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ZANE MAY INTERESTS

PAUL ZANE PILZER
PERSONAL RESUME
March 2, 1987

ACADEMIC EXPERIENCE

LEHIGH UNIVERSITY, Bethlehem, PA - B.A. Journalism, 1974. Accelerated graduation in three years with Honors.

WHARTON GRADUATE BUSINESS SCHOOL, UNIVERSITY OF PENNSYLVANIA, Philadelphia, PA - M.B.A. Finance and Marketing, 1976. Accelerated graduation in 16 months.

NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION and GRADUATE SCHOOL OF BUSINESS, ADJUNCT PROFESSOR OF FINANCE, 1979 to Present. Originated course (1980) rated best course in Finance Department (1984) and best course in School of Business (1982, 1983). Promoted from Adjunct Assistant Professor in 1982 and Adjunct Associate Professor in 1984.

NEW YORK UNIVERSITY, SCHOOL OF CONTINUING EDUCATION, NEW YORK CENTER FOR REAL ESTATE EDUCATION, 1983 to Present. Founder and Managing Director. Developed/moderated in 1982-1984 (for NYU and others) 23 Real Estate Finance Conferences with over 3,000 paid participants.

PUBLICATIONS: Real Estate Review, Real Estate Finance Journal, Contributing Editor (1984 to Present), author of ten publications and various articles (See Exhibit 4). **Dallas Morning News,** Viewpoints Column writer (1986).

REAL ESTATE AND MANAGEMENT EXPERIENCE

ZANE MAY INTERESTS, Dallas, Texas. May, 1982 - Present. Managing Partner and co-founder. Acquired 14 real estate equity investments as General Partner totalling $268.5 million (6,710,319 sf in 62 buildings, See Exhibit 1). Zane May Interests currently owns and manages 61 buildings totalling 6,617,080 sf.

PAUL ZANE PILZER INTERESTS, Dallas, Texas. Feb., 1981 - May, 1982. General Partner and originator of three real estate equity investments totalling $28.5 million (286,000 sf in four properties, See Exhibit 2). Established organization which merged with Alan M. May in 1982 to form Zane May Interests.

CITIBANK, N.A., New York, New York. May, 1976 - Feb., 1981. Originated and closed eight Texas equity real estate investments totalling $166.8 million on behalf of Citibank's foreign individual and domestic institutional trust customers. As member of Citibank legal/regulatory (lobbying) group, played significant role in passage of financial institution deregulation legislation.

PUBLIC SECTOR EXPERIENCE

Testified (1985) before House of Representatives Subcommittee on regulation of savings and loan industry. Appointed as Consumer Sector Representative (1987-1989) on the Department of Housing and Urban Development's National Manufactured Home Advisory Council. Advisor to key White House personnel and Congressional leaders (1984 to Present). Active trust member of National Republican Senatorial Committee (1985, 1986, 1987).

PERSONAL

Height: 5'9" Weight: 155 lbs. Health: Excellent

Interests: Skiing, writing, tournament backgammon and chess. Strong interests in theatre, contemporary art, opera, and cuisine.

EXHIBITS (Available upon request)

1. List of Zane May Interests Equity Investments ($268.5 million total valuation, 6,710,390 sf in 62 buildings) in which Paul Zane Pilzer is/was the General Partner.

2. List of Equity Investments ($28 million total valuation) in which Paul Zane Pilzer was the General Partner and an additional $166.8 million in which Paul Zane Pilzer was the Key Principal Advisor.

3. List of 34 major real estate conferences/seminars in which Paul Zane Pilzer has been the conference moderator and/or lead faculty member.

4. List of major articles and publications written by Paul Zane Pilzer.

5. List of full-time accredited business school courses developed and taught by Paul Zane Pilzer.

6. List of Community, Civic and Business Affairs.

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EXHIBIT 1

LIST OF ZANE MAY INTERESTS EQUITY INVESTMENTS ($268.5 Million Total Valuation, 6,710,319 sf) IN WHICH PAUL ZANE PILZER IS/WAS THE GENERAL PARTNER

1) SUN CITY SHOPPING CENTERS, Sun City (Phoenix), Arizona, 1986. Six premium retail shopping centers totalling 511,597 sf. $44.1 million valuation. Prudential Insurance Company, Seller. Zane May Properties, Inc. (Alan M. May - President, Paul Zane Pilzer - Chairman), General Partner.

2) NORTH PRIOR AVENUE INDUSTRIAL PROPERTIES, Minneapolis/St. Paul, Minnesota, 1986. Three industrial properties totalling 614,394 sf. $12.3 million valuation. Space Center, Inc., Seller. Zane May Properties, Inc. (Alan M. May - President, Paul Zane Pilzer - Chairman), General Partner.

3) TRANQUILITY PARK INDUSTRIAL PROPERTY, Memphis, Tennessee, 1986. 370,000 sf industrial property. $6.0 million valuation. McKee, McFarland and Lincoln National Life Insurance Company, Seller. The Trammell Crow Company, property management. Alan M. May and Paul Zane Pilzer, General Partner.

4) MEMPHIS INDUSTRIAL PROPERTIES, Memphis, Tennessee, 1985. 30 industrial and retail buildings in four separate projects (3,330,000 sf total). $54 million valuation. Prudential Insurance Company, Seller. The Trammell Crow Company, Limited Partner. Alan M. May and Paul Zane Pilzer, General Partners.

5) THANKSGIVING TOWER CONDOMINIUM INTEREST, Dallas, Texas, 1985. Acquisition, leaseback, and equity syndication of 19.5% condominium interest (259,330 sf) in 50-story 1,330,000 sf downtown office building. $61 million condominium interest valuation. BancTEXAS Group, Inc. and BancTEXAS Dallas, N.A., Seller and tenant. Prudential Insurance Company, Lender. Alan M. May and Paul Zane Pilzer, General Partners.

6) CONTROL DATA INDUSTRIAL PROPERTY, Edina (Minneapolis), Minnesota, 1985. 103,903 sf industrial/office property. $2.8 million valuation. New England Mutual Life Insurance Company, Seller. Control Data Corporation, Lead Tenant. Alan M. May and Paul Zane Pilzer, General Partners.

7) PETROLEUM BUILDING, Beaumont, Texas, 1985. 204,490 sf, 13-story office building (plus related land parcels and industrial properties). $9 million total valuation. Alan M. May and Paul Zane Pilzer, General Partners.

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EXHIBIT 1 (Continued)

8) TWO METROPLEX INDUSTRIAL PROPERTIES, Dallas and Fort Worth, Texas, 1984. Two separate industrial properties (436,152 sf). $10.6 million valuation. Aetna and Bank of America, Sellers. Kimbell Corporation and Armstrong Rubber Company, Tenants. Alan M. May and Paul Zane Pilzer, General Partners.

9) SEVEN INDUSTRIAL PROPERTIES, Dallas, Texas, 1983. Acquisition and equity syndication of seven industrial properties (390,344 sf) in the Dallas metroplex. $8.5 million valuation. The Equitable, Seller. Trammell Crow Company, Leasing and Management. Alan M. May and Paul Zane Pilzer, General Partners.

10) FIVE ROSS DEPARTMENT STORES, Dallas, Arlington, Fort Worth, Lubbock and Longview, Texas, 1984. Acquisition and redevelopment of five former home improvement stores (207,800 sf) and simultaneous redevelopment/leasing to Ross Stores, Inc. $20.8 million valuation. Edison Stores, Inc. (Homer's), Seller. Ross Stores, Inc., Tenant. David Dunning, Alan M. May and Paul Zane Pilzer, General Partners.

11) BANCTEXAS RICHARDSON BUILDING, Dallas, Texas, 1983. Acquisition and equity syndication of 74,988 sf office building and 4.6 acre site on Central Expressway. $10.1 million valuation. Alan M. May and Paul Zane Pilzer, General Partners.

12) 10850 RICHMOND AVENUE BUILDING, Houston, Texas, 1983. Acquisition and equity syndication of under-construction 95,651 sf atrium office building. $12.6 million total valuation. Alan M. May and Paul Zane Pilzer, General Partners and Developers.

13) 505 BOULDER AVENUE, Tulsa, Oklahoma, 1982. $2.1 million acquisition of 18,270 sf downtown office site for a 24-story, $34 million office building containing over 335,000 sf of retail and office space. Alan M. May and Paul Zane Pilzer, General Partners.

14) STATE FEDERAL BUILDING, Tulsa, Oklahoma, 1982. Acquisition, leaseback and equity syndication of 90,000 sf downtown office building. $13.8 million total valuation. State Federal Savings and Loan Association, Seller and Tenant. Rotan Mosle, Inc. and Lepercq de Neuflize, Company, Brokerage Firms. Alan M. May and Paul Zane Pilzer, General Partners.

ZANE MAY INTERESTS

EXHIBIT 2

LIST OF NON-ZANE MAY EQUITY INVESTMENTS ($28 MILLION, #'s 1-3) IN WHICH PAUL ZANE PILZER WAS THE GENERAL PARTNER AND SOUTHWEST EQUITY INVESTMENTS ($166.8 Million, #'s 4-11) IN WHICH PAUL ZANE PILZER WAS THE KEY PRINCIPAL ADVISOR

1) REGENTS PARK I & II, Beaumont, Texas, 1981. Acquisition of 54% equity interest in 75,000 sf office building project. $5 million total valuation. Kilburn H. Moore, Developer. Paul Zane Pilzer, General Partner.

2) 7211 REGENCY SQUARE, Houston, Texas, 1981. Acquisition of 50% equity interest in 60,000 sf Southwest Freeway office building. $6.6 million total valuation. Ralph Ragland, Developer. Paul Zane Pilzer, General Partner.

3) 3700 BUFFALO SPEEDWAY, Houston, Texas, 1981. Acquisition of 75% equity interest in 141,000 sf Greenway Plaza Office Building. $16.9 million total valuation. Ralph Ragland, Developer. Paul Zane Pilzer, General Partner.

4) ENERGY SQUARE II, Dallas, Texas, 1980. $24 million land sale/leaseback leasehold mortgage (joint venture) and interim loan buydown. Barge Development & DeGolyer and McNaughton, Developer.

5) EXPRESSWAY TOWER 1 & 2, Dallas, Texas, 1980. $12 million existing building plus $25 million, to-be-built phase II joint venture. Tecon Realty, Developer.

6) ENERGY PLAZA, San Antonio, Texas, 1980. Phase I and Phase II of $10.1 million office project. ($3.1 million equity, $6.9 million mortgage). Shields Investment Corporation, Developer.

7) GLEN LAKES OFFICE BUILDING, Dallas, Texas, 1980. $13 million Phase I land sale/leaseback leasehold mortgage (joint venture). McFaddin-Kendrick, Developer.

8) FIRST NATIONAL BANK TOWER, San Antonio, Texas, 1980. $7.7 million acquisition/joint venture ($3.3 million equity, $4.4 million debt) R&B Properties, Developer.

9) PARKDALE MALL, Beaumont, Texas, 1980. $34 million existing acquisition plus $25 million expansion. Jacobs-Kahan, Developer.

10) FIRST CITY TOWER ARLINGTON, Arlington, Texas, 1979. $8 million office building ($2 million equity investment, $6 million mortgage) joint venture. Treptow Murphree, Developer.

11) FIRST CITY TOWER - QUORUM, Dallas, Texas, 1979. $8 million office building ($2 million equity investment, $6 million mortgage) joint venture. Treptow Murphree, Developer.

EXHIBIT 3

LIST OF MAJOR REAL ESTATE CONFERENCES/SEMINARS IN WHICH PAUL ZANE PILZER HAS BEEN THE CONFERENCE MODERATOR AND/OR LEAD FACULTY MEMBER:

1) REAL ESTATE SYNDICATION STRATEGIES, New York City, September 30 - October 1, 1985. "Alternatives for Front-End Financing". 145 paid participants.

2) PRIVATE PLACEMENTS IN REAL ESTATE, Dallas, Texas, September 19-20, 1985. "State of the Private Real Estate Syndication Industry". 53 paid participants.

3) NEW YORK UNIVERSITY - REAL ESTATE SYNDICATIONS IN 1984, Beverly Hills, California, October 11-12, 1984. "Introduction - Current Trends in Real Estate Syndication"; "Purchasing Real Estate for Tax-Oriented Syndication". 103 paid participants.

4) NEW YORK UNIVERSITY - CORPORATE SALE/LEASEBACKS IN REAL ESTATE, New York City, September 18-19, 1984. "Introduction - The Evolution of and Rationale for the Corporate Sale/Leaseback"; "Financial Institution Sale/Leasebacks - Case Study & Discussion"; and "Workshop Discussion & Canse Studies of Situations & Creative Solutions". 120 paid participants.

5) NEW YORK UNIVERSITY - REAL ESTATE SYNDICATIONS IN 1984, New York City, September 10-11, 1984. "Introduction - Current Trends in Real Estate Syndication"; "Purchasing Real Estate for Tax-Oriented Syndication". 220 paid participants.

6) REAL ESTATE SECURITIES & SYNDICATION PRACTICES, Dallas, Texas, March 12-13, 1984. "Case Study of a Syndication Involving a $10 Million Sale-Leaseback for a Savings & Loan Association". 84 paid participants.

7) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Los Angeles, California, December 13-14, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 112 paid participants.

8) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, San Francisco, California, December 12-13, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 101 paid participants.

EXHIBIT 3 (Continued)

LIST OF MAJOR REAL ESTATE CONFERENCES/SEMINARS IN WHICH PAUL ZANE PILZER HAS BEEN THE CONFERENCE MODERATOR AND/OR LEAD FACULTY MEMBER:

9) NEW YORK UNIVERSITY - CORPORATE SALE/LEASEBACKS IN REAL ESTATE, Washington, D.C., December 7-8, 1983. "Introduction - The Evolution of and Rationale for the Corporate Sale/Leaseback"; "Financial Institution Sale/Leasebacks - Case Study & Discussion"; and "Workshop Discussion & Case Studies of Situations & Creative Solutions". 185 paid participants.

10) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Phoenix, Arizona, November 30 - December 1, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 72 paid participants.

11) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Houston, Texas, November 29-30, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 148 paid participants.

12) NEW YORK UNIVERSITY - CORPORATE SALE/LEASEBACKS IN REAL ESTATE, Houston, Texas, November 8-9, 1983. "Introduction - The Evolution of and Rationale for the Corporate Sale/Leaseback"; "Financial Institution Sale/Leasebacks - Case Study & Discussion"; and "Workshop Discussion & Case Studies of Situations & Creative Solutions". 108 paid participants.

13) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Atlanta, Georgia, November 1-2, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 104 paid participants.

14) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Miami, Florida, October 31-November 1, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 64 paid participants.

EXHIBIT 3 (Continued)

LIST OF MAJOR REAL ESTATE CONFERENCES/SEMINARS IN WHICH PAUL ZANE PILZER HAS BEEN THE CONFERENCE MODERATOR AND/OR LEAD FACULTY MEMBER:

15) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Washington, D.C., September 29-30, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 125 paid participants.

16) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Hartford, Connecticut, September 28-29, 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Stanford Business School Case Study (Elkhorn at Sun Valley)". 99 paid participants.

17) REAL ESTATE SECURITIES & SYNDICATION PRACTICES, Houston, Texas, July 19-20, 1983. "Structuring and Marketing a Syndication via Wall Street - A Case Study". 106 paid participants.

18) NEGOTIATING JOINT VENTURE FINANCING IN REAL ESTATE, Dallas, Texas, April 26-27 1983. "Legal/Tax Issues Involved in Joint Venture Financing (Moderator)"; "Finding and Selecting the Joint Venture Financial Partner"; "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture"; and "Workshop and Case Study Presentation of Harvard Business School Case Study (The John Street Problem)". 204 paid participants.

19) NEGOTIATING JOINT VENTURE FINANCING, Anaheim, California, December 7-8, 1982. "Selecting the Joint Venture Financing Partner" and "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture". 87 paid participants.

20) REAL ESTATE INVESTMENT STRATEGIES FOR PUBLIC PENSION FUNDS, Salt Lake City, Utah, November 14-17, 1982. "How to Sell the Tax Benefits Behind a Pension Fund Real Estate Investment". 196 paid participants.

21) NEGOTIATING JOINT VENTURE FINANCING, Portland, Oregon, October 21-22, 1982. "Selecting the Joint Venture Financing Partner" and "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture". 44 paid participants.

EXHIBIT 3 (Continued)

LIST OF MAJOR REAL ESTATE CONFERENCES/SEMINARS IN WHICH PAUL ZANE PILZER HAS BEEN THE CONFERENCE MODERATOR AND/OR LEAD FACULTY MEMBER:

22) JOINT VENTURE FINANCING, Denver, Colorado, August 23-25, 1982. "Selecting the Joint Venture Financial Partner" and "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture". 127 paid participants.

23) NEGOTIATING JOINT VENTURE FINANCING, Houston, Texas, July 21-22, 1982. "Selecting the Joint Venture Financing Partner" and "How to Segregate and Sell the Tax Benefits in a Pension Fund Joint Venture". 177 paid participants.

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EXHIBIT 4

LIST OF MAJOR ARTICLES AND PUBLICATIONS WRITTEN BY PAUL ZANE PILZER:

1) Paul Zane Pilzer, "Senate Finance Committee tax reform bill to spur growth", The Dallas Morning News, Viewpoints, May 26, 1986.

2) Paul Zane Pilzer, "Ahead to the Past", Real Estate Finance Journal, Summer, 1986.

3) Paul Zane Pilzer, "Taking Uncle Sam for a $200 Billion Ride" Real Estate Review, Summer, 1986.

4) Paul Zane Pilzer, "Holding on to Prime Real Estate", Real Estate Review, Vol. 15, No. 14, pp. 62-65, Winter, 1986.

5) Paul Zane Pilzer, "Tax reform proposals stress fairness instead of productivity", The Dallas Morning News, Viewpoints, December 8, 1985.

6) Paul Zane Pilzer, Testimony before the "Bush Task Group Report on Regulation of Financial Services - Blueprint For Reform", at a hearing before the Subcommittee on Government Operations, House of Representatives, September 18, 1985.

7) Paul Zane Pilzer, "Real Estate Tax Benefits and Reforms: The Long View", Real Estate Review, Vol. 15, No. 3, pp. 28-32, Fall, 1985.

8) Paul Zane Pilzer, "Public Policy: Sheltering Subsidies", Real Estate Finance Journal, pp. 70-73, Summer, 1985.

9) Paul Zane Pilzer, "A Below-Market Lease Buy-Out 'Creates' Value", Real Estate Review, Vol. 15, No. 2, pp. 16-17, Summer, 1985.

10) Paul Zane Pilzer, "Characteristics of Properties Suitable for Syndication", Real Estate Review, Vol. 14, No. 4, pp. 44-47, Winter, 1985.

11) Paul Zane Pilzer, "Structuring Real Property Acquisitions for Syndication", Real Estate Review, Vol. 14, No. 2, pp. 34-39, Summer, 1984.

12) Paul Zane Pilzer, "You Can Lose in the Wrong Syndication Investment", Real Estate Review, Vol. 14, No. 1, pp. 27-30, Spring, 1984.

EXHIBIT 5

LIST OF FULL-TIME ACCREDITED BUSINESS SCHOOL COURSES DEVELOPED AND TAUGHT BY PAUL ZANE PILZER.

1) REAL ESTATE FINANCE B40.2339. NEW YORK UNIVERSITY, GRADUATE SCHOOL OF BUSINESS ADMINISTRATION. Fall, 1986. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 34 students. Frank Sullivan, co-professor.

2) REAL ESTATE FINANCE BC15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION. Fall, 1986. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 17 students. Frank Sullivan, co-professor.

3) REAL ESTATE FINANCE C15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, Fall, 1985. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 45 students. Frank Sullivan, co-professor.

4) REAL ESTATE FINANCE C15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, Fall, 1984. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 63 students. Frank Sullivan, co-professor.

5) REAL ESTATE FINANCE C15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, Fall, 1983. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 63 students. Frank Sullivan, co-professor.

6) REAL ESTATE FINANCE C15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, Fall, 1982. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 63 students. Rated best course in School of Business. Henry Emerson and Stephen Miller, co-professors.

7) REAL ESTATE FINANCE C15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, Fall, 1981. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 63 students. Rated best course in Finance Department. Frank Sullivan and Henry Emerson, co-professors.

8) REAL ESTATE FINANCE C15.0039, NEW YORK UNIVERSITY, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, Fall, 1980. Four (4) credit unit intensive quantitative course based on Harvard Business School cases. 24 students.

Portrait of An Industry In Crisis

The new breed of S&Ls has done costly damage to the real estate market. A look at four troubled lenders.

BY SALLY GIDDENS

JIMMY STEWART EXPLAINED IT BEST IN *IT'S A Wonderful Life*, this business of savings and loans. The movie was set in the Thirties—more than forty years before deregulation. You remember the scene. There's a run on the S&L in the sleepy town of Bedford Falls; people want their money, and Stewart as banker George Bailey delivers a soliloquy fit for economics 101: "You're thinking of this place all wrong...as if I had the money back in a safe. The money's not here. Why, your money's in Joe's house, that's right next to yours, and in the Kennedy house, and Mrs. Maklen's house, and a hundred others. You're lending them the money to build and then they're gonna pay it back to you as best they can."

And so it was in most of the towns across this country—towns that were virtually built by the simple save-and-loan formula of the thrift. From the time that Congress set up the system of government-guaranteed deposits in 1933 until deregulation in the Seventies, S&Ls were heavily regulated agencies that primarily took in consumer deposits (insured by the federal government) at low interest rates (set by the government) and invested those funds in home mortgages (also insured by the government). If the S&Ls followed the government regulations, they virtually couldn't fail. All the S&L examiner (the guy with the green visor who comes in to look at the books) had to do was to make sure that both sides of the equation balanced.

George Bailey wouldn't recognize today's S&Ls. Nor would he recognize his counterparts who run them. And if he looked at the books, Mary would probably have to make him some warm milk and put him to bed. Thrifts no longer stick to their historical business of making low-risk single-family home loans. And thrifts don't get their money from passbook savings accounts any more.

It's a Wonderful Life circa 1987 would include a cast of characters very familiar in Dallas. Shrewd, young, bright—these leading men knew an opportunity to make a profit when they saw it. And for hundreds of them, and their counterparts across the country, that opportunity came in the form of the new savings and loan system created by Congress in the late Seventies and early Eighties through deregulation. Ironically, the new brass ring had a tarnished underside. The vastly altered system of S&Ls is now being blamed for the current overbuilding problems in Dallas and for the turmoil the thrift industry and the Federal Savings and Loan Insurance Corporation now face. The Federal Home Loan Bank Board estimates that 216 thrifts with assets of about $80 billion will require federal assistance in some form during the next few years. And the dollars for that monumental bailout will come from the pockets of the U.S. taxpayer.

Deregulation of the thrift industry began in the Seventies. At that time, the majority of S&L assets were long-term mortgages fixed at the lower interest rates of the early part of the decade. Most of the liabilities were short-term passbook deposits. With the increased competition that came with deregulation and the advent of high interest rates, alternatives like money markets were offering depositors more return for their money. S&Ls were forced to pay higher interest or lose deposits.

That put the thrifts in a catastrophic cash crunch. They had loans locked in for twenty or thirty years at 5, 6, and 7 percent while they had to pay 15 and 16 percent for deposits. So Congress, in its wisdom, devised the solution: it would allow S&Ls to sell off their mortgages to raise the cash to pay the higher interest rates or to pay depositors who were taking their money elsewhere. (Remember George Bailey's lesson. The S&Ls couldn't take the money out of "every Joe's" house. They had to get it somewhere.) But when the S&Ls sold their mortgage portfolios, the book value of the mortgages was higher than the market value, so they suffered enormous losses. To solve that problem, Congress, in 1981, created a new accounting system for S&Ls that permitted them to amortize those losses over the twenty- and thirty-year lives of the mortgages. The regulators were betting that by allowing S&Ls to convert their mortgages to cash and freeing their investment powers, the thrift industry could earn enough profit to eventually cover its losses.

Thus Congress allowed S&Ls to take leave of their traditional investment vehicles—home mortgages—and enter the world of

The Federal Home Loan Bank Board estimates that 216 thrifts with assets of about $80 billion will require federal assistance in some form during the next few years.

high finance. S&Ls became players in the more speculative markets. And in Texas, that meant the apartment, land, and office building games.

In the safe, insured, government-controlled system, S&Ls were only required to have 3 percent capitalization versus banks' 10 percent (for every dollar loaned, the owners of the S&L put up three cents; the government insured the other ninety-seven cents of deposits). But in a deregulatory environment, those low capital requirements took on a new meaning.

Some observers, like Paul Zane Pilzer, a managing partner in the Dallas-based real estate investment firm Zane May Interests, think Congress made a fatal error and that deregulation of the S&L industry will go down as a tragic mistake of the deregulatory era. Pilzer is a Wharton MBA, a former banker, and an adjunct professor of finance at New York University. He was a lobbyist for Citibank during the late Seventies and testified last summer before Congress on the S&L crisis.

"It didn't take long for the nation's most savvy investors to realize that by investing through an S&L, one could reap 100 percent of the profits and only risk 3 percent [thrift capital requirements] of the losses. But in the zero-sum-game world of financial investments where one investor's gain is another investor's loss, the ultimate, sure-fire, 100 percent loser is the deposit insurance system, which insures 100 percent of both the winners' and losers' deposits," Pilzer says.

Texas is a perfect—and extreme—case study for what went wrong in the S&L industry. After 1981, S&Ls in Texas began to change hands faster than dice in a craps game. This is how Pilzer says those new S&L owners made money: a typical S&L's speculative investment might be a high-interest (2 percent over prime) $100 million loan to a land speculator. The institution would usually demand three or four points, $3 to $4 million, paid up front, plus a 25 percent to 50 percent profit participation.

(See S&Ls, page 108)

ILLUSTRATION BY DAVID FLAHERTY

S&Ls

(Continued from page 95)

Why would someone take such a high-cost loan? "Probably because the loan was too speculative for a bank to touch it," Paul Pilzer says.

So, if the land speculation is successful and makes $60 million for the S&L, the owners are allowed to dividend out the profit to themselves. If the speculation fails and the value of the property falls to, say, $40 million, the S&L owners would only lose the $3 million (3 percent) in capital that they had to put up to make a $100 million loan. The other $57 million loss would be picked up by the federal government, which has promised to pay off the insured depositors 100 percent.

But here's the catch: while those *losses* on highly speculative deals don't have to be recognized immediately, the *profit* can be taken by the investors. Even if the land falls in value and the S&L will eventually lose, the $3 to $4 million up front and the money earned by the premium interest rate can be paid to investors as "profit." Meanwhile, the S&L is still playing the game and making more and bigger investments. Who wouldn't like to play this hand of blackjack? You risk three cents of your own on each dollar but keep 100 percent of the winnings.

THIS POPULAR GAME IS COMING TO AN agonizing end as we watch many S&Ls change hands again, this time being dumped on Uncle Sam. Many savings and loans that aren't federally operated are either being guided or at least watched very carefully by the Federal Home Loan Bank. The new savings and loan system—a speculator's dream—coupled with the devastating blows dealt the Texas economy during the last two years have not made for a healthy combination. Following is a look inside Federal Home Loan Bank records on four local S&Ls that epitomize the problem.

• In 1980, John W. Harrell was president of Big Country Savings Association of Stamford, about forty miles due north of Abilene. The community S&L had three branches and total assets of $87.2 million. By 1982, Robert H. Hopkins had taken over as chairman of the S&L, now called Commodore Savings Association. In 1982, the majority of Commodore's conventional loans were for single family homes. But between 1982 and the third quarter of 1986 the S&L's loans on apartment complexes rose from $1.2 million to $104.9 million. In that same period Commodore's loans on other commercial real estate rose from $5 million to $160.6 million. Land loans rose from $273,000 to $192.2 million. Other secured and unsecured commercial loans, not including mortgages, grew from zero in 1982 to $86.1 million in the third quarter of 1986. At that time, these more speculative loans outnumbered traditional home loans by nearly $4 to $1. The cracks started to show in 1985. Commodore's repossessed real estate rose from $4.7 million in 1985 to $23.7 million by the third quarter of 1986. And along with that repossessed real estate grew Commodore's losses—from $874,000 in 1985 to $29.9 million by the end of the third quarter last year. Commodore had a negative net worth of $7.4 million on total assets of $1.05 billion. Hopkins is no longer with Commodore Savings Association. Its new chairman is John W. Harrell.

• In 1982, B.W. Baker was chairman of Citizens Savings Association of Grand Prairie, which had total assets of $40.2 million. By 1983, Thomas M. Gaubert had acquired the S&L, changed its name to Independent American Savings Association, and become its chairman. Gaubert's stint at Independent American was short—he was gone by the end of 1985—but in the meantime Independent American's loan portfolio changed drastically. Apartment loans grew from zero in 1982 to $76.1 million in 1985. Other commercial real estate loans grew from $4.2 million in 1982 to $221.2 million in 1985. Land loans grew from $193,000 to $188.8 million in that period. Other commercial loans grew from zero in 1982 to $26.4 million in 1985. In 1982 traditional home loans outnumbered commercial loans $7 to $1. By 1985 home loans were outnumbered $3 to $1. Independent American held $24.5 million in foreclosed real estate in 1985 and in 1986 the losses started to show—$512.8

million by the end of the third quarter. Independent American's net worth then was negative $457.5 million on total assets of $1.12 billion. Harold Cantrell is now the chairman of Independent American.

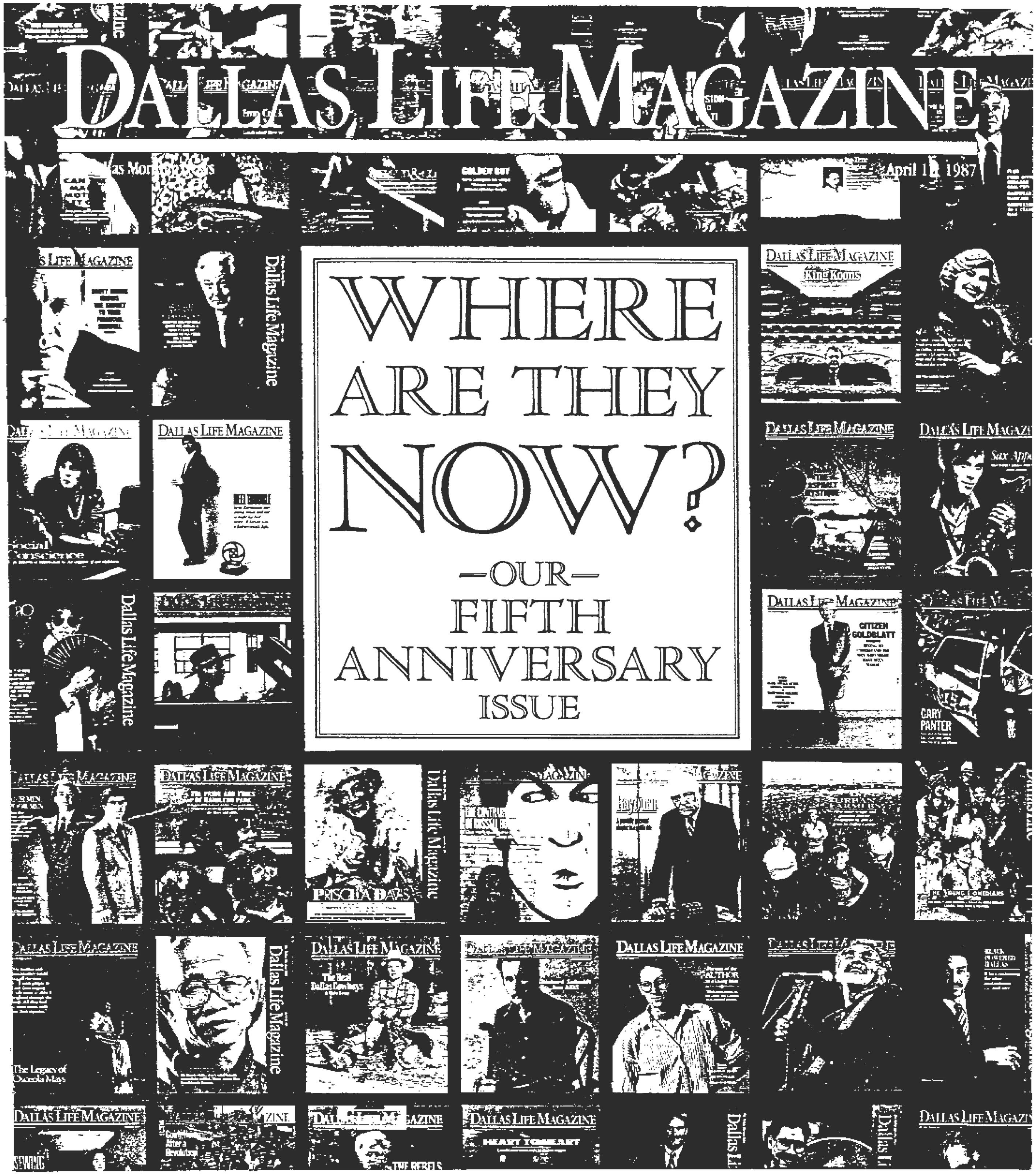
• Edwin T. McBirney became chairman of Sunbelt Savings Association of Stephenville in December of 1981. At the end of 1982, Sunbelt had $94.4 million in total assets. Between 1982 and McBirney's resignation in May 1986 apartment loans rose from $1.8 million to more than $800 million. Other commercial real estate loans rose from $11 million to $776 million. Land loans grew from $3.6 million to $884 million. Other nonmortgage commercial loans grew from zero in 1982 to $291 million by the end of the second quarter in 1986. In 1982, Sunbelt's home loans outnumbered other real estate loans by more than $3 to $1. By the time McBirney left Sunbelt, home loans were outnumbered by more speculative loans $6 to $1. Sunbelt had $52.9 million in repossessed real estate on its books by the second quarter in 1986 and its losses amounted to $19.1 million by the third quarter of 1986. Sunbelt had a positive net worth of $73.2 million on total assets of $3.2 billion for September 30, 1986, but analysts say Sunbelt's losses have only begun to show. Sunbelt's new chairman is Thomas J. Wageman.

• Jarrett E. Woods Jr. took control of Gatesville Savings and Loan Association in late 1981, an institution with one branch and total assets of little more than $28 million. Gatesville was later known as Western Savings Association and is now known as Western *Federal* Savings and Loan Association. Woods left the S&L in September 1986, when Western was taken under federal control. Donald Klink is Western's present chairman. With Woods in control in 1982, Western had $765,000 in apartment loans. By the second quarter of 1986, Western had $562.9 million in apartment loans. In that same period, Western's other commercial real estate loans went from $2.1 million to $317.3 million. Western's land loans grew from $43,000 to $1.4 billion. Other nonmortgage commercial loans grew in that period from zero to $118.5 million. In 1982 Western's home loans outnumbered more speculative real estate loans $12 to $1. By the second quarter of 1986, home loans were outnumbered by more speculative loans $36 to $1. Western had more than $20 million in repossessed real estate on its books in the second quarter of 1986. By the end of the third quarter, Western had losses of $222.7 million and a negative net worth of $153 million on total assets of $1.8 billion.

The names change, but the story stays the same. Congress created a system that some shrewd opportunists grabbed onto and ran with.

THE NAMES CHANGE, BUT THE STORY stays very much the same. Congress created a system that some shrewd opportunists grabbed onto and ran with. Can you blame them? Yes, say many critics who point to the mistakes S&Ls made—the empty office buildings and vacant apartment complexes that mark this city. "They are hard to hide," says Pilzer of the failures. "You can literally see right through them."

And who will pay for these mistakes? Congress has again gotten in on the act with various legislation designed to bail out the ailing FSLIC and reform the S&L system. The headlines change daily: the Federal Home Loan Bank Board indicates that it will relax the capital requirements for some ailing thrifts; Southwest thrift regulators plan to put funds from strong S&Ls into weak ones. Analysts are projecting the losses that will eventually have to be picked up by the federal government at more than $60 billion, which means ultimately we will all pay for the mistakes. Paul Pilzer says the losses from failing savings and loans will be more like $200 billion—$843 for every man, woman, and child in the United States. ■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PHOTOGRAPHY: LON COOPER

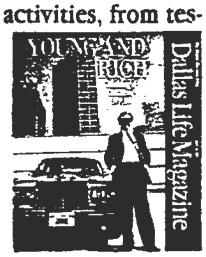
Paul Zane Pilzer

Young and Rich

MAY 27, 1984

Paul Zane Pilzer made his first million dollars before he was 30 years old. Now 33, Pilzer is still a thriving real estate financier, a paradox that makes him "feel like a survivor of Hiroshima." Though his company, Zane May Interests, owns three Dallas shopping centers and 19.5 percent of Thanksgiving Tower, Pilzer says his money-making secret is looking beyond Dallas and Texas for good deals. Zane May owns 66 buildings in four states and Pilzer's personal wealth now goes well beyond $10 million, he says.

Shuttling between homes in New York, Dallas and Utah, Pilzer orchestrates a whirl of activities, from testifying before Congress on economic issues to teaching finance at New York University. Since turning over the day-to-day running of Zane May to others — "I go to meetings and they update me," he says — his interest in government work has quickened: Pilzer, who still numbers his beloved Checker cab among his eight cars, was recently named to the National Manufactured Home Advisory Council, and hopes to become involved in planning federal low-income housing strategies.



PROFILE

Zane May Interests

Contrasts pay off for Paul Zane Pilzer and Alan May

By BARBARA DEMICK

Paul Zane Pilzer sums up his personality in one quick sentence: "I love to talk." His partner, Alan May, thinks he talks too much and doesn't mind telling him so.

Over lunch at downtown Dallas' Palm Restaurant, their unofficial club, the 31-year-old Pilzer rhapsodizes about his first killing in real estate, leasing summer homes in the posh oceanside resort of East Hampton, N. Y. May, 50, cuts him off with the warning, "I don't want to be in any article about your escapades."

They're a study in contrasts. Pilzer's tastes run to the Rolex and Rolls-Royce. He was featured a few years back in articles about millionaires under 30 and in the self-help book "Getting Yours: Success Strategies for the Eighties." He's active in Republican politics and harbors ambitions of holding a high-level Cabinet position.

May's idea of a good time was donating a Stradivarius violin to the Dallas Symphony. He and his wife, Marsha, have at various times served as officers of not only the symphony, but also the Dallas Theater Center, the Dallas Ballet and The Dallas Opera.

In business, the cautious May plays straight man to his voluble younger partner. But the combination has made for one of Dallas' most effective new real estate investment teams.

Since they joined forces as Zane May Interests in May 1982, the partners have amassed an impressive portfolio in Dallas and elsewhere.

The group owns office buildings in Tulsa, Okla.; Houston; and Beaumont, as well as a 19.5 percent interest in downtown Dallas' 50-story Thanksgiving Tower. They have five shopping centers and nine industrial properties in the Dallas-Fort Worth area. With the purchase last month of 3.3 million square feet of industrial space in Memphis, Tenn., Zane May Interests catapulted itself into real estate's big leagues.

Alan May and Paul Zane Pilzer

Louis DeLuca/Dallas Times Herald

Data

- ☐ **Name:** Alan May.
- ☐ **Occupation:** Partner, Zane May Interests.
- ☐ **Education:** B.S. in industrial engineering, Massachusetts Institute of Technology; MBA, New York University Graduate School of Business Administration.
- ☐ **Birthdate:** April 23, 1935.
- ☐ **Best business decision:** Going into partnership with Paul Zane Pilzer.
- ☐ **Worst business decision:** Haven't made one.

- ☐ **Name:** Paul Zane Pilzer.
- ☐ **Occupation:** Partner, Zane May Interests.
- ☐ **Education:** B.A. in journalism, Lehigh University; MBA, Wharton Graduate School of Business.
- ☐ **Birthdate:** Jan. 17, 1954.
- ☐ **Best business decision:** Merging my business with Alan May.
- ☐ **Worst business decision:** "If I made one, it hasn't surfaced."

Holdings now total 5.4 million square feet, making the partners among the largest Dallas-based property owners.

Zane May's real estate activities aren't confined to acquisitions. As a sideline, they own the New York Center for Real Estate Education, a Texas non-profit corporation that conducts seminars across the country under the auspices of New York University. Something of a geographic anomaly, the 2-year-old center grew out of Pilzer's free-lance lecturing.

Pilzer recalls someone offered him $5,000 a day to conduct a real estate seminar and Alan came up with the idea. "He said, 'Paul, don't take the money. Let's go into the seminar business.'" Pilzer already was flying to New York weekly to teach real estate finance at NYU, so the match was a natural.

"It keeps us abreast of what's happening in real estate," Pilzer says. "It earns us the respect of our colleagues and we get a lot of good contacts that way."

The partners share what they call "an intellectual approach to real estate." May, an archaeology buff, once opened a speech on sale-leasebacks with an anecdote about the ancient Mesopotamians. Pilzer continues to teach at NYU, is a contributing editor of Real Estate Review, and is taking time off from the business the next four months to write a book on federal tax incentives.

Not surprisingly, the similarities run deeper than the personality differences. Both men are natives of New York. Both started off similarly in the financial world, got their first training in the banking world — May at Bankers Trust and Pilzer at Citibank. They like to joke about their childhood exploits as budding entrepreneurs.

May remembers buying sheets of four 3-cent stamps, selling three of them for 4 cents each, and keeping the fourth. Pilzer used to get an older brother to sign up paper routes and then get kids too young to have their own to service them — for a hefty commission.

But Pilzer is the one who still wears his chutzpah on his sleeve.

The son of immigrant parents, he went through Lehigh University and Wharton Business School "telling people I was from New York because I was embarrassed to be from Brooklyn." But Pilzer says his insecurities were a powerfully motivating force. By 22, he'd earned his MBA and was hired by Citibank to lobby for the passage of NOW (interest bearing checking account) legislation. After the legislation passed, he worked for the bank's real estate division and supplemented his salary with "a couple of hundred thousand a year" by selling property in the Hamptons.

In early 1981, Pilzer recalls, a wealthy Chicago investor he'd just beaten on a big deal walked into the office and told Pilzer he'd rather be partners than competitors. The man wanted Pilzer to invest $100 million in real estate by the end of the year before the IRS grabbed it. Pilzer accepted and found himself a few weeks later living out of a hotel room in Dallas' Plaza of the Americas.

That experience made the 27-year-old Pilzer his first million. But even more, it brought him to the self-realization that "I'm a Texan who was born in Brooklyn."

"In New York, I found myself apologizing for my success when I ran into old classmates to the point of almost directly lying. They thought if you were making money, it had to be something illegal. People in Texas wanted to know every detail of how I made so much money. And they felt like I did about economic issues."

And in Dallas, he met Alan May. Pilzer recalls he'd heard May's name from investor Sid Bass, who Pilzer says told him, "If you had someone to come in and implement all your brainy ideas, it would be great." After Zane and May did one deal, the purchase of a Tulsa office building that they syndicated, the partnership seemed a natural.

May left New York in 1965 to become a vice president in charge of finance at Elcor Corp., the Midland-based energy firm. He moved to a position as chief financial officer of Steak and Ale Restaurants, a Dallas-based chain that he took public the following year. Under his tenure, the company — eventually acquired by Pillsbury — achieved the highest return on sales of any public food service chain.

By the time he hooked up with Pilzer, May was running his own investment company. But the two quickly discovered, May says, "we liked to do the tasks the other one didn't want to do. We were totally complementary." He adds, "We were both at a financial independent stage, but enjoyed the people and the work."

Pilzer is the "outside guy" of the partnership — the one who travels the cocktail party and luncheon circuit scouting for deals. May, who his partner says "doesn't like to waste his time," runs the company day to day.

See ZANE MAY on Page 4

SMU, info 692-3255.
☐ Introduction to Lotus 1-2-3, SMU, info 692-3255.
☐ Texas Real Estate Commission new required contracts for all agents, through 16th, UT-Arlington, info 273-2050.

Tuesday

☐ Women's Information Network meeting, National Association of Female Executives, La Tour Condominiums, info Vicki Burgess 351-3465.
☐ The Secretary as Manager, SMU, Austin, info 692-3255.
☐ Advanced Lotus 1-2-3, SMU, info 692-3255.
☐ Executives and the Microcomputer, Arthur Young Learning Center at InfoMart, info 746-3411.
☐ Personal Financial Management, Institute of Electrical and Electronic Engineers, Holiday Inn-Richardson, 6:30 p.m.
☐ Serving Alcohol with Care, Dallas County Hotel/Motel Asociation, Summit Hotel, 9:00 a.m.-noon, info 661-2490.
☐ Strategic Planning and Management in Turbulent Times, The Planning Forum, A. H. Belo Mansion, 11:30 a.m.-1 p.m., info 257-4841.

Worth, SMU, info 692-3255.
☐ Personnel and Training, through 17th, SMU, info 692-3255.
☐ Introduction to the Personal Business Computer, SMU, info 692-3255
☐ Gaining Productivity through Framework, Arthur Young Learning Center at InfoMart, info 746-3411.
☐ Importance of Defense Industry to Dallas, Dallas Chapter, Association of the United States Army, Lincoln Hotel, info 720-2022.
☐ Effective Clerical Skills, Padgett-Thompson, Westin Hotel-Galleria, info (800) 255-4141.
☐ Knowing Who Owns Your Stock — How to Use the New Beneficial Ownership Rules, National Investors Relations Institute, Melrose Hotel, noon, info Howard Schulman 979-0090.
☐ WASHINGTON — Census Bureau reports December business inventories.

Thursday

☐ Texas Marital Property Law and Estate Planning, American Association of Individual Investors, Weston Hotel-Galleria, 7:30 p.m., info 699-5300.

3255.
☐ An Introduction to Word Processing, SMU, info 692-3255.
☐ NEW YORK — Federal Reserve Board reports money supply for week ended Jan. 6.

Friday

☐ Displaywrite 3 — Professional Word Processing, Arthur Young Learning Center at Infomart, info 746-3411.
☐ Discrimination in Housing, UT-Arlington, info 273-2050.
☐ Use of Micro-Computers in Structural Engineering, through 18th, UT-Arlington, info 273-3701.
☐ WASHINGTON — Census Bureau reports December housing starts.

Saturday

☐ Real Estate Law and Legal Aspects, through 19th, UT-Arlington, info 273-2050.
☐ Preparation for Texas Real Estate Exam, UT-Arlington, info 273-2050.
☐ How to open a business/franchise and make it work, Entrepreneur Success Systems Inc., through 19th, info Sherry Klinger (818) 761-7792.

Differences mark partnership

ZANE MAY — From Page 3

"They're a sharp team," says Sam Kartalis, whose Dallas-based Dunning Development has worked with the two. "Paul is always saying, 'We can do this, we can do this,' and Alan will say, 'Slow down,' but they work well together."

Pilzer and May invest primarily for their own account, but occasionally will sydicate a deal among a small group of other investors. They emphasize that they're not speculators and — with only one exception — they still own everything they've bought. Their properties are all what they describe as "institutional quality" and, in fact, some of the largest acquisitions were purchased from from Prudential Insurance, Aetna and Bank of America.

Zane May usually borrows more money on the properties than their original purchase prices. Explains Pilzer, "We're able to get 110 percent financing on almost every deal because we do whatever needs to be done to the property to make it worth more."

For example, he cites five failing shopping centers in upscale neighborhoods around Dallas and Fort Worth that couldn't make it because they were anchored by a chain of home improvement stores. Zane May, in partnership with Dunning Development, was able to turn around the centers by installing Ross Stores, an expensive clothing chain that was more in tune with the neighborhoods.

The partners maintain a fervent optimism. The soft real estate market in the Southwest as well as the proposed shifting of the tax code, they both agree, present great opportunities.

Their shared philosophy, says May, "is all things change in order to stay the same." Pilzer adds: "When I first got into this business, everyone was saying that it was changing, so I thought: That's good — all those people won't have any jump on me. I still feel the same

‘Fast-lane’ actions by thrifts alarm financier

SCOTT BURNS

"I blew it in front of Congress," he says sheepishly, "I pride myself on my ability to teach — but I really blew it when I gave testimony."

Paul Zane Pilzer, relaxed, composed and giving no hint that he is anything but incisive, grimaces at the memory. A real estate financier and owner, by way of Zane May Interests, as well as adjunct professor at NYU, Pilzer looks out the window of his mirrored offices in downtown Dallas to the glass and marble Dallas skyline, a place where those strange Steinberg drawings in the *New Yorker* magazine — geometric shapes on a flat horizon — appear to have been reproduced as new and empty office buildings.

More such structures dot the even-flatter horizon north of the city in Plano. And they are just as empty. As they are in Houston, Baton Rouge, Denver and most of the major cities that boast more sunshine than, say, Pittsburgh.

Many of those buildings are painful evidence of what concerns Pilzer. He fears that Congress still does not understand the nature of the threat he tried to explain in his testimony before the Subcommittee of the House Committee on Government Operations nearly a year ago.

A financier first, he is also aware of how changes in the rules of thrift banking created a situation where ownership of a local thrift bank was all you needed to play "the fastest game in town."

In the process, a handful of fast-lane bankers reached for wealth and left the public holding a $25 billion bag — the estimated amount by which thrift losses exceed FSLIC insurance assets.

"It's unconscionable," he says, "I mean it's just morally wrong. Thrift banks, at one time, were highly regulated and limited in what they could do. That's what made it reasonable to insure their deposits. The opportunities for losses were small. But now — now everything has changed. They can do just about anything . . . and take substantial risks . . . but they are still insured."

I asked him to explain.

"It's a matter of leverage. You only need 3 percent capital to own a thrift. In other words, you can operate with 3 cents of your own money and 97 cents of your depositor's money. If you make money, you get to keep 100 percent of the profits. If you lose money, federal insurance will pick up 97 percent of the losses."

Small wonder Pilzer refers to the thrifts as "the financial gambling vehicles of the '80s."

If the thought of banks as "gambling vehicles" strikes you as strange, consider some examples of risk and reward:

■ Suppose you start a bank with $3 million. With that amount you could take in $97 million in government-insured deposits through the simple expedient of offering high interest rates. Then, making a speculative commercial loan with 4 points (a 4 percentage point charge) up front for making the loan, the owners could book a $4 million profit and pay it out to themselves. At the same time, they could accrue $12 million in

Please see 'FAST-LANE' on Page 8D.

'Fast-lane' actions by some thrift owners alarm financier

SCOTT BURNS

Continued from Page 1D.

interest payments and declare a profit on that. Presto, you've more than doubled your original investment of $3 million.

And you did it before the buildings you loaned on were completed or tenanted....

What happens if the loans go bad? The owner of the bank may lose his original stake, which he already has taken out in profits. But the FSLIC is liable for any loss exceeding that amount. In other words, heads he wins, tails he wins — and the public pays for it.

■ You can play the same game without even having a mortgage department though the simple expedient of buying and selling mortgages. Suppose the same bank sold $100 million in home mortgages that had been issued at a lower interest rate, realizing a loss of $20 million. Suppose at the same time the bank bought $100 million in home mortgages hoping to sell them at a higher price when interest rates decline back to the lower rate. If rates did decline, they could book a $20 million profit that equaled their loss and break even — but under regulatory accounting they could write the loss off over 20 years so they would show an illusory net profit of $19 million.

The profits "dividended out," would be real cash, however, not illusion. Again, the person who owns the bank makes money even though the bank itself did no better than break even.

"Suppose that you have a $100 million thrift with $3 million in capital," Pilzer says. "If interest rates change by 2 percent (assuming you start with 10 percent), the value of your portfolio will rise or fall by about $15 million. If it rises by $15 million you can sell the portfolio and dividend out the profit — *five times* your investment in the thrift.

"On the other hand, the market value could fall by $15 million.

"Is there anything wrong with this?" he asks, rhetorically.

"No. This is a business. What bothers me is that the government insures both sides of the transaction. The winner gets $15 million in profit, but the loser is limited to the capital of the bank, $3 million, and the FSLIC loses $12 million.

"Now think about this. If you have a bank with 3 percent capital, it only takes about a one third of one percent change in interest rates to either double or wipe out the capital of the bank."

By deregulating thrift operations without changing the insurance and regulatory rules, the banking authorities inadvertently set the stage for massive speculation, both in the financial markets and in real estate development: the bankers who financed all the buildings now being foreclosed had little to lose — and everything to gain.

Are there remedies? Can anything be done to protect the public from having to pay the bill for poor investments, mismanagement and speculation?

Pilzer says yes. Here are some of his suggestions for putting our thrift banks on a sounder footing:

■ Disallow the booking of points, fees and accrued interest as immediate profit. Allow the profit to be booked only when the loan is repaid. This will reduce the appeal of speculative deals and make for more realistic earnings accounting.

■ Increase the minimum capital requirements. Require that thrifts build their capital from 3 percent of assets to 9 percent of assets before they are allowed to dividend out any of their profits. This will strengthen the thrifts while discouraging their takeover for speculative use.

■ Identify equity investments as such. Extra points and high interest often disguise a defacto risk participation in a development. These loans should be identified properly and publicly.

■ Limit all commercial (non-consumer) investments to the equity capital of the thrift and its non-insured deposits. The original purpose of federal insurance was to attract deposits for lending institutions that provided relatively secure home mortgage loans, not speculative commercial real estate loans. This will reduce speculation and the exposure of the FSLIC to high-risk loans.

Is any of this being done?

No. While the foreclosure lists and thrift bank casualties mount, regulatory efforts are still focused on strengthening the insurance system rather than reducing the forces the create the losses. The legislators, in other words, are busy treating the symptoms, not the disease.

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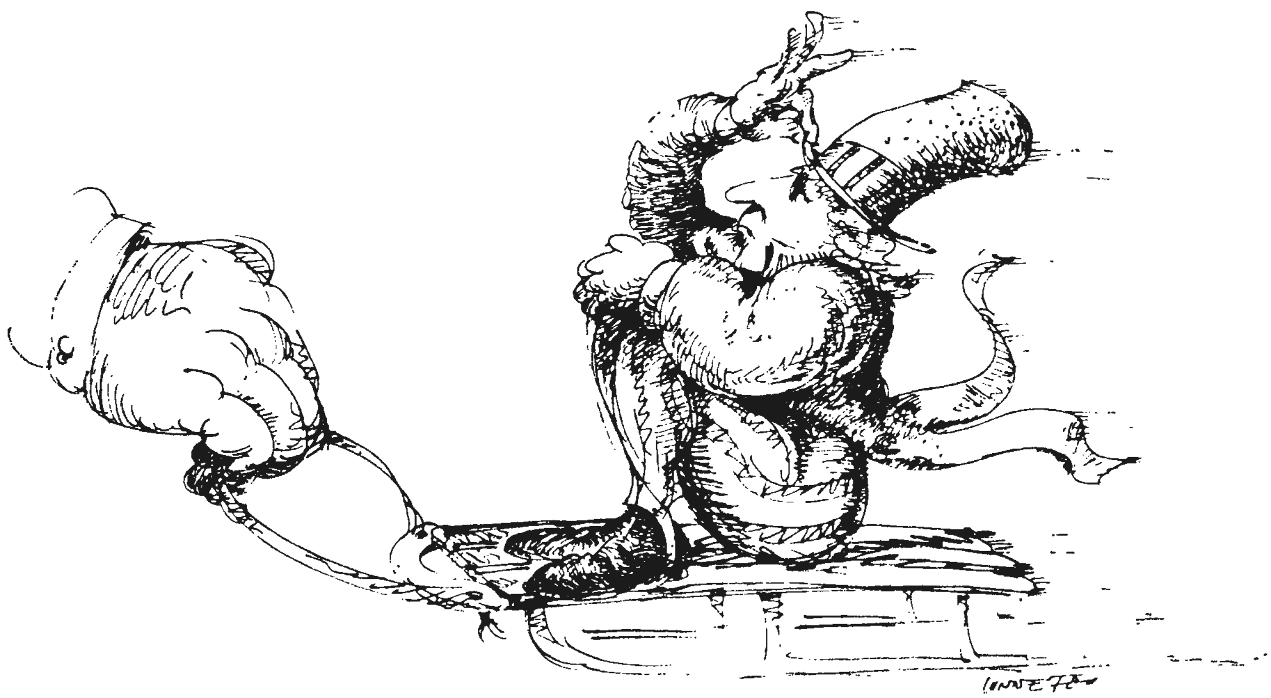
The disastrous potential of deregulating the savings and loan industry.

Taking Uncle Sam for a $200 Billion Ride

Paul Zane Pilzer



THE MANAGERS of a savings and loan association (S&L) in California believe that interest rates will rise in the near future, so they sell off $500 million of their fixed-rate home mortgages, planning to buy back similar mortgages at a lower price when interest rates increase. The owners of a New York S&L believe that interest rates will be falling, so they buy the $500 million of fixed-rate home mortgages from the California institution, hoping to sell them at a much higher price when interest rates decline. If interest rates move only 130 basis points in either direction, one of these associations will gain as much as $100 million, and the other will lose $100 million.

INSURED DEPOSITS MAKE A GAME OF S&L SPECULATION

Eventually, however, all savings institutions win at this game (at the expense of the American public) for the following reason. In order to get $500 million in insured deposits to play with, an S&L need have only $15 million (3 percent of assets) in capital. Furthermore, the institution's owners are

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Paul Zane Pilzer, an Adjunct Professor of Finance at New York University's School of Business and Public Administration, is the Managing Partner of Zane May Interests, a Dallas-based national real estate syndication and development firm.

personally liable for losses only to the extent of their capital investment. Moreover, current federal regulations allow the winning S&L to dividend the $100 million in profits out to its owners, but the losing S&L need not "recognize" its $100 million loss immediately. It may spread recognition over the life of the mortgages (sometimes as long as thirty years), even though it has had to sell the mortgages for a $100 million actual cash loss.

The results of the game are that the owners of one S&L make $100 million in cash, the owners of the other S&L will eventually lose their $15 million capital investment (unless they can make back their loss by further speculative investments), and the federal government picks up the remaining $85 million in losses (or more if the losing S&L continues to speculate unsuccessfully) by paying off the insured depositors 100 percent.

Refining the Game

A land speculator in Texas decides that it is a good time to purchase $100 million of undeveloped property in Houston for future development. An Iowa land speculator believes that prices for farmland have bottomed out and wants to make a similar $100 million investment. Today, both land speculators need go no further than their local S&Ls to get their $100 million. Each institution needs to have $100 million in insured deposits to make the loan that supports the land speculation. To lend that $100 million, a savings and loan association need have a net worth of only $3 million (3 percent of assets). If the land speculation is successful and makes $60 million for the S&L (which is participating in the appreciation), the owners of the S&L are allowed to dividend out $60 million (100 percent of the profits) to themselves. If the value of their $100 million investment falls $60 million to a value of $40 million, the S&L owners lose only their $3 million in capital (per $100 million of investments) and the federal government picks up the remaining $57 million in losses by paying off the insured depositors 100 percent.

Stacking the Odds

The S&L's speculative investment is usually made in the form of a very high interest rate loan to the land speculator. The institution usually demands 3-4 points ($3-$4 million) paid up front, plus a 25-50 percent profit participation. Typically, the loan amount includes the $100 million land price plus the $3-$4 million in points paid up front *plus* up to several years of interest payments at 200 basis points (2 percent) over prime. Even though the land might have fallen in value, the hypothetical S&L described above need not necessarily accept an immediate $60 million loss. It can delay recognizing its loss, and it may even be allowed to dividend out as *profit* (1) the $3-$4 million it paid itself up front and (2) the profit it earned from the premium interest rate.

At one time, S&Ls made speculative land investments like these as equity purchases for their own account, but they developed this participating high interest rate loan approach when their regulators told them to "make more loans and fewer risky equity investments."

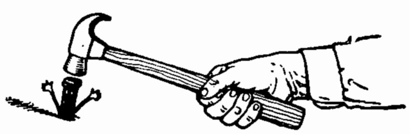
THE DANGEROUSLY FLAWED SOLUTION

Up until this decade, the savings and loan industry couldn't make these kinds of high-risk loans. Its investments generally were single-family home mortgages (at interest rates limited by state usury ceilings). S&L liabilities (deposits) were limited to individual insured passbook accounts (at interest rates established by the federal government). When interest rates rose sharply after 1978, the industry ran into trouble because most S&L assets were long-term home mortgages that were earning the lower returns prevalent in the early 1970s, while most S&L liabilities were short-term passbook deposits, and to retain these deposits institutions were now forced to pay much higher interest rates. One government response to this crisis in 1981 was to permit the institutions to engage in innovative accounting. S&Ls were allowed to sell off their mortgage portfolios. Since the book values of these mortgages were higher than the market prices, the institutions experienced enormous losses, but for accounting purposes, the S&Ls were permitted to amortize these losses over the lives of the sold mortgages. The regulators hoped that by permitting S&Ls to convert their mortgages to cash and by expanding the investment powers of the industry, the institutions could earn enough investment profits to cover the losses that they would annually report to reflect the sale of depreciated mortgages.

One may ask: How could the savings and loan industry and its regulators possibly believe that the industry as a whole, with no prior sophisticated financial management experience, could beat the nation's major commercial banks, insurance companies, and investment banking houses at their own game? Desperation apparently fosters self-delusion.

The New Limited Liability Investor

Unfortunately, an industry that was used to having both its selling price (interest rate on home mortgages) and its cost of goods sold (passbook deposit interest rate) established by the regulatory authorities, and one that had little or no experience with equity investments, was unprepared to enter the sophisticated world of financial management. However, it didn't take long for others in the investment community (speculators and conservative investors) to recognize that the ownership of an S&L in the new deregulated environment could confer many benefits. The investor/owner could have a relatively inexpensive cost of funds (insured consumer passbook deposits), receive 100 percent of the profits from his investments, and be liable for only 3 percent (required capital to asset ratio) of his losses. During the first half of this decade, the hottest investment vehicle for sophisticated investors was a newly chartered or purchased stock S&L.



Today, savvy investors throughout the nation pursue their investments with risks limited to only 3 percent of their project capital, because they own an S&L. If an S&L is still owned (and managed) by its original (pre-1980) owners/managers and has not taken advantage of its windfall opportunity investment powers, its owners are under increasing pressure to sell out their charter at several multiples of its true net worth to other more perspicacious investors.

There is nothing inherently wrong with an investor using other people's money to make more money for himself. However, in the "zero sum game world" of financial investments where one investor's gain is usually another investor's loss, there is something incredibly wrong with a system in which investors receive 100 percent of their profits and the American public is forced to pay up to 97 percent of their losses (as they pay back insured depositor accounts).

Patching the Leaks

Congress is beginning to address individual symptoms of this disease by such actions as reforming the deposit insurance system in response to recent financial events in Maryland and Ohio. But such reforms will only further compound the magnitude of the eventual catastrophe by allowing the industry more time to dividend out its profits and delay discovery of its losses. The disease of allowing individual S&L owners the power to speculate with public money should be stopped until the regulatory authorities can survey the damage already done and develop long-term solutions. It is estimated that one third of the thrifts currently have negative net worths that are being covered up by the misguided accounting methods that regulations now permit. Up to $200 billion of savings institutions' capital (mostly government-insured through their deposits) might have already been lost. The total assets of the Federal Savings and Loan Insurance Company (FSLIC) available to protect depositors are only approximately $6 billion, although no one doubts that Congress would insist that the federal government stand behind the FSLIC's obligations.

POLICY RECOMMENDATIONS

The following immediate reforms are needed to stop the types of activities that have been described here so as to stabilize the situation while the authorities survey the damage and work toward a permanent solution:

☐ *Eliminate accounting games.* The ability of an S&L to defer the recognition of cash losses from its investment portfolio and to spread loss recognition over a fictional period should be eliminated. Similarly, an institution's ability to book profits from fees and interest payments on loans for which the S&L has loaned the borrower the funds from which these payments are made should be eliminated.

☐ *Increase minimum capital requirements.* No S&L owner should be allowed to dividend out profits until its minimum net worth reaches at least 9 percent of assets.[1]

☐ *Mandate matching assets and liabilities.* An S&L that promises to pay a specific interest rate for a specified time period to a government-insured depositor should be required to purchase a government-guaranteed asset (say, a treasury note or an

1 Federal Reserve Board Chairman Volcker has suggested this ratio for commercial banks.

FNMA-insured mortgage) at an equal or higher interest rate for a similar time period.

Long-Term Solutions

Over the long term, it is essential to reexamine the entire "savings industry" and cast a critical eye on the logic of government insurance on any consumer deposits at a time when government-guaranteed savings instruments like treasury notes and U.S. savings bonds are readily available. In an era that concentrates on tax reform, one must ask if it is reasonable for the tax law to reward excess spending behavior by letting a consumer deduct interest on his unpaid credit card purchases and to penalize savings behavior by taxing the same consumer on the interest he earns on his personal savings.

A Recommended Tax Reform

One way to significantly increase consumer savings would be to allow a taxpayer to defer income taxes on up to 20 percent of his earned income if he puts that income into a government-guaranteed savings account that is secured by a corresponding government instrument like a treasury instrument. Interest earned on the account would also be tax deferred, but both income and interest would be taxed when the consumer removes the funds for consumption. (Effectively, the system would tax consumption instead of savings.)

The treasury loss from deferred tax revenues would be offset several times by the advantage of the lower interest rates on government borrowings that would result from the increase in the banking system's demand for government securities.

Despite the deferred taxes, the treasury would not be exposed to cash shortage. If the *average* federal income tax rate of savers is 25 percent, the taxpayer must deposit \$4 with the treasury (indirectly, via the purchase of a treasury obligation) for every \$1 of deferred income taxes. The thrift industry would function as an intermediary, serving the public interest as it does when it implements Individual Retirement Accounts.

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Available high-ratio mortgages revalidate grandmother's advice.

Holding On to Prime Real Estate

Paul Zane Pilzer

THE DOMINANT INDIVIDUAL owners of commercial real estate in virtually every market rarely, if ever, sell their property. This observation seems to hold true for the Harry Helmsley's and Trammell Crow's of our major cities as well as for the individual families that typically dominate our smaller towns. Often an individual owner of a prime property will quote her grandmother's deathbed request that she "not sell anything."

In these days of deep shelter real estate investments, ten megabyte personal computers, and probability distributions of expected internal rates of return, could it be that grandmother's advice still holds?

This article is concerned only with prime income-producing commercial real estate. Such real estate consists only of leased-up shopping centers, office buildings, and industrial properties, all of which have the

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following two attributes in common: They require a minimum of management and they have maximum appreciation potential because of their locations and large quantity of fee-titled land. This type of real estate is the only property worthy of the designation "passive investment." Properties like garden apartments, condominiums, land holdings, and single-use properties are forms of "active venture" capital investments in the real estate business.[1]

TERMS OF THE PARTICIPATING/ACCRUING MORTGAGE

Historically, the major insurance companies were the traditional providers of funds for long-term nonrecourse investments in prime commercial real estate. Typically, these companies had specific, predetermined long-term yield requirements built into their cost of funds (actuarial tables on whole life insurance policies), and they therefore were long-term, fixed-rate lenders. As fixed-rate lenders, they required generous coverage ratios of 125-130 percent in their underwriting.[2] This meant that a traditional fixed-rate mortgage could be obtained only for approximately 70-75 percent of a property's total value.

Today, the providers of funds for long-term nonrecourse investments in prime commercial real estate are mainly pension funds, savings and loan associations, and major insurance companies which do not have specific predetermined fixed-rate costs of funds. These lenders no longer commit to terms as long as they did a decade ago. The shorter term is accompanied by the desire for a floating, indexed interest rate with accruals above a fixed constant, or some sort of equity participation in the collateral property that provides the lender with inflation protection. In order to obtain the floating rates or the equity kickers (whereby they effectively purchase some part of the equity ownership above their own fixed-rate mortgage investment) in a competitive environment, the traditional long-term lenders have lowered their coverage ratios to 110-115 percent. This means that they now offer loans equal to 85-90 percent of appraised property values. This amount is close to the gross amount that a property owner may realize from a sale.

Mortgage transactions that include equity kickers are really partial sales/partial acquisitions of real property. But when they are properly structured, the taxing authorities do not treat the borrowers as if they have made partial sales, and the financial regulatory agencies, which usually frown on nondebt investments, do not consider that the investor-lenders have made partial acquisitions.[3]

ADVANTAGES OF BORROWING OVER SELLING

The new higher-lending-limit mortgages are not quantitatively superior to property sales. But the advantages can be shown by comparing the relative numbers of the alternative options. Assume that an investor owns a property with a $5 million depreciated basis that he can sell for $10 million. The sale would net the investor only approximately $8.76 million after he pays a $300,000 (3 percent) brokerage commission and $940,000 in capital gains taxes ($4.7 million capital gain after commission times 20 percent capital gains tax rate) and he probably would have other selling expenses such as title insurance. The same investor could borrow (tax-free) $8.5 million to $9 million in a participating/accruing mortgage, and have as a cost perhaps an $85,000-$90,000 (one percent) mortgage brokerage fee. Furthermore, the owner/borrower may be able to take advantage of the fact that properties often are sold on "audited last year's numbers," but can be refinanced on "projected next year's numbers."

There are additional advantages to refinancing. The investor who refinances instead of selling still owns his property, and he can usually refinance it again and again for more money every few years. Another reason for refinancing rather than selling a property is the federal tax rule that grants estates a "stepped-up basis" on the death of an owner. For the purpose of computing capital gains tax, the estate of a deceased property owner may step up the basis of an asset to its market value at the time of the death without paying any taxes. This means that an investor's tax deductions based on the depreciation of real property are permanently forgiven from income taxation if he can hold onto the depreciated investment until his death.

WHEN SHOULD AN INVESTOR SELL A PROPERTY?

Notwithstanding the foregoing analysis, there are three circumstances in which an investor should sell a property even though he can refinance it with nonrecourse debt that produces almost the same amount of money. They are the following:

- The real property value is declining.
- The property requires excessive management.
- The property has "windfall" value.

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[1] For a discussion of real estate appreciation and passive investments, see Paul Zane Pilzer, "Characteristics of Properties Suitable for Syndication," 14 REAL ESTATE REVIEW 44 (Winter 1985).

[2] A coverage ratio of 1.25 or 125 percent means that a lender requires that expected net operating income be at least 1.25 times the debt service before it makes the loan.

[3] Generally, a lender whose loan contains an equity kicker is not considered to be a partner for tax purposes unless the loan agreements contain certain "elements of ownership," including the right to participate in management and sales decisions and to receive continual benefits after the loan is repaid.

The Declining Value Property

When the investor forecasts a long-term decline in the dollar value of a property, a decline that may occur even in an inflationary economy, possibly because of a changing neighborhood or the expiration of a major unreplaceable lease, the investor should sell rather than refinance. The investor may be tempted to gamble on the potential gains from the possibility that the property may turn around, because he has downside protection from the fact that nonrecourse financing and subsequent foreclosure would yield almost as much money as a property sale. But this gamble is not worth the risk to the investor's reputation if he has to relinquish the property to his lender.

The Management Problem

When a property's continued viability requires a degree of management that the investor is no longer able to provide, either by himself or through third parties, he should sell it. This circumstance usually arises in management-intensive, nonprime properties like garden apartments. But even the owner of a first-class (prime) property may discover that because of changing circumstances, such as severe overbuilding in the area and the emergence of competitive properties or because of the termination of a long-term major lease, he must now undertake substantial active management for which he may lack either inclination or expertise.

Windfall Values

An investor should sell a prime property if it has acquired a "windfall" value to a specific purchaser/user who will be forced to go elsewhere if the investor does not sell him the property. For example, an investor may own an industrial, retail, or office property adjacent to another similar property to which its owner-user has made substantial improvements. The neighbor's business has greatly expanded, and the only way he can accommodate its growth is to expand onto the investor's property. The value of the investor's property to the neighbor, when he considers the cost of abandoning all his improvements if he must relocate, may be two or three times the value of the investor's property to an independent purchaser. The investor should sell the property to the neighbor at a higher-than-market price because the windfall is evanescent, and, should it disappear, the value of his property will drop back to market levels.

Of course it may be possible for this investor to have his cake and eat it too; that is, to receive the benefits of the windfall sale *and* the benefits of a tax-free refinancing. The investor should arrange a short-term lease of the property to the neighbor while he searches for and locates a nearby larger property for a 1031 tax-free exchange and subsequent refinancing.[4] The double windfall that may occur here is that if the investor sells his property (via a tax-free exchange) for twice its third-party market value, he also should be able to refinance his newly acquired property for almost twice the market value of his original property. In such an extreme windfall case, the investor nets the double benefit of the windfall sale and a subsequent tax-free refinancing.

WHY ARE GOOD PROPERTIES STILL OFFERED FOR SALE?

If an investor can net virtually the same funds from refinancing a property as he can from selling it, why do owners continue to offer good properties for sale? The three circumstances above are special situations and account for but a small proportion of sales. But we have been thinking of the owner as a long-term investor. Corporations, financial institutions, developers, and limited partnerships all encounter circumstances in which they wish to dispose of properties. Following are the four major reasons why prime commercial properties are still sold rather than refinanced:

☐ *GAAP*. The property is owned by a financial or corporate institution governed by generally accepted accounting principles (GAAP) or other regulatory accounting principles (RAP), which allow it to recognize a property's appreciation only upon sale. Since most of the major investors in real estate are financial institutions, this is the major reason that prime properties are offered for sale.

☐ *GAAP again*. The property is owned by a financial institution governed by GAAP or other RAP, which do not permit the accurate recognition of nonrecourse refinancing as tax-deferred profit-taking.

4 Section 1031 of the Internal Revenue Code allows an investor to exchange a property for a similar property (like for like) without any tax consequences provided certain conditions are met.

☐ *Developer's needs.* The average creator of new prime commercial properties (the developer) is much more sophisticated in construction and leasing than he is in finance and tax. He may fail to focus on the after-tax effect of a sale versus a refinance even though it may be even more significant to him than to the ordinary owner/investor because the developer has usually expensed many costs of the property's development which will be recaptured upon sale. The developer is certainly an owner who encounters the management problems that were discussed earlier. He either cannot or does not want to be burdened with management problems.

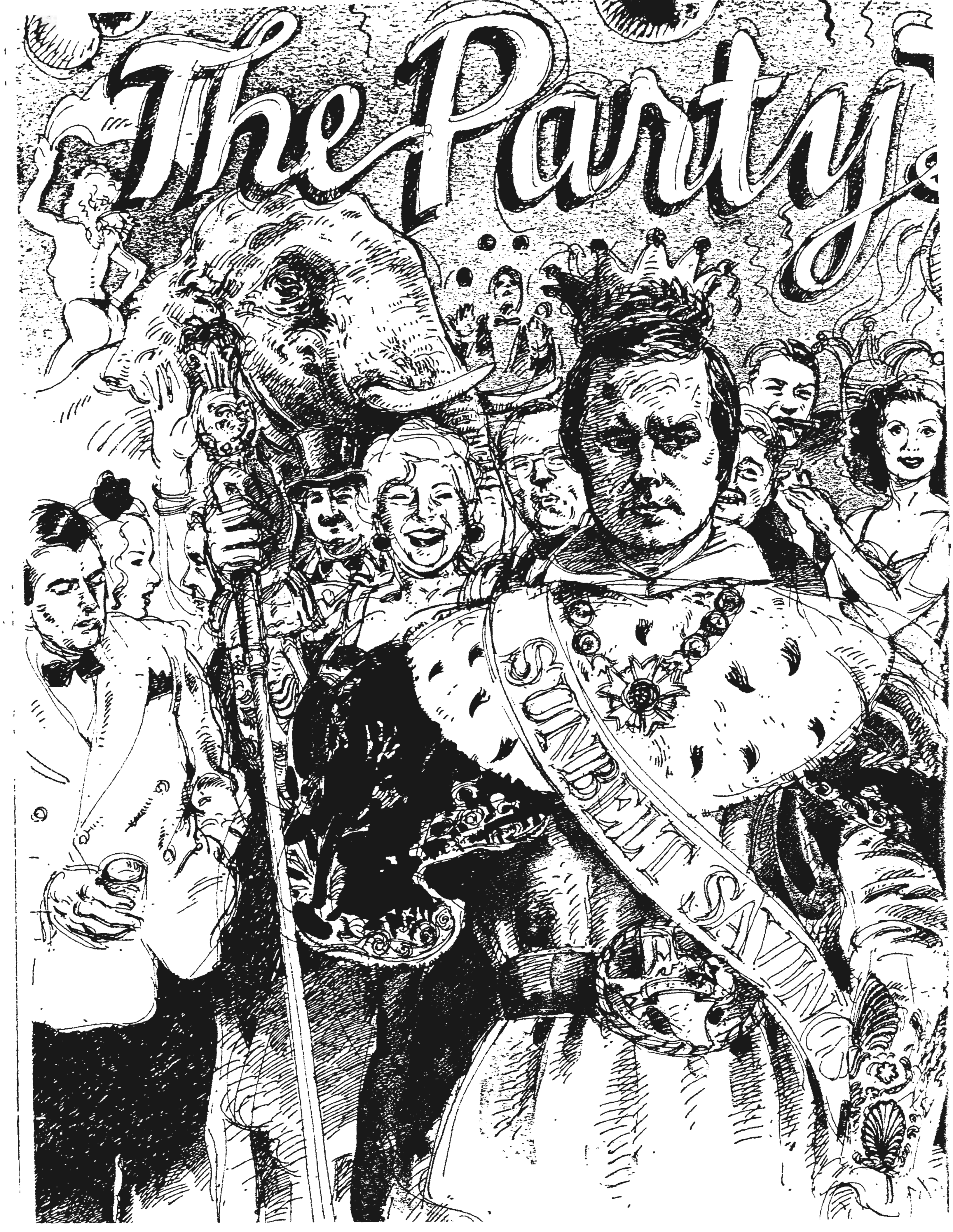
☐ *The limited partnership dilemma.* An internal conflict arises in a syndicated limited partnership that owns a property after the limited partners have received virtually all (99 percent) of their tax deductions. They are in the position of the owner/investor whom we have been discussing. But the general partner, who usually receives a residual profit upon sale, makes the refinance/sale decision. In such a case, the best solution for the limited partners (tax-free refinancings until death) is not the best answer for the general partners who have no depreciation to recapture upon sale and may not want to pass an illiquid partnership interest through their estates.

The first three reasons account for the overwhelming majority of sales of prime commercial properties. The last reason will probably become more important as some of the properties acquired during the syndication boom of the 1980s increase in value.

CONCLUSION

Properly chosen prime real estate investments rarely lose their appreciation potential. In fact, their investment stability is so great that financial institutions compete to make nonrecourse loans up to 90 percent of their total value. Current estate taxation rules allow an investor permanent tax shelter on the tax deductions from a real estate investment if he can hold onto the property until his death. The ability to borrow, nonrecourse, up to 90 percent of total value plus the potential for permanent tax shelter means that few individual investors today can justify selling a prime property.

Fortunately for individuals, the current accounting and financial regulatory environment does not encourage financial institutions and other public entities to take advantage of this outstanding leverage opportunity. Publicly regulated companies are not allowed to "book" the appreciation of their real estate until sale. This forces them to sell prime properties with remaining appreciation potential in order to satisfy shareholders' needs for continual earnings increases.


The Party
SUNBELT SAVING

1984: As chairman of Sunbelt Savings, 31-year-old Ed McBirney is pulling in a six-figure income. To celebrate, he throws a Halloween party, where he dresses as a king and serves up antelope and lion to hundreds of guests in his back yard.

ILLUSTRATIONS BY JAMES NOEL SMITH

The way to make a fortune in the golden age of Dallas' savings and loan industry was to master the strange arts of kissing the paper, chasing jumbos, and cash for trash. It was also the way to go broke.

by Byron Harris

On the first weekend in March 1986 Ed McBirney, a Dallas savings and loan magnate, organized a junket to Las Vegas for fifty of his institution's closest friends and customers. A dark, slim, square-jawed 33-year-old, McBirney was known as the financial wizard who had forged Sunbelt Savings from six disparate savings and loans and in less than four years increased its assets more than 5200 per cent. McBirney also had a reputation as a party animal. In Dallas he frequently threw lavish theme parties and every spring arranged other trips for Sunbelt's friends—to Hawaii and to Cabo San Lucas, Mexico, for fishing and, of course, to Las Vegas for gambling. McBirney was no stranger to Caesar's Palace, the Stardust, and the Dunes; he had lines of credit at two of them.

But this Las Vegas trip was the most outrageous jaunt of all. The guests flew on a borrowed 727, and they checked into luxurious rooms at the Dunes. Some of the travelers contributed to an entertainment fund. The entertainment arrived one evening later in the trip at a cocktail party in McBirney's spacious suite. Four women came into the room and began a striptease act. Once disrobed, they proceeded to perform sexual acts on some of the businessmen. For some, it would be the most memorable extravaganza in a long string of Sunbelt excesses. But for McBirney, it would be his last bash.

Just four months later Edwin T. McBir-

1985: Thursday night is called real estate night at the Rio Room, a members-only night spot near Highland Park. One developer, exuberant from a deal, kicks in the door of a Rolls-Royce, just for fun.

ney resigned as chairman of Sunbelt Savings. Current Sunbelt officials say that $190 million of its real estate portfolio is "real estate owned," or REO, an accounting euphemism for investments that have soured so badly the institution has had to repossess the property. REOs are not unique to Sunbelt. They are the ghosts of the golden age of real estate in Dallas. REOs haunt the landscape in the form of empty buildings, unleased shopping centers, partially occupied apartment complexes, and overvalued land—follies financed in large part in the early eighties by savings and loans, institutions high on the rush of OPEOM, the cynic's rubric for Other People's Money.

Sunbelt, like a lot of savings and loans, emerged from the golden age crippled rather than prosperous. McBirney left Sunbelt loaded with bad loans on its books. He, and many other go-for-broke entrepreneurs like him, indulged in their own rules for making quick profits. Many lenders chose to ignore the reality of real estate investments. Instead of research and rationale, greed often fueled their decisions. They avoided the arduous number crunching that was necessary to predict the long-term viability of a project and cavalierly executed transactions, expecting the market to bail them out later. They funded "flips" that artificially inflated the value of land, and they used the easily made dividends to support their high standard of living. The billions of dollars they sank into bad real estate projects drove out good projects, causing grievous distortions in the market. And when the real estate market began to deteriorate, the savings and loans' owners worked together to disguise their actions from federal investigators.

Byron Harris is a reporter for WFAA-TV in Dallas.

Now Dallas is in the midst of what one developer calls a real estate depression, and the savings and loan system of the entire Southwest is strained. In March Governor Bill Clements declared that Texas S&Ls were in a state of crisis. Clements described the problem as "extremely complicated" and said that he would name a task force to study it. Even a brief study of the problem shows how complicated it is. The president of the Federal Home Loan Bank, which regulates savings and loans, has said that more than forty Texas institutions are "brain dead"—technically insolvent or broke. Figures recently released by the bank show that Texas as a whole lost $462 million in February alone. Another 104 savings and loans institutions had dipped below the level normally considered healthy.

Some thrifts have been affected by the hobbled economy, but federal regulators say many also have been crippled by bad management. Since 1985, ten savings and loans in Texas were placed under management consignment orders—decrees made by state and federal regulators for management changes at troubled thrifts. The orders began appearing when funds at the Federal Savings and Loan Insurance Corporation (FSLIC), which insures savings and loans deposits of up to $100,000, became so depleted that regulators could not afford to close any more ailing institutions. The orders save the FSLIC from liquidating an institution, which would force the FSLIC to pay off the institution's losses all at once. Instead, the FSLIC engages new management, and the institution is rechartered as a federal savings and loan. For the moment the debilitated thrift is kept alive.

In congressional testimony in March federal regulators said it would cost more than $5 billion to patch up the sick thrifts in the Southwest (other observers say it would cost $40 billion to do the job right). Regulators want $15 billion to recapitalize the FSLIC fund. But Congress has been under intense lobbying from the real estate and thrift industries, which are afraid of the actions that strengthened regulators would take against them. For two months Congress has been fighting over how much new money—first it was $5 billion, then it was $15 billion—to infuse into the FSLIC fund. And as Congress niggles, the situation in Texas does not improve.

An Opportunity For Growth

Thrifts haven't always been so conspicuous. Historically, savings and loans were in the steady business of savings accounts and home loans—transactions involving relatively small amounts of money, usually within hundreds of thousands of dollars. But the industry started to skid in the late seventies, when regulation restricted the interest rates that S&Ls could pay their depositors and the much higher yields of money market funds became available. Many customers took their money out of the thrifts and put it into the funds, seriously weakening the thrifts. By 1980, however, a gradual lifting of the interest-rate ceiling began, and the institutions started competing with the money market funds that had lured away their deposits. But that created a problem too. The S&Ls had to pay high interest rates to keep their depositors, but on the income side of the ledger, the mortgages they had sold over the years were fixed at low interest rates. That was a money-losing proposition. By July 1982 more than six hundred savings and loans in the country were insolvent.

The Garn-St. Germain Act, which deregulated the thrifts in November 1982, was hailed as one means by which S&Ls could make themselves profitable again. The act allowed thrifts to deal in commercial real estate by lending a developer money on a piece of raw land, and in addition to lending money on the project, the S&L could actually be a part owner in the real estate, something banks are not allowed to do. Thus, a savings and loan could make a loan on a piece of land; earn a profit on the fees, percentage points, and interest associated with the loan; and have a potential profit as a part owner of the property.

Under those conditions, the most aggressive S&Ls expanded their commercial loan portfolios rapidly. Commercial loans involved much larger amounts of money than S&Ls were used to dealing with, and commercial real estate appraisal involved not only the soundness of, say, a building but also the building's future capacity to generate income in a changing market. Investing in commercial real estate was tricky enough that banks had done it for years with only checkered success. But that didn't cause some S&Ls to hesitate.

With the prospects of making money on the points of a loan and the possibility of making profits as a partner in the real estate involved in the loan, thrifts had a pretty rosy future in Texas, and especially in Dallas. High occupancy rates in offices, apartments, and retail space in the early eighties meant there was a need for new building, and steady migration into North Texas indicated that the market would remain strong. Dallas' pervasive can-do attitude propelled the expansion. At a time when oil was no longer running the economic engine of cities such as Houston, it seemed that real estate could fuel new prosperity.

And as if S&Ls weren't already encouraged enough to get involved in the real estate market, another important change occurred shortly after deregulation that allowed them to lend more than before on real estate. Previously, the S&Ls could lend no more than two thirds of the appraised value of a piece of land. If the property was worth $100, the S&L could lend just $66.66. That meant the borrower had to put some of his own money into the deal or find another source of funds for the remaining one third. As of April 3, 1983, however, S&Ls could begin lending at 100 per cent of the appraised value: they could lend $100 on a piece of land worth $100. It could be a no-risk deal for the borrower, because he wouldn't have to invest any of his own money. Looking back, one regulator now calls April 3, 1983, "the day the war started."

Hot Money

It is true that in the early eighties many thrifts were on the brink of disaster. But it is also true, in hindsight, that in their haste to help failing thrifts, regulators and lawmakers did not realize that the situation they had created carried a tremendous potential for abuse. Not only were million-dollar deals made at no risk to the borrower, they were also made at no risk to the S&L: deregulation gave S&L owners the opportunity to make money whether or not the loans they approved were economically productive. Simply put, if investors bought a savings and loan at that time for $3 million, they had the potential to loan $100 million. To attract deposits, they could turn to money brokers who would bring in new funds in the form of $100,000 certificates of deposit. These jumbo CDs, paying higher than the prevailing interest rate, are commonly known as "hot money." On any given day large investors, pension funds, and even municipalities are shopping the jumbo market for the S&Ls paying premium rates. The S&L pays a price in obtaining brokered funds—a cost the institution must make up in higher profits somewhere else—but once the deposits are on hand, the savings and loan can start making commercial real estate loans.

Some thrifts would routinely charge six percentage points in fees on loans for acquisition, development, and construction. Thus on a loan portfolio of $100 million they could make $6 million in points alone, regardless of how sound an investment it

[CONTINUED ON PAGE 168]

1986: McBirney flies fifty of Sunbelt's friends to Las Vegas, where entertainment includes striptease acts in a private suite. Months later he resigns.

[CONTINUED FROM PAGE 113] was. Since the owners invested only $3 million in the S&L, they have already made $3 million to pay themselves.

The war that started on April 3, 1983, it turns out, was a battle of risk that left the federal government the most vulnerable. Savings and loans were already one of the most highly leveraged businesses in America. And, under Texas law, the owner of a savings and loan that had the ability to lend $100 million could also form a service corporation through his S&L and borrow $200 million more.

But another side of the business had not been deregulated. The FSLIC still insured deposits, so it would be stuck with working out the problems S&L entrepreneurs might cause. If the savings and loan goes broke, the investors lose only their original $3 million. They have already made $3 million in profits in points. The government must pick up the tab for the remaining $100 million.

"FAST EDDIE"

Spurred by the prospects of a deregulated market, Ed McBirney began buying a string of S&Ls from Bonham to Stephenville that were eventually assembled into Sunbelt Savings. Then Sunbelt grew; it acquired mortgage companies that did business in California, Florida, and Georgia. It formed a commercial banking division, and it created a telemarketing division that took phone orders for deposits. Since there are regulatory limitations as to how much an institution can loan on any one project, S&Ls commonly sell pieces of their loans to other thrifts. Sunbelt had a division that did this over the phone.

Ed McBirney was at least as visible as his company, and his party-giving added to the luster. On Halloween 1984 hundreds of guests arrived at his palatial North Dallas home to find a feast of lion, antelope, and pheasant. In the back yard smoke machines provided an eerie, supernatural fog. A magician performed feats of levitation, while two huge disco singers, Two Tons of Fun, supplied the dance music. Those who know him say McBirney had two speeds, "on" and "off." At this party, dressed as a king, he was on. McBirney was pulling in a six-figure income, and his S&L, which had grown into a $1.3 billion institution, was famous for outgunning the competition. It was no wonder that Sunbelt's nickname was "Gunbelt Savings."

A young man hired at Sunbelt during this period says he was "scared to death" from the moment he first walked in the door. Although he had extensive experience in the financial industry, he says, "I had never seen loans being made as fast as they were making them." The office atmosphere was frenetic and unorthodox. Ed McBirney was known as Fast Eddie, a man "so smart that it was frightening," whose role was to come up with ideas for deals.

McBirney's reputation as a highflier extended outside Sunbelt's offices on the LBJ Freeway. He regularly held court at Jason's, a North Dallas restaurant, where he had a house account and his own table equipped with a phone. He frequently lunched with real estate developers as well as with the executives of other Dallas savings and loans, among them Jarrett Woods of Western Savings, Don Dixon of Vernon Savings, and Tom Gaubert, a principal owner of Independent American Savings. Over lunch and a pricey bottle of Bordeaux, Fast Eddie sketched out his deals: the table was covered with butcher paper, so the evolving facts and figures could be written down. When lunch was over, McBirney sometimes took a piece of the paper with him for future reference. The ideas would then be pitched to a team of lawyers, who would structure them in legal form on paper. A deal was never really a deal until it was "papered," and McBirney's lawyers were meticulous in their paperwork. However, McBirney moved so fast and did so many deals that he proved exceedingly difficult to pin down during final negotiations. There is now litigation concerning at least one deal that calls into question the tactics McBirney used while negotiating it.

But in 1984 there was enough prosperity to go around that hard feelings were soon forgotten. By the end of the year, many S&L empires appeared indestructible. To celebrate, McBirney threw a Christmas party at the film studio in Las Colinas. Ben Vereen entertained on a soundstage transformed into a winter wonderland. The theme was, appropriately, "Babes in Toyland," and guests donated gifts to a children's charity.

Kissing the Paper

Outsiders coming to Dallas during this period, dazzled by the burgeoning buildings and reflective glass, accepted the growth as the logical extension of a city that had its own soap opera on television every week. For those inside the real estate market, the excitement of the period is often described as similar to that of being in an athletic event every day. The thrill of a done deal, a big real estate commission, or a large profit put adrenaline in the veins. It made deal addicts out of many a young broker and developer.

One of them was Sam Ware, a 22-year-old graduate of Abilene Christian University, who, in just a few years, would become one of Sunbelt's biggest borrowers. When Ware arrived in Dallas in 1980, he began working for a company that bought apartments and syndicated the ownership of them to investors. "I was a bush-beater," he says, "in charge of discovering undervalued properties and finding ways to acquire them." Then, like many of his contemporaries, he decided he could be bush-beating for himself and making more money. In 1983 he formed Dabney Companies.

For young developers like Ware looking for investors, banks were generally out of the question. They required longer track records and more financial wherewithal than many new developers had. With their historical experience in real estate, banks were also cynical about the quality of the deals many young developers brought to the table.

So the new developers went to savings and loans. At first, even S&Ls eyed some of them warily. Their financial statements were not substantial enough to acquire loans on their signature alone. But there was a solution. The institutions would encourage the borrower to find a wealthy, established individual to "kiss the paper." With a famous name belonging to someone rich on the dotted line, the loan was co-guaranteed and could be approved.

A young developer would pay a price for all of this. He would pay two or three points more on his loan than he might have been charged at a bank. He might pay a higher interest rate than at a bank. He would have to give his co-guarantor a piece of his profits. But the developer would be in business, and the momentum of the market was such that almost any piece of property could be flipped for a profit.

Ware found someone to kiss his paper and accelerated the breadth and size of his activities. Eventually he could start qualifying for loans on his own, and most often he went to Sunbelt Savings. "Not just the lenders were making the money, at that point," Ware says. "Real estate attorneys were coming in, more title companies, more contractors, more real estate brokers, more homeowners, more office developers, and retail operations. Every facet [of the market] was perking because of the millions of dollars that came in—more speculators, more everything—because people saw tremendous profits in a short period of time."

Real Estate Night

The profits allowed a sumptuous lifestyle for those lucky enough to make them. The wives of young real estate brokers, still in their twenties, found it possible to hire nannies for their children and to build additions onto their upscale homes. And lest anyone be jaded by Dallas nightlife, there was the Rio Room.

Club developer Shannon Wynne's new, members-only night spot was nestled at the edge of the Park Cities, Dallas' most affluent suburbs. The Rio Room was the closest thing that the city had to a speakeasy. Its clientele was a fashion parade of designer suits, expensive jewelry, and even tuxedos on occasion. Patrons threw money around the way Wall Streeters did before the Depression (which in the case of Dallas real estate was just a few months away).

Ed McBirney made the scene. Larry Hagman, Sammy Davis, Jr., and Adnan Khashoggi all came to the Rio. Status seemed important to Rio members, who never numbered more than five hundred. For $500 a Rio member received a silver membership card; for $1000, a gold card. Mere dabblers could walk in for $20. And bar tabs of more than $1000 were not unusual. Louis Roederer Crystal Champagne, at $150 a bottle, was a big seller, as was Dom Pérignon, at $140 a bottle. Waitresses sometimes accepted cocaine in addition to their tips. The Rolex was the watch to wear; the Mercedes-Benz 380 SEC coupe, the car to drive. One entered the club two ways—through a parking lot that was a statement in itself (Rolls-Royces and Ferraris filled the front row, Porsches and Mercedes were lined up behind them) or through a hallway that connected to another of Wynne's clubs, called Nostromo, which adjoined the Rio Room in the front.

The Rio was small, fifty feet by fifty feet, with a three-dimensional mountain range depicted on one wall and a backlighted mural of sandblasted glass on another. A disc jockey controlled not only the room's music system but also the lighting behind the mural, which had the effect of regulating the mood of the evening. A one-way mirror in the men's room offered a view of the dance floor. On many a night, the dancing moved from the floor to the tables. The patrons knew their behavior at the Rio would be kept in strictest confidence. As the evening progressed, the music grew louder and the lights pulsed faster; the 4 a.m. closing time would sometimes arrive before anyone expected it.

On Thursday night—real estate night, as it was called—the mood was electric. The avant-garde of the property business came to swap business cards, celebrate their latest sales, and sometimes do deals. One night a loan was consummated with a handshake, and on another a contract was signed in the men's room at neighboring Nostromo. One evening a guest, exuberant from a big deal he had signed earlier that day and impaired by the cocktails he had been drinking since noon, proceeded to the parking lot, where he kicked in the door of a Rolls-Royce, just for fun.

Made as Instructed

By the middle of 1985, the party lights were still on in North Texas real estate, enhanced by an abusive practice typical of the golden age: the land flip—real estate vernacular for when a piece of property changes hands rapidly and escalates in price. For such a process to succeed, a network of financial institutions had to work together. One of the biggest real estate deals of the period was a textbook example of the procedure. The property was a collection of more than 1500 acres in south Fort Worth, which eventually became known as the Hulen 1541 Joint Venture. On November 2, 1983, the acreage sold for $17 million on a note from First City Investments. One day later it sold for $24 million on a note from State Savings of Lubbock. Thirteen months later on a note from Stockton Savings the property sold for $32 million. Finally, on December 26, 1985, the acreage sold for $50 million. It roughly tripled in price in just over two years. The final loan on the parcel was made by Jarrett Woods at Western Savings.

An appraisal done by Richard Hewitt on the land after the sale says it is worth only $21 million. Hewitt is a nationally known appraiser who wrote the guidelines then in effect as the industry standard. In his evaluation Hewitt wrote, "The property has experienced numerous ownership transfers over the past five years examined. Several of these title transfers occurred on the same day or within several days of each other and are likely less than 'arm's length' transactions."

Other appraisals on the property set its value much higher. The final appraisal of the property, done for Woods at Western, set the value of the property at $58.5 million "as is," or $85.5 million "as developed." The development plan calls for some of the land to be used as residential property, however, and at current absorption rates the supply of lots in the parcel will last well over a decade.

"It's not what a property is worth; it's what you can get it appraised for" is a real estate maxim. The American Institute of Real Estate Appraisers has rigid qualifications for an appraiser before he or she can be called an MAI (Member, Appraisal Institute). But for many in the real estate business, MAI means "Made as Instructed," because they believe appraisers tend to value property at what they have been told it will sell for. "When you've got a buyer who's agreed to a specific amount on a parcel and an S&L that's agreed to lend that amount, it's hard not to set that value on it," says one appraiser. In a transaction in which the lender is a third party to the buyer and the seller, the lender can be expected to scrutinize the property. But when a savings and loan is both lending the money *and* buying the property as a participant in the deal, the S&L is no longer disinterested.

Brokers, developers, and S&Ls have been known to hire different appraisers to look at the same piece of property until they get an evaluation they like. Independent American Savings in Irving actually went so far as to acquire its own commercial company that made appraisals on Independent American's loans. The transactions may have been at arm's length; it is simply a question of how long the arm was.

A Dead Horse For a Dead Cow

By autumn of 1985, some saw the market softening. It wasn't apparent in snowballing foreclosures, which would characterize late 1986 and early 1987, but it was evident in the way savings and loans approached some of their borrowers. Institutions were going to great lengths to keep bad loans off their books. Unlike banks, S&Ls were not required by law to set aside reserves to cover bad loans. With their smaller capital reserve requirement, they had a much lower capacity to absorb loans that weren't performing. So in order to stay out of trouble with examiners, they found ways to disguise their bad loans. And to make their S&Ls look healthy, they found ways of putting new, cosmetically acceptable loans on their books.

One method of disguise is known as trading a dead horse for a dead cow. Two institutions each have a nonperforming loan. Institution A has a dead horse. Institution B has a dead cow. Institution A creates a new loan on its books for B's dead cow, while B creates a new loan on its ledgers for the dead horse. They have traded their bad loans, each institution has a new loan on its books, and the loan's status as a troubled asset is, for the moment, hidden from the federal regulators who inspect the institution's books.

Another trick is called "cash for trash," which in its simplest form works like this: A developer approaches an S&L with a loan proposal. He has found a piece of property that he can buy for much less than its appraised value. The S&L agrees to lend on the parcel under the condition that the developer helps take care of a "trash" piece of rental property on its books. So the S&L lends the developer far more than he needs to buy the good property. He agrees to divert some of the extra cash into upgrading the trash property, at no liability to himself. He puts the rest of the extra cash into his pocket. The deal is done. The developer has his parcel of land and money in his pocket. The S&L has repaired its trash loan for the time being, while booking a new loan. A new loan means revenue in points, fees, and interest; dividends for the S&L's owners; and the potential to make more loans. The trouble was, as S&Ls slipped closer to financial ruin, they took more and more risks on their good loans in hopes that points and profits would bail them out of their bad ones. In time, some would become desperate.

The Need for a Jet Fleet and 84 Rolls-Royces

Nevertheless, by Halloween of 1985, Ed McBirney appeared to be prospering more than ever. His Halloween bash featured the Spinners, and the warehouse where the party was held was decked out like a jungle. There were water buffalo ribs for appetizers and a live elephant for decoration. For entertainment a magician made the elephant disappear. Clad in a pith helmet and khakis, McBirney presided with binoculars hung from his neck.

McBirney and other S&L wild guys didn't limit their fun to parties. As their institutions grew, so did the perks of some savings and loan executives. A number of them decided they had a need for corporate aircraft. Sunbelt, through one of its subsidiaries, purchased two jets—a Gulfstream II, the Cadillac of executive planes, and a Falcon 10. McBirney used the Gulfstream to fly to Las Vegas, where Sunbelt had acquired a mortgage company. Sunbelt also had a Beechcraft King Air and a Bonanza.

But the largest jet fleet was maintained by Vernon Savings. Owner Don Dixon, a Dallas builder and developer who had bought his hometown S&L in Vernon, sixty miles west of Wichita Falls, and had set up a Dallas branch, outdistanced his rivals by amassing a collection of six aircraft. Three baby-blue jets topped the list. The largest, a Falcon 50 jet, which looks like a small replica of a Boeing 727, was followed by a Learjet and a Cessna Citation. A twin-engine Cessna and a Beechcraft King Air were also registered to Vernon. And where other institutions needed only fixed-wing aircraft, Vernon needed a helicopter. It bought a seven-passenger Agusta 109. Dixon, whose beard, gold chains, and open shirt gave him the look of Kenny Rogers, also kept a staff of five full-time pilots, who often were called upon at odd hours to fly the aircraft.

There were excesses in terms of business deals too. At Sunbelt, the Gunbelt reputation of shooting from the hip lived on. Three days before Thanksgiving of 1985, Dallas luxury-car dealer and Sunbelt client Bob Roethlisberger landed in a private jet at Rancho Rajneesh, Oregon. The ranch was home to the Bhagwan Shree Rajneesh, and Roethlisberger had come to the remote desert community to buy more than seventy cars from the Bhagwan's Rolls-Royce collection. It would be a difficult deal to finance, because the final sticker price for that many exotic cars would run into the millions. Selling the cars would be equally difficult once they were purchased; 36 of them had been painted by one of the Bhagwan's staff artists, designed with peacocks and geese in flight and decorated with two-toned metal flake and cotton bolls. That many luxury cars painted in that way would be hard for any market to digest. But Roethlisberger bought 84, and the deal was financed with a note of more than $3 million from a wholly-owned subsidiary of Sunbelt Savings.

STEADY DECLINE

Back in Dallas, by Christmastime, much of the real estate community had become decidedly edgy. Evidence was surfacing that the Dallas market was overbuilt. If McBirney was concerned, it wasn't visible at his Christmas party. A furniture warehouse in North Dallas was decorated in a Russian-winter theme. Waiters dressed as Russian peasants strolled among the guests, making sure no one went hungry. Blintzes were prepared to order. A live bear was one diversion, and the Manhattan Transfer was another. McBirney's cohost for the party was one of his biggest clients, Sam Ware, who had borrowed $50 million from Sunbelt.

But that party was the last hurrah for Ware. Just a few weeks later, early in 1986, Ware was forced to restructure many of his loans. Since then, his business has been in a steady decline. Today, at age 29, he estimates that he has borrowed about $300 million on real estate in the short four-year life of his company. But in the last eighteen months, he has had to reduce the size of his firm by 65 per cent. He looks older than someone approaching thirty. His six-one frame shows the effects of too many long hours and too little exercise. There are deep circles under his eyes. He says he has taken a few "seven-digit hits" in the market decline.

Many young developers who got off to a grand start in the golden age share Ware's fate. But Ware differs from them because he is willing to talk about the past and admits that he and others made mistakes. "There was more capital available to do anything with than there's ever been before," he says. "The faults the lenders made, I believe, are that some projects should not have been invested in. I believe that certain people who borrowed money should not have been allowed to borrow as much money as they possibly did, and I think the supervision of borrowers was probably not as tightly reined as it should have been. Everyone knew the music would stop. I hope that people were not that naive to think that it wouldn't."

WHEN THE MUSIC STOPPED

In 1986 the silence of deals not being made was deafening. As the market cooled, borrowers fell behind on their payments and S&L balance sheets began to bleed red. Federal regulators focused greater scrutiny on savings and loans' real estate lendings. Developers, without money, were unable to flip property.

Early on it looked as if the biggest loser stuck at the end of the land-flip chain would be Jarrett Woods at Western Savings. In the middle of 1985 Woods had been the last lender in the Carrollton 80 Joint Venture flips, a $17 million project—eighty acres north of Dallas of unzoned, unincorporated land without road access—that ultimately would be posted for foreclosure. He ended 1985 with a loan on the Hulen 1541 Joint Venture, south of Fort Worth, which, before 1986 ended, was in bankruptcy. Those are just two loans in a much larger portfolio. Records show that Western continued to lend heavily into 1986, after other lenders had drastically curtailed their lending activity. According to Roddy Reports, which are compilations of statistics for North Texas commercial real estate, Western loaned $175 million in Dallas, Tarrant, and Collin counties in 1986. As early as March 1986, however, Woods and other directors of Western may have felt that trouble was coming. They paid a Dallas law firm $500,000 to defend against a possible shutdown of the S&L by federal regulators and put another $1 million in an escrow account for the same purpose.

But the defense tactic didn't work. On September 12, 1986, federal regulators closed Western Savings. It reopened the next Monday as Western Federal Savings. Jarrett Woods, the majority stockholder of Western Savings, had fought the closure, saying that the regulators had devalued the net worth of the institution without informing him. By the time it closed, Western had grown more than 5700 per cent in less than four years. Regulators said Western used high-cost brokered funds to fuel its growth. Several months later, in congressional testimony, federal regulators described the actions of a Texas savings and loan executive who collected more than $3 million in salary, bonuses, and dividends while his institution went into the red. They later identified that institution as Western Savings.

On March 20 of this year, federal regulators assumed control of Vernon Savings, naming a new president and board of directors. By December 1986 Vernon had grown 1600 per cent in less than four years. Federal regulators said that 96 per cent of the institution's $1.3 billion in loans was more than sixty days overdue. They said Vernon made many loans based on faulty appraisals or no appraisals at all. Parts of those loans were sold to savings and loans in other cities and states that will now suffer the consequences. Don Dixon, who held 91 per cent of Vernon's stock, had left the institution a few months earlier. Before the federal takeover, regulators said Dixon had collected more than $8 million in salary, bonuses, and dividends during his tenure. Now federal regulators are charging Dixon and six other former Vernon officers with looting the institution. A civil suit filed in Dallas federal court seeks more than $380 million in damages.

S&L owners say many of their problems were brought on by the mistakes of the regulators. The biggest regulatory blunder, they say, occurred at the end of 1984, when an edict came from Washington that net-worth requirements for thrifts would be raised as of January 1, 1985. That meant that instead of having $3 in reserve for every $100 on deposit, thrifts would have to start setting aside more, so that by 1990 they would have to have as much as $6 in reserve for every $100 in loans. A certain amount would need to be set aside every quarter, and if the institution grew, even more would need to be saved. At the same time, S&Ls would have to start setting aside money as reserves for possible bad loans. From a regulatory standpoint, these draconian measures were mandated by the failing health of the $900 billion thrift industry.

But the way some thrifts see it, this requirement made things worse, because it tempted a few institutions into making even riskier-than-normal loans on the long-shot chance of raising their net worth. Now, some of the long shots and quick-profit loans are on S&L books as REOs. That property, in the form of empty buildings, is a sore spot for developers who did not do business with savings and loans in the golden age.

"The S&Ls just didn't do a lot of basic research," says one of those developers. "They'd fund a shopping center on an empty corner and think they were pretty smart. But [CONTINUED ON PAGE 182]

[CONTINUED FROM PAGE 174] three other S&Ls would be lending on the other three corners. Now we've got a shopping center on each of the four corners. I did my research and built one where there wasn't any competition. But I'm affected by the glut of space the S&Ls built somewhere else. What do I do?"

THE PARTY'S OVER

Dallas now has office space to last eight years; that's more than enough to fill nineteen InterFirst Plazas, whose 72 stories make it the tallest building downtown. S&L money didn't build all the offices in Dallas in the last four years, but it built a good share. It built a bigger share of apartments and retail space, which are also in oversupply. In March $951 million worth of commercial property was posted for foreclosure in Dallas County, according to Roddy Reports. That included 19 office buildings, 60 pieces of raw land, and 86 apartment complexes.

When Ed McBirney resigned at Sunbelt, he was replaced by Thomas Wageman, who came from First National Bank of Midland, where he took over after that bank's failure in 1983. Wageman is not a Texan. In a thick Chicago accent he speaks from experience with the energy crash in West Texas and what he calls the total break of the real estate market: "Our confidence has been shaken. Maybe that's useful. Maybe it needed to be shaken. Maybe we were too full of ourselves. Maybe we showed off more than we should—humility has never been a strong point for us. We've got that pain now."

In January the Rio Room closed its doors. Before it folded, it became known as the REO room to its most celebrated clientele. On a recent evening at Pasha, a dark-wood-and-polished-brass members-only club that is much more subdued than the Rio, McBirney was seen sitting by himself, staring at the floor. It must have been one of his off times—with characteristic brio, he has started a new company called Tangent.

A federal grand jury in Dallas has subpoenaed the financial records of three hundred S&L executives, real estate developers, and brokers who did deals with one hundred savings and loans in Texas. The FBI has brought extra agents into North Texas for what a spokesman describes as "one of the largest S&L investigations in history." But many in Dallas real estate say the industry is climbing out of the hole. Developers are now working as consultants to S&L regulators, helping them manage the REOs they have acquired as they have taken over savings and loans. And one broker sees the bright side: "If I get a call from a company wanting to move down here, I'm all ready for them. You want an office building? How big do you want it? What color do you want?"

SOLUTION TO APRIL PUZZLE

The Hot Films represented in the April puzzle were as follows:

1. *Blazing Saddles* (Gene Wilder)
2. *In the Heat of the Night* (Sidney Poitier and Rod Steiger)
3. *Cat on a Hot Tin Roof* (Elizabeth Taylor)
4. *Body Heat* (William Hurt and Kathleen Turner)
5. *Quest for Fire* (Rae Dawn Chong and Everett McGill)
6. *White Heat* (James Cagney)
7. *Fahrenheit 451* (Oskar Werner)
8. *Some Like It Hot* (Marilyn Monroe)

Those whose names were drawn to receive *Texas Monthly* T-shirts are Lonnie Beene of Canyon; Tim McCanlies of Burbank, California; Linda Nolan of Chicago, Illinois; and Dan W. Spears, Jr., of Houston.

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Senate Finance Committee tax reform bill to spur growth

PAUL ZANE PILZER

The Senate Finance Committee recently passed 20-0 the most sweeping tax reform bill in the nation's history. My initial feelings as the owner of a real estate syndication firm were similar to the feelings a successful World War II munitions manufacturer might have felt on Aug. 14, 1945, upon hearing the Japanese had surrendered. The euphoric feeling for the nation overall far overshadows the potential impact on one's own financial situation.

The bill that the committee will send to the Senate floor next month will set the stage for a new period of unprecedented economic growth by dramatically improving private and public sector productivity. Moreover, it will insure that everyone will pay his fair share for the abundant benefits of the American lifestyle.

The committee proposal basically states that no one earning less than $15,000 per annum will pay income taxes, people earning from $15,000 to $42,000 will pay at a 15 percent rate, and everything over $42,000 in annual income will be taxed at a 27 percent rate.

Corporate income will be taxed at 33 percent. Gone entirely are investment tax credits, reduced taxation rates for capital gain income, and most of the ability to receive paper tax losses in excess of the actual cash amount invested in a transaction.

Passage of the bill should dramatically increase private sector productivity because of at least these three factors: (1) Businesses and individuals today are often coerced into making deliberately poor economic decisions such as keeping in service unproductive equipment until the time limit (3-7 years) for recapturing past investment tax credits has passed or holding an investment (and the productive redeployment of its profit) until the six-month minimum holding period for capital gains treatment has passed.

The bill reduces the chances that such right tax but wrong economic decision making will continue by eliminating altogether such preferences as investment tax credits and capital gains treatment.

(2) The average senior business executive today probably spends up to 15 percent of his time managing his corporate and individual tax picture. Management will now have up to an additional 15 percent of their time to devote to such subjects as labor, manufacturing, and marketing.

(3) When management makes an economic decision that makes or loses $1,000 today, under the present 46 percent corporate and 50 percent individual maximum tax rates, the federal government receives $730 or 73 percent of the profit or loss.

This government sharing in both 73 percent of the profits and losses stifles productivity by limiting incentives and providing a massive buffer for poor decisions. The bill's 33 percent corporate and 27 percent individual maximum rates will reduce the total $730 or 73 percent onerous tax figure to $511 or 51 percent, making shareholders far more sensitive to management's actions.

Additionally, to maximize his income today, the owner (and probably the most efficient manager) of a business is virtually forced into selling his entire company as the federal government currently takes up to 73 percent of his operating profits but only up to 20 percent (maximum capital gains rate) of his profit upon sale.

Passage of the bill should insure a dramatic increase in public sector productivity because the achievement of public policy objectives via tax policy has continally proven to be grossly inefficient. For example, we currently subsidize low-income housing by offering tax incentives in the form of accelerated depreciation whether or not the property is occupied (in some instances an owner of low-income housing can make more money running his project empty because the maximum statutory rent is lower than his utility expenses).

In 1981 when Congress passed the Economic Recovery Act to stimulate new economic activity members mistakenly gave away accelerated depreciation benefits to owners of existing buildings (rather than just to new construction) provided that they sold their property at its now-increased value to the tax syndicators who packaged the new tax benefits.

This mistake increased the value of approximately $10 trillion in commercial real estate by $1.2 trillion, the discounted present value of the increase in tax benefits resulting from the new depreciation schedules. I estimate this mistake has caused the Treasury to lose approximately $100 billion per year since 1982 and is in large part responsible for the expected increase in tax revenues that never materialized with the rise in gross national product after the 1981 ERTA legislation.

I have lobbied in Congress for several years on the need for properly designed tax incentive programs such as the Historic Rehabilitation Act of 1981 which efficiently caused the rehabilitation of many of our country's famous properties without significant abuses.

Unfortunately, such a successful program has been the exception rather than the rule. I am now reversing my position on the use of tax deductions as incentives to stimulate socially desirable private sector investments.

I now believe President Reagan has been right in supporting a direct voucher system such as "rent stamps" instead of complex tax deduction programs which have caused more problems than benefits. If we deem it in our best interests to subsidize a particular area, we are better off doing it openly like our farm subsidy programs instead of hiding our subsidies in tax deductions that are used only by a select few.

The tax reform bill is one of those rare pieces of legislation where everyone benefits by enlarging the size of the economic pie we all share. In evaluating the bill, each person or business should consider his total tax and productivity picture, not just the value of his lost preferences.

The members of the committee and all those legislators who support their proposal will be in serious trouble from the special interest groups who cannot (or will not) consider themselves Americans first and special interests second.

The committee members have taken this initiative at great political risk and it is now up to us to support their efforts on our behalf.

Paul Zane Pilzer is managing partner of Zane May Interests of Dallas, an adjunct professor of finance at New York University and a contributing editor of Real Estate Review.

Tax reform proposals stress fairness instead of productivity

PAUL ZANE PILZER

During a recent Washington visit with the staff director of the House Ways and Means Committee, I was asked why the average American seemed uninterested in the debate on tax reform. I answered that I had been traveling away from my business in Dallas for 10 days and that my secretary had informed me that morning of two urgent meetings awaiting my return the following week.

The first meeting concerned the various gripes of the executive office staff over who should cover for whom when someone is out. Unable to solve this problem with their immediate supervisors, they had all decided to push the problem upstairs and await my return to chair the "fairness meeting."

The second meeting concerned a proposal from a new employee which could increase productivity dramatically and on which everyone was enthusiastically awaiting my return for approval and possible implementation.

So, in answer to the tax reform question, I asked: "Which meeting would you want to return home to, the 'fairness meeting' or the 'increased productivity meeting'?"

The problem with the 1985 tax reform proposals is that they are all concerned with "fairness," an abstract concept on which by definition there is no right answer and on which one can only take from Peter to pay Paul; rather than with productivity, an absolute concept on which there is a provable right answer and on which everyone can benefit from a successful implementation.

Furthermore, there is so much that can be done in the area of increasing productivity through tax reform if only because the problem has never been directly and successfully addressed.

The existing progressive tax system is analogous to a commission-sharing structure in a sales management office. Salespersons (taxpayers) go out and earn revenues (taxable income) which are shared with the house (government) on a formula basis (tax tables). Any sales manager knows that the best way to modify productivity is to tinker with the formula for sales commission.

In 1981 the federal government successfully attempted to do this with a significant tax cut in the Economic Recovery Act. Unfortunately, in 1981 we created many of the massive inequities in the current system because our economic leaders at the time utilized only multiplication and addition rather than elementary calculus.

An experienced sales manager knows that the best way to increase sales productivity is to leave the existing commission structure alone and increase only the commissions paid on sales above a specified break point, typically the point of each individual salesperson's sales for the last year. This gives an extra incentive for everyone to increase productivity without rewarding stagnant behavior and depleting existing revenues.

Unfortunately, our government hasn't yet learned this first lesson of elementary calculus and still utilizes 19th-century direct, across-the-board tax cuts to stimulate productivity.

One suggestion for stimulating productivity and dramatically increasing savings without decreasing revenues is as follows. Allow an individual taxpayer to put up to $15,000 of increases in annual income into a tax-deferred IRA-type of account. The increased annual income (and the interest earned on the account) would not be subject to income taxation until the taxpayer took it out of the account, effectively taxing consumption and rewarding savings.

Furthermore, the account would have to be a government-insured savings account at a savings and loan or commercial bank, and the financial institution would have to invest at least 50 percent of the deposits in government guaranteed obligations like Federal National Mortgage Association-insured mortgages or direct Treasury obligations. Thus assuming a 25 percent average federal income tax bracket, because the individual would have to deposit $4 in the account for every $1 in deferred income taxes, the government would directly receive (from the financial institution) $2 in loans and deposits for every $1 in deferred income taxes.

Perhaps one of the most significant benefits of this proposal would be to offer a type of temporary amnesty for individuals with undeclared (black market) income who could now report (and deposit temporarily tax-free) their previously unreported income as increases over their reported income.

Some economists estimate that taxation of black market income alone (estimated at $500 billion) could more than pay off the current federal deficit. Another benefit of this proposal would be for the government to utilize specific tax-free withdrawals from the consumers tax-deferred accounts as an instrument of economic policy (e.g. allow first-time homebuyers tax-free withdrawals for down payments).

The "fairness" debate on tax reform has degenerated to nothing more than the flexing of muscles for special interests, as proven by the Ways and Means Committee's reversal of the administration's proposal to limit interest deductions on second homes. How can anyone seriously claim it is "fair" to have the average United States citizen subsidize up to 50 percent of the cost of a wealthy person's second home.

The challenge for our tax reformers should be how we can modify the existing private/public revenue sharing formulas to stimulate real productivity and yield a bigger slice of a bigger pie for all Americans.

Paul Zane Pilzer is managing partner of Zane May Interests of Dallas, an adjunct professor of finance at New York University and a contributing editor of Real Estate Review.

The New York Times

TUESDAY, OCTOBER 29, 1985

Guide to Flying on Other People's Money

To the Editor:

Your editorial on corporate employees vacationing at the expense of stockholders ("Flying High for Free, More or Less," Oct. 23) reminded me of how I learned always to fly discount.

I spent the first five years of my business career at Citibank learning to fly first class everywhere at stockholders' expense. One month after leaving Citibank to become president of a private $100 million company, I found myself embarrassingly booked first class for $459 on a flight with my multimillionaire chairman who had a $99 advance-purchase discount ticket.

Douglas Florian

Several weeks later, I received a call from his controller explaining that they were eliminating from my budget the $30,000 I had itemized for my (first-class) flights, raising my immediate compensation by the same amount and modifying my employment agreement so that I paid for all my corporate flights. The explanation was, "Michael doesn't mind you flying first class but wants to be sure that you're spending his money the same way you'd spend your own."

I have always flown at the lowest discount fare since and derive significant satisfaction when I see a neighboring passenger's ticket at several times my cost. One of my banking friends in mergers and acquisition investment tells me that if not for the junior executives flying first class, he would lose his best source of leads on which inefficient companies are ripe for a corporate takeover and restructuring.

PAUL ZANE PILZER
Dallas, Oct. 23, 1985

YOUNG AND RICH
(Continued from page 24)

Paul Zane Pilzer's downtown offices are all glass and steel, creamy white sofas, new computers and the 30-year-old's energy. "Meet me at 7:30 at The Palm!" he shouts into a telephone that seems to jangle constantly. He rides to meetings in a new Rolls-Royce or his Checker cab. His suits are Valentino; his house is new and sprawling. His is the classic rags-to-riches, modern-day Horatio Alger story.

The nice Brooklyn boy, son of European immigrants, was determined to make good. "If you saw *Yentl*, you saw the type of town my father grew up in," Pilzer says. In high school, he learned the golden rule: it's tough not to have money. So he built his success on the fear of not having any. "I believe there are two types of people: greedy people who have a lust for funds, and, one level above that, people who fear not having money," he says. "You're motivated by your insecurities. I associated in school with people from higher economic levels, but had tremendous insecurities: about my parents being poor, about not going to Harvard."

Instead of an Ivy League school, Pilzer went to Lehigh University in Bethlehem, Pa., earning a bachelor's degree in journalism. Then he went on to earn an MBA from the Wharton Graduate School at the University of Pennsylvania — and to be rescued from the ranks of the uncouth by his roommate, who literally jerked the polyester suit off Pilzer's back. "My roommate dragged me down to Brooks Brothers, bought me a wool suit, and said, 'Please promise me that, whatever you do, you'll wear this suit to any job interviews.' "

The suit, his Wharton degree and Pilzer's natural chutzpah served the graduate well. He landed a job at New York's Citibank and within a year was working as a lobbyist in Washington, pushing for passage of NOW (interest-bearing checking) legislation. On the side, Pilzer and an older brother were buying and renting large summer houses in the Hamptons. Pilzer also helped run the brother's home furnishings sales and manufacturing firm, and at 23, he was making a couple hundred thousand dollars on top of his annual Citibank salary. "At 24, I had a house, a tennis court, a swimming pool and two mansions in the Hamptons that I'd rent out to friends for $4,000 per bedroom for the season."

When the NOW legislation passed, Pilzer was transferred to the bank's real estate division and put in charge of equity real estate investments in the Southwest. The job involved trips to Dallas, putting large deals together with some of the city's premier investors. "I'm proud to say that I've walked the dirt on almost every new project that has been built here," says Pilzer.

In early 1981, one of America's wealthiest men, whom Pilzer would rather not identify, walked into Pilzer's New York office. "He said, 'You're through f------ me,' " Pilzer remembers. The gentleman had been beat out of several investment deals by Pilzer and Citibank, and wanted the young hotshot to help him invest $100 million in real estate in six months. The time limit was crucial: If he didn't invest the money, the IRS would grab it. During dinner at the Four Seasons, the investor pulled out his checkbook and told Pilzer to fill in an amount.

"We worked out a deal where I would receive a percentage of the profits I made him," Pilzer says. "And he gave me a substantial deposit. I hired some of my staff from Citibank to help me. And one of the guys I hired said, 'Let's go to Texas.' I flew to Dallas, checked into the Plaza of the Americas hotel and just lived there for a few weeks, doing deals. Finally, I said, 'This is the place.' "

Dallas deals made both Pilzer and his investor a great deal of money. But after

"At 24, I had a house, a tennis court, a swimming pool and two mansions in the Hamptons that I'd rent out to friends for $4,000 per bedroom for the season."
— Paul Pilzer

the $100 million was invested, Pilzer found himself without a job. He was 27 years old and worth considerably more than a million dollars. Then, Pilzer met Allan May, former chief operating officer of Steak and Ale. The two formed a partnership in a real estate syndication firm. Presently, the company serves as the general partner of several large real estate projects. In addition to his corporate duties, Pilzer is also an associate professor of finance at New York University, and he regularly speaks at real estate seminars and at a real estate institute he helped form.

Pilzer has established a five-year plan for himself that includes writing articles for business publications (putting his journalism to use), lobbying, teaching, and, of course, putting bigger and better deals together. For relaxation, he especially likes to dine at Jean Claude and New York's Lutece, and he has an active social life. "I play extremely hard," he says. Pilzer's long-term goal? "Highest goal?" he asks. "Well, maybe, chairman of the Federal Reserve."

"Right now, my biggest thrill is watching one of the young guys make money for the first time," he says. "Because when I make money, nothing really changes my lifestyle. My biggest challenge is developing my writing career. I want to write nonfiction. Sometimes, I almost get scared when I think that I might run out of goals."

ZANE MAY
INTERESTS

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Telephone 214-880-0297

Paul Zane Pilzer
Managing Partner

May 8, 1987

Brooks Jackson
Wall St. Journal
1025 Connecticut Avenue, N.W.
Suite 800
Washington, DC 20036

Re: Saving and Loan Regulations

Dear Brooks:

I enjoyed our telephone conversation and look forward to hearing from Len Apcar in Dallas.

During the past 12 months I've become an active advisor to the Administration and certain members of Congress on this subject, and accordingly, have deliberately not published anything controversial.

Enclosed are some recent letters on the subject, including an unpublished letter to the Wall St. Journal that summarizes the history of the problem. Also included is a letter I wrote to Larry White on the FHLB Board with a more detailed enclosure on the same subject.

I'm glad we're keeping in touch and applaud your efforts.

Very truly yours,

Paul

PZP:sf
Enclosures

ZANE MAY
INTERESTS

11th Floor · 750 N. St. Paul St.
Dallas, Texas 75201
Telephone 214-[illegible]

To
Alan
Paul
Bob
Sandy
Roy
Rich
Rob
Terri
David
File
Destroy

Federal Express

July 17, 1986

The Wall St. Journal
Attn. George Melloan, Editorial Page Editor
200 Liberty Street
New York, New York 10281

Letters to the Editor:

In "The Savings and Loan Mess Won't Go Away" (Editorial page, July 17) Mr. Ely makes several excellent points but misses the main one. The savings and loan mess won't go away until Congress deals with the fundamental problem that deposit insurance was meant only to insure against catastrophe and fraud, not the financial performance of the institutions' investment portfolio.

From 1933 until the late 1970's savings and loans functioned as quasi-government agencies taking insured consumer deposits at low interest rates set by the federal government and investing those funds in FMNA insured home mortgages and other government sanctioned investments. In reality, the deposit insurance system was only insuring against a local catastrophe or fraud, because the S&L's generally couldn't become insolvent if they followed the government's regulations. The Federal Home Loan Bank Board developed a regulatory and examination system based on insuring compliance with the regulations and virtually ignoring the subjective quality of the thrifts' individual investments.

In the deregulatory 1970's the thrifts received from Congress the power to offer new types of consumer deposit and loan vehicles such as checking accounts and credit cards. Unfortunately, while granting these new powers Congress made a traumatic mistake and thrifts were granted the ability to pay interest on government insured deposits at any rate they wanted and to invest these deposits virtually anywhere they wanted. It didn't take long for the nation's most savvy investor's to realize that by investing through an S&L one could reap 100% of the profits and only risk 2%-3% (thrift capital requirements) of the losses. But in the zero-sum-game world of financial investments where one investor's gain is another investor's loss, the ultimate sure-fire 100% loser is the deposit insurance system which insures 100% of both the winners and the losers deposits.

ZANE MAY
INTERESTS

For example, assume a thrift in California thinks interest rates are rising and takes a $500 million long position on mortgages while a New York thrift takes the opposite position. If interest rates move 1.3% (130 basis points) one thrift will earn $100 million and one will lose $100 million. The winning thrift dividends out to its owners its $100 million in profits while the losing thrift turns to FSLIC for help with its losses. Moreover, the owners of the losing thrift still win because current regulations may let the insolvent thrift dividend out illusory profits while it is still losing more money.

The ultimate solution for stopping these abuses, and even far more outrageous ways for an S&L owner to legally steal from the American taxpayer, is to reinstate the original regulations behind the federal deposit insurance system. All federally insured deposits should be 100% collateralized by federally backed financial instruments and the insurance should be to insure that the financial institution has complied with the regulations. The three immediate effects of such a drastic change would be: (1) a significant reduction in home mortgage and government borrowing rates as hundreds of billions of consumer savings were bid for a limited number of FNMA mortgages and treasury instruments; (2) a greater choice of interest rates for the consumer who would now be offered government-insured, privately-insured, and non-insured deposit accounts; and (3) a significant overall benefit to the economy from the removal of $900 billion in government (insured) funds from the hands of a few speculators.

Very truly yours,

Paul Z Pilzer

Paul Zane Pilzer

The writer is the Managing Partner of Zane May Interests, an Adjunct Professor of Finance at New York University, and a Contributing Editor of Real Estate Review. This letter is based on certain testimony he delivered before the current Congress and on a forthcoming article entitled "Taking Uncle Sam for a $200 Billion Ride."

This Savings and Loan Mess Won't Go Away

By Bert Ely

Congress soon may bow to Reagan administration requests and write a multibillion dollar check to bail out the Federal Savings and Loan Insurance Corporation. FSLIC insures deposits in 3,200 thrift institutions with total assets of $1.1 trillion. Why will Congress have to spend this money? Looming insolvencies among the most troubled third of the thrifts will bankrupt FSLIC, and stronger thrifts lack the resources to absorb these losses.

The administration has proposed legislation to bail out FSLIC. However, its plan will not work. The Congressional Budget Office very wisely called it "a budgetary gimmick." In effect, the plan, which will come up for committee action in both houses within a week, is nothing more than a 30 month punt of the FSLIC mess into the next administration. The bailout plan actually would work *against* the long term interest of the healthier two thirds of the nation's thrifts. It is an 11th hour desperation measure designed to preserve the status quo in an obsolete industry. Further, delay in attacking the FSLIC crisis will cost taxpayers unnecessary billions of dollars.

Faces Enormous Future Losses

Although thrifts industry profits reportedly tripled last year, the financial condition of the nation's weakest thrifts worsened. At the end of last year, one fifth of all thrifts were losing money at the collective rate of more than $10 million a day.

In addition, 450 thrifts, with assets of $113 billion, were insolvent, as measured by generally accepted accounting principles (GAAP). (Insolvency means liabilities exceed assets.) Of these, 229 also had losses at a $2.7 billion annual rate on assets of $55 billion. Another 680 thrifts, with assets of $278 billion, were nearly insolvent with GAAP net worths of 0% to 3%.

FSLIC faces enormous future losses with grossly inadequate reserves. It would have losses of at least $29 billion if it sold or liquidated every failing thrift. To offset these potential losses, FSLIC held reserves of just $4.6 billion at the end of 1985. These reserves represent assets available to absorb future losses. The reserves fall short by almost $25 billion!

Given the continuing deflation of asset values, particularly in Texas, Oklahoma and Louisiana, FSLIC's prospective losses easily could be $40 billion or $60 billion instead of $29 billion. Worse, these losses are growing daily in thrifts that are continuing to lose money. Insolvent thrifts will sink FSLIC no matter how well the financially stronger thrifts perform.

The administration's legislation would bail out FSLIC in two ways. First, it would sell $15 billion in zero coupon bonds that would be repaid over the next 35 years with special deposit insurance premiums paid solely by thrifts. Second, it would require the 12 federally sponsored federal home loan banks to transfer $3 billion in past and future earnings into FSLIC.

This bailout plan would not work for several reasons. First, it would not raise enough money. The present value of the resources the plan would generate is just $12 billion, assuming no future growth in thrift deposits. This is at least $17 billion less than the losses now facing FSLIC.

Second, the 2,000 or so healthy thrifts would bear the full costs of this bailout. But their pockets are not deep enough to absorb FSLIC's prospective losses. Further, it is a dangerous precedent to ask an industry's winners to bail out its losers.

Finally, the plan suggests that FSLIC spend just $5 billion annually over the next five or six years to resolve its problems. However, FSLIC should spend up to $15 billion annually over the next two years in order to minimize its eventual losses from failing thrifts. The administration's more leisurely pace would greatly increase FSLIC's losses due to the costs of delay.

In evaluating the FSLIC situation, two realities must be faced. First, general tax revenues almost certainly will be needed to meet the federal government's deposit insurance obligations toward thrift depositors. Thus, the primary objective of the FSLIC cleanup must be to minimize the cost to taxpayers. Second, thrifts are obsolete as a legally distinct type of depository institution. This legal distinction must be phased out if most thrifts are to survive as free-standing institutions or as part of a larger financial-services organization.

A resolution of the FSLIC crisis should be based on three premises: one, maximize non-tax resources to absorb potential insolvency losses in failing thrifts; two, minimize the cost of selling or merging failing thrifts, and three, act as quickly as possible.

This approach has three parts:

One, encourage thrifts to switch to the Federal Deposit Insurance Corporation by giving thrifts a choice: either switch to FDIC or eventually be taken over by FSLIC for liquidation or sale. This choice will give the managements of nearly insolvent thrifts the incentive to raise the capital necessary to qualify for FDIC insurance; many lack that much capital. The opportunity to switch would draw billions of dollars of fresh capital into the hundreds of potentially viable thrifts that otherwise will fail. The administration's plan won't attract this capital to weak thrifts.

Thrifts making the switch would pay an exit fee to FSLIC, equal to several years of the special deposit insurance premium they now pay. They would then immediately start paying FDIC premiums, which would protect FDIC against additional insolvency losses.

Thrifts that switched would have five years to transform themselves into regular commercial banks. They could, however, continue to make home mortgage loans.

Two, before any thrifts are actually liquidated, permit anyone to buy a thrift that is unable or unwilling to switch to FDIC. Buyers could be securities firms, insurance companies, other thrifts or commercial banks. Buyers would adequately capitalize the thrift and then switch it to FDIC insurance or meld the acquired thrift into their existing operations. Depository institutions, for example, could buy failing thrifts to acquire depositors and to reduce expenses through branch consolidation. This consolidation process also would enable banking services to be retained in many small towns.

This would enable all but the sickest or worst-managed thrifts to survive in some fashion. It also would save FSLIC billions by selling thrifts as going concerns rather than liquidating them, thus minimizing losses to FSLIC. Recently, liquidations have been five times as expensive for FSLIC as subsidized sales and mergers.

Three, liquidate FSLIC and the relatively few unsalable thrifts over the next five years. The Federal Home Loan Bank Board, the thrift regulator, should also be dissolved, since there would be no more thrifts for it to regulate. This would finally end the longstanding incestuous relationship between the thrift-industry trade associations and the Home Loan Bank Board.

Today the thrift industry, in an attempt to maintain its independence, can still block any attempts to be melded into the broader banking industry. As soon as FSLIC needs tax dollars, though, melding will suddenly become more attractive to Congress.

The proposed bailout is a punt of the FSLIC's problems into the next administration. It's a desperate move to preserve the status quo in an obsolete industry.

Technology Passed Them By

There will be a few individual losers—some thrift executives, regulators and stockholders—in this process, but American taxpayers will benefit. Transferring surviving thrifts into FDIC, though, is not a panacea. Rather, FDIC must become merely a way station on the road to a marketplace that relates the cost of depositor protection to the risks assumed. This feature is now absent from all federal deposit insurance programs. Unfortunately, progress toward risk-sensitive depositor protection cannot occur until the FSLIC mess is cleaned up.

The FSLIC problem is the Ohio and Maryland S&L problem on a much larger scale. The same solution is called for: save the healthy thrifts by shifting them to another deposit insurer while disposing of the basket cases at the lowest possible cost to taxpayers. But that is not enough. Although the financial structure of thrifts has always been flawed, these institutions have long met a widely perceived public need. Time, technology and the rapidly evolving financial marketplace, however, now have passed them by. This phenomenon and a flawed depositor protection mechanism are the root causes of the FSLIC crisis. The crisis will not end, however, until these causes have been rooted out.

Mr. Ely is a deposit insurance consultant in Alexandria, Va. This article is based on a forthcoming publication from the Heritage Foundation.

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Paul Zane Pilzer
Managing Partner

May 1, 1987

Mr. Lawrence J. White
Board Member
Federal Home Loan Bank Board
1700 G Street, N.W.
Washington, D.C. 20552

Dear Larry:

I enjoyed our telephone conversation today. Keep up the work on "mark-to-market."

Enclosed is the draft letter we discussed which was delivered to Howard Baker in support of Danny Wall. I know you'll enjoy working with him.

I look forward to meeting you personally in the near future.

Very truly yours,

Paul Pilzer

PZP:sf
Enclosure

National Thrift News
FOR SAVINGS/MORTGAGE/FINANCIAL SERVICES EXECUTIVES
Volume 11, #24 $110 per year April 20, 1987

A FIRM STAND:

White Favoring Mark-to-Market

NEW YORK.—Federal Home Loan Bank Board member Lawrence White has stayed away from controversial issues since joining the agency last November.

But this month, the New York University economics professor took a firm stand on an accounting question that is dividing the thrift industry.

Mr. White, during a seminar sponsored by the Federal Home Loan Bank System, said he strongly favors mark-to-market accounting.

Describing himself as a "staunch supporter" of current value financial reporting, Mr. White said that regulators "need to know the true value and net worth" of the institutions they supervise.

Industry representatives have said mark-to-market reporting would make it difficult to institute a program of "forbearance" at thrifts impacted adversely by energy or agricultural problems.

Mark Clark, a spokesman for the U.S. League of Savings Institutions, suggested Mr. White's view was predictable from an academic—Mr. White is an economics professor at New York University—but was impractical during a regional real estate depression.

"Real estate always comes back," he said. "It would mean creating an unnecessary apparent deficit in the industry that would have no practical impact other than to scare people," Mr. Clark said.

The U.S. League has argued in favor of discounting bad loans not by the full loss but by a factor of the carrying cost of a loan, or about 7%, the current cost of funds.

Current regulatory practice has had the effect of forcing thrifts to write down loans by 13% to 15%.

While asserting that mark to market accounting would have a "significant impact" on the industry, Mr. Clark said current practice by the Bank Board and its supervisors amounts to the same thing.

Mr. White said some managers may be "passing up profitable offers" on assets that are worth less than their historical value.

If an asset purchased for $100 is now worth $80, the manager would be acting reasonably to sell it for $85, Mr. Clark said. But managers refrain from doing so if the asset is still listed at $100.

Mr. White said in an interview later that he recognizes the cyclical nature of the real estate market, and was just as inclined to mark up to market value as mark down.

He added just because an institution is insolvent, it doesn't mean regulators would "automatically swoop down" and close it.

"If we are going to have "forbearance," we ought to be doing it with our eyes open," he said, adding that he couldn't see any reason to allow institutions to present a false picture of their financial health.

Mr. White also said he was raising the possibility of mark to market accounting as "something I intend to explore further" and that he welcomed questions on the idea.

In his off the cuff speech at the New York bank's Bryce Curry seminar on the future of thrifts, Mr. White predicted "a more competitive environment," in which "most but not all" institutions will survive.

Noting that he will become the senior member of the Bank Board after Chairman Edwin J. Gray's term expires in June, Mr. White said he would seek "the right mixture of flexibility (for thrifts) and protection of the public."

Mr. White was appointed to the Democratic seat on the board only four months ago.

TEXT OF LETTER SUPPORTING DANNY WALL

The Reagan era of deregulation has brought untold benefits to the American economy. Consumers initially benefitted from price reductions for services ranging from airline travel to long distance telephone charges. But even more important, American competitiveness benefitted in virtually all fields as the free market, the most efficient allocator or resources, has been left alone to do the job it ultimately does better than any decisionmaker.

Unfortunately, the recent history of the era of deregulation has a major blemish, the nation's thrift industry. From 1933-1979 the savings and loan industry had virtually all of its' deposits insured by the federal government, and in turn had both sides of its' business, deposit taking and lending, dictated by federal policy. Regulation Q limited the amount it could pay for insured deposits, and strict investment guidelines from Congress insured that the federally guaranteed deposits could only be invested basically in safe, usually government insured, residential mortgages.

A thrift could not get in trouble as long as it "complied" with strict well-defined regulations on its deposits and its loans. The Federal Home Loan Bank Board, charged with setting and enforcing guidelines for the thrift industry, developed a regulatory system based entirely on compliance. The green eyeshade narrow minded bank examiner portrayed in Jimmy Stewart's "It's a Wonderful Life" actually did a terrific job protecting the public. Similarly, the Chairmanship of the Federal Home Loan Bank Board required a man with generally good management abilities, but little of the financial leadership potential or technical expertise required of even a regional board member of an organization such as the Federal Reserve.

During the late 1970's the thrifts clamored for and received the power to offer new services such as checking accounts and credit-cards, and the right to pay higher competitive rates for deposits. Then, from 1979-1981 interest rates skyrocketed and the thrifts found themselves in a double liquidity crisis: either (1) they were forced to either pay higher interest rates for their deposits than they were earning on their fixed rate residential mortgages; or (2) they risked losing their deposits but did not have the cash on hand (the liquidity) to pay off the depositors who wished to take their money elsewhere for higher interest rates. They could sell off some of their existing fixed rate mortgages in the secondary market except that the losses they would take from selling low rate mortgages in a high interest rate market exceeded several times their net worths.

In 1981, partly in response to rising demands from thrift customers for new consumer oriented services such as credit cards and checking accounts, but mostly in response to the double liquidity crisis at hand, Congress passed the Garn-St. Germain Act and the technical requirements for manning the helm of the Federal Home Loan Bank Board changed dramatically. **Unfortunately we failed to notice that the FHLB Chairman job, which traditionally required a technical skill base similar to the U.S. Ambassador to Luxembourg, now required a technical skill base similar to the Chairman of the Federal Reserve.** In 1981 Congress gave the thrifts the right to sell off their low interest rate fixed mortgages at substantial losses far exceeding their net worths, and then created new accounting rules which allowed them to amortize the losses over the life of their (then sold) mortgages. Then it liberalized the investment rules allowing the thrifts to operate as venture capital firms so that they could make back the losses they locked in when they liquidated their fixed rate mortgage portfolios.

Industry after industry has been successfully deregulated with some private winners and private losers, but in general with the American public benefitting from the increased competition and more efficient allocation of resources. But in the deregulation of the savings and loans, Congress created private winners and public losers. In the zero-sum-game world of financial investments where one investors gain is another investors loss, the ultimate 100 percent loser is the deposit insurance system, which insures 100 percent of both the winners' and losers' deposits. Congress deregulated the thrifts investment side but failed to simultaneously deregulate the deposit side and thus remained 100% liable for any losses incurred via FSLIC insurance.

The thrift industry today is on the brink of disaster. One third of the industry is healthy, one third is barely alive but capable of surviving if interest rates remain stable, and one-third is brain dead but kept alive through ficticious accounting systems designed to cover-up their losses.

The new Chairman of the Federal Home Loan Bank Board will need to form a coalition between the industry, the Congress, and the Administration. But before forming such a coalition, he will need to understand how we got to where we are today, who the players are as individuals and how to work with them, and the highly technical macroeconomic model of the thrift industry as one (major) part of the nation's financial system.

The press has already identified two highly qualified candidates: M. Danny Wall, the Republican staff director of the Senate Banking, Housing and Urban Affairs Committee, or Colorado developer Philip Winn who was formerly Assistant Secretary for Housing during the Reagan

Administration's first term. Both of these men are well qualified managers with broad public and private support. But there is one important distinction. M. Danny Wall has done virtually nothing the past ___ years except work on the problems of the savings and loan industry. He knows how we got to where we are today, he knows who the leaders are in the industry and in the Congress and he already has earned their respect, and most important, he fully understands the highly technical macroeconomic model of the thrift industry.

Both candidates are highly qualified business managers, but the correct choice is M. Danny Wall hands down because of the urgency of the crisis. The urgency of the crisis does not afford us the luxury of choosing a well-qualified individual who could take 6-12 months to come up the learning curve. Only Mr. Wall is already up the learning curve and ready to act now. We are fortunate to have him available.

Richard M. Yellin
Rabbi, Congregation Mishkan Tefila
Post Office Box 67
300 Hammond Pond Parkway
Chestnut Hill, Massachusetts 02167

personal

November 24, 1987

Mr. Max Green
Room 196
OEOB
White House
Washington, D.C. 20500

Dear Max,

I'm sending a copy of my bio, as you suggested. I'm interested in taking a sabbatical during the coming year. I have eleven months coming to me from my Congregation after twelve years of service. I would be interested in working in the White House in some kind of a liaison capacity, probably with the Jewish community, although it could be with religious groups, in general. I know that this is the season when many White House staffers are thinking of leaving government, and it just might be the appropriate time to inquire. I have many contacts nationally, and I am plugged in to many religious organizations on a broad scale. Maybe you could make a suggestion or two about how I might change my venue and routines during the coming year. I think I could be a great asset to the White House administration.

Thank you for considering the request.

Sincerely,

Rel

Richard M. Yellin, Rabbi

RMY/jbm
enc. (1)

Richard M. Yellin, Rabbi
Congregation Mishkan Tefila
300 Hammond Pond Parkway, Box 67
Chestnut Hill, MA 02167-007 U.S.A.
Phone (617)332-7770

Rabbi Richard M. Yellin came to Congregation Mishkan Tefila in 1976, a congregation that is New England's oldest Conservative Congregation, being founded in 1858.

Rabbi Yellin began his rabbinic career as a graduate of the Jewish Theological Seminary in 1969, and he immediately served as a United States Military Chaplain in Fort Knox, and then as the Jewish Chaplain for the Republic of Korea in 1970-71, where he was decorated by the United States Military and by the Korean Chaplains' Corps for service as the only Jewish chaplain in Korea.

Immediately after the chaplaincy service, he was invited to become the Associate Rabbi of Adas Israel Congregation in Washington, D.C., where he served for five years until 1976.

In the Boston area, he is the Past President of the New England Region of the Rabbinical Assembly, the organization of Conservative rabbis. For several years, he's been the Chairman of the State of Israel Bonds for the New England Region, and he presently is the National Associate Chairman of State of Israel Bonds Rabbinic Cabinet in the United States. He serves on a variety of communal and Jewish agencies in Greater Boston, including the Solomon Schechter Day School, Board of Trustees of the Combined Jewish Philanthropies, Zionist House, and has been on the Board of Trustees of the Combined Jewish Philanthropies, Zionist House, and has been on the Board of the Jewish National Fund of Greater Boston. Nationally, he represents the Conservative Movement on the Commission on Jewish Chaplaincy of the National Jewish Welfare Board, and is chairman of the International Task Force on Minority Rights of the Synagogue Council of America. In the National Rabbinical Assembly, he is on the Membership Committee, responsible for admitting new members to the largest rabbinical association in the Jewish world.

Rabbi Yellin has published more than 100 articles in a variety of journals, newspapers and magazines, including the NEW YORK TIMES, the BOSTON GLOBE, Amongst the unusual moments in his rabbinic career, he includes participation in the Ancients and Honorables Century Box at Faneuil Hall in 1981, when a distinguished group of thirty leaders of industry, academe, and religious life, were asked to make contributions.

Rabbi Yellin also directed the Mishkan Tefila Russian Jewish Wedding, in which sixty couples were married under one huppah, an event that was sponsored under the patronage of the then Prime Minister of Israel, Menahem Begin. In January of 1983, the President of Israel, Yitzhak Navon, visited America and spoke to the Jewish community at Mishkan Tefila, Rabbi Yellin being his host. Because of Rabbi Yellin's efforts, a Black/Jewish dialogue group and seder have been regularly conducted in the Boston area. A television special on the Black/Jewish Seder was not only aired in the New England area on the program, "Chronicle", but it also appeared on Israeli television.

The Rabbi is a graduate of Columbia University, the Jewish Theological Seminary of America, and he has studied at the Hebrew University of Jerusalem. Rabbi Yellin is married to Judith Lipton Yellin, and they have four daughters, Aliza, Ariel, Devora and Rachel, all of whom are named after the City of Jerusalem.

11/6/87

the BOSTON HERALD, the JEWISH ADVOCATE, CONSERVATIVE JUDAISM, THE TORCH, THE JEWISH SPECTATOR, JEWISH LIFE, THE NATIONAL FUNERAL DIRECTOR, and he participates in a weekly radio program in the Boston area on 590 AM, WEEI's Topic Religion, the oldest religious talk show in the New England area. He appears regularly on WBZ-TV, Channel 4's Show of Faith. He is continually asked for his observations and commentary by the media on a variety of social and religious issues affecting the community, both Jewish and general.

In the general community, he has served as a member of the Institutional Review Board of the Boston University Medical Center, a board that reviews all federal grants for human research. He represents the Jewish community in the planning of the Martin Luther King, Jr. national day of observance for the Commonwealth of Massachusetts, and he has served as chairman of its Awards Committee. He has been the Jewish Chaplain of the Newton Police Department since 1986. Rabbi Yellin has served on the Convention Committee of the Rabbinical Assembly, was on the Planning Committee of the National Conference of Christians and Jews that held its national convention in Boston in 1983. Rabbi Yellin was the Resolutions Chairman of the Rabbinical Assembly Convention in Israel in 1981.

In the past ten years, Rabbi Yellin has led five congregational trips to Israel, a trip to Egypt, and he accompanied a group to Jewish Scandinavia in July of 1984. Rabbi Yellin has visited the Vatican as a personal guest of the Secretary for Religious Relations with the Jews, and has had an audience with John Paul II. In February, 1985, he was the guest rabbi for the Zimbabwean Jewish community as a lecturer, teacher, and political analyst. In August, 1985, he was the first rabbi to have ever been invited to speak in a church in East Germany, and in July of 1986, he was the first rabbi to ever receive an invitation to speak at a regularly-scheduled church service in the Federal Republic of Germany. During July 1987, Rabbi Yellin was Scholar in Residence for the U.S. Military Jewish Chaplains retreat in Garmisch, Germany.

12/11/87

The Under Secretary
U.S. Department of Housing and Urban Development

Max -

For your information, here's a copy of a letter Ed Rosenfeld wrote me regarding his interest in the Holocaust Commission.

CPE

PATTERSON, BELKNAP, WEBB & TYLER

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

1875 CENTURY PARK EAST, SUITE 950

LOS ANGELES, CALIFORNIA 90067

(213) 557-1000

TELECOPIER: (213) 557-1698
(213) 557-0965

March 16, 1987

Carl D. Covitz
Landmark Communities, Inc.
9595 Wilshire Blvd., #301
Beverly Hills, CA 90212

Dear Carl:

The purpose of this letter is to express my interest in being considered for an appointment to the Presidential Holocaust Commission. For convenience sake, I am enclosing a brief biographical sketch.

For many years I have had a deep interest in the Holocaust. A law colleague of my father was an officer with one of our divisions that liberated a Nazi concentration camp during the War. Later that gentleman gave my father and me photographs that he had taken during this experience along with other memorabilia of his tour of duty, including the riding crop of the infamous Julius Streicher. These items -- particularly the photographs -- brought home to me at an early age the brutality of the Nazi era and prompted my continuing interest in the Holocaust. Over the years, I have read widely in the field and believe that I can make a useful contribution to the Commission.

As you know, I have been a life-long supporter of Republican causes. In the early days of my law practice, when I was living in New York City, I was a member (and indeed an active member) of the Republican Club on East 82nd Street in Manhattan. Some of my fondest memories are of working the Bronx for Republican candi-dates in 1964 and driving a sound truck through Manhattan in 1966 to "get out to vote." While I have not "hit the streets" in recent years, I have actively supported Pete Wilson and numerous other candidates.

From our professional dealings with each other, you know that in recent years I have devoted substantially all my time to the development of my law firm, Rosenfeld, Parnell & Shames, Inc. With the recent merger of my firm with Patterson, Belknap, I am able to take a more active role in the community. Now that I have the freedom to do this, I would like to be considered for the Holocaust Commission. You can be assured that I would devote my fullest attention, should I be selected.

Best personal regards.

Cordially,

Edward M. Rosenfeld

EMR:rr
Enclosure
emr-002

EDWARD M. ROSENFELD, born Terre Haute, Indiana, April 3, 1940; admitted to bar, 1964, New York; 1971, California. Education: Wharton School of Finance and Commerce, University of Pennsylvania (B.S., in Economics, 1961); Columbia University (J.D., 1964). General Counsel, Technicolor, Inc., 1970-1972. Member: New York County, Los Angeles County and American (Member, Corporation, Banking and Business Law Section) Bar Associations; The State Bar of California.

BARBARA SINGER

7536 Parkdale Avenue
St. Louis, MO 63105
(314) 862-5149

SUMMARY

A seasoned advertising and communications professional with strong creative, administrative and organizational skills, seeking a challenging opportunity with an aggressive marketing-driven company.

EXPERIENCE

1986-Present Adam's Mark Hotels, a division of HBE Corporation, St. Louis. One of the nation's largest design/build firms with eight operating divisions.

COMMUNICATIONS MANAGER (1986-Present)

Report to the VP of Marketing, direct corporate advertising and promotions, handle corporate media planning and placement, and administer budget. Supervise Advertising and Promotion Managers at the seven hotel properties. Direct advertising agency and in-house art directors on all creative projects. Member of Adam's Mark executive hotel board. Accomplishments:

*Instituted a Project Assignment system to strengthen the communication channels between corporate and the hotels.
*Established an in-house corporate media buying system which resulted in substantial savings for the company.
*Developed a collateral program to provide increased market by market coverage.

1975-1986 Brown Shoe Company (a member of Brown Group, Inc.), St. Louis. The nation's largest footwear manufacturer and retailer, known for such brands as Naturalizer, Buster Brown, Life Stride, Regal, Levi's Shoes & Boots, and Jones New York Shoes.

DIRECTOR OF MARKETING SERVICES (1986)

Reported to the Senior VP of Marketing Services, supervised a a staff of 10 and directed national, trade, co-op and dealer advertising, sales promotion and sales meetings with total annual budgets in excess of $14 million. Involved in numerous product/packaging introductions. Directed advertising agency in development of all creative and media strategies/plans. Accomplishments:

*Instrumental in development of nationwide sweepstakes program for planned increase in retail sales and in-store traffic.
*Established computerized job cost-tracking system.
*Created new procedures for formal agency review.
*Conceived and produced companywide sales meeting using nationally-known speaker and extensive audio-visual.
*Successfully implemented 4-year cost-control program, leading to savings of more than $3 million and substantially improved company profits.

ADVERTISING MANAGER (1982-1986)

Established as a new position to assist the Director of Advertising and to plan and execute trade and dealer programs for all brands. Assisted the Director of Advertising in all phases of national advertising. Accomplishments:

*Revitalized Naturalizer Specialty Stores with new advertising and promotion programs.
*Implemented cost-estimating procedures resulting in better analysis of advertising expenditures.
*Conceived and implemented in-stock program with telecommunication capabilities for all brands leading to incremental sales.
*Initiated and directed corporate trade campaign resulting in improved company image.
*Produced all presentations for national advertising programs for all brands using a variety of multi-media.
*Participated in all new product and retail store development.
*Concepted and directed presentations for both informational and humorous sales meeting programs.

DIVISIONAL ADVERTISING MANAGER (1976-1982)

Responsible for all advertising plans and programs including establishment and management of budgets, for all women's brands. Accomplishments:

*Implemented first retail catalog program for Naturalizer, largest women's brand in the U.S.
*Executed national dealer listing programs with major consumer publications (new concept for the industry).
*Directed outside firm in planning first direct mail program for retailers.
*Produced television commercials for retail markets.
*Primary contact for all brand management, women's divisions.

COPYWRITER (1975-1976)

Responsible for writing advertising copy for four women's brands, including direct mail copy for both trade and consumer publications.

1974-1975 Apartment Living Magazine, St. Louis.
ADVERTISING SALES. Coordinated and sold advertising/editorial packages to major shopping centers.

EDUCATION Bachelor of Journalism, University of Missouri-Columbia, 1974. Recipient of three Donrey Media Awards.

Management Study Program, Washington University, St. Louis, 1982.

PERSONAL Single. Interests include theater, music, writing, sports, antiques and architecture.

REFERENCES Available on request.

OFFICE OF THE VICE PRESIDENT

WASHINGTON, DC

January 5, 1988

Personnel

NOTE FOR MAX GREEN

FROM: PHIL BRADY PB

Please find attached the resume of Jeff Sternberg who is interested in a position with the Administration. Any appropriate action you may be able to take would be greatly appreciated.

OFFICE OF THE VICE PRESIDENT

WASHINGTON

January 13, 1988

Mr. Jeff Sternberg
Jeff Sternberg & Associates
38 Demarest Mill Road
West Nyack, New York 10994

Dear Mr. Sternberg:

Thank you for your thoughtful letter regarding the Vice President's speech at the "Freedom Sunday" rally and for expressing your willingness to be of assistance to the Vice President in the future.

At this time, I must advise you that there are no positions available in the Office of the Vice President. This is unfortunate, since I believe your knowledge and experience would be very advantageous to the Vice President and our office. However, I would like to keep a copy of your resume on file in the event an opening should occur. Also, because of your obvious expertise in the area of Jewish Solidarity, I have taken the liberty of forwarding your letter to Max Green, Special Assistant to the President for Public Liaison. Your should be hearing directly from his office in the not-too-distant future.

On behalf of the Vice President, thank you for your interest in our office. We are always pleased to learn of individuals, such as yourself, who wish to serve.

With warm regards,

Sincerely,

Thomas J. Collamore
Assistant to the Vice President
for Operations

Jeff Sternberg & Associates
38 Demarest Mill Road
West Nyack, New York 10994
(914) 623-1586

TL

December 16, 1987

George Bush
Vice President
Of The United States
%The White House
1600 Pennsylvania Avenue
Washington, D.C.

Dear Mr. Vice President:

I was quite touched as both an American Citizen and as a Jew by your commentary at the Solidarity Sunday rally two weeks ago. As the author of a book concerning Ben-Gurion's rise to leadership and authority and a possible screenplay on this subject matter, your stirring recollection of the days of your World War II experiences upon visiting the concentration camps and the resulting sweep of thoughts and emotions that left a permanent imprint upon you, decidedly touched this story teller.

As a younger man I lived in the Washington,D.C. area for six years. Story telling and journalistic pieces are relatively nascent aspects of my career which began to take root during my D.C. days. Real estate and economic development, though, are my rock,granite foundation stones.

In the event that you will need extra assistance in the future, regarding the drafting of position papers or speech writing, I believe my combination of life experiences in government, economics, real estate, and my expertise in theatre, American history, and Jewish issues, could be constructive.

Consequently, enclosed is my resume for you to review. Regardless, of your staffing needs, I wish to emphasize here that I returned home from Solidarity Sunday imbued with pride--pride in our country; pride in the ecumenical spirit that guided speakers and witnesses to unite their energies to defend the human rights of Russian Jewry; and pride that you are the man that you are.

Respectfully yours,

Jeffrey Sternberg

Jeffrey Sternberg

matter, experi-

JEFFREY STERNBERG
38 Demarest Mill Road
West Nyack, New York 10994
(914) 623-1586

OBJECTIVE
Manage economic development or rehabilitation orchestration, due dilligence fulfillment, full or partial aspects of lease/sales negotiations and administration, and real estate acquisition/dispositions for either the real estate division of a public corporation or governmental entity, a financial institution, or a developer/investor of substance.

OVERVIEW
Creative, trustworthy, and vigorous professional with seventeen years of effective experience. Strong line orientation. In depth staff sensitivity. Accomplished at market penetration and promotion, advertising, real estate document drafting, attorney supervision, and directing architechtural, construction, and engineering subcontractors. Deft at bridging the distances between tenants and landlords, buyers and sellers, mortgagees and mortgagors, and between profit-oriented firms and public bodies.

EXPERIENCE
8/87 to Present JEFF STERNBERG & ASSOCIATES West Nyack, N.Y.

Writing book for publisher about one of the Twentieth Century's most complex real estate transactions. Selective consulting for New York waterfront developer regarding tourism market penetration potentials and assignments for international appraisal and real estate consulting firm.

10/82 to 8/87 HUBERTH & PETERS, INC. New York, N. Y.

Cofounded and appointed vice president of WORLD MARITIME ENTERPRISES, a real estate investment and redevelopment consortium of executives firms involved in international trade. Project managed, in line and staff capacities most aspects of acquisition research and negotiations for a 330,000 s.f. loft conversion to office space; pre-leased 60% of the structure; handled support details for equity fund raising; and directed subcontractors in their assignments. Planned phase II which included residential component, a second office complex, and the retail development of a five block long underground subway station.

Additionally, represented international law firms, banking institutions and printing industry clients negotiate diverse leasing transactions in the Wall Street and Hudson Square areas of Manhattan.

1/82 to 10/82 CITY OF NEW YORK

Appointed first Assistant Commissioner and then consultant to manage NYC's 18,000,000 s.f. leasehold portfolio represented by over 600 leases. Directed staff of 26 professionals and support personnel.

JEFFREY STERNBERG

-/81 to 1/82 KENNETH D. LAUB & CO New York, N.Y.

Prospected and secured leasing transactions on behalf of customers and clients. Primarily serviced charitable institutions, advertising agencies, Japanese companies, and Wall Street firms.

9/80 to 4/81 HOWARD HOFFMAN ASSOCIATES New York, N.Y.

As Senior Consultant and strategic planner for this Lehman Brothers' affiliate, created disposition strategies for corporations with surplus, problematic real estate holdings by comprehensively market researching and financially analysing realistic alternatives to adaptively reutilize these assets for new markets. Results-oriented action plans for executory campaigns often followed.

9/78 to 9/80 CROSS & BROWN, INC New York, N.Y.

Secured leasing transactions, property management, and investment accounts. Represented international banking institution, Manhattan landlord, and foreign investors. Additionally, substantial industrial and distribution space servicing.

7/74 to 8/78 RANDALL HAGNER & CO Washington, D.C.

Sales and leasing of investment properties: Single and multi-tenant office buildings, apartment complexes, townhouse offices, condominium professional space, and industrial structures. Consulting range: From small Georgetown properties to the entire investment property mix within Reston, Virginia.

1/73 to 7/74 ECONOMICS RESEARCH ASSOC. Mclean, Va.

Guided by Harrison Price, the founder and preeminent real estate economist who created Disneyland, Disney World, most of the Rouse themed shopping centers, and other recreation and entertainment oriented, themed real estate complexes of the past generation.

2/71 to 1/73 C.G. REIN CO. St. Paul, Minn

Acquisition officer for prominent midwestern developer and syndicator of Apartment complexes, shopping centers, health clubs, etc.

EDUCATION: Grad. Economics study at Univ. of Minn-1969 to 1971; BBA from C.C.N.Y with honors-1969

PERSONAL: Married, two children. Excellent health

INTERESTS: Writing about real estate, governance, leadership, Jewish history; and community oriented activities of an educational or fund raising nature.