$60 million.

Mr. HUNSCHÉ. To the best of my knowledge, they have not placed one penny in any new fund as yet.

Mr. BARNARD. Mr. Hunsche, you stated in your testimony on page 6 that on March 6 the State of Ohio announced that it was prepared to safeguard the interests of the depositors of Home State and of all the depositors whose funds were guaranteed by the ODFG and that the system in place provided adequate safeguards for depositors at its State-chartered savings and loan associations. What does that mean?

Mr. HUNSCHÉ. I was under the impression that the \$50 million that they were talking about was going to be put into the Ohio Deposit Guarantee Fund. And that we would then go to our members for an additional 1 percent on top of that, which would have given us approximately \$220 million at which time we could have gone into the newspaper and said that no matter what the loss is at Home State, it can be covered.

Mr. BARNARD. Well, why was that not done?

Mr. HUNSCHÉ. That I have to defer to the State legislature and the Governor. I do not know why it was not done.

Mr. BARNARD. Mr. Batties, can you answer that question? I mean, I was under the impression this morning that there had been an additional fund created for this purpose.

Mr. BATTIES. Mr. Chairman, there has been legislation providing for a new fund, a new position guarantee fund. The moneys have been appropriated for that fund and the attorneys of the State are working on the mechanics in terms of opening up that fund. The moneys have been appropriated and—

Mr. BARNARD. But it is not operational?

Mr. BATTIES. No. It is not operational at this time. It has been incorporated if that answers your question. It has been incorporated, and the moneys have been appropriated for it.

Mr. BARNARD. But does that mean that the State of Ohio plans to stand behind that new fund?

Mr. BATTIES. Mr. Chairman, they have appropriated \$50 million to inject on a loan basis to be repaid back over a period of a number of years for the new fund.

Mr. BARNARD. What happens to the reserve in the present fund?

Mr. BATTIES. I can only speculate on that. And I might have to defer to the Governor to provide that answer for you. I believe the funds of the Ohio Deposit Guarantee Fund are frozen as they have been basically placed on call by the result of the losses at Home State.

Mr. BARNARD. Mr. Batties, it is obvious from the information available to the subcommittee that beginning in 1980 the Ohio Thrift Division and the Deposit Guarantee Fund had serious concerns about Home State's exposure with ESM. Why did the thrift division not take more aggressive action to force an unwinding of that relationship?

Mr. BATTIES. Mr. Chairman, I have to defer to the fact that I arrived at the division in 1984. It is my understanding as a result of hearing testimony today and reading certain things in the papers that there had been agreements made between the Ohio Division of Savings and Loan and the Ohio Deposit Guarantee Fund with respect to Home State and its dealings with ESM and that there was an agreement to unwind those transactions on a timely basis to be completed I believe some time in 1985.

Mr. BARNARD. Can you answer that question, Mr. Hunsche?

Mr. HUNSCHE. Yes. In January, I believe, of 1984 or so.

Mr. BARNARD. What about 1983?

Mr. HUNSCHE. I believe it was 1984. The board had gone into an agreement, a drafted agreement, whereby the—

Mr. BARNARD. Now, this is a supervisory board, not the insurance fund?

Mr. HUNSCHE. No. This was Home State's board.

Mr. BARNARD. Home State's board and who?

Mr. HUNSCHE. Had entered into an agreement that it was going to wind down the reverse repo transaction.

Mr. BARNARD. Was that agreement with the Ohio Thrift Division or was it with the Deposit Guarantee Fund? Well, it must have been with the Ohio Thrift Division, because you had no jurisdiction evidently to supervise Home State, right?

Mr. HUNSCHE. Right. We have no cease-and-desist powers.

Mr. BARNARD. OK.

Mr. HUNSCHE. And that was being done, Mr. Chairman. In fact, in July 1984, \$400 million of the \$670 million became Treasury bills that were going to mature in May and June 1985. I think both the division and the fund felt a sigh of relief knowing that 60 percent of the transaction was going to be completed by May and June 1985.

Mr. BARNARD. Your testimony indicated that these transactions would have actually matured on June 30, 1983. The question is if they had matured, all these transactions, why did not Home State

at that time—when they could have very appropriately disassociated themselves from ESM—did they not do that? And instead, it looks like to me that they increased the fund from \$200 million to \$700 million.

Mr. HUNSCH. We were astonished at it. Why that was not done, we do not really know.

Mr. BARNARD. Now, Mr. Batties, surely your acquaintances in the department would give you some information about that, would they not?

Mr. BATTIES. Please?

Mr. BARNARD. I mean, would not your experience in this division, would you not have some knowledge of why this was not done?

Mr. BATTIES. When I arrived at the division of savings and loan—

Mr. BARNARD. Now, when was that?

Mr. BATTIES. I arrived, Mr. Chairman, on April 23, 1984.

Mr. BARNARD. OK.

Mr. BATTIES. As counsel to the superintendent and chief of supervision—prior to that time, there had not been a separate division or separate section within the division for supervisory matters. As providing a dual role within the division as counsel to the superintendent and chief of supervision, I was stepping up my activities in the supervisory area. During the course of my tenure there with the division, the superintendent himself dealt with supervisory matters as it related to Home State.

Mr. BARNARD. But would not the records that you have assumed since taking on your new role, would they not give you the benefit of this information?

Mr. BATTIES. Yes.

Mr. BARNARD. This has been over nearly a year ago and of course this subject has been, you know—I know that this has been a matter of concern with the State of Ohio.

Mr. BATTIES. Right. When I assumed the duties of acting superintendent on January 19, those records would have come under my control. On that particular date, I was closing up an institution in eastern Ohio and involved in various runs since that time on some of the other institutions. To answer your question, once again I would have to defer to 1155.16 in terms of providing that information for you, and would like to talk with my attorney general on what information I could provide for you.

Mr. BARNARD. Mr. Batties, the subcommittee has been told informally that your department felt that their hands were tied because the sale of securities in 1983 would have resulted in a \$45 million loss to Home State and would have caused its insolvency. Did the department not ask Mr. Marvin Warner, the owner of Home State, to infuse more capital at that time?

Mr. BATTIES. Mr. Chairman, I was not a member of the division at that time and I have no personal knowledge as to whether or not the superintendent or anyone asked Mr. Warner to infuse capital.

Mr. BARNARD. Mr. Batties, when we asked you and Mr. McAllister to testify, we expected that you were going to bring us information from the department which we could use in this hearing. And obviously, you know, we are not getting that information. I mean,

information which we have been able to get from other sources. Surely we feel like you, as a representative of the Office of Ohio Division of Savings and Loan, would have the availability of that information. And you have given us nothing.

Mr. BATTIES. Mr. Chairman, I am not—

Mr. BARNARD. I respectfully appreciate the fact that you got a new position and that you have only been in this position for nearly a year. But a year, considering this transaction, is a long, long, long time. I mean, because we have learned more than we thought we would learn in the last 30 days. So I am just saying that the information—we are not getting the information we need to really find out what your department did, what you felt your responsibilities were, and whether you took just normal appropriate action toward offsetting this calamity which developed between Home State and ESM.

I guess the word is “stonewalling,” but hopefully we need to get this information.

Mr. BATTIES. Mr. Chairman, once again I defer to section 1155.16 and I would like to cooperate with you and provide that information—

Mr. BARNARD. That does not protect you from just telling us what you know. We are not asking for the availability of information in examination forms. We are not asking for that. We respect that.

Mr. BATTIES. Yes, sir.

Mr. BARNARD. But on the other hand, we feel that you, as a representative of this department, should tell us what we are trying to find out. In fact, I guess let me clarify. We are trying to ask you what you did. What was done? And that is all we are trying to find out.

Mr. BATTIES. Right. Mr. Chairman, I understand that. And I am trying to cooperate. The confusion is that many of the questions that you are asking me are—the information that I would have would be as a result of my official position. And—

Mr. BARNARD. That is exactly why we have you here.

Mr. BATTIES. Right. And so therefore—

Mr. BARNARD. I mean, we like you, but we are here because of the fact that you represent the Ohio Thrift Division.

Mr. BATTIES. Exactly. And as a result, I am constrained by the section of the Ohio State Code and am personally liable for a fourth-degree felony for exposing some of the information.

Mr. BARNARD. Do you think that the Ohio Thrift Division was negligent in their handling of the connection between Home State and ESM?

Mr. BATTIES. No, sir.

Mr. BARNARD. You do not? Why not?

Mr. BATTIES. Based upon the statutory restrictions that the superintendent had—this is my own opinion. You are asking me for my opinion.

Mr. BARNARD. We are getting somewhere now.

Mr. BATTIES. Right. Based upon my personal opinion, I do not believe that the superintendent was negligent based upon the knowledge that I personally have and his restrictions under the statute as provided by the Ohio Code.

Mr. BARNARD. In your examination of Home State, in just your normal routine examination and what you expect of sound, well-managed financial institutions, you found nothing amiss between Home State and ESM?

Mr. BATTIES. There was concern within the division as to the level of involvement of transactions with Home State and ESM Government Securities. There was no statutory provision that caused a violation of law with respect to those except for the discretion of the superintendent with respect to those transactions.

Mr. BARNARD. In other words, the fact that they had more securities pledged than their loan would require was a discretionary type of decision?

Mr. BATTIES. There was no direct violation of law for their involvement with ESM.

Mr. BARNARD. But it was obvious that that was not very good management.

Mr. BATTIES. Business practice.

Mr. BARNARD. The fact that there were obviously no receipts of safekeeping from a third party with responsibility for these securities. How do you react to that?

Mr. BATTIES. Mr. Chairman, I have no personal knowledge that there were no receipts provided Home State for its transaction with ESM.

Mr. BARNARD. Let me quote from your October 1983 examination:

The failure to record in the corporate minutes the approvals for security transactions in the millions of dollars the various security brokerage firms used, having a total of \$390 million of open contracts in the futures market, and the repeated failure to properly prepare financial reports to the State of Ohio and to the Ohio Deposit Guarantee Fund, indicates a reluctance by management to document and report its actions. It should also be mentioned in this report summary that many of the areas of concern that are included in this examination report were also the subject of comments in previous examination reports.

So here the examination report that your department conducted brings forth the fact that there were real questions as to the management practice of Home State. So what did the department do about that?

Mr. BATTIES. Mr. Chairman, as to my personal knowledge of what the division did, my knowledge is scant. The proper person to ask with respect to that would be the former superintendent. It is my understanding in conversations recently and in testimony provided today as well as in the newspapers, is that there was an agreement struck between the division and Home State, that they were to unwind their transactions—they had matched their transactions is a term in the investment field, as Mr. Hunsche said, with T-bills, which are of a sounder nature than possibly previous investment transactions and that they were to unwind these beginning in May and June 1985.

Mr. BARNARD. Mr. Batties, I hope you can answer this question. That is, when the Home State conservator recently filed a law suit against Marvin Warner and other officers of Home State, the new thrift superintendent, Mr. McAllister, was quoted as saying that "ugly acts by Mr. Warner and others caused the Home State collapse."

Are you familiar with that statement?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. What were those ugly acts?

Mr. BATTIES. I personally do not know what Mr. McAllister totally meant by those ugly acts by Mr. Warner. I can only give you my personal opinion as to what they possibly could have been.

Mr. BARNARD. And what is your association with Mr. McAllister?

Mr. BATTIES. I am his employee. I work for Mr. McAllister. He is superintendent of the division of savings and loan and I am chief deputy superintendent.

Mr. BARNARD. And general counsel.

Mr. BATTIES. And chief counsel, yes, sir.

Mr. BARNARD. So you are speaking from some authority?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. Good.

Mr. BATTIES. I would say that there is some concern. Mr. Warner's obvious involvement with Home State and his control position as being the sole shareholder of Home State, plus being possibly in a control position with American Savings of—I believe it is Miami or Fort Lauderdale—and his obvious personal relationship with Mr. Ewton of ESM, and that there might have been some collusive or alleged misconduct on the part of Mr. Warner with respect to Mr. Ewton and ESM.

Mr. BARNARD. Do you think some of that will be a part of the—will some of this information or your feelings be relayed to the special prosecutor that has been selected?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. Mr. Craig.

Mr. CRAIG. Thank you very much, Mr. Chairman.

Mr. Batties, you came to the division when?

Mr. BATTIES. April 23, 1984, Mr. Representative.

Mr. CRAIG. Who hired you?

Mr. BATTIES. Mr. Chairman, Mr. Craig, the superintendent at that time, C. Lawrence Huddleston.

Mr. CRAIG. Is the superintendent's position of that division an appointed position?

Mr. BATTIES. Mr. Chairman, Mr. Craig, yes, sir.

Mr. CRAIG. Who appoints that person?

Mr. BATTIES. Mr. Chairman and Mr. Representative, the Governor.

Mr. CRAIG. Why did that person resign?

Mr. BATTIES. Mr. Chairman and Mr. Representative, I do not have any personal knowledge as to why he resigned, and possibly the Governor might be the best person to answer that question for you. Or Mr. Huddleston.

Mr. CRAIG. Your current boss is whom?

Mr. BATTIES. Robert McAllister, sir.

Mr. CRAIG. And he was appointed by the Governor also?

Mr. BATTIES. Mr. Chairman and Mr. Representative, yes, sir.

Mr. CRAIG. Thank you very much. I have some questions of Mr. Hunsche.

I have before me, sir, the constitution of the Ohio Deposit Guarantee Fund. And on the face of that constitution is a—I assume—a decal or a logo of the fund itself. It says "Ohio Deposit Guarantee

Fund, all savings guaranteed in full." And embossed on the face of that is an outline of the State of Ohio. How is this decal used?

Mr. HUNSCHE. Just as it is presented there.

Mr. CRAIG. Could you come closer to the mike. I could not hear you.

Mr. HUNSCHE. Just as it is presented. It is——

Mr. CRAIG. And how is it presented to the public of Ohio? Does it appear on the windows or doors of the——

Mr. HUNSCHE. It appears on the doors and the windows of the member companies.

Mr. CRAIG. Are there brochures available in each——

Mr. HUNSCHE. There are brochures available in each member institution——

Mr. CRAIG. And what do they say?

Mr. HUNSCHE [continuing]. And——

Mr. CRAIG. Could you come closer to the mike, sir?

Mr. HUNSCHE. The topics first start out with "What is the Ohio Deposit Guarantee Fund? How does the fund operate to protect depositors? Who owns and manages the fund?"

Mr. CRAIG. And what does it say about that?

Mr. HUNSCHE. It says "The Ohio Deposit Guarantee Fund is owned entirely by its member associations which maintain a percentage of their savings deposits adjusted semiannually in the form of cash deposits with the fund."

Mr. CRAIG. Now could you tell me——

Mr. HUNSCHE. There is no indication that it is owned by the State or anything of that nature.

Mr. CRAIG. In other words, it is "depositor beware, do not look at the decal that shows the State of Ohio. Read the brochure."

Mr. HUNSCHE. Right. They should read the brochure.

Mr. CRAIG. OK. Can you tell me who the current board of trustees of that Fund are? Who the board is?

Mr. HUNSCHE. Yes.

Mr. CRAIG. It is a board of trustees, I believe your constitution calls it.

Mr. HUNSCHE. Yes. Charles A. Brigham. Do you want their affiliation as well?

Mr. CRAIG. Yes, please.

Mr. HUNSCHE. Who is also the president and director of Federated Savings Bank of Lockland. John A. Dreyer, director of Baltimore Savings & Loan Co. of Cincinnati. Richard D. Hoffmann, chairman of the board, City Loan & Savings Co., Lima. Vernon W. McDaniel, assistant treasurer and director, Anderson Ferry Building & Loan Co., Cincinnati. John R. Perkins, president and director of the Metropolitan Savings Bank, Youngstown, OH. Eleanor J. Remke, president and director of Madison Savings Bank, Cincinnati, OH. Joseph D. Rusnak, president and director of Mentor Savings Bank, Mentor. David J. Schiebel, chairman of the board, Home State Savings Bank, Cincinnati. Harold R. Swope, president and director, Independent Savings Bank, Euclid, OH. Charles F. Tilbury, Sr., executive vice president and director of the Clermont Savings Association, New Richmond, OH. Jack R. Wingate, executive vice president and director, Heritage Savings Bank, Cincinnati, OH.

Mr. CRAIG. This group, in its overall examination of Home State, had made some determinations as to Home State's relationship with ESM. In that determination, what authority does the guarantee fund have over a member institution? Can it only make recommendations?

Mr. HUNSCHÉ. To the best of my knowledge, it can only make recommendations.

Mr. CRAIG. It cannot withdraw guarantee?

Mr. HUNSCHÉ. It can withdraw the guarantee of the member. But then, you know, it is like taking an elephant gun to shoot a flea.

Mr. CRAIG. So it has little to no authority over supervision of a member bank's activity?

Mr. HUNSCHÉ. No. We can counsel, but we cannot compel. And we have found over the years that normally we have been able to counsel very effectively.

Mr. CRAIG. Were you able to counsel very effectively with Home Savings?

Mr. HUNSCHÉ. Initially I would say we ran into a problem. Towards the end of the situation, when in July 1984, 60 percent of the ESM transaction was put into Treasury bills that matured in May and June 1985, we felt that we had done an excellent job because they would have rolled out. And there would have only been about \$270 million left on some Ginnys that they had at that time. Our position would have been at that time, depending on market, if there were not an enormous loss in the Ginnys, that they roll out of those as well. And that is what we would have tried to get them to do.

Mr. CRAIG. Of the member institutions of the fund, where did Home Savings rank in size and premium payment?

Mr. HUNSCHÉ. In size it ranked as first; in premium payment, second.

Mr. CRAIG. So in other words, a substantial portion of the fund's assets were derived from Home Savings?

Mr. HUNSCHÉ. I believe they amounted to approximately 15 percent of the fund.

Mr. CRAIG. Fifteen percent of the total. On January 4, all of the directors of Home State, and I am quoting your testimony, "with the exception of one, agreed to a program of unwinding from ESM's relationship." With a particular emphasis on overcollateralization, and a concentration of transactions with one thinly capitalized dealer, who was the one exception to that board decision? Do you know?

Mr. HUNSCHÉ. Now, which date were you referring to, Mr. Craig?

Mr. CRAIG. I am referring to page 4, I believe, of your statement. Last paragraph on the bottom of the page.

Mr. HUNSCHÉ. I believe that one was Nelson Schwab, the company's attorney.

Mr. CRAIG. We were informed otherwise. Do you know that to be a fact?

Mr. HUNSCHÉ. I am not sure. There are two of these. One of them—both of them have somebody missing. One of them was Stan Brock and the other was the attorney.

Mr. CRAIG. Do you know for a fact or is it a fact that Mr. Warner did not sign the agreement and objected to that decision?

Mr. HUNSCHÉ. Oh, Mr. Warner, Jr.? I believe this is the one—oh, five out of the seven. This is the one that Mr. Warner, Jr., and Nelson Schwab did not sign.

Mr. CRAIG. Do you know their reason for not signing?

Mr. HUNSCHÉ. No, we do not. I believe they did not show as being in attendance at the meeting.

Mr. CRAIG. What is your relationship to the State supervisor's office in the collection of information and reports?

Mr. HUNSCHÉ. Over the years we have worked very effectively together. Anything that comes out of our office, a transmittal copy goes to the division of savings and loans, and conversely, what comes out of their office normally we get a copy of it.

Mr. CRAIG. Is it made available to the fund, to you, all of the supervisory reports that the supervisor conducts of your member group?

Mr. HUNSCHÉ. The examination reports?

Mr. CRAIG. The examinations.

Mr. HUNSCHÉ. Yes.

Mr. CRAIG. Are they adequate reports, do you feel?

Mr. HUNSCHÉ. Yes.

Mr. CRAIG. Do you base your entire decisions on those reports, or do you do an investigative process yourself?

Mr. HUNSCHÉ. Sometimes we do. Other times, if we feel something should be expanded, our own people will go out and expand on it.

Mr. CRAIG. You seem to demonstrate a vagueness in knowledge as to the activities of the supervisor's office in your testimony or the division, of at least a knowledgeable relationship through this whole episode. How was the line of communication from the time it became knowledgeable that Home State was in trouble?

Mr. HUNSCHÉ. Can you repeat that, please? I did not grasp what you were saying.

Mr. CRAIG. You seem to, in your testimony, demonstrate, or at least in the cross examination of the chairman, some lack of knowledge as to the activities of the supervisor's office or the division and so I was curious as to what your relationship with them has been through this whole episode.

Mr. HUNSCHÉ. That has only taken place since the conservator was placed in Home State. Prior to that, we had a very workable relationship. I think we almost lived together for a solid week in trying to get this thing resolved. Once the conservator was appointed in Home State, we were taken out of the picture totally.

Mr. CRAIG. Do you believe that that is the proper process to go through?

Mr. HUNSCHÉ. Personally, no.

Mr. CRAIG. Why not?

Mr. HUNSCHÉ. We felt that we could be helpful.

Mr. CRAIG. In what way?

Mr. HUNSCHÉ. Well, in one way we brought in a thrift consulting firm out of New York early on to get a bid package together for Home State. Sent them over to counsel's office for the department

of commerce and they were turned away. Then I think that following Saturday we found out—

Mr. CRAIG. Who was turned away from the department of commerce?

Mr. HUNSCHE. The people we brought in from New York, to prepare a bid package.

Mr. CRAIG. In other words, in an attempt to sell Home State?

Mr. HUNSCHE. Right.

Mr. CRAIG. What was the reason for turning them away?

Mr. HUNSCHE. That I do not really know.

Mr. CRAIG. You were not given a reason. Mr. Batties, could you give us a reason?

Mr. BATTIES. Mr. Chairman, Mr. Representative, on the eve that the conservator was appointed and subsequent days thereafter, the conservator was trying to gain control of the Home State Savings Bank situation—books, records. I had enlisted probably 20 to 22 State examiners to provide assistance in gaining control over the institution at that time. We had already gone through some sales activity with respect to Home State in the previous weekend.

To answer your question, it was just not in the best interests of having the conservator gain control over the books and records of Home State to have an additional party or parties clamoring around the books and records at that time.

Mr. CRAIG. If I remember Mr. Hunsche's, either testimony or cross examination, there was a concern though in the capability of the fund to be able to present a valid image that Home State could have been acquired, that the fund could properly have assisted, and that the doors might have remained open in that transaction—or in that period of time.

Mr. HUNSCHE. Well, it is just my personal opinion.

Mr. CRAIG. Well, as the administrator of the fund, your personal opinion ought to have some value.

Mr. HUNSCHE. That had the loan been given to the fund, given to the Ohio Deposit Guarantee Fund, and had we gone to our members for an additional 1 percent, which many of them were agreeable to, it would have increased our assets substantially. So that we could have gone into the newspapers and then made the statement that regardless of how large Home State's loss is, the Ohio Deposit Guarantee Fund can cover it.

We had 30 years of credibility in the Hamilton County area. And I think it would have worked.

Mr. CRAIG. But you were denied that opportunity?

Mr. HUNSCHE. A separate fund was set up.

Mr. CRAIG. All right. Mr. Chairman, thank you.

Mr. BARNARD. Mr. Spratt?

Mr. SPRATT. Thank you, Mr. Chairman.

It would be helpful to me, since we do not have balance sheets before us or attached as any of the exhibits to any of your testimony, if you could just walk us, Mr. Hunsche, through the years and examinations that passed from the time you first detected a problem at Home State in 1980, at which time your statement says there were repurchase agreements of about \$100 million and over-concentration with ESM, and an overcollateralization in nonuniform maturities.

Could you first of all tell us what you mean by overcollateralization?

Mr. HUNSCH. By overcollateralization is when the securities put up with the broker/dealer exceed the amount of the loan against their securities.

Mr. SPRATT. Do you know what the margin on those deals was? The amount of excess collateralization? In rough percentage terms.

Mr. HUNSCH. There were some of them as high as 25 to 30 percent, as I recall. One of our objectives was to get them down within national ranges of 103 to 105 percent total collateralization.

Mr. SPRATT. Would that not strike an average examiner as an extraordinary situation?

Mr. HUNSCH. Right. It did and, you know, the examiners did an excellent job on this. The thing that we were told is that the excess overcollateralization enabled them to borrow even at a cheaper rate, initially.

Mr. SPRATT. Did the rate of borrowing—did the rate which they were paying ESM validate that representation?

Mr. HUNSCH. Yes.

Mr. SPRATT. It was a below-market rate of interest?

Mr. HUNSCH. Compared to what you would borrow in other areas. To the best of my knowledge.

Mr. SPRATT. And did the Ohio Savings and Loan Department and the guarantee fund accept that explanation at that time?

Mr. HUNSCH. Yes, I believe we did. However, we still felt that there was too much of a concentration. Our main objective—we had two objectives really—to get the collateralization down within realistic percentages, and second, to reduce the amount of funds that the company had with one securities dealer. In July 1984, when we were advised that the \$400 million of the \$670 million loan was covered by Treasury bills that matured in May and June 1985, we felt we had won the war. That over 60 percent of this thing would have been washed out come May and June of this year. And then all we would have had to contend with was the remaining \$270 million based on their Ginny Mae loans that they had out. And our theory was that if the loss was not substantial, then we would urge them to get out of that as well.

Mr. SPRATT. In July 1984, what did the Home State balance sheet look like? What was on the asset side?

Mr. HUNSCH. I do not have it with me.

Mr. SPRATT. Was there still an overcollateralization. Did these T-bills belong to Home State? Had they been transferred as collateralization for a loan from ESM?

Mr. HUNSCH. I believe somehow back then, as I recall, they were switched. They had some Treasury bonds due in 1988, and somehow or another, they managed a switch out of the Treasury bonds and into the Treasury bills, which would have matured then on the year—what they done, their reverse repos were done basically for a year at a time. By switching out of the bonds and into the Treasury bills, it gave us a definite maturity date, when 60 percent of the transaction would have just been paid off.

Mr. SPRATT. What was the net worth, the parent book net worth, of ESM at this time? Excuse me—of Home State at this time?

Mr. HUNSCHE. Probably somewhere in the vicinity of \$13 to \$15 million. I am not totally sure.

Mr. SPRATT. \$13 to \$14 million?

Mr. HUNSCHE. I really do not have those figures with me.

Mr. SPRATT. So many times its net worth was in effect being held by a third party well beyond the jurisdiction of the State of Ohio in Fort Lauderdale. What efforts did the Ohio State Savings and Loan Division and the guarantee fund make to determine the validity, the security, of this institution that was holding several times the net worth of the largest institution that they insured?

Mr. HUNSCHE. We insisted on an audit report by Arthur Anderson. We also insisted on an audit report of ESM Government Securities and an attachment on that audit report showing where all of their securities were supposed to be placed.

Mr. SPRATT. And so the audit report you—was the audit report of ESM made by Arthur Anderson?

Mr. HUNSCHE. No. The audit report made on ESM was made by Alexander Grant. But was accepted by Arthur Anderson who is the C.P.A. firm that does the auditing of Home State. And it was accepted by us as well. We did not have any idea that it was an invalid audit report.

Mr. SPRATT. Who was the audit firm for ESM? I am sorry. I did not hear your answer.

Mr. HUNSCHE. Alexander Grant.

Mr. SPRATT. Alexander Grant. What happened to them? Not what is going to happen to them, but what happened to them in their audit practice?

Mr. HUNSCHE. What happened to them? I think they would like to find that out themselves. From what I have read, apparently they had a partner who was taking kickbacks or something.

Mr. SPRATT. It was not a typographical error, was it?

Mr. HUNSCHE. I hope not.

Mr. SPRATT. I am sorry to ask you these elementary questions, and maybe if I had been following the press accounts closely enough I would know this myself. I am just trying to put together a picture of the situation. Were there custodial receipts? Were there documents, safekeeping receipts, indicating these securities were in the hands of a third party somewhere? The T-bills that are the subject of the reverse repo—were these certificates in these vaults?

Mr. HUNSCHE. I cannot answer that totally. At the one meeting I attended where there was a gentleman up from ESM, the story we were given is that the collateral is turned over to the communities that put up the money. The physical collateral. It was always our understanding that ESM was nothing more than a middleman. It went to Toledo and various communities, got the money in, then the institutions would pledge their governments, or Ginnys or whatever it would be, and then those would then be taken and pledged to the communities.

Mr. SPRATT. I see. What in fact happened? Do you know what in fact happened to the securities?

Mr. HUNSCHE. Please?

Mr. SPRATT. Do you know what in fact happened to these securities?

Mr. HUNSCHE. Your idea is as good as mine. I have been waiting with baited breath to find out from Florida exactly what happened to the securities. Now, we do know that something like \$300 million in Ginnys apparently are still in Home State's name because Home State is getting the interest on them.

Mr. SPRATT. Let me ask you a couple of questions about your insurance fund. One of the reasons for our holding this hearing is that we also have oversight jurisdiction of the FSLIC and the FDIC and there has recently been a proposal made for the reorganization and consolidation of banking agencies. Basically it proposes that the FDIC sort of back out of its examination process and only come into dealing directly with its insured member banks at a time of crisis.

It seems to me that you have been in something of that situation yourself. Would you recommend that other insurance funds operate in the same manner you have with only moral suasion at your disposal?

Mr. HUNSCHE. No. You would be better off to have as much power as you can possibly get. But most of that emanates out of the State law and it is awfully difficult for a private organization to have it.

The ultimate weapon that we have naturally is the expulsion, but when you go through the expulsion, then you have the situation that was initially created by ESM, where you would have a run on it. So—

Mr. SPRATT. Were you hampered by the fact that you did not have routine access to the books of Home State?

Mr. HUNSCHE. No. We always had routine access to the books of Home State.

Mr. SPRATT. Oh, you did have access to the books.

Mr. HUNSCHE. That only stopped after the conservator was appointed.

Mr. SPRATT. I beg your pardon. OK. How have the member institutions of your deposit guarantee fund booked their 2-percent deposit?

Mr. HUNSCHE. They keep it on their books as an asset.

Mr. SPRATT. As an asset?

Mr. HUNSCHE. Yes. That is why it is imperative in the sale of Home State to try and preserve that 2 percent so it does not have to be wiped out against their net worth which will make less of them qualified for Federal insurance.

Mr. SPRATT. I notice in the responses to interrogatories we put to you that you indicated you had \$2 million of reinsurance and a \$1 million line of credit. In light of your exposure, do you think that is adequate backup liquidity?

Mr. HUNSCHE. Definitely not, although after the Garn-St Germain Act, when the Federal Reserve was made available, it did seem to be adequate.

Mr. SPRATT. You also guarantee deposits over \$100,000—all deposits, rather; 100-percent guaranteed. If it were not for that inclusive guarantee, would you still have the same insolvent situation? Would you still have the same problem you have with Home State?

Mr. HUNSCHE. Yes.

Mr. SPRATT. That does not make any difference in terms of exhausting your assets?

Mr. HUNSCHÉ. The guarantee in full really does not change the portfolio all that much. I mean, you know, under the FSLIC and FDIC, they have a number of ways that you can get up to—I forget how much it is, a quarter of a million or better—guaranteed under their insurance program.

Mr. SPRATT. Thank you.

Mr. BARNARD. Mr. Kolter?

Mr. KOLTER. Thank you, Mr. Chairman.

According to your statement, as early as 1980 and 1981, there was overconcentration with one dealer as you mentioned. And you did have contact with the Home State Bank. Did you in fact also have contact with say the Governor's office, the responsible members of the legislature, the superintendent of banking for the State, and State people? Or were they not notified?

Mr. HUNSCHÉ. No.

Mr. KOLTER. The reason I ask this question, the Governor today was interrogated as to why he did not move faster. And how could he move faster if he was not notified by somebody?

Mr. HUNSCHÉ. The information contained in those reports would have been strictly shared between the Ohio Division of Savings and Loans and the Ohio Deposit Guarantee Fund. Now, I cannot speak for Tom. I do not know if he reports to the Governor or not.

Mr. KOLTER. Do you feel if in fact you did notify responsible people at that time at the State level that action could have been taken to avert this crisis?

Mr. HUNSCHÉ. Back then it really was not all that much of a crisis. A lot of them were matched. They might have been overcollateralized, but they were matched, and they were rolled off every 6 months. There are tremendous numbers of financial institutions who use reverse repos as a borrowing type of instrument. I think the situation involving Home State here was using it on a too large a scale and with a too thinly capitalized dealer.

Mr. KOLTER. Mr. Batties, as regulator, if you would have contacted responsible people at the State level, do you feel this could be averted? Or is this not your responsibility?

Mr. BATTIES. Mr. Chairman, Mr. Representative, no. I do not think that it could have been averted. One thing, I do not think that there is any way that the State in and of itself could have averted the type of alleged fraud activity that took place at ESM. If your question is to the level of involvement of Home State with ESM, in terms of its level of activity, there was concerted effort being taken at that time pursuant to the statutory authority to have them unwind their situation, hopefully without a loss to the institution that would possibly impair the Ohio Deposit Guarantee Fund.

Mr. KOLTER. Thank you.

Mr. BARNARD. In other words, your authority is very limited?

Mr. BATTIES. Mr. Chairman, I might just go through some of the—

Mr. BARNARD. Do you have cease-and-desist powers?

Mr. BATTIES. Yes, sir.

Mr. BARNARD. So in other words, the Ohio Thrift Department could—even as far back as 1977 or 1978, knowing of this involvement with ESM—they could have, at that time, taken regulatory action?

Mr. BATTIES. The Ohio Division of Savings and Loan does possess cease-and-desist powers.

Mr. BARNARD. And they could have taken action to remedy this association if they thought it was unwise banking practices?

Mr. BATTIES. Mr. Chairman, if the superintendent at his discretion thought they were involved in unsafe and unsound practices, he could have instituted a cease-and-desist order.

Mr. BARNARD. Who is the present superintendent?

Mr. BATTIES. Robert McAllister.

Mr. BARNARD. And who was the previous superintendent?

Mr. BATTIES. Myself, for a period of—

Mr. BARNARD. You were the acting superintendent.

Mr. BATTIES. Acting Superintendent.

Mr. BARNARD. But who was your predecessor?

Mr. BATTIES. C. Lawrence Huddleston.

Mr. BARNARD. How long had he been in that job?

Mr. BATTIES. Mr. Chairman, roughly 2 years or more.

Mr. BARNARD. And what is he doing today?

Mr. BATTIES. He is in the investment banking field, Mr. Chairman.

Mr. BARNARD. Mr. Erdreich?

Mr. ERDREICH. Thank you, Mr. Chairman.

I am trying to get a separation between the sharks and the victims. And I think we are all victims here. I think the State of Ohio is obviously a victim. The depositors who are more than inconvenienced and in jeopardy of losing their deposits are victims. But it seems to me we are losing sight of the shark and I am shocked by the memorandum, Mr. Chairman, that I looked at. A 1977 memo—it talks about ESM and the principals and it says and I quote:

Everyone seems aware of their names and they are known as suede shoe types—slickers, high-pressure salesmen. The usual high-pressure bond salesmen. They are known and feared because they once operated in Memphis and Little Rock as well as Houston, TX, prior to coming to Fort Lauderdale, and are branded as the Memphis bond bandits.

I mean, it sounds like we are dealing with the Bonnie and Clyde of the bond selling business, and this is 1977 when the Comptroller of Currency is telling, at least in a memo that went to all national bank presidents, about ESM. That ESM is a little problem, and is a danger indeed, as this says, is feared by folks in the business. I am just curious to hear that you folks in Ohio, and, yes, you saw that this ESM situation was a problem, but I do not get the impression that either of you, from each agency, had any sense that ESM was some real danger, that you were aware of ESM being a real difficulty or a real financial problem.

Did you have any, Mr. Hunsche, of that?

Mr. HUNSCH. No, sir. I wish that would have been shared with us. I am sure we would have got them out of that ESM in 1977.

Mr. ERDREICH. Mr. Batties?

Mr. BATTIES. Mr. Chairman, Mr. Representative, we were not aware and to my knowledge any other superintendent or myself was aware that ESM, quote unquote, was a bad actor.

Mr. ERDREICH. It just amazes me, and I think, Mr. Chairman, the further hearings today, what you are doing, is excellent because the obvious lack of communication between all the agencies involved, whether it is at the Federal level or State level, contributed to more victims piling up, and from what I am hearing I see what Ohio had in the level of authority that you had, Mr. Hunsche, what you all could do and where you moved in on the problems at Home State, but looking overall, it just bothers me that an actor like this and more than a bad actor, I would say, could be one of those sharks out there and institutions have not really any sense of it and the State agencies have very little sense of it. What sort of information beyond an audit, that you said you required, Mr. Hunsche, I believe, received an audit on ESM? Anything beyond that is information or disclosure about this particular entity and what it was doing?

Mr. HUNSCHÉ. As far as ESM is concerned?

Mr. ERDREICH. Yes. As far as ESM?

Mr. HUNSCHÉ. I think they also required the ESM auditor to indicate where Home State's securities were located. Against which transactions. And they used to compile a list of that every year as well.

Mr. ERDREICH. But no further additional information about ESM itself? And from the State's side—

Mr. HUNSCHÉ. And the financial statements, you know, made it look like it was making money tremendously. Very profitable corporation.

Mr. ERDREICH. The first that you had—that is, that the State had information, your organization did, your agency, was prior to 1982 the involvement with ESM. Do you have any sense now of the size of ESM, its operations?

Mr. HUNSCHÉ. Do I have any sense of the size?

Mr. ERDREICH. Have you any further information beyond an audit report on ESM?

Mr. HUNSCHÉ. I have seen the 1984 audit report. Mr. Scheibel had it. Apparently it was given to him on a Thursday and was asked to be taken back on a Friday, but he kept it. I cannot quote you from it, because I really do not have it. But he did have a physical audit report issued by Alexander Grant & Co., for the year 1984 in his hand and he still has that.

Mr. ERDREICH. And the audit report, you and your agency were satisfied with the audit report on the face of it, I take it?

Mr. HUNSCHÉ. Right.

Mr. ERDREICH. Thank you, Mr. Hunsche.

Mr. BARNARD. Mr. Batties, one of the strongest—well, excuse me. Let me ask this to Mr. Hunsche. One of the strongest State private insurance funds that we know about indicates that under their system a reverse repurchase borrowing is a separate item on a monthly report, which is flagged on a computer printout, and if it appears like this situation between Home State and ESM, it results in an automatic special inquiry. Now, I will ask both Mr. Batties—Ohio does not have a system like that?